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TREASURY-POST OFFICE DEPARTMENTS AND EXECUTIVE OFFICE APPROPRIATIONS FOR 1965

GOVERNMENT
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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON DEPARTMENTS OF TREASURY AND POST OFFICE AND EXECUTIVE OFFICE APPROPRIATIONS

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OTTO E. PASSMAN, Louisiana
TOM STEED, Oklahoma
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POST OFFICE DEPARTMENT

Printed for the use of the Committee on Appropriations

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TREASURY-POST OFFICE DEPARTMENTS AND EXECUTIVE OFFICE APPROPRIATIONS FOR 1965

WEDNESDAY, FEBRUARY 19, 1964.

WITNESSES

HON. JOHN A. GRONOUSKI, POSTMASTER GENERAL
FREDERICK C. BELEN, DEPUTY POSTMASTER GENERAL
WILLIAM M. McMILLAN, ASSISTANT POSTMASTER GENERAL, BUREAU OF OPERATIONS
WILLIAM J. HARTIGAN, ASSISTANT POSTMASTER GENERAL, BUREAU OF TRANSPORTATION
RALPH W. NICHOLSON, ASSISTANT POSTMASTER GENERAL, BUREAU OF FINANCE
TYLER ABELL, ASSISTANT POSTMASTER GENERAL, BUREAU OF FACILITIES
RICHARD J. MURPHY, ASSISTANT POSTMASTER GENERAL, BUREAU OF PERSONNEL
HENRY B. MONTAGUE, CHIEF POSTAL INSPECTOR
LOUIS J. DOYLE, GENERAL COUNSEL
EDWARD E. HARRIMAN, DIRECTOR, OFFFICE OF RESEARCH AND ENGINEERING
DAVID A. BUNN, DIRECTOR, OFFICE OF REGIONAL ADMINISTRATION
EUGENE B. CROWE, DEPUTY ASSISTANT POSTMASTER GENERAL AND CONTROLLER, BUREAU OF FINANCE
STANCIL M. SMITH, DIRECTOR, INTERNAL AUDIT DIVISION
JAMES R. THOMASON, ASSISTANT DEPUTY POSTMASTER GENERAL
FRANK W. REILLY, DIRECTOR, OFFICE OF MANAGEMENT SERVICES
CLARENCE N. BRUCE, ASSISTANT CONTROLLER FOR BUDGET, BUREAU OF FINANCE

Mr. GARY. The committee will come to order.

We shall begin today the consideration of the appropriation for the Post Office Department for the fiscal year 1965. The appropriation for fiscal year 1964 was $4,925,500,000. The budget estimate for 1965 is $5,030,700,000, which is an increase over 1964 of $105,200,000.

The total positions for the fiscal year 1964 are 593,100. The total positions for fiscal year 1965, estimated, is 597,900, an increase over 1964 of 4,800.

We are glad to have with us today Postmaster General Gronouski, who is appearing before this committee for the first time.

Mr. Postmaster General, we are very glad, indeed, to welcome you to the committee and as is customary with the committee, if you have a short biographical sketch that you can put in the record at this point for the benefit of the Congress we will appreciate it very much.

Our committee has a practice that new department witnesses who appear before us are requested to insert a biographical sketch in the

record so that the Members of the Congress will know their background.

Mr. PILLION. I welcome you, Mr. Postmaster General, and I would like to say that the chairman speaks for the minority of the committee also. We welcome you also and congratulate you and your staff.

BIOGRAPHICAL SKETCH OF THE POSTMASTER GENERAL

Mr. GRONOUNSKI. I have a short biographical sketch which I will offer.

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

(The biographical sketch referred to follows:)

BIOGRAPICAL MATERIAL, JOHN A. GRONOUSKI, POSTMASTER GENERAL

Postmaster General John Austin Gronouski, was born October 26, 1919, in Dunbar, Wis., and was reared and educated in Oshkosh, Wis.

He attended St. Peter's elementary and high school and Oshkosh State Teachers College. Mr. Gronouski holds three degrees from the University of Wisconsin in the field of economics with a major in public finance. He received his bachelor degree in 1942; his masters degree in 1947, and his doctorate degree in 1955.

Mr. Gronouski married the former Mary Louise Metz, a native of Madison, Wis., on January 24, 1948. They have two daughters, Stacy, 10 and Julie, 7.

The Postmaster General is the son of Mr. and Mrs. John Gronouski, Sr., of Two Rivers, Wis. The elder Mr. Gronouski is a retired vocational school teacher, Mr. Gronouski has two sisters, Mrs. Mary Bushey, Parsons, Kans., a housewife and school teacher, and Rita Gronouski, Evanston, Ill., employed by an insurance firm.

He entered the Army Air Corps in April 1942 as a private and later served as a navigator holding the rank of first lieutenant. After 24 combat missions in the European theater of operations, Mr. Gronouski was discharged in October 1945.

He taught public finance, money and banking, and related subjects at the University of Maine from February 1948 to June 1950; from November 1952 until August 1956, he was research associate for the Federation of Tax Administrators doing research on State tax administration. During part of this time (1953–56), he taught statistics at Roosevelt College evening school.

He participated in a study of Wisconsin income tax administration from September 1956 to August 1957 as a research associate under Harold M. Groves of the University of Wisconsin.

From September 1957 until January 1959, he taught public finance, State and local finance, and money and banking at Wayne State University, Detroit, Mich. At the same time, he was on the research staff of the Michigan tax study.

In February 1959, he became research director for the Wisconsin Department of Taxation and research director of the University of Wisconsin Tax Impact Study. In October 1959, he was named executive director for the continuing revenue survey commission established by then Governor Gaylord Nelson.

In January 1960, he was appointed by Governor Nelson to be Wisconsin commissioner of taxation.

When Mr. Gronouski took over as commissioner of taxation for the State of Wisconsin, the Department had 621 employees. Today it has 1,071 employees. The increase in staff and the corresponding increase in responsibilities were the result of the State initiating income tax withholding and incorporating a selective sales tax during the tenure of Mr. Gronouski.

Other accomplishments during his administration were the expanded use of electronic data processing by the tax department; the crackdown on delinquent State income tax cases—the first significant work in this field in 50 years; the thorough reorganization of the tax department's administrative structure; and the creation of an intelligence section to deal with tax evasion and fraud.

These improvements in the department were the most comprehensive changes within the department since its formation in 1899 as a permanent taxing body.

As commissioner, Mr. Gronouski dealt with every level of local government in the State of Wisconsin. The State's shared tax system results in 53 percent of the Governor's budget being returned to communities. The property division under his jurisdiction is responsible for property tax equalization and local assessor supervision for each of the State's 1,850 assessment districts.

He is a member of the executive board, National Association of Tax Administrators; editorial advisory board, National Tax Journal; American Economic Association; and National Tax Association. He is a Catholic.

Mr. GARY. Now, we shall be very glad to hear from you at this time, Mr. Postmaster General.

Mr. GRONOUSKI. Thank you.

I want to say at the outset this is kind of a high point in my life in that this is my first appearance before an appropriations committee or any other committee except for my confirmation and I have been looking forward to it.

I think at the outset I might say that I have a prepared statement which I would like to submit to the committee today.

I think you have copies of it. I do not intend to read from that this morning. I would like to make some more informal remarks before I get into that, though, and I would like to call your attention to several persons who are in or are about to take new positions in our Department.

ASSIGNMENTS TO NEW POSITIONS IN DEPARTMENT

You all know Fred Belen, whom I learned just a moment ago is to be up for confirmation Friday, is that right?

Mr. BELEN. Before the Senate committee.

Mr. GRONOUSKI. Before the Senate committee as the new Deputy. As you probably have been told already, the former Deputy, Sid Bishop, with his eight children, and 37 years of life, decided he ought to take a very fine opportunity offered by a company out in Los Angeles, so we regret the fact that he left us as of February 1.

But, on the other hand, we are very happy to have someone with the experience and background and competence of Fred available and we are very pleased that the President appointed him as Deputy Postmaster General.

Mr. GARY. May I say, General, this committee has known Mr. Belen for a long, long time. As a matter of fact, before he went with the Post Office Department, he was the chief clerk of one of the congressional committees.

I know Mr. Bishop did an outstanding job and we hate to lose men of his caliber, but I don't know of anyone better qualified to take his place than Mr. Belen.

We know of his abilities. We know of his record both with his committee here on Capitol Hill and also with your Department and I congratulate you, sir, upon your selection.

I am sure you have made a very wise one. I know Mr. Belen will be a tower of strength to you in the years to come.

Mr. GRONOUSKI. I feel the same way.

Thank you.

Actually, when you move someone up, you leave other positions open, and appearing here with me for the first time is Bill McMillan, who has had some 30-odd years, 36 years of experience, who is head of our

regional office in Dallas and who will also, I understand, have a hearing before the Senate committee on his confirmation for Fred Belen's old job as Assistant Postmaster General in Charge of Operations, and again I am very pleased that the President saw fit to appoint someone with the background and experience of Bill in that all-important post in our Department.

BIOGRAPHICAL SKETCH OF MR. WILLIAM M. M'MILLAN

Mr. GARY. We are very glad to have him before us, and if you will file a brief biography of Mr. McMillan, we will appreciate it.

Mr. GRONOUSKI. All right. I have the biography.

Mr. GARY. That will be inserted at this point in the record.

(The biographical sketch referred to follows:)

BIOGRAPHICAL SKETCH—WILLIAM M. MCMILLAN

William Marvin McMillan has been Dallas regional director of the Post Office Department. He is a career postal employee with a distinguished background in servicewide investigations and postal management. He has been in the postal service for 36 years.

The son of Jim and Lillie Belle Ridling McMillan, he was born on a farm, May 8, 1905, in a town named after the first Postmaster General—Ben Franklin, Tex. He attended teachers' colleges at Denton and Commerce, Tex., and taught school for 3 years.

Mr. McMillan entered the postal service as a substitute clerk at Albany, Tex., in 1927, and rose through the ranks to the regional directorship.

In 1935, he was appointed a postal inspector and was assigned to Boston, Mass. He returned to Texas in 1937, and has served in Fort Worth and Dallas almost continuously since that time. In 1946, he was named inspector in charge of the Fort Worth inspection service division.

During his 25 years as a postal inspector, Mr. McMillan distinguished himself as an outstanding investigator. Working out of Dallas, he participated in the successful investigation of insurance and uranium fraud cases involving millions of dollars.

Mr. McMillan was named acting director of the Wichita postal region on August 5, 1961, and on December 5, 1961, he was appointed director of the Dallas postal region.

As Dallas regional director, Mr. McMillan has been in charge of all postal operations in the States of Texas and Louisiana.

Mr. McMillan is married to the former Ella Watson. They have two sons.

Mr. GARY. We are glad to welcome you.

By the way, let me go back to Mr. Belen just for 1 minute. I understand that he is leaving us a little bit early today because he is going out to Michigan State University for an award night. I want to congratulate him on that award. I know that any award they confer upon him will be highly deserved.

Mr. GRONOUSKI. He is in the habit of getting awards. [Laughter.]

The university conferred not the same award but a similar one on Fred.

We have other, not new staff members necessarily, but newly appointed staff members here and not the least is another Presidential appointee, who has been confirmed and is serving in that capacity, Tyler Abell, who has filled what has been for a while a vacancy in our Bureau of Facilities post.

He has been appointed by President Johnson as the Assistant Postmaster General in charge of Facilities.

Again, I am very happy to welcome him to that post and introduce him in that post to this committee and again I am very pleased that President Johnson saw fit to appoint him to that post.

Mr. GARY. Mr. Abell, we are glad to have you with us.

(The biographical sketch of Mr. Abell follows:)

BIOGRAPHICAL SKETCH—TYLER ABELL

Tyler Abell brings to the Post Office Department several years of administrative postal experience as well as a comprehensive legal background.

The nomination of Mr. Abell, 31, as head of the Department's Bureau of Facilities, was confirmed by the Senate January 23, 1964.

Mr. Abell first came to the Department in February of 1961 as Deputy to the Executive Assistant to the Postmaster General for congressional liaison.

In June of 1962 he was promoted to Special Assistant and in June of 1963 he was appointed Associate General Counsel in charge of the Legislative and Mailability Divisions.

He was also appointed by the Postmaster General as Chairman of the Parcel Post Study Group, an intradepartmental committee established 8 months ago to develop solutions to parcel post problems.

His experience includes reportorial work for a national syndicated columnist, a review of laws covering the Federal Government's acquisition and management of lands and buildings, law clerking for Judge Wilbur K. Miller of the U.S. Court of Appeals for the District of Columbia circuit and work with one of the leading law firms in the Nation's Capital.

A native of Washington, D.C., Mr. Abell attended St. Alban's School here and graduated from Amherst College, Amherst, Mass., in 1954. He received his law degree from George Washington University Law School.

He is a member of the bar in both the District of Columbia and Virginia.

Mr. Abell served as an enlisted man in the U.S. Army from 1955 to 1956.

In 1960 he worked on behalf of the then Senator Lyndon B. Johnson's preconvention bid for the presidential nomination and in the general election campaign traveled some 23,000 miles as an advance man for the Kennedy-Johnson ticket. Following the election he served as a vice chairman of the inaugural parade committee.

In 1955 Mr. Abell was married to Elizabeth Hughes Clements, daughter of then Senator and Mrs. Earle C. Clements of Kentucky. They have two children, Dan, five, and Lyndon, three, and live at 4506 49th Street, NW., Washington, D.C., 20016.

Mr. GRONOUSKI. I have in my prepared statement, which I have submitted to the committee today, listed several others and I don't think I need to go on with that here.

Mr. GARY. Those sketches will be inserted in the record at this point.

(The biographical sketches follow:)

BIOGRAPHICAL SKETCH—IRA KAPENSTEIN, SPECIAL ASSISTANT TO THE POSTMASTER GENERAL FOR PUBLIC INFORMATION

Ira Kapenstein was appointed Special Assistant to the Postmaster General for Public Information on November 4, 1963, after 7 years as a reporter, political writer, and Washington correspondent for the Milwaukee (Wis.) Journal. Mr. Kapenstein was born in New York City, a son of Alice Askern Kapenstein and the late Joseph Kapenstein. He attended Stuyvesant High School in Manhattan, and was graduated from the University of Iowa in 1956 with a bachelor's degree in journalism and political science.

While attending the University of Iowa, he was editor of the Daily Iowan, the student newspaper, and was elected president of the senior class in the school of journalism. Upon completion of his studies he was selected by the faculty as the outstanding male journalism graduate.

In June 1956 Mr. Kapenstein joined the staff of the Milwaukee Journal as a general assignment reporter, and in 1959 he was assigned to cover politics for that newspaper. In 1961 he worked as an assistant and rewrite man on the Journal's city desk, and returned to political reporting in 1962. As a political reporter he covered local, State, and National campaigns and reported on both national

political party conventions in 1960. He also covered the Wisconsin State Senate in 1962.

He was appointed to the newspaper's Washington bureau in January 1963 and served as its Washington correspondent.

Mr. Kapenstein, 28, is married to the former Betty Kunik, of Washington, Iowa. They have three children: Joel, six; Marcia, four; and David, two. The family resides at 9410 Woodland Drive, Silver Spring, Md.

Mr. Kapenstein is a member of the National and Milwaukee Press Clubs; Sigma Delta Chi Professional Journalism Society; Alpha Epsilon Pi Social Fraternity (twice chapter president); Omicron Delta Kappa Honorary Leadership Society, and a member of the National Alumni Council of the University of Iowa Alumni Association.

BIOGRAPHICAL SKETCH OF EUGENE B. CROWE

Eugene B. Crowe, 46, Deputy Assistant Postmaster General and Controller, Bureau of Finance, joined the postal service in September 1961.

Mr. Crowe began his distinguished career in the Federal service as a messenger in 1938 with the Securities and Exchange Commission and progressed through the ranks to one of the highest career positions in the Federal Government.

Crowe, who holds a B.S. degree in public administration from American University, Washington, D.C., has been a civil service employee of the U.S. Government for 25 years. He has held positions in the fields of management, comptrollership, and budgeting and programing with the Department of State, Navy Department, and the Bureau of the Budget. He came to the Post Office Department directly from an assignment as Public Administration Adviser to the Hashemite Kingdom of Jordan.

He is a member of the American Society for Public Administration and Society for International Development.

Crowe served in the Air Corps during World War II, attaining the rank of major.

Mr. and Mrs. Crowe, the former Loya Smith, of Long Beach, Calif., and their four children reside in Arlington, Va.

BIOGRAPHICAL SKETCH OF JAMES J. LAPENTA, JR., DEPUTY ASSISTANT POSTMASTER GENERAL, BUREAU OF PERSONNEL

James J. LaPenta, Jr., born December 24, 1924, serves as Deputy Assistant Postmaster General for Labor Relations, Bureau of Personnel. Mr. LaPenta came with the Department in February 1962 as a member of the Board of Appeals and Review.

Prior to coming with the Department, he served as a special representative and international representative for the International Brotherhood of Pulp, Sulphite & Paper Mill Workers, AFL–CIO, and served on the staff of their research and education office in Washington, D.C. He was vice president of the Delaware State Labor Council, AFL–CIO; president of its industrial union department; cochairman of Delaware State COPE (Committee on Political Education), and chairman of the council's State legislative committee. Before the merger of the AFL–CIO, Mr. LaPenta was president of the State CIO.

He has been arbitrator for the Diamond & City Cab Co. and TWU Local No. 210, Wilmington, Del., and has held the following State government appointments and offices: Delaware State Labor Commission; State advisory board for vocational education; advisory board, State youth services commission; advisory board, Governor's committee on education; delegate, 1960 White House Conference on Children and Youth; delegate, 1960 convention, International Association of Government Labor Officials; Delaware Governor's Committee on Retraining for Employment; Delaware Governor's Committee for a State Correctional Program; executive boards: Red Feather, welfare council, opportunity center, and Mental Health Association; treasurer, State Citizens' Committee on Planning, Housing, and Zoning. LaPenta has been active in intergroup relations and is a member of the National Association for Intergroup Relations Officials. Mr. LaPenta has won scholastic and athletic scholarships, and several awards, among which is the second highest Post Office Department award, the Meritorious Service Citation.

He is a Navy veteran. He was educated at Archmere Academy, Clayment, Del., and the University of Delaware, Newark, Del. He is married and has two children.

BIOGRAPHICAL SKETCH OF RICHARD E. ORTON, DEPUTY ASSISTANT POSTMASTER GENERAL, BUREAU OF PERSONNEL

As Deputy Assistant Postmaster General for Personnel, Richard E. Orton has responsibility, under the guidance of the Assistant Postmaster General for Personnel, for helping to set policy in recruiting, selection, placement, job evaluations, training, safety, and compensation matters.

Mr. Orton began his Government career with the Civil Service Commission in 1952 as a trainee. After transferring to Headquarters, Air Force, in 1955, he moved back to the Civil Service Commission a year later as Assistant Chief of the Commission's Examining Division in Cincinnati, Ohio.

In 1960 he became the Director of Personnel for the Bureau of the Budget. He moved out of the personnel business in 1961, becoming a budget examiner, still with the Bureau of the Budget, working with that portion of the President's budget covering the Post Office Department. This led to an appointment in October 1962 with the Post Office Department in the Deputy Postmaster General's Office, in charge of the Department's management analysis program.

For the past 8 months, Mr. Orton has been in his present position as Deputy Assistant Postmaster General.

Mr. Orton was born April 6, 1925, in LaCrosse, Wis. He was graduated with an A.B. degree magna cum laude from Loras College, Dubuque, Iowa, with an economics major. He received his master's degree in history from the University of Colorado, where he served as president of Phi Alpha Theta History Fraternity. Mr. Orton was the recipient of the John Joseph Keane Award for Oratory, and is now a member of Toastmasters International.

He is married and has two daughters, and makes his home in Arlington, Va.

BIOGRAPHICAL SKETCH OF CLARENCE H. OSTHAGEN, DIRECTOR, SPACE AND MECHANIZATION REQUIREMENTS DIVISION, BUREAU OF OPERATIONS

Clarence H. Osthagen is a native of North Bergen, N.J. He received his early education in the Hudson County schools and is a graduate of the University of Kentucky (1933), B.S. engineering. He did his graduate work at Columbia University and George Washington University.

Mr. Osthagen is a registered professional engineer in the States of New York, Virginia, and the District of Columbia, and is a member of numerous professional and technical societies.

He brings to the Post Office Department a wide background of Federal and industrial experience in administration, industrial engineering, and management. His most recent assignment was executive vice president and chief engineer, Tidewater Virginia Development Council, at Norfolk, Va., where he was engaged in industrial and economic development of Southeastern Tidewater Virginia (1953–63). From 1953–56 he was a principal of the firm of Rogers, Slade & Hill, management consultants. Before entering Federal service he was associated as an industrial engineer with Henry L. Doherty Co. (Cities Service Co.) on industrial research.

From 1936–53 he served in the Federal Government in the following capacities: Acting Undersecretary and Assistant Secretary, U.S. Department of Commerce; Deputy Assistant Secretary, Department of the Air Force; Director of Management Engineering and Director of Personnel, Federal Works Agency, and Deputy Administrator (Public Utilities and Transportation) and Executive Assistant, National Recovery Administration.

During World War II he had 4 years of active duty with the U.S. Air Force, attaining the rank of colonel, General Staff Corps, and is presently a colonel in the U.S. Air Force Reserves.

He has received the Exceptional Service Award (U.S. Department of Commerce), Exceptional Civilian Service Award (Department of the Air Force), and the Legion of Merit and Commendation Ribbon (Military), Department of the Air Force.

He has served on a number of interdepartmental boards and committees and is the author of several publications.

Mr. Osthagen was appointed to the position of Director, Space and Mechanization Requirements Division, Bureau of Operations, in July 1963.

General Statement of the Postmaster General

Mr. Gary. We shall insert your prepared statement at this point in the record.

(The statement referred to follows:)

General Statement

Mr. Chairman, members of the committee, I am pleased to be making my first formal appearance before your committee as Postmaster General. I have with me a copy of my biography for inclusion in the record should that be your wish.

Several other changes have occurred. Mr. Frederick C. Belen has been nominated by the President as Deputy Postmaster General. Mr. Belen is especially well prepared for this high office. His 14 years as chief counsel and staff director of the House Post Office and Civil Service Committee, together with his 3 years as Assistant Postmaster General in the Department, have enabled him to become one of the foremost experts in the country on all phases of postal operations.

Mr. Belen was nominated following the resignation of Mr. Sidney W. Bishop, who left the Department on February 1, 1964. Mr. Bishop served the Department with distinction for 3 years and I regret that he found it necessary, because of his personal and family affairs, to return to private industry.

Mr. William M. McMillan has been nominated by the President as Assistant Postmaster General, Bureau of Operations, to succeed Mr. Belen. Mr. McMillan has spent 37 years in the postal service and during that time, by his energy and ability, had progressed from a substitute clerk to the director of the Dallas region.

Mr. Tyler Abell is now Assistant Postmaster General, Bureau of Facilities, the position held by Mr. Bishop before his appointment as Deputy Postmaster General. Mr. Abell's previous assignment in the Department was as associate general counsel. Before that he served on the Postmaster General's staff. He has testified before this committee in the past and will be appearing before you later in these hearings.

Mr. Ira Kapenstein, whom I consider to be one of the brightest young men in Washington, is serving as my special assistant for public information.

Mr. Eugene B. Crowe has been named Deputy Assistant Postmaster General and Controller in the Bureau of Finance. He is highly qualified to succeed Mr. Lindsley H. Noble, who retired last fall.

Mr. Elmer Paul Brock, the Deputy Assistant Postmaster General for Personnel, was ill during the period of last year's hearings and subsequently died. His loss is keenly felt not only by his family and friends, but by the Department and an unusually large number of organizations in which he was active. His youth and energy belied the fatal nature of his illness. He fought it to the end, continuing his work and interest in the Department.

Two Deputy Assistant Postmasters General have now been appointed in the Bureau of Personnel. Mr. James M. La Penta, Jr., has been assigned to the crucial and complicated part of the operation concerned with labor relations. Mr. Richard E. Orton has been assigned to the personnel administration functions of the Bureau.

In the Bureau of Operations Mr. Clarence H. Osthagen has been named to the important post of director, Space and Mechanization Requirements Division. Mr. Osthagen was a former Deputy Assistant Secretary of Air Force and career Assistant Secretary of Commerce, and most recently was serving as vice president and executive director of the Tidewater Virginia Development Council at Norfolk.

Biographies of the people I have mentioned will be offered for the record at appropriate times.

RECENT ACHIEVEMENTS

I have been in office for 4½ months. Part of this time has been devoted to getting acquainted with the functions and goals of the postal service. I should like to repeat here what I have said publicly as to my impressions of the Department's operation.

The accomplishments and the performance of the Department during the last 3 years have been outstanding. As a newcomer, I have been tremendously impressed with both the magnitude and the complexity of the postal operation.

I also have been tremendously impressed by the management and personnel of the Post Office Department. We have top-quality people running the postal service and working in it.

The development of meaningful customer cooperation is an excellent example of sound accomplishment based on a fresh new concept in postal affairs.

The steady progress in the development and installation of proven mechanization exemplifies sound management and good judgment.

The pioneering of effective management-labor relations, the installation of a merit promotion system, the strengthening of the program for equal employment opportunity, the operation of an organized plan for postmaster orientation and other advanced training programs are further evidence of the effective energy of the present Department management.

The introduction of ZIP code probably is the most basic contribution to postal service that we will see for decades. The ZIP code has great potential for both improving service and providing the capacity to cope efficiently with the ever-increasing mail volume.

PURPOSES BEHIND BUDGET REQUEST

I have studied the budget before you in considerable detail. I have challenged my staff to justify practically every line in it—certainly every significant item involving expenditure. Although the budget was well along in preparation before I took office, I want to assure you that I have personally become a part of it.

President Johnson has demanded and expects prudence and frugality in Government operations. The 1965 budget for the Post Office Department was developed on this basis, and we have continued to seek additional economies even since the budget was developed. The purpose is to take all possible steps to improve utilization of manpower, to reduce employment, to eliminate programs that are unnecessary or marginal, to strengthen procedures by which we purchase any of the products or services that we use so as to reduce our costs, and to scrutinize all capital outlays for the purpose of undertaking only those that are necessary.

The end result of these efforts is to bring you a budget that is very tight. Nonetheless I feel confident that the Department can perform its essential functions within the framework we propose. I want, not only to hold down the budget, but to deliver the kind of mail service the public requires and needs.

EXAMPLES OF STRINGENCY

Perhaps a few examples will give you an idea of the stringency of the 1965 budget.

Although we anticipate a mail volume increase of about 2 billion pieces, we are holding down our "Operations and transportation" appropriation requests.

Excluding just the effect of changed rates of pay provided in Public Law 87–793, which is but one of the mandatory increases we face, we are requesting an increase of only $64 million in the operations appropriation. This means we have set ourselves the goal of absorbing 75 percent of the mail volume increase—of absorbing 1.5 billion pieces of mail—without the use of any additional employment. This presumes that clerk productivity will increase in 1965 by 2.1 percent. This is more than double the relatively high rate of increase in productivity in 1963 and even substantially ahead of the very difficult goal of 1.8 percent increase in productivity for 1964.

When I speak of the productivity increase, each year's increase is in addition to the prior year increase. The goal of a 2.1 percent increase in 1965, on top of the 1.8 percent estimate for 1964, which was on top of a 0.9 increase in 1963, means that the average number of pieces of mail handled per clerical hour of employment in 1965 will have to be 4.8 percent greater than the average per clerk in 1962.

Achievement of this targeted performance in operations will be difficult, but we have set ourselves the task of doing it.

The mail volume increase, of course, directly increases the volume handled by our Bureau of Transportation and International Services. Our request for the transportation appropriation is $601 million. Our 1964 appropriation was actually $611 million, or $10 million more. The reduction of our 1965 request under the actual appropriation for 1964 in spite of the increased workload anticipated in 1965 evidences our intent to do the closest possible estimating job and our continuation of a program of seeking lower costs in transportation.

This committee has in the past indicated its feeling that the Department has proceeded too rapidly in the provision of physical plant and equipment in pursuit of its modernization program. Partly with this fact in mind and partly because of our own determination to undertake capital programs only where they are urgently required, the budget that we are submitting to you includes a substantial reduction in our building and mechanization program. For example, we have reduced our expenditures for Federal building modernization and extension in the plant and equipment appropriation by $33 million under the prior year appropriation.

NEED TO STRENGTHEN MANAGEMENT

In order for us to exercise extremely tight control and to initiate the cost reduction programs that must successfully be undertaken if we are to stay within this budget, we need management resources both in our headquarters and in our regional operations. Therefore we are requesting additional positions in headquarters. These increases seem to me to be essential. We cannot accomplish the major economies that we are setting forth here without the manpower with which to manage the effort.

In the regions the management staff has been strengthened by using part of the savings generated by installation of new computers.

The cost of additional positions at headquarters is offset by reduction of positions and cost in the regions.

CURRENT ACTIONS

As fiscal year 1964 started, the Department was determined to operate within funds available without curtailing any essential services to the public, but the Department had some doubt about its ability to do so. We have been successful so far, and the outlook now is that we can provide essential postal services for the remainder of the year within the budget available.

The budget we are proposing for 1965 prescribes a lean operation. We must pull our 1964 levels of activity down to a lower level of employment. Only by beginning 1965 from that lower plateau will we be able to operate in the next fiscal year within the limits of the budget proposed.

On January 2, I announced specific actions that we have now undertaken in order to make our 1965 objective possible.

I announced an immediate personnel freeze, under my personal control, for the purpose of reducing postal employment by 5,000. This will reduce our June 30, postal employment to the level at which we must start fiscal 1965 if we are to handle the anticipated mail volume increase within the funds requested for the operations appropriation.

In making this announcement I emphasized that no regular employee will lose his job. The reductions will be achieved by leaving vacated jobs unfilled. Quotas were assigned to each region with goals ranging from about 100 vacancies to be recaptured in the smaller regions up to 1,000 or more in the larger regions.

The purpose of these reductions is to reduce employment and expenditures. Therefore controls have been placed on the use of overtime so that we can be sure that not only are fewer people involved in postal operations but also that the cost of remaining work hours does not go up through the use of overtime.

I have met with the regional directors, with the postmasters of the 68 largest post offices, and with the leadership of the employee organizations.

The anticipated savings from this reduction have been reflected in the 1965 budget.

In the case of our transportation activities, we began immediately again to analyze mail movements for the purpose of identifying the lowest cost means of

transport commensurate with maintenance of minimum standards of service. Our budget request anticipates that we will able to identify a number of lower cost alternatives and that we will be able to install those lower cost alternatives prior to, or early in, fiscal 1965. Only by succeeding in doing this can we accomplish the goal we have set.

Early in 1964 we consolidated the accounting office in Denver with the accounting office in Dallas, and thereby were able to make a useful saving. This consolidation of accounting offices was greatly facilitated by the availability of improved data processing equipment in Dallas. In the spirit of stringency that characterizes the budget that we are proposing for 1965, savings such as this should be sought. I have, therefore, announced that we will consolidate more of our accounting and data processing operations so that the present 14 separate units will be reduced to 6.

The consolidation schedule, as well as the time required to effect the regional processing changes, is such that only limited savings will occur in fiscal year 1965. Personnel reductions will occur throughout the year in an orderly fashion consistent with our desire to find jobs for employees made surplus by the consolidations. It is estimated, however, that 300 positions will have been eliminated by June 30, 1965, and that $500,000, the personnel costs, will have been saved. The fiscal year 1965 budget before you does not reflect these savings.

Ultimately it is expected that the postal data center consolidations will save 530 positions, $3,750,000 in personnel costs, and $300,000 in equipment costs.

HIGHLIGHTS OF PAST YEAR

I would like to take a minute to review some of the significant developments of the recent past.

Productivity.—As we use the term here, productivity is a measurement of the relationship between mail volume and man-hours. An increase in productivity depends on an improvement in this relationship. In fiscal year 1963 the productivity of the clerical force increased 0.9 percent—more than doubling the average annual productivity gain during the 4 years immediately preceding the present administration. As I mentioned eariler, we have set ourselves the goal of a further increase of 2.1 percent in 1965.

Absorption of pay increase.—Productivity gains and other management actions enabled the Department in 1963 to absorb $66.5 million of the added cost of pay provided by Public Law 87–793.

ZIP code.—Acceptance of this revolutionary contribution to postal operations has exceeded every expectation. The first phase of development of ZIP code depends upon acceptance and use by major business mailers. Some 88 percent of this group have indicated acceptance of ZIP code and most of these have already begun the process of converting their lists and their equipment so as to use ZIP code and provide the post office with the benefits of presortation of substantial quantities of mail. We estimate that by 1965 some 2 billion additional pieces of mail will be presorted as a result of this program. These benefits have been reflected in this budget.

Although installation of ZIP code as an organic part of postal operations is well underway, the benefits, cost reduction and service improvement, are still some years off. This is not the kind of new procedure that can be announced one day and be in total operation the next.

Sectional centers.—The operation of ZIP code depends upon a national network of sectional centers on which mail is concentrated and by means of which transportation networks are organized. The complete national network of 566 sectional centers has been identified and 344, or 60 percent of all sectional centers, are actually operating on either an interim or long-range basis.

Customer relations.—I have already mentioned the high value I place on this important aspect of our operation. Our relations with the large business mailers—the small group of 25,000 firms that originates half of our total mail volume—have continued to improve with advantages both to us and to our customers. Mail service and postal costs continue to benefit from better scheduling and cycling of mail, particularly first class. Through our Mail Users Councils major users of the mail have been informed of our plans. The introduction and conversion of ZIP code has been greatly advanced because of the Mail Users Councils and the relationships that have developed through them.

Research and development.—A contract has been let for the installation in the Detroit post office of the world's first operational automatic address reader. The installation is planned for late 1964 or early 1965. Contracts have also been let for the development of specialized optical scanning equipment to read ZIP codes. We anticipate that by 1967 operational units of this equipment will be installed in post offices.

Under our stamp-tagging program we have developed the capability to sense, with 99 percent accuracy, indicia tagged with invisible luminescent material. Further, we have developed the techniques and materials for tagging all present indicia and have developed sensing equipment with which we can identify and separate tagged preferential mail from all other tagged or untagged mail at the facer-canceler. Development work is presently being performed to incorporate both of these capabilities in a single modification package for the Mark II facer-canceler. The operational use of this equipment will speed the processing of preferential mail and increase the efficiency of the facing-canceling operation.

"Before and after" cost studies were conducted in the last 12 months covering $15 million of investments in equipment made in prior years. Estimated annual savings on the installations studied total $885,000, which is an annual return on investment of almost 6 percent.

Accelerated business collection and delivery program (A B C D).—As ZIP code will primarily speed out-of-town mail, the A B C D service speeds local business mail delivery. When this service was first introduced in the summer of 1962, the response of users was overwhelmingly enthusiastic. We have now installed the service in 267 cities across the country.

Vertical improved mail.—A fresh new approach aimed at improved utilization of postal manpower has been applied to the problem of mail service in high-rise office buildings. The first full-fledged installation was in the 20-story Crown Zellerbach building in San Francisco.

Meeting of CCEP.—The Management Council of the Consultative Committee on Postal Studies (CCEP)—part of the Universal Postal Union—met in Washington, October 28 to November 8, 1963. This was the first international postal conference to be held in the United States since 1897. The usefulness of the meeting itself and the importance of our responsibilities as the leading postal nation in the world suggest that such meetings should be held in this country with greater frequency.

Christmas operations.—The 1963 Christmas season was handled expeditiously in spite of bad weather over wide areas. While performance was generally good, more than the usual amount of Christmas mail was delivered after December 25. According to our special Christmas volume and man-hour reports, the workload in the month of December increased 2.9 percent over Christmas 1962, while total work hours increased only 1.9 percent. Although there was some use of overtime by regular employees, the use of special Christmas assistants decreased by 1.1 percent from 1962. In 1962 we used only half as many Christmas assistants as were used in 1960.

Enforcement of postal laws.—The postal inspection service continues to increase the pressure on those violating postal laws. Last fiscal year 10,980 arrests—an alltime high—were effected by the inspection service, an increase of 20 percent over 1960. Also attesting to the effectiveness of the investigative efforts of the inspection service is the record of 98.9 percent convictions in all cases brought to trial.

BUDGET FOR 1965

The financial position of the postal service for fiscal 1963 and our estimates for 1964 and 1965 (based on data in the President's budget) are summarized in the following table:

[In millions]

	1963 actual	1964 estimate	1965 estimate
Appropriation obligations or estimates without pay increase	$4,410	$4,593	$4,655
Pay increase (Public Law 87-793)	207	329	376
Total budget	4,617	4,922	5,031
Net postal revenue without rate increase or public services	3,567	3,653	3,710
Parcel post increases (effective Apr. 1, 1964)		23	77
Rate increases (Public Law 87-793)	242	595	693
Total net postal revenue	3,809	4,271	4,480
New obligational authority	808	651	551
Adjustment to accrued cost	+11	−22	+1
Net expense, accrual basis	819	629	552
Public service allowances	[1] 412	446	463
Revenue deficiency (postal deficit)	407	183	89

[1] Preliminary estimate.

In this table I have shown separately the financial effects of Public Law 87-793, which increased both salaries and postage rates. The second (and final) phase of salary reform provided by Public Law 87-793 became effective January 4, 1964, and the second (of three) steps of increases in certain postal rates became effective January 1, 1964.

The estimate of 1964 obligations without pay increase indicates an increase of $183 million over 1963, while the estimate for 1965 indicates an increase of only $62 million over 1964. This favorable decline in the amount of increase is made possible partly because the estimated growth of mail volume is somewhat les in 1965 than in 1964, but mainly because we have set ourselves the goal of reducing obligations and expenditures in ways I have already mentioned.

The Public Law 87-793 pay increases are not the only mandatory costs that contribute to the overall increase in our submission. The accompanying table shows increases by appropriations and separates mandatory increases from all others. The total increase for all appropriations is $108,685,000, of which $79,125,000 is mandatory and $29,560,000 is available for increases caused by greater mail volume and all other causes.

Mandatory and all other increases, 1965 [1]

[In thousands]

Appropriation	Increase		Total increase
	Mandatory	All other	
Administration and regional operation:			
Pay cost	$1,402		
Step increases	651		
Carryover		$1,531	
Employees' compensation fund	24		
All other		−160	
Total	2,077	1,371	$3,448
Research, development, and engineering:			
Pay cost	78		
Step increases	61		
Carryover		257	
All other		−5,425	
Total	139	−5,168	−5,029
Operations:			
Pay cost	45,761		
Step increases	29,069		
Carryover		23,838	
Employees' compensation fund	1,841		
All other		9,391	
Total	76,671	33,229	109,900
Transportation: All other		5,000	5,000
Facilities:			
Pay cost	110		
Step increases	124		
Carryover		17	
Employees' compensation fund	4		
All other		8,910	
Total	238	8,927	9,165
Plant and equipment: All other		−13,799	−13,799
Total appropriations	79,125	29,560	108,685

[1] Obligation basis.

In a decision dated January 15, 1964, the Interstate Commerce Commission consented to the Department's proposal for reformations of rates and conditions of mailability in the fourth-class parcel and catalog services. By notice in the Federal Register on January 18, the Department announced new rates and conditions with an effective date of April 1, 1964.

The accounts of the Department are stated in terms of accrued cost, the practice followed last year. In the case of the 1965 budget, the difference between obligations and accrued cost is $1 million. The conversion of obligations to accrued costs, in brief, involves the exclusion of capital obligations and the substitution for them of depreciation accruals and similar writeoffs. In addition we pick up in accrued cost the principal expenses paid by other departments and agencies for the benefit of the postal service but not funded by the postal service. The net effect of these adjustments in 1965 is to add slightly to the Department's deficit as computed on the basis of obligations.

The estimate of costs or losses from public services specified in the Postal Policy Act as amended by Public Law 87–793 increases in 1964 and 1965 partly because of larger mail volume in preferential-rate categories and partly because of higher postal cost due to increased rates of pay. The determination of public service allowances is on the same basis in 1965 as in the prior years shown.

After making the allowances for public services and assuming the accuracy of our revenue projections, the postal deficit for 1965 comes to $89 million. This is the amount of the estimated deficiency of postal rates and fees, the amount required in order to meet the statutory objective of a self-supporting postal service. Substantial progress has been made in meeting that objective.

Let me add a parenthetical word on public service allowances. The preceding discussion is based on the allowances as estimated in the President's budget.

The Postmaster General is required by February 1 of each year to inform Congress of his estimate of public services for the current year. I did so on January 31. The January 31 estimate, based on later and more complete information, shows public service costs or losses as a total of $453 million, $7 million more than the 1964 figure in the President's budget. This difference is accounted for principally because of unusually sharp increases in the volume of second-class nonprofit mail and fourth-class educational material.

CURRENT MAIL VOLUME

The originating mail volume increase predicted for 1964 is 3.5 percent. Volume is running 1.2 percent ahead of last year as of January 3, the last date for which such information is available. The size of this increase is almost exactly in accordance with expectations.

The predicted increase of 3.5 percent over the prior year includes the effect of 2 extra workdays in 1964, as compared with 1963. When 1964 is adjusted for comparability, the prediction of increase becomes 2.8 percent for the current year.

In comparing the current mail volume with our detailed prediction we find that the present increase is only 1 million pieces under target—actual of 37,749 million against a target of 37,750 million. It couldn't be much closer.

These data through January 3 are derived from a national sample designed for the purpose of measuring originating mail. Reports are compiled monthly. In addition we have a weekly report of operations of the 68 largest post offices—offices that account for nearly 70 percent of total mail volume. These reports for accounting period 8 (starting January 4 and ending January 31) showed an increase in workload of 7.1 percent over the same period last year. The first week of accounting period 9 showed an increase of 8.3 percent.

This is a good indication that we will be experiencing the high percentages of increases in the second half of the year that were predicted when we constructed the original estimate. We have no reason to believe that the targeted volumes of mail for the second half will be any less accurate than the targeted volumes for the first half. We feel confident that the estimated increase of 3.5 percent will materialize.

SUMMARY

My initial purpose as Postmaster General is to operate an organization stripped of nonessentials and sound in every way.

The President's purpose and my purpose is to operate the Department with maximum efficiency with every possible saving of manpower and expense, but with the maintenance of the service to the public for which the Government is responsible.

I feel sure that you, Mr. Chairman, and the members of this committee—you whose backgrounds and experience give you great insights into the Department's operations—will find that we are proposing a conservative operation in the year ahead.

As I said earlier, I am tremendously impressed by the variety, depth, and importance of postal operations. I am comforted by the fact that postal employees in post offices, in the regions, and at headquarters have such extensive postal experience and are motivated by a real desire to work and be of service.

Mr. GRONOUSKI. I came into the Department 4½ months ago in the middle of the budget year without a great deal of experience in Federal budgeting nor obviously in Post Office budgeting. My first order of business and my continuous order of business since I have come here has been, almost exclusively, poring over the Departmental budget and at the request and, of course, certainly the very persuasiveness of President Johnson, I have pored over it with the objective and to the extent possible of maintaining and containing both the total cost and the number of personnel; that is a two-edged proposition.

I think we have been very effective in maintaining the budget at what is consistent with a very conservative budgetary policy. I might say at the outset that there were many areas where we looked, in cutting down on the budget that was initially submitted to the Bureau of the Budget at the time that I took over as Postmaster General.

EFFICIENCY GAINS

We have run something like a nine-tenths to a 1 percent increase in efficiency in the Department over the last 3 years.

In fact, it has been a little higher than that on the average, about 4.8 over the years 1963, 1964, 1965. In other words, we are handling a steadily increased volume of mail with substantially less manpower and cost per unit.

This year—1965—we are anticipating the opportunity to make as sharp a stride forward as we have ever made. We intend to absorb a good share of the total increase in volume of mail with no increase in manpower and costs.

MAIL VOLUME INCREASE

We expect about a $2 billion increase in volume in the fiscal year 1965 and we expect to handle at least three-quarters of that and perhaps more, but at least three-quarters, or a billion and a half pieces, without any increase in manpower.

Mr. GARY. What percentage increase is that over this year?

Mr. GRONOUSKI. About 2.8 percent increase, which is consistent with the 3.5 percent that was estimated for 1964. There are 2 extra days in 1964 and leaving out those 2 extra days it converts to a 2.8 percent increase.

Mr. GARY. I am glad you came down to our figures. That is pretty close to our estimate that we had in the past and you know in past years we have outguessed the Post Office on that estimate.

Mr. GRONOUSKI. We have come just as close as we can.

Mr. GARY. That is to the increased volume.

Mr. GRONOUSKI. That is for many reasons, including the fact we know that so much of the budget depends on the volume increase and we wanted to pare that budget just as tight as we could.

I think it is just as objective a figure as we could come up with. The volume this year in 1964 is running just about on target as of January 3. So, we anticipate this year we will probably end up with approximately the volume we anticipated, although, in the last couple of weeks there has been a real increase in volume.

In one recent week we had an indicated 11-percent increase in volume over the previous year and the last month an indicated 7-percent increase, according to a workload report we get from the 68 largest post offices.

I think we are going to come out even with the volume estimate by the end of this fiscal year.

As I said a moment ago, the volume increase anticipated for 1965 is consistent with this. We anticipate, on the basis of the budget submitted by the President, the budget which we submitted to the President, we anticipate something like a 2.1-percent increase in 1965 which is quite a target to aim at, but we think we can make it.

NEW PROGRAMS

One thing that has happened in 1964 is that some of the programs that were developed in previous years have started to bear some fruit.

Our POMSIP program where we have a continuing management

program in the post offices, the major post offices particularly, for the purpose of surveying the routes and redesigning the clerical handling of the mail in the offices, has shown some fruit.

We have developed some other significant programs which have borne fruit. NIMS councils, the councils of major users in something like 250 or 300 major cities in the country have shown great cooperation with us and worked with us.

One evidence of that is our drive to get a much higher percentage of our volume turned in before 5 o'clock. Two or three years ago we were getting something like 75 or more percent of our mail after 5. The last count indicates 48 percent after 5. With these fixed volumes there is opportunity to spread workloads and cut down the peaks, and you obviously cut down on the likelihood of people standing around in nonpeak periods without the volume to handle.

We have had great cooperation from the major mailers, certainly from the User Councils, in promoting this kind of program which is one of the factors which has given us an opportunity to come in with a much tighter budget, I think, this year than possibly we have in a long, long time.

The A B C D program fits into this in that we have given them a definite encouragement, the businessmen, to mail before 11 a.m. because, in the downtown section of 267 communities now, most of the major cities in the country, mailing before 11 results in delivery around 3 o'clock in the afternoon.

We have had great success with this program and we have tested it over and over again and we not only are about 99 percent on target in terms of delivery of this A B C D mail on time, but also we have something like, I believe, 100 million pieces.

Mr. BELEN. About 200 million.

Mr. GRONOUSKI. About 200 million pieces of mail which was deposited in the A B C D boxes. Other mail for outside of city delivery also gets a very favored treatment.

We have encouraged certain kinds of users who had very high priority mail, such as checks amounting to millions of dollars, to use A B C D boxes for this kind of preferential treatment mail, in order that we may sort it and get it to its destination fast.

Well, all of these various programs have resulted in the opportunity, this seems to me, at least. I am staking my reputation on it, that our improvements along these lines are going to be reflected in even greater efficiencies next year.

This is one of the factors involved in our expectation that we can absorb a billion and a half pieces of mail without new staff to handle it and within the same staff framework that we have this year.

CUSTOMER COOPERATION PROGRAMS

I might say furthermore, however, that there are a lot of programs we are working on right now in terms of customer cooperation, particularly with the very large mail users that we think are essential, are possible, and will help us reach this level of efficiency next year that we are anticipating.

Certainly, one of the areas where we think there has been some laxity in the past and where we have already had meetings with regional

directors and others is in the area of preprocessing of mail, especially third-class mail.

We find some of the third-class mail which should be presorted is not being presorted. This is not the case with the major users but it is the case with a lot of smaller users where, just as a matter of slippage, some of these things are getting through.

We have asked our postmasters and our regional officers to give particular attention in the months and years ahead to make sure that the regulations are being rigidly enforced on the presorting of third-class mail, for the simple reason, obviously, that the more presorting that happens outside the post office, the less pressures we have on our clerk complement in the post office.

We are also exploring other kinds of cooperation and cooperative efforts that particularly our very large mailers can implement to take some of the load off of us and at the same time give them much better service.

We had a case just around Christmas where a major mailer had something like 19 carloads of mail that had to go out immediately. We think he would have gotten better service and certainly better postal service if he would have trucked some of this mail not to the nearest post office but to some of the sectional centers involved in the distribution.

We have discussed this with the Donnelly Co. and some of the other large ones and they have shown a real keen interest in this because they recognize the service factor involved.

While it involves a little more expense for them, they can see the likelihood that that expense will be justified, in getting better service. On the other hand, from our point of view, to the extent that they divert this mail to sectional centers nearer their point of final distribution, this just reduces the number of times a piece of mail has to go through our shop. We are working very hard with the customer groups, especially the larger mailers in this case on this kind of program.

Mr. GARY. Some of them have been doing that for some time, haven't they?

Mr. GRONOUSKI. That is right.

Mr. GARY. In Richmond I quite frequently see trucks in the post office that have come from Chicago bringing catalogs and things of that kind. They are trucked all the way from Chicago to Richmond and then placed in the post office in Richmond for distribution in that area.

Mr. GRONOUSKI. Well, this is the kind of thing that has been successful. As we indicated, we think we can encourage most of the major mailers to move in this direction, which is, again, one of the factors that we are betting on in terms of reaching the kind of efficiency that we anticipate in the Department.

POSSIBILITY OF FURTHER BUDGET CUTS

I might say at this point, furthermore, that while we submitted to the President a budget that you have before you, and a very tight budget, indeed, we did also promise the President at that time that within the intervening weeks before this hearing came up, we would give very

serious attention to the possibilities of further cuts. We have done this and we have made some proposals to the President and they are on the President's desk right now for judgment.

I might say those proposals which we have made, which involve something like 3,000 employees, do involve some minor curtailment of service but in areas that we have suggested to the President might be areas of curtailment which are less than commensurate with the savings involved.

I talked to Kermit Gordon of the Budget Bureau yesterday about it, and they are working on this with the President right now, and other departments have made similar evaluations. My understanding is the President will make a judgment on that in a few days and will submit something to the appropriate committees of Congress with respect to a decision on our recommendations.

But I want to emphasize that in those cases which would be additional reductions besides that which we have indicated here, in the budget as presented to the President, in those cases there will be some service cuts but, again, service cuts that we think are not serious, will not damage the essential postal service.

DATA PROCESSING CONSOLIDATIONS

I might say also that we have inaugurated and are in the process now of carrying out a consolidation of the postal processing of payrolls and postmasters' accounts and settlements for transportation costs, and so on, purchasing areas.

We are in the process of consolidating into six processing centers with the most satisfactory, electronic data processing equipment available, and this will ultimately result not only in substantial savings to the Department, something like $4 million or so a year after it is all worked out, and something like 500 employees, but will also, in our judgment, give us a much better product for management of the postal service in that we will have quicker statistics for manpower control, for budgetary control purposes.

This is going to be going on during fiscal year 1965. By the end of fiscal year 1965, we expect to have a reduction of 300 employees. However, the total for the year obviously will not be anything like the 300 for the simple reason that for a good part of the year they will be unable to reduce employment until the consolidation occurs.

We anticipate, as I say, about a 300 reduction effective by the end of fiscal year 1965.

This item which came up after, or which was decided on after the budget was presented to the President, also is not included in the total figures we have here.

I think, as I recall, for this fiscal year, the 1965 fiscal year, the savings will amount to about half a million dollars and for subsequent years it is about $4 million after the whole program is put into effect.

MANDATORY COST INCREASES

I might say that the budget request we have, which is up about $109 million, is very largely—this increase very largely reflects some mandatory increases in the sense we have no control over them.

They are not related to increased mail volume, they are not related to any policy decision on our part, the part of the Department.

On page 15 of my prepared statement I have a table which reflects this. Of the $108,685,000 increase for 1965, a little over $79 million represents these mandatory increases which are simply a reflection of last year's payroll bill, a reflection of the step increases that are mandatory, written into the civil service law.

These are the basic things and there are also various kinds of fringe benefit costs.

Mr. PILLION. A lot of these reflect the proposed increases?

Mr. GRONOUSKI. They do not reflect the proposed increase, only the past. They are the effect of the past pay bill increases, the second phase of which went into effect January 4, for example.

So that $79 million out of $108-plus million of the increase is unrelated to any increase in volume or anything else. It is in the law as it affects the pay plan, and so on.

I might indicate also of the remaining $29.5 million, a good part of that is not reflected in 1965 statistics but rather 1964 statistics.

For example, of the $29.5 million, almost $26 million represents carryover cost of employees that were hired during 1964, fiscal 1964, reflecting fiscal 1964 volume, and just a continuation of 1964 volume would have required maintaining this kind of staff required to spend this $25.6 million.

So, in effect, relating to 1965 volume increase, we are left with very, very little increase. As a matter of fact, if you add together the mandatory increases plus the increase caused because we carry for a full year employees that were hired only a part of the year as a result of last year's volume increase we are asking for an increase of only $3 or $4 million.

MANAGEMENT PROGRAMS

I might say that as I indicated a moment ago, we are expecting great things, as is reflected in our thought that we can increase efficiency say 2.1 percent this year. We are expecting great things of the various kinds of management programs we have already instituted.

We are going ahead on the POMSIP program. We are going ahead working through our NIMS Council and 15,000 of the most important businessmen in the communities from the small user's point of view throughout the country.

We are particularly interested and concerned with our whole customer relations program which reflects so importantly on the volumes we have to handle and the processing we have to do and the kinds of service that we can accomplish through the postal service.

ZIP CODE PROGRAM

Might I make one other observation? We think, and I think just as strongly as those before we have, that fundamental to our whole management program is the very substantial program which was once given the name of ZIP code. The ZIP code program, it seems to me, in terms of the tremendous volumes of mail that we anticipate in the future—these machines that are invented are turning out mail

as well as processing mail—in terms of the tremendous volume of mail we anticipate in the future, it is awfully important, it seems to me, to have a program such as ZIP code to coordinate and organize the mail distribution program in the future.

We have had what I regard as remarkable cooperation in the ZIP code program by the major users of the mailing service. We took a survey this last December, the last one we took, of some 24,000 of the largest mail users. We found that 88 percent of them were in some process of converting their mailing lists to ZIP code.

When you consider the fact that some mailers have as high as 70 million names on their lists, this is, in my judgment, a remarkable accomplishment. They are doing it for two reasons, I presume. One is because they are interested in cooperating with the Post Office Department. I found every evidence of that as I sat in meetings with each one of these groups and discussed it with them.

They are genuinely interested in cooperating and also they see this avalanche of mail and see the need to have a system that will cope with it, because if we are going to maintain service in the future, we are going to have to organize to cope with the volumes of mail that were unheard of a few years ago.

While I can't suggest we are making any savings on ZIP code today, I think I would be in error and making a mistake to paint what I think is basically a rosy picture, rosier than it is.

On the other hand, I anticipate in the next 3 or 4 years to see the fruits of this program just as we are today seeing the fruits of POMSIP and the NIMS Council, and so on, that were created 2 or 3 years in the past.

I think the ZIP code program will ultimately permit us to maintain the kind of service that is essential in this country, the kind of mail service, while at the same time containing our costs and payrolls in the future far below what would be necessary if this kind of program hadn't developed.

I think particularly of interest to me is the development of the ZIP code reader, and I am confident it is in its last stages of development. We let three contracts a few months ago for further development on the ZIP code optical scanner, which reads the ZIP code numbers, and I am reasonably confident in the next 3 years or so we will be in a position to be actually using the ZIP code readers in the Post Office.

I think when that point comes this will pretty much coincide with the period when ZIP coding of mailing lists will have been completed and we will be in a position to make some real advances in the future with the optical scanner, and I think these kinds of programs augur well for the future of the postal service and future postal budgets.

But as I said a moment ago, I can't claim now, as of today, that we are saving much money with the ZIP code, or whether we are giving particularly sensationally improved service with the ZIP code.

I think it is something that has to start sometime. It just started in July. It is moving along well and fast. More than anything else, it is a matter of working and developing it. It is not magic.

Mr. PILLION. It is not a cure-all for your troubles?

Mr. GRONOUSKI. It is not a cure-all, but I think it is an essential thing and we can look forward 3 or 4 or 5 years from now to the fruits of it.

SAVINGS IN 1965

Mr. GARY. Thank you, General. I saw in the paper some time ago that you had told the President that you would have a savings of $100 million in the Post Office this year.

How much of that is reflected in this budget?

Mr. GRONOUSKI. Well, the whole thing is reflected, if I understand you correctly.

We have a $552 million draw on the Treasury as this budget stands today, possibly something slightly less than that if the President accepts the recommendation I made to him last week, as compared to something like $650 million in 1964.

Mr. PILLION. How much was 1964?

Mr. GRONOUSKI. About $650 million.

So that I might say in the process we have had—and I am sure you are aware of it, but I think I ought to put it on the record here—that we did effectively propose a $77 million rate increase on parcel post, which has been approved by the Interstate Commerce Commission and we are aiming to put it into effect as of April 1.

PARCEL POST RATE INCREASE

Mr. GARY. How much additional revenue do you anticipate from the parcel post rate increase?

Mr. GRONOUSKI. It is very hard to be real precise on that because you can never measure in advance just what effect an increase in rates is going to have on volume but if you consider the fact that there is an anticipated factor in the next fiscal year of substantially greater business volume than there is this year, I think we can be reasonably sure when we say it will be in the neighborhood of $77 million.

That is parcel post and catalogs.

Mr. GARY. How much increased revenue will the Post Office Department receive by virtue of the postal rate increase law?

Mr. GRONOUSKI. The rate increase for fiscal 1965 will give us $693 million increase in revenue. That is in addition to the $77 million.

Mr. GARY. $693 million?

Mr. GRONOUSKI. Yes; the estimate that we made.

INCREASE IN PUBLIC SERVICE ALLOWANCE

Mr. GARY. Now, I notice from the table on page 13 of your statement that the public service allowance has increased from $412 million in 1963 to $463 million in your 1965 estimate.

What is the cause for that increase?

Mr. GRONOUSKI. Well, there have been wage increases—can I go off the record to check this?

Mr. GARY. Yes.

(Discussion off the record.)

Mr. GRONOUSKI. Repeating myself, one, of course, is the anticipated reflection of the pay bills, the previous pay bills, not the current consideration, which has increased the cost, and, secondly, there has been increased volume, particularly increased volume in kinds of mail that is sent out as educational materials and the like.

Mr. GARY. Why do you show an estimate for public service allowance in 1963, "Actual" column, for public service?

Mr. GRONOUSKI. Are you looking at this $412 million figure?

Mr. GARY. Yes, sir.

Mr. GRONOUSKI. This is, as far as we can guess right now, and it is still an estimate, but we anticipate this will be the total figure for 1963.

Mr. NICHOLSON. The cost ascertainment report for year 1963 which will be the official figure, is not yet out. However, the $412 million figure was reported to the Congress and is still our best estimate as of this time.

Mr. GARY. Have you added any additional items to the list of so-called public services?

Mr. GRONOUSKI. The list is the same list as you had last year. They duplicate the list for 1964.

Mr. GARY. Then, the total postal deficit in reality is not only the $89 million you show on the table on page 13 of your statement but including the public service allowance of $463 million, the actual deficit for 1965 is $552 million. is that correct?

Mr. GRONOUSKI. The total of the $463 million public service plus the $89 million, which excludes those designated as public service by Congress, comes up to that figure; yes.

Mr. GARY. You know, this committee has never been a devotee of the idea that anything ought to be subtracted for public service.

I said "anything." It may be that where the Congress actually prescribed reduced rates, the amount of that reduction should be considered a public service but it is absolutely ridiculous, in our opinion, to say that third- and fourth-class post offices are public services any more than first class.

The entire postal service is a public service and if it were not, the Government would have no right to enter the field. It ought to be left to private industry. Frankly, we have never been an advocate of the idea that a portion of the service should be termed "public service" and the deficit reduced by that amount so that newspapers and magazines will not be charged the full cost of handling.

So far as I am personally concerned, if there is any way to limit it, I would do it.

Mr. PILLION. If I may interrupt, since this public service item has always been a very controversial one and the chairman has expressed, I think, the consensus of opinion of this committee, and since it appears that the public service item this year is merely a prolongation or continuation of last year's public service item, with the necessary additions, is it possible to review this whole thing and possibly find some areas in this, in which, despite the law, you might find areas where you can cut this public service item?

Review it real sharply and real technically from a legal point of view so that maybe we can have the situation on this? Do you examine into the nature and eligibility of all of these people that supposedly have real or subsidized mailing privileges?

Mr. GRONOUSKI. We think, Congressman Pillion, we examined the law very carefully, and that we are reflecting the law. If we are at

fault here, I would be very happy to know about it.

Mr. PILLION. Maybe you can reflect a little more. We don't know.

Mr. GARY. "The fault, dear Brutus, is not with the stars but in ourselves that we are underlings" in this case. These are the laws that the Congress have enacted and to me it is absolutely ridiculous to say that when the Congress gives a favorable rate instead of taking the amount involved in the favorable rate that is given, that you have to take the entire amount of the cost of handling that mail when other people are not paying the full cost, is absolutely ridiculous.

Mr. PILLION. And call it public service.

Mr. GARY. And call it public service. It is just a misnomer and doesn't mean anything. Insofar as I am concerned, the whole item doesn't mean a thing in the world and I will never accept it as a proper item.

However, I am just one Member of 535 in the Congress. Can you give us a breakdown of that figure of $453 million?

Mr. GRONOUSKI. I submitted to the Speaker of the House a letter giving a breakdown and if you wish I will insert the letter in the record.

Mr. GARY. I will appreciate it very much.

(The letter referred to follows:)

OFFICE OF THE POSTMASTER GENERAL,
Washington, D.C., January 31, 1964.

Hon. JOHN W. MCCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: Section 201 of Public Law 87-793, approved October 11, 1962, requires the Postmaster General to report to the Congress on or before February 1 of each year the estimated amount of the losses or costs (or percentage of costs) incurred by the postal establishment in the then current fiscal year in the performance of public services. These public services are enumerated in title 39, section 2303, of the United States Code, as amended by the foregoing law.

For the current fiscal year ending June 30, 1964, we presently estimate the amounts of these public services as follows:

	(*Millions*)
1. Total loss resulting from the transmission or matter in the mails free of postage or at reduced rates of postage as provided by statute	$281
2. 10 per centum of the gross cost of the operation of 3d-class post offices and the star route system, and 20 per centum of the gross cost of the operation of 4th-class post offices and rural routes	94
3. Loss incurred in preforming nonpostal services	23
4. Loss incurred in performing special services	54
5. Additional cost of transporting U.S. mail by foreign air carriers at a Universal Postal Union rate in excess of the rate prescribed for U.S. carirers	1
Total	453

The actual fiscal 1964 amount for each of the foregoing items, which will depend upon the volume of transactions and related revenues received and/or costs incurred, will be determined following the close of the fiscal year when these data are known.

The law requires that public service costs and losses shall be excluded from the total cost of operating the postal establishment for purposes of adjustment of postal rates and fees.

Sincerely yours,

JOHN A. GRONOUSKI,
Postmaster General.

Mr. GARY. Does it break it down by class of mail?

Mr. NICHOLSON. It shows it by categories of service as described in the law. However, we also have the detailed summary that shows the allowance by class of mail and we will be pleased to submit that.

Mr. GARY. We would like to have that also.

Mr. NICHOLSON. This is scheduled by class of mail.

(The material referred to follows:)

Estimate of public services, fiscal year 1964

[Thousands of dollars]

	Estimated volume	Estimated revenues [1]	Estimated accrued costs [1]	Estimated public services
(1) Total loss on free and preferred-rate mail:				
Second-class mail:				
(a) Newspapers and periodicals of nonprofit organizations, religious and classroom use, and mailings within county, all other publications	*Thousands* 3,545,590	16,395	168,737	152,342
Third-class mail:				
(a) Qualified nonprofit organizations, bulk rates	2,287,480	29,453	94,824	65,371
Fourth-class mail:				
(a) Educational materials	220,915	57,352	112,291	54,939
Library materials	14,126	1,317	7,064	5,747
(b) Matter for the blind at 1 cent per pound	176	16	133	117
Total, fourth-class mail	235,217	58,685	119,488	60,803
Penalty mail:				
(a) Pan American Union and the Pan American Sanitary Bureau	3,466	----------	170	170
Franked and official mail:				
(a) Diplomatic Corps of the Postal Union of the Americas and Spain	771	----------	164	164
(b) Absentee ballot mailings				
(c) Matter for the blind, free	8,000	----------	2,462	2,462
Total official and franked mail	8,771	----------	2,626	2,626
Total free and reduced rate	6,080,524	104,533	385,845	281,312
(2) Loss on nonpostal services [2]	----------	----------	22,829	22,829
(3) Loss on special services:				
Registry (paid)	36,727	35,791	44,466	8,675
Insurance	171,380	28,709	33,055	4,346
Collect-on-delivery	22,826	13,178	25,193	12,015
Certified mail	35,728	10,855	12,506	1,651
Special delivery	90,135	35,482	56,328	20,846
Money orders	232,756	60,980	75,319	14,339
Postal savings	1,935	3,209	2,889	[3] 320
Stamped envelopes	----------	21,549	20,795	[3] 754
Box rents	----------	33,839	26,627	[3] 7,212
Total, special services	----------	243,592	297,178	53,586
(4) Public service operations:				
10 percent third-class post offices	----------	----------	14,405	14,405
20 percent fourth-class post offices	----------	----------	7,831	7,831
20 percent rural service	----------	----------	62,746	62,746
10 percent star route service	----------	----------	8,984	8,984
Total, public service operations	----------	----------	93,966	93,966
(5) Additional cost of transporting U.S. mail on foreign air carriers	----------	----------	800	800
Grand total, public services	----------	348,125	800,618	452,493

[1] Revenues are based on budget estimates for fiscal year 1964 which have been adjusted to include the effect of increased postal rates under Public Law 87-793. Estimated accrued costs are based on the results of allocating aggregate budgetary estimated costs for fiscal year 1964 to classes of mail and services on experience of fiscal year 1963, adjusted to reflect by classes of mail and services the effect of increased salaries under Public Law 87-793. Estimated public service for third- and fourth-class post offices, rural and star routes and additional cost of transporting U.S. mail on foreign air carriers were computed and excluded from the allocations.

[2] Excludes estimated expense for civil service functions related to Post Office personnel.

[3] Denotes gains used as to offsets losses.

Mr. GARY. We shall appreciate it if you will insert both of those items.

REDUCTION IN EMPLOYMENT

General, there was considerable interest in your statement in early January to which you referred in your prepared statement that you intended to reduce postal employment by 5,000 by the end of this fiscal year.

Can you give us a more detailed statement as to what your plans are in that respect?

Mr. GRONOUSKI. Yes.

Mr. GARY. In addition to that we would like to ask this: You say you will reduce employment but here in your budget you ask for an increased personnel of 4,800. How do you justify those two figures?

Mr. GRONOUSKI. Well, in the first place, reflecting on the growth in volume in 1965, we knew we would have to have some increase during the year 1965 in order to handle volume.

So, if we were to reach the kind of targets that we set for ourselves in the 1965 budget, it was absolutely essential that we had a good starting point at the beginning of the year in order to maintain our projected levels over the year 1965.

Secondly, we felt, as I reviewed the picture during the months of November and December, I felt that we were getting some advantages and gains out of these various kinds of programs that I have described, as our NIMS program and our POMSIP program, and the like, and our customer's relations programs and I felt we can effectively handle the mail volume with a staff that would end up as 590,000 starting on July 1 of 1964, so I had two things in mind when I set that goal.

I had one thing in mind, a good starting point on July 1, to permit me to hold myself within the limits I had set for myself in fiscal 1965, and, secondly, the belief that during the last 6 months of 1964 we could actually start cutting back in anticipation of that without hurting any essential service.

Those are the two things that went through my mind.

Mr. GARY. In other words, your idea is if you hadn't made the cutbacks on these various programs and otherwise by efficiency, instead of asking for 4,800 to cover the additional volume, you would have asked for 9,800?

Mr. GRONOUSKI. It would be over a higher base, over a 5,000 higher base, which wasn't consistent with the President's choice of keeping a tightest possible budget.

Mr. GARY. Do those figures include Christmas temporary help?

Mr. GRONOUSKI. No; they do not. The 150,000 "temps" that we put on this Christmas, by the way, was about half of what were put on in 1960. We have cut back substantially.

Mr. GARY. The Post Office has done an excellent job on the Christmas mail, there is no question about it. You have reduced employment and at the same time materially increased efficiency.

ANTICIPITED PAY RAISE AND BUDGET AMENDMENTS

Does the budget for next year include any allowance for the pay raise now under consideration by the Congress?

Mr. GRONOUSKI. No; it does not.

Mr. GARY. Do you anticipate any budget amendments pursuant to President Johnson's request for reconsideration of the budget by the executive agencies? I believe you stated in your original statement you did.

Mr. GRONOUSKI. Yes. I expect in the next few days the President will come before the Congress with a revision. I can't say this for sure because he hasn't made a decision. He hasn't conveyed to me, anyway, a final decision on just what he is going to do on my recommendation but I anticipate that he will.

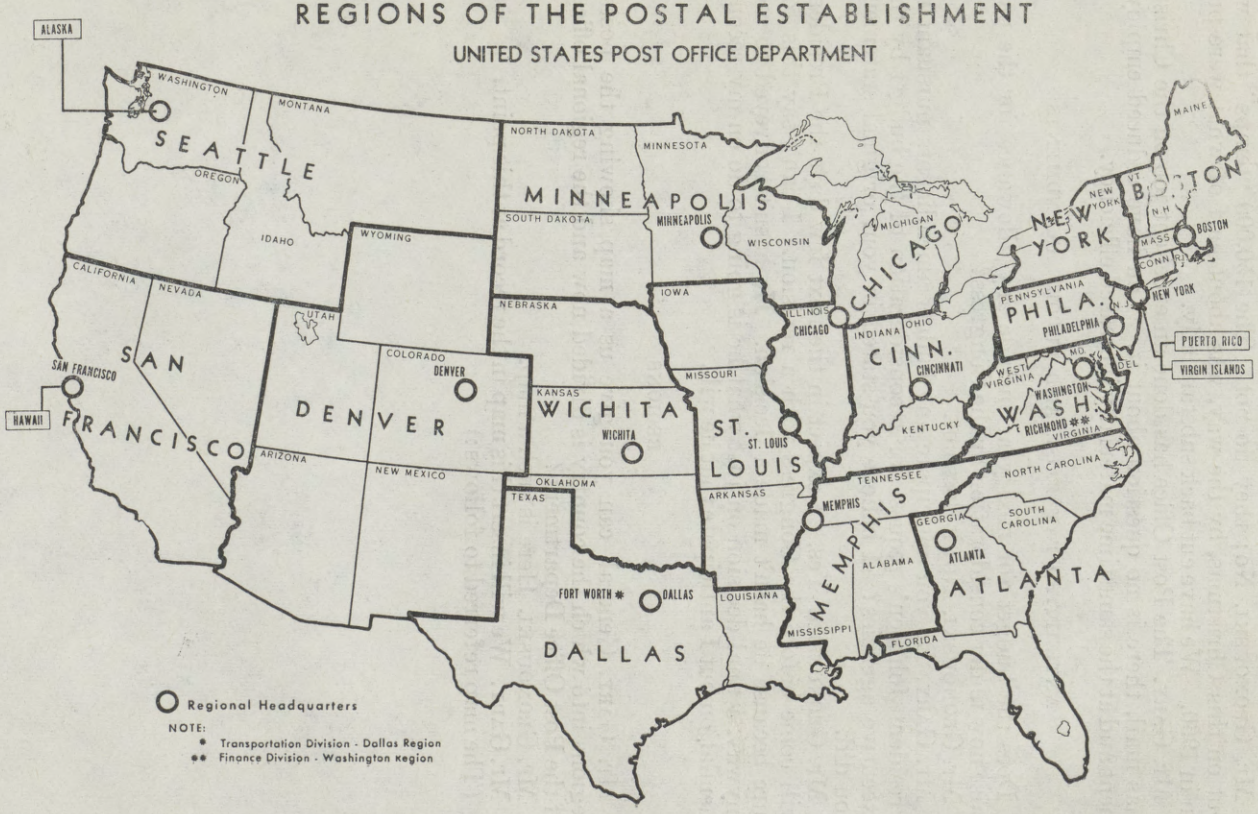
REGIONS

Mr. GARY. General, can you give us a map showing the postal regions into which the country is divided now and the regional offices of the Post Office Department?

Mr. GRONOUSKI. Here is such a map.

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

(The map referred to follows:)


REGIONS OF THE POSTAL ESTABLISHMENT
UNITED STATES POST OFFICE DEPARTMENT
ALASKA
HAWAII
WASHINGTON
SEATTLE
MONTANA
OREGON
IDAHO
WYOMING
CALIFORNIA
NEVADA
UTAH
COLORADO
DENVER
SAN FRANCISCO
ARIZONA
NEW MEXICO
NORTH DAKOTA
MINNESOTA
MINNEAPOLIS
SOUTH DAKOTA
NEBRASKA
KANSAS
WICHITA
OKLAHOMA
TEXAS
FORT WORTH *
DALLAS
IOWA
MISSOURI
ST. LOUIS
ARKANSAS
LOUISIANA
WISCONSIN
MICHIGAN
ILLINOIS
CHICAGO
INDIANA
OHIO
CINCINNATI
KENTUCKY
TENNESSEE
MEMPHIS
MISSISSIPPI
ALABAMA
GEORGIA
ATLANTA
FLORIDA
SOUTH CAROLINA
NORTH CAROLINA
VIRGINIA
WEST VIRGINIA
PENNSYLVANIA
PHILADELPHIA
NEW YORK
MAINE
VT.
N.H.
MASS.
BOSTON
CONN.
R.I.
MD.
DEL.
WASHINGTON **
RICHMOND **
PUERTO RICO
VIRGIN ISLANDS
Regional Headquarters
NOTE:
* Transportation Division - Dallas Region
** Finance Division - Washington Region

POSTAL DATA CENTERS

Mr. GARY. You now maintain a data processing center at each of these regional offices?

Mr. GRONOUSKI. Yes, except Denver. As of last June the Denver office was discontinued for processing purposes, not the region itself but the processing.

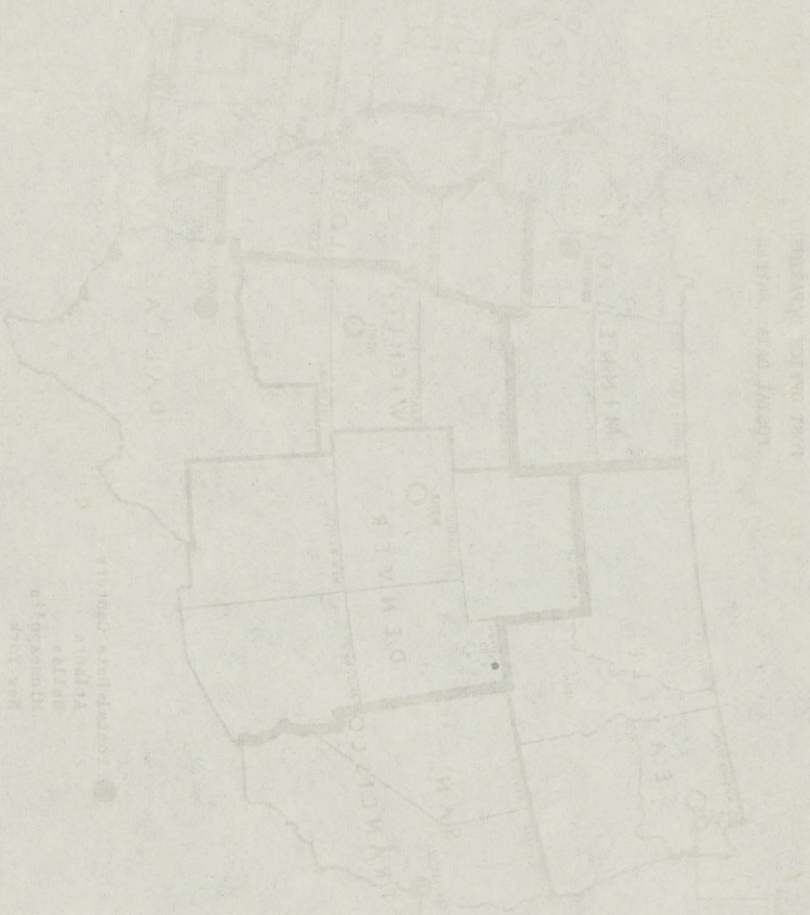
Mr. GARY. But you have had data processing offices at each of the regional offices up until recently?

Mr. GRONOUSKI. That is right.

Mr. GARY. Now, do you have a map showing the new regions for the new data processing offices?

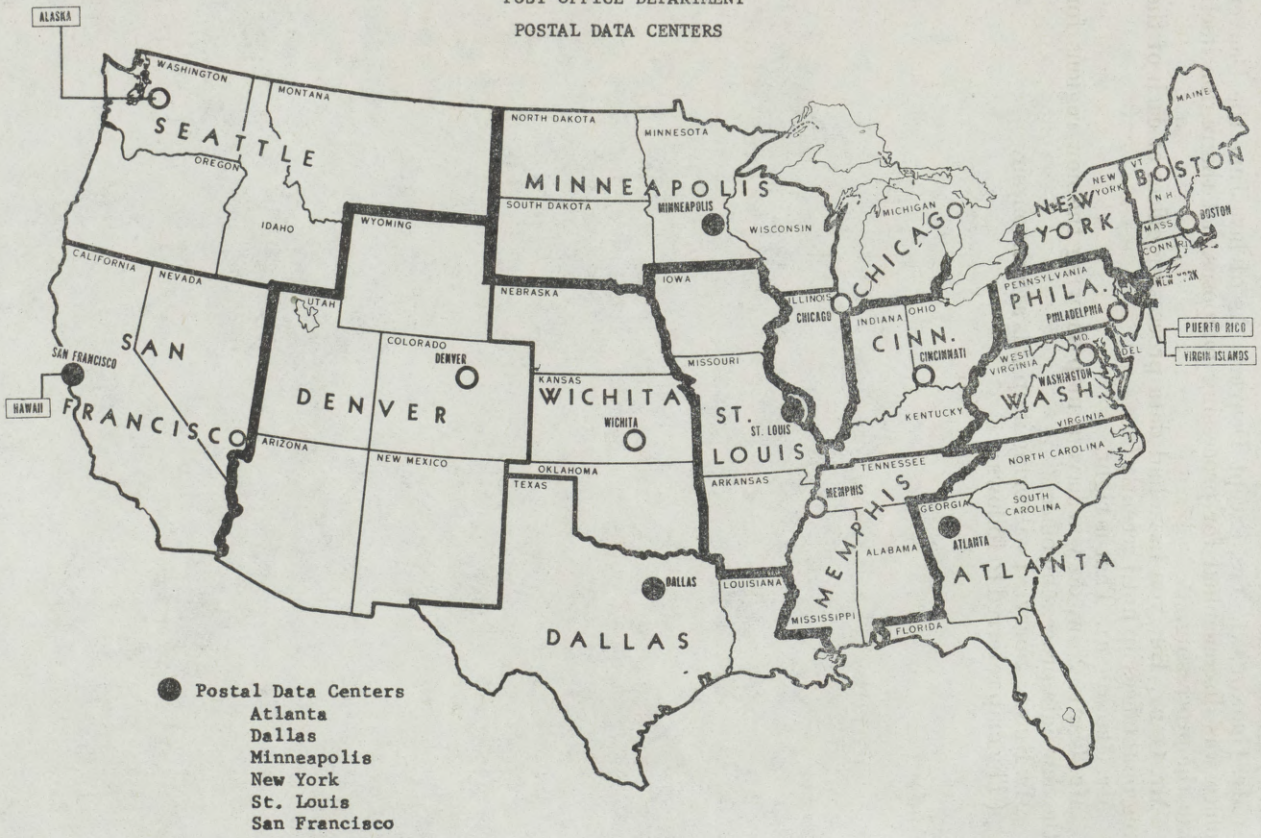
Mr. BUNN. Sorry. I will bring it up this afternoon, sir.

(The map referred to follows:)



POST OFFICE DEPARTMENT

POSTAL DATA CENTERS



Mr. GARY. It is my understanding that you contemplate reducing the data processing offices from 14 to 6; is that correct?

Mr. BUNN. That is right.

Mr. GARY. And you estimate savings of how much as a result of that?

Mr. GRONOUSKI. For the 1965 fiscal year, about a half million dollars and for the years subsequent to that about $4 million a year.

Mr. GARY. Why couldn't we save more by consolidating the regional offices into 6 regions and have 6 regional offices instead of 15?

Mr. GRONOUSKI. I think that while I will never close the door on examining and continuously examining the proper number of regions, I think we have a little different proposition here with the data processing operations because so much of it is geared to high-output electronic data processing machinery and equipment.

For instance, we expect to save something like $300,000 a year on equipment alone in the consolidations. The processing of payrolls and what have you is so much tied to the equipment, whereas the other regional operations are management operations which are tied to people rather than equipment.

Mr. GARY. What worries me, you are separating your accounting activities from your data processing. It seems to me data processing should be a part of your accounting process.

Mr. GRONOUSKI. Well, it is a part of the accounting process, but I want to make this clear that we will still retain in the region, each of the 15 regions, the controllership operations, so that from the point of view of management of the accounting functions, budgeting, analysis, and so on, this operation will still be in the regional office.

What we are really separating in them is not necessarily the routine but certainly the more routine aspects of it, getting out 590,000 paychecks every 2 weeks and this sort of an operation.

Now, this will continue to be under the direction of the region, or the directors of the regional offices. It still will be available directly to the regions, the kind of data that is accumulated here will be available for management and other purposes to the region. But it is in this day-to-day accounting operation that, while it requires examination and analysis, nonetheless, it is of a more routine than management nature.

It is this kind of operation which we are putting into the centers, which will use high-powered data processing machinery. It is this kind of operation we are putting into the six centers.

The management function of the controllership is still retained in the 15 regional offices; we have no intention or plans of any sort to divorce that function from the regions.

Mr. GARY. You have changed that data processing, however, taken it out of your accounting department and transferred it to another Assistant Postmaster General?

Mr. GRONOUSKI. We have taken it out from under the regional controls.

Mr. GARY. I mean here in Washington in headquarters?

Mr. GRONOUSKI. No. No. These 6 accounting offices will administratively continue to report as they did when they were within the 15 regions, will report administratively to Mr. Dave Bunn, who is head of our regional offices, but functionally they will continue to report to Mr. Ralph Nicholson, who is head of our accounting operation.

Mr. GARY. I thought some time ago we were told that they had been switched over to one of the Assistant Postmaster Generals, taken away from Mr. Bunn?

Mr. GRONOUSKI. No. We are in the process of integrating into the Bureau of Finance the kind of management functions which are associated with data processing operations which had previously been reporting directly to the Deputy Postmaster General. These functions will now report to Ralph Nicholson, so that the whole operation, both the data processing and the accounting side of it, will be under Ralph Nicholson in the Bureau of Finance.

Mr. GARY. Do you think the financial reports can be as conveniently used by the regional offices for cost analysis and cost reduction, when they are produced at locations quite remote from the regional offices?

Mr. GRONOUSKI. I think, as a matter of fact, and this is one of the major factors aside from the cost involved, one of the major factors that got me to agree to this change is that we will have more rapid accumulation of management data. Data of this kind, in terms of complement control and the like, will be available to the regions and to the central office much faster than it was before because we are using much better equipment and we will have a much better organization for the development of this data.

Mr. GARY. These computations are made by the regional staffs, are they not, and they are the ones directly responsible for the action required to correct any uneconomical practices that are disclosed?

Mr. GRONOUSKI. I am not sure I got the question.

Mr. GARY. I said these analyses are used by the regional staffs and they are the ones who are directly responsible for taking the action required to correct any uneconomical practices that are disclosed.

Mr. GRONOUSKI. That is right. They are used by the region in their management function. Of course, they are also used by central headquarters because I want to know what is going on in the regions, too.

But the experience we have had already in the Dallas-Denver combination indicates complete satisfaction on the part of the Denver regional office with the availability, the speed, and the kind of data they are getting. I discussed this with our Denver people and they have had no concern on their part at all.

We will continue to supply the regions with the same kinds of data only more of it and in my judgment on a quicker basis for management purposes than they have had before. This is because of the better utilization of equipment.

ACCOUNTING STAFF

Mr. GARY. Mr. Lindsley Noble, former Controller of the Post Office Department, was an outstanding accountant. Since the background and experience of the person who replaced Mr. Noble is basically in the area of budgeting rather than accounting, what provision has been made to assure that the Post Office Department's accounting is receiving as good technical direction now as it did previously?

Mr. GRONOUSKI. We think that the man who replaced Mr. Noble, Eugene Crowe, is very knowledgeable in the accounting field and has had much to do with GAO and other accounting agencies in his past

experience and I think we have our accounting function in very good hands in Eugene Crowe.

Mr. GARY. I am not questioning the ability of the gentleman who replaced Mr. Noble. Mr. Noble was an accountant, is that not correct?

Mr. GRONOUSKI. That is correct.

Mr. GARY. And the gentleman who replaced him is not a certified public accountant?

Mr. GRONOUSKI. I guess that is right.

Mr. CROWE. That is right. I am not a certified public accountant.

Mr. GARY. Will you please furnish the complete list of the top departmental accounting personnel showing for each one his title and educational experience and other qualifications?

Mr. GRONOUSKI. I will do that.

(The statement referred to follows:)

The résumés that follow include those of the Assistant Controller for Accounting, the Directors of the Accounting Division and the Systems and Procedures Division, and their principal assistants.

A total of 15 résumés is given. These 15 people hold 22 degrees in accounting, law, or related accounting subjects, 5 of which are master's degrees in accounting. Many have taken special courses for which no degrees are given. Many are currently continuing their education in financial management areas. The group includes eight certified public accountants.

BACKGROUND RÉSUMÉ

Name: John P. Miele, CPA.
Title: Assistant Controller for Accounting, GS–16, Bureau of Finance.
Education:

Boys High School, Brooklyn, N.Y., Brooklyn College (B.A., 1943), New York University (M.B.A., 1948) (majors: Accounting, economics, finance, government). Certified public accountant, State of New York, 1951.

Experience:

Morley Wolfe & Co., certified public accountants, junior accountant, December 1946–September 1947.

J. Lee Nicholson & Co., certified public accountants, senior accountant, September 1947–May 1951.

Hazeltine Electronics Corp., manufacture of electronics, supervisory cost accountant, May 1951–October 1952.

CBS-Columbia, special contract division, chief cost accountant, November 1952–November 1954.

Fairchild Controls Corp., manufacture of electronics. Controller. February 1955–July 1955.

Post Office Department, New York Regional Controller Office, Regional Costs Officer, PFS–15, July 19, 1955, to February 23, 1957.

Post Office Department, Washington, D.C., Division of Budget, Assistant Director, GS–14, February 24, 1957, to December 20, 1959.

Post Office Department, Bureau of Finance Headquarters, Executive Assistant to the Controller, GS–16, December 21, 1959 to June 9, 1962.

Post Office Department, Bureau of Finance, Assistant Controller for Accounting, GS–16, June 10, 1962, to present.

BACKGROUND RÉSUMÉ

Name: J. Earle Weatherly, CPA.
Title: Staff accounting, GS–15, Assistant to Assistant Controller.
Education:

Benjamin Franklin University, George Washington University, bachelor of commercial science degree, 1929.

CPA, District of Columbia, 1934.

Experience:

D. N. Burnham & Co., Washington, D.C. certified public accountants, junior accountant, 1927–29.

Horwath & Horwath, New York, N.Y., certified public accountants, accountant, 1929–33.

Hechinger Co., Washington, D.C., accountant, 1933–36.

Social security board, constructive accountant, 1936–40.

Federal Security Agency, Chief Control Division, 1940–42, Assistant Chief, Claims Control Division 1942–43.

U.S. Army, 1943–46.

Veterans' Administration, central office representative (finance), 1946–48.

General Accounting Office, systems accountant, 1948–54.

Post Office Department, accountant, 1954–55, Director, Division of Accounting, 1955–62, staff accountant, 1962 to present.

BACKGROUND RÉSUMÉ

Name: Herschel Harris, CPA.

Title: Director, Division of Accounting, GS–15, Bureau of Finance.

Education: Washburn High, Minneapolis, Minn.; University of Minneapolis, prelaw, 1937–39; Department of Agriculture Graduate School, 1939–40; George Washington University, bachelor of arts, 1948 (majors in accounting, economics, and statistics); certified public accountant, Washington, D.C., 1949.

Experience:

National Youth Administration, Washington, D.C., accounting clerk, July 1, 1939, to July 1, 1942.

Employed by father in writing of a newspaper column, Washington, D.C., July 1 to September 1, 1942.

Reconstruction Finance Corporation, Washington, D.C., principal fiscal accounting clerk, GS–8, September 8, 1942, to October 3, 1947.

Nathan Wechsler, public accounting firm, public accountant, October 4, 1947, to February 26, 1950.

Housing and Home Finance Agency, Washington, D.C., business accountant and auditor, GS–9, February 27, 1950, to April 22, 1951.

Department of Commerce, Maritime Administration, Washington, D.C., business accountant, GS–11 and GS–12, April 23, 1951, to September 7, 1953.

Post Office Department, Bureau of Finance, accountant, GS–12 through GS–14, September 8, 1953, to April 28, 1962.

Post Office Department, Director, Accounting Division, GS–15, April 29, 1962, to present.

BACKGROUND RÉSUMÉ

Name: Clifton H. Brown.

Title: Director, Systems and Procedures Division, GS–15, Bureau of Finance.

Education: Jola Junior College, 1936–38, Kansas State Teachers College, bachelor of commercial science 1940.

Experience:

War Department Adjutant General's Office, Washington, D.C., clerk, October 15, 1940, to July 27, 1941.

Panama Railroad, Cristobal, C.Z., clerk, August 1, 1941, to June 30, 1942.

Post Office Department, Washington, D.C., advanced from GS–5 accounting clerk to accounting and fiscal officer, GS–11, July 1, 1942, to June 23, 1951.

Regional Accounting Office, Post Office Department, Cincinnati, Ohio, Assistant Director, GS–13, June 24, 1951, to November 6, 1954.

Regional Controller Office, Post Office Department, Denver, Colo., Director, Division of Accounting, GS–14 and PFS–15, November 7, 1954, to December 20, 1959.

Post Office Department, Washington, D.C., Assistant Budget Officer, Budget Division, GS–14, December 21, 1959, to May 12, 1962.

Post Office Department, Washington, D.C., Assistant Director, Budget Division, GS–15, May 13 to September 1, 1962.

Post Office Department, Washington, D.C., Director, Systems and Procedures Division, GS–15, September 2, 1962, to present.

BACKGROUND RÉSUMÉ

Name: Peter W. Solem.

Title: Assistant Director, Accounting Division, Bureau of Finance, GS–14.

Education: Lennox High School, South Dakota, George Washington University, 1927–29, National Law School, Washington, D.C., 1930–33, member District

of Columbia bar 1933 bachelor of laws, 1933, National University, Washington, D.C., 1934–35, American Academy of Accounting 1938–40.

Experience:

U.S. Patent Office, Washington, D.C., clerk, January 3, 1927, to September 20, 1936.

General Accounting Office, Washington, D.C., auditor and legal accountant, GS–11, September 21, 1936, to February 3, 1951.

Department of Justice, Immigration and Naturalization Service, attorney, GS–11, February 5 to March 22, 1951.

Office of Price Stabilization, Washington, D.C., administrative officer and attorney, GS–12 and GS–13, March 23, 1951, to June 30, 1953.

John A. Solem Legal Accounting Firm, July 1, 1953, to April 1, 1954.

Post Office Department, Washington, D.C., Assistant Director, Accounting Division, Bureau of Finance, GS–14, April 1, 1954, to present.

BACKGROUND RÉSUMÉ

Name: Everett J. Childs, CPA.

Title: Assistant Director, Accounting Division, GS–14.

Education: Baltimore City College, Baltimore, Md.; Johns Hopkins University, 1934–39; CPA, Maryland, 1941; North Carolina, 1949.

Experience:

Consolidated Gas Electric & Power Co.; Baltimore, Md., clerk, June 1934 to October 1941.

Haskins & Sells, Baltimore, Md., certified public accounting firm, accountant, October 1941 to December 1946.

C. S. Lowrimore & Co., Wilmington, N.C., certified public accounting firm, senior accountant, December 1946 to November 1950.

General Accounting Office, Washington, D.C., supervisory auditor, GS–12, December 1950 to June 18, 1956.

Post Office Department, Washington, D.C., Bureau of Chief Postal Inspector, supervisory auditor, GS–12 and GS–13, June 18, 1956, to December 22, 1962.

Post Office Department, Assistant Director, Accounting Division, Bureau of Finance, GS–14, December 23, 1962, to present.

BACKGROUND RÉSUMÉ

Name: Ernest M. Rutherford, Jr.

Title: Assistant Director, Accounting Division, Bureau of Finance, GS–14.

Education: B.S. degree at Virginia Southern College, Roanoke, Va., 1945–49. Majored in accounting and economics.

Experience:

State of Virginia, Richmond, Va., assistant superintendent Virginia State Prison, October 1935 to November 1940.

Hercules Powder Co., Radford, Va., police sergeant, November 1940 to February 1947.

A. R. Kennett & Co., Roanoke, Va., part-time employment while attending school, 1947–49.

Army Ordnance Corps, Radford, Va., accounting clerk, GS–5, April 4, 1949, to February 1, 1951.

Army Corps of Engineers, Norfolk, Va., construction cost accountant GS–7 through GS–11, February 2, 1951, to May 8, 1955.

Post Office Department, Bureau of Finance, cost accountant, GS–12, May 2, 1955, to August 9, 1957.

Raytheon Manufacturing Co., Waltham, Mass., plant accountant, August 22, 1957, to July 2, 1959.

Post Office Department, Washington, D.C., Bureau of Finance, cost accountant, GS–13, July 6, 1959, to September 2, 1961.

Post Office Department, Accounting Division, Assistant Director, GS–14, September 3, 1961, to present.

BACKGROUND RÉSUMÉ

Name: Joseph M. Gallagher.
Title: Supervisory operating accountant, GS–14, Division of Accounting.
Education: Mount St. Marys College, B.S. degree in business administration, 1939; postgraduate studies in accounting, 1942–46; American University; Department of Agriculture Graduate School; graduate of National Institute of Public Affairs, 1944.
Experience: Post Office Department, clerk 1941–44, administrative assistant, 1944–47, administrative officer, 1947–54, accountant, 1954–57, supervisory operating accountant, 1957 to present.

BACKGROUND RÉSUMÉ

Name: Jack Haney, CPA.
Title: Accountant, GS–14, Assistant Director, Systems and Procedures Division.
Education:
Marshall College; Strayer College B.C.S., 1942; Columbus University, M.C.S., 1943; Department of Agriculture Graduate School; American University.
Certified public accountant, Maryland.
Experience:
Andrews Bakery, Dayton, Ohio, accountant, 1937–38.
Maritime Commission, clerk-typist to accountant, 1938–44.
U.S. Army, 1944–45.
Maritime Commission, accountant, 1945–54.
Post Office Department, accountant, 1954 to present.

BACKGROUND RÉSUMÉ

Name: Ben C. White, CPA.
Title: Assistant, Director, Division of Systems and Procedures, Bureau of Finance.
Education: University of Wisconsin, A.B. in accounting; Southeastern University, Washington, D.C., L.L.B.; Department of Agriculture Graduate School; CPA, New York, 1941.
Experience:
Ernst & Ernst, Chicago, Ill., field auditor, 1923 to June 1925.
Dolly Madison Dairies, office manager, June 1925 to March 1932.
White Ice Cream Corp., La Crosse, Wis., manager, March 1932 to March 1934.
Wisconsin Tax Commission, Madison, Wis., income tax auditor, March 1934 to November 1936.
Social Security Board, Washington, D.C., auditor, CAF–9 to senior auditor, CAF–11, November 2, 1936, to February 15, 1943.
General Accounting Office, Washington, D.C., auditor GS–11 to system accountant, GS–13, February 16, 1943, to February 14, 1954.
Post Office Department, Washington, D.C., cost accountant, GS–14, February 15, 1954, to January 7, 1962.
Post Office Department, systems accountant, GS–14, Assistant Director, Systems and Procedures Division, January 8, 1962, to present.

BACKGROUND RÉSUMÉ

Name: Wilbur D. Thomas, CPA.
Title: Systems accountant, GS–14, Division of Systems and Procedures.
Education:
American University, B.S.; George Washington University; Strayer College of Accounting, M.C.S.
Certified public accountant, District of Columbia.
Experience:
Baltimore & Ohio Railroad, messenger to assistant timekeeper, 1914 to 1922.
Cumberland Electric Co., Inc., secretary of corporation, 1922 to 1926.
Haskins & Sells, certified public accountants, accountant, 1926–28.
Chandler, Murray & Chelton, certified public accountants, staff accountant, 1928–30.

American Fruit Growers, tax accountant, 1930–32.
Haskins & Sells, accountant, 1932–34.
Reconstruction Finance Corporation, financial analyst, 1934–46.
War Assets Administration, Head, Technical Procedures Unit, 1946–47.
Reconstruction Finance Corporation, head accountant, 1947–52.
Renegotiation Board, business accountant, 1952–53.
Post Office Department, accountant, 1953 to present.

BACKGROUND RÉSUMÉ

Name: James J. Nutwell.
Title: Systems accountant, GS–14, Division of Systems and Procedures.
Education: Strayer College of Accounting, B.C.S. and M.C.S.
Experience:
Natalie Hancock Co., senior manufacturing cost accountants, 1923–38.
Councilor & Buchanan, certified public accountants, accountant, 1938 (3 months).
Price Waterhouse & Co., certified public accountants, accountant, 1938–39 (3 months).
C. R. Karlstromer Construction Co., chief accountant, 1939–41.
Navy Department, accountant and auditor, 1941–45; commercial cost accountant, 1945–50.
Atomic Energy Commission, staff accountant, 1950–57.
Post Office Department, systems accountant, 1957 to present.

BACKGROUND RÉSUMÉ

Name: Melvin F. Flaherty.
Title: Systems accountant, GS–14, Division of Systems and Procedures.
Education: Strayer College of Accounting, B.C.S., 1941; Department of Agriculture Graduate School; George Washington University.
Experience:
District of Columbia Unemployment Compensation Board, clerk 1940 (5 months).
War Department, clerk-typist, 1940–42.
Washington, D.C., post office, clerk 1942–49.
Post Office Department, clerk, Bureau of Operations, 1949–52.
U.S. Marines, 1952–54.
Post Office Department, Bureau of Finance, organization and methods examiner, 1954–55; accountant and supervisory operating accountant, 1955 to present.

BACKGROUND RÉSUMÉ

Name: Elliott H. Forgosh, CPA.
Title: Systems accountant, GS–13, Division of Systems and Procedures.
Education:
City College of New York, B.B.A. degree; New York University, M.B.A. degree.
Certified public accountant, New York.
Experience:
Blocker, Allison & Olshever, certified public accountants, accountant, 1940–42.
U.S. Army 1942–46.
Newberry Textile Mills, Inc., financial assistant to president, 1946–47.
Joseph Getz & Co., certified public accountants, cost and systems specialist, 1947–48.
Century Ribbon Mills, Inc., assistant controller, 1948–53.
Army Audit Agency, auditor, 1953–55.
Post Office Department, New York regional office, cost accountant, 1955–63.
Post Office Department, Systems and Procedures Division, systems accountant, 1963 to present.

BACKGROUND RÉSUMÉ

Name: Walter M. Reynolds.
Title: Systems accountant.
Education: New York University, 1923–27; B.C.S., major in accounting, finance, and economics.
Experience:

Nineteen twenty-five to 1931 various positions from cost clerk to head bookkeeper with 3 years in public accounting from junior to senior accountant.

September 1931 to March 1937, Sperry Gyroscope Co., Brooklyn, N.Y., assistant controller.

March 1, 1937, to May 1943, William Sellers & Co., Philadelphia, Pa., controller and treasurer.

May 1943 to September 1945, Curtiss Wright Corp., St. Louis, Mo., controller and assistant treasurer.

October 1945 to January 1947, Hughes Tool Co., Houston, Tex., controller of Houston plant.

February 1947 to February 1952, Morse Chain Co., Detroit, Mich., secretary treasurer, and controller.

February 1952 to June 30, 1952, self-employed as systems adviser, Detroit, Mich.

July 1, 1952, to January 9, 1953, Renegotiation Board, Detroit, Mich., employed as business accountant, GS–14.

January 10, 1953, to May 1955, Lear, Inc., Grand Rapids, Mich., employed as division comptroller.

September 1955–April 4, 1958, Post Office Department, regional controller office, St. Louis, Mo., regional controller, GS–15.

April 4, 1958–April 13, 1962, regional controller, office, Chicago, Ill., regional controller, PFS–17.

April 14, 1962, to present, Post Office Department, Washington, D.C., systems accountant, GS–13, Bureau of Finance.

MANAGEMENT OF POSTAL DATA CENTERS

Mr. GARY. Now, it is my understanding that each of the six accounting centers will be under the direction of persons whose training and experience are primarily in the field of data processing.

Do these individuals have authority to change the accounting procedure or financial reports in any way, or is their function one of merely processing data under instructions and procedures prescribed by qualified accountants?

Mr. GRONOUSKI. I think we probably have not made ourselves clear on that. The six processing offices will be under the direction of the Assistant Postmaster General in charge of the Bureau of Finance, Mr. Ralph Nicholson, as they have been in the past.

And, consequently, I think they will get the same kind of attention from the point of view of accounting procedures that they have had in the past.

Mr. GARY. One of my questions arises as to the interpretation and in some cases the accuracy of the financial data that can no longer be resolved by an office conference but must be handled by lengthy and time-consuming correspondence?

Mr. GRONOUSKI. I think not. We certainly, in our Dallas-Denver consolidation, haven't experienced that as a problem.

Mr. GARY. Will the regional staffs place the same degree of reliance on data produced by staffs not under the control of the regional director?

Mr. GRONOUSKI. We have thought this through and we think they will and we think we have every reason to place that kind of confidence in them.

CONSOLIDATION OF REGIONAL OFFICES

Mr. GARY. I still hope you will give serious consideration to consolidating the regional offices because, if we can save money by consolidating the data processing offices, I see no reason why we cannot save more by consolidating the regional offices, also.

ATLANTA CONSOLIDATION

Now, could I ask you why Atlanta was selected in preference to Richmond for this consolidation?

Mr. GRONOUSKI. Well, there are just a whole host of factors that went into the selection with respect to both Richmond and Philadelphia, which were consolidated into Atlanta. One of the factors in mind was the ultimate need, as we developed more use of electronic data processing equipment in post offices, the ultimate need to have a central processing center located geographically in each area of the country in order to feed into these data processing centers, central data processing centers, data that will be electronically collected in our larger and major post offices.

This is one of the factors involved in the whole southeastern part of the country and if we had not had an office in Atlanta we would not have had an office covering that section of the country.

(Discussion off the record.)

Mr. GRONOUSKI. Aside from that, with respect to Richmond itself, one consideration, of course, is that Richmond had 122 employees involved whereas Atlanta had 130. It was not a major factor but it was one factor that we considered to what extent you would upset and disturb employees presently in the data processing operation.

The primary reason for Atlanta was the one I have already given and that is to have a geographical center for data processing in the southeastern seaboard and southeastern part of the United States.

Mr. GARY. Well, I have statistics here which show, in that connection, and that is the reason I am asking these questions, that 79 percent of the first-class post offices within the region will be within 300 miles of Richmond, whereas only 24 percent will be within 300 miles of Atlanta.

Of second-class post offices, 77 percent are within 300 miles of Richmond and only 28 percent within 300 miles of Atlanta. Of third-class post offices, 80 percent are within 300 miles of Richmond and only 25 percent within 300 miles of Atlanta, and of fourth-class post offices 87 percent are within 300 miles of Richmond and only 19 percent within 300 miles of Atlanta, whereas the 35 percent of the first-class post offices are over 600 miles from Atlanta, while only 8 percent are over 600 miles from Richmond.

These figures are very revealing insofar as the comparison between the position of the two offices are concerned. I have here also the list of the post offices, the number of post offices in the various regions, and I would like to insert these tables in the record at this point for your consideration.

(The information referred to follows:)

The following information is based on postal receipts for 1962 and classes of office as of July 1, 1963.

Post offices within each State and region of the area to be consolidated in Atlanta, Ga.

PHILADELPHIA REGION

State	Class of office				
	1	2	3	4	Rural
Pennsylvania	308	400	860	490	1,491
New Jersey	203	180	141	24	247
Delaware	14	11	26	9	61
Total	525	591	1,027	523	1,799

WASHINGTON REGION

District of Columbia	[1] 1				
Virginia	81	137	367	588	858
West Virginia	38	90	314	792	398
Maryland	52	82	209	139	333
Total	172	309	890	1,519	1,589

ATLANTA REGION

Florida	101	130	190	81	373
Georgia	83	156	281	188	1,008
North Carolina	100	201	346	180	1,049
South Carolina	59	85	161	129	573
Total	343	572	978	578	3,003
Total number of post offices in the 3 regions	1,040	1,472	2,895	2,620	

[1] The District of Columbia has only 1 post office; however, with other installations there are approximately 10,000 employees in the District.

In this consolidation, transportation will be a major problem due to the limited time allowed for processing payrolls. In order for employees to receive payment on schedule, the time cards must be delivered to the processing office, payrolls calculated, and checks returned to the various post offices within a very limited time. Failure to meet these schedules will certainly result in complaints from postmaster and employee organizations.

Post offices within 300 miles of Richmond, Va.

State	Class of office			
	1	2	3	4
New Jersey	203	180	141	24
Pennsylvania	308	400	860	490
Delaware	14	11	26	9
Maryland	52	82	209	139
West Virginia	38	90	314	792
Virginia	81	137	367	588
North Carolina	100	201	346	180
South Carolina (40 percent) [1]	25	32	64	52
Total	818	1,133	2,327	2,274
Percent of total post offices within 300-mile radius	79	77	80	87

[1] Approximate percent of State, by area, within 300-mile radius.

NOTE.—Plus all units in the District of Columbia.

Post offices within 300 miles of Atlanta, Ga.

State	Class of office			
	1	2	3	4
North Carolina (50 percent) [1]	50	100	173	90
Virginia (10 percent) [1]	8	14	36	58
South Carolina	59	85	161	129
Georgia	83	156	281	188
Florida (40 percent) [1]	40	52	76	32
Total	240	407	727	497
Percent of total post offices within 300-mile radius	23	28	25	19

[1] Approximate percent of State, by area, within 300-mile radius.

Post offices over 600 miles from Atlanta, Ga.

State	Class of office			
	1	2	3	4
Pennsylvania (50 percent) [1]	150	200	430	245
New Jersey	203	180	141	24
Delaware (50 percent) [1]	7	5	13	4
Total	360	385	584	273
Percent of post offices beyond 600-mile radius	35	26	20	10

[1] Approximate percent of State, by area, beyond the 600-mile radius.

Post offices over 600 miles from Richmond, Va.

State	Class of office			
	1	2	3	4
Florida (90 percent) [1]	90	117	170	72
Percent of post offices beyond 600-mile radius	9	8	6	3

[1] Approximate percent of State, by area, beyond the 600-mile radius.

Post offices with receipts over $20,000,000

	Millions
Philadelphia, Pa.	$55
Washington, D.C.	32
Atlanta, Ga.	22
Baltimore, Md.	20

All of the above, except Atlanta, are within 250 miles of Richmond, Va., and are more than 500 miles from Atlanta, Ga. Approximately 13 hours additional transportation time involved each way for pay documents. Air transportation is not always feasible due to weather conditions.

Post office with $6,000,000 to $20,000,000 receipts

	Millions
Pittsburgh, Pa.	$19
Miami, Fla.	15
Newark, N.J.	12
Richmond, Va.	9
Jacksonville, Fla.	7
Charlotte, N.C.	6

Four of the above are within 300 miles of Richmond. Pittsburgh and Newark are more than 500 miles from Atlanta.

There are 18 post offices with receipts from $3 to $5 million. Fifteen of these offices are within 300 miles of Richmond, Va. Twelve are in Pennsylvania and New Jersey and are far removed from Atlanta.

Of 14 offices with over $2 million receipts, 11 are within 300 miles of Richmond.
Of 40 offices with over $1 million in receipts, 31 are within 300 miles of Richmond; 24 of these offices are either north of Richmond or within the State of Virginia.
The above indicates that a great majority of the post offices and employees are within 300 miles of Richmond, Va., and can receive much better service from that location.

Mr. PILLION. For reconsideration?

Mr. GARY. Yes, reconsideration.

Mr. GRONOUSKI. We looked over the whole package for the whole country as a total picture. Needless to say there was a lot of staff work done on this before I got into the picture. There has been a study on this for the last 2 years by our management group and Bureau of Finance. We concluded, in terms of the long-range servicing of the Post Office Department, taking into consideration, among other things, such factors as growth in population, which is very heavy in the southeastern part of the country and the western part of the country where we have an office in San Francisco, and we concluded that geographically the locations we selected were the optimum ones and that goes for Atlanta as well as the others.

Some of these decisions I grant you, are sometimes fine decisions, but we did the best evaluation we could of the whole picture and that is what we came up with.

Mr. GARY. In addition you are getting ready to build a brand new post office in Richmond which would give you an opportunity to provide new and adequate facilities for the consolidation in this new post office.

NEW PROGRAM COSTS

Have any programs or substantial increases in programs been added to your 1965 estimate which would increase your costs over 1964?

Mr. GRONOUSKI. Well, in terms of new programs, such as a POMSIP program and what have you, or the ZIP code program, that kind of a program, we have not added any significant new programs.

What we hope to do is step up our management programing in order to accomplish the kinds of absorption of volume that we have set as our goal. We have consequently done some work, or we have made some attempt to "beef up" our central management operation, both in the regions and in the central headquarters office, in order to carry out these programs that are already in existence, and also to more vigorously pursue our customer relations program which, in our judgment, is so productive of improved efficiency in the Post Office.

We have not added to the budget request, however, for central management. In fact, in terms of the numbers of personnel, the number of personnel for the central office and regional offices has not been increased. In fact I think it has had a decrease. But we have utilized savings that we made in some areas in an attempt to "beef up" our management program. As far as new kinds of programs, there are not any significant new programs, such as the kinds that were utilized in the last 3 years.

SAVINGS FROM CONSOLIDATION OF DATA CENTERS

Mr. GARY. I notice on page 9 of your statement you mention a $500,000 savings by consolidation of data processing centers is not reflected in the 1965 budget?

Mr. GRONOUSKI. That is right.

Mr. GARY. I assume the expected consolidation of the data processing centers which you estimate will save $3,750,000 and 530 positions in personnel cost and $300,000 in equipment costs are likewise not reflected in the 1965 budget now before us?

Mr. GRONOUSKI. We are talking about the same thing here, if I understand you correctly. You see, the consolidation is going to take place over the next 18 or next 16 months and the last ones will go into effect toward the end of fiscal year 1965. For the fiscal 1965 year, the savings will be around $500,000. For subsequent years, when we have full-year operation under the new organization, we will have something like $4 million a year savings.

Mr. GARY. But that will not come in the budget?

Mr. GRONOUSKI. That is right. The $500,000 will, but not the other. And the $500,000 has not been reflected in the budget presented to you.

A B C D PROGRAM

Mr. GARY. Will you explain the development costs and operation of the accelerated business collection and delivery program? I believe you touched on that, but could you give us a little bit more information as to it?

Mr. GRONOUSKI. We put it into effect in something like 267 cities in the country. These are the major cities in which it is feasible, so in terms of the number of communities we have just completed the program.

We are giving some thought to expanding it in those cities. Right now it is just related to the central business district. We are giving some thought to expanding it over a wider square mile area of the city, but so far as collection of mail out of A B C D boxes for delivery in the central business district, we are thinking right now of the possibility of putting A B C D boxes farther out from the central city than we presently have. But there is no further expansion in terms of numbers of cities—any significant amount, anyway.

As to the cost of it, the cost is rather minimal in terms of the total budget. I think, and let me check this with Fred and make sure, but I think it is around a million dollars.

Mr. BELEN. Most of that was where we had to apply second trips. What this really does is make your second trip in the business section effective. We found, for example, in a place like Alexandria we did not have a second trip so we put it in because they would have been entitled to it anyway. That is where most of these extra costs have turned up.

What this is geared to is following through this mail to be sure it is in the carrier's bag ready for delivery on the second trip and also to all post office box holders.

Now, the biggest mailers are the box holders. We have had very interesting results on the part of the public, as the General indicated, and we find that over 1 billion pieces of mail are now going into these A B C D collection boxes annually and that this represents 45 percent more in the boxes than was in during the checkout period, indicating that the public is using this service.

In fact, we heard from an Atlanta banker who said he had to send special notices out to his customers to be sure they had all their

checking accounts covered and this was because the money was coming in or the checks in these business sections were coming in so fast they were getting in too quickly.

But this has been good for the business community and has accelerated the movement of money.

Mr. GARY. Do you use regular boxes?

Mr. BELEN. Yes, sir; all the boxes in the downtown area. They have A B C D on them, and those that are picked up by mailsters and what we tried to do is collect mail from all the boxes in the central section that we could pick up by 11 o'clock and get the mail actually sorted and to the carrier by the time he leaves on his afternoon trip.

PLANT AND EQUIPMENT PROGRAM

Mr. GARY. As you indicated on page 6 of your statement, the committee has felt that the Department in the past has proceeded too rapidly in the physical plant and equipment program. Will you expand on your proposed program in that regard for fiscal year 1965?

Mr. GRONOUSKI. In fiscal 1964 we had scheduled, and I think we are meeting that schedule, $43 million for modernization and expansion of Federal buildings. We have drastically cut this to $10 million this year. We think we can take care of the essential expansion needs at the $10 million figure as compared to the $43 million last year.

Mr. PILLION. That was $43 million for 1964?

Mr. GRONOUSKI. It was $43 million in 1964, fiscal 1964, and cut $33 million to $10 million for fiscal 1965.

Mr. GARY. How much of the 1964 appropriation have you spent or will you spend during this fiscal year?

Mr. GRONOUSKI. Mr. Abell do you have that? How much of the $43 million will be spent this year?

Mr. ABELL. Right now we have obligated a rather small percentage of that, I think about $3.8 million. I don't think we will obligate all of it before the end of the year. Our program has been stalled but it is gaining momentum now and probably we will obligate most of it, although I really hate to pin myself down right now and say whether we will or not.

Mr. GARY. You said "stall." What caused the stalling of the program?

Mr. ABELL. Well, it is a combination of factors. GSA has had a backlog in their work on other things and they have not been able to accommodate us in some areas as fast as we would like to put some of these projects forward.

Then on many of them we have sent back for revaluation to determine whether or not the estimates were accurate and whether or not the work was justified. Some of the estimates that came in were pretty high.

Mr. PILLION. Will the chairman yield?

Mr. GARY. Yes.

Mr. PILLION. Would it be possible to get a fairly accurate estimate of the amount you will obligate and give it to us for the record say before a week or two?

Mr. ABELL. Yes, sir. I will be able to.

Mr. PILLION. Not the intangibles or unknowns but you ought to have certainly a better estimate than you have obligated $2 million out of $43 million or whatever it is.

Mr. ABELL. I think it is actually $3.8 million, but I did not want to get myself in a corner on that one. I will be testifying here on this whole program on Tuesday and I hope at that time to give you the information, all of this information in exact form.

Mr. GARY. You could, if you preferred, revise any estimate you give us on Tuesday or when the transcript comes to you and give us the latest information you can get for the transcript before it goes to the printer.

Mr. ABELL. Yes, sir.

VIM PROGRAM

Mr. GARY. What is the purpose of your program for vertical improvement mail services, the VIM?

Mr. GRONOUSKI. That is a very useful service in that you have the new high-rise buildings going up, 20, 30, 40 stories, and in some of these very large skyscraper buildings, we have postmen that hardly ever see the light of day, they are going door to door up and down the elevators.

The objective here is to have one central room with a conveyor system where all the mail in that building is delivered to that one central room. The purpose is obviously to save carrier time and cost in the delivery of mail to these large buildings.

I might say that one large builder in Dallas was in to see me the other day. He is building three buildings, three large high-rise buildings interconnected and he told me he was spending some $500,000 of the corporate money to put in this vertical mail distribution system. He said he thinks he is going to make out very well on it because it is one of the most attractive selling points he has in urging tenants to come in, because they are very interested in the good mail service that will result.

We think this is a very important program and we are encouraging and meeting with all contractors and investors who are putting up high-rise buildings in order to convince them of the economic justification of spending this kind of money in order to provide their customers with that kind of mail service. Obviously, we will gain also from it.

Mr. GARY. Those facilities are not installed at the cost of the Government, then?

Mr. BELEN. No. They replace this normal little glass slot that has been used in the big buildings. We have been making some checks lately from a cost-savings standpoint on this. Of course, we save on carrier time if they have the conveyor system. Also, from the standpoint of the patron, in one building, which is the Crown Zellerbach Building, which is pretty small considering what we thing about ordinarily, but it usually takes an hour and a half carrier time from the time the first patron is served until the last patron is served, but now it takes only 10 minutes, so you can see the importance of the people getting their mail when ready to start their business day.

One of the most important things is it will take mail down to the mailroom as well as helping in delivery, and we found in 1 instance

in Washington there were 161 stoppages in the glass slots and in January there were 186. We are trying to convince the builders that if they are going to service their customers, they ought to give more attention to getting the mail in and out of the building.

Mr. PILLION. Do you mean as to the Cutler concern in Rochester, you are doing away with that system more or less?

Mr. BELEN. We are trying to have them put a tray conveyor system in and actually the Cutler people are interested in going into this kind of business. They have been in recently because they can see the advantage. This is one of the things that encourage people to do this.

Mr. GRONOUSKI. I might say there is another advantage to us in this kind of program, too, in that so many buildings, including the one where I used to work in Wisconsin, have this little mail slot where it was impossible for us to presort our mail and put it in this slot in a bundle, and this was for the simple reason that we could not get it in the slot. Now we like to convince people to be more considerate of the post office than I was when I was the tax commissioner and take it to the post office when they have a bundle. People can now, in the conveyor system, put the whole pack in.

Mr. GARY. How does it work?

Mr. BELEN. It is like a dumbwaiter, but the trays are similar to the trays we use in the post office and they go on a little platform. Down below, you key it to the floor the patron is on and it goes up and is kicked off at the floor or the mailroom where it is picked up.

One of the things we had designed was a locked tray. This has been in use in many buildings like the Aluminum Co.'s Building in Pittsburgh, where they have the whole building to themselves. They use it to distribute within their own company. This is merely saying "Here is something you can do for all the patrons of the building."

Crown Zellerbach had it already in for the 15 floors they occupied in order to distribute the mail within their company. Then when we got locked trays, they took care of the tenants on the remaining floors.

Mr. PILLION. Is there a mailroom on each floor?

Mr. BELEN. There is a little room where they trip it off. There are some companies, one big company I know of with a tremendous amount of room, which is going to man a mailing room on each floor and all we have to do is get the mail to the company and they accept it like an apartment building would accept it and they perform the distribution.

They do that because their patrons will save all kinds of office-held time by getting the mail there at the same time.

Mr. PILLION. Do the office employees handle all the mail between their office and mailroom so that then you do not need mail carriers in the building?

Mr. BELEN. The mail carrier operates the equipment from the mailroom in the basement. That is right. We save letter-carrier time there. That is correct.

Now you might have a building the size of some of them going up, and there are 55 high rise buildings going up in Washington the next 3 years, and that is to give you some idea of the problem say in New York City.

Mr. GARY. Does the postal employee operate in the bottom office?

Mr. BELEN. That is right, in the mailroom in the basement.

Mr. GARY. The chief mailroom?

Mr. BELEN. That is right. What we are trying to do is get them to provide internal conveyor systems, a mailroom, and off-street parking. We think people that build big buildings worry with the electrician approving it, worry about parking the car, where their employees are going to eat, but the most significant thing in building the building is when and how the mail comes out but nobody had an opportunity to say, "This is what you are going to do."

Ultimately, we hope the Post Office Department will have as much right to say about how you are going to have men servicing these things as the garbage collector or anything else.

Mr. GARY. You deliver all the mail to the mailroom and you have a carrier there and he distributes it into these trays and sends trays up to the proper floor where it is kicked off and the patrons go there and get their mail?

Mr. BELEN. That is right. They have the key to their particular tray, that is right.

Mr. GARY. You have a tray for each company?

Mr. BELEN. For each company.

Mr. GARY. In the building?

Mr. BELEN. Yes, sir; it would have to be tailored to what the situation is. In the particular buildings we have it in there is usually one company that has a whole floor and where they don't have, like in this other building, the man that runs the building pays to put someone on each floor to handle the distribution.

But it is all done to accelerate the movement of this mail and as the Postmaster General says one individual said they tested their tenants and they said good mail service was the reason why they are going to this building as compared to others.

Mr. GARY. They get the mail out of the tray and for the outgoing mail they deposit it in the same container and push the button and it goes down.

Mr. GRONOUSKI. And they can put it in, instead of putting single letters in, they can put it in a tied batch, which helps us down in the sorting room. It is another example, by the way, of what can happen if you have an effective program of customer cooperation because there is a mutual benefit.

POMSIP PROGRAM

Mr. GARY. Will you discuss the results of the post office POMSIP program?

Mr. GRONOUSKI. By the end of fiscal year 1964 we anticipate we will have about 90 offices completed. During fiscal 1965, we expect to step up this program and we anticipate by the end of 1965 we will have an additional 50 offices undergoing, or having undergone the POMSIP study program.

We think the program has been most effective in bringing to the post office the latest and best thoughts on management. The POMSIP, as you know, the POMSIP teams are selected from our major post offices. We select our highest caliber people in terms of efficiency in mail handling and we converge this highly talented group into particular post offices and we think it is one of the contributing factors to the result that we are showing this year where we cut back 5,000

employees, and one of the contributing factors toward the higher efficiency we anticipate next year.

COST ACCOUNTING SYSTEM

Mr. GARY. Some years ago when the Post Office Department installed the cost accounting system, we were told that one of the benefits of it was that in time they would be able to compare the operation of one post office with another and determine what post offices were being efficiently managed and which are being inefficiently managed. Have you reached that point yet?

Mr. GRONOUSKI. This is, of course, one of the things, it is on the data that we get in our major post offices that indicates to us in what post office the POMSIP program ought to be instituted. Probably Ralph Nicholson can talk on this more than I can.

But essentially the data is being collected regularly and is being used for this purpose.

Mr. NICHOLSON. Because of the fact that any one post office has a particular set of circumstances in weight of the mail, the proportion of letter mail to total mail, and the proportion of parcel post to total mail, and because each of these types of mail has its own characteristics of work per unit processed, it is extremely difficult. I think the time will really never come, when we can compare one office with another. However, we have made great progress in comparing an office with itself on the assumption that the characteristics in this city, in this trading area, remain relatively unchanged through a period of time.

We are presently concentrating on measuring, on a weekly basis, in the largest, in the case of the largest post offices, and on a periodic basis in all the major post offices, any distortion of the relationship between work hours and mail volume or workload.

We have set up a device which is this year in a 1-year experimental status, using a management-science technique, that is referred to as control charts whereby we are able simultaneously to plot workload and work hours and statistically to calculate the proper relationship between these two elements. We plot these points week by week in the case of the major post offices and at any time that the plot for the current week falls out of line with the customary relationship we are able to predict with 95-percent confidence that there is an assignable cause to this change.

The change could either be favorable or unfavorable, of course. In the case of a change which takes place which is unfavorable, then we are able to pinpoint this particular office as having some kind of an operating problem, some mismatch between workload and work hours, which can be remedied through the regional office staff and an investigation could be made and change in procedures could be made.

That is perhaps a long answer but the cost accounting process does not now nor probably will not in the long term be able to compare separate offices with each other. The concentration is on measuring accurately and regularly the performance of any one office against the performance that that office should turn in because of its particular combination of local circumstances.

CAP PROGRAM

Mr. GARY. What about the coordinated area planning program, the CAP?

Mr. GRONOUSKI. We have had in the past, in three or four cases, situations where we have had facilities that were more than adequate to handle the mail volume going through those facilities.

In those particular cases we stepped in with the regional and headquarters office team and reevaluated the mail loads and reevaluated the area of responsibility for that post office so that we could use the facilities rather than building new facilities somewhere else.

It is not a program as such, such as POMSIP is a continuing program. It does not make sense when you run into a situation where you have excess capacity in one facility and need capacity somewhere else to decide whether or not you really need that new building or whether you can redesign the area so far as flow of mail traffic into the building where the existing capacity exists.

So that I do not regard the CAP as the kind of program, as a continuing management program as I do POMSIP, for example. But whenever a situation such as this exists, we will take a look at it.

EMPLOYEE UNION RECOGNITION AND BARGAINING RIGHTS

Mr. GARY. Will you discuss the activities of the Post Office Department in connection with recognition and granting of bargaining rights to postal employee units?

Mr. GRONOUSKI. I am sure Dick Murphy, who is our Assistant Postmaster General in charge of personnel, will have more to say on this in his particular presentation, but I will say at this point that I have been very impressed, particularly in light of the very tight personnel requirements that we are assuming for the next fiscal year, I have been very impressed with the cooperation I received from the heads of the major organizations of postal employees.

I think it has been helpful to us in terms of getting their viewpoint to me and to our staff and I think it has been helpful also in that they do come up with ideas as to how best we can get economies without creating more morale and personnel problems. I feel in the short time I have been here it is a very constructive program.

Mr. GARY. How much cost has it added to the Post Office Department operation?

Mr. GRONOUSKI. I think I would have to ask Dick to comment on it.

Mr. MURPHY. I think very little. There is a figure in the Bureau of Operations request which I think lists a million and a half for fiscal 1964 and 1 million for fiscal 1965 as the actual cost of man-hours that the Department pays for which is spent in labor-management grievance appeals, adverse action appeals, and what have you. There were also two items that were carryover cost items that were included in the national agreement that was arrived at last year.

One related to city drive-out, the amount we paid to city carriers to drive out to their station of duty from the post office. There was an increase in that. I think that was $3 million. The second was the item of rural carrier heavy-duty allowance, which I think was budgeted at $6.7 million for fiscal 1964. In both of these cases these

were items which the Department pretty well had to agree on in the sense that the city carrier drive-out had not been revised in quite a while and the rural carrier, a heavy-duty allowance, the Congress itself removed the limitation that the law had placed upon us before, when they passed the pay bill last year to pay what in effect is an overtime rate to those routes which were overburdened.

So those would be the cost items as such. The cost of the program, however, is not all new cost by any means. I think that by stating a million and a half as the actual cost of paid hours for the program is really to point out that we are now accounting for many of the hours that we paid for before we had an official labor-management program, without itemizing it.

We have devised a system of better identifying these cost than we had before.

Mr. NICHOLSON. For the record, I might give the specific figures that Mr. Murphy was alluding to. In the case of the city carrier drive-out agreements, there is neither an increase nor a decrease in 1965. That stays at $3 million.

In the case of heavy-duty allowances for rural carriers, the amount in the 1965 budget is $7,370,000, an increase of $670,000. In the case of the labor-management meetings and negotiating time, grievances, and other aciton appeals there is a decrease of $500,000. So that all three programs combined result in net increase of $170,000.

PROPOSED HIGH RISE POST OFFICE IN NEW YORK CITY

Mr. GARY. What is the status of the proposed high rise post office in New York City?

Mr. GRONOUSKI. The specifications have been drawn up by our Department and they have been let out for bid. Is that right?

Mr. ABELL. No, sir; the architect has presented to us his final drawings for our approval. We expect in perhaps another 2 weeks to iron out some of the disagreements and problems arising from the drawings and we advertise on that building on the first of April, in other words, to ask for bids starting the first of April. The bidding process will probably take about 90 days.

Mr. GARY. Mr. Pillion, I believe we wanted to go into that in some detail.

Mr. PILLION. Yes, when the matter comes up.

Mr. GARY. Yes, when we get to facilities we will want some information on that, so you will bring that information to us.

Mr. ABELL. Yes.

THIRTY-YEAR LEASE AUTHORITY

Mr. GARY. You can give us that complete information when you come before us. Why do you consider it advisable to ask that the law be extended providing 30-year leasing authority to the Post Office Department?

Isn't the Post Office Department the only agency that has 30-year leasing authority?

Mr. GRONOUSKI. We think it advisable simply because in buildings that we are anticipating using not only 30 years but possibly more,

on such buildings, we can get a much better rate of rental on the 30-year lease rather than 20-year lease that would otherwise be provided by law if we did not have the 30 years.

It is merely a matter of dollars and cents on the 30-year lease provision in the terms of the best possible renting contract.

Mr. GARY. The Comptroller General of the United States, in the report to the House of Representatives, was critical of your long-term leasing of small- and medium-sized post office facilities. What was the Post Office Department's reply to that report?

Mr. GRONOUSKI. I have a fairly lengthy statement in this respect, with respect to the medium-sized buildings that I can either read or leave with you.

Mr. GARY. You can insert the entire statement in the record and if you want to comment briefly on it, you can do so or not, as you prefer. We would like to have the entire statement in the record at this point.

(The information referred to follows:)

STATEMENT REGARDING GAO REPORT ON THE LEASING OF SMALL- AND MEDIUM-SIZE POSTAL FACILITIES

The position of the General Accounting Office as set forth in its report on small- and medium-size postal facilities, submitted to the Congress in September 1963, is that the Department should give more consideration to Government ownership of these facilities and abandon its general policy of leasing them.

The GAO position is based on its study of 91 small- and medium-sized postal facilities leased by the Department for 10-year base periods. The core of the GAO argument is that had these buildings been constructed as Federal buildings the cost to the Government would have been significantly less. To support this contention a tabulation of estimated comparable costs under the two methods of ownership is presented on page 16 of the report. A copy of this tabulation is attached as exhibit I. It purports to show that the leasing of these 91 facilities for the 10-year base period will cost the Government $609,559 less (in actual expenditures) than would Government ownership of the same buildings. The report points out that at the end of the 10-year period title to the land and buildings would be in the Government under a Government-ownership program and implies that this would more than offset the advantage of leasing in terms of actual expenditures. The GAO tabulation also indicates that if the period of occupancy of these facilities were extended to 15 years the cost of leasing would exceed the cost of Government ownership by $2,000,569 and that if period of occupancy were extended to 20 years the cost of leasing would exceed the cost of Government ownership by $4,887,480.

We believe that these figures are demonstrably invalid.

The GAO calculation of leasing costs contains interest on rent. Since the payment of rent is a current payment out of current receipts for current value (space) received, there is no justification for attributing interest thereto. This arbitrary addition of interest increased the GAO estimated cost of leasing by $431,321 for 10-year occupancy, $956,018 for 15-year occupancy, and $1,709,628 for 20-year occupancy.

We believe that the GAO comparison (exhibit I) contains another error. In estimating the costs of Government ownership, the GAO included as the estimated construction costs of the 91 leased buildings included in its study the construction costs estimated by the Department in connection with the award of the projects under the lease construction program. In other words, GAO assumed that lease construction costs and Government construction costs would be the same.

The evidence is that this is not a valid assumption. During the past session of Congress the General Services Administration submitted a program calling for the construction of 85 small- and medium-size Federal buildings to the Congress. The program was approved and funds for the site acquisition and the design of these buildings were appropriated. In submitting these buildings for approval and funding, GSA estimated the cost of each building, including separate amounts for (1) site and design and (2) construction. The amounts estimated

for site and design have already been accepted by the Congress as a basis for appropriation. There is no indication that the estimates of construction costs are not equally valid. Considering the responsibility and experience of the General Services Administration, it is fair to say that their estimates of Government construction costs are of considerable evidentiary value.

The total estimated costs of these 85 buildings, as developed by GSA, averaged approximately $30 per square foot. This is to be compared with the estimated construction costs of the 91 leased buildings covered by the General Accounting Office's study of $18.50 per square foot. This cogent evidence of the higher cost of Federal construction of buildings of this size was called to the attention of GAO when a draft report was submitted to the Department for comment. Nevertheless, the GAO in its final report proceeded to make its comparisons on the theory that Government construction costs would be approximately $18.50 per square foot (or the same as estimated lease construction costs) instead of $30 per square foot as the GSA evidence indicated would in fact be the case.

Attached as exhibit II is a comparison of estimated costs of leasing and estimated costs of Government ownership which excludes interest on rent and includes as estimated Government construction costs an amount based upon the GSA estimates. These figures show that at the end of the 10-year base lease term the cost of Government ownership of these buildings would exceed the cost of leasing by $5,061,772 and that if the buildings were occupied for 15 years the cost of Government ownership would exceed the cost of leasing by $3,305,559. These figures show that even if the buildings were occupied for 20 years the cost of Government ownership would exceed the cost of leasing by $1,619,470.

The GAO report implies that ownership of land and buildings after postal occupancy has terminated would benefit the Government. This, too, is a questionable assumption.

As of June 30, 1963, the Department had 5,622 10-year leases. The ultimate Government ownership, after postal occupancy has terminated, of this number of small- and medium-size buildings spread across the country would indeed put the Government in the real estate business. It would be necessary to set up administrative machinery to manage, sell, or rent this vast number of buildings with consequences in cost and other problems, the extent of which cannot now be predicted. We do not believe that it would be wise for the Department to embark on such a venture.

The total GAO case for ownership of small- and medium-size buildings is an economic one based on the study we have referred to. In our opinion the study does not prove that there are "economies available to the Government through ownership" of facilities of this size. Accordingly, the Department has not accepted this GAO recommendation.

EXHIBIT I

	10-year basic lease term	If period of occupancy is extended to	
		15 years	20 years
Estimated costs of leasing:			
Rent [1]	$5,209,292	$7,769,471	$10,297,520
Estimated interest	431,321	966,018	1,709,628
Total	5,640,613	8,735,489	12,007,148
Estimated costs of Government ownership:			
Land cost	745,098	745,098	745,098
Estimated construction costs	4,548,630	4,548,630	4,548,630
Estimated interest	956,444	1,391,192	1,825,940
Total	6,250,172	6,684,920	7,119,668
Estimated cost of leasing over or under (—) estimated cost of Government ownership [2]	—609,559	3,050,569	4,887,480

[1] Since maintenance of all facilities would be a cost under Government ownership as well as under leasing, we have eliminated the cost of maintenance, estimated by POD, from the cost of leasing.

[2] Residual values of land and buildings under Government ownership are not considered.

EXHIBIT II [1]

	10-year basic lease term	If period of occupancy is extended to	
		15 years	20 years
Estimated costs of leasing: Rent [2]	$5,209,292	$7,769,471	$10,297,520
Estimated costs of Government ownership:			
Acquisition [3]	8,635,500	8,635,500	8,635,500
Interest	1,655,564	2,439,529	3,281,490
Total	10,271,064	11,075,029	11,916,990
Estimated cost of leasing over or under (—) estimated cost of Government ownership [4]	—5,061,772	—3,305,558	—1,619,470

[1] POD computations based on GSA estimates of small building costs at $30 per square foot.
[2] Exclusive of maintenance costs.
[3] Includes site, design, construction, and contingencies based on 91 small GSA buildings.
[4] Residual values of land and buildings under Government ownership are not considered.

Mr. GRONOUSKI. Essentially, just as a matter of my current thinking on this, and I have been concerned with the whole leasing program, I naturally had to concentrate my time on the budget at this point, but I fully intend to go further into it, but there is a real doubt in my mind as a long-term proposition with respect to the leasing agreement, leasing approach to the very large buildings.

I have not been able to spend the kind of time on it to come to a firm judgment but I fully intend to think this thing through in anticipation of our 1966 budget needs. You have to draw a distinction, it seems to me, between the large buildings that we anticipate using for a long period of time as against the very small buildings on the other end of the scale.

The leasing program gives us a lot of flexibility. If we do get out in 5 or 10 years, we don't have a "white elephant" building on our hands. I think it may very well be we ought to have some discretionary measures in terms of evaluating each size and kind of project as to whether or not it can be most economically and efficiently handled through the leasing program or through a Government building program.

This is the basic approach that I am taking and I am going to give it just as thorough a look as I can during the next year in order that I might come up with some more solid recommendation for the fiscal 1966 year budget proposals.

MAIL DELAYS THROUGH WASHINGTON, D.C.

Mr. GARY. General, I am getting a great many criticisms from my district concerning the condition and the delays in mail coming through Washington. I don't know what the trouble is in the Washington post office, but the mail passing through seems to have a good deal of difficulty.

I have here a copy of a letter written to our postmaster in Richmond in which the party says:

> You will find enclosed a copy of a letter which we have recently received from one of our customers in New York City. He has returned with his letter a notation which was made on the package when he received it. We believed that his letter is self-explanatory as well as the notation that is on the wrapper.

For the last year we have had more complaints on our parcel post shipments which are being routed via Washington than we have had in the last 15 years that I have been with this company. Two of your inspectors visited our plant to see if we were packaging our parcel post shipments properly. One felt that we were doing a commendable job and the other seemed to have some doubts about our packaging. However, we did learn from one of them that the Pennsylvania Railroad has a conveyor in Washington that dropped the parcel post from 15 to 18 feet. It does not appear to us that this is a desirable way to handle parcel post. It may well account for the fact that shipments going through Washington are being received in bad condition. We do not seem to have the same trouble with the same type of shipments that are going to the south of Richmond. We would appreciate hearing from you on the reason for this continued abuse of shipments of parcel post.

We have had numerous complaints on it.

Mr. GRONOUSKI. Well, I don't have any ready answer to it. But I think it is the sort of thing that is well worth looking into. If you will give me a copy of the letter, I will look into it.

Mr. GARY. I just read a copy of the letter into the record. But I have had a number of complaints, as I say, on delays and also on condition of the packages that come through Washington.

I have had correspondence with the Post Office Department concerning one case where certain checks are shipped from Chicago by special delivery, and they have been delayed. They come through Washington and then on down. The Post Office Department says it is trying to trace out the difficulty. It seems most of it comes about in Washington in the mail passing through.

I don't know about the mail being handled to and from Washington. I am not talking about that, but the mail coming through Washington. I thought you had some program of trying to route the mail around these large cities. We have had complaints at times concerning mail coming through New York, but I have not had as much recently on that as I did some time ago.

Mr. GRONOUSKI. Let me ask Henry Montague if you have any comment on it. Henry is head of our inspection service.

Mr. MONTAGUE. There has been a change to mechanization at the local railroad station within the last couple of years and, when the equipment was first put in, there were some deficiencies wherein the mail was damaged to a greater degree than normal. That was investigated and brought to the attention of the people concerned. To the best of my knowledge it has been corrected to a great extent.

With regard to the delays, they are given continuous attention both by inspectors and by management people to try to determine the causes and to prevent them wherever possible.

Mr. GRONOUSKI. Ed Harriman, do you have any information on damaging the parcels in this office?

Mr. HARRIMAN. Yes; we talked with the Bureau of Transportation on this and Washington is returning the same percentage of damage as the nationwide average so it is now corrected to a routine amount.

I do not know of any particular reports that have arrived at my office in regard to the delays either due to mechanization or processing through Washington.

Mr. HARTIGAN. On this particular problem, as mentioned, we have worked on that and are getting daily reports and I think we have corrected it. You are absolutely correct, the mail going through Washington was delayed. Our normal method of correcting them,

which is usually by fine and discussions and negotiating with the railroad, failed to work. But I think we have discovered a better method of letting them know we mean business. We took the mail away from the Pennsylvania Railroad and within a week they cleared up the backlog of mail cars in the yard. That was a problem. It was a bottleneck, but I do think we have it as normal as we can get it at this time and we are having a complete report daily on the backlogs as they occur so I think that is all right.

But if you have any reports other than that, we would be happy to take them up.

Mr. GARY. This is one of the letters and I think this came in December. This was in December 1963.

Mr. HARTIGAN. There was a job backlog during the Christmas season, but this started sometime before Christmas. As a matter of fact, it was back in the summertime we had this buildup of backlog and we worked it through and we were in fairly good shape prior to Christmas and I think there were normal Christmas delays.

Mr. GARY. This was in November and December, so I hope you will look into that.

Mr. HARTIGAN. We will look into it again but we are getting daily reports on the backlogging in the Washington station.

Mr. GRONOUSKI. Maybe we had better check and see if the situation has changed.

Mr. HARTIGAN. I go there myself personally at least once or twice every 2 weeks. We had been going out every day and we were very much aware of what the problem was and it was with the railroad and I am certain we have the thing pretty well straightened out.

Mr. PILLION. I certainly suggest you contact the gentleman who wrote that letter and tell him that you have had a complaint and are trying to satisfy that.

Mr. GARY. This is from the American Lace Leather Co., Inc., and was written by Mr. Frank Pickard, the president of the company.

Mr. PILLION. In Richmond?

Mr. GARY. Yes.

Mr. GRONOUSKI. We will check.

Mr. GARY. Post Office Box 121, Richmond.

Mr. HARTIGAN. We are not completely satisfied, but we think we are on the right track.

Mr. GARY. I have had a few complaints recently.

Mr. HARTIGAN. You are right. We are still not satisfied with the situation as it is now.

Mr. GARY. The same situation existed as to New York some time ago, but I have not had as many complaints on that recently.

Mr. HARTIGAN. That has been cleaned up pretty well.

Mr. GARY. Yes. Mr. Pillion.

Mr. PILLION. Shall we proceed?

Mr. GARY. Well, probably we will have a quorum call in a few moments. Would you rather wait?

PROVIDENCE, R.I., SITUATION

Mr. PILLION. No; I would rather go on. I think, first of all, the Postmaster General deserves congratulations and our commendation

on a very tight budget. I think many of the areas here sort of conform to what we are driving at in this committee.

I am surprised at the way in which it is conforming to the directions laid out by this committee, the direction that the committee took in last year's appropriation and the year before.

However, you don't give us much room to cut.

I wondered about this Providence, R.I., situation. What has happened there, General? Is that operating with an expanded number of postal areas? I recall that we could not get the surrounding area to come in and process mail through Providence, R.I., probably due to some political considerations. What is the situation there?

Mr. GRONOUSKI. I took my first look at that post office about 2 weeks ago. I thought, incidentally, that the postmaster there, Harry Kaserian, has just done a wonderful job in the last year or so since he has been there.

I think at this point the problems that existed there, say 3 years ago, have been pretty well cleaned up. It is my observation that it is a very smooth working operation, now. Mr. Kaserian has been very inventive in correcting some of the things right on the spot there, some of the sharp corner problems, and so on that resulted in damaged mail and what have you.

I got the impression from members of the business community there that I talked with that they are very happy with the way the post office is running now. It is throughout the area. I believe we have about 80 post offices being channeled through there.

I think that problem, which was a real sticky one before I came aboard, had been pretty well resolved before I got into it.

Mr. GARY. There was a lot of criticism from the office, from those offices that are processing through there. Has that been cleared up?

Mr. GRONOUSKI. To my knowledge it has, and I think I would know about it if they were still not.

Mr. GARY. Do you think they are processing it now as cheaply as those offices could do themselves or more cheaply? Is there any advantage in sending the mail to Providence to have it processed and then sending it back to these offices?

Mr. GRONOUSKI. I have not personally investigated that. We have to start with the proposition that the building was there. It was put up in 1959 or 1960 and when you have that investment you have to utilize it as efficiently as possible.

It is a very efficient post office. It has to have volume to be efficient. You can't put a lot of mechanization in and have a trickle of mail coming through and justify a plant that is already established.

So that what we were faced with—and I say "we" and I mean the staff before I came aboard, and as the Postmaster General—was a going concern that had the kind of capacity that was way above that which was being handled or was available in the local area, so it was almost essential that if we were going to make this an economic operation we had to divert mail to it and utilize it.

I think, in terms of that framework, it is handling mail more efficiently than if it were being handled in the 80 offices separately.

In terms of the future, however, it seems to me, and this is why we make haste slowly in the mechanization program, that you ought to plan more and analyze your mail volume situation before you mecha-

nize a post office for the simple reason that mechanization per se, if it does not have the kind of volume that justifies it, it does not make any sense at all.

So my own personal observation on the Providence post office, if I were the Postmaster General then, I probably would not have planned it in the first place, but once it is there the economical thing to do is make the best possible use of it.

Mr. CONTE. I saw the postmaster when he was here at the postmaster's conference a couple of weeks ago and I had a long chat with him and he said that the situation improved greatly. Mr. Chairman, I thought he had done a fine job with a difficult situation and he wanted me to relay to you that he would like to have the committee visit the Providence, R.I., postoffice. If you recall, he is the one who escorted us when we first went there.

Mr. GRONOUSKI. I am very impressed with the chap. It was the first time I ever met him and I was impressed. One thing that impressed me was his relation with the people. I went through on the evening shift and also the morning shift, with him, and met the people and he knew every one of his employees by name. He introduced them to me by name.

That highlights something that I feel very strongly about and that is that it is the motivation of people that makes a good post office. I think he has that attribute to a high degree. That is the reason why it has become a smoothly operating post office.

Mr. PILLION. You still have the contract for the repair and maintenance of all that machinery?

Mr. GRONOUSKI. Yes.

Mr. PILLION. What does that cost a year?

Mr. GRONOUSKI. That costs about $600,000 a year, somewhere in that neighborhood.

Mr. PILLION. Is that pretty high maintenance?

Mr. GRONOUSKI. I think it is a pretty expensive operation.

Mr. PILLION. Would you be good enough to put in the record for us the very latest 6-month or 3-month or 1-year revenues that are coming into the post office at Providence and the expense at the post office in Providence, so we can analyze those. When you do that, as a good accountant, also please put in the cost of the capital. I am not just talking about the revenue, but the cost of the investments we have there, whatever it may be on the building and so on, so I would like to find out what the income and outgoing is on a proper accounting basis.

(The statement referred to follows:)

Providence, R.I., post office, revenues and expenditures, postal accounting period 1 through 7, postal fiscal year 1964, June 22, 1963, to Jan. 3, 1964

Total revenue	$5,467,000
Expenditures:	
Salaries:[1]	
Postmaster	8,064
Supervisors	90,837
Clerk/mailhandlers	613,869
Carriers	329,912
M.V.S. personnel	19,761
Special delivery	10,375
Cleaning and protective	27,572
Equipment	5,113
Vehicle maintenance	12,801
Subtotal	1,118,304
Other costs:	
Rent	843,491
Maintenance[2]	331,900
Water	416
Fuel	2,920
Gas	145
Electricity	51,722
Telephone	15,161
Subtotal	1,245,755
Total expenditures	2,364,059

[1] Salary amounts include Government paid share of fringe benefits, i.e., life insurance, health insurance, retirement, FICA, etc.

[2] Includes $23,045 administrative cost billed by Intelex—pending approval by internal audit.

NOTE.—Old General Post Office Building: No longer used by post office. Returned to GSA for other Government use. GSA valuation, $1,153,245. Building is an estimated 50 years old and inadequate for present postal activities. Post Office Annex: Facility still used by post office. GSA valuation, $1,337,000.

Mr. CONTE. It is a lease proposition.

Mr. PILLION. I know, but I want all the cost of lease, all the costs of maintenance, whatever investment we have in there, the investment in the old post office and then find out what the revenues are so we can get some idea of what type of operation that is.

Mr. CONTE. I might ask Mr. Harriman if you know when the contract was signed?

Mr. HARRIMAN. Dated November 30, 1960.

Mr. CONTE. It runs for how long?

Mr. HARRIMAN. It is 20 years, beginning January 1, 1961, and ending December 31, 1980.

Mr. GARY. I can tell you what it is. It is 20 years at one million and a half a year rental and that is plus maintenance which was estimated at the time at a half million dollars which meant 20 years at $2 million a year—$40 million.

Mr. PILLION. We estimated it to be between $40 and $45 million.

Mr. CONTE. That is my recollection when I was there. It is about $2 million a year.

Mr. GARY. That is correct. It is outrageous. It is a monstrosity. You had nothing to do with it, General, but we have been up there

and looked it over. I believe even now, I don't know if there is any way to get any figures on it, but I have a very definite feeling that it is more expensive to transport that mail to the Providence post office from these other offices and then carry it back than to have it processed manually in those offices.

I have a feeling that these small offices could process the mail very much more cheaply than it is costing to do it this way. Certainly, the postmasters at those offices felt so at the time that they were required to process it through the Providence office. I don't know whether they have changed their opinion or not.

Mr. PILLION. For me to pay $600,000 for maintenance of that is shocking. That means you would have 60 men just maintaining that at $10,000 a year overall.

Mr. GRONOUSKI. You see that is rental maintenance.

Mr. GARY. No, the rental is a million and a half.

Mr. GRONOUSKI. Rental of machinery.

Mr. ABELL. The maintenance was separate. Last month it was $48,000.

Mr. PILLION. That is exhorbitant and shocking, which is what I have been trying to say but we just have not been able to get the Post Office to go into that phase of it. What have you done about it? We have tried very hard to get the Post Office to move on this thing and we have had very very little success other than explanation.

Mr. DOYLE. I don't know what has been done to renegotiate the lease or maintenance agreement. I think one thing should be corrected that this was a 1960 contract and not a 1961. The lease agreement itself is firm for the term. The maintenance contract could be renegotiated.

Mr. PILLION. We certainly felt that the whole base upon which negotiations were had and the contract entered into, that there was a misrepresentation of the facts to the Post Office Department, certainly a misrepresentation to this committee. We felt there was enough basis there for, if not a lawsuit, civil or criminal, certainly there was enough basis for a renegotiation.

I yield to the gentleman from Oklahoma.

Mr. STEED. If they could, would it be all right in this report you are asking them to prepare to include some information as to what the amount of money involved would be if we just paid them off and took it over and owned it ourselves?

Mr. PILLION. I don't think their contract permits it. They wanted that long-range thing. I don't think they have an option to buy immediately.

Mr. DOYLE. I do believe we have an option to buy after 20 years.

Mr. ABELL. We can buy it after the 20 years. We can buy it or pick up options. After the 20 years, the rate goes down to $208,000 a year.

Mr. GARY. What about the old post office? Are you still operating that?

Mr. GRONOUSKI. It is being used as a station.

Mr. PILLION. You can imagine 60 men in that place to just maintain and repair this machinery.

Mr. GARY. Is the entire building being used for that purpose only?

Mr. GRONOUSKI. The old post office. I don't believe the entire building is. I am basing this on just riding by the building and talking to

Harry Kaserian about it. I think only part of the building is being used for postal service and the rest is being used for some other purpose. I am not sure of it. I can check it.

I just want to say for the record that certainly is the kind of a contract that I would be very dubious about entering into and I may speak for Mr. Day, I am sure he would have been dubious in entering into this kind of contract.

Mr. GARY. He stated that very definitely.

Mr. ABELL. Mr. Chairman, your question about the old post office, we occupy 27,000 square feet in that old building.

Mr. GARY. What is the rest used for?

Mr. ABELL. I imagine GSA has other offices there. I have not been in it myself.

Mr. GARY. Will you get us some information on that?

Mr. ABELL. Yes.

(The statement referred to follows:)

At Providence, R. I., the post office occupies as a finance and carrier station, 26,886 square feet of space in the old Post Office Annex Building now known as Post Office-Federal Building-Annex Station. In addition space is occupied by othe Federal agencies as follows:

	Square feet
Congressional	1,560
Department of Agriculture	896
Department of Commerce	2,303
Department of the Interior	1,238
Department of Justice	807
Treasury Department	2,752
Department of the Army	1,109
General Services Administration	38,727
Housing and Home Finance	1,969
Federal Mediation and Concilation Service	2,025

On January 15, 1961, the post office vacated in its entirety the old post office and courthouse building (former general or main post office) now known as Federal Building-U.S. Courts. The following agencies are now iocated in the building:

	Square feet
Congressional	1,521
U.S. Courts	11,891
Department of Agriculture	1,688
Department of Justice	7,722
Department of Labor	476
Department of the Navy	1,288
Treasury Department	4,308
Department of the Army	1,238
Civil Service Commission	2,534
Veteran's Administration	22,488
General Services Administration	7,562
Department of Health, Education, and Welfare	184
Court of Military Appeals	1,674
Total	64,574

OAKLAND PROJECT

Mr. GARY. What is the status of the Oakland office? That was another one.

Mr. GRONOUSKI. Actually the Oakland project that was envisioned had been abandoned as that kind of project. We do have a contract with the FMC evaluating and testing and designing mail handling

equipment, but it is not designed for a particular post office. It does not require the purchase of any equipment or the creation of any postal facility.

It is merely a research and engineering contract aimed at giving us the kind of information, the kind of equipment that we can let out for bid for any post office in the country. So it is entirely different and taken on an entirely different nature.

Mr. GARY. That is what I understand, but it was proposed to build a post office at Oakland to handle the mail coming in to San Francisco from the Pacific.

Have you started on the construction of that post office?

Mr. ABELL. We just signed the contract with the architect-engineer yesterday. That program, as it was envisioned by Postmaster General Summerfield, was very similar to the Providence post office. Postmaster General Day canceled it. We divorced the two completely in that the research and development contract stayed with the Food Machinery Corp., but that contract had nothing to do with the Oakland post office.

We started from scratch with the Oakland project.

Mr. GARY. But you are going to build the Oakland post office?

Mr. ABELL. Yes, sir.

Mr. GARY. And you will put in there the modern equipment that you think is proper?

Mr. ABELL. Yes, sir.

Mr. GARY. And not necessarily let the Food Machinery Corp. decide what shall be in there but you will decide what will go in there instead of somebody who knows nothing in the world about the postal service?

Mr. ABELL. That is correct. We will design what we think is necessary and let it out on bids to manufacturers of equipment.

Mr. GARY. At Providence the whole thing was turned over to the Intelex Corp., and they were given a free hand to do whatever they thought was right without any advice from the Post Office Department.

We were informed that the postal officials were told not to interfere in any manner, shape, or form. The Intelex Corp. knew about machinery but did not know anything about the postal system. That is the reason for that monstrosity there, in my judgment. I think whatever is done in Oakland ought to be under very careful scrutiny.

Mr. GRONOUSKI. The Oakland facility is going to be treated like any other facility in the country.

Mr. GARY. I am glad to hear that.

We shall recess until 2 o'clock.

AFTERNOON SESSION

Mr. GARY. You may proceed, Mr. Pillion.

MECHANIZATION AT PROVIDENCE

Mr. PILLION. In a report last year, Mr. Postmaster, the General Accounting Office report, page 51 of this booklet, they say:

In June 1962 the Postmaster informed us that if the results of the contemplated study regarding the handling of larger volumes of mail in the facility—

meaning the Providence post office—

If that indicated that an efficient operation was not possible the Department would give consideration to having legislation enacted for the outright purchase of a mechanized post office so that certain machinery could be transferred to postal units where the volume of mail would warrant its use.

Now, do you think that the volume there warrants that use there now so that there is no need to go further into that question of whether we overmechanized and overcapitalized that facility in relation to the volume of mail?

Mr. GRONOUSKI. I would not want to say with any degree of positiveness because I have not looked into it in enough detail but I think this is a question we probably ought to come back with so that we can give a more intelligent answer.

Mr. Crowe just indicated that when the operations people are up here , Chris Hahn can probably talk in detail on that with you.

COMMUNIST PROPAGANDA

Mr. PILLION. Mr. Postmaster, last week the Customs Commissioner was before this committee and he discussed the question of screening Communist literature coming into this country. During the discussion it developed that they have this screening committee and the screening indicated that for a period of 9 months in 1963 they had screened and found, of all the material coming in, about 1.2 million pieces that they classified as Communist literature.

So I inquired about the end result of this screening. They said: "Well, as you know, we have no power to destroy this Communist propaganda or agitational literature." I further inquired, "What good is it to classify this Communist literature and then send it on to the American people?" They had no answer to that at all.

I thought it was a waste of money and effort to find out how many pieces you have and then send it on to the Americans to be brainwashed and thereby propagandizing them or agitating them. And I am informed that there is more and more Communist literature coming in this country from the various satellite bloc countries.

Then, of course, they referred me, or the Commissioner indicated, well, the Post Office Department has a responsibility in this area. So, I wonder if you would be good enough to tell us what the responsibility is and what the program is and what the activity is in regard to the Communist literature?

Mr. GRONOUSKI. Essentially, that—and I will ask Mr. Abell who has been working on this to speak further on it—essentially our program is to take the mail that is indicated by the Customs to be of a propaganda nature and to send a post card to the party to whom it is addressed, to ask them to indicate whether or not they want to receive this piece of mail and they return the card to us indicating one way or the other. Also whether they want to receive other kinds of mail of the same type.

Now, if the addressee says, "Yes, I want to receive it," then it is sent through to him. If he says, "No, I don't want to receive this type of mail," thereafter it is intercepted and not sent to him. Will you expand on this?

Mr. ABELL. First, I would like to correct one minor thing. We don't send post cards. We considered it, but we felt it might be embarrassing to some people to have a notice going through the open mail saying, "You have been getting Communist propaganda addressed to you, do you want it?" And people would object that their postman and their neighbors might possibly see it, so that we do put that in an envelope.

The Communist propaganda program has been characterized by many beside yourselves as a waste of money. Congress wrestled with this program at quite some length during 1961 and 1962. They were beset on the one hand by people who complained that they were receiving this material by people who said it was a terrible disgrace and misconstrued the situations to the effect that we were carrying Communist propaganda through the mail free of charge, which is not an accurate statement.

On the other hand, there was the other side of the argument. That to destroy this material would be a form of censorship and infringement of the constitutional right of freedom of speech. So the program that finally resulted was a middle ground between these conflicting views—one which really has not satisfied anybody.

The freedom of speech people say it is still an infringement of freedom of speech and besides that it is a waste of money. The other people say that we are still carrying most of this Communist propaganda through the mails and it is just a very small amount which is being withheld and not being delivered. Both sides are right. The Post Office Department is in the middle.

We have endeavored to conduct this program in the most efficient manner we can under the circumstances.

Mr. PILLION. I am not questioning your highmindedness or your loftiness. But I certainly question your argument given by anyone or even the placement of this argument before this body that there is a question of free speech involved. For whom? The foreign Communists? They have a right to free speech? The dissemination of propaganda in this country? That is a pretty farfetched theory. Does our Constitution now give the right of free speech to Moscow and to these other countries? I am interested in what you are doing about it, what is the law, what is the policy and how much literature is coming in?

Now, there are 1,200,000 pieces which customs says are Communist propaganda. I would like to know how many pieces were delivered to the people of this country.

Mr. ABELL. The great majority of them are delivered.

Mr. PILLION. I received some, myself, in my office and I never got a request from your Post Office Department to state whether I wanted it or did not want it.

Mr. ABELL. Because there was an exception that mail addressed to a U.S. Government official is exempt from this program. This is because many Government agencies came in and testified when this law was in the process of being passed that they didn't want any interference. They had a need to receive this mail so a blanket exemption was put in for all Government agencies.

Mr. PILLION. I have received letters from constituents who are receiving it and evidently they would not write to me and complain

about it if they had received a notice from the Post Office Department saying they had a right to shut it off.

Mr. ABELL. The probable reason is—it is pretty hard to answer a question like that—but the probable reason is that there is another exemption of all first-class mail. All sealed mail goes through as another exemption to this program.

Mr. PILLION. What difference does it make except a few cents fiscally? What difference does it make whether a propaganda agitational piece comes through the mail under first-class mail or under second- or third-class mail so far as the recipient is concerned?

Mr. ABELL. In one case he gets the piece of mail. In the other case he gets the notice asking whether or not he wants to get the piece of mail for the very simple reason that this is a legal requirement of the program. It is in the law, section 4008 of title 39. Sealed mail is exempt.

Mr. PILLION. All this mail that customs receives and screens is not a separate bulk of mail coming in. Everything goes through customs, does it not? All the mail? And then it goes to you?

Mr. ABELL. Customs has the authority and the right to open any mail—not to open the mail but to examine it. In the case of sealed mail, of course, just like they do with your suitcase when you come in. They won't open that suitcase. You have to open it. They look in once you open it. The same rules apply to a sealed letter. They ask you to open the letter and then you open it.

Mr. PILLION. Will you place in the record how many pieces of mail which have been classified as propaganda which have been delivered to the American people under either first-, second-, or third-class mail and how many have not been delivered that you have destroyed for one reason or another within a period that you have a record of, the last 6 months, 9 months, or 1 year, please?

Mr. ABELL. I am no longer in charge of that program but those statistics are available. I set up the program for collecting that information.

Mr. GRONOUSKI. Congressman Pillion, I will read one paragraph of an item here on some notes I have.

During the first year of operation 35.1 million pieces of mail were referred to the propaganda units at the 11 screening offices. Of the total referred, 15.7 million were found to be addressed to Government agencies or other organizations in the exempt group. The remaining 19.4 million pieces were detained for customs examination. Of the mail detained for customs examination, 1.2 million pieces were determined by the Bureau of Customs to be Communist political propaganda. The remaining 18.1 million that was not found to be propaganda were returned to the postal service to be delivered as addressed.

Mr. PASSMAN. Mr. Pillion, may I ask a question at this point?

Mr. PILLION. Yes.

Mr. PASSMAN. Does this Communist propaganda have a postmark on it, indicating whether or not it is mailed from Moscow?

Mr. ABELL. Yes.

Mr. PASSMAN. Do you know whether or not it is Communist propaganda by its postmark?

Mr. ABELL. No. You know where it comes from.

Mr. PASSMAN. Would a large volume of mail coming out of Moscow, or any other Russian city, indicate that it is Communist propaganda?

Mr. GRONOUSKI. The 19 million pieces that were detained for customs' examination probably were detained because of postmark or some such evidence. They found only 1.2 million of these pieces were Communist propaganda and 18.1 million were not.

Mr. PASSMAN. Are there any bulk shipments coming in, maybe by boat, and after they reach this country then the material is mailed?

Mr. ABELL. There are some of those; yes. We have a system for detaining that material as well.

Mr. PASSMAN. I think years ago there was a directive, if not a law, prohibiting the distribution of Communist propaganda in the United States.

Mr. MONTAGUE. No law. It was an arrangement.

Mr. ABELL. We had what amounted to an Executive order, originally. This was canceled and in effect reenacted by legislation.

HATCH ACT

Mr. PILLION. Last year the committee reduced the Post Office appropriation. There was a vote in the House. Some Members agreed with this committee and others didn't. One member, Mr. Schenck, who was just here, voted with this committee and I will read from the Dayton Daily News.

Postmaster Hugh T. Albright last month claimed that House cuts in the postal budget meant the $4 million post office would not be built.

He blamed Schenck for voting for the cuts.

Now, I wonder if that is a proper statement or a statement that comes within, what law is that about lobbying or politicking?

Mr. GRONOUSKI. Hatch Act.

Mr. PILLION. If it does not come within the Hatch Act, is this type thing permitted or encouraged in the Post Office Department? To abuse Congressmen or to sound off on the votes of Congressmen with regard to the appropriations granted to the Post Office Department is in my opinion a questionable action, legally and basically, for a local postmaster.

Mr. GRONOUSKI. Very clearly, it was not concurred in by this Postmaster General or, I presume, any other Postmaster General or long list of Postmasters General. We have 35,000 postmasters. I can't sit and hold their hands all the time to make sure they are not going to pop off one time or another.

Mr. PILLION. I don't expect you to but this problem is very well known in your Department. What have you done about it?

Mr. GRONOUSKI. Until you read it I didn't know about it, to tell you the truth.

Mr. PILLION. That is why I am calling it to your attention. I have another one.

Representative Paul F. Schenck is still using the U.S. postal system to mail his stamp-free letters but he turns red every time he drops one in the slot. Schenck was trapped by Dayton Postmaster Albright when the Dayton postmaster announced that the slash in departmental funds would stall a new post office for Dayton.

It goes on to say about Democrats and Republicans and Albright in the middle of it, talking all over the lot. Here is a whole series of attacks upon Congressman Schenck in regard to that Dayton post

office. I think it is the most reprehensible situation. I wonder if you would check into that. I will be glad to offer these to you and ask you to take it up with the proper agency in your Department to see that this is carried to its proper, logical, and legal conclusion.

Mr. GRONOUSKI. I certainly will look into it if you will give it to me.

NEW DAYTON POST OFFICE

Mr. PILLION. Thank you very much. By the way, how is the Dayton post office? Is that on schedule or isn't it?

Mr. ABELL. Yes; it is on a schedule and we have a site under control.

Mr. PILLION. You mean under option.

Mr. ABELL. Under option, a signable option, yes. It is still on the drawing board right now. We haven't awarded any contracts as yet. We hope to in the very near future.

Mr. PILLION. Has the delay so far in the construction of the Post Office Department been due to the voting record of Mr. Schenck? Is that why there has been a delay? Because of how he voted? Or did not vote last year on this matter?

Mr. ABELL. No, sir. I don't think that has anything to do with it.

Mr. PILLION. Can you explain why the delay in the post office is caused by his voting on the floor of the House?

Mr. GRONOUSKI. I don't think it has been established that there is a delay.

Mr. PILLION. The fact that it was not built a year ago, if what he says is true, there has been a delay. Was that due to Mr. Schenck's voting on the floor or any other Congressman?

Mr. GRONOUSKI. Has he said since there has been a delay?

Mr. PILLION. Your postmaster has said that and said it has been due to Schenck's voting. It is your postmaster that says it, not me.

Mr. GRONOUSKI. I will read the file and look into it.

FOURTH-CLASS RATE INCREASE

Mr. PILLION. I note you received a $77 million increase for parcel post and fourth-class mail from the appropriate agency. That will leave your fourth-class mail—that is parcel post?

Mr. GRONOUSKI. That is parcel post and catalog mail.

Mr. PILLION. That will leave a deficit for that class of mail of how much per year?

Mr. GRONOUSKI. It will cover about 90 percent of the cost, $69 million deficit.

Mr. PILLION. Then you expect to be within 4 or 5 percent of your costs?

Mr. GRONOUSKI. The legislation was passed last June to put a 3-year moratorium until July 1, 1966. We are in the process of studying the whole parcel post operation in order to be prepared to come before Congress with our recommendations.

Mr. PILLION. You will be within 90 percent with this $77 million?

Mr. GRONOUSKI. It is about 90 percent.

Mr. PILLION. Are you working toward asking for another increase to come within the 4 percent?

Mr. GRONOUSKI. No; not at the present.

Mr. PILLION. Are you contemplating asking that the 4 percent be enlarged to give you maybe a 10-percent leeway?

Mr. GRONOUSKI. I would hate to prejudge the study we are doing. We are in the process of making a very full study of the parcel post with recommendations forthcoming.

Mr. PILLION. Are you studying also the weights and sizes and the possible change in that rather than a change in your requirement that you come within 4 percent of the actual cost?

Mr. GRONOUSKI. We are studying every phase of it.

UNION DUES CHECKOFF

Mr. PILLION. Do you have the checkoff system in effect now?

Mr. GRONOUSKI. The 1st of April it will go into effect; yes.

Mr. PILLION. What percentage of your employees will have their pay checked off and how many have asked that their pay be not checked off?

Mr. GRONOUSKI. Mr. Murphy may have that.

Mr. MURPHY. They are in the process of doing that now. We have had the two unions, larger unions, who have indicated to us that they will not avail themselves of this when it first gets underway. The others have indicated they do want to participate. We are now in the process of having individual employees sign authorization cards to give us the right to check it off their pay.

Mr. PILLION. Then you must have an authorization card from each employee before you check off?

Mr. MURPHY. Signed individually.

Mr. PILLION. It is not the reverse, you check off unless they object?

Mr. MURPHY. No, sir.

Mr. PILLION. And each individual has a right then to refuse to have his pay checked off?

Mr. MURPHY. Twice a year he has a right to get out of the plan afterward.

Mr. PILLION. Now, do you have any gray areas in which the unions are attempting to ask for certain working conditions or working rights that are beyond your jurisdiction? I mean, are they trying to crowd you into fewer working hours, that is, or more pay?

Mr. GRONOUSKI. As a matter of fact, our negotiation sessions are coming up in about a month and I don't believe we have received any presentation from them yet, have we?

Mr. MURPHY. No, sir. As a matter of fact, they just yesterday sent us their first submission for this year's negotiations. We have not really had a chance to look at them. We just got them yesterday afternoon.

Mr. GRONOUSKI. I imagine they will try to crowd us a little bit or they would not be doing their job.

Mr. PILLION. Certainly. Don't let them crowd you in areas which are not properly on the table between the two of you.

Mr. MURPHY. We certainly are aware of that. We also are aware that we are working within a very, very tight budget.

PAY LEGISLATION

Mr. PILLION. That is right, you are. Now, there is some $550 million in the President's budget for this new pay proposal that is pending before the House. Does that $550 million include also the pay for the Post Office Department in that bill?

Mr. GRONOUSKI. If you have reference to the bill pending in the House, identified as H.R. 8986, the Post Office part will cost about $289 million based on current employment. However, the administration bill, which is the basis for the $550 million in the President's budget, includes a cost of about $118 million for the Post Office Department based on 1963 employment.

Mr. PILLION. About $180 million?

Mr. GRONOUSKI. $289 million.

Mr. PILLION. In other words, if that goes through, then your deficit or your required appropriations net would have to be increased by $289 million for the next fiscal year?

Mr. GRONOUSKI. That is right.

RURAL ROUTE CONSOLIDATION

Mr. PILLION. The 1963 Comptroller's report talked about and criticized the Department for a need to improve administration of the program for the consolidation of rural routes. In other words, they go on to say that the Postmaster General, meaning the Post Office Department, nothing personal here, failed to establish criteria for determining the feasibilty of cosolidating rural routes whenever a vacancy occurred. The Comptroller recommends all route consolidations be made which are operationally feasible.

Have you done any work toward improving that situation when there is a possibility of consolidation that it be consolidated?

Mr. GRONOUSKI. You are aware of the fact, I am sure, that the law provides that we can only consolidate rural routes at a time when the vacancy exists?

Mr. PILLION. That is right, that is what we are talking about.

Mr. GRONOUSKI. Maybe I can have one of the fellows give an answer on this.

Mr. PILLION. I realize some of this is a litle bit unfair. However, I am doing it more in the spirit of acquainting you with problems, Mr. Postmaster General, than I am in criticism.

Mr. GRONOUSKI. I appreciate that.

Mr. STEED. I can testify to this effect, that several vacancies which have occurred in my district in recent months, and there have been a number of consolidations despite my efforts to prevent them. If the Department is carrying out the same program throughout the country I have been encountering, I would say they are doing at least a good job in that area because in every instance if they have been able to show that substantial savings of several thousand dollars were to be made when they consolidated then they have done it.

Mr. PILLION. Fine. I am pleased to hear that.

Mr. GRONOUSKI. Continuously, over the last 10 or 15 years statistics here show that the number of routes at yearend have gone down each year. The average mileage has gone up which indicates con-

solidation and also the length of routes has gone up. But I am sure you can get much more detailed answers to that when Operations testifies. Unfortunately, Mr. Belen had to leave. It is in his area and he is not here.

Mr. PILLION. Mr. Passman, would you like to ask some questions here?

Mr. PASSMAN. If you wish to do a little more research, I shall go ahead.

Mr. PILLION. If you will.

POST OFFICES DISCONTINUED

Mr. PASSMAN. Mr. Postmaster General, there are numerous fourth-class post offices in my district. The Department has discontinued a number of them in the past. I have not protested in those cases because I have left it up to the judgment of the postal officials to decide when a fourth-class post office should be discontinued.

Insofar as I can recall, I have never asked the Department to continue to operate a post office when equal or better service could be provided otherwise at less cost. However, my question now is, are you generally left to your own judgment, or that of your Department, in deciding what offices are to be closed, or are you forced to yield to certain pressures, and keep them operating so as to please the politicians?

Mr. GRONOUSKI. Several years ago, before I was here, but nonetheless in the context of the post office operation, when the Congress decided the rural routes would not be taken off unless a rural route carrier retired or left the job, this is part of the law which requires that we do not close down a rural route unless the rural carrier has left the job or has retired.

When that was decided, there was some discussion with the Post Office Committees on extending that same concept to the postmasters, the post offices, too. Members of the Department did, at that time, confer with the Postal Committees and agreed to the proposition that in most cases that same idea which was put into law by Congress with regard to rural route carriers would be followed in the case of the post office.

Mr. PILLION. Fourth class?

Mr. GRONOUSKI. Fourth class and third class, too. Now, then, during this last year we closed up about 408, a little over 400, mainly fourth-class post offices. We are anticipating this coming year possibly at least doubling and possibly tripling that number.

Mr. PILLION. Nationwide?

Mr. GRONOUSKI. Nationwide. Looking at those such as the ones that appeared in the paper the other day, have small revenue and on the surface anyway a very small justification. Now, if it appears that we are going to find it necessary to close some in cases where the postmaster is still on the job, and if our program of closing, double and triple, is interfered with by this factor we are going to meet again with the Post Office Committees with respect to the understanding that was reached several years ago and review it with them and explain to them what our problem is now and I think they will be perfectly agreeable to go along with us.

That is the situation now. We have taken a hard look at this. We do feel that there are more fourth-class post offices that ought to be closed as post offices. The rate that we are currently closing them indicates that we do anticipate that we will somewhat double or triple the rate next year. Prior to taking any action that will violate this understanding with the Post Office Committees, we will sit down with them and talk with them.

Mr. PASSMAN. You usually wait until there is a death or mandatory retirement before you make the determination as to whether you should discontinue or consolidate post offices?

Mr. GRONOUSKI. That is right.

Mr. GARY. Will you yield to me for just one moment?

Mr. PASSMAN. Surely.

Mr. GARY. You used to have a table going back for quite a number of years as to the number of post offices closed each year. Do you have a table convenient that could be inserted at this point in the record?

Mr. GRONOUSKI. Here is a table between 1955 and 1963.

(The material referred to follows:)

TABLE 403.—*Total number of post offices, branches, and stations June 30, 1955–63*

	1955	1956	1957	1958	1959	1960	1961	1962	1963
Number of post offices:									
1st class	3,427	3,626	3,681	3,750	3,896	3,988	4,042	4,157	4,235
2d class	6,605	6,609	6,612	6,647	6,666	6,665	6,726	6,793	6,808
3d class	13,224	13,095	13,134	13,120	13,156	13,082	13,071	13,079	13,072
4th class	15,060	14,185	13,585	12,791	12,032	11,503	11,116	10,768	10,383
Total	38,316	37,515	37,012	36,308	35,750	35,238	34,955	34,797	34,498
Number of branches and stations:									
Classified branches	690	725	777	833	871	920	971	1,004	1,042
Classified stations	1,970	2,026	2,080	2,139	2,179	2,217	2,267	2,311	2,333
Contract branches	579	594	611	686	748	857	1,004	1,093	1,337
Contract stations	4,842	4,353	4,112	4,110	4,220	4,287	4,291	4,388	4,150
Rural stations	509	581	639	728	847	1,081	1,276	1,360	1,485
Total	8,590	8,279	8,219	8,496	8,865	9,362	9,809	10,156	10,347
Grand total	46,906	45,794	45,231	44,804	44,615	44,600	44,764	44,953	44,845

Mr. PASSMAN. As a usual thing, sir, by the elimination of fourth-class post offices and consolidation, you try to provide service equal to that of the post office, if not better; do you not?

Mr. GRONOUSKI. That is right.

For instance, in some cases, extending the rural route might give better service than having the post office there.

RURAL STATIONS

Mr. PASSMAN. What is the difference between a third-class post office and a contract post office? I believe you refer to them, do you not, as a station?

Mr. GRONOUSKI. You are talking about the kind of station that is in a drugstore?

Mr. PASSMAN. No. Say that a community has a fourth-class post office and it is costing the Department $3,200 a year to keep it in

operation and by contract you can provide practically the same service, and you can write money orders and deliver mail on a contract basis for about $1,200. What do you call it—a substation?

Mr. GRONOUSKI. A rural station.

Mr. PASSMAN. What would be the difference between a rural station and a fourth-class post office so far as service to the patrons is concerned?

Mr. MCMILLAN. A rural station is, of course, a contract-operated station and it is called rural because it is in a rural area and usually is served by a rural route emanating from some nearby office. They render the same services that the post offices render, against that they render the service more cheaply because it is on a contract basis and normally longer hours of service.

A lot of these small fourth-class offices only stay open 4 hours a day or 6 hours a day, whereas a majority of these rural stations located in the little store or filling stations, they are there 8 or 10 hours a day. So, from many standpoints, the people in that little community get better service from the rural station than from the post office.

Mr. PASSMAN. Your service is just as good, if not better, in a rural station?

Mr. MCMILLAN. Yes; as a usual thing you can operate them for 30 or 40 percent of what it costs to operate a fourth-class post office. Frequently, it is a third to a half.

Mr. GARY. A rural station then does substantially the same thing in a rural community as a contract station does in an urban?

Mr. MCMILLAN. Identical. They are called rural because they are in a rural area.

Mr. GARY. They are on a par. The rural and contract stations are the same except one is in a rural area and the other is in an urban area.

Mr. MCMILLAN. That is right.

Mr. PASSMAN. In a case of that kind you have, maybe, say, Gary, La., and you go to a rural station, is the name "Gary, La.," lost from the register?

Mr. MCMILLAN. You don't lose the name from the register. Those rural stations are listed as a Gary rural station tributary to the office they serve.

They are listed in the register as Gary rural station underneath and indented under the parent post office. They don't lose any identity.

Mr. PASSMAN. What do they actually lose when you substitute a rural station for a fourth-class post office?

Mr. MCMILLAN. A lot of people have pride and they don't want to lose that post office.

Mr. PASSMAN. Is the mail service equal or superior to what it was before the change?

Mr. MCMILLAN. Frequently they get better mail service and it costs the taxpayers less money.

TOTAL BUDGET FOR POST OFFICE DEPARTMENT

Mr. PASSMAN. What is the total annual cost of operating the post office establishment?

Mr. GRONOUSKI. The budget request this year is $5,031 million.

Mr. PASSMAN. What are the estimated receipts for the same fiscal year, 1965?

Mr. GRONOUSKI. $4,480 million.

Mr. PASSMAN. Your estimated deficit for fiscal 1965 will be what amount?

Mr. GRONOUSKI. We have two figures.

Mr. PASSMAN. I am talking about the real deficit.

Mr. GRONOUSKI. The total difference between receipts and expenditures will be $551 million.

Mr. PASSMAN. That will be your actual deficit.

Mr. GRONOUSKI. I prefer to say that there is $89 million plus $463——

Mr. PASSMAN. Give the total.

Mr. NICHOLSON. The $551 million, which is the amount we draw on the general fund of the Treasury, compares with the $651 million of the prior year. It is a hundred million dollar reduction, a very large percentage reduction of the amount that costs the taxpayers.

Mr. PASSMAN. That is an estimate.

Mr. GRONOUSKI. We won't know it until the end of June 30, 1965, but it is our best judgment and we think it is pretty good.

Mr. PASSMAN. The true deficit will not be known until you have closed fiscal 1965. You may be off on the pieces of mail, the tonnage, or you may have laws passed that will call for additional salaries, and there are a lot of things that you will have to take into account. You have come back in for supplemental appropriations frequently during the past 20 years.

SUPPLEMENTAL APPROPRIATIONS

Mr. GRONOUSKI. Any supplemental requests in the past 3 years have been based on increases brought about by law such as pay raises.

Mr. PASSMAN. But there have been many requests——

Mr. GRONOUSKI. When was the last supplemental?

Mr. NICHOLSON. We had one last year because of the raise in pay.

Mr. PASSMAN. One Postmaster General discontinued the mail deliveries.

Mr. GRONOUSKI. I think as a result of that the Deficiency Act was passed.

POSTAL DEFICIT

Mr. PASSMAN. You think this estimate of the deficit will hold firm?

Mr. GRONOUSKI. The only thing that enters into the picture that is not calculated is the pay bill which is up before Congress. Other than that, other than the pay bill, which would add something like $289 million to our cost——

Mr. PILLION. To complete this colloquy on the deficit, I was going to say that the $551 million and the $289 million included in the proposed pay raise will give you a total deficit of about $900 million in 1965. Is that about right?

Mr. GRONOUSKI. That is right.

Mr. PASSMAN. The increase in expenditures, and I am talking about the pay increase, would give you a deficit of over $700 million, would it not?

Mr. GRONOUSKI. If the pay bill passes.

Mr. PASSMAN. It takes a certain amount of money to handle the mails. What you do not collect in postage or for other services you have to go down and get it out of the Treasury, do you not?

Mr. GRONOUSKI. That is right.

Mr. PASSMAN. It is taken out of the taxpayers' till, which means that the people who use the mail are not necessarily paying for the service, but the others are being required to share that cost. Is that just about correctly stated?

Mr. GRONOUSKI. That is right. It is the judgment of Congress, apparently in the last few years certainly, to assign certain kinds of cost to public characteristics.

Mr. PASSMAN. You apply what you collect against the cost and for the difference you have to go down and take out of the taxpayers' till?

Mr. GRONOUSKI. It is not quite that, but it is in substance that.

Mr. PASSMAN. Where do you get the money?

Mr. GRONOUSKI. We are appropriated a budget which we live within and the revenues we receive go into the postal fund in the Treasury.

Mr. PASSMAN. It costs a certain amount of money to provide for the postal service. And the amount that you collect, if you did have the right to run your own cash account, you would subtract from the total cost and the difference has to come out of the taxpayer's pocket?

Mr. GRONOUSKI. That is right.

BUSINESS MAIL

Mr. PASSMAN. Isn't it true that 80 percent of all the mail use is by businesses in America?

Mr. GRONOUSKI. About 80 percent of all our mail is business mail.

Mr PASSMAN. And 20 percent of the mail use is by the people in general?

Mr. GRONOUSKI. That is about right.

Mr. PASSMAN. Which in effect means that the individual is subsidizing business on that score.

Mr. NICHOLSON. My recollection is that individual income-tax payers pay about 47 to 50 percent.

Mr. PASSMAN. They pay about 62 percent of the total, I believe.

The people generally are actually subsidizing business?

Mr. NICHOLSON. Yes; the way you put it is an intriguing idea. However, I don't believe it is necessarily true at least that the 80 percent of business mail is one business writing to another.

Mr. PASSMAN. Is 80 percent of the total mail used by business, regardless of whom they write to, and 20 percent by individuals, the people generally?

Mr. NICHOLSON. Yes.

Mr. PASSMAN. Business can charge off 100 percent of the postal expense for tax purposes, but the individual citizen cannot charge off any of it, can he?

Mr. NICHOLSON. That is correct.

Mr. PASSMAN. You have to have a profit on certain types of mail, or your deficit would be even larger, would it not?

Mr. GRONOUSKI. That is right.

THIRD-CLASS MAIL

Mr. PASSMAN. With respect to what we call the junk mail, that would be third class, would it not?

Mr. GRONOUSKI. That is right. Although the third-class users don't like to have you use that terminology.

Mr. PASSMAN. What percentage of the tonnage moved in all classes of mail would fall in the category of either second- or third-class mail?

Mr. NICHOLSON. In total number of pieces?

Mr. PASSMAN. The payment is at so much a pound, is it not?

Mr. GRONOUSKI. Except a large part of it is piecework in the post office.

Mr. PASSMAN. I now want to find out about the tonnage. You have a public carrier, don't you, and you pay them so much a ton or pound for moving it?

Mr. NICHOLSON. Transportation is a relatively minor part of our total cost.

Mr. PASSMAN. Do you have any way of establishing how many pieces of mail you are going to handle in 1965?

Mr. GRONOUSKI. About 72 billion pieces.

Mr. PASSMAN. What percentage will be second- and third-class mail.

Mr. GRONOUSKI. 37 billion, first class; is it not? Sooner or later I will have all these figures in my head. I don't have them yet.

Mr. NICHOLSON. The estimate is 38 billion pieces of first class plus nearly 2 billion pieces airmail. So about 40 billion pieces, first class and airmail out of the total.

Mr. PASSMAN. That leaves 32 billion in the other categories.

Mr. GRONOUSKI. Third class is 20 billion.

Mr. NICHOLSON. Second class is 8½ billion.

Mr. PASSMAN. That is usually magazines and newspapers?

Mr. NICHOLSON. Yes.

Mr. PASSMAN. Do the mass circulation magazines get the preferential rate?

Mr. GRONOUSKI. They do not get educational preferential rates.

Mr. PASSMAN. We would agree they are in business to make a profit on their investment; are they not?

Mr. GRONOUSKI. Yes.

Mr. PASSMAN. Can you tell us how much the Department is subsidizing third-class mail annually?

Mr. NICHOLSON. I can tell you the difference between cost and revenue.

SECOND-CLASS MAIL

Mr. PASSMAN. That would be the subsidy; would it not? What do you estimate your revenue from second-class mail will be in fiscal year 1965?

Mr. NICHOLSON. We estimate it will be $103 million.

Mr. PASSMAN. What is the cost of handling that mail?

Mr. NICHOLSON. That represents about 30 percent. So the cost would be three times that amount.

Mr. PASSMAN. Could you give us a figure?

Mr. GRONOUSKI. About $300 million.

Mr. PASSMAN. Where do you get that $300 million? Out of the Treasury?

Mr. NICHOLSON. The Postal Policy Act provides that the total cost of all the mail shall be paid for by the total postal receipts.

Mr. PASSMAN. Total cost of handling mail will be paid for by total postal receipts?

Mr. NICHOLSON. Yes; less the amount set aside for public service allowances.

Mr. PASSMAN. You are not the type to be evasive. You said $103 million is what the Department collects from the users of second-class mail. Now, what is the cost to the Government, the Post Office Department, the taxpayer, the Treasury, any way you want to put it, of handling that mail?

Mr. NICHOLSON. There are $200 million paid for by other users.

Mr. PASSMAN. You have to take off that $200 million in order to be able to make the delivery increase? Where do you get that money?

Mr. NICHOLSON. Part of it comes from excess revenues from other classes of mail and part of it probably comes from the General Fund of the Treasury.

Mr. PASSMAN. How much of it comes from excess revenues from other mail?

Mr. NICHOLSON. I don't believe it is possible to separate out how much each class draws from the excess.

Mr. PASSMAN. At one time, the Department was able to tell us just how much each publication was subsidized.

Mr. NICHOLSON. That was back in 1954.

Mr. PASSMAN. You can no longer pinpoint this information for us?

Mr. NICHOLSON. That particular breakdown I think was a rough-and-ready estimate of what any one magazine might have cost——

Mr. PASSMAN. I would not think there is any plan to cover up from the American people how much we are subsidizing third-class mail.

Mr. NICHOLSON. There is no reason in the world to cover up, Mr. Passman.

Mr. GRONOUSKI. I will say, as a flat statement, that I don't want to cover up anything. I want everything on the record that is done in the Post Office Department.

Mr. PASSMAN. There is a $750-million deficit that you have. If it were not for the profit on first-class mail, airmail, your services, and parcel post, the deficit would be even greater; would it not?

Mr. NICHOLSON. It would.

Mr. PASSMAN. Can you break the data down and show the profit, by category, on airmail, first-class mail, parcel post, special services, and then show what the subsidy amounts to on second- and third-class mail?

Mr. NICHOLSON. Let me answer it in two parts.

Mr. PASSMAN. First, state the total subsidy, substitute some other term if you want to, to second- and third-class mail and after you do that show the profit on the other categories.

Mr. NICHOLSON. Part 1 of my answer would be to give you those specific figures. Part 2 of my answer would be to explain what this difference between cost and revenue really is.

In the case of first-class mail and airmail, there is a surplus of the two services combined estimated at about $323 million.

Mr. PASSMAN. Simply because you have a profit over here, that is really no justification to turn around and play that profit against the subsidy over here. Will you agree with that statement?

Mr. NICHOLSON. No, sir; I cannot agree with it under the Postal Policy Act.

In the case of the second-class mail there is a deficiency of about $216 million and in the case of third-class mail there is a deficiency of approximately $162 million. Now the second part of my answer has to do with what this deficiency means.

LOSS ON MAIL

Mr. PASSMAN. What is the total you have there?

Mr. NICHOLSON. The total of all classes of mail?

Mr. PASSMAN. Just that on the loss side. I am not talking about the profit.

Mr. NICHOLSON. Just those I have enumerated?

Mr. PASSMAN. If that is all on which the Department is losing money?

Mr. GRONOUSKI. Parcel post has a loss; $69 million on parcel post.

Mr. NICHOLSON. It is plus 325 minus 375. So there is about a $50 million net loss on those three classes of mail combined.

Mr. PASSMAN. Which ones did you name?

Mr. NICHOLSON. First, second, and third.

Mr. PASSMAN. First, second, and third?

Mr. NICHOLSON. Yes.

Mr. GRONOUSKI. The losses on second and third exceed the gain on first and airmail by about $50 million.

Mr. PASSMAN. I don't see any reason whatsoever for mixing them. I am not going to credit profit on rutabagas to the loss on the apples.

Mr. GRONOUSKI. You don't have a law that says you have to.

Mr. PASSMAN. I am not arguing, Mr. Postmaster General, that you are not having to abide by the law.

However, you are operating several classes of mail at an annual loss of x number of dollars. And you are handling certain classes of mail with x number of dollars of profit. If you would put them on separate charts, I would appreciate it. I think you will find it is not going to be detrimental to the Post Office Department to establish what these losses are.

Mr. GRONOUSKI. Congressman, it is in the record here. We can make the table for you.

(The statement referred to follows:)

Adjusted [1] revenues and costs by principal classes of mail, fiscal year 1963

[In millions]

	Revenues	Costs [2]	Deficit (−) surplus (+)	Revenue as percent of cost
1st class	$2,042.5	$1,759.9	+$282.6	116.1
Airmail	212.3	176.8	+35.5	120.0
2d class	116.9	321.6	−204.8	36.3
Controlled circulation	11.2	17.0	−5.8	66.0
3d class	639.0	846.1	−207.2	75.
4th class:				
Zone rate	671.8	722.6	−50.8	93.0
Other 4th class	51.4	51.4		100.0
Total	723.2	774.0	−50.8	93.4
All other [3]	555.5	535.5	+20.0	103.7
Grand total	4,300.6	4,431.0	−130.5	97.1

[1] Adjustments show assumed effect of currently authorized revenue and cost changes as if they had been in effect for the entire fiscal year.

[2] After deducting public service losses and costs.

[3] Includes special and nonpostal services and unassignable revenues and costs.

Mr. NICHOLSON. Should I define what the deficiency means or where it comes from?

Mr. PASSMAN. If you wish to do so.

Mr. NICHOLSON. The point I feel is important to make is this: That the cost of handling 1,000 pieces of third-class mail and the cost of handling 1,000 pieces of first-class mail are what are recorded in these cost figures I have just given you.

The difference that does not appear in the cost figures is the value of the service.

Mr. PASSMAN. Let me use my judgment as to the value of the services.

Mr. NICHOLSON. There is at least one specific tangible value I would like to allude to. First, first-class mail is handled and dispatched as promptly as it comes into the offices.

The third-class mail is subject to deferment so that the two batches of mail might come in side by side. The first-class mail will be handled today. The third-class mail can be handled at a later time. It can be deferred.

The cost when handled by us is the same but the value to the patron is greater because of the greater speed of delivery for first-class mail.

Mr. PILLION. Since most of my mail is bills, how can I profit by their coming quicker?

How is that of more value to me to get my bills quicker? That is about like the argument presented about the right of free speech by the Russians to send their mail in here.

According to that you don't have the right to get mad about that junk mail, they holler free speech to send it to you. The recipients' rights are not considered.

Mr. PASSMAN. What would happen if you did not have second- and third-class mail? Would you not have fewer employees?

Mr. NICHOLSON. Yes. That is a substantial part of our budget.

COMPARISON OF PROFIT MAIL AND LOSS MAIL

Mr. PASSMAN. Do you have any charts showing the percentage of increase in the number of pieces of first-class mail, airmail, the mail that you earn a profit on, as compared to the increase in the number of pieces of mail on which the Department has a loss?

Mr. NICHOLSON. We can prepare such a table.

(The table referred to follows:)

Volume trends of selected classes of mail, 1950–63

[Pieces in millions]

Fiscal year	First class		Airmail		Second class		Third class	
	Pieces	Percent change	Pieces	Percent change	Pieces	Percent change	Pieces	Percent change
1950	24,500		853		6,265		10,343	
1951	25,578	+4.4	1,094	+28.3	6,520	+4.1	10,534	+1.8
1952	26,502	+3.6	1,391	+27.1	6,956	+6.7	11,630	+10.4
1953	27,257	+2.8	1,430	+2.8	6,762	−2.8	12,004	+3.2
1954	27,085	−.6	1,470	+2.8	6,483	−4.1	13,866	+15.5
1955	28,713	+6.0	1,467	−.2	6,740	+4.0	15,050	+8.5
1956	30,078	+4.8	1,487	+1.4	6,915	+2.6	14,676	−2.5
1957	31,561	+4.9	1,483	−.3	6,888	−.4	15,702	+7.0
1958	32,218	+2.1	1,435	−3.2	7,148	+3.8	15,849	+.9
1959	32,274	+.2	1,368	−4.7	7,099	−.7	16,978	+7.1
1960	33,235	+3.0	1,356	−.9	7,535	+6.1	17,910	+5.5
1961	34,289	+3.2	1,453	+7.2	7,966	+5.7	17,569	−1.9
1962	35,333	+3.0	1,545	+6.3	8,090	+1.6	17,837	+1.5
1963	35,833	+1.4	1,545		8,227	+1.7	18,407	+3.2
1950–63		+46.3		+81.1		+31.3		+78.0

Mr. GRONOUSKI. I do want to make the point, Congressman, that from the point of view of business management, and I have only been in the office 4½ months, so I can still speak with pride of some other people, I think the Post Office Department, from the standpoint of business management has done a good job in the last 3 years and I am very hopeful, that, as I mentioned this morning—I was discussing the budget in general—I am very hopeful that the increasing volume of mail which is coming upon us, it will be 85 billion pieces by 1970, we estimate, 72 billion in 1965—I am very hopeful that we will be able to substantially contain costs by development of the various management techniques that I have described in my opening statement.

Mr. PASSMAN. Mr. Postmaster, let me say again that I have high praise for the Postal Establishment.

PARCEL POST RATE INCREASE

Mr. STEED. The main thing I was interested in, General, was the fact that last year we had quite a discussion about the problem of the parcel post rate increase and the difficulties that the Department was having with the ICC in that case they had down there.

Since that time a rate increase has been granted and you estimate that it will bring in some $77 million additional revenue and increase the coverage of the actual parcel post cost up about 90 percent.

Last year Postmaster General Day, who was before us, got into quite a discussion about the competition with these private parcel carriers that posed a problem for the parcel post service.

There was some discussion along the line that if you got rates up to a certain point it had the effect of driving more business away from the Post Office Department in those heavy volume areas where you could make the profit and still left you all the isolated and expensive type of parcel post to cope with.

Out of that I got the impression that we were in a quandary of not having enough money to pay the cost for parcel post on the one hand

and probably going to lose more money by raising the rates on the other.

How do you come to this conclusion that this rate increase is actually going to increase your revenues rather than cause you to lose business?

Mr. GRONOUSKI. In the first place, I read the record of the hearings last year and I think the discussion with respect to the adverse effect of rate increase in parcel post had to do with reaching the 4-percent line.

It was a discussion relating to the moratorium on the 4-percent limit where we had to be within 4 percent of cost. As I recall, if the moratorium on that limitation had not been put into effect we would have had to raise rates something like 25 or 32 percent, somewhere in that range.

I think this is the rate increase that Mr. Day was particularly concerned about, this kind of rate increase. I agree with the proposition that you can't continue going on raising postal rates in the whole business because this is competitive.

We have a monopoly on most everything in the mail service but in the parcel post field we do not have monopoly. We have competitors.

Mr. GARY. That was the argument that Mr. Day used, that if you increased the rates to that extent then your volume would drop off and then you would have to increase the rates again, then more volume would drop off and you would have to again increase the rates.

Mr. GRONOUSKI. Mr. Day also said in that testimony that if the moratorium was approved by the Congress he was very likely going to come in with a recommendation or if Congress took over the parcel rate setting function he would come in with a recommendation, probably in the neighborhood of 13 percent, which is what we asked the ICC.

So, that I don't think, if my recollection of the record is correct, that he was speaking of this 13-percent increase as having this very damaging effect.

I would say further, and this is the reason why it is so necessary for us to review the whole parcel post operation, and we are in the process now of making a very thorough study of the parcel post operation because I think it is a very important and desirable service; it is a service that is in jeopardy unless we streamline the operation in such a way that we can by the rate structure, maybe quite a different rate structure than we have now, via the rate structure and via size and weights limitation, via modes of transporation, via internal organization with respect to handling of parcel post in the Post Office Department and by carriers, in all of these areas it is awful important to take a look at the whole parcel post structure.

Right now we don't know where we are going. The only way we are going really up to today is downhill in the whole business. I think this is bad for the country, I think it is bad for the Post Office. I think it is awful essential that we come up with a proposal for review of Congress which takes into consideration all the ramifications of the parcel post business. That is what we intend to do. That is what we are in the process of doing.

Mr. GARY. If private enterprise had adequately taken care of the parcel post situation there never would have been any parcel post but

they were delivering parcel post only to the populous sections and the people out in the rural sections could not get any delivery at all. That is the reason that the Government got into the field.

Mr. GRONOUSKI. I think it is awful important to stay in the field but stay in it in a healthy way.

Mr. GARY. I agree with you thoroughly. I hope you will make a thorough study of it and make some sound recommendations. That is what we need.

Mr. STEED. You don't anticipate that the type of competition which has grown up in the last few years is going to abate any? You are going to be faced always with this skimming-off-of-the-cream-type of competition.

Mr. GRONOUSKI. Of course. I am optimistic enough to think that by a thorough review of this thing and making a real solid economic study of it that we can evaluate and adjust the whole structure of rates, the whole structure of transportation and everything else involved in this thing so that we can make it an economic operation.

FOURTH-CLASS POST OFFICES

Mr. STEED. Getting back to the fourth-class type office and its abandonment, would it be very difficult for you to provide us with a tabulation of the offices as to receipts like those taking in $100 or $200 or less?

Mr. GRONOUSKI. Yes; we can give you a breakdown.

(The statement referred to follows:)

Receipts category by 4th-class offices as of June 30, 1963

Receipts category:	*Number of offices*
Under $100	92
$100 to $200	434
$200 to $250	347
$250 to $350	701
$350 to $600	2,316
$600 to $900	2,687
$900 to $1,300	2,861
$1,300 to $1,500	924
Total 4th-class offices	10,362

Mr. STEED. In all these type offices break them down into certain divisions so that we can get an idea of what percent is the very lowest income, something in the middle and some that make the highest amount up to the time they become third-class offices.

Mr. GRONOUSKI. We will prepare that for you later in the week.

Mr. STEED. Mr. Chairman, I would like to go off the record for some information.

(Discussion off the record.)

MAIL SUBSIDY

Mr. PASSMAN. Mr. Nicholson, I hope you do not think I was discourteous in cutting you off, but we left something hanging in the air and I think we should clear it up.

We were talking about the subsidy. With reference to the type of mail for which a subsidy is being provided, if you should eliminate the subsidy and continued handling and delivering of the same number of pieces on a paid basis, the educational service would be just as valuable; would it not?

Mr. NICHOLSON. Yes.

Mr. PASSMAN. Thank you.

RATE RECOMMENDATIONS

Mr. CONTE. Mr. Postmaster General, I want to join in welcoming you before this committee and want to say that as you already know you are following in the footsteps of one of the finest Postmaster Generals we have ever had.

You certainly have some big shoes to fill and I am sure you will do everything in your power to carry on in the same tradition.

I want to wish you well and success and pledge my cooperation.

POST OFFICE DEPARTMENT RECOMMENDATIONS FOR RATE INCREASES

In regard to this rate of second- and third-class mail, could you tell this committee for the record what the recommendations were of the Post Office Department to the Congress on those rates and what the Congress finally gave you?

Mr. GRONOUSKI. All I can say generally is that the recommendations were somewhat higher than the Congress saw fit to adopt.

Mr. NICHOLSON. Subject to correction of the record, my recollection on second class was that the increase we were asking for was around $47 million and the increase allowed was about $27 million. I will supply the specific figures for the record.

Mr. CONTE. How about the third class?

Mr. NICHOLSON. The increase we asked for in third class was a half cent per piece, and Congress enacted three one-eighth-cent increases staged over a period of 3 years.

Mr. CONTE. In total what would one-half cent per piece——

Mr. NICHOLSON. My recollection on total is that the original proposal would have provided about $625 million on an annual basis, including first class, and the rate bill as enacted will provide, on the same volume basis, on which the other figure was derived, about $600 million on an annual basis.

Mr. CONTE. In other words, you are losing about $20 million on second class?

Mr. NICHOLSON. Yes.

Mr. CONTE. And you are losing another $5 million on third class?

Mr. NICHOLSON. And the bill as enacted by Congress did include certain moderate size increases for classes or for rates that we did not have in our original package.

The total is not as greatly different as you might expect from comparing just second-class slippage of about $20 million and the slippage of one-eighth of a cent out of four-eighths of a cent on the third class.

Mr. CONTE. The total rate bill would show a difference of about $25 million from what Post Office Department recommended and Congress cut it down?

Mr. GRONOUSKI. The point he is making that Congress did enact some rate increases not recommended by the Department.

Mr. CONTE. I understand. But the overall total is $25 million less in revenue than you would have received if Congress had passed what the Post Office Department had recommended?

Mr. NICHOLSON. Yes, sir.

DAYTON POST OFFICE

Mr. CONTE. Back to the Schenck matter, I have had an opportunity to read the newspaper clippings while he was cross examining. I do want to show for the record, not that you need any defense, but the Post Office Department in Washington, D.C., did state that they are going to build this post office in Dayton and that there will be no delay. I imagine you are still going to stand by that.

Mr. GRONOUSKI. We have a 1964 date on it. We have checked that.

Mr. PILLION. Is it under construction?

Mr. NICHOLSON. We are advertising for the bids.

Mr. ABELL. I don't know where you got that figure but that is an old schedule.

Mr. CONTE. Do you have a ballpark estimate?

Mr. ABELL. We have a site but the engineering work is not nearly completed and we are not in a position to begin construction by August of this year.

Mr. CONTE. Do you think you will start sometime in 1964?

Mr. ABELL. I would say sometime in fiscal year 1965 we would start construction.

Mr. CONTE. That would be calendar year 1964.

Mr. GRONOUSKI. Between July 1, 1964, and June 30, 1965.

Mr. CONTE. I did find in these clippings, though, and I can understand why the Congressman would become upset, the postmaster in Dayton stated and I quote,

> What we need in Washington is people who make news, not just reports; it appears if our own Congressman had used a little influence we would have had this further along.

I certainly can understand why Mr. Schenck got his blood pressure up. I think I would have brought him in under the Hatch Act if a postmaster in my district used that kind of language.

DATA PROCESSING CENTER CONSOLIDATIONS

Mr. Postmaster General, as you know, we have about 40,000 postal employees in New England and all of them seem to be dependent on the data processing center for their biweekly salary checks, their leave and retirement accounts.

How can you give them as good service out of New York as they now get out of Boston?

Mr. GRONOUSKI. No question about it, we will give them the same service. There won't be any difference in the date of receipt of the paycheck out of New York as out of Boston.

Mr. CONTE. Mr. Postmaster General, didn't you already install an IBM computer in Boston, the same model 1401, that you have in New York?

Mr. GRONOUSKI. I don't believe it was completely installed. We had one delivered in Boston before the decision was made and that has been transferred.

Mr. CONTE. You have taken that computer out of Boston?

Mr. REILLY. It has been moved physically.

It had not been installed and in operation. It had just been uncrated and was in the process of being installed.

Mr. CONTE. How much did it cost to move it?

Mr. REILLY. The IBM Corp. hauled it in and out. It was a cost of $19,786 to prepare the site.

Mr. CONTE. This is lost now by this transfer?

Mr. REILLY. Yes, sir.

Mr. CONTE. Was there any other cost involved in this movement or the installation?

Mr. GRONOUSKI. Did we have to pay some greater costs—what about freight?

Mr. REILLY. We have not received any bills. It couldn't be very much. It is only from Endicott, N.Y., to Boston.

Mr. CONTE. Is that where you are going to move it to?

Mr. REILLY. That is the IBM factory. The round trip freight bill between Endicott and Boston would be about as small a freight bill as you could get. It is quite a short distance.

Mr. CONTE. I note, General, you are claiming a saving of $400,000. How did you arrive at this figure?

Mr. GRONOUSKI. What figure is that?

Mr. CONTE. $400,000 by moving the computer center from Boston to New York or is this the overall saving for this year?

Mr. GRONOUSKI. We have estimated the overall saving for this year at $500,000 and for the next year and thereafter about $4 million a year.

Mr. CONTE. How much do you plan to save by moving from Boston to New York?

Mr. REILLY. About a half of a million dollars.

Mr. CONTE. Could you give me a breakdown on how you arrived at that figure?

Mr. GRONOUSKI. On the detailed breakdown I would like Mr. Reilly, who worked the detail on it, or Mr. Thomason to speak.

Mr. REILLY. Basically, this is a saving in the New York-Boston operation of approximately 70 positions at $7,000 a position. It multiplies to $490,000 after this consolidation has had a chance to take its effect. This will not be immediately.

It is not going to happen overnight. We will be starting to phase this conversion in August and it will take some months to complete.

At the conclusion of the conversion activity including placing the people, the annual savings will be about a half million dollars.

Mr. CONTE. You plan to save about 70 jobs from the Boston and New York office?

Mr. REILLY. Combined, yes, sir, not just out of Boston but the combined operation.

Mr. CONTE. Mr. Postmaster General, we in the Congress have to be concerned with the welfare of Federal employees, many of whom live in our districts and many of whom give good service to our constitutents.

This move may mean that a good many career employees will lose their jobs. How many of these 70 employees he speaks about will come from the Boston office?

Mr. GRONOUSKI. Let me make a couple of observations. I am also very concerned with personnel involved. I think anybody who is in a position of management who is worth his salt is concerned with the people involved simply because they are people. On the other hand, we have to concern ourselves in any management operation with economical operation of the plant and we have to concern ourselves with ultimately having the best product on the operation that we can get.

We think that the consolidation program both is economical in terms of dollars in the long run and, secondly, will give us a better product in the long run.

Now, with respect to the particular employees involved, in the first place there is a flat commitment that I have made that each employee of the post office will be offered a job, each employee who is displaced.

Some of these offers may very well be in New York, particularly of the higher level people who can fill supervisory positions and others in the New York office.

The New York office will be expanded by about 60 people as a result of this consolidation. Whether a person from Boston or from New York fills the new job created through the consolidation will depend entirely on the rules and procedures set up by the Civil Service Commission and the law regarding the reduction-in-force procedures; veterans' preferences are involved, length of service is involved within any given class of job or type of job, and also the qualifications of the personnel involved.

So, the three factors are given consideration according to pretty well established procedures. Now, what we have, in effect, is a New York office with, I think, 240 people and a Boston office with 130 people, and we have a total figure of about 300 jobs available in the New York office.

Both the Boston and the New York employees will have equal competitive rights for the 300 jobs that will be available in New York.

They will be offered jobs commensurate with their qualifications and commensurate with their veterans' preference, length of service on an even competitive basis between the two offices.

We are also exhibiting, in my judgment, as great concern as one can exhibit for the welfare of the employees. We are interviewing employees in the Boston office, in all the offices, in the next couple of weeks.

We are discussing with them just what their situation is in terms of moving, and so on. We are evaluating their qualifications. We are bringing in other agencies of Government such as the Labor Department and the Civil Service Commission looking to other agencies of Government and other private employers for available jobs in the Boston area and elsewhere for the qualifications that these people possess.

We are very hopeful and we certainly are going to bend every effort to find comparable jobs for every person who is displaced as a result of this consolidation. We put this at top priority.

I have made this very clear to the regional office personnel people. We have had meetings with our own personnel people.

We have had meetings with all the employee organization groups. We have made it very clear to them just what policy we are going to pursue here. We are concerned with the human rights of individuals in this regard.

Mr. CONTE. I am gratified to hear that but I know that none of these employees comes from my congressional district but I sit in on a lot of these meetings with the Massachusetts congressional districts and when they close an Army installation or when they cut down on the shipyards we are told by the Secretary of Defense or the Secretary of the Navy this is what they are doing; they are going to lose these employees; they are going to lose these jobs; they are making every effort with Civil Service to find other positions for them.

There are not that many Federal jobs in and around Boston or in Massachusetts to take care of them. I hope that every consideration will be given to all of these people who have worked for many, many years in the Post Office Department, have been dedicated and loyal employees, and now may find themselves out on the street.

I wonder if you know, General, that this committee handles the Internal Revenue budget and they do all of the data processing for Internal Revenue for the eastern seaboard for New York and New England right in Lawrence, right outside of Boston?

They find that to be the most convenient place in the eastern seaboard to handle the data processing.

I am wondering why the Post Office Department has taken a different view and concept than Internal Revenue?

Mind you, Internal Revenue is a much larger operation when it comes to data processing. They handle all the income tax returns for the State of New York and all of New England.

Mr. GRONOUSKI. I used to be a tax expert but I have switched to Post Office. I can't vouch for the structure and the organization of the Internal Revenue Service.

I am sure Mr. Caplin and his staff had a good reason for making the decision they made. We think we have good reasons for making the decision we have made.

Mr. CONTE. I realize this comes under your prerogative and it is your prerogative to make the decision.

Mr. GRONOUSKI. We made it in terms of the whole country. We didn't pick any particular district or area. We looked at the whole country in terms of 15 regional offices.

We concluded after study that the six regional offices were desirable for the postal data processing purpose and the sites we selected we think are most effective for our operation. This is a matter of management judgment. I could be wrong but I think I am right.

Mr. CONTE. I know. I have received a good deal of mail on this. I have heard from about every postmaster in Massachusetts. They work for you and I am sure they are very loyal, but they also feel, in their opinion, they can get better service out of Boston, that they have no complaints with the service they have received in Boston.

They are quite shook up about this move. It has not only shaken up the postmasters in the different post offices but the whole business community.

Mr. GRONOUSKI. Well, I think they are wrong. That is my judgment.

Mr. CONTE. Well, time will tell. Now, there has been a recommendation made here in this committee earlier that one of the members would like to see regional offices consolidated with the six computing data processing offices, and you spoke that you always have an open mind but you have no idea of doing that.

Mr. GRONOUSKI. That is right.

Mr. CONTE. I am pleased to hear that and I want you to know that I concur wholeheartedly with you. We can agree on something today; I hope you never take that regional office out of Boston and ship it up to New York. I tell you all hell will break loose if that happens.

Mr. GRONOUSKI. I can appreciate that.

Mr. Chairman, I have a statement which we have distributed to our 15 regional offices and elsewhere on the personnel policy that we have adopted with respect to the handling of personnel in this consolidation. I wonder if you might want that inserted in the record.

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

(The statement referred to follows:)

PERSONNEL POLICY GOVERNING THE ESTABLISHMENT OF THE POSTAL DATA CENTERS

I. GENERAL PERSONNEL POLICY

The Post Office Department has determined, with the concurrence of the Civil Service Commission, that the consolidation of the regional office data processing activity into the centers is a transfer of functions, as that term is used in the Veterans' Preference Act. Consequently, the Commission's regulations on transfer of functions and reduction in force will be the framework within which individual personnel actions will be taken. This will insure the protection of the rights of each affected employee.

Essentially, it means that the positions created in the six centers will first be offered, under the CSC regulations, to those employees whose function is transferred to a center, to the extent that such positions are available. Employees whose functions transfer will not have bumping rights in the regional office.

The Department has also determined that it will go beyond the Civil Service Commission requirement in that each affected career employee will receive one offer of employment within the postal service, either in the center to which their function is transferring or in some other postal installation. It is the intention of the Department to make every reasonable effort to protect affected employees from loss of level and salary.

Retraining of affected employees to meet known postal skills requirements will be accomplished to the extent feasible. Employees are assured of a maximum effort in outplacement assistance should this become necessary.

II. HOW THE CENTER POSITIONS WILL BE FILLED

Listed below is a general description of the procedures which will be used to determine employee rights:

A. Under the CSC rules, all position and their incumbents whose functions are transferred to the center, will be assigned to the center.

B. Competitive levels [i.e., positions in the same grade (level) and with the same qualification requirements] will be set up:

1. This means that the transferred positions will be grouped by level and interchangeability of their skills and ability.

2. Employees holding positions in each competitive level will be listed according to veterans' preference, civil service status, and total Government service (including military service).

C. Employees will be assigned to available positions in the center based on their standing on the list for each competitive level. Where there are more employees available than positions for a competitive level, the excess employees will be offered employment as discussed below.

III. EMPLOYMENT OFFERS

Each employee will be given one offer in the Postal Establishment. The offer will be to a position in the center to the extent positions are available. Where an offer to a position in the center cannot be made, the offer could be to a vacancy in the employee's own regional office, in another regional office, in another postal data center, or in a post office. Those employees who decline the offer made to them in the Postal Establishment will be separated. However, in these and in similarly affected cases, personnel officials will make every effort possible to obtain employment for affected employees outside the Postal Establishment, either in other Government agencies or in private industry.

IV. CONCLUSION

This, in general terms, is the policy which will govern personnel actions in the consolidations. How this policy will affect each individual cannot be determined until the specifics of each move have been scheduled and certain other preliminary work is performed. Other matters such as the application of salary protection, retirement, possible assignments to other positions, etc., will be discussed with each individual employee when the facts in each case are known.

Mr. CONTE. I have no further questions.

Mr. PILLION. Mr. Gronouski, in the reduction of your automatic data processing centers you reduced from 14 to 6?

Mr. GRONOUSKI. Yes.

AUTOMATIC DATA PROCESSING EQUIPMENT

Mr. PILLION. Do you have any extra equipment, left over equipment, by reason of this consolidation?

Mr. GRONOUSKI. I will have to ask my equipment man over here, Mr. Reilly, to give us a rundown on that.

Mr. PILLION. There should be some excess equipment.

Mr. REILLY. Mr. Pillion, there are two kinds of equipment involved here. There is punchcard equipment and there is computing equipment. We will have immediately excess punchcard equipment which includes such machines as tabulators, sorters, reproducers, and calculators in the amount of about $300,000.

This equipment has been leased from a corporation, IBM, and this lease will immediately cease and the equipment will be returned to them. There are some other sorters, reproducers, and interpreters which we had purchased and we believe most of these will continue to be used. We did not purchase all the equipment that we have.

We tried to look at the future and see which equipment we would need and which would be surplus to our needs so we didn't purchase all the types of equipment.

We believe most of it we will need. I cannot tell you this time in complete detail but we have purchased some 46 pieces of tabulating equipment, most of which I suspect will be retained.

Now, concerning computers, themselves, the equipment in Boston and Chicago is immediately made excess as soon as the consolidation takes place.

We have actually purchased the equipment in San Francisco and since we have the data-processing center there this will have to be supplemented by another piece of supplementary equipment to service the consolidated operation.

In the other five postal data centers we will, in effect, move the equipment that we had in the other offices so that we have adequate equipment to handle the combined workload.

We are not saying that with the 1401 computer, itself, that we are going to obtain any substantial benefit immediately equipmentwise. Our plans in this regard will be that during the next 16 months, we will be conducting a complete study as to the long-range equipment needs in these centers. This will tie in with our plans such as the Minneapolis project, the film of which we have available to show you, and we will look to multiple-processing capability in our computing equipment.

At the end of this period we will have in the budget and which we will be prepared to discuss tomorrow, money for purchase of all the equipment that we will have in our data processing center.

Mr. PILLION. How many computers do you have now, all types?

Mr. REILLY. We have nine magnetic tape 1401 computers and two 650 punchcard computers.

Mr. PILLION. How much will you need when your consolidation is over with?

Mr. REILLY. We will need six 1401's with 16K memories and tied to them will be what we call an auxiliary system with a very small memory limited to output processing.

Mr. PILLION. How much will you have in excess?

Mr. REILLY. The equipment we will have in excess will be the 650's.

Mr. PILLION. What will you do with those?

Mr. REILLY. Those we will return to IBM. Those are not owned. Those are leased.

Mr. PILLION. How many of your computers are on lease?

Mr. REILLY. We have purchased one system outright and we lease the rest of them.

PURCHASE OF COMPUTING EQUIPMENT

Mr. PILLION. This committee has been in the forefront and most insistent upon the purchase of computing equipment instead of leasing.

We have found consistently that the purchase prices pay off anywhere over a period of 3½ to 5 or 6 years.

Why do you have your computers on a lease basis instead of an outright purchase?

Mr. REILLY. We have just installed these machines, sir, and our current plans are that beginning in January 1966 these will be no longer used.

Therefore, now we are conducting a cost study, a decision to be made within the next 30 days, to determine on the basis of between now and January of 1966 will it be in the best interest of the Government to purchase this equipment or to continue leasing since we will have it for such a short period of time.

Mr. PILLION. Will it require a study to make this kind of decision when any number of departments and the General Accounting Office have already made these studies time after time, and have found that the purchasing is much more advantageous to the U.S. Government than leasing?

Mr. REILLY. If you are going to keep it for a longer period of time that is correct. We have no intention to keep it a long period of time.

Mr. PILLION. If you keep it 2 or 3 years you are better off?

Mr. REILLY. We are going to have to go into the cost studies that apply to the Post Office Department. Many of these studies, these GAO studies, if you recall, refer to the 7000 series of equipment; particularly the IBM 7080's and 7090's where amortization catches up extremely fast. With the smaller equipment, the General Accounting Office study itself shows they do not pay for themselves until 4 years and 9 months. That is the earliest they pay for themselves.

Mr. PILLION. Is that—are they all IBM machines?

Mr. REILLY. Yes, sir. These were obtained under a competitive procedure by which we went out with job specifications and the manufacturers replied.

Mr. PILLION. Did you obtain these through General Services?

Mr. REILLY. We went out with job specifications and had people compare our jobs with their equipment.

Mr. PILLION. Now, your punchcard equipment, that first category you talked about, these are on a lease basis?

Mr. REILLY. No, sir. We purchase those. The punchcard equipment, 46 pieces, were purchased.

Mr. GRONOUSKI. The card computers are leased.

Mr. PILLION. Some parts of it are going to be returned because they are on a lease basis.

Mr. REILLY. Yes, sir, because we saw at the time of the feasibility study that we would not need them beyond a short period of time.

They would be absolutely surplus and they would not serve anybody's technological need.

Mr. PILLION. We have found some of the departments have taken the auxiliary equipment and leased them also on the theory that that is cheaper. We in this committee have more or less concluded that the purchase of those would also be beneficial to the Government as against renting them even though the pay period may be longer than the 3 or 4 years.

Mr. REILLY. Yes, sir; on the tabulating equipment we have purchased, it is 5 years.

Mr. PILLION. So, I wonder if you would not check into that and give it a study all the way including auxiliary equipment with the idea of purchasing this rather than leasing it.

Mr. GRONOUSKI. We have purchased auxiliary equipment. One of the problems, Mr. Pillion, that you get in these high-power computer fields is the rapid change in technology here.

What machine was good yesterday is outmoded today. Unless you have an operation where you can reasonably expect that particular machine that you have in mind to render economical service to the break-even point life of it, in my judgment, it does not pay to purchase it.

If you have the kind of operation where through the break-even period it does——

Mr. PILLION. Yes and no, Mr. Gronouski, because a computer is a computer. The memories may be larger or greater but we find that many of them are able to handle the work with the same equipment over a period of 6, 7, 8, or 10 years.

I can see where in Defense where you have new space and military problems, where you might find that situation. There are considerations both ways.

MINNEAPOLIS POST OFFICE COMPUTERS

Mr. GRONOUSKI. Now, we have this film that we might be able to show you this afternoon which shows the kind of operation we have in Minneapolis just as an experimental unit where we use the computers right in the post office.

Now, if this works out—and it is admitted at this point we are testing it—then we will be doing a lot of our data collecting in the post office by computer rather than manually.

We will be feeding this into these computer centers. If this works out we are going to need an awful lot bigger computer than if it doesn't work out.

So, in this period of fluctuation and transition you have to be very careful not to lock yourself in where you can't make an economical change, because you are locked in by your equipment.

PARCEL POST

Mr. PILLION. On this parcel post business, how much is your deficit?

Mr. GRONOUSKI. $69 million.

Mr. PILLION. After the $77 million increase you will still have the $69 million?

Mr. GRONOUSKI. That is right.

Mr. PILLION. Postmaster Day had the theory that the ratemaking on this ought to come back to Congress. Of course, that would mean that you would have this educational or public service subsidy for parcel post. This action would take the responsibility off your shoulders and put it on the Congress. I think this is completely wrong because you would be running into a big subsidy situation because Congress acts slowly, it can't catch up with cost as easily as the Department can catch up with cost in its applications before the ratemaking body.

So, that I hope that in your study you will give consideration to retaining that system whereby you may increase cost because you have a competitive situation there.

This is the only portion of your Post Office that is competitive. But don't you agree, Mr. Postmaster, that due to the competition, the crux of your problem in parcel post is that you be given more flexibility to compete with your competitors as to size and weight of your packages?

Mr. GRONOUSKI. Certainly if you are going to operate it as a business you should have a pretty good latitude in all these matters.

Mr. PILLION. That is right, and you are a little bit worse off even if you were given full latitude because there are certain areas where you have to deliver and these other people don't. So that the crux of the matter is giving you more flexibility through your weights and sizes in parcel post and then come in with your—with whatever ratemaking that is needed to come within your 4 percent.

Mr. GRONOUSKI. Certainly the more it is splintered, the more difficult job it is.

Mr. PILLION. That is right.

Mr. GRONOUSKI. The more authority is splintered the more difficult job it is to run it as a business.

Mr. PILLION. And if you have competition, then you ought to be given the same latitude and the same flexibility that these business people have.

Mr. GRONOUSKI. It would make it much easier to run your business.

Mr. PILLION. It would and be more successful for the taxpayers of the United States.

Mr. GRONOUSKI. I would agree.

POSTAL SAVINGS

Mr. PILLION. Now, I have here a report of the Comptroller General concerning your postal deposits. After taking into consideration your revenues and your profits is this a profitable business right now?

Mr. GRONOUSKI. You are talking about the Postal Savings System?

Mr. PILLION. Yes.

Mr. GRONOUSKI. Yes. I think at this point it still is. There is a good likelihood in the next 3 or 4 years it will not be profitable. At this point in time it still is. It is coming together.

Mr. PILLION. It is very close, is it not, right now whether it is a loss or profit?

Mr. GRONOUSKI. About $300,000 profit estimated for 1964.

Mr. PILLION. The Comptroller General states here there were an awful lot of these accounts, some of them as low as $1 and $2, that are unclaimed over a period of 20 years and they recommended that some law be passed to escheat those accounts. Have you recommended anything like that to a legislative body yet?

Mr. GRONOUSKI. No; it has not come across my desk.

Mr. NICHOLSON. There has been legislation proposed, Mr. Pillion. In our reply to that legislation about a year ago we did attach a draft of suggested legislation which, in our opinion, would improve the proposed legislation in the event the Congress wished to consider it. And this did include the problem of escheat.

Mr. PILLION. They also mildly criticized your criteria for the discontinuance of depository offices. They claimed that the number of transactions ought to be the criteria and evidently you haven't accepted that as yet. From what you can see it refers to the letter of January 10, 1963, that the Department does not agree that inactivity should be a criteria for factors for discontinuance.

Should it not be?

Mr. NICHOLSON. We do have a difference of opinion. A number of years ago, 5 or 6 years ago, we changed our method of paying interest so as on the one hand to give a more favorable return to the depositor by giving him compound interest but on the other hand giving him an incentive not to withdraw his interest as it was deposited in his account.

In the event he withdrew the interest he, in effect, lost 1 month of interest earning.

The purpose of this was to diminish the number of window transactions involved in collecting interest. It had the satisfactory result of reducing transactions so that the inactivity is itself really a measure of a successful policy of conserving cost but the lack of transactions

does not indicate the lack of need for service at those points of deposit because there are an adequate number of depositors and adequate funds on deposit to justify making that point of deposit.

Mr. PILLION. Now, I am unable to keep up with all the programs of the Post Office Department.

Mr. GRONOUSKI. I am having a little difficulty, myself.

ZIP CODE

Mr. PILLION. You have zip code which is an extension, I suppose, of the city zoning idea.

Mr. GRONOUSKI. It is more than that. It is substantially more than that in that one of the things that is a fact of life in the postal business is that 30 years ago we had 10,000 trains. Now we have a little over 1,200 trains. Whether you invented zip code or something like that you would have to invent some kind of sectional center system for distributing mail. This is part and parcel of it. Secondly, we are engaged in a program of mechanizing post offices, the major post offices, and we expect in a reasonably short length of time, 3 or 4 years certainly, to have an optical scanner which reads zip coded mail and sorts it automatically.

This, again, is part and parcel of the zip code program. It is quite a bit beyond the zoning concept.

Mr. PILLION. A couple of years ago we spent one afternoon after another listening to metropolitan area mail. Now you have Pomsip. You have Nims. You have vertical. I can't keep up with the programs. You have the A–B–C–D stuff.

I am just wondering, Mr. Postmaster, whether or not it would be better management policy to perhaps take a few of these programs and refine them and come to a real profitable end result rather than have them just introduced and sometimes on a scattered basis.

I am just wondering if it might not be worth giving some thought to fewer programs with emphasis on a follow through to the efficiencies that you target for.

Mr. GRONOUSKI. Let me comment on these programs you named. I think they all fit together on all the programs. I have already made comment on the zip code program, the need for mechanization and the tremendous growth in volume; I think it is essential and in view of the changing transportation patterns, I think it is essential for the long-term program of the Post Office Department to handle the kinds of volumes that inevitably are going to come to our door.

I don't like these alphabets any more than you do but I have gotten used to them since I have come to Washington—we didn't use them in Wisconsin.

VERTICAL IMPROVED MAIL (VIM)

When you come to a program, these various programs like the vertical improved mail, Vim, when you come to the vertical mailing proposition, this is pretty vital. There is a substantial number of high-rise buildings going up, 40 some here.

It saves us and this saves the customer. I mentioned on another occasion the fact that a builder from Dallas came in and indicated he is putting $500,000 of his own money into his high-rise buildings

to get this vertical improved mailing system so that his tenants will have fast mail.

This helps him in renting his offices; it helps us in that the postman does not have to go up to every office in the building. He can just go in the basement and mail it.

POMSIP PROGRAM

On the Pomsip program, it is an alphabetizing of a management program, a continuing management program whereby we take a crew of topnotch postal people with long experience into a post office that has indicated it is having trouble.

We review each of the processes. We give advice and help and management analysis which permits the post office in that particular community to operate more efficiently.

Mr. PILLION. Wasn't the inspector who was doing that sort of reporting back to you as to management deficiencies? Wasn't that part of the inspector's responsibility?

Mr. GRONOUSKI. You are talking about in the past?

Mr. PILLION. Yes. I thought they did a pretty good job.

Mr. GRONOUSKI. I haven't been in the Post Office long enough to know just exactly what was done. I am sure knowing Mr. Montague and his staff they did do a good job. We are not wasting our inspectors, I assure you that. They are working very diligently and are doing a good job. But the point is that whether it is inspectors or some other people, we are taking experienced postal people, some of our best people. We are going into our post offices that are not operating at the proper efficiency level and we are helping them to get up to that efficiency.

A B C D PROGRAM

The A B C D program, again one of our problems, one of the real problems is distributing the workload through the day so that you don't have these peaks, so you don't have to bring people in or where machinery is standing idle.

We want to level off our flow. The A B C D program has contributed greatly to the leveling of that flow because it encourages mailing before 11 a.m. so that they can get it out before 3 p.m.

Mr. PILLION. Are you able to work these out together?

Mr. GRONOUSKI. These are an integrated program and they are fundamental management programs. If you didn't call them by the alphabet you would call them management.

I am not sure I like all these alphabet call names but the idea has to be there.

MAGNETIC AND ZIP CODE SCANNERS

Mr. PILLION. Isn't there a difference between a magnetic scanner and your zip code scanner?

Mr. GRONOUSKI. Let me ask Ed Harriman who is a specialist in this field.

Mr. HARRIMAN. Yes, sir, there is. I will give a complete description of that when I testify. But a magnetic scanner is simpler than our zip code scanners.

Mr. GARY. If the gentleman will yield, I have some letters here and questions along that line about the magnetic system. I thought we would go into that when we got to Mr. Harriman.

RESEARCH AND DEVELOPMENT

Mr. PILLION. May I ask a question or two about research and development? How much research and development is there in this year's budget?

Mr. GRONOUSKI. $13 million.

Mr. PILLION. That has been pretty much at the same level?

Mr. GRONOUSKI. About the same as last year.

Mr. PILLION. Will you please put in the record the number of contracts, with what companies on research and development and what they are researching and developing?

Mr. GRONOUSKI. Can Mr.. Harriman bring that when he appears before the committee?

Mr. PILLION. Yes, and in the past 5 years what they have been researching and developing. I won't go into the question of how much Food Machinery is contributing to this thing because I think I will take it up with Mr. Harriman.

I do want to talk about one more question, about automation as a whole. I have a December 10, 1963, report here from the Washington Star on the Comptroller General's report, stating that automation installed in at least three large post offices throughout the country resulted in sharply increased cost to the Post Office Department and the report says that the network of conveyors installed as part of a $30 million program to speed the flow of mail at various postal installations actually increased costs in Philadelphia by $782,000 a year, increased costs in Detroit by $624,000, decreased labor productivity in Philadelphia, increased operating cost in Los Angeles, and so on.

Now, we are very fearful that you have been overmechanizing and you have been mechanizing without getting a net profitable operation. Mr. Harriman was most helpful in giving the information on the Buffalo post office but here is a good example of what happened, Mr. Postmaster General.

Any production in private industry depends on the assembly line and what your production layout is, then you build your housing over it.

In Buffalo you built your building first. Then you projected a $2.5 million mechanization program that you canceled. Then you came back with a $5 million mechanization.

In other words, you built your house first and then you put your mechanization within it to fit into a building.

Now, certainly that is not the way you operate in private industry. You determine how much space you need for machines, how much space you need for your assembly line, for storage, for receiving and shipping and then build your housing around it.

Now, are you slowing up your mechanization to a point where you can find real savings and only mechanize where you do find savings?

Four years ago the Food Machinery people were in to see me, telling me what wonderful sorters they were going to design. What have

they contributed for all this money toward increasing the efficiency in the post office? I don't know of anything. You still have the old operation of facers and cancelers, sorters and one or two other basic machines, period.

The others are either just a chute or a conveyor of some kind. I am just wondering why we are spending all this money and finding that it is costing us tremendous outlays of capital and then we don't reduce employment. We don't really automate, it is a loss all the way around?

Mr. GRONOUSKI. In the first place—I want to make the statement and Mr. Harriman will go into overall detail when he appears—in the first place let me make the observation that I concur in everything you have said with regard to the planning and the structuring of the mechanized post office and we are not planning any post office that is not an integrated plan where the mechanization is—before we ever get it off the drawing board, that the mechanization is designed and the plan for mechanization is fitted right in with the design and plan for the building.

This is the only logical way to operate in this area and this is how we are operating in this area.

Secondly, I think it should be pointed out that when you convert from a, as we have done recently in Houston and in Detroit, from a manual post office to a pretty highly mechanized post office that you are going to have some additional costs, in the period of transition that are inevitable.

You are going to have to train hundreds of thousands of employees and this is no easy chore. You have to train them into the new schemes, the new methodology and the handling of the machines. For a period of time there will inevitably be a higher cost.

I would be very disturbed if after the shakedown period the cost did not go down but I am confident they will go down. On the other hand, I can expect only that there will be additional cost during the period of transition.

MIAMI PARCEL POST OPERATION

Mr. GARY. How is the new parcel post system that we saw in operation in Miami not long ago, working?

Mr. HARRIMAN. It is working very fine. Actually, we processed over the primary system last year many millions of parcels. Starting before Christmas this year we had the automatic feed from primary through the key positions on the secondary lines. During the period December 1 through 12, 1963, 1.32 million parcels were primaried and 403,000 parcels were secondaried on the system. Now this is in terms of direct sort and with the lowest parcel damage of any parcel system in the country less than 1 for every 2,000 parcels primaried. This is the type of a problem that you asked us to work on last year. The transition was very smooth.

Mr. GARY. Have you established any of those systems in other post offices?

Mr. HARRIMAN. We have not as yet. We are in the process this very moment working with our Bureau of Finance and the region on the cost analysis where we determine the return on investment

with this type of system for this volume. This will give us the figures we need to design the new installations.

RICHMOND POST OFFICE

Mr. GARY. You are contemplating a new post office in the city of Richmond?

Mr. HARRIMAN. Yes, sir.

Mr. GARY. Will you install the most modern machinery available for the operation of that office?

Mr. HARRIMAN. That is correct. The Bureau of Operations gives us the volumes by hours within the post office. We will apply this against the criteria for types of equipment and recommend to the local postmaster, the region, all bureaus and offices at the departmental level what we recommend for equipment to handle this volume in this city. We will choose the equipment and make the drawings.

Mr. GRONOUSKI. There is one other thing we will have to take into consideration and that is the anticipated growth in volume in the next 10 years or so.

Mr. GARY. I understand that. What I was getting at was that it looks to me like oftentimes it would be a difficult question to determine whether you go in and tear out the old machinery in a post office and put in new machinery but where you are building new offices it would seem that you would use the very best and most modern equipment that is available.

Mr. HARRIMAN. That is what we are proceeding on. I want to make the point on the mechanization program. I think it is absolutely vital that the Post Office, just as General Motors or any other business, concern themselves with the latest technology and install it where it is economically feasible. On the other hand, and there are some who will argue that you should install a 30,000 letter an hour, facer canceller in a post office that has 5,000 letters a day. This is nonsense. Each case has to be judged on its own merits, its own volume and its own pattern of volume. This is the precise procedure that we are applying in each new postal facility. Some postal facilities will never be mechanized.

PROVIDENCE POST OFFICE

Mr. PILLION. I hope that is so, because this committee has been urging you since Providence to slow down on the theory you are not getting a proper return on your money.

Mr. HARRIMAN. The Providence planning was inadequate.

Mr. GARY. Yes, it was.

Mr. PILLION. But it became a mania to mechanize without looking at the cost figures.

Mr. GARY. That is right, and without looking at the needs. They didn't need an office like that at Providence.

Mr. PILLION. I am pleased you are recognizing it, Mr. Postmaster.

Mr. GARY. That office in some large city might have been worthwhile.

Mr. GRONOUSKI. We could sure use it in New York City.

Mr. GARY. That is the point exactly.

Mr. PILLION. I was just going to get to that. Now, Mr. Postmaster, the same applies with the leasing of post offices instead of purchasing them. Now about the same idea prevails there as prevailed in the computer purchasing—I mean leasing instead of purchasing.

Here is a report from the Comptroller General in January of 1963 in which they reviewed 54 postal facilities having 30-year leases and some of them 20-year leases. Here is a conclusion:

> Our comparison showed that the 54 facilities that were leased for 30 years, the cost of Government-ownership would be $140,100,000 less than the cost of leasing if they had been purchased.

Now the same thing is developed here in a report 9 months later by the Comptroller General, September of 1963, where they further studied 91 small leased post offices and more or less came to the same conclusion. You have a system in the Post Office whereby you lease and then in the lease you have an option to purchase. Now if you have an option to purchase back naturally your lease costs are going to be higher, isn't that true? Because if you had no option, why, the lease cost would be less.

Mr. GRONOUSKI. I presume there is some cost there.

Mr. PILLION. If you have an option it is costing us. So you insert those, but you have no program to exercise those option rights. Do you have any money in this budget for the exercise of the purchase by the Federal Government under any option for any post offices?

Mr. GRONOUSKI. No. It is a little premature because 1967 would be the first year.

Mr. PILLION. Will you give study to this situation, either cut out your option to purchase or develop a program whereby we can purchase these buildings if they become physically or economically advantageous?

Mr. GRONOUSKI. Congressman Pillion, I am very alert to this whole question of option. The Budget Bureau as well as the GAO has looked at it and I am in the process of looking at it. I intend to come up with some recommendations for the next budget period. I think there is some serious doubt on the very large buildings, certainly, to operate on a lease basis. On the other hand, there are some kinds of buildings——

Mr. PILLION. I agree, some small ones were those that could be built cheaply.

Mr. GRONOUSKI. And multipurpose buildings are a possibility where this is an important factor such as we are experimenting with in a bid in New York right now. But I think it is a subject well worth very serious study and an evaluation of what kind of buildings and what kind of leases are advantageous to us to use and what kind are not. My predilection at this point, although I have not had enough time to give it the study I intend to, my predilection at this point is that there should be a variability in this program and that there should be some kind of buildings and some situations where there is purchase and some kinds where there is lease. I don't have that nailed down.

Mr. PILLION. I agree with you, but at the same time we don't want to have so much flexibility that we don't have good policy. I think good policy is first and then you get a flexibility within a good policy. Flexibility without policy is the worst.

Mr. GRONOUSKI. I agree.

Mr. PASSMAN. Would you not take into account, Mr. Postmaster General, in these lease-purchases that you are leaving a sizable investment in the hands of private enterprise? They own the land, they construct the building, they have to pay local and State ad valorem taxes, they have to pay insurance, they have to pay for maintenance. You must take those factors into account.

Mr. GRONOUSKI. That is right.

Mr. PILLION. I think those matters should be taken into account.

MILWAUKEE POST OFFICE

Mr. GRONOUSKI. I was looking at the Milwaukee post office with this in mind as part of the evaluation I am making of this. The indications are that when the new post office is built in Milwaukee, if it is built as planned now under the lease, property taxes for Milwaukee will be $600,000 a year. This can't be ignored in the whole calculation. Some who are making these factors are overlooking that.

NEW YORK CITY BUILDING

Mr. PILLION. To get back to the New York City building, this building will be a couple of substories and 4 stories above ground to be used by the post office, plus 34 stories to be leased commercially, one of these high-rise buildings. Actually I assume that the owner, whoever leases to the Federal Government, will depend upon the rental from the Post Office Department as his mainstay in renting the rest of this building.

Now, aren't we getting into a situation where, in effect, we are financing the construction of a building that is primarily a commercial building? How would your option work on that? Would they have an option to buy an office building in New York?

Mr. GRONOUSKI. If that result prevailed on the bids, then we won't build the buildings. My anticipation is just the opposite of that. In the particular building you are talking about which is the FDR station in New York, as proposed, the land value is about $8 million on which the building will be located. This is a highly desirable postal site. We need a post office in that area and land values are very high in that area. We are experimenting. This is the first one of this type that we have proposed. We are experimenting on the ground that it is uneconomical for the Government to pay rent, the rent that is associated with that $8 million piece of property, for four stories of building, that this is an area in a big city, a high-rent district where you have to use the high-rise potential. Now, what we are anticipating is that in order to have this kind of property available to them, that the builder will give us very favorable terms on the post office part in order to have access to that piece of land and the availability of building, that very building there, and if it turns out that their bids attempt to subsidize the high-rise part of the post office, we will say no show. I think we won't find that situation, though.

Mr. PILLION. Actually, as I understand it, you purchased this for about $3 million; it is now worth $8 million. You are going to turn this over for $3 million?

Mr. GRONOUSKI. I have asked for bids on both the $3 million and the $8-million basis. I am unwilling to turn it over for $3 million unless the bid on the $3 million makes it very clear that that is the most profitable way for us to do it.

Mr. PILLION. Five or six reputable Wall Street Journal articles, and other articles, New York Times, talk about some of the difficulties of these high-rise buildings in New York. Is there another way out of this dilemma without getting into a 38-story building? Is it possible that you could find another area suitable for your purpose? Because, after all, this Post Office is a kind of commercial operation and maybe that particular spot isn't absolutely necessary, maybe you can find a cheaper spot somewhere.

Mr. GRONOUSKI. We think we need a post office in that area and that area has some high-priced land. As far as the post office is concerned, we would simply be leasing four floors just as we would lease from anyone else if we rented quarters as the Government often rents buildings. As far as the need for that kind of office space in New York, in that area in New York, every study we have seen, and we discussed this with the city officials and others, indicates that there is a need. If there isn't a need we are not going to get any bids on it because this is private capital, private investment. Unless they can make money on this they are not going to build it. But we think, and I am very optimistic about this, that we are going to get very favorable rentals in those quarters because we are creating a situation where the space above the post office can be used. If this proves wrong and if we get an adverse rental on it we won't sign the contract.

Mr. PILLION. Thank you very much for your patience here. I know that we have thrown many questions at you that maybe you are not completely familiar with because of your being here only 4 months to familiarize yourself with all of the ramifications here.

Mr. PASSMAN. Let me make an observation off the record.

(Discussion off the record.)

EQUIPMENT PURCHASED

Mr. PASSMAN. The Post Office Department buys many different machines, weighing machines, computers, adding machines, and typewriters. Would you say that most of the machines that you purchase are the types for which several manufacturers are building the equivalent, and it is a question of awarding the contract to the low bidder?

Mr. GRONOUSKI. I would say in the vast majority of cases—Ed, do you want to say something on that?

Mr. HARRIMAN. If you are talking about the facilities type?

Mr. PASSMAN. Everything you buy. You buy a tremendous amount of scales of different capacity for your offices. The question is, of all the different machines that you have to buy, whether it is adding machines, typewriters, computers, scales, with large or small springs, do you find in many instances numerous manufacturers do provide the equipment for which you are asking the bid?

Mr. HARRIMAN. Yes.

Mr. PASSMAN. The percentage where they are exclusive would be very small?

Mr. HARRIMAN. Very small, that is correct.

Mr. GRONOUSKI. Actually, on a specific kind of postal equipment, I believe the lowest number was 9 bidders and the highest number was 38 bidders, since I have been in office.

Mr. GARY. You buy a good many of those machines through GSA, do you not?

Mr. HARRIMAN. If there is a Federal or military specification available we use it as a basic document. If there is not, we do prepare post office specifications.

Mr. PASSMAN. You do write the specifications, and you ask the manufacturer to meet those specifications?

Mr. HARRIMAN. Yes, sir.

GAO REPORT ON LOCK BOXES

Mr. PILLION. I might say, Mr. Passman, along those lines I have a report of the Comptroller General of 1936 in which they say——

Mr. GRONOUSKI. What year was that?

Mr. PILLION. 1963, I am sorry.

During fiscal year 1961 and 1962 the Post Office Department purchased about $11.5 million worth of lock boxes. Their review showed that the Post Office Department has not been utilizing the most economical methods of procuring lock boxes. Then it goes on to say that, "We note an overstock of these lock boxes."

Mr. GRONOUSKI. All identical bidders are submitted to the Attorney General for investigation.

Mr. PILLION. Anybody would be a so-and-so fool to come in with that.

Mr. GRONOUSKI. I would like to have Ed Harriman comment on that GAO report.

Mr. HARRIMAN. This comes under the procurement of the Bureau of Facilities. I am aware of the fact that they have received and accepted the recommendations in that report. They are now procuring in larger quantities as recommended in that report. In addition to that O.R. & E. has let a contract which is called value engineering. It is specifically for the purpose of seeing if there is another material with a less ornate front that can be used that would be just as rigid, just as strong, just as safe, and do the job.

Mr. PILLION. Thank you very much.

WORK MEASUREMENT SYSTEM

Mr. GARY. Gentleman, it has been reported in the press recently that you intend to modify and gradually eliminate the postal work measurement system. It has been testified before this committee that the work measurement system saves the Post Office Department large sums of money. As a matter of fact, we were told at one time that it saved a million dollars in one post office in 1 year. What is the situation with respect to that?

Mr. GRONOUSKI. First let me say that you will find I have made no such statement. I have been evaluating the work measurement system as I evaluate anything else. I have had long discussions with them. I have discussed it with employee unions, I have discussed it with postmasters wherever I have been around the country. I have

made no judgment on it at this point. I will keep you fully informed of any judgment I do make but it certainly is incorrect to say that I have come to any judgment on it. I am in the process now of evaluation.

Mr. GARY. Thank you, sir.

I was not passing judgment on the situation, I don't know, we have had testimony on the matter from time to time, but I hope you will study it because there have been a good many complaints against it.

On the other hand, it has been very strongly defended. I don't know what is right but it seems to me that some check of that kind is not out of order.

Mr. GRONOUSKI. I don't know whether it is right, either, at this point. I am looking into the matter very thoroughly because obviously I am not going to do anything that is going to cost us money. I am not going to be in a position this year of having extra dollars to waste. I am looking at it from the point of view of the efficiency of operation of the Post Office. There is some cost involved in the work measurement system, too.

Mr. GARY. Yes; and some postal employees that I have great confidence in have criticized the great amount of paperwork in it. I understand you reduced that to a large extent last time. They were complaining, some of them complained that the supervisors had to spend so much time keeping records and making these reports they didn't have time to do anything else. To that extent it was harmful.

But I understood Mr. Belen to tell us last year that you were cutting down a great deal on the number of reports and that they had made certain changes that they thought would make the system more efficient and at the same time get the necessary results. I am glad to know that you are reviewing it and I think this committee would be interested in knowing what conclusions you have come to when you do reach a conclusion.

Mr. PASSMAN. Do they get the same pay per hour for making those reports as they do for distributing mail, if it is in that category?

Mr. GRONOUSKI. Yes.

Mr. PASSMAN. If a person is doing a creditable job, not ashamed, but proud of his work, why would he object to having certain supervision?

Furthermore, why would they object to filling out certain forms if it comes within the 8-hour workday?

Mr. PILLION. I know that last year I used this figure that I got from the record. Postmaster Day said if they did not have the work measurement system it would cost the Post Office Department at least $100 million a year.

I don't think the question involved here is whether or not we have a work measurement system. The question is what kind of work measurement system, how often, how many times, and that sort of thing.

Mr. GRONOUSKI. The question is how best to supervise employees.

Mr. PILLION. You can't operate without knowing cost.

Mr. GARY. I agree with Mr. Passman thoroughly that there ought to be supervision and you won't have an efficient department unless there is. But what type of supervision you should have I think is an administrative matter. I am perfectly willing to leave that to you.

What I was trying to say was that, not the postal employees themselves but one of the postmasters whom I think was one of the best postmasters in the United States and the Post Office Department thought a great deal of him because they made him a regional director—he has since retired—but he told me that under the system they were working you did have a great deal of paperwork and that it was taking a lot of the time of his supervisors to keep the necessary records and fill out reports, when they should be doing more supervising.

I brought that to the attention of the Postmaster General last year, and I think it has been corrected. I think they reduced the number of reports that had to be filed and said that they could do that and make the work measurement just as effective. That is the only point I am raising. I hope you will review it. I think that there ought to be ample supervision. I think we ought to see to it that the employees do a proper amount of work. As to how it should best be accomplished, I think is a question that might well be studied.

Mr. PILLION. Certainly the gathering of information such as they had at the beginning where they piled up the stuff and nobody did anything about it is useless. You have to have sufficient information to know how to correct and get the best and most efficient operation.

Mr. GARY. Thank you, gentlemen. This has been a very informative and satisfactory hearing.

As had been said here before today, Mr. Postmaster General, we all had a very high regard for your predecessor and I am sure that while we regret his having left, we feel that his mantle has fallen on worthy shoulders and we hope for you a most successful administration. I am sure you will have the wholehearted cooperation of this committee, particularly when you are trying to bring efficiency and economy to the Department.

Mr. GRONOUSKI. Thank you very much, Chairman Gary.

Mr. STEED. I would like to join in what you say and make this observation. The only concern I have is that he makes so much sense it may get him in a lot of trouble around here.

Mr. PILLION. That is sure.

Mr. PASSMAN. I think the sentiments expressed are unanimous.

Mr. GRONOUSKI. Thank you very much, all of you. This has been a most delightful, albeit new experience for me. I have enjoyed every minute of it. I have very much appreciated the courtesy and kindness with which you have raised your questions. I hope I have at least reasonably successfully answered those things you wanted to know.

SUMMARY TABLES

Mr. GARY. We shall insert the summary tables at this point in the record.

(The tables follow:)

Summary of appropriations, fiscal years 1963–65

[In thousands]

Appropriation	1963 (actual)	1964 (estimate)	1965 (estimate)	Increase over 1964
Administration and regional operation	$79,277	$83,500	$86,455	$2,955
Research, development, and engineering	12,000	12,000	13,000	1,000
Operations	3,693,520	3,925,000	4,034,900	109,900
Transportation	594,500	611,000	601,000	−10,000
Facilities	167,000	190,000	205,069	15,069
Plant and equipment	102,627	104,000	90,276	−13,724
Total appropriations	4,648,924	4,925,500	5,030,700	105,200

NOTE.—This table shows the appropriation and supplemental appropriation for 1963 and the appropriation for 1964 as passed by the Congress and estimated by the Post Office Department for 1965. It does not reflect transfers among appropriations.

Obligations, 1963–65

[In thousands]

Appropriation	1963 (actual)	1964 (estimate)	Increase 1964 over 1963		1965 (estimate)	Increase 1965 over 1964	
			Amount	Percent		Amount	Percent
Administration and regional operation	$76,867	$83,007	$6,140	8.0	$86,455	$3,448	4.2
Research, development, and engineering	5,999	18,029	12,030	200.5	13,000	−5,029	−27.9
Operations	3,691,906	3,925,000	233,094	6.3	4,034,900	109,900	2.8
Transportation	580,447	596,000	15,553	2.7	601,000	5,000	.8
Facilities	169,619	195,904	26,285	15.5	205,069	9,165	4.7
Plant and equipment	92,130	104,075	11,945	13.0	90,276	−13,799	−13.3
Total obligations	4,616,968	4,922,015	305,047	6.6	5,030,700	108,685	2.2
Revenue	3,808,610	4,271,000	462,390	12.1	4,480,000	209,000	4.9
New obligational authority	808,358	651,015	−157,343	−19.5	550,700	−100,315	−15.4

NOTE.—This table is based on obligations incurred or estimated and reflects transfers as well as 1964 supplemental appropriation for pay increase. See tables on page S–3 for reconciliation of appropriations to obligations.

Reconciliation of appropriations to obligations

[In thousands of dollars]

Appropriation	Appropriation	Transfers	Unobligated balance	Obligations
Fiscal year 1963 (actual):				
Administration and regional operation	$79,277	−$760	−$1,650	$76,867
Research, development, and engineering	12,000	+115	−6,116	5,999
Operations	3,693,520	+8,112	−9,726	3,691,906
Transportation	594,500	−7,000	−7,053	580,447
Facilities	167,000	+5,504	−2,885	169,619
Plant and equipment	102,627	−6,043	−4,454	92,130
Total	4,648,924	[1]−72	−31,884	4,616,968
Fiscal year 1964 (estimate):				
Administration and regional operation	83,500	−493		83,007
Research, development, and engineering	12,000	+6,029		18,029
Operations	3,925,000			3,925,000
Transportation	611,000	−5,500	−9,500	596,000
Facilities	190,000	+5,904		195,904
Plant and equipment	104,000	+75		104,075
Total	4,925,500	[2]+6,015	−9,500	4,922,015
Fiscal year 1965 (estimate):				
Administration and regional operation	86,455			86,455
Research, development, and engineering	13,000			13,000
Operations	4,034,900			4,034,900
Transportation	601,000			601,000
Facilities	205,069			205,069
Plant and equipment	90,276			90,276
Total	5,030,700			5,030,700

[1] Transfer of $72,500 to General Services Administration for maintenance and custody of Post Office Building, Anchorage, Alaska.

[2] $6,116,000 research, development, and engineering brought forward from 1963, less $101,000 transfer to General Services Administration.

Personnel and analysis of obligations, 1963–65

A. PERSONNEL

Item	1963 (actual) positions	1964 (estimate)				1965 (estimate)			Increase over 1964
		Carryover man-years	Vacancies filled	New positions	Total	Carryover man-years	New positions	Total	
Administration and regional operation	7,541		171	80	7,792		64	7,856	
Research, development, and engineering	232		22	20	274		30	304	
Operations	427,567			6,307	433,874		4,836	438,710	
Facilities	1,389		41		1,430			1,430	
Total permanent positions, end of year	436,729		234	6,407	443,370		4,930	448,300	
MAN-YEARS									
Regular employees	436,436	3,113	126	3,219	442,894	2,571	2,473	447,938	5,044
Overtime	9,455				9,630			9,753	123
Other (hourly rate, temporary employees and extra paid days)	145,614				151,097			150,949	−148
Total average positions	591,505				603,621			608,640	5,019
Average compensation and benefits	$6,125				$6,376			$6,499	

B. ANALYSIS OF OBLIGATIONS

[In thousands]

Appropriation	1963 (actual)	1964 (estimate)	Increase or decrease (−) due to—					
			Pay cost	Vacancies filled	New positions	Mandatory items	Other costs	Total increase
Administration and regional operation	$76,867	$83,007	$2,782	$1,211	$905	$811	$431	$6,140
Research, development, and engineering	5,999	18,029	103	134	116	56	11,621	12,030
Operations	3,691,906	3,925,000	118,704		18,620	27,582	68,188	233,094
Transportation	580,447	596,000					15,553	15,553
Facilities	169,619	195,904	317	134		−56	25,890	26,285
Plant and equipment	92,130	104,075					11,945	11,945
Total obligations	4,616,968	4,922,015	121,906	1,479	19,641	28,393	133,628	305,047
Increase over prior year	285,251	305,047						
Percent increase over prior year	6.6	6.6						

[In thousands]

Appropriation	1965 (estimate)	Increase or decrease (−) due to—					Net total increase	
		Pay cost	New positions	Mandatory items	Carryover costs	Other costs	Amount	Percent
Administration and regional operation	$86,455	$1,402	$186	$651	$1,531	−$322	$3,448	4.2
Research, development, and engineering	13,000	78	163	61	257	−5,588	−5,029	−27.9
Operations	4,034,900	45,761	12,522	29,069	23,838	−1,290	109,900	2.8
Transportation	601,000					5,000	5,000	0.8
Facilities	205,069	110		124	17	8,914	9,165	4.7
Plant and equipment	90,276					−13,799	−13,799	−13.3
Total obligations	5,030,700	47,351	12,871	29,905	25,643	−7,085	108,685	2.2
Increase over prior year	108,685							
Percent increase over prior year	2.2							

Positions and man-years, 1963–65

Appropriation	1963 (actual)			1964 (estimate)			1965 (estimate)								
	Total	Increase		Total	Increase		Regulars	Temporary and hourly rate employees	Overtime	Extra days	New positions	Carryover	Total	Increase	
		Number	Percent		Number	Percent								Number	Percent
POSITIONS															
Administration and regional operation	7,606	−148	−1.9	7,857	251	3.3	7,792	65			64		7,921	64	0.8
Research, development, and engineering	249	24	10.7	291	42	16.9	274	17			30		321	30	10.3
Operations	577,466	−1,184	−.2	583,071	5,605	1.0	433,874	149,197			4,711		587,782	4,711	.8
Facilities	1,389	−55	−3.8	1,430	41	3.0	1,430						1,430		
Total yearend positions	586,710	−1,363	−.2	592,649	5,939	1.0	443,370	149,279			4,805		597,454	4,805	.8
Reimbursable positions	451	64	16.5	451			321	130			−5		446	−5	−1.1
Total positions	587,161	−1,299	−.2	593,100	5,939	1.0	443,691	149,409			4,800		597,900	4,800	.8
MAN-YEARS															
Administration and regional operation	7,692	−24	−.3	7,793	101	1.3	7,655	42	37	28	42	92	7,896	103	1.3
Research, development, and engineering	222	37	20.0	261	39	17.6	251	5	3	1	13	21	294	33	12.6
Operations	582,161	7,282	1.3	594,097	11,936	2.1	433,578	147,184	9,668	2,037	2,257	4,258	598,982	4,885	.8
Facilities	1,430	10	.7	1,470	40	2.8	1,410	4	45	5		4	1,468	−2	−.1
Total man-years	591,505	7,305	1.3	603,621	12,116	2.0	442,894	147,235	9,753	2,071	2,312	4,375	608,640	5,019	.8

Financial and statistical summary, 1963–65

[Dollars in millions]

Item	1963 (actual)	Percent increase	1964 (estimate)	Percent increase	1965 (estimate)	Percent increase
Net appropriation obligations	$4,617	6.6	$4,922	6.6	$5,031	2.2
Net revenue [1]	3,809	9.0	4,271	12.1	4,480	4.9
New obligational authority used	808	−3.5	651	−19.4	551	−15.4
Net change in selected working capital	−38		−105		−76	
Budget expenditures	770	−3.4	546	−29.1	475	−13.0
Adjustment to accrued cost	49		83		77	
Accrued net expense	819	.9	629	−23.2	552	−12.2
Loss on public service	−412		−446		−463	
Revenue deficiency, accrual basis	407	−45.7	183	−55.0	89	−51.4
Volume of mail, pieces (millions)	67,853	2.0	70,231	3.5	72,200	2.8
Special service, transactions (millions)	613	−1.4	608	−0.9	597	−1.8
Employment (total man-years)	591,505	1.3	603,621	2.0	608,640	.8
Positions	587,161	−.2	593,100	1.0	597,900	.8

[1] Includes pending parcel post increases of $23,000,000 in 1964 and $77,000,000 in 1965.

Volume of mail and special services, and postal revenue, for fiscal years 1963, 1964, and 1965

Classification	1963 actual				1964 estimate				1965 estimate			
	Pieces or transactions (thousands)	Postal revenue (thousands)	Percent of increase over 1962		Pieces or transactions (thousands)	Postal revenue (thousands)	Percent of increase over 1963		Pieces or transactions (thousands)	Postal revenue (thousands)	Percent of increase over 1964	
			Units	Revenue			Units	Revenue			Units	Revenue
Domestic mail:												
1st class	35,833,487	$1,824,335	1.42	12.99	36,956,351	$2,127,024	3.13	16.59	38,043,910	$2,209,126	2.94	3.86
Airmail	1,545,349	200,038	.04	8.38	1,603,300	224,472	3.75	12.21	1,658,133	233,788	3.42	4.15
2d class	8,226,713	97,993	1.69	4.13	8,327,902	101,541	1.23	3.62	8,436,165	103,186	1.30	1.62
Controlled circulation publications	196,433	10,182	18.99	16.26	228,844	12,690	16.50	24.63	252,829	13,281	10.48	4.66
3d class	18,407,051	563,292	3.20	10.41	19,382,625	631,069	5.30	12.03	20,010,281	677,641	3.24	7.38
4th class	1,075,850	644,615	5.08	1.64	1,096,291	669,700	1.90	3.89	1,105,829	660,272	.87	−1.41
Penalty and official mail	1,926,852	100,369	2.67	12.96	1,964,040	100,948	1.93	.58	1,991,733	108,296	1.41	7.28
Franked mail	95,439	4,300	−13.98	7.88	103,551	4,730	8.50	10.00	113,906	5,405	10.00	14.27
Free-for-the-blind mail	7,261		21.44		8,000		10.18		8,800		10.00	
Total domestic mail and revenue	67,314,435	3,445,124	2.01	9.74	69,670,904	3,872,174	3.50	12.40	71,621,586	4,010,995	2.80	3.59
Proposed increase in 4th-class mail rates [1]						23,000				77,000		234.78
Total domestic mail and revenue adjusted	67,314,435	3,445,124	2.01	9.74	69,670,904	3,895,174	3.50	13.06	71,621,586	4,087,995	2.80	4.95
International mail (originating):												
Surface mail	306,045	50,124	6.57	3.50	315,655	49,878	3.14	−.49	322,252	52,895	2.09	6.05
Airmail	232,258	64,207	5.82	12.69	243,941	69,021	5.03	7.50	256,162	73,315	5.01	6.22
Mail transit revenue		15,737		3.98		16,000		1.67		16,250		1.56
Total international mail and revenue	538,303	130,068	6.24	7.90	559,596	134,899	3.96	3.71	578,414	142,460	3.36	5.60
Total volume and revenue from mail	67,852,738	3,575,192	2.04	9.68	70,230,500	4,030,073	3.50	12.72	72,200,000	4,230,455	2.80	4.97

Special services:												
Mail-connected special services	367,237	143,778	−.10	2.80	373,081	149,584	1.59	4.04	376,140	158,903	.82	6.23
Money order revenue	243,826	62,142	−3.18	−3.28	232,756	61,424	−4.54	−1.16	218,954	59,903	−5.93	−2.48
Outstanding money orders taken into revenue		1,738		13.52		1,750		.60		1,750		0
Postal savings revenue	2,292	3,782	−14.41	−14.44	1,935	3,362	−15.58	−11.11	1,744	3,017	−9.87	−10.26
Box rents		32,433		3.61		33,839		4.34		34,876		3.06
Total special services	613,355	243,873	−1.41	1.04	607,772	249,959	−.91	2.50	596,838	258,449	−1.80	3.40
Unassignable revenue		7,598		−1.18		7,838		3.16		8,096		3.29
Total revenue from mail and special services		3,826,663		9.06		4,287,870		12.05		4,497,000		4.88
Deduct expenditures not subject to appropriation:												
Judgments		985		209.75		675		−31.47		675		0
Stamp-embossed envelope purchases		8,354		24.24		7,250		−13.22		7,250		0
Indemnities, claims, etc		8,714		16.59		8,945		2.65		9,075		1.45
Total expenditures not subject to appropriations		18,053		24.37		16,870		−6.55		17,000		.77
Total net postal revenue		3,808,610		9.02		4,271,000		12.14		4,480,000		4.89

[1] Proposed effective date Apr. 1, 1964.

Capital program, 1963–65

[Obligations in thousands]

Appropriation	1963 (actual)	1964 (estimate)	Increase, 1964 over 1963		1965 (estimate)	Increase, 1965 over 1964	
			Amount	Percent		Amount	Percent
Administration and regional operation: Equipment	$261		−$261				
Research, development, and engineering	1		−1				
Facilities:							
Leasehold improvements capitalized	1,327	$2,720	1,393	105.0	$1,570	−$1,150	−42.3
Site acquisition	−17	4,500	4,517			−4,500	
Mail equipment shop	4,791	7,923	3,132	65.4	6,696	−1,227	−15.5
Total	6,101	15,143	9,042	148.2	8,266	−6,877	−45.4
Plant and equipment:							
Federal buildings improvement	55,706	43,300	−12,406	−22.3	10,077	−33,223	−76.7
Major mechanization projects	224	12,658	12,434	5,550.9	20,892	8,234	65.0
Vehicle program	19,320	19,436	116	.6	18,911	−525	−2.7
Other equipment	16,880	28,681	11,801	69.9	40,396	11,715	40.8
Total	92,130	104,075	11,945	13.0	90,276	−13,799	−13.3
Total, capital obligations	98,493	119,218	20,725	21.0	98,542	−20,676	−17.3

Statement of revenue and expense

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Revenue:			
Mail and services revenue	3,826,663	4,287,870	4,497,000
Reimbursement for nonpostal services and operating expenses	52,465	57,569	62,600
Total revenue and operating receipts	3,879,128	4,345,439	4,559,600
Operating expenses:			
Payable from postal fund, funded:			
Costs chargeable to appropriations:			
1. Administration and regional operation	77,414	83,427	86,699
2. Research, development, and engineering	10,799	16,070	13,025
3. Operations	3,715,694	3,937,317	4,041,719
4. Transportation	580,447	596,000	601,000
5. Facilities	163,443	180,578	196,600
Total costs chargeable to appropriations	4,547,797	4,813,392	4,939,043
Reimbursable costs:			
1. Administration and regional operation	22	31	32
2. Research, development, and engineering	1		
3. Operations	2,684	2,793	2,829
4. Transportation	48,765	53,795	59,055
5. Facilities	993	950	684
Total reimbursable costs	52,465	57,569	62,600
Other funded costs:			
7. Stamped envelopes	8,354	7,250	7,250
8. Indemnities	8,714	8,945	9,075
9. Judgments	985	675	675
Total other funded costs	18,053	16,870	17,000
Total operating expenses (payable from postal fund, funded)	4,618,315	4,887,831	5,018,643
Other operating expenses (nonfund):			
Depreciation and amortization of fixed assets on books of—			
Post Office Department	46,808	51,000	55,000
General Services Administration	2,153	2,900	3,200
Expendable equipment and other chargeoffs	4,943	5,600	6,100
Building maintenance and custodial services provided by General Services Administration	19,109	21,100	22,500
Unemployment benefits paid by Department of Labor	7,200	6,300	6,400
Total other operating expenses (nonfund)	80,213	86,900	93,200
Total operating expenses	4,698,528	4,974,731	5,111,843
Net operating loss:			
Attributable to public services [1]	−412,000	−446,000	−463,000
Deficiency in postal rates and fees	−407,400	−183,292	−89,243
Net operating loss for year	−819,400	−629,292	−552,243
Adjustment to prior year losses	2,726		
Net loss (−) for the year	−816,674	−629,292	−552,243
Analysis of retained earnings or loss (−):			
Brought forward, start of year			
Loss funded by other agencies	28,462	30,300	32,100
Portion of appropriation applied to losses:			
Current year	790,938	598,992	520,143
Prior years	−2,726		
Carried forward, end of year			

[1] Under the provisions of Public Law 87-793 approved Oct. 11, 1962, costs and losses deemed attributable to public services are not reimbursable to the postal fund as revenue, but are to be determined and excluded for purposes of determining overall revenue objectives. The above estimates for public services are preliminary estimates as the effect of the new law is in process of being computed.

Financial condition—postal fund

[Thousands of dollars]

	1962 actual	1963 actual	1964 estimate	1965 estimate
Fund assets:				
Treasury balance [1]	372,972	420,331	519,215	595,215
Accounts receivable, net [2]	66,676	75,391	72,500	72,500
Advances to General Services Administration for repairs and improvements, and other advances	7,253	7,733	8,000	8,000
Total fund assets	446,901	503,455	599,715	675,715
Unliquidated obligations: [3]				
Accounts payable and other funded liabilities including deferred and undistributed credits	239,350	267,243	348,634	400,634
Undelivered orders	200,551	223,096	244,081	268,081
Total funded obligations	439,901	490,339	592,715	668,715
Equity:				
Withdrawals from U.S. Treasury (including prior year adjustments)	810,622	843,462	644,899	550,700
Unobligated appropriation brought forward			6,116	
Subtotal	810,622	843,462	651,015	550,700
Less:				
Appropriations used, current year	774,577	808,358	651,015	550,700
Appropriations used, prior year adjustments	−838	3,220		
Repayments to U.S. Treasury (current year)	36,883	25,768		
Subtotal	810,622	837,346	651,015	550,700
Unobligated appropriation carried forward		6,116		
Add: Revolving fund—advances to air carriers	7,000	7,000	7,000	7,000
Equity at end of year	7,000	13,116	7,000	7,000
Total postal fund unliquidated obligations and equity	446,901	503,455	599,715	675,715

[1] The increase in cash in U.S. Treasury checking account is due primarily to reported increase in the Department's liability for outstanding money orders. This increase resulted from a change in settlement procedures adopted during fiscal year 1963 for the new prepunched money order forms. The audit of these new-type money orders (now in use at all post offices) is performed by the Treasury Department on their computers at a considerable saving in expense. Under this arrangement however, the Department's funds are not charged until after audit. Previously the Department was charged upon payment of the orders by Federal Reserve and before audit by the Department.

[2] Does not include contingent receivables under contested Civil Aeronautics Board orders in the amounts of $2,800,000 and $7,800,000 at June 30, 1963 and 1962, respectively.

[3] The following liabilities have not been included in any of the 3 statements of financial condition: (1) Postage in the hands of the public which, for practical considerations, is accounted for as revenue when sold; (2) contingent liabilities for pending suits and damage claims of $37,100,000 and $41,400,000 at June 30, 1963 and 1962, respectively, substantial portions of which are expected either to be settled at less than the amount claimed or disallowed; and (3) undetermined amounts payable under long-term leases and for accidents occurring prior to Dec. 2, 1960, which will be funded by the Department of Labor without recourse to the Post Office Department. Accumulated annual leave earned by employees, not included in the liabilities at June 30, 1962, was first reflected in the Department's accounts during the fiscal year 1963.

Postal service resources and unfunded liabilities

[In thousands of dollars]

	1962 (actual)	1963 (actual)	1964 (estimate)	1965 (estimate)
Assets on hand:				
Fixed assets:				
Buildings and other structures [1]	411,394	414,182	428,649	430,649
Equipment [2]	451,412	466,497	497,314	515,350
Total	862,806	880,679	925,963	945,999
Less accumulated depreciation:				
Buildings and other structures	235,258	235,878	246,949	264,469
Equipment	210,047	231,104	242,059	254,133
Total	445,305	466,982	489,008	518,602
Net structures and equipment	417,501	413,697	436,955	427,397
Land [1]	94,603	94,376	96,376	96,376
Deferred charges, net	19,500	20,452	23,452	26,452
Fixed assets under construction and in warehouses [3]	92,671	115,342	125,342	145,342
Net fixed assets	624,275	643,867	682,125	695,567
Sites held for resale to prospective lessors	18,037	17,234	22,609	22,609
Materials and supplies [4]	6,366	6,836	6,836	6,836
Resources on order:				
Research and development	12,082	7,703	9,703	9,703
Fixed assets	177,029	202,140	222,000	246,000
Site costs [5]	8,112	8,875	8,000	8,000
Inventories	3,328	4,378	4,378	4,378
Total resources on order	200,551	223,096	244,081	268,081
Total assets on hand and resources on order	849,229	891,033	955,651	993,093
Unfunded liabilities: [6]				
Accumulated annual leave		199,930	210,030	216,230
Potential payments to employees' compensation fund for accidents after Dec. 1, 1960	10,617	15,995	18,695	19,595
Lease-purchase contracts outstanding	7,270	7,074	6,869	6,654
Total unfunded liabilities	17,887	222,999	235,594	242,479
Government equity in postal service:				
Balance beginning of year	756,578	831,342	668,034	720,057
Accumulated annual leave as of July 1, 1962		−180,447		
Prior year adjustments to assets on hand	20,735	−2,031		
Current year, appropriations used	774,577	808,358	651,015	550,700
Current year, net expense to Government, accrual basis	−811,937	−819,400	−629,292	−552,243
Appropriation for public service	62,700			
Prior year, appropriations used adjustments, net	−838	3,220		
Prior year, revenue and expense adjustments, net	−252	2,726		
Transfers from other agencies, materials and equipment	586	−4,195		
Transfers from other agencies, services	29,193	28,462	30,300	32,100
Balance end of year	831,342	668,034	720,057	750,614
Total unfunded liabilities and equity	849,229	891,033	955,651	993,093

[1] Land and buildings consist principally of properties transferred by the General Services Administration. Amounts are based on General Services Administration records of acquisition cost or appraised value. Buildings also include buildings in service in the amount of $7,700,000, constructed on Government-owned land, being acquired under lease-purchase contracts, for which title has not yet been vested in the Government. The related unfunded liability amounted to $7,100,000 at June 30, 1963.

[2] Revised capitalization criteria applied during fiscal 1963 resulted in some adjustment of the balances previously reported. A substantial part of the property under this caption was placed under accounting control after a physical inventory in fiscal 1960. Prices were determined as a general rule by applying to current prices the current Bureau of Labor Statistics Wholesale Price Index applicable to the estimated period of acquisition. No general physical inventory has since been taken.

[3] Cost of new equipment in warehouses on which no depreciation is being accrued was $4,800,000 and $7,100,000 at June 30, 1963, and 1962 respectively. Fixed assets under construction include some completed projects to be transferred to plant in service, expensed, or transferred to General Services Administration, after engineering analyses and formal acceptance.

[4] Does not include printed forms at supply centers, stocks of stamps and accountable paper, supplies at post offices, and spare parts and materials on hand at post offices for use in maintaining mechanized mail handling equipment which are expensed when ordered. June 30, 1963, balance includes canceling machine parts valued at $792,102. At June 30, 1962, these parts, valued at $892,304, were included with fixed assets under construction.

Footnotes continued on next page.

Footnotes—Continued

[5] Consists of estimated cost of land to be acquired through condemnation proceedings under which the Government had not filed a declaration of taking at the close of the fiscal year. The obligations for all resources on order have been fully funded.

[6] The following liabilities have not been included in any of the three statements of financial condition: (1) postage in the hands of the public which, for practical considerations, is accounted for as revenue when sold, (2) contingent liabilities for pending suits and damage claims of $37,100,000 and $41,400,000 at June 30, 1963, and 1962 respectively, substantial portions of which are expected either to be settled at less than the amount claimed or disallowed, and (3) undetermined amounts payable under long-term leases and for accidents occurring prior to Dec. 2, 1960, which will be funded by the Department of Labor without recourse to the Post Office Department. Accumulated annual leave earned by employees, not included in the liabilities at June 30, 1962, was first reflected in the Department's accounts during the fiscal year 1963.

General Statement

The new obligational authority for 1965 is estimated at $551 million. This is a decrease of $100 million under 1964. The 1965 estimated revenue includes an additional $5 million to be derived from increases in certain special service fees and an additional $77 million from the pending proposed increase in parcel post rates.

In the matter of parcel post rates, a petition has been filed with the Interstate Commerce Commission and it is expected that the determination by the Commission will be sufficiently early for the new rates to be placed into effect about April 1, 1964. Fiscal 1964 estimates include $23 million in additional revenue from this source.

In the area of workload, it is estimated that mail volume in 1965 will approximate 72.2 billion pieces, an increase of 2.8 percent over 1964. This is based on an estimated increase of 1.7 percent in total population and a 3 percent increase in personal income (constant dollar, 1957–59 base) in fiscal year 1965. This is a reduction from the 3.5-percent increase estimated for 1964 primarily because 1964 is a leap year with more workdays than 1963 and 1965.

A study is being made of the fees charged for certain special services. It is planned to increase such fees in fiscal 1965 and at least an additional $5 million should be realized in that year. These increases will probably apply to fees for insurance, special delivery, collection on delivery service, registry, certified mail, and the fees for obtaining return receipts.

Efforts are continuing to extend and improve the ABCD, ZIP, POMSIP, and other programs designed to provide better service at less cost. There follows a brief résumé as to the current status of each:

1. Scheduling and cycling of mail deposits

Emphasis is now being directed toward encouraging mailers to presort their mail, scheduled so that the matter of least importance will not interfere with the more important mail, and cycle the periodic mailings throughout the month.

2. Zone improvement program (ZIP)

Efforts are continuing to publicize the importance of including the five-digit ZIP code as part of the address on all mail. Manufacturers have been invited to develop and produce numeric readers for use in sorting ZIP coded mail.

3. Vertical improved mail service (VIM)

This program is designed to alleviate delivery and collection problems encountered in multioccupant high-rise buildings. Descriptive material on new approaches for solving mail delivery problems in high-rise buildings is being developed and distributed to designers, builders, and owners of future buildings.

4. Accelerated business collection and delivery program (ABCD)

This is to provide same day delivery to central business districts in our cities. At the end of 1963, 129 cities were covered by this program and our goal for June 30, 1964, is 275.

5. Post office management and service improvement program (POMSIP)

This has resulted in procedural, organizational, and personnel changes which have improved service and efficiency through better management performance.

In the area of personnel management, we have, in the implementation of Executive Order 10988, reached certain agreements with the employee representatives that have resulted in raising the morale of the employees. While the majority of these agreements involve working conditions, hours of employment, etc., there are some that involve policy changes that will increase cost for the fiscal year 1965. The annual cost of these agreements will approximate $11

million, which is included in the operations appropriation. Each item is itemized in that part of the submission.

The Department is developing a program in the field of statistics. In fiscal year 1963, the first year of operation of the Office of Statistical Programs, a beginning was made in defining the major gaps in the Department's statistical programs and the areas where improvements in existing programs were most required. In addition, some statistical designs were developed and implemented. These are being extended into 1964 to assist management in controlling costs and improving efficiency. Extensive plans and goals have been made for fiscal year 1965 to further strengthen the statistical programs of the Department and introduce fuller use of the management sciences. The following are examples of the more significant goals and programs: (1) Improve and extend probability sample design for interim estimates of mail volume and revenue by class of mail and service; (2) develop a city delivery service statistical program; (3) design and implement statistical techniques for performance evaluation in the motor vehicle area; (4) design and apply statistical sampling to measure the quality of postal service in terms of average mail delivery time and percent of incorrectly delivered mail; (5) develop a work-sampling technique to estimate the cost of performing truck terminal services; and (6) develop and implement a probability sample design to measure more precisely mail transported by railroads to serve as a basis for payment of transportation costs.

Change in name of Bureau.—Effective September 19, 1963, the title of the Bureau of Transportation was changed to "Bureau of Transportation and International Services" to describe more accurately the functions of that Bureau, particularly for the benefit of foreign postal administrations.

Language change.—The only language change is the deletion of the authority in the administration and regional operation appropriation to obligate not to exceed $75,000 for the expenses of the Universal Postal Union Consultative Committee meeting in 1964. As the 1965 meeting will not be held in the United States, the enabling language will not be needed.

Financing.—Six separate limitations are enacted for the Post Office Department for operation of the postal service and other assigned responsibilities. The limitations apply to the postal fund which is financed by the deposit therein of postal revenues and other receipts and by an appropriation from the general fund of the Treasury for the balance.

Only the appropriation from the general fund to the postal fund (being equal to the excess of obligational authority over revenues and other receipts) is considered new obligational authority for purposes of the Federal budget. Further, only the excess of the Department's disbursements over its receipts (exclusive of the general fund appropriation) is considered as budget expenditures.

The six individual limitations control obligations incurred by the Department and are, therefore, requested and accounted for in terms of obligations. However, the Department's accounting system provides financial data in terms of accrued costs which distinguish between funded operating expense and capital outlay and disclose all resources on hand, unfunded liabilities, and total costs consumed in postal operations regardless of when and how funded. Program and financing schedules are stated in terms of accrued costs reconciled to obligations.

The accrual accounts are now also being used as the basis for measuring the overall revenue objectives of the postal service. These objectives were first expressed in law by the Postal Policy Act of 1958 and were amended by the Postal Service and Federal Employees Salary Act of 1962. The law now provides that postal rates and fees be adjusted as required to produce the amount of revenue approximately equal to the total cost of operating the Postal Establishment less the amount determined to be attributable to the performance of public services (39 U.S.C. 2302(c)(4), as amended).

Following is a summary of fund transactions and estimated revenue objectives:

[In millions of dollars]

	1963 actual	1964 estimate	1965 estimate
Obligations under limitation	4,617	[2] 4,922	5,031
Net revenues	3,809	4,271	4,480
New obligational authority used or requested	808	651	551
Net change in selected working capital and prior year adjustments	−38	−105	−76
Budget expenditures	770	546	475
Conversion to accrued costs	+49	+83	+77
Net expense, accrual basis	819	629	552
Attributable to public services	[1] −412	−446	−463
Deficiency in postal rates and fees	407	183	89

[1] Includes $6,000,000 from research, development, and engineering appropriation, 1963.
[2] Preliminary calculation.

Mr. GARY. We shall recess until 10 o'clock tomorrow morning.

THURSDAY, FEBRUARY 20, 1964.

Mr. GARY. The committee will come to order.

POST OFFICE DEPARTMENT ADVISORY BOARD

General, the Advisory Board submitted a report on mechanization in 1963. For the benefit of the record, would you tell us something about the composition and the purpose of that Advisory Board?

Mr. GRONOUSKI. There is a seven-man Advisory Board, seven plus the Postmaster General and the Deputy Postmaster General, who are also on the Advisory Board appointed by the President. I don't think there is confirmation of that, is there? They were simply appointed by the President.

The Advisory Board is made up of basically business people. I don't have the list of names in front of me.

Mr. GARY. Would you insert a list of the names of the members in the record at this point?

Mr. GRONOUSKI. Yes, sir. We will put the names and some of the background of each of the members but they are presidents of companies and top attorneys and what-have-you on the Board.

(List referred to follows:)

POST OFFICE DEPARTMENT ADVISORY BOARD AND STAFF

Chairman: The Postmaster General.
Vice Chairman: The Deputy Postmaster General.
Acting Chairman: Mr. James Francis Reilly, attorney at law, 1625 K Street NW., Washington, D.C.
Members:
Mr. Charles H. Earl, attorney at law, 1613 Main Street, Little Rock, Ark.
Mr. Fred Gates, treasurer, Pioneer Distributing Co., 1111 Bryant Avenue, North, Minneapolis, Minn.
Mr. Robert MacNeal, The Kenilworth, Alden Park, Philadelphia, Pa.
Dr. Carl Murphy, chairman, board of directors, Afro-American Newspapers, 628 North Eutaw Street, Baltimore, Md.
Hon. Paul J. Perocchi, special justice, Lawrence district court, 316 Essex Street, Lawrence, Mass.
Mr. Kenneth P. Steinreich, 500 Fifth Avenue, New York, N.Y.
Executive secretary: Mr. William H. Snyder, Post Office Department, Washington, D.C.

BIOGRAPHICAL DATA ON THE MEMBERS AND STAFF OF THE POST OFFICE DEPARTMENT ADVISORY BOARD

James Francis Reilly, Washington, D.C., lawyer, and Acting Chairman of the Advisory Board. Mr. Reilly attended Mount Saint Mary's College, Emmitsburg, Md., graduated from Columbus University (now Catholic University) Law School, and was a professor at the latter school. In 1959, Mount Saint Mary's College awarded Mr. Reilly the honorary degree of L.L.D. In public life, Mr. Reilly was at one time Assistant Corporation Counsel for the District of Columbia, Executive Assistant to the Chairman of the Civil Aeronautics Board, member of the Public Utilities Commission for the District of Columbia, and Chairman of the District of Columbia Armory Board. Presently, Mr. Reilly is a member of: Board of Trustees of the Legal Aid Agency for the District of Columbia; Admissions and Grievances Committee of the U.S. District Court for the District of Columbia; American Bar Association; District of Columbia Bar Association; the Barristers; the Counsellors; board of directors of the First National Bank of Vienna, Va.; and advisory board for branches of the Riggs National Bank.

Charles H. Earl, a lawyer and businessman of Little Rock, Ark. He graduated from Hendrix College of Conway, Ark., the University of Arkansas, and Arkansas Law School. In addition to the private practice of law, he was an assistant district attorney and special assistant to the attorney general and also served in the Army Intelligence Corps. He is president of four diversified companies and has extensive oil, gas, and farming interests.

He is a trustee of the American Dental Foundation and director of the C. H. Earl Scholarship, University of Arkansas and the R. D. Earl Scholarship, Hendrix College. He is a member of the Arkansas and American Bar Associations and is licensed to practice before the U.S. Supreme Court.

Fred Gates has been a business and civic leader in the Twin Cities of Minneapolis and St. Paul, Minn., since 1939. For the past 15 years, he has been principal owner and treasurer of the Pioneer Distributing Co.

Among his many public service activities, he has served as Hennepin County chairman of the March of Dimes coin collections for the past 15 years; as Twin City director, coordinating the fundraising drive to support St. Jude Research Hospital in Memphis, Tenn., and a national trustee of the organization; as secretary of the Minnesota Businessmen's Advisory Committee to Minnesota's two U.S. Senators, an organization of more than 250 Minnesota business leaders; as cochairman of the Minnesota fund drive for the Truman Memorial Library; as a lay leader of Christ the King Church in Minneapolis.

Before entering the business field, Mr. Gates worked as a clerk for the Chicago & North Western Railroad, as a millwright in a foundry, and as a mechanic. He has since owned and operated a variety of small businesses.

Robert E. MacNeal, publishing consultant and former president of the Curtis Publishing Co. He was employed by Western Electric Co. in 1921, moving in 1923 to the planning and scheduling division of Curtis, where he became a

director in 1942, president in 1950, and chief executive officer from 1955 until July 1962. He is a director of First Pennsylvania Banking & Trust Co., Western Savings Bank, Food Distribution Center, and Old Philadelphia Development Corp., and for many years served as a director of Brand Names Foundation, Advertising Federation of America, and Magazine Publishers Association.

Carl Murphy, chairman of the board of directors of Afro-American Newspapers. A native of Baltimore, he has degrees from Harvard University, Howard University, Lincoln University of Pennsylvania, and Central State College of Ohio. He started with the Afro-American in 1918.

In 1952 he represented the U.S. Government at the inauguration of the President of Liberia and in 1960 was a presidential elector for the State of Maryland. He is president of the National Newspaper Publishers Association, chairman of the board of Associated Publishers, member of the national board of directors of the NAACP, and is chairman of the legal defense committee for its Baltimore branch. He is also chairman of the board of trustees of Morgan State College.

Paul J. Perocchi is a lawyer and chairman of the Methuen (Mass.) Board of Appeals. He graduated from Suffolk University in 1939 and served in the Air Force for 4 years, starting as an investigator in the Judge Advocate's Office and ending up as a member of a B–24 combat crew. He was elected president of the Lawrence Bar Association in 1956 and was chairman of its grievance committee for 6 years. He has been chairman of the Methuen Board of Appeals since 1953.

He is a member of the board of directors of International Institute, the Italian-American Civic Association, Lawyers Exchange Club, and Italian Tripoli Group.

Kenneth P. Steinreich is a prominent businessman and civic leader in New York City, where he is president of Jacob Ruppert. Mr. Steinreich was in the brewing business for many years in an executive capacity prior to his association with Jacob Ruppert, the 16th largest brewery in the country. He has been president of the company for 7 years and is also a member of the executive board of directors.

Directorships: Ninth Federal Savings & Loan Association; Fifth Avenue Coach Lines, Inc.; Gray Line Tours; Sterling National Bank & Trust Co.; Third Avenue Association (vice president); and trustee, Fox Theatres Corp.

Honorary appointments: Honorary deputy fire chief, New York Fire Department; honorary deputy fire commissioner, New York Fire Department; trustee of the honor emergency fund of the Fire Department of the City of New York; honorary chief, New York State Fire Fighters Association; member, board of directors, Junior Achievement of New York; chairman, Hearst Sandlot Classic; chairman, USO Brewers' Committee; chairman, Cardinal's Committee of the Laity (Brewers' Committee); New York City Cancer Committee; and New York Heart Association, Inc.; trustee of the German Society of City of New York (oldest welfare organization in State of New York). In 1962, Italy conferred the rank of knight in the Order of Merit of the Republic of Italy (Cavaliere nell'Ordine Al Merito della Repubblica).

Member: New York Athletic Club; Manhattan Club; Westchester Country Club; Presidents' Club; Circus Saints and Sinners; Madison Square Garden Club; National Democratic Club; Presidents' Council of American Institute of Management; the Newcomen Society of North America; and Invitation Club.

William H. Snyder, the Executive Secretary of the Advisory Board, is a career civil servant with extensive Government experience. He began as a Federal land bank examiner. From 1943 to 1954, he was on the staff of the U.S. Bureau of the Budget, dealing primarily with the organization, programs, and operations of war emergency agencies, later with programs of the Department of the Interior and the Interstate Commerce Commission, and then became Assistant Chief of the Field Service. He has been with the Post Office Department since 1954, where he is the Director of the Executive Secretariat. He is a graduate of the University of Denver School of Law, is a member of the bar of the State of Colorado, has been admitted to practice before the Supreme Court of the United States, and is a member of the American Society of Public Administration and Toastmasters International.

PURPOSE OF THE ADVISORY BOARD

Mr. GRONOUSKI. Their purpose is basically to lend their business knowledge and background as an aid to the Postmaster General and his

staff in evaluating whatever problems that the Postmaster General deems desirable to investigate at a given time. They have been, in my judgment, very helpful to me.

I just recently completed an investigation of some of our internal organization problems which they studied for me and made recommendations to me on. From time to time, we will give them other assignments that are knotty. We usually give them knotty problems to work on. I think they were of great aid to Mr. Day. They spent an awful lot of time and have become pretty much specialists in the whole mechanization program.

Mr. Day was particularly interested in having them work on this. I intend to continue using the background they gave over the past years in this area. That is in further study of our mechanization program.

Mr. GARY. How often do they meet?

MEETING OF THE ADVISORY BOARD

Mr. GRONOUSKI. They have met twice since I have been Postmaster General. I think about four or five times a year has been the practice. Then they do, also, have special meetings of one sort or another. For instance, I know they met in Philadelphia one time and met in New York one time, meeting with special committees on special problems. They met in Philadelphia over the mechanization program in Philadelphia post office and New York where they met with a group concerned over the limitations on the size of envelopes, the numbers and size of envelopes, and met with the envelope producers and discussed this with them as representatives of the Postmaster General.

VISITS AND STUDIES OF THE ADVISORY BOARD

They also have gone out to California and visited and studied the work of the FMC Corp. out there. In the report, as Fred points out to me, we have a list of the many things they have done. They have inspected our postal laboratory in Washington here. They have reviewed the postal research and development work performed by the Rabinow Corp. in Maryland, a mechanization contract which they are carrying forward. They not only have visited the FMC Corp. once but visited them twice in studying the work of that corporation. They have reviewed other things.

Mr. GARY. That corporation is engaged in working on mechanical improvements in the system?

Mr. GRONOUSKI. That is right. They have reviewed the post office at Providence and the Detroit post office and again their overall interest is in the mechanization program. They inspected the Canadian postal laboratory for the Postmaster General and reviewed the kinds of research and mechanization programs that are being carried forward in Canada.

And as I mentioned a few minutes ago, they have inspected also the Philadelphia post office; they have discussed with both Philadelphia and New York, with mailers and with chamber of commerce people, problems of volume mailers.

And also there is listed here the matter regarding the size of envelopes and discussions.

Mr. GARY. And it is your plan to continue to use them for further studies in mechanization and in other fields, is that correct?

Mr. GRONOUSKI. That is right.

RECOMMENDATION FOR COORDINATION OF THE BUREAUS

Mr. GARY. In their report in February 1963, they recommended closer coordination between the Office of Research and Engineering and the Bureaus of Operation and Transportation. What has been done to implement this recommendation?

Mr. GRONOUSKI. I would like someone else to discuss the details of that because the implementation occurred before I came aboard but I was concerned with this afterward, so I asked the Post Office Department Advisory Board on the first assignment I gave them, to study this whole thing, to look at it now in terms of this whole project, and I have gotten the report back from them, just a very brief report. Actually, it is primarily an oral report in which they said that, after review, they considered that satisfactory progress had been made in this area and they didn't recommend at this time any major changes.

Mr. Thomason may be able to fill in on just what has been done.

Mr. THOMASON. I think one of the significant things we did was that we set up a formal semiannual program review in which the heads of each bureau and office of the Department, particularly Operations and Transportation, would be present to go over with the Office of Research and Engineering their various programs to make sure that the proper inputs were made by each of the bureaus and that they understood what the programs were and to get their feedback.

We have had at least one of these program reviews since this recommendation was made, and I think there are plans to have another one very shortly.

Mr. GARY. That is in connection with their recommendation that a top-level seniannual full-scale coordinated review be had within the Department of all research, development, mechanization and planning projects; is that right?

Mr. THOMASON. Yes, sir.

Mr. GARY. Has such a review been accomplished since the report was submitted a year ago?

Mr. THOMASON. Yes, sir. I think as I recall we had one last summer along in June or July. We met for several days and went over the programs with the Postmaster General and representatives of each of the bureaus and offices.

Mr. GRONOUSKI. I might make one other observation in this regard; not only in this area but in many other areas, we have lots of functions in which two or more bureaus are interested. I have had real concern about this, and I have just gotten out a memorandum which I am not sure the top staff has received yet but it came up to my desk yesterday, where I made very clear to them, two things:

One, when any decisions, publications, criteria, and so forth are decided upon in a given bureau, they must first be cleared with all other bureaus involved; and second, where I think we will have the control on this, I assigned Fred Belen, my new Deputy, as the man who must give final clearance on this.

I think the whole question of coordination is a continuing one, one that you have to keep on top of all the time because inevitably a given group gets going on something and it is just human nature to sometimes forget to keep other groups in the Department informed on it.

I am concerned about this and as I say, I have just gotten out this directive to the Assistant Postmasters General, indicating (and also the other persons who are not at the Assistants' level but who have administrative responsibility) not only to clear with each other but to check with Fred Belen on final clearance.

Mr. BELEN. One thing, too, Mr. Chairman, was a direct result of your action last year in giving us some additional personnel for the Operations Requirements Division and since that time we have added Clarence Osthagen to head up the Requirements Division and he is a former Assistant Secretary of Commerce and one of the real top Government officials. You may recall when we first, say 3 years ago, when we had this responsibility where there was only one person assigned to Operations to handle this whole mechanization function of clearance and so forth and one on detail but since that time you have been a substantial help in letting us beef up that particular operation. We have done it this year.

STATUS OF 10-YEAR MECHANIZATION PROGRAM

Mr. GARY. In April 1963, the former Postmaster General stated in a speech in Florida that the Post Office Department has a 10-year program of modernization of the 200 largest post offices. What is your timetable for mechanization of these post offices and how many have been mechanized to this date and how many will be mechanized under the proposed budget for fiscal year 1965?

Mr. BELEN. I don't think I can give you that in detail off the cuff. Perhaps I can prepare a memorandum and provide it to you for the record.

Mr. GARY. Insert it at this point in the record and that will be satisfactory.

(Information referred to follows:)

Since 1957 major mechanization has been installed in 30 post offices. There will be 14 on order or in process of completion at the end of fiscal year 1964 and 13 are planned for 1965, making a total of 57 installations.

ECONOMIC CRITERIA FOR MECHANIZED POST OFFICES

Mr. GARY. The advisory report recommended that more progress be made toward completion of economic criteria, service justification, and cost analysis regarding mechanized post offices. What progress has been made on developing criteria justifications for letter sorters?

Mr. NICHOLSON. The work on development of economic criteria has moved ahead very rapidly. There are, subject to correction in the record, there are, I would say, 30 to 40 sets of criteria that have either been released as final or in the process of final clearance. These criteria cover all types of installations. They include the facer-canceller, the letter-sorting machine, various types of conveyor or sack-handling equipment, and they include such specific physical things as the location of slides and dump holes and the design and capacity of dock

areas for vehicles. We can give you for the record a complete list of the criteria being worked on and the status of each.

Mr. GARY. Thank you; if you will insert that in the record.

(The list follows:)

OFFICE OF RESEARCH AND ENGINEERING

ENGINEERING CRITERIA STUDIES

1. Multiposition letter sorting machines (POD committee).
2. Mechanized equipment cost data.
3. Estimating power costs of postal mechanization.
4. Canceling machine.
5. Opening table.
6. Design for sawtooth operations.
7. Functional locations.
8. Selection of parcel sorting equipment.
9. Selection for dock levelers.
10. Platform dumphole design.
11. Mechanized parcel post, secondary distribution.
12. Equipment and methods of hand canceling flats and SPR.
13. Design for sack sorters.
14. Mail handling at docks.
15. Handling of empty sacks.
16. Mechanization controls.
17. Outside parcels handling.
18. Originating mail culling.
19. Transport system design.
20. Optimum man-machine.
21. Heights and widths for conveyors.
22. Parcel post shakeout operation.
23. Loose parcel storage belts.

The status of the above listed criteria is as follows:

The first three have received overall departmental approval and have been published as working documents. The next six (Nos. 4 through 9) have been completed in draft form and are being circulated among the various bureaus for approval. The remaining 14 listed (Nos. 10 through 23) are in various stages of development within the Office of Research and Engineering. An explanation of the procedure used in planning and applying the above criteria to major projects is given below.

ENGINEERING PLANNING AND EQUIPMENT JUSTIFICATION FOR MAJOR FACILITY PROJECTS

Upon receipt of volume and space data (POD Form 929) from the Bureau of Operations, a preliminary analysis of mechanization requirements is made and space is adjusted for architectural use in designing the building.

Where daily volumes of sacks are sufficient, additional space is allotted for bulk conveyors and sack sorting. The space requirement for multibelt, over and under machine, carousel, etc., are approximately the same; therefore, specific equipment selection is not established until building tentatives are completed.

When these tentatives are available, a detail analysis of the volume is made and the flow of mail (hour by hour receipt) is used to determine storage requirements, equipment required, machine utilization and manpower requirements. These determinations are based on criteria developed from engineering studies which establish such items as equipment, operating, and maintenance costs.

A workroom layout is then developed based on the volume and operating requirements of the particular facility and is designed for the most efficient and expeditious processing of each type of mail with proper considerations of service requirements.

During the analysis and layout planning stages comparisons are made of alternate processing systems. These evaluations are made in accordance with the guidelines as established by the Bureau of Finance and are compared with the cost of performing the operation on a manual basis.

The evaluation includes a complete analysis of the following:

1. Manual operating costs.
2. Amortization of capital investment based on estimated service life.
3. Interest on the capital investment based on the current average yield on Treasury bonds rounded to the nearest half of a percentage point.
4. Maintenance costs including replacement parts and labor.
5. Other substantial costs which may include initial training cost, moving expenses, rental of temporary quarters, and power costs.

After a complete cost analysis and comparison of the various systems, the most efficient system or type of equipment is selected.

During preparation of the final systems layout, all aspects of the facility layout are coordinated with the Architectural and Process Machinery Divisions of the Office of Research and Engineering and the Bureau of Operations and the Bureau of Transportation and International Services.

LETTER SORTERS NEEDED FOR MECHANIZATION OF LARGER POST OFFICES

Mr. GARY. Applying present criteria and standards, what are the number of letter sorters which will be needed to mechanize the 200 largest post offices?

Mr. GRONOUSKI. That is another piece of information I will have to supply you. I don't have it myself.

Mr. GARY. You will supply that for the record?

Mr. GRONOUSKI. We will.

(The information follows:)

It is estimated that between 200 and 450 multiposition letter-sorting machines will be required in future installations in the larger post offices.

Mr. GARY. In how many of these offices will letter sorters actually be installed?

Mr. GRONOUSKI. Do you have a report on that, Fred?

Mr. BELEN. I believe we are planning on 28 now, as we can see it. A lot depends on the development of the optical reader, which we feel is coming along, for reading of the zip code, which makes the utilization of the letter sorter much more practical. We can give you the exact number that we are planning to order right during this year.

Mr. PILLION. You mean letter sorters, Fred?

Mr. BELEN. Yes, sir.

Mr. GARY. Concerning the number of letter sorters you plan to purchase, how many are with the funds for 1965? Do you have that?

You can supply it for the record.

(The information follows:)

There are 44 installed multiple-position letter sorters of which 2 are in postal laboratories. It is planned to purchase 25 in 1964 and 45 in 1965, which will make a total of 114.

There are 24 single-position letter sorters of which 2 are in storage. It is planned to purchase 44 in 1964 and 100 in 1965, making a total of 164.

MAIL-USER SURVEY

Mr. GARY. The Advisory Board recommended that the Department conduct a mailer-user survey to ascertain the proper volume susceptible to presorting and the anticipated degree of cooperation. Has that survey been accomplished and with what results?

Mr. GRONOUSKI. Of course, we made the survey on the degree of cooperation in the zip coding. I think that was last December; that was the last survey made. We surveyed 24,000 firms, which, I think,

represent about 50 percent of our total mail volume. Of these 24,000-odd firms, there was something like 88 percent that are in some stages of the zip coding of their mailing lists.

PRESORTING BY SECTIONAL CENTERS THROUGH USE OF ZIP CODE

This is pertinent to the question, obviously, because one of the big advantages of the zip code is the possibility on data processing equipment to sequence your mailing lists by zip code number and consequently to economically presort as the addresses come off by number.

PRESORT BY SECTIONAL CENTERS

I think one of the real key improvements to our efficiency picture that will stem from the final adaptation of the zip code by the major mailers is the opportunity it gives them to economically presort by our sectional centers.

There will be something like 566 sectional centers, the first three digits represent those sectional centers and they will easily be able to cut off their addressing process by sectional centers and bag this mail so that we can or they can, in the shipping of it, bypass the local post office and shoot it right out to the sectional center. This is one of the real advantages of the zip code.

ECONOMIC AND MECHANIZATION LESSONS FROM PROVIDENCE FACILITY

Mr. GARY. We had a discussion yesterday concerning the Providence post office. That was designed as a pilot organization. What economic and mechanization lessons have been learned from the Providence facility? I expect the chief one has been not to try another one like it.

Mr. GRONOUSKI. The chief one was what we learned, obviously, and it came out in our discussions; the chief lesson learned is that before you move into a project you better plan for it and understand what you are getting into.

By the way, I did check the dates on that project just for curiosity this morning and the contract was agreed to November 30, 1960, and the contract as entered into runs 20 years from January 1, 1961, to January 1, 1980.

So I just wanted to clear the record and indicate to you that it preceded Mr. Day's administration.

Mr. GARY. As a pilot installation, it hasn't piloted you very far?

Mr. GRONOUSKI. I think it piloted us an awful lot on what not to do and if you learn what not to do you are learning a lot.

Mr. PILLION. I really think—maybe the cost was worthwhile because we learned an awful lot from it, I think, all of us.

Mr. GARY. I think that is probably true.

But primarily in things not to do, as the Postmaster General says, rather than what to do.

SECTIONAL TRANSPORTATION CENTERS

The Post Office Department has announced it is establishing 500 sectional transportation centers. How many of these are operating

at the present time as sectional centers in the pattern which the Bureau of Transportation envisions?

Mr. GRONOUSKI. 344 of the 566 are either employed or partly operational at this point, which I think in the short time that we have had it in, it has been moving forward very well.

I can't say offhand when we expect to complete the item.

Mr. BELEN. We have given an extension of 6 months to a couple of very problem States but then we will take another look but it will be certainly within a year, although we feel within 6 months.

Mr. GRONOUSKI. Mr. Chairman, for the record we do have a rundown on the status of all of those.

Mr. GARY. Thank you, sir. Without objection it will be inserted in the record.

(The information follows:)

SECTIONAL CENTERS, JAN. 1, 1964

[Total number of sectional centers in long-range plan, 566]

Long-range plan in operation

State	Sectional centers	State	Sectional centers
Alabama	13	Ohio	15
Alaska	4	Oklahoma	13
Delaware	2	South Carolina	5
Hawaii	1	Utah	5
Idaho	5	West Virginia	12
Illinois	16	Wisconsin	10
Louisiana	9	Puerto Rico and Virgin Islands	6
Massachusetts	16		
Nevada	4	Total	136

Plan not implemented

State	Sectional centers projected	State	Sectional centers projected
Florida	12	South Dakota	7
Kentucky	12	Tennessee	9
Mississippi	9	Texas	33
Montana	9	Washington	8
Nebraska	10	Wyoming	11
North Carolina	10		
Oregon	7	Total	138
Rhode Island	1		

Interim plan in operation

State	Sectional centers projected	Sectional centers operational	State	Sectional centers projected	Sectional centers operational
Arizona	8	8	Minnesota	12	12
Arkansas	12	3	Missouri	18	15
California	27	27	New Hampshire	5	5
Colorado	13	3	New Jersey	13	13
Connecticut	6	6	New Mexico	12	12
Georgia	11	5	New York	21	10
Indiana	13	13	North Dakota	8	5
Iowa	16	16	Pennsylvania	35	10
Kansas	13	3	Vermont	8	8
Maine	9	9	Virginia	15	15
Maryland	7	7			
Michigan	10	3	Total	292	208

Recapitulation

	Sectional centers projected	Sectional centers operational
Long-range plan in operation	136	136
Interim plan in operation	292	208
Plan not implemented	138	
Total	566	344

Mr. PILLION. When will the 566 be completed, roughly?

Mr. BELEN. We hope within 6 months.

Mr. GRONOUSKI. Actually, as Fred just indicated, to refresh my memory, in five or six problem States there has been a request from the regional directors to extend 6 months or so, so we expect in 6 months or a year to have it pretty well operational.

Mr. GARY. Thank you, gentlemen. Any more questions?

Mr. PILLION. I have one question.

MECHANIZATION OF LARGER POST OFFICES

In talking about the mechanization of the 200 post offices, are those 200 additional or have you mechanized quite a few?

Mr. GRONOUSKI. We are talking about the 200 largest post offices in existence, including those we have already mechanized. I haven't personally reviewed that projection. I think that what we need to do in any case on each particular project that is brought up as a possibility we have to look it over in great detail.

Mr. PILLION. That is just what I was going to ask you. I am so pleased you are realizing or stating a policy that you have various phases of mechanization and, as you said here, Mr. Nicholson, you have criteria as to when you can mechanize profitably and economically and I hope we are talking about 200 post offices and are not talking about complete mechanization but partial mechanization in all of these depending upon the economic value of it. Is that what you have in mind?

Mr. GRONOUSKI. I really think the 200 figure came as just a rough estimate on the information available at the time that Mr. Day made this projection. Certainly, I do not take the position that, come what may, we are going to mechanize 200. Maybe we are talking about 86 or maybe 38 or 112. Each one has to be evaluated on its own and stand or fall on its own merit.

Mr. GARY. Or maybe 300?

Mr. GRONOUSKI. Also, it may be that you have 50 of them with a certain kind of mechanization.

Mr. PILLION. That is exactly what I am getting at.

Mr. GRONOUSKI. And another 50 with a different kind of mechanization.

MECHANIZATION TAILORED TO FIT NEEDS

Mr. BELEN. We mechanized the issuance of money orders in all the post offices. You have to tailor it to what the post office can stand. When it comes to letter sorters it will be very limited because you have to have the concentrated mail volume.

Mr. GARY. You have to tailor the mechanization to what they actually need?

Mr. BELEN. Yes, sir.

Mr. GARY. That was the trouble in Providence. It was not tailored to the actual needs of the volume.

Mr. PILLION. Yes, the volume, the workload.

Mr. GARY. While you have improved the operation very materially, in my judgment, it will never be an economical, efficient, and entirely satisfactory operation.

Mr. PILLION. I didn't want the implication that this committee is approving 200 regardless of merit.

Mr. GARY. I agree with the gentleman entirely but I think that is what they had in mind. What is proper mechanization for one post office might not be proper mechanization for another.

Mr. GRONOUSKI. If I may speak in a light vein for just a second, inasmuch as the Providence post office, I found this morning, was dedicated in October, even though the contract was not approved until November of 1960, it seemed to me that the needs the announcement of that post office fulfilled had nothing to do with postal operations.

ECONOMIC ANALYSIS OF MECHANIZATION

Mr. NICHOLSON. This committee might be interested in the second phases of our economic analysis. The first phase is to determine the economic situation in which mechanization should be applied, the establishment of criteria that you mentioned earlier, Mr. Gary, and that Mr. Pillion just referred to.

The second step of economic analysis is to make a measurement of the actual performance of the equipment after it has been installed. In the year 1963, we undertook studies that covered a total capital investment of just under $15 million and this group produces an estimated annual savings after charging depreciation, interest, and all other factors, of $885,000 a year, which is a 5.9-percent return on the investment in those equipment studies.

Mr. PILLION. That is not enough. You should get better than that for your investment.

Mr. NICHOLSON. Some show high returns such as the Mark II facer-canceler which shows return on investment of 89 percent and other category studies showed actual losses such as one study of mail-flo which showed a loss of 1.5 percent. The average of all studies came out to the figure I gave you.

Of all studies of this type ever conducted since 1958, we have now studied capital investments totaling $27,700,000 for an average return on all studies of 5.7 percent. The Providence study is not included in this because it is a special animal.

But on the basis of the Providence study done in 1962 we find there is an annual loss of $2,050,000, which includes the cost of mail-handling operations and the cost of renting and maintaining the equipment in that building.

Mr. PILLION. May I interrupt there, Mr. Nicholson? Where you have a high rate of return like on the facer canceler, where you have an 80-percent return—am I getting it correctly?

Mr. NICHOLSON. Eighty-nine percent.

Mr. PILLION. Eighty-nine-percent return. Why wouldn't it be possible to go through all the post offices and say, "Here are all the post offices and facer-canceler placement where they return down to 10 or 15 percent," and put facer-cancelers in there because they are more or less independent from other operations? Is that possible rather than taking an average? You can see that some must be a loss when the 89 percent in one operation brings you down to an average of 5.7 overall average?

Mr. NICHOLSON. This is exactly what we are doing.

Mr. GRONOUSKI. Actually, this is the purpose of the study.

TIME OF CANCELLATION

Mr. GARY. While we are on cancelers, let me ask this. You recently issued a rule that the cancelers in the future should not carry the exact time of cancellation but instead merely a.m. or p.m. What was the purpose of that and what will be the savings as a result of it?

Mr. GRONOUSKI. Actually the purpose of it is essentially to save money. And we figure, and it is included in the analysis of the budget, this is one of the savings that made us able to come in with the type of budget we think we came in with, and we think of savings of something like $3.25 million per year on that.

Mr. BELEN. That is correct. You have to take into consideration we have a large percentage of mail now metered which has only the date on it. That comes in and we have had some people say, "We like that time stamp because we give the letters to our girls to mail and we want to be sure they mail them instead of taking them to the dance and mailing them afterward," and this is a quote, and in other words, we were being used as policemen of their employees.

Mr. GARY. And that is pretty hard on husbands whose wives gave them letters to put in the mailbox and they put them in their pocket and forget them.

Mr. GRONOUSKI. I might say this is giving rise to certain local problems. For example, the representatives of one State indicated that an absentee ballot, if they are not mailed before 5 or 6 o'clock they don't count; I forget if it is 5 or 6 o'clock; I think it is Connecticut; but that, I think, is the major problem that I have run into since this went into effect on February 1.

What is involved here, however, is a very, very small volume of mail. Of course, we like the State to be kind enough to change their law on this, but in lieu of that we can very inexpensively, compared to doing the whole job, handle those particular cases at the window with special hand cancelers or hand stamps that put the date on the envelope and I so informed the people.

Mr. GARY. Those envelopes I think would be rather easily identified anyway?

Mr. GRONOUSKI. That is right. Actually a person who is concerned with time on his absentee ballot envelope will almost inevitably come to the window, come to the post office to mail it.

Mr. GARY. What I mean, though, usually the absentee ballots are returned in special envelopes that are provided for that purpose and those envelopes would be very easy to identify.

Mr. GRONOUSKI. Except as they go through 30,000 letters an hour through a facer canceler it would be pretty costly to pick them out at that point. I think that a few thousand absentee ballots you get in a year's time in the State is not, I think, asking too much to ask the people to come to the window and get a special hand cancellation on it.

Mr. BELEN. Or mail it by noon of that day.

Mr. GRONOUSKI. Or mail it by noon and then have the a.m. stamp on it.

Mr. THOMASON. We tried it in a number of cities before we made it final. We tried it a year or year and a half in Philadelphia and moved on into St. Louis and Chicago and we had no complaints to amount to anything at all.

Mr. GARY. Frankly, I had one or two complaints but I thought it was a very reasonable change, and I think as long as we are saving money by it, it is perfectly all right.

Mr. STEED. Mr. Chairman, in that same connection, do I understand any piece of mail with a time cancellation on it which would be important to the person sending the mail, you still could give him this special service so he could have the stamp on there if he asked for it?

Mr. GRONOUSKI. I think what we have to do is look at the special problem. Connecticut is a special problem.

Mr. STEED. I am thinking in terms of a single situation that might occur anywhere in the country where for some legal purpose an actual cancellation in time would be important.

Mr. GRONOUSKI. We certainly would give them a receipt indicating the time if they requested it at the window.

Mr. THOMASON. He could have it put on the envelope as permitted by the regulation.

Mr. STEED. So there would be no special situation perhaps where it is involved in court or something where he could not get that?

Mr. GRONOUSKI. Actually, as someone mentioned just a moment ago with the absentee ballot situation, I imagine the vast majority are mailed before noon of that particular day anyway. It is only the few that have to get it in between 12 and 5 that would have to come in and get a special cancellation because if the a.m. is on it obviously it is before 5.

Mr. PILLION. It is possible to have a service in which you would charge 5 or 10 cents on the dating of your envelope when in the mail or would you have that when you had special delivery?

Mr. GRONOUSKI. I really think it is so few in terms of the total picture that it would probably cost more to administer the charge than to charge people for it. That is my offhand judgment on it anyway.

Mr. GARY. Thank you, General.

FIRST-CLASS MAIL BY AIR

Mr. STEED. Mr. Chairman, if Mr. Pillion is through, I have a question I want to ask. We have had at times in the past considerable discussion in one direction or other about airmail, the use of airmail on air transportation. You made reference to the fact that the elimination of many of the mail trains in recent years has created some new

transportation problems. What is your general attitude about the airmail picture?

Mr. GRONOUSKI. Well, I think—you are talking about not airmail as such but rather utilization of air and first-class mail on a space available basis.

What we have been doing in the last couple of years, and I think it is the most intelligent policy on this, is to evaluate each particular schedule in terms of the cost and the service relationship. Obviously, we can get mail between Chicago and San Francisco faster by air than by other conveyance. On the other hand, if it is coming into the post office 2 o'clock in the afternoon on Saturday for delivery Monday and it would come in at 2 in the afternoon Sunday by surface transportation, you are not making any gain in service, yet you have additional cost.

We are evaluating each route of that shipment in that manner and we have to calculate the cost in each case because normally your mail, your flying of it is costlier than surface transportation, so we are evaluating in terms of what kind of service gain is the result of using the air.

Mr. STEED. Well, in total, has there been an increase in the volume that you found coming about?

Mr. GRONOUSKI. I think not. Would you have the figures on that, Ralph?

Mr. NICHOLSON. No, I don't at the moment.

Mr. BELEN. We will have to provide those figures.

Mr. GRONOUSKI. Mr. Hartigan probably, when he comes forward, will have the figures, but otherwise we will provide them.

Mr. STEED. That is all.

Mr. GARY. Thank you, General.

ADMINISTRATIVE AND REGIONAL OPERATIONS

WITNESSES

FREDERICK C. BELEN, DEPUTY POSTMASTER GENERAL
JAMES R. THOMASON, ASSISTANT DEPUTY POSTMASTER GENERAL
RICHARD J. MURPHY, ASSISTANT POSTMASTER GENERAL, BUREAU OF PERSONNEL

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	63,040	67,901	71,413
	Positions other than permanent	178	178	181
	Other personnel compensation	367	909	658
	Total personnel compensation	63,585	68,988	72,252
12	Personnel benefits	4,777	5,160	5,416
21	Travel and transportation of persons	4,594	5,163	5,340
22	Transportation of things	107	117	113
23	Rent, communications, and utilities	401	4	4
24	Printing and reproduction	122	4	4
25	Other services	134	504	113
	Services of other agencies	598	715	717
26	Supplies and materials	313	35	35
31	Equipment	261		
42	Insurance claims and indemnities	1,975	2,317	2,461
	Total obligations	76,867	83,007	86,455

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	7,798	7,792	7,856
Full-time equivalent of other positions	43	42	42
Average number of all employees	7,655	7,697	7,831
Employees in permanent positions, end of year	7,541	7,792	7,856
Employees in other positions, end of year	65	65	65
Average GS grade	9.3	9.5	9.6
Average GS salary	$8,863	$9,538	$9,739
Average postal field service level	4.5	4.5	4.5
Average postal field service salary	$5,947	$6,135	$6,176

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Operating costs funded:			
1. Executive direction and administration	17,330	17,848	18,996
2. Field inspection service	18,425	20,204	20,964
3. Regional administration	24,186	26,989	29,366
4. Regional finance	16,884	18,234	17,373
Adjustments to accrued annual leave due to pay increases	589	152	----------
Total operating costs, funded	77,414	83,427	86,699
Capital outlay:			
1. Executive direction and administration	194	----------	----------
Total program costs, funded	77,608	83,427	86,699
Change in selected resources [1]	−741	−420	−244
Total obligations	76,867	83,007	86,455
Financing: Unobligated balance lapsing	1,650	----------	----------
New authority	78,517	83,007	86,455
New authority:			
Appropriation	79,277	83,500	86,455
Transferred from (77 Stat. 62)—			
"Research, development, and engineering"	----------	87	----------
"Transportation"	----------	500	----------
Transferred to—			
"Operations" (76 Stat. 314)	−760	----------	----------
"Facilities" (77 Stat. 62)	----------	−1,005	----------
"Plant and equipment" (77 Stat. 62)	----------	−75	----------
Appropriation (adjusted)	78,517	83,007	86,455

[1] Selected resources as of June 30 are as follows:

	1962	1963	1964 adjustments	1964	1965
Accrued annual leave	−6,572	−7,307	----------	−7,691	−7,923
Employees' compensation liability	−138	−211	----------	−247	−259
Unpaid undelivered orders	82	149	−149	----------	----------
Total selected resources	−6,628	−7,369	−149	−7,938	−8,182

Mr. GARY. We shall consider now "Administration and Regional Operations." The appropriations for the fiscal year 1964 for this item was $83,500,000. The budget estimate for fiscal year 1965 is $86,455,000. The increase over fiscal year 1964 is $2,955,000. The average positions for fiscal 1964 was 7,793 and the average positions for 1965 is 7,896 and the increase in positions over fiscal year 1964 is 103.

JUSTIFICATION OF THE ESTIMATE

The justifications will be inserted in the record at this point.
(The justifications follow:)

[Thousands of dollars]

Appropriations and obligations	1963 actual	1964 estimate	1965 estimate
Executive direction and administration:			
Headquarters administration	14,423	16,474	17,859
Money order audit	1,742	1,280	1,067
Headquarters supplies and services	1,146		
Subtotal	17,311	17,754	18,926
Field inspection service:			
Inspection service (field)	17,165	18,780	19,424
Internal audit (field)	1,205	1,366	1,482
Subtotal	18,370	20,146	20,906
Regional operation:			
Regional administration	24,173	26,919	29,296
Regional finance	16,904	18,188	17,327
Subtotal	41,077	45,107	46,623
Awards and training	109		
Total obligations	76,867	83,007	86,455
Transfer from other appropriations	−240	−587	
Transfer to other appropriations	+1,000	+1,080	
Unobligated balance	+1,650		
Total appropriations	[1] 79,277	83,500	86,455

[1] Includes $3,677,000 transferred by Public Law 88-25 from other appropriations to meet pay increase cost.

A. Personnel

Item	1963 (actual) positions	1964 (estimate)				1965 (estimate)			Increase over 1964
		Carryover man-years	Vacancies filled	New positions	Total	Carryover man-years	New positions	Total	
Executive direction and administration:									
Headquarters administration	1,307		29	30	1,366		114	1,480	
Money order audit	151		−86		65			65	
Field inspection service:									
Inspectors	974		4	50	1,028			1,028	
Scientific, technical, and clerical personnel	434		5		439		25	464	
Internal audit (field)	98		6		104		5	109	
Regional operation:									
Regional administration	2,253		96	133	2,482			2,482	
Regional finance	2,324		117	−133	2,308		−80	2,228	
Total permanent positions, end of year	7,541		171	80	7,792		64	7,856	
MAN-YEARS									
Regular employees	7,612	−96	84	55	7,655	92	42	7,789	134
Temporary employees	43				42			42	
Overtime	37				37			37	
Regular pay above 52 weeks					59			28	−31
Total average positions	7,692				7,793			7,896	103
Average compensation and benefits	$8,880				$9,507			$9,826	

B. *Analysis of obligations*

[In thousands]

Activity and account	1963 actual	1964 estimate	Increase or decrease (−) due to:						1965 estimate	Increase or decrease (−) due to:						
			Pay cost	Vacancies filled	New positions	Mandatory items	Other costs	Total increase		Pay cost	New positions	Mandatory items	Carryover costs	Other costs	Net total increase	
															Amount	Percent
Executive direction and administration:																
Headquarters administration	$14,423	$16,474	$470	$221	$249	$254	$857	$2,051	$17,859	$301	$947	$160	$246	−$269	$1,385	8.4
Money order audit	1,742	1,280	46	−324		8	−192	−462	1,067	8		3	−215	−9	−213	−16.6
Headquarters supplies and services	1,146						−1,146	−1,146								
Subtotal	17,311	17,754	516	−103	249	262	−481	443	18,926	309	947	163	31	−278	1,172	6.6
Field inspection service:																
Inspection service (field)	17,165	18,780	675		270	221	449	1,615	19,424	340	145	123	90	−54	644	3.4
Internal audit (field)	1,205	1,366	43	38		38	42	161	1,482	26	50	25	19	−4	116	8.5
Subtotal	18,370	20,146	718	38	270	259	491	1,776	20,906	366	195	148	109	−58	760	3.8
Regional operation:																
Administration	24,173	26,919	954	196	812	178	606	2,746	29,296	480		261	1,585	51	2,377	8.8
Finance	16,904	18,188	594	1,080	−426	112	−76	1,284	17,327	247	−956	79	−194	−37	−861	−4.7
Subtotal	41,077	45,107	1,548	1,276	386	290	530	4,030	46,623	727	−956	340	1,391	14	1,516	3.4
Awards and training	109						−109	−109								
Total administration and regional operation	76,867	83,007	2,782	1,211	905	811	431	6,140	86,455	1,402	186	651	1,531	−322	3,448	4.2
Total increase over prior year	5,211	6,140							3,448							
Percent of increase over prior year	7.3	7.8							4.2							

JUSTIFICATION

Headquarters Administration

Service rendered

Headquarters administration provides for the top management and central direction of the postal service. The estimate provides for the salaries, travel, and related expense of all personnel in the headquarters at Washington, D.C. It also provides for certain expenses directly related to and administered by headquarters, such as—

(1) Expenses of departmental representatives to meetings of international postal congresses and conferences;

(2) U.S. share of costs of maintaining the office of the Universal Postal Union at Berne, Switzerland, and the Postal Union of the Americas and Spain at Montevideo, Uruguay;

(3) Payment of compromise settlements of damage suits and administrative settlement of claims not exceeding $2,500 under the Federal Tort Claims Act; and

(4) Payment of the biennial fidelity bond premium of all bonded employees.

Personnel

The following schedule shows the positions estimated for 1964 and 1965 under this activity:

Office	1964 estimate	1965 estimate	Increase or decrease (—)
Postmaster General and Deputy Postmaster General	128	139	11
Headquarters services	101	101	----------
Bureau of Operations	230	264	34
Bureau of Transportation and International Services	121	131	10
Bureau of Finance	303	318	15
Bureau of Facilities	174	182	8
Bureau of Personnel	102	125	23
Chief Postal Inspector	121	127	6
Internal Audit	15	19	4
General Counsel	71	74	3
Total	1,366	1,480	[1] 114

[1] Partially offset by a reduction of 80 regional positions.

1. *Postmaster General and Deputy Postmaster General.*—Eleven additional positions are requested: three positions in the Postmaster General's office and eight positions under the Deputy Postmaster General's office as follows:

(*a*) *Office of Regional Administration (PMG)*

		Number
GS–15	Contract specialist	1
GS– 5	Secretary	2
	Total	3

Under the Executive Order 10925, dated March 6, 1961, private individuals or companies entering into contract with the Government must practice nondiscrimination in providing the goods or services being contracted for. The proposed new positions, a contract specialist (GS–15) and a secretary (GS–5), are needed to administer a program in the 15 regional offices which will enable the Post Office Department to determine whether nondiscrimination is being practiced in the contracts. This function cannot be accomplished within our present ceiling limitations. A second secretarial position (GS–5) is needed in the Office of Regional Administration because of the workload. One secretary is assigned to handle the work of four individuals. The workload resulting from administering the postal service officer, appraisal, and administrative programs is so heavy that an additional secretary is needed.

(*b*) *Postal modernization* (*DPMG*)

		Number
GS–14	Postal modernization coordinator	1

To coordinate all aspects of the postal modernization and mechanization program to provide an integrated, efficient system. Incumbent will participate in all meetings relative to the major facilities program; collect data pertinent to policy determinations and coordinate material with other Government departments and agencies dealing with the program.

(*c*) *ADP management* (*DPMG*)

		Number
GS–13	ADP professional technician	1
GS–12	ADP professional technician	1
GS– 5	Secretary	1
	Total	3

To design and install, in a prototype postal installation, an information system for managing the basic productivity of the postal system; to develop a nationwide centralized scheme (routing) system for computer execution; and development of simulation studies to better analyze the movement and processing of mail to determine optimum service potentials; best transportation media and routing; size, location, and degree of mechanization for future facilities; and impact of ZIP program on postal operations.

(*d*) *Management Systems Division* (*DPMG*)

		Number
GS–12	Professional personnel	3
GS– 5	Secretary	1
	Total	4

To initiate the following projects: (1) Development of an integrated information system standardizing field reporting requirements which will permit management at all levels from the Postmaster General to the postmaster to have the kind of information they need to control their operation; (2) organizational surveys of two of the largest bureaus in the Department. At the time of the major reorganization in 1961, two of the largest organizational units, the Bureau of Finance and the Office of Research and Engineering, were not reviewed. The changing nature of the Department's management requirements and the importance of the research program in general make it mandatory that these special surveys be initiated promptly; (3) establishment of staffing patterns for post offices. After years of work, staffing patterns for the New York and Chicago post offices have now been formalized. For the Department to have effective control over complements of individual post offices, it is necessary that staffing patterns be established nationwide to guide the Department in its review of individual post office complements; (4) establishment of a management program in the field. While much can be done to improve management at the headquarters level, it is in the regions and the post offices themselves that the real payoff from real good administration will come. The headquarters staff must, however, provide precise guidance to the field on how to accomplish management objectives; and (5) initiation of a full procedure and paperwork system. The post offices, regional offices, and headquarters annually process millions of pieces of paper (other than mail) in the conduct of post office business. Every piece of paper handled costs money. No comprehensive survey of how effective the paperwork system is in the Department has ever been made. The additional staff requested will permit the beginning of these five programs as outlined.

2. *Bureau of Operations.*—A total of 34 new positions are requested for this bureau to be employed as follows:

(a) Materials Handling Division

		Number
GS–15	Director	1
GS–15	Assistant director	1
GS–14	Materials handling specialist	4
GS–13	Materials handling specialist	3
GS– 9	Materials handling analyst	2
GS– 5	Clerk-stenographer	3
	Total	14

Over a billion parcels and many more millions of pieces of other mails prepared in bulk are handled annually by the postal service. Over the years, the Department has not been able to devote enough effort to the growing problems of handling, moving, and delivery of this type of mail matter primarily because it lacked the staff to study and supervise this functional area. The continued growth of metropolitan areas with their mushrooming suburbs, coupled with the rising cost of handling and delivery of this type of mail makes it imperative that a division be created to do some imaginative work in materials handling. The proposal to create a Materials Handling Division is based on a realistic appraisal of the problems related to handling this type of mail. This new Division will give the Department real flexibility and strength in depth of organization so that it can handle the current problems and respond quickly to changing conditions as they occur.

The positions requested above for 1965 are to staff this Division and represent the minimum required to administer this function.

(b) Administration and maintenance of program goals

Grade	Title	Functional area of work	Number
GS–14	Senior space analyst	Space Requirements Branch	1
GS–14	Management services coordinator	Post Office Management and Service Improvement Program Branch.	9
GS–13	Space analyst	Space Requirements Branch	1
GS–13	Mechanization requirements officer	Mechanization Requirements Branch	2
GS–13	Distribution procedures specialist (city scheme and ZIP code).	Distribution Procedures Branch	2
GS–13	Delivery services specialist (vertical, special, and ABCD).	Delivery Services Branch	2
GS–13	Vehicle requirements officer	Vehicle Utilization Branch	1
GS–5	Secretary	Delivery Services Branch	1
GS–5	Secretary	Vehicle Utilization Branch	1
	Total		20

During the past 2 years the Bureau of Operations inaugurated several wide-range programs for the improvement of service and management. Out of these programs, the Bureau has identified some significant accomplishments, some of them constituting breakthroughs involving meaningful savings in operating cost.

Programs have been tailored to the needs of the service both at headquarters and in the field. Obviously, lack of top-level direction and promotion of these programs is a direct deterrent to maintaining the goals set for the Bureau. The Department, at the present time, is utilizing present field and headquarters personnel to administer these important activities with the result that their regular assignments are suffering.

To alleviate this situation and to assure the maintenance of realistic program goals set for fiscal year 1965, request is made for a minimum increase in the headquarters staff of 20 positions in addition to those being requested for the new Materials Handling Division.

3. *Bureau of Transportation and International Services.*—A total of 10 additional positions are requested for this Bureau in the following divisions and branches.

DOMESTIC TRANSPORTATION DIVISION

(a) Highway transportation branch

		Number
GS–12	Highway transportation officer	1
GS–11	Staff officer	1
GS– 4	Clerk	1
	Total	3

These personnel are required to handle special projects; study proposed service changes and survey reports from regions; study highway systems and procedures, expenditure standards and controls; technical review of advertisements, bonds, route extensions; liaison with General Counsel; and assistance in budget preparation.

(b) Air transportation branch

		Number
GS–9	Air transportation specialist	1

This employee is required to study air carrier schedules, airmail routings, and maintain quality control charts showing carrier performance.

(c) Railway Transportation Branch

		Number
GS–13	General railway transportation officer	1
GS–12	Railway transportation officer	1
GS–11	Staff officer	1
GS– 4	Clerk-typist	1
	Total	4

These employees are required for general administration of regional railway transportation; liaison with field; appraisal of performance of carriers, transfer clerks; and special studies and service planning.

RESEARCH AND DEVELOPMENT DIVISION

(d) Development Branch

		Number
GS–13	General transportation officer	1
GS–11	Transportation officer	1
	Total	2

These employees are requested to coordinate the Bureau's activities with respect to new and improved mail handling facilities and to collaborate with other bureaus and the Office of Research and Engineering on facilities planning and surveys.

4. *Bureau of Finance.*—Fifteen additional positions are requested for this Bureau as follows:

(a) Office of Statistical Programs

		Number
GS–15	Mathematical statistician	2
GS–14	Statistician	2
GS–12	Statistician	2
GS–11	Statistician	2
GS– 6	Clerk-stenographer	2
GS– 5	Statistical clerk	2
	Total	12

In the financial management improvement activities of the Post Office Department insufficient attention and effort has been given to the development of an adequate statistical program to serve the Department as a whole. In an operation of the magnitude of the postal service, modern statistical techniques offer substantial opportunities for savings by (1) reducing the cost of data gathering; (2) increasing the accuracy and timeliness of data, and (3) providing new sources of data which can be of material assistance to management in controlling costs. During fiscal years 1963 and 1964 the Office of Statistical Programs was activated on a limited scale, developing general program and plans within the

current Bureau personnel ceiling. By fiscal year 1965 the Department will be ready to launch a full-scale statistical program having both operating and research aspects to serve the updating of the Department's computer capabilities. For this program it is estimated that the required additional personnel will be as given above.

(b) Postal rates division

		Number
GS–15	Business economist	1
GS–11	Rates analyst	1
GS– 6	Clerk-stenographer	1
	Total	3

In fiscal year 1965, it is planned to strengthen the Postal Rates Division. With its present complement, this Division has scarcely been able to keep up with the minimum requirements of the biennial rate study in developing postal rate proposals. Comprehensive studies of the rate structure have not been attained because of the lack of manpower. It is imperative that more be known about the possible economic impact of changes in rates and structure in order that the Department can provide new approaches geared to today's needs. As a minimum to accomplish this purpose, it is estimated that the above additional positions will be required.

5. *Bureau of Facilities.*—There are eight additional employees requested in this Bureau as follows:

(a) Office of Assistant Postmaster General

		Number
GS–5	Secretary	1

This position will provide assistance to the Offices of Administrative Management and Congressional Relations. The workload of both Offices responsible for providing administrative services for headquarters operation of the Bureau of Facilities and continuing congressional liaison regarding programs of the Bureau has increased twofold over the past 2 years. Additional emphasis must be placed on the civil defense program of the Bureau and its employee relations, whereas a continuing effort must be made to maintain a current status with regard to congressional relations. Clerical support is now provided by two positions. This request will provide the necessary support required to keep work at a current level.

(b) Procurement division

		Number
GS–15	General supply officer	1
GS– 6	Secretary	1
	Total	2

These positions are required to fulfill the mission established for the Procurement Policy and Management Staff in the Office of the Director, Procurement Division. Three positions previously allotted to the Procedures and Manual Section were transferred to this staff as a nucleus. The position of general supply officer must be filled if the basic policy formulation, implementation, and administration functions assigned as a result of a joint GSA–POD survey are to be carried out. The position of secretary is required to provide clerical support to the management and policy directing staff.

(c) Realty division

		Number
GS–15	Field liaison officer	1
GS–13	Administrative officer	1
GS–13	Realty officer	1
GS– 5	Secretary	2
	Total	5

A recent survey of the Realty Division indicated definite need for support in two vital areas—administrative assistance and field liaison. Experience with the reorganized operations points to the immediate need for establishing positions to perform these duties.

The administrative officer will provide management assistance and control for the Division's programs with respect to forms, records, administrative issuances, organization, methods, and manpower, and for the coordination and preparation of replies to internal audit reports, internal communications requiring coordination within and between the Realty Division and other organizational entities of the Department. The workload of the Realty Division is such that its entire emphasis is of necessity on the processing of documents and actions leading to rental and lease construcion contracts and their administraiton. The Division has not had and does not have a position which can be assigned to the vital area of management assistance. Failure to provide this position will require highly trained realty personnel to neglect their specialized tasks while performing these duties.

The position of field liaison officer is essential if the Division is to receive and maintain current information and intelligence regarding the performance of its regional real estate offices and personnel. The field liaison officer by frequent travel to the regional offices will obtain information regarding the daily operations by intensive and informative management audits of methods, procedures, and manpower. These data will be translated into management action for improvement of the realty organization and the standardization of procedures in all regions. At the present time, headquarters personnel assist the regions in specific cases but man-hours are not available for the important job of continuing coordination by on-site investigations and audits of field operations. Failure to provide this position will seriously hamper the efforts of the Realty Division to improve its organization and procedures with the ultimate objective of effecting economies and efficiencies.

The two GS–5 secretarial positions requested will provide essential clerical services for the aforementioned officers.

The realty officer GS–13 position will support lease analysts presently engaged in reviewing and recommending action on cases initiated at headquarters and in the regions for approval of the Department's contracting officer. In addition to the work now performed by the lease analysts, a comprehensive study will be made to determine the advisability of expansion and modernization of existing Federal buildings or converting the operation to a leased facility. Also, realty officers will be required to review regional awards to determine that proper procedures have been followed and that awards have been equitable to the Department. Also, coordinators for major facilities projects will be assigned from this Branch. An additional realty officer will assure the Department that rental costs are fair and equitable and that necessary work is performed without undue delay.

6. *Bureau of Personnel.*—It is estimated that 23 additional employees are needed to meet the predicted demands of this Bureau in 1965. The rapid development over the past 2 years of a wide range of dynamic new systemwide programs in the Post Office Department has placed unprecedented demands on the Bureau of Personnel. The Bureau has had to be responsive not only to the many personnel implications of ZIP, mechanization, and other operating programs which are revolutionizing postal operations, but also it has played a central role in putting into effect and maintaining aggressive personnel programs, such as a new employee-management relations concept, a new appeals system, and a new emphasis on equal employment. All of this has been additional to its continuing responsibility for effective recruitment, placement, training, compensation, and safety policies for a staff of over 590,000 employees. An attempt has been made to meet these new demands by scheduling overtime for the present staff and by extended diversion of resources from other programs, both in headquarters and the field. This makeshift arrangement is not conducive to good management and is having an adverse effect on employee morale. The need for maintaining the new program cannot be met by such arrangements. In addition, the diversion of resources to the additional requirements has retarded the orderly development and installation of other needed personnel programs.

The 23 additional employees would be distributed as follows:

(*a*) *Board of Appeals and Review*

	Number
GS–13 Staff officer	2
GS–11 Staff assistant	3
GS–5 Secretary	2
Total	7

These employees are required to process the appeals workload anticipated in 1965. Executive Orders 10925 and 10987 require that all employees in the Post Office Department receive equitable appeal rights and prompt adjudication of their appeals. Present staffing of the board, which is charged with this adjudication responsibility, is based on the annual workload of about 300 cases. In 1963 the board received 487 cases, compared with 279 cases received in 1962. It is anticipated that about 960 cases will be received in 1964 and 1,200 cases in 1965. A serious backlog presently exists, which endangers the prompt administration of justice to affected postal employees. The proposed staffing increase should alleviate this situation:

(*b*) *Employee relations*

		Number
GS–15	Deputy division director	1
GS–13	Staff officer	1
GS– 9	Staff assistant	1
GS– 5	Secretary	2
	Total	5

These employees are required to carry out Department responsibilities under Executive Order 10988 on employee-management cooperation. This Executive order, by conferring upon Federal employees, for the first time, basically the same rights enjoyed by employees in private industry, has given an entirely new dimension to relationships between management and its employees in the Post Office Department. Because the Postal Establishment has "plants" in every community of the country, the task of administering a program of this scope is tremendous. The Bureau must consult and negotiate regularly with six organizations given exclusive recognition and six given formal recognition nationally. It must oversee contract negotiation and administration in almost 13,000 post offices, where postmasters must deal with almost 23,000 separate craft units. Finally, it must coordinate the basic research needed to develop comprehensive plans and policies for the future formal dealings between the Department employees and employee organizations.

(*c*) *Training*

		Number
GS–14	Employee development officer	1
GS–13	Staff officer	1
GS–12	Staff officer	1
GS– 6	Secretary	1
GS– 5	Secretary	1
	Total	5

These employees are needed to help the training staff meet the demands imposed on them by the new programs cited above. Since most of these activities represent a significant departure from the Department's traditional way of doing things, adequate training of affected employees, ranging from the supervisors and managers of these programs to the lowest level employees in the post offices, is absolutely imperative if these national programs are to be carried out effectively.

(*d*) *Safety*

		Number
GS–13	Staff officer	2
GS– 4	Clerk-stenographer	1
	Total	3

These employees are needed to meet the additional responsibilities imposed on the safety staff by the Department's new programs. The Post Office Department currently has the worst employee injury record of any Federal agency. It accounts for more than 50 percent of all disabling injuries in the entire Federal service, with commensurate high costs. To combat this record, the present professional safety staff in headquarters consists of three persons. The increasing number of employees in the postal service, driving an increasing number of vehicles and working with an increasing amount of mechanization, all combine to cause a geometric ascent in exposure of postal employees to acci-

dents. Specific hazard control projects must be initiated to devise methods of combating these hazards. The proposed increase in staff will permit a more rapid completion of these projects, with a resultant decrease in accident costs.

(e) Employment and placement

		Number
GS–12	Staff officer	2
GS– 5	Secretary	1
	Total	3

These employees are needed to meet the increasing demand from operating officials for help in this important area. Because many aspects of postal operations are becoming more complex, a need has developed for employees with a wider variety of skills, such as sorting machine operators, mechanics for the new equipment, and ADP equipment technicians, positions unheard of in the postal service a few years ago. This has increased the need for more basic personnel research to find the skills required to handle these tasks. Qualification standards must be developed; new tests must be devised to identify employees with the requisite skills. Developing these tests is exacting professional work because the expense of the equipment with which the employees are working permits few selection mistakes. In addition, the magnitude of the needed testing program requires that more up-to-date methods be devised to handle its administration, scoring, and processing.

7. Chief postal inspector

		Number
GS–11	Investigations evaluator	3
GS– 4	Stenographer	3
	Total	6

These employees are requested to assist in the handling of the expanding workload at the national level.

8. Internal audit (headquarters)

		Number
GS–14	Auditor	2
GS–12	Auditor	1
GS– 5	Secretary	1
	Total	4

These employees are required to handle the increased workload in the areas of contract audit; termination claims; complicated mail fraud cases; planning, directing, and supervising nationwide vertical audits; and technical direction and coordination of the finance examiner program.

9. General Counsel

		Number
GS–9	Attorney-advisor (general)	3

These employees are requested for this Office in 1965. In fiscal year 1965 we will feel the full impact of the work of the new postal inspectors authorized in fiscal 1964. This is in the area of consumer protection. Mail fraud work in the Office of General Counsel will substantially increase in 1965. An entirely new line of work began in fiscal year 1961 with the establishment of a Board of Contract Appeals to consider and settle disputes between contractors and Post Office Department. This work has been absorbed until now but has so incerased in volume that additional personnel are necessary. In fiscal year 1962 there were 19 cases. In fiscal 1963 the case load increased to 62. Some of these cases require the exclusive attention of an attorney for a substantial period of time. One hearing recently completed was in continuous daily session for 3 weeks. The assigned attorney, of course, was not available for any other work during that time.

Analysis of estimate

The estimate of $17,859,000 for 1965 is an increase of $1,385,000 to provide for the following additional costs:

1. *Pay cost, increase $301,000.*—Salary increases were provided by Public Law 87–793, effective in two phases, October 14, 1962, and January 5, 1964, respectively. The increased cost of $301,000 in 1965 represents the additional full-year effect over the part-year cost in 1964.

2. *New positions, increase $947,000.*—This increase covers the cost of salaries and personnel benefits of 114 new positions in 1965 for 92 man-years of employment. All of this increase is offset by a reduction in the regional administration account.

3. *Carryover costs, increase $246,000.*—The 29 vacancies filled and the 30 new positions added for a part year in 1964 require an additional full-year cost of $246,000 for salaries and personnel benefits.

4. *Mandatory items, increase $160,000.*—This cost is for within-grade step increases required by law.

5 *Other costs, decrease $269,000.*—This decrease is comprised of the following items:

(*a*) Decrease of $47,000 due to 1 less paid day in 1965.

(*b*) Increase of $24,000 in employee compensation fund contribution.

(*c*) Increase of $30,000 in headquarters travel to provide improved supervision by top management of the steadily growing postal service.

(*d*) Decrease of $340,000 due to biennial payment of fidelity bond premium falling in even years, not due again until 1966.

(*e*) Increase of $9,000 for the U.S. share of the additional expenses of the Universal Postal Union and the Postal Union of the Americas and Spain. This represents approximately the same pro rata share as in prior years (4.6 percent to UPU and 8.6 percent to PUAS) with the total budgets of these organizations increasing from $1,079,793 in 1964 to $1,279,671 in 1965.

(*f*) Decrease of $60,000 due to nonrecurring cost of the UPU Consultative Committee.

(*g*) Increase of $115,000 in damage claims due to an increase in the average amount per claim.

Money Order Audit

Service rendered

Paid domestic money orders flow through banks into the Federal Reserve System where they are charged against the Post Office Department's account with the Treasury and forwarded to the Post Office Department. These orders and others settled directly through certain foreign countries must be verified by comparison with the reports of original issuance. The number of money orders issued has been steadily declining as the result of competition and increases in fees. At present the volume approximates 250 million orders annually.

In the process of audit, raised, stolen, or improperly paid money orders are detected which are then referred to postmasters or to the inspection service for necessary action. The audit unit also handles inquiries as to whether or not specific orders have been paid and issues duplicate orders where originals are reported to have been lost. The work is very detailed and voluminous.

Print-punch money order machines

In 1951 the use of a punched card money order was adopted and in 1955 the audit work was centralized at Kansas City, Mo., for the entire country. Only the money order serial number was prepunched in the card. The amount was not punched until the money order reached the Federal Reserve System. A charge has always been made by the Federal Reserve for this keypunching work.

In fiscal year 1961, the Department was given funds to buy money order issuing machines which could be used in all post offices and which would punch the amount into the order at the time of issuance. Deliveries of the equipment began late in fiscal year 1962 and the machines were placed in operation in two regions. Installation of machines in the remaining regions was completed on March 29, 1963. As the money orders issued on the new machines flow into the Federal Reserve System, the Federal Reserve is no longer required to punch the amounts but can process them directly upon receipt. The annual payment to the Federal Reserve, approximately $600,000 in 1961, has now been eliminated. This saving is reflected in the operations appropriation under the clerk account. In addition, the new system will enable the Federal Reserve to detect raised money orders immediately. Under the old system, these frequently were not detected until months later when the money orders were matched with the original records at the Money Order Center at Kansas City. This early detecting will be of much assistance to the Inspection Service in apprehending persons passing raised money orders.

Closeout of Kansas City Money Order Center

Coincident with the installation of the print-punch machines, the audit of the money orders was tranferred to a computer technique and consolidated with the audit of Treasury checks at Washington, D.C., and the closeout of the Money Order Center at Kansas City moved into its final phase. The Money Order Center was discontinued on December 1, 1963, except for three caretakers for the files, and all reports of money order issues now go to the Money Order Audit Division in Washington, D.C. The last group of files at the Kansas City Center will be destroyed by March 31, 1965 (destruction age), and the caretakers will then be separated and the space released to GSA.

Money Order Audit Division, Washington, D.C.

In fiscal year 1965, 65 employees will handle the payment, inquiry servicing, and audit of the approximately 250 million money orders issued annually. The machine work on the paid money orders will be performed by Treasury on a reimbursement basis; but all contacts with banks, Federal Reserve, the public, and postmasters will be through the Post Office Department Money Order Audit Division.

Analysis of estimate

The estimate of $1,067,000 for 1965 is a decrease of $213,000 comprising the following items:

1. *Pay cost, increase $8,000.*—Salary increases were provided by Public Law 97–793, effective in two phases, October 13, 1962, and January 4, 1964, respectively. The increased cost of $8,000 in 1965 represents the additional full-year effect over the part-year cost in 1964.

2. *Mandatory items, increase $3,000.*—This cost is for within-grade step increases required by law.

3. *Carryover costs, decrease $215,000.*—The 86 positions reverted for a part-year in 1964 result in an additional full-year saving in 1965 of $215,000 for salaries and personnel benefits.

4. *Other costs, decrease $9,000.*—This net decrease consists of $2,000 for one less paid day in 1965, $9,000 less for travel and household moves, and $2,000 more reimbursement to Treasury for processing paid money orders.

HEADQUARTERS SUPPLIES AND SERVICES

This activity provided for operating expenses applicable to headquarters including rental of tabulating and office equipment; contractual services; equipment repairs; renovation and repair of office space; procurement of office supplies, furniture, and equipment; printing and reproduction; communications; and miscellaneous expenses related to headquarters use. The facilities and plant and equipment appropriations include funds for similar purposes for field use. Some difficulty was experienced in determining which appropriation should have been charged in a given case as many of the projects that originate in headquarters also apply to the field service. Furthermore, we often have purchased identical items from two separate appropriations.

To facilitate records and provide for a more businesslike arrangement; the Department proposed to the Bureau of the Budget that this activity be transferred to the facilities and plant and equipment appropriations and merged with like items and activities in those appropriations with the exception of two small items for local taxicab fare and contract stenographic service which would remain in this appropriation under the activity for executive direction and administration. The Bureau of the Budget approved the transfer on December 2, 1963.

INSPECTORS AND SCIENTIFIC, TECHNICAL, AND CLERICAL PERSONNEL

Service rendered

This estimate is to provide funds for the salaries, travel, and related costs of the Postal Inspection Service (field).

The Postal Inspection Service is charged with the responsibility for investigating all violations or alleged violations of postal laws, and maintaining the integrity and security of the mails. Under the delegation by the Postmaster General, the Inspection Service is also charged with operating the personnel and physical security program; acting as liaison for the Post Office Department with the Department of Defense; serving as the defense coordination facility for

the postal establishment; and keeping the Postmaster General and other principal officials of the Department advised on the conditions, needs, and future requirements of the Postal Service. In carrying out these responsibilities, the Inspection Service conducts annual audits and inspections of postal installations and transactions.

This estimate contains funds for the current authorized complement of 1,028 inspectors and for 464 scientific, technical, and clerical personnel, an increase of 25 over the current complement.

During fiscal year 1963, the Inspection Service conducted a total of 166,751 investigations and audit inspections. In fiscal year 1962, 45.1 percent of our time was used on criminal work; however, in 1963, 49.5 percent of our time was devoted to this work.

As a reflection of this increased emphasis on criminal cases, the Inspection Service achieved an all time record of 10,980 arrests. Thus far in fiscal year 1964 the number of arrests exceeds that of the comparable period in 1963 by a substantial margin.

Inspector personnel

This service is currently in the process of training and integrating on a scheduled basis the 50 additional inspectors authorized in the 1964 appropriation. As rapidly as these men can be trained, an equivalent number of men more experienced in criminal work will be assigned to the full-time conduct of fraud, obscenity, and depredation investigations.

Scientific, technical, and clerical personnel

As the 50 current-year inspector appointees become productive, additional clerical support will be necessary. This need will become pressing toward the end of the current fiscal year. This estimate includes funds for 21 clerical-stenographic positions to fill the need. The personnel will type reports of investigations, receive and process complaints and inquiries from the public, assist in maintaining the continuity of office operations during the absence of inspectors in the smaller offices, conduct telephone inquiries to conserve the time of inspectors, and review and distribute reports of investigation.

Four trainee document examiners are also requested for assignment to field identification laboratories. The increase in time devoted to criminal work has had a commensurate effect on the number of requests received by the laboratories for handwriting, typewriting, and physical evidence analyses. Similarly, with the establishment of 50 additional specialized fraud, obscenity, and depredation assignments in 1964 and early 1965, demands on the laboratories can be expected to increase. In fiscal year 1962 some 7,810 questioned exhibits were analyzed in the field laboratories. In 1963 analyses were made in 15,142 questioned matters. Some 1,600 remained on hand at the close of the year. This experience would indicate that a minimum of 23,000 questioned matters will probably require analysis in 1965. Timely attention and extreme care are of the utmost importance in this work. In view of the training requirements, little in the way of independent production can be anticipated during the first year. It is therefore apparent that steps must be taken promptly to develop additional employees for these laboratories to meet the increasing workload in 1965 and 1966.

Analysis of estimate

The estimate of $19,424,000 for 1965 is an increase of $644,000 to provide for the following additional costs:

1. *Pay cost, increase $340,000.*—Salary increases were provided by Public Law 87–793, effective in two phases, October 13, 1962, and January 4, 1964, respectively. The increased cost of $294,000 for inspectors and $46,000 for scientific, technical, and clerical personnel in 1965 represents the additional full-year effect over the part-year cost in 1964.

2. *New positions, increase $145,000.*—This increase covers the cost of salaries and personnel benefits of 25 new scientific, technical, and clerical positions in 1965 for a full year.

3. *Mandatory items, increase $123,000.*—Of this amount, $108,000 is for inspectors and $15,000 is for scientific, technical, and clerical personnel to cover the cost of within-grade step increases required by law.

4. *Carryover costs, increase $90,000.*—The 50 new inspector positions added for a part year in 1964 require an additional cost in 1965 of $90,000 for salaries and personnel benefits on a full-year basis.

5. *Other costs, decrease $54,000.*—One less paid day in 1965 accounts for decreases of $41,000 for inspectors and $13,000 for scientific, technical, and clerical personnel, or a total reduction of $54,000 in the estimate.

INTERNAL AUDIT (FIELD)

Services rendered

This estimate provides for the salaries, travel, and related costs of the Internal Audit Division (field).

The prime mission of the Internal Audit Division is to conduct independent audits and evaluations of systems, methods, and controls employed in the programs and operations of the Post Office Department. Reports of internal auditors provide a systematic means of focusing management's attention on problem areas and of recommending corrective action. The major emphasis in the audit program is directed to assuring the proper utilization of resources and the effectiveness of organizations, methods, and controls.

Personnel

An increase of five positions is requested for fiscal year 1965. These additional positions are predicated on increased workload in the following areas of work:

1. *Finance examiner program.*—The responsibility for the technical direction of this program has been assumed by the Bureau of the Chief Postal Inspector. The Internal Audit Division will be concerned with two major aspects:

(*a*) Preparation and continued monitoring of the governing instructions and their implementation.

(*b*) Training of finance examiners in revised or new concepts of their duties. The finance examiner program is regarded as a vital element of the overall program for internal auditing and will need continuing attention and supervision by personnel with broad auditing experience.

2. *Participation in mail fraud cases.*—While mail fraud casework is not an integral part of the internal audit program, the specialized skills of accounting-trained auditors (usually CPA's) are sometimes needed in the development and prosecution of the case. The use of these "in-house skills" is, of course, advantageous to the Department, and is providing a type of professional accounting service which materially strengthens the Department's position. These assignments usually cover extended periods of duty, and the number of such assignments is increasing due to the expansion of the fraud investigation program.

3. *Contract audit work.*—The audit staff time to carry out the audit of cost-type contracts and the related services to the contract administration officials continues to increase. The time devoted to analyses of proposals, contract amendments and on-site verifications is becoming increasingly extensive and new procurement areas are generating unexpected demands for audit services. The contracting procedures are now giving more consideration to analyses and on-site examinations of contractor proposals. Internal Audit makes analyses of cost and price estimates and proposals, and conducts audits for determining allowable costs. Such audits strengthen the negotiating and contract administration process, and help insure the reasonableness of prices negotiated and amounts paid by the Department. Audits of progress payments under fixed-price advertised contracts are also requiring more manpower.

Analysis of estimate

The estimate of $1,482,000 for 1965 is an increase of $116,000 to provide for the following additional costs:

1. *Pay cost, increase $26,000.*—Salary increases were provided by Public Law 87–793, effective in two phases, October 13, 1962, and January 4, 1964, respectively. The increased cost of $26,000 in 1965 represents the additional full-year effect over the part-year cost in 1964:

2. *New positions, increase $50,000.*—This increase covers the cost of salaries and personnel benefits of five new positions in 1965 for a full year. The positions required to carry the additional workload are four PFS–13's and one PFS–5.

3. *Mandatory items, increase $25,000.*—This cost is for within-grade step increases required by law.

4. *Carryover costs, increase $19,000.*—The six vacancies filled for a part year in 1964 require an additional cost in 1965 of $19,000 for salaries and personnel benefits on a full-year basis.

5. *Other costs, decrease $4,000.*—One less paid day in 1965 accounts for this decrease.

REGIONAL OPERATION

General

This estimate provides funds for salaries, travel, and related expenses for operation of the 15 regional offices.

The regional administration offices are responsible under authority delegated from departmental headquarters for all postal field activity except Inspection Service work and Bureau of Facilities field installations.

The finance divisions of the regional offices provide the staff services needed to carry out the financial control and management responsibilities assigned to the regional directors. The proper handling of finance functions in the regional offices is a key factor in the decentralized management of the postal field service.

Service rendered

1. *Regional administration.*—These offices direct the operation of 34,500 post offices involving some 590,000 field employees of the Post Office Department. They manage the handling and movement of all domestic and foreign mail within their geographic areas. In the course of carrying out their responsibilities, they function as follows:

(*a*) Maintain management controls on postal operations;
(*b*) Provide guidance and specialized assistance to post offices;
(*c*) Direct management and operating surveys in post offices;
(*d*) Direct surface and airmail transportation;
(*e*) Administer building, space and equipment programs and services;
(*f*) Direct motor vehicle and supply services;
(*g*) Direct personnel administration;
(*h*) Control funds and other resources of the Department; and
(*i*) Keep officials in departmental headquarters currently informed of significant developments.

2. *Regional finance.*—The regional controllers are responsible for the performance of those functions which help the regional directors and responsible officials in departmental headquarters control and manage funds and other resources of the Department. The major finance functions performed by the regional finance divisions are pay processing, general accounting, disbursing, financial control, and special services for operating divisions. The magnitude and importance of the regional finance functions may be judged from the fact that 85 percent or more of the Department's annual operating budget of more than $4.5 billion is administered in the regions.

The biweekly issuance of payroll checks to 590,000 employees comprises a workload of more than 15 million payroll accounts annually, involving not only complicated pay and leave computations but also separations, salary changes, withholdings for Federal and State taxes, retirement, insurance, health benefits, and bond purchases.

The general accounting functions provide for the maintenance of proper records of all accounting transactions including appropriated funds; more than 34,000 postmasters' accounts and property records; and for the examination, verification and settlement of claims, including those for rail, air, and highway transportation, tort and indemnity claims; and rent, utility, and supply bills.

The financial control function includes responsibility for the regional budget and planning control program and for the analysis and reporting of operating costs. The budget and control program provides the means of advising regional management of all regional budget matters; establishing and maintaining controls to prevent overobligation of funds chiefly through issuance of man-hour and other allowances to postmasters; reporting progress under approved financial targets and allotments; analyzing budgetary trends and statistics for management; and providing technical supervision for budget activities in large operating installations to improve the accuracy of operating budgets and targets by improving forecasts of revenues, workload, and man-hours. Responsibility for the analysis and reporting of operating costs is carried out by accumulating, analyzing, and reporting cost data, postal program progress, and cost ascertainment data, including work and volume measurement, man-hours, and production; developing cost control programs to produce comparative statistics as management tools in measuring and regulating operating costs; evaluating operating

and financial reports, identifying significant changes and preparing interpretations and recommendations for management. The cost control program also affords the means of providing technical guidance on financial and statistical aspects of work measurement, mail count, and reporting mail volume and man-hour usage, and conducting cost studies to measure the effectiveness of new machinery, procedures, and facilities. The reliability and effectiveness of the work measurement system and the accuracy of budget forecasts are products of the financial control function essential to sound management of the postal system at every level of decision from the local post office to the national administration and congressional oversight of the service.

Special services for operating divisions include a variety of studies and reports to assist those divisions in carrying out their responsibilities. These services may be performed by one or more branches of the Finance Division and normally extend over relatively short time periods.

Position reduction in finance

The combination of the Denver Finance Division with the Dallas Regional Finance Division and the installation of series 1401 tape computer systems in the 10 largest regions will result in savings in positions as follows:

1401 computer installations	172
Denver-Dallas finance combination	41
Total positions saved	213

Because it is not practicable to drop all employees at the time positions are declared surplus, it is necessary to carry 80 of the surplus positions through fiscal 1964.

These 80 positions are being dropped in fiscal 1965.

Positions transferred to administration, 1964

The nature of certain new programs undertaken by the Department requires vigorous support by the regions. Because of the limited number of regional personnel available, it became necessary to draw on post offices to insure the success of the programs. While the duration and magnitude of the work could not be predicted when the programs were started, the experience gained to date has made it possible to determine the continuing workload. Since the programs have added to the responsibilities and workload of the regions, it will be necessary to convert the 133 Finance Division vacancies to new positions in regional administration.

The specific programs which have affected the regional offices are as follows:

1. *Executive orders.*—The new functions resulting from the equal employment opportunities and employee-management relations Executive orders have added to the regional workload. This is a continuing added workload which will not decrease, and it has become necessary to assign personnel on a regular basis to handle the work.

2. *Zone improvement program.*—The ZIP code program—an entirely new program—will have its greatest impact on the postal service when it can be utilized by large mailers to presort mail. The acceptance of the program by the public can only be accomplished if postal officials can work closely with mailers—overcoming objections and resolving problems. Effective groundwork by personnel of the regional offices over the next several years is the only way to assure its success.

3. *Vertical improvement mailing*—A new program with the objective of reducing the number of carriers required to serve tall buildings by use of conveyor systems will require extensive effort on the part of the regions. As the program objectives cover installations in old buildings as well as new buildings, active regional participation is necessary for the success of the program.

4. *Parcel post.*—A study of parcel post has been initiated with a twofold objective—service improvement and cost reduction. Emphasis is being given to proper packaging and reducing the number of damaged parcels. The success of this study will require postal officials to work closely with package manufacturers and package mailers throughout the country.

5. *Postal service officer program.*—Postal service officers, because of their extensive postal background, are natural choices to participate in and follow through with management programs. To assure a continuous supply of qualified replacements as vacancies occur, a training program has been initiated. However, complement limitations make it desirable that an existing position be surrendered for each new postal service officer trainee position authorized, and this need is being met in part by utilizing certain of the finance vacancies.

6. *Post office management and service improvement program.*—POMSIP is a management improvement program involving a comprehensive analysis of all phases of post office operation. The regions have the responsibility for extending the surveys to all post offices with city delivery, and for followup to assure that savings made are continued. The effective discharge of this responsibility depends upon the availability of highly competent staff in the reigonal offices.

7. *Plant maintenance.*—New mechanical mail-handling equipment and increased numbers of air-conditioning installations have added to the plant maintenance workload. Without an adequate preventive maintenance program, administered by plant maintenance technicians, equipment breakdowns can cause serious delays in mail movement and greatly increase the costs of handling mail.

8. These and other programs will have a significant impact on future economies in the postal operations. These program needs, plus the increasing workload due to growth of the postal service, make it absolutely necessary to utilize every available vacancy to provide adequate staff for the regional administration functions. It may be noted that the 2,482 positions in regional administration represent less than one half of 1 percent of the total postal employees, and that this modest investment in management has the greatest import for efficiency and economy in the entire postal service.

Functional transfer, 1964

In the interests of better administration, a small number of contract engineers paid from the research, development, and engineering appropriation were replaced with regular permanent classified employees under the jurisdiction of the regional director. To fund vacancies allocated within the regional complement for this purpose, it was necessary to transfer $87,000 from the research, development, and engineering appropriation to the administration and regional operation appropriation.

Personnel, 1965

Eighty fewer positions are being requested for fiscal year 1965.

Analysis of estimate

The estimate of $46,623,000 for 1965 is an increase of $1,516,000 to provide for the following additional costs:

1. *Pay cost, increase $727,000.*—Salary increases were provided by Public Law 87–793, effective in two phases, October 13, 1962, and January 4, 1964, respectively.

The increased cost of $480,000 for regional administration and $247,000 for regional finance represents the additional full-year effect over the part-year cost in 1964.

2. *Mandatory items, increase $340,000.*—Of this additional amount, $261,000 is for regional administration and $79,000 is for regional finance to cover the cost of within-grade step increases required by law.

3. *Reduction in positions, decrease $956,000.*—A reduction of 80 positions is reflected in the estimates for 1965 which will result in savings in personnel costs of $956,000.

4. *Carryover costs, increase $1,391,000.*—The filling of 213 vacancies for a part year in 1964 requires an additional full-year cost in 1965 of $1,391,000 for salaries and personnel benefits.

5. *Other costs, increase $14,000.*—This net increase is comprised of the following items:

(*a*) 1 less paid day in 1965	—$167,000
(*b*) Travel and household moves	152,000
(*c*) Adjusted losses	29,000
Total	14,000

Mr. GARY. I believe, Mr. Belen, you are going to testify on that item.

Mr. BELEN. Yes, sir; I have an initial statement, if it pleases the chairman.

Mr. GARY. We shall be very glad to hear from you at this time.

GENERAL STATEMENT OF DEPUTY POSTMASTER GENERAL

Mr. BELEN. I appreciate this opportunity to appear before this committee and to assist in explaining the budget estimates for the ad-

ministration and regional operation provisions for fiscal year 1965.

As the Postmaster General indicated yesterday, I have assumed this responsibility rather recently. We do have this statement which represents the combined thinking of the people concerned with this particular activity and I have with me the people that assisted in preparing it and I would be appreciative if they could participate in answering some of the discerning questions that I am sure will be necessary.

This appropriation provides the funds necessary for central direction and administration of the entire postal system from headquarters, for field inspection service, and for decentralized administration through extensive delegations of responsibility and authority to our regional directors.

As the chairman indicated, the 1965 budget estimate for this appropriation is $86.455 million, an increase of $2,955 million over the amount appropriated for the fiscal year 1964. On an obligation basis this increase is $3.448 million. I might add, sir, we have a little schedule that might show the adjustment which might be helpful at the proper time.

This increase comes about because of (1) salary increases authorized by Public Law 87–793, (2) carryover costs from 1964, and (3) our urgent need for a small net increase in management-related employment to expand our policy and top staff direction capability to cope with the ever-increasing problems of management of a complex and farflung operation. The increases requested are, we believe, modest, yet essential if we are to develop the quality of management necessary to improve productivity and reduce mail handling costs, and at the same time provide adequate service.

In other words, we believe they are all pretty much directly related to the job we are all trying to do, look at the overall cost of operating the postal service.

Mr. GARY. Without objection, the table to which you refer, Mr. Belen, will be inserted at this point in the record.

(The information referred to follows:)

	Thousands
1964 appropriation	$83,500
Transfers in from—	
Transportation—funds	500
Research, development, and engineering—contract engineers	87
Total	+587
Transfers to—	
Facilities	1,005
Plant and equipment	75
Total	—1,080
1964 obligations	83,007
1965 estimate	86,455
Increase—obligation basis	3,448
1964 appropriation	83,500
1965 estimate	86,455
Increase—appropriation basis	2,955

Mr. BELEN. This appropriation comprises three activities: (1) executive direction and administration, (2) field inspection service, and (3) regional operation. Mr. Montague will cover the field inspection service activity, and Mr. Bunn will explain the regional operation activity.

EXECUTIVE DIRECTION AND ADMINISTRATION

We are requesting an increase of 114 positions for headquarters administration under executive direction and administration, the total cost of which will be financed through the elimination of related positions in the regional offices.

OFFICE OF THE POSTMASTER GENERAL

We are requesting an increase of three positions in the Office of the Postmaster General as follows:

OFFICE OF REGIONAL ADMINISTRATION

The proposed new positions, a contract specialist and a secretary, are needed to administer a program in the 15 regional offices, under Executive Order 10925, which will enable the Department to determine whether nondiscrimination is being practiced in contracts with private individuals or companies for goods or services. In addition, a second secretarial position is needed in the office of regional administration. The present secretary is assigned to handle the work of four individuals, but the workload has exceeded what this secretary is able to handle.

OFFICE OF DEPUTY POSTMASTER GENERAL

We are requesting an increase of eight positions in the Office of the Deputy Postmaster General, as follows:

An engineer to assist the postal modernization coordinator is needed to give added professional assistance in coordinating all aspects of the postal modernization and mechanization program.

We are requesting two professional personnel and one secretary to provide additional technical guidance in planning, developing, and installing data processing systems. ADP techniques are playing a very important role in improving the management of the postal service and providing a sound basis for effective cost control and significant cost reduction.

To an ever-increasing extent, we are using automatic data processing techniques in implementing the ZIP code program and in developing scheme (routing) systems and for better transportation media and routing. Present plans for fiscal 1965 call for a major effort to take full advantage of the technical breakthroughs in this technology, in the developing of significant operating economies, as for example, the expedited consolidation of regional data processing centers.

Three professional personnel and one secretary are needed to handle the coordination and review of (1) overall departmental management matters of sufficient importance to require the attention of the Deputy Postmaster General, (2) proposed revisions in departmental and regional organization and complement control, and (3)

integration of significant management data and reports in order to facilitate prompt and appropriate decisions by the Deputy Postmaster General.

BUREAU OF OPERATIONS

We are requesting an increase of 34 positions for the Bureau of Operations, as follows:

Materials Handling Division, 14: We are requesting 14 positions comprising 11 professional personnel and 3 clerk-stenographers to create a Materials Handling Division. Over a billion parcels and many more millions of other bulk mail are handled annually by the postal service. However, we have lacked a staff to study and supervise this functional area. The Materials Handling Division would be responsible for a continuing realistic appraisal of the problems related to handling this type of mail, for devising procedures and methods for handling bulk mail efficiently and economically, and for responding quickly to changing conditions as they occur.

I believe, Mr. Chairman, the Postmaster General commented on the fact we were going to make an extensive effort to do something about parcel post and we do not have even one single person right now that can be allocated to this function and we think out of this is bound to come a need of this headquarters for this really tremendous activity of the postal service.

Administration and maintenance of program goals, 20: During the past 2 years, the Bureau of Operations inaugurated several wide-range programs for improving service and management. As a result of these programs, the Bureau has developed some significant programs to improve service and reduce costs. These include the streamlined handling of mail in high-rise buildings, same-day delivery in business districts, and a significant breakthrough in achieving patron cooperation by the inauguration of the ZIP code program. Lack of full-time staff to direct and promote these programs is a serious deterrent to maintaining bureau goals. To assure achieving realistic program goals for fiscal 1965, we are requesting an increase of 20 positions as follows:

Space and Mechanization Requirements Division: Two space analysts and two mechanization requirements officers.

Installations Management Division: Nine management services coordinators.

Distribution and Delivery Division: Four distribution and delivery specialists and one vehicle requirements officer.

In addition, two secretaries will be needed for the above staff.

BUREAU OF TRANSPORTATION AND INTERNATIONAL SERVICES

We are requesting 10 additional positions as follows:

Domestic Transportation Division, three: Highway Transportation Branch: Three additional employees are required to appraise the justification for, and the validity of, proposed service changes and to evaluate the related survey reports from regions.

Again, as the Postmaster General indicated we are making an extensive study of the whole transportation pattern and all of this means simply coordination at the Washington level.

Air Transportation Branch: One additional employee is required to study air carrier schedules, airmail routings, and carrier performance.

Railway Transportation Branch: Four additional employees are required for general administration of railway transportation, liaison with the field, and appraisal of performance of carrier companies and transfer clerks.

Research and Development Division, two: Development Branch: Two additional employees are requested to coordinate the Bureau's activities, and to collaborate with other bureaus and the Office of Research and Engineering, on facilities planning and surveys.

BUREAU OF FINANCE

The 15 additional positions requested in 1965 are as follows:

Office of Statistical Programs, 12: During fiscal years 1963 and 1964, the Office of Statistical Programs was activated on a limited scale, developing general program and plans within the current Bureau personnel ceiling. In fiscal year 1965, the Department will be ready to launch a full-scale statistical program, having both operating and research aspects, to serve the updating of the Department's computer capabilities.

This far-reaching program will make it possible to substantially improve the quality and reliability of the Department's operating statistics and at the same time provide them on a more current basis at eventually less cost. The additional staff would comprise two mathematical statisticians, six statisticians, two clerk-stenographers, and two statistical clerks.

STATISTICS FOR PERSONNEL CEILING

I might mention one incident, Mr. Chairman, that will indicate the importance of having enough staff to get quick, accurate statistics. We took the personnel ceiling off the field force in August, feeling that we had really tightened this thing down and expected the regions to kind of hold the cork on the bottle. We found that just in the time from November to January, when we missed the statistics during Christmas, that there had been about 10,000 employees added that we just had no idea had been added.

Now, of course, we are putting the ceiling on again and are trying to get down and that is one reason why we have the pressure to get down. But it shows how quickly, with such a big field force, that things can get out of hand and the importance of just a few people to get that on my desk when I need it. The pressures are on the postmaster or postmasters, of course, to eliminate curb service and give door service and all of that and it just seems adding 1 or 2 people here or 2 or 3 there does not seem like much but when you have 3,000 offices or better that have carrier service all you do is add 1 carrier and you have had it.

Postal Rates Division, three: Two additional professional positions and one clerk-stenographer are needed for this Division. With its present complement, the Division has scarcely been able to keep up with the minimum requirements of the biennial rate study in developing postal rate proposals.

BUREAU OF FACILITIES

Eight additional employees are requested for this Bureau as follows:

Office of Assistant Postmaster General, one: An additional secretary is required to provide assistance to the Offices of Administrative Management and Congressional Relations. The workload in these Offices has increased twofold over the past 2 years.

Procurement Division, two: The position of general supply officer must be filled if the basic policy formulation, implementation, and administrative functions are to be carried out. The position of secretary is required to provide clerical support to the management and policy directing staff.

Realty Division, five: A recent survey of the Realty Division indicated definite need for support in two vital areas—administrative assistance and field liaison. We are requesting:

One field liaison officer for continuing coordination by on-site investigations and audits of field operations;

One administrative officer to provide management assistance and control for the Division's programs on forms, records, administrative issuances, organization, methods, and manpower, and for the coordination and preparation of replies to internal audit reports;

One realty officer to assist with the heavy workload in the Realty Division; and

Two secretaries.

BUREAU OF PERSONNEL

The rapid development during the past 2 years of a wide range of dynamic new programs in the Post Office Department has placed unprecedented demands on the Bureau of Personnel. The Bureau has had to be responsive to the many personnel implications of ZIP code, mechanization, and other operating programs which are revolutionizing postal operations. It has also played a central role in putting into effect and maintaining progressive personnel programs such as a new employee-management relations concept, a new appeals system, and new emphasis on equal employment. All of this has been additional to the Bureau's continuing responsibility for effective recruitment, placement, training, compensation, and safety policies for a staff of over 590,000 employees. The diversion of present limited resources to these additional requirements has retarded the orderly development and installation of other needed personnel programs.

The 23 additional employees will be needed for the following:

Board of Appeals and Review, seven: Seven additional employees are required to process the appeals workload anticipated in 1965. Executive Orders 10925 on equal employment opportunity in the Federal Government and 10987 on grievance appeals procedures require that all employees in the Post Office Department receive equitable appeal rights and prompt adjudication of their appeals. A serious backlog now exists; the proposed increase should alleviate this situation.

Employee Relations Division, five: Five additional employees are required to carry out Department responsibilities under Executive Order 10988 on employee-management cooperation. This Executive order, by conferring upon Federal employees, for the first time, basic-

ally the same rights enjoyed by employees in private industry, has given an entirely new dimension to relationships between management and postal employees. Because the Postal Establishment has "plants" in every community of the country, the task of administering a program of this scope is tremendous.

Training Division, five: Five additional employees are needed to help the training staff meet the demands imposed on them by the new programs mentioned above.

Safety Division, three: Three employees are needed to meet the additional responsibilities imposed on the safety staff by the Department's new programs.

Employment and Placement Division, three: Three additional employees are needed to meet the increasing demands from operating officials for assistance in this work area. Because many aspects of postal operations are becoming more complex, a need has developed for employees with a wider range of skills such as sorting machine operators, mechanics for the new equipment, and ADP equipment technicians—positions unheard of in the postal service a few years ago.

BUREAU OF THE CHIEF POSTAL INSPECTOR (HEADQUARTERS)

Chief Postal Inspector, six: Three investigation evaluators and three stenographers are requested to assist in handling the expanding workload at the national level.

I might say one just needs to read the papers to see that the increasing emphasis that has been on major cases in mail fraud and things of that sort, that when they attract national attention the impact is on this Washington office to see that we have the proper answers on inquiries that come to us from all sources.

Internal Audit (Headquarters), four: Three auditors and one secretary are required to handle the increased workload in the areas of contract audit, termination claims, and complicated mail fraud cases.

OFFICE OOF THE GENERAL COUNSEL

Three additional positions are required to handle the greatly increased workload in the areas of mail fraud and consumer protection, and Board of Contract Appeals—consideration and settlement of disputes between contractors and the Department.

Total increase, executive direction and administration, 114.

Recapitulation of requested increases in personnel

Executive direction and administration	114
Field Inspection Service	30
Regional operations savings	—80
Total (net), administration and regional operation appropriation	64

Conclusion: The schedules in the justification for regional operations reflect a decrease of 80 positions, with a reduction in costs of $956,000, as a result of installing series 1401 tape computer systems. The cost of the 114 additional positions requested in this statement is estimated at $947,000. As previously stated, we are not asking for any additional money for these 114 positions. Instead, we are requesting permission to use the savings we have generated in the regions to cover the cost of the 114 additional positions.

We believe this small number of additional positions is essential to equip headquarters to provide sound direction, guidance, and followup of our programs to improve manpower utilization and control, to reduce costs, and to improve service.

Mr. GARY. Thank you, Mr. Belen.

Now, Mr. Murphy, I believe, is going to make a statement with reference to personnel; is that correct?

Mr. MURPHY. Yes, sir.

Mr. GARY. We will be glad to hear from you at the present time.

STATEMENT OF ASSISTANT POSTMASTER, BUREAU OF PERSONNEL

Mr. MURPHY. Thank you, Mr. Chairman, for the opportunity of appearing this morning. I have submitted to the clerk, Mr. Gunnels, a statement, a very brief statement which, with your permission, I will not read but make available. I would like to make a few comments.

Mr. GARY. It is not long. It would be helpful to the committee if you read it.

IMPROVED MANPOWER UTILIZATION

Mr. MURPHY. Mr. Chairman and members of the committee, although we have continued the advancement of sound personnel management in all phases of our program during the past year, priority attention has been directed toward those specific items which will reduce costs and improve manpower utilization.

Specifically, we have taken action to:

1. Improve internal selection of employees.

(*a*) We have developed written qualification specifications for 123 post office positions in collaboration with the Civil Service Commission to provide postmasters with standards in selecting employees for assignment.

I have a copy of that available, Mr. Chairman, which I will submit to you.

(*b*) We have conducted a new supervisory examination, tabulated the results and are now in the process of issuing instructions and eligible lists to postmasters. Improved techniques and procedures resulted in a cost reduction of $54,000 in conducting this examination. And over 75,000 people participated nationwide.

(*c*) We have developed plans for better utilization of post office employees assigned to Civil Service Boards of Examiners. These technicians, skilled in civil service entrance requirements will also be used to assist postmasters in internal selection of employees by administering certain noncompetitive tests and applications of the new qualification standards.

POSITION EVALUATION

2. Installed a new system of evaluating position classification as a basis for assuring proper periodic review of position levels in postal installations as required by Public Law 87–793.

(*a*) Data processing equipment in regional offices is now used for the annual review of positions by presenting current standings in such fashion as to facilitate a quick and reliable analysis by field officials.

(*b*) Occupational groups such as accounting, personnel, motor ve-

hicles and maintenance positions have been surveyed in cooperation with the bureaus functionally responsible, to attain better position alinement and to establish standard positions.

(*c*) We have eliminated a large variety of individual position descriptions by development of standard positions, thereby increasing uniformity of organization structure and facilitating allocation to appropriate levels.

SPECIALIZED TRAINING

3. Increased technical and administrative skills through specialized training.

(*a*) Based on an evaluation of past experience we have developed plans to improve orientation for newly appointed postmasters.

(*b*) Evaluated activities of regional training staffs and training officers in large post offices as a basis for redirecting their efforts and updating programs based on service needs.

(*c*) Initiated a project, as requested by the Bureau of Operations, to develop a new approach to training post office supervisors in managing and utilizing employees. An evaluation survey of existing supervisory training in post offices has been completed. We are attempting to introduce new ideas on management training and relate these to practical supervisory techniques and problems, as revealed by POMSIP studies.

EMPLOYEE SUGGESTION PROGRAM

4. Expanded operation teamwork—reduced paperwork and the number of persons required to review and control employee suggestions. We eliminated at least three levels of review and expedited suggestion evaluation and adoption.

I might say, Mr. Chairman, that so far this particular program has succeeded in increasing the number of suggestions made this year by 45 percent already compared to the total number made during the same period last year and adopted a number in excess of that, so we are very pleased with this particular operation.

(The data referred to follows:)

	Through Dec. 7 1962	Through Dec. 6 1963	Percent Increase	Through Feb. 1 1963	Through Jan. 31 1964	Percent Increase
Suggestions received	34,951	47,615	36	45,253	65,461	45
Suggestions adopted	5,615	7,982	42	7,496	11,624	55

EMPLOYEE RELATIONS

5. Attained better utilization of employee-management relations staffs.

(*a*) Established 1-day monthly consultation meetings with employee organizations. This reduced the number of individual meetings required with organization representatives at the national, regional, and post office levels.

(*b*) Streamlined internal appeals processing procedures. Reduced paper handling and staff time required to brief and prepare appeals for final decision in headquarters.

(*c*) Reduced backlog of appeals awaiting adjudication. This in turn reduced correspondence workload with employees, employee organizations, and Members of Congress on pending cases.

These five major projects are just a start toward our goal to make every personnel function as efficient as possible while providing improved service to operating management and our employees. Further advances will be possible provided the Bureau of Personnel is given the staff resources to adequately tackle the increasing Bureau workload.

Mr. GARY. Thank you, Mr. Murphy.

INCREASE IN HEADQUARTERS PERSONNEL

Now the total increase in personnel in headquarters operation is 114 positions, offset by the decrease of 80 in the regional operation due to the installation of automatic data computing equipment which leaves a net increase over 1964 of 64 positions, is that correct?

Mr. BELEN. Yes, sir.

Mr. GARY. Do you anticipate any additional savings in personnel due to the installation of data computing equipment in the regions?

Mr. BELEN. Yes, that is forecast for next year as part of our presentation.

Do you have the figures on that, Mr. Bunn?

Mr. BUNN. By the end of fiscal 1965 we anticipate we will pick up 300 additional positions in the regions but we are only putting in $500,000 savings because we are going to be doing this over a period of time. We are not going to be able to pick up the 300 in the full fiscal year.

Mr. NICHOLSON. As Mr. Gronouski mentioned, this additional 300 positions is not reflected in the budget. The 64 net increase is reflected.

Mr. NICHOLSON. And to that should be added the minus 300 positions that Mr. Bunn has just reviewed.

Mr. GARY. They are actual positions and not average positions?

Mr. BUNN. It will be actual positions by the end of fiscal 1965 but they won't be the whole fiscal year.

Mr. GARY. I understand.

Could you estimate what it will probably do?

Mr. BUNN. In terms of dollars we estimate $500,000 during fiscal 1965, and $4 million after fiscal 1965.

Mr. BELEN. That will be a little less than 100 man-years, about 75.

Mr. GARY. Will you provide a table for the record indicating for the total 114 positions the proposed grade, title, salary, and proposed assignment?

Mr. BELEN. We will be glad to provide that.

(The data referred to follows:)

Administration and regional operation, 1965, headquarters administration new positions requested

Bureau, Office, and position title	Positions requested			
	General schedule		Number	Total annual salaries
	Grade	Salary		
Postmaster General and Deputy Postmaster General:				
Office of Regional Administration (PMG):				
Contract specialist	15	$15,683	1	$15,683
Secretary	5	4,701	2	9,402
Postal modernization (DPMG): Postal modernization coordinator	14	13,624	1	13,624
ADP management (DPMG):				
ADP professional technician	13	11,731	1	11,731
Do	12	9,984	1	9,984
Secretary	5	4,701	1	4,701
Management Systems Division (DPMG):				
Professional personnel	12	9,984	3	29,952
Secretary	5	4,701	1	4,701
Total, Postmaster General and Deputy Postmaster General			11	99,778
Bureau of Operations:				
Materials Handling Division:				
Director	15	15,683	1	15,683
Assistant Director	15	15,683	1	15,683
Materials handling specialist	14	13,624	4	54,496
Do	13	11,731	3	35,193
Materials handling analyst	9	7,030	2	14,060
Clerk-stenographer	5	4,701	3	14,103
Space Requirements Branch:				
Senior space analyst	14	13,624	1	13,624
Space analyst	13	11,731	1	11,731
Post Office Management and Service Improvement Program Branch: Management services coordinator	14	13,624	9	122,616
Mechanization Requirements Branch: Mechanization requirements officer	13	11,731	2	23,462
Distribution Procedures Branch: Distribution procedures specialist	13	11,731	2	23,462
Delivery Services Branch:				
Delivery services specialist	13	11,731	2	23,462
Secretary	5	4,701	1	4,701
Vehicle Utilization Branch:				
Vehicle requirements officer	13	11,731	1	11,731
Secretary	5	4,701	1	4,701
Total, Bureau of Operations			34	388,708
Bureau of Transportation and International Services:				
Domestic Transportation Division:				
Highway Transportation Branch:				
Highway transportation officer	12	9,984	1	9,984
Staff officer	11	8,424	1	8,424
Clerk	4	4,222	1	4,222
Air Transportation Branch: Air transportation specialist	9	7,030	1	7,030
Railway Transportation Branch:				
General railway transportation officer	13	11,731	1	11,731
Railway transportation officer	12	9,984	1	9,984
Staff officer	11	8,424	1	8,424
Clerk-typist	4	4,222	1	4,222
Research and Development Division: Development Branch:				
General transportation officer	13	11,731	1	11,731
Transportation officer	11	8,424	1	8,424
Total, Bureau of Transportation and International Services			10	84,176

Administration and regional operation, 1965, headquarters administration new positions requested

Bureau, Office, and position title	Positions requested			
	General schedule		Number	Total annual salaries
	Grade	Salary		
Bureau of Finance:				
Office of Statistical Programs:				
Mathematical statistician	15	15,683	2	31,366
Statistician	14	13,624	2	27,248
Do	12	9,984	2	19,968
Do	11	8,424	2	16,848
Clerk-stenographer	6	5,242	2	10,484
Statistical clerk	5	4,701	2	9,402
Postal Rates Division:				
Business economist	15	15,683	1	15,683
Rates analyst	11	8,424	1	8,424
Clerk-stenographer	6	5,242	1	5,242
Total, Bureau of Finance			15	144,665
Bureau of Facilities:				
Office of Assistant Postmaster General: Secretary	5	4,701	1	4,701
Procurement Division:				
General supply officer	15	15,683	1	15,683
Secretary	6	5,242	1	5,242
Realty Division:				
Field liaison officer	15	15,683	1	15,683
Administrative officer	13	11,731	1	11,731
Realty officer	13	11,731	1	11,731
Secretary	5	4,701	2	9,402
Total, Bureau of Facilities			8	74,173
Bureau of Personnel:				
Board of Appeals and Review:				
Staff officer	13	11,731	2	23,462
Staff assistant	11	8,424	3	25,272
Secretary	5	4,701	2	9,402
Employee Relations Division:				
Deputy Division Director	15	15,683	1	15,683
Staff officer	13	11,731	1	11,731
Staff assistant	9	7,030	1	7,030
Secretary	5	4,701	2	9,402
Training and Development Division:				
Employee development officer	14	13,624	1	13,624
Staff officer	13	11,731	1	11,731
Do	12	9,984	1	9,984
Secretary	6	5,242	1	5,242
Do	5	4,701	1	4,701
Safety and Health Division:				
Staff officer	13	11,731	2	23,462
Clerk-stenographer	4	4,222	1	4,222
Employment and Placement Division:				
Staff Officer	12	9,984	2	19,968
Secretary	5	4,701	1	4,701
Total, Bureau of Personnel			23	199,617
Bureau of the Chief Postal Inspector:				
Investigations evaluator	11	8,424	3	25,272
Stenographer	4	4,222	3	12,666
Total, Bureau of the Chief Postal Inspector			6	37,938
Internal Audit Division (Headquarters):				
Auditor	14	13,624	2	27,248
Do	12	9,984	1	9,984
Secretary	5	4,701	1	4,701
Total, Internal Audit Division			4	41,933
Office of the General Counsel: Attorney-advisor	9	7,030	3	21,090
Total, headquarters administration			[1] 114	1,092,078

[1] Partially offset by a reduction of 80 regional positions.

Mr. GARY. How many personnel are presently employed in headquarters operations here in Washington?

Mr. BELEN. Headquarters, 1,366.

Mr. GARY. Do you have a table showing the number of people employed for the past several years?

Mr. BELEN. We can provide that, sir.

Mr. GARY. Will you place a table of that kind in the record?

Mr. BELEN. Yes, sir.

(The data referred to follows:)

ADMINISTRATION AND REGIONAL OPERATION—HEADQUARTERS ADMINISTRATION

Positions by Bureau and Office, 1960–64 [1]

Office	1960	1961	1962	1963	1964
Postmaster General and Deputy Postmaster General	84	106	127	121	128
Headquarters services	119	108	101	98	101
Bureau of Operations	208	214	209	209	230
Bureau of Transportation and International Services	104	91	112	115	121
Bureau of Finance	308	292	289	294	303
Bureau of Facilities	160	168	164	169	174
Bureau of Personnel	94	97	99	100	102
Bureau of the Chief Postal Inspector	124	119	124	119	121
Division of Internal Audit	13	13	13	13	15
Office of the General Counsel	70	69	68	69	71
Total, headquarters administration	1,284	1,277	1,306	1,307	1,366

[1] Includes effect of transfers of functions between bureaus.

Mr. GARY. Could you also provide a table indicating the number of personnel now employed in headquarters operation indicating their assignment by bureau or division and then superimpose on that the request for additional personnel for fiscal year 1965?

Mr. BELEN. Yes, sir. I will do that, sir.

(The data follows:)

Administration and regional operation, headquarters administration, positions in 1964 and new positions requested in 1965

	Current 1964 complement	New positions requested, 1965	Total positions, 1965
Postmaster General and Deputy Postmaster General:			
Office of Regional Administration (PMG)	11	3	14
Postal modernization (DPMG)	2	1	3
ADP management (DPMG)	13	3	16
Management Systems Division (DPMG)	25	4	29
All other	77	----------	77
Total	128	11	139
Headquarters services	101	----------	101
Bureau of Operations:			
Materials Handling Division	----------	14	14
Space Requirements Branch	15	2	17
Post Office Management and Service Improvement Program Branch	43	9	52
Mechanization Requirements Branch	8	2	10
Distribution Procedures Branch	8	2	10
Delivery Services Branch	10	3	13
Vehicle Utilization Branch	5	2	7
All other	141	----------	141
Total	230	34	264
Bureau of Transportation and International Services:			
Domestic Transportation Division:			
Highway Transportation Branch	9	3	12
Air Transportation Branch	8	1	9
Railway Transportation Branch	7	4	11
Research and Development Division:			
Development Branch	9	2	11
All other	88	----------	88
Total	121	10	131
Bureau of Finance:			
Office of Statistical Programs	11	12	23
Postal Rates Division	11	3	14
All other	281	----------	281
Total	303	15	182
Bureau of Facilities:			
Office of Assistant Postmaster General	19	1	20
Procurement Division	92	2	94
Realty Division	42	5	47
All other	21	----------	21
Total	174	8	182
Bureau of Personnel:			
Board of Appeals and Review	12	7	19
Employee Relations Division	10	5	15
Training and Development Division	8	5	13
Safety and Health Division	5	3	8
Employment and Placement Division	16	3	19
All other	51	----------	51
Total	102	23	125
Bureau of the Chief Postal Inspector	121	6	127
Division of Internal Audit (Headquarters)	15	4	19
Office of the General Counsel	71	3	74
Total Headquarters Administration	1,366	[1] 114	1,480

[1] Partially offset by a reduction of 80 regional positions.

Mr. GARY. What is the total increased cost attributable to the 114 additional positions in 1965?

Mr. THOMASON. After being offset by reductions in the regions I think we should say about $947,000.

Mr. BELEN. That is shown on that recapitulation table I just handed you.

Mr. GARY. Does it also include personnel benefits other than compensation?

Mr. THOMASON. Yes.

Mr. BELEN. Fringe benefits, sir, as well as compensation.

ATTENDANCE AT INTERNATIONAL MEETINGS

Mr. GARY. I notice this appropriation provides for the expense of departmental representatives to meetings of international postal conferences, postal unions, et cetera, overseas. What personnel attend those meetings and what benefits are derived?

Mr. BELEN. Primarily these are international meetings having to do with transportation of mail to foreign countries and this activity is located in our Bureau of Transportation. These international organizations were the first international organizations I believe ever established on a cooperative basis. These are the very essence of our being able to provide worldwide mail service.

Mr. CONTE. Will the chairman yield?

Mr. GARY. Yes.

Mr. CONTE. Did you have one about 2 weeks ago in Portugal?

Mr. NICHOLSON. Off the record.

(Discussion off the record.)

Mr. GARY. What is the total cost of postal participation in these meetings?

Mr. BELEN. An increase of $9,000 this year over last and this is offset by a $60,000 decrease due to a nonrecurring cost of the consultative committee which met here in Washington during this past year. It will be $20,000 this year.

Mr. GARY. That is a limitation in the appropriation?

Mr. BELEN. Yes, sir.

Mr. GARY. You can't spend over $20,000 out of your regular appropriation for that amount?

Mr. BELEN. That is correct, unless there is a special provision made for some purpose.

Mr. GARY. Yes. Now what officers usually attend these meetings?

Mr. BELEN. The officers that usually attend the meetings, let's say the international conventions or the main meeting such as being held in Vienna next year, are those related to transportation because it involves the transportation of mail, but we are reassessing our position and I have discussed it with the Postmaster General to be sure that on the committees, as they meet in between the international conferences, that operating personnel, engineering personnel, and so forth, are available, because the things they discuss, really, to a large extent, involve the operations of post offices but at the international meetings they involve procedure primarily and rules and regulations. So it is a policy matter more than a detailed operating matter.

CIVIL DEFENSE PROGRAM

Mr. GARY. I notice you mention on page AD–12 of the justifications that additional emphasis must be placed on civil defense programs. What is your activity in this respect and how many employees are used on that program?

Mr. BELEN. The civil defense program is primarily under the guidance of the Chief Inspector but the postal service plays a very major part in civil defense, because it is the one organization that reaches into every community. One of the little known things, for example, is our amateur radio network called PON which was established to provide emergency communications in event of disrupted land lines.

USE OF AMATEUR RADIO OPERATORS

Mr. GARY. How are these "hams" organized and what is their connection with the post office?

Mr. BELEN. The network is composed primarily of postal employees who are FCC-licensed amateur operators, and also includes associate nonpostal amateurs who reside in areas where postal employee coverage is unavailable. These PON members operate within State nets which report daily to the national net. Exercises are scheduled periodically for the entire net. In addition, the network has been utilized in local civil emergencies.

Mr. THOMASON. In the event of an emergency, this system becomes immediately available for any communication that we want. It is an informal but well organized group which can participate in any kind of emergency.

Mr. GRAY. Is there any danger they would get on the air and gum up the regular facilities that have been provided by the Defense Department for notifying the people of the dangers in case of an emergency?

Mr. THOMASON. This is tied in with the overall civil defense program. They would only operate within FCC regulations and plans which are a part of the total civil defense program.

Mr. Montague, when he is here, can give you something on that.

Mr. CROWE. Mr. Harriman is the one that operates this particular program and has a specialist on his staff but, as Mr. Thomason said, it is tied in with the overall defense plans and there is no danger there would be any conflict in time of emergency.

Mr. THOMASON. One of the interesting incidents they participated in last year was the floods we had down in Texas and they were immediately organized and went to work on that and did quite a job in providing restoration of postal service.

Mr. GARY. In that connection, is there any coordination between those operators and the ham operators in some of the other services?

Mr. THOMASON. Yes. Our program is directly tied in with the civil defense program under the Department of Defense.

Mr. BELEN. Also, Mr. Chairman, I think part of the response to your question is the fact that what we are requesting here has to do with administering a lot of property that is going into Federal buildings as part of the overall civil defense planning, storage of supplies, and things of that sort. The Post Office Department has a large number of these buildings which have been made available as shelters and things of that sort and one or two people at headquarters to administer this and be responsible for this property where it is all over the country.

Mr. GARY. I happen to know that the Coast Guard have a number of operators practically all over the world, in all areas in which they operate. I remember when we were out in the Aleutians on one occa-

sion we found a ham operator there who was sending messages back to the United States for the members of our committee, messages notifying their families, that they were there and safe.

He was at Attu, right on the tip end of the Aleutians. There was a Coast Guard station there and one of the boys was a ham operator and apparently they spent a good deal of their leisure time that way. At some of the remote stations they have a good deal of leisure time with very little opportunity for amusements.

CONGRESSIONAL LIAISON

What is the workload of the Congressional Relations Office referred to in the justifications?

Mr. THOMASON. I think it is primarily related to setting up and developing new post offices which are carefully checked with each Congressman involved to make sure he has any input he wants to give at the time. It is largely in that area. It is a check to find out if he is aware of this and keeping informed as to what is actually happening. Lots of letters that come from Congressmen are in regard to new facilities, where one is going to be located, and it is his job to check on that and provide the information.

Mr. CONTE. Who heads that Bureau?

Mr. CROWE. This is in the Bureau of Facilities and it is Mr. Tyler Abell.

Mr. CONTE. I know it is Mr. Abell but what about the liaison?

Mr. BELEN. We are talking about one additional secretary to serve two different people. The workload is heavier right now.

ACTION OF DAYTON, OHIO, POSTMASTER

Mr. PILLION. May I interrupt here. Mr. Belen, yesterday we discussed the question of the postmaster in Dayton, Ohio, launching off into a vitriolic and vicious attack upon Congressman Schenck, accusing him of being responsible for the delay or postponement of the post office construction in Dayton. It was a terrible series of articles and this went on for quite some time in the Dayton newspapers.

Mr. Gronouski knows about it. I just wanted to call it to your attention because we asked him to follow through. I am quite sure there is certainly a violation of the Hatch Act and if not, there is certainly a violation of all codes of decency and propriety.

Mr. BELEN. This is just the last few days?

Mr. PILLION. No, this took place last year.

Mr. BELEN. I hadn't heard.

Mr. PILLION. And they accused Congressman Schenck because he voted with this committee. They accused him personally of having sabotaged the construction of the Dayton post office. It was completely improper and reprehensible. Certainly something should be done with that postmaster and that group that are responsible for that sort of thing. I just call it to your attention so you will be able to follow it through in some way.

Mr. BELEN. I might say when I saw my principal assistant this morning about 8 o'clock this was the first thing he brought to my attention, but you ask if I would do anything about it so you know it is on fertile ground and we certainly will explore that.

CONGRESSIONAL RELATIONS STAFF

Mr. GARY. How many personnel are employed in the Congressional Relations Office?

Mr. CROWE. Sir, this has reference to a very small staff in the Bureau of Facilities which deals with congressional relations involving facilities and I think it would be probably two professional people and then this one secretary that they speak of.

EMPLOYEE UNION RECOGNITION

Mr. GARY. How many employee unions have been recognized by the Post Office?

Mr. MURPHY. Six of them on an exclusive basis and 6 more have national formal recognition, a total of 12 organizations.

Mr. GARY. What does this recognition involve?

Mr. MURPHY. On an exclusive basis, Congressman Gary, it gives the national union the right to negotiate certain items with the Post Office Department in the annual national negotiating sessions on those items which the Department has within its administrative discretion to act upon. Items which the legislature has within its power to act upon, of course, are excluded. Such items, of course, as pay and the fringe benefits which would require legislation are clearly beyond the scope of the national negotiations.

National formal recognition entitles the organization to consultation with the top officials of the Post Office Department on a periodic basis or before any major changes in personnel policies would be enacted.

We have, incidentally, Congressman Gary, the largest number of exclusive and formal recognitions granted anywhere in the Government. We have granted exclusive recognition in 23,000 units throughout the country and approximately 10,000 have formal recognition. I think out side the Post Office Department the number is less than 400 that have been granted in the whole Federal Government put together.

Mr. PILLION. Will the chairman yield?

ITEMS FOR UNION NEGOTIATION

Mr. GARY. Yes; but I have one other question first. What items are subject to negotiation between the unions and Post Office Department?

Mr. MURPHY. I think I can best help you out there, sir, by providing a copy of the actual agreement between the Department and the union that took place in the last year. We have just begun yesterday an exchange of proposals for negotiations this year. If I run down some of the topics I think it will give you an idea as to what some of the items were.

In the national agreement we cover such things as a definition of management rights, organization rights, employee rights, and then a procedure for administration and interpretation of the agreement. Then we have a policy on the grievance procedure which we have established as a jointly negotiated procedure; a policy on discipline; an adverse action appeals procedure which was established by negotia-

tion; a provision providing for advisory arbitration in the case of grievances, should it be mutually agreed to by both sides, voluntary arbitration; a provision on reassignment of personnel into and out of a particular unit, having to do primarily with seniority rights involved; a policy on assignment of ill or injured employees, primarily once again as to what their seniority rights are; the question of compensation on higher level duties, 204(b) that which we have within our administrative discretion; a policy on compensatory and duty assignments; a policy on vacation planning, outlining the basis on which employees should be given choice vacation periods and rights; a policy on the amount of money that the Department provides for transportation between various stations of the post offices; and then some special supplemental agreements which we negotiated with individual unions, for example, the item of the drive-out for city carriers.

The amount of money that was paid the city carriers to drive out from the post office onto his route is an item which I mentioned yesterday as being one of the cost items in the national agreement last year as well as the item providing for heavy duty allowances for rural carriers for work on heavy duty routes.

This is in effect a payment of overtime. The Congress last year, when it passed the pay bill, removed the limitation which previously had been placed on the Department in its ability to pay overtime to rural carriers who were serving a route in excess of 40 hours a week. Finally, there is the item on tool allowances for our motor vehicle employees.

These were some of the items covered in the national agreement nothing to do with salary, nothing to do with promotions, nothing to do with the work measurement system. Some of these items which the Department does have within its power, we have retained as management rights. That is the right to set qualifications for jobs, the right to promote employees, the right to determine the technology and the methodology by which the work should be performed we have reserved as management rights appropriate for consultation but not for negotiation.

STAFF FOR ADMINISTERING EMPLOYEE UNION ACTIVITIES

Mr. GARY. How many employees in the Post Office Department are employed either full time or part time in connection with administering relations with employee unions?

Mr. MURPHY. That is the total department, Congressman Gary?

Mr. GARY. Yes.

Mr. MURPHY. Field and headquarters as well.

Let me detail it as best I can and subject to correction in the record. We have, in headquarters in the Bureau of Personnel, a Deputy Assistant Postmaster General for Industrial Relations, and one special assistant for employee relations. They are GS–16. We have two technical people that back them up—pardon me, three technical people that back them up who are GS–12 or higher. Then we have about three or four secretaries, also.

Then in the field we have a special assistant for employee relations, 1 in each of our 15 regions, and he has a secretary as well.

Mr. GARY. What is his rating?

Mr. MURPHY. PFS–16. That is not a supergrade category. In the Postal Service a supergrade is 18, 19 and 20. He has a secretary, so, totally we have in effect 15 special assistants for employee relations and 4 policy people in national headquarters plus one Deputy Assistant Postmaster General for Personnel who handles industrial relations as part of his duties. There is the total work force we have working on employee relations as such.

In individual post offices as part of the personnel function those offices that are large enough to have a director of personnel, of course, this would be one of the functions that would come under them. A few of the largest post offices have a special assistant authorized to assist the postmaster in a combined labor relations—employee appeals function.

Mr. BELEN. I think it is fair to say there are a lot of operations people who are involved in the relationship with the union organizations. For example, the director of operations, we played a very important part in these negotiations because out of the result of it comes an expenditure of our funds.

We have, while people are not assigned just for this, had adequate representatives and representation because of the impact of everything that they decide. This is not new, however, because we have always had, as you know, a highly organized field force and they were always contacting the Postmaster. The one thing this has done is set it up on a routine and uniform basis so we can squeeze these negotiations, for example, into 60 days at the beginning of the year and kind of get it over with and have a basic contract, otherwise you are dealing with a lot of little individual things from the post office level right on up all year.

But there always has been and is a very large part of management involved in discussions on grievances and almost anything that you can imagine.

Mr. MURPHY. I might say, Mr. Chairman, that the scope of the Department's program in this area is along these lines. We have signed a contract affecting the largest single number of employees of any single contract in labor management history. We held the largest single collective bargaining election ever held 1 year ago. We are administering this program, as Mr. Belen points out, with as few employees I think as you have in practically any National Government agency dealing with this.

As Fred points out, many of the existing bureaus and existing divisions of the Department do have certain labor relations aspects to their jobs, for example, compensation is always dealing with the unions, and Mr. Swygert in the installations management division of the Bureau of Operations, is very much involved in this whole union negotiating and operating process.

But the people I gave you are the only people specifically designated to handle employee relations in the Department.

COST OF EMPLOYEE UNION RELATIONS

Mr. GARY. What is your estimate of the cost of administering the employee union relations with the Department both in direct and indirect costs to the Department?

Mr. MURPHY. We have attempted in the last year to try to identify these costs. Before we always really absorbed them. We had them scattered all over. We never could identify what the costs were. We began a system of trying to identify the number of hours spent last year on labor management problems plus adverse action appeals, grievance appeals, and equal employment appeals, the three appeals plus the labor-management program.

There is a figure in the Bureau of Operations appropriation that we have programed for this year which is $1,500,000 and next year we are asking for $1 million. We are actually asking for a reduction next year because we feel having gone through the first year of negotiations when we were really feeling our way a good bit, that the second year is going to be a little bit easier than the first year was.

But not all of these costs are new costs as a result of the program. For example, we have had grievances before in the post office and a system for handling them. We have had, from time to time, meetings with our employee organizations but never identified what those actual costs were. So not all of that cost figure is really new costs as such.

I also would like to point out, Mr. Chairman, we have been an agency that has held out very strongly for having negotiations with our employee organizations off the clock. We have insisted that we do not pay for the union representatives time spent in negotiations with the Department.

We were under considerable pressure and we have held out very strongly on that and that is our current intention in this year's negotions because we do have a large program and we feel we cannot afford the payment of union representatives' time for negotiation purposes.

Mr. GARY. Do you have a question, Mr. Pillion?

EFFECT OF UNIONS ON SERVICE AND EFFICIENCY

Mr. PILLION. I just wanted to ask, are you in a position under your contracts, where it might be more difficult, to bring about efficiencies of service or efficiencies in operation due to contractual relations that you have with the union?

Mr. MURPHY. We have tried to be very, very careful about that, Congressman Pillion, and I might say that my experience has been that our unions, when it comes to a service question, have put service pretty much first.

That has been my experience when dealing with the organizations.

They are very service conscious and generally many of the items we have outstanding with them is where they feel we are not providing enough service at a particular place and, of course, we have to weigh the relative cost of the service against the advisability of providing additional service to the public.

Most of the complaints may be where we are not filling vacancies rapidly enough in order to provide service or extending service rapidly enough as they would like to see and we would like to see if we didn't have the cost factor.

Mr. BELEN. I think it is fair to say when I begin negotiations with them I start off by saying, "We are not in the business of making money, printing money, or producing it," and whatever we do has to be done within the framework of what you gentleman say right here but we are delighted and perfectly willing to listen to any proposal they can make where we can do things that will make it easier for the employee and save the Department money. That is the cornerstone on which we begin the negotiations.

NEGOTIATIONS WITH UNIONS FOR REDUCTION OF PERSONNEL

Mr. PILLION. What I was thinking of is this: Suppose you find an operation where you have 20 men and now you can do with 15 and you are going to abolish 5 jobs or suppose you transfer these jobs, such as happened in the chairman's district or Mr. Conte, where you transfer 1,000 people out of one district into another, is there anything in your contract that prevents you from doing this when you want to do it for greater efficiency?

Mr. MURPHY. The only thing we have to do is to notify them in advance. That is notification. But the decision is by management and, of course, it creates a terrific stir, as you are well aware, in Providence or any other place. But we have never let this program deter us from making a decision of management that we felt in good conscience we had to make, but we do let them know in advance because they, many times, make suggestions that help ease the burden on individuals, because they know what the individual situation is. It is helpful to know that you can go to a leader of this group and get an answer as to the situation of their people; that is, whether they have outside jobs, family situations, effective attrition, and so forth.

I might say here is a good example of what you pointed out was the very problem of consolidating these 14 offices into 6. The way we handled it was once having decided upon the course that we had to proceed upon for good reasons and economy reasons, we consulted fully with the organizations on the personnel policy to be used in effecting this reduction and Mr. Belen and the postmasters general and myself participated personally in these discussions with the union.

We held several hour sessions on this and with the organizations so they would clearly understand what the policy was and how we are going to carry it out, and we provided for consultation on the regional level to see that the union representatives are fully informed so they can inform their people.

SENIORITY RIGHTS

Mr. PILLION. Do you recognize a seniority right over and above the regular law, the ordinary law with grades, et cetera, a seniority right which is not in the law which would prevent you, say, from taking a man that has not been doing the job or is doing the bare minimum and then put someone over him; would this be prevented by any seniority contracts you have, prevent you from taking a better man and, say, place him in the job?

Mr. MURPHY. We are not permitted, Congressman Pillion, under the terms of the Executive order, to negotiate any item with the unions that would in any way conflict with any Government-wide directive of the Civil Service Commission or any existing statute, so we

could not confer any rights or privileges on an employee that would infringe any granted by the Congress or Commission to the employee.

Mr. BELEN. In fact, one of the main discussions was the reduction-in-force procedures and that is set Government-wide and the seniority of course does play a part in the reduction-of-force procedure, depending upon what the area of competition is or what category the employee is in, whether temporary, substitute, or permanent employee. It is very clearly spelled out and we could not waive that, sir.

Mr. PILLION. Thank you.

Mr. CONTE. Mr. Chairman, I have one question.

Mr. GARY. Yes.

CONFLICT OF UNION PROPOSALS

Mr. CONTE. You say you have six recognized groups. Do you have a conflict here; say one group believes in something and another group doesn't? What happens here?

Mr. MURPHY. We do, very often, and we have six organizations that are recognized on an exclusive basis for purposes of negotiations. These are organizations that won in a nationwide election, secret-ballot election, with every employee voting for any organization that he wanted to and he had an option to vote for no organization at all if he wanted no representation at all. These people won a majority of votes nationwide in their particular craft unit. There are sometimes conflicting propositions put forward by the exclusives but, of course, it is even more of a problem when you get outside of the exclusives.

Very often there are many conflicting proposals between the formal organizations, the ones having formal recognition and the organizations having exclusive recognition. The exclusive organizations have formed sort of a coordinating body, those who have exclusive recognition, and generally in dealing with management during the last sessions they came forward with pretty much of a united view.

In fact, I was surprised. On the other hand, there were many proposals made by the exclusives not at all in conformity with the ideas we had from the organizations having formal recognition. Also, you know historically there have been conflicts between the industrial-type unions and craft-type unions over many, many issues. That still does continue although I think it has abated somewhat in the last year or two.

Mr. CONTE. I do recall we had some difficulty in New York just on this problem, a very serious problem.

Mr. MURPHY. Currently, there is a suit, for example, in New York against the Postmaster General filed by one of the organizations that really was filed as an objection to another organization but, of course, they are suing the Postmaster General as the third party in between so that we do have these conflicts there from time to time but I think a lot of it has abated as a result of the formal recognition procedure that we now use.

COST OF UNION DUES CHECKOFF

Mr. STEED. Mr. Chairman, I ask, is the checkoff expensive? Is this a sizable item? Have you included this as part of your cost?

Mr. MURPHY. This particular item which will go into effect around the first of April is completely paid for by the unions themselves. There is not a penny of that cost that is to be borne by the Department.

We charge a standard fee of 2 cents per deduction that we make and we deduct over 12 periods a year so that is 24 cents a year for each person for whom we would collect dues for 1 year.

This fee is paid by the organization to whom the funds are remitted so that the dues deduction is, in addition to being completely voluntary, by authorization, with the right of getting out of the plan, is completely paid for by the unions. As a matter of fact, the costs were the reason one union gave why it might not participate in the dues checkoff system initially but on the other hand, it has been accepted by the vast majority.

I think we have only two that indicated they will not participate as of this moment, but all have indicated participation by 1965.

Mr. GARY. In the light of that experience, you say it is two, what would you change it to if it did apply?

Mr. MURPHY. Enough to cover the cost of actual handling. We don't want to make anything but we don't want the Government to bear the cost. I think it is going to save the Government money in the sense of cutting off any unofficial collection of dues that may have been going on throughout the country.

Mr. NICHOLSON. I might point out the reimbursement made to the Government goes into the postal fund but does not reimburse the appropriation which covers the man-hours involved in doing the work.

We pay the cost of doing the checkoff out of the regular appropriation you give us but the reimbursement the unions make to us is not available to us to pay for the man-hours involved. That reimbursement goes directly to the postal fund and benefits the Government to that extent.

What I am saying is we have to absorb the cost of doing it and the Government is compensated for that.

MONEY ORDERS

Mr. GARY. What is the current situation regarding the issuing, reconciling, and auditing of money orders?

Mr. NICHOLSON. The money order operation previously was done at Kansas City. That center serving the entire Nation has now been transformed into a joint Post Office-Treasury operation here in Washington. Approximately 275 people that used to do this work in Kansas City are now replaced by a staff of 65 people here in Washington. This version of the system has been complete since last March—March of 1963.

We do retain records for a substantial period following issuance so there is a small caretaking group of three people in Kansas City who are maintaining the files there until they reach the proper age for destruction. The destruction of those records will finally take place around December 1 of 1964 and then we will be completely out of the Kansas City operation.

I think, as this committee knows, the conversion of the money order system to the present basis has had very significant cost and operating advantages. On the cost side, by introducing a print-punch money order machine at the point of issue we are able to avoid the need for punching of the orders themselves when they reach the Federal Reserve System.

Previously we used to pay the Federal Reserve System some $600,000 a year for doing this punching. This punching is no longer necessary. The $600,000 is saved.

A second source of savings has been the reduction of the staff of approximately 275 people down to a staff of 65 people. We do pay the Treasury for the use of their computer, thus enabling the Treasury to operate the computer they need with lower costs chargeable to the Treasury.

The net effect of the reduction in our personnel, part of the savings being used to pay Treasury, is another savings of about $500,000 for the Department. So from the cost side there is at least $1 million a year reduction in cost as a result of the present money order system we are using.

MONEY ORDER PRINT-PUNCH MACHINES

Mr. GARY. Do I understand the money orders are punched?

Mr. NICHOLSON. At the place issued?

Mr. GARY. Yes.

Mr. NICHOLSON. Yes.

Mr. GARY. Then you have to have punching equipment in each office?

Mr. NICHOLSON. Yes.

Mr. GARY. How much does it cost to supply that equipment?

Mr. NICHOLSON. Our office of research engineering, together with the Bureau of Finance and private industry, developed a unit, a little machine, which both prints and punches the money order when it is created. The machines cost just about $50 apiece and we did purchase 59,000 of these units.

The savings of $1 million a year will pay for this equipment in very rapid order. The initial setup cost of this system will very quickly be amortized.

IMPROVEMENTS RESULTING FROM NEW MONEY ORDER SYSTEM

As a result of the new system, too, from the point of view of the service itself, there are substantial improvements. In our present audit procedure we are able to detect a fraudulent money order or raised or altered money order within a matter of 3 or 4 days in many cases, whereas previously it took us 4 or 5 weeks to get the same information. We are able to give the Inspection Service a much hotter trail as they run down wrongdoers who are defrauding the money order system or fraudulently cashing money orders.

Mr. STEED. Is it possible, as in the old days when the robbery of a post office occurred and blank money orders were taken, they could be forged? Under this system a blank money order put out by this machine cannot be forged, is that right?

Mr. NICHOLSON. That is correct. We find when blank money orders are stolen there is usually one of these machines also stolen at the same time. However, by knowing the serial numbers, which we do, of the blank money orders stolen, we are able, by machine sensing, to read the serial number money orders as they clear through the other process and do get a quick identification of a money order fraudulently passed or one which had been stolen.

Thus, within a matter, as I say, of just a few days we are aware that stolen money order serial Nos. so and so are being cashed in city

X, thus we can devote our attention to the city where it is stolen or being cashed.

Typically, the thieves take the orders in one city and move to a different city and begin to pass them. As soon as we see where the stolen serial numbers are bobbing up, we turn our enforcement attention to that city. We are able to identify those orders much more quickly and I think we are enabling the Inspection Service to improve their always good job.

SAVINGS ON CHANGE OF MONEY ORDER OPERATION FROM KANSAS CITY

Mr. GARY. On the money orders, how many employees and how much money did you save by the change from Kansas City?

Mr. NICHOLSON. Over a several-year period there is a reduction of approximately 221 employees. In the current year, 1964, 86 positions are being eliminated and in 1963 there were 118 positions eliminated for a total of 204 in those 2 years.

Mr. GARY. What do you estimate the savings will be?

Mr. NICHOLSON. That would be approximately the savings. The savings are 204 positions this year and last, and a total of about 221.

Mr. GARY. I mean the money savings?

Mr. NICHOLSON. The money savings; in 1964 the combination of personnel savings and in the net cost of equipment and all other savings, will provide a decrease in cost of $934,000. In 1963, there was a reduction of $32,000.

COST OF MONEY ORDER PRINT PUNCH MACHINES

Mr. GARY. Are the new money order print punch machines in operation in all of your major offices now?

Mr. NICHOLSON. They are; yes, sir.

Mr. GARY. Can you estimate how much money was saved just by the development and adoption of that new machine?

Mr. NICHOLSON. The machine procurement costs were approximately $3 million. There will be a savings in manpower and in equipment costs at the rate of about $1 million a year. The equipment will pay for itself in something less than 3 years, I estimate.

Mr. STEED. What is the life expectancy of one of these machines under normal usage?

Mr. NICHOLSON. So far we had little or no service trouble. Some have been in operation since 1963. The early service record is such to indicate the service life will be long and trouble free. We don't yet, of course, have any actual use experience to exhaustion.

HEADQUARTERS SUPPLIES AND SERVICES

Mr. GARY. I notice on page AD–21 of your justification you are transferring the procurement of supplies and services for headquarters to the facilities and equipment appropriations with the exception of "local taxicab fare and contract stenographic services," which will remain under the headquarters appropriation.

Will you provide the committee a little more information on that item?

Mr. NICHOLSON. I will be glad to. As we occupied some additional locations in Washington, for example, space in concert with Treasury in connection with the money order operation, and also space at 21st and M Street, converted garage facility, we find that the administration of headquarters supplies and equipment, was getting unnecessarily complicated.

Our previous procedure has been to pay for headquarters equipment and supplies out of the administration and regional operation appropriation.

Similar, in many cases identical, supplies and equipment for field installations; for example, for the Washington regional office or the Boston regional office, were paid for out of the facilities appropriation in the case of supplies and out of the plant and equipment appropriation in the case of equipment.

In many cases the things we were buying out of separate appropriations were identical forms or identical stationery or identical typewriters.

Keeping two sets of records, one in the administration and regional operation group and one in the facilities group, provided extra work but no extra information nor indeed any extra control.

After thinking about this problem and taking into account that in the future we may have more complications of this kind in that there would be additional decentralized units of the headquarters staff, we felt that the simplest and most economical way to handle the present and future problem would be to buy all like items, whether for headquarters or for the field, out of the facilities appropriation for supplies and out of the plant and equipment appropriation in the case of equipment. A functional transfer, therefore, was made.

Mr. GARY. How much does this amount to?

Mr. NICHOLSON. About $1.1 million total.

QUALIFICATION SPECIFICATIONS FOR POST OFFICE POSITIONS

Mr. GARY. In connection with the statement concerning development of qualification specifications for post office positions, is this something new?

Mr. MURPHY. Yes; it is. This is the first time that the Post Office Department has ever had written qualifications standards for positions in the post office branch. This has been a project which we have had underway for a year and a half, cooperating with the Civil Service Commission and it has been completed as of last month. We are very pleased with this.

Mr. GARY. Haven't there always been qualifications for post office positions?

Mr. MURPHY. No, sir; only for postmaster and some motor vehicle and maintenance positions. We have not had written qualifications standards for positions in the field of a supervisory and technical nature. We have had job descriptions but never qualification standards that were written. In addition we have had the supervisory examination, which has been utilized for selection of supervisors to first line positions. We have used the exam in those cases but for positions above that they have not been written.

Mr. GARY. Just how is this handled? How are the employees selected by individual postmasters?

Mr. MURPHY. I am sorry I missed the question.

Mr. GARY. Just how is this handled? How are the employees selected by the individual postmasters?

Mr. MURPHY. Well, I think that the difference is this. The qualification standards referred to in the statement are qualification standards for positions above the entrance level. I think the ones that you have in mind, were the standards that were used by postmasters in selecting employees at the entrance level. We have had examinations for entrance level positions.

We have never had written qualifications standards for positions above the entrance level except in the cases I have indicated.

Mr. PILLION. May I ask a question there, Mr. Chairman?

Mr. GARY. Let me finish this one more question. Is this activity supervised by headquarters in Washington for the entire United States?

Mr. MURPHY. The drawing up of the actual written standards were, Mr. Chairman, in cooperation with the functional bureaus but the actual selection of the employees involved is made by local management.

Mr. PILLION. The only thing I want to ask is, aren't you taking away some of the flexibility or the discretion of the postmaster in placing a man into a position by writing sometimes rigid qualifications? I find that sometimes a college education is antiwork education, they don't want to work. Now, are you doing that?

Mr. MURPHY. No, sir.

Mr. PILLION. Very often you find people without a formal education, without formal qualifications, that may fit into a job very nicely and will have that extra zip but only a supervisor or postmaster, recognizing that, will be able to take advantage of it.

Mr. MURPHY. Congressman Pillion, I will provide the qualification standards, to the committee for your use so you can see what they actually are. They have been written, incidentally, in cooperation with the people who have functional responsibility in this area so as to make sure we are not writing them in such a fashion they are so high nobody can qualify.

On the other hand, you will find in almost all cases they are based on previous levels of experience. Not educational qualifications. Sometimes there is an educational substitute that may be utilized.

Mr. PILLION. Sometimes neither one works. Sometimes experience doesn't work. A man can be in an office 10 years and doesn't know anything about it and another one will pick it up in 2 or 3 years or 6 months.

Mr. MURPHY. That is correct. We try to provide an interchange of ability and experience with educational attainments. I do agree, very often, that there are people that can do a job that may not have had a certain level of experience beforehand. I think that you will find these standards are written for the most part in a general enough fashion so that they are fairly flexible but they do require a minimum performance, a minimum standard beyond which we feel we just should not go if we want to improve the level of employees in the Postal Service. That has been one of the weaknesses.

Mr. PILLION. Don't get yourself overregulated, if you know what I mean, because then you can't use flexibility, if you overlegalize and overregulate.

HEADQUARTERS PAYROLL ACTIVITIES

Mr. GARY. Now, I have a report by the Comptroller General, dated February 1964 criticizing the Post Office Department for certain weaknesses in payroll activities in headquarters here in Washington. It appears that leave records of employees are not being properly kept in connection with court and military leave, accumulation of leave and certifying of work records, raising questions of propriety.

What are the details of this problem?

Mr. PILLION. May I add there was also a report on night differential, that there were loose records on that, or whatever it was.

Mr. BELEN. Are you familiar with that report?

Mr. THOMASON. I know about this report. I think the Bureau of Finance recently has written a reply to it. Mr. Nicholson has that, I believe.

Actually, we have gone over the recommendations and are in the process of making changes in our procedures to correct the deficiencies which have been pointed out.

Mr. GARY. If you have a reply, we will be glad to have it inserted at this point in the record.

Mr. NICHOLSON. I think I can find it and supply it.

(The data referred to follows:)

OFFICE OF THE DEPUTY POSTMASTER GENERAL,
Washington, D.C., October 17, 1963.

Mr. MAX HIRSCHHORN,
Assistant Director, Civil Accounting and Auditing Division,
U.S. General Accounting Office, Washington, D.C.

DEAR MR. HIRSCHHORN: On August 2, 1963, we submitted our comments on a draft copy of your report on review of headquarters payroll activities, Post Office Department.

In our comments we stated "* * * although annual leave accruals had been adjusted prior to your audit, certain sick leave accruals had not been properly adjusted * * *." In the internal processing of our reply to you the words "prior to your audit" were inadvertently added to the draft and overlooked in the final letter which was sent forward. The adjustments were made subsequent to your audit.

I regret the error and request you adjust your draft to reflect this fact.

Sincerely yours,

SIDNEY W. BISHOP,
Deputy Postmaster General.

OFFICE OF THE POSTMASTER GENERAL,
Washington, D.C., August 2, 1963.

Mr. MAX HIRSCHHORN,
Assistant Director, Civil Accounting and Auditing Division, U.S. General Accounting Office, Washington, D.C.

DEAR MR. HIRSCHHORN: We have reviewed the draft copy of your report on review of headquarters payroll activities, Post Office Department. We appreciate the opportunity to comment on the material presented before release by your office.

POD GENERAL COMMENTS

Your review of the Department's headquarters payroll activities covered payroll transactions conducted during fiscal years 1961 and 1962. Many of the policies and procedures in effect when this administration took office in January 1961 were continued, pending completion of various organizational studies.

Headquarters payroll procedures had been mechanized in September 1960. The conversion from manual to mechanical procedures always requires a certain shakedown period to correct deficiencies in not only mechanized but manual procedures. We believe that recent procedural changes have eliminated the causes of many of the discrepancies found by your auditors.

Generally, the need for additional error checks and other modifications are discovered during the annual audit of leave records conducted at the end of the leave year. Although your audit revealed certain deficiencies in our payroll procedures, it did not disclose any underpayments or overpayments to headquarters employees. Our audit of the 1962 leave records disclosed the errors your auditors brought to the attention of the Chief of Manual Payroll and Payroll Control Section. We found that, when the mechanical equipment was rewired to speed payroll processing, the check on leave ceilings was inadvertently wired out. Where adjustments were required, proper mechanical methods were established or reestablished to prevent such errors in the future.

ERRORS IN LEAVE CEILINGS CARRIED FORWARD TO FOLLOWING LEAVE YEAR

GAO recommendation.—To help prevent the use of or payments for annual leave in excess of the maximum allowable accumulation, we recommend to the Bureau of Finance that the annual leave balances of headquarters employees be reviewed to make certain that the balances carried forward to leave year 1963 did not exceed the amounts authorized by 5 U.S.C. 2062 and 2066.

POD comments.—Leave ceilings for all employees had been audited by the payroll clerks prior to receipt of the draft report. All errors, including the nine mentioned in your report, were corrected. Additional mechanical checks were installed to insure accurate recording of accumulated annual leave, thus preventing employees from using more annual leave than they are entitled to or being overpaid for unused annual leave upon separation.

LEAVE ACCRUALS NOT REDUCED FOR EMPLOYEES WITH 80 OR MORE HOURS OF LEAVE WITHOUT PAY

GAO recommendation.—In view of the errors disclosed in our test of the leave records for 1961 we recommend that the leave records of all headquarters employees absent on leave without pay for periods of 80 or more hours during the 1962 leave year be examined and the balances of sick and annual leave be adjusted where required by regulations. We also recommend that procedures be instituted to effect the required annual and sick leave adjustments, each pay period, for employees on leave without pay in excess of 80 hours during the leave year.

POD comments.—The leave accruals for employees with 80 hours of leave without pay have been audited and adjusted where necessary, as recommended at the time of your audit. Although annual leave accruals had been adjusted prior to your audit, certain sick leave accruals had not been properly adjusted. These have now been corrected and the mechanical processing of leave without pay has been changed to prevent future errors of this kind.

NEED FOR PREDETERMINED TOTALS OF LEAVE ACCRUALS AND USAGE

GAO recommendation.—To provide improved control over the maintenance of leave records, we recommend that a procedure for obtaining and using for verification purposes independently predetermined totals of hours of leave accrual and usage be established at headquarters.

POD comments.—The Department began using predetermined totals for verifying leave records, effective with the pay period ending May 25, 1963. This should prevent errors in time and attendance records being carried over from one period to another and from the 1963 leave year to 1964. It will also eliminate the need for the annual audit.

ADEQUATE EVIDENCE OF COURT AND MILITARY LEAVE NOT OBTAINED

Court leave

GAO recommendation.—To provide that leave will be granted only for days of actual attendance at court and fees received from non-Federal courts will be deposited as required, we recommend that the Department take appropriate action to make certain that all court leave granted is supported by certificates of

attendance and that the fees paid by the court are collected from the employees.

POD comments.—Under current procedures, the bureau or office is responsible for approving an employee's request for court leave, submitted on Standard Form 71: Application For Leave, before the court leave is to begin. The appropriate leave clerk retains the approved form 71 in the file. The leave clerk enters the amount of court leave taken on the employee's form 1206: Daily Attendance and Leave Record—Headquarters. The leave is identified by the initials (CL).

It is the responsibility of the bureau leave clerk to inform the employee that he is required to (1) submit a court certificate showing the periods of court attendance and the amount of court fees, if any, and (2) turn in to the disbursing officer any court attendance fees that he receives. At the end of the pay period following the employee's return to duty, the bureau clerk attaches the approved form 71 and the court certificate to the employee's form 1206 and forwards it to the Accounting Division for processing.

The employee's absence on court leave is noted when the form 1206 is reviewed by the Manual Payroll and Payroll Control Section at the end of the biweekly pay period. When the time card shows that the employee has returned to duty and the court certificate did not accompany the form 1206, the Manual Payroll and Payroll Control Section requests the employee to furnish evidence of court attendance. When the time covered by the court certificate is less than that shown on form 1206, the employee is charged with annual leave for the amount of the difference.

It would be impossible for the Manual Payroll and Payroll Control Section to notify the Disbursing Office in advance of the amounts due from employees for court fees, as suggested by your report (p. 7). Neither the court to be served nor the amount paid for service is known until the employee returns to duty. At present, the Disbursing Office sends to the Manual Payroll and Payroll Control Section a copy of each Schedule of Collections, Form 1844, covering employee's pay. These schedules are then checked to ascertain whether outstanding jury fees have been collected. When the fees have not been deposited within a reasonable time, the Manual Payroll and Payroll Control Section takes appropriate followup action with the employee. Although many of these procedures are not documented, we believe that they insure that all court fees are reported and deposited.

Military leave

GAO recommendation.—To prevent payments of salary for periods of absence in excess of those authorized by 5 U.S.C. 30r, we recommend that the Department take appropriate action to ascertain that all military leave granted is supported by copies of orders to military duty endorsed to show the duty was actually performed. We recommend also, that when evidence of service is not furnished, within a reasonable period after an employee's return to postal duty, an appropriate adjustment of his leave account be made.

POD comments.—Your proposed report (page 7) states that (1) your review disclosed 14 cases in which orders to military duty or certificates of attendance were not on file and (2) these orders had not been furnished to you at the conclusion of your work in the Manual Payroll and Payroll Control Section. We understand that the draft report was not prepared by the auditor who performed the audit. We believe there must be some misunderstanding about the lack of military orders in the file It may be that the military orders had not been properly filed. During preparation of the draft report, your auditor furnished the new Chief of the Section a list of the 14 cases mentioned in the report. The employees pulled the files, including the military orders questioned. The Section Chief informed the auditor that the files were ready for him; however, they are still awaiting his review.

As in the case of court leave, the bureaus and offices are responsible for approving requests for military leave. The employee initials his form 1206, identifies his leave with an (ML), and submits a copy of his orders to be transmitted to the Accounting Division at the end of the pay period. Upon his return to duty, the employee submits a copy of his certificate of attendance. Generally, the employee is familiar with the military order requirements, as he goes on military leave each year. We believe that, with the present supervision, our current procedures insure that all orders to military duty are submitted to the Division of Accounting and that no employee exceeds the 15-day maximum military leave.

EMPLOYEES CERTIFYING OWN TIME AND ATTENDANCE REPORTS

GAO recommendation.—To provide more effective control over leave and attendance reports, we recommend that the Department issue instructions prohibiting employees from certifying their own attendance and leave records

POD comments.—It is the usual practice to designate the supervisor to sign the leave cards for employees under his supervision. However, that would require the Postmaster General or an Assistant Postmaster General to sign certain officials' cards. These officials and certain internal auditors have been authorized to sign their own leave cards. It is not possible for internal auditors to get their supervisors' signature in every case, and the signature of an employee subordinate to them would have little value. We believe that the requirement for these employees to certify that their leave records are correct tends to prevent abuses.

EMPLOYEES' HOURS OF ATTENDANCE AND LEAVE NOT REPORTED

GAO recommendation.—To provide better control over leave and attendance reporting, we recommend that the instructions on the preparation of attendance and leave records be revised to require that hours worked for all employees be recorded daily and the times of absence be shown on the attendance and leave records.

POD comments.—We do not agree with this recommendation. Section 3030.40, title 6, GAO Policy and Procedures Manual for Guidance of Federal Agencies, states that the requirement for records of the time of absence from duty (from and to) is based on (1) the need for such information in determining pay entitlement, and (2) the overall management responsibility to maintain adequate records for purposes of effective and efficient supervision of employees.

Where leave without pay or travel status is involved, our regulations require showing the time of day when going on or returning from leave. Entering the time of day that paid leave is used does not affect an employee's salary; therefore, it would seem to serve no purpose to require that the precise time of day be shown. Section V-E-I C. (9), Headquarters Manual, provides that supervisors are fully responsible for the efficiency, productivity, and good order of the units they supervise. They approve absences and in general have the day-to-day oversight of their units. They are responsible for seeing that departmental rules relating to hours of service, lunch periods, etc., are observed by those they supervise. We believe that the time of day leave is taken is an administrative matter which would require recording only if an employee's pattern of absences became a problem.

Officials serving in grades GS–13 and above, and certain other employees in grades below GS–13, are often required to participate in activities in places other than their offices, and are expected to perform their responsibilities irrespective of the hours they must work. Therefore, it has not been considered necessary for them to enter the number of hours worked daily on form 1206. We believe that the positive endorsement "Required service rendered" serves the same purpose as entering an "8" in each of the appropriate blocks on the face of the card. We are presently reviewing our policy in this area, and will advise you of any changes made.

NEED FOR IMPROVEMENT IN RECORDING AND REPORTING PRACTICES

Retirement records.—At headquarters, when the use of POD Forms 1102, Individual Earnings Cards, was discontinued in September 1960, IBM runs were substituted. Quarterly, an IBM run is furnished by individuals accumulating the six or seven pay periods therein which is reconciled to quarterly control account (form 1103). At the close of the year, the yearly IBM run is reconciled to the totals of the quarterly master control accounts. We believe this procedure meets the requirements of the Federal Personnel Manual.

The late submission of SF 2807–2, Annual Summary Retirement Fund Transactions, for 1961, was due to the condition in which some of the regions submitted their annual retirement reports.

In the past, the Individual Retirement Records, SF 2806, were not prepared at the time of appointment, and the posting service history entries (salary changes due to promotions and other changes in status) were not kept current. This situation is being corrected through the broadened scope of assignment of employees.

REPORT OF WAGES SUBJECT TO SOCIAL SECURITY DEDUCTIONS

The last social security report was prepared in less than 1 hour by a typist. Since this is at least as fast as the report could be prepared by any other method, we believe that no change should be made.

Sincerely yours,

SIDNEY W. BISHOP,
Acting Postmaster General.

HEADQUARTERS POLICY AND CONTROL

Mr. PILLION. I read a number of articles in Fortune magazine in which they talked about "Sloan of General Motors, gave a very good explanation of how they operated with the centralization of policy and the decentralization of carrying out of the programs and the policies."

I am wondering whether any of the companies like Sears Roebuck or Safeway stores or General Motors, whether they would furnish a sort of model for you in your management problems? Do you ever refer to the management schemes of these corporations to determine whether, for example, your executive and administrative operations here in Washington are comparable to say some corporation that does work something like yours?

Mr. BELEN. Well, I can remember one time when I was with the committee we conducted a study, which was even before the Hoover committee recommendations, with respect to decentralization. We had an official of A.T. & T. there who testified and we had the head of the A. & P. stores who testified and out of that did come a recommendation that there would be some decentralization.

Following that, the Hoover Commission made also a similar recommendation and we do have a pattern of decentralization now. I do say this, though: That we have had a very serious burden left on us by the manner in which the decentralization was made. I think that anyone that makes a study of decentralization understands that when you take a whole and cut it up into 15 parts you are not going to save numbers.

The only way you are going to save numbers is by centralization. Now, when we set up the 15 regions we save but the savings was not in decentralization but in centralizing some 50 accounting offices they had then into 15. But in order to try to show a savings they cut off about 500 or 600 important management positions from Washington and that has been a problem ever since I have had the responsibility.

Mr. PILLION. Is that why you are asking for additional people to beef up your control?

Mr. BELEN. Yes, sir.

Mr. PILLION. You don't want to lose control when you decentralize and once you decentralize and lose control you are in trouble?

Mr. BELEN. That is right. This growth in the field staff I mentioned, just 10,000 or 15,000 over a couple of months, was because we no longer had the manpower to hang on to this control and make individual decisions of whether they could add employees, but you have to do it centrally if you are to maintain this control.

Mr. PILLION. Do you believe your 15 regional offices is now an ideal decentralization of certain management responsibility?

Mr. BELEN. I think that it is a progressive thing, Congressman. As you look at the way, for example, our post offices are growing, you

have New York City now, $200-million-plus a year and 40,000 employees. It is hard to set a specific pattern because these things are changing and I think that it is a situation that we constantly need to review.

In fact, I appreciate the very thing we do here. If you had given us all the positions last year that we asked for last year we probably would not have used them economically. We are asking for them now and now we can use them economically.

It is a matter of growth and absolutely assuring yourself you are using what you have in the best manner possible.

But I won't say this is a statistic thing.

Mr. PILLION. All I am trying to say is, I don't want you to lose control no matter how you centralize and I want that top level control over your decentralized execution of your programs and policies.

Mr. BELEN. I certainly agree with you.

Mr. PILLION. That is the only thing I want.

Mr. BELEN. I appreciate your backing because that is most important.

FIELD CONTROL

Mr. PILLION. That you have your fingertips on what they are doing in the field all the time up here in Washington.

Mr. BELEN. For example, for the first time beginning last July we had figures showing the complements of post offices. We never had that before and for the first time we are correlating the hours with the volume of mail going through specific post offices. This is what you are talking about. We have set up an installation management division headed by John Swygert and he has done an outstanding job in keeping his finger on this control. Our work measurement system is a part of that reviewed every week. At Christmastime we think this control is so important that we have a daily report of volumes and numbers and hours just to show us exactly what is going on because you can just lose in a minute.

Mr. CONTE. Don't you have a weekly report, too, from the regional offices?

Mr. BELEN. Yes, sir; that is the one on work measurements that comes in every week.

We get that now on a Tuesday and we used to get it on a Monday because we had a staff meeting on Tuesday and we worked people on Saturday, we thought it was that important to know exactly what happened before.

Mr. GARY. Don't you have a telephone conference with these people?

Mr. BELEN. We had it every week but now we use it for special situations because we now—our policies are pretty well firmed up and because of the controls we have set in, it is not as important to have this every week at certain time. But where we have a situation develop we will then have a special conference and, of course, we have it all set up so it doesn't take much time to do it.

Mr. GARY. You do have your monthly financial review?

Mr. BELEN. That is right.

Mr. GARY. Any further questions?

Thank you, gentlemen, and we shall now recess until 2 o'clock.

Mr. GARY. Gentlemen, you may now proceed to show the film.
Mr. Nicholson?

MINNEAPOLIS PROJECT

Mr. NICHOLSON. I might tell you a little about the Minneapolis project, which this film will show you.

About a year ago, we began the work of planning and installing some equipment in the Minneapolis Post Office for the purpose of making a practical experiment to prove that certain advantageous things were possible.

We are aware that we could never manually get full information on the workload at the variety of work stations at various times during the day in the post office, and yet we are attempting to measure that workload in a number of systems, probably three main systems, the cost ascertainment system, the WMS, and one that we call the 933 report.

Also, of course, we are very anxious to control work hours, to be sure that employment is used efficiently, so that work hours and work load are accurately matched without waste and without delay to the mail.

This Minneapolis system also permits us to record the actual man-hours employed at each work station throughout the post office throughout time.

We believe that the information developed through such a system will be helpful in the short run in better management of the post offices, better production, as a result of more complete data. In the long run there are some most intriguing possibilities implicit in the pooling of the information from a number of post offices so as to see the transportation requirements between or among post offices.

This Minneapolis work is really in its infancy. It is a learning process, to find out to what extend we can accomplish these objectives and to what extent we can perhaps accomplish still other objectives that we have not yet defined.

The film I think shows you in a very clear way what it is all about.

I might say a word about the film itself. This film was the off-clock hobby of a very skilled and experienced man in photography, Mr. Becker, who is sitting right behind you. Using his own equipment and his own time and his own talents, he has put this film together at no cost to the postal establishment nor to the Government.

The sound track you hear was recorded by a member of the Department. There were some charges involved in the laboratory processing of the film and in the raw film stock, but the charges are so insignificant compared with the finished product that this is probably one of the greatest values in the postal system, maybe as great a value as the 5 cent first-class letter.

(Showing of film.)

Mr. GARY. We will take up this afternoon the Office of General Counsel, Chief Postal Inspector, and regional administration.

Office of Chief Counsel

WITNESS

LOUIS J. DOYLE, GENERAL COUNSEL

Mr. Gary. First we will consider the Office of Chief Counsel, and testifying for the Office of Chief Counsel is Mr. Louis J. Doyle, the General Counsel.

We will be very glad to hear from you, Mr. Doyle.

Mr. Doyle. Thank you, Mr. Chairman.

In prior years you have expressed considerable interest in programs which the General Counsel handles. These are in the field of Communist political propaganda and in the obscenity field.

We reported last year that the Department's program to bar obscene matter from the mails was the most effective program of its kind that the Department had ever had. We continue to believe that this is so.

The Chief Postal Inspector will, I am sure, report to you the statistics concerning obscenity in the domestic mails of the United States.

For the past 3 years, the Department has used available funds and personnel in a hard-hitting enforcement campaign. Experienced postal inspectors have been assigned to this work, and according to the statistics of the Chief Postal Inspector, they have been highly successful in bringing to justice peddlers of filth and obscenity.

DETERMINATION OF OBSCENITY

Over the years, we have found that administrative determinations as to what is obscene were frequently overturned by the courts. The courts have developed a test for obscenity. That test is whether to the average person applying contemporary community standards the dominant theme of the material taken as a whole appeals to prurient interests.

The courts and many of our citizens believe that administrative determinations by the Postmaster General or his subordinates amount to censorship in that one person is the judge of the moral standards of the entire country. Early in 1961 the Department decided to concentrate its efforts on criminal prosecution.

In a criminal prosecution a jury determines the character of the material in question and its verdict possibly more properly reflects the contemporary community standard of morality in the area in which the prosecution takes place than does an administrative decision by the Postmaster General or his subordinates.

Through the use of trained inspectors, evidence is developed concerning the operations of a person or concern who is suspected of selling obscene materials through the mails. These investigations are at times most difficult and time consuming.

When an inspector develops evidence which appears sufficient to warrant criminal prosecution, the case is transmitted to the U.S. attorney for the district in which prosecution is authorized, or directly to the Department of Justice in Washington.

There is excellent cooperation between the Postal Inspection Service, the U.S. attorneys, and the Department of Justice.

OBSCENITY IN INTERNATIONAL MAIL

A substantial amount of obscenity enters the United States through the international mails. Under a joint program conducted by the Post Office Department and Bureau of Customs, we have been able to apprehend great quantities of obscene material and advertisements therefore at the major ports of entry.

In New York, N.Y., for example, there is a small group of customs and Post Office Department men who examine mail arriving in the United States from other countries. That which is unsealed and therefore clearly available for inspection is examined. If the Bureau of Customs determines that a particular piece of mail examined is not entitled to enter the country under the laws which they administer, it is seized by the customs officials and delivery is not made to the addressee.

If, on the other hand, it appears merely to be advertising material seeking to sell items which according to the wording of the advertisement are obscene, it is turned over to the postal service.

We review the material and if it is determined that the product advertised is described in such a manner as to lead the prospective purchaser to believe that in exchange for a sum of money he will receive obscene materials, then the matter is investigated by the Post Office Department.

If we find that the advertising does offer obscene material for sale, we confiscate the advertising material.

This program has had an impact on the foreign operator. Since the program was launched, the foreign concerns are using every means possible to circumvent this procedure. They enclose their obscene materials or advertising matter in sealed envelopes, hoping that they will not be detected.

Some of them have even gone so far as to write to former customers instructing them not to consent to the opening of sealed letters by customs or the Post Office Department. One other operator whose merchandise was not getting into the United States wrote to his former customers stating that the customer could now order freely and be confident that he was going to receive the merchandise ordered.

The plan of this operator was to have his merchandise in the hands of someone in Mexico who would fill orders by carrying the material across the border into the United States and then mailing it in the domestic mails.

In view of these efforts to circumvent our procedures, we feel certainly that our program is having substantial impact on this traffic from abroad.

DETENTION OF COMMUNIST PROPAGANDA IN MAIL

Now, in the propaganda area: On October 11, 1962, the President approved Public Law 87–793, popularly known as the postal rate and pay reform bill. Section 305 of that law, codified as 39 United States Code 4008, outlined a procedure for the handling and disposition of mail arriving from other countries which contained Communist political propaganda. This section of the law was the subject of great controversy, both in the House of Representatives and the Senate.

KANSAS STATE UNIVERSITY LIBRARIES MANHATTAN

The law provides that mail matter, except sealed letters, which originates in a foreign country and which is determined by the Secretary of the Treasury to be "Communist political propaganda" must be detained by the Postmaster General upon its arrival in the United States.

The Postmaster General is required, under this provision of law, to notify the addressee that such matter has been received and can be delivered to him only upon his request. Detention of the mail is not required in the case of any material which is being delivered to the addressee pursuant to a subscription therefor, or if the addressee, upon inquiry by the Postmaster General, states that he desires to receive it.

There are other exceptions to detention. Mail is not to be detained if it is addressed to a U.S. Government agency or to a public library, college, university, graduate school, or scientific or professional institution for advanced studies. And I should add: Or any officials thereof.

The law did not become effective until January 7, 1963. The Secretary of the Treasury delegated his function under this law to the Commissioner of Customs, who in turn delegated it to the customs collectors at the ports of entry in the United States.

The Bureau of Customs and Post Office Department selected 11 ports of entry at which mail from other countries would be examined under the provisions of this law. The ports selected were New York, N.Y.; Chicago, Ill.; San Francisco and Los Angeles, Calif.; Honolulu, Hawaii; El Paso and Laredo, Tex.; San Juan, P.R.; Miami, Fla.; and Seattle, Wash.

At each of these points there was established in the post office a "foreign propaganda unit." These units were manned by personnel contributed by the Post Office Department and Bureau of Customs.

At each of these points, mail arriving in the United States from designated countries is turned over by the postal service to these units. Personnel of these units examine the incoming mail first to determine whether it is addressed to any of the exempt organizations.

That which they find addressed to an agency of the U.S. Government or to any of the other exempt organizations is immediately returned to the mail stream and delivered as addressed to the addressees.

That mail which is not exempt is turned over to the Bureau of Customs for examination and analysis. After applying the tests provided for in the law, Bureau of Customs makes a determination that the mail is or is not Communist political propaganda. That which is determined not to be propaganda is immediately returned to the mail stream and delivered as addressed.

The mail which Bureau of Customs determines to be propaganda is returned to the Postal Foreign Propaganda Unit. Employees in this Unit, as required by the law, then address a communication to the addressee stating that mail has been received addressed to him which, according to the opinion of the Bureau of Customs, did contain Communist political propaganda. The addressee is also advised that he will receive this mail only upon his request.

If the addressee notifies the Post Office Department within the specified period of time that he desires to receive this mail, it is promptly delivered to him. If, on the other hand, he states that he does not desire to receive this mail, it is destroyed.

Not all of the 11 units commenced operation on January 7, 1963. Some of them did. Others did not go into operation until several months later.

During the first year of operation, 35.1 million pieces of mail were referred to the propaganda units at each of these 11 offices. Of the total referred, 15.7 million were found, upon examination, to be addressed to Government agencies or the other organizations in the exempt group.

The remaining 19.4 million pieces were detained for customs examination.

Of the mail detained for customs examination, 1.2 million pieces were determined by the Bureau of Customs to be Communist political propaganda. The remaining 18.1 million, not found to be propaganda, were returned to the postal service for delivery as addressed.

We frequently receive letters from postal patrons protesting this procedure. They contend that they have a constitutional right to receive this mail. Many of them demand that it be delivered to them without hindrance.

Upon receipt of such communications, the postmasters at one or more of the 11 ports of entry are notified that incoming mail addressed to the complainant should be delivered to him without hindrance, it being assumed that the letter of protest is in fact a request for the delivery of mail even though it is Communist political propaganda.

Several complaining addressees have filed suits in the district courts of the United States, seeking to enjoin any detention of mail addressed to them. None of these suits has, as yet, reached final decision. Several of them plead the unconstitutionality of the law.

It is anticipated that in the year to come we will have some judicial determination on the constitutionality of this provision of law. Until the time this judicial determination is made, Post Office and Customs have no alternatve but to apply the provisions of this law.

Until now the Post Office Department is absorbing the workload under its regular appropriation. Currently, Post Office is employing 51 employees to conduct the service required by this law.

The same employees handle the obscenity program.

INCREASE IN PERSONNEL

We have asked this year, for 1965, for an additional three employees to take care of our increasing volume of work. We have asked and suggested that they be considered as graded as GS–9.

We hope to be able to employ young people, young men, fresh out of law school, who would desire to make the postal service a part of their career.

Mr. GARY. Thank you, Mr. Doyle.

I believe, since Mr. Montague will cover somewhat the same subject, maybe we might as well hear from Mr. Montague, and then we can proceed with the questioning.

Postal Inspection Service

WITNESSES

HENRY B. MONTAGUE, CHIEF POSTAL INSPECTOR
STANCIL M. SMITH, DIRECTOR, DIVISION OF INTERNAL AUDIT, BUREAU OF THE CHIEF POSTAL INSPECTOR

Mr. Gary. Our next witness will be Mr. Henry B. Montague, the Chief Postal Inspector.

We shall be glad to hear from you at this time, Mr. Montague.

Mr. Montague. Thank you, Mr. Chairman.

I am accompanied by Mr. Paul R. Andrews, assistant to the Chief Inspector, and Mr. Stancil M. Smith, Director of our Division of Internal Audit.

Gentlemen, the postal inspection service is the investigative and internal audit branch of the Post Office Department. It has the responsibility of investigating for, and reporting to the Postmaster General and top management on the conditions and needs of the postal service and of preventing, detecting, and investigating postal crimes. The inspection service is also charged with operating the Post Office personnel and physical security program, acting as liaison for the Post Office Department with the Department of Defense, and serving as the defense coordination facility for the Postal Establishment.

In fiscal year 1963, these functions were carried out with a force of 978 postal inspectors and 99 internal auditors with supporting scientific, technical, and clerical staff under the direction of the Chief Postal Inspector.

CRIMINAL INVESTIGATIONS

Crime throughout the country continues its upward trend. According to uniform crime reports issued by the FBI, a 6-percent increase in serious crime occurred in 1962 over 1961. The first 9 months of calendar year 1963 reflects another 10-percent increase over the same period of the prior year. Consistent with this upward spiral, the postal inspection service initiated 97,809 criminal investigations in fiscal year 1963, an increase of 8 percent over the prior fiscal year. The trend is continuing.

In fiscal years 1961, 1962, and 1963, we used 42.7 percent, 45.1 percent, and 49.5 percent, respectively, of our total manpower on criminal investigations. This year to date we are so using about 50 percent of our manpower. Commensurately, this service achieved another alltime record of 10,980 arrests in fiscal year 1963, an increase of 3.1 percent over 1962, and 11.4 percent over 1961. Our arrests in this fiscal year to the end of December 1963 were 12 percent above last year. We have accomplished this by closely controlling manpower utilization and diverting manpower from other areas to criminal investigations. For example, in fiscal year 1963 we completed only 74.2 percent of our audits and inspections as compared with a 96.8 percent completion in 1960. Another contributing factor in our ability to meet these increasing demands has been that postal inspectors worked an average of 54 hours per week in pursuance of their duties.

We are currently in the process of training and absorbing into our force on a scheduled basis the 50 additional inspectors authorized by

Congress in the 1964 appropriation. As rapidly as these men can be trained, an equivalent number of men more experienced in criminal work will be assigned to the full-time conduct of fraud, obscenity, and mail losses investigations.

We are submitting for the record a separate chart showing arrests and convictions by postal violations for fiscal years 1959 through 1963.

We believe you will be interested in knowing something about the status of specific programs we have undertaken, the problems which confront us, and the achievements realized so far.

DEPREDATION OF MAIL

Intensive investigation of the August 1962 armed robbery of a mail truck near Plymouth, Mass., is continuing. Thousands of clues have been examined, and all aspects of the case are being vigorously pursued. Rewards totaling $200,000 are being offered—$50,000 by the Post Office Department and $150,000 by the Federal Reserve bank. Excellent cooperation is being received from Federal, State, and local law-enforcement agencies. A substantial amount of inspector manpower is being devoted to this case.

The theft of mail from private mail receptacles and the possession of stolen checks continue to be the most rapidly increasing offenses investigated by postal inspectors. A new high of 4,984 arrests were made for these violations during fiscal year 1963. In the current fiscal year—July 1 through December 31, 1963—a total of 2,438 arrrests were made for these violations, an increase of 11.2 percent over the same period in fiscal year 1963.

The Department has issued instructions to postmasters emphasizing the need for care in delivery of checks and has authorized them to withhold deliveries where safe mail receptacles are not furnished by the patrons. The fact that the volume of Treasury checks, as well as State, county, and commercial checks, is constantly increasing makes this type of crime particularly inviting to thieves, especially those addicted to narcotics.

Conferences are held periodically with Secret Service and Treasury Department officials to explore all possible preventive measures. Excellent cooperation has been extended by the Department of Justice and U.S. attorneys in the vigorous prosecution of offenders. Recently one judge, in sentencing six offenders to prison terms totaling 35 years, summarized the present attitude of many law-enforcement officials when he said, "This court is going to do what it can to break up this vicious practice of stealing from the mails and forging of checks."

Post office burglaries continued at a high level. Dring fiscal year 1963, 1,366 post offices, stations, and branches were burglarized. Investigation of these crimes by postol inspectors resulted in the arrests of 501 persons. In some instances the person was guilty of several of the burglaries.

Perserverance on the part of postal inspectors solved the theft of a $16,000 registered currency shipment from the Hinsdale, Mont., railroad depot which occurred in February 1960. The offender, a railroad telegrapher at the time of the theft, was apprehended January 15, 1963, and admitted the theft as well as destruction of the depot by fire to cover the theft.

During the middle part of 1963, three burglaries in the New England States were committed by three hardened criminals with lengthy records. Blank money order forms were the prime object. The burglars managed to pass 20 of them in Eastern and Southern States before being caught in Texas about 8 days after the third burglary. The prompt arrests and recovery of the balance of 489 orders resulted from intensive attention by postal inspectors with cooperation of local and State police. Each burglar was sentenced to 10 years' imprisonment.

In September 1963, two post offices in California and one in Arizona were burglarized by a gang of professionals; 4,677 money order forms, $22,000 in stamp stock, $1,600 cash and postal property were stolen. Approximately 2 weeks later postal inspectors apprehended the burglars and other criminals who were involved in efforts to pass the stolen money orders throughout the United States. Prosecution is pending. All postal property has been recovered with the exception of 1,000 blank money orders.

MAIL FRAUD

It is important that public confidence in business transacted through the mails be maintained and that the public be protected against dishonest promoters. The mail fraud statute has become the most effective weapon against those who seek to defraud consumers. The Postal Inspection Service acts for the Postmaster General in discharging his responsibilities under this law.

To insure the most effective consumer protection possible, we have coordinated our investigations of major fraud cases with the Criminal Division, Department of Justice, and U.S. attorneys throughout the Nation. This program has been very effective; convictions for mail fraud during fiscal year 1963 totaled 581, an alltime record, while numerous other schemes were suppressed through administrative action.

The importance of forceful prosecutive action cannot be overemphasized, and we are continuing to exert relentless pressure on those swindlers who are constantly devising schemes to prey upon consumers. A seemingly endless array of ingenious fraud schemes is constantly under investigation. These include advance fees for the sale of small businesses, real estate, and obtaining of loans; knitting and sewing machine promotions; "work-at-home" operations promising victims profitable employment in the home, addressing envelopes, and so forth; correspondence schools and diploma mills; fraudulent interstate land subdivision sales; medical frauds; matrimonial schemes; savings and loan swindles, such as occurred in Maryland; and a host of other merchandising and confidence swindles. The swindlers always use to their advantage the good reputations established by legitimate business in the same line.

During fiscal year 1963, these investigations resulted in the restitution of $1,995,460 to consumers, while $145,200 in fines was levied by the courts against those convicted. During this period, 88,223 complaints of alleged mail fraud were received from the public.

FRAUD AGAINST CHARITY FOUNDATION

Exemplary of the great public impact of these investigations is that in which the Sister Elizabeth Kenny Foundation, Minneapolis, Minn., was the victim. Two former executives of the foundation and four direct mail firm officials were convicted of mail fraud in connection with falsified audits and the awarding of direct mail contracts in return for "kickbacks." Their indictment charged that between 1951 and 1960, the firms raised some $22 million for the foundation while charging $11 million in fees. On September 13, 1963, the defendants received sentences totaling over 46 years and fines and court costs of $66,000 were levied against them.

MERCHANDISE SWINDLE

An important step in the fight against swindlers who prey upon consumers was the conviction at Burlington, Vt., on May 13, 1963, of the Buy-Rite Buyers Club, Inc., of Bennington, Vt.; the Factory Supply Co. of Bloomfield, N.J.; the American Wholesalers Service, Inc., of Lodi, N.J.; and the Standard Distributors, Inc., of Paterson, N.J., and their principal operators. One hundred thousand club members were bilked of more than a million and a quarter dollars in membership fees in this swindle. The victims joined in the belief that they would be able to purchase at "factory prices" over 20,000 nationally advertised products, such as drugs, clothing, housewares, jewelry, and similar items.

MEDICAL FRAUDS

Medical fraud schemes continue to be a source of great concern since the victims are frequently induced to attempt self-diagnosis and treatment meanwhile deferring proper attention. A case in point is that of Cora Galenti Smith, self-styled "beauty scientist," sentenced for mail fraud on October 28, 1962, at Las Vegas, Nev., to 5 years' imprisonment and 5 years' probation in addition to a $2,000 fine. This so-called scientist, with no medical training, solicited patients by mail who traveled from points as far distant as South Africa and Australia, to receive a highly dangerous face-peeling treatment. Her "magic formula" actually was nothing more than a strong solution of carbolic acid and numerous victims were scarred and disfigured. It is estimated that 500 persons were treated from whom she realized at least $1 million.

In another case, Dr. Roy W. DeWelles, on December 13, 1963, at Shelbyville, Ind., was convicted of nine mail fraud indictments, and was sentenced to serve 5 years on each of two counts, sentences to run consecutively. DeWelles used the mails in advertising traveling medical clinics at which the aged and ailing were told they suffered from such diseases as cancer and were charged as high as $500 for treatments on the DeWelles cure-all device called the detoxacolon. This device simply administered a colonic enema highly dangerous to some victims and therapeutically worthless to others.

Through this scheme, DeWelles obtained an estimated $500,000 over the years in the sale of some 200 machines, and an estimated $1 million in treatment fees.

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SAVINGS AND LOAN ASSOCIATIONS

Our drive against fraudulent savings and loan associations was successfully continued during the year, with the conviction of 11 persons engaged in the operation of 4 companies. Prominent among these was Stewart Hopps, a San Francisco insurance broker, who was convicted February 13, 1963, for mailing false financial statements following a lengthy trial at Baltimore, Md. It was Hopps' International Guaranty & Insurance Co., a Morocco corporation, that set the stage for a group of unscrupulous promoters to set up numerous fraudulent savings and loan firms in Maryland.

On December 12, 1963, at Richmond, Va., Financiers C. Oran Mensik and D. Spencer Grow were convicted of mail fraud for scheming to defraud potential investors in their savings and loan associations by using the Security Financial Insurance Corp., Baltimore, Md., as an advertising gimmick. Security Financial, set up in Maryland in 1959, purported to insure savings and loan accounts up to $20,000 each. It went out of business 3 years later.

REAL ESTATE PROMOTIONS

The prevalence of fraudulent land promotions is still a source of great concern to us. Promoters of these schemes have victimized thousands of citizens, notably the elderly and those seeking retirement havens. These promoters offer unsuitable, undeveloped land for sale in beautiful advertisements depicting very desirable locations. We have over 200 of these cases under active investigation at the present time. Thirty cases have been presented to U.S. attorneys in which 14 indictments involving 36 individuals have been returned. We have obtained convictions in three cases and others are expected shortly.

WORK-AT-HOME PROMOTIONS

The conviction of Nels Irwin, Los Angeles, Calif., who received a sentence of 3 years' imprisonment and 4 years' probation, marks a high point in our drive against the promoters of work-at-home frauds. Irwin victimized his victims by offering so-called franchises, valuable territories, catalogs, instructional material, and so forth, for setting up work-at-home mail-order businesses. The victims were to mail catalogs of fast-selling imports and share in profits, up to $185 for each 1,000 catalogs mailed. Irwin led his victims to believe that oversea "captive" manufacturers and suppliers were under contract to fill orders from such catalogs. Postal inspectors developed thousands of complaints from persons throughout the United States who invested more than $500,000 in Irwin schemes which netted them virtually nothing. It is estimated that Irwin received in excess of $3 million in the period 1957–62 from these operations.

DEBT CONSOLIDATION PROMOTIONS

A relatively new problem has come to attention during the past year in the debt consolidation companies which are operating nationwide. Some concerns, which purport to solve the financial problems of persons having difficulty in meeting their obligations, have in some cases appropriated to their own use money deposited with them for the

payment of debts. A number of these cases are currently under investigation and will be presented to U.S. attorneys for consolidation of prosecutive action in the near future.

Requests by the Department of Justice for assistance by postal inspectors in the investigation of cases involving use of the mails to transmit wagering paraphernalia have required the assignment of additional inspector manpower to this work.

To facilitate our fraud investigations, a system has been designed to record on automatic data processing equipment the successive steps in the investigation and prosecution of violators of the postal fraud statute. It is believed that the information developed by this system will be of material assistance in the management of the investigations of mail frauds.

MAILABILITY PROGRAM

Arrests and convictions for violation of the postal obscenity statutes set new records during 1963, and were up approximately 100 percent over fiscal 1960. We are continuing the toughest possible crackdown on those who deal in obscenity through the mails. To facilitate this, we are working very closely with other law-enforcement agencies, including the Criminal Division, Department of Justice; the Bureau of Customs; local police departments throughout the Nation; and Interpol—the International Criminal Police Organization.

Among the significant arrests and convictions during the fiscal year was that of Ralph Ginzburg, who operated as Eros Magazine, Documentary Books, Inc., and Liaison News Letter, Inc. Numerous complaints were filed by patrons who received Ginzburg's advertisements through the mails. On December 19, 1963, he was sentenced at Philadelphia, Pa., to 5 years' imprisonment and to pay fines totaling $42,000.

On September 5, 1963, at Los Angles, Calif., six postal inspectors and three deputy marshals participated in the arrest of nationwide obscene dealers Louis W. Linetsky, Harold Wasserman, and William H. Door, who operate under such trade styles as John Amslow & Associates; Medco Sales Co.; Barbara Martine; Fax Record Co., et al. Indictments were previously returned by a Federal grand jury at Kansas City, Kans., on August 29, 1963. Thousands of complaints were received from mail patrons in regard to these three operators. Recently Door was murdered under peculiar circumstances.

The criminal statistics are the best evidence of the overall results of this program:

[Fiscal year]

	1959	1960	1961	1962	1963
Arrests	315	389	457	605	761
Convictions	272	306	377	503	637

EXPLOSIVES AND OTHER NONMAILABLE MATTER

The spiralling crime rate was further reflected by an upsurge in such postal law violations as the mailing of explosives, narcotics, and other poisons; extortion and scurrilous and deflamatory matter. It was a year of increased activity by postal inspectors in conducting investigations of great perplexity and unusual circumstances.

At the parcel post section of the airport mail facility of the San Francisco Post Office on the morning of March 18, 1963, a heavy explosion, accompanied by an orange-colored mushrooming flash resulted in two postal employees being severely injured. Eight other employees were examined and treated for blast effects.

Parcel reconstruction by postal inspectors furnished conclusive evidence that the explosion occurred in a package from Saigon, Vietnam, containing a woman's coat, cashmere and angora, bearing a Hong Kong label. Investigation at San Francisco, Chicago, and Vietnam revealed that the parcel had been mailed by a captain, U.S. Army, to his wife. The captain was medically evacuated to Letterman General Hospital, San Francisco, for a complete psychiatric evaluation and treatment. He was arrested on April 19, and indicted 5 days later under the felony section of 18 U.S.C. 1716. Trial is pending. Postal inspectors received the full cooperation of the Air Force Office of Special Investigations and the Army Criminal Investigations Division during the investigations.

In recent months there have been three other such cases which were quickly solved.

EXTORTION BY MAIL

Threats to injure the reputation of addressees, or of another, or to accuse these individuals of a crime, coupled with demands for money, or other things of value, are investigated by postal inspectors. Many prominent people are the recipients of such threats.

NARCOTICS

Many of those investigated by postal inspectors are addicted to narcotics and engaged in extensive criminal activities throughout the country in order to obtain inordinate amounts of money to purchase drugs. Coordination is maintained with the Federal Bureau of Narcotics in such instances.

IDENTIFICATION LABORATORIES

To provide necessary technical and scientific support to postal inspectors, we maintain five identification laboratories, strategically located across the Nation. During fiscal year 1963, 15,142 questioned documents and other laboratory analyses were completed resulting in positive identification of 1,045 individual offenders. Identifications were separately effected concerning 487 evidence items related to burglarized post offices and mail depredations.

In addition, these laboratories rendered technical assistance to other Federal and State agencies not having their own facilities. On a cooperative basis, advanced training, in identification techniques, was furnished foreign law-enforcement officials of nine countries.

INSPECTIONS AND INTERNAL AUDIT

Consistent with our responsibility of keeping the Postmaster General advised on the conditions and needs of the postal service, annual audit inspections are conducted of all post offices as well as periodic audits of other postal installations. In fiscal year 1963, about 23 percent of inspectors' time was engaged on audit-inspections, and 42,565

such audit-inspections were completed. The primary purpose of these audit-inspections is to determine whether revenues are properly collected and accounted for, that appropriated funds are being judiciously used, and that proper service is being rendered.

Among the areas which will receive special attention during the year will be interdivisional inspections. These inspections have proven to be beneficial to both our service and management. They develop a uniformity in the conduct of inspections by permitting a freer flow of knowledge between divisions, and provide a training media to develop specialists in selected areas, and improve inspection standards as well as the quality of the inspection.

The Internal Audit Division continues to perform internal audits and appraisals of accounting systems and management controls used by the Department. Major emphasis during the year was directed toward broadening the scope of work to include management-type reviews of operating areas at all levels of activity. Summary reports on these audits enable top management to take prompt corrective or remedial action, often on a departmentwide basis. These audits are designed to point out breakdowns in management or operating controls, areas of possible cost reductions or operating improvement. Some of the functional areas covered were:

1. Supply and equipment management.
2. Special agreements with railroads.
3. Administration of time, attendance, and leave in post offices.
4. Merger of Dallas-Denver accounting offices.
5. Post Office Department banking practices.

Technical direction of finance examiner training is now handled by our service. Internal auditors and inspectors are participating in this program.

As the Department's modernization and mechanization programs move forward, the Internal Audit Division is playing an increasingly important role by analyzing pricing proposals and contract amendments; making on-site reviews and verifications of labor, material, and overhead costs; performing on-site audits at contractor plants for determining allowable costs; auditing termination and stop-work claims; auditing progress payments on fixed price advertised contracts; giving advice and assistance to contract negotiators and administrators; and performing comprehensive internal audits of procurement, supply, and equipment management functions. In recent months, audit requirements on contract termination activities have been increasing.

During the past 2 fiscal years and to date, internal auditors have made audits and participated in prosecutions of 14 mail fraud cases. A good example was the *Sister Kenny Foundation* case in Minneapolis which required the services of two accountants on a full-time basis for almost 2 years. Internal auditors have also worked on several important savings and loan association cases in Maryland. In addition, two auditors are now working on a case requiring audits of several corporations.

Efforts are being made to use statistical sampling, data processing machines and all modern audit techniques to get the best results from our limited audit staff. In spite of this, several important operating areas which should be subjected to current audit have been de-

ferred or covered only partially because of insufficient manpower. Some of these areas are: cost ascertainment systems, controls over bulk rate, permit, metered, and franked mail revenues, and international mail operations.

FINANCIAL INVESTIGATIONS

Closely allied to the audit-inspection program are financial investigations. Many were the direct result of findings developed during the audit-inspections. In fiscal year 1963, 6,847 such investigations were initiated. As a result of these investigations, criminal proceedings for embezzlement of funds were instituted against 163 individuals.

As in all financial investigations extensive attention is given to protection of revenues, such as the collection of proper amounts for permit mailings on which postage stamps are not affixed. Also, investigation during the past year disclosed increased violations of the private express statutes by business firms. In most instances, these were due to misunderstanding.

During fiscal year 1963, postal inspectors collected $822,560 as a result of their investigations of financial irregularities, accidents, theft, and other mistreatment of mail. The amounts recovered were paid to the United States and to the senders or owners of the mail. Reimbursements to patrons totaled $123,200, of which $11,740 was returned to religious and charitable organizations.

ACCIDENT INVESTIGATIONS

Postal inspectors investigate all accidents occurring in the course of the operations of the postal service where personal injury to private citizens is involved or where damage to private property is over $500. During the past fiscal year 4,580 such investigations were conducted, an increase of 19.6 percent over the previous year. It is essential that these accidents be investigated promptly and thoroughly to be of maximum benefit in the settlement by the Department, of administrative claims, and in defense of civil suits under the Federal tort claims procedures.

In 434 such suits settled during fiscal year 1963, plaintiffs filed aggregate claims in the amount of $18,833,043; however, these suits were settled through awards of $1,462,749, a reduction of over $17 million from the original amounts filed. Evidence developed by postal inspectors was a contributing factor in effecting this reduction.

The findings developed by these investigations have also been utilized to material advantage by the Department in its accident program to correct hazardous conditions and to determine specific vehicle improvement which will provide greater safety of operation.

PERSONNEL INVESTIGATIONS

During the past year, the Inspection Service conducted over 2,000 suitability and character investigations. These investigative reports were used by operating officials in deciding on the suitability of candidates for the position of postmaster and acting postmaster.

Numerous other personnel matters are given attention on requests by the various bureaus in the Department or by regional directors.

CIVIL DEFENSE AND DEFENSE MOBILIIZATION

Substantial progress was made in the development of the emergency regisration program assigned to the Department by Executive order. The program provides for the restoration of mail service to and reuniting of dislocated persons during a national emergency.

Participation in the national fallout shelter program during the year resulted in the stocking of numerous shelters in postal buildings. Improved readiness was achieved by the storage of emergency rations at each relocation site.

Close liaison was maintained during the year with the military departments on behalf of the Post Office Department Bureaus to assure maintenance of postal service for military personnel.

MANPOWER CONTROLS AND UTILIZATION

Toward the end of fiscal year 1963, action was taken to establish a 2-year administrative improvement program based on a comprehensive survey of field division administrative and clerical operations. Scheduled for action during the period are (1) the establishment of more simplified reporting and case control procedures; (2) the streamlining of clerical operations; (3) the extension of automatic data processing systems; and (4) the strengthening of the management directives system.

DIVISION HEADQUARTERS

Bureau representatives inspect our 15 field division headquarters offices under a continuing program designed to maintain and increase efficiency of operations. Increased importance is being placed on these inspections to insure control over the many innovations already installed and those projected for implementation during the next 2 years.

AUTOMATIC DATA PROCESSING

Fiscal year 1963 saw the first successful application of automatic data processing to Inspection Service procedures. The system developed permits (1) the automatic computation, consolidation, and printing of caseload volume by type of case and geographical area; and (2) the individual case production and employment in terms of hours for each inspector. In addition to the benefits represented by the timely receipt of statistical data at top management levels, some savings in Bureau and field clerical time has been realized.

Significant progress was made on three other ADP research projects designed to provide both summary and detailed information on the audit inspection and mail fraud investigation programs. It is anticipated that each of these projects will have been tested and made operational by the close of the current fiscal year.

During fiscal year 1963, recommendations by postal inspectors and internal auditors, as a result of their audits and inspections, have contributed to service improvements and dollar savings which we have not attempted to tabulate. Also, the investigations and reports of postal inspectors contributed substantially to the reduction of over $17 million in the settlements of suits in accident cases. Moreover, moneys

were returned to either the public or the United States as a result of criminal investigations by postal inspectors as follows:

Fines imposed in court cases	$270,560
Court ordered restitutions	1,638,310
Voluntary restitutions	652,050
Recoveries in embezzlement and depredation cases	450,460
Potential value of stolen money orders recovered	1,134,100

NEW POSITIONS REQUESTED—INSPECTION SERVICE

The appropriation request for fiscal year 1965 totals $20,906,000. This will provide for an additional 30 employees compared with the number allowed under the approved appropriation for the current year.

We are currently in the process of training and integrating on a scheduled basis the 50 additional inspectors authorized by Congress in the 1964 appropriation. Additional clerical help is badly needed now and as the 50 current-year inspectors become productive, the need for such support will become most acute. Accordingly, we are asking for 21 clerical-stenographic positions. This personnel will type reports of investigations, receive and process complaints and inquiries from the public, assist in maintaining the continuity of office operations during absence of inspectors, conduct inquiries to conserve the time of inspectors, and review and distribute reports of investigations. Without such assistance, inspectors become burdened with clerical details and we cannot realize their full potential in investigations.

We are also asking for four trainee document examiners for assignment to our field identification laboratories. The increase in time devoted to criminal work has had a commensurate effect on the number of requests received by our laboratories for handwriting, typewriting, and physical evidence analyses. Similarly, with the increasing crime rate and the establishment of 50 additional specialized fraud, obscenity, and depredation assignments, demands on the laboratories will continue to accelerate. In fiscal year 1962, some 7,810 questioned exhibits were analyzed. In 1963, analyses were made of 15,142 questioned matters. Some 1,600 remained on hand at the close of the year. This backlog delays and hampers investigations. Moreover, this experience indicates that a minimum of 23,000 questioned matters will probably require attention in 1965. Timely attention and extreme care are of the utmost importance in this work. In view of the training requirements, little in the way of independent production can be anticipated during the first year. It is, therefore, urgent that steps be taken now to develop additional employees for these laboratories to meet the increasing workload.

We are asking for five new positions for our Internal Audit Division (four auditors and one clerk-stenographer). These positions are needed to handle the increased workload confronting us in the areas of contract audits, termination claims, complicated mail fraud cases, planning, directing, and supervising, nationwide vertical audits, and technical direction and coordination of the finance examiners program.

I thank you.

ARRESTS AND CONVICTIONS

Before we get into any questions, Mr. Chairman, may I show you this record which I have before me? It came as a result of the recommendation of your committee last year.

(The table referred to follows:)

Arrests and convictions

Class of offense	Arrests, fiscal year—					Convictions, fiscal year—				
	1959	1960	1961	1962	1963	1959	1960	1961	1962	1963
Burglary of post offices, stations, etc	514	474	536	538	501	493	414	448	513	467
Holdup and robbery	33	34	30	32	34	36	25	27	31	22
Theft and rifling of mail by—										
Postal employees	609	618	595	574	559	582	565	521	540	513
Railroad employees	6	14	12	28	9	5	9	11	21	12
Others from mail receptacles	3,306	3,119	3,330	3,463	3,409	3,144	2,966	3,070	3,263	3,137
Interception	467	492	521	537	631	404	450	487	468	559
Other, miscellaneous	336	343	373	386	392	277	296	333	342	369
Willful injury of mail receptacles	981	1,019	1,165	1,291	1,376	933	922	1,123	1,162	1,329
Theft of Government funds and property	76	77	93	62	100	71	55	79	78	72
Possession of stolen checks	924	1,113	1,128	1,461	1,575	816	916	1,043	1,260	1,362
Possession of stolen goods	50	63	95	52	75	28	44	72	49	38
Fraudulent use of the mails	445	594	651	676	619	309	366	431	524	581
Lottery	11	4	11	27	17	5	4	3	24	9
Obscene mail	315	389	457	605	761	272	306	377	503	637
Poisons	9	1	3	13	11	7	2	4	3	12
Explosives	12	10	5	11	10	14	8	7	5	12
Scurrilous and defamatory matter	15	7	12	9	19	7	4	7	4	13
Extortion	29	25	35	43	33	19	21	33	28	33
Impersonation of postal employees	5	5	12	4	7	3	4	10	3	2
Embezzlement of funds	159	162	166	174	163	152	134	140	153	152
False claims against the United States	9	60	38	15	20	4	14	71	21	12
Forgery of money orders and postal savings certificates	411	349	432	410	402	390	334	376	334	381
Miscellaneous	137	141	160	244	257	108	108	121	180	223
Total	8,859	9,113	9,860	10,655	10,980	8,079	7,967	8,794	9,509	9,947

Mr. MONTAGUE. You talked to us at some length last year about compiling information which would show the declinations of prosecution, the convictions, sentences, and other particulars, that we are getting in the various judicial districts. We immediately, after your hearings, started to plan such a project, were able to put it into effect by July 1, and now have it.

With this record, which is prepared by automatic data process, we know exactly what case is assigned to which inspector, what inspection division it is in, what State it is in, what judicial district is involved, and we follow the history of the case from the time it is issued until the time it is closed.

We know if the case is presented to the U.S. attorney. We know whether prosecution is declined or undertaken. If it is undertaken, we know whether there is acquittal or conviction, and, if conviction, what the sentence is, and what the fines are.

We have been running this record for only the last two quarters, from July 1 through December 31, 1963, and we do not have enough experience yet for it to be conclusive, but we can tell you that the report is going to be a great management tool to us.

For example, previously, we were not able to determine immediately in which category of fraud there is an upsurge. Some scheme could have been on the increase, and we would not have been immediately aware of it. But now, in getting this compilation by ADP at the end of each quarter, we can see immediately which scheme is growing and where we have to concentrate our manpower.

So, we thank you for your suggestion, and we feel that a lot of good is going to come out of it.

Mr. GARY. Thank you very much, Mr. Montague. That is a very excellent report.

Apparently you have answered completely the old charge that used to be brought against the Inspection Department, which we heard very frequently, that they were engaged in management rather than investigation, and I think at one time that was largely true. The inspectors were practically running the post office. But apparently today management is running the post office, and you are doing inspection work, which our committee has always thought is as it should be.

I am glad to see that your report indicates that fact.

INSPECTION SERVICE PERSONNEL

How many personnel are assigned to the Postal Inspection Service?

Mr. MONTAGUE. This year we will have 1,028 inspectors; we have 439 clerical and scientific and technical staff in the field; and we have 119 in internal audit.

Mr. GARY. And how many personnel are you requesting for 1965?

Mr. MONTAGUE. We are requesting 30 additional for the field, and at departmental headquarters, which is included in the administration and regional appropriation; we are asking for 6 in inspection and 4 for internal audit, or 40 total.

Mr. GARY. Do the 40 in the field include inspectors?

Mr. MONTAGUE. No.

Mr. GARY. You are not asking for any inspectors at all?

Mr. MONTAGUE. No, sir; 4 would be in our 4 field laboratories, 21 would be clerk-stenographers, 4 internal auditors, and 1 clerk-stenographer for internal audit.

Mr. GARY. At what grade are postal inspectors recruited?

Mr. MONTAGUE. At grade PFS–9.

Mr. GARY. How do you go about the recruiting of postal inspectors?

Mr. MONTAGUE. Our principal way is through our inspectors in the field. Each inspector is aware of what we are looking for in a potential inspector, and if he sees one who seems to have the qualifications, he encourages him to make application.

Also, postmasters and other supervisory people know what we are looking for, and encourage employees to apply.

The applicant has to have 4 years of postal service, or he can receive credit of as much as 3 years' service for certain degrees, such as engineering or law. He must be between the ages of 25 and 38 years, and, of course, must be physically qualified to handle the duties.

Mr. GARY. You are authorized to add 50 new inspector positions in 1964. Have they been recruited?

Mr. MONTAGUE. Yes, sir. At the present moment we have 41 of those on our rolls, and we are planning to have the other 9 before the end of the year.

INSPECTION SERVICE TRAINING PROGRAM

Mr. GARY. What training program do you have for your inspectors?

Mr. MONTAGUE. When inspectors are first appointed, they come into Washington. We have a classroom here, provided with Postal Manuals, other textbooks, and equipment that we need, to teach the fundamentals of our work.

The newly appointed inspectors spend 4 weeks here under the instruction of a staff assistant who devotes all of his time to training work of inspectors. We also bring in some of our experienced instructors from the field. They assist in the training sessions.

After that first month, the class goes into the field and spends 5 months in on-the-job training. That first 6 months is a probationary period. A man can be dropped at any time during that 6 months if he is not making good.

If the new man does make good, he is brought back here for a further 4 weeks of training by experienced inspectors, and this time the training is devoted principally to law enforcement problems, use of firearms, self-defense, the various laws applying to our work, testifying in court, matters of that kind.

Mr. GARY. Are all of your inspectors armed?

Mr. MONTAGUE. Yes, sir.

Mr. GARY. Mr. Passman, I believe you had a question.

Mr. PASSMAN. Thank you, Mr. Chairman.

EXPLOSIVES

Mr. PASSMAN. Mr. Montague, on page 12, under the caption "Explosives and Other Nonmailable Matter," and down further, under "Explosives," you state:

At the parcel post section of the airport mail facility of the San Francisco post office on the morning of March 18, 1963, a heavy explosion, accompanied by

an orange colored mushrooming flash resulted in two postal employees being severely injured. Eight other employees were examined and treated for blast effects.

Parcel reconstruction by postal inspectors furnished conclusive evidence that the explosion occurred in a package from Saigon, Vietnam, containing a woman's coat, cashmere and angora, bearing a Hong Kong label. Investigation at San Francisco, Chicago, and Vietnam revealed that the parcel had been mailed by a captain, U.S. Army, to his wife.

How did the explosives get in the same package with an expensive coat?

Mr. MONTAGUE. According to the reconstruction of the parcel, the explosive had been wrapped inside the coat.

Mr. PASSMAN. Was this done by intent, or design, on the part of this individual?

Mr. MONTAGUE. Apparently so.

Mr. PASSMAN. Was it intended that the explosive go off when the package was opened?

Mr. MONTAGUE. We think that it was intended to go off on contact. It was wrapped in such a way that if you picked the coat up, the explosive would drop, and we assume that on contact it would explode, because when the employees took the mailpouch from the floor and threw it up on the cutopen table, the impact apparently caused the explosion.

Mr. PASSMAN. Was it the intent of the U.S. Army captain to kill his wife?

Mr. MONTAGUE. That is our contention, yes, sir, and he has been indicted.

Of course, there is still a trial pending, but it is our contention that the explosive was deliberately placed in the parcel.

Mr. PASSMAN. The conclusion is that the captain wanted to get rid of his wife.

PORNOGRAPHIC AND PROPAGANDA MAIL

Mr. GARY. How many inspectors do you have in control of pornographic and propaganda type mail?

Mr. MONTAGUE. We are using the equivalent of about 55 inspectors on that type of investigation.

Mr. GARY. Do you consider that you are getting satisfactory sentences and satisfactory cooperation from the district attorneys and courts in cases which have been developed by your inspectors?

Mr. MONTAGUE. Yes, sir; we think so.

COOPERATION AGAINST ORGANIZED CRIME

Mr. GARY. Do you cooperate in the Federal drive on organized crime, which is headed up by the Attorney General?

Mr. MONTAGUE. Yes, we do. The reference in our statement to the work that is necessary on gambling paraphernalia is in that category of cooperation.

Mr. GARY. Do you consider that you are receiving satisfactory cooperation from State and local enforcement agencies?

Mr. MONTAGUE. Yes, we have very good working arrangements with all State and local agencies and receive excellent cooperation.

Office of Chief Counsel

NUMBER OF PERSONNEL

Mr. Gary. How many personnel are employed in the Office of General Counsel?

Mr. Doyle. Seventy-one.

Mr. Gary. How many additional are you asking in 1965?

Mr. Doyle. Three.

Mr. Gary. What will be their duties?

Mr. Doyle. Largely in the contracting area, although some time will be devoted to discrimination problems.

Mr. Gary. What constitutes the principal workload in your office?

Mr. Doyle. The principal workload is in the contracting area, which includes the procurement of equipment and supplies and also the real property program. This is the principal work area that we have.

Mr. Gary. Then, in addition to that, you cooperate with the inspection service?

Mr. Doyle. Oh, yes. I understand that the program ahead is that I will begin to feel the full impact of these 50 new inspectors in the consumer protection area in this coming year.

Mr. Montague. Yes, sir. We intend to add at least two, and more, if we can spare them, to our so-called medical fraud unit at national headquarters, and we hope that in doing so, we will be able to give more cases to the General Counsel, which will lead to administrative action.

PROSECUTION BY DEPARTMENT OF JUSTICE

Mr. Gary. You do not prosecute these cases in court?

Mr. Doyle. We do not, sir. That is all in the hands of the Department of Justice.

Mr. Gary. And that is true as to pornographic materials? You have not had any prosecutions as to Communist political propaganda?

Mr. Doyle. No, there is no basis in law for prosecution in that area, but all prosecutions are handled by U.S. attorneys.

Mr. Gary. Do you handle the accident cases?

Mr. Doyle. Yes, sir; up to $2,500.

Mr. Gary. Over $2,500?

Mr. Doyle. That is a lawsuit, which is handled by the Department of Justice.

Mr. Gary. But do you go into court on the smaller cases, actually try them in court?

Mr. Doyle. Only at the request of the U.S. attorney, if he needs some assistance.

Mr. Gary. I mean on the smaller cases.

Mr. Doyle. We do not. That is administrative handling.

Mr. Gary. You do not go into court on any of them?

Mr. Doyle. No, sir.

Mr. Gary. If any of the cases go into court, the court proceedings are handled by the Department of Justice?

Mr. Doyle. That is correct.

Mr. Nicholson. Mr. Chairman, I think a point that Mr. Doyle made is worth emphasizing, that the new professional people that he is asking for, for 1965, will be young lawyers recently out of school.

I have been very much impressed, coming from outside of Government work into Government work, at the amazing quality and competence of the professional staff that Mr. Doyle has. I feel certain that a large number of those professionals could well be employed in private practice, with far more rewarding compensation.

I think one of his problems is to maintain this excellent quality, get staff with the kind of dedication that his present staff has, and to develop useful careers in Government for young lawyers to carry on this kind of work.

So the young men that he intends to bring in will, I think, have longtime consequences, and be very valuable additions to the program of building within the Department good people with careers in Government.

Mr. GARY. Do the regions have counsel?

Mr. DOYLE. Three of them presently have counsel, New York, Philadelphia, and Chicago.

POSTAL INSPECTION SERVICE

INTERNAL AUDIT ACTIVITIES

Mr. GARY. Will you explain for the record the activities of the Internal Audit Division, Mr. Montague?

Mr. MONTAGUE. The Internal Audit Division is a division of the Chief Inspector's Bureau. They have responsibility to ascertain and be sure that the auditing procedures and practices in the Post Office Department are up to standard.

They make many audits at the departmental and regional levels. Also, as indicated earlier, they have much to do with the costing in many of the contracts and auditing the contracts to be sure that the prices being charged are what they should be.

And the internal auditors do work with inspectors on many of our big fraud cases, which require extensive auditing. Inspectors and auditors also work together on some of the audits which are made at the field and departmental level.

I will ask Mr. Smith if he wants to add something to that.

Mr. SMITH. I believe that adequately covers it, Mr. Montague.

rM. GARY. Do they audit all local post offices?

Mr. MONTAGUE. The inspectors audit the local post offices, and that work is coordinated with the auditors who work at the regional level.

Generally, the auditors confine themselves to the departmental and regional levels; that is, they work in the controllers' offices in the regions, while the inspectors take care of the field work, the auditing of the post offices, so that there is no overlapping. The work meshes the way it should in order to get a complete audit.

Mr. GARY. How many personnel are involved in this work, and how many additional personnel are requested for fiscal year 1965?

Mr. MONTAGUE. In internal audit work?

Mr. GARY. Yes.

Mr. MONTAGUE. Our internal audit complement at the present time is 119, and if the request is granted for the field and headquarters, it will be 128.

Mr. GARY. What is the workload of this Division?

Mr. MONTAGUE. Mr. Smith, could you mention something about that?

Mr. SMITH. The workload of the Division is to audit all of the financial affairs of the 15 regional comptroller offices, and all of the headquarters offices. In addition, we audit as many management areas as our manpower will permit.

We have been very successful in making vertical-type audits of selected areas. Procurement would be a good illustration. We audit the function at headquarters, at selected regional offices, and at a few representative post offices. We then issue a report which consolidates the findings and recommendations; these are useful in effecting departmentwide improvements in many instances. The Division also audits all cost-type and other negotiated contracts with industry.

Mr. MONTAGUE. I would like to add a little something, Mr. Chairman, from my experience in the postal service, and you gentlemen on the committee can see it from the changing concepts mentioned here.

The millions of dollars being put into mechanization, new types of buildings, all of the new things that are coming into use in the postal service require more auditing work. You have to be sure that you are getting a dollar's worth for your dollar.

And all of this requires more attention in post offices, as well as in the procurement areas, and it is receiving attention.

Mr. GARY. Who audits the building contracts?

Mr. MONTAGUE. On our vertical audits, we take a very close look at building contracts.

Mr. GARY. What do you mean, "vertical audits?"

Mr. MONTAGUE. When we talk about vertical audits, we mean an audit from the ground up, or from the field right through the region to the Department. We audit the investigation that was made to determine space, the advertising, the handling of the bids, the inspection of the building, the whole procedure, right from beginning to end.

We take selected cases in the various inspection divisions and post office regions to get a cross-section audit covering the whole country and audit the projects right up to the departmental level to check all procedures that are followed.

Mr. GARY. And that at the local level is done by the inspectors?

Mr. MONTAGUE. Yes, sir.

Mr. GARY. At the regional level, it is done by the internal audit?

Mr. MONTAGUE. And at the departmental level.

Mr. GARY. Now, are the stamps issued to the local offices through the regional office?

Mr. MONTAGUE. Not all of them. Some are on direct supply. Stamps go directly from the Bureau of Engraving and Printing right to the offices on direct supply.

Mr. GARY. Which ones are issued through the regional office?

Mr. MONTAGUE. The smaller offices generally.

Mr. GARY. What is there to audit in the regional office? That is what I am trying to get at.

Mr. MONTAGUE. Regional offices pay the railroads, the airlines, the payrolls for all the post offices.

Mr. GARY. Within the region?

Mr. MONTAGUE. Yes, sir, at the regional level.

Mr. GARY. And they audit these payrolls and the various——

Mr. MONTAGUE. Yes, sir, as well as payments for rest. In those cases, the auditors have to go back to the original lease to see what the monthly rental is, and then be sure that the payment is correct in accordance with that lease.

Mr. NICHOLSON. As head of the Bureau of Finance, I am the object of a great deal of the work. All of the financial audit work is done by internal audit. And I cannot refrain from putting in a word of praise for the work done by internal audit.

Annually, they give us, over the last 3 years now, an audit report on all the transactions of the Post Office Department. This means that they will make that degree of audit that they feel is necessary to assure themselves that the obligations and financial activities of the Department as a whole have been carried on in a proper manner and with proper controls.

This is a great deal of the work they do at the regional level, where the official ledgers of the Department are maintained, and where the great bulk of disbursements of all kinds, pay, settlements, and so forth, are made, and where the accounting for property takes place, and for vehicles and so on.

These financial audits have not only been of great service to the Bureau of Finance and the Department in assuring all of us that these transactions are being conducted in a proper way, but also in the process of doing their audits, the internal audit people find specific procedures that could be improved, or in some cases, procedures that are serving no particular purpose, so that they make a real contribution to the system of doing these things, as well as contributing to our confidence that the transactions are properly taking place.

For example, they recently did—this is more perhaps in the nature of a management audit—a thorough inquiry into the timekeeping practices and other related practices in the post offices.

We find this particular kind of work extremely helpful to us, both in doing only what is necessary, eliminating things that are not necessary, and improving the ways in which these controls are administered.

Although normally, I suppose, as the object of most of their inquiries, I should resent them, because frequently they do put us on the defensive, by pointing out weaknesses, or places where we can improve, but still, on balance, the service that they render us is far greater than any difficulties they cause us.

Mr. PILLION. Will the gentleman yield?

In a way, they aid you a great deal in management, do they not?

Mr. NICHOLSON. They do, indeed. And as the titular responsible person, they serve me greatly, because if there is one thing no one wants, it is any looseness or carelessness or improper procedure in this financial area.

Mr. PILLION. Even within the management.

Mr. MONTAGUE. This is an audit of management control as well as financial control.

Mr. GARY. Have you a table showing the number of audits made, say, each year for the past 5 years?

Mr. SMITH. I have that information through 1963, sir. I could furnish that for the record.

Mr. GARY. Will you furnish it for the record, sir?

Mr. SMITH. I would be glad to.

Mr. MONTAGUE. Do you want that by title, or by number? Just the number of audits?

Mr. GARY. I think if you can get it by title, it would be well to put it in by title, to show as much information on it as you can. That is, if you have it available by title.

Mr. SMITH. We have it developed through fiscal year 1963.

Mr. GARY. If you do that, we will appreciate it. We will insert it in the record.

(Table referred to follows:)

Internal audit assignment data, fiscal years 1959–63

Audit assignments [1]	1959	1960	1961	1962	1963
Postal field installation audits: Postmaster statements; centralized payrolls; miscellaneous disbursements; regional accounting; regional surveys: cost, budgets, reports, manpower, mail volume; mail transportation: air, rail, highway, foreign; vehicle service; supply centers; money order center; equipment warehouses; post offices; review and observation of selected procedures, operations, internal controls, and examination methods	212	341	214	178	142
Audit service, cost-type contracts: (headquarters and field)	33	49	72	128	97
Headquarters audits, functional audits, and special assignments: Headquarters accounting; international mail settlements; international money orders; procurement: equipment and supplies; real estate; property accounts and management; purchase and administration of transportation services; time, attendance, and leave administration; postal savings; philatelic	28	33	63	72	124
Total	273	423	349	378	363

[1] The list of subjects following the various classes of assignments is not all-inclusive and is intended only to delineate the scope of activity.

There is no direct correlation between the number of audit assignments and the volume of audit work performed. The scope of work has been gradually broadened to provide more comprehensive coverage and to better serve top management. Segment audits of field installations, performed on an annual basis in 1959–61, have been cut back to less frequent intervals to allow more time for comprehensive, management-type audits of certain functional areas or activities at headquarters and at selected regional and field offices. These types of audits require more time and are fewer in number but are more productive of departmentwide improvements. The number of assignments includes those completed and in process at the end of the year.

Mr. GARY. I notice that you characterize this as a field audit. Who directs the activities of these personnel, and what is their relationship with the region?

Mr. MONTAGUE. The inspector force is directed by 15 inspectors in charge. We have 15 divisions, and each one has an inspector in charge.

In internal audit, we have five area managers. The area managers direct the internal auditors.

Mr. GARY. Why are the personnel under this activity classified as postal field service employees?

Mr. MONTAGUE. The salaries are under the postal field service salary structure and they work in the field under field supervision rather than working directly from headquarters.

Mr. SMITH. May I comment further on that?

Internal auditors were not when they were first set up, but the lawyers told us they had to be. They were classified under the GS schedule first, but they were converted to PFS.

Mr. PILLION. I would like to compliment Mr. Montague and his staff for the very fine and comprehensive report of activities.

I note that you have a very high percentage rate of convictions as against arrests. I think that is a very fine record you show here. Above 90 percent, I guess, is it not?

Mr. MONTAGUE. It runs better than that, Congressman. Last year the rate was 98.9 percent.

Mr. PILLION. That is terrific.

Mr. MONTAGUE. In many of these cases, court action follows the arrest by a considerable period of time, sometimes 6 months or more, and we always have a lot of cases pending in court. So, there is not a direct correlation between the convictions and the arrests on an annual basis.

Mr. PILLION. The Narcotics Bureau was in here last week, and they indicated a growing narcotics situation in New York City.

I see that you refer to it somewhat in your statement, on the possibility of mailing some of these narcotics in the mail to the United States from foreign lands to, say, one person to another, or from a pusher or peddler to an addict within the United States.

Have you had any experience of that kind? Have you found any of that?

Mr. MONTAGUE. Yes, sir.

Mr. PILLION. Is there much of it in New York City?

Mr. MONTAGUE. We have had several cases in which we have cooperated with the Bureau of Narcotics where they had indications that the mail was being used. And then in our own area of jurisdiction, our mailbox thefts, the last study we made indicated that about 35 to 40 percent of such thieves were also narcotics addicts. We report each one of those individually to the Bureau of Narcotics.

Mr. PILLION. That is the other end of it. That is after they become addicts, where they need the money to get the narcotics. I am thinking more in the area of prevention, preventing not only new narcotics addicts, because I am of the opinion that you have to tackle it at both ends, reduce the addiction and the demand, and also reduce the supply coming in.

And New York seems to be a hell of a situation, with something like 50 percent of all the addicts in the country being in New York City. And I assume a great percentage of that is in Harlem and that area.

Do you have any thoughts on that? I do not want to put you on the spot with regard to the Narcotics Bureau and the local police, but this is a growing problem.

Mr. MONTAGUE. We have had a number of cases where inspectors worked with Narcotics Bureau agents in cases involving the mail. This cooperation could come through some suspicion that we might develop in the first instance, or through evidence that they have obtained.

We had one case, I recall, where the drug was shipped inside the pages of a newspaper.

You can be sure that wherever a case of this kind comes to the attention of either enforcement agency, we work together on it.

Mr. PILLION. I realize that this is not your prime responsibility, but I am trying to point up that we need a joint effort down there in New York to do something about that growing situation.

Mr. MONTAGUE. The question that the chairman asked previously, about organized crime, fits into this picture, too, where all the agencies are working together developing information. The drug traffic is sometimes connected with gambling paraphernalia, and so on.

Mr. PILLION. Now, on the international mail: When that comes in, do you have international mail, the regular first, second, and third class, and also the parcel post mail that comes in?

Mr. MONTAGUE. Yes, sir.

EXAMINATION FOR NARCOTICS

Mr. PILLION. How do you examine those for narcotics?

Mr. MONTAGUE. The Post Office does not examine those. That is done by the Bureau of Customs at the ports of entry.

Mr. PILLION. You do not take part in that?

Mr. MONTAGUE. No, sir.

(Discussion off the record.)

DETENTION OF COMMUNIST PROPAGANDA MAIL

Mr. PILLION. Mr. Doyle, you mentioned, here, about the propaganda coming in, and getting rid of the exempt mail and screening the other mail, and you got down to 1.2 million pieces of mail that were determined to be Communist political propaganda.

I assume this is the kind of mail that you would send a post card or a letter to the addresses asking them if they wanted this.

Mr. DOYLE. That is correct.

Mr. PILLION. But nowhere in here do you state how many wanted them.

Now, how many people did you send to them, and how many asked for them, and who are they?

Mr. DOYLE. We get monthly reports from each post office, and I just had not put them together for this purpose.

Mr. PILLION. You see how important that is. That is the whole point of this matter of screening.

How many do you screen out, and how many do accept them or want them, and what is the net end result of this whole thing?

Mr. DOYLE. Can I supply this?

Mr. PILLION. Yes, sir.

(Information referred to follows:)

Our monthly reports from the 11 screening points indicate that 835,969 pieces of mail considered by Bureau of Customs to be Communist political propaganda were delivered to the addressees either because they had subscribed to them or otherwise wanted to receive them.

The reports also indicate that 216,683 pieces of mail were withheld from delivery because the addressees stated, upon inquiry, that they did not desire to receive them.

We probably could add to this figure; namely, the number of pieces not desired, 3,538 instances in which we were unable to contact the addressee and 10,498 inquiries from which we received no response.

EXAMINATION BY BUREAU OF CUSTOMS

Mr. PILLION. Are there two classes of imports that are coming in? Suppose I sent a package to Europe by way of, say, railway express, or some such thing that is not mail. All these packages that may not be mail. Would customs break into those and determine whether there is any smuggling of heroin or diamonds or anything taking place or does everything come within the joint jurisdiction of the customs and your people?

Mr. MONTAGUE. This is the responsibility of customs.

Mr. PILLION. But is there a separation between mail, and, say, freight?

Mr. DOYLE. The customs checks technically everything that comes in, whether it be mail or freight.

Mr. PILLION. But freight you do not touch?

Mr. GARY. Post office has nothing to do with that.

Mr. PILLION. I was just trying to get where that stuff could come in, because we are concerned with this matter of inspection of freight packages. I was surprised at the small amount of smuggling of narcotics that they were able to detect over a period of a year, so I am just wondering if there is not an area, here, in the mail, where you might have jurisdiction, where a lot of this stuff is coming in, and whether or not you might need new laws to allow you to spot check some of these perhaps suspicious first-class or second-class mailings.

Would that be of any help, do you think? Is there a possibility that a great deal of this stuff is coming in the mail, that customs is not catching, and the post office is not catching? Have you caught so far as you know any smuggling of narcotics by way of mail from Europe into here? Or from any other place?

Mr. MONTAGUE. Not through an examination of the mail. Not to my knowledge.

Mr. PILLION. I am just wondering whether this is not an area you might give some thought to. Would you be able to make a spot check? That would be like finding a needle in a haystack, I suppose.

Mr. MONTAGUE. We would not be able to, under present conditions. Mail coming in is turned over to customs for that purpose. When they finish with it, they turn it back to us.

Mr. PILLION. Would they do that, in first-class mail? Or second-class mail?

Mr. MONTAGUE. Of course, they cannot go into the first-class mail.

(Discussion off the record.)

Mr. MONTAGUE. The Post Office Department now is assuming some of the examination here in connection with the propaganda material, but that is a cooperative measure with the Bureau of Customs.

PENALTY FOR PROPAGANDA OR PORNOGRAPHIC MATERIAL

Mr. GARY. There is no penalty at all connected with the propaganda material, is there?

Mr. MONTAGUE. None.

Mr. CONTE. There is no penalty with the pornographic, either, is there?

Mr. GARY. Oh, yes.

Mr. CONTE. Coming from abroad?

Mr. MONTAGUE. Any information we get on this we use only as leads. If it is determined to be pornographic, on receipt in the country it is seized by customs.

Mr. CONTE. There is no penalty?

Mr. GARY. Not on coming into the country, but is there not a penalty on importing pornographic material?

Mr. MONTAGUE. Technically, if customs stops it and seizes it, it has not been imported, I would think. I do not know of any prison sentences.

Mr. DOYLE. The mailer is not available for prosecution.

Mr. GARY. I was wondering about the recipient.

Mr. DOYLE. The law says "receives through the mails," as well as "mailing."

Mr. GARY. Of course, you would not do that for individuals, but what I meant was: If you had a person that was bringing obscene material into this country through the mails to redistribute it, they would be subject to penalty, would they not?

Mr. DOYLE. Yes; they would.

(Discussion off the record.)

SEIZURE OF PORNOGRAPHIC MATERIAL

Mr. GARY. Mr. Montague, did you not recently have a pornographic conviction in New York?

Mr. MONTAGUE. Yes, Mr. Chairman. On the evening of February 18, 1964, the trial jury in the Southern District of New York returned a conviction against Irving Klaw, doing business as Nutrix Co.

Mr. Klaw had been dealing in sadistic and masochistic material, so-called bondage, which depicts girls in black leather high heel shoes and black leather gloves and sometimes with whips, handcuffs, or instruments of torture. It is this sort of pornographic material.

Mr. GARY. And he has not yet been sentenced?

Mr. MONTAGUE. No, sir. That conviction was returned the other night—after jury trail, and Klaw was found guilty on 65 counts; an associate was convicted along with him on 1 count.

PORNOGRAPHIC MATERIAL FROM CANADA

Mr. STEED. Recently I had occasion to send along some material that a constituent of mine had received from someone in Canada. This material at least impressed me as being definitely in the obscene advertising come-on field.

Now, the boy and his father said they had received several pieces of mail from this firm in Canada, and had no way of knowing how the boy got on the mailing list. It was not because he had sought it or wanted it. And they had even gone so far as to notify the mailer that they did not want to receive any more of it, but it continued to come.

Now, what can you do in a case of that sort? The person sending the mail in Canada is outside of your jurisdiction. It that not so?

Mr. MONTAGUE. Yes. That is true.

Mr. STEED. There was some oral information that came to me that this same company in Canada had another setup over across the border in this country, and that they were mailing come-on letters to Canadians from this country and mailing the come-on stuff to Americans from Canada.

In that case, you could get your hands on their operation.

Do you have any working arrangement with a country like Canada in a matter of this sort, where they might give you some assistance?

Mr. MONTAGUE. Yes, we do, Congressman. When we have a case that involves Canada and the United States, our inspectors will go over to Canada to join the local people in the investigation, or, vice versa, they come down to work with us.

Mr. STEED. I was sure the material I sent you had a lot more intriguing appeal to it than the stuff you showed us here today.

DESTRUCTION OF MAIL RECEPTACLES

There is one item, here, in this tabulation of arrests and convictions that interested me, and I was wondering if you could just make a brief comment on the nature of this offense called "Willful injury of mail receptacles." What does that consist of, usually? Is that just breaking into mailboxes in apartment houses, or does it involve something more serious?

Mr. MONTAGUE. The law covers the willful injury of a mail receptacle. Quite often such an arrest pertains to the injury to the mailbox in the lobby of an apartment building, where we can prove that the accused broke the box, but may not have sufficient proof to show that he stole a letter. Or where you have a malicious breaking of the boxes on a rural route. That, too, would be covered under the law.

Mr. STEED. I just was curious to know what sort of thing was giving you this amount of trouble.

Mr. MONTAGUE. Generally, the willful injury is done in connection with an effort to try to steal the mail.

ARRESTS AND CONVICTIONS FOR STOLEN CHECKS

Mr. STEED. I noticed that the increase in the number of stolen check convictions and "from mail receptacles" convictions has gone up. I suppose that reflects this steady increase in the total number of Federal checks being issued each year.

Mr. MONTAGUE. Definitely.

Mr. STEED. And what I would like for you to give me would be some relationship between the arrests and convictions as against the total number of theft complaints received. Could you do that?

Mr. MONTAGUE. Yes, sir.

Mr. STEED. We have had from the other agencies in Treasury some information that indicates that there has been a growing number of theft cases.

Of course, in Treasury they have to take additional steps to protect the person who would have received the stolen check legitimately, and I was just trying to get how much margin there is between the number of thieves you catch, as against the number of checks that are being taken. That is an increasingly serious problem, is it not?

Mr. MONTAGUE. Yes, it is.

Recently in a bank publication I recall an estimate being cited that 14½ billion checks clear the banks in a year.

Mr. STEED. If my memory serves me correctly, I think they estimate that the Treasury will issue in the neighborhood of 480 million checks this coming year, and of course many of those, social security, veterans' benefits, and so forth, are mailed to people, and sometimes on a regular or monthly basis, which seems to have contributed to ever-increasing theft.

Have you found many cases of an organized band of groups or gangs of thieves that operate in this check field? Or is that mostly an individual thing?

Mr. MONTAGUE. Quite often there are bands or groups, particularly in the large cities. In fact, most of this trouble occurs in our larger cities, such as New York, Philadelphia, Chicago, and in those places, the thieves do operate in bands. Sometimes they have people who specialize in passing the checks. They also have people who specialize in forging the checks. They have an efficient operation.

RELATIONSHIP OF DAMAGED RECEPTACLES AND STOLEN CHECKS

Mr. STEED. With regard to this very close parallel in the total number of arrests and convictions for willful injury of mail receptacles and for possession of stolen checks, is there a relationship between those two totals?

Mr. MONTAGUE. Yes, there is. We often cannot prove a theft unless we see it, or unless we have a witness who saw it. However, if we have knowledge that a theft has been committed, and take a suspect into custody who has the check in his possession, rather than being charged with theft, he will be charged with possession. Actually, such arrests are in the same category.

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

(The information requested follows:)

Check thefts from mail receptacles

Fiscal year	Complaints [1]	Arrests [2]	Convictions [2]
1959	55,253	5,211	4,893
1960	52,492	5,251	4,804
1961	57,813	5,623	5,236
1962	65,280	6,215	5,685
1963	66,866	6,360	5,828

[1] This covers complaints of alleged loss or theft of mail or damage to mailboxes in major cities throughout the country. It represents the major portion of such complaints.

[2] Includes arrests and convictions for thefts of mail from mail receptacles, possession of stolen checks, and willful injury of mail receptacles which are interrelated. Each arrest and conviction covers a separate individual but sometimes one individual is responsible for a number of thefts.

PLYMOUTH MAIL ROBBERY

Mr. CONTE. Mr. Montague, in regard to the Plymouth, Mass., robbery, that you mention on page 3—you say that a substantial amount of inspector manpower is being devoted to this case. Have you recovered any money yet?

Mr. MONTAGUE. No, sir.

Mr. CONTE. And have there been any convictions whatsoever?

Mr. MONTAGUE. No, sir.

Mr. CONTE. And last year, we went into a great dissertation about some of these individuals that were suspected. We will not get into that again. But at that time you said there was a suit pending against the Department by some of these individuals. Has anything happened to that? Has that been dismissed?

Mr. MONTAGUE. As I recall, Congressman, all together, there were five suits. Two of those were dismissed. And three are still pending. They are against the individual inspectors.

Mr. GARY. Thank you, Mr. Doyle and Mr. Montague.

You have given us a very complete report, and I congratulate you on the work that you have been doing, and you have our complete cooperation.

If something is not done to handle this crimewave that seems to be sweeping over the country, we are really in for sad days.

I congratulate you on your efforts. You certainly have the hearty cooperation of this committee in the work that you are doing.

OFFICE OF REGIONAL ADMINISTRATION

WITNESS

DAVID A. BUNN, DIRECTOR, OFFICE OF REGIONAL ADMINISTRATION

Mr. GARY. We will next consider the Office of Regional Administration.

Mr. David A. Bunn, the Director of the Office of Regional Administration, will testify on this item.

We will be glad to hear from you, Mr. Bunn.

Mr. BUNN. Thank you, Mr. Chairman.

Gentlemen of the committee, although the total number of postal employees has increased, the total regional complement proposed for fiscal 1965 is down 10.3 percent from fiscal 1960.

REDUCTION OF REGIONAL PERSONNEL

The management problems we were faced with in the field during the current fiscal year made it necessary to utilize in administration some of the finance positions which were recovered due to the Denver-Dallas Finance Division consolidation and by the installation of 1401 tape computed systems. I have a chart showing a 6-year complement analysis which I would like to have inserted in the record.

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

(The chart referred to follows:)

REGIONAL AIMINISTRATION
6-year complement analysis

Fiscal Year Ending	Pieces of Mail (in ~~Thousands~~ millions)	Postal Employees (in Thousands)	Regional Budget Complement Ceiling: Finance	Administration	Total
June 30, 1960	63,675	563	2,371	2,546	4,917 - 1/
June 30, 1961	64,933	582	2,441	2,476	4,917 - 2/
June 30, 1962	66,493	588	2,441	2,359	4,800 - 3/
June 30, 1963	67,890	587	2,441	2,349	4,790 - 4/
June 30, 1964	70,266 - 7/	593 - 7/	2,308	2,482	4,790 - 5/
June 30, 1965	72,233 - 7/	598 - 7/	2,228	2,482	4,710 - 6/
		6.2% UP	6.0% DOWN	2.5% DOWN	4.2% DOWN
				0.41% of Total Postal Employees	
June 30, 1965 Amended - See note below			1,928 18.7% DOWN		4,410 10.3% DOWN

1/ Adjusted to include 145 modernization positions which were shown separately in budget for FY 1960.
2/ Railway claims function transferred to Finance from Administration.
3/ 117 Positions transferred to POs with mobile unit function.
4/ Net drop of 10 positions (48 position drop partially offset by transfer of 38 positions from POs with mobile unit payroll function).
5/ 133 positions (part of 1401 & Den-Dal reductions) transferred from Finance to Administration to handle increased workload.
6/ Drop of 80 positions (balance of 1401 reductions).
7/ Projected.

NOTE: Chart reflects complements as shown in budget submission. Consolidation of data processing and accounting functions to six centers will allow drop of 300 positions in addition to the 80 shown for a total drop of 380 positions by 6/30/65.

2/1/64

Mr. BUNN. The growth of the postal operations continuously placed demands on regional administration personnel to carry out departmental programs. Compliance with Executive orders dealing with employee-management functions, strengthening the postal service officer program, giving regional backing to postal operation programs (such as POMSIP, ZIP, VIM, and parcel post study), and strengthening the procurement function are all essential to good management, but they could not be accomplished within the existing administration ceiling.

The acute ceiling problem is apparent when you realize that the regional administration personnel comprises less than one-half of 1 percent of the total postal personnel. These are the regional personnel who are responsible for carrying out departmental policies and programs in the field.

In order to properly carry out these functions, it became necessary to utilize some of the funds recovered from organizational changes in the finance divisions.

CONSOLIDATION OF REGIONAL DATA PROCESSING

The Dallas-Denver accounting and data processing function consolidation was successful. The few problems that remain as a result of the combining of the accounting and data processing functions of these two regions are far outweighed by the gains.

The success of this organizational change paves the way for consolidating the present 14 accounting and data processing functions into 6 postal data centers by the end of the next fiscal year. This does not affect the regional controller office itself, nor does it affect the functioning of the Finance Division in each region.

REDUCTION OF REGIONAL PERSONNEL

The net reduction of positions by June 30, 1965, as a result of these additional consolidations is expected to be 300, which means a drop of 380 in our budget position ceiling by June 30, 1965, instead of the 80 shown in the budget original.

A greater savings by June 30, 1965, will not be possible. Our first year's efforts are to be directed toward activation of the six postal data centers. After the centers are operational, efforts will be directed to improving systems to include more types of data, and to reducing manual requirements within the postal data centers. It is through these internal adjustments that we expect additional savings in fiscal 1966.

In line with the President's desire for maximum economies in Government, we are setting two goals for regional administration—No. 1 is maximum economy within our regional offices by keeping complements at minimum needs, and No. 2 is maximum economy in field operations by regional pursuit of departmental policies and programs which are geared toward effecting operation economies.

ORGANIZATION AND OPERATION OF REGIONAL OFFICE

Mr. GARY. Will you describe for the record the organization and operation of the postal regions?

Mr. BUNN. Yes, sir.

I have a chart here which I think may be helpful, which explains how a regional office is set up. A regional office has a regional director——

Mr. GARY. You have how many regional offices?

Mr. BUNN. We have 15, sir. And I inserted a map yesterday in the record.

Mr. GARY. That is right. The map was placed in the record on yesterday, showing the regions and the locations of the offices. That is right.

Thank you, sir.

Mr. BUNN. Each region has a regional director, who is responsible for all matters relating to postal management operations, transportation, finance, engineering, equipment, supply, facilities, and personnel within his region.

The regional director in 10 of the regions has a deputy regional director. All of the regional directors have an assistant to the regional director, who handles public relations functions, congressional relations functions, and this kind of thing. The regional directors also have a special assistant to regional directors for employee relations. Three of the regions have regional counsels, as Mr. Doyle mentioned, and all of the regions except three have a director of postal service officer programs. These four men report directly to the regional director.

In addition to this, there are six divisions in each region: the regional controller, who is concerned with the finance management; the personnel division, which concerns itself with personnel policy; the postal systems division, which concerns itself with work standards and methods in post offices; local services, which controls organization and complements in local post offices; transportation division, which concerns itself with transportation problems in each region; and an engineering and facilities division, which concerns itself with the building and maintenance of facilities in each region.

These are all management people in the field. They carry out the policies of the Postmaster General and the Deputy Postmaster General.

RESPONSIBILITY AND AUTHORITY OF REGIONAL DIRECTOR

Mr. GARY. What are the responsibilities and authority of regional directors?

Mr. BUNN. Their responsibility is the total matters relating to all of the postal management within all of the specified geographical area which is their region.

Mr. GARY. And what is their authority?

Mr. BUNN. Their authority is to carry out the policies of the Postmaster General in the movement, distribution, and mail-handling operations in their region.

Mr. GARY. What authority do they have insofar as appointment and promotion of personnel are concerned?

Mr. BUNN. Their authority is all the promotions up to level 13. Level PFS–13 and above comes into the Department for approval.

However, as Mr. Belen pointed out I believe last year, when he was here, probably 99 percent of the recommendations of the regional

directors, 13's and above, are followed, but they do come into the Department.

Mr. GARY. But they have complete authority?

Mr. BUNN. Through level 12, to level 13.

Mr. GARY. And they have that authority with respect to all appointments within their region?

Mr. BUNN. That is right.

Now, your local installations manager, your postmaster, has authority up to level 7, so unless for some reason the regional director wants to review what a postmaster is doing—he has the authority to do that, and then the postmaster has to send in promotions above level 7.

Mr. GARY. Are all of the regions similarly organized, with the same components?

Mr. BUNN. Yes, sir; with the exception right now of the Denver region, which is the only region where the accounting and data processing is merged with Dallas.

COORDINATION HEADQUARTERS AND REGIONAL POLICY

Mr. GARY. What type of direction and administration is given to the regional directors from Washington?

Mr. BUNN. The Postmaster General meets with the regional directors approximately four times a year, when they review policy from Washington, review with the regional directors how this policy is being carried out in the field, and get feedbacks as to how the policy is being implemented.

Mr. GARY. I suppose the Washington office also has representatives that they send?

Mr. BUNN. Yes, sir. We have a regular program of regional appraisal, which comes under my office, the Office of Regional Administration, which goes into a region on a periodic basis, to make sure that they are administering the programs and policies as laid down by the Postmaster General.

Mr. GARY. How many do you have in your office?

Mr. BUNN. I have 10 people in my office.

DATA PROCESSING CENTERS

Mr. GARY. Do the regional directors have any authority over the data computing centers?

Mr. BUNN. No, sir; the centers as they are being set up will report in Washington to the Office of Regional Administration. Functionally, they will report to the Bureau of Finance, under Mr. Nicholson. But the regional directors will have access to all of the information that these postal data centers gather, so that no one regional director will dominate these centers.

Mr. GARY. I still do not understand the difference in the setup with reference to the new data processing centers.

Mr. NICHOLSON. There are two branches in the present Finance Division involved here, Mr. Gary, the Accounting Branch and the Data Processing Branch. Those 2 branches of each of the 14 regions where they presently exist will be moved to the postal data center.

In addition, at the postal data centers some new functions that did not previously exist will be created in order to develop both systems and procedures, so as to get an integrated information system that we previously did not have.

The functions of those two branches as they presently exist, accounting and data processing, in the finance divisions are primarily routine functions. Each document recording a transaction that comes in must be inspected to determine whether or not the payment or the action called for by that document is lawful, and whether or not the expenditure or obligation involved is authorized by our current Appropriation Act.

Once the determination has been made that a check can be issued or action taken, then the documents move to the data processing operation, where the listing or the issuing of a check or the recording of that transaction takes place.

Those functions, as I say, tend to be routine. They can be classed as routine. They are not decisionmaking functions. They are not policy determination functions.

The information developed as the result of those actions should be analyzed and interpreted. Then recommendations should be made for remedial action, if such is required, by the management side of the finance operations.

I am emphasizing that separation for this reason. The relatively routine activities of inspecting and verifying documents and the large-scale processing of checks or listings or reports is not involved either in decisionmaking or in action taking.

The reports that are the product of this relatively routine operation would be rendered to the regional controller, and through him to his director, for those management actions, the management attention, the identification of improvements or changes to be made, so that the region itself, the management of that region, would continue to operate in exactly the way it operates now.

But in our belief, it will operate better, both because of the better information that will be developed as a result of the data centers, and also because the routine aspect with its administrative preoccupations will be removed from the financial management group, allowing the financial management group to spend a hundred percent of its time and talent and energies on management affairs and not be partly preoccupied with the administration of this relatively routine operation.

Mr. GARY. That activity will not be under finance, then. It will be removed from finance?

Mr. NICHOLSON. It will be removed from the finance division of the region.

Mr. GARY. Well, how about in Washington?

Mr. NICHOLSON. The technical guidance of the postal data center will be under the Bureau of Finance, which is presently undergoing some reorganization, with a clarification of its mission. There is underway a combination of what had previously been the Bureau of Finance and the Office of the Deputy Postmaster General, as represented by Mr. Thomason and Mr. Frank Reilly and others who have been concentrating on management affairs and on automatic data processing affairs.

Mr. GARY. But I thought we were told some time ago that those functions would be transferred to an Assistant Secretary.

Mr. NICHOLSON. They are being transferred to me.

Mr. GARY. I thought they were being transferred from you to some other Assistant Secretary.

Mr. NICHOLSON. No, sir; I am sorry you had that misapprehension.

Mr. GARY. The Assistant Postmaster General, it was.

Mr. NICHOLSON. They are being transferred to me. I am the Assistant Postmaster General, Bureau of Finance.

They had been in the Deputy's office, and they are now being combined with other functions in the Bureau of Finance.

Mr. GARY. I had understood they were being transferred from you to some other Assistant Postmaster General.

Mr. NICHOLSON. No, sir; that is not the case.

Mr. GARY. I am glad to hear that, because it seems to me that it is definitely a part of finance, and should be under the direction of the Finance Department.

Mr. NICHOLSON. In this new Bureau, attention is broader than just finance. The new Bureau will see its role as making possible an application of the data processing, the automatic data processing capability, for all purposes in the Department, whether they are financial purposes or other purposes.

As we have become more sophisticated in the use of this equipment, and in knowing how to control it and apply it we have opened up new applications. As has already been indicated to you there is an example involving the Inspection Service. Useful information about case records, about the disposition of cases, and so on, has been applied on programs on the computer system.

Similarly, there will be work involving operations, transportation, personnel, a large number of content areas in addition to the straight dollar side of the operation, the issuing of checks, and so on.

The merger of the capabilities and talents and background of the people in Mr. Thomason's operation with those of the Bureau of Finance will give us a combined group, with broad outlooks, with one very important thing in common, and that is participation in an information system that is as broad as the Department itself, and is as complete as the Department and the regional directors and the post offices themselves, in the case of the large offices, have need of.

REGIONAL RESPONSIBILITIES

Mr. GARY. What responsibility do the regions have in connection with the various programs that have been discussed previously during the hearings, such as POMSIP, VIM, and ZIP code programs?

Mr. BUNN. Oh, very largely they are responsible for carrying out these programs.

For example, the POMSIP program, in many instances, in fact I believe in most instances, is under the chairmanship of the director, postal service officer program. When they go into a post office with a POMSIP team, the person who heads up that team generally is a postal service officer. Our PSO's have an average of 28 years of postal background, and they are regional officials who are responsible for utilizing the talents of top people from other post offices as well as from the region on management programs.

NUMBER OF REGIONAL PERSONNEL

Mr. GARY. How many personnel are involved in the entire regional operation?

Mr. BUNN. We are authorized at the present time 4,790. We are dropping that at the end of the next fiscal year. We will be dropping from 4,790 down to 4,410. The 4,410 level includes the reduction of 300 made possible by data center consolidation not included in the President's budget. This is a 6-year rundown.

Mr. GARY. Could you provide a table indicating the total personnel in each regional office?

Mr. BUNN. Yes, sir, I can. I do not have that with me, but I will.

(The information referred to follows:)

Positions allocated to regions

Atlanta	329	Philadelphia	399
Boston	331	St. Louis	307
Chicago	409	San Francisco	352
Cincinnati	375	Seattle	248
Dallas	330	Washington	314
Denver	151	Wichita	250
Memphis	254		
Minneapolis	286	Total	4,790
New York	455		

Mr. GARY. Are these personnel all under the exclusive control and authority of the regional directors, or do some of them report direct to Washington?

Mr. BUNN. No, sir, they are all under the direction of the regional director.

Mr. GARY. With this intermediate layer of supervision between the postmaster and Washington, what authority is left to the postmaster at each location?

Mr. BUNN. Pretty largely to run his installation.

Mr. CONTE. If it is anything other than a PFS–7, it has to come through the regional director rather than the postmaster?

Mr. BUNN. The postmaster recommends.

Mr. CONTE. That does not mean anything. He just makes the recommendation?

Mr. BUNN. I do not know what the statistics are, but a very high percentage of whatever he recommends is what happens.

Just like when the regional director sends it in here to Washington, as Mr. Belen pointed out, 99 percent of the time we go along with what the regional director recommends.

Mr. GARY. The postmaster has authority up to seven. From 7 to 13, the regional director has authority, and over 13, Washington, the central office.

Mr. NICHOLSON. Just to complicate this a little, the whole authority is vested in the Postmaster General.

Mr. BUNN. By law he is the only one.

Mr. NICHOLSON. He has chosen to delegate it, and at any time could revert that delegation or change the degree to which any one level can be terminal on these actions.

Mr. GARY. But that is your practice at the present time?

Mr. BUNN. Yes, sir.

Mr. GARY. We understand that the entire administration of the Post Office is under the Postmaster General.

Mr. NICHOLSON. I did not want any confusion on the point that the postmaster has a right to make promotions. He has no vested right. Only what is delegated.

Mr. GARY. Just like the regional office has a right to review all under seven, and the Postmaster General has a right to review them all, all the way down the line.

Mr. CONTE. Mr. Bunn, I want to make absolutely sure of one thing, so that we will have it for the record.

Even though you have made this move in regard to the data processing office in Boston to New York, you have no intentions whatsoever of moving the regional office from Boston to New York or any other place?

Mr. BUNN. No, sir. We do not have any intention to move the Boston regional office to New York.

Mr. CONTE. That is all.

Mr. GARY. Thank you gentlemen.

In the morning we are going to have the Office of Research and Engineering, at 10 o'clock, and as soon as we finish that, we shall adjourn over until Monday.

FRIDAY, FEBRUARY 21, 1964.

RESEARCH, DEVELOPMENT, AND ENGINEERING

WITNESSES

EDWARD E. HARRIMAN, DIRECTOR, OFFICE OF RESEARCH AND ENGINEERING
V. CLYDE STONE, ASSISTANT DIRECTOR FOR PROGRAMING AND CONTROL
W. R. MASTERS, ASSISTANT DIRECTOR FOR MANAGEMENT ENGINEERING
J. M. LOWE, ASSISTANT DIRECTOR FOR CONSTRUCTION ENGINEERING
EUGENE B. CROWE, DEPUTY ASSISTANT POSTMASTER GENERAL AND CONTROLLER, BUREAU OF FINANCE

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	2,225	2,764	3,284
	Positions other than permanent	20	20	20
	Other personnel compensation	22	47	38
	Total personnel compensation	2,267	2,831	3,342
12	Personnel benefits	164	206	243
21	Travel and transportation of persons	143	200	225
22	Transportation of things	9	11	12
25	Other services	3,203	14,555	8,952
	Services of other agencies	213	226	226
	Total obligations	5,999	18,029	13,000

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	254	274	304
Full-time equivalent of other positions	5	5	5
Average number of all employees	219	256	290
Employees in permanent positions, end of year	232	274	304
Employees in other positions, end of year	17	17	17
Average GS grade	9.3	9.5	9.6
Average GS salary	$8,863	$9,538	$9,739

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Operating costs, funded:			
1. Direct operation	2,635	3,273	3,847
2. Contract engineering	1,713	1,813	1,800
3. Contract research and development	6,390	10,968	7,378
Adjustments to accrued annual leave due to pay increases	61	16	
Total operating costs, funded	10,799	16,070	13,025
Capital outlay: 3. Contract research and development	1		
Total program costs, funded	10,800	16,070	13,025
Change in selected resources [1]	−4,801	1,959	−25
Total obligations	5,999	18,029	13,000
Financing:			
Unobligated balance brought forward		−6,116	
Unobligated balance carried forward	6,116		
New authority	12,115	11,913	13,000
New authority:			
Appropriation	12,000	12,000	13,000
Transferred from "Plant and equipment" (76 Stat. 314)	115		
Transferred to "Administration and regional operation" (77 Stat. 62)		−87	
Appropriation (adjusted)	12,115	11,913	13,000

[1] Selected resources as of June 30 are as follows:

	1962	1963 adjustments	1963	1964	1965
Accrued annual leave	−218		−327	−367	−391
Employees compensation liability	−10		−14	−15	−16
Unpaid undelivered orders	12,082	309	7,703	9,703	9,703
Total selected resources	11,854	309	7,362	9,321	9,296

Mr. GARY. The committee will come to order.

This morning we shall consider the request of the Research, Development, and Engineering Division of the Post Office Department.

The appropriation for this item for fiscal year 1964 was $12 million. The budget estimate for fiscal year 1965 is $13 million, an increase of $1 million over 1964.

The total average positions for fiscal year 1964 were 261. The average positions estimated for fiscal year 1965 are 294, which is an increase of 33 over 1964.

JUSTIFICATION OF THE ESTIMATE

We shall insert the justifications at this point in the record.

(The justifications follow:)

[In thousands]

Appropriations and obligations	1963 actual	1964 estimate	1965 estimate
Direct operation	$2,583	$3,248	$3,822
Contract engineering	1,761	1,913	1,800
Contract research and development	1,655	12,868	7,378
Obligations	5,999	18,029	13,000
Transfer from other appropriations	−115		
Transfer to other appropriations		+87	
Unobligated balance carried forward	+6,116	−6,116	
Total appropriation	12,000	12,000	13,000

A. Personnel

Item	1963 actual, positions	1964 estimate				1965 estimate			Increase over 1964
		Carryover, man-years	Vacancies filled	New positions	Total	Carryover, man-years	New positions	Total	
Direct operation—positions end of year	232		22	20	274		30	304	
MAN-YEARS									
Regular employees	214	16	11	10	251	21	13	285	34
Overtime	3				3			3	
Other (temporaries and extra paid days)	5				7			6	−1
Total average positions	222				261			294	33
Average compensation and benefits	$10,950				$11,636			$12,194	

B. Analysis of obligations

[In thousands]

Activity and account	1963 actual	1964 estimate	Increase or decrease (−) due to—						1965 estimate	Increase or decrease (−) due to—					Net total increase	
			Pay cost	Vacancies filled	New positions	Mandatory items	Other costs	Total increase		Pay cost	New positions	Mandatory items	Carryover costs	Other costs	Amount	Percent
Direct operations	$2,583	$3,248	$103	$134	$116	$56	$256	$665	$3,822	$78	$163	$61	$257	$15	$574	17.7
Contract engineering	1,761	1,913					152	152	1,800					−113	−113	−5.9
Contract research and development	1,655	12,868					11,213	11,213	7,378					−5,490	−5,490	−42.7
Total obligations	5,999	18,029	103	134	116	56	11,621	12,030	13,000	78	163	61	257	−5,588	−5,029	−27.9
Total increase over prior year	−$583	$12,030							−$5,029							
Percent of increase over prior year	−8.9	200.5							−27.9							

DIRECT OPERATION, CONTRACT ENGINEERING, AND CONTRACT RESEARCH AND DEVELOPMENT

JUSTIFICATION

General.—Funds requested in this appropriation are for the conduct of a research, development, and engineering program at headquarters. This program includes funds for personnel, engineering services supplied by contract, and for contract research and development.

Direct operation—Increase, $574,000

Personnel.—The fiscal year 1965 estimate provides for 30 replacement positions to supplant contract engineers currently performing supervisory, planning, and analysis tasks on research and development and management engineering projects. This replacement is necessary to improve the continuity of the organization and projects programed and to allow for a retention of the skills and experience gained in the performance of this work within the career postal service. Estimated fiscal year 1965 obligations for contract engineer services have been reduced in anticipation of this replacement. As it will be necessary to integrate the incumbents into the positions before releasing the contract engineers, the full savings resulting from the replacement will not be felt until fiscal year 1966. The replacement is a portion of the original plan for the staffing of the Office of Research and Engineering submitted in the fiscal year 1963 budget presentation.

Analysis of estimate.—The estimate of $3,822,000 is an increase of $574,000 to provide for the following additional costs:

1. *Pay cost—Increase, $78,000.*—Salary increases were provided by Public Law 87–793, effective in two phases, October 14, 1962, and January 5, 1964, respectively. The increased cost of $78,000 in 1965 represents the additional full-year effect over the part-year cost in 1964.

2. *New positions—Increase, $163,000.*—This increase covers the cost of salaries and personnel benefits of 30 new positions in 1965 for 13 man-years of employment.

3. *Mandatory items—Increase, $61,000.*—This cost is for within-grade step increases required by law.

4. *Carryover costs—Increase, $257,000.*—The 22 vacancies filled and the 20 new positions added for a part year in 1964 require an additional full-year cost in 1965 of $257,000 for salaries and personnel benefits.

5. *Other costs—Increase $15,000.*—The $26,000 increase for travel and the decrease of $11,000 for one less paid day in 1965 account for the net increase of $15,000.

Contract engineer services—Estimate, $1,800,000

In fiscal year 1965, $1,800,000 is requested for contract engineer services. This is a reduction of $113,000 from the amount estimated for these services in fiscal year 1964. This reduction is made in anticipation of the replacement of a portion of the contract engineers with permanent civil service personnel. The services of contract engineers will be continued where there is a need for flexibility in staffing and to provide engineers to the regions when needed for special tasks on a temporary basis.

Contract research and development—Estimate, $7,378,000

The fiscal year 1965 contract research and development program will use the services of other Government agencies and private industry. Work will be conducted in nine major areas, as outlined below:

1. *Collection and delivery service, $50,000.*—The Bureau of Facilities has reported that present annual collection box maintenance costs are about $2.5 million and increasing at a rate of $100,000 per year. Work has been initiated to provide an improved collection box which will have lower maintenance, transport, and storage costs and be more functional and more adaptable to containerization. The fiscal 1965 program includes funds for the fabrication of test quantities of collection boxes of the improved design for inservice field evaluation.

2. *Inoffice equipment and systems, $200,000.*—Work scheduled in fiscal year 1964 will provide prototype elements for laboratory and field test of an updated and centralized, high-speed sack label and facing slip printing system. This equipment is required to provide a more efficient means of producing the more than 3.6 billion sack labels and facing slips required each year. In fiscal year

1965 refinements will be made in the prototype system as required on the basis of the laboratory and field tests, and specifications prepared for a nationwide system.

3. *Window and lobby services, $150,000.*—Surveys are currently being conducted to determine patron acceptance of various vendable postal items. The equipment being used for the present survey is of a modified, standard commercial design, with integral change and/or bill acceptance units. From the surveys we will determine the machine capabilities required of postal vending equipment and the postal commodities most desired by patrons.

In fiscal year 1964 we will procure units of the post-office-developed, all-weather vending equipment for field test. This unit is for outdoor application, possibly in shopping centers, adjacent to selected collection boxes, or outside of post offices. In addition, components of a modular family of vending units also developed by the Post Office Department will be purchased for test.

In fiscal year 1965 funds will be required for the incorporation of refinements arising from the tests, and production engineering of the modular and all-weather units. Upon completion of the above, drawings and specifications will be prepared for competitive procurement of these two types of equipment. The program to vend additional items will be continued.

4. *ZIP code and automatic address reading, $1,978,000.*—The automatic address reading program is proceeding along three major lines. These are the development of a specialized ZIP code reader, the development of "word" reading equipment, and the development of the more sophisticated and versatile, all-electronic, character recognition equipment. The program for the development of a ZIP code reader will be funded in fiscal year 1964 through the fabrication of laboratory level readers based on different, but potentially successful technical approaches. Development work on the most promising technique will be continued through the fabrication and field test of a prototype unit. Funds will be required in fiscal year 1965 to complete the conversion of one letter sorter to automatic ZIP code reading. The necessary additional equipment will include one scanner, two inserters, and the required interface hardware.

Preparations for the field test of the automatic "word" reader are underway. In fiscal year 1965 funds will be required to continue and extend the field test. Specifically, it is planned to replace the limited capacity plug board with a magnetic drum or other extended memory device having sufficient capacity to contain both incoming and outgoing sort schemes. Second line address reading will also be explored during the test.

Laboratory tests of the electronic presorter will be completed in 1964. In fiscal year 1965 funds will be required to make necessary improvements and to fabricate an engineering model of this unit for field test. The presorter is designed to scan faced and canceled mail and divert for other processing those pieces of mail that are not capable of being automatically read. This will allow for greater automatic reader utilization and reduce the number of automatic readers required. Any interruption in the stream of non-machine-readable mail going to other processing areas will be avoided.

5. *Letter-mail-handling equipment and system, $200,000.*—During fiscal year 1964 laboratory tests of the POD-designed automatic facer-canceler will be completed. In fiscal year 1965 a prototype model of this unit will be fabricated for field test. This piece of equipment is designed as a major inline component for mail processing operations. It will process successfully more types of mail than facer-cancelers now in use.

For example, it will face both metered and business reply mail. Its modular construction allows for easy conversion to detect tagged indicia. The unit automatically removes empty trays from a stack, loads them with the faced and canceled mail, and moves the full trays onto storage or transport conveyors. It currently has a through-put rate of about 30,000 pieces per hour. A favorable cost of production-level units is anticipated.

6. *Operations research and environmental factors, $325,000.*—In fiscal year 1965 the National Bureau of Standards will continue mathematical investigations of the more complex and little understood postal problems which are amenable to the application of advanced mathematics and computers. This work includes such tasks as the review of network and transit problems, the solution of which involves a number of interrelated factors.

The control of environmental conditions, equipment layout, task requirements, and related functions is an important factor in reducing monotony and fatigue, which cause poor operator performance. Studies will be conducted in fiscal year 1965 using instrumented laboratory equipment to simulate workplace

situations. Evaluating the operator's response to a condition or equipment change during the studies will enable us to develop guides for better equipment design, work area layouts, and work rules.

Work will be initiated in the area of electronic presentation of letter mail during fiscal year 1965. Through such techniques, hardware requirements, and thus the cost of present mechanical systems of letter mail presentation can be reduced. It will also allow operator desks or scanning stations to be remote from the actual transport and sorting equipment. This remoteness will permit (1) an improvement in the overall operator working environment, and (2) a reduction in maintenance requirements by providing a separate, dust-free area for scanning equipment.

Electronic presentation will also allow us to simplify postal reading tasks. Presently an operator locates the address, reads and keys. He then locates the next address, reads, and keys again, in a stop-go type of operation. It is planned to study the use of electronic presentation methods to present addresses to an operator in such a manner that he might read continuously and key or code mail in a manner similar to that of a typist copying a document. Opportunities for improving operator comfort and efficiency through the use of electronic presentation techniques are extremely promising.

7. *Parcel post and sacked mail, $1,305,000.*—During the past 5 years several types of parcel-sorting units have been developed, designed, and installed by the Post Office Department. These include the over-under and carousel tray types, and belt-type units. Both escort and analogue memory systems have been used. Operating experience has indicated a need for improved components, better system design, improved controls, and damage reduction.

In fiscal year 1965 installation is planned for a complete system, utilizing the best features of the existing equipment and new components in areas where further development work is required. This development work will include improvements in the induction station, in memory controls to handle the ZIP code, in an escort memory system, and in improved work stations. The system will include buffer stations or other controls required to operate a once-through system so that when the operator reads the address or ZIP code and keys the proper destination the further control of the parcel to its final destination is accomplished by computer.

All conveyors, discharge chutes, and transfer points will be designed to reduce parcel damage. All transfer points will be curved sections designed to reduce speed and damage during transfer. The system will include improved power turns to eliminate jams, and improved sack-out stations to eliminate throwing of parcels. The equipment will be modular to provide flexibility and application to various size post offices. The initial installation will be in an office handling 75,000 to 100,000 parcels per day.

In fiscal year 1965 work will also be continued in the area of improved sack transport and sorting equipment. Specifically, the design will be developed for a sorting and transport system for use at post office truck terminals or where railroad mail storage cars are loaded or unloaded within postal facilities. The system will provide for destination keying by the operators initially handling the sack to: (1) a discharge point at a waiting truck or rail car, (2) a holding area for callout on demand when the proper truck or car is available, or (3) any one of several sack shakeout areas within the facility for shakeout and processing. The equipment will be of modular design, with a highly flexible configuration to allow its adaptation to various size systems, covering a wide variety of physical arrangements. In a related effort, work will be initiated on improved sack shakeout and container dumping stations.

8. *Vehicle service improvement, $320,000.*—In fiscal year 1965, the program to improve safety features and reduce operating, maintenance, and vehicle-associated handling costs will be continued. Various devices will be evaluated to determine their capacity to reduce personnel injuries and property damage. Items tested will include improved restraining harnesses, brake safety devices, and improved cargo restraining equipment and systems.

Ignition, generating and lighting systems, and power train components will also be tested and evaluated to identify those having the lowest maintenance characteristics and the greatest reliability. Two-cycle engines having lower weight/horsepower ratios and fewer moving parts will be tested to determine the possible advantages of their use as powerplants for postal vehicles. In the area of electrically powered vehicles, improved controls will be tested using solid state components.

All types and sizes of postal vehicles will be tested during the coming year to verify specifications currently being used, and to determine areas in which improvements in specifications can lengthen vehicle life and reduce vehicle costs. Work will be initiated to apply present commercially available devices or mechanisms to the task of loading and unloading vehicles.

9. *Experimental mail handling equipment, $2,850,000.*—Live small operational testing of a limited flat sorter, with two keyboard operator positions sorting to 192 separations, will be concluded at the contractor's plant during fiscal year 1964. After this test and evaluation, drawings and specifications will be updated to incorporate machine improvements and refinements which operating tests indicate are required.

In fiscal year 1965 a fully expanded, prototype, flat mail sorting machine will be constructed and installed in an office having approximately 350 carriers, requiring a machine capability of up to 8 operators, sorting up to 400 separations. Installation of the prototype will be followed by an extensive live mail testing under actual operating conditions.

Major objectives of the test and evaluation will be to—

(1) Establish operator testing and training requirements,

(2) Measure operator sorting accuracy and production rates, and

(3) Determine machine reliability, performance and maintenance characteristics, and necessary modifications.

In fiscal year 1965 a full-scale prototype letter-sorting machine will be fabricated consisting of 2 coding units, each with 8 operator positions, making 5 preliminary sort outputs, and 8-input, 65-sort output, multiplex letter sorter unit. All letter sorting in the multiplex unit will be accomplished automatically through control by general purpose computer equipment, which will have the capability of sorting all outgoing and incoming primary and secondary schemes. Trayed, canceled mail input to the coding stations, and sorted mail output accumulation for five preliminary sorts, and computer-controlled multiplex sorting equipment will operate automatically.

The integrated system will have associated, automatically controlled conveyors for letter tray transport, dispatch-schemed tray accumulation, and release and delivery for subsequent automatic multiplex machine sorting according to a predetermined dispatch schedule.

Construction of the full-scale machine will be followed by extensive live mail testing and evaluation under normal postal operating conditions in a selected post office. Primary objectives of this test and evaluation are to:

(1) Measure operator reaction, fatigue, coding accuracy and rate;

(2) Establish suitable, minimum, multiple sorting scheme combinations consistent with dispatch time oriented distribution;

(3) Verify through-put sorting rates of the multiplex machines and time intervals required for scheme change setup;

(4) Verify capability and adequacy of the general purpose computer control equipment as a control device for multiplex-type sorters, and determine if surplus equipment capacity exists;

(5) Determine adequacy of system control arrangement, and evaluate operational performance characteristics and reliability of interconnected read and code, multiplex, computer, and tray transport elements of the integrated system; and

(6) Determine equipment operating, maintenance, and performance characteristics.

Mr. GARY. Mr. Edward E. Harriman, who is the Director of the Office of Research and Engineering, will be the principal witness for this item. Mr. Harriman, we will be very glad to hear from you at this time.

Mr. HARRIMAN. Thank you, Mr. Chairman.

Before I start the detailed testimony, we have arranged for the showing of a short movie titled "Engineering Modern Postal Machines." If it is agreeable to the committee, we will show the movie at this time.

Mr. GARY. Very well.

(Thereupon, a short movie was shown to the committee.)

Mr. GARY. That shows a great deal of progress.

Mr. HARRIMAN. Thank you, Mr. Chairman. We have tried to follow the instructions given by you and other members of the committee. With your guidance we hope to continue to make progress.

Mr. GARY. It unquestionably shows great improvement, which always makes me go back to the time 18 years ago when I went to one of the large post offices in the country, and they took me up on a platform from which I could witness the entire operation of facing, sorting, and handling the mail, and I never have known if it was with pride or apology, but my guide said to me, "This is the way we have been doing the job for 40 years." And I said, "Then you are 25 years behind the times. If you have been doing the same mechanical job the same way for 40 years, you are bound to be 25 years behind time."

I think that was the thing that touched off the modernization program in the Post Office Department, because my committee came back and we insisted on a modernization program and shortly thereafter Postmaster General Donaldson employed the first engineer and started to set up the first Office of Research and Development.

REDUCTION IN OBLIGATIONAL AUTHORITY FOR 1965

Mr. PILLION. Mr. Chairman, may I inquire about page RD–3 on these blue sheets?

Is the appropriation here being cut from an obligational authority of $18 million in 1964 to $13 million in 1965? I see you have an unobligated balance that was carried forward. Was that a minus unobligated balance in 1964?

Mr. HARRIMAN. The reason this occurs is because we had carryover funds of about $6 million from fiscal year 1963. When this is added to the $12 million appropriated for fiscal year 1964 we have a total of $18 million available for obligation during fiscal year 1964. It is correct we are requesting $13 million for fiscal year 1965.

Mr. PILLION. Actually you are being reduced by $5 million so far as available appropriations are concerned?

Mr. HARRIMAN. Yes, that is correct.

Mr. PILLION. But you went from $5,999,000 in 1963 to $18 million in 1964?

Mr. HARRIMAN. Yes. We had $12 million appropriated in fiscal year 1963 but due to rescreening and the guidance we received from you in this committee to completely reevaluate our program, we did not move as rapidly during fiscal year 1963 as had been planned. We held that money over until we had completely reevaluated our fiscal years 1963 and 1964 programs.

Mr. GARY. These are no-year funds; are they not?

Mr. HARRIMAN. Yes, sir. Thanks to your committee the research and development appropriation is now a separate appropriation with the needed fiscal flexibility provided through the provision of no-year funds.

Mr. GARY. Very well, Mr. Harriman, you may proceed with your statement.

GENERAL STATEMENT

Mr. HARRIMAN. Mr. Chairman, members of the committee, the budget represented by this request is frugal. We are requesting less than two-tenths of 1 percent of the postal operating budget for re-

search and development compared to a similar investment of about 11 percent on the part of the Federal Government as a whole. Our request is also far below the average level of about 1.9 percent of net sales invested in research and development activities by industrial firms with such programs.

In the preparation of our request consideration has been given to the projected doubling of present mail volumes in the next 20 to 25 years and the fact that 78 percent of the Department's estimated fiscal year 1965 obligations are for personnel and related costs. These costs vary almost directly with increases in volume of mail.

With such a high correlation of volume to costs, emphasis in any attempt to achieve significant economies in postal operations must depend on increased efficiency. Certainly increases in productivity can be achieved by persistent effort on the part of management to improve and streamline operations. Productivity increases can also be achieved by the on-line efforts of firstline supervisors. These productivity gains can, and are being made each year, but we cannot expect the postal worker to increase his productivity by the amount required to keep pace with the growth in workload unless we provide him with tools with which to do it.

This appropriation constitutes the research and development effort directed as providing the improved equipment and techniques to improve the output of postal employees so that future increases in numbers of employees may be controlled.

Since our last meeting we have made significant progress toward this end. During the past year we have:

Awarded a contract for the fabrication and installation of the first operational automatic address reader in the world;

Awarded three competitive design contracts for the development and fabrication of an automatic ZIP code reader;

Completed the experimental design and laboratory testing of the first known flats sorter in the world;

Completed the construction of the first operational parcel sorter designed to sort both primary and secondary schemes in a single system and capable of over 300 separations;

Developed the capability to improve facing-canceling machine efficiency by up to 14 percent and to mechanically separate preferential mail from all other mail;

Successfully completed laboratory tests of the automatic letter sorter sweeping and typing equipment;

Installed an operational unit of automatic piece count equipment; and,

Advanced the design of several pieces of prototype equipment to the field test stage.

In 1965 the first operational automatic address reader will be installed in Detroit. Initial exploratory work in this area was begun in 1954. The current development now emerges as a most significant advance in postal technology. The potential cost savings inherent in this type of equipment are obviously formidable. The contract for the installation of this reader was let after the laboratory model successfully demonstrated its capability to identify in a single pass the names of the 50 States and Washington, D.C., when the addresses were typed or printed in either upper or lower case.

The reading equipment will be integrated with a letter sorter, also developed under the postal research and development program. The combined reader-sorter will be designed to automatically identify and sort mail bearing typed or printed addresses to the 50 States and 50 selected cities.

Development work on more advanced and versatile character recognition equipment is being continued, while three competitive design contracts have been awarded for the development and fabrication of an automatic ZIP code reader. We estimate that experimental models of the three units will undergo tests in the contractors' laboratories late this calendar year or in early 1965.

In California, an experimental unit of the first known flats sorter in the world successfully completed initial live mail laboratory tests. Modifications will be made prior to the fabrication of an eight-operator unit for field tests scheduled for fiscal year 1965.

The first parcel sorting machine designed to sort both primary and secondary schemes in a single system was completed in the Biscayne Annex of the Miami post office. During the period December 1 through December 27, 1963, over 1.7 million parcel sorts were made. December 20 was the peak day when more than 105,000 sorts were recorded. Down time was negligible and available data indicates that the rewrap rate attributable to machine sorting was less than 1 in 2,000 parcels. At no time during the Christmas period was it necessary to supplement the equipment with a manual operation.

And I might add that this was the first year that the secondary equipment was in being. It had been on the line only 2 months prior to the beginning of the Christmas rush.

Live mail tests conducted in Dayton, Ohio, have verified that we have developed through the stamp tagging program the capability of reducing canceling machine rejects from the present 10 to 15 percent to about 1 percent, and to automatically separate preferential mail from all other at the facer-canceler. A decrease in the reject rate will further reduce the cost of present mechanized facing/canceling operations and will increase the number of offices in which present equipment of this type can economically be used.

The automatic separation of preferential mail at an early point in the mail processing stream will provide improved service and decrease costs, the latter through the mechanization of an operation which is presently being performed manually. Additional development work is being performed to incorporate both capabilities in a single package to possibly retrofit facing/canceling machines now in service. Included in the package will be troubleshooting circuitry which will enable maintenance or operating employees to rapidly determine the source of malfunctions. Such "troubleshooting" equipment is required to reduce downtime and maintenance costs, and to reduce the training required on the part of maintenance employees.

A prototype source data collection and reporting system has been installed in the Minneapolis Post Office in a coordinated departmental effort. You saw a movie of this equipment yesterday afternoon. The installation is in part designed to provide more accurate volume and man-hour data, more rapidly and at a lower cost. Piece count equipment developed under the postal research and development program has been installed to collect volume data.

Emphasis in the fiscal year 1965 research and development program will continue in the area of automatic address and ZIP code reading. The field test of the operational automatic reader will be expanded to increase memory capability and to study the reading of street addresses. In support of the ZIP code automatic reading program, necessary additional scanning equipment will be built, and interface equipment will be designed, to complete the conversion of one letter sorter to automatic ZIP code reading. In fiscal year 1965 we will also construct for test an electronic presorter. The successful operation of this unit will provide the three basic scanning components necessary to an integrated reading system. These are the automatic reader, the ZIP code reader, and the presorter.

In addition, funds are included in our request for the fabrication for field test of several promising units of experimental equipment. These include:

A computer controlled, dispatch oriented, multiplex letter sorting system;

Improved sack and parcel sorting systems;

An eight in-put flats sorting unit;

An improved facer-canceler designed for use as an in-line component; and,

Test quantities of an improved collection box with greater patron utility and lower maintenance, storage, and transport costs.

We also plan to continue projects and studies designed to:

Reduce vehicle operating, maintenance, and associated handling costs, and to improve vehicle safety features;

Determine means of reducing monotony and fatigue in postal operations;

Develop the best way of electronically presenting addresses to operators or scanning equipment;

Complete production engineering of the all-weather and modular vending units; and to

Complete equipment development and prepare specifications for a nationwide system for the automated preparation of sack labels and facing slips.

Although our fiscal year 1965 request includes funds for 30 replacement positions to supplant contract engineers, the net cost of this replacement is but $50,000 after adjusting for the reduction in estimated funds for contract engineer services made in anticipation of this replacement. The value of the retention in the postal career service ranks of the experience and resultant skills accruing to contract engineers employed in our research and development and management engineering activities, more than offsets the cost of this replacement. This replacement is not the result of a new program. These positions were included in the original staffing plan submitted in fiscal year 1963. We have deferred requesting the new positions remaining under the fiscal year 1963 staffing plan.

We have outlined a sound, economy program for fiscal year 1965. It contains no frills or cushions. We ask the committee to consider our request for $13 million as representing a minimum level for postal research, development, and engineering for fiscal year 1965, and approve the funds and positions as requested.

Mr. GARY. Thank you, Mr. Harriman.

RESEARCH AND ENGINEERING PERSONNEL

How many personnel are currently employed in the Office of Research and Engineering?

Mr. HARRIMAN. We have about 250 civil service employees presently on our rolls in the Office of Research and Engineering.

Mr. PILLION. Do you have some that are non-civil-service?

Mr. HARRIMAN. Yes. We have the contract personnel.

Mr. PILLION. Besides contract services?

Mr. HARRIMAN. Yes; in addition to our civil service employees we have approximately 130 contract employees that are furnished to us through our contract engineer services.

Mr. PILLION. How much is that?

Mr. HARRIMAN. It is approximately 130.

Mr. Chairman, I have a letter here that was issued by President Johnson in relation to National Engineers' Week, which was the week that started January 16 and went through January 22. I wonder if I could submit this for consideration for inclusion in the record.

Mr. GARY. Yes, sir. Without objection it will be inserted at this point in the record.

(The letter follows:)

THE WHITE HOUSE,
Washington, January 16, 1964.

The skill, resourcefulness, and imagination of the American engineer have played a major role in the growth of this Nation. Communications and transportation helped to unite us as a people. Great technologically oriented industries helped to create the highest living standard in the history of mankind; their rapid mobilization in time of war saved our democracy.

And the future offers even greater challenges.

National Engineers' Week serves to remind us all that the engineering profession offers unprecedented opportunities for energetic, able, creative young men and women to provide leadership in the exciting and important tasks of today and tomorrow, and as designers and innovators to contribute to man's highest and noblest aspirations.

LYNDON B. JOHNSON.

Mr. GARY. Could you provide a table indicating the general qualifications of the personnel in the Office of Research and Engineering such as engineers, scientists, and clerical personnel?

Mr. HARRIMAN. Yes, sir; I shall be glad to.

I would like to just outline quickly for you some of the qualifications on our staff because I am very proud of it.

We have been able, since I joined the Department, to increase the proportion of our professional engineers to our nonprofessional engineers by a significant number. Of the 70-some new hirings that we have had, over 77 percent of them have one or more professional degrees. We have five employees with a double bachelor degree; we have eight with master's degrees; two with double master's degrees; and we have added one new employee with a doctor's degree. We are raising the technical and educational qualifications of our staff. I will submit a table to show the qualifications of our staff.

(The following was submitted for the record:)

Academic attainment

General category	Ph. D.	Double		M.A. degree	B.S. degree	No degree	Other
		B.S.	M.A.				
Engineering/architecture (electrical, electronic, automotive, mechanical, etc.)		5	2	7	76	38	5
General technical (psychology, postal or management analysis, drafting, etc.)	1				5	30	
Administration (contracting, programing, etc.)		1		2	7	7	

NOTE 1.—The academic achievements shown above represent requirements that are a part of or in excess of the civil service requirements for the positions occupied.

NOTE 2.—All clerical support personnel satisfy civil service requirements for the positions occupied.

Mr. GARY. How many of your personnel are actually employed in the research and development of new postal equipment as opposed to normal engineering in connection with the designing of buildings and the installation of normal-type postal equipment?

Mr. HARRIMAN. Including civil service and contract employees, construction engineering, the group involved in the construction of the buildings and the laying out of the mechanization, has approximately 168 employees and represents about 45 percent of the total headquarters staff of the Office of Research and Engineering.

In our management engineering group, where the economic analysis of new facilities is made and where the analysis and planning of operating methods and the development of criteria are carried on, there are 73 civil service and contract employees representing about 20 percent of our organization.

Our research and development group which performs the technical work, develops specifications, and operates the postal laboratory has about 82 people representing 23 percent of our total organization.

We split this work in our staffing effort in a little bit different arrangement than indicated by the numbers of people. O.R. & E. supports all bureaus and offices. Actually about 60 percent of our total staff effort supports the Bureau of Facilities. This is the bureau for which we develop the specifications for new equipment, and test new materials and equipment.

The Bureau of Operations we support with about 25 percent of our total staff effort.

Research and development requires 15 percent of our staff's effort. This workload is presented to us in terms of requests from the Postmaster General or the Deputy Postmaster General, or other bureaus and offices.

Mr. PILLION. You state that you had 380 employees, civil service and contract. Then when you list them, you have 168 employees in construction, 73 employees in management engineering and economic evaluation, and 82 employees in research and development which comes to about 323. Where is the difference between the 323 and the 380, roughly 60 employees.

Mr. HARRIMAN. We have some contract employees that have been on detail and loan to our regional offices. We have initiated action during the past year to have billets established in our regional offices so that these will become permanent civil service employees of the regions. In our fiscal year 1965 budget, these positions are not included as part of our estimate.

In addition, we have approximately 10 or 12 resident engineers in the major new facilities that are being built, and these do not represent part of our staffing as I have listed it here for departmental headquarters.

Mr. GARY. What type of new personnel are you requesting in this budget? Will they all be engineers?

Mr. HARRIMAN. They are primarily engineers to be assigned to the research and development area. This is the area for which we have the hardest time recruiting people. It is also the area where we are having the most difficult time holding the people we already have.

We have split this up into 15 employees who will be primarily mechanical engineers and electrical engineers and professional engineers doing specification writing in this area. Beyond that, in the research group for the Postal Laboratory in response to requests submitted to us by the Postmaster General, and in accordance with the recommendation of the Post Office Advisory Board, we are strengthening the staff of the Postal Laboratory by five professional employees.

In the facilities planning area we have for management engineering seven systems analysis employees who are being added to assist us with the increased workload on cost analysis and criteria development work. This accounts for the 30 new positions.

Mr. GARY. Will you provide a table for the record showing the grade, title, salary, and proposed assignment of these additional employees?

(The information follows:)

Grade, title, salary, and assignment of 30 replacement personnel requested for fiscal year 1965

DEVELOPMENT DIVISION

Grade	Title	Number of positions	Annual salary
14	Mechanical engineer	1	$13,624
14	Electrical engineer	1	13,624
13	do	1	11,731
13	Mechanical engineer	6	11,731
12	Specification writer	1	9,984
12	Industrial engineer	1	9,984
12	Engineer technician	2	9,984
12	Mechanical designer	2	9,984
	Total, Development Division	15	

RESEARCH DIVISION

14	Electrical engineer	2	$13,624
13	Mechanical engineer	1	11,731
	Total, Research Division	3	

POSTAL LABORATORY

13	Electronic engineer	2	$11,731
13	Mechanical engineer	1	11,731
13	Electrical engineer	1	11,731
12	Engineer technician	1	9,984
	Total, Postal Laboratory	5	

SYSTEMS ANALYSIS DIVISION

14	Facilities planners	3	$13,624
13	Industrial engineers	3	11,731
12	Mechanical engineers	1	9,984
	Total, Systems Analysis Division	7	

MAJOR RESEARCH PROJECTS

Mr. GARY. What are the major projects that are now under development by the Post Office Department?

Mr. HARRIMAN. We have many major projects under development. I would like to start by emphasizing the two to which we are giving the highest priority and then go into the others.

Without any question, the ZIP code reader and the character recognition programs are our highest priority work. We are devoting all the effort we can into these areas. We are approaching it from several different directions. We have the contracts for the development of ZIP code readers which we have discussed with you a little earlier. These contracts were let this past November. We have, in effect, competition among the companies that received the awards in that at various phases throughout the program we will have an in-house Post Office Department evaluation of which of the three contractors is making the most progress and is coming up with the most promising equipment to do the job. If one of them emerges as being superior to the others, we will cancel the other contracts. We have made provision for this in the contracts. Having determined the most promising approach, we will concentrate on its development.

In addition, we have the existing contracts for automatic address readers that read the State and city line. These contracts have been in existence for some time. We have completed a laboratory model and we will have an operational field test of the automatic address reader in the Detroit, Mich., post office during fiscal year 1965.

We will also have the laboratory evaluation of our ZIP code reader in the fiscal year 1965. If it proves satisfactory in the laboratory, we will request your permission, and the Department's permission, to go immediately into a field evaluation tied to a letter sorter in an operating post office.

INDUSTRY PARTICIPATION

Mr. GARY. To what extent do you use contract development for postal equipment?

Mr. HARRIMAN. Approximately half of our fiscal year 1965 budget will go to industry in terms of contract development of postal equipment. Where it is possible to develop this equipment with the skill and technology we have within our own staff, we do this in our postal laboratory. Where we must enter a state of the art which requires the support of an outside organization, such as an industrial company, we make this decision after presenting the project to the Postmaster General and his top staff. We then begin the normal Government contracting procedures and select a company to do a specific task for us.

PROJECT SELECTION

Mr. GARY. How do you select the area, or types of equipment, to focus your primary attention on in connection with research and development?

Mr. HARRIMAN. We have arrived at a new coordinated procedure established by the Department to make sure that the entire postal top management is in agreement with a project.

Mr. GARY. How do we arrive at the priorities?

Mr. HARRIMAN. Last July, in accordance with the POD Advisory Board's recommendations, the Office of Research and Engineering gave a presentation to the Postmaster General and the heads of all bureaus and offices outlining all the work then in progress and that we were planning to work on. During this conference-type session, the Postmaster General and his staff made the decisions on which programs or projects were most important to the Department as a whole. We have since reevaluated the programs and redistributed our efforts in-house and our dollars among the contractors to place emphasis on the projects that were determined by the Postmaster General to be the most important.

SUGGESTION EVALUATION

Mr. GARY. I have before me a letter from an engineering company which claims that you are losing $1 million a day because of your delay in installing the magnetic system for automatically sorting mail. According to this firm, the magnetic system has been perfected and they presented the plan to you, and so far it has not been adopted. They claim that it will save the Post Office $1 million a day, or $500 million per year.

Mr. HARRIMAN. We are evaluating this type of suggestion from reputable, well-trained, knowledgeable companies and concerns. I would just simply like to say for the record that we have in response to our challenge to industry brochure and the Department's policy of accepting recommendations from manufacturers, contractors, universities, and the public as a whole, about 61 contacts a week.

We receive many proposals suggesting how we could save money if we applied new systems such as magnetics, phosphorescents, or other means of coding. These do not necessarily utilize the ZIP code. Some proposals recommend applying fluorescent materials to envelopes.

We do evaluate these suggestions and we come up with the best engineering judgment that we can as to their worth compared to the approach that we are using to develop this type of equipment.

We do have, and are using, magnetics for some sorting.

I might say, in the area of magnetic sort memories, we are applying this technique to our parcel sorters and our sack sorters. We are also applying it to tray routing systems.

As far as the letter mail is concerned, we have conducted an operational evaluation in California this past year where we did spray the magnetics on letters, read them, and sort them into respective positions in letter sorters. So we are having an evaluation of this. We are determining the economies. It is the Department's position that the application of the ZIP code to the mail and the automatic reading of ZIP codes will, in the long run, give us a system superior to anything we know of today in the area of magnetic sorting.

NEW POSTAL EQUIPMENT IN USE

Mr. GARY. During the past 3 years, how many pieces of new postal equipment have been developed and are now in use by the Post Office Department?

Mr. HARRIMAN. Could I take 5 years?

Mr. GARY. Yes.

Mr. HARRIMAN. I will break it out for you for 3 years.

Mr. GARY. Five years if you have the figure.

Mr. HARRIMAN. In the area of culling we have developed equipment and we have in two post offices seven pieces of culling equipment presently in operation or being evaluated.

In the area of facing and canceling equipment, we have in 43 post offices about 167 facing and canceling machines, and the Bureau of Facilities has on order 45 more, which will bring the total to over 200.

In the letter-sorting area we have letter sorters in 11 post offices for a total of about 66 letter sorters. Approximately 30 of these are the 300-pocket, 12-position sorters, 12 are foreign-made multiposition machines with the rest being the single-position sorters.

In the mail flow area, we have 14 post offices with 14 mail flow systems.

In the parcel-sorting area, we have 14 post offices with 43 parcel-sorting machines.

In the sack-sorting area, six post offices have nine sack-sorting machines.

We have installed bulk transport conveyor systems in 23 post offices.

Five post offices have tray transport conveyors.

Five post offices have a total of seven pieces of power and free equipment, and the tow conveyor systems we have in three post offices.

Mr. GARY. Who developed these items and how long were they in the process of development and research?

Mr. HARRIMAN. The Office of Research and Engineering in every case worked with a designated industrial company under contract.

LETTER-SORTING MACHINES

For example, in the area of letter sorters, I would say that we had four contracts leading up to the final design which we arrived at in terms of competitive bidding. So I would say for each of them we had several contracts and arrived at the best system we could see after doing laboratory testing and field evaluation.

Mr. GARY. What was the final design?

Mr. HARRIMAN. On letter sorters?

Mr. GARY. Yes.

Mr. HARRIMAN. The one that we are using now in Detroit and will be procuring to go with the automatic address reader is the so-called Bureau of Standards Rabinow design with 300 pockets and 12 operator positions. It was later manufactured for the Detroit post office by the Burroughs Corp., so we frequently refer to it as the Rabinow-Burroughs 300-pocket letter sorter.

Mr. GARY. That is the Burroughs machine?

Mr. HARRIMAN. Yes. Burroughs took the Post Office specification and built the machine to those specifications. We had developed the specifications under contracts with the Bureau of Standards and the Rabinow Co.

Mr. GARY. That was developed in Detroit; was it not?

Mr. HARRIMAN. The machine was installed in Detroit. We have 28 installed in Detroit. The development was done here in the postal laboratory working with the Rabinow Co.

Mr. GARY. The first machine was built in Detroit?

Mr. HARRIMAN. The first machines were assembled in Detroit; yes.

Mr. STONE. The first 10 were built by Burroughs.

Mr. GARY. We paid them $1 or $2 million?

Mr. STONE. Approximately $2 million.

Mr. GARY. For the first 10 machines?

Mr. STONE. That is correct.

Then they were put out for competitive bid and the Cadillac Gage Corp. fabricated the remainder of them according to the design that Burroughs finally came up with, with some modifications which we later added.

Mr. GARY. I remember. I saw that machine in Detroit. They told us at the time they would have it in operation by November, which in its then stage I thought was a very optimistic prediction. It turned out to be. I think it was a year or more after that before they finally got it to operate.

Mr. HARRIMAN. That is still a very short time in terms of major mechanization.

Mr. GARY. Sure. They did a good job on it. I was not criticizing at all. I think they did a good job.

I questioned whether they would ever get it to working satisfactorily. I was not very enthusiastic when I saw it in that stage of development, but I understand it is working very satisfactorily.

Mr. HARRIMAN. It is working very well.

I would like to go on the record now and say one of the biggest difficulties I have as the Director of the Office of Engineering is justifying to the customer, whether he be a postmaster, a region, or another bureau or office in the Department, that after it has been affirmatively decided what you want and you have the specifications for it, there is a leadtime of 18 months or longer in procuring major pieces of equipment. It just takes industry this long to tool up for it and produce it.

I want to acquaint you with this because it is one of the items that I frequently have to defend very strongly—why does it take so long to do something after we have decided what we want to do?

Mr. GARY. The first sorter used was one built in Chicago by a postal employee?

Mr. HARRIMAN. He was a postal employee, and he visited my office just recently. He has retired and he still maintains a very active interest in the Post Office Department. He came to Washington on his own expense and volunteered his services to work on any research and development project we would care to assign him to work on in his home.

CURRENT RESEARCH AND DEVELOPMENT CONTRACTS

Mr. GARY. Fine. Our committee went out to Chicago to view that machine.

How many contracts are now in operation in the field of research and development such as the one with the FMC Corp. of California?

Mr. HARRIMAN. I will submit a list for the record of the total number of contracts we have now funded by research and development funds. There are approximately 35 contracts and they vary in size from contracts as small as $2,494 to contracts in general not exceeding $2 million.

The exception to that is the large systems contract which FMC has with the Department. This contract was let back in 1961.

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

(The information follows:)

CURRENT RESEARCH AND DEVELOPMENT CONTRACTS

Contractor	*Project*
Aerojet-General	Parcel sorting, Miami.
Autovend Corp	Modular vending units.
Binks Manufacturing Co	Parcel-sack sorter, accumulator induction unit.
Bulova Watch Co	Piece count.
Burroughs Corp	Zip code reader.
A. B. Dick	High-speed printer.
Dunlap & Associates	Environmental factors.
Farrington Electronics	Automatic reader, development and field test.
FMC Corp	Mail handling equipment and electronic presorter.
Fruehauf Trailer	City delivery trailer.
General American Transportation	Security seal.
General Motors, Chevrolet Division	Low maintenance vehicle.
Halm Instrument	Bundling and packaging.
International Harvester	Short-turning radius vehicles.
Levy Associates	Code evaluation test and letter feeder development.
Mechanical Handling	Power and free conveyor and parcel handling.
National Cash Register	Luminescent tagging and zip code reader.
Philco Corp	Character recognition.
Rabinow Engineering	Facing-canceling equipment and zip code reader.
Speaker Sortation	Mechanical loading system.
Stanford Research	Electrostatic coding.
Triner Scale	All-weather vending machines.
Universal Match	Coin-operated vending machines.
Value Engineering	Lock box fronts.
Vendo Corp	Coin-operated vending machines.

VEHICULAR MODIFICATIONS

Allis Chalmers	Electric vehicle modifications.
Cushman Motors	Automatic transmissions.
General Motors, Detroit Diesel	Dieselization, 1 and 5 ton.
I-T-E Circuit Breaker	Electric vehicle modifications.
McCulloch Corp	Dieselization, ¼ ton.
Waukesha Motor Co	Dieselization, ½ ton.

MAJOR MECHANIZATION

Mr. GARY. Earlier it was testified approximately 200 of the major post offices in the United States will ultimately be mechanized to a considerable degree. Can you give the committee some detail on this, indicating the number now mechanized, the extent of the mechanization, and some information concerning the actual type of machinery installed?

Mr. HARRIMAN. The testimony that was presented to the committee last year by Postmaster General Day indicated over the next 10 years we would plan to mechanize approximately 200 of our major post offices.

In terms of the major facilities now under construction we have approximately 11 major facilities presently contracted for and under construction today. A major facility primarily is a facility larger than 50,000 square feet and the largest one we are working on now

goes up to 563,000 square feet, so it is 50,000 square feet up to about 560,000 square feet.

The types of equipment that are in the buildings that are currently under contract are the facer and canceler, the bulk transport equipment, parcel sorters, sack sorters, and overhead transport equipment.

These are in effect the primary types of mechanization we have in the existing contracts.

Mr. Nicholson reminds me there are 60 post offices in existence in the United States now that have mechanization of one type or another. We have contracted for some mechanization for 38 post offices, but it has not been installed as of the moment.

In addition to this are the 200 post offices that I mentioned earlier which would be beyond the 60 that have some mechanization.

Mr. GARY. Do you have a standard procedure by which you determine which items should be tested and how those items should be tested and evaluated before they are actually placed in standard operation in the postal service?

Mr. HARRIMAN. Yes, sir. The Department did not have a standard procedure on that up until about 2 years ago. We have established one and it is this: We first develop the economic criteria for a piece of equipment. In order to do this, we take the installation on a manual basis and develop the cost for doing a particular job, or function, 100 percent manually. Then, using standard industrial engineering practices, we challenge this by saying what it would cost if you used a piece of machinery to perform this same function. We consider the cost of the machinery, the depreciation, the interest on investment, and the extra training and manning required for maintenance and arriving at the cost to process 1,000 pieces of mail, or parcels. We then challenge the cost of the manual system. If the mechanization appears promising, then the Office of Research and Engineering presents this to the Postmaster General and in turn to the Bureau of Operations for selection of this type of equipment as a standard piece of equipment approved for the Post Office Department.

OPTICAL SCANNING EQUIPMENT

Mr. GARY. Can you provide the committee some more information concerning the status of the optical scanning equipment which has been referred to generally in previous testimony?

Mr. HARRIMAN. Yes, sir.

Would you like me to submit a detailed explanation of how it works?

Mr. GARY. Submit that for the record, if you will.

Mr. HARRIMAN. Within the state of the art, we went out with requests for proposals and we had one of the best responses we have ever had on research and development projects. About 30 companies indicated a desire to get the initial information upon which to submit proposals.

Approximately eight proposals were submitted and we had very good competition. We made the selection of the three most promising techniques and awarded the contracts. I will submit for the record an explanation of the POD optical scanning program.

(The information follows:)

POD Optical Scanning Program

The Post Office Department has been engaged in automatic address reading machine research and development activities since 1954. Engineering tests have proved that it is feasible to read and sort machine-imprinted envelopes by the use of an electronic reading device. It was not, however, until 1962 that envelopes were read and sorted by a prototype reader in the Post Office Laboratory.

To be able to read mail it is necessary for an address reader to analyze characters ranging in height from 0.08 to 0.20 inch and spaced from 8 to 14 per inch. Further, the city-State line of the address may be located anywhere between ½ and 2½ inches from the bottom edge of the envelope. So in addition to being able to read variable printing, each and all of the address readers under development by the Post Office Department must first be able to locate the address. These requirements are far beyond the capability of reading machines being used in industry today.

The current Post Office Department optical scanner research program has five major work areas:

1. ZIP code and ZIP code reader

The ZIP code consists of a five-digit numeric code that is imprinted on the envelope by the mailer. Wherever possible, the ZIP code should appear on the same line as the city-State and spaced no closer than 0.20 inch from the last character of the State name or abbreviation. If sufficient space is not available on the city-State line, the ZIP code may appear directly beneath the city-State line, indented two spaces to the right of the beginning of the line above.

Thirty companies engaged in optical reading machine research and development were solicited and the Department received eight responses to a request for proposals to design and fabricate a ZIP code reader. Each proposal has undergone an intense technical analysis and the selection of three contractors to perform this work was announced November 13, 1963.

The three contractors are Burroughs Corp., Paoli, Pa., National Cash Register, Co., Dayton, Ohio, and Rabinow Engineering Co., Inc., Rockville, Md.

The triple contract award procedure has been pursued to further the ZIP code program and to make certain that a successful ZIP code reader is in operation during the calendar year 1965. It is our plan to proceed with only the best of the three techniques and curtail two of the three contracts at an appropriate point in the program.

Each of the three proposers' techniques performs the basic functions of feeding and transporting the envelopes, scanning the envelope face, locating and reading the ZIP code, recognizing the ZIP code and comparing this information with a stored address directory, and instructing the letter sorting machine as to the correct sort destination of each envelope. However, each technique is different and a brief description of each follows.

A. *Burroughs Corp.*—This technique incorporates a flying spot cathode-ray tube scanner and a recognition concept designated as the "nearest neighbor" technique. An electronically deflected spot of light sweeps the moving envelope face and locates the bottom line of the address. The spot is then positioned near the end of the address line and the ZIP code is scanned. An electronic signal pattern is generated by a light-sensitive tube which "sees" reflection from the envelope face. This pattern is stored in a shift register matrix, statistically analyzed, and the five-digit ZIP code identified. The signal pattern is compared with a stored address directory and instructions sent to the letter sorting machine.

B. *National Cash Register Co.*—This technique uses multiple flying spot scanner tubes, and incorporates a set of photographic "feature" templates to accomplish character recognition. Separate cathode-ray tubes are used for line find and read scan. The read scan signals are fed to a storage tube which displays each character sequentially. The character image is superimposed simultaneously on a group of photographic templates, each of which looks at a small segment of the character. Each numeric character is recognized by a combination of segments, or features. The five-digit ZIP code is compared with the address directory and instructions sent to the letter sorting machine.

C. *Rabinow Engineering Co., Inc.*—This technique involves a scanning method whereby the moving address is projected onto the front surface of an image converter tube. This image is reproduced on the back surface of the tube where it is shifted up and down at high speed. A light-sensitive cell, located behind

a pinhole, scans each moving character and generates a corresponding electronic signal pattern. These signals are electronically analyzed, recognized, and compared with a stored address directory. Instruction signals are then sent to the letter sorting machine.

2. Address reader field test program

Concurrent with the ZIP code reader program and as a result of prior work, the possibility has been established of developing a fully operational automatic address reading machine to read and sort non-ZIP coded envelopes. Technical proposals have been received for the design and development of this machine which is scheduled for installation in the Detroit post office during the calendar year 1964. Technical evaluation of the proposals has been completed and the Farrington Co. was selected as the qualified contractor. The program consists of three major steps. The first requires the installation of a single scanning station (9,000 envelopes per hour) and reading capacity to sort to 2 cities and the 50 States. The second stage requires the installation of 2 additional scanning stations which brings the through-put rate to 27,000 pieces an hour and the third stage requires extending the reading capacity of all 3 scanners to 50 selected cities in addition to the 50 States.

3. Farrington Electronics Co.

The Department has had a series of research and development contracts with Farrington Electronics Co. of Alexandria, Va., since 1955. In 1962, a reader developed by Farrington successfully read and sorted envelopes that were machine imprinted with each address word beginning with a capital letter followed by lower case letters. During this test in the Postal Laboratory, envelopes were read and sorted to all 50 States and their common abbreviations.

In February of 1963, a second series of tests was conducted, this time to read and sort addresses imprinted in all upper case, or capital letters. As before, the mail was sorted to all 50 States and their abbreviations.

A third series of tests was conducted using envelopes with intermixed upper/lower and all upper case addresses.

A portion of the Farrington reader program has been devoted to the recognition of zone numbers. With the advent of ZIP codes, increased emphasis has been placed on the recognition of numeric characters. Farrington is developing a numeric recognition technique known as stream following. This technique is very powerful and promises to provide a direct method of integrating numeric recognition with the Farrington word recognition technique.

4. Philco Corp.

In 1959, the Department contracted with Philco Corp. to develop a reader to recognize both alphabetic and numeric characters. The Philco reader employs a flying spot scanner similar to the picture tube in a television set but designed for a special purpose. Early in 1963, tests at the contractor's plant using envelopes with machine imprinted addresses proved the feasibility of this technique. In August 1963, the Philco reader was installed in the Postal Laboratory where an extensive series of tests using "live" envelope mail were conducted.

Concurrent with these tests, Philco is fabricating an intermediate reader employing all of the knowledge gained from the engineering model and using the most advanced components and materials available. This improved reader will be the forerunner of the final prototype which will be coupled to a Post Office Department letter sorting machine in actual field operation. The intermediate reader is scheduled for completion in 1964, at which time additional "live" mail tests will be conducted.

5. FMC Corp.

In order to achieve the greatest possible efficiency from an address reader, there is need for a device that can separate machine readable mail from that mail which cannot be read by an address reader. An example of such nonreadable mail would be envelopes addressed in handwriting. FMC has a research and development contract to design and fabricate an electronic presorter. The engineering model is scheduled to undergo laboratory testing in early 1964. Machine readable mail is directed into one of two stackers whereas the nonmachine readable is directed into the other.

FACSIMILE PROJECT

Mr. GARY. Mr. Day discontinued the facsimile mail project which Postmaster General Summerfield was trying to develop, a project whereby mail could be sent from one place to another transported by wire without removing it from the envelope so as to maintain the secrecy of the mail. Mr. Day abandoned that project for two reasons, as I understand.

In the first place, he doubted whether it could be done and, in the second place, he determined even if it could be done, the Post Office Department would be competing with the telegraph system and the other commercial enterprises and would take it out of its regular function of transporting the mail.

What is the present status of that project?

Mr. HARRIMAN. The Department is following to the letter the decision that was made by General Day in the very early part of his administration. We are not studying, evaluating, or in any other way participating in a facsimile mail project. It is a dead project, in other words.

Mr. GARY. That system has been developed by private enterprise, as I understand it.

Mr. HARRIMAN. That is correct.

Mr. GARY. And the additional feature that Postmaster General Summerfield was working on was to use the system for mail without removing the mail from the envelope, I believe.

Mr. LOWE. The mail was removed from the envelope, but within a machine where the worker in the post office would not get a view of it. It was then inserted automatically back into the envelope after it was scanned by the machine, reinserted and sealed and either destroyed or delivered back to the original sender.

Mr. PILLION. Is that the same as the microwave I was talking about?

Mr. GARY. No; that was the facsimile method.

Mr. PILLION. Would not the facsimile be sent by microwave?

Mr. HARRIMAN. Yes; it was supposedly bounced off the moon. We are not working in that area at all.

Mr. GARY. The bouncing part of it was another element?

Mr. HARRIMAN. Yes.

Mr. GARY. It was to be sent over the wires, Western Union wires, I believe.

Mr. PILLION. Part of it. Part of it goes by beams and part goes by wire.

Mr. LOWE. The original experiments were by long A.T. & T. line. That was a very slow process. The microwave would speed it up.

Mr. PILLION. It was a combination of the two?

Mr. LOWE. Right.

Mr. GARY. But you are not working on that now?

Mr. HARRIMAN. Mr. Chairman, that is correct. We are not working on any phase of it.

BOTTLENECK IN MECHANIZATION

Mr. GARY. So far as the actual mechanization of the postal system is concerned, what do you consider at the present time to be the bottleneck?

Mr. HARRIMAN. I feel that the Department has evaluated equipment in all areas, and we have some promise in culling, facing and canceling, letter sorters, and tying machines.

We also have good reliability information and economic criteria on parcel sorters and sack sorters. The area that therefore becomes a bottleneck, because neither the United States, nor any other country has performed any work in this area, I would have to say would be the mechanization to handle flats, newspapers, and magazines.

Now, in terms of our total volume of mail, this is probably not the most significant item in terms of impact on the Post Office. It is the one area where we have not conducted a field evaluation in an operating post office.

FOREIGN MECHANIZATION

Mr. GARY. To what extent are you acquiring and testing postal equipment developed overseas?

Mr. HARRIMAN. The Office of Research and Engineering does not have any contracts with any companies outside the United States for developing mechanization or research and development. We do have a contractor, the Levy Associates, in Canada who are assisting us in a keyboard study of code sorting which is a procedure Canada is using, and we are also evaluating that work.

The answer to your question is, we are not funding any oversea work from the research development and engineering appropriation.

Mr. GARY. Are you following closely developments of postal methods and machinery in foreign countries?

Mr. HARRIMAN. We are following it very closely. I have had postal officials from as many as 20 different countries visit in my office during the past year.

In addition, we had a meeting of the CCEP in the United States in the fall. That is the Universal Postal Union. At this 2-week meeting, we exchanged information on postal mechanization in all the leading countries of the world.

At the present time, I am scheduled to meet with them in a meeting in Paris this spring where we will discuss our coding programs, our ZIP code readers, and our character recognition equipment. The location of codes on envelopes will be discussed from the international point of view, to determine if there are any conflicts between what the United States, or England, France, Russia, Germany, or any other country will be doing.

We have very close coordination.

I send them information on all of our major achievements. We exchange films between the major mechanized countries in the world, and maintain very close liaison.

STAMP TAGGING

Mr. GARY. What is the status of your project in connection with the luminescent tagged stamped mail?

Mr. HARRIMAN. The stamp-tagging program is coming along very well. Starting last July at the Dayton, Ohio, post office, we initiated a tagged airmail stamp program. We took the standard adhesive airmail stamp and had overlaid on it an orange phospho-

rescent material which only glowed when subjected to ultraviolet light at the facer-canceler. We have successfully tested a prototype of a modified Mark II facing and canceling machine which had the capability of extracting envelopes bearings stamps tagged with an orange phosphor while allowing the envelopes bearing regular stamps, or stamps tagged with a green phosphor to pass through the Mark II facer-canceler in the normal manner. This allowed us at the very first mechanical handling to extract airmail letters for priority handling.

Five months later the Department approved a program which began early in December in which we tagged with a green phosphor stamp sold in the area of the city of Dayton, Ohio. Only the regular 5-cent stamp, the regular 4-cent stamp, the Christmas stamp, and the city delivery commemorative stamp were tagged. We processed about 10 million letters through the modified facer-canceler at Dayton and we found an accuracy of identification of 99 percent.

WINDOW AND LOBBY SERVICES

Mr. GARY. How much attention are you giving to developing lobby type equipment, and other equipment which might tend to reduce the number of personnel in the window service and other services to the public?

Mr. HARRIMAN. We are concentrating here on the vending machine area. We have a rather substantial program of testing commercially available cigarette dispensers, candy bar and cookie dispensing equipment.

The primary purpose for emphasizing this area is in response to requests from the Postmaster General and the Bureau of Operations to provide additional service to the public. If we have a vending machine in the lobby, it allows us to make postal products available to the public daily, after the counters have closed and on Saturday or Sunday. We find from customer surveys we have performed this past year if the public can secure through the vending machines a larger quantity of an item, for example, 100 5-cent stamps in a roll for $5, they will buy the 100 stamps. This means that instead of the clerk at the counter selling stamps two or three at a time, we have been able to effect a larger volume sale and when the person needs to come to the post office less often, it will be an economical thing for the Post Office Department.

LETTER SORTING MACHINES

Mr. GARY. Has the Post Office now settled on one type of letter sorter? If so, what is the type, and how many are anticipated for it further?

Mr. HARRIMAN. The Post Office Department has decided that for the near future the Rabinow-Burroughs type of letter-sorting machine will be the type we will procure. We are conducting some studies and research and development on other more sophisticated types of letter sorters.

In terms of the number that will be procured in the near future, I would say that we would expect to procure between 40 and 70 in the near future. In the long term, over the 5- to 10-year period, we would anticipate procuring between 200 and 400 letter-sorting machines.

Mr. PILLION. In what period?

Mr. HARRIMAN. A 5- to 10-year period.

Mr. GARY. How many are included in the 1965 budget?

Mr. HARRIMAN. This is a Bureau of Facilities item, but included in the fiscal year 1965 budget are funds for the purchase of approximately 45 multiposition letter-sorting machines.

Mr. GARY. Will all the 200 major offices have these letter sorters?

Mr. HARRIMAN. No, sir. The determination as to whether a large office will have letter sorters will depend upon the economic evaluation, the volume of mail, and the spread of the mail by time. All 200 will not have multiposition letter sorters.

Mr. GARY. Thank you, Mr. Harriman.

I want to congratulate you and the Office of Research and Engineering upon very substantial progress in the field of automation. Your report is in such striking contrast with the reports that our committee received when I first came on the committee that it is most encouraging. At one time the Post Office was very much excited over a new machine they had installed in the Chicago post office. We made a visit out there to the office and they showed us the machine, and it was a wire-tying machine that industry had been working with for years, and they had simply adopted its use to tie up bundles of mail that had been torn to pieces in transit. Parcel post packages that had been damaged in the mail. Even then they had the machines so placed that they had to transport the packages to the machine and then bring them back so there was not much savings in time.

You have made marked progress. It has been my privilege to follow that progress through the years, and it is most gratifying now to see we are reaching a point where we are really getting some worthwhile automation.

Mr. HARRIMAN. Mr. Chairman, on behalf of the Post Office Department and the Office of Research and Engineering, it has indeed been a pleasure working with you and the members of your committee. We are always available to furnish any additional information that you want and the guidance you give us is greatly appreciated.

Mr. PILLION. I would like to add my commendation to that of the chairman in stating you have made a very fine presentation. We are looking hopefully to many more savings in the Department.

Mr. STEED. In that connection, I join my colleagues. I also detect another change that I think is a very good and important one. Recently when I had occasion to visit some oversea postal activities, I was impressed with the fact that engineering played such a strong part in their policymaking and operational functions.

From what you have said here today, it is apparent to me that engineering is coming more and more into the policymaking level trying to cope with this problem. I am very happy to see in our postal service we are finding that engineering does pay off. I am hoping this trend will continue to grow and expand. I think the only way you can get out of the horse and buggy days is through this approach.

VENDING MACHINES

One question in regard to the vending machines. I can understand how a great deal of additional service can be provided in post office lobbies to the public through machines of this sort, but I also note you contemplate machines in shopping centers, apartment houses and other areas away from the post office proper.

Since a machine of this sort, unlike other vending machines, is not a profitmaking proposition, apparently you give no bargain rates on stamps.

Mr. HARRIMAN. We give full value.

Mr. STEED. Has any attention been given to the fact that private people might own and operate these machines?

It seems to me when you are vending stamps and envelopes, someone would have to have the responsibility of replenishing the materials in these machines, and if they were in areas isolated from the ordinary place of work of postal personnel, it might be difficult to keep a machine replenished unless someone locally was responsible for it.

What sort of problem do you find in that circumstance?

Mr. HARRIMAN. Mr. Steed, we have not placed any post office-owned vending machines in any private property. We have had them only in Government facilities so far. Now, if we were to place a vending machine at a rural facility, or as you describe it, in a shopping center or apartment house, it would be on the same basis that we now locate contract stations.

We have checked not only in the United States, but throughout the world, and we find actually the U.S. Post Office Department owns as of today only 5,000 vending machines. The Bureau of Facilities has entered into a competitive order for approximately 2,000 more bringing the number up to 7,000. Of all the major countries in the world, we have the least number of vending machines of any country. The reason for this is exactly as you describe—private industry in this country has gone into this area. They make a profit. They charge between 10 and 20 percent for the stamps vended. They primarily cover hotel lobbies, airports, drugstores, and that type of installation. These are privately owned vending machines. Those are not Post Office machines.

Mr. STEED. We were told earlier in the hearings that the VIM program had developed the fact it was advantageous to make investments to provide this service. It seemed to me that this might be quite an area where even on a nonprofit basis operators of apartment houses, or institutions, might also find approved devices advantageous for them to make available to their clients.

Mr. HARRIMAN. We have stated to the public in the case of the vending machines that if they want our reliability information, if they want to consult with the Post Office Department, either Customer Services Division of Operations, or with the Bureau of Facilities, we would be glad to give them the information we have on approved, reliable vending machines which could be used for their own endeavors and industry.

Mr. PILLION. These 2,000 additional vending machines that are in the 1965 budget, where will they be placed?

Mr. HARRIMAN. This comes under the control of the Bureau of Operations, but the answer to your question is, they will be placed in lobbies of U.S. post offices.

Mr. PILLION. Good. I am inclined to agree with Mr. Steed, a promiscuous placement of vending machines in non-Federal buildings will create all sorts of problems, not only in the replenishment of the stock, but you also have the question of breakdowns. You have to have a maintenance crew and they are hard to find. The operation of these vending machines is a specialty of its own.

I would be inclined to agree with Mr. Steed's general thinking on it. We ought to confine these vending machines to Federal installations, or Federal facilities, unless you have some contract stations that could be worked out without getting into the vending machine business on a large scale. I certainly agree with that.

Mr. HARRIMAN. I believe the Department's philosophy is in line with what you and Mr. Steed are stating. Certainly it will take our efforts for many years. We may be studying the other applications, but we have no plans for other types of installations.

Mr. PILLION. You always have problems of theft and slugs and counterfeits. I know around our area in Buffalo where there is an awful lot of steel, they make these steel slugs that go into the machines in imitation of the coins.

DIRECT OPERATIONS

On page RD–3 I note your appropriation is, for 1965 for direct operations, $3,822,000, up about $600,000.

Now, this is more or less the direct payroll of your operation here in Washington and your engineering facilities, and so forth.

Mr. HARRIMAN. That is correct. It is for the salaries and headquarters expense of the Office of Research and Engineering.

CONTRACT ENGINEER SERVICES

Mr. PILLION. Now, the next item is $1,800,000 for contract engineering. Are these the engineers that work under your direction but are private engineers?

You have them assigned to you and they help you with your mechanization and that sort of thing?

Mr. HARRIMAN. That is correct. We have what we call contract engineering services. Some of them are professional engineers, many of them are draftsmen.

Mr. PILLION. That is part of the 130 employees that you have that are noncivil service; is that right?

Mr. HARRIMAN. That is correct.

FMC SYSTEMS CONTRACT

Mr. PILLION. Now, your contract research and development, $7,378,000. Included in that, I assume, is the Food Machinery Corp., or FMC systems contract that you have?

Mr. HARRIMAN. If we were to fund during fiscal year 1965 any work with the FMC, it would be included in that $7.3 million.

Mr. PILLION. What is a systems contract with FMC? How much is that a year?

Mr. HARRIMAN. The amount it will cost us in the future will depend upon the amount of prototype equipment we buy after they have developed the specifications.

Mr. STONE. I believe the only thing we would fund out of this for FMC would be the possible building of the prototype equipment that is over and above any contract we have with them now. It would probably be in the neighborhood of $1 million or maybe a little less.

Mr. PILLION. Then $1 million is under the systems contract for creating specifications for prototypes?

Mr. HARRIMAN. This has already been funded. We will probably not be providing any additional money in that area. What we would be buying in the fiscal year 1965 budget would be a prototype unit to install in an operating post office to test out its feasibility, reliability, economics, and other operating and maintenance characteristics.

Mr. PILLION. How many particular or specific research and development and engineering contracts does FMC have in the 1965 budget? I want the dollar volume.

Mr. HARRIMAN. The dollar volume would be in the vicinity of $1 million for prototypes. We set aside a little over $1 million for possible modifications to the existing flat sorter which would also be used to procure a prototype to install in an operating post office.

Also, if we were to buy a prototype of the letter sorter, or a prototype of the mail preparation line, each of these would run in the order of $300,000 to $400,000 for the hardware for a test installation. This is beyond the development of specifications; we already have them.

FMC LETTER SORTER

Mr. PILLION. You have pretty well standardized your letter sorter. What is FMC doing on your letter sorters, and why?

Mr. HARRIMAN. FMC has come up with a different concept in letter sorting and the answer as to what and why, is—if you go to a Zip code reader and you want to have more capacity, or if you want to have greater flexibility of the throughput of the machine the FMC equipment is modular in construction, and you can vary the input by units of 12,500 letters per hour up to a total of 100,000 letters per hour going through a machine.

So as you get to a large city and you are going to have significant increases in volume, the economics may work out that it is cheaper to go this type of a letter sorter.

I am talking about 5 to 10 years from now. We are examining the better arrangement of hardware to handle larger volumes of mail more economically.

Mr. PILLION. What has happened to all that money we have poured into the project for an unlimited number of separations sorter?

Mr. HARRIMAN. The money we have spent in the area of letter sorting has provided us with the research, development, drawings, specifications, and the testing of the type of hardware you are talking about here. We have completed the design and test of all elements and by April 1964 we will be ready to go to a prototype construction. This entails taking a unit of each component, putting them together in a system and testing the system.

We propose to construct two lines with a 65 output multiflex for the test.

Mr. PILLION. Why do you need this equipment? Where will you place this equipment?

Suppose this is successful. Where will you put it?

Mr. HARRIMAN. We would put it in the larger mechanized offices that will be coming up on our drawing boards 3 to 5 years from now. What we are doing here is comparing the cost per 1,000 letters using a multiplex type of system to the cost of 1,000 letters processed through the Burroughs-Rabinow equipment.

Mr. PILLION. This is a much more sophisticated system?

Mr. HARRIMAN. Yes.

Mr. PILLION. It may be you can only use this in 5 or 10 post offices, because the more sophisticated it is, the higher the volume, the less number of post offices you can use it in.

Mr. HARRIMAN. We would be able to use it in, I am sure, well over 50 percent of the major offices because it is modular in design.

Mr. PILLION. What do you mean by modular in design?

Mr. HARRIMAN. You can put sections together. You can build one upon another. You can make it as small as one unit when only 12,500 letters per hour are required through the system. If a throughput of 25,000 letters an hour is required, you can put two units together. If 75,000, you put six together.

Mr. PILLION. As I understand it, the Burroughs machine is pretty well standardized, as you say here. What is the cost of your standardized machine that you are talking about, sorting machine? What is the cost of one of the Burroughs-Rabinow type?

Mr. HARRIMAN. In the vicinity of $100,000 when competitively bid in quantities of 25 or more.

Mr. PILLION. Up until now, it has been about $300,000 or $400,000?

Mr. HARRIMAN. No. Our last procurement, which was for Detroit in lots of 20, was around $100,000 per machine. The initial ones were higher. The first 10 were around $200,000 each. This indicates the effect of competitive bidding and quantity on price. The price comes down.

Mr. PILLION. How much would the same type of machine with the same output of the new sophisticated FMC machine cost since they have to do all the engineering and design and set up the manufacturing? How much would they cost?

Mr. HARRIMAN. I will insert in the record, again in terms of volume what would be a comparable figure for comparable volumes.

(The information referred to follows:)

Based upon a 36,000-letters-per-hour throughput, the comparative costs of the Burroughs-Rabinow machine and the FMC machines are approximately equal. However, when considering the cost of processing 100,000 letters per hour, the cost is approximately 20 percent less with the FMC letter sorter.

Mr. PILLION. It would hardly be comparable where you can use 20 or 30 or 40 of the Burroughs machines a year, and only 4, 5, or 6 of this new one. The cost would be different.

Mr. HARRIMAN. If you were only going to use 3 or 4 or 5, the cost would be fantastically different.

Mr. PILLION. When you are making two machines, you may find your savings will evaporate due to the fact you have two new concepts in engineering and tooling setups here?

Mr. HARRIMAN. This would be true during the initial stage of the first prototypes.

Mr. PILLION. It may be true later on, too, when you have two firms competing. You would not be lowering the cost of the Burroughs machine because they would not be getting the volume. You would be splitting between Burroughs and FMC and they would both be higher.

Mr. HARRIMAN. I agree with you.

PLANNING AND CRITERIA

Mr. PILLION. You will not be getting sufficient increased output to make up for the cost of two complete manufacturing lines.

Mr. HARRIMAN. That is why the Post Office Department must follow your advice and come up with a long-range plan. We must determine the types of facilities which will be required and the operating concepts involved, if we are to do the best possible job in the area of advanced cost ascertainment and the development of related advanced economic justifications.

Mr. PILLION. What is your procedure for planning new major facilities? What criteria do you have?

ZIP CODE

Mr. MASTERS. Upon receipt of volume and space data (POD form 929) from the Bureau of Operations, a preliminary analysis of mechanization requirements is made and space is adjusted for architectural use in designing the building.

Where daily volumes of sacks are sufficient, additional space is allotted for bulk conveyors and sack sorting. The space requirements for multibelt, over and under machine, carousel, etc., are approximately the same; therefore, specific equipment selection is not established until building tentatives are completed.

When these tentatives are available, a detail analysis of the volume is made and the flow of mail measured in terms of hour-by-hour receipts is used to determine storage requirements, equipment required, machine utilization, and manpower requirements. These determinations are based on criteria developed from engineering studies which establish such items as equipment, operating and maintenance costs.

A workroom layout is then developed based on the volume and operating requirements of the particular facility and is designed for the most efficient and expeditious processing of each type of mail with proper considerations of service requirements.

During the analysis and layout planning stages comparisons are made of alternate processing systems. These evaluations are made in accordance with the guidelines as established by the Bureau of Finance and are compared with the cost of performing the operation on a manual basis.

The evaluation includes a complete analysis of manual operating costs, amortization of capital investment based on estimated service life, interest on the capital investment based on the current average yield on Treasury bonds rounded to the nearest half of a percentage point, maintenance costs including replacement parts and labor, and

other costs such as initial training cost, moving expenses, rental of temporary quarters, and power costs.

After a complete cost analysis and comparison of the various systems, the most efficient system or type of equipment is selected.

During preparation of the final systems layout, all aspects of the facility layout are coordinated with the Architectural and Process Machinery Divisions of the Office of Research and Engineering and the Bureau of Operations, the Bureau of Transportation and International Services regional and local postal officials. We will provide a list of the criteria for insertion in the record.

(The information referred to follows:)

OFFICE OF RESEARCH AND ENGINEERING

ENGINEERING CRITERIA STUDIES

1. Multiposition letter sorting machines (POD Committee).
2. Mechanized equipment cost data.
3. Estimating power costs of postal mechanization.
4. Canceling machine.
5. Opening table.
6. Design for sawtooth operations.
7. Functional locations.
8. Selection of parcel sorting equipment.
9. Selection for dock levelers.
10. Platform dumphole design.
11. Mechanized parcel post, secondary distribution.
12. Equipment and methods of hand canceling flats and SPR.
13. Design for sack sorters.
14. Mail handling at docks.
15. Handling of empty sacks.
16. Mechanization controls.
17. Outside parcels handling.
18. Originating mail culling.
19. Transport system design.
20. Optimum man-machine.
21. Heights and widths for conveyors.
22. Parcel post shakeout operation.
23. Loose parcel storage belts.

The status of the above listed criteria is as follows: The first three have received overall departmental approval and have been published as working documents. The next six (Nos. 4 through 9) have been completed in draft form and are being circulated among the various bureaus for approval. The remaining 14 listed (Nos. 10 through 23) are in various stages of development within the Office of Research and Engineering.

Mr. PILLION. Now then, in your letter sorters, we come to a determination of how many sortings we want.

A number of years ago under Mr. Summerfield, this committee was presented with beautiful designs of many major sorting, mail-handling facilities around the country. I think there were something like 60.

Mr. HARRIMAN. I believe it was 60.

Mr. PILLION. And most of all, this work was going to be done in 60 different regional facilities. The mail would flow into these facilities and then spread out in the area after it was sorted and worked.

Now, is that concept out the window?

Mr. HARRIMAN. The concept which you describe is the fundamental basis for the nationwide improved mail service and it is the system upon which the ZIP code numbers have been assigned. The only difference is this—the mail under our concept will not be concentrated

in only 60 sorting facilities. We will process the mail in the city in which it originates, taking out as much direct mail to important distant points as possible and combining it together.

It would then move to the so-called concentration centers and be handled by bags of mail, not by individual pieces.

This is an exchange whereby you bring the mail in from the spokes of the wheel to the hub of the wheel and you exchange it by sacks of mail and you send it back out to the other points. We do not intend to mechanize these and have them become the mail-processing centers.

Mr. PILLION. Now we have so many systems here. I am continually confused.

Mr. HARRIMAN. I agree with you.

Mr. PILLION. Has the ZIP code system become a standardized policy and program in the Post Office Department?

Mr. HARRIMAN. Yes, sir.

Mr. PILLION. It is firm?

Mr. HARRIMAN. Yes.

Mr. PILLION. You are not going to go into any moon shots, or anything. This is your firmly established program and system under which you are going to work?

Mr. HARRIMAN. As stated by the Postmaster General in numerous speeches and appearances and releases, the ZIP code program is the Department's highest priority program. The entire postal department is behind it in single cause.

Mr. PILLION. Now, the Postmaster stated here that you had about 380 of these ZIP code areas, and you are going to have 566. Is there a relationship between the 566 ZIP code centers and the sorting you do in these sorting machines?

Should you not sort into 566 centers.

Mr. CROWE. The sorting will be dependent upon the transportation scheme and the volume of mail, and as was mentioned by Mr. Harriman, where you do have large volumes of mail, even going from the east coast to the west coast, you would use one of your pockets on a sorter to take care of that large volume of mail. But dependent upon your transportation network, you will mass together other volumes of mail and in that manner make up the distribution of your pockets on your sorters?

Mr. HARRIMAN. Iwould say the answer to your question is "Yes," we will use the sectional centers as a basis upon which to sort. The reason you do not always make 566 sorts is because you might take out 80 percent of your mail with only 200 sorts, and then the Department has to decide what do you do with the 20 percent remaining. You might put several of the destinations included in the 20 percent together in combinations, so the answer to your question is "Yes."

Mr. PILLION. With modification?

Mr. HARRIMAN. With slight modification.

Mr. PILLION. And adaptations?

Is the Rabinow-Burroughs sorting machine perfectly capable of meshing in and integrating with your 566 sorts on your ZIP code?

Mr. HARRIMAN. Yes, within the outline I just gave, the answer is "Yes." There are no reservations to that.

Mr. PILLION. So you have now standardized pretty well on the Rabinow-Burroughs mail-sorting scheme which works in completely with your ZIP code?

Mr. HARRIMAN. We have standardized on the multi-position letter sorters which will work with the Zip code for the foreseeable future. The only reason for saying for the foreseeable future, if we can find a far more economical method of handling the mail, one that is faster and more economical, then we would want to take that into consideration in our studies and evaluations.

Mr. Lieske, my Director of Research and Development, informs me that as the mail volumes go up, it is going to be necessary for us to provide larger receptacles, or pockets, than perhaps we now have.

MONEY ORDER MACHINES

Mr. PILLION. Your money order machines, I notice they were made by Friden. Are they pretty well standardized?

Mr. HARRIMAN. The answer is "Yes." That is a good example of how we are conducting our research and development.

Several years ago it was decided that half a million to $1 million a year could be saved if we went into a modern type of money order machine. The Office of Research and Engineering procured several different models of commercially designed print punch money order machines. At the beginning of this work industry estimated that machines to meet our requirements would cost $200 each in production quantities. We took the commercially designed units to the postal laboratory and tested them. We checked their performance and reliability and came up with specifications for the type of machine we needed. The Bureau of Facilities advertised the procurement using the specifications the Office of Research and Engineering developed and competitive bid contract. The machines were procured for about $52 each as opposed to the original $200 estimated cost.

Friden was the successful bidder.

Mr. PILLION. Are these machines, engineeringwise, standard?

Mr. HARRIMAN. Yes.

Mr. PILLION. They are good machines and you are satisfied with them?

Mr. HARRIMAN. We are very satisfied with them.

Mr. PILLION. You do not have to do much more experimentation on them?

Mr. HARRIMAN. No. They are installed in post offices, and we have the quantity we want. We are not researching them.

Mr. PILLION. Are they fully installed everywhere?

Mr. HARRIMAN. Yes.

Mr. PILLION. Where they can be economically installed?

Mr. HARRIMAN. They are installed in every post office throughout the United States.

Mr. PILLION. That is one area now of mechanization that is done?

Mr. HARRIMAN. Yes.

CULLING EQUIPMENT

Mr. PILLION. Let's get to the next one. How about culling?

What is the status of that? How far have you gotten and what standardization have you gotten and what is the cost of the machine, and how much more work do you need and have you developed a criteria for cost as against volume and efficiency?

Mr. HARRIMAN. The culling machine area is an area where we have to do more work. It is an essential area because this is the first step where we have to pull together the mail that is going to the facing and canceling machine.

We do not have an answer in the Department today as to what a good culling machine is. We have several projects underway. We have received proposals from several industrial concerns, and we have asked the assistance of the FMC Corp. as part of their systems contract to give us the best advice they can from an industrial point of view. The culling machines which we have procured and have installed in the Department so far are marginal in terms of return on investment. We have, I believe, six in Providence and four in Detroit and one in the postal laboratory.

Mr. PILLION. You say you have seven pieces of culling machines?

Mr. HARRIMAN. Yes; seven actually operating. We are working on it. This is one area where we hope to come up with a solution during the remainder of this fiscal year, between now and July.

Mr. PILLION. Are you doing research and development, or engineering, or are you doing mere testing on that?

Mr. HARRIMAN. We are doing both engineering and testing.

Mr. PILLION. R. & D., you are proceeding with this phase, too?

Mr. HARRIMAN. R. & D. I believe is behind us at this stage in the game. We hope to be in a position to request that the Bureau of Facilities advertise for the procurement of some culling equipment before the end of this year. We have written the performance specifications.

FACER-CANCELERS

Mr. PILLION. How about facer-cancelers? You have any number of them. What is the state of the science and the art there?

Those are the ones we find giving us a savings of 89 percent according to Mr. Nicholson here yesterday.

Mr. HARRIMAN. That is correct.

Mr. PILLION. Those are fairly well standardized, are they not?

Mr. HARRIMAN. Yes, they are. The only automatic facing and canceling machine which we have procured and are now procuring is the standard machine which we are installing. We have a total of 160-some installed and 45 more on order, bringing us up to 200 plus.

Mr. PILLION. They pay?

Mr. HARRIMAN. They are paying very well. We are finding an occasional office where training, orientation and maintenance is not what it should be. In these cases we send in a team from the Office of Research and Engineering to provide the necessary technical advice and training.

Also, the Bureau of Facilities and the Bureau of Operations assists those offices that are not producing adequately.

Mr. PILLION. I note you have 167 facing and canceling machines in 43 post offices?

Mr. HARRIMAN. Yes.

Mr. PILLION. And that you have on order 45. Is that in the 1965 budget?

Mr. HARRIMAN. No, it is not. Those were procured under either the last part of 1963 or the first part of 1964. They are already under contract. They are not in the 1965 budget.

Mr. PILLION. I see. Then how many do you have in the 1965 budget?

Mr. HARRIMAN. I would prefer to answer that next Tuesday when Facilities are up. That is their budget. I do not have the information with me.

Mr. NICHOLSON. Fifty cancelers.

Mr. PILLION. That gives you something like 260 facing and canceling machines. I assume that you develop full criteria for the economic return on these.

Mr. HARRIMAN. Yes, sir.

Mr. PILLION. Would this 250 or 260, including the ones in the 1965 budget, pretty well complete your facer-canceler installations throughout the country for those post offices where they do pay, where they are economically profitable?

Mr. HARRIMAN. The answer to your question is still "Yes"; it will significantly complete the supply to these offices. As we improve the refinements on facing and canceling, and if the return on the investment continues to go up as it has due to training and orientation, then that will open the area for small additions; but the answer is basically "Yes".

Mr. PILLION. And this machine now with the great and wonderful profit that it is showing in automating this process is now pretty well standardized except for refinements; is it not?

Mr. HARRIMAN. That is correct.

Mr. PILLION. What is the purpose of canceling mail? Suppose I put a stamp on an envelope and send it out. Why do you cancel the postage?

Mr. HARRIMAN. First, it defaces it so no one else can use it again. From an engineering point of view, I would like to say that this is a byproduct. It really costs very little. In the process of getting your mail from the street collection box and getting ready to handle it either by hand or with a mechanical sorter, you have to face the letter so the address is on the front and it is right side up.

Mr. PILLION. The facing would be necessary anyway, independent of the canceling?

Mr. HARRIMAN. Yes. You have to do that anyway. We have conducted a rather extensive study on that. Several years ago the Postmaster General asked if we would undertake a project for canceling a stamp by mass media without actually contacting it.

Mr. PILLION. Is there a system whereby I can cancel it the moment I stick it on to an envelope so it does not have to be canceled mechanically in the post office?

Mr. HARRIMAN. The answer to that is "Yes, there are such systems." A complete study of that revealed that there are philatelic values to be considered.

Mr. PILLION. To heck with philatelic values. I am talking about fiscal, economic and mechanical operations here.

What do we care about philatelic values?

Mr. HARRIMAN. There are many other considerations. If you can cancel a stamp when you put it on an envelope, perhaps the atmos-

pheric conditions would be such that some would cancel while in storage and we would not want to use them. We should recognize too that we have to face the mail anyhow for sorting, and that you get the cancellation almost as a byproduct. The canceled mail is also identified by city and time.

NEW CONSTRUCTION

Mr. PILLION. How many facilities will be constructed or provided for in the 1965 budget—new construction starts?

Mr. HARRIMAN. It will be in the vicinity of 20.

Mr. PILLION. Twenty new constructions?

Mr. HARRIMAN. Twenty new major facilities.

Mr. PILLION. I am talking about all facilities, major and minor.

Mr. HARRIMAN. Major and minor, this is really in the Bureau of Facilities, area. Approximately 1,000 new facilities for the entire year. This would include the small and the large. This is approximately the same level as last year and the year before.

Mr. PILLION. I thought that was a reduction. I thought we were up to 1,200 or 1,500 at one time and we were going down.

Mr. HARRIMAN. Two years ago we processed 2,000 new facilities. Last year, it came down to approximately 1,200. This year it will be 1,000 or less, and next year (fiscal year 1965) it will be at about the same level.

Mr. PILLION. Of these, 20 are major in the square footage of 50,000 or more?

Mr. HARRIMAN. Yes.

Mr. PILLION. That is your demarcation?

Mr. HARRIMAN. Yes.

Mr. PILLION. 50,000 square feet is not a very large post office, is it, that would require much mechanization?

Mr. HARRIMAN. In general, you do not require anything except transport belts until you get to around 100,000 square feet.

Mr. PILLION. That is what I thought; is relatively small.

Mr. HARRIMAN. It is. But it requires the services of an architectural engineering staff to a greater extent than smaller facilities.

Mr. PILLION. It does?

Mr. HARRIMAN. These services consist of heating, ventilating, air conditioning, and utility staffs, which we have available in the Department. Many of our regional offices are not large enough to have this spread in staff.

BOTTLENECK IN MECHANIZATION OF LETTER MAIL

Mr. PILLION. The chairman asked you a question of where the bottleneck was, and you said it was in the flat sorter. That is a bottleneck probably from an engineering standpoint. That is not the big bottleneck in producing more economies and profitable returns, is it? From a fiscal point of view, what is your bottleneck? Where do you find you have the high cost you want to reduce?

Mr. HARRIMAN. That would be in your letter size mail. That is the largest volume of mail requiring the most attention of the Depart-

ment and offers the best potential in terms of economic return to the Department through mechanization.

Mr. PILLION. What mechanical and engineering possibilities do you have there that you are working to get the greatest return fiscally and economically out of all the research and engineering we are doing?

Mr. HARRIMAN. I see your question now. The answer to that is, the marriage of the optical scanning equipment to the letter sorter so that we can process letters at less cost per 1,000. The largest potential area of savings is in the letter sorting area.

Mr. PILLION. A letter sorter plus scanning?

Mr. HARRIMAN. The ZIP code reader and character reading equipment.

Mr. PILLION. You are committed to your ZIP code. You will develop not only your sorting machine, but you also will develop your scanning system?

Mr. HARRIMAN. At the highest priority possible.

M. PILLION. Geared to your ZIP code commitments?

Mr. HARRIMAN. Yes, sir.

NEW YORK POST OFFICE

Mr. PILLION. You have a New York post office situation that is coming up with the finalization of plans and bids. How many stories of that New York post office will be devoted to post office operations?

Mr. HARRIMAN. Four stories will be devoted to the post office.

Mr. LOWE. Four above grade, two below grade.

Mr. PILLION. Six stories?

Mr. LOWE. Yes.

Mr. PILLION. What are your mechanics for handling of that mail and the mechanization of it?

Mr. LOWE. There will be bulk transport conveyors leading to and from platforms on the first floor and the second floor of that facility. These will handle both sacks and parcel post, which will then go up to the fourth floor for distribution.

Mr. PILLION. How does it get up from one floor to another?

Mr. LOWE. By conveyors.

Mr. PILLION. Up to the fourth floor?

Mr. LOWE. Yes.

Mr. PILLION. You take them off the street, put them in the conveyors and run them up to the fourth floor?

Mr. LOWE. Yes; there the parcel post will be distributed and separated by five parcel post machines. These machines will distribute to secondary areas for distribution in the sacks and for dispatch either to stations within New York, or to transportation centers.

Mr. PILLION. Parcel post?

Mr. LOWE. Parcel post. The letter mail will be handled primarily under the present thinking by elevators to the third floor.

Mr. PILLION. Will they come in separately and go up to the third floor, or are they mixed in with parcel post?

Mr. LOWE. Preferential mail will come in separately.

Mr. PILLION. You have a separate conveying system for the mail, and a separate one for the parcel post?

Mr. LOWE. The conveyor system that is being installed will be entirely for parcel post. The letter mail will be transported by freight elevators to the distributing floors.

At the present time it is not contemplated the letter-sorting machines will be installed. However, space has been provided for it. There is no doubt when we get this building into operation, maybe within 5 years, we will find a need for the installation of the letter-sorting equipment, and its connected tray-transport system.

Mr. PILLION. Is that it?

Mr. LOWE. That is it.

MULTISTORY OPERATIONS

Mr. PILLION. In Buffalo you started out to build a four-story operation, and then that was canceled on the ground that your engineering and your cost accounting indicated that the most efficient and the best way to handle mail is on a one-floor basis. Now you are going into a six-story vertical operation. What do you say about that?

Mr. HARRIMAN. The decision that was made earlier must have been made prior to 1961 in terms of the desirability of a one-floor building.

Mr. PILLION. Are not all your new post offices one floor?

Mr. HARRIMAN. I would like to say no to that, and call on Bob Masters of Management Engineering, who has been working with local, regional, and departmental officials on developing criteria, to answer that question.

Mr. MASTERS. That is correct. Not all major facilities are on a one-floor plan.

Mr. PILLION. What is the reason?

Mr. MASTERS. Land costs are usually the determining factor.

I will go back to the New York area where the land costs in the metropolitan area are such that we cannot afford to get enough to build it completely on one floor, therefore, we were forced into multistories. It is a matter of economics, land costs, plus building costs, plus mechanization costs.

Mr. PILLION. How many post offices have you built in the past 5 years, major ones, that are multifloor operations—just Buffalo?

Mr. HARRIMAN. Buffalo is single.

Mr. PILLION. Detroit?

Mr. MASTERS. Multifloor.

Mr. PILLION. How many? That is an old one, though, and you just mentioned it. I am talking about the new buildings where the building is built. I am talking about new construction.

Mr. LOWE. Detroit is new construction.

Mr. PILLION. How many stories is that?

Mr. LOWE. Four stories mail handling, plus 10 as an office. Denver is four stories. There the physical limitation of the site required us to go multistory.

Mr. MASTERS. Where it is tied in with a previous building, such as Cincinnati and St. Paul, to make the operation compatible it was necessary to go to a multistory building. In the case of El Paso, that is a single story. Houston is a two-story operation.

Mr. LOWE. Portland, Oreg., is three-story.

Mr. PILLION. What is going to take place in the two substories in New York?

Mr. LOWE. The basement level has a mailing platform plus room for future expansion of platform activities.

The vehicle maintenance facility is also located in the basement level, plus some parking. The subbasement level is devoted entirely to our motor vehicle department.

NEW YORK COMPLEX

Mr. PILLION. That will take care of the needs of the whole New York metropolitan area?

Mr. LOWE. No.

Mr. PILLION. What is that designed to do?

Mr. LOWE. This building is designed to take care of just a very small part of the New York complex.

Mr. PILLION. Where is your other big mechanized operation?

Mr. LOWE. The general post office at 8th and 9th Avenue between 31st and 33d Streets near the Pennsylvania Railroad Station.

Mr. PILLION. Where would this new building be?

Mr. LOWE. On 3d Avenue between 54th and 55th Street.

Mr. PILLION. Is that where so many of those other high rise buildings are going up in that area?

Mr. LOWE. There is quite an expanding development of high rise building in that area, particularly to the west of that area. When the Third Avenue "el" was taken down, Third Avenue boomed all the way up. It is a 100-percent location, you might say.

CONVEYOR SYSTEMS

Mr. PILLION. Mr. Harriman, on your conveyor systems you have one type here in Washington and another type in Providence and other types in other cities. Have you pretty well standardized more or less your conveyor and shipment of your products from one location to another in a facility?

Have you standardized your criteria and thinking and machinery for inside transportation?

Mr. HARRIMAN. The answer is yes, depending on the mix of mail and the volume of mail. We select basically standard equipment that we have already installed in other post offices.

MIAMI INSTALLATION

The one exception is the belt parcel sorter which you saw when you visited Miami, Fla., last year. This is a new breakthrough where we can sort both primary and secondary without the need for off-line manual handling in between. We are very pleased with that installation. It has done one of the things you and your committee members asked us to do last year, and that is, pay particular attention to lessening the damage of parcel post. This is one of the most promising results that have come out of that new system.

Mr. PILLION. Have you been able to refine and better the one you have in Miami?

Mr. HARRIMAN. Yes. If we were to go out with specifications for a new installation tomorrow, it would basically be the same specification with some refinements. The basic refinement would be in the area

of the code knowledge which is placed at the primary. Now, it is required that the code be manually looked at as it is fed into a secondary. We are developing a transfer memory unit so that the code transfers on the secondary belt thus eliminating two employees in that position at each belt.

Mr. PILLION. Thank you very much.

Mr. STEED. On behalf of the committee, I want to express our appreciation for your being here, and for a very fine job of informing us on your needs.

The committee will stand adjourned until Monday at 2 o'clock.

MONDAY, FEBRUARY 24, 1964.

OPERATIONS

WITNESSES

FREDERICK C. BELEN, DEPUTY POSTMASTER GENERAL
CHARLES H. RYAN, DEPUTY ASSISTANT POSTMASTER GENERAL
JOHN D. SWYGERT, DIRECTOR, INSTALLATIONS, MANAGEMENT DIVISION
RALPH W. NICHOLSON, ASSISTANT POSTMASTER GENERAL, BUREAU OF FINANCE

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	2,441,860	2,581,275	2,660,232
	Positions other than permanent	698,402	740,379	764,632
	Other personnel compensation	143,729	167,019	159,875
	Total personnel compensation	3,283,991	3,488,673	3,584,739
12	Personnel benefits	261,129	278,554	287,049
21	Travel and transportation of persons	18,401	21,511	21,751
22	Transportation of things	75,383	79,709	80,704
23	Rent, communications, and utilities	4,209	4,319	4,352
25	Other services	23,927	26,031	28,016
26	Supplies and materials	24,866	26,203	28,289
	Total obligations	3,691,906	3,925,000	4,034,900

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	427,567	433,874	438,710
Full-time equivalent of other positions	144,213	146,984	148,827
Average number of all employees	571,462	580,562	587,277
Employees in permanent positions, end of year	427,567	433,874	438,710
Employees in other positions, end of year	149,899	149,197	149,072
Average postal field service level	4.5	4.5	4.5
Average postal field service salary	$5,947	$6,135	$6,176
Average salary of ungraded positions	$5,312	$5,583	$5,638

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Administration of postal installations	742,238	499,210	509,046
2. Mail handling and window service	1,646,404	1,742,312	1,787,874
3. Collection and delivery service	1,402,745	1,499,769	1,542,631
4. Maintenance service	112,116	120,940	126,451
5. Vehicle service	67,400	71,260	75,717
Adjustments to accrued annual leave due to pay increases	14,791	3,826	
Total program costs funded	3,715,694	3,937,317	4,041,719
Change in selected resources [1]	−23,788	−12,317	−6,819
Total obligations	3,691,906	3,925,000	4,034,900
Financing: Unobligated balance lapsing	9,726		
New authority	3,701,632	3,925,000	4,034,900
New authority:			
Appropriation	3,693,520	3,925,000	4,034,900
Transferred from (76 Stat 314)—			
"Administration and regional operation"	760		
"Transportation"	5,000		
"Plant and equipment"	2,416		
Transferred to "Operating expenses, Public Building Service," General Services Administration (76 Stat 728)	−64		
Appropriation (adjusted)	3,701,632	3,925,000	4,034,900

[1] Selected resources as of June 30 are as follows:

	1962	1963 adjustments	1963	1964	1965
Accrued annual leave	−173,187		−191,798	−201,459	−207,394
Employees compensation liability	−10,446		−15,735	−18,391	−19,275
Stores	1,617	136	1,847	1,847	1,847
Unpaid undelivered orders	72	31	121	121	121
Total selected resources	−181,944	167	−205,565	−217,882	−224,701

Mr. GARY. The committee will come to order.

We shall consider today the request for Post Office operations.

The appropriation for fiscal year 1964 was $3,925 million. The budget estimate for fiscal year 1965 is $4,034,900,000, which is an increase of $109,900,000 over fiscal year 1964.

Total positions, fiscal year 1964, were 583,071; total average positions requested for 1965, 587,782, which is an increase over 1964 of 4,711.

JUSTIFICATION OF THE ESTIMATE

We shall insert the justifications at this point in the record.

(The justifications follow:)

Appropriations and obligations

[In thousands]

Appropriations and obligations	1963 actual	1964 estimate	1965 estimate
Administration of postal installations:			
Postmasters	$217,724	$228,070	$232,025
Supervisors and technical personnel	254,580	270,382	276,250
Subtotal	472,204	498,452	508,275
Mail handling and window service: Clerks	1,643,174	1,738,015	1,784,595
Collection and delivery service:			
City delivery carriers	1,069,299	1,147,243	1,185,951
Special delivery messengers	34,141	35,575	36,037
Rural delivery carriers	293,923	313,731	318,093
Subtotal	1,397,363	1,496,549	1,540,081
Maintenance service	111,717	120,771	126,279
Vehicle service:			
Vehicle service personnel	28,147	29,808	30,672
Vehicle maintenance	29,620	31,279	34,437
Contract vehicles	9,681	10,126	10,561
Subtotal	67,448	71,213	75,670
Total obligations	3,691,906	3,925,000	4,034,900
Transfers to other appropriations	+8,540		
Transfers from other appropriations	−16,716		
Transfer to GSA	+64		
Unobligated balance	+9,726		
Appropriation	[1] 3,693,520	3,925,000	4,034,900

[1] Includes $13,696,000 transferred by Public Law 88-25 from other appropriations to meet pay increase cost.

A. Personnel

Item	1963 actual positions	1964 estimate			1965 estimate			Increase over 1964
		Carry-over man-years	New positions	Total	Carry-over man-years	New positions	Total	
POSITIONS								
Administration of postal installations:								
Postmasters	34,335		−158	34,177		−150	34,027	
Supervisors and technical personnel	28,909		350	29,259		250	29,509	
Mail handling and window service (clerks and mail handlers)	183,994		2,355	186,349		1,827	188,176	
Collection and delivery service:								
City carriers	126,602		3,250	129,852		2,304	132,156	
Special delivery messengers	2,422		14	2,436		10	2,446	
Rural carriers	31,131		−51	31,080		−7	31,073	
Maintenance service	16,575		511	17,086		569	17,655	
Vehicle service	3,599		36	3,635		33	3,668	
Total permanent positions—end of year	427,567		6,307	433,874		4,836	438,710	
Man-years:								
Regular employees	427,249	3,175	3,154	433,578	2,454	2,418	438,450	4,872
Hourly rate employees	144,213			146,984			148,827	1,843
Overtime	9,382			9,545			9,668	123
Regular pay above 52 weeks	1,317			3,990			2,037	−1,953
Total average positions	582,161			594,097			598,982	4,885
Average compensation and benefits	$6,087			$6,334			$6,453	

B. *Analysis of obligations*

[Dollars in thousands]

Activity and account	1963 actual	1964 timate	Increase or decrease due to—					1965 estimate	Increase or decrease due to—					Net total increase	
			Pay cost	New positions	Mandatory items	Other costs	Total increase		Pay cost	New positions	Mandatory items	Carry-over costs	Other costs	Amount	Percent
Administration of postal installations:															
Postmasters	$217,624	$228,070	$8,011	−$263	$1,632	$1,066	$10,446	$232,025	$3,534	−$250	$1,710	−$264	−$775	$3,955	1.7
Supervisors and technical personnel	254,580	270,382	10,285	911	921	3,685	15,802	276,250	3,924	761	1,107	1,318	−1,242	5,868	2.2
Mail handling and window service (clerks and mail handlers)	1,643,174	1,738,015	52,337	8,276	14,011	20,217	94,841	1,784,595	20,884	4,524	14,441	9,435	−2,704	46,580	2.7
Collection and delivery service:															
City carriers	1,069,299	1,147,243	32,735	8,173	8,286	28,750	77,944	1,185,951	12,600	5,827	8,943	11,600	−262	38,708	3.4
Special delivery messenger	34,141	35,575	1,058	69	69	238	1,434	36,037	387	48	51	69	−93	462	1.3
Rural carriers	293,923	313,731	9,783	−102	1,131	8,996	19,808	318,093	2,720	−103	1,232	31	482	4,362	1.4
Maintenance service	111,717	120,771	3,551	1,442	1,191	2,870	9,054	126,279	1,332	1,606	1,231	1,534	−195	5,508	4.6
Vehicle service	67,448	71,213	944	114	341	2,366	3,765	75,670	380	109	354	115	3,499	4,457	6.3
Total obligations	3,691,906	3,925,000	118,704	18,620	27,582	68,188	233,094	4,034,900	45,761	12,522	29,069	23,838	−1,290	109,900	2.8
Total increase over prior year	269,701	233,094						109,900							
Percent of increase over prior year	7.9	6.3						2.8							

JUSTIFICATION

The funds provided in this appropriation are used to pay the salaries and related expenses of postal field personnel engaged in the primary function of the Post Office Department: the collecting, sorting, and delivering of mail. The $4,034,900,000 requested for 1965 is an increase of $109,900,000 over 1964.

Additional pay costs, increase $45,761,000

Public Law 87–793, approved October 11, 1962, provided salary increases in two steps: Phase I, effective October 13, 1962, averaging 8.5 percent and phase II, effective January 4, 1964, averaging 2.5 percent additional, or a total increase of 11 percent for postal field employees. The fiscal year 1965 estimate reflects the full effect of the pay raise. The additional pay cost in this appropriation amounts to $118,704,000 in 1964 and $45,761,000 in 1965.

New positions, increase $12,522,000

(a) Postmasters.—The estimate reflects a decrease of $250,000 resulting from a reduction of 150 postmaster positions. This is made possible through a continuation of the program to eliminate smaller offices where improved and more economical service can be provided through larger offices or by extension of rural delivery service.

(b) Supervisors.—An increase of 250 new positions is requested under this activity. This will provide 119 man-years to maintain the current ratio of supervisors to clerk and carrier personnel.

(c) Clerks and mail handlers.—The estimate provides for 1,827 additional regular positions and a reduction of 124 hourly rate employees. This will provide 1,808 man-years, an increase of 0.7 percent to handle the mail volume increase of 2.8 percent. To process this volume increase will require the processing of 258,658 pieces of mail per man-year, a 2.1-percent improvement in productivity as indicated in the following statement:

Year	Clerk-mail handler (man-years)	Percent increase	Mail Volume (millions)	Percent increase	Average pieces per man-year	Percent increase
1961	267,029	1.8	64,933	2.0	243,168	0.1
1962	269,521	.9	66,493	2.4	246,708	1.5
1963	272,689	1.2	67,853	2.0	248,829	.9
1964 (estimate)	277,325	1.7	70,231	3.5	253,244	1.8
1965 (estimate)	279,133	.7	72,200	2.8	258,658	2.1

The efficiency gains being projected for 1964 and 1965 do not mean that the individual employee will be working any faster. Rather, the gains are the result of our concerted efforts to improve procedures, obtain the cooperation of the mailing public in the prepreparation of its mailings, continued mechanization, and other programs directed toward a more efficient postal service. The duplication of an efficiency gain on top of gains made in prior years is directly related to the management effort that we are able to devote to such programs as ZIP, NIMS, VIM, POMSIP, and other management improvement programs.

The productivity increase of 1.8 percent estimated for the clerk account in 1964 is the goal that must be reached if the obligations of this appropriation are to be kept within the restricted amount appropriated by the Congress.

(d) City carriers.—City carrier service is estimated to provide service to over 41 million stops covering 61,600 square miles in 1965. This represents an increase of 3.4 percent in stops and 3.7 percent in area covered. To provide this service, an increase of 2,304 regular positions and 229 fewer hourly rate employees, or a net increase in positions of 2,075, will be needed for an average of 2,602 man-years, an increase of 1.4 percent in paid employment.

To serve the homebuilding increase, the current trend of which is 6 percent over last year and, at the same time, carry the 2.8-percent increase in volume with the employment requested will require an absorption of 1.8 percent of the workload through efficiency improvements.

(e) Maintenance service.—The estimate includes 569 additional regular positions and 101 hourly rate employees for an average of 600 man-years. This will provide a 3-percent increase in employment for the maintenance and protective services required for the 3.5 million square feet of additional interior space to be

occupied in 1965. The 600 man-years requested will also have to provide additional mechanized maintenance service for the continued expansion of the mechanization program at larger offices.

(*f*) *Other employment.*—The 1965 programs for special delivery messengers, rural carriers, and vehicle service will result in a net increase of 36 regular positions to meet normal service requirements in these activities.

Mandatory items, increase $29,069,000

The additional cost of automatic step increases required by law is estimated to average $49 per employee after deducting offsetting turnover savings. The annual cost of a step increase in level 4 is $160 which is the rate paid clerks and carriers who comprise over 75 percent of the total employment under this appropriation.

Carryover costs, increase $23,838,000

This cost is requested to provide full-year employment in 1965 for the 5,605 additional positions authorized in 1964. The increase requested for this purpose will finance 4,258 additional man-years.

Other costs, decrease $1,290,000

The estimate for 1965 includes funds to finance new programs and other items as follows:

	1964	1965	Increase 1965 over 1964
I. New programs:			
1. Contract station cost increase under minimum wage and hour law	$700,000	$1,000,000	$300,000
2. Carrier technician program	1,229,000	2,729,000	1,500,000
3. City carrier "driveout" agreements	3,000,000	3,000,000	
4. Heavy-duty allowance for rural carriers	6,700,000	7,370,000	670,000
5. Executive Order 10988 labor-management meetings	1,500,000	1,000,000	−500,000
Total, new programs	13,129,000	15,099,000	1,970,000
II. Other cost changes:			
6. Extra paid days			−11,225,000
7. Overtime			1,164,000
8. Vehicle repair maintenance and operations			3,158,000
9. Employee compensation fund			1,841,000
10. Other cost increases—net (equipment allowance, contract stations, carfare, etc.)			1,802,000
Total, new programs and other cost decreases			−1,290,000

The new programs are explained under the following headings:

1. *Contract station cost increase under minimum wage and hour law.*—The Department of Labor has represented that postal contract stations and branches are subject to the minimum wage and hour law, Fair Labor Standards Act. Prior to this ruling, contract stations and branches were exempt from the act. Because of this ruling, the cost of operating many of the 7,000 contract stations and branches will increase.

The estimates for 1964 and 1965 includes $700,000 and $1 million respectively to cover the increased contract costs under the minimum wage and hour law.

2. *Carrier technician program costs.*—The 1965 estimated increase of $1,500,000 provides for the continuation of the level 5 carrier technician program developed during 1963 and 1964. Under this program, a carrier technician position (level 5) is authorized for every five full-time carrier delivery routes. The technician serves each route 1 day per week to cover the absence of the regular carrier.

From the experience gained to date, we are convinced that the predicted benefits are being realized. Under the program, the letter carrier is no longer in a dead-end position since the new job permits advancement for qualified senior carriers beyond PFS–level 4. Also, the mail delivery program of the Department has improved in those cities where we have utilized the experience of the senior carriers to serve routes when the regular carriers are absent.

The criteria developed from this experience will be used to further expand the program in 1965 to city delivery post offices having five or more routes.

3. *City carrier "drive-out" agreements.*—In labor-management negotiations under Executive Order 10988, the Department entered into an agreement with

the National Association of Letter Carriers which provides for equitable reimbursement for the administration of "drive out of city carriers." Under the agreement, which became effective July 1, 1963, city carriers furnish their own vehicles to carry them and mail to and from routes designated as "drive-out routes." "Drive-out routes" are selected on the basis of distance from the postal unit, availability and frequency of local transportation and travel time required to and from routes.

Reimbursement to a carrier who provides his own vehicle is computed locally by the postmaster on the basis of factors included in the basic agreement.

The cost for the administration of "drive out of city carriers" in 1965 is estimated at $3 million which is at the 1964 level.

4. *Heavy-duty allowance for rural carriers.*—Title III of Public Law 87–793, Postal Employees Salary Adjustment Act of 1962 removed the restriction that the basis for computing heavy-duty allowance on routes 61 miles or less be limited to 43 hours. The removal of this restriction permitted the agreement between the Department and the employee organization which provides more equitable treatment of those carriers serving heavily patronized routes. Under the new procedures, carriers serving heavily patronized routes received additional compensation and/or a combination of compensation and time off in units of whole days.

Based on preliminary data from the field, this program will increase 1964 expenditures by $6.7 million, and an additional $670,000 in 1965.

5. *Executive Order 10988, labor-management meetings.*—In compliance with Executive Order 10988, labor-management meetings are held to process matters of prime importance involving grievance appeals, adverse action appeals, and consultations. These matters affect all of our craft and occupational group employees, supervisors and executives alike. In this area so vitally affecting so many people, the Department is giving individual employees and organizations an opportunity to be represented at discussions held at all levels of management concerning grievances and other matters affecting the general working conditions of the employees.

The estimate for 1964 will provide $1,500,000 for an additional 175 man-years of employment required to process the grievance appeals, adverse action appeals, and consultations. It is anticipated the activity in this program will be less than in 1964, the first year, and the fund requirements for 1965 are estimated at $1 million, or a decrease of $500,000.

Mr. GARY. I am glad to have with us to testify on this item the Deputy Postmaster General, who I understand has broken the record by being confirmed practically the same day that his nomination was reported to the Senate. Mr. Belen was confirmed last Friday, which was without question a great tribute to him, but a well-deserved one.

I understand that Mr. William M. McMillan, the Assistant Postmaster General, was confirmed at the same time by the Senate.

We are glad to have you gentlemen with us, and, Mr. Belen, we shall be pleased to hear from you at this time.

Mr. PASSMAN. If you will permit, Mr. Chairman, I should like to associate my views with those which you have expressed with reference to the promotion of the distinguished witness of this afternoon.

Mr. PILLION. I am sure we concur, on this side of the table, in everything that the chairman has said.

Mr. CONTE. I would like to associate myself with the chairman. I think it is one of the finest appointments the administration has made in many a moon.

Mr. BELEN. Thank you very much, Mr. Chairman.

It was rather prompt and startling action on my nomination, but I did make this very brief statement to the committee on Friday, in which I said that of all the things I believe I have learned in my lifetime, one of the most deeply realized is that no one does anything alone, and the fact is that if I have made a good record, it is because some 589,000 employees have helped me do it, and with the support

and backing that I have had from the legislative and the appropriations committees of the Congress.

And that is a matter of record, as I said Friday, and I would like to repeat it again here, because nobody does anything alone, and I have been most grateful for the discernment that this committee has shown, and many times I know we have been able to do things better because of that.

Mr. GARY. Thank you, Mr. Belen.

GENERAL STATEMENT

Mr. BELEN. With your permission, I have a statement.

I appreciate the opportunity to appear here today to discuss the fiscal year 1965 operations program with you.

The operations budget before you is indeed an austerity budget. Virtually all of the increase requested represents mandatory items, pay raises, and within-grade costs. The relatively small remainder represents increased workload.

PROGRAMS

Mr. Chairman, you and the members of the committee are aware, I am sure, of our programs aimed at holding the line on costs and improving operational efficiency. But these alphabetically identified programs, NIMS, ABCD, et cetera, represent only one of several avenues we have taken in an effort to insure that we live within the funds available to the Bureau of Operations.

We have made much progress in strengthening management in local post offices. As you know, we are in the process of adopting modern management practices and techniques in an effort to reduce costs and improve service.

This committee recognized the importance of this work last year when you gave the Bureau additional headquarters positions.

An orientation and training program for postmasters has been instituted, personnel and finance activities in post offices are being reorganized, and management training for post office supervisors has been initiated. Local engineered standards of performance have been installed in larger post offices, and, through the post office management and service improvement program, an effort is underway to improve generally all postal and administrative processes in major post offices.

MECHANIZATION PLANNING

A major effort is directed toward increasing and improving participation by the Bureau of Operations in the planning, equipping, and occupying of new major post office facilities. We have strengthened the staff of the Space and Mechanization Requirements Division of the Bureau as a result of new positions authorized by you last year.

The new Director of that Division is a licensed engineer with a wealth of administrative experience both in Government and private industry. Pursuant to your authorization last year, we have added to the staff of the Division a number of officials with years of mail-handling experience and who are progressive, imaginative thinkers.

With collaboration of representatives of other elements of the De-

partment, this group is establishing clear-cut operational use criteria to govern the employment of each item of mechanical mail-handling equipment. These criteria provide the basis for determining what mechanization and how much will be installed in any given post office.

They are also critically examining mechanization already installed to determine adjustments necessary to obtain maximum performance. They are actively participating in the preoccupancy training of personnel who will operate new mechanized facilities and in the shakedown phase of actually operating in the new mechanized post offices.

Increased productivity in the postal service is to be achieved not simply by the expenditure of greater energy by the individual employee to handle more pieces of mail per minute or per hour as some people seem to think. It will be brought about by a combination of factors, including:

Cooperation of the mailing public, especially large business mailers, working in harmony with post offices in the preparation of their mailings, including presorting to destination where feasible, and scheduling their mailings advantageously for the postal service.

Enlightened management employing modern tools and techniques to insure optimum scheduling of workflow and manpower usage.

Provision of adequate work areas and equipment, including proven mechanization, and an environment conducive to high standard performance by the work force.

MANPOWER CONTROL

Despite the ever-increasing workload brought about by increased use of mail service and population growth, we have effectively held down our employment and expenditures. When we speak of controlling employment, we are speaking principally of man-year savings that can be made through our programs such as NIMS. We are forced to concentrate on these programs because we have very limited control over (1) fixed employment (over 34,000 postmasters and approximately 47,000 rural carriers) or (2) city carriers, a force presently over 165,000, which must be expanded constantly because of the continuing increase in new housing and the urban spread.

It was possible for many years to offset increases in employment by the number of post offices which were closed. For example, there were over 76,000 post offices in 1900. The number had been reduced by over 41,000 to a new total of 35,000 by 1960. Today there are 34,000 post offices, and I am sure the committee agrees with me that we cannot reduce that number materially as a means of reducing employment.

Despite the complex employment situation, we have curtailed sharply what was formerly an upward trend in Operations employment. In the past the postal service experienced growth varying from 10,000 to 20,000 employees per year.

For example, in fiscal years 1960 and 1961 employment rose 12,600 and 19,700, respectively. However, in fiscal year 1962 employment rose only 5,930, and in 1963, employment was actually reduced 1,184.

Here is a 3-year comparison that illustrates what I am saying: In the years 1959, 1960, and 1961, employment rose over 32,000; the increase for the years 1962, 1963, and 1964 was only 4,483.

Fiscal year 1964 employment establishes a low benchmark from which to take off in fiscal year 1965. However, in line with the Presi-

dent's mandate, employment for fiscal year 1965 is estimated to increase only 4,711 or 0.8 percent.

The one thing that I think is significant is that we talk of the increased volume in terms of percentages, so when you are adding 3 percent today, it is a lot bigger bite than when you added 3 percent 10 years ago.

PRODUCTIVITY

Gains in productivity for fiscal years 1961 through 1963 amount in the aggregate to 2.5 percent. The projected gain for fiscal year 1964 is 1.8 percent, for an overall gain of 4.3 percent for the 4-year period. The fiscal year 1965 estimate before you is based on a further gain of 2.1 percent, which will be most difficult to attain.

I am convinced we have gone about as far as we can go in increasing individual worker output. To obtain the gain of 2.1 percent for fiscal year 1965, we must (1) rely heavily on public cooperation in presorting and scheduling mailings as a means of reducing piece-handlings, and (2) continue to simplify post office operations through improved systems and procedures.

You recall we discussed last year the importance of the work measurement system. It is an important factor in maintaining the present level of employee productivity. It is not a speedup plan; it is not designed to require employees to work unreasonably hard or fast.

It does, however, permit us to determine if reasonable production standards have been met. This tool is used by all levels of management to forecast changes in workload and manpower. With this information we can quickly respond to changing conditions before they get out of hand. Without this tool we would certainly experience productivity losses.

NATIONWIDE IMPROVED MAIL SERVICE

Before inauguration of the nationwide improved mail service (NIMS) program in July, 1961, 75 percent of the first-class mail arrived in post offices after 5 p.m. As of the sixth Accounting Period, this year, this percentage was 52.3.

I might just mention that the big difference in this NIMS program is that we get the big mailers to change their own procedures. A lot of people say: "This is just another mail early program." It is not. For the mail early program was a flash in the pan, which would last only a few days. We could not afford to change the scheduling of our employees.

And that is where you pick up savings by actually getting them to change their mailing proceedures, so you would know that it would be an effort to get back to the after 5 mailing habit.

The committee indicated an interest last year in the use of ADP by large mailers in presorting mail. Under the NIMS program we consider any business mailer with ADP equipment installed as a potential participant in presorting. This is in the best interests of the mailer, since presorted mail is dispatched faster, and it is in the best interests of the Government since it saves man-hours of clerical time.

ACCELERATED BUSINESS COLLECTION AND DELIVERY PROGRAM

The Accelerated Business Collection and Delivery program which I first told you about last year was first tested in February 1962, and is now functioning in over 265 cities. It is accomplishing the results we predicted. Late morning mail collected from selected boxes is being processed in sufficient time for delivery the same day in downtown business areas.

The program has been welcomed by business patrons. Volumes of mail received in ABCD colections show a steady increase. In fact, I might say there is 45 percent more mail going into these same boxes than were being put into them at the time we checked out the mailing in the various cities before ABCD.

Some expansion of the program by rescheduling collections serving heavily traveled arteries through residential areas is planned. This rapid business mail service is important to the economic health of our country.

ZIP CODE SYSTEM

Early in 1963 we inaugurated as part of our NIMS program the ZIP Code System. ZIP Code is a five-digit code which identifies, for dispatch of mail from any point in the United States, every individual post office and metropolitan area delivery station.

The new system is designed to permit owners of ADP equipment to now automatically presort their mail and to eliminate repetitous address reading and manual sorting. Sorting and delivery of mail will be speeded up and handling costs reduced.

Through Accounting Period 6 of this fiscal year, a total of 24,000 firms have been contacted, and 21,000 or 88 percent have agreed to participate in the program to some extent, ranging from inclusion of the ZIP Code in return addresses to the ultimate of preprocessing mail by ZIP Code. Some 14,830 or 70 percent are converting files on routine changes or in phases, 1,247 or 6 percent are converting all at once. A total of 12,260 firms or 58 percent have agreed to presort mail in varying degrees.

The process of encouraging and stimulating public cooperation is extremely complex, involving as it does not only conversion cost to the business firms, but also acceptance and use of the ZIP codes by all of our patrons. A great deal of our future savings and efficiency depends, therefore, on the rate of conversion and use of ZIP code by Government agencies, business firms, and the general public.

Actually, the question has often been asked: Who invented the ZIP code? Well, the ZIP code was merely provided at the request of large mailers, one of them, particularly, in Ohio, saying, "If you will provide us a five-digit code by which we can presort mail, we will then presort it for you."

It is sort of like thinking that a man many years ago said, "If you carried mail by jet plane, you would get it there faster." Now all of a sudden we are carrying it by jet plane.

But the thing that really gets it there is the man that invented the jet plane. In this case, the thing that really makes ZIP code work is the thousands of people that participated in bringing up to date the automatic data processing equipment that makes this possible.

(Discussion off the record.)

VERTICAL MAIL DELIVERY

Mr. BELEN. You may recall our discussions last year of the vertical mail delivery program. This is the Post Office Department's effort to cooperate with the architectural profession in bringing 20th century thinking to bear on the problem of handling mail to and from occupants of high-rise office buildings.

Despite the many visible design innovations made in high-rise office buildings, very little has been done in the past to facilitate mail handling. This failure to innovate has been expensive to building occupants and to the postal service.

There are several multiple-tenanted office buildings today each with 15 to 20 carriers who spend full time delivering mail inside that one building. Ingeniously designed vertical conveyors, elevator post offices, and self-service postal substations are goals of our vertical mail delivery program.

And we hope that the architects will come up with a lot of different ideas that have not been thought of yet. This program is long range, but we think it has future potential for saving millions of dollars and improving mail service to business mail users.

We are going to meet with the people who are concerned with this New York Port Authority Building. There are 110 stories in each section. You can imagine the mail problem. [Indicating.] Yet for the first time, the postal people and the people building those buildings are sitting down talking about the problem of getting mail in and out of it.

Mr. GARY. What is this building [indicating]?

Mr. BELEN. That is the New York Port Authority Building.

Mr. RYAN. A twin-tower building, 110 stories each.

(Discussion off the record.)

POST OFFICE MANAGEMENT AND SERVICE IMPROVEMENT PROGRAM

Mr. BELEN. Since its inception in February 1962, POMSIP studies have been conducted in 57 post offices, 19 projects are underway, and 50 more projects are scheduled to be initiated before the end of fiscal year 1964. Eventually every large office—every office where there is a savings potential—will be included in the program.

The committee expressed interest last year in whether the POMSIP program was monitored in headquarters or in the regional offices. I explained that the Bureau of Operations was responsible for overall direction and coordination of the program.

This is still true, but we are now in phase 3 of the program, where the scheduling of offices for study and the actual day-to-day supervision of projects is the responsibility of the regional offices. This arrangement has worked out very well.

This is one of the programs benefited by the headquarters personnel authorizations you granted the Bureau of Operations last year.

CITY DELIVERY EXPANSION

Among the many problem areas, the haphazard growth of our cities has major impact on postal costs. Not only is population increasing, but the concentration of people is drastically changing throughout the United States.

People in rural areas continue to move into cities, and city dwellers persist in moving out to suburbs. More and more cities qualify for city delivery service. Population and the accelerated rate of housing construction are creating a demand for postal delivery service expansion of a magnitude beyond anything previously experienced.

Letter carriers must be added to the rolls regularly to provide the required delivery service. This type of growth is fixed and cannot be denied.

INCREASES REQUESTED FOR 1965

The Operations budget estimate of $4,034,900,000 provides for 598,982 man-years of employment. This is an increase of $109,900,000 and 4,885 man-years over 1964. Of the increase, $45,761,000 represents the annualization in 1965 of the final phase of the pay increase, effective in January of this year, and $29,069,000 for mandatory within-grade step increases.

These two statutory items total $74,830,000, leaving increases totaling $35,070,000, as follows:

For continuation of new programs instituted in prior years, $1,970,000.

For additional supervision required for the greater work force, partially offset by a reduction in number of postmasters, $1,576,000.

To provide for a 0.7 percent increase in clerical employment to handle the 2.8 percent increase in mail volume; and increase of 2.1 percent in average productivity, $10,955,000.

For a comparable increase of 1.7 percent in carrier employment to serve a 3.4 percent increase in delivery stops and 3.7 percent increase in area served; increase in special delivery messengers for the additional area to serve; and increase in rural delivery service due to greater length of routes, $19,587,000.

For comparable increase of 3.3 percent in maintenance service employment to maintain and service the 3.3 percent increase in space occupied and additional mechanical equipment installed, $3,285,000.

For an increase of 0.9 percent in vehicle maintenance employment, and increases in parts, materials, and contract maintenance for the 10-percent increase in the vehicle fleet, $3,817,000.

And a cost reduction of $6,120,000.

Mr. Chairman, the figures I have just given add up to an increase of only $35,070,000 being requested to handle the extra workload anticipated in fiscal year 1965. With these funds we must finance the increase of 2.8 percent in mail volume and provide delivery service to 1.3 million additional households. This can truly be classified as a tight budget, which will require the best effort of every postal employee. I am confident that we will have their best efforts and that we will live within the budget commitment we are making here today.

On this occasion I would like to again express my personal thanks for the cooperative spirit that has existed between this committee and the Post Office Department.

And, sir, we will try to answer any questions which you might have which will help develop the issues and the program we have outlined.

Mr. GARY. Thank you, Mr. Belen.

SPACE AND MECHANIZATION REQUIREMENT DIVISION

I notice on page 2 you state that, "We have strengthened the staff of the Space and Mechanization Requirement Division."

That Space Division does not mean you are getting back into the project of bouncing mail off the moon, does it?

Mr. BELEN. No, sir. What that does mean is that we are doing a much more effective job in working out what we actually need in post offices in the way of space and mechanization.

When I first came into this responsibility, we had one man, a man that you knew about personally. His name was Mr. Joseph E. Orschel. And he had a person that was on detail. That was the only assistance we had in Operations.

The responsibility for big post offices with their mechanization were just being laid in our lap, and we set up a program whereby Operations had a much more effective voice in the kind of tools and the kind of a mechanization that we were going to have to work with.

As a matter of fact, as you may be aware, we had to hold in abeyance the ordering of mechanization of some six major post offices, because we found that problems were developing—operational problems that just had not been thought through. And we had to have somebody who could give us the knowledge upon which we could base a decision.

Mr. GARY. This "Space" refers to space, then, within the post offices, and not cosmic space?

Mr. BELEN. That is right. The requirements as far as the post offices are concerned for the next 10 or 20 years, whatever the case may be, sir.

EFFECT OF 1964 COMMITTEE CUT

Mr. GARY. Last year, when the committee cut the Post Office budget by 1.8 percent, there was considerable clamor that we were ruining the post office service, and that necessary and essential services would have to be curtailed, and all sorts of dire predictions were voiced. Many Members received telegrams from their constituents and from organizations protesting the cut.

Now, while the Senate did increase the allowance over the House figure, and the conference agreed to a slightly higher figure than was passed by the House, essentially the reduction was allowed to stand.

My question is: Was the service actually hurt? Were you required to deny essential customary postal service to anyone?

Mr. BELEN. I would say this, Mr. Chairman: One of the toughest things that we are faced with, in Operations, is our inability to actually know how well we are going to carry out our efficiency gains that we project.

We have a real tough one coming up this time. But, as you know, under the Anti-Deficiency Act, we have to start out July 1 at the general rate of spending, so that we will not overspend come the end of the year.

Now, in Operations, 96 percent of the Operations budget is for personnel, and the rest of it is for tires, gasoline, rent, for fourth-class post offices, and it is just absolutely inflexible.

The first experience I had with it was in the budget that I inherited. We came out of it that year, 1961, but if each post office had run just 15 seconds longer, we would have been in deficiency.

And as a result, we are doing again right now what we were forced to do then. We knew we would have to come down to a lower budget, and so we have to put the squeeze on and get down to a low enough level by July 1.

Now, as to whether or not there has been any damage to the service: Put it this way. I think that there is going on, and has gone on during the 3 years I have had this responsibility, a real marked change in operations.

MAIL SCHEDULING PROGRAM

As a result of our scheduled mail program, first-class mail to a large extent is now taking the filler part that used to be experienced for third class. We now get the bills, the insurance billings, the tax statements, which in State capitals are tremendous, and things like that are being scheduled in post offices.

We handle around 37 billion pieces of first-class letter mail. And, obviously, each letter we handle, as far as we can, with the same kind of tender loving care. But there is a whale of a difference, as banks have found out in cooperating on this program.

They were sending over their letters that had millions of dollars in contracts in the same truck that had nothing but the routine statements they were sending out to their patrons. And we said, "If you can tell us which is important to you"—and they are doing it in reverse, really—"You can tell us what we can schedule and send it outside of the peak load."

The same thing happened right here on Capitol Hill. For example, in the folding room, which has the mass billings, these mailings do not go over on the same truck on which the letters do that you sign when you go back to the office, and mail at 5 o'clock. So we have tried to encourage the patron to do some of this.

What has been done is this: We have not been able to have a staff waiting around the post offices for mail to come in. And in some cases, I would have to admit, we have missed dispatches, because all of a sudden a tremendous volume of mail came in. We had some real tough going.

Chicago is one area, where we just were not able to staff up for what turned out to be an absolute avalanche of mail. Just one accounting period ago, we had an 11 percent increase.

Well, if you are going to have people standing around waiting for that kind of an increase, in order to make every single dispatch, and to give every single letter the kind of service that we give the ABCD mail, it would cost you $100 million more.

But we have had to, as a result of what went on, change our whole activity. And as the Postmaster General pointed out, now that we have moved the scheduled mail into this filler activity, we have had to lay it on the line with the large third-class mailers and say: "You have got to start thinking now, if you want service on some things, of what you can do to get these big mailings, as many as 30 to 50 million at a time, into the pattern of distribution. You can't expect any more to just go and build a big plant out in the middle of nowhere, where we have a little third-class post office, and expect us to handle it, any more than you could expect the railroad to build a track to your door."

These are cooperative programs that never existed before.

SERVICE IN HIGH-RISE BUILDINGS

Just like the high-rise buildings. The big mailer is learning now that we can provide—and again I say thanks to what this committee has done in letting us beef up our headquarters, because that is the only place you can get it—we can provide suggestions of how to handle the mail better.

For example, one of the local utility companies, one of the big ones, came to me after we put the ABCD program in in Washington, and said: "Fred, we can't understand how you can get mail in 3 hours all over this big downtown section, when we can't even get it up to the boss' desk once it gets in our building."

We sent an expert over to take a look at their mail room and suggested adjustments, so that they could get their own mail internally.

One of the big publishers here, gives me the same problem, saying: "You can get this mail all around Washington, but we can't get it from one floor to another, because we haven't had the forethought to put the right kind of facility in."

So we are doing things differently, and we are finding that the public to a large extent is satisfied, although in some areas, once in a while, they will say: "We have missed an important dispatch." But we have to understand the kind of situation we are in.

SATURDAY SERVICE

We have not cut, up to this point, any specific service. We were talking about some things. For example, Saturday service—the more I have looked into it, the more I am convinced that that is too long a period to leave mail hanging over.

For example, I was going down to New Orleans. A man from Biloxi who builds atomic submarines was telling me he came into the office one Saturday, and his controller was there going through the mail, and he said, "What are you looking for?"

He said, "We have this several million dollar check. If I can get it into the bank today, it means $2,400 in interest, as compared to putting it in on Monday."

Just take social security checks alone. Those checks come out on the 3d of the month, 15 million of them in 1 day. This has a terrific impact. The whole business attitude has changed.

As I tell employees, when they complain about mechanization, "Really, what you want is the product of mechanization, large mailings, but you want to do it in the same old way." We cannot continue to do it unless we do take advantage of new technology.

ACTION OF THE COMMITTEE

Mr. GARY. Of course, last year we knew we gave you a close budget, and we did it for that reason. We felt it would help you to economize in some of your operations.

Our experience in the past has told us that occasionally when economies are made in that way and the service is curtailed, you blame it on Congress, and it gives you a whipping boy, and so far as I am concerned, I have always been willing to accept my portion of that criticism, if criticism is due.

ELIMINATION OF SECOND RESIDENTIAL DELIVERY

I agreed to take the whole criticism, if you recall, some years ago, when we cut the delivery of mail in residential sections from two to one delivery a day.

When a strong protest was voiced, practically everybody else backed off of the proposition, but I told them I would assume the entire blame or credit, whichever was due, and by that one action alone it is estimated that we have saved about $100 million a year over a 10-year period, which is $1 billion. I think it was well worthwhile, and I do not think anybody has been hurt about it.

It was our committee that took that action initially, and while some of the members of the committee afterward decided it was not wise, I stuck by it, and we were successful in holding it, and I hope that we will continue to hold it, because I do not think it is necessary, and it saves us a considerable sum of money.

We do not want to impair the service in any way, but if we have any unnecessary service that we can cut out and save money, I say fine.

And let me add this: I want to congratulate you and your associates on the fact that you were able to make certain modifications in service and live within the budget that we presented to you. We knew it was going to be difficult when we passed it. And we knew that you were going to have to institute some economies. We are glad that you were successful in doing so, and I think you deserve a great deal of credit for it.

It has been to the advantage, I think, of the Post Office Department, and also the taxpayers of the Nation, because it has reduced the size of the deficit of the Post Office, which the taxpayers have to bear.

Mr. PASSMAN. You might say the action taken was an indication of this committee's great faith in Mr. Belen and the staff.

Mr. GARY. That is absolutely correct.

MAIL SERVICE AND BANKING

Mr. BELEN. I think it was a harbinger of the kind of thing we were faced with. Not that I did it. In fact, I happened to be here at a certain time in history. We were coming down to the point where with 37 billion pieces of first-class mail, you have to decide: Is it worth the cost to give every single letter that same service?

And the real letters that I am interested in, at least, are my business letters, that I want to mail. I want to get my money in the bank. I have never changed my bank, for example, since I left the Hill. I have never been to the bank since I left the Hill, but those letters that are my deposits and my checks are the important ones to me, as an individual.

Mr. PASSMAN. Mr. Belen, in all probability, though, would you not have just as many checks arriving on the other 5 days of the week as you would on Saturday?

Do you not have to take those averages into account?

Mr. BELEN. But you lose Sunday, too. That is the problem. So if you lost Saturday and Sunday——

Mr. GARY. Where now is a bank open on Saturday, where you could deposit money on Saturday?

Mr. BELEN. Out in my area there is Saturday banking.

Mr. GARY. There is absolutely no bank in Richmond open on Saturday. They open Friday morning from 9 until 2, and then Friday afternoon from 4 to 6, and they close on Saturday.

Mr. BELEN. He must have had some way to get it into circulation. I do not know.

Mr. PILLION. Savings and loan associations?

Mr. BELEN. Of course, the social security checks are just an example. There are millions of checks like that that get cashed in grocery stores. There are lots of places for the small checks to be cashed.

This big check—this is what the man told me. He must have had some way to get it into commercial banks.

Mr. PILLION. I might say that none of this fine operational administration could have taken place without, as Mr. Belen refers to here, the cooperation of the employees in a spirit of wanting to help, and cooperation with the businessmen. I think these are intangibles that are very important to the operation.

I think you have had very good relations, I might say, with both the public and, I think, the employees.

FIELD EMPLOYMENT CHARTS

Mr. BELEN. Sir, I have two charts here which I think you gentlemen might find of interest, if I could just show them to you.

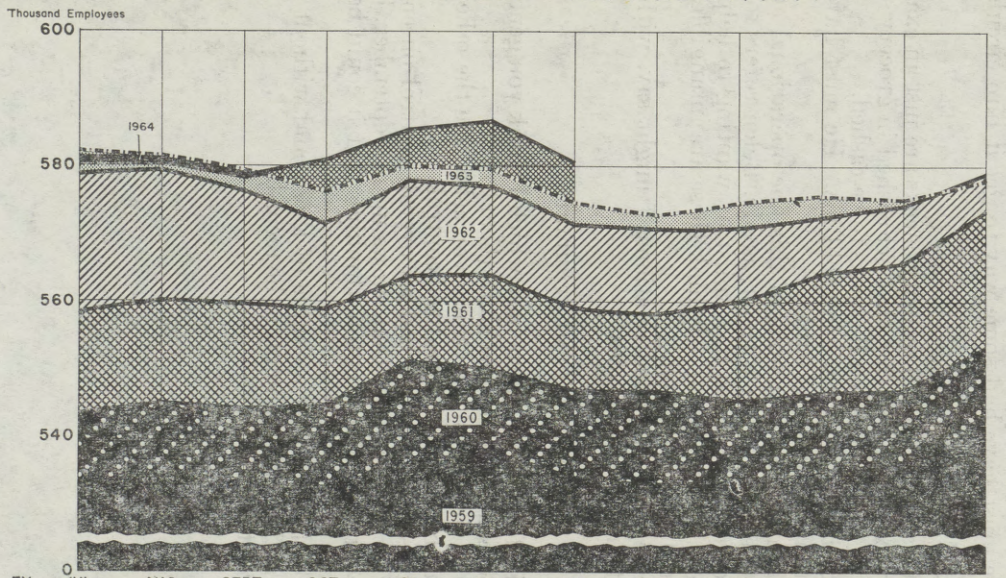
It is in line with, first of all, one thing you asked me the other day, Mr. Pillion, about the need for centralized control.

The burden got so bad that we had an overall control on employment. But back in August—and that shows up in September, here—we took off the control in Washington, thinking that it could be done in the region.

Mr. GARY. Give the reporter a couple of those, and without objection, we will insert them at this point in the record.

(Charts referred to follow:)

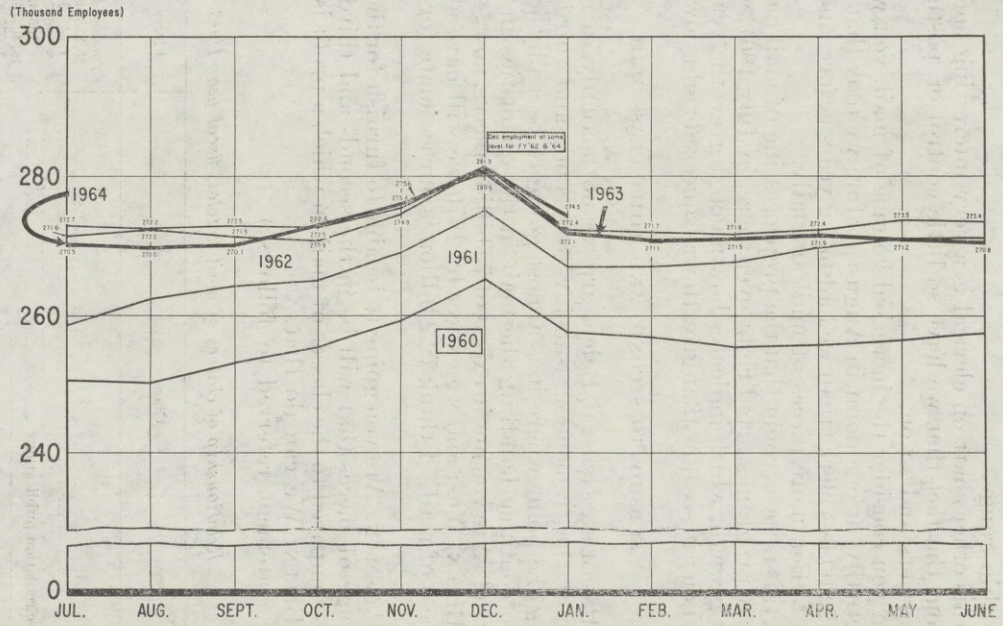
OPERATIONS FIELD EMPLOYMENT



FY	JUL.	AUG.	SEPT.	OCT.	NOV.	DEC.	JAN.	FEB.	MAR.	APR.	MAY	JUNE
1964	580,857	580,877	578,578	580,909	585,638	586,387	580,655					
1963	581,961	581,343	579,377	576,140	579,970	579,488	574,731	572,856	574,467	575,564	575,030	577,915
1962	578,716	579,103	576,385	571,331	577,685	577,000	571,198	570,379	570,855	572,437	574,391	579,039
1961	558,157	560,035	559,582	558,705	563,756	563,811	558,860	557,945	559,922	564,282	565,812	573,109
1960	542,895	544,863	544,166	544,827	551,082	549,695	547,029	546,484	545,249	546,497	546,756	553,413
1959	532,181	534,983	532,425	532,246	536,126	537,768	533,358	532,779	534,111	534,997	536,236	540,782

Fiscal Control Office
Bureau of Operations

CLERICAL EMPLOYMENT



FISCAL CONTROL
BUREAU OF OPERATIONS

Mr. BELEN. Immediately you can see what happened. But you have to have a few people. This is a tough job. You have to have some people.

If you can with 10 or 15 people, or 20 people, in Washington, which is what is involved in the control, here, keep from having 10,000 or 15,000 jump up—we put the restriction back on again in December, and now it is again coming on, and we feel we will get employment back within range.

But this other chart on clerical is a very interesting one, because it points out the fact that we have so little control on postmasters and rural carriers and so on.

When you consider the increased volume of mail, you will see that here, actually, at one point in August, before we took that control off, we had 2,200 less clerks than we had had 2 years before, and were handling 4 billion more pieces of mail annually.

Now, this is the account that the preprocessing of mail has an impact on. That program started right over there, in July 1961, and you can see that growth, which indicates how much it grew the year before, in 1961. You can see how that growth was squeezed right down.

SUBSIDY TO SECOND- AND THIRD-CLASS MAIL

Mr. PASSMAN. General Belen, are we not actually, principally on account of the tremendous subsidy to second- and third-class mail, reaching the point where it is almost going to be a physical impossibility to continue handling the mail in the quantities in which it is coming in? Are you not in excess of 70 billion pieces, now?

Mr. BELEN. Yes; and we expect by 1970 we will have about 90 billion pieces of mail. I think 72.2 billion is our estimate for the coming year.

Mr. PASSMAN. Are you going to be able to furnish for the record the percentage of pieces that will be in the second- and third-class category, as compared to the classes of mail on which a profit is made?

Mr. BELEN. We can do that.

(The statement referred to follows:)

Relationship of classes of mail to total, fiscal year 1963

Class	Pieces	Percent of total
	Thousands	
1st class	35,833,487	52.8
Airmail	1,545,349	2.3
2d class	8,226,713	12.1
Controlled circulation publications	196,433	.3
3d class	18,407,051	27.1
4th class	1,075,850	1.6
Penalty and official	1,926,852	2.9
Franked	95,439	.1
Free-for-the-blind	7,261	.0
International mail	538,303	.8
Total volume	67,852,738	100.0

What is happening, though, is that by virtue of the insistence on presorting of mail, we are getting at it. Life and Time are big mailers. They have over 7½ million names to whom they send their publications in the ADP equipment.

Mr. PASSMAN. What is the total of the annual subsidy for those magazines?

Mr. BELEN. I do not know.

Mr. PASSMAN. We used to get information of that nature.

Mr. BELEN. What they did was take the overall deficit in second class and projected it as though each publication was handled in the same way. We are working with a group of publishers that have about 65 percent of all publications that are going to presort by ZIP code through this year.

SUBSIDY TO MAGAZINES

Mr. PASSMAN. Should not the American public know how much the various magazines are being subsidized in this respect? You know what you are charging them. You know the number of pieces and the tonnage that you are handling.

Those people are certainly in business with the idea of operating at a profit, and they are receiving a substantial Government subsidy through the Post Office Department.

Therefore, I would like for you to, if you can, provide an estimate for the record on, we shall say, U.S. News & World Report, Time, Newsweek, Reader's Digest, Saturday Evening Post, and——

Mr. GARY. Life.

Mr. PASSMAN. Yes.

Mr. BELEN. Mr. Nicholson is the Assistant Postmaster General who has the statistics.

Mr. PASSMAN. We used to get this type of information, and we hope you will make it available at this time.

Mr. CONTE. Could you yield on that point?

Am I right in figuring this out? Seventy-two billion pieces of mail, is it?

Mr. BELEN. 72.2 billion, yes, sir.

Mr. CONTE. And the budget is over $5 billion. That means it costs the Post Office Department about 6 cents per piece of mail?

Mr. BELEN. It might figure out that way.

Mr. CONTE. Would you divide 72 billion pieces of mail into $5 billion?

Mr. BELEN. We are paying the letter carrier, for example, a little more than 6 cents a minute, and the same rate for the clerks, and that is the way it adds up.

Mr. CONTE. It is amazing.

Mr. PASSMAN. A condition of this type is not prevalent in very many countries of the world, is it?

Mr. NICHOLSON. Mr. Passman, there is some information along the line that you asked for that we can give you, but I regret to say it is a physical impossibility to assign any figures to any given publication.

Mr. PASSMAN. Why is it impossible?

Mr. NICHOLSON. Cost engendered by any one publication, let's say Life magazine, depends upon how much revenue, as well as how much cost, each magazine produces, and in the second-class rate structure, there is one rate for editorial material, another rate for the advertising material.

So in the first place, you would have to analyze each magazine for the proportion of advertising to total pages, and then the rate is further influenced by the distance that each magazine travels.

Mr. PASSMAN. Are you telling us that the figures which were given to this committee in previous years were inaccurate?

Mr. NICHOLSON. Yes, sir; I have to say they are very rough and rugged averages.

Mr. PASSMAN. Can you give us a rough and rugged average on the figures I have requested?

Mr. NICHOLSON. I can, indeed.

Mr. PASSMAN. I am interested in some figures on the various publications.

Mr. NICHOLSON. I think you would be interested in the figures for the class as a whole?

Mr. PASSMAN. Certainly I am interested in that information. But I also want a breakdown for some of the publications. Give us a rough and rugged guess.

Mr. NICHOLSON. May I give you the information right now?

Mr. PASSMAN. Of course.

Mr. NICHOLSON. In the year 1962, the average revenue per piece of second-class mail was 1.16 cents, and the cost per piece of the average second-class mailing was 5.63 cents.

Mr. PASSMAN. What is the difference between the revenue and the cost?

Mr. NICHOLSON. The difference is 4.47 cents per piece.

Mr. PASSMAN. You receive about 20 percent of what it costs to mail?

Mr. NICHOLSON. Yes, sir. The revenue is 20.7 percent of the cost.

Mr. PASSMAN. Then 80 percent is subsidy?

Mr. NICHOLSON. Eighty percent is the difference in cost and revenue.

Mr. PASSMAN. I call it subsidy. The difference is what Mr. and Mrs. America pay over and above the amount that you receive.

Now, what is the total of that difference between revenue and cost for second-class mail?

Mr. NICHOLSON. The class as a whole—the revenue totaled $94 million. The cost was $455 million, or the difference between revenue and cost was $361 million, in the year 1962.

What was done in the prior years to which I believe you refer was this: If the average difference between revenue and cost was 4.47 cents in a given year, then if that figure were multiplied by the total number of copies that a given publisher put in the mail, this gives a certain figure.

Let's say, for example, that the circulation of a magazine is a million copies mailed each week. Fifty-two million copies in the mail each year. If each of them had this loss of 4½ cents, then a figure could be multiplied out.

The reason why the Department does not apply this kind of costing on each different publisher is because the advertising content, the length of haul, and other factors are not "average" for any one publisher.

Mr. PASSMAN. Would you not think that, we shall say, Time, Inc., knows how many copies they mail of their magazines each issue?

Mr. NICHOLSON. Yes, sir.

Mr. PASSMAN. And they know the amount of money that they pay to the Department for mailing these magazines, do they not?

Mr. NICHOLSON. Yes, sir.

Mr. PASSMAN. Do they likewise know what it costs the Department to handle these magazines?

Mr. NICHOLSON. I do not think they do know that aspect of it.

Mr. PASSMAN. I do not know of any well-operated business that does not know what it is costing to operate. I think they know what the postage would cost. I think the publishers know what they are paying. If they do not know, I would be surprised.

I think these people who are getting this subsidy should know what their mailing costs would be if they did not receive aid of this type from the American taxpayer.

Mr. GARY. Along that line, these very people call it subsidy when they are dealing with favored mailers, because to determine the so-called public service—and of course the entire postal service is public service; if it is not, the Federal Government has no business in the field—but instead of measuring the public service insofar as the favored users of the mail are concerned, and determining that the public service is the difference between what they actually pay and what they would pay if they were not favored, they insist that we take the entire cost of handling that mail.

Mr. PASSMAN. You can get a cost ascertainment figure there and pin it down?

Mr. GARY. That is right. They do.

Mr. PASSMAN. When you are dealing with the agencies you are talking about, public service?

Mr. GARY. And to determine public service, we get the information.

Mr. PASSMAN. But we cannot get the information in the free enterprise system?

Mr. GARY. They do not call it public service when they are dealing there.

Mr. PASSMAN. It is educational expenditure?

Mr. GARY. It is educational expenditure. But it is nothing in the world but subsidy, just as you say. And it ought to be abolished. I agree with you. I am thoroughly in accord with your views.

Mr. BELEN. Actually, in ZIP coding these large publications, we feel this may be a means of selecting out this large group that you are talking about, who would do the preprocessing. The problem is that those who do a lot of preprocessing are lumped together in cost ascertainment with those who do less. The average is all we get.

MAIL VOLUME INCREASE

Mr. GARY. I am delighted to notice you have finally adopted our figure on this increase volume of mail, that you have reduced it to 2.8 percent this year, which was our estimate, I think, for last year and the year before.

Mr. BELEN. Yes, sir.

Mr. GARY. I do not know how it is running now, but it would seem to me, in view of past history, that is far more realistic than the estimates that we have been getting previously. And I am very glad to see that.

REDUCTION OF 5,000 EMPLOYEES

The Postmaster General stated early in January that he intended to reduce postal employment by 5,000 by the end of the year. Would that reduction not fall largely in the area of operations?

Mr. BELEN. Yes, sir. Virtually all of it.

Mr. GARY. What would be the estimated savings of the 5,000 personnel so reduced?

Mr. BELEN. Well, this is a means of permitting us to live within the budget that we have submitted. If we were talking in terms of 5,000 man-years over the next year, there would be $30 million more cost than appears. This is why we do have a much lower request than we normally would be coming in with.

Mr. GARY. In other words, you have already taken that into consideration in these figures?

Mr. BELEN. Yes, sir. That was decided at the time that we were having these budget discussions. And as you can see by the chart we have handed you, we have a real Herculean task to get employment down to the benchmark from which we hope to start on our 1965 budget.

1964 ESTIMATED UNOBLIGATED BALANCE

Mr. GARY. Can you estimate at this time what your unobligated balance will be in the operations appropriation?

Mr. BELEN. No. It will be within a very small percentage. But we believe we are going to make it. Say it is $10 million. That is a small percentage amount. But it takes about $5 million in the pipeline, does it not?

Mr. NICHOLSON. Yes, sir. The average payroll is between $10 and $11 million a day. We think that we may have about 1 day's payroll to spare.

And of course, as you know, we cannot overspend our authority by a dollar. So being within 1 day of the total annual payroll is very close figuring.

Mr. BELEN. But we believe we can make that. We do have means. You can cut off leave, or do this or that. But we believe now that the volume has gone up, as we indicated, and we are going to at least hit our volume target—come very close to it.

MAIL VOLUME 1964

Mr. NICHOLSON. I could give you an up-to-date figure on volume, Mr. Chairman.

Mr. GARY. Yes. I would like to have that.

Mr. NICHOLSON. For this year to date, which is through January 31, 1964, the volume is running 1.6 percent ahead of the same period in the prior year.

Now, this is almost exactly as we had predicted the mail volume would be as of that time. We had predicted that there would be 43,122 million pieces of mail through January 31, 1964, and there are actually 43,266 million pieces of mail. The actual mail volume is 144 million pieces greater than we had predicted.

The original prediction anticipated that there would be high percentage increases in the second half of the year, this was because the

new postal rates had just come into effect in this comparable period last year. And just after the rate increases went into effect, there was a slowing of the rate of growth of the mail volume.

This year, the growth of the mail service seems to be continuing very strong. Thus, the difference between last year's slow second half and this year's normal second half will give us some very large percentages.

For example, in the accounting period that ended on January 31, the mail volume increased by 4.5 percent. In the week following that, the mail volume, as indicated by our operating summary from the 68 largest post offices, increased 8.3 percent. In the next week, which was the week ending last Friday, the mail volume increased 5.1 percent, as indicated by that report.

So the mail volume, in terms of actual numbers of pieces, is going to be extremely close to the 70 billion pieces that we anticipated, and as a percentage, as compared with the prior year, it is going to be the 3.5 percent increase that we originally predicted.

EFFECT OF TAX DECREASE

Mr. GARY. Do you estimate that the tax decrease is going to have any effect on volume?

Mr. NICHOLSON. Yes, I believe it will, Mr. Gary. The economic response to the tax reduction was not a factor in our original prediction. The fact that corporate tax rates and individual tax rates may be reduced, apparently will be reduced, probably will have a stimulating effect on the economy, and will increase the personal income of families, and those factors are the most influential factors in generating mail.

So with after-tax personal income and corporate income increasing, we should expect an increase in mail usage, which was not taken into effect in our original prediction.

(Discussion off the record.)

UNOBLIGATED BALANCES

Mr. GARY. What was your unobligated balance last year?

Mr. NICHOLSON. In the "Operations" appropriation, it was $9,726,000.

Mr. GARY. And in 1962, it was $18,279,000, I believe.

Mr. NICHOLSON. I checked very closely, Mr. Gary. I have $18,295,000 in 1962.

Mr. GARY. Well, I am glad to see that you were able to finish both of those years with an unobligated balance, and the figures show that percentagewise, there is a very small amount left over.

But this committee certainly has never desired to impair the postal service, and we have never desired to cut to the point that you could not operate efficiently, but we did want economical operation, and it seems that you have achieved that, and personally, I am delighted.

Mr. NICHOLSON. Every year, of course, Mr. Chairman, there will be an unobligated balance in operations, because it is necessary to have money available in each of the 15 allotments to cover operations in each of those 15 categories into which the money is divided up.

Just to fill those pipelines, as we call them, takes from $5 to $7 million, so last year's reversion of some $9¾ million means really that we had $3 or $4 million at the most in excess of our absolute needs to keep those pipelines properly working.

Mr. GARY. It shows a very satisfactory result.

TRANSFER AUTHORITY

Mr. PASSMAN. How much transferability do you have in the different categories of appropriations?

Mr. NICHOLSON. We may transfer up to 5 percent of the appropriation from which the money is taken.

Mr. BELEN. Our problem comes primarily in that the tight one is the big one.

UNOBLIGATED BALANCE

Mr. GARY. When the Postmaster General was here, did we get into the record then the unobligated balance in all categories?

Mr. NICHOLSON. Yes, sir.

Mr. GARY. Do you have that?

Mr. NICHOLSON. Yes, sir; we do.

Mr. GARY. What was it for last year?

Mr. NICHOLSON. The total unobligated balances for the year 1963 were $31,884,000.

Mr. PASSMAN. Do they have an estimate for this year?

Mr. NICHOLSON. I should complete that statement.

Of that amount, $6,116,000 was in the "Research, development, and engineering" appropriation, where we have no time limitation on the funds. That $6 million was carried forward, as I believe Mr. Harriman covered the other day, and is available for obligation in the current fiscal year.

So the authority that expired with the year 1963 totaled some $25 million.

PERSONAL SERVICES TO TOTAL BUDGET

Mr. GARY. What percentage of your total budget is required for personal services?

Mr. NICHOLSON. Seventy-eight percent.

Mr. GARY. And does that include fringe benefits?

Mr. NICHOLSON. Yes, sir.

Mr. GARY. Pay and fringe benefits?

Mr. NICHOLSON. Yes, sir.

Mr. GARY. What other items constitute the bulk of the expenditures under this appropriation?

(Discussion off the record.)

Mr. BELEN. In operations about 96 percent is for personal services.

Mr. GARY. Let's get that straight, because I was talking there about operations.

Mr. BELEN. About 96 percent is for personal services.

Mr. GARY. Including fringe benefits?

Mr. BELEN. Yes, sir. And the other 4 percent: We pay an override on salary for fourth-class postmasters for post office rent and maintenance, and it pays for tires, gasoline, and things of that sort.

IMPACT OF NEW PROGRAMS

Mr. GARY. Can you project from an operations point of view what impact such a program as ZIP, VIM, and POMSIP will have on postal operations?

Mr. BELEN. We consider that for the next year, the one which we are discussing, we are going to be pretty much in the preparatory stage. In other words, the large mailers are going to start getting the ZIP code into their ADP equipment so that they can start presorting mail.

Initially, the biggest amount of it is probably going to be in your second and third class mail category, and those are already required to be sorted.

The VIM program, as you can see now is just getting started—we are looking forward 2 or 3 years from now before the buildings actually get into operation. So we are in sort of a preparatory situation here.

Our budget does consider that out of the ZIP coded mail we will realize $2 million in savings.

Mr. GARY. Do you anticipate that these programs, when fully operational, will reduce the number of personnel required in the postal service or at least decrease the requirement for additional personnel in future years?

Mr. BELEN. We hope that we can continue to show a decreased number of employees added in relationship to the volume.

Previously, as I have indicated, we used to add from 10,000 to 20,000 employees to take care of the increased load. This year we are asking for around 5,000. And that is on top of last year, in which we actually had a reduced number of employees.

It is the only way we can see to contain expenditures, but certainly we are not going to cut back in total employment. I think the volume of mail is increasing, so that if we can just take care of that and add just a few, say, less than 1 percent; 0.8 percent I think is what we are asking in increased number of employees, primarily going into the carrier service. We think we have done a job with these programs.

IMPACT OF AUTOMATION AND MECHANIZATION

Mr. GARY. What impact has automation and mechanization of postal operations had on the delivery of the mail in recent years?

Mr. BELEN. Really, the main impact has been in the case of the mailsters. We estimate that they have saved about $300 a year for each one we have in. We have about 11,000 mailsters, and the net savings is about $300 a year on each one.

MAIL VOLUME ESTIMATE FOR 1965

Mr. GARY. I believe the Postmaster General stated that the Department anticipates a 2.8 percent increase in volume in 1965.

Mr. BELEN. Yes, sir.

Mr. GARY. Has the method in which this estimate has developed been changed in the last year or two?

Mr. BELEN. I will ask Mr. Nicholson, who develops that figure.

Mr. NICHOLSON. We have made some revisions and refinements in

our method of prediction. Economic conditions represent the largest single or most important factor in the formula that we use. Growth of population also is an important factor.

As this formula has been applied in the last 5 or 6 years, we have found, 2 or 3 years ago, that it actually seemed to be varying from the estimate by a larger amount than it had in the earlier years when the formula was applied. Therefore we have taken into account the difference between the prediction and the actual, and have refined our formula for the purpose of eliminating it.

Thus, the year 1964 estimate was the first on this deflated basis, and the 1965 estimate is the second on the deflated basis.

We have a great deal of confidence, as I indicated a few minutes ago, in the 1964 estimate, and I think for the same reasons we have a great deal of confidence in the 1965 estimate.

Mr. GARY. For the record, would you give us the details of just how the volume estimate is developed?

Mr. NICHOLSON. I will submit a more technical description for the record.

Mr. GARY. Thank you, sir.

(The statement referred to follows:)

Essentially, mail volume is predicted by its relationship to two independent variables. Personal income in real terms (1957–59 dollars) is one of the two independent variables used in the estimating equation for projecting total originating mail volume. The other is total population, including the States of Alaska and Hawaii, and the Armed Forces overseas.

We develop the projections of personal income for the estimate years from projections of gross national product which have approval of the Bureau of the Budget. These projections of the gross national product are predicated upon certain economic assumptions which must also be acceptable to the Bureau of the Budget. The projection of mail volume, which is a most important ingredient in our financial and operating planning, depends primarily upon them. The projections of population are developed from the long-term projections made by the Bureau of the Census, by 5-year intervals.

The formula we used to forecast total originating mail volume for fiscal years 1964 and 1965 is called in statistical language, a regression equation. It is of the form:

Mail volume (on the average):

A mathematically determined fixed quantity. A mathematically determined factor multiplied by a specified or anticipated personal income. Another mathematically determined factor multiplied by a specified or anticipated total population size.

The regression equation expresses mathematically the past (1949–62) relationship between originating mail volume and the two independent variables: personal income and population. The significance of this equation is that, if the past relationship with personal income and population does not change materially in the years for which the forecasts are made, very precise predications can be obtained of originating mail volume.

The precision and reliability of the estimated average (mail volume): Since the regression equation yields an average as a forecast, it means that a range of different values is possible for each specified combination of population size and total personal income. This range is measured in terms of the standard error and is expressed in pieces of mail. Using the equation indicated above, the standard error is about 500 million pieces, or about three-fourths of 1 percent, with a 68 percent degree of assurance that this error will not be greater.

RELATIONSHIP WITH REGIONS

What is the relationship between your office and the 15 regional directors?

Mr. BELEN. The relationship between my office and the 15 regional directors is a little different, possibly, than you might gain from looking at the organization chart.

Actually, at the time that the organization was set up, it was decided that the control or authority would rest pretty much with the individual who had the budget responsibility. And so as far as the Bureau of Operations is concerned, the items that are paid out of this budget, which we are discussing, are the responsibility of the Assistant Postmaster General of the Bureau of Operations and his staff. They have the complete authority to direct regional directors as to how funds should be spent, how the complement should be controlled and how management should be organized in post offices.

This budget primarily covers the post office payroll. It is virtually all of the people outside of Washington except those in the regional offices themselves, and of course the Inspection Service.

DIRECTION OF FIELD OPERATIONS

Mr. GARY. How do you direct their operations in the regions?

Mr. BELEN. Well, of course, we have the Postal Bulletin, which gives a lot of information to all post offices, as to what we expect them to do in certain activities.

We have a telephone conference occasionally now. We used to have it once a week, but we have found that that is not necessary now since the organization has become more oriented with the policies we expect them to carry out.

One of our big activities, of course, is Christmas time, and we are already starting to developing procedures for the field, in a sense, for our Christmas program.

We meet with our own people. We meet with the regional directors. We meet with representative employee organizations, and develop a field order that is about 190 pages, which goes into every detail as to how the post offices will perform at Christmas time.

We have been quite successful with that, so much so that we are very hesitant to do any interpreting. The postmaster has his orders. He knows how it has been carried out, and has a pretty good background of experience to follow it through.

CHRISTMAS OPERATION

Mr. GARY. Can you give the committee a report on your handling of the Christmas mail last year, and the progress you have made in this area over recent years?

Mr. BELEN. We are quite pleased with the changes that have been made in the Christmas operation.

Prior to, we will say, 4 years ago at Christmas time, they had around 307,000 Christmas temporaries. And at that time the general rule was to put most of them in the carrier service, and they would make five or six deliveries on each route.

We changed this program, where we successively cut back on the number of temopraries. This year we had 144,000 temporaries, or less than half as many as we had before.

We found it would be advantageous to give some overtime to our own employees. We did not give them overtime at the end of the day, but we called them in early, so that the carriers, for example, could sort the mail to their route.

They were experienced people. We required that overtime would have to be an offset of at least 2 hours of regular time. In other words, they could not authorize overtime unless it was replacing 2 hours of some temporary that they normally would be calling on.

One of the big problems we were faced with was the expansion of the equipment. You can imagine. During this last December, 11 billion pieces of mail were handled. And the expansion of carrier equipment was brought about by what we call "fusing."

A series of carrier boxes have the lower number first, and then on the other side of the same pigeonhole is the higher number. After a carrier had completely sorted his route, he would put a color card in between the two addresses, which would separate them, take out each pigeonhole, and use it over again. Then he would take what was in each one of the pigeonholes and replace the color card.

In this way, we doubled the capacity of the equipment, and that has been one of the things that enabled us to accomplish this reduction in Christmas temporary employment.

We anticipate that out of the savings we documented earlier, probably about $6½ million of it is attributed to our Christmas program.

Mr. CONTE. Will the chairman yield there?

EFFECT OF DOUBLE TIME FOR OVERTIME

If this bill goes through for double time for overtime, how will it affect your program, given present mail carriers and clerks' overtime?

Mr. BELEN. We will have to take a reading on that, because we are talking not only about hours, but dollars. We may have to make an hour of overtime offset more than 2 hours of temporary time.

Mr. CONTE. It might just destroy that program, too. It might be cheaper to hire.

Mr. BELEN. I doubt if it would eliminate this kind of a program. One of the things we have to consider is the training costs of new employees, the recruiting costs, and all of the other problems, and we come out pretty good on it.

Mr. CONTE. I am talking about Christmas period.

Mr. BELEN. I understand, yes. Just during Christmas.

Mr. CONTE. That is right.

Mr. BELEN. It might have an effect on our normal practice of overtime, but I doubt it. I think it would result primarily in a wage increase, because, for example, under the law, when we call a substitute for duty, it is for a minimum of 2 hours. A good portion of our overtime, say about 300,000 hours, is for carriers. And that is usually earned at about 30 minutes at a time. It is because you have a heavy day.

You know, we have heavy days around the first of the month or the first of the week, and as a result you could not call a man in 2 hours to substitute 30 minutes of overtime. No matter what the overtime rate might be.

Mr. CONTE. I have written to the Post Office Department many times asking them to consider this overtime of regular employees rather than hiring a lot of temporary help during Christmas time. I wonder if you could work something out for the record to see what effect double time could have on this.

Mr. BELEN. I would be glad to do so, sir.

(The statement referred to follows:)

Overtime hours during Christmas

	Actual hours	Overtime cost		
		Amount at 1½	Amount at double	Increase
Supervisors	607,614	$3,090,162	$4,120,206	$1,030,044
Clerks	8,958,003	36,511,835	48,682,325	12,170,490
Carriers	6,226,214	25,548,762	34,064,931	8,516,169
Special delivery	105,365	445,235	593,645	148,410
Maintenance service	317,022	1,158,480	1,544,636	386,156
Vehicle service	103,311	429,848	573,129	143,281
Total operations	16,317,529	67,184,322	89,578,872	22,394,550

Christmas temporary hours

	Temporary hours actually used at current OT rate		Temporary hours program at higher OT rate	
	Hours	Amount	Hours	Amount
Supervisors				
Clerks	4,996,647	$11,119,467	2,498,324	$5,559,734
Carriers	1,638,380	3,403,334	819,190	1,701,667
Special delivery	17,229	38,828	8,614	19,414
Maintenance service	2,537	5,969	1,269	2,985
Vehicle service	6,957	15,657	3,478	7,828
Total operations	6,661,750	14,583,255	3,330,875	7,291,628

Mr. PILLION. Could I say one thing more, while we are on this subject, Mr. Chairman?

SUBSTITUTE EMPLOYMENT

I am getting considerable complaint about substitute clerks, and, I suppose, carriers, who are working 6 or 7 days a week, and 8 or 10 hours a day. Some of these men work 60 or 70 hours a week sometimes.

Now, how many substitutes do we have in the various categories? Could you put that in the record?

Mr. BELEN. I think it is about 160,000.

Is that right, Mr. Swygert?

Mr. SWYGERT. 130,000.

Mr. BELEN. We do have straight time for substitutes, and there is considerable discussion about whether we should be paying for a substitute that works more than 40 hours a week.

Mr. PILLION. And there will be pressure either to cut out your substitutes or pay them double time.

Mr. BELEN. A lot of them, of course, only work a few hours a week in third-class post offices, which helps bring it down.

We have been concerned about that, and we do want our postmasters, certainly, to give a lot of consideration of whether or not, in fact, hours are voluntary, and to set some cutoff as to what the time limit should be.

But we found this out. We put a real strenuous effort, you may recall, in the Post Office, in 1962, to limit it to 40 to 44 hours a week for substitutes, and then create regular jobs.

You would be surprised at the hurricanes that flew around about the substitutes that had relied on these extra hours of work on buying their homes and everything else. And there is no easy way, whether you get complaints or not.

Mr. PILLION. I am sure in cities you will find an awful lot of substitutes, because it makes it easier for the postmaster to work with substitutes, where he can call on them to work 6 or 7 days a week and 10 or 12 hours. But it is surely in violation of President Johnson's theory.

Mr. BELEN. We are limited by law in the ratio of substitutes to regulars of 1 to 5. They did use as an extra cushion, then, temporaries. There were around a hundred thousand temporaries in that category, when I took over this responsibility. We have now cut that down to 48,000, which is a very substantial cut into this problem, sir.

Mr. PILLION. Will you be working further on this substitute idea, to get them down to a more normalcy of hours?

Mr. BELEN. Yes, sir. We think, as you say, by a lack of planning—or let's put it in reverse. If we can get postmasters to do better planning, with ourselves to watch. Mr. Swygert, who is here with me and is in charge of our Management Division, and I have had considerable discussions on that, and with the postmasters themselves. It is a very serious problem, particularly when you have ladies involved who find they are pressured into working these long hours.

We feel certain (*a*) it should be voluntary; (*b*) there should be an overall limitation. And we certainly will look into it, sir.

Mr. PILLION. Thank you.

SERVICE IMPROVEMENTS IN 1965

Mr. GARY. What extensions of service, if any, do you contemplate next year? And by that, I mean what types of service do you plan to render next year which you have not normally been rendering in the past?

Mr. BELEN. Well, we will, of course, have the normal extensions into the urban areas. But we were thinking of testing out and seeing if we could not extend this ABCD box program to more of the residential areas, having this in mind; if you can get the important mail into boxes on arterial highways and get that mail moving, then you may take another look at how frequently you have to have the pickups. We want to test it out to see what the public reaction would be.

We think that at a savings we could actually give better service, because, as near as we can determine, so many letters are mailed by people driving in cars, and they would just as soon drive to an important collection box, even if it was a few more blocks away, if they knew that it would make important airmail dispatches.

Again it is getting to the same thing. Thirty-seven billion letters, and we do not know which is which. But if the public will help us, we think we should walk an extra mile to help them and reduce this problem for them and reduce pressure for putting back extra service.

POST OFFICE DISCONTINUANCES

Mr. GARY. How many post offices do you plan to discontinue next year?

Mr. BELEN. I think it is 175.

Mr. GARY. Can you estimate how many new post offices might be established next year?

Mr. BELEN. Twenty-five, sir.

Mr. GARY. Are they stations, or new post offices?

Mr. BELEN. New post offices. Many of them will be satellite post offices, in a sense.

SATELLITE POST OFFICES

We try to look into the fact as to whether or not the mail-handling function can be concentrated out of a main central post office. But you have a lot offices—well, Chesapeake is one, down in your State, where people have combined together. The result is eliminating some post offices, but you do create an entirely new post office.

Mr. GARY. You have created an entirely new city, there.

Mr. BELEN. In my State, there is a lot of pressure in Wyoming, Mich., one of the biggest cities in the State.

Just outside of Denver is one of the largest cities in that State. The mail is still handled centrally, pretty much, the outgoing mail, so that we can provide a post office at very little extra cost.

Mr. GARY. The reason Chesapeake was created is because Norfolk is trying to expand all over the State of Virginia, so that they can have a larger city than Richmond. They created this new city from being annexed.

Mr. BELEN. We did all right until we found there was a Chesapeake rural station off on the other side of the bay, and that created a problem.

POST OFFICE FOR CLARENCE, N.Y.

Mr. PILLION. Mr. Chairman, while we are talking about individual post offices, I have a post office in my district named Clarence, N.Y. For 4 years now I have been meeting with and writing to regional officials and local officials for a new post office in that community. All I get from the regional office are the usual vague letters on it. I cannot pin them down to anything.

Now, in the regional office, do they handle both the facilities end and the operational end phases of a small post office? Do the facilities have to have an approval by Operations for this?

Mr. BELEN. The requirements come from Operations; yes, sir. Whether we require additional space.

Mr. PILLION. Where could I get more specific information than merely a vague letter from the gentleman in New York? What is his name?

Mr. BELEN. Sean Keating. I will leave it to my successor, Mr. McMillan, a former regional director, who is Assistant Postmaster General for Operations.

Mr. PILLION. Maybe Mr. McMillan will be good enough to make a mental note of that Clarence, N.Y., post office and give me a definite report.

Thank you very much.

REDUCTION OF MAIL WINDOW SERVICE HOURS

Mr. GARY. What consideration have you given to the reduction of mail window service hours at post offices?

Mr. BELEN. We are constantly thinking about that, and it is one of the areas that has constant attention, particularly in the financial features, where we might have a financial window just handling postal savings and money orders.

More and more, we are trying to think in terms of stamp vending equipment and things of that sort, that we can substitute over week-ends. That has had continual attention, and is reflected in the clerk account; the fact that we have been able to hold it down.

One region has done a particularly good job. It gets involved with a lot of employee problems, too, as I am sure you can understand, as this has been a bid position for many years. I would say, all in all, we are progressing in that direction as fast as we can.

POST OFFICE LOBBY SERVICE

Mr. GARY. Not long ago, I had a complaint from one of the post offices in my district, because the lobby was closed at certain hours of the night. What is your policy in that respect?

Mr. BELEN. It varies as to the post office. Some of the lobbies we are building now are accessible. And I think the problem comes in getting to their lock boxes.

Mr. GARY. That is right.

Mr. BELEN. And on the other hand, the lobby has been built in the past so that it gives them access to the workroom floor, so we are at a disadvantage on this kind of a thing. It was done at a time when they were not as carefully husbanding the clerks' hours.

I think that is it in general. Is that not right?

Mr. NICHOLSON. It is a matter of security.

Mr. SWYGERT. It is a police problem, too.

Mr. GARY. I have been told that at times some things went on in the lobbies that were very undesirable, and that was the reason they had to be closed.

I remember one of my postmasters on one occasion told me they had a great deal of trouble when they left their lobby open, with people using it for a toilet at night, that made it quite objectionable.

Mr. BELEN. When I took military at school, we used to say it all depends on the situation and the terrain. And I think that is about what we have to say on whether the lobbies are open or closed, depending on the community and their acceptability and how it works out.

Obviously, if something like that goes on, I can see where the postmaster would say, "Well, I have had enough of this."

COOPERATION OF MAILERS

Mr. GARY. What cooperation are you getting from major mailers in presorting mail, sacking mail, and use of ZIP code and things of that nature, which have been developed by the Post Office Department in recent years?

Mr. BELEN. We feel that it has been so successful that it would not be possible to turn back the clock and eliminate these patron cooperation programs.

In the first place, they are popular with the patron, because they know it helps him get better service. And secondly, I think that the additional cost, if we eliminated such programs, would be overwhelming.

Now, I realize that you cannot hold anybody to estimates made a number of years ago, but back in 1960 it was estimated by the then Postmaster General that we would have nearly 30,000 more employees today on the rolls to do the same job that we are doing. And that represents about a $175 million payroll.

So these things are being done. Believe me, the clerks are not sorting letters any faster by the minute or hour, but the fact is that millions of pieces of mail are now coming in, particularly from insurance companies and banks, that are presorted, that are uniform, and that are brought in outside of the peak load.

I think it is spectacular, the figure that we discussed the other day, Mr. Chairman, of 75 percent previously coming in after 5, and now it is 52 percent. And we are talking about a 4-hour stretch of the working day.

Mr. CONTE. Four to five.

Mr. GARY. I have one more question: What is the criterion for establishing city delivery service, or extending such service?

Mr. BELEN. Two thousand and five hundred people, $10,000 receipts.

Of course, we do require that they have streets and numbers and so forth, before we will establish it, but that is the basic criterion.

1963 EMPLOYMENT

Mr. PASSMAN. General Belen, when you appeared before the committee in calendar 1962, requesting funds for the postal operation for fiscal 1963, did your percentages, your projections, your number of pieces, hold fairly firm?

Mr. BELEN. For 1963 I believe our estimate was 3.2 percent. But as of right now, we are right on target, are we not, Ralph?

Mr. NICHOLSON. Yes.

Mr. PASSMAN. In calendar 1962, when you requested funds for fiscal 1963, how many employees did you estimate you would need; that is, the increase in the number of postal employees applicable to fiscal 1963 operations?

Mr. BELEN. That is going back into the past. I wonder if I might provide that. I can give you that figure, sir.

Mr. PASSMAN. You may insert it in the record.

(The statement referred to follows:)

The 1963 budget request for operations provided for 599,114 employees, an estimated increase of 15,405 over 1962.

Mr. PASSMAN. You recall you estimated that you would need some additional employees?

Mr. BELEN. Yes, sir.

Mr. PASSMAN. But at the end of fiscal 1963, when the curtain came down, you had actually reduced your total personnel by 1,184.

Mr. BELEN. Yes, sir. Our performance was much better than we anticipated, sir.

Mr. PASSMAN. I think this is a credit to you, Mr. Belen, and your able coworkers.

EMPLOYMENT INCREASE IN 1964

You are indicating that there could be an increase of 5,605 in Operations in fiscal 1964. Now might it be that you would have as good performance in this respect in fiscal 1964 as you did in fiscal 1963?

Mr. BELEN. There is a rather interesting table that may be helpful in that.

Starting with the year 1957—I picked 1957 because that was the year in which they had the best efficiency gain, 2.2—but the next one they had minus 0.4. Then 0.7, 0.9, and 0.1. Then, in order to make the target, we had 1.5, 0.9, 1.8, and 2.1 in the latter years.

Mr. PASSMAN. Your projections all held good with the exception of the increase in personnel, and you actually had a reduction in the number of personnel.

I am wondering if it could be that, rather than having an increase of 5,605 in Operations in 1964, you might against have a reduction?

Mr. BELEN. Sir, I would say that is about a fourth of what normally would be requested.

Mr. PASSMAN. I think it all indicates that you are tightening up your operation.

Mr. BELEN. I believe we have submitted one of the tightest budgets that anyone in good conscience could submit, feeling they had to abide by the Anti-Deficiency Act.

But you have my word for it that if we can get along on less, sir, we will.

Mr. PASSMAN. It speaks well for your Department that you came up with a net reduction rather than a gain. Maybe we can expect another reduction in personnel?

Mr. NICHOLSON. Employment is not the whole story, Mr. Passman.

Mr. PASSMAN. I did not indicate that it is the whole story.

Mr. NICHOLSON. Even though there is a lesser number of employees in 1963, we actually did increase the hours of employment per individual, so there was an increase in man-years of employment.

Mr. PASSMAN. Then maybe my compliments regarding efficiency were made prematurely.

(Discussion off the record.)

NO-YEAR FUNDS

Mr. PASSMAN. You have certain no-year funds, as we speak of appropriations. What is your cumulative figure of your unexpected no-year funds?

Mr. BELEN. That is not in Operations.

Mr. PASSMAN. I am speaking of your total.

Mr. BELEN. We do not have any of that in Operations.

Mr. PASSMAN. All of your appropriations expire on June 30, with the exception of "Research and development?" Now, what is the cumulative amount?

Mr. NICHOLSON. The cumulative is $6,116,000.

Mr. PASSMAN. Are the various classes of mail delivered at the same time?

Mr. BELEN. It is not sorted at the same time. For example, the mail that is already sorted is delivered, and frequently the third class may not yet be sorted, and would be delivered the next day.

Mr. PASSMAN. But if it is sorted, it goes at the same time?

Mr. BELEN. Yes, sir. There is no special trip for it.

INADEQUATE BUILDINGS

Mr. PILLION. Do you have any operational increased costs by reason of, say, lack of proper buildings? Do you have higher costs? Do you find you have higher costs by reason of that?

Mr. BELEN. Where you have the higher costs, Mr. Congressman, is where it develops that you have a split operation. That is where you run into some very real problems with higher costs.

But it is the kind of a thing that grows a little bit each year, and finally all of a sudden comes to the breaking point, and then we have to do something about it.

We try to keep on top of it. We try to weigh the cost of a new building, and when we go into new buildings it costs a little more, because they are built, as you know, to provide for an additional period.

But primarily the big operating cost comes when there has been a change in the community, a change in the transportation pattern. You may have to go to trucks when you have been geared to the railroad that has gone out, and many things of that sort.

Mr. PILLION. For example, the rent program. And I realize this is in facilities. It went up from $79 million in 1963 to $89 million in 1964 to $99 million in 1965. These are the rents, that we obtain no equity in.

Now, do these increases in cost, in annual cost, in any way reduce your operational costs?

Mr. BELEN. From what I have been able to observe, without them I think we would really have some operating cost increases. I would not say they reduced our costs.

Mr. PILLION. But you could not pinpoint, could you, $10 million in operational costs that you have saved in each year due to the new buildings? Reduction actually pinpointed that because of this new building we have been able to save so much?

Mr. BELEN. It does not develop the first year, anyway, because you find you have a surplus of space you are maintaining. But you take a situation such as we are faced with in New York City, where we have not had a new major mail-handling building in 50 years, and you can see how this thing has developed. At Grand Central Station they are not able to do their work. We have about 4,000 employees there.

PUBLIC SERVICE LOSS

Mr. PILLION. Now, I notice that you have a public service item here of $463 million, I think it is.

Mr. BELEN. Yes, sir.

Mr. PILLION. Which is an increase from last year. Could you put the items in the record of public service, from last year, and the items from this year? Because I do not think they are broken down.

Mr. BELEN. May I supply them for the record?

Mr. PILLION. Please.

Mr. BELEN. Yes, sir.

(Items referred to follow:)

Estimate of public services, fiscal years 1964 and 1965

[In millions of dollars]

	Fiscal year 1964	Fiscal year 1965
1. Total loss resulting from the transmission of matter in the mails free of postage or at reduced rates of postage as provided by statute	$281	$289
2. 10 percent of the gross cost of the operation of 3d-class post offices and the star route system, and 20 percent of the gross cost of the operation of 4th-class post offices and rural routes	94	96
3. Loss incurred in performing nonpostal services	23	23
4. Loss incurred in performing special services	54	54
5. Additional cost of transporting U.S. mail by foreign air carriers at a Universal Postal Union rate in excess of the rate prescribed for U.S. carriers	1	1
Total	453	463

NOTE.—The actual amount for each of the foregoing items for fiscal years 1964 and 1965 will depend upon the volume of transactions and related revenues received and/or costs incurred. These will be determined following the close of the respective fiscal years when these data are known.

DEFICIT

Mr. PILLION. Now, your appropriation will be $551 million, or something like that, which is the difference between your income and your outgo. That $551 million includes your public service, does it not?

Mr. BELEN. Yes, sir.

Mr. PILLION. That is all part of it?

Mr. BELEN. Yes, sir.

Mr. PILLION. So that if you did not have the public service, you would be operating pretty nearly even Stephen?

Mr. BELEN. Very close. Less than a hundred million.

Actually, as you point out, this was what actually appears in the appropriations request, the $500-some million, which is about nearly 20 percent less than last year coming out of the Treasury.

Mr. PILLION. Now, of course, the story is not fully told. With the proposed increase in postal employees and classified workers, that will add how much to it?

Mr. BELEN. Well, it all depends on what is ultimately decided on.

Mr. PILLION. But under the present bill?

Mr. BELEN. The bill that is out of the committee?

Mr. PILLION. We are now up to $740 million, again, which is quite a load for the general taxpayer to bear for this operation.

AUTHORITY TO INCREASE RATES

I have been thinking of introducing a bill to automatically permit the Post Office Department to increase rates, without coming to Congress, within certain limitations, when you get 10 percent below, say,

of an operating break-even point. It would permit the Post Office Department to increase these rates, something like the fourth-class parcel post operation, subject, of course, to possibly a veto by Congress within a certain number of days after presenting it to Congress.

Why would that not be workable? It is workable in the express and fourth-class post office. Why could we not develop a formula that would permit you to do that without having to come to Congress?

Mr. BELEN. It is pretty hard to develop a formula, because invariably the only place where you can raise any money is in first-class mail.

Mr. PILLION. Well, why can you not do it in second- and third-class mail?

Mr. BELEN. Because you are at a point of diminishing returns. You do not have a monopoly on any class of mail except first class.

Mr. PILLION. I know, but third-class mail is the junk mail, and the second-class mail is where all the subsidy is, and you do not have the competition there that you have in parcel post.

I am thinking now of third- and second-class mail.

Mr. BELEN. If you doubled second-class mail, you would get about $98 million, and doubling the second-class rate would decrease the volume, so that you would not realize that.

Part of the problem—and I have thought about this a lot, myself—is in getting some kind of a formula. For example, if you had taken a base year and said that each particular class of mail would be raised proportionally to the increased cost—sure, you would have made a payout, but again it would have been first-class mail.

First-class mail has gone up 66⅔ percent since the war. Third-class mail has gone from 1 cent up to 2¾, now, or over 100 percent. Second-class mail well over a hundred percent.

But the real breadwinner when it comes to raising rates to cause the Post Office to pay its way is first class, and that has gone up the least percentage of any.

Mr. PILLION. What is the difference? I do not care about percentages. I only care that any businessman who is sending circulars should pay for his costs. I do not care whether on his base rate he went up 200 percent or 300 percent. If he is still 200 percent below, why should he not go up to what it costs to send it out?

Mr. BELEN. I only point out that the problem is that when you give this to a board or an agency, you have to set an adequate standard, and that has been one of the stumbling blocks on which the legislative committee seemed to falter—to set a standard.

Mr. PILLION. I have great faith that you have the intelligence and the wisdom to work out a proper formula and submit it to a legislative committee, because you deal with it more intimately than anyone else. I still believe in the theory that we have as a public policy—or not a theory, but a public policy—that all mail should pay its way, and all classes should more or less pay their way.

Mr. BELEN. Which is the policy now with the postal service, that we will have to send rates to the Congress when we do not have enough revenue to meet expenses, exclusive of public service. And I realize there is a difference in the way you are going to evaluate public service. We do not have it yet.

Mr. PILLION. Well, it is coming.

Mr. BELEN. Then we will have to face up to it, under the law.

Mr. PILLION. Now, Mr. Conte raised a question, here, that you had something like 72 billion pieces of mail, and that your total revenue will probably be about $430 billion. That means that each piece of mail pays about 6 cents, to get that amount.

Mr. BELEN. It costs about 6 cents.

Mr. PILLION. Is that what comes in from each piece of mail, average?

Mr. BELEN. No. Parcel post is a big item, which would average 60 or 70 cents apiece. Your first-class letter mail, of course, is 5 cents an ounce, but we have many pieces that weigh more than an ounce. You have your airmail, which is 8 cents, which again is getting to be a bigger and bigger volume.

And then, of course, you have third-class mail, which is 2¾-cent minimum per piece in the bulk mailings. But in third class there are many pieces that run nearly a pound, and of course that runs more.

Mr. GARY. And you also have special delivery and registrations. All of that figures in.

Mr. PILLION. And postal orders and things like that that bring in revenue.

Mr. CONTE. I took the budget figure of $5 billion, and divided 72 million into $5 billion, and it comes out to an average of 6 cents per piece.

Mr. PILLION. The $5 billion is the expenses, but the income is only——

Mr. CONTE. I am not concerned with the income, now, but with what each piece of mail costs. It costs 6 cents, on an average.

Mr. Nicholson, you gave the revenue costs, for first-class mail, the revenue and the difference. Could you give us that for third-class mail?

Mr. NICHOLSON. I would be glad to. In 1962, the average revenue per piece was 2.86 cents. The cost per piece was 4.41 cents, or an excess of cost over revenue of 1.55 cents per piece.

Mr. CONTE. Now, could you give me that in dollars?

Mr. NICHOLSON. For the third-class mail as a whole, in 1962, the revenue was $510.2 million. The cost was $786.9 million. Or an excess of cost over revenue of $276.7 million.

Mr. CONTE. The other day I asked you, Mr. Nicholson, if you would give me the rates as submitted by the Post Office Department to Congress and what was actually passed by the Congress.

Mr. NICHOLSON. Yes, sir.

Mr. CONTE. And you gave me those figures, and there was a difference of about $25 million less than what the Congress passed from what the Post Office had recommended. It seems to me there was a greater spread there at the time. Have you had an opportunity to look into those figures?

Mr. NICHOLSON. Yes, I have, Mr. Conte. The rate bill as passed by the House provided for total new revenues of $691.3 million. The Department supported the House-passed bill.

As the bill finally emerged from the Congress as a whole, the new revenues were $600.3 million, or a shrinkage of approximately $90 million from the House and Department supported position and the final bill.

Mr. CONTE. Could you break down what the second-class mail and the third-class mail rates as supported by the House and the Department were and what was passed by Congress?

Mr. NICHOLSON. Yes. In the case of the second-class increase, the House position would have provided $53.4 million. The bill as enacted provides $27.4 million. On third-class mail, the House bill provides $161.9 million, and as passed by the Congress provides $93.7 million.

Mr. CONTE. I merely point this out, because I think it is very important that many of these things that some complain about could be changed by the Congress itself. The Department has supported a higher rate than has actually been passed by the Congress.

WORK MEASUREMENT SYSTEM

How about the work measurement program, General? We have not said very much about it. How is it working out? How often do you carry it on? Last year I think you said about once a week.

Mr. BELEN. Well, 1 week out of 4 for individual measurement. Our work measurement program, Mr. Conte, covers about 400 million hours a year, or most all of the clerk accounts; a payroll of about $1.5 billion.

In 200 offices, we have a more intensive work measurement program than in the remainder that are in the system. About 1,200 in total are in the system.

Basically, the work measurement program is a unit measurement program. That is, it weighs the performance of the region, a particular post office, a shift in the post office, or a unit in the post office, and this goes on all the time.

But 1 week out of 4, we have an individual measurement week, in which we weigh the performance of the individual as to how many letters he sorts, and so forth. And this is the area in which there is a considerable amount of controversy as far as the employees are concerned.

Mr. CONTE. Is this done in all 1,200 post offices?

Mr. BELEN. 200 for the individual measurement.

Mr. CONTE. How about in the balance, the other thousand? What do you do there?

Mr. BELEN. It is unit measurement.

When you get into the 200, you are getting into something where the employment is really of some significance. Let's take in the top 68 post offices. Approximately 60 percent of our total expenditures for personnel are involved in these offices, so those are the ones where it is most important to weigh just exactly what their performance is.

I think one of the reasons that the individual employee is concerned, is that he is not aware of the use of the overall system, as far as the Post Office Department is concerned.

We use these figures to determine whether or not manpower is properly scheduled with the volume and flow of the mail throughout the day, or during particular days, or in a particular season.

They are not aware of how frequently this is a means we use to determine what post office we should spend our efforts in bringing them up to standard, because there has been a drop in productivity.

And this can happen frequently. You can have a postmaster get sick. For example, he may have been an excellent postmaster carrying the whole load, with an assistant postmaster who has never been able

to do anything. All of a sudden you will see that post office seems to go to pieces.

The only way we can tell this is by watching the performance of that particular office.

If we added a lot of supervisors, they could take over this kind of a function. We do not believe that individual work measurement is automation for supervisors.

Nevertheless, WMS does give some indication of the employee who is not performing, but we do not permit any disciplinary action based upon what is shown up by the work measurement program. But it does let the supervisor know that there is someone who is not up to standard, and he can watch this individual and see why.

It may be because he does not know his schemes. It may be because he is loitering too much. Maybe because he is talking too much. Counsel or consultation of the employee is based on this observation, not his performance on work measurement. It is based on the fact that he is not doing his job.

Now, obviously, we are sitting here now talking about a certain number of hours of work to meet a certain volume of mail. The work is going to have to be performed, or there will be a complete breakdown in the postal service.

I find it difficult to rationalize the fact that they feel that if you do not have a work measurement program, everything will be fine. You do not get any complaints from the man that is really performing.

I have visited in a lot of post offices, and there are a lot of employees who would be just as happy if their good performance did stand out. By individual measurement you can see that they have done a good job.

Mr. CONTE. How much time does it take the individual to keep a record of his time?

Mr. BELEN. This is done by the people who handle this count, is it not?

Mr. SWYGERT. The individual keeping a record of his own time is just seconds a day during that week of individual measurement. In other words, out of the 8 hours, it is just a matter of seconds.

Mr. CONTE. Is there any way that he can doctor up this record?

Mr. SWYGERT. It can be falsified.

Mr. BELEN. They say there is an exchange of slips, and so forth, but they say that as a criticism of the system. They would be the last ones who would want you to take some effective action to see that there was no exchange of slips, or that you took some effective action when there was.

Mr. SWYGERT. We do check out to see that it is not too far out of line, Mr. Conte. In other words, you have a total that is processed by the individuals, here, and you have the total number of pieces that have come into this post office on a given day, so you do have this comparison to draw, just as you compare the time credits that are on this slip, the total time credits of the people that have worked, against the amount of time that they are paid for.

Mr. CONTE. Well, can you not, after all this time, determine just about how many pieces of mail an individual should handle? After having this experience for about 2 or 3 years, now?

Mr. BELEN. I think we have.

Mr. SWYGERT. We have that.

Mr. CONTE. Why do you continue to use the system, then?

Mr. BELEN. To see that he meets the standard you know he should perform.

SUBSTITUTE EMPLOYMENT

Mr. CONTE. The other thing I was intrigued with: I believe Mr. Pillion brought up the question of 160,000-odd subs. Why do you need so many subs? Why can they not be made permanent?

Mr. BELEN. For one thing, your sub force is much more flexible. One of our problems is that we have a 6-days-a-week performance with a 5-day mandatory workweek, as set by law.

So you have to have a man to fill in on the sixth day for the people who are, for example, on our carrier routes. That is where you have a lot of your subs. Someone has to carry it on the extra day, and you have to have that flexibility.

This would be different if you control the flow of the mail, and handle it like you would tin cans, but you cannot.

And traditionally, the flexibility in the postal service has been through these hourly rate employees.

Mr. GARY. And a large number of them are on probation, are they not, when they are first employed?

Mr. BELEN. It is their first step—as a sub. And if you put them all into the regular service, you would have no flexibility at all, as far as cutting back and limiting the number of hours, and things of that sort.

Did we not estimate it was about a hundred million it would cost us without subs?

Mr. SWYGERT. Without subs, there would be at least a $100 million added to the budget.

TEMPORARY EMPLOYEES

Mr. CONTE. How about the temporary employees?

Mr. BELEN. We have about 50,000 temporaries. We had about 65,000 3 years ago.

Mr. CONTE. Why cannot the subs take care of this?

Mr. BELEN. Because the ratio we have is not high enough. We are limited by law to one sub to each five regulars. That takes care of 1 day of the week over the 5 days the regulars work, but you have nothing to take care of sick leave, annual leave, or administrative leave, or anything else that might happen to come along. So the ratio just is not realistic.

So what happened in the whole Federal Government, really, is when they went from working Saturday mornings, to a 5-day week—they made no adjustment in the leave situation.

The same thing happened when we went to a 5-day week in the postal service. An adequate adjustment was not made in the sub ratio. You could take care of the days the regulars were off, but you had to deliver the mail.

Mr. CONTE. In essence, then, a substitute is almost the equivalent of a permanent employee?

Mr. BELEN. Their average throughout the country is about 40 hours a week, and in some of the big city centers, they are averaging more. As far as I can see, this is the desire of most of them.

We are getting some letters which indicate that some people are working as substitutes longer than 40 hours a week when they do not want to. It is particularly women who have families. And there may be other situations.

After all, if a mail train comes in late, you have to work the mail. That is just the nature of the business.

Mr. GARY. What is the technical difference between substitutes and temporaries?

Mr. BELEN. Temporaries are not taken from the register, and are not in a regular authorized position, but just in a position that is to fill a specific situation.

The substitute is an hourly employee, as is the temporary. They are both hourly. But the classified sub must come from the register.

STATIONERY VENDING MACHINES

Mr. CONTE. Mr. Belen, several years ago there was a proposition made that stationery would be sold in vending machines in the lobbies of post offices. Has there been any agitation for this lately?

Mr. BELEN. No. Not as far as I know. We have had some vending machines that will sell quite a number of different postal items, including the envelopes.

Mr. CONTE. But has there not been any stationery, as far as you know?

Mr. SWYGERT. No; we do not have any machines that will do that. We get a few letters that advocate that now and again.

Mr. CONTE. I hope you never get into that line of sales; it should be left to private enterprise.

Mr. BELEN. I don't know of any plans to do that, Mr. Conte.

Mr. CONTE. And I believe outside of stamped envelopes, which the post office sells, we should not even get into that.

Mr. BELEN. That is all we are selling, the stamped envelopes.

TEMPORARY EMPLOYEES

Mr. GARY. Do you use many temporaries, except at Christmas?

Mr. BELEN. Yes, sir; about 50,000, and then at Christmas time we have about 150,000, in round numbers.

Mr. SWYGERT. Mr. Belen, 10,000 of the 50,000 are in third class offices, where they are used very infrequently.

Mr. BELEN. Three or four hours a week, maybe.

COMPLAINTS FROM BANKS ON ZIP CODE

Mr. CONTE. General, are you having any difficulty with the ZIP code and the requirement by the Treasury Department that banks have the number of the account of the individual, the place for the ZIP code, and the place where the bank has to put its number?

Mr. BELEN. I have never heard of such a complaint.

Have you had any complaints, sir?

Mr. CONTE. I have had one.

Mr. BELEN. Mr. Ryan is in charge of the activity. I will have him check that and see if we have had any others.

Mr. CONTE. This is in the window on the envelope.

One other thing, Mr. Chairman. I think it would be good for the record to give us an explanation of how that ZIP code works.

Mr. BELEN. Yes. What the ZIP code is really a program at this time for automatic data processing equipment, which will enable mailers, through their automatic equipment, to sequence the mail numerically. When they sequence it numerically, it will automatically be sorted by office of destination, or zone of destination, in the zoned cities.

That is the initial phase of it. The initial phase is to provide this program for large mailers.

Ultimately, when we have our optical reader—and this is, we think, within range—we will be able to handle almost all business mail, by reading and sorting it automatically. And of course, this kind of equipment, would be used only in the very large offices.

When we get this amount of volume that can be read and sorted automatically, we will have our whole pattern of sectional centers and a new distribution pattern of mail, which we are certain, will be much more effective.

Mr. CONTE. Can you tell us something about the meaning of the numbers?

Mr. BELEN. Yes. The first number represents the geographical area. The second number represents the State. And the third number represents the sectional center. The fourth and fifth numbers represent the post office or delivery unit of a large office. The fourth and fifth number are exactly the same, in some instances, as the old postal zone number, which was in existence for many years. It is an expanded zone program.

It have a much better thought out statement here than my extemporaneous remarks which might be good to have for your record.

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

(The statement follows:)

ZIP—ZONING IMPROVEMENT PLAN

As an adjunct of the NIMS program, on November 28, 1962, the Postmaster General announced plans for a new system of mail sorting and distribution known as ZIP (zoning improvement plan). The new plan, designed to speed the movement of mail by reducing the number of processing steps en route to its destination, was formally inaugurated July 1, 1963.

The new code consists of a five-digit number which identifies unique delivery units across the Nation.

The first digit identifies one of 10 large areas of the Nation;

The second digit indicates a State, a geographic portion of a heavily populated State, or two or more less populated States;

The third digit indicates a major destination area within a State (a large city post office or a major mail concentration point—sectional center—in a less populated area);

The fourth and fifth digits indicate either a postal delivery unit of a large city post office, or an individual post office served from a sectional center.

Although ZIP was designed primarily for the use of large volume mailers, studies indicate that all mail can be handled more expeditiously and efficiently if ZIP codes are used. The favorable response of business firms of all sizes and the general public therefore has been welcomed.

To promptly implement ZIP the Department proceeded to—

Review postal zones of the 109 previously zoned cities, making improvements in 89.

Approximately 600 additional cities were assigned local zones.

The delivery units of all zoned cities were assigned distinctive numbers.

ZIP code directories were printed for 207 of the larger cities, replacing the old postal zone directories.

Produced ZIP code directories for each of the 50 States, listing all post offices in each State, identifying assigned ZIP codes and providing street listings for all cities with multiple delivery units.

Conducted a program of publicizing ZIP code program and its inauguration nationwide on July 1.

Undertook plans to provide adequate space for the designated sectional centers. Review disclosed approximately 75 percent of the postal facilities designated as sectional centers either had been determined to be adequate or had been phased into the 1963 modernization program; 18 percent were phased into the 1964 and 1965 programs; and the remaining 7 percent are now under study.

Proposals requested from manufacturers for specialized numeric readers to read ZIP codes on letter mail and mechanically distribute the coded mail.

While the initial acceptance of ZIP has exceeded our expectations, and many business firms and government agencies are presorting their mail by ZIP code, it will be several years before operational savings of any magnitude can be realized.

Mr. CONTE. Let me ask you this, on the sorting machines: Do they sort the mail now by ZIP code, or do they sort it by post office?

Mr. BELEN. They are not sorting it by ZIP code now, no, sir.

Mr. CONTE. Could you work that into your sorting machines when you get your ZIP code working?

Mr. BELEN. That is right. As soon as the volume builds up to that point where you can sort it by number, we hope that will be soon. It will then be sorted automatically, which will, of course, be by number.

It would not be practical to go into a retraining program to train our employees until we are ready.

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

Mr. GARY. Thank you, gentlemen. We appreciate your testimony, which has been very comprehensive and enlightening.

We want to congratulate you on the good work that you have done this year in meeting the appropriations that we allowed you last year. and making false prophets out of some of our accusers.

Mr. BELEN. Well, sir, it has been a most challenging and fruitful year for all of us, sir.

Mr. GARY. And I am certain, Mr. Belen, with your assistance to the Postmaster General, and his dedication to his job, you are going to have a most successful year in 1965.

Mr. BELEN. Thank you very much, sir.

Mr. GARY. We shall meet tomorrow morning at 10 o'clock and take up the item of transportation.

TUESDAY, FEBRUARY 25, 1964.

TRANSPORTATION

WITNESSES

WILLIAM J. HARTIGAN, ASSISTANT POSTMASTER GENERAL
FREDERICK E. BATRUS, DEPUTY ASSISTANT POSTMASTER GENERAL
JOSEPH F. JONES, DIRECTOR, DIVISION OF DOMESTIC TRANSPORTATION
GREEVER ALLAN, DIRECTOR, DIVISION OF INTERNATIONAL SERVICE
RALPH W. NICHOLSON, ASSISTANT POSTMASTER GENERAL

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Surface transportation:			
(a) Water	20,846	20,970	21,094
(b) Highway	109,447	113,709	118,107
(c) Rail	354,196	356,000	351,000
2. Air transportation	95,958	105,321	110,799
Total program costs, funded-obligations (object class 22)	580,447	596,000	601,000
Financing: Unobligated balance lapsing	7,053	9,500	
New authority	587,500	605,500	601,000
New authority:			
Appropriation	594,500	611,000	601,000
Transferred to—			
"Administration and regional operation" (77 Stat. 62)		−500	
"Operations" (76 Stat. 314)	−5,000		
"Facilities" (76 Stat. 314 and 77 Stat. 62)	−2,000	−5,000	
Appropriation (adjusted)	587,500	605,500	601,000

Mr. GARY. The committee will come to order.

We take up this morning the item of transportation. The appropriation for this item for fiscal year 1964 was $611 million. The budget estimate for fiscal year 1965 is $601 million, a decrease of $10 million below fiscal year 1964.

JUSTIFICATION OF THE ESTIMATE

We shall insert the justifications at this point in the record.

(The justifications follow:)

Appropriations and obligations, 1963–65

[In thousands of dollars]

Activity and account	1963 (actual)	1964 (estimate)	Increase or decrease (−)		1965 (estimate)	Increase or decrease (−)	
			Amount	Percent		Amount	Percent
Surface transportation:							
Water transportation	$20,846	$20,970	$124	0.6	$21,094	$124	0.6
Highway transportation	109,443	113,709	4,266	3.9	118,107	4,398	3.9
Railroad service	354,196	356,000	1,804	.5	351,000	−5,000	−1.4
Suggestion awards	4		−4				
Subtotal	484,489	490,679	6,190	1.3	490,201	−478	−.1
Air transportation:							
Domestic airmail service	67,007	76,159	9,152	13.7	78,643	2,484	3.3
Foreign airmail service	28,951	29,162	211	.7	32,156	2,994	10.3
Subtotal	95,958	105,321	9,363	9.8	110,799	5,478	5.2
Total obligations	580,447	596,000	15,553	2.7	601,000	5,000	.8
Transfer to other appropriations	+7,000	+5,500					
Unobligated balance	+7,053	+9,500					
Total appropriations	594,500	611,000			601,000		

JUSTIFICATION

This appropriation covers the transportation of mail by air, land, and water. The budget estimate for 1965 is $601 million, an increase of $5 million over 1964. The increased cost of transportation is primarily the result of increasing volume. Other contributing factors are cost trends in the various transportation media and changes in service. Details of the cost increases in 1965 are summarized below:

Analysis of increase (or decrease) over 1964

Water transportation, increase $124,000.—The increase of $124,000 is due to the increase in service to Alaska, Hawaii, and Puerto Rico totaling $360,000 offset by reductions in foreign transportation costs of $236,000. An analysis of cost changes follows:

Pound rate service, Alaska	$31,000
Pound rate service, Hawaii	205,000
Pound rate service, Puerto Rico	122,000
Service at annual rates	2,000
Foreign pound-rate service	−36,000
Terminal and transit charges	−200,000
Total	124,000

Highway transportation, increase $4,398,000.—The estimate for 1965 provides for a continued increase in the use of highway service, but below the average increase experienced in 1961, 1962, and 1963. Train discontinuances and the establishment of sectional centers for mail handling and distribution are the principal factors involved in the increased highway transportation costs. There follows an analysis of the increased costs estimated for 1965:

Routes readvertised	$133,000
New routes (net)	1,407,000
Contract adjustments	1,100,000
Service changes	558,000
Extra trips	200,000
Pound rate service	500,000
Piece rate service	100,000
Mileage rate service	50,000
Trip rate service	200,000
Shipment of mailbags	150,000
Total	4,398,000

Railroad service, decrease $5 million.—The increase in mail volume in 1965 is estimated at 1,969 million pieces or 2.8 percent. Due to the mix in the various classes of mail this will result in an increase of 1.4 percent in cubic volume. As experienced in past years it is expected there will be a decline in the use of railway post offices and some diversion of line haul to highway service. An analysis of the effect of the volume increase and other estimated cost changes is furnished in the following statements:

I. Volume increase 1.4 percent

Line haul	$2,754,000
Terminal and piece handling	783,000
Other railroad costs (shipment of mailbags)	200,000
Reduction in use of railway post offices	−3,500,000
Offsetting changes:	
Line-haul	−2,649,000
Terminal piece-handling	−2,588,000
Total	−5,000,000

Analysis of mail volume changes and effect on railroad service costs

	1963 actual		1964 estimate		1965 estimate	
	Amount	Percent change	Amount	Percent change	Amount	Percent change
Mail volume:						
Thousands of pieces	67,852,738	2.0	70,230,500	3.5	72,200,000	2.8
Deduct:						
Airmail	1,777,607	.8	1,847,241	3.9	1,914,295	3.6
Local mail	19,762,642	1.9	20,472,554	3.6	21,069,125	2.9
Total nonlocal surface mail	46,312,489	2.1	47,910,705	3.5	49,216,580	2.7
Pieces per cubic foot	56.15		56.77		57.53	
Thousands of cubic feet	824,733	2.1	843,967	2.3	855,514	1.4
Railroad costs (thousands):						
Railway post offices, prior year	$81,902		$80,500		$79,500	
Reduction in use	−1,402	−1.7	−1,000	−1.2	−3,500	−4.4
Total railway post offices	80,500	−1.7	79,500	−1.2	76,000	−4.4
Line haul, prior year	194,220		194,068		196,695	
Volume increase	4,079	2.1	4,464	2.3	2,754	1.4
Diversion and absorption	−4,231	−2.2	−1,837	−.9	−2,649	−1.3
Total line haul	194,068	−.1	196,695	1.4	196,800	.1
Terminal charges, prior year	57,900		56,246		55,905	
Volume increase	1,216	2.1	1,294	2.3	783	1.4
Diversion and absorption	−2,873	−5.0	−1,635	−2.9	−2,588	−4.6
Total terminal charges	56,246	−2.9	55,905	−.6	54,100	−3.2
Other railroad service costs	23,716	.5	24,100	1.6	24,300	.8
Fines and penalties	−334		−200		−200	
Total railroad costs	354,196	−1.0	356,000	.5	351,000	−1.4

Domestic air transportation, increase $2,484,000.—The high rate of increase experienced in domestic airmail during the past several years is beginning to show some signs of leveling out. In 1965 the increased cost of transporting this mail is estimated at 4.8 percent or $3,356,000 over 1964. This compares with a 12.3-percent increase in 1962 and an 8-percent increase in 1963. The increase projected for 1964 is not comparable to increases in other years due to the transfer of two routes from foreign air in June of 1963.

The increase in domestic airmail costs will be offset by a decrease of $872,000 in the airlifting of first-class mail. This decrease will be accomplished by adjusting existing airlift segments.

	Airmail	Airlift	Total
Trunklines	$2,399,000	−$882,000	$1,517,000
Local carriers	319,000	5,000	324,000
Alaska (interstate)	222,000	5,000	227,000
Do	422,000		422,000
Hawaii	8,000		8,000
Helicopter			
Fines and penalties	−14,000		−14,000
Total	3,356,000	−872,000	2,484,000

Foreign air transportation, increase $2,994,000.—In 1962 and 1963 the transportation cost of international airmail increased 12.8 and 9.6 percent, respectively. The cost increase is estimated at 10.3 percent in 1965. The increase projected in 1964 is not comparable to the increase in other years due to the transfer of Pan American routes 117 and 136 to domestic airmail in June of 1963. The estimated increase in cost is analyzed as follows:

Transatlantic	$1,344.000
Transpacific	908,000
Latin America	371,000
Total airmail	2,623,000
Foreign country charges	371,000
Total	2,994,000

The committee is always delighted to see decreases in these appropriations. We see them so seldom, it is quite refreshing. We are glad to see that.

There are no personnel changes—no personnel are charged to this appropriation.

We are pleased to have before us this morning as the principal witness on this item, Mr. William J. Hartigan, the Assistant Postmaster General. We will be very glad to hear from you at this time, Mr. Hartigan.

Mr. HARTIGAN. Thank you, Congressman.

Mr. Chairman, at the outset, on behalf of the Bureau of Transportation, we would also like to join your many friends with wishing you a very happy birthday and many more to come.

Mr. PILLION. May I join in those very fine sentiments and good wishes to the chairman? I hope that he not only continues to enjoy many, many years of useful life, but also hope he continues in the position that he fits so eminently into, and that is chairman of this subcommittee.

Mr. HARTIGAN. We join you in that, also.

Mr. GARY. Thank you, gentlemen, I appreciate it.

Mr. HARTIGAN. As a matter of obligation I promised to extend to you the best wishes of one Mr. Nagle on this pleasant day. He also extends his best wishes for a happy birthday.

Mr. GARY. I got a card from Paul a little while ago.

Mr. STEED. I want the record to show I also join in these felicitations, and whatever your age is, you are still the youngest man of that age I know.

Mr. HARTIGAN. There is only one change, Mr. Chairman. Mr. William Forbes is the only one who has not previously appeared before you. He is with us as our fiscal control officer and we have submitted a short biographical sketch for the record.

(The biographical sketch follows:)

William J. Forbes was born April 20, 1910, in Denver, Colo. He attended public schools in Dallas, Tex., and Southern Methodist University. He was a first lieutenant in the Army Ordnance Corps and participated in the African and Italian campaigns.

Prior to the war, Mr. Forbes was an official of a diversified transportation corporation in Texas. After the war, he was in Vienna, Austria, for 5 years with the U.S. Allied Commission as advisor to the Austrian Government on the rehabilitation and operation of Austrian transportation systems and adviser to U.S. members of the Austrian State Treaty Conference.

He spent 2 years with the comptroller of the Army making management surveys and analyses of the Army Transportation Corps.

From 1954 to 1963 he was assistant fiscal control officer of the Bureau of Transportation and International Services, and is now the fiscal control officer.

Mr. Forbes was married in 1946 to Ursula Nett, of New York City. They have one child, Karen, age 11, and reside in the District of Columbia.

Mr. GARY. Mr. Forbes, we welcome you to the Department and before the committee.

GENERAL STATEMENT

Mr. HARTIGAN. I should also like to express thanks to the committee for the cooperative spirit of encouragement the committee has given our Bureau in the past. We believe it is this spirit which has helped us develop the economies which makes it possible for us to come here today with what we believe is a minimum budget, reflecting a decrease of $10 million under what was appropriated last year.

I believe it only proper that we briefly sum up for you the steps we have taken which allow us to come before you today and ask for an appropriation which is less than the committee gave us last year. The Bureau of Transportation entered into a series of training programs of transfer clerks, in whose hands rest responsibility for estimating the amount of mail that we pay for on the railroads. We took the time to train these clerks and make them more efficient in their estimating of volumes. The results have been most satisfactory. We also clarified the space rules which effect the railroads. This permitted us to realize savings in reduced linehaul and handling costs. The discontinuance of the Reading Railroad allowed us another savings, whereby we went to less expensive highway service, and consolidated with other existing rail service.

The conversion of highway service via the Alcan Highway from a temporary contract (of an experimental nature) to a regular contract on a bid basis resulted in a reduced rate.

We reviewed all the contracts we had in our Bureau, the temporary ones and also those negotiated and have commenced to advertise for bids on those that do not serve the Department best.

We reduced railroad handling costs by having our people sack more parcels, which cut down the per piece handling cost.

Where practical we made greater use of containerization, which also led to a reduction in handling costs.

These major reductions included broad, quickly attainable budget savings. We have thus established a firm base upon which to project 1965 transportation costs.

SURFACE TRANSPORTATION

We are requesting $490 million for surface transportation, which includes rail, highway, and water transportation in domestic service, as well as international steamship transportation and terminal transit charges made by foreign countries for surface mail.

This represents a $478,000 decrease under the estimated obligations for 1964. It provides for a 3.9-percent increase in highway costs, 1.4 percent decrease in rail costs, and a 0.6-percent increase in water costs.

AIR TRANSPORTATION

The request for $110,799,000 for air transportation includes both the domestic and foreign air mail services. The $5,478,000 increase over 1964 estimated obligations reflects an increase of 3.3 percent in domestic service and a 10.3-percent increase in foreign service. We are also planning to return certain airlifts to the surface transportation. I want to assure you the $601 million has been carefully determined and represents a very, very tight budget which will require tight management controls and the utmost ingenuity on the part of our transportation experts—we plan to use all their abilities to help us meet this $601 million budget.

We have our staff with us today, prepared to answer questions with reference to this budget for the 1965 fiscal year.

(The prepared statement of Mr. Hartigan follows:)

STATEMENT OF WILLIAM J. HARTIGAN

I am pleased to appear before you today, along with members of my staff, to explain the request of the Bureau of Transportation and International Services for funds to cover the transportation of nonlocal mail for fiscal year 1965.

I should like at this time to express my personal thanks for the cooperative spirit and encouragement which the committee has given this Bureau. It is this spirit which has contributed to the development of the economies making it possible for us to submit what we believe is a minimum budget.

It is personally gratifying to be able to present you with a budget estimate for fiscal year 1965 of $601 million which is $10 million less than the 1964 appropriation. This is only 0.8 percent above the currently estimated obligation for fiscal year 1964, even though the 1965 mail volume is expected to increase 2.8 percent.

This favorable position results from vigorous efforts in 1962 and 1963 to reduce transportation cost which resulted in our being able to hold our 1963 cost to $580,447,000—an increase of 0.9 percent over 1962 even though nonlocal mail volume increased 2.6 percent. It was not possible to predict the dollar impact of the improved traffic management principles and controls. However, the reward for those actions and this Bureau's continued emphasis on improved traffic management will be reflected in our 1964 cost and enable us to project a reduction of $15 million from our originally forecasted cost for 1964.

Here are some of the actions which we have taken:

1. Clarification of railroad space rules—which reduced line-haul and terminal/handling costs.
2. Training of transfer clerks—which resulted in improved use of railroad storage car space.
3. Discontinuance of Reading Railroad mail service and shift to less expensive highway service and consolidation with other rail service.
4. Conversion of highway service via Alcan Highway from a temporary experimental service to regular contract highway service at reduced rate.
5. Stringent review of contracts—with a reduction of temporary contracts to bid contracts at reduced rates.
6. Reduction of railroad terminal handling costs.
7. Greater use of containerization when available and practical.

These major cost reductions included broad, quickly attainable budget savings. They have established a firm base on which the 1965 transportation costs are being projected.

We are requesting $490,201,000 for surface transportation which includes rail, highway, and water transportation in domestic service as well as international steamship transportation and terminal transit charges made by foreign countries for surface mail.

This represents a $478,000 decrease under estimated obligations for 1964. It provides for a 3.9-percent increase in highway costs, 1.4-percent decrease in railroad costs and 0.6-percent increase in water costs.

The request of $110,799,000 for air transportation includes both the domestic and foreign airmail services. The $5,478,000 increase over 1964 estimated obligations reflects an increase of 3.3 percent in domestic service and a 10.3-percent increase in the foreign service. We are also planning to return certain airlifts to surface transportation.

I want to assure you that our request for $601 million has been carefully determined and represents a tight budget requiring tight management controls, which in turn requires proper staffing at both the regional and headquarters level. Our ability to keep fiscal year 1965 transportation cost within the amount requested will be contingent upon a continued striving to develop and use more economical methods of moving the mail and insuring that contractual services are performed at minimum rates.

VOLUME ESTIMATES

Mr. GARY. How do you develop the mail tonnage volume estimates?

Mr. HARTIGAN. We base it on a historical record.

Mr. Jones, will you explain, in as much detail as you have, the system whereby we determine the volume?

Mr. JONES. The volume is recorded basically from the piece count of mail that is taken by our cost-ascertainment experts in the Bureau of Finance. This is converted to an average piece weight to determine overall volume. For particular types of transportation, such as airmail, we keep a record of each dispatch in terms of pounds. This, by automatic data processing, is converted into pound- and ton-miles of service.

On railroad transportation we keep a record of each dispatch in terms of carload or less-than-carload shipments, giving us the car-foot-mile volume moving between key points.

Highway transportation is recorded and paid for usually on a truckload basis, and the volume is not measured in tonnage.

On our offshore and international steamship runs, each shipment is weighed and we have the exact poundage moving in each shipment.

Mr. GARY. Do you by any chance have figures showing the trend of various types of mail volume over the past 5 years and can these figures be furnished for rail transportation, water transportation, highway transportation, and air transportation?

Mr. HARTIGAN. We can submit those four.

Mr. GARY. Insert them, if you will, in the four transportation categories of rail, water, highway, and air. We would like to have the highway, also.

(The information follows:)

Volume and cost by modes of transportation

	1960 actual	1961 actual	1962 actual	1963 actual	1964 estimate	1965 estimate
Domestic service: [1]						
Railroad:						
Millions of car-foot-miles	16,986	16,066	16,405	16,342	16,451	16,222
Cost (thousands)	$342,959	$352,454	$357,620	$354,196	$356,000	$351,000
Airmail and airlift:						
Thousands of ton-miles	163,013	187,359	210,383	181,703	206,027	210,914
Cost (thousands)	$71,227	$77,266	$86,511	$67,007	$76,159	$78,643
Highway (star route and highway post office):						
Thousands of miles	397,139	416,858	422,467	443,449	455,550	468,260
Cost (thousands)	$76,613	$83,970	$89,211	$91,321	$95,749	$100,299
International service: [2]						
Air:						
Thousands of ton-miles	31,576	35,768	40,101	44,343	41,788	47,239
Cost (thousands)	$15,784	$21,497	$23,885	$25,648	$25,452	$28,075
Water:						
Thousands of pounds	219,930	192,253	177,435	175,307	175,000	174,380
Cost (thousands)	$12,214	$11,194	$10,477	$10,457	$10,436	$10,400

[1] No volume on domestic water and mail messenger services available; therefore, costs not included.
[2] Does not include volume and cost of military mail, empty mail equipment, and terminal/transit charges to foreign countries.

BASIS FOR TRANSPORTATION COST ESTIMATES

Mr. GARY. How are cost estimates calculated for the transportation of mail?

Mr. HARTIGAN. Well, the rates we pay—is that what you are talking about?

Mr. GARY. Yes.

Mr. HARTIGAN. The rates, for example, in the air; that rate is set by the CAB. By highway, we generally ask for bids. In some instances contracts were negotiated because it was in the best interest of the Post Office to do so, for any number of reasons; possibly facilities that the railroad had when they operated by rail, are still needed, so a negotiated truck contract with the railroad was entered into. We have some of those.

Then we have the ICC rates with the railroads.

Mr. GARY. Now, the question was, How are cost estimates in your budget calculated? Is this calculated on the basis of present rates, plus estimated volume?

Mr. HARTIGAN. That is correct, based on the volume.

Mr. GARY. Are any cases pending at the present time for increased rates?

Mr. HARTIGAN. Not to my knowledge. For the railroads or for the——

Mr. GARY. For any of the carriers.

Mr. HARTIGAN. So far as I know, I don't believe the rail or air have asked for increased rates.

Mr. GARY. In awarding contracts for mail handling can you use competitive bidding in all cases? How are the rates established?

Mr. HARTIGAN. Not in all cases, but we do use competitive bidding on the highway and, as I said, except for the few cases where it is to the Post Office's advantage to negotiate, because of possible facilities or other services we are getting from a railroad, we will nego-

tiate and use the average per-mile rate in that area, as a yardstick to determine whether or not we are being offered a fair rate. These have been kept to a minimum and as we mentioned in our opening remarks, we have actually taken all the contracts that were negotiated in the past including those being processed at the present time and we are reviewing them to find out if the facts are the same now as they were at the time the contracts were originally negotiated, or if factors have been eliminated, such as facilities being built, in which case we immediately cancel the contract and advertise for bids. We are in the process of doing that right now.

Mr. GARY. What is the normal term of the contract for handling mail?

Mr. HARTIGAN. The star route contract is 4 years.

Mr. GARY. How are actual amounts due for payment under the contracts calculated?

Mr. HARTIGAN. The actual amounts payable under the contract?

Mr. Chairman, on the star route service, most of our contracts are for an annual rate for a certain number of scheduled miles for certain vehicles. This is what the contract would call for and we pay them every 28-day accounting period on the basis of service performed pursuant to that annual rate under the contract.

In the case of railroads we pay them weekly for the service performed in accordance with the rates established by the Interstate Commerce Commission.

In some situations with respect to railroad service, we have special contracts. Some of these contracts, vary in terms as to how we pay them, but many of them are on an annual sum basis, payable on each accounting period.

In connection with air transportation, we pay them periodically, weekly, for the ton-miles of service they perform in accordance with the rate prescribed by the Civil Aeronautics Board.

In the case of ocean transportation, we pay monthly based on a pound rate in accordance with a scale of rates prescribed for steamships. That is by and large how we pay for all our services.

STAR ROUTE CONTRACTS

Mr. GARY. Doesn't the law require that all star routes be handled on bids?

Mr. HARTIGAN. No. In the first instance, we obtain bids for a contract but when the contract expires, it is permissible (if the terms of the contract or if the situation under which the original contract was granted allows), based on our judgment, to renew it without advertising, again, provided there have been no appreciable changes in the mileage or the services being performed.

Mr. GARY. You also have the right to increase the payments under certain conditions?

Mr. HARTIGAN. Under certain circumstances, if the contractor meets the requirements and files the proper papers, documenting the increased costs that were not anticipated at the time the bid was made, then we do have a procedure for reimbursement of certain costs.

Mr. GARY. But original contracts are put out for bid?

Mr. HARTIGAN. Yes.

Mr. GARY. How often are payments made under these contracts and who actually makes the payments?

Mr. HARTIGAN. I don't quite understand.

The pay period, you mean?

Mr. GARY. Yes.

Mr. HARTIGAN. I will ask Mr. Jones to answer that question.

Mr. JONES. Normally it is each accounting period, once every 28 days, 13 times a year.

Mr. GARY. By whom?

Mr. JONES. Normally the regional controller's office in each of the 15 regions.

Mr. HARTIGAN. They handle the contracts within their own regions.

Mr. GARY. Are those calculations and checks handled on the data processing machines, just like the payments to the employees?

Mr. HARTIGAN. Yes, sir.

Mr. GARY. Then are the regions involved in negotiating with carriers and in making payments to carriers under these contracts?

Mr. HARTIGAN. Yes.

Mr. GARY. To what extent?

Mr. HARTIGAN. Generally the region is responsible for the activities within their own regions and we, to a great extent, supervise and act on recommendations they send in to us. The regional director, through his transportation staff, can make any type of suggestion or recommendation to us with reference to transportation, whether it be changing, discontinuing, or shifting modes of transportation. We review their recommendations, and either agree or disagree or sit down in conference with them to determine what is the best action to take.

Mr. GARY. In other words, they negotiate the contracts and you review them?

Mr. HARTIGAN. Yes, and approve or disapprove them, and if there is a difference of opinion, we have them in, and sit down and discuss the differences. This is important, because in some instances transportation, such as rail lines, highways, and airlines, are not restricted to regional boundries. Frequently a contract in one region could well affect another, and for that reason we like to keep final control in the department. Decisions are based upon a review of the region's recommendations and a thorough look at the overall picture and of the network of transportation systems.

Mr. GARY. Are all of these contracts audited?

Mr. HARTIGAN. Yes.

Mr. GARY. Who performs these audits?

Mr. HARTIGAN. We have an internal auditing system under the inspectors.

Mr. GARY. Do the internal auditors audit the contracts?

Mr. HARTIGAN. Yes. Also the General Accounting Office, from time to time.

Mr. GARY. Do you have a system by which you evaluate the service of the carriers to determine whether or not they are performing satisfactory work, pursuant to their respective contracts?

Mr. HARTIGAN. Yes; we do. We have the inspection service, which we are using now to review certain services. We also have the people in the region who are responsible for the continuous evaluation of modes and types of transportation we use in delivering the mail.

They report to us any situation they feel warrants a change or a more thorough investigation and possibly the altering or changing of the mode we are currently using.

Mr. GARY. What is the current status of star routes, are they being increased or decreased in number?

Mr. HARTIGAN. They are being increased.

Mr. GARY. What accounts for the increase?

Mr. HARTIGAN. Generally speaking, the rail service is decreasing, as witnessed by the estimates in the fiscal year 1965 budget, and for the most part this would go into star route service.

Mr. GARY. On the other hand, aren't you changing a good many routes from star routes to rural routes?

Mr. HARTIGAN. No. That is not a trend, at all. The rural route is even in another bureau. That is under Operations.

Mr. GARY. So you don't handle the rural routes, at all?

Mr. HARTIGAN. No.

HIGHWAY POST OFFICES

Mr. GARY. What is the status of highway post offices?

Mr. HARTIGAN. At the present time we are evaluating all highway post offices and also railway post offices in an effort to make sure that they are operating as efficiently as possible. In some areas, it is necessary to combine a weak one with others, in order to strengthen it.

By shifting some weak ones into star routes, or other modes of transportation, we tend to get better efficiency out of the remaining ones. As a matter of fact, we have a strong program now on highway post offices and railway post offices to determine the efficiency of each. Where they are effective—and there are many, many areas where they are—we keep them. If we find an area where they are not, our only alternative is to take necessary steps to convert them to a more efficient means of hauling the mail.

AIRLIFT OF FIRST-CLASS MAIL

Mr. GARY. It has been testified earlier in these hearings that you are still making rather extensive use of airlift of first-class mail on a space-available basis. Can you give the committee more detail on this operation?

Mr. HARTIGAN. Yes. As a matter of fact, our budget reflects less money for airlift in fiscal year 1965 than in fiscal year 1964. The history of the airlift I think probably would help clarify the position in which we find ourselves. The airlift was originally put in an experimental basis, some years ago. Two years ago, the Bureau of Transportation reviewed the airlift situation as it was when we found it and last year we made some changes in it.

We feel that the airlift as it is now is more meaningful. The original airlift concept, from a transportation philosophy, had really no rhyme or reason behind it other than experimenting on certain runs where it was thought the airlift could be successful or would give some data to determine whether or not it was a successful mode of hauling the mail. We have now found that there were some routes that are not efficient. There were some routes which were not effective, and some routes that actually would receive equal service by returning the mail to less costly surface transportation. We corrected these and now are looking

at the airlift as another mode of transportation that enables us to perform the delivery of mail in keeping with the standards we feel the mail patrons should normally expect. We have increased the number of airlift routes, mainly in those sections where there was no other means of delivering the mail. As a matter of fact, it was amazing to us to find out there were areas where (1) the railroad did not go, and (2) trucks would not go, because of a lack of volume. However after thorough investigation, we found that there were some smaller air carriers that were willing to fly it for very, very little money and which would allow mail patrons in these isolated areas to receive the same standard of mail service they should normally expect or that other mail patrons had been getting in other areas. This has been the trend of the airlift program.

Now, with reference to the airlift program in 1965. Bearing in mind that historically this has always been on an experimental basis, we believe that we have corrected some minor deficiencies by utilizing air carriers for the short haul, and small volumes of mail to isolated areas. But there is a second phase we are planning to go into next year, in order to get a comparison. We plan to take some of these airlift routes off in 1965, put them back to the most efficient means of surface transportation that we can find, and then make a direct comparison with what we have been doing historically. This would give us true comparative data and allow us to make determinations as to whether or not we should establish permanent airlift routes. This is where we find ourselves now, and while we are in the position of actually requesting less money for the airlift in 1965, we do plan to replace the service with a less expensive means of transportation.

With all due respect to the airlift when it was originally put in, the records for the past years have stated it would not cost any additional money. However, we all know that it did and the reason was that due to the temporary nature of the airlift at the time, the Department did not remove the balance of the mail from the other types of services. In other words, they took some of the mail and put it in the air but left the balance on the surface means they were normally using. Thus the savings were not realized.

If, after a fair comparison in 1965, it is determined that the airlift routes should be retained, I think that in order to realize a savings we must discontinue the normal transportation media and apply the savings to whatever rate we are paying for the airlift. Thus, we would be getting a true airlift cost instead of an additional cost, which we are now getting.

Mr. GARY. You say that you employ private planes to carry the mail to some remote sections so as to give them the amount of service to which they were entitled. How did you determine the delivery they were entitled to?

Mr. HARTIGAN. Our overall objective and the yardstick we have been using and that which we have been fairly successful in attaining—for less money, incidentally—has been that every State should enjoy overnight delivery of a letter. This is the yardstick I think we can maintain and we have proven it to ourselves so far. We are moving very close to completion of this goal and yet, we have been able to show reduced transportation costs. So our feeling is this: It is not so much the vehicle or the mode of transportation you are using as

much as the way that you use it and the application you put it to. The people in the Bureau are very, very astute transportation people and when allowed—and I am convinced of this—when allowed to do their job properly and to exercise good transportation philosophy and practices, and use the proper equipment to do the proper job, where it may appear to be more expensive in the long run, it is not. In other words, using the right tools to do the right job and we feel there is a place in the delivery of mail for the airlift, we feel there is a place in it for the railway post office, for the highway post office, for the trucker, for the railroad and for the airplane as airmail, and also the steamship. It is a matter of picking and choosing the right mode to do a particular job, efficiently.

Mr. GARY. You said your standard was that every State should enjoy overnight delivery. Does that mean all sections——

Mr. HARTIGAN. Within the State.

Mr. GARY. In all sections.

Mr. HARTIGAN. That is right.

Mr. GARY. Even in the remote areas.

Mr. HARTIGAN. That is right. This is our objective. We hope that this, in time, will be accomplished.

Mr. GARY. How much additional cost over regular means of transportation do you estimate this airlift costs the Post Office on an annual basis?

Mr. HARTIGAN. What we are paying for airlift is an additional cost where we did not reduce or eliminate any of the surface transportation. We project payment of about $5,500,000, and on some segments without eliminating any of the surface modes, and to this extent the airlift has to be considered as an increase because you are not realizing any savings on it.

USE OF BUSES IN CARRYING MAIL

Mr. GARY. Are you expanding the use of buses to provide transportation of mail?

Mr. HARTIGAN. The bill was just passed recently which allows us to use them. Since the last time we were here, we had a problem with reference to the use of buses on the area contract concept. A bill was passed recently to allow us to use them more effectively now than had been possible. Although we had been using them there was a question as to whether or not we were using them legally. Now, this bill has clarified the situation and we are able to use the bus more efficiently under the area contract arrangement and we will find more use for the bus.

FOREIGN AIRMAIL SERVICE

Mr. GARY. I notice there is a significant increase in foreign airmail service. Can you give the committee some information on that?

Mr. HARTIGAN. We have our Director of International Mail with us today, Mr. Greever Allan.

Mr. ALLAN. Mr. Chairman, the increase is primarily due to surface postage rate increases which put the surface rate quite close

to the air rate. Our surface rate internationally is 11 cents an ounce. We have several areas where the air rate is 13 and 15 cents a half ounce which are very close to the surface rate; some of the mail that went by surface previously is now going by air. I think that is the primary reason for the increased volume.

Mr. GARY. Is that service self-supporting or does it result in a postal deficiency?

Mr. ALLAN. International air service is a profitable one.

Mr. GARY. As a matter of fact, though, don't we, under the international agreements, pay the other nations more for handling our mail than they pay us for handling theirs?

Mr. ALLAN. No, sir.

Mr. HARTIGAN. We canceled those agreements effective March 1. There had been some reciprocal agreements with other nations which resulted in our using foreign carriers at a rate differential, to the foreign carriers. We have canceled all those agreements except those agreements where it is advantageous for the Post Office to do it, or where, it is the only means of service going into a country and we are forced to use it anyway.

Notice was sent out to these countries and the effective date is March 1.

Mr. GARY. It was my understanding there was a differential there which discriminated against the United States, and I am very glad this has been corrected.

Mr. HARTIGAN. It was 190 cents, compared to 53 cents.

BUREAU OF TRANSPORTATION PERSONNEL

Mr. GARY. How many personnel are assigned to the Bureau of Transportation?

Mr. HARTIGAN. 121.

Mr. GARY. Can you give a breakdown of the grades and titles of those personnel?

Mr. HARTIGAN. We can supply it.

Mr. GARY. Put it in the record.

(The information follows:)

Bureau of Transportation and International Services—Personnel Complement

Recapitulation:	
Assistant Postmaster General	1
GS–18	2
GS–17	2
GS–16	5
GS–15	14
GS–14	8
GS–13	16
GS–12	9
GS–11	8
GS–9	5
GS–8	3
GS–7	14
GS–6	14
GS–5	19
GS–4	1
Total	121

Assistant Postmaster General: 1
Deputy Assistant Postmaster General: 2 GS–18
Executive assistant: 1 GS–16
Division director:
2 GS–17
2 GS–16
Deputy division director:
1 GS–16
1 GS–15
Assistant division director: 1 GS–15
Branch director:
1 GS–16
10 GS–15
1 GS–14
1 GS–13
Assistant branch director:
2 GS–15
3 GS–14
4 GS–13
1 GS–12
Economist: 1 GS–14
Section chief:
1 GS–13
2 GS–12
1 GS–11
Assistant section chief: 1 GS–11
Accountant: 2 GS–12
Transportation specialist:
3 GS–14
10 GS–13
4 GS–12
1 GS–11
1 GS–7
1 GS–6
Assistant transportation specialist:
1 GS–11
1 GS–9
1 GS–8
3 GS–7
1 GS–5
Statistician: 1 GS–9
Assistant statistician:
3 GS–6
1 GS–5
Translator:
1 GS–11
2 GS–7
Administrative assistant:
3 GS–11
2 GS–9
Secretary:
1 GS–9
2 GS–8
8 GS–7
8 GS–6
7 GS–5
Clerk-stenographer:
1 GS–6
6 GS–5
1 GS–4
Clerk:
1 GS–6
4 GS–5

Mr. GARY. How many additional personnel are you requesting for fiscal year 1965?

Mr. HARTIGAN. We are asking for 10 more. This is just in Washington, the Bureau of Transportation.

Mr. GARY. Those personnel are not charged to the "Transportation" appropriation?

Mr. HARTIGAN. Not for salaries, no. They are paid out of the "Headquarters" appropriation.

At this point I would like to make one statement on this: Needless to say, the Bureau is very proud—and the personnel should be very proud—of the work they are doing, because they have displayed a desire to get a dollar value for every dollar spent in transportation. However, looking at it and reviewing it for the last couple of months, it is obvious that at the rate they are going, they are doing it very much undermanned. This economy program is fine, and we are all for it, but sometimes we find it necessary to have more people to do it more effectively and more efficiently.

To give you an idea, we are reviewing 400 contracts right now with the same number of people, and of course, the quicker we put into effect whatever efficiencies we discover, the more money we save in the long run. So, based on the type of program we have now, we are taking the time to go out in the field and train some of these individuals who have within their power the ability to spend large sums of money based on estimates of volume. This has been a drain on our headquarters personnel, and we feel the additional personnel is justified,

at least in our humble opinion, and would add to the efficiency and help us realize more savings in the long run.

Mr. GARY. Is that why you are increasing your personnel while at the same time you are decreasing your appropriation?

Mr. HARTIGAN. Because of the hard work that has been done by these people we have been able to realize these savings and these efficiencies. We feel we can even do more if we have the manpower to do it. We just don't have sufficient people available to go out in the field and observe the new programs we have put into effect. This does require constant surveillance and constant review with the regions and we just don't have the manpower to do it as effectively and as efficiently as we would like to do it.

Mr. GARY. How do you propose to use this additional personnel?

Mr. HARTIGAN. For the Rail Transportation Branch, we are asking for one GS–13, general railway transportation officer; one GS–12, railway transportation officer; one GS–11 staff officer; and one GS–4 clerk-typist.

For the Research and Development Division we are asking for one GS–13 general transportation officer and a GS–11 transportation officer.

Then for the Highway Branch, we are asking for one GS–12 highway transportation officer, a GS–11 staff officer, and one GS–4 clerk for a total of three.

For the Air Transportation Branch we are asking for one GS–9, an air transportation specialist.

Mr. GARY. Can you provide for the record a table showing the salary, grade, title, and proposed assignment of these additional personnel?

Mr. HARTIGAN. Yes, we can, Mr. Chairman.

(This information was furnished for the record of Thursday, February 20, 1964, and appears on p. 159.)

MAIL TRAIN DISCONTINUANCES

Mr. GARY. How many mail trains were discontinued last year? That is fiscal year 1963.

Mr. JONES. From July 1, 1962, through June 30, 1963, there were 153 mail carrying trains eliminated. Of these 127 were by railroad initiative. In 26 the Post Office had to take action because the schedules of service were not satisfactory for the movement of mail.

During the year we did add mail to 5 new trains that had not carried mail before, so over the year there was a net loss of 148 mail carrying trains.

Mr. GARY. How many do you estimate you will lose by the end of fiscal year 1964?

Mr. JONES. It is probable that approximately the same trend will prevail. This is very difficult to forecast because most of the actions are by initiative of railroad management, but the trend is still moving in this same direction.

Mr. GARY. How many do you anticipate will be discontinued during the fiscal year 1965?

Mr. JONES. At this time, probably relatively few, because most of the railroad systems have reduced primarily to main-line operations.

UNOBLIGATED BALANCES

Mr. PASSMAN. Mr. Hartigan, what will be the amount of your unobligated funds on June 30, in your present estimate?

Mr. HARTIGAN. As of today, it is roughly $9.5 million unobligated balance at this time.

Mr. PASSMAN. That is the amount you will have unobligated on June 30 that will revert to the Treasury?

Mr. HARTIGAN. That is what we are estimating.

Mr. PASSMAN. With reference to fiscal year 1963, what was the actual amount that was unobligated?

Mr. HARTIGAN. $7,053,000.

Mr. GARY. Did I understand the $9 million figure you gave was the present estimate for the end of the year?

Mr. HARTIGAN. 1964, yes.

BASIS FOR 1965 ESTIMATE

Mr. PASSMAN. With reference to your fiscal year 1965 request in the amount of $601 million, when did you last review and refine this item?

Mr. HARTIGAN. Just prior to our final submission to the Bureau of the Budget.

Mr. NICHOLSON. The Postmaster General met with the President the last time on January 2 and discussed the final submission.

Mr. PASSMAN. This adjustment was made after the last meeting with the President?

Mr. NICHOLSON. Yes, sir. The whole budget as submitted was discussed then. There was no adjustment in transportation.

Mr. PASSMAN. The charges for transportation of mail are fixed more or less by contract, are they not?

Mr. HARTIGAN. Pretty much so, yes.

Mr. PASSMAN. In the event that you have requested a figure below the actual contract cost, then, of course, you would have to ask for a supplemental appropriation?

Mr. HARTIGAN. If that was the case, yes.

Mr. PASSMAN. Would your department also come under any deficiency account?

Mr. HARTIGAN. Yes.

Mr. PASSMAN. If next March or April you should discover that you had cut this item below what the cost would be, you would have to ask for a supplemental appropriation or curtail certain operations, would you not?

Mr. HARTIGAN. In estimating this budget we have decided that unless something very unforeseen happens, we won't run into that.

Mr. PASSMAN. Do you recall the amount of your first estimate?

Mr. NICHOLSON. My recollection, Mr. Passman, was that when the process of developing the budget first began, we did have an estimate of $607.8 million.

Mr. PASSMAN. This is a 1-percent reduction below that estimate?

Mr. HARTIGAN. That, sir, is right.

Mr. PASSMAN. Of the total budget request for the Bureau of Transportation, International Service, what amount covers the total for carrying the mail?

Mr. HARTIGAN. The $601 million in total——

Mr. PASSMAN. Does part of that amount go for personnel costs in your own department?

Mr. HARTIGAN. No, the $601 million is total payments to all modes of transportation. There are no personnel costs, here.

Mr. PASSMAN. This is based entirely on the costs of moving the mails. If you are moving less mail it will cost less and if you move more mail it will cost more.

Mr. HARTIGAN. That's right.

Mr. PASSMAN. If for some reason you have to adjust a contract upward during the year, that will be reflected later?

Mr. HARTIGAN. Yes.

Mr. PASSMAN. This is one item where you can make a reduction, working toward a worthy goal, but if you do not reach that goal, you have no alternative but to ask for a supplemental appropriation. Would that be a statement of fact?

Mr. HARTIGAN. That statement is a statement of fact, but, bear in mind we have reviewed this possiblity before coming up with this final figure.

Mr. PASSMAN. I know that you have, but you turn back money in some years and you ask for a supplemental appropriation in others. You have asked for supplementals.

Mr. HARTIGAN. It has been several years.

CONTRACT AUTHORITY

Mr. PASSMAN. Do you have any contract authority built into your request?

Mr. HARTIGAN. Do we have any contract authority?

Mr. PASSMAN. Yes. Say something will cost a million, but you ask for $800,000. At a subsequent date you will get $200,000 more.

Mr. HARTIGAN. No, sir.

Mr. PASSMAN. There are requests of that type in the budget, for several billion dollars. You do not have any of this type of authority in your requests?

Mr. CROWE. None in the Post Office Department.

Mr. PASSMAN. None at all?

Mr. CROWE. None at all.

TRANSPORTATION PERSONNEL

Mr. PASSMAN. Congratulations. Let me say for the record, sir, that I am an enthusiastic supporter of the Post Office Department and the postal personnel.

Mr. HARTIGAN. I would like to be more specific than that with reference to personnel because I am not that familiar with the entire Post Office Department. However, I know that having come from private industry and transportation there is no question in my mind that the post office personnel in the Bureau of Transportation has the greatest transportation talent I have ever had the pleasure to run up against and any private company would be more than pleased to be able to purchase this talent.

It is based on this and on the fact that these gentlemen were allowed to exercise good transportation policies in the past 2 or 3 years that we have been able to operate more efficiently.

You are right as far as the rates are concerned. But, on the other side of the coin these gentlemen have gone out and on a training program, have shown the people in the field more accurate ways of estimating the volumes that we are paying for. Whereas, we could be paying the same rate, we are not paying for mail we are not carrying either. We have to a great extent sharpened up this particular approach and we are continuing this type of program. Also, they have been allowed, and are doing a very fine job, in utilizing the proper mode of transportation to do the proper work which results in greater efficiency.

It was not without serious thought, on the possibility that you raised, that we come up with this final budget.

BUDGET REDUCTION

Mr. PASSMAN. I salute you, sir. I hope the $10 million reduction made in the budget will turn out to be a real one. I believe it will be. I hope that all branches of the Post Office Department, present and future, will continue to bring their expenses down.

Mr. GARY. Where do the decreases in your 1965 requests occur?

Mr. HARTIGAN. Railroad.

Mr. GARY. All of it in rail?

Mr. HARTIGAN. The larger part of it will be rail.

Mr. GARY. That would mean transferring from rail to some other form?

Mr. HARTIGAN. To less expensive modes. But, there is one point we would like to make clear; in changing modes of transportation, one of the yardsticks we insist that the people in the Bureau in the field use is that the service must not be sacrificed. In realizing these savings, we unequivocally state that in every change that was made, not only have we been able to realize a saving but we also have rendered better service. We are in the position to show this as a matter of fact.

POST OFFICE ACCOUNTING SYSTEM

Mr. PILLION. I would like to add to what Mr. Passman expressed here. I would like to commend the Post Office Department and your staff and all your employees for their efficiency and for the work that they do, their dedication, their devotion, but I would like to add, also, the reason we are receiving such fine service per dollar from the Post Office Department is due in large measure, Mr. Passman, to the accounting system that they have.

That accounting system in the meanwhile is due to the policy that we have of making this Department pay for its way and receive from the public voluntarily, purchased by the public voluntarily, the service that we are offering, and when we get away from this policy and the accounting system that we have, by throwing in these public service items, you are breaking down this accounting system that we have of making the Post Office pay its way and making those who use it pay for the service.

While I agree to some extent with the gentleman about the Coast Guard, you have no such check on the Coast Guard of the production that they give or the public service they give for the money they receive

because there is no way we can have the accounting system we have here. I am proud of the accounting system of the Post Office Department that gives us these figures.

Mr. PASSMAN. Off the record.

(Discussion off the record.)

1964 UNOBLIGATED BALANCE

Mr. PILLION. I would like to get a little help from your fiscal experts. I would like to go to page TR–1, if I may, and refer to that. I note that on TR–1, in 1964 estimates your surface transportation, water, highway, and rail are there; your air transportation is $105 million. Your total cost of your transportation in these particular items came to $596 million.

That amount compares with your request, or the budget request, rather, for 1964 of $611 million, so that your actual costs are going to be $15 million less than the budget requested; is that right?

Mr. HARTIGAN. That is right.

Mr. PILLION. That is $15 million less than you requested in the budget. You add to that your unobligated balance of $9.5 million. Is that a balance carried over from 1963?

Mr. HARTIGAN. No. We do not carry the balance from 1963. That lapses, I believe, at the end of the fiscal year. Is that right, Mr. Nicholson?

Mr. NICHOLSON. Yes.

Mr. PILLION. Would you explain that to me?

Mr. NICHOLSON. The $9,500,000 is unused obligational authority.

Mr. PILLION. That was appropriated. It was obligational authority for 1964 and you do not expect to use it?

Mr. HARTIGAN. That is right.

Mr. GARY. So it remains in the Treasury. It is never drawn out.

Mr. PILLION. You expect $9,500,000 to lapse. You took out for facilities $5 million. You transfer to facilities $5 million?

Mr. NICHOLSON. Yes, sir.

Mr. PILLION. And $500,000 for administration of regional operations, so you transferred out of this account a surplus that you could transfer out of $5,500,000?

Mr. NICHOLSON. Yes, sir.

Mr. PILLION. Shouldn't that mean, then, a $4 million unobligated balance?

Mr. NICHOLSON. The two add, Mr. Pillion; the $5,500,000 transferred out of the account plus the $9,500,000 that will revert to the Treasury gives a total of $15 million.

Mr. HARTIGAN. The total, the combination of both, makes the $15 million.

Mr. PILLION. That you will lapse.

Mr. HARTIGAN. $5.5 and $9.5.

Mr. STEED. They got $611 million appropriated. They used $596 million. They transferred $5,500,000. They will have $9,500,000 left over. The budget this year for $601 million is actually $5 million more than they used last year.

Mr. PILLION. That is what I was getting at.

Mr. STEED. They won't have any money to transfer but they will have $5 million more to use than they had this year.

Mr. PILLION. That is right. They expect to have no unobligated balance.

Mr. HARTIGAN. That is right.

Mr. PILLION. Actually, what happened here, we gave you $15 million more than you used last year.

Mr. HARTIGAN. You gave us $15 million we thought we would need. We have found that through the steps we have taken we will be able to save this. This is the reason why it is less than last year.

1965 TRANSPORTATION INCREASE

Mr. PILLION. Actually, what is happening, instead of having less to operate with—now talking about actual costs——

Mr. HARTIGAN. We get $5 million more.

Mr. PILLION. You get 5 more million than you had last year.

Of that you are going to have $5 million more in air transportation, $5 million more roughly in highway transportation, with a decrease of $5 million in rail, which gives you that net 5 that you are talking about.

Mr. HARTIGAN. That is right.

CAB RATES

Mr. PILLION. Your air rates are set by the CAB, is that right?

Mr. HARTIGAN. That is right.

Mr. PILLION. They only set maximum rates, do they not?

Mr. HARTIGAN. They set the rate.

Mr. PILLION. Can't you draw a contract that is less than the CAB?

Mr. HARTIGAN. No. They set the rate we must pay the same as a passenger must pay.

Mr. PILLION. That is not a ceiling. That is it.

Mr. HARTIGAN. That is it.

Mr. PILLION. How much does an airmail stamp cost?

Mr. HARTIGAN. Eight cents.

Mr. PILLION. Airmail to Europe?

Mr. HARTIGAN. Fifteen cents to Europe.

Mr. PILLION. That is what I was talking about. Is that 1 ounce?

Mr. HARTIGAN. Half-ounce.

Mr. PILLION. That means for 1 ounce you get 30 cents, if you had two airmails. There are 16 ounces in a pound. You get $4.80 a pound; is that right?

Mr. ALLAN. That is right.

Mr. PILLION. $4.80 a pound to deliver airmail. I weigh roughly 200 pounds. I can go to Europe for roughly $200, can I not, with one of these cabin flights?

Mr. HARTIGAN. I doubt it.

Mr. ALLAN. A little more than that.

Mr. PILLION. Say $300 one way. I can even eat with that or get hostess service?

It will cost $300 to go to Europe. That is $1.50 per pound for human cargo. They have to give me dining service and other normal transportation services. For airmail you are getting $4.80 a pound. You do not have that human equation, the human service needs. Why

can you not go to the air people and say, "We are giving you increased volume. Cut your rates?"

Mr. HARTIGAN. This is what we are receiving, not what we are paying. This is what we are receiving for the revenue.

Mr. PILLION. I know. You are receiving an awful lot.

Mr. HARTIGAN. That is right.

Mr. PILLION. I am sure they receive a good part of this.

Mr. HARTIGAN. They receive 53½ cents a ton-mile, about $1 a pound they are getting for airmail.

Mr. PILLION. They take passengers for $1.50.

Mr. HARTIGAN. That is right.

Mr. PILLION. You are getting $4.80. That is a pretty good deal.

Mr. HARTIGAN. We are making money on that.

Mr. PILLION. Why can't you go to the air people and still get a lesser rate?

Mr. HARTIGAN. We have asked the CAB to review this rate and they are reviewing it at the present time.

Mr. PILLION. They are?

Mr. HARTIGAN. Yes.

Mr. PILLION. I hope that you can insist upon getting more favorable rates.

Mr. STEED. Off the record.

(Discussion off the record.)

Mr. PILLION. Let's have a breakdown on these costs in some way. The costs that you are being charged by the airlines—how can we break that down a little more? I think there ought to be a substantial reduction.

Mr. HARTIGAN. We pay the airlines 53½ cents a ton-mile. However, the 15-cent postage charge covers any domestic air service involved and any transit charges that may be paid to a foreign country as well as all of the handling costs.

Mr. PILLION. I think you should get a considerable reduction.

Mr. HARTIGAN. As I said, we have, not more than 2 weeks ago, requested the CAB to review these rates.

Mr. PILLION. You are giving them more volume?

This is a steady business instead of winter and summer business where you get the differentials in volume.

Mr. HARTIGAN. We felt exactly the same as you did about it which prompted our request to the CAB to do it. They are doing it right now.

Mr. PILLION. Good. You are getting after that.

Mr. HARTIGAN. They are on it. They are reviewing our request right now for the possible reduction in rates, internationally.

Mr. PILLION. Good. How long will it take to get this?

Mr. HARTIGAN. The Board has charged the carriers who were present at this meeting to return within 30 days some type of a suggested report. It will be around the middle of March sometime.

Mr. PILLION. That is good. I am glad that you are on top of that problem.

The foreign air service comes to about $28 or $30 million a year. Is that roughly what it is?

Mr. HARTIGAN. Yes, sir.

Mr. PILLION. I think that is about it, Mr. Chairman. Thank you very much.

Mr. STEED. Mr. Chairman, I do not have any questions. I just would like to say that I think they have brought a very fine report here today and have presented us with a very concise and commendable budget. The one thing I keep remembering is that with this continuing change in the railroad situation, this particular Department always has had my admiration for the way it is constantly meeting these constantly rising transportation emergencies.

I just wanted to congratulate you for staying on top of it and making it work as well as you are.

Mr. HARTIGAN. Thank you very much.

Mr. CONTE. Mr. Chairman, I want to take this opportunity to congratulate our distinguished chairman on his 72d birthday today.

As many of the members of this committee would certainly agree, our chairman has demonstrated time and time again his vigor and vitality, which seems to increase with the passing years.

He has had a long and distinguished career in the Congress and has made this subcommittee not only one of the most fascinating in the Congress, but also one of the most efficient and streamlined.

Ever since being elected to the 79th Congress, he has ably represented the good people of Richmond and the State of Virginia.

Those of us who serve with our chairman may sometimes forget his active outside career in the area of civic responsibility. And I can only say that all of the organizations, associations, and universities that have had Mr. Gary on their boards can certainly be considered fortunate.

Of course, I may sometimes disagree with him, but that is usually over procedural matters and not over substance. And that is because Mr. Gary is always concerned first with the welfare of the country by strengthening the agencies which come before this subcommittee.

It has been my great pleasure to serve under Mr. Gary, and I continue to profit from his advice and inspiration. I hope that he will have many more happy decades with us.

Mr. GARY. Thank you very much, Mr. Conte. I appreciate it. I appreciate it more than I can tell you.

BUS TRANSPORTATION

Mr. CONTE. Mr. Hartigan, you recall in the past I advocated bus transportation because I thought it was very convenient and efficient. Buses have certain scheduled runs. Our chairman asked you some questions and you mentioned that the law was passed so that it now clarifies your position on the use of buses. Have you increased the use of bus transportation for mail?

Mr. HARTIGAN. I think maybe at this time, Mr. Batrus, who testified before this committee for the bill in my absence, has worked very, very hard on it and he may be able to enlighten everybody with a little background and bring us up to date. He testified before the committee for the bill.

Mr. CONTE. When you do, will you mention something about trailers to the bus and would you elaborate on that?

Mr. BATRUS. To answer your question, Mr. Conte, first we are increasing constantly, although not on a comparative large scale, we are

increasing our transportation by bus because there are many instances where they serve us well for first-class mail as a supplement to our star route service and as a supplement in some instances to our rail service, so we are increasing their use. When I say on a slight scale comparatively it is because the volumes that they can carry and the kind of schedules they have do not, or would not, permit great volumes being moved by bus.

However, we do use them to advantage. In connection with the trailer situation, that you had asked about, and which we had mentioned, I am informed that the one service that we did have has been discontinued. There is some question before the ICC at this point as to the degree to which trailers for carrying baggage, express and mail and other small items, the extent to which they can be used in passenger bus service is being considered before the ICC, so we are not quite clear yet the extent to which the passenger bus carriers themselves will be permitted to use trailers and the extent to which they decide that it is economical to use them.

On the question of the law and how we may procure bus transportation, there was a serious question raised by the GAO, confirmed also by our own General Counsel, as to whether we could procure this transportation in any way other than advertising for bids. This gave us some difficulties because obtaining the services of common carriers in their regular passenger bus schedules is rather difficult in many instances through advertising for bids.

What we wanted to do was to be able to negotiate with bus companies area-type contracts to make available their service for us for use at a specified price, for transportation of mail throughout the system on any schedules that we thought were to our advantage. This may vary from time to time.

It had also the advantage of reducing the administrative cost to the carriers, in making arrangements with the Department, and it reduced our administrative costs.

The Congress last year passed a law which permits us to negotiate for bids with common carriers for their services. We do not have to advertise for bids.

It still permits us, nevertheless, to advertise for bids where we think that this is in the best interests of the Government, which we would do.

That is the situation to date. The law was just passed. We have several hundred contracts with a few companies. We will be able to make arrangements to consolidate these into an area-type service.

Mr. HARTIGAN. One other point. They are not required to put up a bond, either.

Mr. CONTE. Such as the star routes are required?

Mr. HARTIGAN. That is right. They are actually, from a practical point of view running a recognized controlled service anyway. The bill also stated that bonds would not be necessary.

STAR ROUTE SERVICE

Mr. CONTE. A few years ago you will recall we had some difficulty with star route trucks. The condition of the trucks did not come up to par. Do you have provisions in your contracts stating that certain minimum requirements must be met for safety purposes?

Mr. HARTIGAN. This has always been in the contract. The regional office which supervises the contract is primarily responsible for the condition of the vehicle. It should meet the standards that are established, both safetywise and appearancewise. They are also responsible for the condition of the railroad cars. At the present time, I think it would be safe to say that our problem is not with the condition of the trucks, but it is more with the condition of the rail cars. I think this should be understood. We have far more problems with the condition of the railroad cars than we have with the star route trucks. This is a responsibility of the region to see that they keep supervising them. This is already a matter of responsibility that they have now.

When we review this with them, we keep an eye on it and where we find them not keeping up with it, we take over and insist that they do live up to the requirements that we have set down.

Mr. CONTE. Do we have any money being carried by these star trucks, any currency?

Mr. HARTIGAN. It could be in the mail. There could be currency in the mail, itself. You mean money as mail?

Mr. CONTE. Yes. I would imagine, I would guess there would be some, sure.

Isn't actual money being transferred from Federal banks?

Mr. HARTIGAN. There would be no large shipments identified as money turned over to the star route.

Mr. CONTE. I am worried about this because at one time I advocated that post office clerks be armed when money came in over the platform and they took it over to the bank. There was a period of time when the money was unprotected. At that time I was highly criticized by my local newspaper. They thought this was wrong. Right after that we had this Plymouth robbery which we all know about. These bandits keep a close eye on how this money is transported, where it is located and where it is standing for a certain period of time. It could be a very dangerous thing. If they knew a great deal of money was being transported by an unarmed man, it could be a very dangerous thing.

Mr. Hartigan, I think I read in the paper or heard on the radio——

Mr. GARY. Will the gentleman yield?

Mr. CONTE. Certainly.

BUS SERVICE

Mr. GARY. We were discussing the use of buses. At times the buses can be used to improve the service, can they not, to give quicker service?

Mr. HARTIGAN. That is right. This is what prompted our looking into the use of buses. It was found out that in many instances the bus, because of passenger requirements, would run a schedule that we could utilize with a limited number of sacks of mail at a very, very favorable rate and give us service to areas that would otherwise have to hire a truck.

Mr. GARY. I had a situation in my own district sometime ago where a post office was changed to a rural post office—I think that is what you call them?

Mr. HARTIGAN. Rural station.

Mr. GARY. It was changed to a rural station. The mail was being sent by star route from the main post office to this rural station. The star route was a rather long route and consequently the mail did not get to this rural station until late in the afternoon. There was a bus running beween the main post office and this station and at my suggestion they made arrangements with the bus to carry the mail over there so that it would get there very much earlier than by the star route.

Mr. HARTIGAN. This has worked out very well, too. It has been very helpful.

Mr. GARY. That is what I understand.

Mr. PASSMAN. Will the gentleman yield?

Mr. CONTE. Certainly.

TRAIN DISCONTINUANCES

Mr. PASSMAN. I represent a very large district in area, 10,268 square miles, and at one time there were 114 post offices, with many trains. Along the way, of course, they started discontinuing trains. It was certainly not the fault of the Post Office Department that they discontinued trains, and in other cases that they changed schedules. Naturally, it required time to make adjustments. I am pleased at the generally efficient manner in which the Post Office Department handles and delivers the mail.

Thank you, Mr. Conte.

DOG TEAMS

Mr. GARY. Are you still using dog teams in Alaska?

Mr. HARTIGAN. I was up there. We suspended—we retired or semi-retired the last dogsled in Alaska under the provision that he be on a standby basis. In case the plane did not go, we use the dogsled. I think this is a very unique point in the field of transportation, where a dogsled is standing by as backup transportation for an airplane. But he is on a standby basis.

Mr. GARY. Off the record.

(Discussion off the record.)

INTERNATIONAL CONFERENCES

Mr. CONTE. Mr. Hartigan, I think I read in the newspaper where you had recently participated in an international conference in Portugal.

Mr. HARTIGAN. No; in Berne, Switzerland.

Mr. CONTE. Could you tell the committee just what you take up in these conferences? I realize you are transportation, but whether you get into the question of pornographic mail and literature coming to the United States from some of these countries and whether you take up the question of Communist propaganda coming into this country, or are you limited to transportation problems?

Mr. HARTIGAN. No. The Bureau of Transportation is the Bureau, or the channel through which postal matters of international nature funnel and we represent the Post Office Department. The Bureau has an International Division that represents the postal department on all postal matters. The information is processed with assistance

of the other bureaus. For example, international postal rates would be properly discussed with other nations through Ralph Nicholson's office; personnel matters of an international nature would be channeled from Mr. Murphy's office, and engineering would be through Mr. Harriman's office. The entire Post Office participates and lends to these international organizations whatever specialty that they happen to be efficient in or whatever bureau they represent. It is done through the one Bureau.

Mr. CONTE. Do you know whether they take up this question of pornographic literature? Most of it comes from foreign countries.

Mr. HARTIGAN. Let me say this particular meeting in Berne was a report meeting. The United States is chairman of one of the major committees of the Universal Postal Union, the Consultative Committee. As chair country, we had the meeting in Washington last October for that committee and under the Constitution of the UPU must report to the home base, Berne, Switzerland, once a year. This was our report date. We were reporting as the Consultative Committee, which is a technical committee, for the past year's activities and also on the meeting we had in Washington.

As to whether the specific item you mentioned has been discussed at previous meetings, Mr. Allan has attended more of them than I have. They have not been discussed at any meeting that I have attended. Mr. Allan, in any of the technical groups, has this been investigated in the past year?

Mr. ALLAN. I think a subject like this would come up more appropriately at the Universal Postal Union Congress, which is held once every 5 years.

Mr. CONTE. Where is this held?

Mr. HARTIGAN. In Vienna in May.

Mr. CONTE. This May?

Mr. HARTIGAN. The end of May, June, and July.

Mr. ALLAN. This is actually a meeting that quite like your Congress; our Congress is legislative in nature and the end result is known as the UPU Convention. These are the acts of the Universal Postal Union which provide the framework within which mail is handled throughout the world. On your specific point there is a prohibition provision, in the convention which says:

> Anything that is prohibited in the domestic service of a country is also prohibited in the international service.

For example, in this country it is prohibited to send liquors through the mails but in other countries like France, it is not. But France prohibited from sending liquor to the United States in the international service. Likewise, our domestic legislation prohibits the sending obscene, pornographic matter, et cetera, and of the transmission of it would be regulated by the Universal Postal Convention.

Mr. PILLION. Would the gentleman yield? What is the agenda of this Universal Postal Convention?

Mr. HARTIGAN. As a matter of fact, Congressman, I would like to say something, being an outsider to some degree in the Post Office Department, but having been as active as we can possibly be in this phase of it, it is a very impressive thing to find out that the Universal Postal Union is the largest international organization in the world. It is larger than the United Nations and is the oldest international

organization in the world. It has survived many, many wars and crises in the world and yet still exists. A meeting of this kind, attended by a committee like this, I think, would be very helpful and would reveal to you what has been revealed to me, the success that the post office administrations throughout the world have had in their international affairs. Their record is an enviable one because through all these crises, as I said before, they have operated very, very successfully and found very, very few stumbling blocks that prohibited them from carrying out their functions of guaranteeing delivery of mail throughout the world to other nations.

I think it would be a good thing if it were possible for the committee to be able to attend it sometime, one of these international meetings. I think it would be very enlightening. The member countries have a very fine international relationship with one another.

Mr. CONTE. I imagine that a meeting such as this is attended by Members of Parliament as observers from other countries?

Mr. HARTIGAN. What happens is that the postmaster generals of other nations generally are Members of the Parliament and assign a minister of telecommunications and post. He is an elected Member of Parliament. This is the general setup of members from other countries. They generally attend some phase of it, if their time permits. However, in most other countries, as you probably know, they are also responsible for the telecommunications and telegraph, which ends up being a far bigger department under their jurisdiction than the postal department. It would be a very enlightening and educational thing, I think.

INTERNATIONAL RECIPROCAL AGREEMENTS

Mr. CONTE. You had mentioned the rates as of March 1 will be changed. These are the international rates?

Mr. HARTIGAN. I am sorry if I misled you. What I said in answer to the chairman's question was that these reciprocal agreements that we had had with certain nations where we agreed to give an equal number of pounds of mail to foreign carriers were given to our carriers, or vice versa. We had such agreements. Because of the differentiation in the rates that we pay our carriers, 53.5 cents per ton mile as compared to what we pay the foreign carriers under the Universal Postal Union rate, which is $1.90, we decided to cancel these agreements unless the reciprocal agreement had other merits, such as being the only way of getting the mail there, service, or U.S. carriers didn't have planes serving the particular country. This action will be effective March 1, we gave them ample notice. However, by the same token, in areas where we have to use these foreign-flag carriers because of service, we do like to see our carriers get some benefit out of it and we will maintain the agreement. Therefore, where we use foreign-flag carriers for service reasons, our carriers will receive an equal amount of mail from other countries. In those areas we have kept the agreement; I think there are only one or two of them.

TRAIN DISCONTINUANCES

Mr. CONTE. Last year we had quite a colloquy in regard to the discontinuance of trains. Today you say there will be a net discontinuance of 148 trains.

Mr. HARTIGAN. Once, again, I think, as Mr. Jones stated, this is what we would estimate. We do have, after our discussion here last year, we listed the proposed discontinuances that are now before the ICC. I think we resolved our discussion last year by pointing that a railroad just cannot discontinue. There is a long series of hearings and petitions and whatnot.

Mr. CONTE. I realize that. Last year you said you thought it was leveling off. It would seem to me a discontinuance of 148 trains is not leveling off.

Mr. HARTIGAN. No. I said that we thought we were getting down, and I think we mentioned it here today, we are getting down to a point where most of the uneconomical runs that trains had been making for the past 10 years have now been eliminated. They have pretty much taken the fat out of the runs, the dogs, so to speak, where they lost money. With the mass discontinuance taking place over the last 10 years, since the war, they have pretty much taken out the deadwood. the discontinuances now are getting down where they become more difficult to get by the public. In other words, the real, real bad ones, the costly ones to a railroad, were discontinued without too much trouble. But now we are getting down to almost an exacting science of where the railroad argues, "We are losing money," but the people benefiting by the passenger transportation aspect say, "We can't get along without it. The community can't live without it."

You get a conflict here. We don't, but the ICC has the conflict, as to what decision they are going to make. Is it in the best interests of the country to provide this service to a community or isn't it? How should one look at the railroad losing x number of dollars, according to ledgers, when making this decision. They are down to some pretty close decisions on it now. The ball-park decisions, where they could sweep them out without any questions, I think have pretty much declined with this deadwood out.

Mr. CONTE. You are down to the hard core?

Mr. HARTIGAN. This is why I say the rate of discontinuance will be leveled off, because we are down to pretty questionable runs as to the railroads' economical position on these runs.

Mr. CONTE. One final question: Are there any hearings pending before the ICC?

Mr. HARTIGAN. Yes, we have a list of them.

Mr. CONTE. For increased rates?

Mr. HARTIGAN. I am sorry, increased rates; no.

Mr. CONTE. Or changes in rates?

Mr. HARTIGAN. Not at this time.

AIR TRANSPORTATION

Mr. CONTE. If an airline wants to carry mail, do they apply to CAB first, or the Post Office Department?

Mr. HARTIGAN. CAB approves them as an air carrier for the carriage of mail.

Mr. CONTE. I would like to take this opportunity to compliment Yankee Airlines up in the Berkshires. A couple of young fellows started an airline. They are giving a service for the first time in a good many years up there. They are transporting mail and doing a wonderful job.

Mr. HARTIGAN. That is in Pittsfield. We had a difficult time on that. This may be of interest to you. Unfortunately the reason that this took as long as it did to get this much needed service in, was because under CAB regulations, as long as there is an approved route between two cities, even though the certificated carrier isn't flying it, the law prohibits us from putting in an air star route. The CAB cooperated very, very generously with us in allowing us to put on this run at Pittsfield. Also, they are working very cooperatively on other runs, where carriers, large carriers, no longer find it profitable to run between point (a) and point (b). However, through oversight or otherwise, there is still a certificate out for that particular run. It is a matter of a technicality. The CAB has been very cooperative in that respect in helping us get around it.

Mr. CONTE. Are they just limited to airmail now, or do they come under this?

Mr. HARTIGAN. On this particular airline it was just airmail.

Mr. CONTE. Will they be eligible for this airfreight or airlift program?

Mr. HARTIGAN. They are eligible for airfreight because they are carrying airfreight now. I know that. The airlift would be based upon our decision as to whether this would be a good deal for the Post Office Department as such. If it is, and we find it to our advantage to use this particular carrier for airlift, then we will use it. If there is no advantage to it, then we will not use it.

Mr. GARY. The CAB does not have authority to require you to use an air carrier?

Mr. HARTIGAN. No.

Mr. GARY. They did at one time, did they not?

Mr. HARTIGAN. We have the full authority and also by the same token we have the responsibility of selecting the particular mode of transportation to haul the mail. We like it this way.

Mr. GARY. That is the way it should be. We had quite a fight here at one time, I know. They had helicopters operating from the roof of the Chicago post office to the airfield and the CAB recognized this carrier and then forced the Post Office Department to use it, although the Postmaster General said he could save $300,000 a year, I think it was, or a large sum of money, by transporting the mail another way. I fought that pretty strenuously for a while. I think my motives were misconstrued. Everybody thought I was against helicopters. Let's put it this way:

I think the carriers, or the helicopter people, tried to say that I was prejudiced against helicopters. It wasn't true at all. The only thing I was fighting for was the right of the Postmaster to decide who should carry the mail and not the CAB. I didn't think the CAB had anything to do with that. They could license the carriers, but the employment of the particular carrier to transport mail should be the prerogative of the Post Office Department. I think the CAB took the position that this service should be rendered because they were getting a great deal of experience in developing the helicopters. To my mind, that was not a function of the Post Office. They were to be used largely in defense activities, and I thought the Defense Department ought to develop them if they were to be developed at all, not the Post Office.

Mr. CONTE. I have no further questions.

Mr. STEED. Off the record, Mr. Chairman.

(Discussion off the record.)

Mr. GARY. Are there any further questions?

If not, Mr. Hartigan——

Mr. HARTIGAN. I would like to make one further observation, Mr. Chairman, and that is that it is very encouraging to note that the members of the committee have recognized this particular tight budget, and this was our objective, to do exactly as Congressman Pillion mentioned, that there would not be any excess in it. We have taken all possible things into consideration.

As Congressman Passman mentioned, there is the possibility of not having enough money. The budget, as it is submitted, is one that we feel strongly about. We believe that we can live within it as it stands. We have hopefully safeguarded against all the questions of fears that were raised by the committee, and have taken all this into consideration. We just want it understood that we are aware of these dangers.

Mr. GARY. Thank you, Mr. Hartigan. It has been a pleasure to have you.

You have presented a pleasing picture to the committee. I think—certainly I recognize I can't speak for the whole committee—but I recognize that your budget this year is much more realistic and is a much closer budget than has been presented in the past.

Mr. STEED. Mr. Chairman, if this budget has some adverse impact on the Department, it may be some of the other departments, with a tighter budget than this, may not have any funds to transfer to somebody else that is looking around for some extra money.

Mr. GARY. I think the budget this year to begin with is based on a more realistic estimate of the increase in volume. We have been studying that situation for some years. I think it is a very close budget. We hope we can find some place that we can exercise our prerogative of cutting slightly.

We thank you for a very able and very good presentation, sir.

Mr. HARTIGAN. Thank you very much, Congressman.

Mr. PILLION. Thank you, gentlemen, for your patience.

TUESDAY, FEBRUARY 25, 1964.

FACILITIES

WITNESSES

TYLER ABELL, ASSISTANT POSTMASTER GENERAL
AMOS J. COFFMAN, DEPUTY ASSISTANT POSTMASTER GENERAL
CHARLES A. DIEMAN, DIRECTOR, DIVISION OF MAINTENANCE
DENNIS A. JENSEN, DIRECTOR, DIVISION OF REALTY
LEWIS H. CRAVEN, FINANCIAL CONTROL OFFICER
CONRAD TRAHERN, DIRECTOR, DIVISION OF PROCUREMENT
EDWARD E. HARRIMAN, DIRECTOR, OFFICE OF RESEARCH AND ENGINEERING
RALPH W. NICHOLSON, ASSISTANT POSTMASTER GENERAL, BUREAU OF FINANCE

Object classification

[In thousands of dollars]

		1963 actual	1964 estimate	1965 estimate
11	Personnel compensation:			
	Permanent positions	7,162	7,675	7,909
	Positions other than permanent	169	19	19
	Other personnel compensation	314	512	484
	Total personnel compensation	7,645	8,206	8,412
12	Personnel benefits	578	650	670
21	Travel and transportation of persons	32	60	60
22	Transportation of things	1,296	1,497	1,496
23	Rent, communications, and utilities	110,036	123,049	137,806
24	Printing and reproduction	5,316	6,069	5,860
25	Other services	2,535	3,018	3,087
	Services of other Agencies	505	582	868
26	Supplies and materials	40,171	45,348	45,025
32	Lands and structures	1,505	7,425	1,785
	Total obligations	169,619	195,904	205,069

Personnel summary

	1963 actual	1964 estimate	1965 estimate
Total number of permanent positions	1,430	1,430	1,430
Full-time equivalent of other positions	36	4	4
Average number of all employees	1,397	1,414	1,418
Employees in permanent positions, end of year	1,389	1,430	1,430
Employees in other positions, end of year			
Average postal field service level	4.5	4.5	4.5
Average postal field service salary	$5,947	$6,135	$6,176

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
Operating costs, funded:			
1. Building occupancy	111,757	125,178	140,057
2. Supplies and services	51,665	55,394	56,543
Adjustments to accrued annual leave due to pay increases	21	6	----------
Total operating costs, funded	163,443	180,578	196,600
Capital outlay:			
1. Building occupancy	468	7,895	1,070
2. Supplies and services	4,604	7,823	5,096
Total capital outlay	5,072	15,718	6,166
Total program costs, funded	168,515	196,296	202,766
Change in selected resources [1]	1,104	−392	2,303
Total obligations	169,619	195,904	205,069
Financing: Unobligated balance lapsing	2,885	----------	----------
New authority	172,504	195,904	205,069
New authority: Appropriation	167,000	190,000	205,069
Transferred from—			
"Administration and regional operation" (77 Stat. 62)	----------	1,005	----------
"Transportation" (76 Stat. 314 and 77 Stat. 62)	2,000	5,000	----------
"Plant and equipment" (76 Stat. 314)	3,512	----------	----------
Transferred to "Operating expenses, Public Building Service," General Services Administration (76 Stat. 728 and 77 Stat. 436)	−8	−101	----------
Appropriation (adjusted)	172,504	195,904	205,069

[1] Selected resources as of June 30 are as follows:

	1962	1963 adjustments	1963	1964	1965
Accrued annual leave	−470	----------	−498	−513	−522
Employees compensation liability	−23	----------	−35	−42	−45
Lease purchase contracts outstanding	−7,270	----------	−7,075	−6,870	−6,655
Stores	4,749	1,165	4,989	4,989	4,989
Unpaid undelivered orders	12,613	49	14,536	13,961	16,061
Total selected resources	9,599	1,214	11,917	11,525	13,828

Mr. GARY. The committee will come to order.

We will take up, this afternoon, the appropriation for postal facilities.

The appropriation for the fiscal year 1964 was $190 million. The budget estimate for fiscal year 1965 is $205,069,000, an increase over fiscal year 1964 of $15,069,000. Total positions fiscal year 1964, 1,430; no change for fiscal year 1965.

JUSTIFICATION OF THE ESTIMATE

We shall insert the justifications of the estimate at this point in the record.

(The justifications follow:)

[In thousands]

Appropriation and obligations	1963 actual	1964 estimate	1965 estimate
Building occupancy:			
Rent program	$79,569	$89,967	$99,063
Fuel	7,681	8,307	8,993
Utilities	20,912	23,944	27,229
Communications	5,139	5,885	6,557
Subtotal	113,301	128,103	141,842
Reimbursable site acquisition	−17	4,500	
Subtotal, building occupancy	113,284	132,603	141,842
Supplies and services:			
Building and postal supplies and services	25,300	29,429	30,136
Mail equipment shop, mail bag repair units and depositories	4,682	7,764	6,532
Stamps and accountable paper	12,782	11,123	11,557
Printing and reproduction	5,316	6,069	5,860
Subtotal, supplies and services	48,080	54,385	54,085
Facilities field personnel	8,255	8,916	9,142
Obligations	169,619	195,904	205,069
Transfer from other appropriations	−5,512	−6,005	
Transfer to GSA	+8	+101	
Unobligated balance	+2,885		
Total appropriation	167,000	190,000	205,069

A. Personnel

Item	1963 actual positions	1964 estimate				1965 estimate			Increase over 1964
		Carryover man-years	Vacancies filled	New positions	Total	Carryover man-years	New positions	Total	
Facilities field personnel positions end of year	1,389		41		1,430			1,430	
Man-years:									
Regular employees	1,361	18	31		1,410	4		1,414	4
Overtime	33				45			45	
Other (temporaries and extra paid days)	36				15			9	−6
Total average positions	1,430				1,470			1,468	−2
Average compensation and benefits	$5,750				$6,024			$6,187	

Analysis of obligations

[Dollars in thousands]

	1963 actual	1964 estimate	Increase or decrease (−) due to—					1965 estimate	Increase or decrease (−) due to—					Net total increase	
			Pay cost	Vacancies filled	Mandatory items	Other costs	Total increase		Pay cost	New positions	Mandatory items	Carryover costs	Other costs	Amount	Percent
Building occupancy	$113,284	$132,603				$19,319	$19,319	$141,842					$9,239	$9,239	7.0
Supplies and services	48,080	54,385				6,305	6,305	54,085					−300	−300	−.6
Facilities field personnel	8,255	8,916	$317	$134	−$56	266	661	9,142	$110		$124	$17	−25	226	2.5
Total obligations	169,619	195,904	317	134	−56	25,890	26,285	205,069	110		124	17	8,914	9,165	4.7
Total increase over prior year	13,298	26,285						9,165							
Percent of increase over prior year	8.5	15.5						4.7							

JUSTIFICATION

This appropriation provides funds for rental of postal space, heat, utilities, and other expenses of building occupancy paid by the Post Office Department; procurement of supplies, printing, accountable paper, and miscellaneous contractual services; costs of manufacture and repair of mail bags and locks; and costs of inspection, warehousing, and distribution of supplies and equipment procured by the Department, including the field personnel needed for such purposes. The total amount requested for 1965 is $205,069,000, an increase of $9,165,000 over the estimated obligations for 1964. This is a 4.7-percent increase for 1965 as compared to 15.5 percent in 1964, 8.5 percent in 1963, and 14.8 percent in 1962.

Building occupancy.—Changes are as follows:

Reimbursable site acquisition, decrease	—$4,500,000
Rents	9,096,000
Fuel	686,000
Utilities	3,285,000
Communications	672,000
Total building occupancy increase	9,239,000

No appropriated funds are requested for the site acquisition program for 1965. The program provides for the purchase of sites for the construction of leased postal facilities and payments of architect-engineering fees for the design of such buildings. The sites are ultimately resold to successful bidders for lease-construction contracts and the proceeds reimbursed to this appropriation. Similarly, architect-engineering fees are reimbursed to this appropriation upon award of the agreement to lease. It is estimated that reimbursements for 1965 will be sufficient to provide for necessary site acquisition and architect-engineering fees during that year. The use of these reimbursable funds is particularly important to provide modern mail-handling facilities in larger cities where there is the greatest need.

The increase in rents reflects both the increased rental rates which will be paid for post office space and the increase in the number of square feet which will be leased or rented by the Post Office Department during 1965. It is estimated that leased and rented interior space will total 66,201,000 square feet at the end of fiscal year 1965, an increase of 4,876,000 over the yearend figure for 1964. In addition, the Department will occupy an estimated 54,922,000 square feet of Government-owned space as of June 30, 1965, a decrease of 671,000 square feet from the 1964 yearend figure.

It is estimated that the annual rate of rents and leases will increase 13.1 percent during 1965 compared to a 13.2-percent increase in 1964. The actual increase in 1961 was 20.3 percent; in 1962, 19.2 percent; and in 1963, 12.1 percent.

Of the increase in rental obligations, $6,127,000 is for new lease and rental agreements for buildings to be occupied in 1965 and $3,597,000 for the annualization of rental costs for buildings occupied in 1964. A reduction of $628,000 is shown in nonrecurring rents and leasehold improvements.

The increase in obligations for fuel and utilities relates to the increased space to be occupied in 1965. Also, the utility costs are affected significantly by power requirements for air-conditioning and mechanized mail-handling equipment. Estimates for communications, primarily for telephone service, are based on experience. The estimate includes $202,000 in 1965 to fully reimburse General Services Administration for the first time for the pro rata cost of use of their switchboards.

Supplies and services.—Increases are as follows:

Building and postal supplies and services	$707,000
Mail equipment shop, mailbag repair units and depositories	—1,232,000
Stamps and accountable paper	434,000
Printing and reproduction	—209,000
Facilities field personnel	226,000
Total decrease	—74,000

Building and postal supplies and services will increase $707,000, or 2.4 percent. Of this amount, $340,000 is the net increase in rental of equipment, particularly for the source data automation project. The remainder of the increase, for supplies and other services, is $367,000, or 1.3 percent over 1964. This per-

centage increase compares with recent prior year increases ranging from 2 to 18 percent.

The increase in stamps and accountable paper is a normal annual increase.

The increase of $226,000 for facilities field personnel is due primarily to within-grade salary increases and to salary increases for the full year 1965 which are effective in January 1964.

Mr. GARY. We have as the principal witness for this item, Mr. Tyler Abell. Mr. Abell, we will be very glad to hear from you at this time.

Mr. ABELL. It is a pleasure for me to be here, Mr. Chairman. I am accompanied by members of my staff. As you may know, I was just recently appointed to this job as head of the Bureau of Facilities. Prior to this time I was Associate General Counsel, and before that, a special assistant to Postmaster General Day. So I am having to rely fairly heavily on the members of my staff, who are extremely capable and dedicated Government servants.

Mr. Amos J. Coffman, my deputy, is here.

Mr. Dennis Jensen, who is the Director of the Realty Division.

Mr. Craven is the Fiscal Control Officer.

Behind me is Mr. Conrad Trahern, Director of the Division of Procurement, and over there in the corner is Mr. Charles Dieman, who is the Director of the Maintenance Division.

I have given this budget very careful study and gone over it to try and account for every penny and be certain that all of the money we have programed for the coming fiscal year is going to be spent for the best good of the postal service.

I think that the members of the committee will agree that we have a relatively tight budget here. In the facilities appropriation we have increases in two of the programs and in both cases they are smaller increases than increases we were given last year.

My first one is for building occupancy, where we have asked for an increase of $9 million and for facilities field personnel we have asked for an increase of $226,000, all of which is attributable to the pay increase and regular step-in-grade increases.

In the plant and equipment appropriation we are asking for an increase of $8.2 million for major mechanization and for other equipment we are asking for an increase of $11.7 million.

Again, in both instances these increases are smaller than the increases we received last year.

In the rest of the programs we have asked for actual reductions from our 1964 appropriation. In facilities we have a decrease of $300,000 in the supplies and services; in the plant and equipment appropriation we have budgeted a decrease in the Federal buildings improvement of $33 million.

In the vehicle program, we have budgeted a decrease of $525,000. You have already read off the total increases over last year for facilities.

Mr. GARY. Your prepared paper may be included in the record at this point.

(The statement follows:)

GENERAL STATEMENT OF ASSISTANT POSTMASTER GENERAL ABELL

The Bureau of Facilities believes that it will need $205,069,000 in the Facilities appropriation to do its part to provide good mail service in the United States during the Government fiscal year 1965.

This is $15,069,000 more than the amount appropriated for 1964. On an obligation basis, the increase is $9,165,000, after adjusting the 1964 appropriation by $1,005,000 for headquarters services costs and by $5 million for increased costs in printing, leasehold improvements, and purchase of mailbags. Also included in the adjustment is a transfer to General Services Administration of $101,000 for rents.

We respectfully submit to this committee that the 1965 budget estimate was prepared on an exceedingly tight basis. For the facilities appropriation the increase in obligations is only 4.7 percent for 1965 as compared to 15.5 percent for 1964, 8.5 percent in 1963, and 14.8 percent in 1962.

No appropriated funds are requested for the site acquisition program for 1965. For improvements to leased facilities, $1,570,000 is requested, as compared with estimated obligations of $2,720,000 in 1964. It is estimated that the annual rate of rents and leases will increase 13.1 percent during 1965 compared to 13.2 percent increase in 1964, 12.1 percent in 1963, 19.2 percent in 1962, and 20.3 percent in 1961.

In supplies and services, a decrease of $1,232,000 is requested for mail equipment shops, mail bag units and depositories, and a decrease of $209,000 for printing and reproduction. It is estimated that there will be a net increase of $340,000 in rental of equipment, particularly for the source data automation project. All other building and postal supplies and services will increase by $367,000 or only 1.3 percent over 1964 as compared with recent increases over prior years ranging from 2 to 18 percent. The increase of $434,000 in stamps and accountable paper is a normal annual increase and is not controllable. We are annually selling an increased number of the more expensive commemorative stamps and books of stamps.

The increase of $226,000 for facilities field personnel is primarily for regular and within-grade salary increases. Man-years will decrease by 2 to 1,468.

A year ago it was brought to the attention of this committee that the Post Office Department intended to provide a large modern postal plant in New York City under the lease construction program. Planning for this building has been pursued aggressively. The present timetable contemplates that this $35 million project, housed in a 42-story skyscraper, will be formally advertised for bids about April 1, 1964, and that the agreement to lease will be awarded about July 1, 1964. As the Postmaster General stated in December in publicly announcing the project, "It is most appropriate that we make maximum use of the free air above us to cushion the cost of locating post offices on land that would otherwise be prohibitive."

F.D.R. STATION, NEW YORK

Mr. ABELL. I would be happy to submit to questioning, but just one little thing before that, I would like to wish you a very happy birthday, Mr. Chairman, and I even brought a birthday present down here for you.

Because you had expressed interest in the new building which we are proposing in New York City, the F.D.R. station, we brought you a picture of that which is a rendering by the architect, Mr. Max Urbahn, and we felt possibly this might have a position of honor here in the committee room, along with some of the exhibits that the other agencies have given you.

Mr. GARY. That is fine. We appreciate that very much. It is a very good picture.

When will that be completed?

Mr. ABELL. The architect has finished the plans on that building. We plan to advertise on the first of April and the contract should be awarded the first of July. It will be early 1967 before construction is actually completed.

This is the one, Mr. Chairman, that has been the subject of quite a bit of interest and in some circles a little controversy, although generally the reaction has been very favorable.

You will notice that the bottom section is substantially larger and above it is a tower. The proposal is to have this base be for postal purposes. The owner would lease the tower to private tenants and in that way he would be able to give us a much more attractive bid.

The land in that area is worth almost $100 a square foot, so that building, a four-story building which is what the Post Office Department needs in that section, would just be prohibitively expensive. We think that by allowing the owner to put on top of the Post Office Department's section, a 38-story tower, which is the maximum that the zoning laws in New York City will permit, he can spread the cost of his land over a wider base and give us a much more attractive offer.

Mr. GARY. These are twin towers?

Mr. ABELL. No, sir; that is one tower.

Mr. JENSEN. The elevator shaft goes up here which makes it appear to be two parts.

Mr. GARY. The Post Office will occupy that base?

Mr. ABELL. Yes, sir. That is a four-story building at the base, with two basement levels underneath. That is the part we want.

Mr. GARY. It will really give you six floors?

Mr. ABELL. Yes, sir.

Mr. GARY. That will house the entire post office department of New York?

Mr. ABELL. No, that is one of the three buildings that we have scheduled for——

Mr. GARY. Will this be the main office in New York?

Mr. ABELL. No, we will still have several other even larger buildings.

Mr. JENSEN. This is a station serving the East Side of Manhattan, basically a parcel post station.

Mr. ABELL. This will be at 3d Avenue and 54th Street. We are planning another facility at 3d Avenue and 32d Street and a truck terminal over on the West Side at 9th Avenue and about 28th Street.

Mr. GARY. How is your automobile and truck traffic taken care of there?

Mr. ABELL. We occupy the whole city block.

We have also, Mr. Chairman, these preliminary bidding information documents which have gone out to all of the parties who have expressed an interest in this building.

This is not the official bidding document, but we wanted to give them as much leadtime as possible. Because of the new concept for this building, we got out this preliminary pamphlet. We had 500 of these printed and I had to go around and steal some from other officials in the Department so I would have enough to give to the committee today, it has been such a popular best seller.

The pages are not numbered, but toward the back there is a diagram of the basement that shows space for truck parking and ramps going down to the basement.

On the first floor you can see another diagram which makes provision for truck docking and ramp space, and again on the second floor you have ramps going up to additional truck parking and loading areas.

Mr. GARY. Mr. Abell, the personnel summary and the justification materials indicate no increase in personnel over the 1,430 for 1964; is that correct?

Mr. ABELL. That is correct; yes, sir.

Mr. GARY. Mr. Belen testified earlier, however, that eight additional positions are being requested for the Bureau of Facilities in 1965. What is the cause of this apparent discrepancy?

Mr. ABELL. The 1,430 positions are the Facilities field personnel and are paid from the Facilities appropriation. Those are the men who work in the mail equipment shop, the mailbag depositories and the capital equipment warehouses and other field operations. The eight additional people we are asking for are headquarters personnel and are paid from the administration appropriation.

Mr. GARY. How many headquarters people do you have all together?

Mr. ABELL. 174, right now. We are asking for an additional eight.

Mr. GARY. Can you provide a table indicating the number of employees by grade, general classification, and assignment?

Mr. ABELL. Yes, sir.

Mr. GARY. This gives the rate and classification, but it does not give the assignment.

Mr. ABELL. I'll have the chart amended to include that information and provide it for the record.

Mr. GARY. It will show the eight additional positions?

Mr. ABELL. Yes, sir; and with your permission I should like to present for the record, in addition to the table, the justification for the eight additional positions.

(The information is as follows:)

BUREAU OF FACILITIES (ADMINISTRATION AND REGIONAL OPERATION APPROPRIATION)

Number of Headquarters Employees by General Classification, Grade, and Assignment

GS grades	Current 1964 complement					New positions requested, 1965			Total positions, 1965
	Office of Assistant Postmaster General	Procurement Division	Realty Division	Maintenance Division	Total	Office of Assistant Postmaster	Procurement Division	Realty Division	
Assistant Postmaster General	1				1				1
18	1				1				1
17		1	1		2				2
16	2	1	1	1	5				5
15	2	4	4	3	13		1	1	15
14	2	2	1	3	8				8
13	1	5	6	6	18			2	20
12		7	4		11				11
11	1	6		1	8				8
10	1	1			2				2
9	1	9	5	1	16				16
8	1	3	1		5				5
7	4	17	5	3	29				29
6	1	6	5	5	17		1		18
5	1	15	5	1	22	1		2	25
4		13			13				13
3		2	1		3				3
Total positions	19	92	39	24	174	1	2	5	182

There are eight additional employees requested for the Bureau of Facilities as follows:

(a) Office of Assistant Postmaster General

GS–5, secretary	1

This position will provide assistance to the offices of Administrative Management and Congressional Relations. The workload of both offices responsible for providing administrative services for headquarters operation of the Bureau of Facilities and continuing congressional liaison regarding programs of the Bureau has increased twofold over the past 2 years. Additional emphasis must be placed on the civil defense program of the Bureau and its employee relations, whereas a continuing effort must be made to maintain a current status with regard to congressional relations. Clerical support is now provided by two positions. This request will provide the necessary support required to keep work at a current level.

(b) Procurement Division

GS–15, general supply officer	1
GS–6, secretary	1
Total	2

These positions are required to fulfill the mission established for the Procurement Policy and Management Staff in the Office of the Director, Procurement Division. Three positions previously allotted to the Procedures and Manual Section were transferred to this staff as a nucleus. The position of General Supply Officer must be filled if the basic policy formulation, implementation, and administration functions assigned as a result of a joint GSA–POD survey are to be carried out. The position of Secretary is required to provide clerical support to the management and policy directing staff.

(c) Realty Division

GS–15, field liaison officer	1
GS–13, administrative officer	1
GS–13, realty officer	1
GS–5, secretary	2
Total	5

A recent survey of the Realty Division indicated definite need for support in two vital areas—administrative assistance and field liaison. Experience with the reorganized operations points to the immediate need for establishing positions to perform these duties.

The Administrative Officer will provide management assistance and control for the Division's programs with respect to forms, records, administrative issuances, organization, methods, and manpower, and for the coordination and preparation of replies to internal audit reports, internal communications requiring coordination within and between the Realty Division and other organizational entities of the Department. The workload of the Realty Division is such that its entire emphasis is of necessity on the processing of documents and actions leading to rental and lease construction contracts and their administration. The Division has not had and does not have a position which can be assigned to the vital area of management assistance. Failure to provide this position will require highly trained realty personnel to neglect their specialized tasks while performing these duties.

The position of field liaison officer is essential if the Division is to receive and maintain current information and intelligence regarding the performance of its regional real estate offices and personnel. The field liaison officer by frequent travel to the regional offices will obtain information regarding the daily operations by intensive and informative management audits of methods, procedures, and manpower. These data will be translated into management action for improvement of the realty organization and the standardization of procedures in all regions. At the present time, Headquarters personnel assist the regions in specific cases but man-hours are not available for the important job of continuing coordination by onsite investigations and audits of field operations. Failure to provide this position will seriously hamper the efforts of the Realty Division to improve its organization and procedures with the ultimate objective of effecting economies and efficiencies.

The two GS–5 secretarial positions requested will provide essential clerical services for the aforementioned officers.

The realty officer GS–13 position will support lease analysts presently engaged in reviewing and recommending action on cases initiated at headquarters and in the regions for approval of the Department's contracting officer. In addition to the work now performed by the lease analysts, a comprehensive study will be made to determine the advisability of expansion and modernization of existing Federal buildings or converting the operation to a leased facility. Also, realty officers will be required to review regional awards to determine that proper procedures have been followed and that awards have been equitable to the Department. Also, coordinators for major facilities projects will be assigned from this branch. An additional realty officer will assure the Department that rental costs are fair and equitable and that necessary work is performed without undue delay.

ITEMS INCLUDED IN THE APPROPRIATIONS

Mr. GARY. What is the distinction between the items funded under the Facilities appropriation and those funded under the Plant and Equipment appropriation?

Mr. ABELL. In general terms, items of expense are charged to the Facilities appropriation and capital items are charged to the Plant and Equipment appropriation.

Specifically under "Facilities" we have building occupancy, which includes rent, fuel, utilities, communications, and reimbursable site acquisition, and supplies and services, which includes building and postal supplies and services, mail equipment shop, mailbag repair units and depositories, stamps and accountable paper, and printing and reproduction. Also, we have the facilities field personnel, as I indicated before, mainly the people who work in the mailbag facilities, the mail equipment shops, and supply centers.

Under "Plant and equipment" we have major mechanization, Federal building improvement, vehicle program, and other capital equipment.

Mr. GARY. Is there ever any overlap in these items?

Mr. ABELL. No. I think the committee has been very specific on that point in keeping these items separate.

RENT PROGRAM

Mr. GARY. What is the amount of your rent program as proposed for fiscal year 1965?

Mr. ABELL. $99 million.

Mr. GARY. The committee has been giving particular attention to this item for some time. Could you prepare a table indicating the amount of the rental program for the last 10 or 15 years, if you have the information to indicate the trend in that particular program?

Mr. ABELL. Yes, sir. I have such a table. As I have been aware, this committee has expressed concern about that. I might say that one of the first questions I asked upon taking charge of the Bureau of Facilities, was whether there wasn't some way of making this rent account stand still and stop increasing at the rate of about $10 million a year. This year it is a smaller increase than we have had in the past, but it is still an increase. There really doesn't seem to be any way out of this constant slide upward in the rent account. We are constantly having to build more post offices to take care of our needs for increasing mail volume. We have many post offices which are going to wrack

and ruin, as Mr. Passman indicated during the first day of these hearings, where the roofs are falling in.

I do not think there are too many that are that bad, but we do have to replace a certain number every year whether we like it or not. It just becomes expensive to continue to maintain them. I think this is also tied into the general rise in the cost of living and the even greater increase in construction costs.

Construction costs since the war have increased almost twice as fast as the Consumer Price Index. I would like to submit this table, and also another one showing the comparison between the Consumer Price Index and the construction cost index.

Mr. GARY. The first table goes back to 1951. That is 15 years. The second one goes back to 1939.

Mr. ABELL. We have 1 year there and then it jumps to 1952.

Mr. GARY. Yes. That is the same as the other one. Without objection, they will be inserted at this point in the record.

(The documents referred to follow:)

Rent obligations and amount of leased and rented space

Fiscal year	Obligations [1]	Annual rate, June 30	Percent increase over prior year	Total space occupied, June 30 (square feet) [2]	Percent increase over prior year
	Thousands	*Thousands*		*Thousands*	
1951	$19,962				
1952	23,154				
1953	26,193				
1954	28,545				
1955	32,112				
1956	32,767	$32,690			
1957	34,989	34,621	5.9	67,283	
1958	37,660	37,728	9.0	74,102	10.1
1959	42,171	41,820	10.8	81,223	9.6
1960	47,050	48,026	14.8	90,684	11.6
1961	56,836	57,768	20.3	107,529	18.6
1962	68,788	68,847	19.2	127,514	18.6
1963	79,569	77,201	12.1	143,241	12.3
1964, estimated	89,967	87,387	13.2	159,189	11.1
1965, estimated	99,063	98,872	13.1	176,540	10.9

[1] Includes capitalized rent costs and payments to other Government agencies.
[2] Includes platform and parking and maneuvering space.

Comparison of Consumer Price Index of Department of Labor and construction cost indexes

[1947–49=100]

Calendar year	Consumer Price Index	Construction cost indexes			
		E. H. Boeckh & Associates, commercial and factory buildings	Department of Commerce composite cost index	George A. Fuller Co., commercial buildings	Turner Construction Co., industrial buildings
1939	59	54	49	52	45
1952	113	122	119	112	121
1953	114	126	122	115	123
1954	115	128	122	121	121
1955	115	132	125	124	123
1956	116	139	132	130	134
1957	120	144	137	136	142
1958	123	147	138	142	142
1959	125	152	141	147	145
1960	127	154	144	150	145
1961	128	156	145	155	146
1962	129	159	148	162	149
1963 [1]	131	162	151	168	152
Percent increase 1963 over 1939	122	200	208	223	238
Percent increase 1963 over 1947–49	31	62	51	68	52

[1] Partially estimated.

Mr. GARY. What part of the $99 million in the rent program will be required to pay rent for those buildings actually occupied as of the end of fiscal year 1964?

Mr. ABELL. I cannot give you that right offhand. I can submit that information at a later day.

Mr. GARY. Insert it as this point in the record.

How much is required for buildings which you anticipate will be occupied during fiscal year 1965? Give us both of those?

Mr. ABELL. I will give you both of those.

(The information requested follows:)

Rent program, 1965

	Thousands
Rent in 1965 for buildings occupied June 30, 1964	$89,096
Nonrecurring rents and leasehold improvements	4,399
Net increase in rents for buildings to be occupied during 1965	5,568
Total	99,063

Mr. GARY. What part of the other items in this appropriation, fuel, et cetera, do you anticipate will be required for buildings anticipated to be occupied during fiscal year 1965?

Mr. ABELL. Again I will have to submit that one.

(The information requested follows:)

It is estimated that the additional space occupied in 1965, estimated above to cost $5,568,000 for rent, will require $633,000 to cover the cost of fuel and utilities.

Mr. ABELL. I might say that we have programed construction for 1964 that is less than for the prior 2 or 3 years.

In 1961 we awarded 2,058 contracts and this year we programed 975.

Mr. GARY. How many for 1965?

Mr. ABELL. Nine hundred seventy-one for 1965. It has leveled. We had a surge upward. Then it came back.

Mr. GARY. What part of these costs do you attribute to those buildings or facilities which have not yet been placed under contract?

Mr. ABELL. You are talking now about the rent account for 1965? Most of the awards that will affect the 1965 rent account have already been made.

There will be a small portion of the smaller buildings on which the contracts will be awarded in 1965 and the buildings occupied in 1965 at an added rental cost of $649,000.

Mr. GARY. Could you provide that information in some detail, possibly in table form for the record?

Mr. ABELL. We will be glad to expand on that.

(The information requested follows:)

Awards and occupancy, GFY 1965—new construction, major remodeling

[In thousands of dollars]

New Construction	Annual rate			Obligations		
	Building occupied	Building replaced	Net increase	Building occupied	Building replaced	Net increase
Lease:						
New units	$387		$387	$92		$92
Replace lease	247	−$67	180	62	−$17	45
Replace rental	252	−52	200	116	−24	92
Rental: Replace rental	242	−59	183	131	−32	99
Remodeled buildings:						
New units	195		195	60		60
Replace lease	1,063	−540	523	529	−268	261
Total awarded and occupied GFY 1965	2,386	[1] −718	1,668	990	−341	[1] 649

[1] In event the above awards are not made, it is estimated the annual rate on the existing buildings will increase by $129,000 and obligations will increase by $90,000.

Mr. GARY. You are asking for a sizable increase over fiscal year 1965, $15,069,000. How much of that increase is attributable to items over which you have no administrative discretion, such as contracts already let and buildings already occupied?

Mr. ABELL. Except for that $649,000 that we just talked about a minute ago, less approximately $90,000, the rest we are committed to. That would be a matter of cutting off the heat in buildings and things like that in order to save money.

SITE PROGRAM

Mr. GARY. I notice you state that no additional funds are requested for the site acquisition program for 1965. What is the amount of funds presently in that program?

Mr. ABELL. Presently we have about $30 million in that site acquisition fund and during the coming fiscal year we expect to recover or have paid back to that account $22 million.

Mr. Chairman, if you would be interested, I have a table here showing the different projects for which that money has been obligated and I would be glad to submit that table for the record.

Mr. GARY. Yes.

Mr. ABELL. You will notice at the bottom there the total is given as $28 million. You asked me how much was in the account. There

is about $2 million which has not been obligated, but I gave you the total in the account. Of that $30 million $28 million is now tied up.

Mr. GARY. $28 million is obligated and only $2 million unobligated?

Mr. ABELL. $2 million is unobligated. It is conceivable that between now and the end of this fiscal year we will have some of the $28 million returned. We will probably obligate the rest of the $2 million and then during fiscal year 1965 we expect to get about $22 million returned from that which is now obligated.

Mr. GARY. They are no-year funds, are they not?

Mr. ABELL. That is the general effect of the authorization. However, the amount that is not obligated at the end of the year reverts to the Treasury.

Mr. CRAVEN. It technically is not no-year money. Also it is not a revolving fund. The investment in sites and architect-engineering services become reimbursements and in effect do revolve but we have to use them in the year they are recovered. If we do not, the funds lapse.

Mr. GARY. And you have approximately $30 million in that fund now with approximately $28 million obligated?

Mr. ABELL. That is correct.

Mr. GARY. Since the site acquisition program is down by 4½ million from last year, does that mean that the total increase over 1964 is almost $20 million offset by the $4½ million reduction in the site acquisition program?

Mr. ABELL. Last year we asked for $4½ million to be added to the site acquisition fund. This year we are not asking for any addition to the site acquisition fund because we expect that we will have that money coming in to us next year from the sites that we now have on hand. As we turn them over to bidders, on which buildings will be built, the bidder then pays us the amount of money for the land. That money then goes into the fund and we then can reobligate it.

Mr. GARY. But you asked for $4½ million last year.

Mr. ABELL. Yes, sir.

Mr. GARY. In 1965 you are asking for $15 million more for the whole facilities budget than you had last year?

Mr. ABELL. But we are not asking for a dime of this in site acquisition money.

Mr. GARY. I am talking about your total increase, though. Your total appropriation——

Mr. ABELL. Total appropriation for facilities——

Mr. GARY (continuing). You are asking for $15 million more than you asked for last year.

Mr. ABELL (continuing). $15,500,000 more than was appropriated last year.

Mr. GARY. Than was appropriated last year, that is right.

Mr. ABELL. Approximately $9 million more than we expect to obligate this year. There was a transfer.

Mr. GARY. But it is $15 million more than you asked for, or than was appropriated last year.

Mr. ABELL. That is correct.

Mr. GARY. You are asking for $4.5 million less for site acquisition than you asked last year?

Mr. ABELL. Yes, sir.

Mr. GARY. The question that I am asking is, Does that mean that your total increase over 1964 is approximately $20 million, offset by the $4,500,000 reduction in the site acquisition program?

Mr. ABELL. Yes. You could put it that way, yes, sir.

Mr. CRAVEN. That is talking obligations.

Mr. ABELL. If you want to put it another way, we will have even more this year because we will be getting that site acquisition money back, which will continue to be obligated. In other words, if you want to really get into the site acquisition account, which I think should be dealt with separately—this does appear in this building account, but I really think it should be separate—then you have to also add in $22 million which we expect to get back from this revolving fund in the coming year.

Mr. GARY. Are they no year funds?

Mr. ABELL. No, sir. It is a strange one. It is in the nature of a revolving fund. In other words, this $30 million in the site acquisition fund stays there as long as we keep it obligated. When we come to the end of the year, funds that are not obligated revert to the Treasury. If we obligate them before the first of July, the next year we get them back if we sell the land to a successful bidder as we fully expect to, and then we are free to obligate them again.

(The following additional information was submitted for the record:)

Presently we have $30.7 million in the site acquisition fund of which $2.6 million is 1964 obligational authority which is available until June 30, 1964, and $28.1 million is now invested in property, including sites, architect's plans and specifications and other developmental costs. These sites and other property items will be sold to successful bidders for lease-construction contracts and the proceeds reimbursed to this appropriation. Such reimbursements may be obligated for new sites and property items in the fiscal year received. It is estimated that such reimbursements will total $22,445,000 in 1965 which is sufficient to cover estimated new site acquisition costs and other requirements for that year.

The procedure of using these reimbursements may be clarified by referring to the pertinent legislative authority. Accordingly, with no objection, I put this statement in the record:

BACKGROUND OF THE SITE FUND

Public Law 519 (approved July 22, 1954), title II, section 203(a) authorizes the Postmaster General to—

"(1) enter into leases not to exceed thirty years in duration for the construction of buildings or improvements for postal purposes, as he deems appropriate, on lands sold, leased, or otherwise disposed of;

"(2)(A) acquire by purchase, condemnation, lease, donation, or otherwise * * * real property and interests therein for postal purposes; and

"(B) dispose of real property and interests therein except in (1) Government-owned property or interests therein acquired pursuant to section 101 of the Public Buildings Act of 1949 or (2) any Government-owned property or interests therein which has been acquired pursuant to law, prior to the enactment of this Act on which there has been constructed a building to be used for postal purposes and which is currently used for such purposes; and

* * * * * * *

"SEC. 203. (b) Funds available to the Post Office Department for the payment of rents are authorized to be used for such purposes.

* * * * * * *

"SEC. 205. (a) Amounts received by the Government from sales, leases, or other disposals of property acquired under authority of this title * * * shall be credited to the current applicable appropriations of the Post Office Department and shall be available for expenditure for purposes of this title: *Provided*, That any such amount received from the sale of such property * * * which exceeds the amount paid therefor from the appropriations for the Post Office Department shall be covered into the Treasury as miscellaneous receipts."

From the above summary of the substantive statute, it will be apparent that the moneys used for the acquisitions of property, including sites, architect's plans and specifications, etc., as authorized by the subject act, are derived from ordinary appropriations for the payment of rents and are neither no-year funds nor revolving funds.

Basically, x dollars are appropriated each year and, if not obligated in that year, these funds cannot be carried over as balances available for programs initiated in successive years.

However, under the provisions of the subject act, funds obligated in prior fiscal years and recovered through reimbursements in successive years may be reobligated for new projects in the year in which they are received provided that the reimbursements, project by project, do not exceed the amounts originally obligated for specific projects. Wherever specific reimbursements exceed specific obligations the difference must go to the Treasury as miscellaneous receipts.

In condemnation proceedings, funds obligated to cover the estimated costs of sites to be so acquired can only be recovered by normal reimbursement procedures for reobligation to other projects in the year of recovery. Wherever condemnation procedures are abandoned subsequent to the year of original obligation, the funds formerly obligated for such purposes cannot be recovered for reobligation or reuse but are lost to the Department for these purposes.

According to the records, the first request made specifically for site acquisition purposes was made in the fiscal year 1957 budget. Since that time, additional requests have been made in varying amounts until a current total of approximately $30 million has been authorized for site acquisitions, architectural plans and specifications, and other developmental costs.

Mr. GARY. You get $22 million in this year in additional funds but you must obligate that before the year is out, is that correct?

Mr. ABELL. Yes, sir; $22 million paid back from current projects.

Mr. GARY. If you do not obligate it it goes into the Treasury?

F.D.R. STATION, NEW YORK

Mr. ABELL. Yes, sir. In every case here we are talking about money which is presently tied up in what you might consider the negotiated part of a leased facility. For instance, on this building here in New York City, that land was purchased back in 1958 at a cost of $3.2 million. When we award the contract, as we expect to, about the first of July, the successful bidder will immediately have to pay us the cost of that land and that will come back into the revolving fund, which we then can obligate at some subsequent time during fiscal year 1965. Also the architect and engineering fee. The architect fee on this building was $610,000, again, paid for out of this account. The successful contractor will pay, or reimburse the Post Office Department for the payment of that fee when he is awarded this contract. That fund, again, goes into this account. This pink sheet gives the estimate of what we have programed for this account during fiscal year 1965: architectural and engineering services, $8 million, in building sites $14,445,000, adding up to a total of $22,445,000, which we expect to be matched by reimbursements from buildings such as this one.

Mr. GARY. I understand you paid $2 million——

Mr. ABELL. $3.2 million.

Mr. GARY. $3.2 million for the land?

Mr. ABELL. Yes, sir.

Mr. GARY. Has it increased in value since then?

Mr. ABELL. Very substantially, it has. We just had an appraisal on that land which came in last week, of $7.8 million.

Mr. GARY. When you sell that property to the lessor of the building, at what price will it be sold?

Mr. ABELL. There has been, as you probably know, considerable discussion and controversy on this. My own belief is that it should be sold to the lessor at the price that we paid for it, $3.2 million. Questions have been raised about it and because of these questions, not because of any belief that it is to the best interests of the Government, but because of these questions, we intend to ask the contractors who are bidding on this program to submit twin bids in every case. One, they will bid on the building, based on land cost of $3.2 million. In other words, how much rent they are going to charge us if the land is sold to them for $3.2 million. The other bid will be how much rent they will charge us if we sell them the land at $7.8 million.

Frankly, it seems to me that the financing is such that a bidder has got to charge more if the land cost is that much higher. His financing is going to increase. The money costs him more than it costs the Government. That will simply be reflected in an increased rent.

I am doing it this way so that there won't be any argument. When it is over, we can say, "Here is what the bids were," and we were right or we were wrong. It will be that simple.

Mr. GARY. If you sell it for $7.8 million, how much of that would go into the fund to reimburse you? Would the whole $7.8 million go in or would it just be the $3.2 million that you paid for it?

Mr. ABELL. We have had an opinion from the General Counsel that the difference between $3.2 million and $7.8 million, assuming that the land was sold for $7.8 million, would go to the general fund of the Treasury and not to our site account.

INCREASED REIMBURSEMENTS FOR COMMUNICATIONS

Mr. GARY. I notice a statement on page FA–6 of your justifications that the estimate includes $202,000 in 1965 to fully reimburse General Services Administration for the first time for the pro rata cost of use of their switchboards. What is the background for this particular item?

Mr. ABELL. In the past, Mr. Chairman, we have had an arrangement with the General Services Administration whereby we reimburse them for part of the cost of the switchboard and now we just have changed the arrangement so that we pay the full cost.

Mr. GARY. Why the change?

Mr. ABELL. Well, this arrangement was made before I came on the job and I am not fully acquainted with the purpose of the change. Maybe somebody else here—Mr. Harriman, have you been on that one?

Mr. HARRIMAN. GSA has set up at the request of the Bureau of the Budget a procedure to distribute the cost of telephone service among the various Government agencies. They actually call it a reimbursable rotating fund, so all Government agencies are being charged their pro rata share of the total cost of the GSA telephone services.

I would predict that this amount will go up substantially in the Post Office Department budget beyond fiscal year 1965. They are going to capitalize more and more of their services. In some regions they used to absorb the telephone operators as a GSA cost. This is now capitalized and spread among all Government agencies.

Mr. GARY. If it is spread among all Government agencies why does that make the Post Office Department pay more? You mean you have not been required to pay your part of it heretofore?

Mr. HARRIMAN. Yes, sir; that is correct. The cost of the telephone operator was a fixed cost absorbed by GSA in the past. They are now capitalizing this and adding it onto the bill that they charge to other Government agencies, including the Post Office Department.

Mr. GARY. I wonder if they have taken it off of their appropriation?

Mr. ABELL. Maybe and maybe not. One of the things GSA is doing is an effort to have direct dialing throughout the Government and I think this is tied in. As they increase their mechanical capability with the telephone system they change the budgeting.

Mr. GARY. I am not complaining of it. The Government is going to pay for it either way. I don't think it makes any difference. It is whatever method is better. I want to be sure GSA takes it off of their appropriation, if they are not going to pay.

HIGH-RISE POST OFFICE DEPARTMENT PROJECT

Does this budget contain any funds for the high-rise Post Office Department project proposed for New York City?

Mr. ABELL. I do not believe this does because the contract won't be awarded until July. Sometime in July we will be receiving back all the site acquisition money and the architecture money which we have paid out for that project. The building won't be completed during fiscal year 1965. We would not start paying rent until fiscal year 1967 at the very earliest.

Mr. GARY. How about the planning and design funds?

Mr. ABELL. That has already been paid for.

Mr. GARY. You will be reimbursed for that?

Mr. ABELL. We will be reimbursed for that by the successful bidder.

Mr. GARY. I do not understand exactly how this works. For example, if you sell the land, regardless of what you sell it for, whether you sell it for $3.2 million or seven point whatever it is.

What I was asking is this: Regardless of which price you sell it for, would they actually pay that amount to the Government?

Mr. ABELL. Yes, sir.

Mr. GARY. And will they actually pay the money to the Government for the planning and design?

Mr. ABELL. Yes, sir, the architect's fee, in this case, $610,000, will be paid to the Post Office Department.

Mr. GARY. And the cost of the land will be paid to the Post Office Department?

Mr. ABELL. Yes, sir.

Mr. GARY. Then the rent will be figured after that? Those transactions will not figure into the bid at all then?

Mr. ABELL. Well, only in that the successful bidder will have to calculate his bid with the knowledge that if he is successful, the first thing he is going to have to do is to pay his $3.2 million for the land. The next thing he is going to have to do is to pay us $610,000 for the architect. Then he has got to build the building on top of that.

Mr. GARY. I understand it would figure into his bid but it would not figure into your costs.

Mr. ABELL. No, sir.

Mr. GARY. Not at all.

Mr. ABELL. No, sir; not at all.

Mr. GARY. For example, the bid would be purely for rental.

Mr. ABELL. Yes, sir; absolutely.

Mr. GARY. And with the understanding these amounts that he is to pay back would be entirely separate from the bid on the rental. That would be with the understanding that you will sell the land for a certain amount. He will give you a bid on the rental of the portion of the building you are going to use for over a period of years; is that correct?

Mr. ABELL. That is correct.

Mr. GARY. You would have nothing to do with the rest of the building at all?

Mr. ABELL. Absolutely nothing. In fact, the building is so designed that the tenants for the tower portion of the building would not enter the post office They have a separate entrance, separate elevator, separate air-conditioning system—everything is divisible.

Mr. GARY. The point I make is you would have no interest in what he rents the remaining part of the building for.

Mr. ABELL. None whatever.

Mr. GARY. You would only be interested in the rental price of the portion of the building that you are going to occupy?

Mr. ABELL. That is correct. The bidder has it figured out in his own mind how much it is going to cost him to build that building and how much he can get as rent from the tower portion of the building from private tenants. Then on the basis of those two factors he makes a proposal to the Post Office Department.

Mr. GARY. Under those circumstances, if you sold the building for 3.2, the same amount you paid for it, while you might get a cheaper rental, the other people in the building or the owner of the building would get a bonanza, wouldn't he, of approximately $4 million?

Mr. ABELL. No, I do not agree with that because if he were to pay us $7.8 million for the building, he would have to charge us substantially more rent to pay (1) the $7.8 million and (2) his cost of borrowing the $7.8 million.

Mr. GARY. That is true, but the tenants would have to pay their part. The tenants in the rest of the building would have to pay their part of those costs, too. Their cost would be substantially reduced because that would only be figured insofar as your lease is concerned.

Mr. ABELL. Their costs are not going to be reduced, Mr. Chairman. He is going to charge on a square footage rate for the tenants in that building exactly what the market will bear in the area of 3d Avenue and 54th Street in New York City. If he can rent those quarters in that building at $10 a square foot a year, that is what he is going to charge, and whether we sell him the land for $7.8 million or whether we give it to him he is still going to charge what the market will bear for that part of the building. The benefit that the Post Office Department receives is in those air rights. If the owner of the building can rent the air rights for a higher price he can give us a lower price. It is going to be a competitive bid. These boys are going to have their pencils sharpened up to figure how they can get that piece of property and rent it to us at the least possible cost; otherwise if we do not get a good bid we can reject the bids and put it out for bidding again.

I do not see how they can have a bonanza here in a competitive bidding situation. One man might think he can charge us a little more but if another fellow offers less, he will be the successful bidder.

Mr. GARY. The cost of the land is an integral part of the cost of a project.

Mr. ABELL. Yes, sir.

Mr. GARY. Of the entire project?

Mr. ABELL. Absolutely.

Mr. GARY. The rental of the entire building is figured on the basis of the cost of the entire project.

Mr. ABELL. That is correct.

Mr. GARY. Therefore, if he pays you $3 million for the building, he is paying less. He is saving $4 million.

Mr. ABELL. That is correct.

Mr. GARY. So he would reduce the cost on the entire building and not necessarily reduce the rent, but either absorb that in the rest of the building, give the other tenants the benefit of it, or put it in his pocket.

Mr. ABELL. Mr. Chairman, I have never heard of a landlord who gave the tenant the benefit of anything. He will charge what the market will bear.

Mr. GARY. That is what I am afraid of. That is why I think he will put it in his own pocket.

Mr. ABELL. That is why we let them on competitive bids. He is going to be competing for the privilege of building that post office and getting the tower on top.

Mr. GARY. I think you would be absolutely right if you are going to occupy the entire building, but it seems to me that the rest of the building would get the benefit of a portion of the cost of the land. I do not see how you would escape it.

DUAL BIDS

Mr. ABELL. Mr. Chairman, I have every respect for your opinion and I must say that your opinion is reinforced by arguments of others. It is for this reason that we are going to ask all bidders to submit dual bids on this project. One on current land cost, and one based on original cost of acquisition.

My own feeling is that the increased costs of financing, if we sell the land at the $7.8 million mark, or it might even be higher than that—to complicate this a little further I might say we are asking for another appraisal of that land. We will have that appraisal in about a week, so that the land value might be up in the $8 million or $8.2 million figure, but whatever it is it is going to be a substantial sum.

Whatever the figure, the financing is going to be, I think, it will be more expensive for the bidder than for the Government. This is the factor that will mean that a bid based on land cost of $7.8 million or $8 million is going to be higher—when you analyze all the factors—than a bid based on land costs at $3.2 million.

This is my analysis. You may disagree with it.

Mr. GARY. No. I do not——

Mr. ABELL. We hope to prove the best method by asking each bidder to bid both ways.

Mr. GARY. I do not disagree with that. Certainly, the smaller amount he pays for the land the better contract he can give you in rent.

I do not think there is any question about that. But the question in my mind is whether it will be better, plus the 4 or 5 million advantage that he would have in the purchase price.

Mr. CONTE. Why should the tenant above the post office cash in on this?

Mr. ABELL. I do not understand where they will because the landlord is going to rent the building and if the rental, or if the market for renting buildings in that area, is $5 a square foot, he is going to charge $5, and it does not matter whether we give him the building. He is still going to charge what the market will bear.

Mr. CONTE. That is right. He will realize a bigger profit as a result.

Mr. ABELL. But his profit, we hope, and as I pointed out to Mr. Gary, the reason we are asking for twin bids from each bidder, is that we think that the competition is going to be pretty keen on this, so the bidders are going to try and offer us the lowest possible price for our section of the building and make their money on the tower. We might be wrong. You never know, but we are very encouraged about it. We have had a tremendous interest in this project in New York City. I do not have the latest figures, but there have been 15 or 20 major contractors who have expressed an interest of one degree or another in this building. We think that they are going to sharpen their pencils and get the price down to us, which is what we care about. We do not care how much the tenants in the tower would pay.

Mr. STEED. What you are saying, Mr. Abell, is the crux of this is the opportunity the bidder tries to take to get the job in the first instance, and it could even be possible that one bidder would offer you a lower rent at the highest land value than another one at the lowest land value.

Mr. ABELL. That's right. We will have to compare the two bids. We will have to take the extra $4 million and figure out how much that is worth to the Government. My feeling is that this higher land cost is going to result in a higher bid, even after you analyze all the factors, because the private investor has to pay a higher interest rate than the Government has to pay.

Mr. NICHOLSON. I think there is another factor here, too, that might operate—we won't know until these duplicate bids are analyzed. It is the attractiveness to the investor of the potential capital gain on the land rather than the current income from operating the building. It could well be under a specific set of circumstances for a given investor that all he wants to do is acquire the land at approximately the $3 million price and break even on the building operation over the period of the economic life of this building, by which time that land value, which is now $8 million, might go still higher. The capital gain, taxed at relatively favorable tax rates, is perhaps all he is in for. He could afford to operate the building, using his rental revenue simply to cover his current costs now and not have a profit on the building operation. We would hope in such a circumstance that the investor, in order to get this advantage from his point of view, would be willing to reapply all the potential profit from the building operation to making an attractive rental proposal to the Post Office so as to get the project.

Mr. GARY. Frankly, it looks to me like the dual bids are a very satisfactory way to handle this situation, but I would like to say that I

hope when the bids are in you will get the very best accountants in the Government to work on it to figure which is the better bid from the standpoint of the Government.

Mr. ABELL. We very certainly intend to do that. I can assure you that it just is not this committee that is interested in this. This is a very unique idea and we are being extremely cautious to be certain that everything is documented.

Mr. GARY. Mr. Pillion, I believe you have spoken to me about this project. You are very much concerned about it.

Mr. PILLION. Yes, Mr. Chairman.

LEGAL AUTHORITY FOR PROJECT

I was quite disturbed after I read a great deal of publicity about the proposed high-rise building and after reading a large number of accounts concerning the bad market, or the oversupplied market of high-rise buildings in New York. I was wondering why we should get into the business of building a 38-story commercial structure upon the credit of the leasing of the post office area of this high-rise building. It appeared to me that that was somewhat a real estate speculation on the part of the Post Office Department.

I appreciate the colloquy here, concerning the question of alternative bids, based upon either the $3.2 million cost, or the present market value of the site of about $8.2 million——

Mr. ABELL. $7.8 million was the figure, Mr. Pillion.

Mr. PILLION. The Comptroller's Office talks about $8 million. Let's assume it is $8.2 million for our purposes; that it is a $5 million differential.

What happens is, the Federal Government is giving to constructor-lessor, whoever he may be, $5 million of Federal money, an outright gift when you give the site to him for $3.2 million. He manipulates the $5 million gift in his tenancies to get it back over the long run.

You are familiar with the New York State constitution, the principle of law, I am sure, Mr. Abell, that a State or Federal Government cannot or should not give Federal or public funds to a private person or a private corporation. That is elementary public law. So what you are doing when you give it to him for $3.2 million is to say, "Here is a gift of $5 million over and above what you would have to pay for the same site in open market. You manipulate this any way you want, to give this back to the Federal Government by rentals under your leases over a period of 30 years or more. That is what you are doing in essence. You are giving $5 million of public funds to a private corporation.

As to the question of whether the post office gets it back, there is always the question of how you evaluate these bids when they come in, as the chairman said. The evaluations are uncertain. The bids and evaluations could, possibly, be manipulated in a way that will favor a certain individual contractor.

REQUEST FOR COMPTROLLER GENERAL ANALYSIS

On December 14, Mr. Chairman, in line with this situation, I wrote to the Comptroller General and asked him to examine into the financing and the economic factors in this proposal and I suggested the following specific studies:

First, a comparison of the present volume of mail being processed with the proposed mail to be processed in the new facility and the maximum capacity of a new facility for additional mail processing;

Second, the present cost of processing mail in that area under the present facilities, compared with the anticipated cost of processing mail under the new facility;

Third, the legal authority—the legal authority—which authorizes the Post Office to purchase or to take options on land sites to be transferred to the lessor-constructor for mixed purpose where the commercial use exceeds by far the use to be attributed to the U.S. post office building. The legal authority under which the Post Office Department can enter into a series of fiscal arrangements where, in essence, the Post Office Department's lease is the major source of anticipated revenue to construct what is essentially a commercial office building.

I understand that the present appraised market value of the site is $7.8 million but that you are now getting a new appraisal.

Mr. ABELL. We asked for a new one. One has come in. The other is still in the process.

Mr. PILLION. The sixth item, the total lease cost to the U.S. Post Office Department under the reported initial 30-year lease as compared to the cost of the present post office facility for the same period, cost of the mechanization and other operational facilities within the building, the experience of the Post Office Department in the multistory mechanization of mail processing.

I would like to submit this for the record.

(The letter referred to is as follows:)

DECEMBER 14, 1963.

Hon. JOSEPH CAMPBELL,
Comptroller General of the United States,
General Accounting Office, Washington, D.C.

DEAR MR. COMPTROLLER GENERAL: I enclose copies of newspaper reports dated December 13, 1963, from the Wall Street Journal and the New York Times, relating to a pending U.S. Post Office Department project to construct a mixed post office and commercial building in New York City.

As ranking member of the Appropriations Subcommittee having jurisdiction over post office appropriations, I have been distressed by the unfavorable ratio of return and amortization of the U.S. investment in new post offices and post office facilities.

It is well known that there is an oversupply of newly built multistory office space in New York City at the present time.

There is serious doubt in my mind as to the advisability and the financial soundness of this plan to proceed with the construction of a new post office facility in New York City which will, of course, be based primarily upon the income to be derived from the post office lease of the two subbasements and the four floors above street level.

I would ask your office to examine into and review all of the financial and economic factors contained in this proposal. I suggest the following specific aspects:

(1) A comparison of the present volume of mail being processed with the proposed mail to be processed in the new facility, and the maximum capacity of a new facility for additional mail processing.

(2) The present cost of processing mail in that area under present facilities, compared with the anticipated cost of processing mail under the new facility.

(3) The legal authority which authorizes the Post Office to purchase, or to take options on, land sites to be transferred to lessor-constructor for a mixed purpose where the commercial use exceeds the use to be attributed to the U.S. Post Office Department.

(4) The legal authority under which the Post Office Department can enter into a series of fiscal arrangements where, in essence, the Post Office Depart-

ment's lease is the major source of anticipated revenue to construct which is essentially a commercial office building.

(5) The cost of the site to the Post Office Department and the estimated present market value of this site to the lessor-constructor.

(6) The total lease cost to the U.S. Post Office Department under the reported initial 30-year lease, as compared to the cost of the present post office buildings and facilities for the same period.

(7) The cost of the mechanization and other operational facilities within the building and the experience of the Post Office Department in a multistory mechanization of mail processing.

I expect that the Post Office and Treasury appropriations hearings for fiscal year 1965 will being shortly after February 15, 1964.

I would deeply appreciate having a report by March 1, on whatever facts and recommendations the General Accounting Office may be able to assemble by that date.

Respectfully,

JOHN R. PILLION.

Mr. PILLION. Mr. Chairman, after requesting those items from the Comptroller General, I sent you a letter on December 17, in which I advised you of my request for the opinion of the Comptroller General's Office on this subject. I would like to have that made a part of the record.

(The letter is as follows:)

DECEMBER 17, 1963.

HON. J. VAUGHAN GARY,
Chairman, Post Office-Treasury Subcommittee,
House Appropriations Committee, Washington, D.C.

DEAR VAUGHAN: I have been increasingly concerned about the good business judgment of the Post Office Department in deciding to construct a post office in New York City for the combined purpose of a post office operation and commercial leasing.

Since the Post Office Department is rushing the plans and the letting of construction bids for this project, I concluded that time was of the essence in obtaining the necessary facts and findings to determine the economic justification of this project.

For your information, I am herewith enclosing a copy of my letter to the Comptroller General of the United States dated December 14, 1963, together with a copy of the Comptroller General's acknowledgment of December 17.

I would appreciate having your thoughts as to what further steps we may take to protect the public interest in this matter.

With cordial regards.

Sincerely,

JOHN R. PILLION.

Mr. GARY. If the gentleman will yield there, I would like to say that when I received the letter I planned to set up special hearings on this one item alone and had arranged for the hearing, but I was taken sick and we couldn't go forward with it. By the time I had recovered our regular hearings had started, so I thought we would discuss it today.

Mr. PILLION. Fine.

Now, then I received a letter dated February 19 from the Comptroller General's office. It is quite interesting. I would like to read it to you. Mr. Abell. By the way, I would like to submit for the record the whole Comptroller General's letter to me.

(The letter is as follows:)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., February 19, 1964.

HON. JOHN R. PILLION,
House of Representatives.

DEAR MR. PILLION: Further reference is made to your letter dated December 14, 1963, requesting a review of the financial and economic factors of the proposed U.S. Post Office project to construct a mixed post office and commercial

building in New York City. You requested a report by March 1, 1964, on whatever facts and recommendations we were able to assemble by that date. Subsequently, we were notified by your office that you required the report no later than February 19, 1964.

We visited the site acquired by the Post Office Department in New York City for the proposed building, we discussed the project with cognizant officials of the General Services Administration, and to the extent possible under the conditions described in the following paragraph, we examined certain Post Office Department documents and discussed the project with Department officials.

Post Office Department officials did not believe it appropriate to give us free access to all pertinent records and information or to allow us to discuss the project freely with knowledgeable Department officials and employees at this time, when the project is still only in the planning stage. Initially the only documents made available to us by the Department were a general prospectus of the project entitled preliminary bidding information, U.S. Post Office Department, January 1964; a copy of the architect-engineer's contract; and an analysis of the architect's fee and the estimated construction cost upon which it was based. Except for the information relating to the cost of the site to the Department and the estimated present market value of the site, the information furnished by the Department was not sufficient to enable us to respond to the specific aspects raised in your letter of December 14, 1963. We cannot respond fully to your inquiry without free access to all records and information concerning the inception, planning, and implementing of the project.

In a letter dated January 14, 1964, we requested from the Postmaster General all departmental records, studies, and analyses related to the project. In a letter dated January 4, 1964, to the Deputy Postmaster General we requested information pertaining to the Department's legal authority for certain actions taken with respect to the project. In a meeting in your office on January 17, 1964, members of our staff advised you of the problems we were encountering in obtaining the information needed to respond to your request.

At approximately the close of business on Friday, February 14, 1964, the Department gave us some additional material, consisting mainly of an analysis and justification of the post office space needs in the vicinity of the proposed building, support for the Department's estimate of $8 million as the current market value of the site, and general information on mail-handling operations and mechanization in the proposed project. We have previously furnished you a copy of the Department's prospectus on preliminary bidding information, and we are enclosing herewith copies of the other documents furnished us by the Department. As of February 17, 1964, we had not received from the Department the reply to our request for information as to the legal authority for the actions taken.

The following comments are based on the data made available to us by the Department before February 14, 1964, and our discussions with Post Office Department and General Services Administration officials.

The project, as described by the Department, involves a combination postal structure of four stories with two basement levels, topped by an office tower for commercial use. The Department owns the site, which is located in Manhattan on the east side of Third Avenue, between 54th and 55th Streets, and represents about 82,000 square feet in land area. The formal advertising period will be from April 1 through June 5, 1964. Alternate bids are required from all bidders for (1) annual rentals in consideration of constructing a building and leasing the lower portion, consisting of four stories and two basements, to the Post Office Department, with the additional floors above the post office space to be leased to other tenants; and (2) annual rentals in consideration of constructing a building (apparently consisting of four stories and two basements) and leasing it exclusively to the Post Office Department. The Department in its general prospectus requires also two bids under each alternative. One bid in each case will be based on transferring the land to the successful bidder at acquisition cost. A second bid in each case will be based on transferring the land to the successful bidder at current market value. Current market value is to be determined prior to the formal bid period.

The bidding requirements, as stated in the prospectus, appear to be somewhat restrictive of competition in requiring each bidder to submit bids under both alternatives, thus eliminating from consideration a bidder who might be interested only in constructing and leasing the four-story structure. Department officials with whom we discussed this question stated that in their opinion the

Department could not legally, and would not in any event, disqualify a low bid on the technicality that the bidder had not submitted bids under each alternative. Even if this were true so far as evaluation of the bids received and award of the contract are concerned, it appears that a prospective bidder could be discouraged from participating by the wording of the prospectus, which states that "To be responsive to the advertisement bidders must submit separate annual rentals to the Post Office Department under the foregoing conditions." Also, contrary to the view expressed by the Post Office Department officials, it appears to us that if this provision of the prospectus is incorporated into the advertised invitation, a bid not quoting on both alternatives would be nonresponsive and therefore required to be rejected as a matter of law.

With regard to the Department's plans to obtain alternate bids based on transfer of land to the successful bidder at either the Government's acquisition cost or the current market value, we note that the acquisition cost of the site is stated by the Post Office Department to be about $3.2 million. If the Department transfers the site to the successful bidder at acquisition cost because of a lower rent bid in consideration of a lesser investment in land, the successful bidder would obtain for $3.2 million property for which the Post Office Department estimates the current market value to be $8 million.

The Post Office Department negotiated a contract dated June 19, 1961, with Urbahn & Brayton, architect, for architect-engineering services for the project. The contract provided for design of a building consisting of a basement and four stories, and provided a fee of $385,000 for the architect's services. Contract change order No. 2, dated November 27, 1962, provided for a study to be made by the architect for a fixed fee of $45,000 to determine the feasibility of constructing the project as a multioccupancy, high-rise structure with the post office occupying the lower floors. Contract change order No. 3, dated June 26, 1963, required the architect to prepare drawings for two designs, designated as scheme A and scheme B. Under scheme A the architect is to design a high-rise structure with a tower designed for maximum height and floor areas allowable under New York City codes and ordinances. Complete drawings are to be prepared by the architect for the postal portion consisting of a subbasement, a basement, and the first four floors. Tentative drawings are to be prepared for the office tower. Under scheme B the architect is to prepare tentative drawings for a low-rise building to be occupied exclusively by the post office. Change order No. 4, dated July 25, 1963, set the architect's fee at $610,000 for all services called for under the contract, including the feasibility study. The successful bidder will be required to reimburse the Department for the amounts paid to the architect up to the time of the bidding, and to pay directly to the architect the balance of the fee as it becomes due.

An analysis prepared by the Department's Office of Research and Engineering shows the following information regarding the estimated cost of construction of four stories and two basements under scheme A and scheme B:

Scheme A, high-rise

Area of post office portion (4 stories, basement, and subbasement)	square feet	480,000
Tower support areas	do	50,000
Total area	do	530,000
Estimated cost:		
480,000 square feet, at $22.50		$10,800,000
50,000 square feet, at $25.00		1,250,000
Total, 530,000 square feet		12,050,000

Scheme B, low-rise

Original scheme on which architect contract was based (4 stories and basement)	square feet	408,000
Subbasement added after original contract was signed	do	82,000
Total area	do	490,000
Estimated cost, 490,000 square feet at $19.60		$9,600,000

An official of the Department's Office of Research and Engineering advised us that the difference of $2.90 between the estimated construction costs of $22.50 a square foot under scheme A and the estimated costs of $19.60 a square foot under scheme B was accounted for partly by an increase in construction costs in the year following the signing of the architect-engineering contract and partly by the need for additional construction features in the lower floors because of the addition of the tower in scheme A. The same official advised us that the subbasement was added (1) to provide room for expansion to take care of future postal needs in the area, (2) to provide parking space for post office vehicles, and (3) to offset the loss of usable space in the basement and first four floors due to the addition of the tower.

Post Office Department officials have indicated that the utilization of upper air space for commercial purposes should result in lower rental costs for needed postal space. To support this conclusion, they are asking for alternate bids for (1) a high-rise structure with only the lower portion to be occupied by the post office, and (2) a low-rise structure to be occupied exclusively by the post office, with the expectation that a comparison of the bids will prove the economy of the high-rise concept. While this procedure may provide a comparison of the relative costs of occupancy under two different lease arrangements, it ignores the possible long-term economies and advantages of a Government-owned building, either a low-rise structure occupied exclusively by the post office or a high-rise structure shared by the post office with other Government agencies. If, as the Department contends, an office tower utilizing the upper air space will reduce the cost of post office occupancy of the lower levels, it appears that the same result may be obtained through occupancy of the tower by other Government agencies.

We issued to the Congress on November 20, 1962, a report (B–145650) on our review of the Post Office Department's real estate program relating to the leasing of major facilities and certain other facilities under long-term leases. In our report we pointed out that our review of fund requirements for 85 postal facilities under 20- and 30-year leases showed that the total rental costs to be incurred under the lease arrangements substantially exceed the Post Office Department's estimated costs of constructing these facilities. Although larger Government expenditures would be required during the period of construction if the facilities were constructed for Government ownership, overall fund requirements for the facilities would be substantially less than total rent payments over the terms of the leases. In addition, under the lease arrangements the Government is committed to large annual rental expenditures for long periods of time without acquiring any equity in the leased facilities. We recommended that in view of the significant savings available to the Government by ownership of postal facilities, the Department consider a policy of ownership except in specific cases where the cost of leasing is clearly justified by other identified factors.

Consideration of a Government-owned building at the site selected for this project would require coordination between the Post Office Department and General Services Administration, inasmuch as the Department owns the site and under 40 U.S.C. 601 General Services Administration is the Government agency that is authorized to construct public buildings. We found no evidence of any coordination with General Services Administration with regard to this project, nor of active consideration being given to construction of a Government-owned building. Post Office Department officials with whom we discussed this matter agreed that there had been no formal or documented coordination between the Post Office Department and General Services Administration on the project but believed that there had been some informal conversations making General Services Administration officials generally aware of the Department's planning.

Cognizant General Services Administration officials with whom we discussed the matter had no knowledge of any coordination between General Services Administration and the Post Office Department on this project. We were advised also that a considerable amount of leased space is now occupied by Federal agencies in the Manhattan area. General Services Administration officials stated that after completion of a new Federal office building presently under construction in downtown Manhattan, Federal agencies would still occupy more than 750,000 square feet of leased space in Manhattan. They gave their informal opinion that a tower above the post office space could be made suitable for occupancy by many of these agencies. The Department's prospectus indicates

that the proposed 38-story tower will provide approximately 492,000 square feet of net space.

We trust that the foregoing information will serve your purpose. If we can be of further assistance, please advise us.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

Mr. PILLION. I will read excerpts from it so the committee may know exactly what the status here is. This is in the second paragraph. It says they visited this site and discussed the matter with the postal employees and officers in charge. I will now read:

Post Office Department officials did not believe it appropriate to give us free access to all pertinent records and information or to allow us to discuss the project freely with knowledgeable Department officials and employees at this time, when the project is still only in the planning stage. Initially the only documents made available to us by the Department were a general prospectus of the project entitled "Preliminary Bidding Information," a copy of the architect-engineer's contract, and an analysis of the architect's fee and estimated construction cost. Except for the information relating to the cost of the site to the Department and the estimated present market value of the site, the information furnished by the Department was not sufficient to enable us to respond to the specific aspects raised in your letter of December 14, 1963. We cannot respond fully to your inquiry without free access to all records and information concerning the inception, planning, and implementing of the project.

With regard to the legal phase of this, and I quote again:

As of February 17, 1964, we had not received from the Department the reply to our request for information as to the legal authority of the actions taken.

Then I will quote again:

The bidding requirements as stated in the prospectus, appear to be somewhat restrictive of competition in requiring each bidder to submit bids under both alternatives, thus eliminating from consideration a bidder who might be interested only in constructing and leasing the four-story structure—

which would be the structure with only the post office facility:

Department officials with whom we discussed this question stated that in their opinion the Department could not legally, and would not in any event, disqualify a low bid on the technicality that the bidder had not submitted bids under each alternative. Even if this were true so far as evaluation of the bids received and award of the contract are concerned, it appears that a prospective bidder could be discouraged from participation by the wording of the prospectus, which states that "to be responsive to the advertisement bidders must submit separate annual rentals to the Post Office Department under the foregoing conditions." Also, contrary to the view expressed by the Post Office Department officials, it appears to us that if this provision of the prospectus is incorporated into the advertised invitation, a bid not quoting on both alternatives would be nonresponsive and therefore required to be rejected as a matter of law.

So that actually all you are going to be getting is someone who has got to bid them both.

With regard to the Department's plans to obtain alternative bids based on transfer of land to the successful bidder at either the Government's acquisition cost or the current market value, we note that the acquisition cost of the site is stated by the Post Office Department to be about $3.2 million. If the Department transfers the site to the successful bidder at acquisition cost because of a lower rent bid in consideration of a lesser investment in land, the successful bidder would obtain for $3.2 million property for which the Post Office Department estimates the current market value to be $8 million.

That is what I was talking about here, that you are actually making a gift and letting this man then manipulate that gift under the theory

that you are going to get it back in lower rental but it is still a gift of $5 million to the prospective bidder and builder.

Then they go on to show the scheme under scheme A which is the high rise building in which they say the estimated cost there would be $22.50 for that portion which would be post office facilities, and the low rise, which would be nothing but post office, they give an estimated cost of $19.60 per square foot.

I again quote from the letter, referring again to this whole project.

It ignores the possible long-term economies and advantages of a Government-owned building, either a low rise structure occupied exclusively by the post office or a high rise structure shared by the post office with other Government agencies. If, as the Department contends, an office tower utilizing the upper air space will reduce the cost to the post office occupants of the lower levels it appears the same result may be obtained through occupancy of the tower by other Government agencies.

Then it goes on to say their prior reports indicated in general facilities constructed by the Government are much cheaper than facilities that are leased.

Then the letter further goes on to say that after the new Federal building is constructed, gentlemen, in New York—it is under the course of construction now—there will still be 750,000 square feet of lease space in Manhattan leased by Federal agencies. The whole high rise building will only have 492,000 square feet of net space, so therefore a Federal building could be built by the General Services agency and occupied almost completely with a lot of Federal agencies left over, completely by Federal agencies and under that situation you would not be paying taxes. You would avoid that situation. I am informed in this letter that there has been no inquiry or no attempt here to get together with the General Services, who could construct that type of a building and immediately have occupancy of it—full occupancy by Federal agencies.

That concludes the Comptroller General's comments about it, but I would like to ask you people, is there anything secret, confidential or of a security nature in any of these figures. If we want to examine the question of costs and the question of being able to compare this building with others, why aren't the figures available to the Comptroller General? Why aren't they available to this committee, to this Congress?

Mr. ABELL. First, let me say, it would be slightly difficult for me to be responsive on this entire question because you covered so much ground that I don't think I can remember all of the questions.

Mr. PILLION. I am just asking about this one item.

FURNISHING DATA TO GENERAL ACCOUNTING OFFICE

Mr. ABELL. One of the first things you brought up was the statement in the Comptroller General's letter that they had not had access to Post Office Department information. I don't know the basis for that question. A gentleman from the GAO was in my office perhaps 2 weeks ago. I was very happy to see him. I thought that I answered his questions satisfactorily. Apparently he wasn't very pleased about it. I attempted to be responsive and I offered to discuss the thing at any length he wanted. I made no secret of it. The only specific

question that I recall that was a subject of some debate was the one that you brought up at the end of your question, there, as to the use of other Federal agencies in this area.

We had contacted the General Services Administration, discussed with them the possibility of other agencies being tenants in the building and had had an indication from them that this particular area of Manhattan was not where they desired to locate. They wanted to be downtown, near the Battery or in some other areas and not at 54th Street and Third Avenue, where we felt that we had a need. That was what I told him when he visited me in my office. The other part of it I don't have any specific knowledge on.

Mr. PILLION. Evidently there is a marked difference of opinion and testimony.

Mr. ABELL. He made no statement to me about mail volumes or an inability to get information or anything else. If he had, I certainly would have put him in touch with other officials in the Department and tried to get his answers.

Mr. PILLION. If it was referred to other officials, I am sure they didn't refer to your conversation, but it is certainly very plain that their interpretation of the availability of information is completely different from what you are saying, here.

Mr. ABELL. This will just have to go down as a conflict in testimony.

Mr. PILLION. That's right.

Mr. ABELL. I had forgotten one thing. He did ask me about the responsiveness of the bids and whether or not we were going to eliminate bidders who didn't bid both ways on this project. I explained to him that we wanted bidders to bid both ways, because we hoped thereby to show which was the best way to have this building and I thought I had answered his question on that. We don't feel that if someone comes in with a low bid on doing this project a particular way, and that is going to be the most advantageous way of doing it for the Post Office Department, that we should just disregard his bid. We are trying to encourage multiple bids on this. We and the chairman seemed to agree on that.

LEASE TERM

Mr. PILLION. How long will the leases be in your bids?

Mr. ABELL. Thirty years.

Mr. PILLION. Just one 30-year lease?

Mr. ABELL. One 30-year term, plus four 10-year options.

Mr. PILLION. There will be alternatives, won't there?

Mr. ABELL. Eight fives. Excuse me. A total of 70 years we will be able to lease this building.

Mr. PILLION. Will there be a flat 30-year lease as one choice——

Mr. ABELL. No.

Mr. JENSEN. Thirty-year term, eight 5-year options.

Mr. PILLION. No renewal options?

Mr. JENSEN. Eight 5-year renewal options.

OPTION TO PURCHASE

Mr. PILLION. Will it contain an option to purchase back?

Mr. ABELL. I don't know. Have we decided yet?

Mr. JENSEN. We have discussed this a number of times and it seems to us on the multipurpose building we should not use purchase options. On the single occupancy building, the use of purchase options is consistent with our policy.

Mr. PILLION. But you have no plan, on the other hand, to exercise any option to repurchase, or to purchase?

Mr. JENSEN. This would be up to the Congress to decide at any given time.

Mr. PILLION. And Congress has not appropriated or legislated along these lines?

Mr. JENSEN. There have not been any options to purchase available yet.

Mr. PILLION. But you know from all the reports of the Comptroller's Office and you know from your experience as a businessman that in any lease containing an option on your part to purchase, the lease will cost you more, won't it?

Mr. JENSEN. That's right when the option to purchase occurs before the end of the basic lease term.

Mr. PILLION. So, all your options that you have to repurchase when you have no authority, or plan to exercise them, means that the total rents go higher than they should?

Mr. ABELL. Either that or the option is unrealistically high.

Mr. JENSEN. That's right.

I might say with respect to that if I may, Congressman, the Department in some instances previously insisted on options to purchase at the end of 10 years on its 20- and 30-year leases. This did have the effect that you described, it caused the total lease cost to be higher because it reflected a penalty that financial institutions insisted on putting into the mortgages on the building. We eliminated that some 2 years ago and required only that the option to purchase be available at the end of the basic term of the lease.

Mr. PILLION. I think this is a good move.

Mr. Abell, are you working out something so that we could avoid this situation where we increase leases by reason of having a purchase option in them, or, in the alternative, working out a scheme by which your Department through legislation or appropriation or whatever may be necessary, would have funds to exercise these options to purchase?

I think it is a problem that requires a great deal of thought and a great deal of policy decision.

Mr. ABELL. Could we go off the record for a moment?

(Discussion off the record.)

LEASE VERSUS FEDERAL OWNERSHIP

Mr. GARY. Mr. Pillion, there is no question in the world about the fact that it is much cheaper for the Government to erect its own buildings than it is to lease these buildings.

One of the chief items entering into that cost is the local taxation. Now, you take a building such as is proposed in New York and the taxes on that building would be enormous. And, of course, if the Government were to erect a building of that kind, it would be non-

taxable, so it would be advantageous to the Federal Government but very disadvantageous to the city government.

Another item that would enter into the cost, the Federal Government, of course, could finance the building much more cheaply than a private builder and the Government would save that amount, because he has to add the financing cost as a part of his overall cost, in determining his rent. But for some reason, the Government has been following this lease plan and, as a matter of fact, it is a plan that is used generally in business. You take the chainstores. Very few of them, according to my understanding, purchase their stores in the various communities in which they operate. They usually lease and they evidently have found certain advantages in it. I think one of the main differences is a question of taxation. Of course, the owner is going to make some profit on the building, everybody knows that, under our free enterprise system, but the question is whether people of this country want to have Government ownership or free enterprise.

This scheme the Post Office operates under now is going back to the real free enterprise system, which a great many people favor. We find many in the United States who favor Government ownership. It is a controversial question. The leasing has this advantage, particularly insofar as substations are concerned. Now, the main post offices are seldom changed but populations do change and there are times when you have a station that becomes completely obsolete in a period of years. It is rather difficult for the Federal Government to dispose of property advantageously. If the Federal Government owns the property, they have more difficulty in disposing of it and in changing their location to meet changing conditions, whereas, if they have leases, at the expiration of the lease all they have to do is give up the property and go on to another site. We have had several instances of that recently in the city of Richmond. The post office outgrew the building and the parking facilities were wholly inadequate to carry on. The building was leased. When the lease expired, they changed to another location and built a new station where they have ample space to carry on the operations of the post office and at the same time ample parking space and maneuvering space for their motor vehicles.

So there are advantages and disadvantages to the plan, there isn't any question about that. I, for one, am not a sufficient expert in the field to determine which is the better. That is the reason I suggested a little while ago that I hoped when they reached their final conclusion that they would get the very best advice that was available for the Government and try to arrive at a solution that is most advantageous to the Government.

Mr. ABELL. That is what we intend to do, and that is why we want these multiple bids. I hope we will get some good ones, and this is what we expect.

NEW RICHMOND POST OFFICE

While you are talking about your hometown, you talked about a station that was vacated. The negotiations we are involved in now, on a site for the new Richmond post office, are also, I think, appropriate to discuss here. We are talking with the city about using a

playground as the site for the new post office. That is about 13 acres, as I understand it, and the city is extremely reluctant to sell it to us unless it is going to go on the city tax rolls. In other words, they are happy to sell it to private industry because there will be revenue for them but they wouldn't be at all happy to sell it to us if we were going to put a Federal building on it.

Mr. GARY. That is correct.

LEASE CONSTRUCTION IN PRIVATE BUSINESS

Mr. PILLION. I appreciate all the factors that go into making a decision that you enumerated, Mr. Chairman, but I might say this: For example, the example given here where private business tends to lease, rather than purchase, the explanation for that is very simple. Businesses expect to recover on their limited capital anywhere from 12 to 15 to 20 percent. The U.S. Government is not in that sort of business. Businesses don't want to tie up their money in real estate where the return is only 6 or 7 or 8 percent. Businesses demand a return of 12, 15, 18, 20 percent. So from this point of view it is altogether different from the Federal Government.

The Federal Government does not have to go into the stock market to obtain capital. So that every situation I think should be decided upon its own merits, taking into account all the relative economic factors.

NEW BUILDINGS TO BE CONSTRUCTED

Mr. Chairman, we asked that they place in the record the number of buildings that are to be constructed in the year 1965.

Mr. ABELL. 971 awards.

Mr. PILLION. Do they contain both the major and the minor ones?

Mr. ABELL. Yes, sir. That is new construction. The 971 compares with 975 programed for this year.

Mr. PILLION. These are just programs?

Mr. ABELL. Yes. We reserve the right to be right or wrong in our predictions.

Mr. PILLION. I can well see that. You need a little flexibility.

How many buildings do you project for programing in 1966?

Mr. ABELL. 956.

Mr. PILLION. In the past 10 years—well, since I have been on this committee, 6 years, say, Mr. Chairman—or some of these years you have programed as high as 1,200 or 1,400; is that correct?

Mr. ABELL. We had in 1961, 2,148 awards.

Mr. PILLION. And there is no question but that the ones that you have built in the past are the ones that needed building the most and give you the greatest utility?

Mr. ABELL. Yes.

Mr. PILLION. You give priority to where the need is the greatest.

Mr. ABELL. As this committee is well aware, we have had a tremendous backlog because of the fact that so few buildings were built after 1938. That was almost a cutoff date.

Mr. PILLION. So that the buildings that you are now building are of less utility or more marginal utility—than the ones that you built, say, 2 or 3 years ago, because you are catching up on your backlog. Would that not be a true statement?

Mr. ABELL. Well, the same buildings are getting older and they are wearing out and becoming overcrowded as mail volume increases.

Mr. PILLION. But 1,000 buildings a year——

Mr. ABELL. We have 45,000 buildings if you count all the fourth-class offices and stations and branches.

Mr. PILLION. And you have a life expectancy of generally 40 years as an average?

Mr. ABELL. Thirty to forty years as an average. We may catch up someday.

Mr. PILLION. Some of the buildings may be good for 50 or 70 years?

Mr. ABELL. Yes; but again, we need to add buildings in places, too.

Mr. PILLION. I understand. And you have to move because of suburban situations and whatnot and people moving out of cities. I understand all those factors.

Why can't you level off at a rate of about 800, on this, now, and still take care of your real needs?

Mr. ABELL. I don't think 800 is unrealistically low. I think we probably have leveled out, here.

Mr. PILLION. The number you actually need is——

Mr. COFFMAN. We furnished the committee last year 5-year projections at the committee's request, 1963–67. Those projections showed buildings in numbers of 1,300, 1,400. Now we have furnished the committee a revision and updating of that projection which brings them down to buildings leveling off at a little over 900. That is projecting our actual needs on the basis of increased mail volume and outmoding of the buildings that we now have.

The fact is that our ability to perform doesn't hit the projected needs. They mount up on us a little bit. We are going to be in the neighborhood that you are talking about as a practical matter. The numbers are not so significant because we will try to put more large ones in where we really need the facilities, so the footage in fact might be more important. We feel we can meet the footage need with fewer numbers.

Mr. PILLION. Let's not get into numbers too far, but may I have the square footage, also, for 1962, 1963, 1964, 1965, and 1966?

Mr. COFFMAN. That is in here.

FIVE-YEAR PROJECTION

Mr. ABELL. I think that is appropriate to submit this projection for the record. The clerk already asked me about it, and we mailed a copy of that 5-year projection to the committee. You might want to put it in the record right at this point.

Mr. GARY. We have this plan, but would that not come more properly in the next item of "Plant and equipment"?

Mr. ABELL. No, sir.

Mr. COFFMAN. Mr. Chairman, this entirely deals with the building and space problem.

Mr. GARY. I have here "Post Office Department, New Construction Program, 5-Year Projections, Fiscal Years 1964–68."

Without objection it will be inserted in the record.

(The information is as follows:)

POST OFFICE DEPARTMENT NEW CONSTRUCTION PROGRAM, 5-YEAR PROJECTIONS, FISCAL YEARS 1964 THROUGH 1968

Bureau of Facilities, Post Office Department, January 1964

SECTION I. SUMMARY AND PROJECTIONS

1. Foreword

This is a revision and updating of the "Lease Construction Program, 5-Year Projections, Fiscal Years 1963 Through 1967," published in November 1962 in connection with the 1964 budget requests of the Bureau of Facilities. This presentation moves the projections forward 1 year to include fiscal years 1964 through 1968. The general analysis covers the need for new space without regard to the method of acquisition. The specific 5-year projections are stated in terms of the leasing program because this is the program now being utilized.

Section I contains a summary of the growth factors which make imperative a substantial annual increase in postal space. It closes with a projection of what that increase should be in terms of square feet and in terms of number of awards for fiscal years 1964 through 1968 if the leasing method is to be utilized in meeting requirements.

Section II contains in organized detail substantially all the known facts and factors supporting the premise upon which the projections are based, namely, that the growth and shift of population, plus the much greater growth in mail volume, make inevitable a constant, substantial increase in the space needed to handle the mail, not only for the next 5 years but for the foreseeable future.

2. Summary of growth factors

Since the turn of the century the population of this country has increased from approximately 76 to 190 million, or about two and a half times. A major part of this increase has been in the urban areas of the country, the number of urban communities having increased from approximately 1,700 in 1900 to over 5,000 at the present time.

During this same period the volume of originating domestic mail has increased from approximately 7 billion pieces per year in 1900 to approximately 68 billion at the present time, or nearly 10 times the volume at the beginning of the century. Thus, the per capita utilization of the postal service in the past 63 years has increased approximately four times as fast as the population itself, or from an average of 95 pieces per capita in 1900 to over 350 pieces in 1962.

A major portion of these increases in mail volumes has resulted from the rapidly accelerating use of the postal communications system by commerce and industry to a point where it is now estimated that 75 percent of all originating domestic mail is generated by commercial and industrial organizations and that an additional 15 percent is generated by the public in response. Since, at the present time, most business enterprises as well as their customers are located within urban areas, the two-thirds of the total population currently living in these areas generates and receives approximately nine-tenths of the total mail volume while the balance of one-third of the population is responsible for but one-tenth of the mail.

During most of the period since 1900, the Department has been faced with a constant need to continuously expand its plant capacities in order to handle efficiently this accelerating growth in mail volumes. While the depression period of the decade 1930 to 1940 resulted in a reduction in mail volumes, during which time the public works programs provided an extensive refurbishment of the postal plant, the resumption of the country's economic vigor following 1940 soon resulted in a recurring inadequacy of postal facilities to meet the accelerated rate of postal growth.

Based on growth factors of population and mail volumes experienced in the last two decades, it is now estimated that the present population will increase to approximately 247 million by 1980 and at least 330 million by the year 2000, while the mail volume will increase to approximately 124 billion pieces in 1980 and 242 billion in the year 2000. In terms of mail volumes, this means that the total originating domestic mail will nearly double each 20 years to the end of this century, although the population will increase only about 84 percent during the entire period.

Based on the application of present standards to these growth factors, it is estimated that it will be necessary to expand the present postal plant at the rate of approximately 5 million square feet of additional interior space per year merely to meet current requirements. However, since sound economic practice dictates the feasibility of building now to meet both current and foreseeable requirements, it is obvious that the plant expansion program, particularly in high-growth areas, should include provisions for handling increasing mail volumes without major additional remodeling or reconstruction.

Thus, it is presently estimated that the postal plant must be increased to a minimum of approximately 150 million square feet of interior space by 1970 and 200 million square feet by 1980 just to keep current and without provision for future growth.

The proposed 5-year program, submitted herewith, is simply a segment of the Department's long-range facilities projections based on both meeting today's and a part of tomorrow's needs. Therefore, while the inclusion of expansion factors results in meeting the 1970 target in 1968, it will obviously be necessary to continue to expand the postal plant thereafter as long as the economic vigor of this country continues to grow.

3. Analysis of existing postal facilities

As of the close of fiscal year 1963, the Department occupied approximately 112.6 million square feet of interior space in 28,282 Government-owned or leased or rented buildings, exclusive of fourth-class offices and contract stations.

The following table sets forth, as of June 30, 1963 (*a*) the number and types of facilities occupied, (*b*) the square feet of interior space occupied by type of facility, and (*c*) the change in interior square feet occupied from 1960 to 1963:

TABLE I.—*Existing postal facilities*

(A) NUMBER OF POSTAL UNITS AND AUXILIARY INSTALLATIONS, JUNE 30, 1963

	Federal	Leased	Rented	Total
Type:				
1st-class office	2,578	1,657		4,235
2d-class office	392	4,627	1,789	6,808
3d-class office	3	1,085	11,984	13,072
Branches and stations	191	2,300	884	3,375
Other [1]	6	706	80	792
Total	3,170	10,375	14,737	28,282

(B) SQUARE FEET OF INTERIOR POSTAL SPACE, JUNE 30, 1963 (MILLIONS)

Class of office:				
1st	52.8	12.0		64.8
2d	2.4	9.8	1.2	13.4
3d		1.4	8.6	10.0
Branches and stations	.9	10.8	.6	12.3
Other [1]	.3	11.6	.2	12.1
Total	56.4	45.6	10.6	112.6

(C) SQUARE FEET OF INTERIOR POSTAL SPACE CHANGES, FISCAL YEAR 1960-63

As of June 30, 1960 [2]	57,757	33,948	10,422	102,127
As of June 30, 1963	56,362	45,616	10,694	112,672
Increase or decrease	−1,395	+11,668	+272	+10,545

[1] "Other" includes parcel post annexes, truck terminals, airmail facilities, vehicle maintenance facilities, regional offices, supply centers, and other miscellaneous space.
[2] Adjusted to make comparable with Federal space adjustments made in 1962.

Leased space is directly controlled by the Department through direct contractual agreements with the lessors. The terms and conditions of these agreements vary considerably by length of lease periods, options to renew or purchase, provisions for lessor or lessee maintenance, and lease cancellation clauses. Lease procedures are generally used for buildings when the rental rates are in excess of $3,000 per year. Basic lease periods vary from 5 to 30 years, depending on the foreseeable requirements and best interests of the Department in each case.

Rented space is also directly controlled by the Department through direct contractual agreements which permit either the Department or the owner to cancel an agreement or a 30-day notice by either party. For the most part, rental agreements are used for acquiring small buildings of under 2,000 square feet, although the Department often uses this type of agreement to acquire temporary space of larger dimensions.

4. Five-year projection—Fiscal years 1964 through 1968

To meet urgent requirements for additional postal facilities as well as to replace obsolete or inadequate buildings, it will be necessary for the Department to acquire a total of 51.8 million square feet of interior postal space during the 5-year period 1964 through 1968.

Twelve million nine hundred thousand square feet, or 25 percent of this total, will be needed for replacement purposes and 38.9 million square feet will be needed to handle expanding mail volumes.

If this urgently needed space were to be acquired entirely under the leasing program, annual rental rates would increase a net of $82.2 million by the end of the 5-year period.

If, on the other hand, these needs were to be met entirely by direct Federal outlays, appropriations totaling approximately $1.1 billion would be required.

Table II below summarizes the number of contracts for new construction which it will be necessary for the Department to award each year for the ensuing 5 years under the present leasing program:

TABLE II.—*Number of awards for new construction fiscal year 1964 through fiscal year 1968*

Fiscal year:		Fiscal year—Continued	
1964	975	1968	920
1965	971		
1966	956	Total	4,740
1967	918		

Table III summarizes the total estimated net changes in occupancy of leased and rented facilities for the entire period 1964 through 1968 and table IV, (a) through (e), sets forth in detail the proposed actions in each specific fiscal year.

TABLE III.—*Summary: Estimated net changes in occupancy of leased and rented postal facilities, interior operating areas, including platforms, and annual rates, fiscal years 1964 through 1968*

	Leases		Rents		Combined total at end of fiscal year
	Total added during fiscal year	Cumulative total at end of fiscal year	Total added during fiscal year	Cumulative total at end of fiscal year	
1. Number of buildings:					
a. As of July 1, 1963	----------	10,375	----------	14,737	25,112
b. Fiscal years—					
1964	354	10,729	−90	14,647	25,376
1965	437	11,166	−134	14,513	25,679
1966	511	11,677	−179	14,334	26,011
1967	444	12,121	−154	14,180	26,301
1968	440	12,561	−154	14,026	26,587
5-year increase	2,186	----------	−711	----------	1,475
2. Interior area and platform (thousands of square feet):					
a. As of July 1, 1963	----------	48,793	----------	11,262	60,055
b. Fiscal years—					
1964	5,510	54,303	−39	11,223	65,526
1965	5,508	59,811	−31	11,192	71,003
1966	10,054	69,865	−107	11,085	80,950
1967	9,208	79,073	−79	11,006	90,079
1968	8,997	88,070	−88	10,918	98,988
5-year increase	39,277	----------	−344	----------	38,933
3. Annual rental rates (thousands of dollars):					
a. As of July 1,1963	----------	68,105	----------	9,096	77,201
b. Fiscal years—					
1964	9,787	77,892	399	9,495	87,387
1965	10,998	88,890	487	9,982	98,872
1966	20,864	109,754	268	10,250	120,004
1967	18,831	128,585	281	10,531	139,116
1968	20,083	148,668	266	10,797	159,465
5-year increase	80,563	----------	1,701	----------	82,264

TABLE IV–A.—*Facilities appropriation—Leases and rents, estimated annual rates, awards, and occupancy, fiscal year 1964*

	Number of projects				Annual rates*				Square feet* (interior and platform)			
	Under construction July 1, 1963	Awards fiscal year 1964	Occupied fiscal year 1964	Under construction June 30, 1964	Under construction July 1, 1963	Awards fiscal year 1964	Occupied fiscal year 1964	Under construction June 30, 1964	Under construction July 1, 1963	Awards fiscal year 1964	Occupied fiscal year 1964	Under construction June 30, 1964
New construction:												
Lease agreements:												
New space:												
New units	19	56	21	54	$217	$582	$224	$575	107	337	111	333
Major facilities	6	10	6	10	2,558	3,791	2,558	3,791	1,503	1,835	1,503	1,835
Lease for Federal buildings	72	119	73	118	2,331	3,963	2,339	3,955	1,435	2,148	1,439	2,144
Space replaced:												
Lease for lease	233	400	276	357	2,099	5,131	2,307	4,923	1,101	2,503	1,221	2,383
Lease for rent	99	162	144	117	413	716	573	556	237	405	331	311
Rental agreements: Rent for rent	111	228	203	136	166	381	305	242	126	285	238	173
Total new construction	540	975	723	792	7,784	14,564	8,306	14,042	4,509	7,513	4,843	7,179
Major remodeling:												
New space: New units, lease	2	16	10	8	8	501	299	210	5	282	170	117
Space replaced: Lease for lease	66	230	185	111	742	1,883	1,550	1,075	504	984	955	533
Total major remodeling	68	246	195	119	750	2,384	1,849	1,285	509	1,266	1,125	650
Existing facilities:												
New space: New units, lease		25	25			159	159			110	110	
Space replaced:												
Lease for lease		200	200			1,665	1,665			1,250	1,250	
Lease for rent		75	75			181	181			230	230	
Extensions, option		1,520	1,520			3,971	3,971					
Advancements and relegations		218	218			87	87			109	109	
Total existing facilities		2,038	2,038			6,063	6,063			1,699	1,699	
Subtotal	608	3,259	2,956	911	8,534	23,011	16,218	15,327	5,018	10,478	7,667	7,829
Less buildings replaced	509	2,904	2,692	721	1,147	7,081	6,032	2,196	1,075	2,814	2,196	1,693
Net change	99	355	264	190	7,387	15,930	10,186	13,131	3,943	7,664	5,471	6,136

*In thousands.

TABLE IV–B.—*Facilities appropriation—Leases and rents, estimated annual rates, awards, and occupancy, fiscal year 1965*

	Number of projects				Annual rates*				Square feet* (interior and platform)			
	Under construction July 1, 1964	Awards fiscal year 1965	Occupied fiscal year 1965	Under construction June 30, 1965	Under construction July 1, 1964	Awards fiscal year 1965	Occupied fiscal year 1965	Under construction June 30, 1965	Under construction July 1, 1964	Awards fiscal year 1965	Occupied fiscal year 1965	Under construction June 30, 1965
New construction:												
Lease agreements:												
New space:												
New units	54	40	64	30	$575	$418	$662	$331	333	240	383	190
Major facilities	10	26	7	29	3,791	13,703	1,571	15,923	1,835	6,572	845	7,562
Lease for Federal buildings	118	81	74	125	3,955	3,143	1,732	5,366	2,144	1,653	929	2,868
Space replaced:												
Lease for lease	357	400	398	359	4,923	4,454	4,706	4,671	2,383	2,283	2,366	2,300
Lease for rent	117	220	174	163	556	953	808	701	311	579	446	444
Rental agreements: Rent for rent	136	204	255	85	242	420	484	178	173	269	330	112
Total new construction	792	971	972	791	14,042	23,091	9,963	27,170	7,179	11,596	5,299	13,476
Major remodeling:												
New space: New units, lease	8	18	18	8	210	375	406	179	117	205	223	99
Space replaced: Lease for lease	111	222	228	105	1,075	2,055	2,138	992	533	1,229	1,191	571
Total major remodeling	119	240	246	113	1,285	2,430	2,544	1,171	650	1,434	1,414	670
Existing facilities:												
New space: New units, lease		25	25			159	159			110	110	
Space replaced:												
Lease for lease		200	200			1,665	1,665			1,250	1,250	
Lease for rent		75	75			181	181			230	230	
Extensions, option		1,423	1,423			3,967	3,967					
Advancements and relegations		200	200			80	80			100	100	
Total existing facilities		1,923	1,923			6,052	6,052			1,690	1,690	
Subtotal	911	3,134	3,141	904	15,327	31,573	18,559	28,341	7,829	14,720	8,403	14,146
Less buildings replaced	721	2,829	2,838	712	2,196	7,201	7,074	2,323	1,693	3,137	2,926	1,904
Net change	190	305	303	192	13,131	24,372	11,485	26,018	6,136	11,583	5,477	12,242

*In thousands.

TABLE IV–C.—*Facilities appropriation—leases and rents, estimated annual rates, awards, and occupancy, fiscal year 1966*

	Number of projects				Annual rates*				Square feet* (interior and platform)			
	Under construction, July 1, 1965	Awards, fiscal year 1966	Occupied, fiscal year 1966	Under construction, June 30, 1966	Under construction, July 1, 1965	Awards, fiscal year 1966	Occupied, fiscal year 1966	Under construction, June 30, 1966	Under construction, July 1, 1965	Awards, fiscal year 1966	Occupied, fiscal year 1966	Under construction, June 30, 1966
New construction:												
Lease agreements:												
New space:												
New units	30	40	30	40	$331	$420	$331	$420	190	246	190	246
Major facilities	29	16	19	26	15,923	10,548	8,663	17,808	7,562	4,341	4,001	7,902
Lease for Federal buildings	125	75	125	75	5,366	2,850	5,366	2,850	2,868	1,538	2,868	1,538
Space replaced:												
Lease for lease	359	400	399	360	4,671	4,800	5,154	4,317	2,300	2,400	2,540	2,160
Lease for rent	163	200	219	144	701	860	942	619	444	510	587	367
Rental agreements: Rent for rent	85	225	216	94	178	450	440	188	112	293	281	124
Total new construction	791	956	1,008	739	27,170	19,928	20,896	26,202	13,476	9,328	10,467	12,337
Major remodeling:												
New space: New units, lease	8	18	18	8	179	414	409	184	99	234	229	104
Space replaced: Lease for lease	105	200	205	100	992	1,860	1,922	930	571	1,100	1,121	550
Total major remodeling	113	218	223	108	1,171	2,274	2,331	1,114	670	1,334	1,350	654
Existing facilities:												
New space: New units, lease		25	25			159	159			110	110	
Space replaced:												
Lease for lease		100	100			832	832			625	625	
Lease for rent		75	75			181	181			230	230	
Extensions, option		1,069	1,069			2,035	2,035					
Advancements and relegations		200	200			80	80			100	100	
Total existing facilities		1,469	1,469			3,287	3,287			1,065	1,065	
Subtotal	904	2,643	2,700	847	28,341	25,489	26,514	27,316	14,146	11,727	12,882	12,991
Less buildings replaced	712	2,354	2,368	698	2,323	4,944	5,382	1,885	1,904	2,645	2,935	1,614
Net change	192	289	332	149	26,018	20,545	21,132	25,431	12,242	9,082	9,947	11,377

*In thousands.

29–837—64——25

TABLE IV–D.—*Facilities appropriation—Leases and rents, estimated annual rates, awards, and occupancy, fiscal year 1967*

	Number of projects				Annual rates*				Square feet* (interior and platform)			
	Under construction July 1, 1966	Awards fiscal year 1967	Occupied fiscal year 1967	Under construction June 30, 1967	Under construction July 1, 1966	Awards fiscal year 1967	Occupied fiscal yeaf 1967	Under construction June 30, 1967	Under construction July 1, 1966	Awards fiscal year 1967	Occupied fiscal year 1967	Under construction June 30, 1967
New construction:												
Lease agreements:												
New space:												
New units	40	40	40	40	$420	$420	$420	$420	246	246	246	246
Major facilities	26	3	17	12	17,808	3,840	9,144	12,504	7,902	1,563	4,409	5,056
Lease for Federal buildings	75	75	75	75	2,850	2,850	2,850	2,850	1,538	1,538	1,538	1,538
Space replaced:												
Lease for lease	360	400	400	360	4,317	4,800	4,800	4,317	2,160	2,400	2,400	2,160
Lease for rent	144	200	194	150	619	860	834	645	367	510	694	408
Rental agreements: Rent for rent	94	200	210	84	188	400	420	168	124	260	275	109
Total new construction	739	918	936	721	26,202	13,170	18,468	20,904	12,337	6,517	9,337	9,517
Major remodeling:												
New space: New units, lease	8	20	18	10	184	460	414	230	104	260	234	130
Space replaced: Lease for lease	100	159	200	59	930	1,479	1,860	549	550	875	1,100	325
Total major remodeling	108	179	218	69	1,114	1,939	2,274	779	654	1,135	1,334	455
Existing facilities:												
New space: New units, lease	----	25	25	----	----	159	159	----	----	110	110	----
Space replaced:												
Lease for lease	----	100	100	----	----	832	832	----	----	625	625	----
Lease for rent	----	75	75	----	----	181	181	----	----	230	230	----
Extensions, options	----	754	754	----	----	1,163	1,163	----	----	----	----	----
Advancements and relegations	----	200	200	----	----	80	80	----	----	100	100	----
Total existing facilities	----	1,154	1,154	----	----	2,415	2,415	----	----	1,065	1,065	----
Subtotal	847	2,251	2,308	790	27,316	17,524	23,157	21,683	12,991	8,717	11,736	9,972
Less buildings replaced	698	1,973	2,018	653	1,885	3,919	4,045	1,759	1,614	2,486	2,607	1,493
Net change	149	278	290	137	25,431	13,605	19,112	19,924	11,377	6,231	9,129	8,479

*In thousands.

TABLE IV–E.—*Facilities appropriation—Leases and rents, estimated annual rates, awards, and occupancy, fiscal year 1968*

	Number of projects				Annual rates*				Square feet (interior and platform) [2]			
	Under construction, July 1, 1967	Awards, fiscal year 1968	Occupied, fiscal year 1968	Under construction, June 30, 1968	Under construction, July 1, 1967	Awards, fiscal year 1968	Occupied, fiscal year 1968	Under construction, June 30, 1968	Under construction, July 1, 1967	Awards, fiscal year 1968	Occupied, fiscal year 1968	Under construction, June 30, 1968
New construction:												
Lease agreements:												
New space:												
New Units	40	40	40	40	$420	$420	$420	$420	246	246	246	246
Major facilities	12	5	11	6	12,504	2,750	10,824	4,430	5,056	1,375	4,363	2,068
Lease for Federal buildings	75	75	75	75	2,850	2,850	2,850	2,850	1,538	1,538	1,538	1,538
Space replaced:												
Lease for lease	360	400	400	360	4,317	4,800	4,800	4,317	2,160	2,400	2,400	2,160
Lease for rent	150	200	194	156	645	860	834	671	408	510	469	449
Rental agreements: Rent for rent	84	200	200	84	168	400	400	168	109	260	260	109
Total, new construction	721	920	920	721	20,904	12,080	20,128	12,856	9,517	6,329	9,276	6,570
Major remodeling:												
New space: New units, lease	10	20	20	10	230	460	460	230	130	260	260	130
Space replaced: Lease for lease	59	100	109	50	549	930	1,014	465	325	550	600	275
Total, major remodeling	69	120	129	60	779	1,390	1,474	695	455	810	860	405
Existing facilities:												
New space: New units, lease	----	25	25	----	----	159	159	----	----	110	110	----
Space replaced:												
Lease for lease	----	100	100	----	----	832	832	----	----	625	625	----
Lease for rent	----	75	75	----	----	181	181	----	----	230	230	----
Extensions, option	----	656	656	----	----	517	517	----	----	----	----	----
Advancements and relegations	----	200	200	----	----	80	80	----	----	100	100	----
Total, existing facilities	----	1,056	1,056	----	----	1,769	1,769	----	----	1,065	1,065	----
Subtotal	790	2,096	2,105	781	21,683	15,239	23,371	13,551	9,972	8,204	11,201	6,975
Less buildings replaced	653	1,816	1,819	650	1,759	2,993	3,022	1,730	1,493	2,269	2,292	1,470
Net change	137	280	286	131	19,924	12,246	20,349	11,821	8,479	5,935	8,909	5,505

*In thousands.

1. Postal communications—a public enterprise

The U.S. Post Office Department operates the largest communications system in the world. In terms of numbers of pieces of mail and parcel post handled, the total volume generated in this country is approximately equal to the total volume generated by all other countries reporting mail volume statistics to the Universal Postal Union.[1]

As the main artery for the transmission of all types of written communications, including legal documents of many kinds, currency transfers, advertising materials, educational and news publications, and general social concourse, the Department's responsibilities bring it in daily contact with almost every area of industrial, commercial, educational, and social activity.

Since for many decades an increasingly greater proportion of the mail volumes have been generated by commercial and industrial users, the postal service is especially identified with this country's economic activities, many of which would be seriously affected by any restrictions on the effective operation of the postal system. In many respects, therefore, the postal communications system closely parallels that of a commercial communications enterprise and, as such, has many similar attributes and problems.

An accurate analysis of past, present, and future demands for its services are elemental factors in the Department's planning program. Since the postal system is a basic channel through which a steadily increasing population communicates, the projected growth of the population, as well as its characteristics, are fundamental factors in forecasting future space requirements. Of even greater importance is the continued analysis of the distribution and economic activities of this population.

In this connection, it must be assumed that the need for expanding postal plant facilities will continue for as long as the population continues to increase and the economic vigor of the country is maintained. In addition, it will be necessary to replace outmoded and obsolete portions of the postal plant as time and use reduce their operating effectiveness. These expansion and replacement requirements will necessitate a progressive program of long-term capital commitments, either through Federal appropriations or through utilization of private capital acquired under the Department's leasing program or a combination of the two.

In either case, regardless of the source of investment funds, the justification for these commitments must be based on realistic economic and operational projections. From the standpoint of practical management, therefore, the Department must consider the following four major factors in planning to meet anticipated plant requirements:

1. Population growth and concentration.
2. Changes in mail volumes and sources of origin.
3. Changes in mail distribution patterns and transportation methods.
4. Changes in postal services and processing methods.

While the above factors are generally parallel to those which must be considered in the management of many similar commercial and industrial enterprises, the public nature of the postal communications system requires, in addition, that these services be maintained at a high level, not only in the major centers of mail concentration, but also in all outlying areas wherever the public might have need for these services.

Thus, the Post Office Department must carefully balance its plant and equipment program in such a way that it will continue to provide adequate plant capacity, not only in areas of greatest growth, but also across the Nation as a whole.

It is the basic objective of the analyses and projections presented herein to correlate all pertinent factors to the greatest extent possible in a conservative and sound program to meet present and anticipated responsibilities for such plant needs.

Prior to developing projections of this type, it is necessary first to review in some detail the historical growth of the postal system in order to establish a series of benchmarks by which further growth may be realistically gauged.

Therefore, to gain better perspective, the projections presented herein are based primarily on rates of growth developed from analyses of changes which have taken place in this country since the turn of the century. While it is recognized

[1] Does not include 57 nonreporting countries principally behind the Iron Curtain.

that these rates of growth may be arrested for limited periods due to unforeseen readjustments, it is believed that the patterns of change during portions of the past 60-year period, which included two major world wars and a major prolonged economic depression, should provide certain reliable guidelines for long-range planning.

As has been noted previously, the 5-year facilities projection for the period fiscal year 1964 through 1968 is simply a segment of a continuing organic growth predicated on experience of the past where reliable data is available.

2. Population growth and concentration

There are three basic interrelated factors which must be considered in analyzing the impact of population growth and population characteristics on the postal communications system. They are as follows:

1. The overall growth of the total population.
2. The continuing proportionate increases in the urban population in contrast to the rural population.
3. The concentration patterns of the urban population by sizes of communities.

Chart I illustrates these population changes by 10-year intervals for the period 1900 to 2000. During the first 60 years of this period, the urban/rural ratio changed from 39:61 in 1900 to 63:37 in 1960. Also, urban population increased a cumulative total of 272 percent while the rural population increased only 45 percent. Further, it will be noted that, during the decade 1930–40, the rate of total population growth not only decreased significantly, but the rate of urbanization also declined at a somewhat greater rate.

Chart II is an analysis of the growth of communities during the period 1900–1960, based on population distribution within size ranges, and a projection of growth and distribution by size of community to the year 2000.

From this chart, it may be determined that, in 1960, approximately 50.6 million or 28 percent of the population lived in 130 cities having populations of 100,000 or more; 46.3 million, or 26 percent, lived in 1,769 communities having populations ranging from 10,000 to 100,000; 15.6 million, or 9 percent, lived in 3,097 communities having populations ranging from 2,500 to 10,000; and the balance of 66.8 million, or 37 percent, lived in rural communities or outside recognized communities.

It may be noted that during the period 1940–60, the greatest growth occurred in the communities ranging below 100,000 in population, these communities having absorbed more than half of the urban growth. This accelerated growth in cities of these size ranges resulted in a significant change in the population distribution patterns established in the prior period 1900–40.

Chart I also projects the anticipated growth of the total population as well as the urban and rural segments of the population to the year 2000, based on ratios developed during the period 1940–60. If this rate of growth were to continue in the same proportion, a total population in excess of 330 million people could be anticipated by the year 2000, of which approximately 85 percent might be expected to live in urban communities and approximately 15 percent in rural areas.

While it is more difficult to predict the distribution of the urban population by sizes of communities over this extended period of time, chart II shows an extension of the growth pattern of communities of 2,500 population and over, using the period 1940–60 as a base. However, it should be noted that the pattern of urbanization by sizes of communities for this period changed substantially from the pattern developed during the prior 40-year period and it is entirely possible that the patterns in the future years might again be altered.

3. Changing mail volumes and sources of origin

There are two basic factors which must be considered in analyzing the effects of changing mail volumes and sources of origin on postal plant requirements. They are as follows:

1. The changes in total mail volumes by types and cubages of mail.
2. The relationship between population distribution and originating mail volumes as they vary by sizes of communities.

Chart III is a tabulation of the total mail volumes at specified intervals during the period 1900–60 and projected volumes to the year 2000.

This chart is of particular significance for two reasons. First, it permits a correlation of types of originating mail to total mail, and second, it illustrates the sensitivity of mail volumes to economic conditions.

It will be noted that the mail volume increased steadily from 1900 to 1930; that it decreased slightly during the decade 1930–40; and then that it resumed an increase in growth at an accelerated rate from 1940 to 1960. While this tabulation does not present in detail the full effect of the major economic depression during the early 1930's, postal records show that the mail volume in 1933 dropped to 19.8 billion pieces which was the lowest annual volume of record since 1914. This drop was particularly noticeable in preferential first-class mail, periodicals, and parcel post. However, circulars and bulk rate mail continued to increase during this period, probably because of the fact that many business organizations were withdrawing their sales personnel from the field and substituting postal media for promotional purposes.

Chart III also projects anticipated mail volumes to 1980 and 2000. In computing these projections, certain geometric factors have been used in order to recognize both the coming to maturity of the age groups born in prior periods, as well as to give weight to the increasing longevity of the older age groups.

For many decades it had been the practice to develop mail volume projections based on nationwide per capita averages of pieces of mail generated by the total census population. However, later experience indicated that census data did not furnish a true measurement of the number of patrons which a specific post office served, particularly in central communities where commercialization and industrialization were highly developed. Therefore, it became necessary to relate mail volumes in these communities to the postal population or patrons served rather than the population shown in census reports.

It is also apparent that the per capita mail volumes generated by the postal population vary significantly by size ranges of communities.

Chart IV is based on a tabulation of the relationship of these factors applied to communities ranging in census population upward from 2,500 based on 1960 census and postal data.

The lower two lines of this chart show the numbers of communities by size range, the census population for each group, and the estimated postal population (patrons) in each category.

It may be noted from this portion of the chart that 130 communities, having a population of 100,000 or over, show a total census population of 50.6 million people. However, the postal population in these communities totaled approximately 76 million. In the size range 10,000 to 100,000, the census population for the 1,769 communities in this group totaled 46.3 million while the postal population totaled 67.3 million. In the balance of 3,097 communities in the size range 2,500 to 10,000, the census population totaled 15.6 million and the postal population 19.2 million.

Thus, in these 4,996 communities, the census population totaled 112.5 million, while the postal population approximated 162.5 million. In other words, the postal population exceeded the census population in these communities by 50 million people or approximately 45 percent.

Additionally, it will be noted that in 1960 the postal population in the cities ranging from 25,000 to 500,000 exceeded the census population by approximately 26.4 million people or 50 percent, while in both the largest as well as the smaller groups of communities the ratio dropped substantially below this average. Chart IV also projects these postal population factors to 1980 and 2000 based on 1940–60 rates of growth.

Chart V has been developed to generally project the effects of continuing urbanization on future mail volumes by size ranges of communities based on 1940–60 population and mail volume data. Neither chart IV nor V is intended to be authoritative or conclusive, but rather to provide direction for long-range planning.

It will be noted in this chart that emphasis continues to be placed on the intermediate range of communities which, it may be presumed, will increase in numbers as well as in aggregate population. However, as is now the case, the great central cities will probably continue to generate the major portion of the mail volumes although the flow of mail distribution may narrow and elongate along transportation arteries.

This assumption is based on a further analysis of the data from which charts IV and V were developed. This data shows that, in 1960, the annual volume of originating mail per postal patron varied significantly by size of community. For example, in cities over 100,000 population, the average was 480 pieces per patron per year. In cities ranging from 10,000 to 100,000, the average was 290 pieces per patron and for communities ranging from 2,500 to 10,000 population, 215 pieces per patron was the average. For the balance of the population, it was only 45 pieces per capital per year.

4. Mail distribution patterns

In reviewing the growth of the postal communications system as it has affected and will continue to affect requirements for plant facilities, it is necessary not only to analyze the sources of mail entering the system, but also the distribution patterns through which mail flows from sources to ultimate destinations.

To make this analysis, it is further necessary to analyze the following two factors:

1. The distance which mail flows from a source to destination.
2. The methods by which it arrives at ultimate destinations.

Generally, it may be assumed that an average first-class post office distributes to its patrons a volume of mail closely approximating that which is generated by the postal patrons served by that office. It is recognized, of course, that there are many exceptions to this assumption, particularly in instances where mailers having nationwide mail distribution are predominant patrons of a given office or in instances, such as the Washington, D.C., post office, where great volumes of Government mail are generated for nationwide distribution.

However, the movement of mail into and away from post offices as a whole follows a general pattern which may be illustrated statistically. Chart VI is based on a tabulation of the flow patterns of mail in terms of linear miles from source to destination at specific intervals during the period 1940–60.

A number of significant observations may be drawn from the data in this chart. First, in terms of pieces of mail, approximately 47 percent of all originating mail was, in 1960, delivered within 100 miles of its source; an additional 17 percent was delivered in the next 200-mile belt; a further 15 percent went into the 300- to 599-mile belt; and the balance of approximately 21 percent was delivered to points outside the 600-mile radius.

In terms of cubages, approximately 33 percent was delivered within 100 miles of point of origin; 21 percent was delivered within the next 200-mile belt; 20 percent went into the 300- to 599-mile area; and the balance of about 26 percent was delivered to points outside the 600-mile radius.

Thus, it will be noted that while the percentages of pieces has a tendency to decrease as the distance from source to destination is increased, the cubage increases proportionately as the distance grows greater.

Chart VI also provides a basis for comparing the relative growth rates of local and 100-mile-belt mail during the period 1940–60.

Based on 1940 volumes in terms of pieces of mail, approximately 43 percent of the total volume was distributed within this 100-mile radius, while, by 1960, the volume delivered within this zone was greater alone than the total nationwide mail volume in 1940.

Thus, in the 1940–60 period, while the total volume increased 129 percent, almost half of the entire increase occurred in the 100-mile-radius zone.

These comparisons again point to the fact that not only do the centers of population generate the major portion of the increasing mail volumes, but an increasingly proportionate part of this increase is delivered within a relatively limited zone immediately surrounding these centers.

This accelerated growth rate of local and 100-mile-radius mail simultaneously paralleling the replacement of rail transport by trucks for comparatively short-haul distribution and the addition of long-haul air transport has had a significant impact on postal space requirements.

For example, during the period 1923–60, rail-mail routes dropped approximately 60 percent while interoffice truck mail routes increased over 100 percent and domestic airmail transport grew from a small relatively localized system to a national transportation complex serving hundreds of communities.

These changes have not only resulted in the necessity for replacing operating space in railway post offices with five times the equivalent space in ordinary post offices, as this type of car was withdrawn, but it has also become necessary to make offices, formerly served by rail, accessible to large over-the-road trucks. This means greater outside maneuvering areas as well as additional dock space.

Further, the growth of truck transport has required that a completely new series of vehicle maintenance facilities be provided as the Department's automotive fleet increased by geometric proportions.

Finally, the growth of airmail transport has brought with it the necessity for the development of an ever-growing system of airfield mail facilities to handle the increased volumes of mail at more and more points of pickup and delivery.

Turning first to the effects of the reduction of railway post office space in the 1923–60 period, this type of space dropped from approximately 881,000 square

feet in 1923 to about 468,500 square feet in 1940, or a loss of 412,500 square feet, which required substitution of about 2 million square feet. Between 1940 and 1960, this loss approximated 250,000 square feet which required substituting about 1,250,000 square feet of operating space in post offices along the routes previously served by rail, or a total for the period of over 3 million square feet.

In regard to the growth of the departmental operated motor vehicle fleet, the number of such vehicles increased from 4,703 in 1923 to 8,650 in 1940; to 36,781 in 1960 (to 45,127 in 1963). To service this fleet, maintence facilities have had to be acquired, parking space has had to be provided, and trucking terminals have had to be built at major highway exchange points.

The effect of the growth of airmail transport is also of major significance. For example, in 1923 there was only one route in operation, the transcontinental route from New York to San Francisco—a total of 2,680 miles, with intermediate stops at 13 airfields. By 1940 a total of 37,943 route-miles, with intermediate stops at 340 fields, were in operation. This system increased by 1960 to 268,753 route-miles between 762 fields. Total airmail in 1923, 13 million pieces, had increased by 1940 to 259 million pieces and by 1960 to 1,356 million pieces.

Thus, it is clearly apparent that these changes in distribution patterns, as well as the changes in methods of transporting the mail, particularly during the period 1940–60, have all had a marked impact on the postal plant requirements during this period.

5. Changes in postal services and mail processing methods

From time to time, certain new postal communications services have been introduced since the turn of the century by the Department which have affected postal plant requirements.

Among these are:

1913—Parcel post service.
1918—Airmail service.
1928—Bulk third-class mail.

These services are presently responsible for approximately 75 percent of the total present cubage, although they account for less than one-third of the number of pieces handled.

In addition, improvements of mail processing equipment also affect postal space requirements.

A number of these improvements are as follows:

1956—First semiautomatic parcel post sorting system.
1956—First Mail-Flo letter processing system.
1957—First multiposition semiautomatic letter-sorting machine.
1958—First Mark II facer-canceler.
1960—First semiautomatic sack-sorting machine.
1961—First single-position semiautomatic letter-sorting machine.

Relative to the effects of additional sorting and distributing mechanization on postal space requirements, it is believed this type of equipment will not require more than 5 percent additional workroom space compared to that normally required for a similar manual operation. Some added space may also be needed in particular instances for support areas due to mechanized equipment.

Turning now to improvements in mail distribution procedures which will have a beneficial effect on the utilization of postal space, two important new concepts have been initiated and will be more completely implemented as time progresses.

One is the nationwide improved mail service program (NIMS) which was inaugurated in 1961 in order to make better use of manpower, equipment, and workroom space by spreading the receipt of mail by the post offices over a greater part of the day.

Through this program, business mailers are encouraged to deposit noncritical mail at nonpeak post office hours, thus leveling the peakloads at large offices.

As a result of this program, the mailings deposited for working after 5 p.m. have been reduced from 67.1 percent of the total mailings early in fiscal year 1962 to 54.6 percent at the same point in the current year.

Of even greater universal importance is the nationwide integrated postal service plan (NIPS), which was inaugurated in 1960. Under this plan, concentration, distribution, and transportation of the mails are being planned according to predetermined functional patterns based on transportation schedules which will ultimately permit next-day deliveries of letter-mail between any two points in the Nation. In addition, this plan will expedite the distribution, dispatch, and delivery of all other classes of mail by substantially reducing processing and delivery times.

The plan presently envisions adequate facilities at 561 key points throughout the Nation when fully implemented. These will serve as distribution and transportation centers and, of these, 62 will also function as national area centers in a basic transportation network which will permit direct connections between each national center and all others. This interarea network is essential to the effective use of the zone improvement plan, commonly referred to as the ZIP code, which is enlisting widespread mailer participation. The ZIP code marking on mail permits the more expeditious sortation and dispatch from office of origination to city zone of delivery.

The initial effect of the outlined programs on the space acquisition schedules is to direct immediate attention and energy to the acquisition of the required key-point facilities. This, in turn, assures the most effective allocation of funds, inasmuch as the early acquisition of adequate facilities at key points permits the prompt massing of volumes of mail for handling by modern techniques and distribution equipment with consequent savings resulting therefrom.

6. Meeting postal plant requirements

Postal space requirements are generally determined by four principal interrelated factors:

1. The volumes and types of mail to be processed in terms of pieces and cubages.
2. The number of times each piece must be handled within a facility.
3. The internal equipment required to receive and process the mail volume at specific installations.
4. The types of external transportation equipment utilized to collect and distribute the mail.

While it is beyond the scope of this presentation to consider individual plant requirements as they may be determined by the above factors, an effort must be made to assess long-range across-the-board requirements in order to determine the magnitudes of ultimate fund commitments.

Historical data provides few guidelines by which postal growth may be related directly to postal plant capacities or requirements in the past. In fact, prior to 1955, there seems to have been no consolidated report of total postal space occupied although, in 1947, the Postmaster General's report did make reference to federally owned space utilized for postal purposes during that year.

Fortunately, however, the records are quite precise in accounting for numbers of buildings occupied although an estimate of postal space provided within these buildings must be based on a series of applied averages and calculations, particularly in the early years of the period under review.

Chart VII is an analysis of the approximate expansion of postal space during the period 1900–1960 by types of occupancy arrangements and a projection of space requirements to 1980.

Since the turn of the century, privately owned postal facilities have accounted for the vast majority of buildings occupied by the Department. Even during the period 1930–40, when the public works programs resulted in the construction of over 2,000 new federally owned post offices, privately owned facilities continued to provide the majority of postal quarters, in terms of numbers, particularly in small communities and rural areas.

However, it should be noted that the addition of over 2,000 new Federal buildings between 1930 and 1940 ultimately resulted in a federally owned postal plant which provided over 80 percent of the total postal space, and which handled approximately 90 percent of the originating mail volume. Most of the postal space in Federal buildings constructed during that period was designed for 20-year requirements.

By 1943, at which time the public works programs were virtually completed, the postal plant consisted of approximately 57 million square feet of federally owned space and 13 million square feet of privately owned space. As closely as can be determined, this total of 70 million square feet was apparently intended to handle between 45 and 50 billion pieces of mail providing the mail origin and distribution patterns during the 1940–60 period which followed the 1920–30 configurations.

Thus, if the 1920–30 rates of increase had been applied to the 1930 mail volumes, a total volume of 47 billion pieces of mail would have been anticipated by 1950.

While the total mail volume did increase to approximately the anticipated level by 1950, the community growth pattern changed significantly from the pattern established prior to 1940. This change occurred in the intermediate-sized communities where the population as well as the number of communities grew

at a rate far greater than during any preceding period. As a result, it became necessary to increase the postal plant to approximately 78 million square feet by 1950 in order to adjust to these new growth factors.

While it is impossible to pinpoint any specific time at which it may be said that postal space was adequate to handle the then current volumes of mail, it seems reasonable to assume that the 1950 ratios of postal space and mail volumes approximated a norm against which to project further space requirements in later periods.

At that point in time, the ratio of total pieces of mail to total postal space approximated 570 pieces per square foot. The ratio of total cubage to total postal space was approximately 10 to 1.

Therefore, using the 1950 space factors applied to the 1950–60 rates of increase, it is now necessary to project minimum across-the-board space requirements of 150 million square feet by 1970 and 220 million square feet by 1980. Chart VII also summarizes these estimates and illustrates actual and proposed expansion programs through fiscal year 1970.

From chart VII, it is apparent that the proposed construction program will exceed the projected overall space requirements substantially by 1970. This, of course, is the expected result of building to meet long-range needs based on the estimated rates of annual increase of mail volumes. This situation makes some overcapitalization difficult to avoid during the early years of plant occupancy.

Thus, the problem of how far to expand the postal plant at any given time or, in fact, for any given period of time, will continue to confront the Department for years to come.

However, each decision to invest in further plant expansion must be supported by documented justification demonstrating the need for the new construction under consideration.

Chart VIII correlates the comparative growth rates of the census population, mail volumes, and postal space from 1900 through 1963 and projects the future increases of these factors to the year 2000.

It will be noted from this chart that there has generally been a lag between the rate of increase of mail volumes and postal plant capacities since the turn of the century except for the decade 1930–40.

It will also be noted that during the period 1950 through 1970, the rate of expansion of postal space has approximately paralleled the growth of the mail volume and that after 1970 the space rate falls away slightly.

This divergence is introduced at the indicated points to recognize the possible effects of the NIMS and NIPS programs on future space utilization. While the eventual savings in space made possible by improved procedures cannot be precisely estimated at this time, future programing will be progressively adjusted to take advantage of every economy possible.

(The charts referred to above are as follows:)

CHART I

POPULATION GROWTH AND CHARACTERISTICS 1900-1960-2000 (EST.)

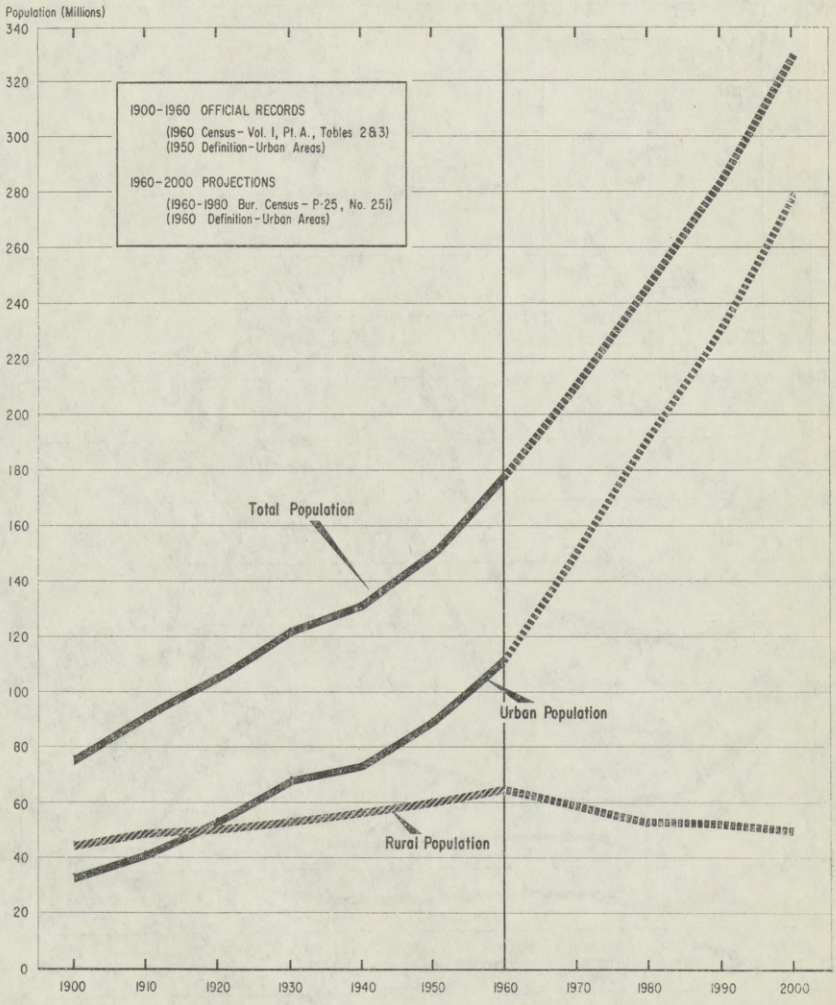


CHART II

NUMBERS AND POPULATIONS OF URBAN PLACES BY SIZE GROUPS 1900-1960-2000 (EST.)

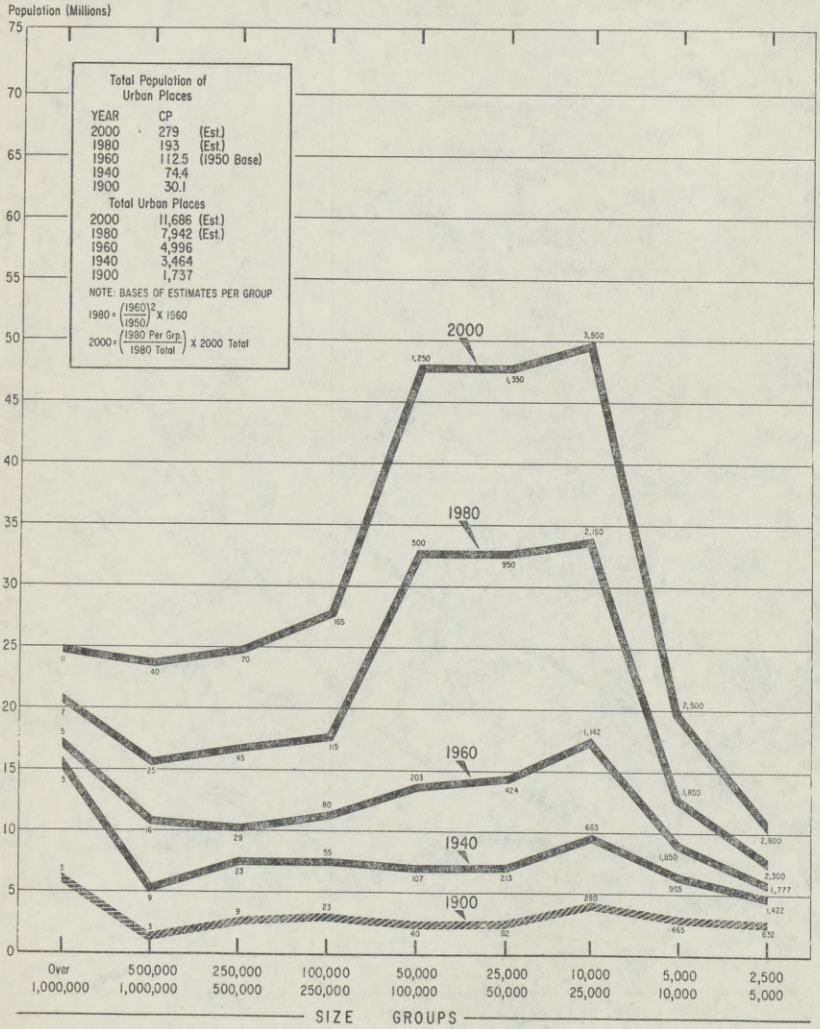


CHART III

GROWTH IN VOLUMES OF ORIGINATING DOMESTIC MAIL BY CLASSIFICATIONS-1900-2000

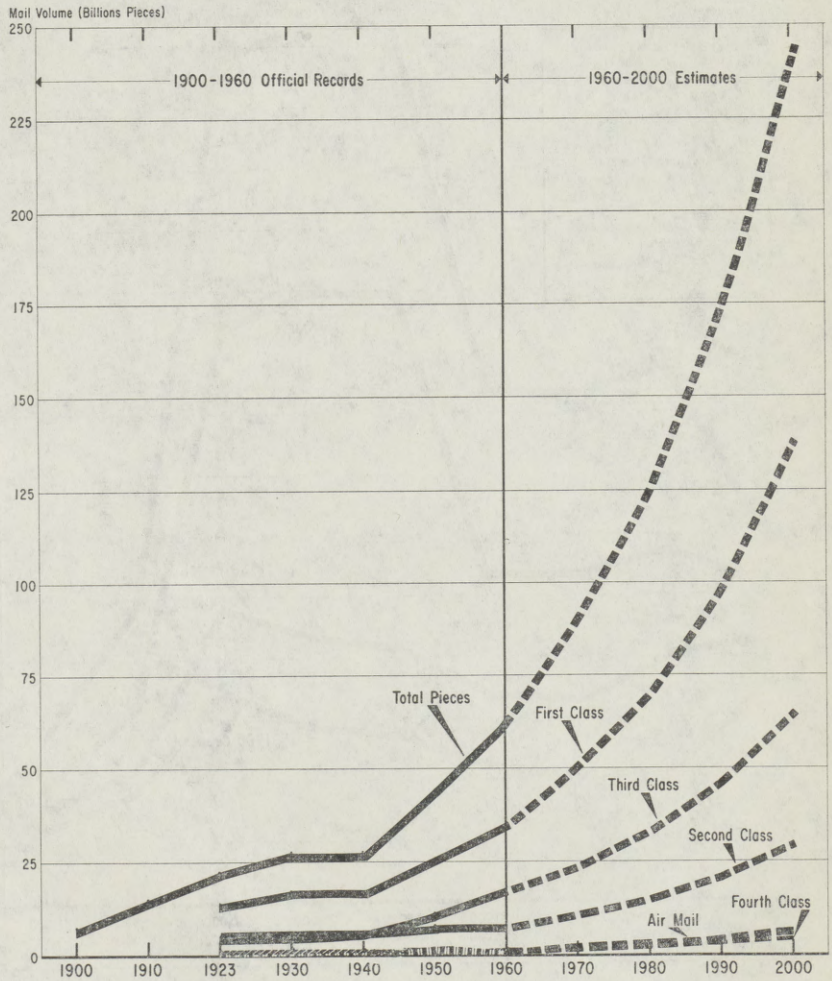


CHART IV

ESTIMATED POSTAL PATRONS SERVED BY POSTAL FACILITIES IN URBAN PLACES-1960-1980-2000

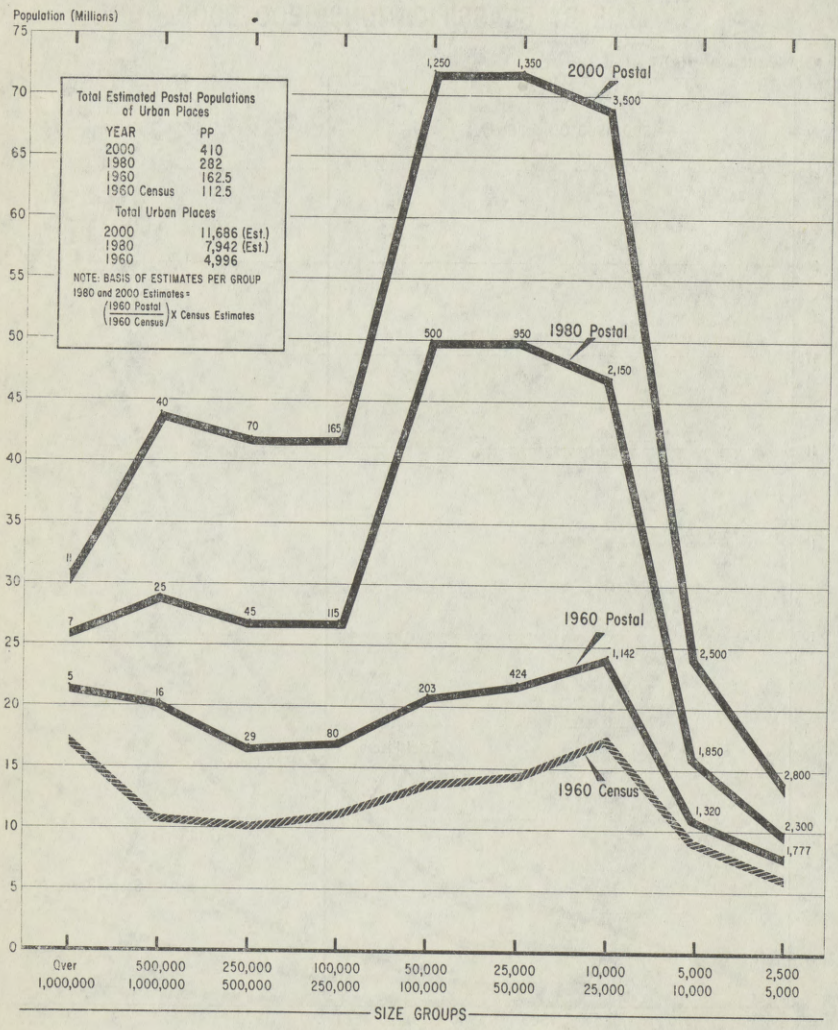


CHART II

ESTIMATED VOLUMES OF ORIGINATING DOMESTIC MAIL GENERATED BY POSTAL PATRONS IN URBAN PLACES-1940-1960-1980-2000

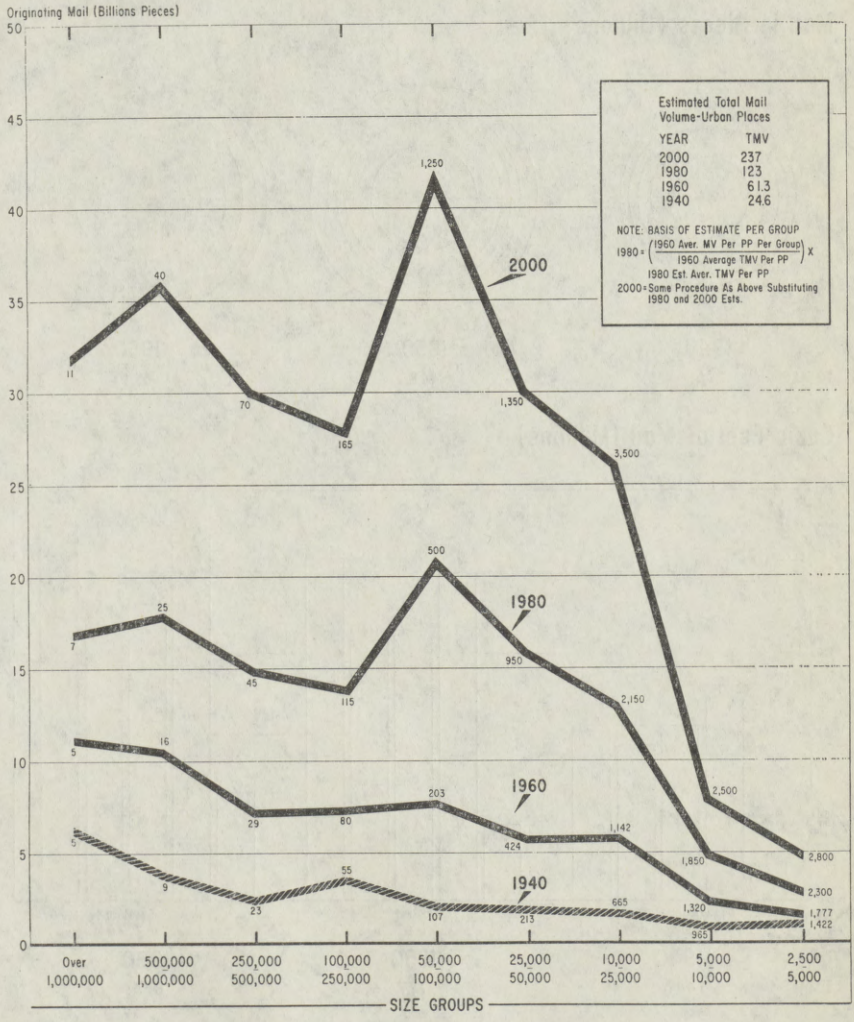
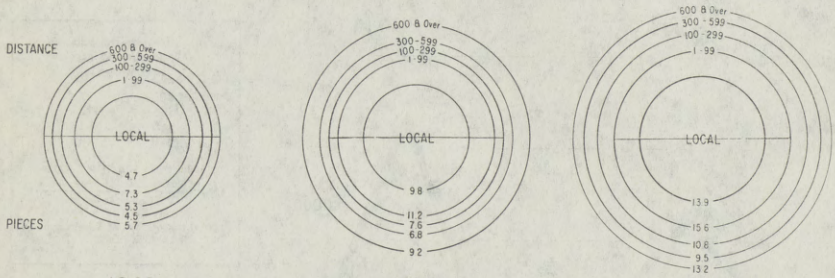


CHART VI

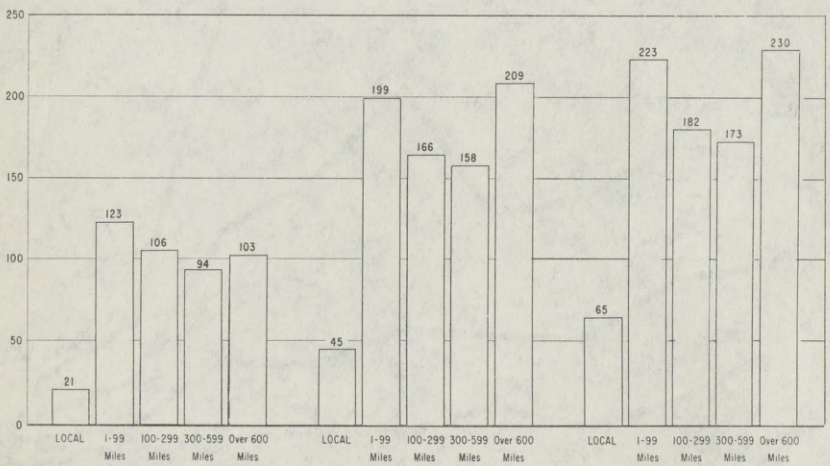
CHANGING MAIL DISTRIBUTION PATTERNS IN LINEAR MILES FROM SOURCE TO DESTINATION-1923-1960

Mail in Pieces (Billions)



	1940	1950	1960
TOTALS	27.5	44.6	63.1

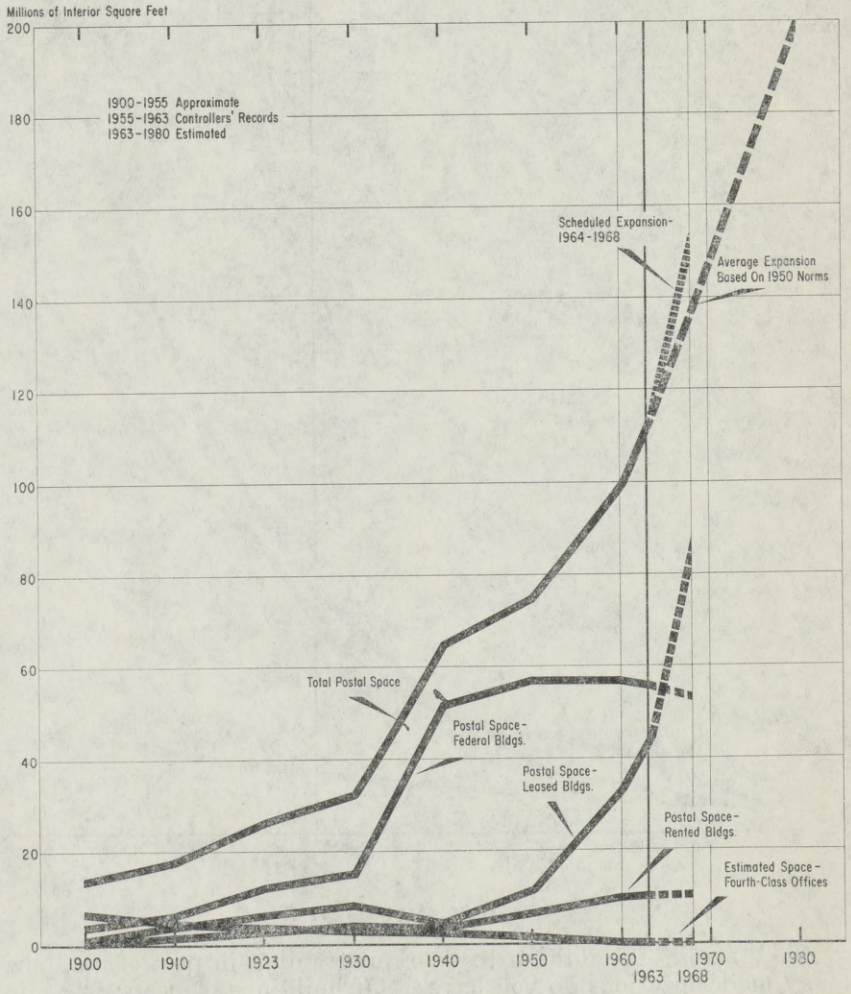
Cubic Feet of Mail (Millions)



	1940	1950	1960
TOTALS	447	777	873

CHART VIII

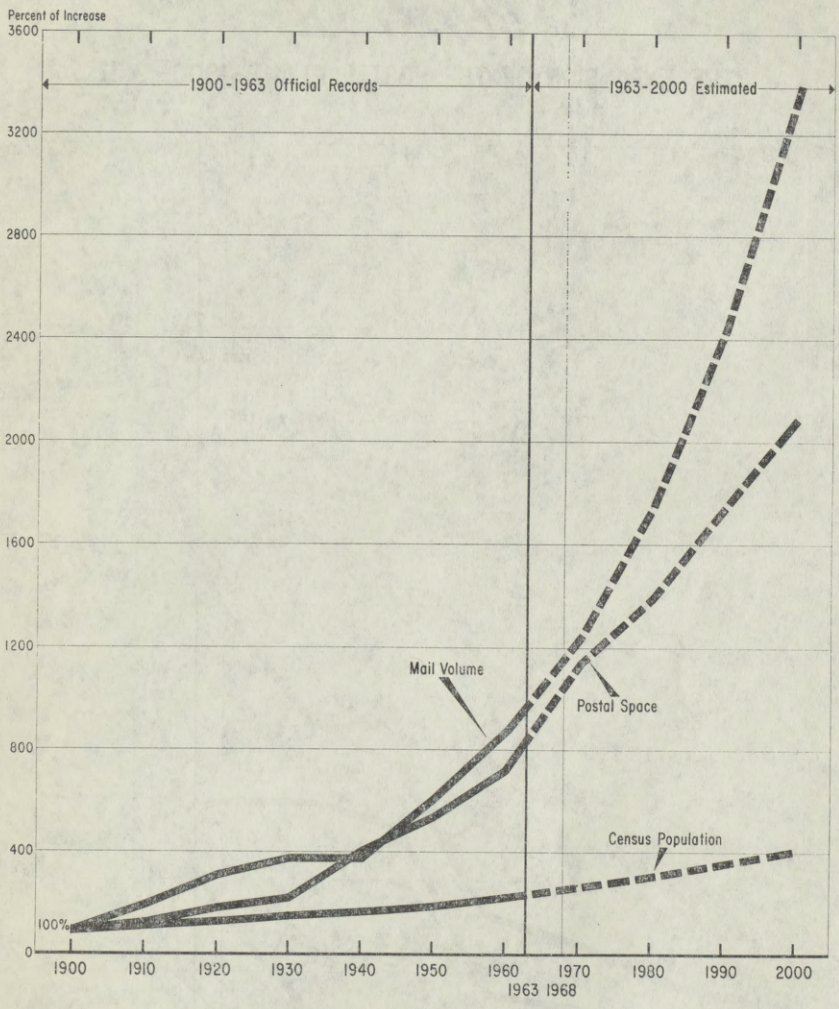
THE EXPANSION OF THE POSTAL PLANT - 1900-1980



29-837—64——26

CHART VIII

COMPARATIVE RATES OF INCREASE - CENSUS POPULATION, MAIL VOLUME, AND POSTAL SPACE - 1900-2000



MAJOR REMODELING

Mr. PILLION. In addition to your programing in post offices, how many modernizations do you have? Of buildings, I mean; what do you project for 1965?

Mr. JENSEN. I would have to check but we had 240 major remodelings. I think this is what you are talking about.

Mr. PILLION. Yes.

Mr. JENSEN. We do pick a number and use it as a goal. We continue to use every building if it is possible to do so. Only if we can't use the building we are in now, or another existing building, do we consider new construction and we ask that the new construction re-

quests be forwarded to us and we evaluate them so we can control the program to keep it consistent with what we think are the wishes of the committee as judged by the testimony of these past several years.

Mr. PILLION. How many is that?

Mr. JENSEN. 240 is my recollection.

Mr. PILLION. How does that compare with previous years? Say last year; say this year, 1964?

Mr. JENSEN. My recollection is that we are remodeling slightly more buildings this year and did a few more last year than we had in previous years.

Mr. PILLION. Would you be good enough to place in the record the remodeling of both numbers and square footage for the fiscal year 1963, the fiscal year 1964, and fiscal year 1965, and your projection for fiscals—is that in the—and fiscal year 1966?

Mr. ABELL. On fiscal year 1965, Mr. Chairman, if you are talking about Federal building improvement and remodeling——

Mr. PILLION. No; I am talking about remodeling of any Federal building that you now have. Post office buildings, post offices.

Mr. ABELL. Remodeling of post offices for fiscal year 1965 has been cut right down to the bone.

Mr. JENSEN. That is Federal post offices.

Mr. Pillion, in the 5-year projection which we are presenting to the committee, there are some tables. For instances, in fiscal year 1965 we show the major lease remodeling projects we anticipate will be undertaken by the Department. In answer to your question,we think that there will be about 240 major remodelings during the fiscal year 1965. You asked for the square footage involved, I believe. This would be 1,434,000 square feet that will be involved in the remodeling of these 240 leased buildings.

Mr. PILLION. This is for——

Mr. JENSEN. Fiscal year 1965.

Mr. PILLION. How much was it for 1964, is it higher? Is this higher than 1964?

Mr. JENSEN. We show a total of 246 projects for fiscal year 1964 involving 1,266,000 square feet.

Mr. PILLION. You are a litle bit higher in 1965 than 1964 and that is by a couple hundred thousand square feet?

Mr. JENSEN. That's right. We have tried to base these figures on known projects. However, in this area of major remodeling you can't be sure until you get down and negotiate and see what you can do.

Mr. PILLION. Why can't you remodel more buildings and bring your remodeling up a little bit more and reduce your new post offices?

Mr. JENSEN. As I said, our policy is and has been since August 1961 that the people who are charged with the responsibility of acquiring space have to determine first that they cannot possibly use the existing building by remodeling. Only when they can document the record to show the existing building cannot be made suitable can they consider using another building. Then they have to show in the record there are no other existing buildings which can be made suitable for our purposes. Then and only then can they request authorization for new construction. So I think the answer to your question is, the Department does make every effort to use as many existing buildings by remodeling as it possibly can, and has used more than it did previously.

Mr. PILLION. A couple days ago, here—maybe it was yesterday—Congressman Passman, of Louisiana, talked about two or three build-

ings down in his district—I don't have the names. They will be in the record. He said the roofs were ready to fall in. I wonder if you would take a look at those post offices down there.

Mr. ABELL. We have looked at those, Mr. Pillion. I don't know whether he wanted this information in the record or not.

Mr. PILLION. Perhaps we should let him look at it. Let him determine whether he wants it in the record.

Mr. ABELL. I planned to give him this sheet of paper. But if I may go off the record——

Mr. PILLION. Off the record.

(Discussion off the record.)

BUILDINGS CONSTRUCTED BY GENERAL SERVICES ADMINISTRATION

Mr. PILLION. How many General Services buildings are going up for the Post Office that you will be occupying in 1965?

Mr. ABELL. I have that on a list, here.

Mr. PILLION. Will you place that in the record?

Mr. ABELL. Yes, sir.

Mr. PILLION. That is in addition to the 971, isn't it?

Mr. ABELL. Yes. We estimate occupancy in 15 in 1965, and in addition 17 buildings are under construction which we will occupy after 1965.

Mr. PILLION. May we have the square footage of that?

Mr. ABELL. I will add that and then I will submit this.

(The information follows:)

The following Federal office buildings, currently under construction or funded for construction by General Services Administration, estimated to be occupied in fiscal year 1965, in which the post office will be assigned main office space:

	POD square feet		*POD square feet*
Austin, Tex	114,916	Alamo, Tenn	3,968
Bismarck, N. Dak	33,216	Dayton, Wash	4,400
North Platte, Nebr	20,500	Cheyenne, Wyo	31,485
Richland, Wash	12,864	Decatur, Ala	22,406
Gainesville, Fla	15,533	Bozeman, Mont	15,640
Macon, Ga	83,050	Alice, Tex	8,748
Webster, Mass	10,900		
Wilburton, Okla	5,105	Total	401,004
Pierre, S. Dak	18,273		

The following Federal office buildings, currently under construction or funded for construction by General Services Administration, with occupancy estimated subsequent to fiscal year 1965, in which the post office will be assigned main office space:

	POD square feet		*POD square feet*
Juneau, Alaska	24,592	Fayetteville, N.C	32,300
Pine Bluff, Ark	40,800	Tulsa, Okla	160,700
Newnan, Ga	12,500	Medford, Oreg	36,595
Augusta, Maine	16,299	Westerly, R.I	12,503
Bangor, Maine	42,900	Sioux Falls, S. Dak	62,800
Hannibal, Mo	13,800	Winchester, Tenn	6,818
Independence, Mo	22,556	Pasadena, Tex	35,232
Concord, N.H	24,051		
Portsmouth, N.H	24,070	Total	581,329
Clovis, N. Mex	12,813		

DAYTON, OHIO, POST OFFICE

Mr. PILLION. I notice in your site acquisition account you have not—you don't have Dayton, Ohio, there.

I thought maybe you had acquired that. Is that in the process of being acquired?

Mr. ABELL. Yes, sir. This is a sort of a unique situation. Very briefly, we have an agreement there to negotiate with the urban renewal authority. It almost amounts to an assignable option. We will probably have to pay them about $301,000 for that site.

Mr. PILLION. And you have a kind of understanding with them?

Mr. ABELL. We have a contract with them. We have not obligated any funds as yet.

Mr. PILLION. That is about all the questions I have and I thank you very much for your appearance and patience.

BUILDING DESIGN

Mr. GARY. Mr. Abell, I saw an article in the Washington Post not long ago [indicating].

Mr. ABELL. I saw it, too. It appeared on Sunday.

Mr. GARY. "New Post Offices Are Just Plain Ugly." Would you like to comment on that?

Mr. ABELL. Well, Mr. Chairman, the worst part about that article is, they misspelled my name. You know that any politician doesn't mind any kind of a newspaper article as long as they spell his name right.

I thought that Mr. Eckardt was a little unfair to me in that he purported to quote me and had not talked to me. I don't know the gentleman. I have never seen him. He didn't call my office or talk with me about this. The thing that is particularly annoying is that the American Institute of Architects have contacted me and asked for a revision in the Post Office Department's technique of hiring architects and dealing with architects. The Postmaster General and I had lunch with them on the 7th of January and spent about 2 hours discussing this problem. I suggested they have a committee study our present policy of hiring architects and working on design of buildings. About a month and a half later they sent a committee to my office and we discussed it. I asked that they meet with some other officials on my staff and in the Office of Research and Engineering, which they did, and I didn't hear from them again. The next thing I saw was that article in the paper. I don't know whether they had anything to do with it or not, but I thought it was a little unfair. They made no proposal to me. I told them if they had a proposal or suggestion I would be glad to listen to it and, if it seemed fair, I would put it into effect. I don't think we have too many ugly post offices and that picture Mr. Eckardt uses doesn't look ugly to me. Maybe it does to you, Mr. Chairman. And I think this one over here [indicating] is a very attractive post office.

Mr. PILLION. I hope that one is never going to get built, now.

Mr. GARY. What is your program insofar as architects are concerned?

Mr. ABELL. For buildings the size of the one at Marietta, Ga., the one pictured in that article, the buildings range from about 1,500 square feet up to about 40,000 square feet. We specify generally what the post office should look like for the particular location. We will just say that it is South Deerfield, Mass. We want to build a new post office there and we think, according to our space-analysis people, it ought to be about 10,000 square feet. We find a suitable site. We put together a bid package specifying how big the post office

ought to be, generally how the conformation should be, and then we let it out for bid.

The successful bidder hires an architect, designs the building, and submits the plans to us for approval. If we like the building we approve it and he builds it and that's that.

For a building over 40,000 square feet, we actually hire the architect and he designs the building. Our Office of Research and Engineering works with him and works out any details in the plans that we don't like or that we don't think are suited for postal purposes. When the final plans are approved, the plans are incorporated in the bidding package, and the bidders bid on the building as it is in final working form.

Mr. GARY. Do you have any architects on your staff at all?

Mr. ABELL. Not on my staff. The architectural part of the post office is under Mr. Harriman, in the Office of Research and Engineering

Mr. HARRIMAN. The answer to the question is, yes, we have between 25 and 30 professional architects on the O.R. & E. staff, plus 27 architects on the engineering staffs of our regional organization.

Mr. ABELL. The complaint of the American Institute of Architects seems to be that we should hire more outside architects for these medium-sized buildings and have them actually design the buildings and work up the specific plans. I told them I was perfectly willing to listen to this but I wanted a specific proposal. They never came in with one. They just wanted to talk about it.

Mr. GARY. By the way, have you had any complaints from the residents on this Marietta, Ga., post office?

Mr. ABELL. No, sir.

Mr. GARY. About its architectural beauty?

Mr. ABELL. None that have come to my attention, Mr. Chairman.

Mr. JENSEN. That building was designed by an architect on our own staff, I found out this morning. A member of our regional staff in Atlanta.

Mr. GARY. When you build these post offices do you have a uniform pattern or do you try to model the architecture after the architecture in the neighborhood in which the building is placed?

Mr. JENSEN. We definitely try to blend the architecture into the neighborhood.

F. D. R. STATION

Mr. CONTE. I was just wondering, on that New York post office, if you sold land at $3.2 and the builder saved about $5 million on land. By this letter Mr. Pillion has here, it states the estimated cost of 480,000 square feet for the post office is $10.8 million; $22.50 a square foot. Deducting the $5 million from the cost (which he would save) then you come up with about $5,800,000. Could you work out a fair return for $5,800,000 for the lessor, plus taxes, and that would be your rent, roughly?

Mr. ABELL. From where did the $5.8 million come? We start out with 10 and we subtract 5?

Mr. JENSEN. That is only construction cost, the $10.8 million.

Mr. CONTE. Yes, but he is saving $5 million on land; he would be getting it for $3.2 million, so that means that building for the post office will cost about $5.8 million. You can add on the land, too, and then figure a fair return on this money at 6 to 8 percent plus taxes and that is what it should be.

Mr. ABELL. There will be bidders who will bid on exactly this. In fact, I hope all of them will bid on that. Bids based on high land costs will be analyzed against bids submitted on a different base. If we sell a bidder the land at $3.2 million, our analysts will determine what the rate of return should be to him, taking the land cost into account. If it is not a fair bid, if we think he is getting more than 6 percent or whatever we think the going rate should be on his investment, the bid won't be considered. And if they are all too high we will just have to wash the whole thing out by rejecting all bids.

Mr. CONTE. You could almost crystallize this because your rent, based on $5 a square foot in New York would be, on this building, about $2,400,000 a year rent. And therefore if we do it this way here that I am suggesting, your rent should be in the vicinity of around $400,000 or $500,000 a year.

Mr. ABELL. Has anybody played around with these figures in your shop, Mr. Jensen?

Mr. JENSEN. Yes, several months ago and prior to publishing this first information about the method we might employ in the bidding on this project, we conducted a number of studies to analyze what we thought would be the result to the Government, bidding this project on the multiuse basis. We came to the conclusion an investor would figure his total cost for the project, he would figure his total potential income using what the market would indicate he could get for the tower portion and then take into consideration competition and putting together a package and owning a building, we thought that he would reduce the rental for the postal part to a good, competitive figure so that he would be the one to get the bid. In other words, we felt he would give us a lower square-foot rent as a result of the getting the site and having the right to develop the air rights. We developed these analyses and came to the conclusion this is what would happen.

Mr. ABELL. Did they work out any dollar figure, just out of curiosity?

Mr. CONTE. I would be interested to see that.

Mr. JENSEN. May I say something off the record?

Mr. CONTE. Surely.

(Discussion off the record.)

Mr. CONTE. If we could get a fairly good ballpark estimate of what you should be charged for rent if you sold the property at $3.2, with this fellow saving $5 million. You can deduct the $5 million from the $10.8 million which would be the cost of the post office building, which leaves a cost of about $5.8 million. Figure a safe return on that money, between 6 percent and 8 percent, plus taxes, and you should come very close to what your rent should be; plus the fellow has a tremendous investment which is increasing in value every year, which is already shown here. In 3 years it has increased $5 million.

Mr. ABELL. I think we should go even better than that with the tower. This is what we should expect as a square footage rate if we built a building for just postal services. That is, if a man built a four-story building and paid us $3.2 million for the land and figured in his taxes and the other costs you come out with a square footage rate; in addition to that, if he has the air rights above this building, this is where we think that the cost can come down even more substantially.

Mr. CONTE. This is the frosting.

Mr. ABELL. We may be proven absolutely dead wrong, but I think the only thing we will lose on this is our architect's fee, at the very outside, and I think we stand to gain a rather substantial benefit.

NEEDHAM, MASS., AND CLARENCE, N.Y.

Mr. CONTE. Getting away from this, I received a question from our beloved former Speaker and colleague in the House, Joseph Martin. He said—you can supply this for the record—he advised me that Needham, Mass., in his district, has some 28,000 people and still lacks a modern post office building in the center of town. Can you give him any idea when a better facility can be constructed?

Needham has been trying hard for 20 years to get such a building.

Mr. PILLION. While you are supplying that would you also supply me with a record on Clarence, N.Y., post office?

Mr. ABELL. Yes, sir.

(The information requested follows:)

CLARENCE, ERIE COUNTY, N.Y.

Our occupancy of the present post office building in Clarence, N.Y., is based on an extension agreement which expires September 30, 1964.

Construction of new quarters has been authorized and the New York regional office is giving continued attention to obtaining a suitable site for the construction of new quarters.

NEEDHAM BRANCH, BOSTON, MIDDLESEX COUNTY, MASS.

Our occupancy of the present quarters, Needham branch, Boston, Mass., is based upon an extension agreement which expires August 31, 1964.

The agreement provides for a 1-year renewal option. New construction was authorized for this facility on March 13, 1963. The Boston regional office is continuing to develop a suitable site for the construction of new quarters.

Mr. CONTE. Mr. Chairman, if it is all right, I would like to ask Mr. Nicholson one question.

Mr. GARY. Yes. Go right ahead.

BOOKLETS OF STAMPS

Mr. CONTE. I received a letter with regard to these twenty 5-cent stamps for a dollar. The complaint was that each one of the papers with the little corner tab, which seems to have a cloth coating on it, says, "Add your ZIP code to your mail. Use zone numbers for ZIP code." That is on every single page. The person who directed this letter thought that this was very expensive and costly, and why you just didn't print it on the cover and let it go at that.

Mr. NICHOLSON. There are 20 stamps there with spaces for 6 stamps to a page or pane. Now, 20 stamps cannot be divided, taking them 6 at a time in any full number of pages so there is one spare place on each pane that would be left blank. So rather than leave that blank, just a white piece of paper, we do put that message about using the ZIP code.

Mr. CONTE. Could you put four 5-cent stamps on each page?

Mr. NICHOLSON. Yes, but that would make five sheets, and it is more expensive to have five sheets of four each than it is to have four sheets of five stamps with a blank space on each sheet.

There is a divider between each sheet, silicone coated for the purpose of keeping the stamps clean and also to keep the sheets of stamps from sticking together in warm and humid weather. The silicone divider sheet is an expensive item, relatively speaking. By this I mean in the area of tenths or hundredths of a mill but to add the one additional sheet and one additional divider is more expensive than printing the sheet as we do with one blank corner in it, on which we put the promotional message.

Mr. GARY. It is all printed at one time, and you do not have to run it again through the presses.

Mr. NICHOLSON. No, sir.

Mr. ABELL. These cost us 57.9 cents per thousand printed up in these books.

Mr. GARY. Including the ZIP code tab.

Mr. ABELL. Including the ZIP code tab and the silicone sheet and the cover on the outside and everything. They are a very popular item, I might add. The cost of the regular stamps is about 19 cents a thousand.

PLANT AND EQUIPMENT

WITNESSES

TYLER ABELL, ASSISTANT POSTMASTER GENERAL
CHARLES A. DIEMAN, DIRECTOR, DIVISION OF MAINTENANCE
LEWIS H. CRAVEN, FINANCIAL CONTROL OFFICER
EUGENE B. CROWE, DEPUTY ASSISTANT POSTMASTER GENERAL AND CONTROLLER, BUREAU OF FINANCE
EDWARD E. HARRIMAN, DIRECTOR, OFFICE OF RESEARCH AND ENGINEERING
RALPH W. NICHOLSON, ASSISTANT POSTMASTER GENERAL, BUREAU OF FINANCE

Object classification

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
22 Transportation of things	$1,986	$3,700	$3,850
31 Equipment	34,438	57,075	76,349
32 Lands and structures	55,706	43,300	10,077
Total obligations	92,130	104,075	90,276

Program and financing

[In thousands of dollars]

	1963 actual	1964 estimate	1965 estimate
Program by activities:			
1. Federal buildings improvement	33,694	32,716	16,177
2. Major mechanization projects	1,132	7,335	11,892
3. Vehicle program	8,682	17,185	14,911
4. Other equipment	29,294	27,279	25,396
Total program costs, funded	72,802	84,515	68,376
Change in selected resources [1]	19,328	19,560	21,900
Total obligations	92,130	104,075	90,276
Financing: Unobligated balance lapsing	4,454		
New authority	96,584	104,075	90,276
New authority:			
Appropriation	102,627	104,000	90,276
Transferred from "Administration and regional operation" (77 Stat. 62)		75	
Transferred to (76 Stat. 314):			
"Operations"	−2,416		
"Research, development and engineering"	−115		
"Facilities"	−3,512		
Appropriation (adjusted)	96,584	104,075	90,276

[1] Selected resources as of June 30 are as follows: Unpaid undelivered orders, 1962, $175,702,000 (1963 adjustments, $5,557,000); 1963, $200,587,000; (1964 adjustments, $149,000), 1964, $220,296,000; 1965, $242,196,000.

Mr. GARY. Next we shall take up the item of "Plant and equipment." The appropriation for fiscal year 1964 is $104 million. The budget estimate for 1965 is $90,276,000, which is a decrease below fiscal year 1964 of $13,724,000.

JUSTIFICATION OF THE ESTIMATE

We shall insert the justifications at this point in the record. (The justifications follow:)

Appropriations and obligations, 1963–65

[In thousands]

Activity and account	1963 (actual)	1964 (estimate)	Increase or decrease (−)	1965 (estimate)	Increase or decrease (−)
Federal buildings improvement:					
Modernization and extensions	$45,513	$34,300	−$11,213	$7,077	−$27,223
Air conditioning	9,561	6,500	−3,061	900	−5,600
Heating plant improvements	632	500	−132	100	−400
Increase or decrease in prior year orders with other Government agencies		2,000	2,000	2,000	
Subtotal	55,706	43,300	−12,406	10,077	−33,223
Major mechanization projects:					
New projects		4,995	4,995	19,000	14,005
Changes in prior year contracts	190	900	710		−9
Additions or alterations to existing installations	34	6,763	6,729	1,892	−4,871
Subtotal	224	12,658	12,434	20,892	8,234
Vehicle program:					
Freight	632	1,600	968	1,600	
Vehicle purchases	18,411	17,536	−875	16,986	−550
Garage equipment	277	300	23	325	25
Subtotal	19,320	19,436	116	18,911	−525
Other equipment:					
Freight	1,354	2,100	746	2,250	150
Custodial equipment	953	1,590	637	1,270	−320
Furniture and selected equipment	4,242	6,137	1,895	8,111	1,974
Mail and material handling equipment	10,298	18,774	8,476	28,565	9,791
Mail equipment shop, mail bag repair units, and depositories	14	80	66	200	120
Platform, yard, and miscellaneous equipment	19		−19		
Subtotal	16,880	28,681	11,801	40,396	11,715
Obligations	92,130	104,075	11,945	90,276	−13,799
Transfers from other appropriations	−8,300	−75			
Transfers to other appropriations	+14,343				
Unobligated balance	+4,454				
Total appropriation	[1] 102,627	104,000		90,276	

[1] Exclusive of $17,373,000 transferred by Public Law 88-25 to meet pay increase cost in other appropriations.

JUSTIFICATION

This appropriation provides for acquisition of capital equipment and for the modernization of the postal plant. Included are alteration and remodeling of Government-owned buildings used for postal purposes; procurement and installation of major systems of integrated mechanized equipment in large Government-owned or leased facilities; and purchase of vehicles and all other equipment required by the postal service. The appropriation is made up of four major activities: Federal buildings improvement, major mechanization projects, vehicle program, and other equipment.

The budget estimate for 1965 is $90,276,000, a decrease of $13,799,000 under obligations estimated for 1964.

Federal buildings improvement

This activity is part of a long-range program for which $10.1 million is requested in 1965, a decrease of $33.2 million under that programed for 1964. The purpose

is to provide for the improvement of Federal buildings used for postal facilities.

This activity includes a modernization and extension program under which selected Federal buildings are completely modernized. Where workload justifies, and land is available, the building is enlarged to meet present and future requirements.

For 1964, $27.8 million is planned for this major extension and modernization program. No funds are requested for new projects of this type in 1965.

Some buildings which presently have adequate space require only minor alterations, modern lighting, and/or heating plant improvements. Air conditioning is provided in locations where it is needed. For such projects, $8.1 million is requested for 1965, a reduction of $5.4 million from 1964.

Major mechanization projects

The purpose of this program is to provide integrated mechanized mail handling systems in large postal facilities which have been specifically constructed or adapted for such systems. The estimate provides for contracting for 13 new installations in 1965 at a cost of $19 million. Contracts are let at approximately the same time the construction agreements are awarded. Additions or alterations to present systems will require $1.9 million. The total increase over 1964 is $8.2 million.

Vehicle program

This activity provides for the purchase of all Department-owned vehicles and garage equipment. The program for 1965 is $18.9 million or $0.5 million less than the amount estimated for 1964. The number of vehicles purchased will decline to 9,629 units from 10,382 in 1964. The 1965 program will include 3,535 vehicles for replacement and 6,094 for new service.

Other equipment

This activity provides for the purchase of all equipment used by the postal field service except major mechanization, vehicles, and garage equipment. It covers custodial equipment, furniture and office equipment, and many types of mail handling equipment. The program for 1965 is $40.4 million which is $11.7 million greater than that for 1964. The principal increases are automatic data processing equipment, $1.8 million; facer-canceler machines, $1 million; adaptation of presently owned facer-cancelers to stamp tagging, $0.6 million; mechanical feeders to facer-cancelers, $2.6 million; letter sorters, $2.6 million; high-speed printers for labels and facing slips, $1.5 million; and localized general lighting, $0.7 million. The remainder of the increase, $0.9 million, covers increases in freight and in requirements for various items of office, mail handling, and mailbag repair center equipment, with a partial offset resulting from a decrease in custodial equipment.

Mr. GARY. Do you have a statement with reference to that?

Mr. ABELL. Yes, I have a prepared statement on that which I could read or, in the interests of time, I could submit it for the record.

Mr. GARY. Put it in the record and if there are any particular features you want to point out to the committee, you may do that.

GENERAL STATEMENT

Mr. ABELL. I will submit this for the record.

(The statement follows:)

GENERAL STATEMENT OF ASSISTANT POSTMASTER GENERAL ABELL (PLANT AND EQUIPMENT APPROPRIATION)

The 1965 budget estimate of the "Plant and equipment" appropriation is $90,276,000, a decrease of $13,724,000 under fiscal 1964 and $29,724,000 under 1963. On an obligation basis the 1965 estimate represents a decrease of $13,799,000 from 1964 after adjusting the 1964 appropriation by $75,000 for headquarters services costs.

The "Plant and equipment" appropriation provides funds for the alteration, extension, and improvement of federally-owned postal buildings; for the mechanization of postal facilities; and for the purchase of furniture, vehicles, and other equipment used in handling mail.

The largest item in this budget has been the Federal building improvement program. This program includes major projects to modernize and extend presently occupied federally-owned quarters. Projects range from substantial modi-

fications and additions to the buildings themselves, to providing such things as truck maneuvering areas and platforms, parking areas, air conditioning, improved lighting systems, and improved heating systems. Such projects totaled $54.8 million in 1962 and $55.7 million in 1963; $43.3 million is programed for 1964, but only $10.1 million is programed for 1965. This $33 million cut will virtually eliminate the long-range aspects of this program for 1965 since the $10 million requested will be only enough for the most critical and urgent projects of an emergency nature. During the next year, while this program is less active, we expect to study, evaluate, and improve our methods of analyzing these projects to determine how extensive the program should be in the future.

Our major mechanization procurement is an integral part of the program for providing large mail handling facilities where needed. Our timetable provides for the ordering of mechanization for a minimum of 13 installations in 1965, at a cost of $19 million. Awarding of the contracts for this equipment generally coincides with the awarding of the agreements to construct and lease the buildings, since the leadtime for construction of the buildings and for the fabrication and installation of the equipment is about the same. Also, it is estimated there will be additions or alterations to the mechanization in 23 existing installations which will cost $1.9 million. Basically, the mechanization programed for 1965 includes transport conveyor systems and letter sorting and parcel sorting equipment.

Vehicle procurement is programed at $18.9 million—half a million less than for 1964. The estimate provides for the purchase of 9,629 new vehicles as compared to 10,382 for 1964.

"Other equipment" provides custodial equipment, furniture and office equipment, and many types of mail handling equipment, other than major mechanization equipment. We have budgeted $40.4 million for other equipment, an increase of $11.7 million over 1964. The principal increases are automatic data processing equipment, $1.8 million; facer-canceler machines, $1 million; adaptation of presently owned facer-cancelers to stamp tagging, $0.6 million; mechanical feeders to facer-cancelers, $2.6 million; letter sorters, $2.6 million; high-speed printers for labels and facing slips, $1.5 million; and localized general lighting, $0.7 million.

The automatic data processing equipment which it is planned to purchase in 1965 consists of large-scale multiple-processor computers, special peripheral equipment and associated communication equipment. The advantages of purchasing rather than leasing this equipment were discussed during the hearings before this committee last year.

The facer-canceler machines, 50 at $20,000 each, are an improved type with such a high rate of efficiency that it is economically worthwhile to install them in relatively small offices. The improvement just mentioned is a process known as "stamp tagging" which enables the electronic reading mechanism on the facer-canceler machines to identify, face, and cancel metered and franked letters, and letters bearing light-colored stamps which cannot be identified by the present equipment. This improvement will decrease rejects from approximately 13 percent to approximately 3 percent of the mail now being processed by the machines. Also, presently owned equipment will be adapted to include stamp tagging. Further, it is planned to purchase 85 mechanical feeders for the facer-cancelers at about $30,000 per unit. This will eliminate manual feeding of the machines at a savings of about 50 percent in manpower.

It has now been determined that single position letter sorters are economically justified in the 276 post offices which have receipts between $1 and $10 million per year. Purchase of 100 machines at $10,000 each is planned for 1965.

The multiposition machines are suitable for use in the 33 post offices which have receipts between $11 and $219 million and are estimated to save at least $50,000 per year per machine. Purchase of 45 of these machines at about $100,000 each is planned for 1965.

INCREASES AND DECREASES IN THE ESTIMATE

Mr. ABELL. I think that probably the most significant item in the "Plant and equipment" appropriation is in the Federal building improvement program where we have a sizable reduction. Last year we had appropriated $43 million and this year we are asking for only $10 million. This reduction in the program for 1965 is possible

and will not be too disruptive to our long-term requirements since delays have occurred in the awarding of contracts to private contractors, and there is presently a substantial backlog. However, the needs continue to be great and urgent. Our 15 regional offices have recommended improvement projects in excess of $150 million, and we will probably be asking for funds for these in fiscal year 1966.

Mr. GARY. Is that where your $13,724,000 decrease comes in? There is $10 million. Where is the other $3 million?

Mr. ABELL. The other $3 million is spread around. That is a $33 million decrease—did I misspeak myself on that?

Mr. PILLION. Yes, yes; you did.

Mr. ABELL. The Federal buildings improvement program is $43 million for 1964, $10 million for 1965, a decrease of $33 million. There is a decrease of $525,000 in the vehicle program.

Mr. GARY. You only show a decrease of $13,724,000.

Mr. ABELL. Yes; there are some increases in the other areas.

Mr. GARY. Where do the increases come in?

Mr. ABELL. We are asking for additional money for major mechanization projects, an increase there of $8 million, and we are asking for $11 million additional for custodial equipment, furniture and mail and material handling equipment, mailbag repair units, and mail equipment.

NEW POSTAL FACILITIES

Mr. GARY. It has been testified earlier that the Post Office Department anticipates a little less than 1,000 new post offices and postal facilities in fiscal year 1965; will you provide the committee with a list of those proposed facilities, indicating the approximate size, approximate cost, location, and whether or not the facility will be leased or Government owned?

Mr. ABELL. We will get that as near as we are able to project it at this time. When you ask for the specific locations you are asking for a pretty difficult prediction there.

Mr. GARY. I do not think you like to put those in the record, either.

If you will just supply them to the committee, that will be satisfactory.

(The information requested was provided the subcommittee.)

MAJOR MECHANIZATION

Mr. GARY. Will you provide a list of the major mechanization projects which you propose in 1965? Indicate for each the total estimated costs and as much information as you can concerning the extent and type of mechanization and provision for each project. I believe it has also been testified earlier that approximately 20 such projects are contemplated for 1965.

Mr. ABELL. Yes, sir. There are 13 new projects and 23 additions or alterations to existing installations.

Mr. GARY. You can provide that for the committee rather than the record.

(The information requested was provided the subcommittee.)

Mr. GARY. How many building improvement projects other than major projects do you propose in 1965?

Mr. ABELL. There are just not going to be any major Federal buildings improvement projects for fiscal year 1965. We have $10 million in the account. That will take care of emergency improvements and some air conditioning and some other minor improvements. But there will be nothing of a significant nature in that account for 1965.

Mr. GARY. What is the procedure by which you determine the need, or the priority and the extent of modification of post office facilities?

Mr. ABELL. Well, for the smaller offices, it starts at the regional level. The regional officials determine the need for improving the buildings in their area, the specific ones, and, for each project estimated to cost over $25,000, submit their recommendations to my Bureau, with justification as to why they feel a particular building should be modernized, air conditioned, replaced, or whatever is going to be done to it. We get lists of such projects from each region and assign priorities according to the need.

Each regional office says its post offices are the ones that need improvement the most, and we have to sort the wheat from the chaff and determine which ones we feel are the most critical.

The big projects such as Richmond and the F.D.R. station in New York and others we have talked about, are handled in headquarters. Here again a final determination is one of need.

Mr. GARY. Who participates in these discussions and negotiations?

Mr. ABELL. My office, the Bureau of Operations, and the Postal Modernization Coordinator in the Deputy Postmaster General's Office. Those are the key people along with the Office of Research and Engineering.

Mr. GARY. To what extent do you cooperate with General Services Administration in these projects?

Mr. ABELL. Well, we cooperate with them completely, is the short answer. Whenever we want to expand in a Federal building in which GSA assigns space, we of course ask them first whether or not there is room in that Federal building in which we can expand. If we want to improve a Federal building, we of course have to consult with GSA and the improvements are done by GSA. The funds are obligated by us to GSA.

In many cities, of course, the Federal buildings are too crowded, and there is no room for us to expand, in such cases we abandon our space in the Federal buildings but before we do we coordinate with GSA, to be certain that this is best from their standpoint.

Mr. GARY. Who provides the engineering and development of plans and specifications for these projects?

Mr. ABELL. Our Office of Research and Engineering.

Mr. GARY. Who makes the final decision concerning these projects? To what extent do the regional directors control this activity and are the contracts for this type of work always awarded on a competitive basis?

Mr. ABELL. Contracts are always awarded on a competitive basis. The small building improvements are done on a regional level and to that extent the regional director does have authority to make the

determination. For any building of any size, the decision is made in the Bureau of Facilities as to whether or not we should proceed.

We look for advice as to need from the Bureau of Operations.

VEHICLE FLEET

Mr. GARY. What is the status of your vehicle fleet at the present time?

Mr. ABELL. We are planning to add to it a little over 9,600 vehicles, next year. The Chief of the Maintenance Division, Mr. Dieman, I think might expand on that and give you the specifics.

Mr. DIEMAN. Specifically, we are buying 9,629 units, of which—for new service we have 6,094. For replacement, 3,535.

Mr. ABELL. We have a vehicle inventory which we can submit for the record at this point if you so desire.

Mr. GARY. Without objection, that will be inserted in the record.

(The information referred to follows:)

Vehicle inventory

Capacity and type of vehicle	Actual inventory, June 21, 1963	Fiscal year 1964		Estimated inventory, June 19, 1964	Fiscal year 1965		Estimated inventory, June 18, 1965
		To be disposed of	To be delivered		To be disposed of	To be delivered	
Vehicles for local transportation and special delivery:							
½-ton, 92 to 150 cubic feet	9,675	949	3,842	12,568	1,959	6,534	17,143
¾-ton, 140 to 300 cubic feet	18,125	5,478	----	12,647	6,924	----	5,723
1-ton, 180 to 300 cubic feet	970	36	4,188	5,122	----	2,723	7,845
2-ton, 350 to 400 cubic feet	1,538	1,531	200	207	----	565	772
2½-ton, 570 to 750 cubic feet	1,581	6	----	1,575	108	----	1,467
5-ton, 750 cubic feet	35	----	472	507	----	110	617
Tractors	468	10	3	461	30	31	462
Trailers	1,143	42	----	1,101	55	86	1,132
Service and miscellaneous	751	75	100	776	55	81	802
Total, inventory	34,286	8,127	8,805	34,964	9,131	10,130	35,963
Vehicles on order but not received	7,408	----	----	5,575	----	----	1,278
Carrier mechanization program:							
¼-ton, 1-cylinder, gas, 3-wheel	4,646	4,031	----	615	615	----	----
¼-ton, 2-cylinder gas, 3-wheel	6,744	----	5,880	12,624	127	5,100	17,597
¼-ton, electric, 3-wheel	50	----	----	50	----	----	50
Total, inventory	11,440	4,031	5,880	13,289	742	5,100	17,647
Vehicles on order but not received	5,360	----	----	2,890	----	----	1,586
Grand total, inventory	45,726	12,158	14,685	48,253	9,873	15,230	53,610
Grand total vehicles on order but not received	12,768	----	----	8,465	----	----	2,864

Mr. GARY. How many additional vehicles do you request for fiscal year 1965 and what type vehicles do you propose to purchase? Have you a table of those?

Mr. ABELL. Yes; we have a table which I could submit—9,629 is the total figure. I have a table here broken down as to the units and the cost for each type of vehicle.

Mr. GARY. Fine. How many are strictly replacements?

Mr. ABELL. 3,535 that is shown in the table.

Mr. GARY. Of the new vehicles.

Mr. ABELL. Yes, sir; of the 9,629 new ones.
(The information referred to follows:)

Plant and equipment, 1965—Analysis of vehicle purchases for fiscal year 1965

	Total procurement			Units for new service		Units for replacement	
	Number proposed be purchased	Cost (in thousands)	Unit cost	Number of units	Cost (in thousands)	Number of units	Cost (in thousands)
Regular vehicles:							
½-ton, 110 to 150 cubic feet	2,766	$5,255	$1,900	2,297	$4,364	469	$891
1-ton, 300 cubic feet	2,303	5,527	2,400	180	432	2,123	5,095
2-ton, 400 cubic feet	231	809	3,500	81	284	150	525
5-ton, 750 cubic feet	110	528	4,800	27	130	83	398
Tractors	61	470	7,700	6	46	55	424
Trailers	256	1,101	4,300	13	56	243	1,045
Utility vehicles	21	67	3,200	15	48	6	19
Service vehicles	85	153	1,800	10	18	75	135
Total regular vehicles	5,833	13,910	-------	2,629	5,378	3,204	8,532
Carrier mechanization program, ¼-ton, 65 cubic feet	3,796	4,176	1,100	3,465	3,812	331	364
Total vehicle purchases	9,629	[1]18,086	-------	6,094	9,190	3,535	8,896

[1] Totals do not include $1,100,000 for reimbursement and $1,600,000 for freight.

Mr. GARY. What is the status of your vehicle maintenance program at this time?

Mr. ABELL. I would like to have Mr. Dieman comment on that. He is not only our authority, but he has done substantial work in really making a meaningful vehicle maintenance program for the Post Office Department.

Mr. DIEMAN. When you say "status," sir, what did you have in mind, specifically?

Mr. GARY. I think it would be well to have a complete description of this activity for the record since it has not been covered in detail for several years.

Mr. DIEMAN. Would you like to have us provide you with something or would you like a statement?

Mr. GARY. If you will insert it in the record, it will be satisfatcory.

Mr. DIEMAN. We will provide a statement for the record.

Mr. GARY. If you prefer to do that.

(The information referred to follows:)

MAINTENANCE OF VEHICLES

During the past 3 years there have been a number of improvements in the maintenance program for the motor vehicle fleet in the Post Office Department. These improvements have had as their primary objective to provide the Department with reliable vehicles at the lowest possible cost.

DISPOSAL OF VEHICLES

Two years ago the committee chairman requested the Assistant Postmaster General, Bureau of Facilities, to develop a disposal policy which would be applicable to Post Office vehicles. On July 23, 1963, the Department issued a regional letter, No. 63–108, setting forth a disposal policy for all Post Office vehicles. This policy provides guides tailormade to each make and model of vehicle. Using ADP equipment, we now provide each superintendent of our garages with

a list of those vehicles which qualify, either because of age or mileage, for a further review. If the one-time repair cost necessary to place each of those vehicles in acceptable condition for continued service for another year exceeds a specified percentage of the purchase price (provided in tabular form) then the vehicle qualifies for disposal. If the cost is less, then the repair work is done and the vehicle is continued in service for another year. Based upon a limited experience during the past year we find that approximately 20 percent of the vehicles that qualify, either on an age or mileage basis, can be continued in service for another year. At the same time, high utilization vehicles that are no longer economically useful will be considered for disposal prior to reaching the qualifying age.

MAINTENANCE AND REPAIR GUIDES

Fifteen post offices throughout the country have been designated to provide the Department with maintenance guides specifically tailored to needs of the fleet.

It was recognized that many of the post offices possessed personnel whose knowledge of vehicle maintenance provided the Department with an excellent technical capability. This is being used to evaluate methods, equipment, parts, supplies, tools, and techniques which provide optimum fleet reliability at the lowest possible cost. This continuing program is now providing the Department and field establishments with a steady flow of cost-saving guides and criteria.

IMPROVED SUPERVISION

Supervisors of our garage facilities across the country have been sent to maintenance management schools in Atlanta and Denver for the purpose of increasing their supervisory skills and technical knowledge of vehicle maintenance. As a result, approximately 65 offices served by these superintendents have benefited through better utilization of personnel, better scheduling and performance of vehicle maintenance, and economical use of parts and supplies.

As a result of these and other improvements, there is a noticeable trend toward more effective and economical vehicle maintenance performance. The size of our fleet, the number of miles generated, and the wages being paid for labor have all increased in significant increments during this period. Our maintenance costs, however, have increased at a lower rate.

Mr. DIEMAN. We have made some interesting progress in the field of maintenance of vehicles.

DATA PROCESSING EQUIPMENT

Mr. GARY. How much automatic data processing equipment do you propose to buy in fiscal year 1965?

Mr. CRAVEN. This is split into more than one item. We are getting automatic data processing equipment, $2.5 million. That is a multiple processor computer. Then there is an item of sack- and pouch-labeling machines, $1,521,000, which are electrostatic printers. Those are for making labels and facing slips.

MAJOR MAIL-HANDLING EQUIPMENT

Mr. GARY. Will you provide a list of the pieces of major mail-handling equipment you propose to purchase in 1965?

Mr. CRAVEN. We will put that in the record.

Mr. PILLION. And the cost of them.

Mr. CRAVEN. Yes, sir.

(The information requested follows:)

The 1965 estimates include $19 million for 13 new major mechanization projects in which we plan to install an estimated 40 pieces of parcel-sorting equipment, 16 sack-sorting units including monorail, tray-type and belt-type equipment, and 13 bulk transport systems. Also, the estimate includes $1.9 million for additions or alterations to the mechanization in 23 existing installations.

Mr. GARY. You refer to the type of machine you propose to buy and the price you propose to pay. Earlier it was testified such information on the record might tend to prejudice your competitive bidding advantage for these machines. Does this mean the price of these machines is fixed and the Department derives no advantage from competitive bidding?

Mr. ABELL. No, sir. These are estimated costs. They will still go out for competitive bid but in my prepared statement I referred to the cost of cancelers and other machines we have purchased in the past and I just gave an estimate of what we expected the cost to be, based on purchases we have made in the past.

Mr. GARY. And you did not want the bidders to know what the estimate was; is that the idea?

Mr. ABELL. The prices we have paid in the past? We cannot keep that a secret from them. That is what was paid. That is public record.

Mr. GARY. But you did not want them to know what you were estimating as the purchase price of these machines; is that right?

Mr. ABELL. I do not know what that reference is.

Mr. CROWE. It wasn't Mr. Abell who made the statement the other day that there was a necessity to keep the two apart. It was Mr. Harriman, but Mr. Harriman did not have reference to equipment where there is a purchase history. I believe he had reference to equipment where perhaps there isn't a purchase history and we would be giving away the price.

Mr. HARRIMAN. It would be the first few times we go on the market with specifications for a new type of equipment. In this case we would prefer not to publish our estimate in advance.

Mr. CROWE. The figure in the opening statement is perhaps a little lower anyway than the price we have generally been paying. It seemed to be a safe figure to use.

MAIL FLOW SYSTEMS

Mr. PILLION. I only have one or two questions. I have a report here from the Comptroller General dated October 1963, only about 4 months ago. This report concerns itself with the mail flow system. How much of this money in the 1965 budget, here, for major mechanization projects will go into mail flow systems, do you know?

Mr. ABELL. None.

Mr. PILLION. Will there be any new mail flow systems next year?

Mr. ABELL. Our experience with mail flow systems has not been uniformly satisfactory, and I do not think we have any immediate plans for further purchase of mail flow equipment.

Now, Mr. Harriman, may have some studies going in his office, and I want to give him the opportunity to comment on that.

Mr. PILLION. Which is the mail flow system? How would you describe the mail flow system? What part of the conveying system within a post office is mail flow system?

Mr. HARRIMAN. The mail flow system was the initial system for automatically transporting mail to and from the sorting cases by belt transport systems.

Mr. PILLION. Is that like Washington?

Mr. HARRIMAN. Like Washington, D.C., where the letters were manually sorted to cases with 49 separations which had cleated belts under them on to which the clerk placed mail swept on call from his particular case. The mail is assembled and then moved in a tray to the next sorting or tie-out station. This is out. This will be replaced by the multiposition letter sorters that we described the other day.

Mr. PILLION. I always disputed the Post Office Department's figures on Washington. I always said they did not pay and your figures came in saying they did pay. I think I am still right about it and that your figures were all wrong and my judgment on that is completely backed up by this report which says your three mail-flow systems in Philadelphia, Denver, and Los Angeles, were overstated and in Philadelphia—here is what it says about Detroit:

An interim cost analysis shows more man-hours of work were used after the installation of the equipment than before.

That is something I was talking about sometime ago.

The cost analysis reports were inadequate, they did not include all cost factors which would affect the cost of operation.

Your selected period before installation appeared not to be representative of the operations.

The Department estimates in its final report a net gain in productivity after the installation of the system where there appears to be a decrease in productivity. So your mail-flow system not only gave you a decrease in productivity after you put in your money, but also an increase in hours. I am very pleased to know that you have decided to quit that.

Mr. HARRIMAN. We not only have decided not to install anymore mail-flow systems, but the accounting procedures used within the Department are being reviewed by the Bureau of Finance, Mr. Nicholson and his organization, working with O.R. & E. and other bureaus and offices, to update the before-and-after study methods.

Mr. PILLION. With this new criteria you are developing.

Mr. HARRIMAN. Yes.

Mr. PILLION. Fine.

Mr. ABELL. You might be particularly interested in going to Chicago, Mr. Pillion. That equipment sits idle in Chicago for a part of each day.

Mr. PILLION. The mail-flow system, do you mean?

Mr. ABELL. It is different in different offices, but I was just amazed when I went there and they said they do not use it during light volume periods. It is too expensive.

Mr. HARRIMAN. I think we should insert for the record that of the 12 cost analysis reports that have been made on existing systems, 8 show an average return on investment of 24 percent, or $2.5 million per year; 4 are losing money. It is up to the Department to look managementwise, equipmentwise, and facilitywise at what is wrong with those losing money and determine how we can improve them to make them more productive.

Mr. PILLION. When did we put in that Washington system?

Mr. ABELL. About 1957.

Mr. HARRIMAN. It was contracted for about tht time, but it did not become operational until 1959.

Mr. ABELL. It was installed in 1958 and became operational March 3, 1959.

Mr. CONTE. I have no questions.

Mr. GARY. Thank you, gentlemen.

Mr. NICHOLSON. Before you adjourn these meetings, I would like to say on behalf of the Department that once again we are very grateful to you and the members of this committee for your patience and perhaps most of all for your understanding of postal operations, which enables you to ask the kinds of penetrating questions you do and to elicit from us our best thinking.

I would like also to say a word of appreciation for your very excellent staff man, Mr. Gunnels. I think over the years as I get to know him better, I appreciate more and more the very heavy load he carries and I want to say "thank you" to him for making it possible for us to work just as effectively as anyone could in the development of these appropriation requests that we bring to you every year. Also I'd like you to know we appreciate the fact that this committee has invariably held its hearings and taken its action early each year so that the Post Office Department is able to get its appropriations prior to the beginning of the new fiscal year. Usually, your bill has been the first or second appropriation bill acted on. The result is the Department is able to operate more efficiently, to plan more efficiently, because we know where we stand before the year starts. This is very helpful to us.

Mr. GARY. Thank you, Mr. Nicholson.

This concludes the Post Office hearings. I think they have been very, very satisfactory hearings. I do feel the Post Office has submitted a very realistic budget this year and I am sure that the committee will view it realistically. You are doing a good job and I congratulate you.

(The following letter was subsequently received for the record:)

OFFICE OF THE POSTMASTER GENERAL,
Washington, D.C., March 9, 1964.

Hon. J. VAUGHAN GARY,
Chairman, Subcommittee on Treasury-Post Office Departments and Executive Office Appropriations, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: The President on March 9 transmitted to the Congress an amendment to the 1965 budget which reduced the amount originally requested by $41.9 million. A part of this reduction applies to the Post Office Department.

As I indicated to you and your committee when I testified on our 1965 appropriation request, I had proposed to the President some further reductions that could be made in our 1965 request. One proposal, the consolidation of 14 regional accounting and data processing operations into 6 postal data centers, had been acted on as I testified. My other proposals were on the President's desk at the time of my appearance before you.

Reductions in the Post Office Department budget included in the amendment submitted by the President are:

	Savings in positions by June 30, 1965	Savings in dollars fiscal year 1965
Consolidation of regional accounting and data processing functions	300	$500,000
Parcel post delivery service	697	3,714,000
Post Office window service	1,103	5,286,000
Consolidation of 300 additional 4th-class post offices	150	200,000
Miscellaneous, mainly reduction in maintenance service	850	3,000,000
Total	3,100	12,700,000

I am attaching a set of revised budget sheets that show the effect of these changes on the various appropriations and activities of the Department.

In summary the effect is as follows:

	Savings in positions by June 30, 1965	Savings in dollars fiscal year 1965
Administration and regional operations appropriation	300	$500,000
Operations appropriation	2,800	12,200,000
Total	3,100	12,700,000

In our testimony we discussed the savings from consolidation of the regional accounting and data processing functions. These savings were not reflected in the budget as submitted, but they are a part of the reductions made in the President's amendment.

As I stated to the committee, this limited adjustment in parcel post delivery and window service and the acceleration in the consolidation of fourth-class post offices will not result in the impairment of essential mail service. Those marginal services which are curtailed are not sufficiently valuable to postal customers to justify their cost. I want to emphasize that these cuts in no way affect the processing and delivery of first-class mail.

Specific services that will be affected by these reductions are as follow: The delivery service on parcel post routes (routes dealing with parcel post exclusively) will, where feasible, be reduced from the present 6-day service to a 5-day service. The particular day of the week eliminated will be determined by the local postmaster on the basis of local conditions. In certain post offices some window services will be curtailed on Saturday. Postal customers will however continue to get all essential services having to do with purchase of stamps or deposit or delivery of mail. In some of the post offices where it is now provided we will eliminate window service on Sunday. These actions will be considered carefully in the case of each post office involved so that in taking them we will cause the least possible inconvenience to postal patrons.

Our 1965 budget, adjusted to reflect these reductions, provides for an increase in 1965 year-end employment of 1,700 over the year-end ceiling for 1964. This is a 0.3-percent increase to handle the estimated 2.8-percent increase in mail volume.

In the adjusted "Operations" appropriation the total increase in employment is 1,911. In terms of man-years the increase is 2,672, or 0.4 percent. This anticipates a 2.6-percent increase in clerk productivity. (Of the 2.8-percent increase in mail volume, 2.6 percent would be handled without increase in clerk man-years.)

The reductions in the Department's original request that the President has now transmitted to the Congress are proper and desirable at this time. The original budget was, itself, very tight and assumed that improved management, better controls, and maximum effort would result in sharply increased productivity. The further reductions do require some reductions in service, which, as I have pointed out, are not basic. I don't believe any reduction could be made in the original "Operations" budget without affecting service.

I assume that you and your committee will want to take this information into consideration as you act on our 1965 request. I would like to suggest that this letter and the attached sheets be made part of the record of the hearings just concluded.

Sincerely yours,

JOHN A. GRONOUSKI,
Postmaster General.

WITNESSES

WILLIAM BRENNER, PROFESSIONAL ENGINEER
SIDNEY KOSLOW
MICHAEL F. DENNIS

Mr. GARY. We shall now hear from Mr. William Brenner, who has a matter that he wants to bring to the attention of the committee.

Mr. BRENNER. Mr. Chairman and members of the committee, we would like to express our appreciation for the opportunity afforded us to address this committee today.

My name is William Brenner. I am a professional engineer in the State of New York. My associate is Sidney Koslow, and our counsel, Col. Michael F. Dennis. We are bringing to the attention of the committee a number of important facts regarding the Post Office Department's mechanization program.

ORIGINAL DISCLOSURE

In July of 1957, at the invitation of Postmaster General A. Summerfield, we disclosed our magnetic system for sorting mail to the Post Office Department. This was a confidential disclosure. In addition to the disclosure our proposal contained a detailed report, which demonstrated that the introduction of this equipment could effect a savings of approximately $500 million annually. The Post Office Department accepted the proposal for study. Thereafter, we were notified that the Department turned down the magnetic system, stating that it would not enhance their letter sorting program. They further stated they would continue with the system on which they were working at the time; namely, the printed phosphor dot method, a system derived from the Canadian post office.

SUPERIORITY OF MAGNETIC SYSTEM CONFIRMED

In an exchange of information with the Office of Research and Engineering of the Post Office, we convinced them that the magnetic system was the best solution to the mail sorting problem from an economic and engineering point of view. During this period the Office of Research and Engineering stated that they had no funds for another concept of letter sorters; however, they failed to mention that, notwithstanding their statement to us, they had redirected their research to our magnetic system.

On January 12, 1959, the Post Office Department issued an official contract change order to their contractor, the Rabinow Engineering Co., formally redirecting their effort to our magnetic system. As a result of this contract change, a number of prototype machines were built and delivered to the Post Office Department. The test results of this equipment were very encouraging. High reliability and very successful runs were achieved on these machines.

U.S. PATENT AWARDED

In May of 1962, we informed Postmaster J. Edward Day that we were awarded a U.S. patent for the magnetic coding of mail and offered to license the Post Office for the use of the magnetic system for coding and sorting the U.S. mail.

POST OFFICE DEPARTMENT'S ATTITUDE

In a meeting with the Department's representatives in June 1962, we were told that the Department would proceed as follows: First, they would review their activities to see if the claims could be circumvented. If this failed, they would call upon the Justice Department to try to invalidate our patent. They stated that they would try to invalidate the patent before seeing the document. It is also important to note that the Post Office representatives took this position while acknowledging the fact that we had originally introduced them to this new concept. If these actions failed, they stated that we would be invited to Washington to settle the matter administratively.

INVITATION TO WASHINGTON TO NEGOTIATE LICENSE

The Post Office Department and the Department of Justice studied the patent for 1 year. We were then invited to Washington, in June of 1963, to negotiate a license for Government use of the process. The Department indicated that they were interested in acquiring a paid-up license under our patents for Government-wide use in the United States and for foreign post office use in foreign countries. They stated that a royalty arrangement would not be considered. They further stated that they would only pay a nominal amount because, in their opinion, the patent was of questionable validity. The representatives pointed out that if the Post Office obtained the rights, the Government would agree not to contest the validity of our patent. We asked them to clarify what they meant by the term "nominal amount." They stated that an offer to license the Government for $10,000 would be looked upon favorably. This is a fraction of the true worth of the patent rights by all the accepted standards in the field.

In arriving at their figure they stated that they took into consideration the amount of time and money we would require to litigate this matter. They indicated that the matter was critical for the Government and had to be settled promptly. They also stated that a belated interference had been filed for against our patent but refused to identify the third party. We later learned that this was the Rabinow Engineering Co., the contractor the Post Office had redirected to our magnetic system.

PRESENT SITUATION

We will now address ourselves to the present situation regarding the letter sorting mechanization program. To date approximately $1.5 million has been spent proving out the merits of the magnetic system. The results obtained with this equipment have been excellent. The Post Office Department recognized the superiority of the magnetic

system over the other methods and adopted the magnetic system. It is apparent at the present time that the Department has a system which they have proved to be the best, but refuse to release it for use. In taking this position they are, in effect, depriving the public of the many benefits the system would provide.

The Post Office Department should proceed, without further delay, with the use of the magnetic system for sorting the mail for the following reasons:

1. The use of this equipment will bring about a savings of approximately $500 million annually.
2. The magnetic system is fully developed, extremely reliable and ready for use now.
3. It is the most economical system to manufacture and use.
4. The magnetic system is the only method which can handle redirected mail (mail which must be forwarded). This represents about 13 million pieces per day.
5. It is compatible with the ZIP code.
6. This system does not depend on customer participation.
7. The system readily corrects errors.
8. It is compatible with the manual handling of mail.
9. The magnetic system is adapted to handle international mail, which will increase with time.
10. The system is compatible with automatic reading equipment and can take full advantage of this class of machine when it is developed, provided it can justify itself economically.
11. The magnetic system is considerably more economical and inherently more reliable than straight automatic reader systems.
12. The magnetic system is the only one readily adapted for secondary coding.

ACTION REQUIRED

In the past this committee has commented on the fact that considerable sums of money have been allocated and spent on research and development with little significant results to show for this expenditure. Here is a situation where research and development effort proved out a very successful system and for some unjustified reason this system is being withheld.

The Post Office Department recognized the overwhelming advantages of the magnetic solution to the mail sorting problem and had adopted this system. The Department is now procrastinating on the decision to proceed with the magnetic system because they refuse to pay us a fair return for the use of the patent.

We respectfully request that this committee take some positive action to resolve this most important matter.

It should be pointed out that this delay is costing the citizens of the United States more than $1 million each day.

We will be ready to answer questions. I have several charts which will provide some of the backup information for the statement that we made here.

Mr. GARY. You may proceed to show it at this time.

Mr. BRENNER. This is a chart which depicts the systems that are being use now, the systems in development, and the systems that the Post Office is planning on or looking to use some time in the future.

The ordinate is cost in millions of dollars, this is the manual, the black curve. This is the cost to sort mail. We did this on two bases, one at the rate of a billion pieces a year, which can be multiplied—and I have done that—to the total savings based on total volume. This curve is for the manual. It takes into consideration the labor and the equipment involved. In the case of the equipment, we have considered the amortization, maintenance, utilities, the interest on the money.

This is a manual system, this is the key sort system. The red curve is the magnetic system. We have gone on to show what the optical would be if and when it is fully developed and developed enough for use. You can see that the magnetic system will effect a savings, it can actually be done for 47 percent of the present method. Let us say the volume of mail is 56 billion pieces—manually it costs $960 million a year to perform that function.

The magnetic system will do the same operation for $448 million. Here on the next chart we have the same information broken down for labor and equipment. The lower box is labor, the upper portion is the cost of the equipment (amortization, et cetra).

Again the manual system presently is costing something like $960 million. The magnetic system is $448 million. You can see it is the lowest in cost, of all systems.

The optical, which is being worked on at the present time and will not be ready, in our opinion, for another 5 to 10 years, will project to be something like $672 million. The reason it is so expensive is primarily because of the cost of the equipment. Optical readers are inherently very complex.

You can see that the labor is down somewhat from the magnetic. However, the amount of money spent for the equipment exceeds the actual payroll of the people who would be replaced by the optical system. In effect you will be paying more for the machines than the people they would replace.

This is not so with the magnetic system. The total is shown to be the lowest operating cost.

Here on the next chart we show the savings for each system. The savings for magnetic again is the highest. In projecting ourselves in the future, if the optical system is developed to a point where it can provide some reliable results, it is conceivable that it can be used in conjunction with the magnetic, and on the first pass—I will explain that. The mail will pass through the machine, and it will pull out or actually read that part of the mail that it can. It will be most economical at that point to write the information magnetically so that all the subsequent sorts can be made on the less expensive magnetic equipment.

Mr. DENNIS. Gentlemen, my name is Michael F. Dennis. I am an attorney, counsel for Mr. Brenner and Mr. Koslow.

You have heard the presentation made by Mr. Brenner. We are, of course, open to any questions this committee might have. I would first, however, like to point this out.

I was present during the negotiations in this city on the 26th of June 1963 with representatives of the Justice Department and the U.S. Post Office, General Counsel's Office. What struck me as being rather odd—and perhaps I am unsophisticated in the field—was the fact that

the Government has taken the position that unless we make an offer to sell a fully paid-up license for no more than $10,000 for this process to the Government, the Government has expressed its intention to seek to invalidate not only this patent but another related patent that Messrs. Brenner and Koslow own, which was awarded to them on a magnetic envelope.

As I say, perhaps I am unsophisticated in the field. I question the method.

These individuals are inventors who devised a process at their own cost and expense—not a cent of Government funds went into it. It was in the true American tradition. I am not waving a flag. This is how industry in this country has been built, by people who have worked on their own, as Edison and the rest of them did originally.

They were issued a patent by the U.S. Patent Office. These patents are valid until proved otherwise. The Government has expressed great interest in having a number of meetings and in offering, or in effect asking us to accept $10,000, the basis being that that sum would represent about half the cost to the Government as estimated by the Government to litigate the question. In short, nuisance value.

Well, again, I may be unsophisticated in the field, but I never heard of public money being thrown around for nuisance value. The Government pays their attorneys whether they are on this case or not.

There are other factors I would like to place before this committee's attention. Ordinarily, when an interference proceeding is filed, the information is kept confidential and from all persons other than the interferer until it is disclosed to the patent holder.

Well, Mr. Brenner and Koslow learned nothing about the interference proceeding until sometime I believe in November of 1963. Yet in June at that meeting with the Justice Department, and the Post Office people, they told us they knew that an interference proceeding was being filed on behalf of a third private party against us. Now, that third private party is the favored Government contractor in this entire operation, Rabinow Engineering, who was recently taken over by Control Data Corp.

That third private party filed for his patent roughly 3 months after we did, as we understand it now. Our patent was granted in 1962 in the month of June. He has not yet been granted a patent on his application.

Now, my client has properly cautioned me not to make any further disclosure on the interference. I do not want to jeopardize any aspects of it.

In any event, summed up, from my own experience in this matter with my clients and with Government representatives, it would appear that there is here a viable, workable, efficient, and most economical system for the handling of mail. Now, the handling of mail is becoming so large that unless something is done, I believe in the report of this committee and other allied committees in industry, it is prognosticated there will be a catastrophic disaster in a few years unless more efficiency is put into the post office, especially by reason of the population explosion and the magnification of our country's business.

Now, it further appears that the Government would like to institute this system and the word was used in my presence by Government representatives that it was "critical" that we make a decision for

them on this patent. But they are withholding any further discussions concerning any fair return to these inventors because they claim in their view the patent might be invalid.

Gentlemen, I put it to you—if this system could have roughly $1 million a day to the American people and a delay of months and perhaps years is caused by Government representatives in order to possibly test the question of the patent's validity, they may wind up with a terrible pyrrhic victory, because the patent may be valid, and while they are waiting, they may cost the American public a half billion, a billion, or $2 billion, aside from the peripheral effects of inefficiency in the delivery of the mail.

So far as the validity of the patent goes, the United States issued a patent here and it is valid unless it is proved otherwise, and no one has taken any action, of course, to invalidate it other than the interference proceeding. That is not because of the invalidity of the patent, but rather, as you know, in an interference proceeding prior inventing is claimed.

It is for these reasons we have come to this committee because this committee is the guardian of the rights of the people in a matter of this sort. We feel that disclosing this information to you will undoubtedly cause some inquiry into the matter and possibly a solution.

I would like to affirm further we come here with two interests. We come here with our own interests, since we are proprietors on the patent; we also come here on behalf of ourselves as part of the people of the United States who pay taxes and who receive mail.

I believe with the material presented by Mr. Brenner and these few peripheral remarks, our presentation is complete at this point, and we are open to questions.

Mr. GARY. I do not want any long technical discussion, but can you tell us briefly what the system is, what it is supposed to do, what it is all about?

Mr. BRENNER. Certainly. The magnetic system is one in which a magnetic film is put on the envelope as you see here [indicating]. This film will accept recorded information. This can be done in advance by the envelope manufacturers who have expressed a deep interest in this, I might say, or the Post Office if it is not done before. The Post Office has machinery that has been developed and does the job admirably.

A strip of magnetic material is placed on the envelope. When the envelope is put through the machine, part of the information of the address is put on this magnetic area.

Mr. DENNIS. May I interrupt?

This is very similar to a tape recorder. What is coded on that is an electronic signal just as you would do to a piece of recording tape.

Mr. BRENNER. This envelope can be passed through a letter sorting machine at the rate of 36,000 an hour and be properly inserted in the correct box. This equipment is already in existence; that is, the Rabinow-Burroughs machines that are in Washington today.

Now, this particular system has a number of advantages.

First, it is eraseable; this is, the information can be changed. This is important in the case of redirected mail. Six and a half percent (about 13.5 million pieces a day) of the mail in the United States

is redirected. I believe 8 million families move during each year as well as a number of businesses. Mail continues to come to the previous address for more than 6 months to a year and must be redirected.

The system has a number of other advantages. It is blind to any extraneous optical information that would appear on the envelope. In other words, when the envelope passes through the machine it only responds to the magnetic information. This is a very important advantage and in the check-sorting system for the American banks, this was a specified requirement, a system which would not read the optical information; that is, writing or other printing that was not in magnetic ink. This system is different from the magnetic checks in that it is eraseable. If the Post Office Department wants to secondary-code the mail, they can pass it through the machine and erase as a tape recorder and rewrite the information as desired.

It is very valuable when you consider international mail since the amount of mail going across country lines is increasing. The code would bring it to the border and then the receiving country could erase it and rewrite it in their own fashion. No other system offers these advantages.

Mr. STEED. How long does the code remain on there?

Mr. BRENNER. Permanently, until you want to remove it through a similar machine. This has been worked out.

Mr. DENNIS. The envelope will keep the information until it is erased by electronic means, as you would erase tape on a tape recorder.

Mr. GARY. On the Burroughs machine you have operators who read the address and then punch certain keys on the machine to address it to a certain receptacle?

Mr. BRENNER. Yes.

Mr. GARY. Would this do away with those operators?

Mr. BRENNER. No, it would not. The operators would look at the envelope only once. They would then, in a similar fashion on a keyboard, insert information that would go on the envelope, on the mail piece.

Mr. PILLION. On the magnetic material?

Mr. BRENNER. Yes.

Mr. PILLION. Who sprays the magnetic material on?

Mr. BRENNER. The Post Office can do it now; they have the equipment. Or it can be done when the envelope is manufactured.

Mr. PILLION. Cannot the operators do it when they are coding?

Mr. BRENNER. Yes. By the Post Office, I mean the operators.

Mr. KOSLOW. That is the equipment they have in the laboratory.

Mr. PILLION. Is that in being now? Is not Rabinow doing this now?

Mr. KOSLOW. He has experimented for the Government with this, after we disclosed it to them.

Mr. PILLION. Right as of now, does the Rabinow-Burroughs machine in Detroit do what you are saying here now?

Mr. BRENNER. The machines that are doing this are in the postal laboratory in Washington. The machines in Detroit are the key-sort operated machines but could be converted to accept this just as the machine in the post office in Washington was.

Mr. KOSLOW. The Rabinow sorter operates with 12 operators, 3 replacements because they cannot sit there 8 hours a day and they take turns, 2 or 3 people feed the mail to them and, of course, they

have a supervisor. Four positions automatically operated on that same sorter can be fed by two people using the magnetic method. They just stack the letters as they receive them, into magazines, and the letters are fed into the machine automatically.

Mr. BRENNER. Another important advantage of the magnetic system is the fact the operators do not have to learn the schemes. They merely put the code on and the machine does the interpretation and sorting.

Mr. PILLION. The system you say you have a patent on, is that system now being used anywhere in the field?

Mr. BRENNER. In the Postal Laboratory.

Mr. PILLION. It is still in the Postal Laboratory?

Mr. KOSLOW. They have had it there for 3 years.

Mr. PILLION. The Rabinow-Burroughs machine we have in Detroit and perhaps one or two other places is which one of those schemes there?

Mr. KOSLOW. The green one, the key sorter.

Mr. PILLION. You say the saving by the magnetic over the key sorter would be how much?

Mr. KOSLOW. Twenty percent, or approximately $100 million annually.

Mr. PILLION. You save 47 percent of the manual. The key sorter is how much of the manual?

Mr. BRENNER. Let me reduce this.

The savings for 1 billion pieces a year——

Mr. PILLION. What do we run now, about 70 billion?

Mr. BRENNER. The savings is $7.35 million per 1 billion pieces per year, whereas the magnetic system will save $9 million. It is 20 percent or approximately $100 million more than the savings on the key sorter.

The merits of the coding concept have been studied by the Post Office and they are unquestionably a big advantage as mentioned here.

On key sort, the mail piece has to be viewed by an operator every time it is sorted.

Mr. PILLION. And it does not on the magnetic?

Mr. BRENNER. No; that is correct.

Mr. DENNIS. May I inject this: What has been spoken of in the main here is a magnetic coder. A companion machine called a magnetic sorter is that machine which senses the information placed in this magnetic field here and sorts the mail from post office to post office and destination to destination.

Mr. PILLION. You have two machines, one that puts the ink on, the code on which is the information; then you have another machine that does the sorting after that is done?

Mr. BRENNER. It can be fed right into the second machine; correct.

The savings that we have indicated here are for the entire system.

Mr. DENNIS. Both constitute the system.

Mr. CONTE. Have you brought suit?

Mr. DENNIS. No; we, of course, would prefer not to. At one point it was mentioned if we came to a settlement we might bring a pro forma action in the court of claims, but we have not brought any infringement action yet.

We feel the position on the facts of the cast justify a proper administration settlement if such can be made. In the meantime, it is to be noted that the U.S. Post Office, although it has adopted the system, has taken no steps toward effectuation of that adoption, that the machines remain in the Washington laboratories although proved out and tested out.

It is not exactly a Mexican standoff at this point, but apparently each side is watching and sparring for position. We do not want to spar with anyone. We would like to get a reasonable and equitable arrangement. We, as a matter of fact, proposed a number of varying possibilities to the Government, not the least among which was a situation where the Government would get the maximum benefit in that they would pay us no royalties whatever unless and until equipment was ordered. And the Government could either arrange to pay us, or in its contracts with the manufacturers arrange for a percentage of royalty, which is less than the commercial or industrial rate.

This would involve, therefore, no heavy expenditure by the Government in purchasing a license.

Mr. CONTE. They would not have to pay a royalty anyway. You are not giving them anything they do not have now.

Mr. DENNIS. Except they would not envision going into any royalty situation with us. They would not discuss it. They wanted to give us, or for us to offer to them—they were very careful to put it that way and repeated it a number of times—for us to offer to them to sell them a fully paid-up license for Government-wide use, not only for the Post Office, but the Pentagon, et cetera, for a sum of approximately $10,000.

Mr. GARY. Any further questions?

Thank you, gentlemen.

Mr. DENNIS. Thank you. We appreciate your patience and courtesy.

POST OFFICE REPLY TO BRENNER CHARGES

Mr. GARY. The committee directed the reporter to make extra copies of the transcript of the testimony of Mr. Brenner and Mr. Dennis for the Post Office and Justice Departments. These were delivered to the Departments with an invitation to appear before the committee to reply to the statements or to reply in writing. The following statement was received from the Post Office Department:

STATEMENT OF LOUIS J. DOYLE, GENERAL COUNSEL, POST OFFICE DEPARTMENT, IN ANSWER TO TESTIMONY OF WILLIAM BRENNER, SIDNEY KOSLOW, AND MICHAEL F. DENNIS

I have read the testimony of Messrs. Brenner, Koslow, and Dennis concerning their efforts to induce the Post Office Department to use their magnetic coding system for the sorting of mail.

The contentions made by Mr. Brenner are:

1. In July 1957, at the invitation of the then Postmaster General Arthur E. Summerfield, Messrs. Brenner and Koslow made a confidential disclosure of their magnetic system for sorting mail to this Department, and demonstrated the introduction of the equipment would effect a saving of $600 million annually. In passing that figure seems to vary by millions from time to time.

2. Thereafter, the Department turned down the magnetic system but said it would continue with its own printed phosphor dot method.

3. Later on, Brenner and Koslow convinced the Office of Research and Engineering that the magnetic system was better, but that the Department claimed it had no funds to develop it.

4. The Department redirected the research to the magnetic system, and on January 12, 1959, changed the Rabinow contract to develop a magnetic system.

Essentially, Brenner is charging the Department committed a breech of faith during the period between 1957 and January 1959. I served as Associate General Counsel during that period. However, other than of the January 12, 1959, amendment, I have no knowledge of what may have taken place during that time. Thus, today I have no way of knowing whether the contentions of bad faith are completely true, partially true, or completely untrue. A disclosure that mail could be sorted by a magnetic system in and of itself is meaningless since it is simply the disclosure of an idea. Ideas as such are not patentable. Only a particular invention which may be based upon an idea is patentable. There is no showing that what may have been disclosed in 1957 is the subject of patent No. 3,040,323 (Brenlow patent) which issued on June 19, 1962.

On June 1, 1962, representatives of the Post Office Department attended a meeting at which Mr. Brenner (probably also Mr. Koslow) were present. The patent had not yet formally issued. We expressed the position the Department could do nothing about obtaining a possible license until such time as the patent had formally issued and we had an opportunity to study it. We pointed out that the Department would have to be satisfied: (1) the Brenlow patent was valid and (2) that the claims of the patent read upon equipment the Department intended to secure. At that time, the Department was not in a position to state that the equipment they intended ultimately to purchase would infringe upon the claims of the patent if the patent were otherwise valid. Mr. Brenner was advised that we would have to seek the views of the Department of Justice concerning validity of the patent.

On July 6, 1962, Rabinow Engineering Co., Inc., wrote a letter to the Department calling attention to the patent, a copy of which it transmitted. Rabinow pointed out the patent could prove troublesome in connection with this Department's magnetic coding of mail. Rabinow also claimed it could prove it conceived the invention embodied in the Brenlow patent about 1 year before the filing date of the Brenlow application. If that were provable, then the Brenlow patent was invalid since the patentees were not the first inventors. Under our contact with Rabinow, we would have a license to any patent issued to Rabinow. On August 8, 1962, we asked the views of the Department of Justice about the patent's validity and also notified the Department of Justice that Rabinow believed that it might be the first inventor.

In January of 1963, the Department of Justice informally advised us it reached the tentative conclusion that the Brenlow patent was probably invalid as having been anticipated by the prior state of the art. The Department of Justice also believed there was a question whether the patent was also not invalid on the grounds that Rabinow was the first inventor and not Messrs. Brenner and Koslow. On May 2, 1963, the Department of Justice advised us officially that in their opinion the Brenlow patent was of doubtful validity as having been anticipated by the prior state of the art. In view of that doubt, and considering that Rabinow might be able to prove that it was the first inventor, we were advised that the Department of Justice would object to any license from Brenlow for other than a nominal amount. On May 3, 1963, Mr. Dennis was so advised.

This Department did not take any steps to hold any conferences to attempt to secure a license. The initiative in this regard was taken by Messrs. Dennis, Brenner, and Koslow. We did not initiate the meeting of June 26, 1963. That meeting lasted the better part of the day, and was attended by Mr. Brenner, Mr. Koslow, Mr. Dennis, and representatives of Post Office Department and Department of Justice. The entire situation was discussed. Mr. Dennis originally expressed the view a royalty of approximately 7 percent on a procurement of approximately $1,400 million would be reasonable. He stated that payment should be made year by year because of the income tax situation. It was pointed out that we had no authority to enter into a contract which would obligate the Department to spend appropriated funds for many years in the future, and that if any license was to be secured, it would have to be for a lump sum. We advised them that after a very careful research, the Department of Justice had concluded that in all probability the patent was invalid as having been anticipated by the prior art. We outlined our reasons for so believing in detail and presented certain publications and other patents to bolster our contention. We stated we might be willing to recommend that this Department purchase a paid up license

in an amount not to exceed $10,000, if the patentees were willing to make the offer. Mr. Dennis made a counter proposal that (1) this Department buy a paid up license for an unspecified number of dollars, and (2) the license provide that any person who manufactured and sold to the Government a device embodying the invention would pay the patentees a royalty at x percent which x percent was never specified. We expressed the view that the Government would in fact be paying the x percent. Further, we did not believe we could enter into a license containing such a clause. Mr. Dennis then countered that the Department could provide in its contracts the contractors would have to absorb the added cost. Mr. Dennis then inquired whether this Department would be willing to accept an opinion by an outstanding patent counsel which was contrary to the opinion given to this Department by the Department of Justice. That proposal was declined. It was pointed out to Mr. Dennis, Mr. Koslow, and Mr. Brenner that the Department was primarily interested in not being bothered about the patent and that if they agreed to a paid up license which would also authorize the Department to sublicense foreign governments in their postal affairs, we would not take any action which might draw the validity of the patent into question. This might enable the patentees to license persons for commercial purposes.

At the conclusion of the conference, we stated that one of our contractors was attempting to set up an interference proceeding against the patent. Although we did not name the contractor, it seems clear that they were aware it was Rabinow. Mr. Dennis then stated at the conclusion of the conference they would have to return to New York to discuss the situation with a group of persons who were interested and who had already put up the money to finance a lawsuit. He stated he would call us shortly and let us know their decision. Aside from a letter dated July 15, 1963, in which he expressed his thanks and those of his clients for the courteous treatment afforded him, we have not heard from Mr. Dennis since.

Rabinow filed its papers to institute interference proceedings on May 6, 1963. We were aware of its action prior to the June 26, 1963, conference. We did not believe we should advise Messrs. Brenner, Koslow, and Dennis because the Patent Office might not permit the interference. On November 12, 1963, the Patent Office permitted the institution of interference proceedings between Rabinow's application No. 810,760 and the main Brenlow patent No. 3,040,323 and a later Brenlow patent relating to envelopes (No. 3,083,904) referred to on page 2518. Various pleadings have been filed on behalf of Rabinow and on behalf of Messrs. Brenner and Koslow (represented by different counsel) in the Patent Office in this proceeding. So far as we know, the interference proceeding is not resolved. If Rabinow succeeds in the interference proceeding, it will effectively invalidate the Brenlow patents.

That is the factual situation. We will now briefly comment on some of the allegations made.

We do not know whether Brenner and Koslow made any disclosure of a magnetic system to Mr. Summerfield.

In the June 1, 1962, meeting we believe that we acted properly. The various law reports contain many cases in which the courts have ruled that patents are invalid for various reasons. It is only the exercise of prudence and good management to very carefully examine a patent to determine whether it is valid. It is also the exercise of good management and sound business judgment to ascertain whether the claims could be "circumvented." That is what is known as inventing around the patent. In the world of industry, inventing around or circumventing is extremely common. This Department would have been derelict in its duties if it had not caused a very careful examination to be made whether the patent was valid. Its failure to do so, in addition to leading to the improper expenditure of appropriated funds, would also have defeated the well-established Government policy of obtaining equipment it needs by advertising rather than from a sole source when possible. This Department does not have explicit authority to buy patent rights. Its authority to do so is derived by implication from authority to purchase equipment or conduct a research and development program contained in its appropriation acts. However, the terms of contracts whose basis rests upon appropriation acts cannot exceed the fiscal year then current. Any agreement the license should provide for payment year by year would clearly be in excess of this Department's authority.

The Department did express some interest in purchasing a paid-up license for a sum not to exceed $10,000. This Department is confident that the patent

is invalid and that a court would ultimately so hold. However, it must be recognized that a court might disagree. Also, time must necessarily elapse before that final determination can be made. The Government would be required to spend many hours of its personnel, have to pay expert witnesses, obtain publications, etc. Under those circumstances, we believe that the Government could properly agree to purchase a paid-up license for a nominal amount.

The Government is also interested in a prompt resolution of the problem. If the patent is valid, then if the Government wishes to go into this general area, efforts to invent around the patent and thus avoid a sole source situation should be undertaken and undertaken promptly.

The Department still has not made up its mind whether it wishes to use magnetic coding. We deny the charge the Department is holding up the introduction of the magnetic system because of the unresolved status of the patent situation. Introduction of such a system is being held up for the reason that we do not know whether we wish to adopt it or another means. In a letter dated December 13, 1963, Senator Javits was so advised.

Mr. GARY. I have received a statement from the Magazine Publishers Association, which, without objection will be inserted at this point in the record.

(The statement follows:)

STATEMENT OF JOHN K. HERBERT, PRESIDENT, MAGAZINE PUBLISHERS ASSOCIATION, INC.

My name is John K. Herbert and I am the president of the Magazine Publishers Association, an association of 113 member-publisher companies, publishing over 300 magazines of national circulation. Our magazines comprise in excess of 70 percent of the magazine circulation of America of which 3 billion copies are sent through the mails each year.

As one of the principal purchasers of postal services in America, we have a keen and continuing interest in the improvement of postal service. For a number of years we have been critically concerned that the volume of mail has been increasing at such a rapid rate as to make mandatory the installation of the best in mechanized equipment to cope with that volume. The recently issued Annual Report of the Postmaster General for 1963 indicates a mail volume of approximately 68 billion pieces for fiscal year 1963. This volume is estimated to reach 72 billion pieces in 1965. We are now facing the prospect that 1970 will bring a 90 billion piece mail volume to the U.S. postal service, twice the volume in 1950. What will happen to the present system when such a volume is injected into it?

It is our belief that, unless some significant strides are made in the immediate future toward mechanizing the Post Office Department to handle this staggering volume, the entire system could well collapse in those urban areas where the majority of the mail volume is processed. The most important factor which cannot be overlooked is that this effort cannot be accomplished overnight or even in 1 year. The magnitude of this task is such that the leadtime for completion will be several years from the time the green light is given for an accelerated program. We are not alone in this belief for we know that many Members of Congress, including you who are on this committee, share this concern. We also know that the Post Office Department shares our concern, as well it should.

We want to make it clear at the outset that we believe the loyal postal employees will always be important to the operation of the Post Office Department. Mechanization will help employees perform their jobs in the Post Office Department, just as mechanization has provided its benefits to workers in other industries. The growth pattern of the mails is such that there will always be growing employment in the Post Office Department.

Each year there is a tendency to postpone accelerated mechanization with the result that this effort may never be fully accomplished. The service in many areas is deteriorating. We know it from our members and see it in the press in such areas as Chicago, Philadelphia, Kansas City, and Camden. We hope that this committee is seeking from the Post Office Department exhaustive reports on these and other problem areas. That information can be obtained only from the Department. The appropriations which this committee will recommend will have a vital effect on service for those of us who must use the mails extensively in our businesses.

Last year we submitted a statement to your committee on behalf of the Magazine Publishers Association. Our "Blueprint for Postal Modernization" urged the implementation of the Advisory Board report on mechanization which had been issued in February 1963 by the Advisory Board of the Post Office Department, a statutory body appointed by the President of the United States to advise the Postmaster General on matters which he refers to it for study. The Board is composed of a group of distinguished citizens. Their report had a number of excellent recommendations which we hope this committee will insist that the Post Office Department implement.

One of the most important of these recommendations is the development of criteria for installation of specific equipment. For the past 3 years in the hearings on the Post Office Department budget before this committee there has been an effort by the members to obtain the criteria for the operation of the Washington post office. As of the hearings for fiscal year 1963, the information sought had not been made available to you. We believe that this committee should insist on criteria figures and evaluation for major mechanized facilities such as Washington, Detroit, and Providence. This committee should have made available to it criteria for individual pieces of equipment installed in those facilities which would include cost and productivity studies. To the best of our knowledge the only such criteria which have been developed and made public are those relating to the facer-canceler equipment which were published by the Advisory Board in their report. Other equipment, including letter sorters and parcel sorters, have been installed and operational for several years. We hope that comparable studies soon will be made available on other equipment.

We would certainly not urge that the Post Office Department embark on any crash program without thorough study of needs, costs, and payout. But we believe that sufficient information should now be available to permit an accelerated program. This program should not be delayed until the entire mechanization package is fully developed, for such a dynamic program never reaches any static state of development. Equipment should be installed as individual pieces of machinery are justified and needed and shown to be economically feasible.

The Post Office Department should also make available timetables for mechanization of the 200 facilities which it says should be mechanized within the next 10 years. We hope it will set target dates for completion of these projects which this committee can help it achieve.

The Post Office Department is requesting only $20 million for major mechanization in fiscal year 1965. This, we contend, cannot get that job done which must be done in anticipation of the mail volume reasonably expected by 1970. We do not believe that there can be any further doubt as to the wisdom of mechanization. That objection has long since been hurdled but the significant question is "can we do it quickly enough to meet the needs." We believe it can be done if the Congress acts now to supply more funds out of the general Post Office Department appropriation and the Post Office Department accelerates its efforts to mechanize the 200 largest offices.

In the budget for fiscal year 1965 it is stated that mechanization has been installed in 30 facilities since 1957, that by the end of 1964 14 installations will be on order or in the process of completion and that 13 installations will be ordered in 1965. In the annual report for 1963 the Postmaster General indicated that the Post Office Department intends to mechanize the 200 post offices which handle 60 percent of the Nation's mail within the next 10 years. In 1957 the then Postmaster General indicated that those 200 post offices would be mechanized by 1964. Thus it would appear that we are running behind schedule by about 10 years.

It would be presumptuous for us to tell you or the Post Office Department exactly how much could and should be spent for mechanization within any 1 fiscal year. We did not attempt to do so last year and we will not attempt to do so this year. There is no magic figure of either $2 billion or any other figure which will be a panacea for solution of these problems. However, we do not believe that it is unrealistic for us to say that the Post Office Department is going to have to spend considerably more than is contemplated in the proposed budget if it is to mechanize the 200 major postal facilities in the Nation. We know that the postal experts at the Food Machinery Corp. believe that an average of $250 million could be spent for each of the next 20 years. We are still not spending at the level reached in 1960 before the Post Office Department cut down on the mechanization effort. In that year the Post Office Department spent $13½ million for research and $32½ million for mechanization.

In the Post Office Department budget for fiscal year 1965 the Department requests $13 million for research and development. The Advisory Board recommended accelerated research to keep pace with research in those areas of government where a much higher percent of the total budget is allocated to research. Last year we submitted a table from the Advisory Board report showing percentages of costs for research in Government and industry. That table with some revisions for the Government for the 1965 budget shows as follows:

R. & D. costs as a percent of total costs or sales

Post Office Department (fiscal year 1965)	0.16
Total Government (fiscal year 1965)	15.0
Bell System (1959)	1.3
Manufacturing companies (company financed) (1959)	1.5

Out of the $13 million requested by the Post Office Department only $7 million is available for contract research which is only slightly higher than the amount available for the same purpose last year. Any cut in the funds requested in this area of the postal budget would severely hamper the research effort needed.

We of the Magazine Publishers Association have taken the Post Office Department's cost saving efforts to heart and have been cooperating in every possible way in those areas where they must have large mail user support. We recently provided a forum in New York for members of the staff of the Postmaster General to meet with the subscription fulfillment and electronic-data processing experts in our industry to explain to them postal needs and requirements. We are cooperating in every way with those efforts which they tell us they need to accomplish effective mechanization and modernization.

Recently a private study was completed of mechanization of the Providence and Detroit postal facilities. The report generally concludes that—

1. Productivity in the Detroit mechanized post office probably reaches 10 times the nationwide average;
2. Mechanized facilities such as Detroit offer excellent opportunities for the labor force to master new skills for retraining purposes qualifying for higher pay and incentives;
3. This administration deserves considerable credit for turning the Providence facility into a productive one which is realizing its potential;
4. Mechanized facilities such as Detroit and Providence rely more heavily on management techniques and, as such, require different skills of postal supervisors;
5. Productivity in Providence has increased 13.3 percent;
6. Although there are many problems to be overcome in mechanization, the potential is great and the opportunity is ripe for an accelerated program.

We made the study available to the Post Office Department and asked for comment. We do not know if the report or its conclusions are 100 percent accurate, but to date no comments to the contrary have been submitted by the Post Office Department and several of their top officials have indicated a general concurrence with the views expressed in the report. If this committee urges the development of cost criteria and long-range plans and target dates by the Post Office Deparment, we believe that you will conclude that the pattern of spending which has prevailed is not sufficient to accomplish this program. We do not believe that the proposed budget for fiscal year 1965 is adequate to accomplish the task.

The Magazine Publishers Association appreciates the opportunity of presenting its views before this distinguished committe. We support your efforts and wish to cooperate with you in every possible way.

Mr. GARY. This concludes the hearings on the budget request for fiscal year 1965 for the Post Office Department.

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