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# CONTINUITY OF MANAGEMENT—U.S. POSTAL SERVICE

GOVERNMENT

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THE KANSAS STATE UNIVERSITY

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## HEARINGS

BEFORE THE

COMMITTEE ON INVESTIGATIONS

OF THE

## COMMITTEE ON OFFICE AND CIVIL SERVICE HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

SECOND SESSION

JULY 30, 31, AND AUGUST 1, 1974

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CONTINUITY OF MANAGEMENT  
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(II)



## CONTENTS

| Statement of—   |  | Page   |
|---|--|--------|
| Kappel, Hon. Frederick R., Chairman of the Board of Governors, U.S. Postal Service, accompanied by M. A. Wright, Vice Chairman; Board members Coddling, Holding, Holt, and Robertson, and Louis A. Cox, Secretary to the Board..... |  | 114    |
| Klassen, Hon. E. T., Postmaster General, accompanied by Joe Jones, Louis Cox, Darrell Brown, Pete Dorsey, Ben Bailar, Ralph Nicholson, Frank Sommerkamp, and Pete Del Grosso.....   |  | 2      |
| Information furnished for record:   |  |        |
| Names of Senior Assistant Postmasters General, titles, salaries and functional duties.....  |  | 8      |
| Average tenure of top postal management.....  |  | 12     |
| Major policies and programs jointly developed by field, regional, and headquarters management.....  |  | 17     |
| Letter from Norman S. Halliday, Assistant Postmaster General, Government Relations Department, dated June 13, 1974, in relation to items for sale in post office lobbies.....   |  | 14     |
| Response in narrative form regarding—   |  |        |
| Comparative tenure of Postal Service officers.....  |  | 16     |
| Contract entered into by the Postal Service with the consulting firm of Booz, Allen and Hamilton for a research study of non-household customers.....   |  | 25     |
| Appointment of Carl C. Ulsaker to be Senior Assistant Postmaster General for Manpower and Cost Control.....   |  | 32     |
| Executive employment contracts and the authority to enter into such contracts.....  |  | 38     |
| Contract awarded for Chicago Bulk Mail Center (contract REM 184-70).....  |  |        |
| Contract for Medium Module Bulk Mail Centers (contract REM 124-71).....   |  | 49     |
| Data on area Mail Processing Center for State of Texas.....   |  | 63     |
| Questions submitted to the Postal Service by Congressman Derwinski regarding mail delivery and modes of transportation, and the Postal Service responses.....   |  | 65     |
| Listing, by region, or U.S. Postal Service districts, with the salary and staff complement of each.....   |  | 69     |
| Estimated cost of the bulk mail facility at Secaucus.....   |  | 73     |
| Cost of strike at Secaucus facility.....  |  | 73     |
| Method of accounting for depreciation and maintenance of buildings and other fixed assets and whether the method fulfills the requirements of the Postal Reorganization Act.....  |  | 81     |
| Bulk mail system—original cost and year the dollars were spent.....   |  | 83     |
| Contracts of employment between the Postal Service and Mr. Klassen, Mr. Hayden, Mr. Hargrove, Mr. Blaisdell, and Mr. Bailar.....  |  | 96-103 |
| Constitutional limitations on legislation reducing or eliminating altogether certain supplemental retirement benefits.....  |  | 109    |
| An explanation of the area mail processing centers and how they affect the flow of mail.....  |  | 160    |
| Compilation showing the postal headquarters organization from 1950 to 1974.....   |  | 167    |

The first of these is the fact that the Government has been
 successful in its policy of maintaining a high level of
 employment. This has been achieved by a combination of
 factors, including a steady increase in public expenditure
 and a reduction in the rate of interest. The result has
 been a significant increase in the number of jobs available
 in the economy, particularly in the public sector.

Another important factor has been the Government's
 commitment to social welfare. This has been reflected in
 a range of policies, including the introduction of a
 comprehensive social security system and the provision of
 free education and health care. These measures have helped
 to reduce the level of poverty and inequality in the
 country, and to improve the overall standard of living.

Finally, the Government has also been successful in
 maintaining a high level of inflation. This has been
 achieved by a combination of factors, including a
 steady increase in the money supply and a reduction in
 the rate of interest. The result has been a
 significant increase in the price level, which has
 helped to reduce the real value of government debt.

In conclusion, the Government has been successful in
 its policy of maintaining a high level of employment,
 social welfare, and inflation. This has been achieved
 by a combination of factors, including a steady
 increase in public expenditure and a reduction in the
 rate of interest. The result has been a significant
 increase in the number of jobs available in the
 economy, particularly in the public sector.

## CONTINUITY OF MANAGEMENT—U.S. POSTAL SERVICE

TUESDAY, JULY 30, 1974

U.S. HOUSE OF REPRESENTATIVES,  
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,  
SUBCOMMITTEE ON INVESTIGATIONS,  
*Washington, D.C.*

The subcommittee met at 10:10 a.m., in room 210 of the Cannon House Office Building; Hon. Thaddeus J. Dulski (chairman of the subcommittee) presiding.

Present: Representatives Thaddeus J. Dulski, David N. Henderson, Dominick V. Daniels, Andrew J. Hinshaw, Gene Taylor, Robert Traxler, Morris K. Udall, Charles H. Wilson, H. R. Gross, and Edward J. Derwinski.

Mr. DULSKI. The subcommittee will come to order.

In the hearings which begin today, we hope to explore with you certain aspects of the critical situation which exists in the Postal Service, a situation which is of great concern to us and to the public.

At the time of our deliberations in the 91st Congress, leading to enactment of the Postal Reorganization Act of 1970, many of us had grave doubts that changes of the kind and magnitude embodied in the act were wise.

While we did not expect that this law would bring about a miracle, we expected, and the public expected, at least a gradual but significant and clearly noticeable change for the better.

Events in the past few years, in which we experienced a near disaster in service in late 1972 and early 1973 required our interceding in hearings last year in response to a deluge of complaints from the public—complaints which were greater by far in number and gravity than at any time in memory.

While the handling and delivery of mail has improved since that low point, there is still great concern as to its consistency and dependability, now and in the future.

General, of equally great concern is the serious financial situation in which we find the Postal Service. On July 9, you explained to the Subcommittee on Postal Service in testimony on H.R. 15511 that the operating deficit for fiscal year 1974, which just ended, is \$400 million after total subsidy of more than \$1.5 billion, and the projection for the next 12 months of another operating deficit of approximately \$475 million.

We need to know what is your frank appraisal of the financial outlook for fiscal year 1975 and the next 5 years and its effect on postal service.

I appreciate fully the significant impact of inflation upon your costs—but even after taking this into account, questions remain as to

the reasons for your condition. We are troubled also by the future outlook.

In our meetings with you, we hope to find a better answer to the apparent need for frequent significant rate increases.

Today we would like to discuss with you, as I announced earlier, the management structure with special reference to the number of changes that have been made. Continuity of management was one of the basic reasons for enactment of the legislation in 1970.

Following your appearance, we look forward to hearing what the Board of Governors can tell us.

General, I am sure that we will derive a great benefit from your testimony today in keeping with the responsibility we have concerning the Postal Service.

Do you have a statement?

**STATEMENT OF POSTMASTER GENERAL E. T. KLASSEN, ACCOMPANIED BY JOE JONES, LOUIS COX, DARRELL BROWN, PETE DORSEY, BEN BAILAR, RALPH NICHOLSON, FRANK SOMMERKAMP, AND PETE DEL GROSSO**

Mr. KLASSEN. Yes, Mr. Chairman.

However, before I go into my opening statement, let me tell you that the question of continuity is very important. I appreciate how important it also is in your committee responsibility.

We learned that you were going to leave us, and that gives us some concern about the continuity.

On the other hand, we also recognize that Congressman Henderson has been here almost as long as you have, he has been close to this committee, and I assume that in itself will provide the kind of leadership we need.

We are sorry to learn you are going to leave us. You have been associated with this committee a long time, and with the department a long time.

I would like to address myself to the concern about continuity, and then we will deal with each of the other problems you suggested to us.

I think the interest that you are expressing in this question is one that we share with you.

I will now read my statement for the record.

The President's Commission on Postal Reorganization reported in 1968 that "the Post Office's principal failure is one of management—the failure is one of method, rather than of men."

Management does not refer only to the group of headquarters individuals leading the organization. Postal Service management starts with post office supervisors and goes up from that level to the Postmaster General. Continuity of both people and policy is important.

However, management policy continuity—and the authority to make policy—are of paramount importance. This is especially true during a transitional period, such as the Postal Service is in. Individual managers might change, but management concepts stay the same.

The problem in the old Post Office Department was less a turnover among high officials than the fact that each such turnover signaled a change in direction.

With me today are eight members of Postal Service top management, each of whom has appeared before congressional committees on several occasions.

While four of these eight men have only 2 to 9 years of postal experience, the combined postal experience of the eight adds up to 144 years. One of the longer service men has over 25 years and each of the remaining three has well over 30 years of postal operations experience.

Prolonged continuity of personnel is not remarkably characteristic even of the private sector, with which the President's Commission on Postal Reorganization was comparing the Postal Service.

For example, a Michigan State University study published in 1971 showed a 76-percent turnover between 1961 and 1969 among management personnel in the country.

The November 1968 edition of Fortune reported that the annual turnover rate among managers in the aerospace industry ranged up to 18 percent. The magazine also noted in the oil industry this turnover rate ranged up to 30 percent, and in the banking industry it ranged up to 35 percent.

We live in a highly mobile society. People change jobs more frequently than ever before. This affects employment at all levels in both the public and private sectors.

Furthermore, in government and industry, the average age at retirement has been getting progressively lower. This also has a significant impact on management and other employees.

Considering all the factors, including our organizational transition, postal management has a good record for stability.

I would like to call to your attention one of many Postal Service programs that has continued for 4 years without any basic change, and is contributing greatly to reducing management turnover. I speak of the postmaster selection board process for appointing all postmasters.

Since the inception of this selection process in late 1970, nearly 11,000 postmasters have been appointed in first-, second- and third-class offices. All candidates for postmaster positions must be Postal Service employees who meet certain criteria. Under this program no one who is not a postal employee can be assigned as a postmaster.

I am sure the committee agrees with me that here is the area in which the mail is actually moved and handled.

This "promotion from within" policy has opened countless doors for career opportunities for all employees to advance in the management organization. Each time a postmaster is appointed, a chain reaction takes place which opens other management jobs for people with ability and a desire to accept responsibility and accountability.

My executive assistant has 35 years of postal experience. Our five Regional Postmasters General have combined experience totaling 104 years.

The average service of our 78 District Managers is more than 25 years.

Perhaps most significantly, postmasters at all offices with more than one employee are selected on the basis of merit from among experienced employees. This is continuity that is apparent on a daily basis to our 700,000 employees. It is very different from the old Post Office Department, in which new installation heads frequently lacked any postal experience.

These line managers are the people upon whom the operation of the postal system depends. I have complete confidence in their judgment and ability. They know the Postal Service. They can do their jobs with a skill that comes only with long years of experience.

The 31 senior managers of the Postal Service are its officers. The average length of service for the individuals in this group is 9 years and 6 months. I believe this would compare well with any industry.

Anyone who looks at this record cannot continue to believe that I am surrounded with managers who know little about the postal system, or that the Postal Service has been unable to solidify its management structure.

Unquestionably, some of our top management people have been with the Postal Service substantially shorter periods of time than the individuals I specifically mentioned. But the Postal Service itself is only 3 years old. We always must be ready to accept new talent and fresh initiatives in postal management. There is a difference between a stable management and one that is static.

It should be remembered that when the Postal Service was established, there were many new areas of management. Expertise not already existing in the organization had to be found. For example, modern labor relations, including collective bargaining, became a management obligation for the first time. Also, new financing responsibilities had to be met.

Decentralization of management authority has made the postal organization more responsive than ever before, but it also required modification of headquarters' responsibilities and corresponding staff changes.

One of the principal advantages of the Postal Reorganization Act is that we now are able to elevate capable and experienced career people to top policymaking jobs. These jobs formerly were reserved for political appointees, whose arrivals and departures signaled constant policy changes in the old Post Office Department.

Turnover in top management is inevitable in the Postal Service as well as in any other organization. It is not all bad. Reasonable change is a hallmark of healthy management. The important thing is that we make the most effective use of managers while we have them, and strive to retain those whose talents and expertise are most essential to the organization.

In summing up, the Postal Service has achieved a greater level of management continuity in the policy sense than was ever the case under the Post Office Department. Considering the transitional aspects of recent years, there also has been a good record of staff continuity. This is especially true in the operating areas of the organization, which most directly affect mail service to the American people.

During the 1960's, there were six politically-appointed Postmasters General. In this century the median tenure for Postmasters General has been only 31 months. I hope the Postal Service will never again be subjected to the shifts in policy direction that resulted from this kind of situation.

I have with me a staff study of postal headquarters organization from 1950 until the present time. With your permission, Mr. Chairman, I would like to have this study included in the record of these hearings.

Mr. DULSKI. Is there objection?

The Chair hears none.

It will be done.

[The document appears at p. 167.]

Mr. KLASSEN. It will show that in the 21 years prior to postal reorganization in 1971, there were no less than 16 major headquarters reorganizations, in addition to continuous realignments within the divisional units of the old Bureaus.

In the years ahead, we will continue to improve in management continuity, both of people and policy. The vital thing is that we are developing an organizational philosophy based on the spirit of the Postal Reorganization Act. That philosophy will remain, even when individual managers depart, for whatever reasons.

Mr. Chairman, this completes my formal statement.

Mr. DULSKI. Thank you, General Klassen.

First of all, I would like to advise the committee that I will adhere to the 5-minute rule, because in addition to the members of the subcommittee here today, we also have Mr. Wilson and Mr. Derwinski, and of course Mr. Gross, the ranking minority member of the committee.

General, in your statement, I commend you for the change in direction that you have taken regarding the placement of career people in top postal positions.

What about the 70,000 postmasters and supervisors that you have today? Do you expect more of them to advance in the service as time goes on?

Mr. KLASSEN. Mr. Chairman, that is a very appropriate question, because it is a question in the minds of our people.

We think there is nothing more constructive, there is no greater incentive, than for people with ambition and ability to see an opportunity for advancement. We have tried to stress this.

In fact, having appointed that many postmasters from within the ranks. I am sure you can appreciate there are all promotions to other levels below that in a very marked degree.

I would like to be present someday when some letter carrier or some clerk would become Postmaster General. That is the way any organization should be geared, to provide those forms of incentives.

Mr. DULSKI. Thank you.

I will reserve the balance of my time, and recognize Mr. Daniels for 5 minutes.

Mr. DANIELS. Mr. Chairman, in your statement, you spoke very highly of the continuity of service in the executive branch of the Postal Service.

Of course, we all know that sound selection of executives is absolutely necessary and essential.

However, a great number of changes have been made in headquarters in the last few years, and this would seem to indicate that something is wrong there. Can you make some explanation of why such changes were necessary over such a short period of time that the Postal Service has been in existence, that is, since 1970?

Mr. KLASSEN. Congressman Daniels, I would say first of all that the amount of turnover we have had in top management is not really excessive in relation to the experience of other people, and with respect to the Post Office Department itself.

I think we have had slightly less than a 20-percent turnover of top management in the last 3 years.

Our processes are like most people's. In trying to select the right people, we try to examine every aspect of the individual to see whether or not he has the sort of desire and interest and capability that we think we need, and then second, we have to find some way that motivates him to stay and want to fulfill this sort of an obligation.

We have had men come and stay a short period of time and leave. That is not desirable, necessarily.

Also, in some cases, we have found people who were not fitting into the atmosphere and couldn't adjust themselves to accept a new way of life, and they have gone.

Mr. DANIELS. You say you try to get the top quality management. How are these selections made?

Mr. KLASSEN. Well, Congressman Daniels, it depends upon the individual case. In an effort to find expertise, you might go to people you already know, or you might go to agencies which have a professional capacity for this sort of thing, or you might seek the advice and judgment of other associates.

Mr. DANIELS. Were these selections made by you personally, or by the Board of Governors?

Mr. KLASSEN. In most cases, the selections would be made by my associates and me.

Mr. DANIELS. Has the Board of Governors formulated or established any policy on the selection of top management personnel?

Mr. KLASSEN. The Board of Governors, of course, wants to know what we are suggesting in the way of top management, and I would say to you that this is a responsibility that is pretty well delegated to us. They reserve the right, however, to examine it and approve whatever salary recommendations we have.

Mr. DANIELS. Specifically, has the Board of Governors formulated any policy with regard to the selection of top management personnel?

Mr. KLASSEN. Well, the Board of Governors in the legislation we have is directed to select the Postmaster General and the Deputy Postmaster General.

Beyond that, the delegation has been made available to the management.

Mr. DANIELS. How regularly does the Board of Governors meet?

Mr. KLASSEN. They meet at least once a month.

Mr. DANIELS. Where? Here in Washington?

Mr. KLASSEN. Here in Washington, or at given locations. We have taken them to our training center in Oklahoma. We have taken them to the New York Post Office. We have taken them to our development center.

Mr. DANIELS. You have answered my question. They meet once a month. They meet at various locations, here in Washington, or elsewhere at one of the Postal Service facilities.

I repeat again, going back to my former question: Has the Board of Governors established a policy for the selection of top personnel?

Mr. KLASSEN. The Board of Governors itself has not established a formal policy. They would expect us to develop that sort of policy, and they would examine our approach to the selection process.

Mr. DANIELS. When you say our approach, whom do you mean?

Mr. KLASSEN. My top management and me.

Mr. DANIELS. Who is your top management?

Mr. KLASSEN. They are right here at the table.

Mr. DANIELS. Are they the Senior Assistant Postmasters Generals?

Mr. KLASSEN. Yes. Do you want me to identify them, sir?

Mr. DANIELS. I wish you would.

Mr. KLASSEN. The gentleman on the right is Pete Del Grosso, who is Director of Operating Policies and has been with the Postal Service 34 years.

Next to him is Frank Sommerkamp, who also has 30-odd years of postal experience, and is Regional Postmaster General for the Southern Region.

Next to him is Ralph Nicholson, Senior Assistant Postmaster General for Finance.

Next to him is Ben Bailar, who is Senior Postmaster General for Administration.

On my immediate left is Pete Dorsey, who is Senior Assistant Postmaster General for Operations.

Next to him is Darrell Brown, Senior Assistant Postmaster General for Employee and Labor Relations, who has been with us a little less than 2 years.

Next to him is our General Counsel, Lou Cox, who has been with the Postal Service since 1969; and Joe Jones, who is the Director of Logistics and has been with the Postal Service 34 years.

Mr. DANIELS. How many Assistant Postmasters General are there?

Mr. KLASSEN. I would judge 15 or 20.

Mr. DANIELS. And what role does the Board play in their selection?

Mr. KLASSEN. The Board, first of all, has to approve whether or not we can establish an Assistant Postmaster General's job, and the salary we pay him.

Mr. DANIELS. What salary is paid to these gentlemen?

Mr. KLASSEN. That varies, Mr. Daniels.

Mr. DANIELS. May we have the names of the 19 or 20 senior assistant postmasters general?

Mr. KLASSEN. May I submit them for the record, sir?

Mr. DANIELS. Surely.

I would make a motion to that effect, that the General have the opportunity to furnish the names and salaries of all the Assistant Postmasters General.

Mr. DULSKI. Any objection?

The Chair hears none.

Mr. DANIELS. May I also ask that you specify what the duties and responsibilities are?

[The following information was provided by the Postal Service:]

CURRENT POSITION—AUG. 8, 1974

| Name                 | Title  | Grade   | Salary   | Functional statement  |
|----------------------|--|---------|----------|---|
| Benjamin F. Bailar   | Senior Assistant Postmaster General, Administration Group.               | PES-38  | \$57,500 | Provides senior executive control for U.S. Postal Service headquarters, research, procurement, supply, customer services, real estate, and buildings, planning, and the judicial officer; participates in the U.S. Postal Service policy decisionmaking process at the senior executive level.        |
| Robert H. McCutcheon | Assistant Postmaster General, Procurement and Supply Department.         | PES-33  | 42,500   | Directs the execution of the central procurement and supply management functions for the Postal Service, the management of a variety of headquarters services functions; and establishes policies and procedures for such functions to provide effective and efficient support to the Postal Service. |
| William D. Dunlap    | Assistant Postmaster General, Customer Services Department.              | PES-36T | 45,000   | Directs the activities of the Customer Services Department for promoting customer cooperation and providing and improving customer services.  |
| J. Thomas Ellington  | Assistant Postmaster General, Planning and New Development Department.   | PES-32  | 45,000   | Serves as the focal point for planning and new development for the Postal Service; translates established and anticipated customer needs into the development of new concepts and systems which are applied by the Postal Service in the collection, processing, and distribution of mail.            |
| Darrell F. Brown     | Senior Assistant Postmaster General, Employee and Labor Relations Group. | PES-37  | 50,000   | Establishes policy guidance for and provides senior executive control in the functional areas of employee relations and labor relations.  |
| James C. Gildea      | Assistant Postmaster General, Labor Relations Department.                | PES-35  | 43,000   | Directs the development, implementation, administration, and auditing of labor relations plans, policies, standards, and procedures throughout the Postal Service.  |
| William Eudey        | Assistant Postmaster General, Employee Relations Department.             | PES-34  | 40,000   | Directs the development, implementation, administration, and auditing of employee relations plans, policies, standards, and procedures throughout the Postal Service.   |
| James H. Byrne       | Assistant Postmaster General, Public and Employee Committees.            | PES-32  | 40,000   | Develops the most effective ways of communicating postal policies to employees and various segments of the general public.  |
| Norman S. Halliday   | Assistant Postmaster General, Government Relations Department.           | PES-31  | 43,000   | Provides policy and directs the staff of the government relations department and serves as the personal representative of the Postmaster General.   |
| Louis A. Cox         | General Counsel.   | PES-36  | 46,000   | Directs all legal activities of the Postal Service.   |
| Edward V. Dorsey     | Senior Assistant Postmaster General, Operations Group.                   | PES-39  | 57,500   | Establishes servicewide operational policy and procedures; directs and controls the extensive network of Postal Service operating facilities through the Regional Postmasters General, Establishes overall policy and directs the Bulk Mail Processing, Delivery Services, and Logistics Departments. |
| Edgar S. Brower      | Assistant Postmaster General, Bulk Mail Department.                      | PES-34  | 47,500   | Controls, and plans the activities of the bulk mail processing operations including the bulk mail processing facilities and the auxiliary facilities.   |
| Carl C. Ulsaker      | Senior Assistant Postmaster General, Manpower and Cost Control Group.    | PES-38  | 55,000   | Directs the Manpower and Cost Control Services for the Postal Service.  |

| Name               | Title   | Grade  | Salary   | Date          | Last increase |        | Functional statement  |
|--------------------|---|--------|----------|---------------|---------------|--------|---|
|                    |   |        |          |               | Amount        | Amount |   |
| William J. Cotter  | Chief Inspector, Inspection Service                                     | PES-36 | \$46,000 | Feb. 23, 1973 | \$3,500       |        | Administers the resources of the Postal Inspection Service toward the protection of the mails, audits the operations of postal facilities, etc.         |
| Ralph W. Nicholson | Senior Assistant Postmaster Finance Group                               | PES-38 | 50,000   | June 29, 1973 | 5,000         |        | Establishes policy guidance and provides senior executive control and direction for Postal Service headquarters finance, etc.                           |
| John L. Gentile    | Assistant Postmaster General, Management Information Systems Department | PES-34 | 42,500   | Dec. 8, 1973  | 3,082         |        | Directs the activities of the Management Information Systems Organization.  |
| Richard F. Gould   | Assistant Postmaster General, Finance Department                        | PES-36 | 47,500   | June 8, 1974  | 2,500         |        | Plans, coordinates, and controls the activities of the Finance Department; provides leadership in the development of financial policies and procedures. |
| Arthur Eden        | Assistant Postmaster General, Rates and Classification Department       | PES-32 | 46,000   | Aug. 3, 1974  | 3,869         |        | Directs and controls the development of postal rate and mail classification programs, and participates in the presentation of rate proposals.           |

## REGIONAL POSTMASTERS GENERAL, AUG. 8, 1974

| Region    | Name                | Level  | Salary   | Functional statement  |
|-----------|---------------------|--------|----------|---|
| Eastern   | Francis X. Biglin   | PES-37 | \$42,500 | Manages and directs all operations and units of the region; provides high-quality mail service in the region, administers, and controls operating and capital expenditures budgets; develops long-range plans for future expansion and modernization including staffing and organization; evaluates and control productivity and utilization of facilities and equipment; develops improved management programs; manages the personnel of the region and personnel development programs; develops and maintains favorable customer relations; and reviews and approves all directives and announcements concerning broad regional policy or broad administrative matters. |
| Central   | Clarence B. Gels    | PES-37 | 50,000   |   |
| Southern  | Frank M. Sommerkamp | PES-37 | 44,500   |   |
| Western   | William J. Sullivan | PES-37 | 42,500   |   |
| Northeast | William F. Bolger   | PES-37 | 46,000   |   |

Mr. DULSKI. The gentleman's time has expired.

Mr. Hinshaw?

Mr. HINSHAW. Mr. Klassen, on page 1 of your statement, the very second paragraph, on the last line, you say the failure is one of method, rather than men. I am looking at a comparison of 1974 groups and functions as opposed to the 1969 bureaus and functions, and I find that they are remarkably similar.

For example, in 1974, you have a group of Employee Labor Relations; in 1969, there was a Bureau of Personnel.

In 1974, we had Finance; and in 1969, we had Finance with precisely the same subfunctions.

In 1974, we have an Operations Group; in 1969, we had a Bureau of Operations and a Bureau of Transportation.

We have a 1974 group of Administration; and in 1969 category, we had Bureau of Facilities, with the subfunctions that are almost the same.

In 1974, we have Procurement and Supply; in 1969, we had Procurement Division.

In 1974 we have Real Estate and Buildings; in 1969, we had a Reality Division, and right on down the line.

Now, in light of that comparison, would you explain to me whether or not you don't believe that you made a change from what was the 1969 organization and group of functions to a different grouping and now come full circle back to the same 1969 category that was alleged to have been so inefficient?

Mr. KLASSEN. Congressman Hinshaw, I can't talk about the inefficiencies of the past. I think the record speaks for them.

Mr. HINSHAW. Can't you talk about the inefficiencies during your term?

Mr. KLASSEN. I will try to address myself to that.

Mr. HINSHAW. That is what I am addressing myself to.

Mr. KLASSEN. You were making a comparison between 1969 and 1974, indicating we were coming back where we started from.

I think we must recognize that some of these functions you refer to have been inherent in any organization for a long period of time, for decades, and perhaps even beyond that.

The character of these functions, however, must necessarily change from time to time, because of changing conditions and circumstances.

If we had a bureau of personnel and today we have a division called personnel and labor relations, the functions are not necessarily the same as they were in those days.

Let me address the question of training, for example. Well, you may say, we have always had training. But the degree of training we have today, which is part of that function, is substantially different than it was in 1969.

Or take finance. Our problems today in the area of finance are substantially different than they were in 1969. I think you can say that about a great many of these functions.

Mr. HINSHAW. Mr. Postmaster General, is it not true that from the year 1969, you have gone through two or three major reorganizations with the assignment of functions to different groups, and have now come back essentially to the same groupings of functions that you had that existed in 1969 when the Postal Service was created?

Mr. KLASSEN. Well, we have had substantial changes, too, but I must point out to you, Mr. Hinshaw, that this is characteristic of the Post Office Department and the Postal Service and characteristic of any major organization. Changes take place.

As far as your point that we have come right back where we were, I would say: "No, we haven't." The conditions have changed substantially.

Mr. HINSHAW. Let me see if I can't pinpoint this a little more precisely.

When you first took over as Postmaster General, you did change the groupings or functions within the individual groups, did you not?

Mr. KLASSEN. I did, sir.

Mr. HINSHAW. Did you not later again change the groupings? That is, the functions within the groupings?

Mr. KLASSEN. Mr. Hinshaw, as we analyze the things we have been doing—

Mr. HINSHAW. Did you, or didn't you?

Mr. KLASSEN. I did, but I will answer it my way.

Mr. HINSHAW. I am asking the questions, Mr. Postmaster General, and I would like to make the points I want to make.

After you had made the initial change and made a second change, have you not now come back to the same groupings and functions within the group that you had that caused you to make the first change that you thought was so inefficient?

Mr. KLASSEN. No, sir.

Mr. HINSHAW. Then I will go to personnel for a moment. You said the continuity of personnel, you thought, was a very important function. Is that true?

Mr. KLASSEN. Yes, sir.

Mr. HINSHAW. Would you concede that turnover of personnel has something to do with continuity of personnel?

Mr. KLASSEN. Certainly it does.

Mr. HINSHAW. Would you be able to, off the top of your head, give an idea as to whether or not the personnel in terms of tenure at the top postal management, is now more, less, or the same that it was in 1969?

Mr. KLASSEN. I would say top management—I can't give you an exact figure, but my opinion would be that it has more continuity now than it had then.

Mr. HINSHAW. From the period 1933 to 1969, the average tenure of the Postmaster General was 4 years, and from 1969 to 1974, it was 2.6. From the years 1971 to 1974, it is 1.5 years. Deputy Postmaster General, going back in the same time frames, 3 years, 1.5 years, and 1 year.

Senior Assistant Postmaster General, 1969 to 1974, 2.1, and it has remained there for the years 1971 to 1974 on. Assistant Postmaster General going back to 1933 again, 4.9 1.8, and 1.6. I submit those statistics show that the continuity of personnel in terms of tenure has grown remarkably less in the last several years.

Now will you comment?

Mr. KLASSEN. I would like to take the numbers you have given us and examine them and submit for the record our evaluation of this to see whether or not we can support your contention.

Mr. HINSHAW. All right. I would appreciate it if you would.  
[The information follows:]

#### AVERAGE TENURE OF TOP POSTAL MANAGEMENT

The Committee staff's comparison of Postal Service versus Post Office Department management tenure may be misleading in two respects:

(1) Unequal periods are used to compare average tenure for Postal Service officials with average tenure for Post Office Department officials. A three-year period (1971-1974) is used for Postal Service officials as opposed to a thirty-three year period (1933-1969) for Post Office Department officials. The same observation is true when comparing the longer 1969-1974 period with the 1933-1969 period.

(2) Tenure for Postal Service officials is treated as though all officials resigned as of the calculation date.

The conclusion suggested by such a comparison—that a higher turnover rate exists among Postal Service managers than existed in the old Post Office Department—based on distinctly slanted data. It might be more accurate to compare any given three- or five-year period between 1933 and 1969 with the two recent periods. Such a comparison would look as follows with respect to four such periods selected at random.

|                          | 1933-38 | 1933-36 | 1943-48 | 1943-46 | 1969-74 | 1971-74 |
|--------------------------|---------|---------|---------|---------|---------|---------|
| PMG.....                 | 2.5     | 1.5     | 1.7     | 1.5     | 1.7     | 1.6     |
| DPMG <sup>1</sup> .....  |         |         |         |         | 1.5     | 1.0     |
| SAPMG <sup>2</sup> ..... |         |         |         |         |         | 2.1     |
| APMG.....                | 1.9     | 1.1     | 2.5     | 2.5     | 1.8     | 1.5     |

<sup>1</sup> DPMG position not created until 1949.

<sup>2</sup> SAPMG position not created until 1971.

Mr. DULSKI. The gentleman's time has expired. Mr. Henderson?

Mr. HENDERSON. Thank you, Mr. Chairman.

Mr. Chairman, I want to take a minute to commend you and the staff for the work that I know has gone into preparation for this review, and to make the point with General Klassen and his staff that I consider the committee business of next year to be the top priority to continue the review, and to legislation with regard to Postal Service, and make the point that I am sure the senior members of the committee realize that our Reorganization Act was not perfected or final at that time. I feel sure that the pressures that will be brought on this committee next year will require very close attention to legislation coming from the subcommittees, and possibly as well from the work of this investigative subcommittee.

I also want to take a moment, General, to commend you and the leadership for the improvement we have seen in the congressional relations area under Norm Halliday. I notice you don't have him at the table with you, but we note his presence, and certainly from our day-to-day contact with him and his staff, the responsiveness to the Members of Congress has been much improved, and I think that you and Mr. Halliday are to be commended for performance in that area.

Now to depart for a minute from what obviously has been prepared for us, and what is of most importance, I would like to recite what I find to be one of the real problems for Members of Congress. I would like to ask you to state for the record what we are selling in lobbies

of the post offices all over the country that were not sold under the old system. Am I correct that we have copy machines in the lobbies for the public?

Mr. KLASSEN. Congressman Henderson, about 2 years ago, at the request of many of our customers, we attempted to make available to our customers certain products that we thought were closely related to the Postal Service. One of the things that gave us some real problems is that we had a few men in the field who went beyond those things that we asked them to make available to our customers, and this itself has caused some concern.

What we have tried to do is limit these sales of products primarily to those things which we thought might serve our customers. We do have duplicating machines in many locations. We do sell stamp affixers. We do sell these padded bags, we do sell paper if someone comes in with a parcel package that is not properly wrapped.

Instead of saying to the customer, "This is not sufficiently wrapped; take it back home and try it over again," we provide the materials for him at a nominal cost. Now I am quite aware of the fact that in some areas there has been some concern expressed by retail merchants that we were encroaching upon their business. This is certainly not our intent. This actually is a small-volume business for us in the Postal Service, and it was designed and intended only to be a convenience to our customers.

We have had different points of view expressed by Members of Congress on this service. For example, a staff man from the Senate committee went into a large post office and spent 6½ hours there, and he came back and reported, "Don't let the post office take those things out, because the people would be irritated by it."

We are certainly not trying to compete with the local merchant and we have set our prices higher than the prices in the community just to discourage our being a retail outlet.

Mr. HENDERSON. I am appreciative of your response, but let me make the point that we have had criticism, and I have personally had this from my own district, and without dwelling on it, let me ask a final question on this. Is it true that you give the postal clerks a bonus, or a part of the sales price of these items, to encourage them to "push" those items in the sale?

Mr. KLASSEN. Definitely not, sir.

Mr. HENDERSON. I appreciate that response, because I was advised by one of my constituents that that was the case, and I am glad to have your response to it. Certainly you make a good case, I think, for wrapping paper, and perhaps twine or other items as a convenience for the customers, but I think, for example, the sale of the postal scales, while it is related to postal business, it is one of the items not of on-the-spot need and in such cases stationery stores feel that we are competing with private business.

Mr. KLASSEN. Could I make one more comment on the selling of materials in the Postal Service?

Mr. HENDERSON. Yes.

Mr. KLASSEN. This has created so much concern that we must find a way of making some evaluation as to whether or not it ought to be continued or discontinued. We know that many of our people, or many of our customers, are going to be unhappy if we do this, but if it is a

source of irritation to the Members of Congress, then I think we have to take some positive action with it, and we are trying to find a way of doing this so that we are not accused of taking something away from the American public.

Mr. HENDERSON. To the extent we can help you in arriving at a solution that will best serve the purpose and eliminate undue complaints of our other citizens reflected to the Members of Congress, I would offer that assistance to you.

There is a letter of June 13 that Mr. Halliday used to respond to numerous inquiries of the Members, regarding sale of various items in post offices.

Mr. Chairman, I will ask unanimous consent that it be placed in the record, because it does show the change in policy and the limitation of those items that will be sold, and I think it could be helpful to have that for the members as a part of the record.

Mr. DULSKI. Hearing no objection, it is so ordered.

[The complete letter follows:]

OFFICE OF THE POSTMASTER GENERAL,  
*Washington, D.C. June 13, 1974.*

DEAR CONGRESSMAN: Recently many Members of Congress have received correspondence concerning the sale of mail preparation items by the U.S. Postal Service. Most of these letters have been initiated by members of the National Office Products Association (NOPA). On April 12, NOPA furnished each of its members with a memorandum asking that they correspond with their elected representatives and enclosed a sample letter for this purpose. I have enclosed copies of each for your review.

Mail Preparation items which may be sold in local post offices consist of the following:

Automatic Stamp Affixers; Desk/Mini Scales; Self-Inking Stampers; Padded Mailing Bags; and

Parcel Preparation Materials (e.g., cartons, sealing tape, cushioning material, twine).

They do not represent a line of office products and supplies, but rather they are a limited number of items designed to assist our customers in preparing their mail. They are directed toward those individuals who wish to obtain mailing aids on-the-spot in the course of visiting their post office. Only items listed above are authorized for sale; their availability is not to be advertised outside post offices. In order to ensure strict compliance with this policy, the Senior Assistant Postmaster General, Operations, has sent a memorandum outlining procedural responsibilities to each of the five Regional Postmasters General. Items not on the above list which have previously been offered will not be available after existing inventories are sold. We expect full compliance nationwide.

There are also cost factors involved which benefit the Postal Service and our customers. Last year, for example, Postal Service labor costs for rewrapping damaged parcels were over six million dollars. We began selling cartons, tape, and cushioning materials in the same year. To date this year rewrap costs have been reduced by over 18 percent. We believe the sale of the above items contributes substantially to that 18 percent.

We do not intend to compete with private retail enterprise. Last year our gross revenues in this area amounted to only \$500,000 nationwide. We estimate \$1.7 million gross revenues this fiscal year. This is a relatively small level of sales. We believe that the small businessmen who have complained are more concerned about what other products we might be selling than the current program. However, we have no plans to go beyond the current product line.

While the surplus to operating costs generated by the sale of mail preparation items is attractive, our principal concern is that these items be available to and be used by our customers to improve their mail service. The items are sold at the manufacturer's suggested retail price. In addition, we are instructing field people to add amounts equivalent to state and local sales taxes, where appropriate, so we do not undercut the small businessman.

I trust this information will be of assistance. I realize that Postal Service retailing may concern you and your constituents as well, and I want you to have all the facts. Please contact me if I may be of further assistance.

With best regards, I am  
Sincerely yours,

NORMAN S. HALLIDAY,  
*Assistant Postmaster General,  
Government Relations Department.*

Mr. HENDERSON. Now on page 2 of your statement, you mention that 8 of your gentlemen with you have combined postal experience of over 144 years. Obviously, standing alone, that would be commendable. But let me talk to you a minute about the senior Postmasters General, who are really the top level of management of the Postal Service.

In response to Congressman Daniels' question, you introduced them all, but would you give us the number or the names of the senior Assistant Postmasters General?

Mr. KLASSEN. Yes. Pete Dorsey who has over 25 years of postal experience. Ralph Nicholson has 10 years. Ben Bailar has 2½ years. Darrel Brown has almost 2 years. Carl Ulsaker has 5 years.

Mr. HENDERSON. Thank you very much. I don't want to exclude Dorsey, but if you exclude him, your average drops to 7.4 years, and if you exclude Mr. Nicholson who was rehired in 1972, the average would drop under 3 years. So I think this gives us the true picture of the situation at that level.

Now on the bottom of page 3 of your statement, you say regional Postmasters General have combined working experience totaling 104 years, and this is certainly a dramatic change in the regional personnel policy.

Compare the present record, if you will, with the regional situation of a little over 2 years ago, in June of 1972. Your regional postmasters, then, as I understand it, were in the eastern region: Mr. Jack Pence, who is no longer with the Postal Service, and in the central region, Mr. Clarence Gels, and in the southern region, Mr. Ulsaker, and in New York, Mr. Harold Larson, who is no longer with the Postal Service.

Thus, in June of 1972, the five regional Assistant Postmasters General had a combined experience of a little over 15 years total.

Then on page 4 of your statement, you note that the average tenure of the top 31 senior managers at present is 9 years 6 months. Is it not true, however, that this figure is inflated by the very long tenure of a few of those managers, and they are not all average? Let me put it this way. Are your figures correct for all 31 individuals?

If you took away the seven top ones with over 25 years experience, you are left with a shocking statistic of only 3 years 9 months for the remaining tenure of the rest. Isn't that index of continuity rather discouraging, Mr. Klassen?

Mr. KLASSEN. I have not recapped those in the way you have them, so I can't speak specifically to them.

Mr. HENDERSON. Let me suggest that you might take them and in the light of that evaluation give us your response on it.

Mr. KLASSEN. I would be happy to.

[The following information was subsequently provided:]

## COMPARATIVE TENURE OF POSTAL SERVICE OFFICERS

Postal Service officers with the longest experience average nearly 31 years. There currently are six officers with more than 25 years each, following the Judicial Officer's retirement on June 30 after 27 years. The remaining 24 officers average three and a half years of postal experience.

These figures do not tell that five of the six officers who have combined 185 years of postal experience among them carry extremely important responsibilities directly associated with postal operations. The remaining one has wide-ranging duties as my personal assistant covering all facets of the Postal Service.

Postal management should not be viewed as a monolithic group. Those with long terms who are involved in operations have the unique know-how needed to move the mail. The other officers perform vital functions for the Postal Service as well. However, their responsibilities are more nearly related to similar functions in non-postal fields. Their experience is more transferable.

One of the great benefits of the Postal Reorganization Act has been that long-term postal people have been elevated to top policymaking positions. Viewing the postal management structure without these people results in an inaccurate and incomplete picture. They are with us and will continue to play an essential role in achieving our goals of better mail service with reasonable costs.

Mr. HENDERSON. On page 5, you indicate the Postal Reorganization Act has brought about a change in personnel policy and enabled recruitment of career people for top policymaking jobs. Yet since 1971, surprisingly few Postal Service employees have been elevated to the top headquarters management positions. There has been a total of 13 senior assistant postmasters general since the reorganization, and yet only two career people, Mr. Nicholson and Mr. Dorsey, have been elevated to those positions.

There have been others. Two have been career, Mr. Batrus and Sommerkamp. Both of these top officials held similar top level positions in the old Post Office Department.

So it seems to me that, and certainly I agree the goal of recruiting people for the top management positions from the ranks is a good one, we have not reached the goal we had in mind, and that you have clearly reaffirmed today for the Postal Service.

Mr. DULSKI. The time of the gentleman has expired. Do you wish to respond, Mr. Klassen?

Mr. KLASSEN. I would like to say to Congressman Henderson that we made a concerted effort in the last couple of years to take men from the ranks and develop them for higher level jobs.

We have brought men in from the field who sit with us to develop policy so that the policy will be accepted in the field. I agree with this firmly, and I think the efforts we have made give clear evidence of the fact that we are today recognizing that it is important to the people, important to the Postal Service, that men see the opportunities to grow. I think you make reference to the Regional Postmasters General. In the last 2 years, we have filled all vacancies at that level from men within the ranks.

Mr. HENDERSON. Mr. Chairman, may I ask unanimous consent that the Postmaster General give us a detailed report on the policies that the people from the regions and other areas have participated in so we could get some idea of the percentage and to the extent in major decisions, or policy decisions, in the system that they are participating in?

Mr. DULSKI. I am sure the gentleman would furnish that.

Mr. KLASSEN. Yes.

Mr. DULSKI. Thank you.

[The following information was subsequently furnished:]

There follows a listing of major Postal Service policies and programs which were jointly developed with field, regional, and headquarters management. In some instances, major policy and programs were initiated by field management. In virtually all major program and policy decisions, there is field participation.

MAJOR POLICIES AND PROGRAMS JOINTLY DEVELOPED BY FIELD, REGIONAL, AND HEADQUARTERS MANAGEMENT, JULY 30, 1974

1. Postal Service Standards.
2. Guaranteed Transportation by Air of First-Class Mail.
3. Containerization of Mail Moving by Air.
4. Area Mail Processing.
5. Revision and Updating of Managed Mail Program.
6. Building and Plant Network for General Mail Services.
7. Major Equipment Placement and Procurement.
8. Street Supervision of Carriers.
9. Expedited Preferential Mail Delivery.
10. Central Markup System.
11. Carrier Standards.
12. Minimum Collection Requirements.
13. Automated Vehicle Scheduling.
14. Centralized and Cluster Delivery.
15. Sectional Center Management Area and Associate Office Reorganization.

Mr. DULSKI. Mr. Taylor?

Mr. TAYLOR. Thank you, Mr. Chairman, and Mr. Klassen. I would like to join my colleague, Mr. Henderson, in saying I appreciate the cooperation of Mr. Norm Halliday, and for the rapport that he has established with Members of Congress. I find him to be more cooperative. I think it is certainly a welcome change from what we had previously.

General, I believe that the Postal Service of this Nation has some problems, and I am sure we all recognize this. I think these problems are certainly projected at the local level in the postmasters and in the post offices in the communities across this Nation.

I remember when the new postal reform bill came into being that one of the promises, or one of the goals that was enunciated by then Postmaster General Blount, was that the morale of the postal employees would be lifted. I am of the opinion that this has not occurred in talking to postal employees in my district.

I am wondering, General, if the Postal Service is making an effort to go down to the forks of the creek, so to speak, and to talk with postmasters and ask them for their input and their judgment in matters that relate to the Postal Service.

I have a very distinct feeling that we have a lot of expertise in the postmasters of this Nation that is not being utilized. I have a feeling that maybe the postmasters at the local level do not have the flexibility to cope with the problems that maybe they could cope with, and I could give you several instances that have been related to me, and certainly postmasters are very skeptical about talking to Congressmen, because a few years ago they were told they were not supposed to talk to Congressmen, and I understand this order has been canceled, but I think it was a very bad thing.

I don't believe that any postal employee should be a second-class citizen in this country. I think they have a right to talk to their Congressman.

But I have visited with these people, and most of them are loyal people, loyal to the Postal Service, and they want to do a good job, but I just have a feeling, General, that we are not getting the input

that maybe would be valuable to you and to our Postal Service that would be available if we will just take a little time to go into the local post offices across this Nation, maybe do a little bit—we have a lot of people working for us and surely we have time to do this and say, “What is the problem in Crossroads, Ga.?”

Do you have suggestions as to how we could do a better job? I ran a business all my life, and if I go to the department heads they sometimes have an idea that works.

Mr. KLASSEN. You have touched on vital points and, let me say, first of all, that without the support of our employees, no matter what kind of a concept of management we have, it would never be successful.

The question of morale is a matter of how this is done.

I can tell you from my own personal experience that there is no substitute at all for dealing directly with the people.

For example, last year we visited personally with some 15,000 managers in the field, and thousands and thousands of other employees, customers, and union leaders.

This year Pete Dorsey and Norm Halliday and I visited at least a dozen post offices in the last 2 or 3 weeks for the same reasons you cite, and we find this to be true.

Pete Dorsey mentioned to me a short while ago that a postmaster in a third-class office came up with an idea that is being accepted and used throughout the organization today.

This idea must be accepted as a basic fundamental in dealing with people. Otherwise, we are never going to be successful with it.

We have been trying to establish what problems we have and what morale factors might be.

Pete Dorsey and I met with a Member of Congress only 10 or 12 days ago and I would like to ask him to comment on the comments he made to us about the survey he had conducted in some 31 post offices in his district.

Mr. DORSEY. Congressmen, we find, and one Member told us the other day, that postmasters are generally satisfied in many areas.

There are some dissatisfactions, of course.

We do talk with postmasters. I personally call a number of them on the phone quite frequently.

Mr. TAYLOR. I have a few I would like you to call.

Mr. DORSEY. I will be glad to.

Some of them call me with ideas or complaints or problems.

Having been a postmaster myself for 16 years, I know there is some expertise there and that that is where the action is.

We don't maintain that we have a monopoly on brains in Washington, and we attempt to find out everything that we can that will help us in the field. We do this by personal contact through the regions, districts, and sectional center postmasters, and we do it through the contact with their national organizations, which are extremely helpful.

We meet with them once a month, and they bring up many subjects that are helpful.

We do it in terms of the selection board procedures, whereby we interview at least three people for every postmaster's job. It is amazing the information we get out of those hearings in terms of what needs to be done.

One of the questions I frequently asked the candidates who come before that board is "If you were sitting in my job, what would you do that we are not doing, or what would you stop doing that we are doing?" and we get some very good answers.

Mr. TAYLOR. I appreciate this. I think that it is vital that we do talk to the postmasters, and I believe the postmasters, in my opinion, should have a great degree of flexibility in dealing with problems.

I don't believe that the problems that occur in my district can all be solved in Washington. I think the postmaster at Springfield, Mo., who is a good postmaster, is capable of handling problems. He was a very successful businessman before he became postmaster. And I know of no one who is more dedicated to the Postal Service than he is.

But I do believe that the input of these people—I don't mean this to be critical, I really don't. I am just concerned that you have a feeling that maybe we are not deriving the most information and input from these people that would be helpful to you.

Maybe I am wrong. But I do believe these people have a contribution to make, and I am sure all of their ideas can't be implemented, but I think that probably you could explain to them why, too, in many instances.

Mr. DORSEY. Let me make an observation.

Before reform, the Postal Service was a highly centralized controlled operation. All decisions were made at headquarters.

I could sit here and enumerate some of the most minuscule decisions made at headquarters.

Since postal reform, we have attempted to delegate to the field broad avenues of authority, keeping in mind that that authority has to be exercised within policy restraints.

We have to have a uniform policy on distribution of mail, because it affects other offices unless you have a uniform policy.

But within broad frameworks of policy, we have tried to let postmasters and local supervisors make as many managerial decisions as we can, recognizing that of the 31,000 post offices, no 2 of them are alike.

They each have a different set of circumstances to be confronted, and we hope they can meet them within that policy.

Mr. TAYLOR. On the selection of postmasters, now, you have your Postal Review Board that selects the postmasters.

Mr. DORSEY. Yes, sir.

Mr. TAYLOR. Do they do this on their own, or is this subject to the recommendation of the postmaster at the regional center?

Mr. DORSEY. The Review Boards are of two kinds. We have a National Board that takes care of the top 450 post offices in the country. The other 30,550 are appointed through regional Review Boards.

On a regional Review Board there is a representative of the Civil Service Commission, the American Arbitration Association, a professor from some leading business college, and a postmaster in that area.

They interview the candidates who have been recommended to them by the people who have immediate responsibility for filling that vacancy.

Mr. TAYLOR. Who are they?

Mr. DORSEY. It depends where the post office is. If it is a sectional office, the district manager makes a recommendation to the regional postmaster general.

But all of these recommendations have to go before the regional Review Board. Each candidate is interviewed and is evaluated on the basis of his written record as well as his performance before that Board. The Board then recommends to the Postmaster General one person to be appointed to the job.

Nationally it works the same way, except the regional PMG recommends the appointment of someone to the top 450 offices. Sometimes they may recommend two or three people and say they would be satisfied with any of the people.

Mr. DULSKI. Mr. Dorsey, I have 3 minutes remaining. I will take one of them and ask you this question.

Wasn't it the policy of the Postmaster General that before any comment could be made by Postmasters to the Congress, they would have to clear it with Washington? Did that policy change?

Mr. DORSEY. That was the policy, Mr. Chairman, but that is no longer the policy.

Mr. DULSKI. Mr. Traxler?

Mr. TRAXLER. Thank you, Mr. Chairman.

Mr. Postmaster General, before I get into the high finances of the Department, we of the Congress frequently are called upon by our constituents to act as sort of suggestion boxes, and the last suggestion I received from a constituent concerning the operation of the Department concerned the manner in which your postage stamp booklets are put together.

He had purchased a booklet of stamps and put it in his pocket and those stamps all stuck together. It was his opinion that that was a devious way for the Postal Department to make a profit. He would like you to reinsert the tissue between the stamps.

Mr. KLASSEN. I would agree with him. We don't want to make money that way.

Mr. TRAXLER. I am glad your comment will show on the record, because I will get that back to him, and he will have something to convince him.

Mr. KLASSEN. We would like to know who this is, so we can make sure he is taken care of.

Mr. TRAXLER. It is my State Senator, and his name is Jerome T. Hart.

Let's move for a moment to the finances of the Department.

Last July 9 Mr. Nicholson, in a colloquy with me, talked about some of the expenditures that are anticipated being made in the budget of the Department.

Let me run through a couple of those with you, if I could, please.

He told us there was some \$2 billion worth of commitments in the pipeline that had not as yet been expended for fiscal year 1975, I presume, and additionally there were commitments of about \$1.1 billion for the next year.

I think the \$2 billion may have been for 1974, with \$1.1 billion for 1975, and that would tell me that is a total of about \$3.1 billion for 1974 and 1975.

What I would like to know is how much of this \$3.1 billion is going to be paid out in fiscal year 1975, and will some of it spill over into 1976, and can you give us a breakdown on that?

Can you also tell us for what purposes that will be expended? Is that capital improvements in the area of new construction of buildings, or renovation of buildings, or does that include equipment, or what percentage for equipment?

If you don't have the answer available, if you could—

Mr. DULSKI. Do you have the answer now?

Mr. KLASSEN. I think maybe Mr. Nicholson, who is in charge of that section of the business, might address himself to it.

Mr. TRAXLER. Thank you.

Mr. NICHOLSON. Mr. Traxler, just quickly to recapitulate what you said, there are about \$2 billion of commitments in the pipeline. Those commitments started accumulating in 1971 and 1972. They are not all commitments made in 1974. Our plan calls for new commitments totaling \$1.1 billion in 1975.

Your question then went on as to the nature of these expenditures.

These are all types of capital expenditures. That is, the acquisition of real estate, the construction of buildings, the acquisition of equipment for those new facilities, the purchase of vehicles, the purchase of various types of support materials used at the counters or in post offices, or computers—so it is everything that is capitalized in our treatment of these expenses.

The liquidation of these commitments in 1975 is expected to total \$678 million dollars. The commitment is not liquidated until a product or a project reaches a billing point.

The total expenditures in 1975 are expected to be \$687 million. That is the liquidation out of this pool of commitments—commitments made in prior years, commitments that will be made in 1975—which then would total some \$3 billion. Out of that \$3 billion of commitment, \$678 million will be liquidated.

In 1974, we liquidated some \$644 million of commitments.

Mr. DULSKI. Would the gentleman yield at this point?

Mr. TRAXLER. Yes.

Mr. DULSKI. Are you going to pay for that out of a bond issue. What do you have reference to?

Mr. NICHOLSON. The bond issues, of course, contribute to the availability of cash needed to pay these bills when we reach the liquidation stage.

Mr. DULSKI. How much of the bond issue have you used for the \$678 million?

Mr. NICHOLSON. We have not borrowed a total of \$678 million for capital expenses at this time. We have not yet borrowed it.

Mr. DULSKI. I understood the bond issue was for \$250 million.

Mr. NICHOLSON. That is correct.

Mr. DULSKI. Are you expecting to make more use of the \$10 billion bond authority?

Mr. NICHOLSON. Yes, sir, we do anticipate the need to borrow for capital purposes during fiscal year 1975.

Mr. TRAXLER. How much would that be, please?

Mr. NICHOLSON. We are assuming that it would probably be about \$500 million, but it might be more.

Mr. TRAXLER. There are other expenditures in the near future. You had to borrow \$500 million for 1 year for operating purposes?

Mr. NICHOLSON. That is correct.

Mr. TRAXLER. And that has to be paid back?

Mr. NICHOLSON. Paid back or refinanced.

Mr. TRAXLER. You have your contracts coming up next year, I believe?

Mr. NICHOLSON. That is correct. The new labor contract period starts on July 21.

Mr. DULSKI. Will the gentleman yield?

If you say it has to be refinanced, where are you going to get the money to refinance it? Are you going to have another bond issue?

Mr. NICHOLSON. Mr. Traxler was speaking of a borrowing we made last June 27. That is due next June 30. We must pay the Federal financing bank, or we must extend the period of borrowing. That is what I mean by refinancing.

Mr. DULSKI. You would not go to another issue for that refinancing, would you?

Mr. NICHOLSON. This is a bond issue that we now have. The \$500 million recently borrowed is a bond issue in the sense that we are using it here, and when that amount becomes due, we would either extend the term or repay the amount.

Mr. Dulski, I think it would be important if we mentioned why we borrowed for the 1-year period. At the time we had to borrow, interest rates seemed to us to be at an historically alltime high, so that did not seem to be a reasonable moment in history in which to enter into a long-term obligation.

What we have assumed is that interest rates will go down, so that if and when we refinance a year hence, we hope to get a lower rate. Even if we don't, we are in the right posture for a public service operation like ours. We should not be gambling or speculating in the bond market. If we stay with the market, we don't make money or lose money by staying current in that way.

Mr. TRAXLER. I want to go back for a moment to a few of the obligations I see looming on the horizon. You mentioned your collective bargaining agreements will be terminating and you will be bargaining again next year. Is it reasonable to assume there will be increases there? I know we can't put a dollar-and-cents figure on it, but let's talk in terms of maybe \$750 million to \$1 billion in terms of increases in wages.

Mr. NICHOLSON. Obviously, none of us can anticipate what the future contract might be. I am sure the pressures of the economy on the negotiators from the labor side will be very important factors, and none of us is able to guess what the economy will be like next summer.

Mr. TRAXLER. Sure. We are certain of one thing, though, that the probabilities are that wages are going up.

Mr. NICHOLSON. I can't say that. Maybe Mr. Brown can, or Mr. Klassen.

Mr. TRAXLER. Let me in the seconds remaining run through and recapitulate the figures. I think they are interesting for one point; \$1.1 billion are construction commitments during 1975.

Mr. NICHOLSON. Total investments. Would you like a breakdown?

Mr. TRAXLER. No; \$2 billion for your unliquidated capital expenditures presently in the pipeline, and \$1.3 billion for capital investment. You have a \$0.474 billion deficit projected for 1975.

Mr. NICHOLSON. Yes.

Mr. TRAXLER. You have increased wages, we presume, somewhere in the area of less than a billion dollars. We have interest on the \$500 million borrowing.

Mr. NICHOLSON. Yes.

Mr. TRAXLER. We have the repayment of the \$500 million. This totals up somewhere in the area of \$5 billion, depending on the wage increase. Those could be your additional costs for 1975 and 1976. Have you any thoughts as to how those additional costs could be met?

I think Mr. Nicholson said he saw a 3-cent increase in first-class mail.

Mr. NICHOLSON. I hope I did not say that. I think I was asked could it be 3 cents, and I said I thought it was unlikely.

Mr. TRAXLER. I think it went as high as 5 cents.

Mr. NICHOLSON. Not in the colloquy with me.

Mr. TRAXLER. You didn't go that high. I think we left you at somewhere between 2 and 3. What are your thoughts today?

Mr. NICHOLSON. They have not changed. I think inasmuch as costs seem to be on a path that we cannot control, our obligation is to run an efficient, viable postal service, and if the costs are inescapably there, revenue to cover those costs must be projected.

If I knew the amount of the costs, then we would have a measure of the revenue problem. I believe that in our previous conversation you started with the general assumption that rising prices would cause us to increase rates, and I agreed with you. I certainly feel rates are going to have to parallel the increases in prices.

You asked whether it would be 1 penny, and I said likely, and 2 pennies possible, and 3 pennies, I hoped not, or words to that effect.

There is no escape in the short run from an increase in rates if the cost to the Postal Service increases as it has over the last 18 months to 2 years.

Mr. DULSKI. The time of the gentleman has expired.

The ex officio ranking minority member, Mr. Gross?

Mr. GROSS. Thank you, Mr. Chairman.

Mr. DULSKI. You seem so far away. I usually have you to my immediate right.

Mr. GROSS. I will move up, and out.

[Laughter.]

Mr. GROSS. Mr. Chairman, in connection with the questions asked by Mr. Daniels and Henderson concerning the pay, may I ask you, Mr. Klassen, if a limitation had not been placed in the law that the Postmaster General's salary would be at the Cabinet level, where would it be now?

Mr. KLASSEN. It has been pegged at the Cabinet level.

Mr. GROSS. Where do you think it would be now if it had not been pegged there?

Mr. KLASSEN. I can't speculate on that, sir.

Mr. GROSS. You have been seeking a pay increase, have you not?

Mr. KLASSEN. Well, I think most of us look for added compensation where we are, no matter where we happen to sit. That is one of the incentives that most people have.

Mr. GROSS. Somewhere I have the impression that someone in the Postal Corporation would like to see it go to about \$150,000. Could that be possible?

Mr. KLASSEN. Not without changing the legislation.

Mr. GROSS. You are dead right about that.

Mr. KLASSEN. But we agree—

Mr. GROSS. Had it gone higher than \$60,000, would this contemplate a general raise in the salaries of all other positions above GS-18?

Mr. KLASSEN. I assume, Mr. Gross, that had a new figure such as you are talking about been made available, it naturally would have influenced the subordinate positions.

Mr. GROSS. So that would have increased the deficit we were talking about, and would have made more necessary \$500 million bond issues.

Mr. Klassen, Murray Comarow has been identified in the April 6, 1971 minutes of the Board of Governors, as Vice President of Booz, Allen Public Administration Service, Inc., a position he held, according to information received from the Postal Service, from July 1970 until May 1972.

In April 1972, the Postal Service awarded the negotiated design and technical contract to Booz, Allen Administrative Services for a marketing survey of nonhousehold needs. The Postal Service Department requesting this contract was Consumer Services.

On May 4, 1972, a month after awarding the contract, Murray Comarow joined the Postal Service as Assistant Postmaster General, Office of Postmaster General, and occupied this position, I believe, until July 30, 1972.

On July 31, 1972, Mr. Comarow became Senior Assistant Postmaster General, Consumer Services Group. He held this position until June 28, 1973.

Sometime between April 1972, the date the Booz, Allen contract was awarded, and January 1973, the value of the contract increased from the award figure of \$448,000 to a figure of \$1,409 million.

Now, Mr. Klassen, what is a negotiated contract, and under what conditions may such a contract be awarded?

Mr. KLASSEN. Congressman Gross, in the first place, I want to say that his association with the Postal Service had nothing to do with the contract being awarded to Booz, Allen and Hamilton. I can't speak with respect to the exact details of contract you are referring to. Mr. Cox, can you?

Mr. Cox. I am not familiar with that contract. Would you mind repeating your last question?

Mr. GROSS. What is a negotiated contract, and under what conditions should such a contract be awarded?

Mr. Cox. In Federal procurement parlance, a negotiated contract is any contract that is not awarded following formal advertisement for bids. Frequently, a negotiated contract will reflect a very full measure of price competition.

A negotiated contract is virtually a synonym for a "not formally advertised" contract.

As to the conditions under which a negotiated contract might be awarded, I think there are two points that I should mention in answering your question on that. The first is that, as I believe you

will recall, Mr. Gross, the Postal Reorganization Act renders inapplicable to the exercise of the powers of the Postal Service, Federal laws dealing with public or Federal contracts, property, and other things, except for certain statutes that are carried forward and are specifically prescribed.

By and large, the Federal contracting statutes, such as the Federal Property and Administrative Services Act, are not applicable to the Postal Services, and consequently, the requirement of statutory law that we procure by formal advertising, unless conditions exist, does not as a matter of statute, apply to the Postal Service.

However, as a matter of our own management's judgment on how to conduct these affairs, we have adopted a set of regulations that are set forth in quite a bulky document called the Postal Contracting Manual, which mostly follows the procurement procedures that are conventional as amongst the other Government agencies. In the main, we pretty well track the same pattern of procurement practice followed by other Government agencies.

Mr. GROSS. Thank you, sir.

Mr. Klassen, as an officer of Booz, Allen, was Mr. Comarow involved in the negotiation of this contract?

Mr. KLASSEN. Congressman Gross, I can't speak specifically to these things. I can tell you that as an officer of the Postal Service, he would not have been dealing with Booz, Allen and Hamilton.

Mr. GROSS. You don't know whether as an officer of Booz, Allen, that he had anything to do with the negotiations.

Mr. KLASSEN. I would have to examine this and submit it for the record. I can't tell you, Mr. Gross.

Mr. GROSS. When he left Booz, Allen to join the Postal Service, did he receive any further payment from his former employer?

Mr. KLASSEN. I am sure he didn't.

Mr. GROSS. You are certain of that?

Mr. KLASSEN. Well, I would assume not.

Mr. GROSS. During the period that Mr. Comarow served, the activity which initially established a requirement for the Booz, Allen contract, was he in any way involved in or responsible for the escalation of the cost of that contract from \$448,000 to its eventual figure of \$1,409,000?

Mr. KLASSEN. That is an astronomical change that I can't address myself to, unfortunately. I will have to find out for you.

Mr. GROSS. That is what interests me, Mr. Klassen. Is this astronomical increase, to use your word, in this contract—what is the procedure for increasing the value of such a contract, and why, if you know, was it increased?

Mr. Cox. I think perhaps, sir, we should give you an answer for the record if that is acceptable to you.

Mr. GROSS. It will have to be, I guess, if you don't know, but I would hope this matter would be pursued by the Service, and the report made to this committee, yes.

[The following information was subsequently provided:]

The Postal Reorganization Act required the Postal Service to study, evaluate and recommend necessary changes to the existing mail classification structure and Private Express Statutes within two years of its pertinent sections becoming effective. In November, 1971, Postal Service management decided to contract

for major studies to gather customer and business information to support the internal working groups conducting these projects.

On January 20, 1972, the Postal Service issued Requests for Proposals for a major market research study of Non-Household customers. This study, in conjunction with others, would insure that any recommended classification changes would be consistent with customer service and product requirements.

The consulting firm of Booz, Allen and Hamilton submitted a proposal for the Non-Household study. Mr. Murray Comarow was a Booz, Allen Vice President at the time these proposals were submitted to the Postal Service.

Four proposals submitted for the Non-Household study were evaluated by a Technical Evaluation Committee. Proposals were rated in terms of general quality and response; organization, personnel and facilities available; and soundness of the technical approach proposed. Pricing proposals were evaluated only after the technical review was completed.

On March 23, 1972, award of the contract was recommended to Booz, Allen and Hamilton which made the lowest priced technically qualified offer for the study. The Deputy Postmaster General approved the award recommendation on March 27, 1972.

As the proposed price exceeded \$100,000, the Office of Procurement awarded a letter contract to the firm pending completion of a Defense Contract Audit Agency review. This letter contract allowed the study to begin under a cost ceiling not to exceed 40 percent of the quoted award price. Under postal procurement procedures, the overall contract price is negotiated after the DCAA Audit of the proposal and a final definitized contract is then awarded after these negotiations. Booz, Allen and Hamilton was awarded a letter contract on April 26, 1972, in the amount of \$448,537, based on their original cost proposal of \$1,252,000.

On May 4, 1972, Mr. Comarow joined the Postal Service as Assistant Postmaster General for Policy Matters.

In June 1972, DCAA completed the contractor pricing audit. The Postal Service held negotiations with the contractor to arrive at a final contract price. The Scope of Work for the Non-Household study had expanded since publication of the original Request for Proposals due to further definition of the information requirements for this study. The final negotiated price required the approval of the Assistant Postmaster General for Policy Matters prior to award of the final, definitized contract.

By a 16 June memo to the Deputy Postmaster General, Mr. Comarow disqualified himself from this evaluation on the basis of his prior association with Booz, Allen. On this same date the Deputy Postmaster General requested that Mr. James Hargrove, former Senior Assistant Postmaster General for Support, conduct an evaluation. On June 22, Mr. Hargrove reported to Mr. Hayden that the contract was necessary and that the price increase was reasonable and justified. Mr. Hargrove's report stated in part:

"The increased cost of the June revision results from a more definitive formulation of the scope of work required and a resulting change in technique and the magnitude of work. The novelty of this first Postal Service effort in market research and the fact that no foundational data base exists contributed to the increase in work scope as requirements were developed jointly by the Postal Service and the contractors. The increase in cost is not due to increased unit costs except where personnel competency has been necessarily raised as the complexity of the scope of work has increased. I find the increase in cost to be justified."

Mr. Hargrove recommended Mr. Hayden's approval of the contract. The final definitized contract was signed on June 23, 1972 in the amount of \$1,409,299, an increase of 14% over the proposal based on the original work statement.

There was no subsequent cost growth on the contract. Mr. Comarow was not placed in charge of the Customer Services Group until 29 June, 1972.

Mr. KLASSEN. Unfortunately, Mr. Gross, the announced purpose of this session had to do with the continuity of management, and we weren't aware that this would be a subject of interest today. Otherwise, we would have been better prepared for it.

Mr. GROSS. I assume I have exhausted my time, Mr. Chairman. I have other questions.

Mr. DULSKI. You may continue, if you wish. You have another minute and a half, Mr. Gross.

Mr. GROSS. Mr. Klassen, you and your assistants have said that the bulk mail system is on target timewise and costwise. Is that situation still true?

Mr. DORSEY. Mr. Gross, the last reading I have is that we are still on target as far as the budget is concerned. During the past several months, as I have said several times before other subcommittees of this committee, we have been experiencing a number of strikes by people who are constructing these facilities and it may well be that we will suffer some slippage.

Mr. GROSS. Let's take a look at Secaucus. When was it scheduled to be on line and in operation?

Mr. DORSEY. I believe it was originally scheduled for some time last year, and it has not met the schedule. But Secaucus is not one of the original bulk mail facilities. It was originally designed as a plant to be used by the New York Post Office, and it was subsequently decided to incorporate it into the bulk system, and that has created slippage in its completion date.

Mr. GROSS. When will it be on line and in full operation?

Mr. DORSEY. The foreign side is totally operative. Within the past week or so, we think we have corrected the mechanical deficiencies that we had on the domestic side, but we want to try some more tests. We are still having about a 10-percent error rate in the mechanical equipment in that we introduce mail into it and 10 percent of the time it does not come out to the sortation that the operator keys it to.

These are mechanical problems, as you would expect in starting up a highly mechanized new plant. We would hope we would have this resolved before fall and begin to phase the thing in full operation.

Mr. GROSS. Thank you, Mr. Chairman.

Mr. DULSKI. Mr. Wilson, we are pleased to have you here with us this morning.

Mr. Wilson?

Mr. WILSON. Thank you, Mr. Chairman.

First, Mr. Dorsey, in relationship to the question Mr. Gross just asked you, I think it is inappropriate for you to mislead this committee in believing that there is not a delay in the bulk mail facilities construction schedule.

As far as I have been able to determine during my subcommittee hearings, every one of the plant constructions are off-target.

Mr. DORSEY. I certainly don't mean to mislead the committee, sir. Our target—

Mr. WILSON. You have changed your target.

Mr. DORSEY. Yes, we have had to because of the strikes. We had suffered over 300 days of lost work because of strikes against the contractors.

Mr. WILSON. Are you going to continually change targets as you get behind?

Mr. DORSEY. If we have to, but we have a target now that says the last one should be completed in October 1975. We still have five or six that are suffering severe delays because of strikes by construction unions.

Mr. WILSON. I think what is very disturbing to the Congress and the people is the inconsistency between your press releases and the facts. The Postal Service continues to give us a rosy picture, yet if

they would be more frank with the facts, I think they would get more sympathy from the Congress and the public. But we continue to get the impression that we are being misled all down the road, and I think this is a bad situation.

Mr. DORSEY. I must apologize, Mr. Wilson, if we gave that impression. It is not our intent. As I said in response to Mr. Gross' question, the budget appears to be satisfactory. The original \$950 million appears to be enough. We have had slippages in construction, and we have had to reschedule some of the completion dates, and I may have to do it again tomorrow.

Mr. WILSON. I now have some questions about the Board of Governors that concern me.

As you know, Mr. Klassen, I have introduced legislation to abolish the Board of Governors. I think the Board is completely unnecessary. I would be interested in knowing what you conceive to be the role of the Board of Governors. You indicated to Mr. Daniels that they appoint the Postmaster General, and Deputy Postmaster General, yet they haven't appointed a Deputy Postmaster General for over a year now.

Mr. KLASSEN. Their responsibility is very much like that of the board of directors of any organization. They review and establish policy. They review the kind of capital programs we might have. They review our budgets to see whether or not they make good economic sense and whether or not they are intended to provide service to the American people, the service they expect.

Mr. WILSON. Can you give any specific examples of policies or programs that have been initiated or pursued by the Board?

Mr. KLASSEN. Initiated or pursued by the Board?

Mr. WILSON. Yes, any policies.

Mr. KLASSEN. I think for the most part the policies that we are operating under today are policies that were jointly developed with the Board. For example, take the matter of finances. They were reviewed precisely with the Board, as we have done with respect to our economic situation with Members of the Congress, and from that, we concluded the action that is going to be taken.

Mr. WILSON. Actually, they don't really do anything, do they?  
[Laughter.]

Mr. KLASSEN. I assume you will ask them that question.

Mr. WILSON. Oh, yes.

Mr. KLASSEN. I disagree with that strongly.

Mr. WILSON. After reviewing the minutes of the Board of Governors' meetings, it seems none of the major problems the Postal Service has faced is discussed in the minutes. At a meeting of any board, don't they usually include what has been discussed at the meeting? Specifically, the strike earlier this year at Secaucus, there is no mention of it in the Board meetings; the question concerning the feasibility of the bulk mail system and the success or unsuccess of the Cincinnati project. None of these matters are included in any of the Board meetings.

Mr. KLASSEN. Mr. Wilson, in reviewing the actions that we propose to take before the Board, if we thought that there was something that wasn't practical and sensible, we wouldn't take it there. If we do take something there that is not acceptable to the Board, we withdraw it

and present it another time. That may not necessarily appear in the minutes.

Mr. WILSON. Did they ever get around to appointing a Deputy Postmaster General?

Mr. KLASSEN. Let me refer to the policy we have been pursuing that we discussed earlier today, and I personally subscribe to this policy. I said earlier today that I hope a letter carrier or a clerk will become Postmaster General.

Mr. WILSON. My God, we are not going to wait that long; are we? [Laughter.]

Mr. WILSON. I hope so, too. Mr. Klassen, but the job has been vacant since Mr. Hayden resigned or retired, or whatever he did. I know he passed away in the meantime, but he got paid for a year for not doing anything, though.

Mr. KLASSEN. It is the Board's position that the next Deputy Postmaster General should come from within the organization.

Mr. WILSON. I think that is good.

Mr. KLASSEN. This has been discussed with the Board many, many times. I trust that the board will take this action sometime reasonably soon.

Mr. WILSON. Another thing that has concerned me is the way top officers are taken care of even though they haven't done a particularly notable job. The immediate one that comes into mind is your old friend, Mr. Eidson, the infamous Westinghouse job evaluation program. Is Mr. Eidson still with you?

Mr. KLASSEN. Bob Eidson is still with us.

Mr. WILSON. He is making more money now than he did when he handled that job evaluation program.

Mr. KLASSEN. I am not sure of that.

Mr. WILSON. About 3,000 or 3,600 dollars a year more.

Mr. KLASSEN. Let me tell you that while we may have disagreement on the job evaluation program, nevertheless, it is a fundamental concept of setting salaries for people and it is generally accepted in virtually all organizations.

Bob Eidson is effective today in helping us to establish new productivity schedules and helping us in analyzing the methods we might use in helping us to do two things, to reduce our costs, and to give better service. He has a great deal of background in that area, and has a very clear understanding of the Postal Service problems today as a result of his experience on job evaluation, and I think he is making a real contribution.

Mr. WILSON. Well, I hope he is, Mr. Klassen.

Now, to Mr. Henry Albert. He was relieved as Assistant Postmaster General of Government Relations when Mr. Halliday came in. I must say that the Government relations improved considerably after Mr. Halliday came in. However, Mr. Albert apparently got a better job, after he was relieved, as a customer service representative in the Northeast region. He has only picked up a \$1,000 a year more in the new job—nevertheless, he has received higher pay, too, since being relieved from the Postal Service job to take another Postal Service job.

I could name others, too, that get paid for doing nothing. There seems to be a pattern, and this is the very type of thing that has made the Postal Service so vulnerable. There are some good things that I

think you are doing, however, there are these other things that are happening that are just demoralizing the Service, I think, and causing difficult problems for the Service.

Mr. DULSKI. Thank you, Mr. Wilson.

Mr. Udall? You have 5 minutes.

Mr. UDALL. Thank you, Mr. Chairman.

I want to commend you and the staff for calling these hearings and putting them together with such an excellent set of briefing papers for the members.

When we passed this act 4 years ago, it was contemplated that the Congress would be very much in the picture with respect to oversight investigation and not be spending as much time as we used to on annual pay fights and rate bills. So this set of hearings is in this tradition, and I think it is very useful.

If Mr. Klassen is still talking to me after yesterday and I might ask him one or two questions.

There is an old story about a jury in a little town that convicted a man of murder. Asked by the judge if he had anything to say, the defendant said: "Yes, I do. Ladies and gentlemen of the jury, you sure have done tore your britches with me." [Laughter.]

Mr. UDALL. Let me talk about the Directors in the time that I have.

Under the Postal Reform Act, the President both appoints Directors and fills vacancies in the Board of Directors. As you know, this has been one of the areas of greatest disappointment to me.

Let me ask you about the last few Directors that have been appointed while you were Postmaster General. Have you been consulted as to possible appointees; have you dealt with the White House on this, or did they simply act without consulting with you?

Mr. KLASSEN. I was not consulted, no, sir.

Mr. UDALL. Have you ever been consulted as long as you have been there with regard to appointments to the Board of Directors?

Mr. KLASSEN. No, I have not.

Mr. UDALL. One of the disturbing things to me has been the failure to reach out and get different points of view and different backgrounds on the Board of Directors. One of the recent appointees was a dentist in Honolulu, Hawaii. I am sure the White House went through the yellow pages or phone book to find out who best could fill the need, understand the problems, and work with mail carriers and letter carriers. It turned out that this dentist was a very close personal friend and ally of one of the members of the committee on the other side of the Capitol. I am heartened to know they are trying to keep your administration out of politics and that the Postal Service has not been participating in these kinds of political games, because I view them seriously and as a backward step—

Mr. KLASSEN. Before we leave that, may I say I read about that man's appointment in the newspapers, as everybody else did.

Mr. UDALL. When we get around to writing changes in the law, I want to take a look at what we can do to broaden the frame of reference of Board members.

We took congressional politics out of the Postal Service and we bring in through the back door another kind that is just as bad if not worse.

How often do the Board members meet?

Mr. KLASSEN. Three or four or five or six hours, depending on the circumstances.

Mr. UDALL. How many meetings have you had so far this year?

Mr. COX. We have had six so far this year.

Mr. UDALL. Who calls the meetings?

Mr. KLASSEN. The Chairman does. We have a standing date when the Board normally meets. That can be changed by agreement of the Board members.

Mr. UDALL. Can you think of a good example of a policy or decision since you have been PMG where you and your staff people recommend one course of action which the directors refused to accept and instead mandated another course of action?

Mr. KLASSEN. I am at a loss at the moment to give you a concrete example of the type you are looking for. We have discussed many things with the Board that have not appeared in the minutes. Perhaps from their point of view, we may not have had enough facts to justify what we are talking about, and we may come back to it later on.

Mr. UDALL. Do you think you might be able to provide an answer or two to put in the record for me?

Mr. KLASSEN. I will ask the Secretary of the Board to help me with that.

Mr. UDALL. I am reminded of the story about Eisenhower in the 1960 campaign when he asked, "Can you give me an example of an initiative," and I said, "If you give me a week, I might think of one."

I will give you a week, and maybe you can think of an example of that.

Can you think of an initiative that came from the Board during your term as Postmaster General?

Mr. KLASSEN. Yes, a very recent one had to do with the use of airmail. The Board members asked us what recommendations we had for the elimination of airmail as such, that they felt it was unfair to the consuming public to be using airmail if this did not provide better service over and above what the first-class mail ordinarily gets, and we have an obligation to come back and report to them the results of our studies.

Mr. UDALL. Did you hear the name of Carl Ulsaker this morning?

Mr. KLASSEN. Yes. Carl Ulsaker came to the Postal Service in 1969, and later was appointed as the Regional Postmaster General for the southern region, and about 3 or 4 weeks ago we moved him from Memphis to Washington to help us try to concentrate on eliminating costs that we thought might be unnecessary to preserve the economy of the Postal Service to the degree that will help us in the future.

Mr. UDALL. Will you consider this a promotion? Has he done such an outstanding job in the southern region that you are promoting him?

Mr. KLASSEN. Yes.

Mr. UDALL. The reason my eyeballs went out is that I remember you or Mr. Blount being outraged about the way Mr. Ulsaker was advertising himself all over the south and spending thousands of dollars turning out newspapers with pictures of Ulsaker meeting with people in Birmingham, Houston, and places in between. I was, therefore, a little shocked to hear today that he had been promoted.

Mr. GROSS. Would the gentleman yield? Is this the same Ulsaker who occupied one of the most expensive suites of offices in Memphis?

Mr. UDALL. The same.

Mr. GROSS. And leased and had at his disposal four Mercury automobiles?

Mr. UDALL. Air-conditioned, the very same. And he has been brought in here at \$55,000 a year, a \$5,000 increase, I understand.

Mr. GROSS. Was this the Ulsaker who was hired to implement a service-wide cost-reduction program?

Mr. UDALL. That program did not apply to his salary and limousines, apparently. In fairness, Mr. Klassen, go ahead.

Mr. KLASSEN. As to the pamphlet you referred to, which you and I discussed, I must agree it was in bad taste. I think Mr. Ulsaker has learned a great deal about that sort of thing since then. I think he has matured to the point where I would like to submit for the record my reasons for having appointed him to this job, and also to answer some of the allegations that have been made that I take exception to.

[The following information was subsequently submitted:]

In mid-June I announced the appointment of Carl C. Ulsaker to be Senior Assistant Postmaster General for Manpower and Cost Control with responsibility to manage cost reduction programs in the postal service. Ulsaker had been Regional Postmaster General, Southern Region, since July 1st, 1971. Because of some newspaper stories alleging Ulsaker's preference for operating in "high style," some members of Congress have questioned whether or not he possesses the requisite degree of cost consciousness for this important new post. I wish briefly to address the facts concerning the news stories, give you a summary of Ulsaker's performance record as RPMG for three years, and define his initial program for efficiency improvement on a national scale.

General press criticism of Ulsaker's spending habits appear to derive principally from three different subjects reported at various times in the Memphis newspaper: (1) the locating of Southern Region Headquarters in the so called "plush" Clark Towers high rise office building, (2) the acquisition of several "luxury-type" sedans for him and other officials of the region, (3) the wasting of taxpayers money to hold a two-day conference on May 14 and 15 involving 100 field managers at a downtown Memphis hotel when, in the opinion of the reporter, the business should have been conducted by phone.

First, let me say that the Southern Regional Postmaster General is accountable to me for managing a roughly two billion dollar annual business involving postal activities over eleven states, employing 125,000 people, and serving about 45 million customers. The job was established July 1971, and a headquarters of 275 people was authorized as a staff. At the same time a Regional Chief Inspector's Office was created with a complement of 65 people. The existing Memphis Regional Office was located in the old Post Office Building and supervised a three-state area with a staff of 150. One of Ulsaker's first tasks was to find office space for 350 people, since the old space was hopelessly inadequate. Floor space requirements were estimated based on the approved GSA/Post Office Department standards. Needed was 96,800 gross square feet (82,000 net usable square feet after elevators, rest rooms, mechanical rooms, etc.) of contiguous office space in a building of reasonable quality, suitably located for access by employees and convenient to the transportation system—local and national.

Only two firms offered a practical leasing possibility and the proposal of Clark Towers was by far the best. With the approval of the Postmaster General, a five-year lease was negotiated for \$4.60 per square foot. Included are parking in the building garage for 250 cars and 10,000 additional square feet of non-air conditioned storage space. The offices are closer to the homes of 66% of the employees than were the old downtown offices. Clark Towers is a first-class, well appointed office building. Its management has provided the regional offices with attractively decorated space, but it has all been included as part of the contract *with no extra costs*. \$4.60 per square foot is an extremely favorable price for office space in any suitable building in any large American city that I know. Incidentally, the offices are furnished in the main with equipment salvaged from the old Memphis, Dallas,

and Atlanta regions. Only \$22,000 was spent on new furniture to make up the differences between availability and need. This amount, of course, amortizes over a long period of years.

Regarding the luxury automobiles, on arrival in Memphis Ulsaker found the old headquarters supported by one GSA sedan, non-air-conditioned. According to GSA and USPS standards, he was entitled to air-conditioned transportation for his officials. GSA had none immediately available. Ulsaker had authority from the PMG to purchase up to ten sedans for administrative support. He decided to lease four until experience could determine his actual needs. It was evident that with the increased stream of visitors expected for this new headquarters compared to the old and the increased need to support management conferences, as well as a larger staff, there would be an increased requirement for vehicles. Following properly conducted competitive bidding procedures, he contracted for four standard Mercury Marquis, medium sized, medium priced sedans. After six months' experience, he determined a need for three, turned in one, and purchased the others at a price reduced because of the time under lease. Estimating turn-in after four years, the cost to the taxpayer for these three sedans is \$488 per car per year less than the usual arrangements to use GSA furnished vehicles. To get a better car for less money appears to me to be sound management. Incidentally, these cars are not for the personal and exclusive use of the RPMG or other senior officials. They support official needs of the entire headquarters and are driven by the officials themselves or by a clerk on a per-trip basis if a driver is necessary. There are no "liveried chauffeurs," as one news article alleged.

In recent months two Matadors have been added to support the regional Real Estate and Buildings activity which did not exist two years ago. These were procured under a fleet leasing agreement, since GSA no longer honors any new requirement to supply vehicles on a full-time basis to the U.S. Postal Service.

Regarding alleged waste of funds on a two-day conference in May, I might ask the reporter how he would run a big business over eleven States without an occasional conference of key area managers. The conference in question assembled the sixteen District Managers and sixty-six Sectional Center Managers to discuss the serious question of coping with mounting costs in FY 75. There were no parties and no entertainment. Formal sessions were held from 8:30 a.m. until 5:30 p.m. and after dinner on the first day; then from 8:30 a.m. until 3:00 p.m. on the second day. As a result of this conference, Ulsaker got his field managers committed to an increase of 1.5% in planned productivity for FY 75. They also worked out ways of doing this without adversely affecting service.

The efficiency improvement teams organized as a result of this conference have been in the large post offices in the Southern Region nearly two months now, and the outlook is that they will come up with improvements in operating procedures that will cut costs this year by an estimated \$25 million more than the Southern Region had originally budgeted for. If a few thousand dollars spent on a management conference can result in a multi-million dollar reduction in costs, I would say it was a very sound management action, and one characteristic of Ulsaker's performance in five years as a senior postal service manager.

Let me give you a quick summary of his accomplishments as regional postmaster general. In three years under his management the Southern Region improved productivity nearly 9%, an average of almost 3% per year. It achieved \$180 million in measurable cost reduction. In the largest areas of productivity measurement—mail processing and collection and delivery—the region consistently performed at an efficiency level 10% above the postal service average (and the average includes the Southern performance figures).

If the region had performed only as well as the rest of the postal service, it would have cost us an additional 80 to 100 million dollars per year in round numbers. This superior efficiency performance was not at the expense of service. In all areas in which we measure service the Southern Region has consistently performed above or at least equal to the national average. Much of this success I attribute to Ulsaker's ability to plan, organize, direct, and follow through. He has built an effective management team in his region, and it is because of his demonstrated performance that I have brought him to Washington to manage cost reduction on a national basis.

He has been on the new job for two weeks and developed an initial plan for immediate action to cut costs without impacting on service. This involves directing the industrial engineering resources at headquarters, in the regions, and at the local level, in a coordinated campaign of methods improvement to get

the most efficiency from the manpower, machines, transportation, and facilities that we now have. In the past we have had the know how but have lacked the ability to put it to work effectively because our managers get too involved with daily crisis to coordinate the right kind of effort. I look for Ulsaker to give the program the kind of systematic direction, emphasis, and follow-up that it needs. The first effect will be launched next week. It entails the organization and training of ten I.E. teams made up of representatives from Washington, the regions, and the local level. By September 3, these teams will be sent to ten of our large offices. They will assist local management to initiate a computer based manpower scheduling program and some associated industrial engineering applications. They will stay on the job until the new programs are working—estimated as November 30. After Christmas, we will double this effort so as to cover 20 more large offices. In 22 months, we expect to accomplish this in the 100 largest offices and to be realizing a potential savings of more than \$200 million. There are, of course, more things that Ulsaker will be doing to make cost reduction a way of life compatible with service improvement.

Mr. UDALL. We have basically a three- or maybe four-level operation. You have your national headquarters, regional headquarters, and operations in metropolitan areas which move most of the mail.

It is my understanding when the Postal Service came into being, that most of the work and the decisionmaking was going to be done for example in Phoenix, for all of the mail service in that area, and that we would be phasing out and cutting down the Denver regional office. This decentralization would also enable us to cut back employment at the national headquarters.

I remember making a speech praising Red Blount for chopping off a number of regional and national headquarters personnel.

I now find in the staff briefing book that in the last 4 years, the national headquarters personnel has increased 50 percent, a thousand bodies, and that regional headquarters have almost tripled in those 4 years. My question is, am I missing something? Have you shifted policies here?

Mr. KLASSEN. Congressman Udall, first of all we made a determined effort to try to delegate responsibility back to the action point. I think this is borne out in the field.

I am not familiar with your figures, but we have figures here, and I would like to ask Mr. Nicholson to point out what is happening.

Mr. UDALL. I would be interested in hearing what Mr. Nicholson has to say. He is one of the finest men in your organization. You have a number of fine people such as Mr. Cox and Mr. Halliday that I have been in contact with.

Mr. NICHOLSON. The figures you give us are not familiar to me.

Mr. UDALL. The total at headquarters in 1970 was 2,007. The total today is 2,988. Those are the figures I have. There is an asterisk which says because of the change in the method of reporting employment, the figure for 1970 does not correlate exactly with those in 1974, but it is nearly comparable.

Mr. NICHOLSON. I would be, of course, pleased to analyze and see how we can track on your figures. The overall totals I have for headquarters and regional employment today are 7,393.

Mr. UDALL. For both regional and national.

Mr. NICHOLSON. Yes.

Mr. UDALL. How does that compare with 3 or 4 years ago?

Mr. NICHOLSON. In 1972 it was 7,761.

Mr. UDALL. You claim a reduction then?

Mr. NICHOLSON. Yes, sir, there is a reduction of about 400 on a comparable measuring system, and in 1971, the last year of the Post Office Department, it was 8,372. So today it is 7,393, and that is almost exactly 1,000 less than in the last days of the Post Office Department.

Mr. UDALL. Let me narrow that to regional if I may.

[At this point Mr. Daniels assumes the Chair.]

Mr. DANIELS. The time of the gentleman is up, but I will allow this last question.

Mr. UDALL. In that time frame has regional supplement gone down?

Mr. NICHOLSON. Yes, it has, the 15 regions have been reduced to 5. The regional figure that I have happens to be for 1968, when it was 5,954.

Today the regions are 2,119.

Mr. UDALL. My time is up, and I will try to reconcile these figures. I am told the staff got the figures from the appropriations subcommittee. They must be using a different base. Thank you, Mr. Chairman.

Mr. DANIELS. Mr. Postmaster General, if I may go back to my original line of questioning, I want to review the setup of the staff of your organization at the top level of the Postal Service.

In 1970, we had a Postmaster General, a Deputy Postmaster General, a General Counsel, Chief Inspector, and six Assistant Postmasters General. Since then we now come to the year 1974. Your executive branch now consists of yourself, your deputy, 5 Senior Assistant Postmasters General, also the General Counsel, and Chief Inspector, plus 16 Assistant Postmasters General, making a total of 25, an increase of 15 over the earlier period.

Staff has a briefing which indicates that the salary varies in range from a minimum of \$30,000 up to \$52,000. Interspersed in between they vary at different amounts. Can you tell me what was the thinking of the Board of Governors or yourself with regard to the establishment of these salaries?

Why are they not paid at a certain fixed salary, because I believe the duties and responsibilities of the Assistant Postmasters General ought to be similar.

Mr. KLASSEN. Mr. Chairman, first of all, in trying to analyze the organization today, I think you have to take into account the total organization of the previous periods that you are referring to. For example, it was said a moment ago we had 15 regional directors, and we have reduced that substantially. I don't think you can take one period and identify the Assistant Postmasters General with those in a previous period merely because some of the responsibilities may have been the same.

Turning to the question you raised about salaries, salaries may vary by the type of responsibility the individuals have, and also may be influenced by the performance of individuals on those particular jobs.

Mr. DANIELS. When you see one receiving \$30,000 and another \$50,500, a differential of \$20,500, that certainly is a big difference.

Mr. KLASSEN. There is a great difference in their responsibilities.

Mr. DANIELS. I asked you previously to submit a list of the names, and their duties and functions, plus their salaries, and I would appreciate it if you would furnish that as promptly as possible, and while you and your staff are appearing before the committee in the future.

Mr. KLASSEN. Yes.

Mr. DANIELS. Mr. Hinshaw?

Mr. HINSHAW. Mr. Klassen, I want to go back to continuity. In the period of 1969 to 1973, there were persons brought into your top level management, 33 in my schedule here. There were 7 in 1969 from the Postal Service, and you still employ six, and that indicates that has been a retention of some 86 percent.

From the other Government agencies there were six hired, five still employed, and that is 83 percent. Before I go to the next figure, I want to skip to a different type of category. Of those 7 that were brought into your top management, that is, 13 percent of all those hired in the time frame and the percentage of those hired from, or brought into the Post Office Department, is 22 percent.

From other governmental agencies, 12 percent of all those brought into your top management was 6 percent. Now we go to private industry. Between the years 1969 to 1973, there were 38 persons hired, and there are 22 still employed, and that is the 72 percent of the total of your top management, and yet those brought in from private industry amount only to 58 percent.

Now my question is not related directly to those statistics but your employment contracts. Is my understanding correct that the top management personnel have contracts which permit them, if they are fired for other than dereliction of duties or malfeasance or neglect, to leave the Postal Service, and still retain their salaries?

Mr. KLASSEN. There are a very limited number of contracts.

Mr. HINSHAW. Just answer yes or no. Is that true of you?

Mr. KLASSEN. Yes, it is true of me.

Mr. HINSHAW. How many others have those kinds of contracts?

Mr. KLASSEN. I would think maybe two or three.

Mr. HINSHAW. Would you submit for the record the details? I remind you that we have information from your files as to the numbers of persons who have those kinds of contracts. Would you submit for the record why those contracts were entered into?

Mr. KLASSEN. I would be very happy to.

Mr. HINSHAW. All right. Now is it possible for a person to leave that has one of those kinds of contracts under the conditions of the contract and go to work for somebody else and if he goes to work for a lesser salary, have his Postal Service salary reduced only by the amount of his new salary?

Mr. KLASSEN. I am afraid I don't understand your question.

Mr. HINSHAW. I will put it into specific terms to you. If you were to leave the Postal Service because you were fired and for other than malfeasance, neglect, or dereliction of duties, could you go to work for another organization and get your salary reduced only by the lesser salary?

Mr. KLASSEN. If I were to resign, I would get no salary from the Postal Service.

Mr. HINSHAW. I did not ask you that. If you were fired, then could you go to work for some other organization, and have a lesser salary and get the differences between your then salary and your present salary as Postmaster?

Mr. KLASSEN. Mr. Cox will try to answer that.

Mr. HINSHAW. Mr. Klassen, do you not know the terms of your contract?

Mr. KLASSEN. Sure, I do.

Mr. HINSHAW. Then, will you please answer the question?

Mr. KLASSEN. If I went to work for somebody else, as far as I know, pay from the Postal Service would stop.

Mr. HINSHAW. I will defer to whoever you were going to defer to.

Mr. COX. Under Mr. Klassen's contract, if he were to leave not of his own initiative, but on the initiative of the Governors of the Postal Service, he would be entitled to continue to receive his contract rate of payment until the expiration of the contract.

Mr. HINSHAW. Does this come as a surprise and shock to you?

Mr. KLASSEN. I get surprises and shocks every day.

Mr. HINSHAW. Is that a shock to you?

Mr. KLASSEN. No.

Mr. HINSHAW. If he were to take a job at a lesser rate, would he get the difference?

Mr. COX. So far as the terms of the contract go, he would be entitled to receive \$60,000 a year for the balance of his term.

Mr. HINSHAW. So the answer is yes.

Mr. COX. The answer would be no, I think. There would be no diminution of that amount.

Mr. HINSHAW. If he were to go to work for a new organization at \$40,000 a year, would he get \$40,000 from the new organization and \$20,000 from the Postal Service?

Mr. COX. No, sir.

Mr. HINSHAW. Would he not?

Mr. COX. No, sir.

Mr. HINSHAW. He gets \$60,000 in addition?

Mr. COX. Yes.

Mr. HINSHAW. In addition to his \$40,000 from the other organization?

Mr. COX. Insofar as the terms of his contract are concerned, he is entitled to that.

Mr. HINSHAW. Mr. Klassen, does that surprise or shock you?

Mr. KLASSEN. I hadn't even thought of it, Mr. Hinshaw.

Mr. HINSHAW. Weren't you aware of the terms of the contract when you signed it?

Mr. KLASSEN. Sure, I was.

Mr. HINSHAW. Then it doesn't surprise you at all. Do you know of any other Federal Government organization where those kinds of contracts obtain?

Mr. KLASSEN. No, sir, I do not.

Mr. HINSHAW. Would you find it surprising if I were to tell you that my research has turned up no other organization that can do that?

Mr. KLASSEN. If you say so, I will accept your word, until I find out otherwise.

Mr. HINSHAW. Would you believe that you could put forth a good reason why the Postal Service should be the single exception for these kinds of employment contracts?

Mr. KLASSEN. Well, Mr. Hinshaw, you have an advantage that I don't have. You have analyzed what else takes place in government.

Mr. HINSHAW. Mr. Klassen, that kind of attitude and statement from you shocks me, because you are a part of government. I would

assume that you would analyze what also goes on in government in comparable areas.

Mr. KLASSEN. I have been so busy trying to move the mail, I haven't had time to find out what other Government departments might do, Mr. Hinshaw.

Mr. HINSHAW. If your research, and I will ask you if you will do the research to find any other organization that has the ability to set contracts like the Postal Service?

Mr. KLASSEN. We will try that, yes.

Mr. HINSHAW. If you find you are the single exception, would you then give back to this committee your recommendation as to whether or not we ought to make the Postal Service conform to all other organizations, or keep this single exception?

Mr. KLASSEN. I will hold that decision in judgment until I get the facts.

Mr. HINSHAW. I ask unanimous consent that the committee direct the Postmaster General to provide us with a recommendation, and that he obtain the facts on which he can make the recommendation as quickly as possible.

Mr. DANIELS. If there is no objection, so ordered. Hearing no objection, it is so ordered.

[The following information was subsequently supplied:]

U.S. POSTAL SERVICE,  
LAW DEPARTMENT,  
Washington, D.C., August 9, 1974.

HON. THADDEUS J. DULSKI,  
*Chairman, Subcommittee on Investigations, Committee on Post Office and Civil Service, House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: During the July 30, 1974, session of hearings on the continuity of executive management in the United States Postal Service, Congressman Hinshaw requested that we submit for the record further information with respect to the Postal Service's executive employment contracts and a recommendation whether the authority to enter into those contracts should be retained.

Copies of the contracts with Postmaster General Klassen and with Mr. Hayden, Mr. Hargrove, and Mr. Blaisdell were made a part of the record on the hearing of July 31. Copies of all executive employment contracts, as well as certain consultant contracts not involving employment, were furnished to the Committee staff in advance of the hearings.

The Postal Service has exercised its specific statutory authority to hire individuals as executives under employment contracts only in the case of Mr. Klassen, Mr. Hayden (who has resigned and is no longer under contract), Mr. Blaisdell (deceased), Mr. Bailar, Mr. Brown, and Mr. Batrus (who has retired and is no longer under contract). The contracts with Mr. Klassen, Mr. Hayden, and Mr. Blaisdell provide for continuation of salary payments throughout the contract term, whether or not the executive continues in his position, except in the case of death, resignation, or removal for dereliction of duty. The contracts with Mr. Bailar, Mr. Brown, and Mr. Batrus each include the following provision:

"If however, following such removal [for any cause other than malfeasance or neglect or dereliction of duty], he becomes employed on a full-time or substantially full-time basis, the obligation of the Postal Service to continue to make payments at the basic rate of pay shall be reduced by the amount of his compensation for such employment."

The Postal Reorganization Act specifically contemplates the adoption of provisions of this kind in postal executives contracts. Section 1001(c) of title 39 provides that the Postal Service may hire its executives "under employment contracts for periods not in excess of 5 years." The section also states that the Postal Service may remove any executive so hired despite the terms of the contract, subject to the requirement that the executive's removal be effected "without prejudice to his contract rights." The provisions for continuing payment of salary through the contract term are modeled on a widespread executive

compensation practice in the private business community. They have the advantage of giving the employer the option of removing an employee who is not performing satisfactorily but, at the same time, give the employee some measure of financial security.

Executive contracts are not used elsewhere in Government, so far as we have been able to determine. However, the value of the employment contract as a means of attracting top executives to the task of governmental management was commended to Congress in a presidential message over three years ago. The President, acting on a study prepared by the Civil Service Commission, requested legislation to provide that personnel in the proposed "Federal Executive Service," replacing the present supergrade system, be employed under "renewable three-year agreements." Message from the President of the United States Relative to the Establishment of a Federal Executive Service, H.R. Doc. No. 92-41, 92d Cong., 1st Sess. 2 (1971).<sup>1</sup> In addition, at least one other Government-sponsored organization already has found the employment contract an appropriate and beneficial means of compensating its top management. Amtrak, which, like the Postal Service, can pay its executives no more than level I of the Executive Schedule, has entered into employment contracts with six of its principal officers. The Amtrak contracts provide, *inter alia*, for payment of deferred compensation upon termination of an officer's service, by death or otherwise, in an amount not exceeding the maximum annual salary set by law. See March 15, 1974, Report of the Interstate Commerce Commission to the President and the Congress, Amtrak—Effectiveness of the Act, vol. 2, pp. 145-47.

For our own part, the Postal Service believes that the authority provided by 39 U.S.C. § 1001(c) gives the Postal Service a valuable option in attracting the superior leadership that the public rightfully expects to run the nation's complex postal enterprise. The Postal Service has used this authority sparingly in the past and expects to use it sparingly in the future, as Mr. Kappel indicated in his testimony before your Committee on August 1. However, we know of no persuasive reason why the option which the Congress granted the Postal Service in 1970 should be taken away.

Sincerely,

LOUIS A. COX,  
General Counsel.

Mr. HENDERSON. I want to go back to a point Mr. Gross made and first direct a question at Mr. Cox.

Mr. Cox, I have before me the Postal contracting manual.

Mr. Cox. Yes.

Mr. HENDERSON. I might need a refresher course in law school to feel competent to fully analyze it, but could you tell us in your own office, in your general counsel's office, how many attorneys you have who are familiar with this Postal manual, who are experts on it?

Mr. Cox. It would be about eight. A division in my office with about 11 lawyers in it currently handles that and other work.

Mr. HENDERSON. Do you have within the contracting areas lawyers assigned to that function that are not under your direction, or not in your office?

Mr. Cox. I would—

Mr. HENDERSON. Excuse me. What I am trying to get at is, are your contracting personnel lawyers, or do you rely on them otherwise to be familiar with the terms of the manual?

Mr. Cox. We expect the contracting personnel who are not lawyers to be familiar with the manual. Most contracting officers and purchasing agents are not lawyers. They are not associated with my office.

Mr. HENDERSON. So, the eight lawyers you have in your office are the sole legal expertise with regard to Postal contracting?

<sup>1</sup> The current bill embodying the Civil Service Commission's latest proposal for federal executive employment reform, H.R. 16119 (July 25, 1974), does not include the three-year contract proposal. However, we do not understand that the omission of that portion of the earlier proposal reflects any idea that executive contracts would not be advantageous from the perspective of the Government.

Mr. Cox. Well, we also have at each of the regional offices, the five regional offices, a very small legal staff, which are not on my department's payroll. They are rather on the payrolls of the regional Postmasters General, and there would be from three to perhaps a half a dozen lawyers in each region. They get into quite a lot of these contracting problems. So, they also know a good deal about that.

Mr. HENDERSON. A very cursory look at the manual gives me an impression, and I wonder if you would confirm or deny, that with regard to the termination of decisions such as whether to go sole source contract, that if you are familiar with the manual you could find the legal authority here to do anything that you wanted to do.

Mr. Cox. I think the answer would be the same as if one were working under the Armed Services Procurement Regulation or the Federal Procurement Regulations. That bulky Postal Contracting Manual is copied in large part from the Armed Services Procurement Regulation, with adjustments here and there.

Mr. HENDERSON. With regard to the Chicago Bulk Mail Center, I understand the initial contract award was \$1,979,000, and subsequently it was increased to \$5,326,000, almost a 300-percent increase. Would you want to speak to the causes for that, or how it was increased?

Mr. DORSEY. Mr. Henderson, I have no personal knowledge. I would have to check and submit the information for the record, sir. I do not have detailed knowledge of the contracts with the 21 bulk facilities. We will be glad to supply that for the record.

Mr. HENDERSON. If you will, I think I have a continued interest in it.

[The information follows:]

#### CONTRACT REM 184-70—CHICAGO BULK MAIL CENTER

##### AWARD BACKGROUND

Contract REM 184-70 is a negotiated contract awarded to A. T. Kearney & Company, Inc. on a sole source basis. A. T. Kearney and Lester B. Knight & Associates, Inc. were initially selected from among many firms to engage in a competitive design effort for the New York Bulk and Foreign Mail Facility. Selection of these two firms was on the basis of their capability and experience pertaining to: Industrial engineering; plant layout; materials handling; building and mechanization design; manpower planning; facility planning; site investigation; and long range facility planning.

The L. B. Knight approach was eventually selected; Knight was awarded the entire New York design effort and Kearney's contract was terminated. Soon afterward the design contract for Chicago was awarded to Kearney. The rationale supporting this award without competition is:

1. The original investigation of qualified firms had yielded Knight and Kearney as sufficiently qualified in all the aforementioned fields—and Knight was occupied with New York.

2. The work Kearney had performed in competition with Knight for the New York design was very satisfactory and adequately demonstrated that Kearney was indeed a capable firm for such an undertaking. Additionally, Kearney then had the experience gained in their effort on New York.

The major output of USPS contract REM 184-70 was accomplished by Kaiser Engineers (KE), sub-contractor to A. T. Kearney. KE is the Architect-Engineering firm that developed the detailed, bid-packages of building and mechanization drawings and specifications for Chicago BMC and the mechanization drawings and specifications for the five medium module BMC's. They produced these outputs under the guidance of A. T. Kearney, who developed the approved systems, site arrangement, and building concepts.

This contract was completed in mid-1973. A summary of activity under this contract is attached.

## CHRONOLOGICAL SUMMARY OF ACTIONS UNDER CONTRACT REM-184-70

A. T. Kearney &amp; Company, Inc.

Contract #REM-184-70.

Contract Awarded by the Post Office Department, Bureau of Research and Engineering.

Period of Performance: April 13, 1970 to July 31, 1973 (including 27 modifications).

*Final contract amount*

|                     |             |
|---------------------|-------------|
| Estimated cost..... | \$5,252,381 |
| Fixed fee.....      | 124,342     |
| Total .....         | 5,376,723   |

*Original contract*

On April 13, 1970, the Post Office Department awarded a letter contract to the A. T. Kearney & Co., Inc., for the development of new and improved engineering concepts and plans for a mechanical bulk mail processing system in the Chicago Metropolitan Area, including the preparation of the specifications for the facility and the mechanization to be used for bulk mail processing. The letter contract of April 13, 1970, was definitized by contract on June 4, 1970. This contract was of the Cost-Plus-Fixed-Fee, Research & Development type in the amount of:

|                     |             |
|---------------------|-------------|
| Estimated cost..... | \$1,926,027 |
| Fixed fee.....      | 53,103      |
| Total .....         | 1,979,130   |

The period of performance covered by this contract extended from April 13, 1970 to June 13, 1971.

*Contract modification No. 1.*—Effective date: 7/17/70.

*Cost of modification*

|                     |          |
|---------------------|----------|
| Estimated cost..... | \$25,833 |
| Fixed fee.....      | 783      |
| Total cost.....     | 26,616   |

*Revised contract cost*

|                     |             |
|---------------------|-------------|
| Estimated cost..... | \$1,951,860 |
| Fixed fee.....      | 53,886      |
| Total .....         | 2,005,746   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To cover a feasibility study of the possibility of utilizing the Forest Park Naval Ordnance complex as a site of housing for the proposed Chicago Bulk Mail Facility.

*Contract modification No. 2.*—Effective date: 6/27/70.

*Cost of modification*

|                     |          |
|---------------------|----------|
| Estimated cost..... | \$25,058 |
| Fixed fee.....      | 1,777    |
| Total cost.....     | 26,835   |

*Revised contract cost*

|                     |             |
|---------------------|-------------|
| Estimated cost..... | \$1,976,913 |
| Fixed fee.....      | 53,663      |
| Total cost.....     | 2,032,581   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To cover additional effort under the general scope of the contract to revise the design of the Chicago Bulk Mail Facility in line with the revised design criteria developed by Booz-Allen & Hamilton, Inc.

*Contract modification No. 3.*—Effective date: 7/20/70.

*Cost of modification*

|                         |                |
|-------------------------|----------------|
| Estimated cost .....    | \$13, 099      |
| Fixed fee .....         | 1, 310         |
| <b>Total cost .....</b> | <b>14, 409</b> |

*Revised contract cost*

|                         |                    |
|-------------------------|--------------------|
| Estimated cost .....    | \$1, 990, 017      |
| Fixed fee .....         | 56, 973            |
| <b>Total cost .....</b> | <b>2, 046, 990</b> |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To provide a model for the determination of cost/volume relationships for the Chicago Bulk Mail Facility.

*Contract modification No. 4.*—Effective date: 8/5/70.

*Cost of modification*

|                         |                |
|-------------------------|----------------|
| Estimated cost .....    | \$23, 340      |
| Fixed fee .....         | 2, 334         |
| <b>Total cost .....</b> | <b>25, 674</b> |

*Revised contract cost*

|                         |                    |
|-------------------------|--------------------|
| Estimated cost .....    | \$2, 013, 357      |
| Fixed fee .....         | 59, 307            |
| <b>Total cost .....</b> | <b>2, 072, 664</b> |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To evaluate the feasibility of adapting the Chicago Bulk Mail Facility (BMF) design to fulfill the requirements of the Atlanta BMF.

*Contract modification No. 5.*—Effective date: 11/18/70.

*Cost of modification*

|                         |                |
|-------------------------|----------------|
| Estimated cost .....    | \$11, 158      |
| Fixed fee .....         | 1, 116         |
| <b>Total cost .....</b> | <b>12, 274</b> |

*Revised contract cost*

|                         |                    |
|-------------------------|--------------------|
| Estimated cost .....    | \$2, 024, 515      |
| Fixed fee .....         | 60, 423            |
| <b>Total cost .....</b> | <b>2, 084, 938</b> |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To study the use of containers in the sorting and transportation of parcels in the intra-Chicago BMF operation.

*Contract modification No. 6.*—Effective date: 10/12/70.

*Cost of modification*

|                         |                |
|-------------------------|----------------|
| Estimated cost .....    | \$43, 434      |
| Fixed fee .....         | 3, 443         |
| <b>Total cost .....</b> | <b>46, 877</b> |

*Revised contract cost*

|                |             |
|----------------|-------------|
| Estimated cost | \$2,067,949 |
| Fixed fee      | 63,866      |
| Total cost     | 2,131,815   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To design a container and dumping equipment for the Chicago bulk mail facility service area which is necessary in order to complete facility design.

*Contract modification No. 7.*—Effective date: 8/14/70.

*Cost of modification*

|                |          |
|----------------|----------|
| Estimated cost | \$47,021 |
| Fixed fee      | 1,339    |
| Total cost     | 48,420   |

*Revised contract cost*

|                |             |
|----------------|-------------|
| Estimated cost | \$2,114,970 |
| Fixed fee      | 65,265      |
| Total cost     | 2,180,235   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To cover additional effort for surveying services, soil investigation and foundation analysis, review and evaluation of proposed Washington, D.C. BMF design, container utilization analysis, financial analyses and additional engineering services due to change in direction from the original tentative site.

*Contract modification No. 8.*—Effective date: 3/4/71.

*Cost of modification*

|                |             |
|----------------|-------------|
| Estimated cost | \$1,409,158 |
| Fixed fee      | 22,694      |
| Total cost     | 1,431,852   |

*Revised contract cost*

|                |             |
|----------------|-------------|
| Estimated cost | \$3,524,128 |
| Fixed fee      | 87,959      |
| Total cost     | 3,612,087   |

*Period of performance.*—Extended to January 3, 1972.

*Purpose.*—To revise the design of the Chicago BMC to conform to the "Report on Establishment of Modularity Parameters for National Bulk Mail System" prepared for USPS by IBM Corporation.

*Contract modification No. 9.*—Effective date: 5/17/71.

*Cost of modification*

|                |          |
|----------------|----------|
| Estimated cost | \$68,839 |
| Fixed fee      | 6,884    |
| Total cost     | 75,723   |

*Revised contract cost*

|                |             |
|----------------|-------------|
| Estimated cost | \$3,592,967 |
| Fixed fee      | 94,843      |
| Total cost     | 3,687,810   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—Chicago BMC Delivery Improvement Study—analyze the present delivery system and develop recommendations for an improved city delivery system compatible with Chicago BMC operations.

*Contract modification No. 10.*—Signed 8/10/71.

*Cost of modification*

|                |       |            |
|----------------|-------|------------|
| Estimated cost | ----- | \$130, 015 |
| Fixed fee      | ----- | 2, 499     |
| Total cost     | ----- | 132, 514   |

*Revised contract cost*

|                |       |               |
|----------------|-------|---------------|
| Estimated cost | ----- | \$3, 722, 982 |
| Fixed fee      | ----- | 97, 342       |
| Total cost     | ----- | 3, 820, 324   |

*Period of performance.*—The modification did not change the overall period of performance of this contract.

*Purpose.*—Preparation of a separate structural steel bid package. Revision of Construction Bid Package No. C1 to delete the personnel emergency egress tunnel and to add fire hose stations. Prepare diagrams and specifications for electrical systems, etc.

*Contract modification No. 11.*—Signed : 8/20/71.

*Cost of modification*

|                |       |           |
|----------------|-------|-----------|
| Estimated cost | ----- | \$30, 938 |
| Fixed fee      | ----- | 519       |
| Total cost     | ----- | 31, 457   |

*Revised contract cost*

|                |       |               |
|----------------|-------|---------------|
| Estimated cost | ----- | \$3, 753, 920 |
| Fixed fee      | ----- | 97, 861       |
| Total cost     | ----- | 3, 851, 781   |

*Period of performance.*—The modification did not change the overall period of performance of this contract.

*Purpose.*—To provide a scale model of the Chicago BMC for use in verifying mechanization layout and as a management aid in matters concerning this BMC.

*Contract modification No. 12.*—Signed : 11/11/71.

*Cost of modification*

|                |       |            |
|----------------|-------|------------|
| Estimated cost | ----- | \$114, 068 |
| Fixed fee      | ----- | 1, 369     |
| Total cost     | ----- | 115, 437   |

*Revised contract cost*

|                |       |               |
|----------------|-------|---------------|
| Estimated cost | ----- | \$3, 867, 988 |
| Fixed fee      | ----- | 99, 230       |
| Total cost     | ----- | 3, 967, 218   |

*Period of performance.*—The modification did not change the overall period of performance of this contract.

*Purpose.*—Revision of sortation system bid package and preparation of additional engineering details to support standard sortation drawings. Investigate the feasibility of the modular design concept for lookout galleries to be installed in the Chicago BMC.

*Contract modification No. 13.—Signed: 11/11/71.*

| <i>Cost of modification</i> |           |
|-----------------------------|-----------|
| Estimated cost.....         | \$152,999 |
| Fixed fee.....              | 2,466     |
| Total cost.....             | 155,465   |

*Revised contract cost*

|                     |             |
|---------------------|-------------|
| Estimated cost..... | \$4,020,987 |
| Fixed fee.....      | 101,696     |
| Total cost.....     | 4,122,683   |

*Period of performance.*—This modification extended the period of performance to March 25, 1972.

*Purpose.*—Provide a performance type procurement package for the installation, erection, and required operational tests for the entire mechanization system for the Chicago BMC.

*Contract modification No. 14.—Effective date: 11/8/71.*

*Cost of modification*

|                     |           |
|---------------------|-----------|
| Estimated cost..... | \$178,930 |
| Fixed fee.....      | 6,292     |
| Total cost.....     | 185,222   |

*Revised contract cost*

|                     |             |
|---------------------|-------------|
| Estimated cost..... | \$4,199,917 |
| Fixed fee.....      | 107,988     |
| Total cost.....     | 4,307,905   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—Development of Process Control System procurement specifications for the National Bulk Mail System.

*Contract modification No. 15.—Signed: 3/21/72.*

*Cost of modification*

|                     |           |
|---------------------|-----------|
| Estimated cost..... | \$518,800 |
| Fixed fee.....      | —         |
| Total cost.....     | 518,800   |

*Revised contract cost*

|                     |             |
|---------------------|-------------|
| Estimated cost..... | \$4,718,717 |
| Fixed fee.....      | 107,988     |
| Total cost.....     | 4,826,705   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—Provide additional funds to cover cost growth in excess of the total estimated cost.

*Contract modification No. 16.—Effective date: 1/18/72.*

*Cost of modification*

|                     |           |
|---------------------|-----------|
| Estimated cost..... | \$100,000 |
| Fixed fee.....      | —         |
| Total cost.....     | 100,000   |

*Revised estimated cost*

|                     |               |
|---------------------|---------------|
| Estimated cost..... | \$4, 818, 717 |
| Fixed fee.....      | 107, 988      |
| Total cost.....     | 4, 926, 705   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To provide additional funds to cover anticipated growth in excess of the total estimated cost.

*Contract modification No. 17.*—Effective date: 8/7/72.

*Cost of modification*

|                     |            |
|---------------------|------------|
| Estimated cost..... | \$241, 294 |
| Fixed fee.....      | 12, 000    |
| Total cost.....     | 253, 294   |

*Revised contract cost*

|                     |               |
|---------------------|---------------|
| Estimated cost..... | \$5, 060, 011 |
| Fixed fee.....      | 119, 988      |
| Total cost.....     | 5, 179, 999   |

*Period of performance.*—No performance under the contract was required after 4/28/72, therefore, no charges shall be placed against the contract for the period between the said date and the effective date thereof. Period of performance extended to 4/30/73.

*Purpose.*—Make certain drawing and specification changes and to prepare a systems operations manual.

*Contract modification No. 18.*—Signed: 8/25/72.

*Cost of modification*

|                     |           |
|---------------------|-----------|
| Estimated cost..... | \$39, 047 |
| Fixed fee.....      | 3, 431    |
| Total cost.....     | 42, 478   |

*Revised contract cost*

|                     |               |
|---------------------|---------------|
| Estimated cost..... | \$5, 099, 058 |
| Fixed fee.....      | 123, 419      |
| Total cost.....     | 5, 222, 477   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—Additional effort by the contractor related to the review of and response to questions and comments on the Chicago BMC mechanization bid packages through March 25, 1972. Revise and reissue Process Control System procurement specifications delivered under Modification 14.

*Contract modification No. 19.*—Signed: 11/6/72.

*Cost of modification*

|                     |           |
|---------------------|-----------|
| Estimated cost..... | \$94, 800 |
| Fixed fee.....      |           |
| Total cost.....     | 94, 800   |

*Revised contract cost*

|                     |               |
|---------------------|---------------|
| Estimated cost..... | \$5, 193, 858 |
| Fixed fee.....      | 123, 419      |
| Total cost.....     | 5, 317, 277   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—Issued in response to the contractor's request for additional funds dated 8/21/72.

*Contract modification No. 20.*—Signed: 11/6/72.

*Cost of modification*

|                |       |          |
|----------------|-------|----------|
| Estimated cost | ----- | \$3, 729 |
| Fixed fee      | ----- | 112      |
| Total cost     | ----- | 3, 841   |

*Revised contract cost*

|                |       |               |
|----------------|-------|---------------|
| Estimated cost | ----- | \$5, 197, 587 |
| Fixed fee      | ----- | 123, 531      |
| Total cost     | ----- | 5, 321, 118   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—Reimburse contractor for conducting a meeting on 5/17/72 to resolve design interface problems with the high speed parcel sorting machine induction unit, and to amend sortation equipment bid package to reflect changes for the electrical drives.

*Contract modification No. 21.*—Signed: 10/17/72.

*Cost of modification*

|                |       |          |
|----------------|-------|----------|
| Estimated cost | ----- | \$5, 130 |
| Fixed fee      | ----- | 166      |
| Total cost     | ----- | 5, 296   |

*Revised contract cost*

|                |       |               |
|----------------|-------|---------------|
| Estimated cost | ----- | \$5, 202, 717 |
| Fixed fee      | ----- | 123, 697      |
| Total cost     | ----- | 5, 326, 414   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To perform a feasibility study for utilizing USPS sack container loader in the Chicago BMC design. Also, \$1,256 of the \$5,296 cost of this modification represents a supplement to funding Modification 18.

*Contract modification No. 22.*—Signed: 2/6/73.

*Cost of modification*

|                |       |           |
|----------------|-------|-----------|
| Estimated cost | ----- | \$16, 184 |
| Fixed fee      | ----- | 394       |
| Total cost     | ----- | 16, 578   |

*Revised contract cost*

|                |       |               |
|----------------|-------|---------------|
| Estimated cost | ----- | \$5, 218, 901 |
| Fixed fee      | ----- | 124, 091      |
| Total cost     | ----- | 5, 342, 992   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—Perform revisions to drawings and specifications for the Chicago BMC in accordance with contractor's proposal dated 10/30/72.

*Contract modification No. 23.*—Signed: 4/30/73.

*Cost of modification*

|                |       |         |
|----------------|-------|---------|
| Estimated cost | ----- | \$----- |
| Fixed fee      | ----- | -----   |
| Total          | ----- | -----   |

*Revised contract cost*

|                |       |               |
|----------------|-------|---------------|
| Estimated cost | ----- | \$5, 218, 901 |
| Fixed fee      | ----- | 124, 091      |

|            |       |             |
|------------|-------|-------------|
| Total cost | ----- | 5, 342, 992 |
|------------|-------|-------------|

*Period of performance.*—This modification extended the period of performance to May 31, 1973.

*Purpose.*—Provide for continuation of effort on the Chicago BMC Systems Operations Manual, thereby extending the period of performance to 5/31/73.

*Contract modification No. 24.*—Effective date: Signed 5/18/73.

*Cost of modification*

|                |       |           |
|----------------|-------|-----------|
| Estimated cost | ----- | \$25, 100 |
| Fixed fee      | ----- | 251       |

|            |       |         |
|------------|-------|---------|
| Total cost | ----- | 25, 351 |
|------------|-------|---------|

*Revised contract cost*

|                |       |               |
|----------------|-------|---------------|
| Estimated cost | ----- | \$5, 244, 001 |
| Fixed fee      | ----- | 124, 342      |

|            |       |             |
|------------|-------|-------------|
| Total cost | ----- | 5, 368, 343 |
|------------|-------|-------------|

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—1. Design review conferences, revisions to container unloaders and towline, deletion of six conveyors, and deletion of cull conveyor B-152-1 and PSM-3 alternate discharge chute. (\$21,008)

2. Modification to enable utilization of container loaders at sack sorter run-outs. (\$4,343)

*Contract modification No. 25.*—Effective date: signed 5/22/73.

*Cost of modification*

|                |       |          |
|----------------|-------|----------|
| Estimated cost | ----- | \$8, 380 |
| Fixed fee      | ----- |          |

|            |       |        |
|------------|-------|--------|
| Total cost | ----- | 8, 380 |
|------------|-------|--------|

*Revised contract cost*

|                |       |               |
|----------------|-------|---------------|
| Estimated cost | ----- | \$5, 252, 381 |
| Fixed fee      | ----- | 124, 342      |

|            |       |             |
|------------|-------|-------------|
| Total cost | ----- | 5, 376, 723 |
|------------|-------|-------------|

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—In order to provide for reimbursement for additional necessary Chicago BMC site survey effort performed under the contract. No change in fixed fee.

*Contract modification No. 26.*—Effective date: 6/2/73.

*Cost of modification*

|                |       |  |
|----------------|-------|--|
| Estimated cost | ----- |  |
| Fixed fee      | ----- |  |

|            |       |  |
|------------|-------|--|
| Total cost | ----- |  |
|------------|-------|--|

*Revised contract cost*

|                |       |               |
|----------------|-------|---------------|
| Estimated cost | ----- | \$5, 252, 381 |
| Fixed fee      | ----- | 124, 342      |

|            |       |             |
|------------|-------|-------------|
| Total cost | ----- | 5, 376, 723 |
|------------|-------|-------------|

*Period of performance.*—This modification extended the period of performance to June 30, 1973.

*Purpose.*—The period of performance was extended through June 30, 1973, in order to provide continuing support in resolving Chicago BMC design questions.  
*Contract modification No. 27.*—Effective date : Signed 6/28/73.

*Cost of modification*

|                |  |
|----------------|--|
| Estimated cost |  |
| Fixed fee      |  |
| Total cost     |  |

*Revised contract cost*

|                |               |
|----------------|---------------|
| Estimated cost | \$5, 252, 381 |
| Fixed fee      | 124, 342      |
| Total cost     | 5, 376, 723   |

*Period of performance.*—This modification extended the period of performance to July 31, 1973.

*Purpose.*—To provide continuing support in resolving Chicago BMC design problems that may arise. Contractor will furnish such services as requested. Any claim for additional cost or fee related to extended performance must be submitted to the contracting officer within 10 days. This modification involves no change in the estimated cost of fixed fee of the contract.

Mr. HENDERSON. The company, A. T. Kearney, under a project 71135, was the sole source contractor in a contract dated December, 1970. The original value of the contract was \$375,000, and it was increased in 1972 to \$9,150,000.

Mr. DORSEY. Is that 71135?

Mr. HENDERSON. Yes.

Mr. Chairman, there may be other contracts of this nature, but I think that these supplements represent the concern Mr. Gross has and that we all have about the sole source contracts we hear so much about.

[The following information was subsequently supplied:]

CONTRACT REM 124-71—MEDIUM MODULE BULK MAIL CENTER

AWARD BACKGROUND

On the basis of Kearney's performance on Chicago Contract REM 184-70 and the experience gained, and also because Kearney had adequate resources to undertake another large project, the contract for design of the Medium Module systems was negotiated by the Post Office Department with Kearney without competition.

The major output of USPS contract REM 124-71 was accomplished by Kaiser Engineers (KE), sub-contractor to A. T. Kearney. KE is the Architect-Engineering firm that developed the detailed, bid-packages of building and mechanization drawings and specifications for Chicago BMC and the mechanization drawings and specifications for the five medium module BMC's. They produced these outputs under the guidance of A. T. Kearney, who developed the approved systems, site arrangement and building concepts.

This contract was completed in mid-1973. A summary of activity under this contract is attached.

CHRONOLOGICAL SUMMARY OF ACTIONS UNDER CONTRACT REM-124-71

A. T. Kearney & Company, Inc.

Contract No. REM-124-71.

Contract Awarded by the Post Office Department, Bureau of Research and Engineering.

Period of Performance: December 21, 1970 to August 31, 1973 (including 30 modifications).

*Final contract amount*

|                |       |              |
|----------------|-------|--------------|
| Estimated cost | ----- | \$10,732,076 |
| Fixed fee      | ----- | 199,713      |
| Total cost     | ----- | 10,931,789   |

*Original contract*

On December 21, 1970, the Post Office Department awarded a letter contract to A. T. Kearney & Co., Inc., to develop a design for the medium module Bulk Mail Facility to accommodate the necessary volumes and sortations required in the designated cities. The letter contract of December 21, 1970, was definitized by contract on March 25, 1971. This contract was of the Cost-Plus-Fixed-Fee, Research and Development types in the amount of:

|                |       |           |
|----------------|-------|-----------|
| Estimated cost | ----- | \$303,410 |
| Fixed fee      | ----- | 21,746    |

The period of performance covered by the original contract extended from December 21, 1970 to June 1, 1971.

*Contract modification No. 1 (letter).—2/4/71.*

*Cost of modification*

|                |       |  |
|----------------|-------|--|
| Estimated cost | ----- |  |
| Fixed fee      | ----- |  |
| Total cost     | ----- |  |

*Revised contract cost*

|                |       |           |
|----------------|-------|-----------|
| Estimated cost | ----- | \$303,410 |
| Fixed fee      | ----- | 21,746    |
| Total cost     | ----- | 325,156   |

*Period of performance.*—This letter contract modification did not change the overall period of performance of this contract.

*Purpose.*—The letter contract of December 21, 1970, specified that, within 45 calendar days, a definitized contract would be executed. This letter modification (No. 1) constituted an administrative change by allowing 60 days as the period of time for definitization.

*Contract modification No. 2 (letter).—2/19/71.*

*Cost of modification*

|                |       |  |
|----------------|-------|--|
| Estimated cost | ----- |  |
| Fixed fee      | ----- |  |
| Total cost     | ----- |  |

*Revised contract cost*

|                |       |           |
|----------------|-------|-----------|
| Estimated cost | ----- | \$303,410 |
| Fixed fee      | ----- | 21,746    |
| Total cost     | ----- | 325,156   |

*Period of performance.*—This letter contract modification did not change the overall period of performance of this contract.

*Purpose.*—This letter contract modification extended the period of time for definitization for an additional 15 calendar days.

*Cost of modification*

|                |       |          |
|----------------|-------|----------|
| Estimated cost | ----- | \$70,000 |
| Fixed fee      | ----- |          |
| Total cost     | ----- | 70,000   |

*Revised contract cost*

|                |       |           |
|----------------|-------|-----------|
| Estimated cost | ----- | \$373,410 |
| Fixed fee      | ----- | 21,746    |
| Total cost     | ----- | 395,156   |

*Period of performance.*—This letter contract modification did not change the overall period of performance of this contract.

*Purpose.*—The purpose of this modification was to increase the limitation of government liability by \$70,000 from \$230,000 to \$300,000.

The date for contract definitization was extended an additional 20 days from March 6, 1971, to March 26, 1971.

*Contract modification No. 4.*—Effective date: 2/26/71.

| <i>Cost of modification</i> |           |
|-----------------------------|-----------|
| Estimated cost.....         | \$251,784 |
| Fixed fee.....              | 15,251    |
| Total cost.....             | 267,035   |

| <i>Revised contract cost</i> |           |
|------------------------------|-----------|
| Estimated cost.....          | \$555,194 |
| Fixed fee.....               | 36,997    |
| Total cost.....              | 592,191   |

*Period of performance.*—This letter contract modification did not change the overall period of performance of this contract.

*Purpose.*—To develop the systems concept design for the Los Angeles, Pittsburgh, and Dallas Bulk Mail Centers using the basic medium module design, and standard drawings and specifications and related preliminary work for the medium module.

*Contract modification No. 5.*—Effective date: 6/22/71.

| <i>Cost of modification</i> |           |
|-----------------------------|-----------|
| Estimated cost.....         | \$551,034 |
| Fixed fee.....              | 9,923     |
| Total cost.....             | 560,957   |

| <i>Revised contract cost</i> |             |
|------------------------------|-------------|
| Estimated cost.....          | \$1,106,228 |
| Fixed fee.....               | 46,920      |
| Total cost.....              | 1,153,148   |

*Period of performance.*—The period of performance was extended to November 22, 1971.

*Purpose.*—To develop standard drawings and specifications for certain items of mechanization in the medium Bulk Mail Centers.

*Contract modification No. 6.*—Signed: 8/18/71.

| <i>Cost of modification</i> |          |
|-----------------------------|----------|
| Estimated cost.....         | \$89,606 |
| Fixed fee.....              | 5,720    |
| Total cost.....             | 95,326   |

| <i>Revised contract cost</i> |             |
|------------------------------|-------------|
| Estimated cost.....          | \$1,195,834 |
| Fixed fee.....               | 52,640      |
| Total cost.....              | 1,248,474   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To develop the systems concept design for the Springfield and Philadelphia Bulk Mail Centers.

*Contract modification No. 7.—Signed: 8/31/71.*

*Cost of modification*

|                        |                |
|------------------------|----------------|
| Estimated cost.....    | \$87, 515      |
| Fixed fee.....         |                |
| <b>Total cost.....</b> | <b>87, 515</b> |

*Revised contract cost*

|                        |                    |
|------------------------|--------------------|
| Estimated cost.....    | \$1, 283, 349      |
| Fixed fee.....         | 52, 640            |
| <b>Total cost.....</b> | <b>1, 335, 989</b> |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To reimburse the contractor for all expenses incurred in the development of an acceptable basic medium Bulk Mail Center module design. The estimated cost of the contract, prior to this increase, was considered to be inadequate.

*Contract modification No. 8.—Signed: 10/21/71.*

*Cost of modification*

|                        |                 |
|------------------------|-----------------|
| Estimated cost.....    | \$205, 524      |
| Fixed fee.....         | 10, 304         |
| <b>Total cost.....</b> | <b>215, 828</b> |

*Revised contract cost*

|                        |                    |
|------------------------|--------------------|
| Estimated cost.....    | \$1, 488, 873      |
| Fixed fee.....         | 62, 944            |
| <b>Total cost.....</b> | <b>1, 551, 817</b> |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To finalize concept designs for the Pittsburgh, Los Angeles and Dallas Bulk Mail Centers.

*Contract modification No. 9.—Effective date: 11/8/71.*

*Cost of modification*

|                        |                    |
|------------------------|--------------------|
| Estimated cost.....    | \$5, 004, 000      |
| Fixed fee.....         | 92, 000            |
| <b>Total cost.....</b> | <b>5, 096, 000</b> |

*Revised contract cost*

|                        |                    |
|------------------------|--------------------|
| Estimated cost.....    | \$6, 492, 873      |
| Fixed cost.....        | 154, 944           |
| <b>Total cost.....</b> | <b>6, 647, 817</b> |

*Period of performance.*—The period of performance was extended to March 1973.

*Purpose.*—To develop and furnish all engineering and other services and materials necessary for the preparation of complete bid package documents to allow procurement and installation of all systems and mechanization components necessary for occupancy of the Pittsburgh, Ft. Worth/Dallas, Springfield, Philadelphia and Los Angeles Bulk Mail Centers.

*Contract modification No. 10.—Signed: 11/22/71.*

*Cost of modification*

|                        |                 |
|------------------------|-----------------|
| Estimated cost.....    | \$288, 265      |
| Fixed fee.....         | 11, 735         |
| <b>Total cost.....</b> | <b>300, 000</b> |

*Revised contract cost*

|                     |               |
|---------------------|---------------|
| Estimated cost..... | \$6, 781, 138 |
| Fixed fee.....      | 166, 679      |
| Total cost.....     | 6, 947, 817   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To provide for the development of medium module Bulk Mail Center functional design specifications.

*Contract modification No. 11.*—Effective date: 11/8/71.

*Cost of modification*

|                     |  |
|---------------------|--|
| Estimated cost..... |  |
| Fixed fee.....      |  |
| Total cost.....     |  |

*Revised contract cost*

|                     |               |
|---------------------|---------------|
| Estimated cost..... | \$6, 781, 138 |
| Fixed fee.....      | 166, 679      |
| Total cost.....     | 6, 947, 817   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To modify, as a result of mutual mistake, the contract to delete the preparation of detailed shop drawings of all primary supporting steel for mechanization.

*Contract modification No. 12.*—Effective date: 4/28/72.

*Cost of modification*

|                     |            |
|---------------------|------------|
| Estimated cost..... | \$285, 465 |
| Fixed fee.....      | 5, 309     |
| Total cost.....     | 290, 774   |

*Revised contract cost*

|                     |               |
|---------------------|---------------|
| Estimated cost..... | \$7, 066, 603 |
| Fixed fee.....      | 171, 988      |
| Total cost.....     | 7, 238, 591   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To provide for the design of medium module primary mechanization support steel.

*Contract modification No. 13.*—Effective date: 7/17/72.

*Cost of modification*

|                     |                         |
|---------------------|-------------------------|
| Estimated cost..... | Pending estimate to be  |
| Fixed fee.....      | approved by the con-    |
|                     | tractor within 30 days. |

*Revised contract costs*

|                     |               |
|---------------------|---------------|
| Estimated cost..... | \$7, 066, 603 |
| Fixed fee.....      | 171, 988      |
| Total cost.....     | 7, 238, 591   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To provide for the preparation of all necessary individual detailed drawings, sub-assembly drawings, and erection drawings for all conveyor series for the five medium module Bulk Mail Centers.

*Contract modification No. 14.—Signed: 8/25/72.*

| <i>Cost of modification</i> |           |
|-----------------------------|-----------|
| Estimated cost.....         | \$51, 866 |
| Fixed fee.....              | 1, 713    |
| Total cost.....             | 53, 579   |

| <i>Revised contract costs</i> |               |
|-------------------------------|---------------|
| Estimated cost.....           | \$7, 118, 469 |
| Fixed fee.....                | 173, 701      |
| Total cost.....               | 7, 292, 170   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To provide a cost trade-off study related to the location of Bulk Mail Center administrative office space and to revise the medium module Functional Design Specifications accordingly; to prepare a conveyor component matrix for the purpose of determining required conveyor design; and to perform a cost trade-off study related to alternative methods of supporting medium module BMC conveyors.

*Contract modification No. 15.—Signed: 9/15/72.*

| <i>Cost of modification</i>   |            |
|---|------------|
| Estimated cost (Preliminary adjustment subject to negotiation)..... | \$500, 000 |
| Fixed fee.....  | Pending.   |

| <i>Revised contract cost</i> |               |
|------------------------------|---------------|
| Estimated cost.....          | \$7, 618, 469 |
| Fixed fee.....               | 173, 701      |
| Total cost.....              | 7, 792, 170   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To perform some 22 mechanization design changes.

*Contract modification No. 16.—10/17/72.*

| <i>Cost of modification</i> |            |
|-----------------------------|------------|
| Estimated cost.....         | \$385, 300 |
| Fixed fee.....              |            |
| Total cost.....             | 385, 300   |

| <i>Revised contract cost</i> |               |
|------------------------------|---------------|
| Estimated cost.....          | \$8, 003, 769 |
| Fixed fee.....               | 173, 701      |
| Total cost.....              | 8, 177, 407   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To increase the estimated cost (\$136,900) to reflect cost growth under the contract through December 31, 1971; and to reflect (\$248,400) currently allowable wage escalation costs in performance under Contract Modification No. 9, but unfunded due to the Executive Order pertaining to wages and prices in effect when the modification was executed.

*Contract modification No. 17.—Signed: 10/17/72.*

| <i>Cost of modification</i> |            |
|-----------------------------|------------|
| Estimated cost.....         | \$801, 296 |
| Fixed fee.....              | 11, 496    |
| Total cost.....             | 812, 792   |

| <i>Revised contract cost</i> |               |
|------------------------------|---------------|
| Estimated cost.....          | \$8, 805, 065 |
| Fixed fee.....               | 185, 197      |
| Total cost.....              | 8, 990, 262   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To provide an adjustment in cost and fees for work performed pursuant to the additional requirements contained in Modification No. 13.

*Contract Modification No. 18.*—Signed: 12/12/72.

|                             |           |
|-----------------------------|-----------|
| <i>Cost of modification</i> |           |
| Estimated cost.....         | \$115,000 |
| Fixed fee.....              | -----     |
| Total cost.....             | 115,000   |

|                              |             |
|------------------------------|-------------|
| <i>Revised contract cost</i> |             |
| Estimated cost.....          | \$8,920,065 |
| Fixed fee.....               | 185,197     |
| Total cost.....              | 9,105,262   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To provide an adjustment in the contract amount for additional work required to recheck and improve the bulk mail processing mechanization standard drawings initiated under Modification No. 5.

*Contract Modification No. 19.*—Signed: 12/20/72.

|                             |           |
|-----------------------------|-----------|
| <i>Cost of modification</i> |           |
| Estimated cost.....         | \$200,000 |
| Fixed fee.....              | -----     |
| Total cost.....             | 200,000   |

|                              |             |
|------------------------------|-------------|
| <i>Revised contract cost</i> |             |
| Estimated cost.....          | \$9,120,065 |
| Fixed fee.....               | 185,197     |
| Total cost.....              | 9,305,262   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To provide additional funding for the purpose of billing for work performed under Modification No. 15, pending the negotiation of cost and fee adjustments.

*Contract modification No. 20.*—Signed 1/18/73.

|                             |           |
|-----------------------------|-----------|
| <i>Cost of modification</i> |           |
| Estimated cost.....         | \$112,300 |
| Fixed fee.....              | 5,125     |
| Total cost.....             | 117,425   |

|                              |             |
|------------------------------|-------------|
| <i>Revised contract cost</i> |             |
| Estimated cost.....          | \$9,232,365 |
| Fixed fee.....               | 190,322     |
| Total cost.....              | 9,422,687   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To provide an adjustment in the total estimated cost and fixed fee for work performed under Modification No. 15.

*Contract modification No. 21.*—Signed 1/18/73.

|                             |           |
|-----------------------------|-----------|
| <i>Cost of modification</i> |           |
| Estimated cost.....         | \$126,435 |
| Fixed fee.....              | 686       |
| Total cost.....             | 127,121   |

| <i>Revised contract cost</i> |             |
|------------------------------|-------------|
| Estimated cost.....          | \$9,358,800 |
| Fixed fee.....               | 191,035     |
| <hr/>                        |             |
| Total cost.....              | 9,549,835   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To prepare and deliver an Earthquake Risk Study Report for the Los Angeles Bulk Mail Processing System; to modify inbound extendible conveyor control circuits and induction stands and relocate outbound extendible conveyor controls; and perform a cost reduction study of detail system design of five medium Bulk Mail Processing Systems.

*Contract modification No. 22.*—Signed: 2/15/73.

| <i>Cost of modification</i> |           |
|-----------------------------|-----------|
| Estimated cost.....         | \$887,033 |
| Fixed fee.....              | 6,462     |
| <hr/>                       |           |
| Total cost.....             | 893,495   |

| <i>Revised contract cost</i> |              |
|------------------------------|--------------|
| Estimated cost.....          | \$10,245,833 |
| Fixed fee.....               | 197,497      |
| <hr/>                        |              |
| Total cost.....              | 10,433,330   |

*Period of performance.*—The contract period of performance is extended to June 12, 1973.

*Purpose.*—To provide for design modifications to traveling deflector by-pass controls, sack shakeout feed surge conveyor controls, photo-electric sensor mountings and primary parcel sorter discharge chutes; additional funding for cost growth on the conveyor design effort required by Modification No. 13, and to extend period of performance to coincide with extended bidding period for procurement of mechanization.

*Contract modification No. 23.*—Signed: 3/12/73.

| <i>Cost of modification</i> |         |
|-----------------------------|---------|
| Estimated cost.....         | \$6,379 |
| Fixed fee.....              | 205     |
| <hr/>                       |         |
| Total cost.....             | 6,584   |

| <i>Revised contract cost</i> |              |
|------------------------------|--------------|
| Estimated cost.....          | \$10,252,212 |
| Fixed fee.....               | 197,702      |
| <hr/>                        |              |
| Total cost.....              | 10,449,914   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To provide for the Bulk Mail Center scale model photographic program; additional work on BMC scale models to include interior walls, doors and stairs; and additional work to incorporate BMC mechanization design changes in the BMC scale models.

*Contract modification No. 24.*—Signed: 5/4/73.

| <i>Cost of modification</i> |           |
|-----------------------------|-----------|
| Estimated cost.....         | \$369,100 |
| Fixed fee.....              | -----     |
| <hr/>                       |           |
| Total cost.....             | 369,100   |

| <i>Revised contract cost</i> |              |
|------------------------------|--------------|
| Estimated cost.....          | \$10,621,312 |
| Fixed fee.....               | 197,702      |
| <hr/>                        |              |
| Total cost.....              | 10,819,014   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To provide for reimbursement of costs for: interface back checking of the erection drawings for the conveyor and chute procurement package; increased electrical design effort required by changes in mechanization design, and other mechanical and electrical designs.

*Contract modification No. 25.*—Signed: 5/21/73.

|                |                             |           |
|----------------|-----------------------------|-----------|
|                | <i>Cost of modification</i> |           |
| Estimated cost | -----                       | \$22, 900 |
| Fixed fee      | -----                       | 229       |
| Total cost     | -----                       | 23, 129   |

|                |                              |                |
|----------------|------------------------------|----------------|
|                | <i>Revised contract cost</i> |                |
| Estimated cost | -----                        | \$10, 644, 212 |
| Fixed fee      | -----                        | 197, 931       |
| Total cost     | -----                        | 10, 842, 143   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To provide for slider bed drawing revisions and the preparation of closed circuit T.V. addendum to mechanization Installation Specification.

*Contract modification No. 26.*—Signed: 5/21/73.

|                |                             |           |
|----------------|-----------------------------|-----------|
|                | <i>Cost of modification</i> |           |
| Estimated cost | -----                       | \$20, 214 |
| Fixed fee      | -----                       | 1, 424    |
| Total cost     | -----                       | 21, 638   |

|                |                              |                |
|----------------|------------------------------|----------------|
|                | <i>Revised contract cost</i> |                |
| Estimated cost | -----                        | \$10, 664, 426 |
| Fixed fee      | -----                        | 199, 355       |
| Total cost     | -----                        | 10, 863, 781   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To provide 70 additional copies of the System Operations Manual for each medium BMC, and to provide color renditions of each medium BMC.

*Contract modification No. 27.*—Signed: 5/21/73.

|                |                             |          |
|----------------|-----------------------------|----------|
|                | <i>Cost of modification</i> |          |
| Estimated cost | -----                       | \$6, 000 |
| Fixed fee      | -----                       | 60       |
| Total cost     | -----                       | 6, 060   |

|                |                              |                |
|----------------|------------------------------|----------------|
|                | <i>Revised contract cost</i> |                |
| Estimated cost | -----                        | \$10, 670, 426 |
| Fixed fee      | -----                        | 199, 415       |
| Total cost     | -----                        | 10, 869, 841   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To investigate sortation photo sensor mounting locations for the five medium Bulk Mail Centers.

*Contract modification No. 28.*—Signed: 6/2/73.

|                |                             |  |
|----------------|-----------------------------|--|
|                | <i>Cost of modification</i> |  |
| Estimated cost | -----                       |  |
| Fixed fee      | -----                       |  |
| Total cost     | -----                       |  |

|                              |                |
|------------------------------|----------------|
| <i>Revised contract cost</i> |                |
| Estimated cost.....          | \$10, 670, 426 |
| Fixed fee.....               | 199, 415       |
| <hr/>                        |                |
| Total cost.....              | 10, 869, 841   |

*Period of performance.*—Extended period of performance to June 30, 1973.

*Purpose.*—To extend period of performance of contract.

*Contract modification No. 29.*—Signed : 6/28/73.

|                             |       |
|-----------------------------|-------|
| <i>Cost of modification</i> |       |
| Estimated cost.....         | ----- |
| Fixed fee.....              | ----- |
| <hr/>                       |       |
| Total cost.....             | ----- |

|                              |                |
|------------------------------|----------------|
| <i>Revised contract cost</i> |                |
| Estimated cost.....          | \$10, 670, 426 |
| Fixed fee.....               | 199, 415       |
| <hr/>                        |                |
| Total cost.....              | 10, 869, 841   |

*Period of performance.*—This modification did not change the overall period of performance of this contract.

*Purpose.*—To provide continuing support in resolving Bulk Mail Center design questions.

*Contract modification No. 30.*—Signed : 9/5/73.

|                             |           |
|-----------------------------|-----------|
| <i>Cost of modification</i> |           |
| Estimated cost.....         | \$61, 650 |
| Fixed fee.....              | 298       |
| <hr/>                       |           |
| Total cost.....             | 61, 948   |

|                              |                |
|------------------------------|----------------|
| <i>Revised contract cost</i> |                |
| Estimated cost.....          | \$10, 732, 076 |
| Fixed fee.....               | 199, 713       |
| <hr/>                        |                |
| Total cost.....              | 10, 931, 789   |

*Period of performance.*—Extended period of performance to July 31, 1973 and extended the contract through August 31, 1973, providing for up to 10 man days of effort for administrative purposes.

*Purpose.*—To provide for extended period of performance established in Modification No. 29, additional design effort, and program cost growth in excess of that provided in Modification No. 16.

Mr. DORSEY. May I note at this point that not one of the bulk mail facilities were bid on a sole source basis. They were all bid on a competitive basis. These contracts must have something to do with engineering studies or other studies. The actual construction of these facilities was based on open, competitive bidding.

Mr. HENDERSON. I think we all understand that most of the equipment was furnished, so that this would not be equipment contracts.

Mr. DORSEY. We purchased the equipment under one competitive bid contract for 20 of the 21 facilities.

Mr. HENDERSON. You may have already answered this, but if you did, I missed it. Could you tell me how we stand on the bulk mail processing?

Mr. DORSEY. We had suffered from slippages due to construction strikes. We estimate we have lost 300 days of construction time as a result of industrial disputes. We anticipate at this moment that the last facility in Seattle will come on line in October of 1975. That may

have to be changed if we continue to experience construction delays because of strikes. From a monetary standpoint, our feeling is that the budget of \$950 million is still the target and will be met. The GAO confirmed this some months ago in the study they made.

Mr. DANIELS. There is a roll call on the House floor. The committee will adjourn, and we will reconvene at 10 o'clock tomorrow morning in this room.

[Whereupon at 12:08 p.m., the hearing was adjourned, to reconvene at 10 a.m., on Wednesday, July 31, 1974.]

There is a large amount of material in the  
files of the Department of the Interior  
which is of interest to the public  
and which should be made available  
to them. It is the policy of the  
Department to make such material  
available to the public in the  
form of a public domain.

## CONTINUITY OF MANAGEMENT—U.S. POSTAL SERVICE

WEDNESDAY, JULY 31, 1974

U.S. HOUSE OF REPRESENTATIVES,  
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,  
SUBCOMMITTEE ON INVESTIGATIONS,  
*Washington, D.C.*

The subcommittee reconvened, pursuant to adjournment, at 10:07 a.m., in room 210 of the Cannon House Office Building; Hon. Thaddeus J. Dulski (chairman of the subcommittee) presiding.

Present: Representatives Thaddeus J. Dulski, David N. Henderson, Dominick V. Daniels, Patricia Schroeder, Andrew J. Hinshaw, Robert Traxler, Charles H. Wilson, Jerome R. Waldie, and H. R. Gross.

Mr. DULSKI. The subcommittee will come to order.

Today is the second day of the hearings by the Subcommittee on Investigations looking into the executive management of the U.S. Postal Service. The Postmaster General and a number of his staff were present yesterday and have returned today so that members of the committee may complete their questions.

Tomorrow, we look forward to hearing from the Board of Governors of the Postal Service.

We will continue now with the questions from Mr. Henderson.

Mr. HENDERSON. Thank you, Mr. Chairman.

General Klassen, it seems to me that members of the Congress as they have been in touch with us from time to time about problems with the Postal Service most often come to us because of the situation they have found in their district or their States as relates to the sectional center concept. I wonder if you could report to us how far you have gone with implementing the sectional center concept throughout the 50 States.

Mr. KLASSEN. Mr. Henderson, I will ask Mr. Dorsey to respond.

Mr. DORSEY. Mr. Henderson, the sectional center concept originated back some years ago as a mail-processing format. We have more recently returned the sectional center concept into not only a mail-processing but also a management center.

We anticipate we will have 317 management sectional centers in the United States. Each one of them will have roughly 50 to 100 associate offices reporting to them. And it would be our idea, I hope, that these sectional center management areas would become the basic management block at the field level so that all the necessary decisions short of major policy changes could be made at the sectional center level for the associate postmasters and report to that section center manager.

Mr. HENDERSON. I think my question was more directed at the mail-processing aspect than management.

(61)

Mr. DORSEY. All right, sir. We have a number of area mail-processing plants. And I will ask Mr. Jones to speak to that when I finish my short remarks.

We put in area mail-processing where we can maintain or improve the level of service and make full utilization of our equipment to save money. There are some areas in the country where we simply cannot put in area mail-processing because of distance.

But I would like to ask Mr. Jones to give you a detailed breakdown on that.

Mr. Jones?

Mr. JONES. Mr. Dorsey, thank you.

We have throughout the country about 320 centers that are designated as area mail-processing centers. These are points at which we concentrate the distribution and processing of mail in volume in order to take advantage of the mechanized processing techniques which we have. The constraints that we place on this program are very simple: do not concentrate mail when it will impair the service being given the customer or when it might tend to increase the cost of the service.

Our basic aim is to improve service by the advantages of mass processing, better mail make-up, better efficiency;

To regularize the service throughout the territory;

To take advantage of better buildings where we concentrate the mail for processing.

In instances where questions have been raised by customers about local postmarks, which has been one of the sensitive areas, we have responded by providing that each office which participates in an area mail-processing program will have specific boxes marked for the deposit of mail for local postmark. So a customer may be assured of that postmark if he or she or desires.

To date, we have found that the area mail-processing programs which are in operation have allowed us to reduce our operating costs by approximately \$20 million a year over what it would cost to do individual processing in each post office involved.

Mr. HENDERSON. You said you had 320 centers over the United States.

Mr. JONES. Yes, sir.

Mr. HENDERSON. Are all of them fully implemented in the mail-processing at this time?

Mr. JONES. Each of them is a fully operative area mail-processing center.

Mr. HENDERSON. How many more do you plan for the country?

Mr. JONES. We plan very few more, Mr. Henderson. There will be adjustments or consolidations, or there could be some additions as our equipment and our transportation capabilities improve. But we do not foresee any significant expansion.

Mr. HENDERSON. What is the most recent area that you have gone into with sectional center or if you prefer to call it area mail-processing?

Mr. JONES. Area mail-processing. I believe the most recent area would be in Colorado.

Mr. HENDERSON. How recent was Texas?

Mr. JONES. The program across Texas has been developing for about 4 years. I do not recall the last specific area, Mr. Henderson. But I would be pleased to give you that for the record.

[The information follows:]

## AREA MAIL PROCESSING CENTER FOR STATE OF TEXAS

|         |   | Date<br>AMP<br>imple-<br>mented |
|---------|---|---------------------------------|
| (x) 750 | Richardson, TX (originating mails processed at Dallas, TX 752)                      | 9-72                            |
| (x) 751 | Mesquite, TX (originating mails processed at Dallas, TX 752)                        | 8-72                            |
| 752     | Dallas, TX  | 7-72                            |
| 754     | Greenville, TX  | 6-72                            |
| 755     | Texarkana, TX   | 11-71                           |
| 756     | Longview, TX  | 5-72                            |
| 757     | Tyler, TX   | 5-72                            |
| 758     | Palestine, TX   | 6-72                            |
| 759     | Lufkin, TX  | 6-72                            |
| 760-761 | Fort Worth, TX  | 6-70                            |
| 762     | Denton, TX  | 6-72                            |
| 763     | Wichita Falls, TX   | 6-72                            |
| (x) 764 | Stephenville, TX<br>(Originating mails processed at Fort Worth, TX 760)             | 6-72<br>6-73                    |
| 765     | Temple, TX  | 11-71                           |
| 766-767 | Waco, TX  | 6-72                            |
| (x) 768 | Brownwood, TX<br>(Originating mails processed at (Abilene, TX 795)                  | 7-72<br>3-74                    |
| (*) 769 | San Angelo, TX<br>(Originating mails processed at Midland, TX 797)                  | 7-72<br>5-74                    |
| 770     | Houston, TX   | 7-72                            |
| (x) 773 | Conroe, TX (originating mails processed at Houston, TX 770)                         | 7-72                            |
| (x) 774 | Bellaire, TX (originating mails processed at Houston, TX 770)                       | 7-72                            |
| 775     | Pasadena, TX  | 2-72                            |
| 776-777 | Beaumont, TX  | 4-72                            |
| 778     | Bryan, TX   | 6-72                            |
| 779     | Victoria, TX  | 11-71                           |
| 780-782 | San Antonio, TX   | 11-71                           |
| 783-784 | Corpus Christi, TX  | 11-71                           |
| 785     | McAllen, TX   | 11-71                           |
| 786-787 | Austin, TX  | 11-71                           |
| (x) 788 | Uvalde, TX (originating mails processed at San Antonio, TX 780)                     | 11-71                           |
| (x) 789 | LaGrange, TX (originating mails processed at Austin, TX 786)                        | 11-71                           |
| 790-791 | Amarillo, TX  | 6-71                            |
| (*) 792 | Childress, TX (originating mails processed at Amarillo, TX 790 and Lubbock, TX 793) | 7-72                            |
| 793-794 | Lubbock, TX   | 7-71                            |
| 795-796 | Abilene, TX   | 6-71                            |
| 797     | Midland, TX   | 1-72                            |

(x)—No processing except mail for local delivery.

(\*)—Processing all or a part of destinating mail for associate offices.

Mr. HENDERSON. How do you view the progress you have made in Texas? You have been making some changes in Texas in the last year or so, haven't you?

Mr. JONES. Yes, sir.

Mr. HENDERSON. In general, it seems to me we haven't done as well as we could in advance planning. But inasmuch as there are very few areas to be brought into this, perhaps I would not be as concerned as I was. But I would suggest one thing to you as you do move into new areas. And that would be to advise the members of this committee and more specifically than that the Members of Congress who represent those areas. Because I still find, and I can relate this specifically to Texas, that the Members of Congress and the full committee simply

do not understand why we haul mail past a point and then back to that point.

I realize from my own experience in North Carolina that we went through this process early in this whole program. I think it is working well. I don't doubt that \$20 million saving that you talk about. And I think that it is essential to automation and other improvements that you propose in the service. But I do not believe that the Members of Congress have a very good understanding of how it works and how it can save money. And I think it is essential that this story be told.

And inasmuch as it is a savings and something that you can be proud of, I think a full explanation prepared for the record here and which we could use—you could use it if you like, General, or we could—to inform the Members of Congress what we are doing, how it is working, and it is an efficient way in this savings of money, could be most helpful to me.

Mr. Chairman, my time has probably expired, but I appreciate this opportunity.

Mr. KLASSEN. May I respond?

Mr. DULSKI. Yes.

Mr. KLASSEN. Congressman Henderson, what you said, we have found to be very true. We have visited some 70 Congressmen this month so far, individually in their offices. We found a number of them who did not fully understand what area mail processing really meant.

We will not only try to do this in our visits, but also do what you suggested. We will try to develop this story in such a way that it is easier to understand.

Mr. HENDERSON. I think it would be very helpful.

[The information was subsequently furnished and appears at p. 160.]

Mr. DULSKI. Before I recognize Mr. Gross, General, I would like to ask you about Mr. Ordway who was just appointed postmaster in a large facility. I know you state that you are very concerned about people advancing from the ranks. But appointing Mr. Ordway who has just about no experience in postal operations is hard to understand.

Mr. KLASSEN. Mr. Chairman, I don't really understand what location you have reference to.

Mr. DULSKI. I assumed you were aware that Mr. Ordway has just been appointed—

Mr. DORSEY. Denver, Colo.

Mr. DULSKI. He is going to be in charge of a large facility, is he not?

Mr. DORSEY. He was recently selected, Mr. Chairman, to be the postmaster in Denver, Colo., chosen through our Management Selection Board. Of the four or five candidates, the Board selected him and recommended him for the postmaster appointment. The Board felt Mr. Ordway was best qualified for the job. He is going to be the postmaster at Denver, Colo.

Mr. DULSKI. He only has 5 years' experience and none in postal operations, is that right?

Mr. DORSEY. He only has 5 years' postal experience, but a good deal of management experience.

Dr. DULSKI. Let me make one thing clear. I don't want to be indelicate, but you cannot walk from the American Can Co. to a post office and operate it.

Operating an office takes a great deal of postal experience. He may have a lot of expertise in private industry, I am sure but none that I see in postal operation.

Mr. DORSEY. I don't know Mr. Ordway's background. He is a young man.

Mr. DULSKI. You just told me he is a well qualified individual.

Mr. DORSEY. I don't know his background in terms of private enterprise, Mr. Chairman. I know his background in the Postal Service. He has had 5 years experience in the Postal Service.

He is a young man. He has a lot of potential. We believed he would be a good man. He has demonstrated thus far that he has been well able to handle the tasks he has been assigned.

Mr. DULSKI. Mr. Gross.

Mr. GROSS. Thank you, Mr. Chairman.

Mr. DERWINSKI. Would the gentleman from Iowa yield for a personal request here?

Mr. GROSS. Yes.

Mr. DERWINSKI. Mr. Chairman, I have to leave for a committee to work on the foreign aid bill which is as important as the hearings of this subcommittee, and my presence is requested there.

I was wondering if I could ask the General's consent to insert in the record some questions at this point and then have the Postmaster General and the staff supply the answers for the record.

Mr. DULSKI. Time has been yielded to you and there appears to be no objection, Mr. Derwinski.

Mr. DERWINSKI. May I then leave these questions for the record and ask that the replies be submitted?

Thank you, Mr. Chairman. Thank you, Mr. Gross.

Mr. DULSKI. Could you just do us a favor and vote against the foreign aid bill?

Mr. DERWINSKI. I think the AFL-CIO, and the National Federation of Government Employees want the aid bill to continue. So you better reconsider that directive you are giving me.

Mr. DULSKI. I have no problems. I won't be here after January.

Thank you, Mr. Derwinski.

[The questions of Mr. Derwinski and the replies furnished by the Postal Service follow:]

*Question 1.* By letter of June 29, 1972, the General Accounting Office advised the Postal Service that substantial savings could be achieved by replacing government rural delivery service with contract star route service. What action are you presently taking to achieve those savings?

Response. The statement of savings anticipated by the GAO as a result of possible conversions from rural to highway contract service is misleading. The significant factor to be considered is not the cost per mile, but the characteristics of the service and the number of boxes served per mile by a contractor as compared to a rural carrier. Most rural routes are now costed on the basis of hours of work, financial service, mail volume and vehicle usage. "Cost per mile" alone is not a valid basis of comparison.

Postal management usually consolidates substandard rural routes into more cost effective rural routes. Prior to reorganization we could not convert a rural route unless there was a vacancy. There is no prohibition in the 1973 National Agreement against conversions from rural to contract service. However, our actions in this connection must be governed by the fact that the Postal Service has a "no layoff" provision in this contract. The continuing cost of the salary of a rural carrier who might be displaced by contract service must be considered in the comparative evaluations.

While they have not been extensive, some conversions from rural to contract service have been made since June 29, 1972.

*Question 2.* In fact, isn't it true that the Postal Service in several cases, has converted existing contract star route service to more expensive government rural delivery service?

Response. It is our policy, at all times, to use the most effective and efficient means of transporting and delivering mail and keep a high standard of service. We do not know of any cases where contract service was converted to higher cost rural service.

*Question 3.* In performing its responsibility under Section 5005 (c) of the Postal Reorganization Act to compare the true costs of alternative modes of transportation service, what method does the Postal Service use to evaluate the true costs of transportation by government motor vehicle?

Response. In performing its responsibility under Section 5005 (c) of the Postal Reorganization Act, the Postal Service continuously evaluates the relative cost and service stability of different media of transportation in order to determine which one will best meet the stated requirement of the Postal Service for movement of mail between two points. The cost of using each mode, (private contract or postal operated), its record of dependability, and its flexibility to respond to changing postal requirements are considered. The cost evaluation is done in a clearly defined manner on a postal service Form 5505. A copy of this form and the instructions for its use are attached. These have been revised and updated over the past year to take into account thorough costing of each mode of transport. The form is complemented by additional data indicating the service reliability record of various modes where this is available or can be determined. This method is thorough, objective and complete.

*Question 4.* When the Postal Service compared the cost of existing contract service with the projected cost of government vehicle service in Spokane, Washington, in 1969 and 1970, is it not true that five different conclusions were reached as to the cost of government vehicle service?

Response. The Postal Service attempts to assure that all cost factors are considered in evaluating possible service change actions. Thus we often make a series of progressive studies to insure that our findings reflect the most current conditions.

During the course of the Spokane study a number of service and compensation changes took place which made it essential to recast earlier cost projections. In the case of Spokane the determination to retain contract service turned on the factor of taxes foregone through conversion. The final cost factors were: Contractor, \$210,000 per year; Postal Vehicle Service, \$196,842; taxes foregone \$13,690. It should be recognized that foregone taxes are not a budgetary expense of the Postal Service.

*Question 5.* In evaluating the costs of government motor vehicle transportation service, is it not true that statistical averages or estimates are used for labor maintenance, and fuel, which may not reflect the true costs of those items under the service requirements of the particular route?

Response. No. Postal vehicle costs factors are adjusted by formula to reflect the costs of those items under varying service conditions. This adjustment results in equitable allocation of vehicle operation and maintenance costs.

*Question 6.* Is it not also true that private contract service is not given due credit for taxes paid to federal, state, and local governments when the cost of private contract service is compared with the cost of government motor vehicle service?

Response. In comparative cost evaluations between government operated and private contract highway mail transportation services, due credit is given for those pertinent taxes paid by private contractors to federal, state and local governments. The taxes considered are those directly associated with the performance of the service involved and are categorized under the general heading of highway user charges.

These include but are not limited to the following:

1. Gasoline taxes and other fuel taxes;
2. Vehicle taxes and registration fees;
3. Real estate and personal property;
4. Highway use taxes; and
5. Sales taxes.

*Question 7.* Is the Postal Service actually giving the highest consideration to the expeditious economical transportation of mail, as intended by the Postal Reorganization Act?

Response. The Postal Service is giving the highest consideration to the expeditious and economical transportation of mail as intended by the Postal Reorganization Act. The Postal Service seeks to move mail effectively, efficiently, and dependably. It has no brief for or against any particular mode or type of transportation and uses any available type or mode where it does the best job for the Postal Service.

*Question 8.* If so, what steps are being taken to evaluate existing government motor vehicle service to determine whether a private contractor could perform the same service more economically?

Response. At the end of each highway transportation contract term, postal officials in each area are charged with reviewing the transportation of mail. There are clear guidelines for this. These provide that services moving mail between post offices, whether government or privately operated, will be the subject of a comparative evaluation using the Form 5505 noted in prior comment, plus careful service dependability evaluations. The review procedures include an evaluation of existing government service where it moves between post offices.

The Postal Service has a basic operating policy, developed after intensive investigation in several large areas such as Chicago, New York, Oklahoma City, etc. This provides that generally the movement of mail between a post office and its branches and stations or within a dense metropolitan area will be performed by postal vehicle services; movement of mail between post offices other than the above will generally be performed by highway contract transportation. There are exceptions and these are used in many instances such as in Oklahoma City where the local cartage is performed under highway contract.

*Question 9.* Does the Postal Service have any plan or program to use government vehicle for the transportation of mail even if a private contractor could perform the same service more economically?

Response. The Postal Services does not have any plan or program to use government vehicle service for the transportation of mail even if a private contractor could perform the same service more economically. The Postal Service has a basic policy of using that mode or type of transportation which performs a stated service requirement in the most efficient and dependable manner.

Mr. DULSKI. Mr. Gross?

Mr. GROSS. In August 1970, IBM was awarded the sole-source contract to design an advanced optical character reader. The original value of the contract was \$6,730,000 which was escalated to \$9,855,000.

In June 1972, Philco Ford Corp. was awarded a sole-source contract for OCR-2 convention. The amount of this contract was \$916,000.

In June 1970, Recognition Equipment was awarded the sole-source contract to install and test an advanced OCR. The initial amount of the contract was \$6,900,000 which increased to \$10,427,000.

In August 1972, Recognition Equipment was awarded a sole-source contract, OCR-2, at the contract price of \$350,000.

Now, why were these contracts awarded to three different companies on a sole-source basis?

Mr. BAILAR. Mr. Gross, I would answer in this way: those contracts were for a development program with the attendant risks that go with any development program. We were looking for alternative developments, alternative companies to deal with in the hope that the competition between them would increase the odds of getting something we could work with.

I cannot comment to the exact specifics. It is my recollection one of those contracts has since been allowed to lapse because we determined that it did not have the potential we were looking for. I think two of the companies are still in the picture. I would be glad to give you specifics.

Mr. GROSS. And that is your answer to why there is no competition in the awarding of these contracts; is that correct?

Mr. BAILAR. We went to these companies, Mr. Gross, because we felt they had a special capability in the area we were looking into. We

wanted to get some competition between them in the development work so that if and when they reached the point where we were trying to buy commercial optical character reading equipment, we would have alternate sources of supply and not be tied to one company.

Mr. GROSS. In spite of them, one of them is already gone or is out; is that correct?

Mr. BAILAR. We determined that one of them did not have promise for commercial operation.

Mr. GROSS. Well, in May 1972, the Postal Service awarded a negotiated contract to Owen Webb Associates for executive recruitment services. The amount of this award was \$28,000.

Were any officers hired as a result of this talent search? And if so, please name them.

Mr. BAILAR. The name of the firm is Webb Associates?

Mr. GROSS. Yes.

Mr. BAILAR. Not to my knowledge, Mr. Gross. I don't know that they recruited any officers for us.

Mr. GROSS. Well who recruited John Bowen, a comptroller?

Mr. BAILAR. John Bowen was brought into the Postal Service as a result of a search and recommendation from Ernst & Ernst.

Mr. GROSS. How about Leonard Farrell?

Mr. BAILAR. Leonard Farrell was brought in as a result of search and recommendation from Ward Howell, Inc.

Mr. GROSS. John Gentile.

Mr. BAILAR. Ward Howell.

Mr. GROSS. James Glassco.

Mr. BAILAR. I don't know offhand.

Mr. GROSS. Richard Gould.

Mr. BAILAR. Ernst & Ernst.

Mr. GROSS. Ernst & Ernst didn't have much trouble recruiting Ernst & Ernst for the Office of Comptroller and Finance; is that right?

Mr. BAILAR. Ernst & Ernst is the Postal Service's public auditors, Mr. GROSS. At the time that they took on the auditing responsibility, they were asked by Mr. Hargrove to assist us in the recruitment of two financial officers who would have to bring the Postal Service some skills that had not previously been needed in the Postal Service because of the change that the postal reorganization brought about. Hargrove went to Ernst & Ernst because of their involvement in this work and their broad national scope.

Mr. GROSS. You didn't have to pay very much to Ernst & Ernst to get them to appoint Ernst & Ernst, did you?

Mr. BAILAR. We paid Ernst & Ernst the search fees we would have paid to any other search agency for that work, Mr. GROSS.

Mr. GROSS. To get themselves appointed?

Yesterday, we had some discussion of the district managers. I wish you would supply for the record in addition to the information requested yesterday and if it is not a part of yesterday's request, how many of them were created, what is the size of their staffs, what is the grade of the district managers, what pay does that draw?

In other words, you cut the regional headquarters from 15 to 5. You created instead another headquarters over the Postmaster level, is that not true?

Mr. DORSEY. Mr. Gross, there are at this moment 78 districts. The number of people involved are included in the regional complement. They are part of the regional complement staff. They are a level of management between the region and the sectional center postmaster. [The information follows:]

U.S. POSTAL SERVICE DISTRICTS

Attached is a listing, by region, of U.S. Postal Service districts. Following the name of each district is its location, the grade level of the district manager, the authorized staffing, and the grade level range of the district staff (excluding the district manager and secretary).

In those instances where the authorized staffing shown is 1, the district manager is also the postmaster, and selected members of his staff have both post office and district responsibilities.

Compensation for the district manager is within the grade salary range, as specified below :

SALARY RANGE FOR THE 78 DISTRICT MANAGERS

| PES grade | Minimum salary | Maximum salary |
|-----------|----------------|----------------|
| 28.....   | \$28,624       | \$38,492       |
| 29.....   | 29,794         | 40,076         |
| 30.....   | 30,964         | 41,660         |
| 31.....   | 32,136         | 43,244         |

CENTRAL REGION

*District name.*—Akron, location: Akron, OH, grade level of district manager: PES-28, total staffing authorized: 8, grade level range of district staff: PES-22 to PES-25 (excluding district manager and clerical).

*District name.*—Chicago Location: Chicago, IL, grade level of district manager: PES-31, total staffing authorized: 8, grade level range of district staff: PES-24 to PES-27 (excluding district manager and clerical).

*District name.*—Cincinnati, location: Cincinnati, OH, grade level of district manager: PES-30, total staffing authorized: 1.

*District name.*—Cleveland, location: Cleveland, OH, grade level of district manager: PES-30, total staffing authorized: 1.

*District name.*—Columbus, location: Columbus, OH, grade level of district manager: PES-29, total staffing authorized: 1.

*District name.*—Des Moines, location: Des Moines, IA, grade level of district manager: PES-29, total staffing authorized: 7, grade level range of district staff: PES-23 to PES-25 (excluding district manager and clerical).

*District name.*—Detroit, location: Detroit, MI, grade level of district manager: PES-30, total staffing authorized: 7, grade level range of district staff: PES-24 to PES-26 (excluding district manager and clerical).

*District name.*—Evansville, location: Evansville, IN, grade level of district manager: PES-28, total staffing authorized: 7, grade level range of district staff: PES-22 to PES-25 (excluding district manager and clerical).

*District name:* Fargo, Location: Fargo, ND, grade level of district manager: PES-28, total staffing authorized: 7, grade level range of district staff: PES-22 to PES-25 (excluding district manager and clerical).

*District name:* Fort Wayne, location: Fort Wayne, IN, grade level of district manager: PES-28, total staffing authorized: 7, grade level range of district staff: PES-22 to PES-25 (excluding district manager and clerical).

*District name:* Grand Rapids, location: Grand Rapids, MI, grade level of district manager: PES 28, total staffing authorized: 8, grade level range of district staff: PES-22 to PES-25 (excluding district manager and clerical).

*District name:* Indianapolis, location: Indianapolis, IN, grade level of district manager: PES-29, total staffing authorized: 1.

*District name.*—Kansas City, location: Kansas City, MO, grade level of district manager: PES-30, total staffing authorized: 1.

*District Name.*—Louisville, location: Louisville, KY, grade level of district manager: PES-29, total staffing authorized: 8, grade level range of district staff: PES-23 to PES-25 (excluding district manager and clerical).

*District name.*—Milwaukee, location: Milwaukee, WI, grade level of district manager: PES-30, total staffing authorized: 1.

*District name.*—Minneapolis, location: Minneapolis, MN, grade level of district manager: PES-30, total staffing authorized: 8, grade level range of district staff: PES-24 to PES-26 (excluding district manager and clerical).

*District name.*—Omaha, location: Omaha, NE, grade level of district manager: PES-29, total staffing authorized: 7, grade level range of district staff: PES-23 to PES-25 (excluding district manager and clerical).

*District name.*—Sioux Falls, location: Sioux Falls, SD, grade level of district manager: PES-28, total staffing authorized: 7, grade level range of district staff: PES-22 to PES-25 (excluding district manager and clerical).

*District name.*—Springfield, location: Springfield, IL, grade level of district manager: PES-28, total staffing authorized: 8, grade level range of district staff: PES-22 to PES-25 (excluding district manager and clerical).

*District name:* Springfield, location: Springfield, MO, grade level of district manager: PES-28, total staffing authorized: 7, grade level range of District staff: manager: PES-25 (excluding district manager and clerical).

*District name.*—Toledo, location: Toledo, OH, grade level of district manager: PES-29, total staffing authorized: 8, grade level range of district staff: PES-22 to PES-25 (excluding district manager and clerical).

*District name.*—Wichita, location: Wichita, KS, grade level of district manager: PES-28, total staffing authorized: 9, grade level of district staff: PES-22 to PES-25 (excluding district manager and clerical).

#### EASTERN REGION

*District name.*—South Jersey, location: Cherry Hill, N.J., grade level of district manager: PES-28, total staffing authorized: 6, grade level range of district staff: PES-25 (excluding district manager and clerical).

*District name.*—Chesapeake, location: Baltimore, MD, grade level of district manager: PES-30, total staffing authorized: 1.

*District name.*—Capital, location: Washington, D.C., grade level of district manager: PES-30, total staffing authorized: 12, grade level range of district staff: PES-25 (excluding district manager and clerical).

*District name.*—Colonial, location: Richmond, VA, grade level of district manager: PES-29, total staffing authorized: 6, grade level range of district staff: PES-25, (excluding district manager and clerical).

*District name.*—Piedmont, location: Roanoke, VA, grade level of district manager: PES-28, total staffing authorized: 6, grade level range of district staff: PES-25, (excluding district manager and clerical).

*District name.*—Mountaineer, location: Charlestown, WV, grade level of district manager: PES-28, total staffing authorized: 6, grade level range of district staff: PES-25 (excluding district manager and clerical).

*District name.*—Empire, location: Rochester, N.Y., grade level of district manager: PES-29, total staffing authorized: 9, grade level range of district staff: PES-21 to PES-25 (excluding district manager and clerical).

*District name.*—Allegheny, location: Pittsburgh, PA, grade level of district manager: PES-30, total staffing authorized: 8, grade level range of district staff: PES-21 to PES-26 (excluding district manager and clerical).

*District name.*—Susquehanna, location: Harrisburg, Pa., grade level of district manager: PES-28, total staffing authorized: 7, grade level range of district staff: PES-25 (excluding district manager and clerical).

*District name.*—Delaware Valley, location: Philadelphia, Pa., grade level of district manager: PES-30, total staffing authorized: 10, grade level range of district staff: PES-20 to PES-26 (excluding district manager and clerical).

#### SOUTHERN REGION

*District name.*—Charlotte, location: Charlotte, N.C., grade level of district manager: PES-29, total staffing authorized: 11, grade level range of district staff: PES-15 to PES-25 (excluding district manager and clerical).

*District name.*—Columbia, location: Columbia, S.C., grade level of district manager: PES-28, total staffing authorized: 11, grade level range of district staff: PES-15 to PES-25 (excluding district manager and clerical).

*District name.*—Tampa, location: Tampa, Fla., grade level of district manager: PES-29, total staffing authorized: 11, grade level range of district staff: PES-15 to PES-25, (excluding district manager and clerical).

*District name.*—Miami, location: Miami, Fla., grade level of district manager: PES-30, total staffing authorized: 1.

*District name.*—Houston, location: Houston, TX, grade level of district manager: PES-30, total staffing authorized: 1.

*District name.*—Jackson, location: Jackson, MS, grade level of district manager: PES-28, total staffing authorized: 11, grade level range of district staff: PES-15 to PES-25 (excluding district manager and clerical).

*District name.*—New Orleans, location: New Orleans, LA, grade level of district manager: PES-29, total staffing authorized: 1.

*District name.*—Shreveport, location: Shreveport, LA, grade level of district manager: PES-28, total staffing authorized: 11, grade level range of district staff: PES-15 to PES-24 (excluding district manager and clerical).

*District name.*—Memphis, location: Memphis, TN, grade level of district manager: PES-29, total staffing authorized: 1.

*District name.*—Atlanta, location: Atlanta, GA, grade level of district manager: PES-30, total staffing authorized: 1.

*District name.*—Oklahoma City, location: Oklahoma City, OK, grade level of district manager: PES-29, total staffing authorized: 11, grade level range of district staff: PES-15 to PES-25 (excluding district manager and clerical).

*District name.*—Dallas, location: Dallas, TX, grade level of district manager: PES-30, total staffing authorized: 11, grade level range of district staff: PES-15 to PES-26 (excluding district manager and clerical).

*District name.*—San Antonio, location: San Antonio, TX, grade level of district manager: PES-29, total staffing authorized: 11, grade level range of district staff: PES-15 to PES-25 (excluding district manager and clerical).

*District name.*—Little Rock, location: Little Rock, AR, grade level of district manager: PES-28, total staffing authorized: 11, grade level range of district staff: PES-15 to PES-25 (excluding district manager and clerical).

*District name.*—Nashville, location: Nashville, TN, grade level of district manager: PES-29, total staffing authorized: 11, grade level range of district staff: PES-15 to PES-25 (excluding District Manager and Clerical).

*District name.*—Birmingham,<sup>1</sup> location: Birmingham, AL, grade level of district manager: PES-29, total staffing authorized: 1.

#### NORTHEAST REGION

*District name.*—Providence, location: Providence, RI, grade level of district manager: PES-29, total staffing authorized: 7, grade level range of district staff: PES-24 to PES-25 (excluding district manager and clerical).

*District name.*—Springfield, location: Springfield, MA, grade level of district manager: PES-29, total staffing authorized: 7, grade level range of district staff: PES-24 to PES-25 (excluding district manager and clerical).

*District name.*—Hartford, location: Hartford, CT, grade level of district manager: PES-29, total staffing authorized: 7, grade level range of district staff: PES-24 to PES-25, (excluding District Manager and Clerical).

*District name.*—White River Junction, location: White River Junction, VT, grade level of district manager: PES-28, total staffing authorized: 7, grade level range of district staff: PES-23 to PES-25 (excluding district manager and clerical).

*District name.*—Caribbean, location: San Juan, PR, grade level of district manager: PES-28, total staffing authorized: 1.

*District name.*—Nassau/Suffolk, location: Carle Place, NY, grade level of district manager: PES-28, total staffing authorized: 7, grade level range of district staff: PES-23 to PES-25 (excluding district manager and clerical).

*District name.*—Northern New Jersey, location: Hackensack, NJ, grade level of district manager: PES-30, total staffing authorized: 8, grade level range of district staff: PES-25 to PES-26 (excluding district manager and clerical).

*District name.*—Queens, location: Queens, NY, grade level of district manager: PES-29, total staffing authorized: 1.

*District name.*—Manhattan/Bronx, location: New York, NY, grade level of district manager: PES-31, total staffing authorized: 1.

<sup>1</sup> Recently closed.

*District name.*—Brooklyn/Staten Island, location: Brooklyn, NY, grade level of district manager: PES-29, total staffing authorized: 1.

*District name.*—Boston, location: Boston, MA, grade level of district manager: PES-30, total staffing authorized: 7, grade level range of district staff: PES-25 to PES-26 (excluding district manager and clerical).

*District name.*—Portland, location: Portland, ME, grade level of district manager: PES-28, total staffing authorized: 7, grade level range of district staff: PES-23 to PES-25 (excluding District Manager and clerical).

*District name.*—Westchester, location: White Plains, NY, grade level of district manager: PES-28, total staffing authorized: 8, grade level range of district staff: PES-23 to PES-25 (excluding district manager and clerical).

#### WESTERN REGION

*District name.*—Alaska, location: Anchorage, AK, grade level of district manager: PES-28, total staffing authorized: 7, grade level range of district staff: PES-22 to PES-25 (excluding district manager and clerical).

*District name.*—Albuquerque, location: Albuquerque, NM, grade level of district manager: PES-28, total staffing authorized: 9, grade level range of district staff: PES-22 to PES-25 (excluding district manager and clerical).

*District name.*—Billings, location: Billings, MT, grade level of district manager: PES-28, total staffing authorized: 7, grade level range of district staff: PES-19 to PES-25 (excluding district manager and clerical).

*District name.*—Cheyenne, location: Cheyenne, WY, grade level of district manager: PES-28, total staffing authorized: 1.

*District name.*—Colorado Springs, location: Colorado Springs, CO, grade level of district manager: PES-28, total staffing authorized: 8, grade level range of district staff: PES-22 to PES-25 (excluding district manager and clerical).

*District name.*—Denver, location: Denver, CO, grade level of district manager: PES-29, total staffing authorized: 1.

*District name.*—Honolulu, location: Honolulu, HI, grade level of district manager: PES-29, total staffing authorized: 1.

*District name.*—Los Angeles, location: Los Angeles, CA, grade level of district manager: PES-31, total staffing authorized: 1.

*District name.* Phoenix, location: Phoenix, AZ., grade level of district manager: PES-29, total staffing authorized: 1.

*District name:* Portland, location: Portland, OR., grade level of district manager: PES-30, total staffing authorized: 1.

*District name.*—Sacramento, location: Sacramento, CA, grade level of district manager: PES-29, total staffing authorized: 9, grade level range of district staff; PES-23 to PES-25 (excluding district manager and clerical). Salt Lake City, location: Salt Lake City, Utah, grade level of district manager: PES-29, total staffing authorized: 1.

*District name.*—Santa Barbara, location: Santa Barbara, CA., grade level of district manager: PES-31, total staffing authorized: 9, grade level range of district staff: PES-22 to PES-25 (excluding district manager and clerical).

*District name.*—San Diego, location: San Diego, CA., grade level of district manager: PES-29, total staffing authorized: 1.

*District name.*—San Francisco, location: San Francisco, CA., grade level of district manager: PES-31, total staffing authorized: 9, grade level range of district staff: PES-22 to PES-27 (excluding district manager and clerical).

*District name.*—Seattle, location: Seattle, WA., grade level of district manager: PES-30, total staffing authorized: 1.

*District name.*—Spokane, location: Spokane, WA., grade level of district manager: PES-28, total staffing authorized: 8, grade level range of district staff: PES-22 to PES-25 (excluding district manager and clerical).

Mr. GROSS. What did you accomplish by abandoning the regional concept or practically abandoning it and substituting the district manager concept?

Mr. DORSEY. I wasn't there at the time it was done, but I can give you my opinion. We had 15 regions. There was no level of management between the local postmasters and the regions. There were roughly 2,000 to 2,500 postmasters reporting to each regional director. The people who organized the Postal Service in 1971 felt that that was too

many people reporting to one man; that there ought to be some intermediate level of reporting.

This resulted in the concept of the district manager, who has roughly five to six sectional center managers who report to him. And the associate postmasters report to the sectional center manager. It was an attempt, I believe, to eliminate or reduce as far as practicable the number of people that reported directly to someone else so you could get a manageable number to deal with.

Mr. GROSS. Well, what part of the \$1 billion for the bulk-mail system was contemplated to be spent on Secaucus?

Mr. DORSEY. The bulk-mail portion of the Jersey City center had a capital investment budget of about \$95 million. Now, that is not all of the money. And I will have to get the other figures for you.

I think the total budget now is something like \$150 million. And I think that includes the foreign mail center; \$95 million is really the figure for the bulk side, Mr. GROSS.

But I would like to furnish for you a breakdown of the two because if you add them together, you get a figure of about \$160 million.

Mr. GROSS. I suppose the answer to how much of this has been spent or committed today is \$150 million or somewhere in that neighborhood.

Mr. DORSEY. Somewhere in that neighborhood.

Mr. GROSS. \$150 million?

Mr. DORSEY. Yes, sir.

Mr. GROSS. How much is now the estimated cost of getting this thing in operation?

Mr. DORSEY. Subject to correction of the record, I think the price is about \$160 million. But I would have to check to make sure. I furnished it for the record a couple of weeks ago, but I did not retain the amount.

[The information follows:]

#### ESTIMATED COST OF THE BULK MAIL FACILITY AT SECAUCUS

Of the \$950 million capital budget for the Bulk Mail System, the bulk-mail portion of the Secaucus facility had a capital investment budget of \$95 million.

The total budget figure now is \$156 million which includes the foreign mail center. \$95 million is for the bulk side, and \$61 million is the investment budget for the foreign side.

Mr. GROSS. What is your estimated savings or gains from the increased productivity for fiscal year 1975 coming out of Secaucus?

Mr. DORSEY. I don't have the figure for what the Jersey City facilities will produce. Generally, the whole system was estimated originally to produce about \$300 million a year savings for all 21 facilities.

I would have to get the savings for you.

Mr. GROSS. Can you forecast that savings?

Mr. DORSEY. We forecast between \$200 million and \$300 million. The fiscal year 1975 savings for the New York Bulk and Foreign Mail Center are estimated at \$20 million.

Mr. GROSS. How much do you estimate the strike at Secaucus cost?

Mr. DORSEY. I really don't know, sir. We will get that for you.

[The information follows:]

#### COST OF STRIKE AT SECAUCUS FACILITY

Identifiable costs of the strike which occurred between January 21 and January 25, 1974, are estimated at \$557,000.

This is essentially for overtime and other labor utilized to distribute mail which could not be processed during the strike period at the New York Bulk and Foreign Mail Center and at the Meadows facility.

Mr. DULSKI. Would the gentleman yield?

Mr. GROSS. Of course, Mr. Chairman.

Mr. DULSKI. What was the original cost estimate for Secaucus?

Mr. DORSEY. At the time we started building, the estimate was about \$130 million. You have to remember, Mr. Chairman, that the building at Jersey City or Secaucus, as we call it sometimes, is in two parts. There is a foreign mail center and a bulk mail center. We had planned a new foreign mail center all along. The bulk mail center originally started out to handle parcels and sacks for the west side of Manhattan in lieu of handling in the Morgan Station complex. It subsequently became part of the bulk mail system.

Mr. DULSKI. Would you say it was \$35 million?

Mr. DORSEY. I don't recall that figure. Because the figures have changed over the last 3 or 4 years.

Mr. DULSKI. That is the point. The figures have been changing from one figure to another. It now exceeds \$160 million.

Mr. DORSEY. That includes the foreign mail center, Mr. Chairman. And I think we have to keep in mind that we had planned to build a foreign mail center with or without the bulk system, because the building we used for this purpose had burned. The one we were using at the Brooklyn Army Terminal was totally unsatisfactory.

Mr. DULSKI. The foreign mail section is a very small part. I was down at Secaucus, and I see that as a very tiny part of that whole establishment you have there.

Mr. DORSEY. It employs roughly about 1,800 people. It is not a small operation. We handle surface foreign mail from the entire United States for Latin America, Europe, the Middle East, as well as second-, third-, and fourth-class mail to overseas military bases. Also, surface mail from the trans-Atlantic foreign countries passes through the foreign center for domestic destinations throughout the entire United States.

Mr. DULSKI. You have one more minute remaining.

Mr. GROSS. Thank you, Mr. Chairman.

Would you say that the strike at Secaucus cost a substantial amount?

Mr. DORSEY. Sure, it cost us, Mr. Gross. Because we were unable to process mail for about 4 or 5 days. We had to shuttle some mail to New York.

If you looked at a dollar and cents figure, we weren't paying wages, either.

Mr. GROSS. That kind of transportation and handling does cost a lot of money, does it not?

Mr. DORSEY. It cost us money.

Mr. GROSS. To what classes of mail is that going to be charged?

Mr. DORSEY. Well, the whole capital budget of the bulk mail system is an institutional cost. I think we have said this before before this committee.

What particular class of mail that would be charged to, I really couldn't say at this point.

Mr. GROSS. Of course, you know where it is going to be charged, don't you?

Mr. DORSEY. I don't sir.

Mr. GROSS. It is going to be charged to loss and Congress will have to appropriate for it or it is going to come out of first class, isn't it? Where else would you get the money?

Mr. DORSEY. I am not in the rate area. I think someone else at the table could perhaps speak to it better than I can, Mr. Gross.

Mr. GROSS. Well, thank you, Mr. Chairman.

Mr. DULSKI. The gentleman's time has expired.

Mr Daniels?

Mr. DANIELS. Mr. Dorsey, you were just talking about the Secaucus bulk mail facility. That facility as well as another large facility is located in my congressional district. And the other is Kearny. Would you tell this committee exactly what the function of both or these facilities are?

Mr. DORSEY. Yes. The bulk mail facility, the one we have sometimes called Secaucus, which is really in Jersey City—

Mr. DANIELS. Why do you call it Secaucus?

Mr. DORSEY. It has been referred to here as Secaucus, which describes the general vicinity of the plant.

Mr. DANIELS. It is physically located in the city of Jersey City.

Mr. DORSEY. Everybody else refers to it as Secaucus, we call it Jersey City.

The New York Bulk and Foreign Mail Center handles inbound foreign surface mail destined to all parts of the United States primarily from transatlantic foreign countries. It handles outbound foreign surface and military (APO-FPO) mails originating in all parts of the United States and destined for Latin America, Europe, Middle East, and African countries or military bases overseas.

For domestic bulk mail the New York Bulk and Foreign Mail Center services area includes northern New Jersey, the southeast portion of New York State, Manhattan, and metropolitan New York destinations.

The Kearny facility, which is also called Meadows was originally designed to handle bulk mail for the New York metropolitan area and the northern New Jersey area. We are also using Kearny as a makeup and transfer point for some New York Bulk and Foreign Mail Center service area mails until the New York bulk operation is totally operable and the equipment shakedown period is completed. We are now studying what we are going to do with the Kearny facility. There are alternatives. It may be made into an adjunct of the Newark post office to handle preferential mail. As you know, Newark is a very crowded facility and needs space to handle preferential mail. We have not yet made a final decision regarding what to do with the Kearny building. It is possible we may have to keep it as an adjunct to the bulk center if the volume continues to increase.

Mr. DANIELS. Both of these facilities are extremely large.

Mr. DORSEY. Yes, sir.

Mr. DANIELS. I think the Secaucus facility is about 800 feet in width and runs about 1,400 feet alongside of the highway.

Mr. DORSEY. Jersey City has about 1,460,000 feet in it.

Mr. DANIELS. How many employees are engaged there.

Mr. DORSEY. There are about 3,900.

Mr. DANIELS. You have three different types of operations there, do you not?

Mr. DORSEY. We have a foreign and military side, and we have a bulk side. We have two big separate buildings, in a sense.

Mr. DANIELS. How about the Customs? Doesn't Customs operate there?

Mr. DORSEY. Customs is in the foreign side. They have part of the space. There really is a hole in the wall, where we send a conveyor belt through with packages for Customs inspection.

The Customs people examine the packages and send them back to us, either stamped "passed free," or with the Customs duty assessment.

Mr. DANIELS. Do you process any first-class mail?

Mr. DORSEY. We do process a limited amount of foreign letter mail going overseas by surface transportation.

Mr. DANIELS. At which facilities?

Mr. DORSEY. The foreign center at Jersey City.

Mr. DANIELS. If my memory serves me correctly, the Carney or Meadowland facility has substantial heavy equipment installed there when it was first put into operation, costing somewhere in the neighborhood of \$15 or \$16 million. That facility is not too old.

Mr. DORSEY. About 3 years, I believe.

Mr. DANIELS. No, it is older than that. It must be about 7 or 8 years, 6 or 7.

Mr. DORSEY. It has been building that long, but we have only been in it 3 or 4 years.

Mr. DANIELS. Since we took it over?

Mr. DORSEY. Yes.

Mr. DANIELS. It was in operation before you took it over.

Mr. DORSEY. You may be thinking of another terminal, Sealand.

Mr. DANIELS. No. I know my district pretty well. I have visited these facilities at the request of the Postmaster General, not too long ago. But, I have been in the Kearny facility several times before.

Now, there was a substantial investment made in the Kearny facility, running into millions of dollars for equipment. Whatever happened to that equipment? I understood, I don't know how true it is, but you can tell us for the record—

Mr. DORSEY. The equipment is still being used.

Mr. DANIELS. The last time I was there at your invitation, about a year, year and a half, ago, some of it was broken down and could not be used. In fact, there was so much debris on some of the tracks in the place that you couldn't possibly use that equipment.

Mr. DORSEY. As far as I know, and I have no information as late as this morning that indicates to the contrary, we are still using the equipment.

Mr. DANIELS. I would suggest, Mr. Dorsey, you take a look at it.

Mr. DORSEY. I was there not long ago. We have sack sorters and parcel sorters in there, as well as some outside parcel sorters. The last time I was there, we were using all the equipment.

In fact, because of some problems we have had at the bulk centers, we have had to process some mail in there.

Mr. DANIELS. You have not come to any complete conclusion as to what you are going to do with the Meadowland facilities in Kearny.

Mr. DORSEY. No, sir. We have not. We are currently studying that.

Mr. DANIELS. Do you expect the so-called Secaucus facilities to be operational very, very shortly? Don't you think the department ought to come to some conclusion as to what you are going to do with other facilities in which millions of dollars have been invested?

Mr. DORSEY. Yes, sir. But, we do not anticipate being out of that facility totally for another 6 months to a year, even with the current Jersey City operation.

Mr. DANIELS. Do you think it might be more economical to transfer the Newark Post Office operation to the Kearny facility? Would that be a good move?

Mr. DORSEY. We are considering the possibility of moving the preferential mail operation from Newark, which includes Newark and a number of northern New Jersey post offices. We would include the necessary equipment, like letter sorting machines and optical character readers.

Mr. DANIELS. General, the right kind of mechanization, especially on a fully integrated national basis for first-class mail, is essential to an efficient operation. Yet, after many years and study and expenditures and great sums of money, there is serious doubt and delay about the right kind of mechanization and how it should be employed.

Hasn't the lack of continuity in the top management seriously affected the modernization of the mechanism program which would help the Postal Service?

Mr. KLASSEN. Congressman, we, today, have about 50 percent of our mail handled by machines versus about 10 percent 5 years ago. I would say to you, that this technology is readily available to us. It is a matter of our getting the equipment, getting people trained to use it, and then making the most use of it.

Yesterday, someone suggested that we have standard size envelopes. That is something we are working on which will help our machinery utilization.

I agree with you, this is important to us.

As to any new dramatic breakthrough coming down the pike that might affect the mail service, that hasn't yet developed. But, I don't think that has anything to do with the continuity of management in the people who are working on these projects, for the most part, are long-term postal employees.

Mr. DANIELS. I know, General, if you will excuse my interruption, if you change one manager for another manager and the later manager comes from outside industry, without much experience with postal operations, I can see very readily that there would be some breakdown in the continuity of the operation.

Mr. KLASSEN. Certainly, at any level, if you change management, the new management may have new ideas and they may take out some policies that are in effect and put in new ones.

Of course, you have some problems if you do that. I think that is a point we were trying to make yesterday. Even though personnel might change, that doesn't necessarily change the concept of management policy.

Mr. DANIELS. Recently, you fired one Alden Schneider, who was in charge of Research and Engineering. Can you tell us why?

Mr. KLASSEN. We didn't exactly fire him, Mr. Daniels. He decided in the interest of his own personal well-being and that of his family,

that he had to seek employment in private industry because he saw little opportunity for himself for the kind of income that he had been used to having.

Mr. DANIELS. The termination of his services, then, was not due to incompetency or lack of ability to perform the job? Is that what you are telling me?

Mr. KLASSEN. No, sir.

Mr. DULSKI. The gentleman's time has expired.

Mr. HINSHAW. Mr. Klassen, perhaps you will recall the colloquy we had yesterday about the employment contract that some employees with the postal service have regarding pay continuation. Do you recall that colloquy?

Mr. KLASSEN. Yes, sir.

Mr. HINSHAW. Do you recall the unanimous consent request I made of the committee to have you study the rest of the Federal Government to see whether or not, there were any Federal Governmental functions which have these same type of employment contracts.

Mr. KLASSEN. I do recall it.

Mr. HINSHAW. Can you tell me when you would anticipate you would give the results of that study back to this committee?

Mr. KLASSEN. I will tell you, Congressman Hinshaw, for the moment, I don't even know how to go about getting the information.

I would like to give it to you as quickly as I can. Can we say, 10 days?

Mr. HINSHAW. Ten days would be fine.

Mr. KLASSEN. I really don't know how we are going to go about getting it yet.

Mr. HINSHAW. I think the Civil Service Commission can help you in that regard.

Mr. KLASSEN. I do want to say, however, Mr. Hinshaw, on the legislation we are operating under—

Mr. HINSHAW. I understand it is the law. I propose to introduce legislation or study the desirability of introducing legislation to change the law.

I noticed in your press release, in response to the call of Congressman Morris Udall of Arizona for your resignation, that you indicate that your contract had been renewed as of last spring. And it was quite a decision for you because of what you characterized as embarrassment through attacks on you.

Would you agree that the top manager of any organization is subjected to both the praise, as well as the criticism, if the job is not well done.

Mr. KLASSEN. Certainly.

Mr. HINSHAW. Could you tell me why the Board of Governors decided to ask you to renew your contract so far in advance of its termination date?

Mr. KLASSEN. Mr. Hinshaw, in any organization, the board of directors or board of governors would always have concern as to the succession. And they couldn't leave this rest until the contract has expired and then do something about it.

And I think you will find this the case in most such situations where it is important for them to have a very strong sense of the management structure and who it might comprise. And you wouldn't expect them to wait until next February to do this.

Mr. HINSHAW. I think that I might very well expect them to wait a little bit longer before they were renewed.

I was interested in the response to Mr. Gross' question about Ernst & Ernst, and outside auditors. Let me see if I understand the situation correctly.

Ernst & Ernst did recruit and was paid for recruiting some financial officers of the Postal Service.

Mr. KLASSEN. As Mr. Bailar reported; yes, sir.

Mr. HINSHAW. Was Ernst & Ernst, at that time, your outside auditors?

Mr. BAILAR. They were; yes.

Mr. HINSHAW. I was interested in some of the discussion on the bulk mail system and the response that you managed to save somewhere between \$200 and \$300 million on that system. Does that increased savings contemplate—and I would like for Mr. Klassen to answer—an increase in volume?

Mr. KLASSEN. It is primarily, Congressman Hinshaw, a matter of people. This mechanization and this system will reduce our work force to the point that most of the savings would result from that, plus the fact—

Mr. HINSHAW. Does it include contemplating an increase in volume margin?

Mr. KLASSEN. I can't tell you that.

Mr. DORSEY. No, it does not. It is based on—

Mr. HINSHAW. Mr. Dorsey just a moment. I am interested in finding what Mr. Klassen knows.

Mr. DORSEY. OK.

Mr. HINSHAW. Mr. Klassen, can you define for me, institutional costs?

Mr. KLASSEN. I think I can, yes, in simple terms.

Mr. HINSHAW. Would you please, do it for me.

Mr. KLASSEN. It is that part of the costs that cannot be directly applied to a particular class of mail.

Mr. HINSHAW. Is it not true, that the 1970 Reorganization Act contemplated that all of the costs of first class be attributed to first class?

Mr. KLASSEN. I can't speak to that, for the moment.

Mr. HINSHAW. You don't know about the 1970—

Mr. KLASSEN. I don't recall, Mr. Hinshaw, what the legislation said at that particular point.

Mr. HINSHAW. Would institutional costs, in that portion that cannot be allocated to a particular class of service, include maintenance and depreciation chargeable to building and equipment and other depreciable assets that are used principally, and perhaps exclusively, in any particular class of mail?

Mr. KLASSEN. That is right.

Mr. HINSHAW. How would you, then, justify not charging to each of the classes of mail, depreciation and maintenance on buildings and other assets used exclusively in that class of mail?

Mr. KLASSEN. I appreciate what you are trying to do. But, you must also understand, Mr. Hinshaw, that no one can be all that familiar with all the details. And I am going to ask, with your permission, either Mr. Bailar or Mr. Nicholson, to respond to that.

Mr. HINSHAW. I will ask Mr. Bailar, then, the question in view of the fact you don't know the answer.

Mr. Bailar, are there some institutional costs that include depreciation on fixed assets included in the broad category of institutional costs?

Mr. BAILAR. Yes, there are.

Mr. HINSHAW. Would these include facilities used for first-class mail?

Mr. BAILAR. Among other things; yes.

Mr. HINSHAW. Second class?

Mr. BAILAR. Yes.

Mr. HINSHAW. Third class, fourth class?

Mr. BAILAR. Yes.

Mr. HINSHAW. Why can you not charge the depreciation on those assets directly to the class of service?

Mr. BAILAR. Mr. Hinshaw, the philosophy—

Mr. HINSHAW. Not the philosophy. I have to know why you can't. I have an accounting background.

Mr. BAILAR. The charges of depreciation and other things relating to these facilities, are considered institutional costs because the buildings would be there in any event. The things that we consider attributable costs—

Mr. HINSHAW. Mr. Bailar, let me ask you, do you know whether or not the 1970 Reorganization Act requires that all of the costs of a particular class of service be attributed directly to that class of service?

Mr. BAILAR. The costs directly related to a class of mail should be considered attributable. That is my understanding.

Mr. HINSHAW. Would not the postal facilities, equipment, and buildings, which are being used exclusively for first-class mail or any other class of mail be charged directly to that class of mail?

Mr. BAILAR. If they were being used exclusively for one class of mail, Mr. Hinshaw, I think we should consider them attributable costs.

Mr. HINSHAW. Mr. Bailar, have you ever heard of units of service, hours of service, depreciation charges?

Mr. BAILAR. Yes, sir, I have.

Mr. HINSHAW. Why could you not do that on these multi-use facilities if, in fact, they are multi-use?

Mr. BAILAR. As I said when I commented earlier, Mr. Hinshaw, these facilities are in our judgment going to be in this location regardless of the type or volume of mail.

And those costs which we consider attributable are those that are directly related to short-range volume change in the class of mail.

Mr. HINSHAW. I understand that.

Mr. Klassen. I would ask the committee for unanimous consent to have you supply this committee with a detailed analysis as to why you are engaging in this type of accounting for depreciation and maintenance of buildings and other fixed assets, which are used on particular classes of mail service, and tie that into your analysis as to why you believe that either it conforms or does not conform to the requirement of the Postal Act of 1970.

And I would ask that you do that within 2 weeks.

Mr. DULSKI. Is there any objection?

[No response.]

The Chair hears none.

[The information follows:]

Mr. Hinshaw asks why the Postal Service takes the accounting approach it does and whether or not this approach fulfills the requirements of the Postal Reorganization Act.

A knowledge of background is necessary at the outset. From 1926 through 1968 costs for ratemaking purposes were estimated by the Cost Ascertainment System. In that system, space occupancy costs were distributed to the classes of mail in accordance with reasonable judgments based on the space occupied by the different classes of mail processed in each principal facility.

The Cost Ascertainment System was the subject of extensive criticism by the Congress and by mailers as being inappropriate for ratemaking purposes. The series of judgments used as the basis for allocating a variety of common, indirect, and fixed costs, including the costs of space and equipment, was strongly questioned by almost all parties to the rate-setting procedure.

The Kapell Commission, in its report "Towards Postal Excellence" published in June 1968, specifically rejected the old Cost Ascertainment System and came out against any fully distributed cost system.

Congress accepted this finding of the Kappel Commission, with this rejection of the old Cost Ascertainment System particularly reflected in the distinction set out in the Postal Reorganization Act between attributable costs and institutional costs.

As recently as January 30, 1974, confirmation of the correctness of current costing practices was given by the Honorable James M. Hanley, Chairman of the Subcommittee on Postal Service of the House Committee on Post Office and Civil Service. During hearings involving witnesses from the Postal Rate Commission, Mr. Hanley made the following statement:

In the many years Congress fixed postal rates, no issue was more controversial than the Post Office cost accounting procedures. The Kappel Commission itself recognized the unsatisfactory nature of the old cost ascertainment system and came out against any fully allocated cost system.

Congress—at least by strong implication—accepted this finding of the Kappel Commission, particularly reflected in the distinction in the Postal Reorganization Act between attributable costs and institutional costs assignable on the basis of service. Any move by the Rate Commission toward fully allocated costs would, in my opinion, go against Congressional intent and require a major legislative re-examination of the rate making sections of the Reorganization Act.

Therefore, I am somewhat surprised that it appears that the Litigation Division of the Postal Rate Commission is moving in this direction. The Commission should very carefully weigh the vast implications of this move before it makes any decisions which could disturb the delicate balance of the rate-making provisions of the Postal Reorganization Act.

The Senate Report No. 90-912 which preceded passage of the Postal Reorganization Act discussed costs in a way that made it clear that the Congress did not consider fully allocated costs as being synonymous with "attributable" costs, the term which appears in Section 3622(b)(3) of the Postal Reorganization Act.

In discussing parcel post the Senate report stated:

Express companies in the private sector of the economy have expressed their very keen desire to include language in the bill which would require the recovery of fully allocated costs for parcel post. The committee rejects the suggestion on the principle that no particular cost accounting system is recommended and no particular classification of mail is required to recover a designated portion of its cost beyond its incremental cost.

By this language the Senate Committee rejected not only the establishment of a particular cost method for parcel post but also the use of fully allocated costs as a method of determining the "attributable" costs of any type of mail. If "attributable" costs are to be regarded as synonymous with rate floors, that interpretation would render totally meaningless the provisions of Section 3626(1) that certain types of mail should not be required to bear more than their "attributable" costs. And if by choosing a particular cost accounting system a particular classification is thereby required to recover a designated portion of the costs beyond its attributable costs, the purpose of the Postal Reorganization Act is thwarted.

It is also important as a matter of background to bear in mind the fact that the cost finding process is currently a matter being considered in adversary proceedings before the Postal Rate Commission.

The specific categories of costs of interest to Mr. Hinshaw—depreciation and maintenance of buildings and other fixed assets—are typical of the costs previously considered in the old Cost Ascertainment System and specifically subject to reformed treatment within the context of the Postal Reorganization Act.

In the view of the Postal Service, the accounting treatment presently given such costs is entirely consistent with the Postal Reorganization Act and is deemed to be required by that Act.

Mr. HINSHAW. Mr. Klassen, going back for a moment, is it not true that the fourth class mail has dropped off substantially in volume?

Mr. KLASSEN. Yes.

Mr. HINSHAW. Can you tell the committee why you believe if, in fact you do believe, the postal service must recapture the volume of mail that you lost to private enterprise?

Mr. KLASSEN. Why we should recapture it?

Mr. HINSHAW. Why do you feel you must recapture it.

Mr. KLASSEN. First of all, we must serve all the people all the time. And we recognize we have substantial competition. Some of it has been in effect for some time, for years. Some is developing.

We think, first of all, we have the capacity and the facility to handle all the mail in the country. We think it is to our interest. In other words, the more competition we have, the greater loss of jobs we have.

Mr. HINSHAW. Mr. Klassen, let me see if I can get directly to the point a little easier than this. Is it not a requirement that the Federal Government provides first-class mail service exclusively?

Mr. KLASSEN. Yes; it is.

Mr. HINSHAW. Is it a requirement that the Federal Government provides fourth-class mail exclusively?

Mr. KLASSEN. No, sir.

Mr. HINSHAW. If it appears as though private enterprise can perform fourth-class mail service more efficiently, why does the Postal Service feel it must recapture that at a higher cost to a consumer than is available from private enterprise?

Mr. KLASSEN. Congressman Hinshaw, we have a letter carrier that walks that street, that beat, whether he has 3 pieces of mail or 10 pieces of mail. Obviously, that additional volume is helpful to us.

Mr. HINSHAW. Would you say that it is also helpful if in fact you are subsidizing fourth-class mail through the use of improper accounting procedures for institutional costs subsidizing it from first class, and therefore charging first class more than it ought to be?

Mr. KLASSEN. Would you repeat that again?

Mr. HINSHAW. Yes. Why do you believe you must retain the fourth-class volume in spite of the fact that private enterprise can apparently do it cheaper than you can through your organization?

Mr. KLASSEN. I don't believe I can—

Mr. HINSHAW. Let me finish the question.

And in essence manipulate the cost through the accounting system and not charging fourth class with all of the cost that it is supposed to be charged with according to the Postal Reorganization Act of 1970. And in essence having fourth class subsidized by the first-class users.

Mr. KLASSEN. In the first place, the act in itself provided that ultimately there would be no subsidy, so to speak. That is a question that has some broad aspects to it; it would take a long time to discuss it fully.

In the second place, I think I have covered why we think we ought to have that mail. I think it is important to have that mail.

Mr. HINSHAW. Mr. Klassen, my time is about up. I will ask the committee for unanimous consent to also order the Postal Service to provide this committee with the original cost and the year the dollars

were spent and the remaining undepreciated cost of all of the moneys of each of the asset categories used in the bulk mail services.

[The following response was received:]

NATIONAL BULK MAIL SYSTEM—INVESTMENT ANALYSIS

[[In thousands of dollars]]

| Fiscal year | BMC construction |          |           | Construction |       | Modifications and claims | Subtotal |
|-------------|------------------|----------|-----------|--------------|-------|--------------------------|----------|
|             | Land             | Building | Equipment | ASF          | SCF   |                          |          |
| 1972.....   | 32,941           | 8,878    | 0         | 0            | 0     | 0                        | 41,819   |
| 1973.....   | 0                | 9,548    | 0         | 0            | 0     | 0                        | 9,548    |
| 1974.....   | 0                | 165,473  | 206,872   | 0            | 2,328 | 96,895                   | 471,568  |
| 1975.....   | 0                | 185,541  | 185,541   | 20,182       | 6,100 | 13,363                   | 410,727  |
| 1976.....   | 0                | 0        | 0         | 2,975        | 0     | 13,363                   | 16,338   |
| Total.....  | 32,941           | 369,440  | 392,413   | 23,157       | 8,428 | 123,621                  | 950,000  |

Mr. DULSKI. Mrs. Schroeder?

Mrs. Schroeder?

Mrs. SCHROEDER. Thank you, Mr. Chairman.

I am delighted to follow Congressman Hinshaw, because I wanted to pursue the same line he has. Quite a bit of my time last week was spent studying the postal rates that went into effect last March. Friday, I went down to the Postal Rate Commission and gave testimony in opposition to the rate increases, especially as they affected the first-class mail.

In preparing for this testimony, I went into a lot of the accounting procedures of the Postal Service and must admit that I was absolutely shocked to find that about 46 percent of the total costs in the Postal Service are all that are assigned to the different classes of mail. It appears that no one building was assigned to any class of mail; the carriers weren't assigned; some of the vehicles weren't assigned; rural carriers weren't assigned.

Incredible numbers of things that seemed to me would be very easy to assign to classes of mail were not assigned to classes of mail.

And it appeared that because the Postal Service had a monopoly on first-class mail, it did this account juggling to put things like the new bulk mail facilities which help the Postal Service compete with private companies into the institutional costs so the first-class mail people, who have no other alternative service would pick up those costs.

You were talking about the new mass processing and how you could increase the cost or decrease the service, that great debate. With your new mass processing, you state you are going to be able to save cost. My question is how can you even reach that conclusion with this kind of evasive accounting?

Mr. NICHOLSON. Mrs. Schroeder, there are a number of thoughts going through my mind. One of them is that inasmuch as this is a matter before the Rate Commission and that is the decisionmaking body on the making of rates, I believe I should be somewhat careful in refraining from being argumentative about this. You and we are parties to the proceeding before the Commission.

I don't mean to advocate a case, but I would like to explain and set forth some informational aspects of this area about which you are questioning.

In the first place, it is absolutely our conviction, it is our firm belief, that first-class mail is not overcharged. I call your attention to section 3622—I am looking at my counsel to see if my memory is right.

Mrs. SCHROEDER. It is 2622.

Mr. Cox. No; 36.

Mr. NICHOLSON. 3622 in subsection (b), I believe it is, carries eight items that should be taken into consideration in the making of rates.

The eighth one happens to be other things that the Rate Commission may consider appropriate. The other seven include cost as one of the items. The remaining six have to do with such things as the value of the service, the impact on the user, and so on.

The first thought that went through my mind was that rates are not cost-based according to the Postal Reorganization Act. Rates are partly based on cost, but partly based on six other intangible factors.

Mrs. SCHROEDER. Then, that is your position—and maybe you are right—that we should not be quarreling about rates here. But I read that section as being very clear. You assign costs to each class of mail that are attributable to that class. And I think the fact that not one building in the entire country is attributable to any class of mail is incredible. Yes, there may be more than two classes of mail in any building, but it seems like you could certainly assign those.

The same with the carriers and all the other things. And I think that by your saying we are throwing all these other things in, you are making public policy decisions. And I am sure Congress did not intend the Postal Service to do that as they were proposing rates.

What I think Congress intended was to take politics out of the Postal Service. We want the rates for each class to carry their own costs. We want the cost to be assigned to the classes and make sure that the rates then apply.

Now, I think that it is clear, and there is testimony in the record at the postal rate hearings by your own people that first class is paying more than twice as much as of the institutional costs on a per piece contribution as any other class of mail.

Mr. NICHOLSON. In dollars, yes.

Mrs. SCHROEDER. So I don't think you can say first-class users are not being overcharged.

Mr. NICHOLSON. In dollars, they pay a larger amount.

Mrs. SCHROEDER. They were talking about 3.6 cents per piece.

Mr. NICHOLSON. On a percentage basis which is, I believe, the only way to apportion cost in this case, the percentage of contribution of revenue that goes to institutional cost for first-class mail is not very different from the percentage contribution of third-class mail, for example.

May I comment on this building thing that seems to be of such concern both to you and Mr. Hinshaw?

First, to put it in perspective—and perhaps, Mr. Hinshaw, with your accounting background, this would be useful—the total cost of depreciation is about 1 percent of the total cost.

Now, if a given building is dedicated to one class of mail or can be identified as being dedicated to two classes or three classes, conceivably some separation of charges could be made. But just as airmail facilities are charged to bulk mails, so in the same way bulk mail facilities are charged to airmail and first class. The practical question arises as to how much expense you should go to to make judgmental kinds of

allocations of building costs, when the total cost is 1 percent of the total cost.

What I am suggesting is the cost of making the measurements may exceed the amount that is being assigned. This is an exaggeration, to be sure.

Mrs. SCHROEDER. Yes; I think it is.

Mr. NICHOLSON. But you can see that after you have gone through hundreds of thousands of calculations, you will find instead of charging  $x$  dollars to a given class of mail, it should be  $x$  plus one.

Mrs. SCHROEDER. As a stockholder in your corporation, I would be appalled if you were a director saying to me, "I am really terribly sorry, madam, we can't break out all these costs. It is too costly to break out the cost to tell you what the costs were."

That is what you are telling me.

Mr. NICHOLSON. I believe I started that conversation by saying, "As a practical matter." That is not the basis for making the decision. The attributable costs, which you point out are some 46 percent of the total cost, are those costs that vary with the volume of mail. Otherwise, as Mr. Bailar said, the costs would be present in any event. It is not in the least surprising that only 46 percent of costs are those types that vary with the changes in volume.

This is a very valid definition in ratemaking.

Mrs. SCHROEDER. But it is very short term. On the long term, you can still take your long-term costs and assign them. If you didn't have any classes of mail, then you wouldn't need the other 54 percent of the costs now lumped under "institutional costs."

I find it incredible you say, "We have the building anyway." You wouldn't have buildings if you weren't into mail handling, I don't think.

Mr. DULSKI. Would the gentle lady yield?

Mrs. SCHROEDER. Yes.

Mr. DULSKI. Do you carry depreciation on your books?

Mr. NICHOLSON. Yes, of course.

Mr. DULSKI. The GAO doesn't.

Mr. NICHOLSON. We depreciate buildings. I believe it is a 40-year life generally, and other equipment at various lengths of time, anywhere from 6 years for vehicles to 20 years for other types of equipment.

So, yes, we carry depreciation as a current expense on our books.

Mr. DULSKI. Thank you, Mrs. Schroeder.

Mr. NICHOLSON. I agree with you, Mrs. Schroeder, that the term over which costs may be measured as varying has a real bearing here.

First, though, let us establish the costs we are dealing with are marginal costs. From there on, we can argue about the term.

Mrs. SCHROEDER. They are not marginal if they are 54 percent of the total.

Mr. NICHOLSON. The costs we are measuring are marginal costs.

Mrs. SCHROEDER. They are 54 percent of the total budget. That is more than half. I don't consider that marginal.

You may say one building's depreciation is marginal. When you take all the buildings and all their depreciation, that adds up. When you take all the carriers, that adds up. Suddenly those marginal things make up 54 percent of the total.

It seems to me at least 75 percent of the costs ought to be assignable, at least, and by the Postal Service's own admission.

We have this Mr. Ordway in my district that everyone has commented on. And I must say we were most disappointed. I have been very, very concerned because my background has been in labor law and I think the Postal Service is not providing career ladders for its own people. And I think Ordway is one more example.

I had great hopes when he came in. We went back to see him about many complaints that we were hearing from our people. And we are getting the same old form rubber stamp responses.

From what I see in his background, he was basically in consumer services and all kinds of things, but does not know that much about running a postal facility.

Again, it is very difficult for my postal supervisors to maintain much morale when they find they are overlooked for any kind of promotion; that Ordway comes in laterally transplanted from management's side. Again someone is just kind of transplanted on top of them. And he is supposed to know something more about it, because he has been in consumer service or something.

Thank you, Mr. Chairman.

Mr. DULSKI. Thank you.

Mr. Wilson?

Mr. WILSON. Thank you, Mr. Chairman.

If I had time, I was going to get to Mr. Ordway, too.

Mr. KLASSEN, yesterday, about three of us tried very, very hard to find out what in the world the Board of Governors does other than renew your contract. And I forget who it was who asked the question, but you finally, as I recall, said that you did remember one thing they had done. And that was they had asked you to make a study of having a one price stamp, is that right? If I am incorrect, please correct me.

Mr. KLASSEN. Congressman, most of your question had to do with what studies they had asked us to initiate from time to time, if I remember right. I recall one that just took place within the last 2 months and indicated the question they raised with us. Are we being fair to the American public when we are moving all first class mail by air today and still having an airmail stamp?

I advised yesterday we were studying the situation to see what impact it would really have if we made a change. This is preparatory to our making a recommendation to the Postal Rate Commission at the appropriate time. Assuming all the relevant factors are favorable, this may be discontinued.

Mr. WILSON. You wouldn't discontinue airmail service, though.

Mr. KLASSEN. We would keep moving mail by air, but discontinue the premium we now charge, assuming our study would justify that change.

Mr. WILSON. Well, maybe when Mr. Kappel comes here tomorrow, he can tell us one or two more things that they do. But I am interested in this contract business also.

Mr. Hargrove, as I recall, was given a contract by the USPS when he decided to leave the Service and go back into private industry. His compensation was \$5,000 a year not to exceed 500 hours. The time in excess of 500 hours would be at the rate of \$50 an hour.

Why was he given this type of a contract? What can he do for the Postal Service that someone else can't do?

Mr. KLASSEN. Congressman Wilson, here again is an indication how important it is to have some continuity. Mr. Hargrove had been in the development of the postal legislation. He had been in the development of the financing of the postal organization. And we felt his background should be made available to us to some extent.

Since then, however, we have developed our own expertise well enough to the point that that contract is no longer in effect.

Mr. WILSON. It was amended in February, but he is still available at an hourly rate of \$50 an hour?

Mr. KLASSEN. That is correct.

In addition, though, the background Mr. Hargrove had was in many things we asked him to examine and advise us on and to make studies on. An illustration is the questions that were raised so many times by bulk mail. Why was this system in effect? Was it a practical program? We asked him to make an independent study of this, to give us his views and recommendations on whether or not this program ought to be continued.

He is a man with great background and experience.

Mr. WILSON. I am wondering when we are going to start utilizing career postal people in the field instead of continuing with this type of contract. I think it is absolutely uncalled for, Mr. Klassen. I think it is another one of these things that just invite difficulty for the Service and attracts attention because of the nature of it.

I don't think there is a thing in the world that Mr. Hargrove is doing for you that can't be done by someone who is already in the Service. I think it is a crime that this type of thing is condoned.

You have two military people in the Service, General McCutcheon and Colonel Ulsaker. General McCutcheon came with you in 1971, shortly after his retirement from the Air Force. What is his expertise and what makes him valuable to you?

Mr. KLASSEN. I wasn't here when he was hired, Congressman Wilson, so maybe Mr. Bailar is more familiar with his expertise.

Mr. WILSON. You were Deputy Postmaster General, weren't you?

Mr. KLASSEN. No, sir.

Mr. WILSON. He was hired in 1971 according to this. He retired from the Air Force in September 1971. And he was hired by the Postal Service on October 12.

Mr. KLASSEN. I left as Deputy in January of 1971.

Mr. WILSON. I see. Well, what was his expertise?

Mr. BAILAR. Well, Mr. Wilson—

Mr. WILSON. Other than fouling things up?

Mr. BAILAR. The last years and tours of his years in the Air Force were spent largely in procurement. He had available a knowledge in procurement procedures and Government contract procedures. In addition, he is an experienced executive. He retired as a major general in the Air Force. He was hired to head up the procurement operation of the Postal Service.

Like Mr. Klassen, this was before I arrived, but he is one of my associates now with whom I work. And I have a great deal of respect for him.

Mr. WILSON. He is a procurement official?

Mr. BAILAR. Yes, sir.

Mr. WILSON. Is he one of those who is responsible for these questionable contracts we have been reading about and which my subcommittee is going to get into in depth a little later?

Mr. BAILAR. I don't concur with the inference of your remark, Mr. Wilson. He is in charge of our contracting activities. And when you hold those hearings, he will be here to participate in them.

Mr. WILSON. Now, you had Colonel Ulsaker, who retired as a full colonel, and General McCutcheon, retired as a major general. Ulsaker was the one we discussed yesterday who was so controversial for such a time. He had 31 years in the Army, and then went to the Postal Service in June of 1969. He retired at \$19,000 a year and is up to \$55,000 a year now.

Mr. KLASSEN, if I recall correctly, you said the reason he was no longer controversial was that all of a sudden he developed some maturity. Is that right? After 31 years in the service and another 5 years in the Postal Service, he finally developed maturity.

Mr. KLASSEN. That may have been a bad choice of words, Mr. Wilson. I was trying to respond to Congressman Udall's question where he referred to a fact sheet that had been issued out of his region and a four-page bulletin to his employees on Mr. Ulsaker's procedures at different times. And I agreed with Congressman Udall at the time this is not the way to build a relationship with people. That was no way to build a relationship that was worthwhile.

Mr. Ulsaker recognized it was not worthwhile. That is what I meant by that. This was a matter of some individual trying to take some real initiative in his organization, developing this paper, without Ulsaker being aware it was being released.

Mr. WILSON. Then, Mr. Ordway, who is of concern to Mrs. Schroeder, was an \$18,000-a-year personnel consultant with Booz Allen & Hamilton until February of 1969, at which time he came into the Postal Service as an expert consultant on a rate of \$98.88 per day. And in the meantime, he has received several different job assignments. And now he has been placed in charge of the Denver office.

And I must agree that this is not a good example of trying to find career people. There must be thousands of people in the Postal Service who have been trained and have the background and experience to handle an important job like the one in Denver rather than using this particular individual.

I don't know him; I don't know anything about him other than the fact he doesn't have a heck of a lot of experience in the Postal Service.

Mr. KLASSEN. Congressman Wilson, speaking also to Mrs. Schroeder's comment, we have moved thousands of people from within the ranks to higher jobs. In fact, we have now appointed some 12,000 people from within the ranks to postmaster jobs. This, of course, has had a great effect within the organization because this in itself meant many thousands of other promotions.

Now, I don't recall who these four or five men were, who were suggested for that job. But I am sure they were career people of long service to that group, were they not?

Mr. BROWN. Yes.

Mr. KLASSEN. And the Selection Board, which was described here yesterday, in reviewing each of the applicants, determined that his

potential perhaps was stronger than those others who had been nominated to be considered.

And I share the views that were expressed about Mr. Ordway. I think he is a very able, aggressive young man, who did a very effective job in the consumer advocate relationship throughout the country. He absorbed a great deal of background and experience in the Postal Service. And I think he is a man who has long-range potential.

Mr. WILSON. Mrs. Schroeder obviously is more qualified to judge whether he has been a good postmaster in Denver or not.

One other thing. I am interested, Mr. Klassen, is the Postal Service bankrupt at the present time?

Mr. KLASSEN. No; it is not bankrupt.

Mr. WILSON. This is not a facetious question. You will probably have to have a loan within a month or so because you will be without funds, is that right?

Mr. KLASSEN. Let me point out, Congressman Wilson, we are subjected to the same kind of economic pressure everybody else is. As an illustration, the cost-of-living provisions that we have in our labor agreement, which we think were justified—and our people were deserving of that sort of protection—and the increase in fuel costs alone, represent 94 percent of our losses for the year.

Mr. WILSON. Can you ever get out of this? You are going to have to come to Congress and have more Congressional appropriations, I would suspect. Otherwise, it is going to be the continuing borrowing. And you are always going to have inflation, apparently. And the fuel costs are not going to go down, apparently. And you are going to have new labor contracts.

And I don't see how you can possibly ask for even a 2-cent increase in the postal stamp for the next several years. I think that you are going to have to recognize the realities of this thing. And if you attempt to go to another rate increase in stamps, I am going to oppose it as much as I can.

Mr. DULSKI. The gentleman's time has expired.

Mr. Gross?

Mr. GROSS. Thank you, Mr. Chairman.

Mr. KLASSEN, I wonder if you, through your publicity releases or releases by the Postal Service, are not misleading the public. In a release of June 29 of this year, on page 2, you said, "We, the Postal Service, have held the line on prices for nearly 3 years."

It goes on to say that, "Klassen noted that the rate increase which went into effect in March was the only one initiated since the Postal Service took over operation of the Postal System 3 years ago."

Do you stand on that kind of a statement? And what about the temporary rate increase in 1971 that the Postal Rate Commission finally approved in 1972?

Mr. KLASSEN. I don't have those words before me, but let me point out to you that in April 1970, the administration asked for a 10-cent stamp. And by the economies we were instituting and were able to effect—I realize it had some other adverse effects on us—we were able to hold the line of an 8-cent stamp for almost 3 years.

Mr. GROSS. I am not talking about that. There was no specification as to the denomination of the stamp or anything else. Are you still insisting that statement is correct?

Mr. KLASSEN. I would have to examine that statement, Mr. Gross.  
Mr. GROSS. Since you seem to doubt it, let's go on with this.

First, on Tuesday, February 2, 1971, James W. Hargrove, Assistant Postmaster General, at a briefing on the postal rate proposal said:

Yesterday, the U.S. Postal Service filed with the Postal Rate Commission a formal request that it recommend changes in postal rates to meet the existing revenue deficiency

Second, on March 23, 1971, Winton M. Blount appeared before the House Appropriations Committee and opened his testimony with this statement:

It is my pleasure to appear before you as the first Postmaster General and Chairman of the Board of Governors of the U.S. Postal Service.

Further on in Mr. Blount's statement, he said:

On February 1, the Postal Service filed a formal request with the Postal Rate Commission for its recommendation for changes in postal rates to meet the existing postal revenue deficiency.

Third, on May 13, 1971, a press release under the letterhead of the U.S. Postal Service declared.

Increases in most postage rates will take effect May 16 as the new U.S. Postal Service begins its task of achieving self-sufficiency as required by the Postal Reorganization Act.

Were you not in the Postal Service and second in command to Mr. Blount at that time?

Mr. KLASSEN. What date was that?

Mr. GROSS. 1971.

Mr. KLASSEN. In 1971, I was not here sir.

Mr. GROSS. You didn't research the record, did you, to find out whether this statement was accurate? There have been no increases?

Mr. KLASSEN. Mr. Gross, for me to make an inaccurate statement, of course, is wrong.

Mr. DORSEY. Which release are you reading from?

Mr. GROSS. General release No. 59.

Mr. DORSEY. What page?

Mr. GROSS. Page 2, the second paragraph.

Mr. DORSEY. I think Mr. Cox can respond to that.

Mr. GROSS. Just a minute. With Mr. Hinshaw, I would like Mr. Klussen to respond to questions addressed to him or let him say he cannot respond. I want him to say whether he still maintains that the March 1974 postal rate increase was the only one initiated since the Postal Service took over operation of the postal system.

Mr. KLASSEN. The other rates were initiated under the Post Office Department, if I recall right, Mr. Gross. I think that does make an accurate statement.

Mr. GROSS. I don't understand how it could have been.

All right, I will accept an answer from counsel.

Mr. KLASSEN. The Postal Service was not in effect until July 1, 1971.

Mr. Cox. Mr. Gross, you may recall, sir, Congress provided in the Postal Reorganization Act that the provisions of the act could be placed into effect when the Board of Governors determined it would be appropriate at any time up to 1 year after enactment. Most of the provisions took effect July 1, 1971, pursuant to the action of the Board. Some of them, including those having to do with temporary and

permanent rates, were placed into effect earlier which permitted that February 1 initiation of rates that you have referred to.

Mr. Gross. So there was a temporary increase, was there not?

Mr. Cox. It was more than 3 years, though, sir, before the March 2 date that was referred to, as I recall, in the press release. In other words, there was an initiation of a round of rate increases in February 1971. And the next general rate increases went into effect on March 2, 1974.

I think that is the chronology that the press release reflects.

Mr. Gross. The temporary rate increase went into effect in May of 1971.

Mr. Cox. That was the one initiated in February of 1971. It went into effect 100 days later, approximately.

Mr. Gross. All right. The Postal Service has consistently stated that once operational, the bulk mail system will result in annual savings of \$309 million. I believe, Mr. Dorsey, you put the figures somewhat higher in your statement earlier today.

Mr. DORSEY. No, sir, I did not. I said it was between \$200 and \$300 million, Mr. Gross.

Mr. Gross. Someone has used the figure within the department of \$309 million. No one has been able to ascertain how this amount of savings was developed or assumed to be based on the reduction of the number of employees required to sort parcel post. This work would then be mechanized. It is doubtful that sufficient employees could be eliminated to accomplish this amount of savings.

For example, it would require reduction of 30,900 employees at \$10,000 per year to effect this savings, would it not?

Mr. DORSEY. I think your mathematics are right; yes, sir.

Mr. GROSS. How would it effect savings of \$300 million? Do you expect to cut the work force?

Mr. DORSEY. We do expect to cut the work force.

Mr. GROSS. By how much?

Mr. DORSEY. I can give you a figure. In New York, we are reducing the work force by about 2,100 people.

I think in Chicago, there are about 1,700. There will be 1,700 less people.

Keep in mind that we reduce our work force by attrition since our labor contract has a no-layoff clause.

Mr. Gross, we have carefully gone into each office of any reasonable size that has attributable to handling bulk mail. We have assessed what the cost is there now and what it will be when we take the bulk mail out, what it will cost to handle the bulk mail at these facilities and net, of course, a savings. Our estimate is, as I say, is between \$200 and \$300 million. It is not a guess. We have made very careful studies, and we are currently doing before-and-after cost studies so we can validate the figures.

Mr. GROSS. A member of the committee staff has just handed me general release numbered 59, of Saturday, June 29, 1974, in it is stated:

Mr. Klassen said, "Major progress has been made toward establishing a major bulk mail network to speed service, increase reliability and produce annual savings of up to \$310 million."

So is it somewhere between \$250 and \$300 or \$310 million?

Mr. DORSEY. The figure I have consistently used, Mr. Gross, was between \$200 and \$300 million. I have qualms about the \$300 million,

but I am sure it is in excess of \$200 million. I would have to check where this figure came from. I do not know anything about this.

Mr. GROSS. Rather than insist we are playing with some real figures here—

Mr. DORSEY. What page were you reading from, Mr. Gross?

Mr. GROSS. Page 3, the third paragraph.

Mr. DORSEY. OK.

Mr. HINSHAW. Mr. Gross, would you yield at this point for one quick question?

Mr. GROSS. Yes.

Mr. HINSHAW. Mr. Klassen and Mr. Dorsey, don't you fellows get together and discuss what the savings are going to be? Mr. Dorsey says between \$200 and \$300 million. And you put out a press release that says \$310 million. Who are we to believe, you or Mr. Dorsey?

Mr. KLASSEN. Obviously, I had the ultimate responsibility. I would like to say to you, Mr. Hinshaw, that I am sure a press release, before it is made, is checked out with enough people who are involved to make sure the numbers we have are correct.

Mr. HINSHAW. Was it checked out with you personally?

Mr. KLASSEN. I saw the press release; yes, sir.

Mr. HINSHAW. Was it checked out with you personally?

Mr. KLASSEN. No, sir. I couldn't check each of the figures in this press release.

Mr. GROSS. Mr. Chairman, if I may say very quickly—and I realize I have taken more of the time than I should—I note that Mr. Klassen was the president of American Can. Mr. Bailar who is Senior Assistant Postmaster General was vice president for international operations.

Mr. Darrell Brown, a Senior Assistant Postmaster General, was vice president of American Can.

Mr. William Eudey, an Assistant Postmaster General, was employed in various employee relations positions with American Can.

Harold Larson, executive assistant to the now Postmaster General, was assistant to the president of American Can.

Mr. Alden Schneider, Office of the Postmaster General, was vice president-general manager of customer services of American Can.

And Mr. Robert Eidson, now special assistant, Assistant Postmaster General, was vice president, industrial engineering of American Can.

I wonder who is running the shop at American Can these days?

Mr. DULSKI. Mr. Waldie.

Mr. WALDIE. Mr. Chairman, I don't have any questions.

Mr. DULSKI. Mr. Traxler, member of the committee.

Mr. TRAXLER. Thank you, Mr. Chairman. I don't have any questions at this time.

Mr. DULSKI. Mrs. Schroeder.

Mrs. SCHROEDER. I had just one question that came to mind. Going back to my new Postmaster, I wanted to talk to whoever was in charge of personnel and find out what kind of a test you have that measures somebody's potential.

Mr. BROWN. We do not subject candidates for promotions to formal tests. We do receive, for example, in the job of filling postmaster vacancies, considerable background material, recommendations from supervisors, recommendations from fellow workers, comments of

neighbors and civic leaders in the community who may know the person. Then, we spend from 45 minutes to 1½ hours interviewing each of three to five candidates for each postmaster vacancy.

And as you probably know, as it was explained yesterday, three of the members of the Board are non-Postal Service people—one from the American Arbitration Association, one from Civil Service Commission, and one from the academic community.

I would like to make this comment, Mrs. Schroeder, if I may, because it is directed toward the Ordway situation. Mr. Ordway was a member of the group for which I am responsible at headquarters prior to his appointment. And I made it known during the process of interviewing and subsequently coming to a recommendation that I was disqualifying myself from participating in the selection.

I would also point out, that in every case, not just in the Denver situation, we give these three nonpostal members of the Board the opportunity to first question each candidate.

But more importantly, we give them the first opportunity to express their views concerning who should be recommended for the job. I think you might be interested to know that in the Denver situation, each of the three nonpostal service members unanimously recommended Mr. Ordway.

Mrs. SCHROEDER. Well, having come from personnel management, I can make all sorts of reasons as to why that is an improper selection procedure. Let me basically state why.

It seems to me that we are looking for someone who can administer a large postal facility, a service. When he has come from consumer service, he has more of a PR type of approach. So he probably speaks the interviewer's language and is smoother. And you are looking for different kinds of things.

And I am a little concerned when you have people who have the experience, and who have been on the floor and who done the tough work, and worked their way up, and then they always seem to kind of get their heads knocked off when they move to the final rung on the ladder because someone else comes in. And we hear it was nice, we had all these people with experience and background, and yet we have this new young guy who didn't have, was selected for he has potential.

As I say, I really have not seen the first test that really measures A's potential versus B's versus C's. And that is a tough thing to go back and tell my postal supervisors. You know, you guys were all eliminated because you didn't have potential, and he did. You just had experience and he didn't.

And these three guys who were not in the Postal Service talked to him an hour or so, and came away with this conclusion. I just find that very vague and very difficult to sell and very difficult to build morale on.

That is basically all I wanted to say. Thanks, Mr. Chairman.

Mr. DULSKI. Mr. Henderson.

Mr. HENDERSON. Thank you, Mr. Chairman.

I want to direct my questions at the counsel. And this is a follow on to Mr. Hinshaw's line of questioning.

Section 1003 of the Postal Service Act on employment policy and positions within section 1005 relating to retirement—I believe that is subsection (d)—I would like to have the counsel's interpretation of

the limitation contained in the first section with regards to compensation, basic compensation, rate not to exceed level 1 of the executive schedule.

Mr. Cox. Well, sir, as you know, the sentence of subsection 1003(a) of title 39 that you referred to says that no officer or employee shall be paid compensation at a rate in excess of the rate for level 1 of the executive schedule under section 5312 of title 5.

As I am sure you are also well aware, the language in title 5 which is referred to in that sentence, says: "Level I of the executive schedule applies to position for which the annual rate of basic pay is \$60,000."

Mr. HENDERSON. So you have interpreted the pay could not exceed \$60,000 of the Postmaster General. And by way of decision of who has the pay, have others been scaled down from that?

Mr. Cox. Yes, sir.

Mr. HENDERSON. Who made that decision? Was that the Board of Governors?

Mr. KLASSEN. Yes; they approved it.

Mr. HENDERSON. Now, with regard to retirement, Mr. Cox, you interpret the paragraph I have referred to that the officers and the employees are covered by the civil service retirement?

Mr. Cox. Yes, sir.

Mr. HENDERSON. Are they limited to retirement as provided under the civil service retirement as the officers?

Mr. Cox. No sir. As I recall the development of the Postal Reorganization Act—and to tell the truth, I am not absolutely certain my recollection is accurate in what I am about to say—but my best recollection is that it was explicitly contemplated during some of the discussion of the forming legislation that retirement pension plans and the like over and above that which is provided under title 5 could, without violating the law, be bargained for in the course of collective bargaining.

Similarly, of course, with respect to employees who are not covered by bargaining, I suppose that administrative supplements to the civil service retirement would be within the law.

Mr. HENDERSON. Do I understand you are saying all employees could have greater retirement benefits than that provided under the civil service retirement?

Mr. Cox. Well since chapter 10—section 1003(a)—provides that compensation for postal employees will be set by the postal management except to the extent that chapter 12 of title 39 requires collective bargaining to take hold, and since there is no limitation other than the \$60,000 limitation that you referred to a moment ago, I suppose it would be possible.

Mr. HENDERSON. Let me ask this: Have there been any retirement benefits for employees negotiated in your collective bargaining?

Mr. Cox. No, sir.

Mr. HENDERSON. Has it been an issue?

Mr. Cox. I think maybe Mr. Brown ought to talk to that since he is more familiar with the collective bargaining than I am.

Mr. HENDERSON. Let me ask you this, Mr. Brown: Do you take the position that is a negotiable item that could be put on the table?

Mr. BROWN. My interpretation of the statute is exactly as Mr. Cox recollects it to be, as he has stated. To answer your question concern-

ing was it an issue, it was one of many demands that were discussed. And no change was made in the retirement plan.

Mr. HENDERSON. Did you take a position it was a negotiable item or not a negotiable item?

Mr. BROWN. We did not take the position it was not negotiable.

Mr. HENDERSON. So interpretation of legal counsel is that benefits beyond civil service retirement for postal employees is a negotiable item.

Mr. BROWN. Yes, sir.

Mr. HENDERSON. Mr. Chairman, I would think that could come as something as a shock to us. I may be wrong as I presently think counsel is wrong. But the fact is that the officers of the postal system have received retirement benefits beyond the Civil Service Act, is that not correct, by way of contract?

Mr. COX. I don't think anyone has as yet received any benefits beyond those that the civil service system provides. There is one contract, Mr. Klassen's contract, that does provide for eventual payment of retirement benefits under certain circumstances. We haven't gotten to that yet, but I presume we will get to it.

Mr. HENDERSON. Who is responsible for the approval of the contract to Mr. Klassen?

Mr. COX. The governors of the Postal Service.

Mr. HENDERSON. Who is their legal counsel?

Mr. COX. They don't have a counsel as such. They don't have any separate counsel. I do normally sit with the Board. I might add, though, sir—

Mr. HENDERSON. Has the question ever been raised as to whether or not the provisions relating to extra retirement are legal?

Mr. COX. I don't think it has been submitted to me. You will remember, I think, Mr. Henderson, my predecessor, David Nelson. And that question was raised with him. He said that in his opinion there wasn't any reasonable argument the other way—that, of course, this was legal. He had no doubt at all as far as the law was concerned. He limited himself to whether it was legal or not. He didn't make other judgments on it.

Mr. DULSKI. Will the gentleman yield?

Mr. HENDERSON. Yes, of course, Mr. Chairman.

Mr. DULSKI. If the Board of Governors is a separate body from the Postmaster General, why do they have the same counsel?

Mr. COX. Sir, the Board under the bylaws which they adopted provided that they would elect a secretary, and they chose for reasons best known to themselves, I suppose, to elect me to that position. I do not act as counsel to the Board. If a question arises about what the provisions of this law mean in the course of a Board meeting, it is not unusual for them to ask me if I have opinion on the question. And I might give them that opinion.

Mr. DULSKI. Who is your employer?

Mr. COX. My employer is the U.S. Postal Service. Under this law, I am appointed by the Postmaster General.

Mr. DULSKI. So you are responsible to the Postmaster General. You are not responsible to the Board of Governors.

Mr. COX. Well, that is right.

Mr. HENDERSON. Mr. Chairman, I would like to ask unanimous consent that the contract of employment between the Postal Service and Mr. Klassen, the contract of employment between the Postal Service and Mr. Merrill Hayden, the contract of employment between the Postal Service and Mr. Hargrove, and the contract with Mr. James S. Blaisdell be put in the record at this point.

Mr. DULSKI. Are there any objections?

[No response.]

Hearing none, it will be so ordered.

Mr. HENDERSON. I am referring to all of them because I want to pursue this line.

[The contracts of employment follow:]

#### CONTRACT OF EMPLOYMENT

This contract of employment between the United States Postal Service and E. T. Klassen is entered into this 7th day of December, 1971, pursuant to sections 202(c) and 1001(c) of title 39, United States Code, contemporaneously with the adoption by the Board of Governors of the United States Postal Service (acting in accordance with the applicable provisions of section 205(c) of title 39, United States Code) of the resolution attached hereto as "Exhibit A."

Subject to the provisions of this contract, the parties agree that E. T. Klassen shall serve as Postmaster General, faithfully discharging all the duties of that office, for a term beginning January 1, 1972 and ending February 15, 1975, which term may be extended by agreement of the parties for an additional period of two years in accordance with such provisions as may be agreed upon prior to the expiration of the initial term. His annual rate of basic pay shall be at the maximum amount that may be lawful at any time during the initial term of this contract, but in no event shall it be less than \$60,000 or more than \$150,000. If the economic stabilization program that is in effect at the inception of this contract, or any similar program that may become effective during the initial term of this contract, bars any payment which would otherwise be payable under this contract, the United States Postal Service will promptly seek any exception or exemption which may be legally permissible so that the payment may be made in accordance herewith. Payments of any salary increases that may become payable under this paragraph may be deferred if the parties hereafter so agree.

Notwithstanding the provisions of the preceding paragraph with regard to Mr. Klassen's initial term of office, Mr. Klassen may, by written notice delivered to the office of the Secretary of the Board of Governors of the Postal Service no later than June 1, 1973, vacate his office as of June 30, 1973, in favor of becoming a consultant to the Postal Service. In the event of such election, Mr. Klassen agrees to make himself available as a consultant to the Postal Service half time for a period ending June 30, 1974, and to perform such services within that period as the Postal Service may reasonably require. Mr. Klassen shall be paid \$30,000 for so making himself available and for the performances of such services, but during such period shall not be entitled to health insurance benefits, life insurance benefits, retirement benefits, unemployment insurance benefits, or other fringe benefits.

Mr. Klassen may resign his office without penalty at any time, upon not less than thirty days written notice delivered to the office of the Secretary of the Board. He may be removed from office at any time by the Governors, acting upon an affirmative vote of an absolute majority of the Governors in office, but his contractual right to receive the basic pay prescribed herein shall be unimpaired by any such removal action unless such action is based upon neglect or dereliction of duty.

If the parties do not agree to extend the initial term of Mr. Klassen's service as Postmaster General for two additional years, as provided in the second paragraph of this contract, Mr. Klassen may, at his option, make himself available as a consultant to the Postal Service half-time for each of the two twelve month periods following the expiration of such initial term and shall perform such services within that period as the Postal Service may reasonably require. Such option shall be exercised by written notice, delivered to the office of the Secretary of the Board, prior to the expiration of the initial term. As compensation for so

making himself available and for the performance of any such services, Mr. Klassen shall be paid \$30,000 per twelve month period, but during such time he shall not be entitled to health insurance benefits, life insurance benefits, unemployment insurance benefits, or other fringe benefits.

Unless he resigns as Postmaster General before the expiration of his initial term, exercises the option contained in the third paragraph of this contract, or is removed for neglect or dereliction of duty, Mr. Klassen (or his wife, Marie Klassen, if she should survive him) will be entitled to supplemental retirement benefits in accordance with this paragraph. If his initial term is not extended, such supplemental retirement benefits will be in amounts that, when added to benefits to which he (or his widow) may become entitled under chapter 83 of title 5 of the United States Code (relating to civil service retirement), will equal \$12,000 per annum. If Mr. Klassen makes himself available as a consultant to the Postal Service in accordance with the next preceding paragraph, such benefits shall become payable commencing upon the expiration of the two years referred to therein. If he does not so make himself available, such benefits shall become payable commencing upon the expiration of his initial term. If his initial term is extended for two additional years, such supplemental retirement benefits will be in amounts that, when added to the benefits to which he (or his widow) may become entitled under chapter 83 of title 5 of the United States Code, will equal \$15,000 per annum, to become payable commencing upon the expiration of the extended term. It is understood that, upon reentering employment in the Postal Service, Mr. Klassen will take all necessary steps to reestablish his rights to retirement benefits under chapter 83 of title 5 of the United States Code in accordance with applicable Civil Service Retirement laws and regulations, including redeposit to the Civil Service Retirement Fund so that his federal service prior to the date of this contract is fully credited in the compensation of his or his widow's annuity and election to receive an annuity with survivor benefit to his widow as to the full amount of the basic annuity to which he is entitled.

E. T. KLASSEN,  
F. R. KAPPEL,

*Chairman of the Board of Governors,  
U.S. Postal Service.*

#### CONTRACT OF EMPLOYMENT

This contract of employment between the United States Postal Service and E. T. Klassen is entered into this seventh day of May, 1974, pursuant to sections 202(c) and 1001(c) of title 39, United States Code, contemporaneously with the adoption by the Board of Governors of the United States Postal Service (acting in accordance with the applicable provisions of section 205(c) of title 39, United States Code) of the resolution attached hereto as "Exhibit A."

Subject to the provisions of this contract, the parties agree that E. T. Klassen shall serve as Postmaster General, faithfully discharging all the duties of that office, for a term beginning February 15, 1975 and ending February 15, 1977. His annual rate of basic pay shall be at the maximum amount that may be lawful at any time during the term of this contract, but in no event shall it be less than \$60,000 or more than \$150,000. If an economic stabilization program should become effective during the term of this contract so as to bar any payment which would otherwise be payable under this contract, the United States Postal Service will promptly seek any exception or exemption which may be legally permissible so that the payment may be made in accordance herewith. Payments of any salary increases that may become payable under this paragraph may be deferred if the parties hereafter so agree.

Mr. Klassen may resign his office without penalty at any time, upon not less than thirty days written notice delivered to the office of the Secretary of the Board. He may be removed from office at any time by the Governors, acting upon an affirmative vote of an absolute majority of the Governors in office, but his contractual right to receive the basic pay prescribed herein shall be unimpaired by any such removal action unless such action is based upon neglect or dereliction of duty.

If, at any time subsequent to February 15, 1975, during the term of his appointment as Postmaster General, E. T. Klassen should become either temporarily or permanently unable to discharge the duties of his office because of any illness or physical disability (not including death), his contractual right to receive

the basic pay and retirement benefits prescribed herein shall nevertheless continue unimpaired.

Unless he resigns as Postmaster General before the expiration of the term of this contract, or is removed for neglect or dereliction of duty, Mr. Klassen (or his widow, if she should survive him) will be entitled to supplemental retirement benefits in accordance with this paragraph. Such supplemental retirement benefits will be in amounts that, when added to the benefits to which he (or his widow) may become entitled under chapter 83 of title 5 of the United States Code, will equal \$15,000 per annum, to become payable commencing upon the expiration of the term of his appointment (or, if he should die before the expiration of that term, to become payable to his widow immediately following his death). Notwithstanding the foregoing, if Mr. Klassen should resign his office after February 15, 1975 and before February 15, 1977, such supplemental benefits will become payable commencing upon his resignation, but in amounts that (when added to the aforesaid benefits under chapter 83 of title 5) will equal \$12,000 per annum.

E. T. KLASSEN,

F. R. KAPPEL,

*Chairman of the Board of Governors,  
U.S. Postal Service.*

A CONTRACT BETWEEN THE UNITED STATES POSTAL SERVICE AND MERRILL A. HAYDEN

This contract supersedes the contract of employment between the United States Postal Service and Merrill Hayden that was entered into as of September 24, 1971, and the parties mutually agree to forego any and all rights under the aforesaid contract. In consideration of Merrill Hayden's agreement to submit within ten days of the date hereof a formal resignation of his office as Deputy Postmaster General, effective September 30, 1972, and relinquish any and all rights under the aforesaid contract of employment, the United States Postal Service agrees to pay Merrill Hayden at an annual rate of \$57,500 until August 17, 1973, such payments to be made bi-weekly in approximately equal amounts.

United States Postal Service:

E. T. KLASSEN,

*Postmaster General.*

MERRILL A. HAYDEN

August 3, 1972.

CONTRACT OF EMPLOYMENT

This contract of employment between the United States Postal Service and Merrill Hayden is entered into as of September 24, 1971, pursuant to sections 202(d) and 1001(c) of title 39, United States Code, contemporaneously with the adoption by the Board of Governors of the United States Postal Service (acting in accordance with the applicable provisions of 39 United States Code, Sec. 205(c)) of the resolutions attached hereto as "Exhibit A" and "Exhibit B."

Subject to the provisions of this contract, the parties agree that Merrill Hayden shall serve as Deputy Postmaster General, faithfully discharging all of the duties of that office, for a term of five years beginning September 27, 1971, and ending September 26, 1976. His annual rate of basic pay shall be \$57,500. He may resign his office without penalty at any time, upon not less than thirty days written notice delivered to the office of the Secretary of the Board. He may be removed from office at any time by the Board of Governors, acting upon the affirmative vote of an absolute majority of the Governors in office and the member serving as Postmaster General, but his contractual right to receive the basic pay prescribed herein shall be unimpaired by any such removal action unless such action is based upon malfeasance in office or gross neglect of duty.

At the first meeting of the Board of Governors after Merrill Hayden has completed 365 calendar days of service as Deputy Postmaster General, the Board shall review the contract and consider the desirability of offering to amend its terms. Any such offer shall be reduced to writing and delivered to the office of the Deputy Postmaster General within 15 calendar days after the said meeting. If no such offer is made, or if it is rejected by written instrument delivered to the office of the Secretary of the Board within 15 calendar days after receipt of the offer, Merrill Hayden may elect to vacate the position of Deputy Postmaster General in favor of becoming a consultant to the Postal Service, effective on the 15th calendar day after the exercise of such election. Such election shall

be exercised by written notice delivered to the office of the Secretary of the Board within 30 calendar days after adjournment of the Board meeting referred to in the first sentence of this paragraph. In the event of such election, Merrill Hayden agrees to make himself available as a consultant to the Postal Service for a period of 270 calendar days immediately following his vacation of the office of Deputy Postmaster General, and to perform such services within that period as the Postal Service may reasonably require. Merrill Hayden shall be entitled to compensation throughout such 270-day period at the annual rate of basic pay prescribed herein, but during such period shall not be entitled to health insurance benefits, life insurance benefits, retirement benefits, unemployment insurance benefits, or other fringe benefits.

United States Postal Service:

WINTON M. BLOUNT,  
Postmaster General and  
Chairman of the Board of Governors.  
MERRILL HAYDEN.

JAMES W. HARGROVE,  
Houston, Tex., April 15, 1974.

Mr. E. T. KLASSEN,  
Postmaster General, United States Postal Service,  
Washington, D.C.

DEAR MR. KLASSEN: Please refer to the Agreement dated as of March 2, 1972, between the United States Postal Service and myself providing for me to make my personal services available to you.

In view of the fact that your requirements for my service have declined in recent months and the fact that I have other commitments I wish to make, I suggest that we amend the referenced contract to eliminate the fixed amount of time and the fixed compensation per year called for therein. I would still be available for such work as you might request of me from time to time, subject, however, to my determination that I had time available. I would be compensated for such work at the hourly rate specified in the contract and be reimbursed for expenses in the same manner as that specified in the contract, except that the first 3.5 hours of services after February 28, 1974, would not be charged for, in order that the total number of hours accounted for in the two year period of March 1, 1972, through February 28, 1974, be equal to exactly 1,000 hours.

In view of the elimination of the fixed provision of the contract I further suggest that, for the purposes of paragraph (5) of such Agreement, the Agreement be considered to be terminated as of February 28, 1974.

If you are agreeable to so amending the Agreement dated March 2, 1972, please so indicate by signing in the space provided below, whereupon this letter shall constitute a binding Agreement between us.

Sincerely,  
Agreed to:  
United States Postal Service:

JAMES W. HARGROVE,  
E. T. KLASSEN,  
Postmaster General.

U.S. POSTAL SERVICE

This Agreement, consisting of 7 typewritten pages and Annex A, is entered into as of this second day of March, 1972, pursuant to Postal Contracting Manual 3-204, between the United States Postal Service, "the Postal Service" and James W. Hargrove, "Hargrove," a resident of Houston, Texas.

This Agreement is entered into in contemplation of the following facts:

Hargrove has served with the United States Post Office Department and the Postal Service for a period of more than three years in senior management positions and now desires to leave the employ of the United States to engage in other pursuits;

Hargrove has played a substantial and important part in the management and reorganization of the Post Office Department and Postal Service and has gained valuable experience in so doing;

The Postal Service wishes to continue to obtain the benefit of Hargrove's experience gained while serving in the management of the Postal Service; and

Hargrove is uniquely qualified by experience and education to provide services as an expert consultant with respect to all matters concerning the organization and management of the Postal Service.

Accordingly, the parties mutually agree as follows:

(1) Hargrove shall make available to the Postal Service his personal services from time to time and at any place as requested by the Postal Service up to a

maximum of 500 hours ("regular time") in any contract year. Such services may be of any kind of character not inconsistent with Hargrove's position while serving in the Postal Service and with his education and experience. If requested by the Postal Service Hargrove may, at his option, render his services for more than 500 hours per year.

The Postal Service shall give Hargrove reasonable notice in requesting his services and shall afford him reasonable opportunity to render any services requested of him, recognizing that this Agreement is for less than all of Hargrove's primary time. (As used in this Agreement, the term "primary time" means 2000 hours per year, the equivalent of 8 hours per day for 5 days a week for 50 weeks a year.)

(2) Hargrove shall receive during the term of this Agreement compensation at the rate of \$25,000 per year. In the event that Hargrove shall be requested to, and does, render his services for more than 500 hours during any contract year ("excess time"), he shall be paid for such services rendered during those additional hours an additional amount at the rate of \$50 per hour. Payment of 25% of the annual compensation shall be made quarterly, beginning May 1, 1972. At the end of each quarter Hargrove shall submit to the Postal Service an accounting of the regular time, and excess time if any, during which his services were rendered to the Postal Service in that quarter. Payment for any hours of excess time during a contract year shall be made within thirty days following receipt of the accounting at the end of that contract year. It is the understanding and intention of the parties that Hargrove is an independent contractor and not an employee of the Postal Service.

(3) Hargrove shall be reimbursed by the Postal Service for travel, subsistence and other expenses incurred in connection with his services for the Postal Service or incurred on behalf of the Postal Service. Such reimbursement shall be in accordance with applicable travel regulations of the Postal Service or as otherwise provided herein or approved by the Postmaster General or his designee.

Hargrove shall be entitled to travel at first-class fares. Hargrove's residence, and principal place of business, is Houston, Texas, and reimbursement for travel and subsistence shall apply outside of Harris County, Texas. If Hargrove is at a place other than Houston when the Postal Service requires his services elsewhere than Houston or the place at which he is then located, the Postal Service shall not be required to reimburse Hargrove for more than the first-class air fare (and other applicable expenses) from Houston to Washington or wherever else the Postal Service requires Hargrove's services. The same principle shall apply with respect to return from assignment.

In the event an assignment requires more than one week-end to be spent away from Houston, Hargrove shall be entitled to reimbursement for travel expenses to make a round trip to Houston for each such second week-end required to be spent away from Houston in such assignment, but without charge for time spent in travel. In lieu of reimbursement of expenses for each such return, the Postal Service, at its option, may pay Hargrove for two days at 8 hours per day, which time shall be considered in lieu of return home and for which time Hargrove shall not be required to provide services.

Time spent by Hargrove in actual travel by the most expeditious means enroute from Houston and returning to Houston on Postal Service assignments shall be considered accountable time and shall be compensated in the same manner and at the same rate as time spent in rendering services.

(4) Hargrove shall receive assignments only from the Postmaster General or other persons specifically designated by him for this purpose.

(5) During the term of this Agreement, Hargrove shall not do anything or acquire any interest which would constitute a conflict of interest with the Postal Service, including but not limited, participating directly or indirectly, in the ownership, operation or management of any business or other organization, association, or enterprise carrying or delivering for hire letters, publications, parcels or other tangible communications, or transmitting record communications by any electronic means used by the Postal Service, in competition with the Postal Service, or acting directly or indirectly, as a consultant or advisor to any of the foregoing in respect to any such activities. Hargrove shall provide the Postmaster General or his designee with any statement of financial condition or other information reasonably necessary to document the fact that no such conflict exists. For a period of five years following the termination of this Agreement Hargrove shall not represent or advise anyone with respect to actions adversary to the Postal Service before any court of law, the Congress of the United States, any

governmental executive agency or administrative body (including specifically the Postal Rate Commission) or other comparable forum.

(6) Hargrove agrees to hold in confidence all information, which under good business practice would not be publicly disclosed, acquired or developed by him while in the employ of the Postal Service or in the rendering of services pursuant to this Agreement and to disclose and utilize the same only in connection with the performance of the services contemplated herein.

(7) This Agreement may be terminated by either the Postal Service or Hargrove at the end of any contract quarter by written notice to the other party not later than the commencement of such contract quarter. Notice from the Postal Service shall be signed by the Postmaster General. This contract shall terminate automatically upon the death of Hargrove. In case of the continuing physical incapacity or inability for other than physical reasons of Hargrove to render the services provided for herein, as found in good faith by the Postmaster General, this contract shall terminate forthwith upon the Postmaster General's written notice to Hargrove of his finding.

Upon termination, Hargrove or his estate shall be paid any amounts then due him hereunder, including a proportionate share of the amount which would have been due to him during that quarter for regular time whether utilized by the Postal Service or not.

Unless terminated as provided for herein, this contract shall continue indefinitely.

United States Postal Service :

Dated : March 2, 1972.

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ANNEX A

*1. Assignments of claims*

No claim arising under this Agreement shall be transferred or assigned by the Contractor.

*2. Officials not to benefit*

No member of or delegate to Congress, or resident commissioner, shall be admitted to any share or part of this Agreement, or to any benefit that may arise therefrom.

*3. Covenant against contingent fees*

The Contractor warrants that no person or selling agency has been employed or retained to solicit or secure this Agreement upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees or bona fide established commercial or selling agencies maintained by the Contractor for the purpose of securing business. For breach or violation of this warranty the Postal Service shall have the right to annul this Agreement without liability or in its discretion, to deduct from the Agreement price or consideration, or otherwise recover, the full amount of such commission, percentage, brokerage or contingent fee.

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DEAR JIM: In view of your current circumstances and the pressing imminence of the upcoming bargaining negotiations, I have asked Darrell Brown to take charge of the Postal Service's bargaining negotiations and I have concluded that it would be best to appoint him as Senior Assistant Postmaster General for the Employee and Labor Relations Group. But we will continue to need your help so that the Postal Service can have the unique benefit of your understanding of the current National Agreement and the details of its implementation to date. Accordingly, I hope you will agree to serve until further notice as Special Assistant for Labor Relations at the same rate of pay as that provided in our contract of last March. I am counting on your doing this since your continuing contribution to the Postal Service can be invaluable.

In the circumstances, it would be best if you could indicate below your agreement to serve for the time being as Special Assistant in accordance with the foregoing, and return a copy to me.

February 20, 1973.

February 12, 1973.

JAMES P. BLAISDELL, *Witness.*

E. T. KLASSEN

## UNITED STATES POSTAL SERVICE

This Agreement is a contract of employment between the U.S. Postal Service and James P. Blaisdell, (hereinafter referred to as JPB). It is entered into pursuant to 39 U.S.C. § 1001(c), which provides that no Postal Service may hire individuals as executives under employment contracts for periods not in excess of five years. It takes the place of the employment contract signed by Winton M. Blount and James P. Blaisdell on the 5th and 4th of May 1971, respectively, which would have expired by its terms on January 1, 1973.

Whereas, JPB has been responsible for and has conducted negotiations for the first labor agreement following the Postal Reorganization Act and has set in motion the development of sound and improved labor relations; and

Whereas, JPB has the responsibility to supervise centralized control over contract interpretation and administration and lay the foundation for continued bargaining in the future; and

Whereas, continuity in policies, procedures and methods followed by the U.S. Postal Service in the development of its labor relations in the first few years of its existence is of the utmost importance; and

Whereas, in order to secure the desired continuity and sustain the progress made to date, JPB's continued services will be required;

Now, therefore, JPB agrees to serve as Senior Assistant Postmaster General for the Employee and Labor Relations Department from the date of execution and Labor Relations Department from the date of execution of this agreement to July 1, 1975. JPB will endeavor to staff a central control unit in such a manner that well before the expiration of his term the needed continued continuity will be assured. The Postal Service agrees to pay JPB compensation at the rate of \$50,000 per annum, commencing at the date of execution and continuing to July 1, 1975, payable on the first of each month commencing April 1, 1972, and ending July 1, 1975, and, in addition, such expenses as may be authorized from time to time by the Postmaster General. In the event, however, of removal of the \$60,000 limitation upon the compensation of the Postmaster General, this contract shall be reopened for the purpose of adjusting the compensation of JPB upward. In the event of such upward adjustment, the U.S. Postal Service will promptly seek any exception or exemption which may be legally required and permissible so that payment may be made accordingly.

This contract may be terminated by either party at any time within the period of its duration upon not less than 15 days' written notice. If terminated by the Postmaster General, JPB shall be removed from his responsibility but shall be paid in full the remaining amount under the contract unless his removal is based upon neglect or dereliction of duty.

For travel, JPB shall be reimbursed upon the submission of appropriate vouchers for the actual cost of transportation and in the amount of \$40.00 per day (or \$10.00 per quarter day) in lieu of actual subsistence expenses. In the event, however, JPB removes his residence from the State of California and becomes a resident of Washington, D.C., or its environs such subsistence shall cease and thereafter travel and related expenses shall be governed by the policy approved by the Board of Governors on March 7, 1972.

It is understood that upon the execution of this contract the U.S. Postal Service will take such steps as it can to obtain rights to retirement benefits for JPB under chapter 83 of title 5 of the United States Code in accordance with applicable Civil Service Retirement laws and regulations, including deposit (to be furnished by JPB) to the Civil Service Retirement Fund so that his federal service prior to the date of this contract is fully credited in the compensation of his or his widow's annuity.

JPB shall carry out such responsibilities as may be assigned to him from time to time by the Postmaster General in the area of collective bargaining and labor relations, in the area of employee relations generally (including employee services, manpower planning and development, and personnel administration) and in any related areas.

This agreement supersedes any earlier contracts between the United States Post Office Department and James P. Blaisdell, effective upon the date of its execution.

United States Postal Service:  
March 21, 1972.

March 21, 1972.

E. T. KLASSEN,  
*Postmaster General.*

JAMES P. BLAISDELL.

## U.S. POST OFFICE DEPARTMENT

This Agreement is a contract of employment between the United States Post Office Department, hereinafter referred to as the Postal Service, and James P. Blaisdell, hereinafter referred to as the Contract Executive. It is entered into pursuant to 39 U.S.C. § 1001(c), which provides that the Postal Service may hire individuals as executives under employment contracts for periods not in excess of five years.

The Contract Executive agrees to serve as Special Assistant to the Postmaster General from the date of execution of this agreement to January 1, 1973. The Postal Service agrees to pay the Contract Executive compensation at the rate of \$50,000 per annum, commencing at the date of execution and continuing to January 1, 1973, payable on the first of each month commencing May 1, 1971, and ending January 1, 1973, and, in addition, such expenses as may be authorized from time to time by the Postmaster General. This contract may be terminated by either party at any time within the period of its duration upon not less than 15 days' written notice. If terminated by the Postmaster General, the Contract Executive shall be removed from his responsibility but shall be paid in full the remaining amount under the contract. For such travel as the Contract Executive is authorized to perform, he shall be reimbursed upon the submission of appropriate vouchers for the actual cost of transportation and \$40 per day (or \$10 per quarter day) in lieu of actual subsistence expenses.

The Contract Executive shall not claim, nor shall he have any right to, any health insurance benefits, life insurance benefits, retirement benefits, unemployment insurance benefits, or other fringe benefits (other than compensation for work injuries pursuant to subchapter I of chapter 81 of title 5).

The Contract Executive shall carry out such responsibilities as may be assigned to him from time to time by the Postmaster General in the areas of collective bargaining and labor relations and in any related areas, with primary responsibility for collective bargaining negotiations and for supervising the administration of collective bargaining agreements.

This Agreement supersedes any earlier contracts between the United States Post Office Department and James P. Blaisdell, effective upon the date of its execution.

United States Post Office Department :

May 5, 1971.

May 1, 1971.

WINTON M. BLOUNT,

*Postmaster General.*

JAMES P. BAISDELL.

## U.S. POSTAL SERVICE

This agreement is a contract of employment between the United States Postal Service and Benjamin F. Bailar. It is entered into pursuant to Section 1001(c) of Title 39, U.S. Code. It is effective April 1, 1972.

The parties agree that Benjamin F. Bailar shall serve as Senior Assistant Postmaster General, Support Group, or in such other capacity as may be mutually agreed to by him and the Postmaster General, faithfully discharging the duties of his office, for a term of three (3) years, commencing with the effective date of this contract. His basic pay shall be at the annual rate of \$52,500. He may resign his office without penalty at any time upon not less than thirty (30) days written notice delivered to the Postmaster General. He may be removed from office at any time, immediately upon notice by the Postmaster General, provided that his contractual right hereunder to continue receiving the basic rate of pay which he was receiving immediately prior to such removal shall remain unimpaired unless such removal for malfeasance, or neglect or dereliction of duty. If, however, following such removal, he becomes employed on a full-time or substantially full-time basis, the obligation of the Postal Service to continue to make payments at the basic rate of pay shall be reduced by the amount of his compensation for such employment.

United States Postal Service :

July 11, 1972.

July 11, 1972.

E. T. KLASSEN,

*Postmaster General.*

BENJAMIN F. BAILAR.

Mr. HINSHAW. Mr. Henderson, would you yield?

Mr. HENDERSON. Yes.

Mr. HINSHAW. I didn't hear you mention the contract of Mr. Bailar. If you did not, I would ask perhaps you might want to add that.

Mr. HENDERSON. Without objection, Mr. Chairman, I will include that one in my request.

Mr. DULSKI. If there is no objection. The Chair hears none. So ordered.

Mr. HENDERSON. I found it somewhat embarrassing, but I find we must get into it. I would prefer while Mr. Cox is responsible to let him comment on this. But as I understand the contract with Mr. Klassen, for the period January 1, 1972, to February 15, 1975, retirement benefits for Klassen, or his widow upon his death, would be not less than \$12,000. The contract terms state:

supplemental benefits when added to benefits to which he (or his widow) may become entitled under chapter 83 of title 5 (Civil Service Retirement) equalling \$12,000 per year.

If Mr. Klassen was to terminate his employment at the end of this first contract, the Postal Service would pay the whole \$12,000, since he would not have met the minimum requirements for a civil service retirement annuity of 5 years.

Is that correct?

Mr. KLASSEN. Mr. Henderson, first of all, I can assure you this Board of Governors would never have entered into this contract if they hadn't been assured it met the legal requirements.

Mr. HENDERSON. I will be glad to go on the assumption it is legal. I could be wrong in what we intended, and we may have to amend the law. But, am I right on the fact of that contract provision?

Mr. KLASSEN. By February 1975, I will have completed slightly more than 5 years of service. In fact, what that contract really provides, if I understand the civil service retirement benefits rights, is that on the basis of my income, I would earn about \$4,500 from the civil service retirement plan, and the balance would be an obligation of the U.S. Postal Service.

Mr. HENDERSON. Mr. Chairman, under constraints of time, it is just impossible for me to get into the whole line I wanted to. And I am disappointed that I can't because I want to point out specifically—

Mr. DULSKI. You have 3 more minutes.

Mr. HENDERSON. If you will just give me 3 minutes, Mr. Chairman, I want to get to the provision of Mr. Hargrove, who at the time of his contract was living in Houston, Tex., and reimbursement for travel and subsistence shall apply outside of Harris County, Tex. If Hargrove is at a place other than Houston when the Postal Service requires his services elsewhere than Houston or the place at which he is then located, the Postal Service shall not be required to reimburse Hargrove for more than the first-class air fare (and other applicable expenses) from Houston to Washington or wherever else the Postal Service requires Hargrove's services. The same principle shall apply with respect to return from assignment.

In the event an assignment requires more than one week-end to be spent away from Houston, Hargrove should be entitled to reimbursement for travel expenses to make a round trip to Houston for each such second weekend required to be spent away from Houston in such

assignment, but without charge for time spent in travel. In lieu of reimbursement of expenses for each such return, the Postal Service, at its option, may pay Hargrove for 2 days at 8 hours per day, which time shall be considered in lieu of return home and for which time Hargrove shall not be required to provide services.

Time spent by Hargrove in actual travel by the most expeditious means enroute from Houston and returning to Houston on Postal Service assignments shall be considered accountable time and shall be compensated in the same manner and at the same rate as time spent in rendering services.

I point that out because I think there are other provisions in these contracts that give me great concern. And, Mr. Chairman, I will ask the counsel of our committee, perhaps the General Accounting Office, to give us their opinion on the legality of all the provisions of these contracts. And whether or not this inquiry is able to continue into these, I will insist that the law as it relates to the additional retirement benefits be reviewed.

Speaking for one member, it was my understanding that we reserved the retirement system for all officers and employees of the Postal Service to be legislated by the Congress. And to find that they are negotiable items, and that they may be increased, certainly requires a review on my part. And we need to know just exactly what we have provided in this law.

And I thank you for your patience.

Mr. DULSKI. Mr. Hinshaw.

Mr. HINSHAW. Mr. Henderson, I share your concern. That is why I got into these contracts to begin with. And a quick reading and review of the questions and statements which you have just made clearly show that for Mr. Klassen, at least, the retirement benefits are greater than are available under the civil service retirement system, greater than are available to Members of Congress.

And I would join you in urging that we have a General Accounting study of the employment contracts and whether or not they do comply with the law.

Mr. HENDERSON. Will the gentleman yield?

Mr. HINSHAW. Yes, sir.

Mr. HENDERSON. The thing that really disturbs me is if it is possible additional retirement benefits can be negotiated for all of the employees. And if they are not going to be available to all, I am concerned they are available to a few. They certainly ought to know that before it becomes a fact. Because with the costs and the problems that we have today, I can see on that one area alone the American user of the mail paying costs that I do not believe Congress can continue. It was for that reason I thought we held the jurisdiction over the retirement.

Thank you, very much. I commend you for getting into this as well as you have.

Mr. HINSHAW. Mr. Chairman, I am also concerned about the legality and conformity with the law by the Postal Service in another area. And that particular area will come out, I think, in a brief recitation of some of the background as I understand it—the thinking now of the parcel post within the Postal Service.

Parcel post was created in 1912, or in January 1913, as a supplemental service to private carriers. The reason I bring this out is Mr. Klassen has indicated for his classes of the mail, fourth class, the specific answer to a question was to the effect that they have the carriers so therefore they have to have the service. Well, that wasn't quite the reason for the beginning of the parcel post system.

The original law specified that the Postmaster General must insure the receipt of revenue from such service adequate to pay the cost thereof. And for many years, the Postmaster General set the parcel post rates, but they had to be competitive with private enterprise.

The level of cost recovery for the parcel post varied widely for many years. In the early 1950's, this Congress was concerned about the fact that the parcel post was apparently not adequately paying its way, and penalties were put into law to insure in fact that the Postmaster General did set parcel post rates at a level sufficient to recover the cost of that operation. And then Congress in 1970, as part of the Postal Reorganization Act, continued the practice of requiring parcel post to cover the cost of its operation.

My concern for conformity of the law, is that through accounting manipulations and philosophies, the Postal Service may very well not be attributing the cost of parcel post and the other classes of mail adequately, because it charges to institutional costs depreciation and other maintenance items of capital assets.

So at the close of the hearings, Mr. Chairman, I intend to ask that we again ask the General Accounting Office to look into this separate area and advise this committee as rapidly as they can as to the extent that the Postal Service is, or is not, conforming with the intent of the law in this matter.

With that background, Mr. Klassen, can you tell me how much money has been spent and/or committed on the bulk mail system?

Mr. KLASSEN. Personally, I can't tell you. Mr. Dorsey, how is—

Mr. HINSHAW. I want to find out what you know about the operation.

Mr. KLASSEN. Mr. Hinshaw, I understand what it is that you are asking. I am not going to give you some numbers I can't support.

Mr. HINSHAW. Mr. Klassen, I am going to go away from numbers for a moment. Can you tell me whether or not construction, architectural, engineering contracts prior to the implementation of the bulk mail system are charged to the bulk mail system?

Mr. KLASSEN. Yes.

Mr. HINSHAW. They are charged to the bulk mail, the construction, architectural contracts?

Mr. KLASSEN. Yes.

Mr. HINSHAW. That is not my information.

Can you tell me whether or not you know the bulk mail system is charged with pending legal claims at the various bulk mail systems?

Mr. KLASSEN. I can't tell you that. No.

Mr. HINSHAW. Can you tell me whether or not any obsolete bulk machinery at places such as Baltimore, Md.; Merrifield, Va.; Carney, N.J.; New York, and other postal facilities, are charged the bulk mail system?

Mr. DORSEY. No.

Mr. HINSHAW. Mr. Dorsey, I would appreciate your not prompting

Mr. Klassen. I find that highly objectionable.

Mr. DORSEY. I apologize.

Mr. HINSHAW. I would hope you would apologize.

Mr. Klassen, instead of embarking upon a bulk mail system when the first-class mail system was, as I think you have said, in a deplorable state, why did you embark upon this huge crash program rather than improving first-class mail service?

[Discussion off the record.]

Mr. KLASSEN. Your question had to do with why weren't we concentrating on first-class mail and why did we get to bulk mail operations.

First of all, you referred earlier to the amount of competition we have. Of course, the competition we have in parcel post in particular is very substantial. The United Parcel Service, which is our principal competitor, handles more than \$700 million of volume and makes money doing it.

Our experience for a period of many years has been we were not competitive with United Parcel in the forms of service and in costs, and also in the amount of damage we had. This, that I am relating to you, is not something that has happened since Postal Reorganization. It is historic with the Post Office Department.

Parcel post is one of the services we are obligated to provide to the public. It was considered at the time of embarking on the bulk mail system that this could be done best by building new facilities for all bulk mail—including parcel post—and have a network that was—

Mr. HINSHAW. My question, Mr. Postmaster General, was why do that rather than concentrate on improving the service of first-class mail?

Mr. KLASSEN. That is the purpose of the tests that were being made. And essentially that has been referred to earlier as an experiment. And so far, we have not found all the answers to that.

We have some equipment today that is far superior to what we have had in the past. In fact, we have three optical character readers now that will handle up to one million pieces of mail within a 20-hour period. We are not concerned about first-class mail. This, after all, is the—

Mr. HINSHAW. That is my principal concern because the other mail categories are not subject to the exclusive monopoly of the Postal Service.

So that I will not forget to cover the question which was concerning Congressman Wilson, we had some discussion yesterday about the fact there has not been a Deputy Postmaster General for how long, Mr. Postmaster General?

Mr. KLASSEN. For somewhat more than a year and a half.

Mr. HINSHAW. If we had had a Deputy Postmaster General, recognizing your abilities are spread pretty thin because you do not have a top assistant, couldn't your top assistant then become aware of the details of the operation which you cannot do because of the time and difficulties involved, and in addition to that, not allow erroneous figures or conflicting figures, I should say, to be stated to this committee by Mr. Dorsey and you putting out a press release with a different figure as to the estimate of bulk mail? Couldn't the Deputy Postmaster General be on top of the situation a little bit more?

Mr. KLASSEN. Mr. Hinshaw, we have given our reasons why no one has been appointed up to this point. And your basic questions would mean some one other individual besides the Postmaster General would be knowledgeable in all these areas. This would not be true in any organization.

In fact, as far as the distribution of workload is concerned, Mr. Dorsey and Mr. Bailar both have the kind of responsibility a Deputy Postmaster would ordinarily have.

Mr. HINSHAW. All right. The reason for asking that question is that if we had a Deputy Postmaster General, it might be that person could become more intimately familiar with some of these broad categories of areas. And therefore, we would not have had to have had the great concern on behalf of the Board of Governors there was not a person qualified in the second spot to take over your job.

I will yield to Mr. Waldie of California.

Mr. WALDIE. I appreciate the gentleman yielding.

It is perhaps on a different subject than the one on which you are probing. But as I sat here, and I am not familiar enough with the subject to even participate in any depth, did I understand you to say that the issue of retirement for postal employees is a matter on the bargaining table? It was my understanding that we discussed that last year, I guess, when we had the bill increasing the contribution of the Federal Government to retirement. And I recall an argument then that we ought to keep out of that because that subject is for negotiating. But I did not know that it was possible in terms of negotiating retirement to lower, for example, retirement benefits that were granted under the civil service system, or to deny them or create a new retirement system supplemental to civil service.

Could you just explain to me what your understanding of the legislative or the legal situation is relative to the issue of retirement and collective bargaining?

Mr. Cox. Mr. Waldie, as I recall the discussion we had at the time that your subcommittee was considering legislation to amend the Federal Health Benefits Act to increase the share of government contribution to health insurance and the like. What we then told you was just the same as what we have said here today. My understanding of this part of the law that we are talking about, particularly section 1005 (d) of title 39, is that it has the effect of assuring officers and employees of the Postal Service the kind of retirement treatment that other employees of the Government are entitled to under chapter 83 of title 5, but that it doesn't necessarily stop there. It would still be permissible as far as the terms of the statute are concerned to agree on some supplemental retirement arrangement or other.

Mr. WALDIE. So that in the contracts that you have executed with the executive personnel, you are relying upon that understanding, would you agree, for a supplemental retirement benefit for executive personnel?

Mr. Cox. There is only one of those contracts, incidentally, sir, just so that we keep the record straight.

Mr. WALDIE. I know, but the record at least indicates legally there is no objection to supplemental benefits over and above retirement.

Mr. Cox. With your permission and the chairman's, I would like to go back and check the record of that earlier hearing and perhaps supplement my remarks, if that is all right.

Mr. DULSKI. Without objection.

Mr. WALDIE. When you do, could you then answer this question; would it be possible for Congress, one, under existing law to legislate additional benefits over the existing retirement system? And would it be possible, if it is possible, to legislate existing benefits to remove supplemental benefits that have been contracted without any interference with contract?

Mr. COX. You may have a constitutional question on the last one, might you not?

Mr. WALDIE. Perhaps we would. I would like to know that. Could unions, for example, at the collective bargaining table bargain for a supplemental retirement plan in addition to civil service retirement in your understanding of the law?

Mr. COX. I believe they could.

Mr. DULSKI. Would the gentleman yield for a question?

Mr. WALDIE. Yes.

Mr. DULSKI. Would it be possible to negotiate with the Post Office additional retirement benefits such as social security?

Mr. COX. I don't think you could. You mean have the unions and post office agree to a change in the Social Security Act?

Mr. DULSKI. No, just additional. Another benefit, as Mr. Waldie has stated. Could that be a negotiable item?

Mr. COX. I think probably that would require statutory change. I don't believe that the employer and employees can agree to change the coverage of the social security system.

Mr. WALDIE. May I just ask one further question? If we are dissatisfied with whatever contractual arrangements have been made with any group, executives or otherwise, for a supplemental retirement benefit or any contractual benefits, do I gather from your answer to me that the constitutional problem in impairing contracts would preclude us from doing anything about dissatisfaction except in a future case?

Mr. COX. I just mentioned that because it occurred to me it might be a question. I don't have an answer for you right now.

Mr. WALDIE. Would you find that out?

Mr. COX. Yes, sir.

[The following information was furnished:]

UNITED STATES POSTAL SERVICE,  
LAW DEPARTMENT,  
Washington, D.C., August 9, 1974.

HON. THADDEUS J. DULSKI,  
*Chairman, Subcommittee on Investigations, Committee on Post Office and Civil Service, House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: In the course of the July 31, 1974, session of the hearing on the continuity of executive management in the United States Postal Service, Congressman Waldie requested that we submit for the record our views on the existence of constitutional limitations on legislation reducing or eliminating altogether certain supplemental retirement benefits, in addition to those of the Civil Service Retirement System provided, in executive or other employment contracts entered into by the Postal Service prior to the enactment of such legislation.

As a preliminary matter we would respectfully invite attention to section 208 of title 39, United States Code:

Congress reserves the power to alter, amend, or repeal any or all of the sections of this title, but no such alteration, amendment, or repeal shall impair the obligation of any contract made by the Postal Service under any power conferred by this title.

While we do not contend that the language of the latter part of this section of itself precludes the legislative modifications of existing contracts, we believe that, in addition to its moral force, it negates any implication that the possibility of such modification was an implied condition of these contracts.

It is true, of course, that the express prohibition on the enactment of laws impairing the obligation of contracts which is found in Article I, Section 10, of the Constitution is a limitation on the States rather than on the Congress. The Federal courts, moreover, recognize that the incidental impairment of contracts as a result of the operation of laws directed to otherwise proper subjects of Congressional action does not thereby invalidate those laws. *E.g., Norman v. Baltimore & O.R.R.* 294 U.S. 240 (1935). At the same time, the courts have long distinguished between such general legislation and laws acting directly and independently to the end of impairing the obligation of contracts. Particularly with respect to contracts involving the Government have the courts held the power of Congress to be limited, both by simple lack of power in Congress to repudiate Government obligations lawfully made, *Perry v. United States*, 294 U.S. 330 (1935), and by the Fifth Amendment, *Lynch v. United States*, 292 U.S. 571 (1934), subject to action within the war power, federal police power or some other paramount power. *Ring Construction Corp. v. Secretary of War*, 178 F. 2d 714 (D.C. Cir., 1949).

As might be anticipated, there are relatively few cases involving the alleged impairment of a contract by Congressional action and still fewer in which an actual impairment has been found. It is our opinion, however, that Congress cannot lawfully impair the obligations of contracts, particularly those involving the Government, except as an incidental effect of legislation having some other principal purpose, or in the proper exercise of a paramount power. We conclude, therefore, that constitutional limitations would preclude Congress from modifying existing Postal Service contracts by legislation directed to that end.

Sincerely,

LOUIS A. COX, *General Counsel*.

Mr. WALDIE. I looked at these contracts, and I don't know what we can do about them. I suspect they are legal, they are proper, and that we would impair the right of contract for existing contracts. But, without knowing much more than I have seen in this book and what I have listened to, I am going to be supportive of any efforts to prevent contracts of this nature being executed in the future. Because I think they are very abusive of the trust that the statute imposed in you when we created the Postal Corporation and removed it from the congressional oversight to that degree.

Mr. HENDERSON. Would the gentleman yield?

Mr. WALDIE. Yes?

Mr. HENDERSON. I want to clarify one point. You have clearly made the point that negotiations could move up above retirement perhaps in supplementals, but could negotiations reduce the postal employees' retirement benefits below what are now provided in the law?

Mr. Cox. No, sir. I don't think they could.

Mr. HENDERSON. You are suggesting by way of interpretation the only way they can go is up?

Mr. Cox. Yes, sir.

Mr. HENDERSON. It is clear for the other benefits such as health and life insurance, they were free for negotiations. And my experience tells us you have negotiated upwardly in those areas.

Mr. Cox. That is correct, sir.

Mr. HENDERSON. Were you also providing in the act during the transition period the employees would get no less than they had in law at that time? But at the present time it is possible for the Postal Service to negotiate down health benefits, life insurance benefits, below other Federal employees, is it not?

Mr. Cox. Yes, sir.

Mr. HENDERSON. But in the retirement area, you say you cannot? Why can you not in the retirement area?

Mr. COX. What I am saying essentially, sir, is because as I understand the way the Congress wrote the law, that is what the law requires. They did single out retirement, separated from the rest of the fringe benefits mentioned.

Mr. HENDERSON. And you interpret the congressional intent to insure for all time that the retirements of postal employees would never be less than?

Mr. COX. So long as this law continues as it is, yes, sir.

Mr. HENDERSON. But some of us interpret that to mean we had retained exclusive jurisdiction over retirement benefits of postal as well as all of the Federal employees. And we expected them for all time or under this law to keep them exactly the same.

Mr. COX. I understand that, sir. And of course, I respect it. I may say I wasn't aware of any such understanding up here in the Congress until this morning.

Mr. HENDERSON. If we were to clarify and make the law clear on that point, General, do you think we would be unfair to postal employees? You have negotiated them up so would we do any great damage to the Postal Service if we clarified the law that we expect to retain retirements for all officers and employees of the postal system to be exactly the same with all other Federal employees? Would that be a problem to you for efficient operation of the Postal Service?

Mr. KLASSEN. Congressman Henderson, my recollection is much like Mr. Cox has stated. It was my understanding these issues could be negotiated upward.

One reason at the time we didn't ask for the full negotiation of pension plans is that we found the Federal Government pension plan was so far superior to anything else that was available that we made no effort to compete with it.

As far as the pension plan itself is concerned, I think from the union point of view—and I am not sure I should be speaking for them—they would consider all these items to be a subject of negotiations. In the absence of any word to the contrary, I would make that assumption.

Mr. HENDERSON. Mr. Chairman, in all fairness, because of the question I have asked, let me say I think we should consider very carefully whether or not for the top officers, the Postmaster General, the Deputy Postmaster General, and others, the provisions of the retirement are sufficient under the act and our understanding of what we want in management. But I think we ought to legislate in this area. And I think we ought to clarify this issue. And I think it ought to be done before it does interfere with contracts or even collective bargaining, Mr. Waldie.

Thank you very much.

Mr. GROSS. Will the gentleman yield for a suggestion?

Mr. WALDIE. I would be happy to.

Mr. GROSS. I would like to take this opportunity to suggest that next year when the first-class postal rates go to 15 cents that it be in the nature of a stamp hailing and commemorating postal reform.

Mr. DULSKI. Mr. Wilson.

Mr. WILSON. Mr. Chairman, we have to go soon. Just one brief thing I want to clear up.

First, I must say I think that if the unions didn't already have a lot of ideas, they are getting some ideas here today. We better move the legislation quickly. But I think there is still some difference of opinion as to the 1971 postal rate increase.

Mr. Cox, you said it was not the Postal Service that requested a rate increase in response to Mr. Gross' question. It is my understanding only the Postal Service had the authority to increase rates.

Mr. Cox. I didn't intend to say it was or was not the Postal Service. The Post Office Department was still in existence, but certain powers of the Postal Service could be exercised as early as February of 1971. And as you just suggested, Mr. Wilson, only the powers granted to the Postal Service under the Postal Reorganization Act would have sufficed to trigger those increases.

So you are quite right about this. But the Postal Service, as you remember, did not officially come into being until July 1, 1971.

Mr. WILSON. Mr. Gross read to you the statement of Mr. Blount which acknowledged that it was the Postal Service that had instituted the increase. And the law here is quite clear as to who has the authority and the procedures that must be followed.

Mr. Cox. At that time, sir, maybe roughly 15 percent of that new law was then in effect. And maybe 85 percent—and I just use the numbers figuratively—was not in effect.

Mr. WILSON. It just seemed the record should be straight on it.

Mr. Cox. I quite agree.

Mr. WILSON. Perhaps we should have clarified the statement made by Mr. Klassen when he said this was the first postal rate increase and hopefully it was the last one.

Mr. Gross. Will the gentleman yield?

Mr. WILSON. Certainly.

Mr. Gross. Then the counsel for the Postal Service is not challenging in any way the statement made by Mr. Blount or anyone else?

Mr. Cox. No, I have not challenged anybody's statement this morning, sir.

Mr. DULSKI. The committee will stand adjourned. I thank you very much.

[Whereupon at 12:15 p.m., the hearing recessed, to reconvene at 10 a.m., on Thursday, August 1, 1974.]

## CONTINUITY OF MANAGEMENT—U.S. POSTAL SERVICE

THURSDAY, AUGUST 1, 1974

U.S. HOUSE OF REPRESENTATIVES,  
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,  
SUBCOMMITTEE ON INVESTIGATIONS,  
*Washington, D.C.*

The subcommittee reconvened, pursuant to adjournment, at 10 a.m., in room 210 of the Cannon House Office Building, Hon. Thaddeus J. Dulski (chairman of the subcommittee) presiding.

Present: Representatives Thaddeus J. Dulski, David N. Henderson, Dominick V. Daniels, Patricia Schroeder, Andrew J. Hinshaw, Robert Traxler, Charles H. Wilson, H. R. Gross, and Edward J. Derwinski.

Mr. DULSKI. The subcommittee will come to order.

Chairman Kappel and members of the Board of Governors, we appreciate your coming here today to discuss with us management of the U.S. Postal Service.

As you know, Postmaster General Klassen and his staff have been witnesses during the first 2 days of hearings. Our basic concern in these hearings is postal management and that is why we wanted to have the benefit of your views.

The U.S. Postal Service has recently observed its third birthday. The Postal Reorganization Act was signed into law nearly 4 years ago.

When that law was being developed, there were high hopes that the American public would receive better service at reasonable rates, when postal management was given independence.

The committee has doubts, based on the performance of the Postal Service to date, that this goal is near achievement.

There are a number of matters which we want to explore with you gentlemen as our hearing proceeds. The Board bears a heavy responsibility under the act.

Mr. Kappel, do you have an opening statement you would like to present before we proceed to questions?

Mr. KAPPEL. I have, and I would like to say something about it. It's longer than I think I ought to read here. I made a statement here once before and there is a great deal of the same material in it. I believe I would like to paraphrase it in order that we start together, and it might answer some questions and be constructive, Mr. Chairman.

Mr. DULSKI. Your statement will be printed in the record following your testimony.

Mr. KAPPEL. I appreciate that.

Mr. DULSKI. Would you introduce the members of the Board who are with you.

Mr. KAPPEL. I am here as the Chairman of the Board and I have with me five of the other members. Three are absent. To my left are the Vice Chairman of the Board, Mr. Wright, Mr. Holding, and Mr. Coddling; to my right are Mr. Robertson and Dr. Holt.

Messrs. Johnson, Nevin, and Dr. Ing are absent. We have letters from all of them. They all seem to have reasons for not being here.

Mr. DULSKI. I'm sure they have.

Mr. KAPPEL. But that's our roundup, sir. I have Louis Cox here, the Secretary of our Board, just to my right.

I'll go through this statement and make certain points, if I may. I think that will save some time.

In the first place, we are aware of the fact that Postmaster General Klassen has appeared here in the last few days, although I do not know the record of what went on here other than a casual visit with him about it.

I notice in his statement, however, that he stressed the stability and the qualifications of the operating management of the Postal Service as he judges it, and I simply want to assure you that this has been a major matter of consideration, as I have shared judgments with him, and in the deliberations of this Board of Governors.

I want to start out here by saying that we fully endorse what he said here.

While I am the spokesman here today, I want to say that what I'm saying here today is being said on behalf of all the Board of Governors. We are all in accord on this and we have all been involved in it.

It is important, I think, to remember from the outset the basic function of the Postal Service, and I am not going to go into saying what that is, or what the basic factors are. You know them all better than I; you have enacted the legislation. They are in this prepared statement. However, I do want to say for this Board of Governors that we know what they are, and we support them, and we're dedicated to the accomplishment of a good postal service in this country.

The pursuit of excellence is the primary objective of postal reform. There has recently been some substantial progress toward implementing the four essential elements of the act. This is being done despite some very difficult obstacles that were never anticipated by you or by us or by anyone else. This rapid inflation that is going on has disrupted the economy and made it very difficult economically, and there are all kinds of other national problems that we all know about, and they are causing confusion, uncertainty, et cetera, as to the direction in which the whole country is going. These have caused, as far as the Postal Service is concerned, major difficulty in many different ways. I would say, at this time, that it is my judgment that we have done pretty well under the circumstances.

I would like to enumerate certain categories such as the first one that we have, fiscal responsibility.

I would like to turn to fiscal responsibility now. I think that it is of primary importance to the Postal Service, that the Board of Governors carefully monitor the major aspects of postal finances. In advance of each monthly meeting of the Board, each Governor is provided with a copy of the financial and operating statements that are prepared by our operating management for each accounting period. These reports are then reviewed in detail by the management with the Board.

The Board has retained the services of external auditors. They report directly to a three-member Audit Committee of the Board, headed by Mr. Holding. He meets with these people to determine, by mutual understanding, what they are expected to do. He assures us, and this committee, that they have a full understanding of their responsibility, and he also determines that they do have free access to everything they need.

He reports and reviews with us his findings after meeting with them on their findings. This is an ongoing function that the Board of Governors has established and it's an effective way of trying to get on top of assuring a really effective, efficient cost accounting system, and a means of determining the apportionment of the costs, and so on, and so forth.

As to the annual Postal Service budget, we get this in advance and tentatively review it. We review it and comment on it and it gets revised. After finally getting to a common understanding with the management on it, it is presented to us for approval and we haven't approved a budget yet where we didn't look at it and feel that it was sound and adequate.

On the income side, the Board has reviewed and approved rate submissions to the Postal Rate Commission as to the timing, amount, and necessity. We go into as many details as were necessary to come to a conclusion that we would or would not go along with the management, and accept the fact that this is necessary to keep the Postal Service economically sound.

Right after the Rate Commission has reached its conclusion, the results are reported back to us. It is our responsibility to examine it, and we have the three or four choices that you are aware of. We are having difficulties, as everything else in this country is, in keeping ahead of what is going on. I would say that if I had anticipated the problems that we have encountered financially since this thing started, I would have been amazed. I think we have read problems in this respect, and I tell you that we are facing up to them as best we know how.

In conjunction with the operating management, I think they have done a responsible job of running the Service in the light of the revenues that they have available to them, and in controlling costs. I think that today the American people, everything considered, are getting their money's worth out of the Postal Service, and they certainly are heading for something that's better than it would have been if we did not have the Postal Reorganization Act.

But even with the continuing improvements in efficiency, further increases in postal rates will be inevitable if today's inflationary climate continues—other further rate increases or subsidies. There is no other choice. That's what we've got here.

The Postal Service has adjusted in many ways, in trying to overcome the increased cost of energy and the transport problems that we face. We have been riding herd on this thing as best we can. However, we must keep one thing in mind: that efficiency must be vigorously pursued, but not at the expense of the Service. I simply want to dedicate myself to that principle. I have been in the service business enough in my life to know that if you don't give service, you might as well fold up. You can't expect to finance a poor service establishment and I don't think you are entitled to.

In the area of capital financing, we must get into that. We have approved proposals for borrowing in the private, and later in the Government, sector. We have a finance committee that is headed by Mr. Nevin, and they have closely studied borrowing needs, and they bring to the Board their considered judgments and recommendations. The last financing we did was through the Treasury Department on a short-term basis in the hope that we would get past the 1 year's time and be able to do some business on a more regular basis at a lower rate of interest. This was a vehicle of getting from here to there at the lowest cost.

We have also reviewed the annual 5-year capital investment plans and are in the position of having ongoing judgment on them. We believe that they are sound.

A commitment that is inherent in this legislation for mechanization has begun to take shape, and, of course, with so many facilities around the country, this has become a very complex job. And I'm not totally unfamiliar with it. I have been in mechanization for a long time. It's a big job and it involves a lot of big money, and it entails great success and accomplishment if it is done well. Thousands of the older facilities are being updated and improved to arrest the decay fostered by decades of financial neglect.

And I can tell you now that, in my judgment, there is real progress that has been made in this national bulk mail network. Notwithstanding the comments you might hear, or make, about the job that was started before we got into the action, it's working better by the minute. I am committed to the idea after a lot of examination, that the equipment that is being used is sound and workable, and these projects are going to prove their worth.

Certainly, this Postal Service could get more expensive by the minute; however, we won't pursue that course. Due in great part to successful capital investment, a stable work force has been established. We have done that by applying more efficient utilization of employee strength to mechanization. We are now processing 5½ percent more mail with 4½ percent fewer people than was done in 1970. That's a payroll of some 31,000 fewer people doing the job with mechanization than would be necessary if they were on the old processes.

To sum it up, in the 1960's productivity gains averaged 0.7 percent a year. The comparable figure in the 3 years since reorganization is 2.4 percent. That produces a difference of some 31,000 people. If you put that to a test of money—I have not figured it out—but, on average, that's 12,000 times that, you find that's a substantial savings.

In the labor relations field, I think we'd have to agree that progress has been made. My reaction to the Postal Service for a long time I was with the President's Commission was one of poor working conditions, poor pay, and utterly hopeless opportunity for promotion, and I think that I have told this committee once before that if I had been associated with something like that, I would have been ashamed of myself.

But today, these employees are better paid and trained and they have greater prospects for promotion than ever before. In addition, in part as a result of that, I am sure that our postal working force is more productive than it was. I have talked to a lot of them, and they are happier in the process.

The Postal Service has undertaken a broad and intensive employee and management training program. I think that our goal must be stated here, and this is a fetish with me. I don't think any enterprise with as many people as this, that deals in a service organization, is going to be a successful one until you have produced not only enthusiasm, but opportunity and means of being trained from within.

This is vital to this business, this establishment can be run by the people who come up through the ranks and who have succeeded in the experience of running it. We are dedicated to this principle—at least I am. I would be very, very dissatisfied if, in the period between now and a year or so from now, that hasn't been established as a fact in this organization.

We have worked toward that, and I would consider it a major accomplishment, and that is our timetable on it.

The Postal Service has undertaken this program of management training and our goal is just that. It is to develop the capabilities of the employees and the officers to that end. As a result, we have 100 development centers around the Nation where functional skills, job processes, maintenance, and self-development is going on and they are very effective. I have visited these facilities myself and I know that for a fact.

Postal supervisors are receiving training in five regional centers on management techniques, cost control, accounting practices, and other things that are necessary. In the judgment of this Board, what I have said a moment ago is very important. It is important to continue the development of the personnel within this organization to fill top management jobs; this is perhaps the most vital element in the ultimate success of this undertaking, and I would tell you that we are dedicated to that end and we believe we have a program going that will put us in that position within the next 2 years, if not sooner.

We believe that it's essential that all postal job vacancies be filled, wherever possible, with the promotions merited from men and women that are already employed. We have employed people with that in mind and we have the ultimate goal to get them there.

We can state that over 10,000 of the 12,000 postmasters that have been appointed since reorganization have been promoted from the ranks by the merit system we have. They have come from within the ranks of present postal employees.

These appointments in turn resulted in a long list of many thousands of other postal employees who have been promoted as a consequence of these as they have moved up. That is the ideal and that is the objective that we are working for.

Finally, the postal management structure has been transferred from a sprawling assortment of uncoordinated political entities into a team. It is our objective to see this through.

The delegation of authority down the ranks has proceeded and it should be able to proceed further as they are able to take it on.

By insuring that the Postmaster General has been selected and retained on the basis of his qualifications and performance, the Board of Governors has been providing top postal management with an essential insulation from partisan interests.

The Postal Reorganization Act provides that: "The governors shall be chosen to represent the public interest generally, and not be repre-

sentative of specific interests using the Postal Service." I will tell you that the present Board, in my judgment, meets this test. I have been on it from the beginning and I wouldn't have the slightest idea whether any man on this Board has any politics in his blood or not.

The very existence of this Board, with governors appointed for terms of 9 years, stands as a barrier to those who would use the Postal Service to achieve special partisan or economic interests at the expense of the common good.

My plea is that the judgment that prevails when Governors are appointed to this Board be that they be dedicated to that kind of principle. I think it is an important duty to be thoughtful about when we're talking about how replacements are made.

I realize that most of the accomplishments I've mentioned here relate to the details of mail processing and on dollars and cents. I don't want to overdo that side of it, important though it is. The paramount thing that remains here is for us to give the American people a high quality of postal service, and everything else is second.

I'm proud to say that I think we have kept this in mind at all times and I believe that the most important contribution of the Board to date has been the redirection and establishment of the Postal Service as a customer-oriented service organization. The attitude all the way down and up the line has got to be one that the customer is first. That is my stand. We must continue to develop that and every effort of management must be dedicated to that fact.

Attitudes change slowly. You must always keep at it. But we are moving in the right direction. I'm convinced that in the coming years, continued decentralization of operating authority and responsibilities, as well as the institution of imaginative new service programs, will lead to further improvements in service.

At this point, I would like to pay a tribute to Ted Klassen and tell you a little human interest story on that.

I have said from the beginning that the head of an establishment with so many people in it must be dedicated and involved with the attitude of the employees. With so many of them in the act—and I have lived this life myself—at least half of his time, whoever he is, ought to be out with the people doing the job. That is my theory.

They ought to know him and be exposed to him and his thinking and he ought to be honest and open enough to talk openly with them and he ought to do a good job of listening. I would like to tell you that I think Ted Klassen has done that job admirably well.

He has been over this territory in post offices and has met with people inside and outside the business, and it has come to the point where, I will have to admit to you, I have called him up and have come to see him and said, "Ted, if you don't take your hat off and go somewhere for a week and get out of this rat race, they're going to carry you out on a stretcher." That's a literal fact.

I give him full credit; he's working his head off and doing what has to be done to get identified with the people in this business and hopefully, they'll get identified with him and the principles of what we're trying to get done here, which are all for the good and the service of the American people.

So, now on to services.

In the 3 years we have been at it, the speed and reliability of service has been improved in contrast with every alternative we can find that

might have been the case. The speed has been improved. We have had lots of instances where people didn't believe that we meant what we meant. We have had lots of troubles. We have had some funny business going on, but on the whole, I think we are on the way to having service standards that are such that we can improve on them and re-identify them as we can and we can measure the degree to which they're being met.

Recent figures show that national overnight delivery standards are being met 95 percent of the time. Now, that other 5 percent is not an irreducible minimum, but there is going to be such a number somewhere and I would like to tell you, that I don't think the New York branch or any other terminal will ever be to the point where there won't be soft spots or complaints.

I think the organization has a major job to strengthen their soft spots and complaint areas and take it seriously and take it as it comes. That's the way we're going to get ahead and that's the way that we're going to get people down the line to recognize that they can step it up. They don't have to read the rule book and wait 3 months for an answer.

So, good service is not only important to have, but it is our most important goal.

However, in addition to all these things I have talked about, I would like to say that the Board of Governors would be amiss and off-base if they started spending their time messing around and trying to help these people in management and getting in their hair. I think ours is an oversight job and being absolutely sure of, and close enough to, what is going on so that we have confidence in what is going on and we can back them up in the close relationship that we have.

So, in addition to the powers of oversight, we have retained direction and control over expenditures and the power of review over the practices of postal executives. We have established the basic objectives and long-range goals of the Postal Service in consonance with the provisions of the Postal Reorganization Act and have monitored the results.

Above everything else, it is our interest to insure that management of the Postal Service is not only efficient and effective, but that they're acting in the public interest.

Now, just to get to the end of this thing, as I have said before, the most important job is to make sure that we have a good Postmaster General. We do. We do have that. This, in my judgment, is the reason that we have stepped up that contract of his, in advance, and we would have been negligent not to. We didn't wait until the day it was up and then start trying to do it too late.

We originally assumed that 5 years was necessary to get this job really on the track. We reserved the last 2 years as an option and I would like to say that that 2 years is within the framework of what I have been talking about here. It is going, I hope, to enable us to say that we have got this thing running from within and we have got the man here to fill this deputy job and we don't want to fill that until we can find somebody that can be the top fellow, or a couple of others like him.

We believe that's the most important assignment we have and I would like for you to bear with us as we bring it about, because it's on

its way—I can assure you of that. In our oversight function, we don't intend or attempt to take the place of management. We want to support them and see that they're doing this job well. We must be informed.

As we look to the future, we can be proud of the significant progress that has been made in the past 3 years. But much remains to be done. On the immediate horizon, the Service will be concerned with the long-awaited reform of the mail classification schedule; continued modernization and mechanization of postal operations; and the negotiations of a third collective bargaining agreement.

Of course, some of the work of the Postal Service will never be completed. Mail service will never be so good that it cannot be improved. The annual race between productivity and mail volume will continue for many years to come. It will never be possible to sit back and stop searching for new management talent, or developing the abilities of existing employees.

The upkeep of postal facilities of the improvement of postal technology must never be sacrificed for short-sighted budgetary reasons. The Postal Service, like the Nation itself, is a dynamic, growing entity. It is our job as Governors to give it the attention and the direction which it deserves. We intend to do just that.

Gentlemen, that's the end of my statement.

Mr. DULSKI. Thank you very much, Mr. Kappel, for your statement. I remember, as do most of our committee members, that you were instrumental in securing these postal reforms. You have devoted a great deal of time to this subject.

My great concern, Mr. Kappel, is that these postal reforms have resulted in two rate increases, and I imagine that there is another one in the offing, additional mail problems, especially in first-class mail. Further, postal reform was designed to eliminate the subsidies.

Yet, as you have just stated, you expect to have more subsidies. Now, can you explain why the Postal Service appears to need more Government subsidies? Can you explain why that is? Can you explain how you're helping to avoid these subsidies?

Mr. KAPPEL. What is causing them to increase?

Mr. DULSKI. I know what's causing them to increase, as do most observers. The solution seems to be to come back to the Government or to the Congress to get a subsidy. Now, will there be an end to this and will we ever see a self-sustaining organization?

Mr. KAPPEL. Well, I think the key answer to that is: When somebody will get the economy under control so you know what's coming around the corner tomorrow. We have got an unmanaged and wildly racing economy going in this country.

Moreover, we started off with a much greater deficit, in a sense, than we were talking about in our commission studies in 1968. The postal reform legislation that you gentlemen passed—and it's good legislation—involved a 14-percent increase in payroll. Whose bargain that was to get the legislation is not my business, but that's a fact. It is somebody else's business, but that is what happened.

Now, we have got collective bargaining and we paid a price for catching up. I'm not saying that's wrong. I think the postal employees have been treated right. But, that's a big load, and inflation has made it more expensive than it would have been under normal circumstances. I don't believe that you or I or any of my associates in this room or

anyone in this room at the time of postal reorganization was anticipating the economic costs of running a business that have come along with inflation. That's one big factor in this.

The other one is in the mechanization field, I think we're making progress and nobody ever kidded me that that's not an expensive venture. However, it's coordinated better than I have seen it before, and I have been in a lifetime of coordination. You have to get into mechanization deeply before it starts to work.

However, we have had to turn an organization around that has never done this kind of thing. I think I can give you a number that is somewhere in that report of ours, that we estimated at 20 percent the potential for cost improvement by productivity gains. I think we have accomplished—if you throw all the extras out of this thing, we have reduced our costs by 7 percent through increased productivity.

Now, had we not done that, it would be that much worse. I think we have had a track to run on here that nobody, including any member of this committee could have anticipated.

We resisted doing anything that would reduce the service or diminish the service. We have had deficits—I don't know what the numbers are, but they're astronomical. I know we're \$400 million-plus in a deficit position. I'm here to tell you that if conditions in this country don't permit a more normal management of the Postal Service or a lot of other entities—

Mr. DULSKI. Would you anticipate another rate increase to meet these deficits?

Mr. KAPPEL. The alternative to not having another increase—yes, I do. It's inevitable if this inflation doesn't change. We broke our backs trying to stave one off here a while ago, and I don't like subsidies at all. My own judgment is that the Postal Service ought to be run and can be run on a break-even basis under normal circumstances, if we ever get the economy in a normal state.

There should not have to be any subsidies except such as Congress accepts as appropriate for some fields. I don't quarrel with that. I think it ought to get to that level.

I think the reason that we haven't come a lot closer to it is the things that I have mentioned. We have been operating in a situation that the whole country is confronted with. I don't blame labor for wanting their increase. But some 85 percent of our costs are that. When you start a leverage on 85 percent, you have a major one.

Mr. DULSKI. Thank you very much.

Mr. Daniels, we only have a limited time, so I would ask you to adhere to the 5-minute rule.

Mr. DANIELS. Thank you, Mr. Chairman and Mr. Kappel.

It's a very fine situation as to the objectives of the Post Office and the Board of Governors and the operating Postal Service.

Under the Reorganization Act of 1971, a Board of Governors consisting of nine members appointed by the President was established by law.

Mr. KAPPEL. Yes.

Mr. DANIELS. That was done with the salary fixed at \$10,000 per annum. Plus, a fee of \$300 a day for attending meetings and reimbursement for travel expenses et cetera. Now, the Board was appointed in 1971, and I think you were one of the original members and appointed

Chairman. The Board has held meetings during that period of time. I think you have held 15 meetings according to your staff study in 1971. Thirteen in 1972, eleven in 1973, and five meetings this year. Now, all the members of the Board of Governors attended those meetings?

Mr. KAPPEL. Every meeting?

Mr. DANIELS. Yes.

Mr. KAPPEL. No. I think you have a record of that.

Mr. DANIELS. Has any member been conspicuous by his absence?

Mr. KAPPEL. Yes, Dr. Ing. I think he has been to one meeting.

Mr. DANIELS. One meeting?

Mr. KAPPEL. Yes. None this year.

Mr. DANIELS. My records show——

Mr. KAPPEL. That's disturbing to me and it ought to be disturbing to him and it should be disturbing to you.

Mr. DANIELS. My records show that he has attended three meetings in 1972 and was absent from four. I think in 1973 he was absent from nine and attended none. What useful purpose does he serve on the Board? I don't think he has made any useful contribution that I can identify. Have you made any recommendations to the Postmaster-General or the Deputy Postmaster?

Mr. KAPPEL. I prefer not to get into personalities, but I will be glad to discuss it with you.

Mr. DANIELS. This is not a question of personalities, but we are talking about a member of the Board and we should discuss this. You set this forth in your statement a few minutes ago.

Mr. KAPPEL. Yes. Well, all right, yes. But I notice he got appointed for a 9-year term. I cannot change that.

Mr. DANIELS. How was he appointed for a 9-year term?

Mr. KAPPEL. He was appointed by the President. You can talk to the fellow that sponsored him.

Mr. DANIELS. You think he serves any useful purpose?

Mr. KAPPEL. Does he?

Mr. DANIELS. Yes.

Mr. KAPPEL. No.

Mr. DANIELS. Do you think he serves a useful purpose by being on a board when he doesn't attend meetings?

Mr. KAPPEL. Nobody can serve a good purpose without attending meetings.

Mr. DANIELS. Have you made a recommendation to the President as to whether he should be appointed?

Mr. KAPPEL. Well, I'll tell you very frankly. I learned about it first when I read it in the paper. Nobody asked me and I haven't had much luck about it.

Mr. DANIELS. You mean in regard to the operation of the Postal Service—nobody asked you a question and you think that you don't have to respond to it simply because no one asked you? Would you operate a business that way?

Mr. KAPPEL. No.

Mr. DANIELS. Well——

Mr. KAPPEL. I don't have the same control——

Mr. DANIELS. Would you make the exception here because this is a quasi-public corporation?

Mr. KAPPEL. I think if a person doesn't come to 80 percent of the meetings, he ought to stay home.

Mr. DANIELS. You mentioned several times, in the course of your testimony, that the responsibility of the Board of Governors has not only been to operate the Postal Service in an efficient and an effective manner but also in the public interest. How is Mr. Ing's service in the public interest, and how is he contributing to the operation of an efficient, effective, and professional Postal Service?

Mr. KAPPEL. He's not.

Mr. DANIELS. You admit that he is not?

Mr. KAPPEL. Right.

Mr. DANIELS. Do you intend to take any action?

Mr. KAPPEL. I'm not going to go into the action that I took. I made a regular fuss about that when the thing started and I have done a bit more but I have since given up trying to influence the judgment on that point. I think you would, too.

Mr. DANIELS. I think the taxpayer in these inflationary times might have great difficulty, with the high unemployment in this country, and are much concerned about the salary that we pay Governor Ing. It's a waste of the taxpayer's money. As a taxpayer, I'm concerned about this, and I think you should be, too, apart from your position as Chairman of this Board.

Mr. KAPPEL. Right.

Mr. DANIELS. Now—

Mr. KAPPEL. I would like to add something to that. I've gotten into this before. At the time we were not confirmed after 8 months, I got on my high horse and we had to hire a Postmaster General and I didn't think an unconfirmed Board had any business doing that without confirmation. When I found out about who was pushing who on this Board, to put it politely, I had some confrontations about it. He got appointed anyway and I'm not going any further with this. I find out that when the President appoints somebody to this Board and the Senate confirms them and the Senate committee knows about these things and who's behind it, if I can't change his mind, then I can't do much more about that problem. That's where I am going to drop this, right here.

Mr. DANIELS. In your last statement, the inference I draw is that there are political considerations involved now in the operation of the Postal Service. Under section 102, it specifically prohibits political considerations; is that not true?

Mr. KAPPEL. That's right. Where would you suggest I go with this?

Mr. DANIELS. I would say, go to the Postmaster General and you might also notify the President.

Mr. KAPPEL. I have no disagreement on this. I can assure you that.

Mr. DANIELS. But you haven't done it.

Mr. KAPPEL. I'm not going to pursue this personnel problem any further.

Mr. DANIELS. Not under the time I have here. I am limited to 5 minutes.

On what occasion has the Board differed with actions or proposals of the Postal Service on efficiency?

Mr. KAPPEL. What?

Mr. DANIELS. On what occasions has the Board differed with the actions or proposals of the Postal Service concerning efficiency?

Mr. KAPPEL. I'm not sure I understand what you are asking.

Mr. DANIELS. Well, General Klassen as a member of this Board, is in full charge of the operations of the Postal Service. He has come before you with certain recommendations as to the operations of the Postal Service. Have you, at any time, or has the Board at any time differed with him as to policies.

Mr. KAPPEL. Well, I'll tell you, we have a lot of discussions, pro and con, before we ever get to a conclusion.

Mr. DANIELS. Have you ever differed with him?

Mr. KAPPEL. Have we differed and turned him down? I don't think so. We avoid that. I think we get it ironed out together and answer it before we bring it formally to the Board.

Mr. DANIELS. So the Board did come up with alternative recommendations?

Mr. KAPPEL. If we did, you say?

Mr. DANIELS. If you differed with the Postmaster General and discussed policies, did you discuss proposals for the operation of the Service.

Mr. KAPPEL. If we're going to be marked on our differences, I'm going to tell you that we iron these things out between meetings and we go back and look at the job. This whole bulk mail thing was held up until we got absolute assurances. We have had lots of differences. We don't take any actions until somebody clears them up.

Mr. DANIELS. Are your differences reflected in the minutes of the Board?

Mr. KAPPEL. No, they are not.

Mr. DANIELS. Why not?

Mr. KAPPEL. Because they are not fundamental to the decisions that we make.

Mr. DANIELS. What do your minutes reflect? Isn't it proper and appropriate for your minutes to reflect the reactions and decisions of the Board on all important matters of operations of the Service?

Mr. KAPPEL. That's right, but there have been no formal actions reflecting differences.

Mr. DANIELS. Well, and don't you think that they are sufficiently important to be reflected in the minutes?

Mr. KAPPEL. There are no actions of that kind by the Board because we work to get it right. It's not reflected in the minutes.

Mr. DANIELS. Does it reflect the recommendations of the Postmaster General?

Mr. KAPPEL. I'll give you an example.

Mr. DANIELS. Don't give me an example, just answer my question.

Mr. KAPPEL. The answer is no, we don't keep minutes on everything.

Mr. DANIELS. I'll just state that that's a shabby way of doing business. You have been associated with business.

Mr. KAPPEL. What?

Mr. DANIELS. You have been in private business. You have been on the board of directors of many corporations.

Mr. KAPPEL. I've been in private business for 50 years and on lots of boards of directors and I have never seen a board of directors meeting yet that has reflected what you are asking me.

Mr. DANIELS. Well, that's shocking to me if the minutes do not reflect policy recommendations of the president of a corporation or any differences between the officials of a corporation and the operations of the business itself.

Well, there have been many problems in the Postal Service over the past 3½ years that the Board of Governors have been supervising these activities. Now, has the Postal Service, officially, brought to your attention the major problems with which it has been confronted during these 3½ years?

Mr. KAPPEL. Within the management—a difference of opinions?

Mr. DANIELS. I didn't say difference of opinions—the problems that confront the Service.

Mr. KAPPEL. Absolutely. That's what the Postmaster General has been discussing with us at every meeting. As these things are getting put together, we meet in between meetings to be sure that we can bring things to the Board and discuss some of those things from a practical standpoint. If you look at those compensation figures that we're talking about, this Board hasn't been compensated for that sort of thing and we don't even turn in our time on something like that. Even after you give me the pay, I still give half of it back. My interest is to get the job done.

Mr. DANIELS. Has the Board given any guidance or obvious solutions as to the key problems presented to the Board by General Klassen?

Mr. KAPPEL. Yes; many times. If I wasn't doing this, I would have been missing my bet.

Mr. DANIELS. Is there a visible solution?

Mr. KAPPEL. We don't make notes of what we are talking about. I think I would go home and quit if I had to do it. This is because we wouldn't get anything done.

Mr. DANIELS. You don't have to do that, but you have a secretary and that would be the secretary's job.

Mr. KAPPEL. I don't think we want the secretary along every time we talk about a mechanical problem. We haven't had it that way. I think we're running it in a way that we consider is the best and most practical way of getting things done and, of course, the main thing is that we are trying to accomplish something and if you give a thing a go-around so that there is a full-blown look at all angles, then they come back with a recommendation and then we take the answer to the Board and we talk about it and we ask questions and answer them. That's the way we're running it now. I couldn't sit here and run through all the ins and outs of this thing, but I assure you that I have spent a lot of time with General Klassen and his associates.

Mr. DANIELS. I respectfully disagree with you.

Mr. KAPPEL. That's fair enough.

Mr. DULSKI. Mr. Hinshaw.

Mr. HINSHAW. Thank you, Mr. Chairman.

I'd like to ask some questions in a moment, but before I do, I'd like to express some serious reservations about whether or not the Postal Service is conforming with the law on its accounting procedures. So, my question to you is: If there is a question, a legal question, that arises before the Board of Governors, who do you turn to for advice?

Mr. KAPPEL. The general counsel for the Postal Service.

Mr. HINSHAW. Would you not find or feel that that could be a conflict of interest if this person gives you advice at the same time he is called upon to give the Postmaster General advice? It is a terrible burden to put on him.

Mr. KAPPEL. Yes; it would be a conflict if he gives conflicting advice, but why couldn't he give us each the same advice?

Mr. HINSHAW. That's my concern, that he would give you the same advice so that it wouldn't be independent. I would suggest that it's something that Mr. Cox himself should refuse to do because it seems a serious conflict. However, I'll get on to my questions of Mr. Holding.

Governor Holding, I apologize for not knowing what branch of the profession that you come from, but I assume that since you are the chairman of the audit committee, that you come from the accounting profession; could that be right?

Mr. HOLDING. My background is not as an auditor. I am a businessman. I own and head up the majority stockholdings in several corporations and that's my background.

Mr. HINSHAW. Are the members of the audit committee, the other members from the auditing committee, are they associated with the accounting profession?

Mr. HOLDING. Crocker Nevin was the president and chief executive officer of one of the largest banks in the United States. I think he has some feel of auditing and money. The other member of our committee is Charles Coddling, who is an independent businessman in Oklahoma, a rancher.

Mr. HINSHAW. Well, with that lack of accounting and auditing expertise on the committee, would you not then be somewhat in a position of just rubber-stamping what is presented to you for fiscal statements?

Mr. HOLDING. I don't think so.

Mr. HINSHAW. In that respect, can you define for me, institutional costs?

Mr. HOLDING. Institutional costs, as they relate to the Post Office, are the costs that we are not able to assign to any one particular mail category, such as certified mailing, that have functions that pertain generally to all of the classifications of mail. Overhead expenses are some of the things that are not attributable.

Mr. HINSHAW. Could this include depreciation and maintenance on fixed assets?

Mr. HOLDING. It does. Those are not definable to any particular segment of the mail.

Mr. HINSHAW. Let me read to you a brief historical background of the parcel post and that pertains to other classifications of mail business.

Parcel post was first established in 1912 simply because there were carriers that made the route and we thought that it would be appropriate to establish the parcel post classification service, but the law specifically stated that the Postmaster General must insure the receipt of revenue from service, adequate to cover the cost thereof. This was the concern before the ICC, different classifications of mail were not bearing the appropriate applicable cost.

In the early 1950s, the Congress was also concerned that different classes of mail were not bearing their weight in terms of the cost that should be imputed to them.

Then we had the Reorganization Act of 1970, where we provided that each classification of service had to have the cost applicable to that service imputed to that service. Now, institutional costs are over 50 percent of the total costs of the Postal Service.

My concern, specifically, is with the depreciation and maintenance of fixed assets. So, my question is that so long as the intent of law is that each classification of service bear its appropriate share of the cost, as head of the audit committee, is it not your concern probably that the depreciation and maintenance charges be segregated to the individual classification of the services and thereby be attributed to those services to which the costs apply?

Mr. HOLDING. How would you take a building that cost \$20 million, if in that building you had passports being issued and the issuance of first-class mail and the issuance of second-class mail, third class and parcel post—

Mr. HINSHAW. How would I do it?

Mr. HOLDING. Yes.

Mr. HINSHAW. For me to have to answer your question shows the dereliction of the Board of Governors in this respect.

There are units of work. There are volumes of work that you can apply to this individual class of service. They can be segregated to the amount of usage they have or the volume, if it goes that way. It's a very easy procedure to do. I know of no, and I stress, I know of no major corporation that does not apply depreciation and your so-called institutional cost to the various profit centers because this is the only way, in fact the only way, that a private organization knows whether it's competing efficiently.

That's how I would do it. I suggest that you, as head of the audit committee, inquire as to whether or not the Board of Governors is allowing the Postal Service to function outside the law.

Could you respond to whether or not you'll take my suggestion to seriously propose this to the Board?

Mr. HOLDING. The Board has discussed this allocation on no less than five or six different occasions and there is an effort being made, a continuing effort, to allocate more or the cost to the individual categories of mail. The effort is being made to do that and presently it is being done by our accounting people and we'll pay attention to it.

Mr. HINSHAW. Could you see that this committee, within the next couple of weeks receives that information from your accounting firm? I take it that is Ernst & Ernst. And could you give us an analysis as to whether or not it is feasible to apply this so-called institutional cost, particularly as they apply to capital assets, back to the individual profit centers.

Mr. HOLDING. We'll discuss that with them and get a report to you at the first possible time, sir.

[The following information was furnished:]

ERNST & ERNST RESPONSE TO MR. HINSHAW'S QUESTION TO MR. HOLDING IN HOUSE  
POSTAL SERVICE SUBCOMMITTEE HEARINGS

Ernst & Ernst acknowledges that fixed or "institutional"<sup>1</sup> costs can be allocated to profit centers. Many companies utilize this procedure as one way to measure their management effectiveness and/or profit center profitability. Many

<sup>1</sup> "Institutional costs" is not a conventional term. In the context of this memorandum it is intended to mean "costs other than direct costs."

companies, however, reject it as being an invalid measurement of management effectiveness and/or profit center profitability. There are other measurements, of course, such as the marginal contribution to fixed costs and profits.

The establishment of selling prices is a complex procedure in which most companies give consideration to many factors other than just cost such as: competition, value to the customer, demand elasticity, etc. It is not an uncommon practice for a company to develop the direct cost of a product and use this as a floor below which they would not sell. However, there could be a great deal of flexibility in pricing above this floor—both as to the factors used to determine a price and in the margin contribution resulting from the price.

Depreciation of fixed assets is normally classified as a fixed expense and consequently accorded the same treatment as other fixed expenses described above.

Mr. KAPPEL. I want to comment on this.

Mr. HINSHAW. I have another question for you, sir, that will go along these lines.

Mr. KAPPEL. All right.

Mr. HINSHAW. Is it not true, in private industry, if there is a function, a division, a product which historically loses money, private enterprise, if they see that a product is not competing effectively with other companies, then it decides to find out what the problem is or to spin-off that product?

They do this or they find a way to make it profitable.

Mr. KAPPEL. Yes.

Mr. HINSHAW. My question is, is an operation of the parcel post function and, since the parcel post service is consistently losing volume to private enterprise, and will apparently continue to do so, why did the Board of Governors approve a program that will allow the Postal Service to spend a great deal of money on the bulk postal service system before making sure that first class was being handled efficiently?

Mr. KAPPEL. Before being assured that first class was being done efficiently?

Mr. HINSHAW. Yes, sir.

Mr. KAPPEL. I don't think we're neglecting first class because of that. I think we're working on first class at all times. But, on this point, I don't necessarily accept your judgment that parcel post is going out of business if we do it right.

I'm sure of one thing that as long as we're obligated to give parcel post service, we ought to do it right and economically and get it out of the rest of the Postal Service so that first class can be handled efficiently.

Mr. HINSHAW. Mr. Kappel, do you believe you have a legal mandate to provide parcel post service to the exclusion of private enterprise?

Mr. KAPPEL. No.

Mr. HINSHAW. Do you believe that you have a mandate to get back the lost parcel post service volume that you have lost to private enterprise?

Mr. KAPPEL. I do. In a sense, it balances the Postal Service to the benefit of the public. There is nothing else that can take its place.

Mr. HINSHAW. If so-called benefits of the public consist of the parcel post requiring an annual subsidy from the Congress, would you not agree that perhaps the Postal Service should look to allowing private enterprise to carry on the parcel post functions where it is most effective and to have the Postal Service handle parcel post where private enterprise cannot do the job more effectively than the Postal Service.

MR. KAPPEL. Well, none of that has been proven, but I would say this about it. I doubt that you will find private enterprise willing to step up and do this down to the smallest rural districts and throughout all places that the Post Office is obligated to serve, which I think is a proper public service for this Postal Service. I don't believe any entity but the Government can afford to do that.

MR. HINSHAW. Would you say it is a proper thing for the parcel post to be subsidized by the Congress or be subsidized by first-class mail?

MR. KAPPEL. The whole Postal Service is subsidized, always has been, and I don't believe that's right.

MR. HINSHAW. My final question do you, if in fact the statistics show, which I do believe that they show, that the parcel post function of the Postal Service has been losing volume and money and the statistical probabilities are that it will continue to lose money, would you believe then that the Postal Service should not try to recapture the lost volume?

MR. KAPPEL. Not unless I got myself fixed in a position where I thought they couldn't get it back. I think the Postal Service has too much at stake at the present in the present investment. I would make a business judgment on that, and I would consider all of your thoughts, but I am not ready to do that and I don't think this Board of Governors is.

MR. DULSKI. Mrs. Schroeder.

MRS. SCHROEDER. Thank you, Mr. Chairman. I would like to make several points. First of all, I agree with Congressman Hinshaw and I would like to underline everything he said and put exclamation points around it. Having a legal business background, I was appalled by looking into the record and reading some of the testimony in front of the Postal Rate Commission to find out that even the Postal Service is admitting that the first class people, the people who are using first class mail service are paying an undue burden of the institutional costs compared to the users of other classes of mail. I think that that is partly because you have a monopoly on first class service. And I think you really ought to rethink that whole thing, and your accounting procedures should be brought up to date.

But this tends to be lecturing, and not a question.

I would find it, as an attorney, absolutely incredible to have a client come in and tell me he was sitting on boards of directors somewhere where they weren't bothering to put down minutes of meetings that they have because of legal principle of directors' liability. I just find that really amazing that you don't have minutes of these meetings and different viewpoints expressed. Without minutes we have no proof except that you must be rubber stamping each other's actions. You come here and assure us totally that "oh, yes, we have disagreements, but we work it all out. We have disagreements, but we all reach concurrence and consensus." And it almost sounds like politicians. You don't expect any politician to come out for crime and against education and against environment, et cetera. But how can we even make a rational judgment? There is a solid front—we have all worked all these things out, we don't have any disagreement, we don't have alternatives that we proposed, we can't show you what things were thought, but we assure you we just didn't report them and we are all together now.

But now let me move on to my own little nemesis. I have always been in personnel and labor law, and I was delighted to read on page 10 of your statement that one of the major concerns of the Board in general postal policy was the continuity of strong postal management, in making sure that there is some continuity. One of the things that concerned me was on page 7 of the statement you announce it is essential to fill top level vacancies through promotions within the service—I couldn't agree more. I think the only way that you can do this is through the career ladders. And I would like to know the number of career men that you have promoted to Assistant Postmaster General since 1971.

Mr. KAPPEL. You would like the number, you say?

Mrs. SCHROEDER. Yes, I would like to know how many Assistant Postmasters General, first of all, you have appointed since 1971, and out of those how many were career servicemen.

Mr. KAPPEL. I think Mr. Klassen had it here the other day.

Mr. Cox. I might point out that the Postmaster General appoints the Assistant Postmasters General.

Mrs. SCHROEDER. You just made a statement that you are concerned about continuity, and I would assume expertise and experience.

Mr. KAPPEL. I don't want to quarrel with you, because I think we are interested in the same thing. I can't give you the answer to that question without somebody looking it up here. But what happens here is that every position is considered from a salary standpoint and if it is above a certain level—I don't know that there have been any appointments made but what we have sat down and judged whether this gentleman that we are moving in there has got the capability of doing that job and growing. We are agree that this man is hopefully bigger than that job because we have to have a going succession that is able, and more than one. And yes, we visit about these things, but the Postmaster General makes those appointments. We don't approve them.

Mrs. SCHROEDER. Well, again being a trial lawyer I try not to ask a question that I don't think I know the answer to, my understanding is 28 have been appointed and only 2 have been career people. Now I find that a little incredible. At least that's the figures that we have I was trying to find this out from the Postal Service yesterday, what kind of measurement they had, what kind of test they can use to get around experience and knowledge and inservice training so that they can say in most instances we do better to go outside. If that is true, something is definitely wrong with the career service.

Mr. KAPPEL. Well, I think we have to get started here in some of these places. I think we have got these people coming along. We have had a research and development position that we did fill from outside because we had to have some expertise in something we did not believe we had here. We are about to change that now to the other phase.

Let me look at this list. You are doing that—all right. But I know what you are talking about, and I don't quarrel with you. But I think at the beginning of this Mrs. Schroeder, that we honestly had to proceed as we did. One of the worst things you can do to a man is to put him into a job that he is not ready for.

Mrs. SCHROEDER. But see, what I'm trying to say is I think that's what you have done.

Mr. KAPPEL. Oh, we're going to have lots of them.

Mrs. SCHROEDER. Because I don't understand what you have devised that you can tell somebody is bigger than the job or more qualified than the people who have experience. What magic thing is there?

Mr. KAPPEL. Well, I don't know the answer to that other than just the judgment you have of knowing him and working with him and judging him by what he has accomplished. We are bringing people before this Board of Governors so that we have a preview experience with them, and then when the time comes to decide we have a knowledge of them. But there is no formula that you can make in this respect. We have had some people that I think we made pretty bad mistakes on, and they aren't there any more.

Mrs. SCHROEDER. And you think that is more important than experience?

Mr. KAPPEL. Yes; it could be.

Mr. WRIGHT. Could I add something? I have been involved in this too, and in the early days when we made this first change from the Post Office Department into the Postal Service we found that we had taken on a number of new responsibilities which the whole Post Office Department had not had before, and one of these things is the thing Mr. Hinshaw was talking about in which we had the obligation to set postal rates based partly on the cost of service of the individual classes of mail. At that point in time we didn't have an accounting system which provided that kind of information.

Mrs. SCHROEDER. I still don't think you do.

Mr. WRIGHT. Well, this is a part of it, see? In other words, this is just one example, where we took over obligations in which we didn't have capable people in the field within the Post Office.

We went into labor relations on a large scale. We had the unions, we had to negotiate rates, we had to negotiate working conditions and all these sorts of things. And the Post Office hadn't been through negotiating with labor unions. So we had the people in the labor field that we needed to bring in some expertise—people who had been in this area.

We also had the research and development area. Let me make a couple of more points and I will wind up. We have been endeavoring in the early days to find people who could do the jobs that had to be done, and in the meantime training people from the bottom so they can replace these people over a reasonable period of time.

Mrs. SCHROEDER. I think those kinds of specific things might be understandable, but in general we have been delivering the mail for years in this country and it is not like it is a whole new thing, and when I find that two out of 28 Assistant Postmaster Generals were career men—I also have here that since 1971 out of 13 senior Assistant Postmaster Generals, out of 13 of them only two were career people. When I see my own postmaster in Denver being appointed and he has not come up through the ranks I am concerned about what is going on here now. They have statistics saying, you know, we have so many postmasters and so many came up through the service, but what you find out is that shuts off at the fourth class postmaster or the third class postmaster. When you get up to the top salary levels suddenly we start moving people in laterally—you know, transplanting people from somebody's golf club or something. That's the only thing I can figure out, and that's a hell of a thing to build morale on.

And as I say, if you had R. & D., if you needed an attorney, need someone like that, all right, I may understand that if you can't find anybody that is qualified.

But you know, there's some legal cases now that are coming down, and I worked for the State of Colorado, and we were very concerned whenever we filled any kind of State position that we had very objective qualifications and experience weighted very heavily because we didn't want these things to be nebulous. We wanted them as concrete as possible. And I hear all this nebulous fol-de-rol, it's like fighting a feathery pillow—it is just our judgment.

Mr. WRIGHT. When you speak of experience, there are different kinds of experiences. In other words, there are 600,000 people processing the mail and out delivering the mail every day to houses all over the United States. This Postal Service goes to every house in the United States, and these people have great experience. But that isn't the experience that makes them knowledgeable on financial matters of the Postal Service. Our problem hasn't been that we don't have people who have experience in the Postal Service. It is what kind of experience have they had, and where can we get that kind of people for those kinds of responsibilities developed almost overnight.

Mrs. SCHROEDER. But you certainly have some—excuse me, Mr. Chairman.

Mr. DULSKI. Mr. Gross.

Mr. GROSS. Thank you, Mr. Chairman. Mr. Kappel, members of the Board of Governors, I have in hand the minutes of a meeting of June 4, 1974. Mr. Bailar appeared before you at that time and reviewed with you, the members of the Board of Governors, financial operating results for fiscal 1974, and he has reported receipts on a national basis were reported to be approximately the same as for the similar period in the previous year. I seriously question that. But pass over that for a moment. On a similar basis expenses were reported to be up to 11.6 percent, and receipts up 3.4 percent, indicating a deficit for the fiscal year of roughly \$647 million, and that did not include \$200 million to come forward in the second supplemental appropriation bill. Mr. Nicholson in testimony before our subcommittee on Postal Service said he believed the fiscal year 1975 deficit would be \$475 million.

Mr. KAPPEL. That's right.

Mr. GROSS. Are you aware of this projection for 1975, and if so, what does the Board intend to do about it?

Mr. KAPPEL. Yes; we are aware of it and spend a lot of time talking about it. And we have got a lot more talking about it to do, too. But I alluded to that in my statement. As a matter of fact, there are only a few things you can do with it. You can reduce the service levels, and we are not about to do that—

Mr. GROSS. You have already done that.

Mr. KAPPEL. No; we have not.

Mr. GROSS. Well, there is less service at windows, there's less service in a number of ways. And you know that.

Mr. KAPPEL. No; I don't.

Mr. GROSS. You no longer have the ABCD program. That is gone.

Mr. KAPPEL. The what?

Mr. GROSS. The overnight delivery.

Mr. KAPPEL. Oh. Yes; we do. We have an objective on that, and we are measuring the performance.

Mr. GROSS. You say in your statement, Mr. Kappel, "recent figures show that national overnight delivery standards are being met 95 percent of the time." Is that from the time the patron deposits the letter in the letterbox or is that from the time it is collected, which could be in some instances and in some places 2 days later?

Mr. KAPPEL. We can't tell you when it is deposited in the mailbox.

Mr. GROSS. No. It all depends, doesn't it, on overnight delivery, what you use to measure that service, is that not correct?

Mr. KAPPEL. I would have no idea about what the time was when it was deposited in the mailbox. We have mailboxes around, however, so that if they are deposited by certain hours they will qualify for this, and for those mailboxes we are delivering.

Mr. GROSS. But you have suspended collections, haven't you?

Mr. KAPPEL. Suspended them? Not to my knowledge.

Mr. GROSS. Well, not completely, but some of these letters lay in those mailboxes for long periods of time, don't they?

Mr. KAPPEL. I don't know. I doubt it. I think we are living up to our schedule of pickups.

Mr. GROSS. What schedule are you—

Mr. KAPPEL. I haven't heard anybody say otherwise. We have talked about this at every meeting, this service. I think if you want to get into that I would think that from somebody who was running this measurement business—and we have run all kinds of tests on this thing—you would have to have the definitions.

Mr. GROSS. Before you make such an assertion as this, that 95 percent of the mail is delivered on an overnight basis—

Mr. KAPPEL. No; I don't think I said it that broadly.

Mr. GROSS. I will read it again. "Recent figures show that national overnight delivery standards are being met 95 percent of the time."

Mr. KAPPEL. That's right. Related to the mail that we measure that service on, 95 percent of them are. But this doesn't cover everything. We have boxes with a star on them, for example, and if you want overnight delivery you put it in there by a certain time that is stated on that, and we are delivering that mail as stated, 95 percent of the time.

Mr. GROSS. All right. You seem to say that your resort is to higher postal rates or more subsidies. Is that correct? I believe that was an extemporaneous statement as you were reading your statement.

Mr. KAPPEL. No; I think I said we were in such a situation in this economy that there was no good alternative. You can't get money from any other source other than cutting expenses which affects the service. Subsidy—

Mr. GROSS. Well, which side do you come down to, Mr. Kappel? On which side do you come down, to higher postal rates or more subsidy?

Mr. KAPPEL. I come down on the side of more postal rates.

Mr. GROSS. All right, then let me ask you this question. Was the Board of Governors consulted on the position that the Postal Service took in favor of the extended subsidy or stretchout for magazines and newspaper as provisions of S. 411 which recently was enacted into law?

Mr. KAPPEL. We will get into a fine discussion of that. I think there is a real stretchout in some of the pressures that are being brought to bear for subsidies. I doubt if some of the people—

Mr. GROSS. Well, that is not the answer to the question, Mr. Kappel.

Mr. KAPPEL. I don't happen to be in favor of subsidies at all for any functions other than those that this Congress thinks should be supported by—

Mr. GROSS. Well, would you answer the question whether you were consulted on the position Mr. Klassen and his corps over there took with respect to S. 411?

Mr. KAPPEL. S. 4 what?

Mr. GROSS. Did you give him the green light to support that bill?

Mr. KAPPEL. Who?

Mr. GROSS. Mr. Klassen.

Mr. KAPPEL. Yes; you mean that stretchout?

Mr. GROSS. Yes.

Mr. KAPPEL. I don't think we took a position on it. We have no reason to object to it. You created the stretchout in the first place, and we will operate accordingly. We didn't ask for it, I will tell you that. And I don't know that we should even have a position on it.

Mr. GROSS. You don't give the Postmaster General or the head of this so-called quasi-corporation—you don't give him any instruction, you have no policy with respect to issues of this kind?

Mr. KAPPEL. We know what he was doing.—

Mr. GROSS. Do you go along with Congress or who do you go along with; both?

Mr. KAPPEL. With what, the subsidy?

Mr. GROSS. Yes.

Mr. KAPPEL. No; I don't think I would take a position on it. I don't think—the Postal Service has said they wouldn't oppose it. They didn't say they were for it.

Mr. GROSS. This leads me to ask another question. I understand at an early meeting of the Board of Governors the policy was adopted the Governors would not answer their own mail, and any letters addressed to them would be forwarded to Postal Service headquarters. Could this be true, and how do you justify this if it is true?

Mr. KAPPEL. I don't know anything about that.

Mr. GROSS. Well, haven't you been a member of the Board of Governors since—

Mr. KAPPEL. I have gotten a copy of everything that was addressed to me as a Governor, and I either answered it or asked Louis Cox to get the facts, or somebody, and send me, and if I want to change it—if I signed it I agree with it, if I don't I change it. That letter is mine—

Mr. GROSS. I was trying to find out, Mr. Kappel, whether the Board of Governors exercises any authority at all.

Mr. KAPPEL. That's what my whole statement was in effect telling you.

Mr. GROSS. Up to this point I must say to you frankly that I can see no particular reason for a Board of Governors—

Mr. KAPPEL. Well, that's your privilege. I don't think the Post Office is going to get off the ground without better direction than it will get by a political body which has to contend with everything else.

Mr. HINSHAW. Will the gentleman yield?

Mr. GROSS. Yes.

Mr. HINSHAW. Mr. Kappel, you recall the question by Mr. Gross about your statement that the delivery was being met 95 percent of the time. I am looking on page 121 of the joint report of the Subcommittee on Postal Facilities, Mail, and Labor Management. It is dated April 2, 1974, and I will read to you from that. "Delivery standards—the Post Office has established standards which provide for the delivery of 95 percent of the first class mail in 1, 2, or 3 days depending upon the destination the mail must travel to. However, the standard of 1 day delivery of mail to sectional center areas outside the Miami area, but within southern Florida, generally was not met. For instance, from September 15, 1972 to April 13, 1973, mail going from Miami to these sectional centers met the standards in only 1 of 52 weeks. Mail going in the opposite direction met the standard during 3 of the 52 week periods. Also, the standards of 2 and 3 day delivery of 95 percent of the mail going to northern Florida and all other States except Alaska and Hawaii are not included in the 2 or 3 day standards and are not being met."

Now I think Mr. Gross was suggesting to you that if you just accept what the Postmaster General is telling you you are really being derelict in your duties, because you are announcing to the general public that you are meeting these standards yet you have no way of knowing. Now could you respond to that subcommittee's—

Mr. KAPPEL. Yes, I can. Those instances are reported to us, and they are in that 5 percent or they are isolated. What date was that?

Mr. HINSHAW. April 1974.

Mr. KAPPEL. 1974. I would guess with you there is a lot going on. And I don't know right this minute. But I don't believe it is that way any more. I don't know.

Mr. HINSHAW. I submit that it is.

Mr. KAPPEL. I don't think this Board of Governors is going to ride herd on every instance of local failure to meet service standards. It wouldn't be right. The Postmaster General is active on that, we know.

Mr. DULSKI. Mr. Henderson.

Mr. HENDERSON. Thank you, Mr. Chairman. Mr. Kappel, do you subscribe to the proposition that the business of Government is public business?

Mr. KAPPEL. Yes, sure.

Mr. HENDERSON. Are the meetings of the Board open to the public and press?

Mr. KAPPEL. No, they are not.

Mr. HENDERSON. Did the Board decide they would not be, and if so, when?

Mr. KAPPEL. It never came up, as far as I know.

Mr. HENDERSON. They do not enter the committee meetings when they are being conducted?

Mr. KAPPEL. No, sir.

Mr. HENDERSON. By whose authority and by whose decision?

Mr. KAPPEL. Well, if you want my judgment, I don't think we would function in the interest of the Postal Service under those circumstances. I think if that is the way we are going to operate we will not be effective.

Mr. HENDERSON. Do you think the Board meetings ought to be televised?

Mr. KAPPEL. No, sir. When they are I shall quit.

Mr. HENDERSON. In response to Mrs. Schroeder's questions did I understand you to say that the decision as to the number of Assistant Postmasters General was delegated to the Postmaster General?

Mr. KAPPEL. It is delegated to him, under the law I think it entitles him to appoint them.

Mr. Cox. Excuse me. Mr. Henderson, the Postmaster General appoints the Assistant Postmasters General. The number of Assistant Postmasters General is set by—

Mr. HENDERSON. Just a minute. I know you are a legal eagle. Some of us are, too. I understood Mr. Kappel to say in answer to Mrs. Schroeder's questions the number was determined by the Postmaster General, and I just understood him to say that was the law. Now, Mr. Kappel, listen to your counsel. Counsel, what is the law?

Mr. Cox. Mr. Henderson, the law is that the Board shall determine the number of Assistant Postmasters General.

Mr. HENDERSON. All right, that's right. Now who has determined the number?

Mr. KAPPEL. The Board of Governors has determined the number. It is 18. Thirteen of those positions are filled.

Mr. HENDERSON. And then it is the responsibility of the Board of Governors for any vacancies that are now existing and have existed as to Postmaster General, Deputy Postmaster General, or Assistant Postmaster General? That is your responsibility, is that correct?

Mr. KAPPEL. For the deputy, yes. And there are 23 positions, including the regional postmasters general and the assistant postmasters general. There are 13 of the latter that are filled: 18 of them have been authorized and 13 are occupied. There are 5 senior assistant postmaster general positions occupied, and that totals up to 18. But they are not under that title.

Mr. HENDERSON. Let me move to another area that was mentioned about the labor relations in the early days, and you anticipate another round. Very briefly, what do you envision the Board will have to do with collective bargaining in the Postal Service?

Mr. KAPPEL. What do we do with it, you mean?

Mr. HENDERSON. What responsibility—what are you going to have to do with the collective bargaining?

Mr. KAPPEL. Well, I think our responsibility has been—the Postmaster General has found a competent man to do that bargaining and we have kept in touch with what is going on in the interim. I have telephone calls. We have met in meetings, and we know where it is going. But I know enough about collective bargaining that when I put a man out to do bargaining, you better let him bargain.

Mr. HENDERSON. Has the Board or does the Board now contemplate providing that any particular item will not be negotiable?

Mr. KAPPEL. No, sir. We are going to find out what the problems are first.

Mr. HENDERSON. All right. Now earlier in hearings we went into the question of retirement benefits of the postal employees, employees of the postal system. In response yesterday the General and the Counsel said it was their interpretation that retirement benefits of the postal employees had to be equal to the Federal employees, but that in addition to that there might be negotiations through collective bargaining

to additional—not less than—but additional retirement benefits. Is that your understanding of the law, Mr. Kappel?

Mr. KAPPEL. You mean in addition to the civil service retirement?

Mr. HENDERSON. Yes, sir.

Mr. KAPPEL. Well, I thought the question was: Did they have the authority to do that under the law? I think the answer was "Yes," and that is the first time I had heard that one discussed, and I can't answer that. I would think my judgment would be that we would abide by the legislation which says we have authority to bargain collectively on wage and working practices.

Mr. HENDERSON. Well, assume for a minute your understanding of the law is that this can be bargained. Do you have an opinion—and that is only your opinion, not the Board's—of whether or not retirement benefits beyond civil service retirement ought to be a negotiable item in the upcoming negotiations?

Mr. KAPPEL. I think they should, yes.

Mr. HENDERSON. Do you think that the postal employees ought to be granted any benefits that other Federal employees don't have as related to retirement?

Mr. KAPPEL. I think that would be a real consideration in the bargaining. But I don't think there is anything that says we can't do it, and I would face that issue when I faced it on the merits.

Mr. HENDERSON. Do you feel that is a decision then that the Congress must determine in view—

Mr. KAPPEL. I think it is, and I don't think it is precluded in the law. That has been my advice on the legal side. There may be opinions one way or the other. I would like—

Mr. HENDERSON. Mr. Kappel, you were very much involved in this whole postal reorganization and you were very helpful to us, and I would like to have your recollection as of that time when we did provide specifically for retirement?

Mr. KAPPEL. I will be glad to give you that, Congressman Henderson. In our version of this and in the proposals of the Commission that I was supposed to be head of, I think we envisioned that the postal organization be taken out of civil service on a certain date. The postal organization would assume bargaining responsibilities and financial responsibilities for what went from there on. That was not done. I had nothing to do with the legislation. I didn't even know what it was until I saw your bill. And so therefore the legislation that came out must have represented in many instances judgments from someone else—

Mr. HENDERSON. Well, I appreciate that. Under the appointment of the Postmaster General you were aware of the limitation of salary, were you not?

Mr. KAPPEL. That's right.

Mr. HENDERSON. And that was \$60,000?

Mr. KAPPEL. That's right.

Mr. HENDERSON. And you gave the General in his contract that compensation. In addition thereto you had a provision relating to additional retirement for General Klassen.

Mr. KAPPEL. Right.

Mr. HENDERSON. And you were exercising then that authority by way of interpretation of the law that the retirement for officers and employees could be greater than civil service retirement.

Mr. KAPPEL. Well, I guess that is probably right. I hadn't thought of it in that respect. I'll tell you what was going on at that time. I don't think we would have had a Postmaster General very long if you couldn't pay him more than \$60,000, and we have been pleading with him to stay ever since. I came to the conclusion that we had to have one, and he was the only man that could carry this forward, who would not have to start it all over again. I came and counseled with two people, the Chairman of this Committee and the Chairman of the Senate Committee, and they knew what this was all about, and we went back and made that contract.

Mr. HENDERSON. Well, I understand that. You also provided in the contract that he may be removed from office at any time by the Governors—

Mr. KAPPEL. I would like to add something there. I think at the time the theory of that was that that would cost the Postal Service nothing if the salary was cleared up to some responsible level. And if you were to figure it out, it would have been absorbed and been all right.

Mr. DULSKI. Would the gentleman yield just a minute?

Mr. HENDERSON. Yes.

Mr. DULSKI. You said that I knew about the contract?

Mr. KAPPEL. Yes, sir. I called you. You were in Buffalo. You flew down here and we spent a couple of hours in your office, and I went back and I did the same with Senator McGee.

Mr. DULSKI. There was no discussion of this retirement benefit that I recollect. I was willing to go as far as \$100,000 for the Postmaster General's salary if the law allowed it.

Mr. KAPPEL. No; I told you what we were doing, and I said if it got to this \$100,000 this would be absorbed in that action.

Mr. DULSKI. But I say I couldn't have agreed to that \$15,000 retirement. That was never in the discussion.

Mr. KAPPEL. I don't know whether you did or not.

Mr. DULSKI. But there was never discussion of that item.

Mr. KAPPEL. I anticipated this, but that is neither here nor there. I am just telling you what happened. I came down to Washington from Boston, and this Board of Governors knew what I was doing, and I came back and told them what I was doing, and I said if the salary was somewhere, \$100,000, \$125,000, this is a moot question and would not cost the postal system anything.

Mr. DULSKI. I don't remember any discussion of supplemental retirement benefits.

Mr. HENDERSON. Mr. Chairman, the contract provides the Postmaster General may be removed by the Board of Governors, would continue to receive his full pay for the entire time of the contract unless such removal is based on dereliction of duty. Do you think that was necessary to put in the contract in order to employ the Postmaster General?

Mr. KAPPEL. Yes, I think so, to insure that we keep him this long. I don't anticipate—

Mr. HENDERSON. Well, do you think that insures that he stays that long, or is there any provision—

Mr. KAPPEL. I have no question about his staying that long if he is able, and I trust him to that extent.

Mr. HENDERSON. Well, it would be possible—

Mr. KAPPEL. What we have got here is a proposition of trying to get this job so that we don't have this problem with anybody, and we are trying to keep this going for another 2 years in order that we accomplish what I said originally, and it is a very small price to pay for that gentleman if we get it done, and we are going to get it done that way, and this is not a way of life. I don't favor contracts with anybody in the postal system after we get this going. I think he is on the payroll for a salary and away we go, and that will be that way from the day on that we are doing an internal job here.

Mr. HENDERSON. Did you consider a provision in the contract that following removal that any amount of compensation that he might receive from other employment would reduce the amount in the contract? It is not in the contract, but did you consider that, which is usual in most of these types of employment contracts? If you terminated and had contract obligation to pay him—

Mr. KAPPEL. I think that would be a logical thing to think about. We did not. I don't have any doubt about him going to stay these 2 years. Maybe we should have done that. But that was the way it was, and that is the way it came out. Mr. Wright here and the rest of us concluded that the most important thing we had to do here was to see that we extended the continuity of that leadership for at least that length of time in order to get this job done.

Mr. HENDERSON. Of course, you felt the same importance with regard to a Deputy Postmaster General?

Mr. KAPPEL. We did, you say?

Mr. HENDERSON. I say you feel that way about the deputy position, don't you?

Mr. KAPPEL. No, I think we are doing this so we can bide our time to bring a deputy in there. I don't think we need a contract for a deputy. We haven't filled it. We are going to fill it from somebody on this man's payroll in the Postal Service.

Mr. HENDERSON. You don't anticipate it will be necessary to have this kind of contract for deputy?

Mr. KAPPEL. I do not anticipate that we need any more such contracts.

Mr. HENDERSON. Let me ask one more question, if I may, just to conclude this. I understand your basic position is that the restriction of the \$60,000 makes it difficult for you to get the caliber man you need for Postmaster General and therefore the contract provision was used. So could I conclude that the decision to enter into the contract you did with General Klassen was a way of getting around the \$60,000 limitation?

Mr. KAPPEL. I guess you can put it that way. It really—whatever you want to say, I think it was a way to assure that we had his services until we got this job done, and if he were not here during that time and we had to start over we would lose lots of ground and lots of momentum and lots of things that were worth keeping.

Mr. HENDERSON. Thank you, Mr. Chairman.

Mr. DULSKI. Mr. Traxler.

Mr. TRAXLER. Thank you, Mr. Chairman.

Mr. Kappel, I am very pleased to note in your statement on behalf of the Board that you noted that fiscal responsibilities were of primary importance to the Board and that the Board has carefully monitored

many aspects of postal financing. In the dialog with Mr. Nicholson we developed there will be additional costs incurred by the Postal Service, and it is anticipated that, for instance, in the fiscal year 1975-1976 these additional costs will be in the amount of about \$5 billion. This doesn't include inflationary considerations. We went over what they would be, but for our purposes would that sound like a fair figure to you?

Mr. KAPPEL. 5 billion?

Mr. TRAXLER. Yes, sir. That includes construction, includes 1975 deficit, includes interest on the \$500 million that has been borrowed, includes the repayment of 1974—

Mr. KAPPEL. That is through the fiscal year 1975-76?

Mr. TRAXLER. Yes, sir.

Mr. KAPPEL. And starting from now?

Mr. TRAXLER. Yes, sir.

Mr. KAPPEL. Yes, I would think just offhand I would want to take a good look at it. I don't think we have gone that far with it. There has been no program or approval of that. But I think if we are going to get this job done we are going to have to spend some money.

Mr. TRAXLER. I just want to be sure that we have got a figure that is in the ball park.

Mr. KAPPEL. I think so.

Mr. TRAXLER. All right. Are you concerned that this may indicate a rather precarious financial position for the post office?

Mr. KAPPEL. I would like to put it in this perspective. I think we have a serious financial situation if we don't get our costs and our revenues into respectable balance and make the accomplishments we want, or if we were to borrow the money, unless we are operating this thing on a revenue and a cost basis more nearly equitable than we are now. Therefore I think that capital money you are talking about has to be raised somewhere. We will not have sufficient appropriations and there is no surplus. I think if we are unable to pay our own way and if we have to resort to subsidies, the postal system has got to come to the question of whether you want to go back to the rat race we were in before and let the place run down into another catastrophe, or we make up our minds that we have to pay the price of this inflation and the burden that is being placed on the labor organization man to make a living. And that is going to take rates, and that is the only way I know to go. I hate to say this, it is very difficult to say this, but it is realistic.

Mr. TRAXLER. You told us, or at least in statements that we had previously, that about \$500 million was borrowed for operating funds for 1974. What do you anticipate you will have to borrow for operating funds for 1975?

Mr. KAPPEL. \$500 million you are talking about?

Mr. TRAXLER. Yes, sir. That was 1974. Operating funds for 1975, borrowing.

Mr. KAPPEL. Well, I think it is a disaster in my judgment to have to borrow money for operating funds unless you find some way to pay it back out of operating revenues, and that is our problem. If we have to do that again, without being sure of paying it back, I tell you that we are going down the road to ruin.

Mr. TRAXLER. Has there been any discussion of the Board as to what you might have to borrow for 1975?

Mr. KAPPEL. No, other than that temporary thing, and that will give us time to work that out. That is really what we are doing here.

Mr. TRAXLER. Sir, in view of these costs that we have been talking about, expenditures, how do you anticipate you are going to be able to meet them as they come due, as these obligations come due? How do you anticipate you are going to be able to meet them?

Mr. KAPPEL. How are we going to meet them?

Mr. TRAXLER. Yes, sir.

Mr. KAPPEL. Well, I guess there is only one way, either raise the rates or you will resort to what the postal system has always done—it has been an ongoing problem, and I hate to think it, but if we can't get that through rates or cutting expenses there is no place else to go except to borrow money and get a subsidy or use your capital funds, which is the wrong way to do it. You borrow from yourself. But it is a fundamental that that shouldn't happen.

Mr. TRAXLER. Has the Board discussed any possible rate increases for 1975?

Mr. KAPPEL. Yes; we have talked about it, but we are not at the point—we have to get the present rate case out of our hair before there is any point in making final decisions on another one. We have got to be very careful. There are things that are pending in this rate case up there that I think we have got to be careful about so that we don't prejudice what is going on.

Mr. TRAXLER. Mr. Nicholson told us he thought rate increases in first class mail would be somewhere in the order of 3 cents.

Mr. KAPPEL. Yes; this has been mentioned, but we haven't gotten down to any nut cutting on that subject other than it is obvious that it is coming, and that's what I mentioned about costs and expenses and things of that kind. We have got a day of reckoning on that coming right up.

Mr. TRAXLER. Right after the first of the year—

Mr. KAPPEL. Presumably your temporary rate presently will become permanent. Do you think 3 cents will be adequate?

Mr. KAPPEL. How's that?

Mr. TRAXLER. Do you think three cents will be adequate?

Mr. KAPPEL. Well, I don't think I have a judgment on that. I would hope it would. I would hate like the devil to talk about anything more than that. I am allergic to going back to the public on this thing. We had a big hand in holding off as long as we did on the other one.

Mr. TRAXLER. I can't speak for my colleagues on this committee or the other Members of Congress, but I want you to know that I have a severe allergy just thinking about it at this point.

Mr. KAPPEL. It is not a pleasant thing to think about at all.

Mr. TRAXLER. Mr. Chairman, I yield back the balance of my time.

Mr. DULSKI. Mr. Wilson.

Mr. WILSON. Thank you, Mr. Chairman.

Mr. Kappel, first I think I should state that there is no chance in the world that the salary of the Postmaster General is going to be raised above the \$60,000-a-year level until such time as the Cabinet officers' salaries are raised above that level.

Mr. KAPPEL. I gather that.

Mr. WILSON. It is interesting to note that we have no difficulty finding a Secretary of Defense for \$60,000. We have no difficulty finding Secretaries for other Cabinet positions at that salary, and I can't con-

ceive why you are having difficulty finding a Postmaster General for that amount, or why you cannot find a Deputy Postmaster General. Now, why have you not hired a Deputy Postmaster General?

Mr. KAPPEL. Because we are working on the theory that we don't want to bring a man in there until he can succeed at it, and we will do that in due time. That is what I am trying to get at. Now I can go out and hire somebody for that price to come in here and be Postmaster General, but he won't be a good Postmaster General—

Mr. WILSON. You can't find someone qualified that is a career person? You haven't anyone in the service now who is qualified?

Mr. KAPPEL. To be Postmaster General?

Mr. WILSON. Deputy Postmaster General.

Mr. KAPPEL. Yes, I think we have a couple, and we are going to make our judgment between them.

Mr. WILSON. How long have you been working on this now?

Mr. KAPPEL. Well, I am not going to take much credit on that point. I think we made money by him leaving.

Mr. WILSON. All right, we supposedly got rid of politics in the Postal Service when Congressmen were prevented from making recommendations for postal officials and members of the Board of Governors. There are at least three members of the Board of Governors who are political appointees, as far as I can determine, possibly more. But there are at least three.

Mr. KAPPEL. That's why I wasn't going to get into detail a while ago.

Mr. WILSON. You have never been consulted on any of these political appointments to the Board?

Mr. KAPPEL. That's right.

Mr. WILSON. This isn't anything we can criticize you or any other member of the Board of Governors for, but it is something that has happened in spite of our interests.

Mr. KAPPEL. But you are right. I understand what you said. I know that is true.

Mr. WILSON. Now Mr. Gross yesterday read off the names of six or seven people who came out of American Can Co. who became officials in the management side of the Postal Service. In the beginning we had people out of Union Carbide and Westinghouse. Apparently there were no qualified people in the Service to assume those jobs. Now we have a new type of postal executive. You are going to the military to find people to replace career employe'es. My own subcommittee is going to be holding hearings before the recess in depth on this question of procurement and contracting policies.

In 1971, USPS hired Air Force Maj. Gen. McCutcheon to head up the Procurement Department, and since that time he has hired at least two of his former Air Force cronies to come in and take over top spots to replace career people. To me this is unconscionable, and I don't see any reason for it. Are you acquainted with this policy?

Mr. KAPPEL. I don't think it is a policy. I think it has been a proposition of Mr. Klassen finding what he needed to get the job done, and I haven't looked upon that as a bad omen. I think one of the most important parts of this job we have here is to inject a different line of thinking regarding a good many activities that simply didn't exist.

Mr. WILSON. Mr. Klassen and you have emphasized and tried to impress upon us how you were developing career people and this was the path that the Postal Service was going to take, and now you are telling me that you just don't have career people.

Mr. KAPPEL. There is not a single thing inconsistent about what I am saying or trying to do. The practical fact is that this thing has to be in the interim and we simply don't have the talent for some of these jobs that we know—yet we have them training, we have hundreds of them in the running and I am trying to tell you this is on the road and there should be no need for that very shortly.

Mr. WILSON. Have you ever considered people like Jim Rademacher or Francis Filbey? Have you ever heard of Jim Rademacher or Francis Filbey?

Mr. KAPPEL. Yes, I have heard of both of them.

Mr. WILSON. Have you considered people like that for the Deputy Postmaster General job?

Mr. KAPPEL. No, sir, I haven't. I think I would get just as much criticism from other people as you would have on this one for that. I don't think that would be a balanced decision. I doubt if they would be—

Mr. WILSON. These men are professionals in their employee organizations, and they could be very valuable. They might bring a different concept or at least balance out the concept of the board of governors. You don't have anyone who is labor oriented on the board, I don't believe.

Mr. KAPPEL. No, we don't.

Mr. WILSON. And you haven't got anybody who is labor oriented in the top ranks of the postal system.

Mr. KAPPEL. I understood we aren't supposed to have people on this board who have special interests.

Mr. WILSON. It seems to me that someone who is acquainted with the working conditions and the workingman and woman should be on there.

Mr. KAPPEL. On the board of governors?

Mr. WILSON. Either on the board of governors or in top management, either place. You have a labor advisory committee that has never met.

Mr. KAPPEL. OK.

Mr. WILSON. Well, it is a fact. Now Mr. Gross I think asked you something about this question of who answers the mail for the board of governors, and you said, I think, you do answer your own mail.

Mr. KAPPEL. Who, me? I answer it after I get at the nuts of it. I send it down to Louis Cox to get me the facts.

Mr. WILSON. Well, in your second board meeting, which was on January 13, 1971, the board of governors said all mail addressed to individual members of the board of governors received at headquarters should be opened and processed in accordance with existing procedures. The Postmaster General suggests that the mail received by the governors at their homes should be forwarded to headquarters for appropriate handling.

Mr. KAPPEL. Well, I can answer that. This is a fact. It was on the basis that this Board of Governors would be amiss if we began to answer individual questions, we would get at cross purposes, and we should send them down here and get the facts. And there is no law against answering it after you know what it is all about, but you shouldn't sit down and answer this, that, and every other question. There would be rank chaos. If any Governor wants to differ with that, that is his privilege, but that was the understanding we had.

Mr. WILSON. During the first 2 days of these hearings several members asked the Postmaster General just what the Board does, if the Board had been involved in any major postal policy decisions since its inception. After 2 days we were told of only one instance. Mr. Klassen said that he could only remember one time when you gentlemen had been involved in any major policy decision, and that had to do with establishing a one-class stamp. Can you think of anything else you have done?

Mr. KAPPEL. I think we have——

Mr. WILSON. Besides approving these contracts for the Postmaster General.

Mr. KAPPEL. I'm not sure I follow you. You mean is that the only one——

Mr. WILSON. I am asking you if you have made any major decisions beside that.

Mr. KAPPEL. I think he gave you an illustration, and I am not going to go into all of these things. We had all kinds of discussions of this mail classification matter, as to how in the world we would meet that. We had a recent discussion on the policy of what holds up the rate commission. And we created a reorganization by mutual consent to get more beefed up and get these interlocked interrogatories and furnish the rate commission more promptly the things they need to make their judgments. We have gotten into a lot of things like that, but if you are asking me to give you a list, I am not prepared to give you a list.

Mr. WILSON. Don't you think we can do without a Board of Governors?

Mr. KAPPEL. Do what?

Mr. WILSON. Don't you think we can abolish the Board of Governors and get along just as well without it?

Mr. KAPPEL. Go ahead and try it, I think——

Mr. WILSON. Oh, we can't do it with this administration.

Mr. KAPPEL. What would you have to substitute? Something better than this?

Mr. WILSON. The Postmaster General could continue the way he is doing it now. Isn't that the way it is going on? The Postmaster General is calling the shots, isn't he?

Mr. KAPPEL. No; he is not. The Postmaster General and this Board of Governors are working together in an objective way like any good ongoing operation would work. The only trouble is there are too many people criticizing it who don't even understand how the philosophy works, and I am sure we will get the job done if we have less help of that kind.

Mr. WILSON. Mr. Wright, you indicated that one of the major things that has happened is you now have a research and development budget which you did not have before. Are you acquainted with the size of the budget that was approved?

Mr. KAPPEL. We have met on this research and development on the premises. We have seen what they had in their minds, and I don't admit that it is research in the first place. It is kind of a development of ideas.

Mr. WILSON. Well, I am trying to find out—Mr. Kappel, you are doing a tremendous flibuster job here. We have a limited amount of

time. Mr. Wright was the gentleman who brought the question up. I am asking the question of him. If you want to answer the question, fine and dandy.

Mr. KAPPEL. \$60 million.

Mr. WILSON. How much?

Mr. KAPPEL. \$60 million.

Mr. WILSON. That is the amount the Board approved?

Mr. KAPPEL. In the budget.

Mr. WILSON. Well, our figures show they approved \$179 million.

Mr. WRIGHT. I don't think that's right.

Mr. WILSON. But it has been reduced to 60. Now did the Board reduce it or was that done arbitrarily by the Postal Service?

Mr. KAPPEL. I just told you we have visited the site and we went over all this. This is an outcome of a discussion of what is worthwhile doing and—

Mr. WILSON. Do you think \$60 million is sufficient for a \$12 billion operation?

Mr. KAPPEL. No; it isn't. But there is no use in spending \$120 million unless you get your moneys worth for the \$60 million, and that's what this is about.

Mr. WILSON. Mr. Chairman, I guess my time is up. There are many more questions I would like to ask.

Mr. KAPPEL. It takes more than money to get these jobs done, and there is no use spending—

Mr. WILSON. Well, another reality you better recognize, Mr. Kappel, is you are going to have to have a subsidy to operate the Postal Service. People demand service, and you are not going to be able to come up year after year and ask for rate increases. There is going to be a time when the people revolt on this, and you better recognize that subsidies are going to be a part of the USPS operation.

Mr. KAPPEL. Well, I'm afraid I agree, that unless someone starts managing the economy of this country we are going to have to have subsidies and a lot of things that go with it. The Postal Service is in that position because of where it started from. We started in a hole.

Mr. DULSKI. Mr. Hinshaw.

Mr. HINSHAW. Mr. Kappel, I am interested in that last statement you made because it is a repeat of an earlier statement, that unless somebody starts managing the economy we are going to have to have subsidies. Now isn't it true that major corporations in this country, of which you have been a part of, historically can operate without Federal subsidies?

Mr. KAPPEL. Yes; but they haven't been through—they aren't 19th century establishment like the Postal Service.

Mr. HINSHAW. Well, now wait a minute, Mr. Kappel, please. You can give a relatively short answer. The question is not a complex one. Just because the economy is being managed badly does that mean that the Postal Service has to fall into that same pattern of being managed badly?

Mr. KAPPEL. No; and I don't believe it is.

Mr. HINSHAW. Mr. Nicholson stated yesterday that the operating capital plans would probably have to be refinanced. You stated that if we had to go to another source of money again for operating capital we would be going down the road to financial ruin. Do you find any inconsistency with your statement and that of Mr. Nicholson?

Mr. KAPPEL. No; I don't.

Mr. HINSHAW. Mr. Kappel, did I hear you earlier in response to some of my questions say if the Postal Service cannot compete effectively with private enterprise in the areas of, say, parcel post, that parcel post should give way to a certain degree to private enterprise?

Mr. KAPPEL. Well, I am not going to be inconsistent with what I have had as a view on that for a long, long time. I do believe that unless the postal system can deliver the services they offer and do it reasonably and adequately, I don't think any corporation or the public ought to do business with them if they can find a better way.

Mr. HINSHAW. Well, you haven't answered my question. If private enterprise can do it more efficiently than the Postal Service do you think the Postal Service should fight private enterprise?

Mr. KAPPEL. No; I don't think we ought to fight it. I just think we ought to do our job so well you don't have to.

Mr. HINSHAW. All right, why then does the Postal Service interfere with private enterprise attempts to deliver and compete with the Postal Service in some of our western States?

Mr. KAPPEL. Because they have interpreted in the law that it is their obligation to do it.

Mr. HINSHAW. It is whose obligation to do it?

Mr. KAPPEL. The Postal Service.

Mr. HINSHAW. I am talking about the parcel post.

Mr. KAPPEL. Parcel post?

Mr. HINSHAW. Why should the Postal Service feel it must prevent private enterprise from competing in some of our Western States for parcel post?

Mr. KAPPEL. I don't know that it has.

Mr. HINSHAW. The Postal Service has interfered with that competition and has appeared before the ICC preventing the UPS from appearing—

Mr. KAPPEL. I think the appearance was partly on the ground that if you pursued that course, you couldn't expect the Post Office to fulfill the obligation that you impose on it.

Mr. HINSHAW. Do you believe it is an appropriate function for the Post Office to prevent private enterprise from competing?

Mr. KAPPEL. If it destroys their ability to do what is left for them to do, or inhibits it, yes. I think the inference was that if you let this go down, we have no alternative except to charge the public more to take care of what the competitor can't do.

Mr. HINSHAW. I want to get back to something which is my major concern, and first of all I will ask you do you believe that as a Governor that you are a Federal employee?

Mr. KAPPEL. I suspect I am technically, yes.

Mr. HINSHAW. Do you know or do you not know?

Mr. KAPPEL. I assume I am.

Mr. HINSHAW. All right, the Postal Service is at least a quasi-public corporation, therefore quasi-governmental organization.

Mr. KAPPEL. I don't know whether I am, to be honest with you. I haven't paid any attention to it.

Mr. HINSHAW. I am telling you that you are.

Mr. KAPPEL. I have been assuming that, but I hadn't made any—

Mr. HINSHAW. I will ask your counsel if he will tell you that you are a Federal employee.

Mr. KAPPEL. I don't question that.

Mr. HINSHAW. Well, I am asking you, will you tell him he is a Federal employee?

Mr. Cox. Sure. I think so. It may depend on what purpose you have in mind, but generally speaking, yes.

Mr. HINSHAW. I will read you from the law. "A Governor may not hold any other office or appointment inconsistent or in conflict with his duties, responsibilities and powers as an officer of the Government of the United States and the Postal Service." Now do you believe that he is a Federal employee?

Mr. Cox. Well, sure. But—

Mr. HINSHAW. All right. Don't filibuster me. Now do you believe, Mr. Kappel, because the Postal Service is a governmental organization, at least a quasi-governmental organization, that the Board of Governors could, if it chose, ask other Federal agencies for legal advice?

Mr. KAPPEL. Certainly it could.

Mr. HINSHAW. Then I will come back to my initial question of you. If there is a serious question as to the legality of the operation of the Postal Service and the interpretation of the law would you consider asking another Federal agency for its interpretation of that law?

Mr. KAPPEL. I wouldn't consider it out of order if I thought there was one that had that responsibility. That would be the Justice Department, I suspect.

Mr. HINSHAW. Whichever agency would be the appropriate one. If I were to tell you that I believe as a member of this committee and as a Member of Congress that the Postal Service is operating outside the intent of the law and the counsel for the Postal Service who is acting ex officio, I suppose, as your counsel disagrees with that interpretation, would you think that my feeling is serious enough for you to inquire of independent counsel as to whether or not you are operating within the intent of the Reorganization Act of 1970?

Mr. KAPPEL. I suspect that's right.

Mr. HINSHAW. Then I tell you that I believe you are operating outside the intent of the law, of the Reorganization Act of 1970, with regard to your accounting principles. I formally ask that you ask another Federal agency as to whether or not this interpretation of the intent of Congress is in conformity with that of your counsel, Mr. Cox.

Mr. KAPPEL. I will undertake to look into that and—

Mr. HINSHAW. I am asking you to look into it and I am asking you to solicit their opinion.

Mr. KAPPEL. I am not going to say yes or no right here. I want to pursue—

Mr. HINSHAW. Mr. Cox, I ask you a question. Do you believe that the Board of Governors can get independent counsel, legal counsel, from you if you have already given an opinion on a specific subject to the Postmaster General?

Mr. Cox. Well, I think they can get objective counsel from me. I don't know what you mean by "independent."

Mr. HINSHAW. That was not asked. That was not my question.

Mr. Cox. Well, I would like to understand your question a little bit better. I don't know what you mean by independent.

Mr. HINSHAW. Do you believe you would have to give to the Board of Governors the same advice you gave the Postmaster General on the same question?

Mr. Cox. Yes. Unless somebody proved to me my thinking was wrong the first time, I would sure answer it the same way the second time.

Mr. HINSHAW. Yes is good enough. Then do you believe that if one of the members of the Board of Governors had a reservation about your advice to the Postmaster General that you could in good conscience not give a different opinion to the Board of Governors?

Mr. Cox. Could I in good conscience give a different opinion?

Mr. HINSHAW. That's right. Mr. Cox, I will try it again with you slower. If you give a legal opinion to the Postmaster General and the Board of Governors says "we really question that opinion and we would like to get another opinion on that," would you not in all good conscience as an attorney have to give the Board of Governors the same opinion that you gave the Postmaster General?

Mr. Cox. Well, I presume I would. I might consult with some of my associates and ask if they have a different view of the matter. We try to answer whatever the question is as accurately as we can.

Mr. HINSHAW. As a practical matter wouldn't you just dust off your old opinion and give it to him and say I have already answered that question?

Mr. Cox. I think that would depend on the question. I don't pretend to be absolutely perfect in every opinion I come up with. I look at them again sometimes.

Mr. HINSHAW. Do you believe the Board of Governors might have a different goal in mind in some respects than the Postmaster General in terms of how it is trying to interpret the Reorganization Act of 1970?

Mr. Cox. Well, I think when it comes down to a question of interpretation of the Reorganization Act, that gets to be a professional question. That isn't a question for loaded or biased—

Mr. HINSHAW. Can good, honest attorneys differ—

Mr. Cox. Yes, I believe so.

Mr. HINSHAW. Can a good attorney look at that and say I disagree with that?

Mr. Cox. Yes.

Mr. KAPPEL. Are you suggesting we shop around for a better answer?

Mr. HENDERSON. Will you yield?

Mr. HINSHAW. Yes.

Mr. HENDERSON. Several of the members have questioned the interpretation of the retirement provisions. We know that Mr. Nelson, the former counsel, and Mr. Cox, have an opinion that they have given to the Postmaster General and to the Board of Governors. Following Mr. Hinshaw's line, I might suggest that you seek additional opinion on that, because speaking as one—and I have spoken to other senior members—we are giving consideration to legislation, introducing a bill that will clarify the intent that I think we had in enacting the law. Of course, that avenue is always open to us, but I think it fits so

closely into the suggestion that the gentleman was making, and as he knows, yesterday I indicated some concern that the Board of Governors has the same counsel as the Postmaster General, unless you from time to time seek other legal advice, and if you are not going to, it is all one and the same, I think we should direct or—

Mr. KAPPEL. Well, maybe the answer to that is we should have a separate one. I don't quarrel with that. I am not interested in a blessed thing different from you gentlemen. That's the right answer here. I don't think there is any chance in my time here, which I hope is not too long, that we would have any reason to even try anything like that again. I think we have done that as a price of trying to accomplish something vital, and if we accomplish it that question should never arise again.

Mr. HENDERSON. Let me make one point. I am not so concerned about that contract. I am willing to exempt that. But I am concerned about the policy that the Congress has established relating to negotiations of retirement benefits beyond Civil Service retirement for all Federal officers and employees. That is my great concern. That hasn't been done with one exception. How can you say it is not negotiable, and your sponsor said it is negotiable; and we are in a position if we clarify we ought to take action before negotiations begin. This is a very vital question that we get cleared up. I would hope that if the members do—

Mr. KAPPEL. On that point may I say I think I agree with you. I think if you establish that benefits and pension systems are within the Civil Service it ought to be consistent. You can't get any quarrel with me. All I was saying, I don't think there is anything that does that now.

Mr. DULSKI. Mr. Kappel, we have a quorum call, and we have a few more questions. Would you bear with us for a few minutes to answer the quorum call and come right back?

Mr. KAPPEL. You mean now? I would like us not to run all afternoon.

Mr. DULSKI. No, there are only a few more questions.

Mr. KAPPEL. Well, our time is your time.

Mr. DULSKI. We will recess.

[Recess.]

Mr. DULSKI. The committee will come to order.

Mr. GROSS.

Mr. GROSS. Thank you, Mr. Chairman.

Mr. Kappel, you seem to cast this trouble in the Post Office Department, this failure to make ends meet, growing deficits, growing subsidy, to the economic situation, to inflation and the economic situation. You are aware, I am sure, that there are many corporations in this country that are showing record profits. Is that not correct?

Mr. KAPPEL. They are percentagewise, anyway. And some of them are in fact, yes.

Mr. GROSS. I am sure we are in trouble economically and financially and monetarily in this country, but I don't see how you can continually go back to that as the reason for the difficulties that the Postal Service is in.

Mr. KAPPEL. Because the Postal Service started from about 14 miles behind the eight ball on this subject and started out on one fell swoop of economic cleanup. Labor costs represent a percentage of the Postal

System that prevails in almost no business that you are talking about that I know of. I don't believe you could mention one in which 85 percent of the costs are for labor. I'm not picking on labor when I say—

Mr. GROSS. The Kappel Commission report which was used to sell postal reform to the Congress stated that reform would save well over a billion dollars and that, and I quote, "the postal deficit would be ended within several years after the corporation is under way through productivity, improvement in the rate structure." Now since reform is 3 years old what is your present assessment to the claim of the Commission that bears your name?

Mr. KAPPEL. Well, I don't think in the first place that everything came about that we were talking about. But I think the mechanization was a factor in the thing. The rate structure was one that would be relative to the cost, and we prophesied that 20 percent cost reduction in there—we have accomplished 7 of it in spite of this inflation. I would guess that would have been twice that if it hadn't been for inflation. I am not suggesting that this Postal Reorganization Act is going to conform with some of our judgments there because it didn't go all the way with it. But I think it is going to get there. And as far as the economics of it are concerned, you talk about the investment I think—

Mr. GROSS. Well, I thought, Mr. Kappel, that Congress gave the quasi-corporation a broad grant of power—

Mr. KAPPEL. All right, as we were proceeding here—we have a capital base of slightly over a billion dollars that produces by depreciation of cash flow of negligible proportions to the need of this business, and if it were really a going concern and ever gets really mechanized this 85 percent might be close to 50. The cash flow might be three or four or five times that, and in order to accomplish what our report predicted that is going to have to happen.

Mr. GROSS. Well, now did I hear you say earlier in response to questions asked you by the committee—did I hear you say that you haven't gotten off the ground?

Mr. KAPPEL. No, I don't think I said that. It might be on some specific thing—

Mr. GROSS. How long is it going to take the Postal Service to get off the ground?

Mr. KAPPEL. It is off the ground and flying.

Mr. GROSS. No, it isn't. The deficits are increasing, you are coming to Congress for even more money.

Mr. KAPPEL. OK. It has been wet nursed for a hundred years, and the process of inflation and the lack of Federal management of this economy has absolutely penalized this 40 times more than an average corporation.

Mr. GROSS. Mr. Kappel, you and Mr. Blount sold this Postal Service to the Congress.

Mr. KAPPEL. I didn't do a thing during that whole period. I wasn't even down here except for one appearance before this committee, and I said that I thought the bill—

Mr. GROSS. What did you recommend in the Kappel Commission report?

Mr. KAPPEL. That it was better than nothing and I would urge you to pass it.

Mr. GROSS. What did you recommend in the Kappel Commission report?

Mr. KAPPEL. You want me to review that?

Mr. GROSS. No, I don't want you to review it, but—I didn't see you giving me any help anywhere along the way in opposition to this thing. I will tell you that. Nor did others who are now in here around crying because they don't want to pay postal rates, and so on and so forth. I still don't seem to be able to get a good answer as to why both the operating head of the Postal Service and the Board of Governors apparently supported the stretchout in rates that is going to cost \$753 million.

Mr. KAPPEL. I don't know whether we supported it or not. We didn't oppose it, let's put it that way. That, in my understanding, is as far as we were going. That is the Congress business if we get subsidies or not, and I wouldn't quarrel with it. Certainly it helps alleviate this problem, but that is not necessarily permanent—you can change it back one of these days if we are halfway successful. But I think the major problem here is that the inflationary thing has prompted all these increases. There is no possible way of controlling—

Mr. GROSS. Mr. Kappel, everyone else is affected by inflation. Everyone else is. Every patron of the Post Office Department is affected by inflation. Let's not dwell on and on about that. Let me ask you about this. In an article in the Washington Post dated June 15, 1974—and that was very recently—you are quoted to have said, I quote, "If the Postal Service had spent less time sitting before congressional hearings they would have better service."

Mr. KAPPEL. Yes, I think—

Mr. GROSS. Just a minute. Do you think the particular reason the Postal Service has not improved since the Postal Reorganization Act or that the U.S. Postal Service is forecasting a deficit of \$475 million in fiscal year 1975 is because postal officials testified before appropriate committees in Congress? And how do you expect to get your money if you don't testify?

Mr. KAPPEL. Those are your words. What I meant was the top postal management has been in this room almost—whatever percentage it is—that they could have been out working on this thing a lot. And I don't consider that they have had a full-time job running the Post Office by reason of that.

Mr. GROSS. What role do you think Congress has in overseeing the Postal Service, just writing blank checks for deficits?

Mr. KAPPEL. I can't quarrel with you at all.

Mr. GROSS. Well, what role do you think we have aside from putting up the money for the deficits?

Mr. KAPPEL. Well, one thing that bothers me about your role is that there are a lot of problems on which, if someone would call me up and say "I'm bugged about this thing, I would like to talk about it"—the first thing, I get a letter and I read it in the paper. I think we could cooperate individually. It doesn't have to be a confrontation on every problem. We would work these things out. That is just one man's opinion, and that is one of the problems. I think the postal management is spending an ungodly amount of time, numbers, and papers and getting ready for things. There ought to be a means here of keeping them—

Mr. GROSS. Who is doing that?

Mr. KAPPEL. The postal people in the organization.

Mr. GROSS. They are being called upon to do too much paperwork?

Mr. KAPPEL. Yes.

Mr. GROSS. Well, in justification for what they are asking from Congress.

Mr. KAPPEL. Putting together a list of employees on the payroll over and above a certain amount of pay—it took a lot of work to put that thing together. I don't know what you did with it.

Mr. GROSS. Put what together?

Mr. KAPPEL. A list of every employee on the Postal Service payroll above a certain salary. You are entitled to it, but it took a lot of time for some people. There are a lot of things like that. What I tried to say there was that this postal organization, as contrasted with any organization I have ever had to do with, is spending a tremendous amount of its time testifying and preparing for testimony.

Mr. GROSS. Wouldn't they do this—if a stockholder insisted on it, wouldn't A.T. & T. do this?

Mr. KAPPEL. That is on file with the FCC. They can get it there, and it is public property.

Mr. GROSS. Why should I, if I am a stockholder, go to anywhere than to the corporation?

Mr. KAPPEL. I don't suggest you do it. I just say this thing is getting to be a regular workload over there. On a lot of things that really aren't of that kind. I meant what I said. I—

Mr. GROSS. Well, gentlemen, Mr. Klassen has admitted that he accepted "management consultant fees" in the amount of \$22,000 from the Segal Co. while he was serving as a member of the Board of Governors. The Segal Co. is the same company which was the successful agent in securing a contract for Retirement Advisors, Inc., from the U.S. Postal Service. Mr. Klassen, as Deputy Postmaster General, personally received a request from Martin Segal to help in getting a contract for Retirement Advisors, Inc., and he ultimately signed the contract.

Were you or the other Board members aware of the management consultant fees Mr. Klassen was receiving?

Mr. KAPPEL. No, sir, I wasn't. We got an explanation of it, and I think he regrets it and that it was poor judgment, maybe.

Mr. GROSS. Are you speaking on behalf of all the other members that they knew nothing about it?

Mr. KAPPEL. I don't think anybody did. If anyone here did, I would be happy if he would say so.

Mr. GROSS. Are you aware that under Executive Order 11222, prescribing standards of ethical conduct for Government officers and employees, which Board of Governors are subject to, specifically provides that "no employee shall solicit or accept, directly or indirectly, any gift, gratuity, favor, entertainment, loan, or any other thing of monetary value, from any person, corporation, or group"?

Mr. KAPPEL. What do you suggest we do about it? He is never going to do that again, I assure you of that. I don't think he even thought about it at the time.

Mr. GROSS. Well, what do you think you ought to do about it? You are the Board of Governors. What do you think you ought to do about it?

Mr. KAPPEL. We have talked about it, and we have got his statement about it. I think you have, too. And it was just very poor judgment, and I'm sure there's a lot of other poor judgment going on in this respect around this man's town. But we don't have to worry about that subject again.

Mr. GROSS. Well, in an article in the Washington Post dated June 15, 1974, you, Mr. Kappel, are quoted as saying that you believe Mr. Klassen has provided proper leadership and "turned around" the agency.

Mr. KAPPEL. Where do they get that from? I have never talked to the Washington Post or anybody from there.

Mr. GROSS. I just read the quotation from the Washington Post that you were alleged to have made.

Mr. KAPPEL. Maybe I did, but I didn't make it to the Washington Post. I am just curious where they attributed it.

Mr. GROSS. You never made a statement to the Washington Post?

Mr. KAPPEL. No, I never have.

Mr. GROSS. Then I guess you can't answer a question of how he has turned the agency around, the Postal Service around.

Mr. KAPPEL. That's right.

Mr. GROSS. Well, I just wonder in what direction it was turned.

Mr. Kappel and members of the Board, what about these advertising contracts? Were you consulted on advertising contracts?

Mr. KAPPEL. Yes, indeed. We evaluated them. We think that we recovered several times what they cost in business and in good service. I have some numbers on it. I don't happen to have them here, but we are convinced—and we had a lot of discussions and a lot of displays, and we looked at the copy and we examined it thoroughly and approved it on a nominal basis, and we had reports on it since. And it is good business up to now; what has been done has been proper.

Mr. GROSS. Do you think the expenditure of \$4 million is justified for national advertising?

Mr. KAPPEL. Yes, sir.

Mr. GROSS. Personally, I can't think of anything that serves a better advertising purpose than good service and timely service, efficient service.

Mr. KAPPEL. Well, I can tell you one thing, that advertising is a great plus to getting good service. People understand how they can mail, when to mail, and what the rules are. I think we have promoted and have substantially improved our service by reason of some of this advertising and what it is aimed at.

Mr. GROSS. Well, I wish I could agree with you. I don't think you need to spend \$4 million on advertising or any part of it. Of course, that is not all of the \$4 million.

Mr. KAPPEL. I think it has been a good investment.

Mr. GROSS. I think the best advertising of the Postal Service, the most effective, is to provide the kind of service the people of this country want and need and should have.

Now, Mr. Kappel, the U.S. Postal Service issues on a regular basis "information" releases. These releases cover such items as the postal ad campaign to boost stamp collecting, appointment of postal officials, announcement that Hank Aaron received more mail than any other citizen, and so forth, yet there is not one word announced on the

Postal Service's borrowing \$500 million. Don't you think if you are going to advertise and provide information releases, that you ought to tell them all the facts of life?

Mr. KAPPEL. I think stamp collection activity is being promoted by that, and it is paying its way plus.

Mr. GROSS. Well, how about \$500 million?

Mr. KAPPEL. Well, we would have probably had to borrow 504 if we weren't doing some of that.

Mr. GROSS. And you might also tell them, Mr. Kappel, you stood aside while they were stretching out rate increases and obligated the taxpayers, those same taxpayers that you are appealing to in these advertising campaigns, that you stretched out an end to \$753 million the drain on them for having done so. Why don't you give them the facts of life?

Mr. KAPPEL. Because it wouldn't be the truth.

Mr. GROSS. Just selected facts.

Mr. KAPPEL. I wouldn't tell them that because it would not be true.

Mr. GROSS. All right.

Mr. DULSKI. Well, we have another rollcall. We don't want to delay you gentlemen. We would like to come to an understanding to meet again so we can benefit from additional discussions. Instead of keeping you here now while we go to the floor to vote, could we agree on a date sometime next month when we could meet again and continue the hearing? I do realize you gentlemen are very busy.

Mr. KAPPEL. I don't know whether we even talked about it up to now. That's what you are asking, some date?

Mr. DULSKI. Yes, for an agreeable date. You don't have to make it right now, but could you meet with the Board and then let your staff call ours so we can agree on a mutually suitable date?

Mr. KAPPEL. Well, I guess I would have to sit with this Board and run this thing down for a date.

Mr. DULSKI. That's right.

Mr. KAPPEL. We will have to contact you on that.

Mr. DULSKI. We don't expect you to make it right now.

Mr. KAPPEL. Right.

Mr. HENDERSON. I just want to make one comment, Mr. Chairman. I think these hearings, as I said yesterday, are going to be most helpful to us. I think the most disturbing thing was the comment just made to Mr. Gross about the interference of Congress with the management. I would like the record before we close it, Mr. Kappel, to indicate whether or not the Postmaster General has even complained to you about the amount of time he spent before Congress.

Mr. KAPPEL. Well, I haven't added it up, but I get—

Mr. HENDERSON. Has he complained to you about it?

Mr. KAPPEL. No. Do what?

Mr. HENDERSON. Has he complained to you about the amount of time he spent before Congress?

Mr. KAPPEL. Who?

Mr. HENDERSON. The Postmaster General.

Mr. KAPPEL. I don't know whether he has complained about it or not, but I have talked to him about it and the time it has taken. It is a judgment that we have that we could do a lot of things with that time we have been spending over here, and we are not judging whether it is good or bad. But it consumes a large amount of time.

Mr. HENDERSON. This is the first appearance the Board of Governors has made before our committee, Mr. Chairman, I believe.

Mr. KAPPEL. That's right. I am only talking about the management people.

Mr. HENDERSON. Let me say, without asking you, that your time has been invaluable to us this morning. I wish that we could go for another few minutes and finish this up, because if we don't, by the time we get back it will take another session like this.

Mr. KAPPEL. I don't mind staying here.

Mr. HINSHAW. Will you yield for just a minute?

Mr. HENDERSON. Yes.

Mr. HINSHAW. Mr. Kappel, I would like to ask you if you are complaining about the amount of time that the Postal Service management, Mr. Klassen and his top aides, have been required to spend before our committee?

Mr. KAPPEL. That's right.

Mr. HINSHAW. You are complaining?

Mr. KAPPEL. Because I am pushing them to get more things done than they are doing.

Mr. HINSHAW. I find that a shocking admission.

Mr. KAPPEL. Fair enough.

Mr. DULSKI. Well, perhaps we can have the next meeting, Mr. Kappel, when you have your next scheduled meeting of the Board of Governors. It may be convenient when they are in town for that for us to get together for a continuation of this hearing.

Mr. KAPPEL. We might find a way to coincide with a meeting we have.

Mr. HENDERSON. I would issue a special invitation to those members of the Board of Governors who are not here this morning who I have in mind that don't attend the Board of Governors meetings.

Mr. DULSKI. Thank you very much.

[Whereupon, at 12:55 p.m., the committee adjourned.]

[The prepared statement submitted by Mr. Kappel on behalf of the Board of Governors follows:]

#### STATEMENT BY THE BOARD OF GOVERNORS

Mr. Chairman and members of the subcommittee, my name is Frederick R. Kappel, and I am Chairman of the Board of Governors of the U.S. Postal Service. With me this morning is the Vice Chairman of the Board, Mr. M. A. Wright; and Governors Coddling, Holding, Holt, and Robertson. Louis A. Cox, Secretary of the Board of Governors, also is here with us. Although I have been designated as the spokesman, the statement that I have to present to you today is on behalf of all the Governors.

For the last two days, Postmaster General Klassen has appeared before this Subcommittee. In his statement, he stressed the stability and the qualifications of the operating management of the Postal Service. I can assure you that the Board of Governors fully endorses Mr. Klassen's report.

The other Governors and I feel it is important that we emphasize in our review this morning the basic objectives of postal reorganization, and what we as Governors of the Postal Service are doing to achieve those objectives. We would also like to discuss with you the view we take of our role in overseeing the on-going operations of the Postal Service.

It is important that we remember from the outset the basic function of the Postal Service. This function, which we as Governors support with our time and energy, is laid down for us in the policy provisions of the Postal Reorganization Act:

"The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities."

However, as Governors we are concerned not only with this broad declaration of postal policy, but also with four specific objectives which were stated to be essential elements of postal reform. Each one of these elements is essential to the achievement of the broad service goals of the Postal Reorganization Act. With the adoption of postal reform legislation, it was the intent of Congress—

- To grant the top managers of the postal system the authority to set prices (upon recommendation of the Postal Rate Commission), and the power to determine expenditures—elementary prerequisites for the successful operation of any business enterprise;
- To open the way to long-range postal modernization by providing for adequate financing of the postal system and allowing capital investment to proceed outside the unwieldy constraints of the annual federal budget and appropriations process;
- To provide postal workers with adequate wages, satisfactory working conditions, and the assurance of fair treatment through collective bargaining; and
- To remove partisan political influence from day-to-day postal operations and to end once and for all the shifts and interruptions in policy and direction of the Postal Service with each new Federal administration.

In its pursuit of the excellence of service which is the primary objective of postal reform, the Postal Service has made substantial progress toward implementing these four essential elements of Congressional intent. This is being done despite extremely difficult obstacles not anticipated when the reorganization legislation was being considered, i.e., (1) rampant inflation, and (2) other national problems causing confusion and uncertainty as to the direction in which we as a nation are heading.

Fiscal responsibility is of primary importance to the Postal Service, and the Board of Governors carefully monitors the major aspects of postal finances. In advance of each monthly meeting of the Board, each Governor is provided with a copy of Financial and Operating Statements prepared by operating management for each accounting period. These reports are then reviewed in detail by management with the Board in the meetings themselves. In addition, the Board has retained the services of external auditors. They report directly to a three-member Audit Committee of the Board, headed by Mr. Holding. As required, the Audit Committee reviews its findings with and makes recommendations to the full Board. The annual Postal Service Budget is presented to the Board in both tentative and final form. It is discussed at length, modified if necessary, and adopted only after the Board is satisfied that the anticipated expenditures are not only fully justified but also consistent with established goals and objectives. In addition, projects and proposals having a major impact on the Postal Service are presented to the Board for approval before action is taken by management.

On the income side of the financial picture, the Board reviews and approves for submission to the Postal Rate Commission postal rate proposals developed by management. After the Commission affords a full evidentiary hearing on our proposals at which all interested parties present their views, the Commission transmits a recommended decision to the Governors. The Governors then examine the recommended decision and may approve it, allow it under protest, or reject and resubmit it for further consideration. If it is resubmitted, then under limited circumstances and by unanimous vote, the Governors may modify the second recommended decision before putting it into effect.

We are proud that we, in conjunction with operating postal management, have held postal rates at reasonable levels despite unprecedented inflation. Although originally proposed on April 3, 1970, we were able to forestall the adoption of the 10-cent stamp for almost four years despite continuing increases in the price of other consumer goods and services. Today a first-class stamp remains one of the best bargains available to the American people. But the Postal Service is experiencing the same extraordinary cost pressures as every other business enterprise in the U.S. Even with continuing improvements in efficiency, further increases in postal rates will be inevitable if today's inflationary climate continues.

I think I should note here that the Postal Service has begun to adjust postal operations to the recent increases in the price of the energy needed to operate postal facilities and transport the mail. Operating management is exploring every avenue that might lead to economies in operation, every transportation option that might decrease costs without sacrificing speed or reliability.

In the area of capital financing, the Board has reviewed and approved postal borrowings in the private and government sectors. A Finance Committee of the Board has been established. Their recommendations as to terms, conditions, timing, and other important variables involved in any public issue of postal obligations are carefully considered and acted upon by the full Board.

We have overseen the development and implementation of long-range capital planning in the Postal Service. We thoroughly review the annual and five-year capital investment plans of the Postal Service, and specifically examine individual projects of major significance. We are thus in a position to make the judgments necessary to assure that the ongoing capital program of the Service is fundamentally sound, within the limits of our financial capability, and consistent with our goals and objectives.

The commitment to the mechanization and modernization of the Postal Service has begun to take shape in postal facilities around the country. Thousands of older facilities are being updated and improved to arrest the decay fostered by decades of financial neglect. Progress is being made toward completion of a national bulk mail network, begun before postal reorganization, which will enhance the speed and reliability of processing three classes of bulk mail.

Thanks in great part to successful capital investment, the postal work force has been stabilized. By combining more efficient utilization of available employee strength with greater mechanization of mail processing and delivery, the Service is now processing about 5½% more mail with 4½% fewer employees than were needed in 1970. In the 1960s productivity gains averaged 0.7% a year. The comparable figure in the three years since reorganization is 2.4%.

In the labor relations field I think all would agree that progress has been made in the Postal Service. Postal management has negotiated two collective bargaining agreements. Today the postal employee is better paid, better trained, and has greater prospects for promotion than ever before. At least in part as a result, the entire postal work force is more productive than it has been in the past.

The Postal Service has undertaken a broad and intensive employee and management training program. Our goal is to develop the capabilities of employees and officers to the fullest extent. To this end, over 100 postal employee development centers have been established nationwide for training craft employees in functional skills, job processes, maintenance, and self-development. In addition, the Service maintains an extensive correspondence program for the development of the line work force. Postal supervisors and managers receive training at a National Center in Bethesda, Maryland and at five regional centers.

Beyond these training programs, an Executive Leadership Program is provided for experienced postal executives at the level of district manager or above. So far, a total of 51 management people have participated in senior-level programs conducted by leading business schools.

In the judgment of this Board, the continued development of personnel from within the organization to fill its top management jobs is vital to the ultimate success of the U.S. Postal Service. With this in mind, we believe it is essential that all postal job vacancies be filled, wherever possible, through promotions merited by men and women already employed by the Service. This is especially true for vacancies in the position of postmaster. Indicative of the progress being made in this area is the fact that over 10,000 of the 12,000 postmasters appointed since postal reorganization under our Postmaster Merit Selection System have come from within the ranks of postal employees. And these appointments in turn have resulted in advancement for many thousands of other Service personnel at lower levels.

Finally, the postal management structure has been transformed from a sprawling assortment of uncoordinated political entities, both at Headquarters and in the field, into a management team that pulls together, and has the delegated authority to perform its many tasks. By insuring that the Postmaster General has been selected and retained on the basis of his qualifications and performance, the Board of Governors has been providing top postal management with an essential insulation from partisan interests. The Postal Reorganization Act provides that: "The Governors shall be chosen to represent the public interest generally, and shall not be representatives of specific interests using the

Postal Service." The present Board meets this test and we take seriously our obligation to represent the general public. The very existence of the Board, with Governors appointed for terms of nine years, stands as a barrier to those who would use the Postal Service to achieve special partisan or economic benefits at the expense of the common good.

I realize that most of the accomplishments I have mentioned bear on the details of mail processing, and on the dollars and cents of the postal balance sheet. These are important, but they are only part of the story. Progress in erecting facilities, in mechanizing operations, or in balancing the budget, no matter how laudable from a technical standpoint, simply must not be made at the expense of the quality of postal services afforded the American people. I am proud to say that the Postal Service has kept uppermost at all times its responsibility to the American people not only to maintain, but to improve their postal system. I believe the most important contribution of the Board of Governors to date has been the redirection and establishment of the Postal Service as a customer-oriented service organization. The attitude at all levels within the Postal Service that service to our customers comes first is one that will continue to develop in the years ahead. Attitudes sometimes change slowly but we are moving in the right direction. I am convinced that in the coming years, continued decentralization of operating authority and responsibility, as well as the institution of imaginative new service programs, will enhance the value of the availability of postal services to the public.

In the three years the Postal Service has been in operation, the speed and reliability of mail service has been improved and the basic means for continued good and improving service is being solidly developed. I realize that steady, reliable performance rarely gets into the headlines these days, but since postal reorganization, the Service has been setting, and meeting, challenging delivery and service goals. Recent figures show that the national overnight delivery standards are being met 95% of the time.

It must be understood that good service is not only an important end in itself. It is also the key to the financial performance of the Postal Service. If good service is provided, the public will pay what good service is worth. Only under such circumstances will the Postal Service become truly self-sustaining.

I would like to turn now to the view that we, as Governors, take of our particular role in postal management. There is no need to remind you that running the nation's postal system is a mammoth job. Obviously, the efforts of the Governors would be spread very thin, and our effectiveness would be minimized, if we were to step in and attempt to direct the everyday operation of the Postal Service, or even one post office, for that matter. By design, and of necessity, our major concern has to be postal policy and the development and continuity of strong management. We have delegated our direct authority over postal operations to the Postmaster General who, as stated in the Postal Reorganization Act, is the "... chief executive officer of the Postal Service."

However, in addition to those powers statutorily reserved to the Board of Governors alone, we have retained direction and control over the expenditures of the Postal Service, and the power of review over the practices of postal executives. We establish the basic objectives and long-range goals of the Postal Service in consonance with the provisions of the Postal Reorganization Act, and by monitoring postal executives in their exercise of delegated authority, we insure that these goals and objectives are met. Above all, however, it is the Board's interest and responsibility to ensure that the operating management of the Postal Service not only is efficient and effective but acts only in the public interest.

As I have said before, the single most important continuing job of the Governors is to make sure we have a good Postmaster General. We have a good one at the present time and, as you know, we recently extended his contract to February 15, 1977. Within this time frame we feel sure that we will have a situation wherein we can expect succession and leadership from within the Postal Organization.

In our oversight function, we do not intend nor do we attempt to replace or duplicate the efforts of operating management, whose duties keep them in close proximity to the problems which daily confront the Postal Service. However, from our vantage point we have the opportunity to establish general postal policies, and modify them in light of their effects—something which operating management cannot do as effectively, because of the day-to-day pressure of its duties. At the same time, we ourselves do maintain a continuing working relationship with operating management. As I have mentioned, we receive and

give thorough consideration to detailed reports, reviews, and presentations and specific proposals by the Postmaster General and other postal officials at our monthly meetings. In addition, on numerous occasions between meetings, Postmaster General Klassen and other senior members of operating management consult with me and other members of this Board on matters of importance. It is our responsibility to be informed and in a position to provide advice and judgment; we discharge this responsibility not just once a month but on an ongoing basis.

As we look to the future, we can be proud of the significant progress that has been made in the past three years. But much remains to be done. On the immediate horizon, the Service will be concerned with the long-awaited reform of the mail classification schedule; continued modernization and mechanization of postal operations, and the negotiation of a third collective bargaining agreement.

Of course, some of the work of the Postal Service will never be completed. Mail service will never be so good that it cannot be improved. The annual race between productivity and mail volume will continue for many years to come. It will never be possible to sit back and stop searching for new management talent, for developing the abilities of existing employees. The upkeep of postal facilities or the improvement of postal technology must never be sacrificed for short-sighted budgetary reasons. The Postal Service, like the nation itself, is a dynamic, growing entity. It is our job as Governors to give it the attention and the direction which it deserves. We intend to do just that.

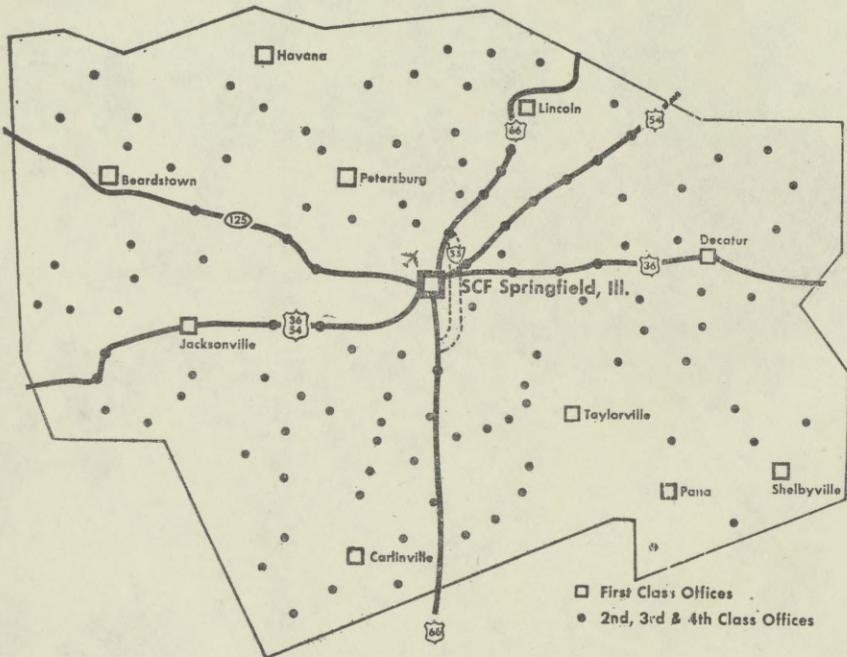
[The information which follows on page 160 regarding the program to improve service and reduce costs through the area mail processing method, was furnished the subcommittee for inclusion in the record.]

# U.S. POSTAL SERVICE AREA MAIL PROCESSING—A PROGRAM TO IMPROVE SERVICE AND REDUCE COSTS

## AREA MAIL PROCESSING

Area mail processing is an ongoing program aimed at taking advantage of concentrating mail volumes where they can be distributed on mechanized systems at maximum advantage to the Postal Service in terms of service and cost.

In evaluating the area mail processing program discussion of a specific area will illustrate the concept. The Springfield, Ill., territory is a typical area. The sectional center area has 123 post offices of which 11, including Springfield, are first class and are identified on the map. The territory is about 50 by 100 miles in extent. The program was installed in the fall of 1972. There were clearly demonstrated cost reductions, a good public relations program, good public acceptance of the program and no complaints received since the program has been inaugurated. The Springfield area demonstrates that the key points of the area mail processing program can be achieved with effective implementation and management.



There are 347 area mail processing programs in operation. Area mail processing is not a novel nor a new concept. It is an evolutionary development or distribution and transportation concepts. It is based upon a concept of centralized mail distribution which has been tested and proven in the Postal Service. As far back as 1862, railway post office cars served as traveling concentration points for mail from the post offices in the territories through which they moved, consolidating the mail for exchange and dispatch. In the late fifties the metropolitan area concept was placed into operation. This aimed at exchanging mail in a trade area to provide for overnight delivery between post offices. It used a central point as a clearing house for made up mails to provide for effective exchange within the area. However, all post offices involved performed at least a primary distribution on their outgoing mail. This project evolved during the sixties into the sectional center program.

The sectional center is a postal facility centrally located in a geographic area, serving as a concentration point for mail moving out of the area, being exchanged within the sectional center area and coming into the sectional center for distribution to post offices within the area. Under the sectional center program most post offices continued to perform a primary distribution on their outgoing mail.

#### AMP HIGHLIGHTS

In 1970 the area mail program was started. This is a further development of the previous programs. It is an ongoing program. In this program the distribution of outgoing mail at post offices in the area was either discontinued or curtailed in order to move the mail into a central point for mechanized processing.

The program has clear basic ground rules. The program is not to be instituted in any area where it does not maintain or improve the local service standards and standards for mail going out of the area. The program is also aimed at controlling cost. In no event is a program to be established which would deteriorate service. Key guidelines are:

1. Concentration of outgoing mail at a mechanized processing center.
2. Careful evaluation of service impact and protection of service standards.
3. Improvement of service for mail moving within and out of the area.
4. Effective public relations to inform customers of what is happening and why.
5. Informative relations with postmasters and employees to fully explain the program, its intent, purpose and protection afforded employees involved.
6. Careful followup monitoring.

The program was inaugurated during a most difficult time in the Postal Service. The Reorganization Act was being implemented, authorities were being decentralized and delegated, regions were completely reorganized, districts were formed, and a number of skilled postal personnel took advantage of accelerated retirement.

## PROBLEMS

As a result, several problems developed due to uneven activation of the program. These were: First, overextension of the service area. This meant that mail was brought into the central processing point to take advantage of the economies of mechanized processing but from distances which did not permit an effective return for next day delivery. This has been corrected. Regions reviewed their service areas and adjusted the area mail plan as necessary to insure service standards are met. Each office processing outgoing mail has had a current distribution and operating plan established. This insures that mail clears the office in accordance with service standards, pinpoints areas where service problems occur, and allows immediate correction.

Second, the mail load placed into some area mail processing centers was excessive and exceeded the capacity of the center to process it, thus causing delays. This condition was caused by inauguration of a plan prior to delivery of scheduled mechanization or by a failure to estimate the capacity of a plant properly. This has been corrected by reducing the workload in such centers, and in some cases suspending implementation of the area mail plan until mechanization or improved procedures are effective. For example, at Hartford, Conn.; Pulaski, Va.; and San Diego, Calif., the plans have been suspended and each office in these areas has resumed processing of its outgoing mail.

Third, there have been gaps in public understanding of the program due to failure to explain the program well when it was started in an area or due to failure to repeatedly publicize the program in local areas. There have also been instances of poor in-house support of area mail processing where postmasters or postal employees at area offices were adversely affected by the removal of distribution functions to the area mail processing center. This problem is being overcome by renewal of public information programs in the regions. The central region has recently reissued their publicity relative to area mail processing. Regional staffs are working with employees to promote a proper understanding of the program.

Fourth, for a period of time cost reduction programs were emphasized to the detriment of service. This did occur in many area mail processing centers. Vigorous action has been taken to eliminate this condition.

Finally, unfavorable publicity accrued to the program because of failure to properly carry out the local postmaking option. Area mail processing program guidelines provide that outgoing mail at second-, third-, and fourth-class post offices will be postmarked unless there are overriding service considerations, and all first-class offices must have a clearly identified receptacle in which customers may place mail for local postmaking and delivery. This option was not adequately publicized, or was not carried out in some areas.

## DUAL BOXES

The postmarking option regulations have been reemphasized. A question has been raised as to the feasibility of dual boxes at each collection box location, one marked for local area delivery and the other for nonlocal mail to correct this problem. At the present time, there are 313,000 collection boxes in use at approximately 6,100 city delivery

post offices. One hundred and sixty-two thousand are located in residential areas where there is insufficient volume of mail to make an effective separation between local and nonlocal mail.

Most of these residential boxes are collected by letter carriers who do not have the equipment to maintain a two-way segregation of the mail they take from the boxes. Customers are relatively careless in depositing mail in local and nonlocal boxes and as much as 30 percent nonlocal mail is found in "local area" boxes. Such mail is delayed because the mail in the local boxes in an area mail processing program is held for processing until the nonlocal mail clears the office, and nonlocal mail found in the local mail may miss outgoing transportation and be delayed.

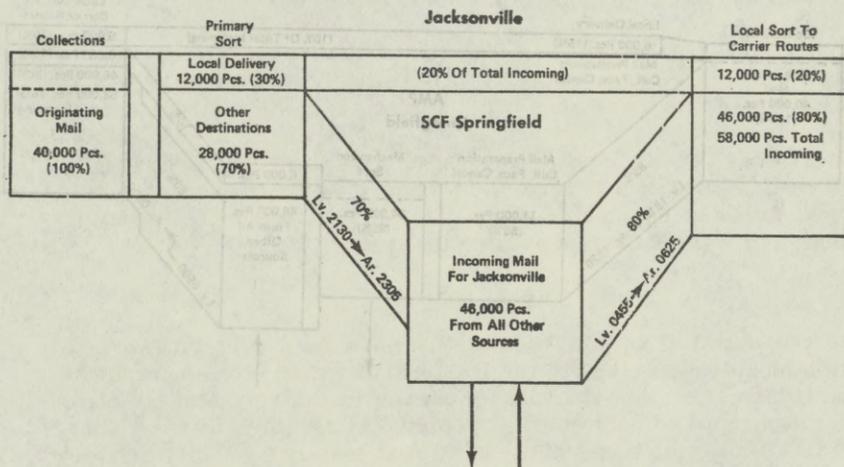
#### POLICY

To meet the need for better visibility for local area boxes, the following procedures govern: Dual boxes are provided outside of each post office; each station and branch; and at additional locations selected by the postmaster. Inside each post office, branch and station there is a clearly marked lobby drop for local mail. This insures that our customers have adequate and clearly marked collection boxes which they may use for local mail.

#### BEFORE AREA MAIL PROCESSING

The second question that arises relative to area mail processing is why mail is carried from a local post office to a central processing point and back. The primary reason is economic. A basic ground rule states that mail should not be brought into a central point for processing if such action adversely affects overnight delivery or any other service standard. Again, note that concentrating mail flow through a central point is not new. The flow of mail out of the Jacksonville, Ill., Post Office, one of the first-class post offices in the Springfield, Ill., sectional center is a good example. Here is a chart of the mail flow before area mail processing was established.

### Mail Flow Before AMP



Jacksonville has about 40,000 pieces of originating mail a day. Before area mail processing, Jacksonville performed a complete primary distribution on this mail. About 12,000 pieces, or 30 percent, were for local delivery and stayed in Jacksonville. The other 28,000 pieces, or 70 percent, went to the sectional center at Springfield for further processing. Because of the relatively small mail volume, Jacksonville could not make up very many direct dispatches beyond the Springfield sectional center facility.

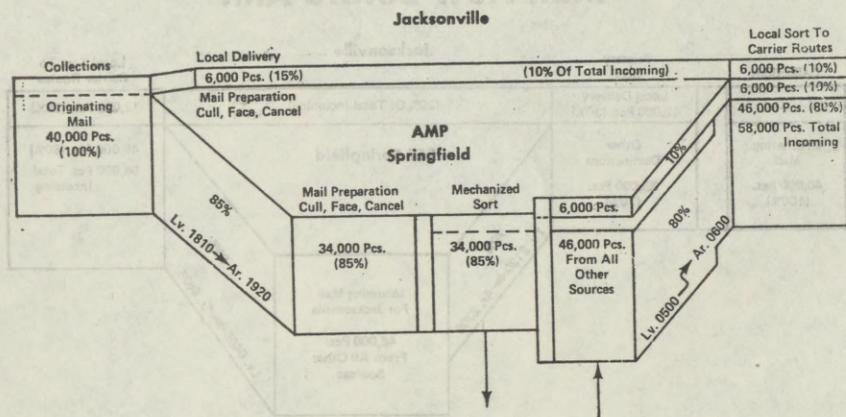
In addition, the processing at Jacksonville meant mail did not leave Jacksonville for Springfield until 9:30 p.m., arriving Springfield at 11:05 p.m. There it required further processing and had limited onward transportation potential. Jacksonville receives 58,000 pieces of letter mail a day for delivery, of which 46,000 flowed through the Springfield sectional center. Thus, before area mail processing was established, there was a major flow of mail volume between Jacksonville and the sectional center.

#### AFTER AREA MAIL PROCESSING

After area mail processing was established, of the 40,000 pieces of originating mail about 6,000, or 15 percent, were posted in local delivery boxes and remained in Jacksonville.

This mail receives a full cull-face postmark and distribution operation. The balance of the mail, 85 percent, went directly from collection services to the Springfield processing center where it received highly mechanized processing. This mail leaves Jacksonville at 6:10 p.m. and arrives Springfield at 7:20 p.m. in time to be completely processed by 9 p.m. and ready for dispatch to many points beyond Springfield. The 46,000 pieces originally moving through Springfield to Jacksonville continue plus 6,000 pieces of local delivery mail processed during the evening and returned to Jacksonville in time for next day delivery. Thus there has been some additional mail flow to and from the area mail processing center but this is not a new or novel action.

### Mail Flow After AMP



The change in flow eliminated considerable manual mail processing at Jacksonville and moved the mail to Springfield for mechanized processing. Note on this chart that normally it took 21 major processing steps to move mail deposited in Jacksonville through the Jacksonville post office, the sectional center facility and prepare it for movement to offices beyond the Springfield sectional center area or to other post offices within the area. After area mail processing, eight of these steps were eliminated. Thirteen steps accomplished the same results. This translates into significant cost reductions with no negative impact on service and in many cases substantially improved service. The principal areas affected by the change involved are the cull-face and post-marking and the distribution operations.

## With AMP Mail Processing Steps Reduced From 21 To 13

- |   |                                    |
|---|------------------------------------|
| 1. Collection                           | 12. Unload At Dock                 |
| 2. Unload At AO Dock                    | 13. Move To Cull - Face - Postmark |
| 3. <del>Move To Cull - Face</del>       | 14. Move To Distribution Units     |
| 4. Postmark                             | 15. <del>Open Pouches</del>        |
| 5. <del>Move To Distribution Unit</del> | 16. Distribute (Primary)           |
| 6. Distribution (Primary)               | 17. Move To Pouching Units         |
| 7. <del>Move To Pouching Area</del>     | 18. Loose Pack Or Pouch            |
| 8. <del>Loose Pack Or Pouch</del>       | 19. Move To Dispatch Area          |
| 9. <del>Move To Dispatch Area</del>     | 20. Load At Dock                   |
| 10. Load At Dock                        | 21. Transport To Destination AO's  |
| 11. Transport To AMP Center             |                                    |

### COST COMPARISON—MAIL PROCESSING BEFORE AND AFTER AREA MAIL PROCESSING

Some of the significant cost reduction areas involved in area mail processing are shown in this and the four following charts.

The cost comparisons and figures which are used on the following tables concerning the Springfield, Ill., AMP were computed and verified in 1973. They are shown here to indicate the exact items used. Since then wage levels and other costs have increased, but the cost reduction figures are still valid.

On a manual basis the cull-face and postmark operations cost \$4.75 a thousand pieces and mechanized \$3.24 a thousand. Manual distribution processing cost \$6.43 a thousand pieces and mechanized \$4.11. The total cost of these two operations manually is \$11.18 a thousand versus \$7.35 a thousand mechanized, or a cost reduction of \$3.83 per thousand pieces. While this sounds small, when it is applied to volume, the results are significant as in the Jacksonville operation.

## COST COMPARISON—(PER 1,000 PIECES)

|                               | Manual | Mechanized |
|-------------------------------|--------|------------|
| Preparation:                  |        |            |
| Cull, face, and postmark..... | \$4.75 | \$3.24     |
| Distribution.....             | 6.43   | 4.11       |
| Total.....                    | 11.18  | 7.35       |

## PREPARATION COSTS

Mail preparation, which is the cull-face and postmark operation, of the 40,000 daily pieces at Jacksonville before area mail processing cost \$190 a day. After area mail processing, considering the pieces remaining at Jacksonville and those going through Springfield, the cost is \$138.50 a day, or a reduction of \$51.50 a day. Using a 300-day work year this is \$15,450 a year.

## PREPARATION COSTS—(40,000 PIECES)

|                   | Before AMP | After AMP |
|-------------------|------------|-----------|
| Jacksonville..... | \$190.00   | \$28.50   |
| Springfield.....  |            | 110.00    |
| Total.....        | 190.00     | 138.50    |

Note: Reduction: \$51.50 per day, or \$15,450 per year.

## PIECE HANDLING COSTS

Mail distribution procedures, in terms of the number of times a piece of mail must be handled, required 72,000 handlings for the Jacksonville mail before area mail processing, with 52,000 occurring at Jacksonville and 20,000 at Springfield. After area mail processing, there are 57,740 piece handlings, with 12,000 at Jacksonville and 45,740 at Springfield. This is a reduction of 14,260 individual piece handlings a day at a cost reduction of \$90.30 a day equal to \$27,000 a year.

## PIECE HANDLING COSTS—(40,000 PIECES)

|                   | Before AMP | After AMP |
|-------------------|------------|-----------|
| Jacksonville..... | 52,000     | 12,000    |
| Springfield.....  | 20,000     | 45,740    |
| Total.....        | 72,000     | 57,740    |

Note: Handlings reduction, 14,260 per day; cost reduction, \$90.30 per day. (\$6.45/1,000), \$27,000 per year.

## JACKSONVILLE SUMMARY

In summary, the mail processing costs for the mail involved in the area mail program at Jacksonville were reduced \$42,300, with equal and improved service.

## SPRINGFIELD SUMMARY

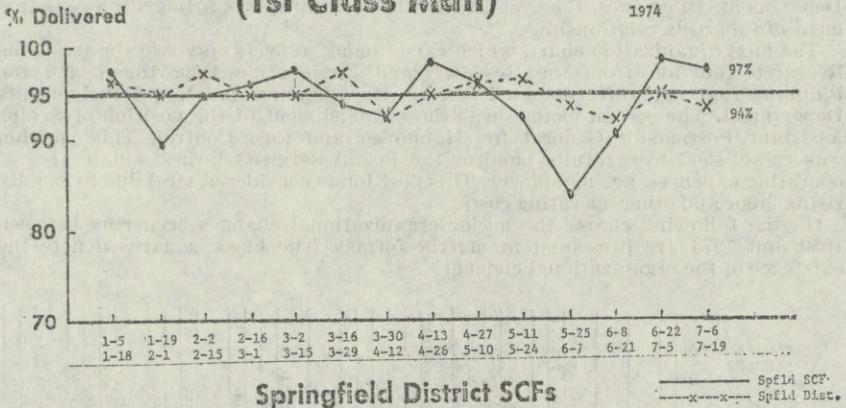
Applied to the entire Springfield area mail processing territory, mail processing costs were reduced \$348,000, transportation costs \$10,000, for a total annual cost reduction \$358,000. On a national basis,

the area mail processing program has produced documented annual cost reductions of \$25 million for the fiscal year 1974. This is a significant cost control while protecting service.

SERVICE

Overnight first-class mail service delivery achievements in the Springfield area for the calendar year 1974 are shown to date. These show that the overnight service within the Springfield district itself holds near 95 percent. Similar results exist for the entire Springfield district which includes most of central and southern Illinois, except for the May-June period. These figures are based on careful testing and are reliable.

## Overnight Service Achievement (1st Class Mail)



| Springfield District SCFs |     |             |     |
|---------------------------|-----|-------------|-----|
| Peoria                    | 615 | Quincy      | 623 |
| Bloomington               | 617 | Effingham   | 624 |
| Champaign                 | 618 | Springfield | 625 |
| East St. Louis            | 620 |             |     |

[The following information regarding reorganizations within the Post Office Department and the U.S. Postal Service, as of July 30, 1974, was furnished the subcommittee for inclusion in the record:]

POST OFFICE DEPARTMENT AND U.S. POSTAL SERVICE REORGANIZATIONS—  
HEADQUARTERS—WASHINGTON, D.C. (1950 TO PRESENT)

INTRODUCTION

The following narrative presents in chronological order, beginning in 1950, the organizational structures for the former Post Office Department and the U.S. Postal Service. These organizational charts reflect major functional changes and realignments occurring at Headquarters, Washington, D.C. A narrative describing each organizational change and a listing of senior management incumbents follows each chart.

During the 21-year period prior to Postal Reorganization, a total of 16 major functional realignments occurred in addition to almost continual intrabureau/office/division reorganizations. These 16 major changes along with brief descriptions of the reorganizations are reflected in Section II, "Post Office Department Organizations."



| FISCAL YEAR | ORGANIZATIONAL ELEMENT |      |
|-------------|------------------------|------|
|             | POST OFFICE DEPARTMENT | USPS |
| FY 1950     |                        |      |
| FY 1951     |                        |      |
| FY 1952     |                        |      |
| FY 1953     |                        |      |
| FY 1954     |                        |      |
| FY 1955     |                        |      |
| FY 1956     |                        |      |
| FY 1957     |                        |      |
| FY 1958     |                        |      |
| FY 1959     |                        |      |
| FY 1960     |                        |      |
| FY 1961     |                        |      |
| FY 1962     |                        |      |
| FY 1963     |                        |      |
| FY 1964     |                        |      |
| FY 1965     |                        |      |
| FY 1966     |                        |      |
| FY 1967     |                        |      |
| FY 1968     |                        |      |
| FY 1969     |                        |      |
| FY 1970     |                        |      |
| FY 1971     |                        |      |
| FY 1972     |                        |      |
| FY 1973     |                        |      |
| FY 1974     |                        |      |
| Present     |                        |      |

## SUMMARY

As illustrated in the Organizational Element Matrix and as explained in the narrative following each of the organizational charts, intra-bureau, office and division organizational changes were an almost continual occurrence within the former Post Office Department. While the bureaus themselves remained somewhat intact, the stability needed to provide policy direction and long-term program guidance to the regions seldom existed in the 21 years preceding Postal Reorganization. While organization change is needed to accommodate a dynamic operating environment, constant intra-structural change was counter-productive to the mission of the Post Office Department.

With the establishment of the U.S. Postal Service on July 1, 1971, the Headquarters organization was divided into three principal operating groups: Mail Processing, Customer Services and Support. Under the direction of a Deputy Postmaster General, the underlying philosophy governing this new organization was the need for greater delegation to the field and increased customer awareness.

The Mail Processing Group consisted of those functional activities directly involved in providing ongoing present and near term policy and procedural guidance concerning mail handling.

The Customer Services Group was established in order to be more responsive to the service needs of our customers. The postal patron became the postal customer whose desires for more consistent, reliable and new levels and types of mail services became the mandate for the U.S. Postal Service. The Customer Services Group directed customer related functions, such as window service, collection and delivery, and the necessary staff to provide new and improved services.

The Support Group, consisting of Finance, Employee Relations, Administration and Management Information Systems, consolidated those closely intermingled functions supporting daily postal operations. The identification of Management Information Systems as a separate department reinforced the value of timely and reliable management information.

In addition to the three operational support groups, eight staff functions reported directly to the Postmaster General. Included in these staff organizations were the Planning Department, Communication and Public Affairs Department, Government Relations Department and the Consumer Advocate. By establishing these separate organizations, the Postal Service identified their importance to the postal mission. After a period of approximately one year, a change in some organizational reporting relationships was made in order to improve the decision-making apparatus. The Support Group was moved intact from under the Deputy Postmaster General to the Postmaster General.

The Research Department, formerly reporting directly to the Postmaster General, was placed under the Deputy Postmaster General along with the unchanged Customer Services and Mail Processing Groups. Placing the Research Department directly under the chief operating official, the Deputy Postmaster General, along with the operating groups, permitted postal research activities to better appreciate and understand current operations and the requirements for mechanization. Another aspect of this reporting relationship change included consolidating five of the eight staff organizations, formerly reporting directly to the Postmaster General, into an Executive Functions Group reporting to the Postmaster General.

The only organizational change which occurred at this time was the establishment of a Labor Relations Department. This new department, along with the existing Employee Relations Department, became the Employee and Labor Relations Group. The need for a separate department dedicated to labor relations was essential in view of postal involvement with major unions.

In June 1973, the Postal Service established the Operations Group under the direction of Senior Assistant Postmaster General E. V. Dorsey whose postal experience began in 1947. The new Operations Group consisted of the former Bulk Mail Department, the Logistics organization from the former Logistics and Engineering Department, and the Delivery Services Department which was previously assigned to the Customer Services Group. As a result of this change, all organizations responsible for day-to-day mail collection, processing, transportation and delivery were placed under the direction of Mr. Dorsey. In addition, the five Regional Postmasters General reported to Mr. Dorsey, thereby including within the Operations Group all functions which support and perform mail operations.

The Management Information Systems and Finance Departments were reassigned to the Finance Group under the direction of Mr. R. W. Nicholson, who first joined the Post Office Department in 1961.

An Administration Group established at this time acquired some functions not directly related to either operations, finance, or employee and labor relations. Included in the Administration Group was the Real Estate and Buildings Department. This department was established in order to adequately support postal requirements for new and improved facilities to both upgrade employee working conditions and to direct the installation of new mechanization. Furthermore, since the Corps of Engineers was no longer permitted by Office of Management and Budget directive to manage the postal facilities program, an in-house capability was essential.

The Employee and Labor Relations Group was not affected by this change.

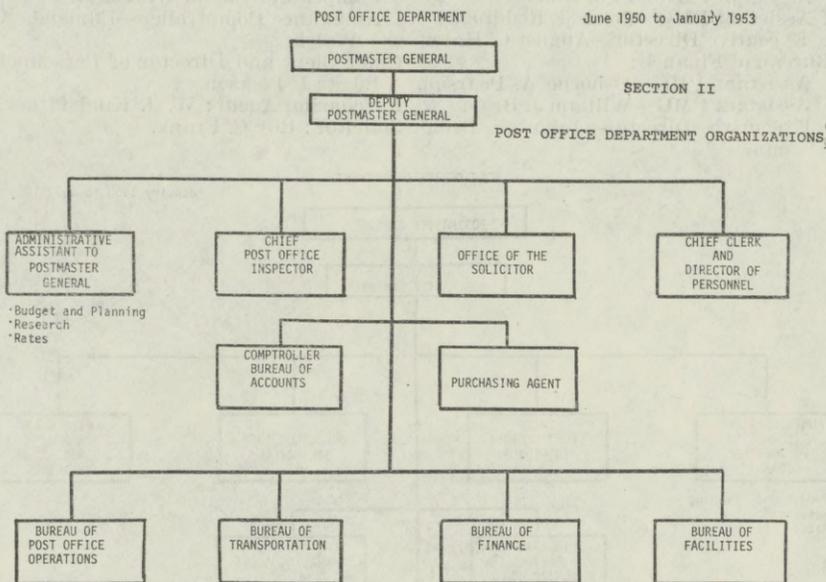
The organization established in June 1973 remains intact today with two exceptions. The research and planning functions were merged into the Planning and New Developments Department. This change will permit a close working relationship to exist between long-range postal planning and research and developmental efforts. The second change involved establishing a manpower and cost control function with responsibility to develop, implement, and follow through on programs to reduce postal operating costs. The establishment of this function is considered vital in view of rapidly rising labor, transportation, supplies, and other service costs.

Since July 1971 and the Postal Reorganization Act, the U.S. Postal Service has operated under stable major policies direction. This type of direction was not possible under the former Post Office Department when policies changed, frequently in a wholesale manner, with each new administration.

Stability in management is highly desirable and important to the success of any organization. However, top officials must be alert to prevent stability of management from becoming stagnancy of management.

There is ample evidence that, while major functional organization units remained fairly static under the former Post Office Department, provisions were not made for organizationally meeting the changing and growing public and intra-postal needs. The new U.S. Postal Service organization does this, however, by including marketing and public contract activities for the general public and major customers; and employee and labor relations to meet the changing internal requirements.

One of the principal advantages of the Postal Reorganization Act is that we now have the flexibility to elevate capable experienced career people to top policy-making jobs rather than reserve these positions for political appointees as was the previous custom in the Post Office Department.



ORGANIZATION CHANGE—JANUARY 1950 TO JANUARY 1953

The position of Deputy Postmaster General was established and appointment made in October, 1949. The functions of all subordinate offices and agencies of the Post Office Department, including those of the First, Second, Third, and Fourth Assistant Postmasters General, the Purchasing Agent, and the Comptroller, were transferred in April, 1950 to the Postmaster General with authority to delegate these functions as deemed appropriate. The offices of the First, Second, Third, and Fourth Assistant Postmasters General (established between 1810 and 1891) were abolished under the plan, and there were appointed in April, 1950, four Assistant Postmasters General to head the newly designated Bureaus of Post Office Operations, Transportation, Finance and Facilities. The Office of Comptroller and the Office of the Purchasing Agent were reconstituted with the same titles to function under the new plan of organization.

In order to better meet the requirements of budgeting and planning, research and rate determination, the Office of Budget and Administrative Planning was reorganized in June, 1950, as the Office of the Administrative Assistant to the Postmaster General.

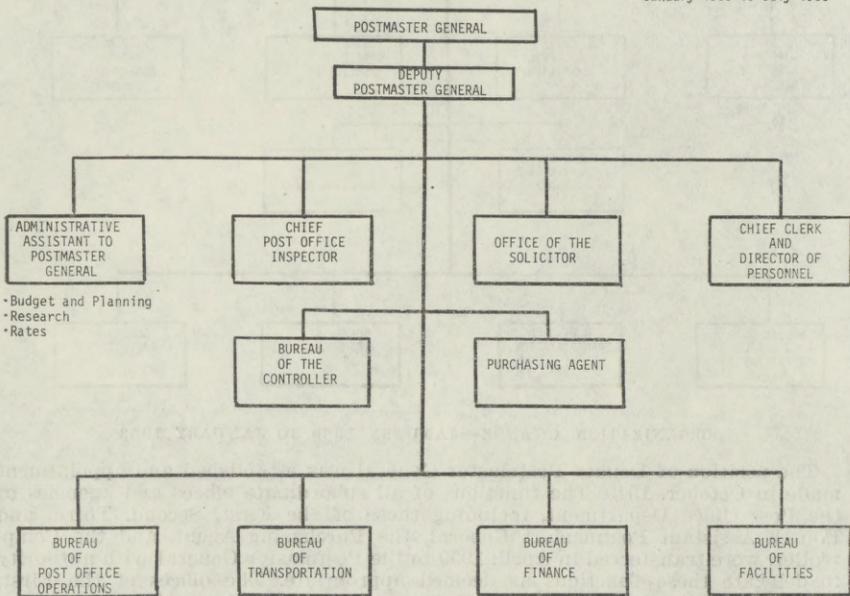
JUNE 1950-JANUARY 1953

Postmaster General: Jesse M. Donaldson.  
 Deputy Postmaster General: Vincent C. Burke.  
 Office of the Assistant Postmaster General:  
 Assistant PMG—Joseph J. Lawler  
 Executive Director—Clinton B. Utley.  
 Bureau of Transportation:  
 Assistant PMG—Paul Aikens.  
 Assistant PMG—John M. Redding.  
 Executive Director—August C. Hahn.  
 Bureau of Finance:  
 Assistant PMG—Osborne A. Pearson.  
 Assistant PMG—William J. Bray.  
 Executive Director—John A. Brennan.

Bureau of Facilities:  
 Assistant PMG—Walter Meyers.  
 Executive Director—F. C. Cornwell.  
 Bureau of the Chief Post Office Inspector:  
 Chief Post Office Inspector—Clifton C. Garner.  
 Assistant Chief Post Office Inspector—J. M. Donaldson, Jr.  
 Bureau of Accounts:  
 Comptroller—John W. Askew.  
 Assistant Comptroller—Edmond V. Walsh.  
 Chief Clerk and Director of Personnel:  
 Edgar J. Jackson.  
 Purchasing Agent: W. J. Kindsfater.  
 Solicitor: Roy C. Frank.

POST OFFICE DEPARTMENT

January 1953 to July 1953



ORGANIZATION CHANGES—JANUARY 1953 TO JULY 1953

The principal organizational change consisted of the establishment of the Bureau of Controller in June 1953, to replace the Bureau of Accounts. The old Bureau of Accounts had consisted only of a Division of Accounts and a Division of Cost Ascertainment constituting a single structure sufficient to engage in a narrow program of compliance accounting. The new Bureau of the Controller had the following five components: Divisions of Accounting, Cost Analysis, Budget, Systems and Procedures, and Internal Audit. The purpose of the restructuring was to build upward from very little into a modern program of controllership modeled after controllerships found in modern industrial organizations.

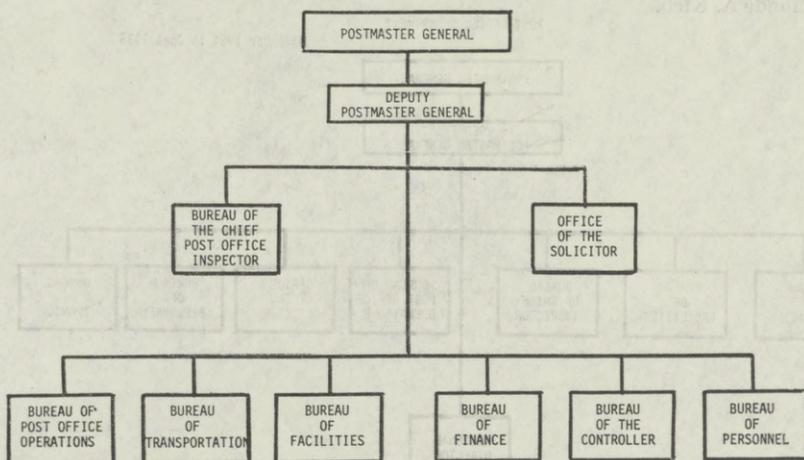
January 1953–July 1953

Postmaster General: Arthur E. Sumnerfield.  
 Deputy Postmaster General: Charles R. Hook.  
 Office of the Assistant Postmaster General:  
 Assistant PMG—Vacant.  
 Executive Director—Clinton B. Utley.  
 Bureau of Finance:  
 Assistant PMG—Albert J. Robertson.  
 Executive Director—John A. Brennan.  
 Bureau of the Chief Post Office Inspector:  
 Chief Post Office Inspector—D. H. Stephens.  
 Assistant Chief Post Office Inspector—J. M. Donaldson, Jr.

Purchasing Agent: W. J. Kindsfather.  
 Chief Clerk and Director of Personnel: Edgar B. Jackson.  
 Bureau of Transportation:  
 Assistant PMG—John C. Allen.  
 Executive Director—August C. Halm.  
 Bureau of Facilities:  
 Assistant PMG—Vacant.  
 Executive Director—F. C. Cornwell.  
 Bureau of Accounts/Comptroller:  
 Comptroller—John W. Askew.  
 Assistant Comptroller—Edmund J. Walsh.  
 Office of the Solicitor: Solicitor—Roy C. Frank.  
 Bureau of Post Office Operations: Assistant PMG—Joseph J. Lawler and Norman R. Abrams.

POST OFFICE DEPARTMENT

July 1953 to November 1954



ORGANIZATION CHANGES—JULY 1953 TO NOVEMBER 1954

The simplification of headquarters organization and activity, which had begun in the preceding year, was continued with some change in current emphasis. Previous emphasis was to eliminate overlapping and duplication; current emphasis was on simplification of work processes.

The principal organizational changes consisted of the creation of the Bureau of Personnel and an Office of Chief Industrial Engineer. The Bureau of Personnel, organized with seven staff divisions and an operating personnel division, developed an initiated a comprehensive safety program, conducted a complete study of postal positions and salaries which was submitted to Congress, developed the first comprehensive training program ever prepared for the Postal Service, and participated in the development of government-wide management proposals which were enacted into law, such as, group life insurance, unemployment compensation, and revised fringe benefits. The Office of the Chief Industrial Engineer was established on November 1, 1953 to bring all industrial engineering activities under a single head, and to secure the full benefits of the application of engineering skills to postal operations. The greatest opportunities for cost reduction and improved service were in the following areas: (1) equipment for automatically facing, cancelling and sorting mail; (2) mechanization of mail collection and delivery; (3) internal transportation equipment, such as conveyor systems.

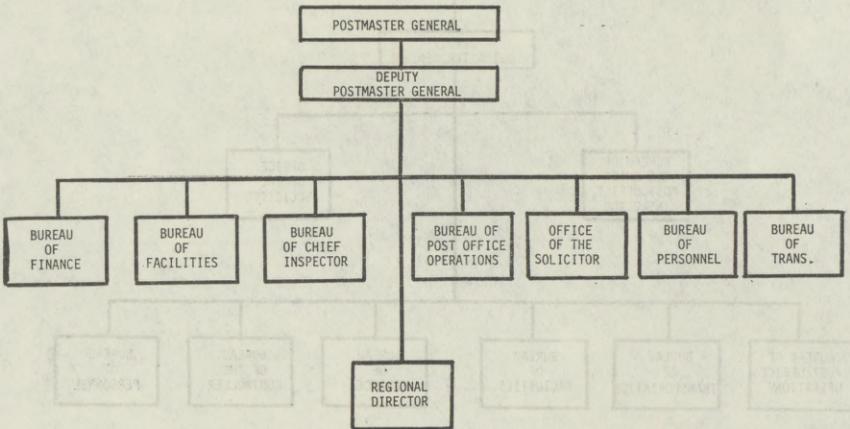
July 1953—November 1954

Postmaster General: Arthur E. Sum-  
merfield (10-20-53).  
Deputy Postmaster General: Charles  
R. Hook.  
Bureau of Post Office Operations:  
Assistant PMG—Norman R. Abrams.  
Executive Director—James T. Nelson.  
Bureau of Transportation:  
Assistant PMG—John C. Allen.  
Assistant PMG—E. George Siedle.  
Executive Director—August C. Hahn.  
Bureau of Finance:  
APMG and Controller—Albert J. Rob-  
ertson.  
Executive Director—Lucas A. Leigh-  
ton.  
Assistant Controller—John W.  
Askew.  
Assistant Controller—Gordon G.  
Crowder.  
Bureau of Facilities: Assistant PMG—  
Ormonde A. Kieb.

Bureau of Personnel:  
Assistant PMG—Eugene J. Lyons.  
Executive Director—A. E. Weather-  
bee.  
Bureau of the Chief Post Office Inspec-  
tor:  
Chief Post Office Inspector—David H.  
Stephens.  
Assistant Chief Post Office Inspec-  
tor—Lloyd C. Walker.  
Office of the Solicitor:  
Solicitor—Abe McGregor Goff.  
Associate Solicitor—Louis J. Doyle.  
Bureau of the Controller:  
Controller—John W. Askew.  
Assistant to the Controller—Alfer B.  
Strom.  
Assistant Controller—Edmund J.  
Walsh.  
Assistant Controller—Carl White.

POST OFFICE DEPARTMENT

November 1954 to June 1956



ORGANIZATION CHANGE—NOVEMBER 1954 TO JUNE 1956

On November 1, 1954, the Bureau of the Controller was merged into the Bureau of Finance under an Assistant Postmaster General and Controller, the final step was taken to center all financial functions in one bureau.

The program for decentralizing the Post Office Department to regional operations was developed as a method of streamlining administrative functions along modern business lines in accordance with recommendations of the Hoover Commission. The first regional office was opened in Cincinnati, Ohio in November 1953 and decentralization was completed with the opening of the fifteenth regional office at Wichita, Kansas in February 1956. Day-to-day postal administration had been decentralized from Washington to 15 regions and 91 district offices.

The Department attached great importance to its regional program. Most of the everyday problems arising in the operation of the Nation's 41,000 post offices would be settled at the district office level. More difficult problems would be referred to the regional offices. Only those problems involving major policy decisions would be referred to Washington for action.

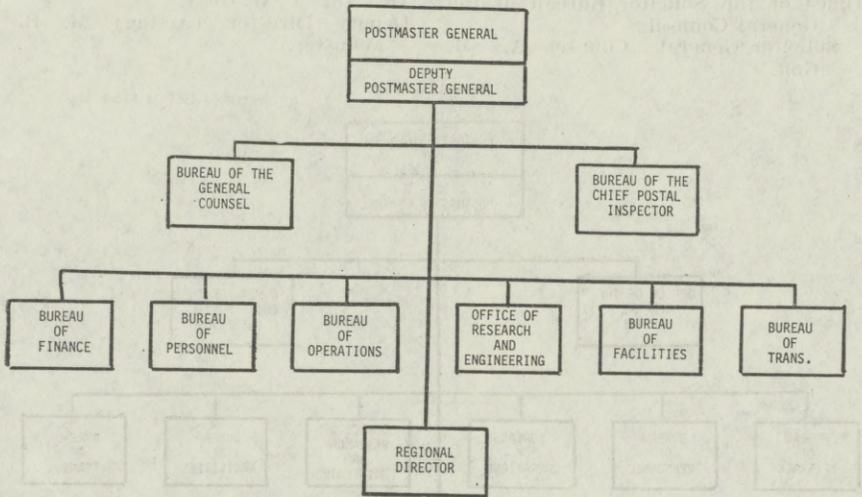
November 1954-June 1956

Postmaster General: Arthur E. Summerfield.  
 Deputy Postmaster General: Charles R. Hook and Maurice H. Stans.  
 Bureau of Post Office Operations:  
 Assistant PMG—Norman B. Abrams.  
 Deputy Assistant PMG—James T. Nelson.  
 Deputy Assistant PMG—R. E. O'Connor.  
 Executive Director—James T. Nelson.  
 Bureau of Finance:  
 Assistant PMG and Controller—Albert J. Robertson.  
 Deputy Controller—Lindsley H. Noble.  
 Bureau of Personnel:  
 Assistant PMG—Eugene J. Lyons.  
 Executive Director—A. E. Weatherbee.

Office of the Solicitor:  
 Solicitor—Abe McGregor Goff.  
 Deputy Solicitor—Leo G. Knoll.  
 Associate Solicitor—Louis J. Doyle.  
 Bureau of Transportation:  
 Assistant PMG—E. George Siedle.  
 Deputy Assistant PMG—Paul C. Ledrick.  
 Executive Director—August C. Hahn.  
 Bureau of Facilities:  
 Assistant PMG—Ormonde A. Kieb.  
 Deputy Assistant PMG—Rollin D. Barnard.  
 Bureau of the Chief Postal Inspector:  
 Chief Postal Inspector—David H. Stephens.  
 Assistant Chief Postal Inspector—Lloyd C. Walker and W. A. Miner.

POST OFFICE DEPARTMENT

July 1956 to September 1957



ORGANIZATION CHANGE—JULY 1956 TO SEPTEMBER 1957

Effective July 1956, an Office of Research and Engineering was established as an independent office reporting to the Postmaster General through the Deputy Postmaster General. It succeeded the Office of the Chief Industrial Engineer. The Bureau of the General Counsel was established on July 1, 1957. The Bureau of Post Office Operations was changed to the Bureau of Operations.

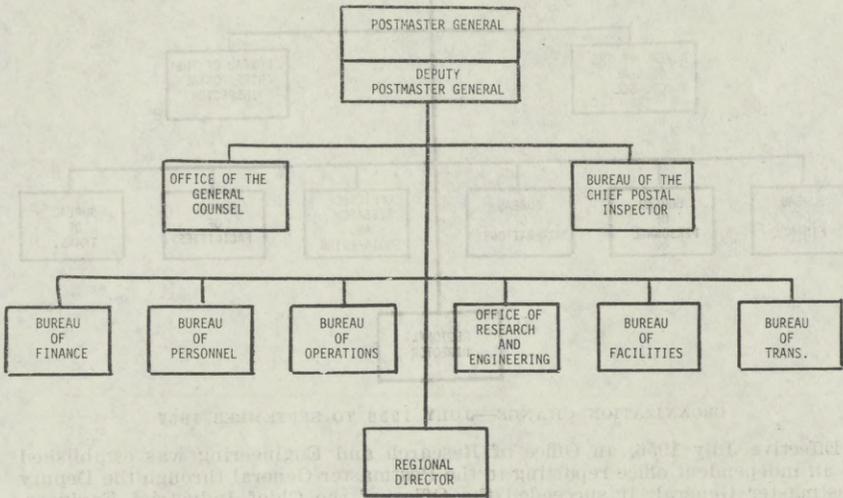
July 1956-September 1957

Postmaster General: Arthur E. Summerfield.  
 Deputy Postmaster General: Maurice H. Stans and Edson O. Sessions.  
 Bureau of Post Office Operations:  
 Assistant PMG—Norman B. Abrams and John M. McKibbin.  
 Deputy APMG—R. E. O'Donovan.  
 Deputy APMG—Bert B. Barnes.  
 Deputy APMG—A. C. Hahn.  
 Bureau of Finance:  
 APMG and Controller—Albert J. Robertson and Hyde Gillette.  
 Deputy Controller—Lindsley H. Noble.  
 Assistant Controller—Gordon G. Crowder.  
 Assistant Controller—E. J. Walsh.  
 Bureau of Personnel:  
 Assistant PMG—Eugene J. Lyons.  
 Deputy APMG—A. E. Weatherbee.  
 Office of the Solicitor/Bureau of the General Counsel:  
 Solicitor/General Counsel—A. M. Goff.

Deputy Solicitor/Deputy General Counsel—Leo G. Knoll.  
 Associate Solicitor/Associate General Counsel—Louis J. Doyle.  
 Associate General Counsel—Joseph H. Blandford.  
 Bureau of Transportation:  
 Assistant PMG—E. George Siedle.  
 Deputy APMG—August C. Hahn.  
 Executive Director—August C. Hahn.  
 Bureau of Facilities:  
 Assistant PMG—Ormonde A. Kieb.  
 Deputy APMG—Rollin D. Barnard.  
 Bureau of the Chief Postal Inspector:  
 Chief Postal Inspector—David H. Stephens.  
 Assistant Chief Postal Inspector for Investigations—Lloyd C. Walker.  
 Assistant Chief Postal Inspector for Postal Services—W. A. Miner.  
 Office of Research and Engineering:  
 Director—C. W. Gray.  
 Deputy Director (Acting) M. B. Feimster.

POST OFFICE DEPARTMENT

September 1957 to March 1961



ORGANIZATION CHANGE—SEPTEMBER 1957 TO MARCH 1961

The Bureau of the General Counsel was eliminated and an Office of the General Counsel was established. There was established in the Office of the Postmaster General a Judicial Officer for the Post Office Department. The decision and orders of the Judicial Officer were the final departmental decision and order except that he referred any proceeding to either the Postmaster General or the Deputy Postmaster General.

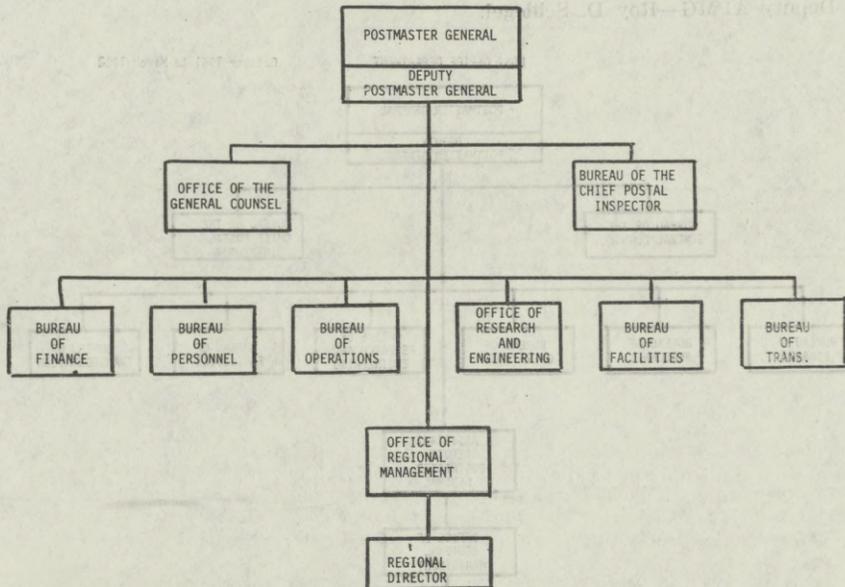
The Construction Engineering Division of the Bureau of Facilities was transferred to the Office of Research and Engineering, therefore, all facility and mail processing engineering was brought into one organization.

September 1957–March 1961

- Postmaster General: Arthur E. Summerfield and J. Edward Day.
- Deputy Postmaster General: Edson O. Sessions, John M. McKibbin, and H. W. Brawley.
- Office of the General Counsel:  
 General Counsel—Abe McGregor Goff and Herbert B. Warburton.  
 Deputy General Counsel—Leo G. Knoll.  
 Associate General Counsel—Joseph H. Blandford, Louis B. Doyle, and Paul Meininger.
- Bureau of Transportation:  
 Assistant PMG—George D. O’Gorman and E. George Siedle.  
 Deputy Assistant PMG—George M. Moore, Ralph W. Wheeler, and D. Walter Swan.
- Bureau of Facilities:  
 Assistant PMG—Ormonde A. Kieb, Rollin D. Barnard, and Robert J. Burkhardt.  
 Deputy Assistant PMG—Rollin D. Barnard, and Roy D. Schlegel.
- Office of Research and Engineering:  
 Director—W. S. Plumber and C. W. Gray.  
 Deputy Director—L. Rex Landis.
- Bureau of Operations:  
 Assistant PMG—John M. McKibbin, Burt B. Barnes, and Frederick C. Belen.  
 Executive Assistant—Peter B. Gallagher.  
 First Deputy Assistant PMG—Bert B. Barnes and T. R. Maples.  
 Deputy Assistant PMG—A. C. Hahn, P. A. Del Grosso, and A. E. Newton.
- Bureau of Finance:  
 Assistant PMG—Hyde Gillette and Ralph W. Nicholson.  
 Deputy Assistant PMG and Controller—Lindsay H. Noble.  
 Assistant Controller—Gordon G. Crowder.
- Bureau of Personnel:  
 Assistant PMG—Eugene J. Lyons, Frank Barr, and Richard J. Murphy.  
 Deputy Assistant PMG—A. E. Weatherbee and B. J. Beary.
- Bureau of the Chief Postal Inspector:  
 Chief Postal Inspector—David H. Stephens and Henry B. Montague.  
 Assistant Chief Inspector, Criminal Investigations—L. C. Walker.  
 Assistant Chief Inspector, Internal and Special Investigations—Vacant.

POST OFFICE DEPARTMENT

March 1961 to October 1961



ORGANIZATION CHANGE—MARCH 1961 TO OCTOBER 1961

In March 1961, the 15 regional offices were placed under the direct supervision and management of the Office of the Deputy Postmaster General, through the Office of Regional Management, rather than under an individual bureau as in

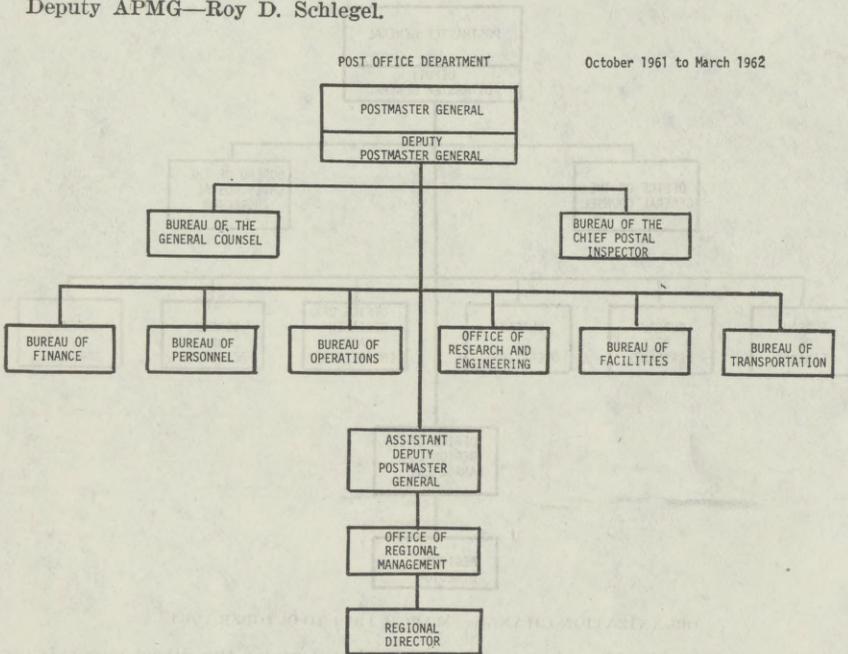
the past. The purpose was to put the Deputy Postmaster General and his staff in a more effective position to help the regional directors and, through them, the postmasters.

The Office of Regional Management approves regional office organization, budgets, funds, and staffing; advises the Deputy Postmaster General and Assistant Postmasters General, and Regional Directors on all phases thereof. In August of 1961 the organization and functions of the Bureau of Operations, Transportation, and Facilities were realigned to improve coordination of accounting operations and procedures and to provide strengthened staff and organization for statistical measurement, analysis, and projection in the Bureau of Finance.

March 1961–October 1961

- Postmaster General: J. Edward Day.
- Deputy Postmaster General: H. W. Brawley.
- Bureau of Operations:
  - Assistant PMG—Frederick C. Belen.
  - First Deputy APMG—Bert B. Barnes.
  - Deputy APMG—A. C. Hahn.
- Bureau of Transportation:
  - Assistant PMG—George O’Gorman, George M. Moore, and William J. Hartigan.
  - Deputy APMG—Christopher C. Scott.
- Bureau of Finance:
  - Assistant PMG—Ralph W. Nicholson.
  - Deputy APMG and Controller—L. H. Noble.
  - Assistant Controller—Gordon G. Crowder.
- Bureau of Facilities:
  - Assistant PMG—Robert J. Burkhardt.
  - Deputy APMG—Roy D. Schlegel.

- Bureau of Personnel:
  - Assistant PMG—Richard J. Murphy.
  - Deputy APMG—Bernard J. Beary.
- Bureau of the Chief Postal Inspector:
  - Chief Postal Inspector—Henry B. Montague.
  - Deputy Chief Postal Inspector—D. D. Duggan.
- Office of the General Counsel:
  - General Counsel—Herbert B. Warburton and Louis J. Doyle.
  - Deputy General Counsel—Louis J. Doyle.
- Office of Research and Engineering:
  - Director—Wade S. Plummer and Edward E. Harriman.
  - Deputy Director—L. Rex Landis.
- Office of Regional Management: Director—Andrew E. Newton.



## ORGANIZATION CHANGE—OCTOBER 1961 TO MARCH 1962

In October 1961, the position of Assistant Deputy Postmaster General was assigned the responsibility through the Office of Regional Management, for directing 15 regions.

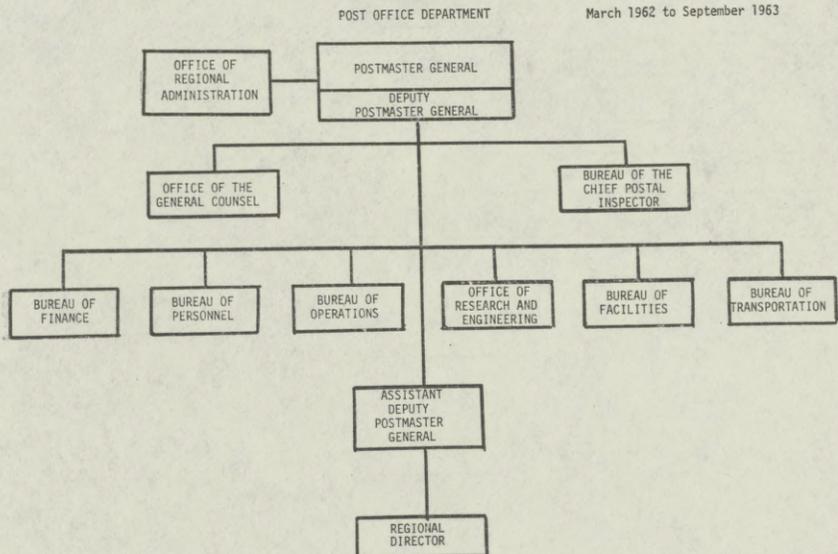
New units were established in the three largest bureaus: Operations, Transportation and Facilities. The Customer Relations Division was established in Operations to develop and expand such programs as the nationwide improved service plan. The establishment of the Distribution and Delivery Division brought together management activities related to the effective utilization of vehicles with those involved in the delivery and processing of mail.

The role of the Bureau of Transportation was expanded with appointment of a second Deputy Assistant Postmaster General to direct the International Service and the Research and Development Divisions. Activities related to the three principal maintenance areas in the Post Office—vehicles, buildings, and equipment—were integrated in the Maintenance Division, Bureau of Facilities. Previously, these activities were divided between Operations and Facilities.

## October 1961–March 1962

Postmaster General: J. Edward Day.  
 Deputy Postmaster General: H. W. Brawley.  
 Bureau of Operations:  
 Assistant PMG—Frederick C. Belen.  
 Deputy APMG, Prog and Plan—Bert B. Barnes.  
 Deputy APMG, Field Operation—August C. Hahn.  
 Bureau of Finance:  
 Assistant PMG—Ralph W. Nicholson.  
 Deputy APMG and Controller—L. H. Noble.  
 Bureau of Personnel:  
 APMG—Richard James Murphy.  
 Deputy APMG—Bernard J. Beary.  
 Office of the General Counsel:  
 General Counsel—Louis J. Doyle.  
 Deputy General Counsel—S. W. Bishop.

Office of Regional Management: Director, Andrew E. Newton.  
 Bureau of Transportation:  
 Assistant PMG—William J. Hartigan.  
 Deputy APMG—Frederick E. Bartrus.  
 Deputy APMG—Christopher C. Scott.  
 Bureau of Facilities:  
 APMG—Robert J. Burkhardt and Sidney W. Bishop (Acting).  
 Deputy APMG—James H. Blundell, (Acting).  
 Deputy APMG—James H. Blundell.  
 Bureau of the Chief Postal Inspector:  
 Chief Postal Inspector—Henry R. Montague.  
 Deputy Chief Postal Inspector—D. D. Duggan.  
 Office of Research & Engineering:  
 Director—Edward E. Harriman.  
 Deputy Director—L. Rex Landis.



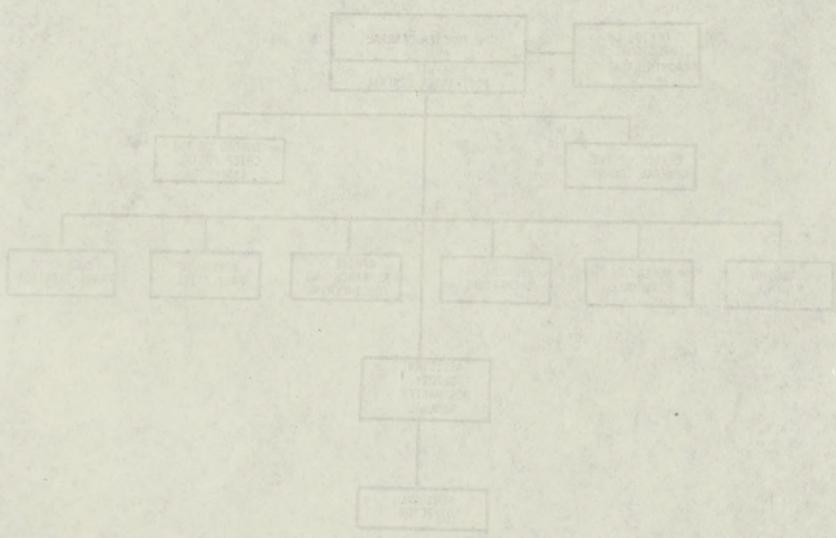
ORGANIZATION CHANGE—MARCH 1962 TO SEPTEMBER 1963

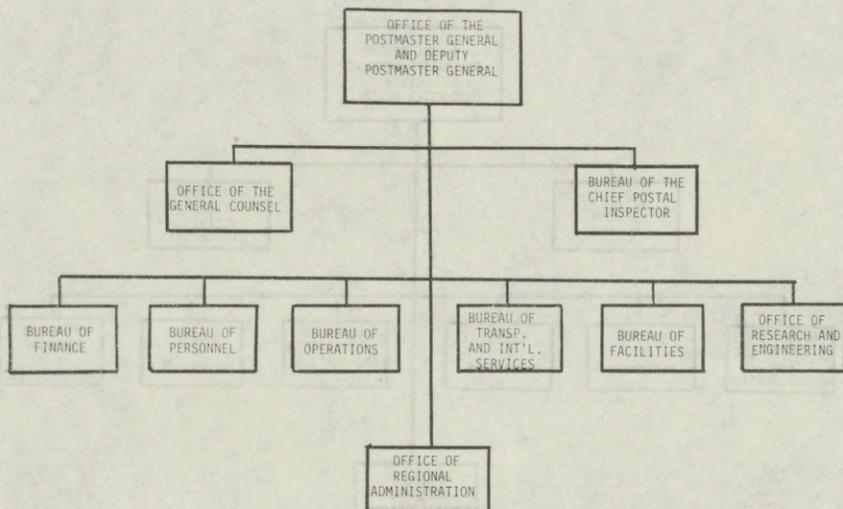
In November, the Office of Regional Management was transferred from the Office of the Deputy Postmaster General to the Office of the Postmaster General and was redesignated the Office of Regional Administration. This placed the Postal Field Service under the direct command of the Postmaster General. The bureaus and offices continued to provide functional and technical guidance to the field.

In May 1962 all functions of the Data Processing Methods Branch, Systems and Procedures Division, Bureau of Finance were transferred to the ADP Management Division which was established in the Office of Management Services. That Office was changed with the responsibility for development and technical direction of a Department-wide ADP Program.

March 1962–September 1963

- Postmaster General: J. Edward Day.
- Deputy Postmaster General: Sidney W. Bishop and H. W. Brawley.
- Assistant Deputy PMG: James R. Thomason.
- Bureau of Operations:
  - Assistant PMG—Frederick C. Belen.
  - Deputy APMG, Prog and Plan—C. H. Ryan.
  - Deputy APMG, Field Operations—A. C. Hahn.
- Bureau of Transportation:
  - APMG—William J. Hartigan and Frederick E. Batrus.
  - Deputy APMG—Frederick E. Batrus.
  - Deputy APMG—Christopher C. Scott.
- Bureau of Finance:
  - APMG—Ralph W. Nicholson.
  - Deputy APMG and Controller—L. H. Noble.
- Bureau of Facilities:
  - Assistant PMG—Sidney W. Bishop.
  - Deputy APMG—Amos J. Coffman.
- Office of Research & Engineering:
  - Director—Edward E. Harriman.
  - Deputy Director—L. Rex Landis.
- Bureau of Personnel:
  - APMG—Richard James Murphy.
  - Deputy APMG—Elmer Paul Brock and Richard E. Orton.
  - Deputy APMG—James J. LaPenta, Jr.
- Bureau of the Chief Postal Inspector:
  - Chief Postal Inspector—Henry R. Montague.
  - Deputy Chief Postal Inspector—D. D. Duggan.
- Office of the General Counsel:
  - General Counsel—Louis J. Doyle.
  - Deputy General Counsel—Harvey H. Hannah.
- Office of Regional Administration:
  - Director—Andrew E. Newton and David A. Bunn.





## ORGANIZATION CHANGE—SEPTEMBER 1963 TO APRIL 1964

The position of Assistant Deputy Postmaster General, Office of the Deputy Postmaster General, was abolished. The position of Executive Assistant to the Deputy Postmaster General was created in the Office of the Postmaster General.

The Bureau of Transportation was retitled Bureau of Transportation and International Services to more accurately reflect its functions.

The Office of Regional Administration was once again, given line authority over the regions.

## September 1963—April 1964

Postmaster General: J. Edward Day and John A. Gronouski.

Deputy Postmaster General: Sidney W. Bishop and Frederick C. Belen.

Bureau of Operations:

Assistant PMG—Frederick C. Belen and William M. McMillan.

Deputy Assistant PMG for Field Operations—August C. Hahn.

Deputy Assistant PMG and Patron Relations—Charles H. Ryan.

Bureau of Finance:

Assistant PMG—Ralph W. Nicholson.

Deputy Assistant PMG and Controller—(Vacant).

Bureau of Personnel:

Assistant PMG—Richard J. Murphy.

Deputy Assistant PMG (Personnel Administration) — Richard E. Orton.

Deputy Assistant PMG (Labor Relations)—James J. LaPenta, Jr.

Office of the General Counsel:

General Counsel—Louis J. Doyle.

Deputy General Counsel—Harvey H. Hannah.

Office of Regional Administration:

Director—David A. Bunn.

Bureau of Transportation and International Services:

Assistant PMG—William J. Hartigan.

Deputy Assistant PMG—Frederick E. Batrus and Christopher C. Scott.

Bureau of Facilities:

Assistant PMG—Sidney W. Bishop and Tyler Abell.

Deputy Assistant PMG—Amos J. Coffman.

Bureau of the Chief Postal Inspector:

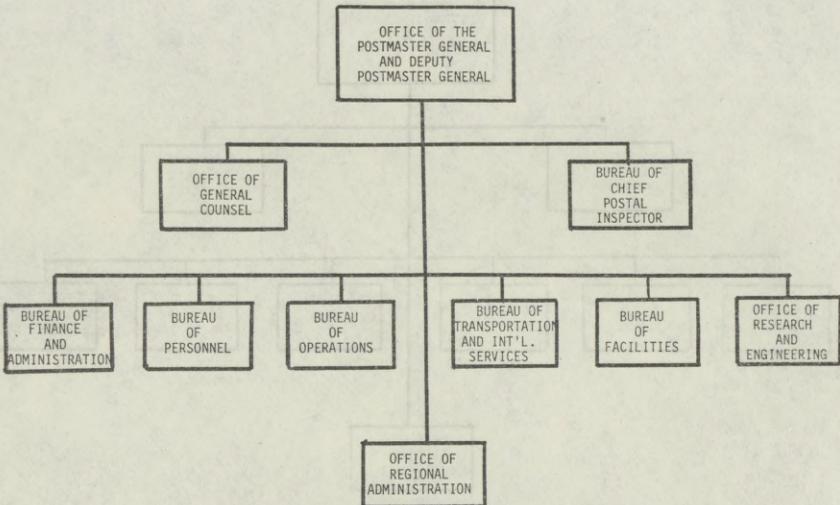
Chief Postal Inspector—Henry B. Montague.

Deputy Chief Postal Inspector—Donald D. Duggan.

Office of Research and Engineering:

Director—Edward E. Harriman.

Deputy Director—Norval W. Woolworth.



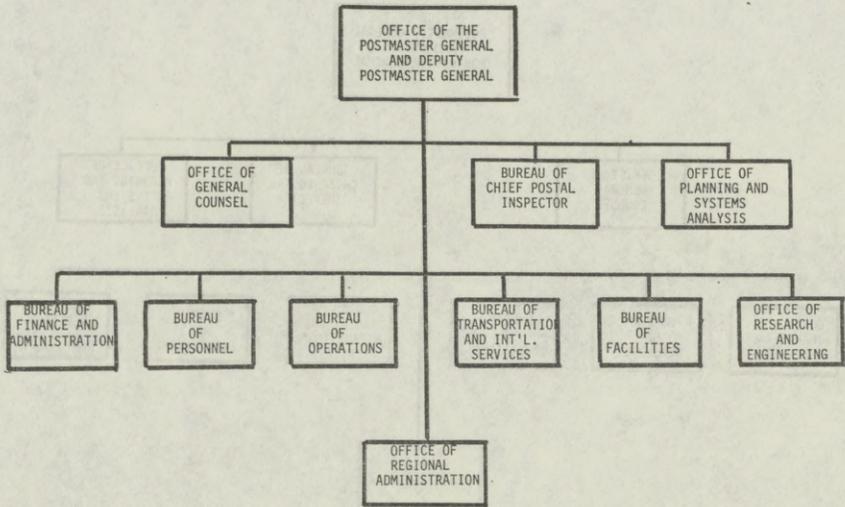
ORGANIZATION CHANGE—APRIL 1964 TO FEBRUARY 1966

In April 1964, the Bureau of Finance was changed to the Bureau of Finance and Administration. As a result of this change the Budget Division was divided into a Budget Division and a new Program Reports Division, the Office of Postal Economics was established; the Office of Statistical Programs was reorganized and transferred to the Deputy Assistant Postmaster General for Administration. The Cost Ascertainment Division and the Cost Analysis Division were reorganized and the Accounting Division was consolidated with the New York Postal Data Center; computer programming functions were consolidated and assigned to the ADP Management Division.

In May 1965, the Bureau of Personnel was reorganized into four areas: Office of the Special Assistant, Departmental Personnel Office, Industrial Relations; and Plans and Programs. Eight months later, however, the Bureau of Personnel was reorganized again.

April 1964–February 1966

- |  |   |
|--|---|
| Postmaster General:  | Deputy General Counsel—Harvey H. Hannah.                                    |
| Lawrence F. O'Brien.   | Office of Regional Administration:  |
| Deputy Postmaster General:   | Director—David A. Bunn and John P. Carter.                                  |
| Frederick C. Belen.  | Bureau of Personnel:  |
| Assistant Deputy Postmaster General:                                     | Assistant PMG—Richard James Murphy.   |
| James R. Thomason.   | Deputy Assistant PMG (Personnel)—Richard E. Orton and James J. LaPenta, Jr. |
| Bureau of Operations:  | Bureau of Finance:  |
| Assistant PMG—William M. McMillan.                                       | Assistant PMG—Ralph W. Nicholson.   |
| Deputy Assistant PMG for Field Operations—August C. Hahn.                | Deputy Assistant PMG and Controller—Eugene B. Crowe and James R. Thomason.  |
| Deputy Assistant PMG for Postmasters & Patron Relations—Charles H. Ryan. | Bureau of Chief Postal Inspector:   |
| Bureau of Transportation and International Services:                     | Chief Postal Inspector—Henry B. Montague.                                   |
| Assistant PMG—William J. Hartigan.                                       | Deputy Chief Postal Inspector—Donald B. Duggan.                             |
| Deputy Assistant PMG—Frederick E. Batrus and Christopher C. Scott.       | Office of Research and Engineering:   |
| Bureau of Facilities:  | Director—Leo S. Packer and Edward E. Harriman.                              |
| Assistant PMG—Tyler Abell.   | Deputy Director—Norval W. Woolworth.  |
| Deputy Assistant PMG—Amos J. Coffman.                                    |   |
| Office of the General Counsel:   |   |
| General Counsel—Louis Doyle and Timothy J. May.                          |   |

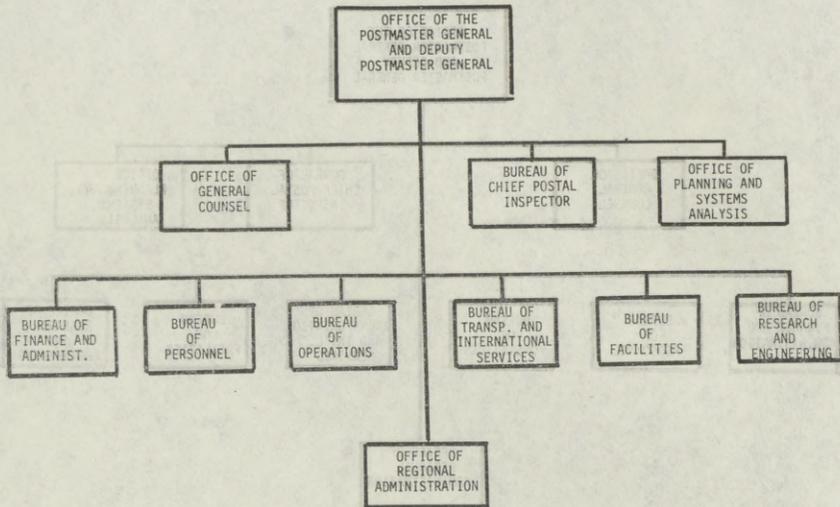


ORGANIZATION CHANGE—FEBRUARY 1966 TO JULY 1966

During the six-month period from February 1966 to July 1966, the Office of Planning and Systems Analysis was established; the Division of International Services was transferred from the Bureau of Transportation and International Services to the newly established Office of the Special Assistant to the Postmaster General for International Postal Organization; the Maintenance Division, Bureau of Facilities was recognized and a new Plans and Projects staff established; and the Office of Research and Engineering was completely reorganized effective May 19, 1966.

February 1966–July 1966

Postmaster General: Lawrence F. O'Brien.  
 Deputy Postmaster General: Frederick C. Belen.  
 Bureau of Operations:  
 Assistant PMG—William M. McMullan.  
 Deputy APMG, Field Operations—August C. Hahn.  
 Bureau of Finance and Administration:  
 Assistant PMG—Ralph W. Nicholson.  
 Bureau of Personnel:  
 Assistant PMG—Richard James Murphy.  
 Deputy APMG (Industrial Relations)—James J. LaPenta, Jr.  
 Office of Research and Engineering:  
 Director—Edward E. Harriman and Leo S. Packer.  
 Deputy Director—Vacant.  
 Bureau of Transportation and International Services: Assistant PMG—William J. Hartigan.  
 Bureau of Facilities:  
 Assistant PMG—Tyler Abell.  
 Deputy APMG—Amos J. Coffman.  
 Bureau of the Chief Postal Inspector:  
 Chief Postal Inspector—Henry B. Montague.  
 Deputy Chief Postal Inspector—D. D. Duggan.  
 Office of Regional Administration: Director—John P. Carter.  
 Office of Planning and Systems Analysis: Director—Ronald B. Lee.



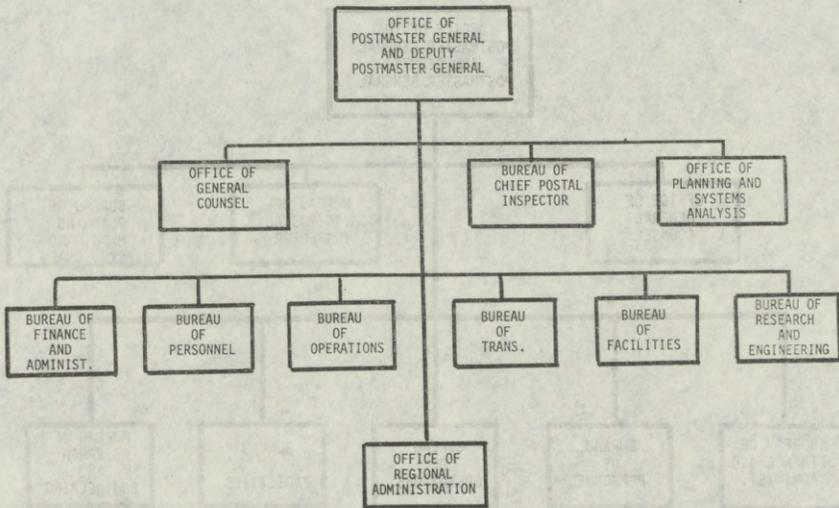
ORGANIZATION CHANGE—JULY 1966 TO NOVEMBER 1967

The importance of new postal technologies and methods was recognized with the elevation of the research and engineering function to Bureau status in July of 1966. The first Assistant Postmaster General, Bureau of Research and Engineering launched a major reorganization to strengthen research, development and engineering services in the Post Office Department.

In July 1967 an Equal Employment Opportunity Division was established in the Bureau of Personnel to administer the provisions of Executive Order 11246—to strengthen the Equal Employment Program. At that time the following organizational changes were also made. The Contract Compliance Division was established in the Office of the General Counsel, the Parcel Post Branch was established in the Bureau of Operations and the Office of Special Projects was abolished.

July 1966–November 1967

|  |  |
|--|--|
| Postmaster General: Lawrence F. O'Brien.   | Office of Regional Administration: Director—John P. Carter and Stanley L. Greigg.  |
| Deputy Postmaster General: Frederick C. Belen.   | Bureau of Facilities: Assistant PMG—Tyler Abell and John L. O'Marra. Deputy APMG—Amos J. Coffman.                        |
| Bureau of Operations: Assistant PMG—William M. McMillan.   | Bureau of Personnel: Assistant PMG—Richard James Murphy.   |
| Deputy APMG, Field Operations—E. V. Dorsey.  | Deputy APMG—James J. LaPenta, Jr.  |
| Bureau of Transportation and International Services: Assistant PMG—William J. Hartigan. Deputy APMG—Frederick E. Batrus. | Office of the General Counsel: General Counsel—Timothy J. May.   |
| Bureau of Finance and Administration: Assistant PMG—Ralph W. Nicholson.  | Bureau of the Chief Postal Inspector: Chief Postal Inspector—Henry B. Montague. Deputy Chief Inspector—Donald D. Duggan. |
| Deputy APMG and Controller—James R. Thomason.  | Office of Planning and Systems Analysis: Director—Ronald B. Lee.   |
| Bureau of Research & Engineering: Assistant PMG—Leo S. Packer.   |  |



## ORGANIZATION CHANGE—NOVEMBER 1967 TO APRIL 1969

Effective November 7, 1967, the Bureau of Transportation and International Services was retitled the Bureau of Transportation.

In early fiscal year 1969, certain functions of the Bureau of Operations were realigned. These changes involved the Installation Management Division, the Customer Relations Division, the Distribution and Delivery Division, and the Classification and Special Services Division.

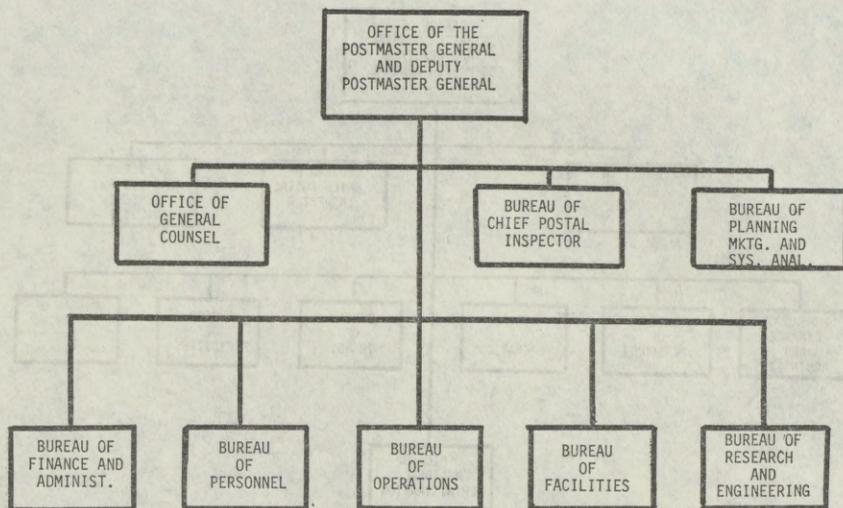
Another organizational change occurring during this period involved the Office of the General Counsel and a realignment of certain functions and responsibilities. In addition to functional changes, the Labor Standards and Ethical Conduct Office and the Office of the Special Assistant General Counsel were abolished.

November 1967—April 1969

|   |   |
|---|---|
| Postmaster General: Lawrence F. O'Brien, W. Marvin Watson, and Winton M. Blount.              | Office of Planning and System Analysis: Assistant PMG—Ronald B. Lee.                              |
| Deputy Postmaster General: Frederick C. Belen and E. T. Klassen.                              | Bureau of Personnel: Assistant PMG—Richard J. Murphy and Kenneth A. Housman.                      |
| Bureau of Operations: Assistant PMG—William M. McMillan and Frank J. Nunlist.                 | Deputy Assistant PMG—James J. LaPenta, Jr.  |
| Bureau of Transportation: Assistant PMG—William J. Hartigan and Frederick E. Batrus.          | Office of the General Counsel: General Counsel—Timothy J. May and David A. Nelson.                |
| Deputy Assistant PMG—Frederick E. Batrus and Charles A. McIntyre.                             | Deputy General Counsel—Harvey H. Hannah.  |
| Bureau of Finance and Administration: Assistant PMG—Ralph W. Nicholson and James W. Hargrove. | Bureau of Chief Postal Inspector: Chief Postal Inspector—Henry B. Montagne and William J. Cotter. |
| Deputy Assistant PMG and Controller—James R. Thomason.  | Deputy Chief Postal Inspector—Donald D. Duggan.   |
| Bureau of Facilities: Assistant PMG—John L. O'Marra and Henry Lehne.                          | Bureau of Research and Engineering: Associate PMG—Leo S. Packer.                                  |
| Deputy Assistant PMG—Amos J. Coffman.   | Office of Regional Administration: Stanley L. Greigg.   |

POST OFFICE DEPARTMENT

April 1969 to June 1969



## ORGANIZATION CHANGE—APRIL 1969 TO JUNE 1969

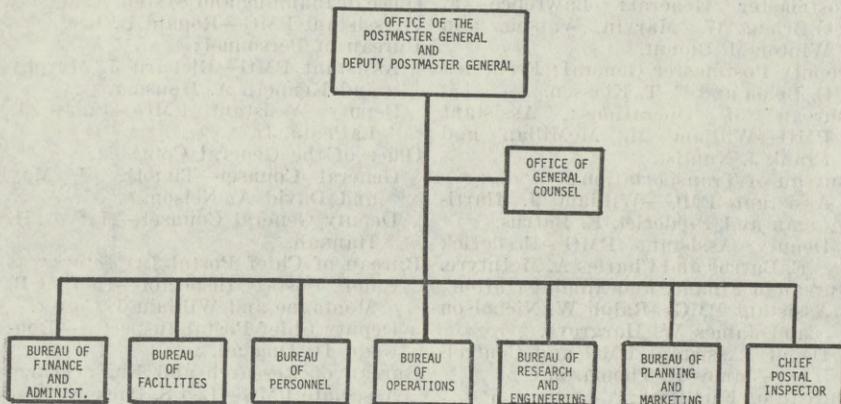
During the months of April and May 1969, the Bureau of Transportation was merged into the Bureau of Operations, and a new Bureau of Planning, Marketing and Systems Analysis was established. In addition, the Office of Regional Administration was discontinued, with responsibility for regional direction transferred to the Bureau of Operations.

APRIL 1969—JUNE 1969

Incumbents for the period "April 1969 to June 1969" are incorporated into the next incumbent organization chart.

POST OFFICE DEPARTMENT

June 1969 to July 1971



## ORGANIZATION CHANGE—JUNE 1969 TO JULY 1971

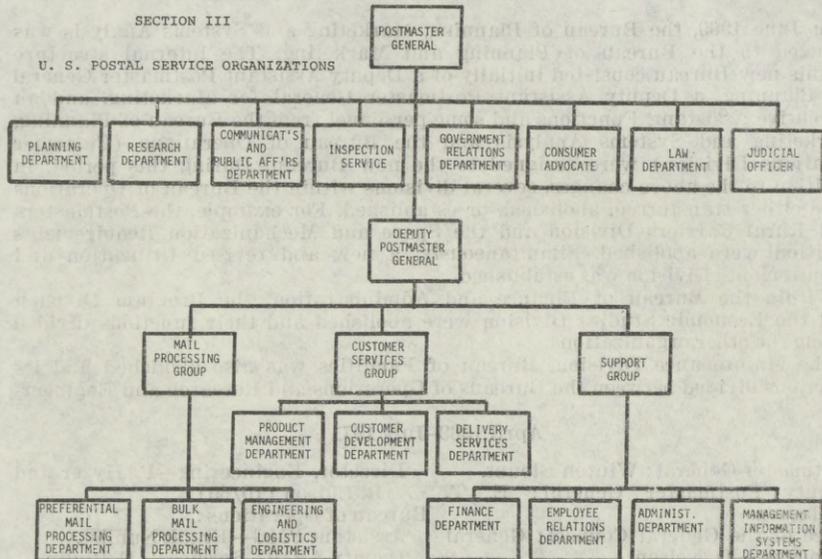
In June 1969, the Bureau of Planning, Marketing and Systems Analysis was changed to the Bureau of Planning and Marketing. The internal structure of this new Bureau consisted initially of a Deputy Assistant Postmaster General for Planning, a Deputy Assistant Postmaster General for Marketing, and an Executive Assistant. Functions and some personnel from the Bureau of Planning, Marketing and Systems Analysis and the Bureau of Operations (Customer Relations Division) were assigned to the new Bureau. During this period, in addition to the above changes, several divisions within the Bureau of Operations were either transferred, abolished, or established. For example, the Postmasters and Rural Carriers Division and the Space and Mechanization Requirements Division were abolished. Simultaneously, a new and revised Utilization and Requirements Division was established.

Within the Bureau of Finance and Administration, the Program Division and the Economic Studies Division were abolished and their functions divided among the other organizations.

The Maintenance Division, Bureau of Facilities was also abolished and its functions divided between the Bureaus of Operations and Research and Engineering.

## April 1969—July 1971

|   |  |
|---|--|
| Postmaster General: Winton Blount.                                      | Director, Engineering—P. Hyzer and R. Eidson (10/69).                            |
| Deputy Postmaster General: E. T. Klassen.                               | Bureau of Operations:  |
| Office of the General Counsel: General Counsel—D. Nelson.               | Assistant PMG—Frank Nunlist.   |
| Bureau of the Chief Postal Inspector: Chief Postal Inspector—W. Cotter. | Deputy APMG, Services—F. Biglin.   |
| Bureau of Finance and Administration: Assistant PMG—J. Hargrove.        | Deputy APMG, Logistics—C. McIntyre.  |
| Deputy APMG and Controller—J. Thomason.                                 | Deputy APMG, Operations—J. Josedale.   |
| Deputy APMG, Report and Contracts—A. Eden.                              | Bureau of Planning and Marketing:  |
| Bureau of Personnel: Assistant PMG—K. Housman and L. Gayle (1/71).      | Assistant PMG—R. Lee.  |
| Deputy APMG, Employee Relations—W. McBrayer.                            | Deputy APMG, Planning—W. Sullivan.   |
| Deputy APMG, Manpower Development—A. Moss.                              | Deputy APMG, Marketing—T. Donohue.   |
| Bureau of Research and Engineering: Assistant PMG—H. F. Faught.         | Bureau of Facilities:  |
| Director, Research and Development—D. Berry.                            | Assistant PMG—H. Lehne.  |
|   | Deputy APMG, Acquisitions—A. Coffman and V. De Cain (11/69).                     |
|   | Deputy APMG, Construction Engineering—Vacant (Sandlin Acting), R. Issacs (5/71). |



## ORGANIZATION CHANGE—JULY 1971 TO APRIL 1972

The major changes in June 1971 were the combining of Mail Processing and Logistics and Engineering into the Mail Processing Group. Personnel and Finance activities were combined under the Support Group. Delivery and Customer Services were brought together into the Customer Services Group.

## July 1971—April 1972

Postmaster General: Winton M. Blount and E. T. Klassen.

Deputy Postmaster General: Merril Hayden.

Planning Department: Assistant PMG—P. Carlin.

Communications and Public Affairs Department: Assistant PMG—J. Holland.

Government Relations Department: Executive Assistant—H. Albert.

Consumer Advocate: D. Ordway.

Research Department: Assistant PMG—D. Berry (Acting).

Support Group:

Senior APMG—J. Hargrove.

APMG, Finance Department—R. Gould.

APMG, Employee Relations Department—L. Gayle.

APMG, Administration Department—R. McCutcheon.

APMG, Management Information Systems Department—J. Kadow.

Mail Processing Department:

Senior APMG—H. Faught.

APMG, Preferred Mail Processing Department—Vacant.

APMG, Bulk Mail Processing Department—E. Brower.

APMG, Engineering and Logistics Department—F. Batrus.

Inspection Service: APMG and Chief Inspector—W. Cotter.

Law Department:

Senior APMG—D. Nelson.

General Counsel—L. Cox.

Judicial Officer: A. Wenchel

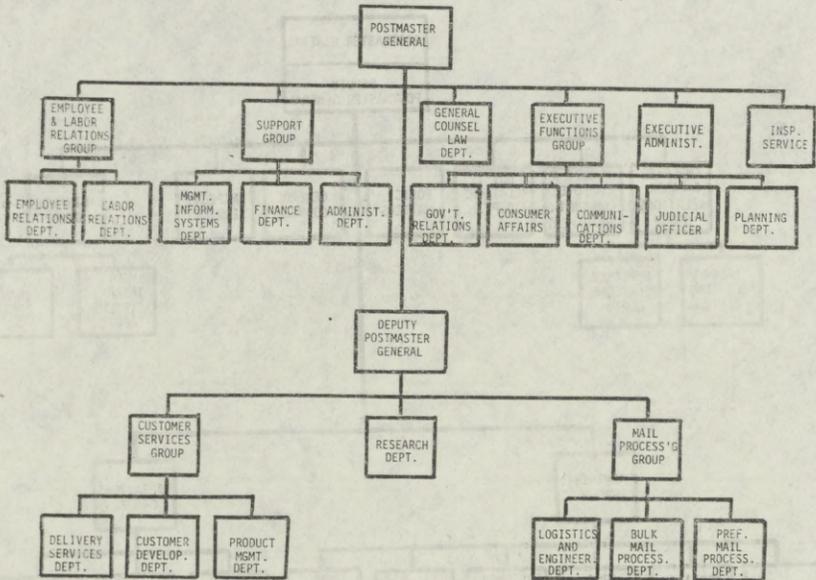
Customer Services Group:

Senior Assistant PMG—M. Baker.

APMG, Production Management Department—W. Dunlap.

APMG, Customer Deliveries Department—R. Lee.

APMG, Delivery Services Department—Vacant.



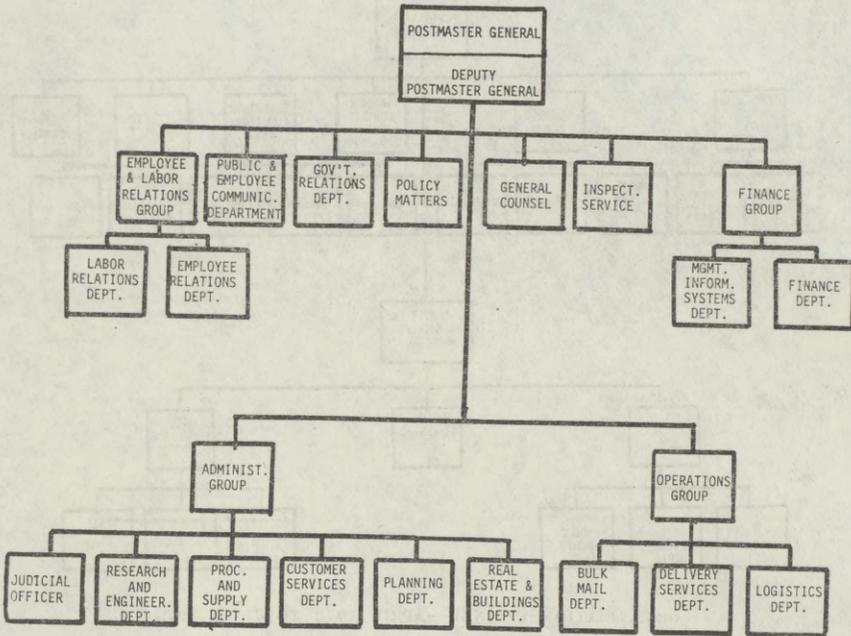
## ORGANIZATION CHANGE—APRIL 1972 TO JUNE 1973

The major changes included the establishment of the Employee and Labor Relations Group by consolidation of the Employee Relations Department and the Office of the Special Assistant to the Postmaster General for Labor; the creation of the Executive Functions Group to coordinate the activities of five departments formerly reporting directly to the Postmaster General; and the change of reporting relationship of the Senior Assistant Postmaster General for Support from the Deputy Postmaster General to the Postmaster General.

## April 1972-June 1973

Postmaster General: E. T. Klassen.  
 Deputy Postmaster General: Merrill Hayden.  
 Employee and Labor Relations Group:  
 Senior APMG—J. Blaisdell and D. Brown.  
 APMG, Employee Relations Department—L. Gayle and W. Eudey.  
 APMG, Labor Relations Department—L. Farrell.  
 Support Group:  
 Senior APMG— Benjamin Bailar.  
 APMG, Management Information Systems Department—J. Kadow and J. Gentile.  
 APMG, Finance Department—R. Gould.  
 APMG, Administration Department—R. McCutcheon.  
 Research Department: Assistant PMG—D. Berry (Acting) and A. Schneider.  
 Mail Processing Group:  
 Senior APMG—H. Faught.  
 APMG, Logistics and Engineering Department—R. Isaacs.  
 APMG, Bulk Mail Department—E. Brower.

APMG, Pref Mail Processing Department—W. Miller.  
 Customer Services Group:  
 Senior APMG— M. Baker/M. Comarow.  
 APMG, Delivery Services Department—F. Sommerkamp.  
 APMG, Customer Development Department—W. Dunlap.  
 APMG, Production Management Department—D. Ordway.  
 Law Department: General Counsel—L. Cox.  
 Executive Functions Group:  
 Senior APMG—P. Carlin.  
 APMG, Government Relations Department—H. Albert.  
 APMG, Consumer Affairs—D. Ordway.  
 Consumer Advocate—T. Chadwick.  
 APMG, Communications Department—J. Holland and R. Fitzpatrick.  
 Judicial Officer—A. Wenchel.  
 APMG, Planning Department—T. Ellington.  
 Executive Administration Department:  
 Assistant PMG—F. Batrus.



## ORGANIZATION CHANGE—JUNE 1973 TO JUNE 1974

The major changes for this period were the establishment of the Finance Group, Administration Group and the Operations Group. This combined the Bulk Mail, Delivery Services and Logistics Departments under Operations. Finance and Information Systems and the Judicial Office, Research and Engineering, Procurement and Supply, Customer Services, Planning and Real Estate and Buildings were placed within the Administration Group.

## June 1973—June 1974

Postmaster General: E. T. Klassen.

Employee and Labor Relations Group:  
Senior APMG—D. Brown.  
APMG, Employee Relations Department—W. Eudey.  
APMG, Labor Relations Department—L. Farrell and J. Gildea.

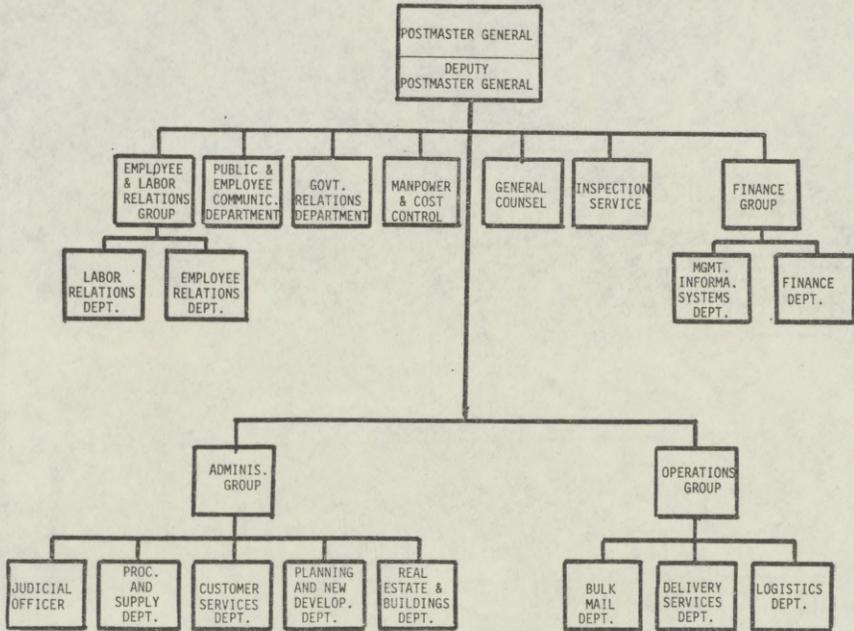
Administration Group:  
Senior APMG—B. Bailar.  
Judicial Officer—A. Wenchel.  
APMG, Research and Engineering Department—A. Schneider.  
APMG, Processing and Supply Department—R. McCutcheon.  
APMG, Customer Services—W. Dunlap.  
APMG, Planning Department—T. Ellington.  
APMG, Real Estate and Buildings Department—R. Isaacs.

Finance Group:  
Senior APMG—R. Nicholson.

APMG, Finance Department—R. Gould.  
APMG, Management Information Systems Department—J. Gentile.

Operations Group:  
Senior APMG—E. Dorsey.  
APMG, Bulk Mail Department—E. Brower.  
Director, Delivery Service Department—F. Sommerkamp.  
Director, Logistics Department—J. Jones.

Public and Employee Communications Department: APMG, J. Byrne.  
Government Relations Department: APMG—N. Halliday.  
Law Department: General Counsel—L. Cox.  
Inspection Service: Chief Inspector—W. Cotter.  
Policy Matters: Senior APMG—Murray Comarow.



## ORGANIZATION CHANGE IN JULY 1974

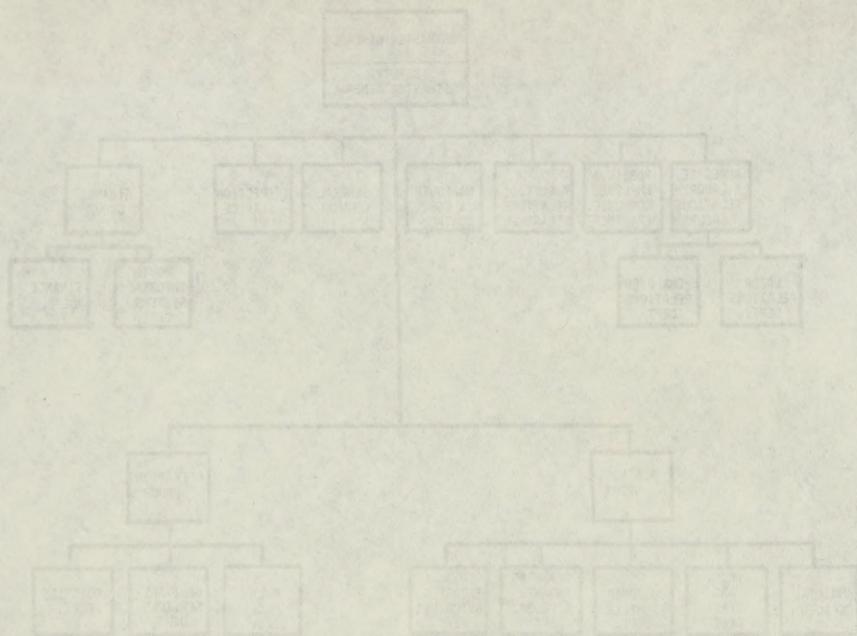
In July 1974 a Senior Postmaster General was selected for Manpower and Cost Control and the responsibilities of the previous Planning Department and some of the Research and Engineering Department were combined under the Planning and New Development Department.

July 1974

Postmaster General: E. T. Klassen.  
 Employee and Labor Relations Group:  
 Senior APMG—D. Brown.  
 APMG, Employee Relations Department—W. Eudey.  
 APMG, Labor Relations Department—J. Gildea.  
 Administration Group:  
 Senior APMG—B. Bailar.  
 Judicial Officer—A. Wenchel.  
 APMG, Planning and New Development—T. Ellington.  
 APMG, Processing and Supply Department—R. McCutcheon.  
 APMG, Customer Services—W. Dunlap.  
 APMG, Real Estate and Buildings Department—R. Isaacs.  
 Finance Group:  
 Senior APMG—R. Nicholson.  
 APMG, Finance Department—R. Gould.

APMG, Management Information Systems Department—J. Gentile.  
 Operations Group:  
 Senior APMG—E. Dorsey.  
 APMG, Bulk Mail Department—E. Brower.  
 Director, Delivery Service Department—J. Braughton.  
 Director, Logistics Department—J. Jones.  
 Public and Employee Communications Department: APMG—J. Byrne.  
 Government Relations Department; APMG—N. Halliday.  
 Law Department: General Counsel—L. Cox.  
 Inspection Service: Chief Inspector—W. Cotter.  
 Manpower and Cost Control: Senior APMG—C. Ulsaker.

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ORGANIZATION CHART FOR THE DEPARTMENT OF HEALTH AND HUMAN SERVICES

The Department of Health and Human Services was established in 1953 and is the largest of the executive departments. It is responsible for the health and human services of the Nation. The Department is organized into several offices and divisions, each with its own specific responsibilities.

- Secretary of Health and Human Services
- Assistant Secretary for Administration
- Assistant Secretary for Health Policy
- Assistant Secretary for Health Services
- Assistant Secretary for Health Statistics
- Assistant Secretary for Health Training
- Assistant Secretary for Health Research
- Assistant Secretary for Health Care
- Office of Health Services
- Office of Health Care
- Office of Health Insurance
- Office of Health Statistics
- Office of Health Data
- Office of Health Training
- Office of Health Education
- Office of Health Research
- Office of Health Evaluation
- Office of Health Care
- Office of Health Access