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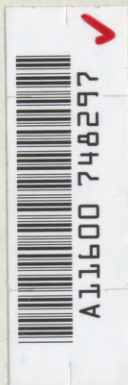
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POSTAL REORGANIZATION

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HEARINGS BEFORE THE COMMITTEE ON OFFICE AND CIVIL SERVICE UNITED STATES SENATE NINETY-FOURTH CONGRESS

SECOND SESSION

ON

S. 2844

TO AMEND TITLE 39, UNITED STATES CODE, WITH RESPECT
TO THE ORGANIZATIONAL AND FINANCIAL MATTERS OF THE
UNITED STATES POSTAL SERVICE AND THE POSTAL RATE
COMMISSION, AND FOR OTHER PURPOSES

PART 2

FEBRUARY 16 AND 20, 1976

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



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(II)



CONTENTS

CHRONOLOGICAL ORDER OF WITNESSES

MONDAY, FEBRUARY 16, 1976

Lynn, Hon. James T., Director, Office of Management and Budget; accompanied by Calvin Collier, Associate Director for Economics and General Government -----	Page 2
--	-----------

FRIDAY, FEBRUARY 20, 1976

Anderson, William J., Deputy Director, General Government Division, U.S. General Accounting Office; accompanied by John Landicho, Robert A. Peterson, and Thomas R. Colan-----	43
--	----

MATERIAL SUBMITTED FOR THE RECORD

Prepared statements of William J. Anderson-----	71, 83
Letter from Hon. Elmer B. Staats, Comptroller General of the United States, expresses favoring the provision in S. 2844 that establishes a Commission on Postal Service-----	94
GAO report: A Summary of Observations On Postal Service Operations from July to January 1976-----	96

(III)

CONTENTS

THE NATIONAL BUREAU OF INVESTIGATION

GENERAL INFORMATION

1. The Bureau of Investigation is a part of the Department of Justice, and is the principal agency for the investigation of crimes and the detection of criminals.

ORGANIZATION AND PERSONNEL

2. The Bureau is organized into a number of divisions, each of which is headed by a division chief. The divisions are: (a) Administration, (b) Criminal Investigation, (c) Identification, (d) Inspection, (e) Intelligence, (f) Laboratory, (g) Legal, (h) Planning and Statistics, (i) Training, and (j) Public Relations.

MAJOR INVESTIGATIONS FOR THE YEAR

3. The following are the major investigations conducted by the Bureau during the year 1934: (a) The investigation of the activities of the American Society for the Prevention of Suicidal Tendencies, (b) The investigation of the activities of the American Society for the Prevention of Suicidal Tendencies, (c) The investigation of the activities of the American Society for the Prevention of Suicidal Tendencies, (d) The investigation of the activities of the American Society for the Prevention of Suicidal Tendencies, (e) The investigation of the activities of the American Society for the Prevention of Suicidal Tendencies, (f) The investigation of the activities of the American Society for the Prevention of Suicidal Tendencies, (g) The investigation of the activities of the American Society for the Prevention of Suicidal Tendencies, (h) The investigation of the activities of the American Society for the Prevention of Suicidal Tendencies, (i) The investigation of the activities of the American Society for the Prevention of Suicidal Tendencies, and (j) The investigation of the activities of the American Society for the Prevention of Suicidal Tendencies.

(11)

POSTAL REORGANIZATION

PART 2

MONDAY, FEBRUARY 16, 1976

U.S. SENATE,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The committee met, pursuant to call, at 10:05 a.m., in room 6202 Dirksen Senate Office Building, Hon. Gale W. McGee (chairman of the committee) presiding.

Also present: Senators Hollings and Bellmon.

The CHAIRMAN. This session of the current hearings on postal problems will please come to order.

I want the record to show that the Senator from South Carolina, Mr. Hollings, and the Senator from Wyoming, Mr. McGee, and the Senator from Oklahoma, Mr. Bellmon, made a complete sacrifice by showing up on George Washington's birthday.

I think the greatest sacrifices that the morning paper carried by way of evidence is that there are several stores downtown that have some high class quality goods they are throwing away in spades for Washington's Birthday, and we are strapped here to our public responsibilities, and will not be able to avail ourselves.

Senator HOLLINGS. Did he not cross the Delaware on a Sunday?

The CHAIRMAN. I was at Hecht's yesterday, Senator.

We appreciate the Director of the Office of Management and Budget joining us this morning. It was not possible to open these hearings with him, because of other complications that existed at the time, but we tried.

In particular, Jim, we are interested to hear what you have to say, and where we go from here on this matter. We will follow your appearance with the appearance of Mr. William J. Anderson, representing the General Accounting Office, which has a very substantial and in-depth study and evaluation of the problem from their point of view, to present to the committee.

They advise me that they have been devoting about 45 manyears per year in residence at Postal Service headquarters, trying to come to grips with the problem, and we want to avail ourselves of their expertise as well.

The comments that you will share with us this morning, Jim, will be of very great interest to us, and tell us a great deal in regard to where and how we may proceed here. The role of this committee is to review and exercise the responsibilities as congressional oversight on the operations of the postal system.

The problem that brings us to the fore is the request of the postal system for additional funds due to a number of exigencies, and at least the suggestion from your shop that not only do they not need them, but they are not going to get them, and inasmuch as the Postal Service cannot operate with sufficient funds and they cannot shut down when they are short of funds, they have to keep going.

Jim, we are interested in what you will have to tell us about where we go from here. We did have the Postmaster General up here for intensive review the other day, and at considerable length.

It was his testimony on that occasion, when we pressed him very closely where corners could be cut, where the operation could be tightened in what ways, and how much he could reduce costs, that with the cutback of some services, a cutting of some corners, a tightening of some of the measurable operations—which are not as loose as all of the Postmaster Generals who were sounding off around the country would lead you to believe—and by adding all of those cost-control measures together he comes far, far short of defraying the operating deficits faced by the Postal Service.

Remembering that income in the Postal Service can be derived only three ways, either by raising rates, or by cutting back services, or taking it out of the tax rolls—receiving income from the Treasury of the United States.

We are hopeful that you will find, in your judicious approach to this, the suggestion of how you would propose the Postal Service would go about that.

Without any further introduction I shall let you proceed.

Do my colleagues have anything to say here at the opening?

Mr. Director, proceed in whatever way you prefer. It is not a very long statement. You may want to read it carefully so that we will be hanging on every word.

If you prefer to approach it in some other way, that is fine, but you are the boss.

STATEMENT OF HON. JAMES T. LYNN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET; ACCOMPANIED BY CALVIN COLLIER, ASSOCIATE DIRECTOR FOR ECONOMICS AND GENERAL GOVERNMENT

Mr. LYNN. Well, Mr. Chairman, I think the best thing I could do is to read it. It is very short.

The CHAIRMAN. Very well.

Mr. LYNN. It will also set perhaps members of the committee to thinking about questions as we do that.

The CHAIRMAN. We have already got them thought up.

Mr. LYNN. I am sure you do, but even perhaps some additional ones.

The CHAIRMAN. Somebody got me out of bed this morning about 6:45, some news type, asking what I thought about your statement. I told him I took a dim view of it at that particular moment.

Mr. LYNN. I appreciate the opportunity to appear this morning and discuss with you the state of the U.S. Postal Service.

Let me say at the outset that I believe these hearings which the committee has embarked upon provide a much needed public forum

for identifying the key postal issues, which in due course will need to be addressed and resolved.

I think that many people, who are quick to point out the faults of postal reform, fail to remember the serious condition of our postal system just a few short years ago. The old Post Office Department was beset by breakdowns in operations, inadequate supervision, low employee morale, terrible working conditions, poor service, and yes—a growing deficit.

Since reorganization there have been a number of changes, and progress has been made in many areas. The system of political patronage has been eliminated; employee working conditions and morale have been improved; and, on balance, the service provided now is better than that provided in 1970.

For a system which has undergone a radical transformation, during a period of economic stress, the Postal Service has accomplished a great deal. I believe that the test of time will bear out the foresight and expectations of those who were instrumental in bringing about postal reform.

There are a number of problems, however, which stand in the way of achieving the goals set forth in the Reorganization Act. Obviously, the continued mounting deficit in postal operations is serious and needs to be addressed.

The Postal Service's inability to achieve a balancing of its revenues and costs is the result of a number of factors, many of which are difficult if not impossible to control.

On the revenue side, the rate setting process has turned out to be slow, uncertain, and arduous. In addition, revenues have ebbed as mail volume has not met expectations.

The Postal Service's performance on the cost side has been even more disappointing. It has been hard hit by inflation and the higher costs of improved working conditions, increased wages, and other labor benefits. Productivity increases have lagged behind these benefit and wage increases.

These increased costs and lagging revenues have produced a series of consecutive deficits cumulating \$3.6 billion. Only through borrowing and drawing down of its equity has the Postal Service been able to close the gap.

Obviously, indebtedness is a stopgap. Ultimately, costs simply must be brought into line with revenues.

But the financial problems which currently beset the Postal Service are no reason for throwing-in-the-towel on postal reform. What is needed at this time is not a repudiation of basic goals or further stopgaps, but rather to chart and pursue a course toward an equitable and lasting solution of these problems.

The recently implemented postal rate increase has provided a reprieve from the financial crunch which faced the Postal Service last fall. Before we are faced with another similar situation, we should begin a careful consideration of the alternatives for placing the Postal Service on sounder financial footing. I believe that we have the time over the next 12 to 18 months to undertake such a review of alternatives.

One alternative is to reduce costs. Another is to increase rates. A third, of course, is to pursue some combination of these steps.

These actions might not be popular, but it is time to face the facts. One way or the other, the bills simply have to be paid.

Still another alternative approach has been advanced. Legislation pending before this committee would provide additional public subsidies to cover postal operations.

The administration opposes this approach for three reasons. First, it provides neither an answer to the underlying problem of rising costs nor any incentive to increase efficiency. Second, it is unfair to the country's taxpayers. Third, it obscures the true costs of postal operations.

The Postal Service's first priority should be to reduce costs. I am encouraged by reports that the Postmaster General is looking hard at existing services and ways of doing business in an effort to identify specific ways to cut costs and improve productivity. We are deeply troubled by proposals that would increase postal cost reductions.

Subsidies, in contrast, provide no incentives to postal management to face these questions. Can postal management be expected to achieve efficiencies and deal squarely with problems if they know that they can come back again to the taxpayer for more money?

Taxpayer subsidies are also inequitable. They require those who use the mails less to pay more than their fair share. Conversely, those who use the mail more are not required to pay for the services from which they directly benefit.

It is argued that there is a public service beyond the service received by those who use the mails, and that taxpayers rather than mail users should pay for this service. Somehow, we are told, the whole is greater than the sum of its parts.

The law already provides for large annual public subsidies to the Postal Service to pay for so-called public benefits. Without a much stronger showing that the public at large derives benefits approaching those that inure directly to mail users we can see no justification for further shifting the burden of postal deficits to the general taxpayer.

It is time to ask the hard questions. Would the public prefer to pay increased rates for the same or better service, or would they settle for less service at relatively lower rates?

Can we afford not to close marginal facilities?

Are we willing to forego the savings that would accrue from shifting to 5-day deliveries?

It seems to me that the questions as to how savings can be effected must be addressed soon if we are to escape the melodrama of stumbling from one crisis to the next.

With the number of delivery addresses increasing each year; with the level of demand for mail services lagging; and with the coming of new electronic communications technologies, we should also be analyzing the impact of these factors on the future financial viability of the Postal Service.

Should there be more investment in new technologies?

Should we be exploring new concepts of service?

Should the Postal Service be given further protection from private sector competition resulting from the application of new technologies, such as electronic funds transfer?

Is there a benefit to opening up areas of traditional service to private competition?

These are some of the other crucial questions which we need to address if we are to evolve a postal system which is responsible to society's needs in the future.

Mr. Chairman, I have not come before this committee with a handful of easy answers. Frankly, I do not think there are any easy answers.

Progress toward cost control may require time and some sacrifices. Certainly some further increases in postal rates seem unavailable. Keep in mind, however, that compared to mail rates in most other countries, our postal system is still a bargain.

As the Postmaster General has noted, customers in most industrialized nations pay much more to send a letter than people in the United States.

We must resist the temptation to sweep these problems under a rug that is already too lumpy. Perhaps more importantly we must measure any short-term actions against our long-term goals of improved communications at the least possible cost. What should the Postal Service look like 10 years from now?

Mr. Chairman, I would be happy to answer any questions which you or the committee may have.

I must say, Mr. Chairman, I brought with me Mr. Calvin Collier, who is my associate for Economics and General Government, and this area is encompassed within his authority within OMB, and I feel confident that where I cannot answer questions, we have at least a reasonable chance of Mr. Collier being able to at least help me be more definitive.

The CHAIRMAN. Welcome to the club Mr. Collier. It is, I think, perhaps the most exclusive club on the hill, made up of those who are stuck with the responsibility of trying to be responsible in our approach to this question.

The smallest clubs are those who have to take the 1,002 solutions and sort them out so we can live with the consequences. That is why I say you are welcome to a very elite group here this morning.

I notice that you remind us it is time to ask our questions, and we will agree with that, and I have been trying to do that. You raised a question: would the public prefer to pay increased rates for the same or better service, or would they settle for less service at relatively lower rates?

I can tell you the answer now, not my answer but the answers from all the experts that write me letters and send me telegrams, and the answer is no.

Mr. LYNN. You are right.

The CHAIRMAN. They will not pay higher rates, and they will not accept a cutback in the service.

Somehow there is a magic wand that somebody possesses here in town that is going to make both approaches possible simultaneously. There will be no increase in rates, and no cutback in service.

Mr. LYNN. And at the same time, Mr. Chairman, do not increase our taxes in order to keep rates down and maintain service levels.

The CHAIRMAN. We start there.

Mr. LYNN. Right, and at the same time do not reduce any other priorities in the Federal budget for other things that we collectively want to have as a Nation.

The CHAIRMAN. Those of us in the Congress find this out every year. Everybody wants us to be fiscally responsible, help the President balance the budget.

Do not forget they want us in Wyoming to take it out of New Jersey. They want us in South Carolina to take it out of North Carolina, and in Oklahoma I suppose they want to take it out of Texas.

We have to get down to the nitty-gritty, and we need more help than we are getting in projecting a public understanding of this complexity, and believe me, that understanding is not there, and we are not getting any help on it. We are not getting any help at all.

Mr. LYNN. And I really do think, Mr. Chairman, it is a matter of having the American people understand the Postal Service problem because I know you share my great confidence that if they do understand this issue, if people have made a real effort to communicate with them on almost any set of issues, whether it is overall budget, or overall taxes, or a specific problem of the Postal Service, the American people have a way of responding very well.

It is a difficult, complex area. I think the voices that are heard all too often are the ones who are stating that there is a simple solution, and as you say, this rather small group of people know that it is not simple at all.

We stand on the edge, it seems to me, of possibly making some decisions for the next 5 to 10 years that we could all regret 5 to 10 years from now if we are not careful.

The CHAIRMAN. I think of a simple solution that comes in every day in stacks of letters and that is if we just get rid of the chairman of the Post Office and Civil Service Committee somehow that will solve all our problems.

Well, it is very flattering to think of all the power that I have.

Mr. LYNN. We get similar mail, Mr. Chairman. I would say that I get that kind of mail with respect to the whole budget. It comes in little pieces from just about everyone, and as you say, they always see the other place that can be cut, but not themselves. Do not do as I do, but do as I tell you.

BUDGET MESSAGE

The CHAIRMAN. The budget message of the President, Jim, says that the Postal Service will have to explore ways to cut costs, and in that message he proposed three ways—first, a closing of marginal post offices, and I assume there that he is talking about the low population area post offices, and that alludes to some 12,000, mostly rural post offices that could be closed.

Second, he says reduce the overtime in the labor force.

Third, he says by transferring employees from overstaffed operations in areas into areas in short supply.

Now, take those three for starters. I mean they are specific recommendations. We asked those in charge of the post office downtown what the savings in each instance would be if we closed the 12,000 that are the most marginal post offices on the list, to start with that number, and that difference would be about \$100 million.

This is the testimony of the Postmaster General and his economic team that he had with him on costing these factors. If we would

reduce, he said, the overtime allowance under the present workload in the Postal Service, and reduce them severely this would save an additional \$300 million.

Finally, we asked him what room there was in the system for transferring surplus employees and some operations, and two or three of those are primarily in the East here, to areas where services were more urgently needed.

The best projection they could make for us on that with their computers was that it would save approximately \$207 million in savings in fiscal year 1977.

Now, in adding those together, that amounts to about \$600 or \$700 million. Now, that is a little bit short of what we are really talking about, and it suggests, if I may say so, either an unintended ploy in the budget message, or a cheap shot, and I say that very candidly, because what that does is tend to hold up the suggestion that here is the way we can now make this thing go, and you are still, without degrading those figures, you are still talking about peanuts.

I was wondering, given the projected budget deficit as of July of this year, I would correct your figure here, at least according to the best that the fiscal experts down there gave us, it amounts to \$3.1 billion instead of \$3.5 billion or \$3.6 billion, but about \$3.1 the 1st of July.

The cost-control procedures in the budget do not help us very much with this figure even so.

I am asking you then, sir, to take it from there. We just cannot ignore it. That money has to come from someplace, and where do we get it?

Mr. LYNN. Mr. Chairman, I think what the budget states is a report of what the Postal Service is doing.

The budget statements referred to did not try to take a set of priorities of things that could be done on the cost savings side and say these are the ones we favor or do not favor.

The language in the budget is, I believe, "it will continue to explore," and it refers back to the prior sentence, that the Postal Service is doing these things.

As indicated by the Postmaster General's testimony, I believe they are doing all of these things. They are exploring all of these matters.

I do not believe that he has, or I should say the Board of Governors has made decisions on any one or group of these cost reducing proposals.

Mr. Chairman, I have to say to you that the figures that we have received from the Postal Service, and I believe most of these figures are from them, are somewhat different from those mentioned.

Before I do that, though, as we said, we do believe that certain increases, some further increases in the postal rates are inevitable.

We are not saying that that is all that can be done on the cost side. But, for example, some figures that we have in no way indicates any kind of order of priority, nor necessarily suggest that particular items be implemented. But what we are saying is that these are matters that we know are being addressed by the Postal Service. Knowing that, we tried to get some estimates as to what would happen by way of savings if the Postal Service went ahead and implemented anyone of these measures.

Our figures show that the closing of small post offices would save about \$100 million. I think that was about the same figure that you had.

The CHAIRMAN. It is not my figure. That is the figure the Postmaster General gave.

Mr. LYNN. I understand, but it coincides with the report you gave.

Almost \$600 million from the more effective use of excess employees, which is quite a number; on better design of letter carrier routes, it is \$425 million. If they were to eliminate Saturday delivery it would be \$350 million, and special delivery was a small item of \$40 million. But with or without that one you are talking about \$1.5 billion in savings a year, if my math adds up right, and that is not to be sneezed at.

Mr. Chairman, that would be a significant amount of money, but I do want to emphasize two things. One of the reasons why we worked together, the Congress and the executive branch, in creating the independent Postal Service, was to try to develop a mechanism where a group of people, a board of governors, a head of an organization could work out relative priorities, conducted on a business-like basis, but still carry out the fundamental kinds of services that are necessary for this country.

Frankly, I for one would not want to direct the Postal Service management or even try to, even if we had the authority as to the specifics of the kinds of things that they do to create efficiencies in their operations. I think that is a function for them to do.

I am concerned, on the other hand, though, that if we do get into a rhythm of increased appropriations for the Postal Service, the edge of looking hard at the efficiency, the edge of bargaining hard for improvements in their lot on the cost side can be taken away.

The CHAIRMAN. Now, this committee and the House committee, the GAO, have all been riding hard on the Postal Service to try to move faster on their cost cutting operations.

They have made a number of changes in that regard, Jim.

Mr. LYNN. And they have made some good ones.

The CHAIRMAN. It does not add up to the dimensions that give us an easy way out. That is really what they are telling us.

We checked again on this because of the PMG, who incidentally has his first anniversary today, that is his appointment to the delightful position that he occupies, and it is perhaps doubly fitting that we are here, and we want to give him a chance to get his feet wet, and get going, and get on with the job.

The Postmaster General has been able to do that in his report back to us. We asked him to run through again after his testimony, to sharpen their pencils on their estimates of the three particular items mentioned in the President's budget.

So you see, you cannot isolate any one of these categories, and that was his point. The moment you tamper with one, you are going to affect the other, and therefore, what I think you may have contributed to in your totals was that you were examining each one as though it was a separable item alone in a vacuum.

Then you project a figure on it when, in fact, some of those spill over. When you save on one you increase on the other slightly, and even then you come up very much short of the deficit we have that worries you, and certainly is of deep concern to this committee.

You have not helped us out of this very much, Jim. By July 1 we have to have more money, and you have not told us where we are going to get it.

Jim, you suggest we can save \$1 billion. But our problem is to keep the Post Office open and going, and that apparently is not going to happen. If we do not get more help down there from the Office of Management and Budget, and what it is willing to validate as a target, it will be difficult to get from Congress the affirmative action needed.

Mr. LYNN. Well, first of all, Mr. Chairman, let me state it once, and make it very clear.

The CHAIRMAN. Do not make it perfectly clear.

Mr. LYNN. You notice I said "very clear." There is not anybody in OMB that is going to suggest action that is going to result in the Post Office closing down even for 1 day.

We cannot have that in this country, Mr. Chairman. I think Mr. Bailar testified himself it is not like some piece of machinery you can shut down operations for maintenance and repair, and we certainly agree with that totally.

Our issue, of course, or our job, is to explore very, very carefully what is needed. The Postal Service budget is different because our relationship is not the same by any means as it is with some within the Federal Government, although I do not think we ought to look at our position that way. The question comes up, as with other budgets we look at, whether they do need more to get through this period immediately ahead, and if so, in what manner.

If they were to require more, should it be in outright grants, or should it be in borrowing authority?

I do think in looking at Mr. Bailar's testimony, when you look at a large part of the deficit they have run, and analyze it carefully, as I know you have done, and I believe you have said a good part of it is because the rate increases did not come in when they asked for them, you will find that as a consequence, during even a 6-month period in fiscal year 1976, it created tremendous deficits. If the rate increase had been given 6 months earlier those deficits could have been avoided, Mr. Chairman.

Hopefully, we have had a situation where it is akin to a shakedown cruise in the sense that you have a new vessel here, the Postal Service.

It was a massive undertaking to move the Postal Service from being a government agency in the regular sense to having the kind of independence that this statute intended for them.

This requires both the Rate Commission and the Postal Service itself to have on-the-job training. I think we have since seen both the Postal Service itself and the Rate Commission go through a learning process here, Mr. Chairman.

Since the Rate Commission has come up with some ideas as to the kind of information that they feel is required from the Postal Service and others to set rates, I would hope for example that this would help collapse the time necessary for rate decisions.

POSTAL RATES

The CHAIRMAN. You realize, that the bill pending before the committee is a composite of many provisions.

The Rate Commission was an innovation in the original bill, and was put in for one reason basically, and that was to take the Members of Congress out of the ratemaking business.

With all due respect to the 535 or so Members of Congress, there is not a 1 of us that knows beans about the intricacies of setting rates.

It really is a very intricate process in terms of trying to preserve equities all around and still make an adjustment in the costing factors.

We dare not let the ratemaking process revert back to the Congress. Congress will not take the time, does not have the time, and it in general lacks the expertise for doing so for those two reasons.

There are suggestions in the bill before us, worked out with the Commission through their experience, of trying to update and modernize it in ways that now will be helpful.

The sum of it is that I would hope that we do not have to go to the rate route very shortly here, because we have just been through a rate adjustment in first-class mail, and all of us would have wished there were some better alternative, because nobody likes postal rate increases.

Nonetheless, you have to do the best you can to try to meet the costing factors.

TWO-MONTH DELAY

One of those factors, if I may say so, in all candor, is the White House. I do not mean just this White House, but I am speaking of the White House as an institution.

Now, let me be specific. When the preceding Postmaster General was in charge, and your predecessor I think was still presiding over the budget in an attempt to try to meet the costing requirements for that year, there was a pending request for a temporary rate adjustment back in those days.

I think that was from 8 to 10 cents, and an arbitrary decision was made at Christmas time that they would not allow the 10-cent stamp to go in on January 1. It was delayed until March 1974.

Well, it had to be because of the concern over the political shock, and it was delayed until March, and then it was allowed by the White House to go into effect.

The cost of that 2 months was \$215 million additional deficit.

Now, that was the White House's input in terms of trying to help us to meet these costs.

One Postmaster General called up here plaintively a number of times saying: "The President will not see us. The President will not see us." So he asked them to assign somebody at the White House where they play a game of musical chairs. This week it is this fellow that is in charge, that is trying to keep the Post Office out of the President's hair, and the next month it is somebody else trying to keep him out of the President's hair.

Now, sir, you do not have the responsibility for this, but you are part of the White House. You are there with the guidance that you must put in.

If the White House is going to play that kind of game, we can do the dirtiest thing of all, and that is give them the whole damn Post Office, just dump it in their lap, and you tell them that.

Let me say, sir, there has been no cooperation from the White House. There has been no cooperation, except to try to get us all to join in

some kind of a compromise proposal to get a new kind of postal system.

Old Gale McGee got patted on the head, and old Hiram Fong got patted on the head, and one or two who were still leery of going that route, and at the moment there are serious shortcomings.

It is suddenly dumped, through these tactics, back in our laps, and we are just not going to take it.

Mr. LYNN. If I may respond, Mr. Chairman.

The CHAIRMAN. That is my sermon for this morning. I am through. In fact, I have exhausted my 10 minutes. My timekeeper here says I have exceeded my 10 minutes by double, and we try to operate on the 10-minute rule in this committee.

We can now begin the 10-minute rule, now that I am through.

Mr. LYNN. It is rare the congregation gets an opportunity to respond to the sermon, but I would like to break that normal rule.

Let me say, first of all, and Cal here tells me, as you said, I was not here during this period you make the claim of 2-months delay.

The CHAIRMAN. That is no claim. That is in the record.

Mr. LYNN. But it may be wrapped up in the Cost of Living Council, and the wage and price control mechanisms at that time, and I just do not know one way or the other, but I do suggest that this may be worth looking into.

I can say during this period of time that the President of the United States has not directed, and he cannot under the law, as I read the law, nor has he made an effort to influence Ben Bailar's judgment.

I have been in at least one meeting with the President, and the President's comments to Ben Bailar, when he was reporting what was going on with the head of the Board of Governors present was, "Ben, you have to do what is best, and what is right," and that has been his attitude throughout.

Now, by way of liaison, I have to say to you that there was a little confusion for a while as to whether it was the head of the Domestic Council, or whether it was me. I am the fellow, and Ben knows that now, and we are trying to work together.

I have to say to you that now that we have got the budget crunch behind us, as my wife says, 3 months, when I went into total hibernation as far as the family was concerned, that we expect to spend more time together.

Cal here, on the other hand, has been spending appreciable time with the staff, and I think that will continue, because there is this interplay of the budget, appropriations, and so on, where we do have a real legitimate role in knowing what the demands are going to be on the U.S. Treasury as we move along.

No one is trying to keep Ben off the back of the President of the United States, believe me.

On the other hand, I have to say to you we do not want to have a situation where partisan politics gets into the situation and interferes with running the Post Office the way it ought to be run. I think we should be advised. We have a legitimate role to play by way of appropriations or budget requests, but that is it.

We also can be asked our views, as we are here, or by the Postal Service, as to what ought to be done. But those can be recommenda-

tions, they can be asking questions, and helping Ben feel his way through a minefield, which he really has got here.

Let me just add one other thing. I am very impressed by Mr. Bailar. I think he is doing a first-class job in a very rough situation.

One of the things that makes his job so rough, in my judgment, is trying to forecast what the future holds by way of substitute methods of communications, and their effects on the Postal Service, and as he says, the vicious cycle that you can get into, of having raised rates result in less demand, increasing your per-unit costs.

That is a very difficult situation, and to the extent that we can help him in that regard, we want to do so.

Believe me, there is no interference by the White House with the Postal Service, and we want to have good communications with the Postal Service.

The CHAIRMAN. We are fortunate to have on this committee by coincidence, because they were here first, in both cases, two members of the new Budget Committee of the Senate also, and they share with you the kinds of responsibility that goes with that.

They are here as members of this committee today, and working behind them and hanging over their heads is their responsibility as members of the Budget Committee.

Senator Hollings?

Senator HOLLINGS. Thank you, Mr. Chairman.

Mr. Lynn, I am trying my best to determine what you really conceive to be the relationship of OMB with the Postal Service.

We might start out by asking some questions. You do not conceive your statement here as partisan politics?

Mr. LYNN. Pardon me, sir?

Senator HOLLINGS. You do not conceive of your statement before this committee as partisan politics?

Mr. LYNN. No, I do not.

Senator HOLLINGS. Or anything else you have decided or done as the Director of the Office of Management and Budget?

Mr. LYNN. Do I, as Director, get into partisan politics?

Senator HOLLINGS. Right.

Mr. LYNN. The answer is yes, I do.

Senator HOLLINGS. You do get into partisan politics?

Mr. LYNN. Of course I do. I get into partisan politics in the sense I am the spokesman for the President, and I go out and try to communicate with the American people as to what his views are on a given subject, what his proposals are.

Many times they hit head on with proposals that have been made from the other party, and to that extent it is partisan politics.

Senator HOLLINGS. So then you would not give any directions?

Mr. LYNN. I also go out and make speeches to partisan affairs.

Senator HOLLINGS. Well, you really resist giving any instructions to the Postmaster General, because that would be partisan.

Mr. LYNN. Not at all.

Senator HOLLINGS. Just tell the committee. That is what I am trying to fix in my mind, your view as a matter of principle and policy as to what the function of OMB is with respect to that Postmaster General.

Mr. LYNN. I think that our principal responsibility with respect to the Postal Service is to see from a financial standpoint what demands can properly be made on the budget of the United States with respect to the Postal Service. That is our No. 1 issue.

To the extent that an adequate appraisal of that issue requires a look at what management is doing in the Postal Service, looking at how management can cut costs, the overall efficiency with which the Postal Service is run does have a bearing on the degree to which there may be a call upon public funds.

Senator HOLLINGS. Well, now, that is the point.

In your questions here you have not given us much assistance as to how management can cut those costs.

Everybody knows the old ritual, you either increase the rates, or you cut back the services, or Congress gives a subsidy, but the President believes in efficiencies, and that there can be more efficiencies, in fact, in November when he had a briefing with respect to the Postal Service he approached it like New York City, like a bad boy to be given a whipping.

He goes on to say we used to have a plan in the old postal system, very end, either by gosh curtail the functions, or adjust rates, one way or the other.

My question is, do you believe that?

Mr. LYNN. I do not recall where he said that, sir.

Senator HOLLINGS. Well, sir, the question was asked, and I will just take a minute here.

Mr. LYNN. Where was it?

Senator HOLLINGS. This was at the White House, a briefing with respect to the MPA executives, and Kent Rhodes was asking, I am fairly familiar with the figures you quoted, and he is talking to the President on the Postal Service. He says I know by the end of the year in 1976 they will have a debt of \$2.5 billion, which is more than it has ever been in debt before.

He goes on to say we used to have a plan in the old postal system in the old Post Office. Under that system the Federal Government contributed about 17 percent over 25 years of all postal expenses, 17 percent of all postal expenses were paid by the Federal Government. Now it is down to about 10 percent.

My question is, is it clear to you that service will have to be cut back unless the Federal Government contributes more to the Postal Service?

Well, the President answered, and I quote:

I think based on the statistics that you have given here the answer would have to be yes, but I am not at all convinced that they cannot increase their productivity, can improve their utilization of facilities and people to close some of that gap, and so rather than just accept the mathematical difference, I think there is a mistake on our part. We do that too often in Government. We do not do it in business, because you cannot get away with it, and I just do not accept that they are doing as well as they should be doing. We have to prod them just like we are prodding New York City, to improve their efficiency productivity. If they can show real meaningful progress we certainly will take a look at it, but if we do not keep the pressure on them, you know how things operate in Government, and that is one of the basic problems in New York City. Nobody really put the screws on them until this year, and now they are faced with reality.

I think the Post Office Department management and labor has to face up to that reality here, as well as New York.

Timothy May asked a question. If the Federal Government is not ready to pay for public service costs, or if the Government simply cannot afford that, then do you believe the Post Office Department is going to have to cut out, or curtail those functions they perform that they cannot pay for themselves?

The President answered, "Either that, or adjust rates."

Do you see what I mean? Do you agree with that statement?

Mr. LYNN. Yes; I do not think there is any inconsistency between that statement and the statement I gave.

Senator HOLLINGS. Well, I cannot find any of these efficiencies in here.

I have a lot of questions, I mean as far as you say, now that you have taken over, there is no question there was a difference, and a lapse in there with respect to communication and coordination that at one time perhaps it was the head of the Domestic Council, but there is no doubt about it you are the man for the White House in charge of the Postal Service.

I was just wondering why you had not focused on some of these efficiencies rather than asking all of these questions. What should the Postal Service look like 10 years from now, and all those other things.

What are we going to do come July?

What is your testimony?

Mr. LYNN. Well, Senator, I think there is a distinction between a situation where an organization knows that it must achieve efficiencies, and an outside group, whether it is OMB or somebody else telling them specifically you must do so and so.

First of all, that is not in keeping with the statutory makeup under the Reorganization Act.

As the chairman said, we outline in the budget some of the things that we know from our own communication with the Postal Service that they are considering.

I think Ben Bailar himself has under consideration, and has already made some decisions.

There have been some closings, I believe, of smaller Post Offices on a regular schedule throughout the United States.

The CHAIRMAN. Except in South Carolina, Wyoming, and Oklahoma.

Mr. LYNN. Is that right?

Senator HOLLINGS. That is not correct.

Go ahead.

The CHAIRMAN. That is facetious.

Mr. LYNN. Yes, sir, I hear that.

It seems to me that if you have a professional running that organization, if you do have a Board of Governors, which it does have, that is supposed to bring an expertise from various areas to bear, they are the ones that on the specifics should identify the opportunities, and put them into effect.

Now, if push comes to shove, and we do not think they are doing enough, and they come to us for the money, of course, we will tell them that, but it seems to me while Ben Bailar has been trying to get a handle on this in the course of the last year, and of course, today is his anniversary day, but at this point to say to him you should do this, you should do that, and you should do this would be a great mistake.

I think what we should do is gage whether or not the PMG is making progress in the identification of his opportunities for savings, whether on a reasonable timetable he is putting those into effect that he and the Board of Governors decides should be done.

If they do not come up with something that looks like a reasonable package over a period of time, we would feel free if they come to us for money, to criticize things they have or have not done.

I do not think at this particular point we are at that stage.

Senator HOLLINGS. Heavens, where are we? We are either going to have to put up \$1.3 billion or else.

Now, that is exactly where we are.

We have been asked in Congress for this increased amount. I guess that is the purpose of this hearing, and you are the money man, and you are the one to criticize, as you say, yourself, when they come asking for money, then some of these efficiencies can be effectuated.

That is just what I am asking about. All of these are nice questions to run around the bush, but should there be more investment on technology, should they be exploring new concepts?

After almost 5 years we have had this runaround the bush, and I believe the Congress and the White House have been derelict in their duties in oversight, just between you and me.

I think we ought to be doing a better job. We were always told over in the Congress to give them a better chance, and now we have a new Postmaster General, to give him a better chance, but specifically, what kind of efficiencies?

What kind of costs can be cut?

He is asking for more money, and you say it is your duty to criticize.

Now, what is the criticism? You say just do not give them the money.

Is that your testimony?

Mr. LYNN. No. What I am saying is, looking at what he has in mind, of the things they are looking at, by way of opportunities for savings, and looking also at what they also have in mind with respect to the rates for the future, the present rate that they have, and at least their preliminary stages of looking at rates for the future, that we want to get a better look at whether or not there is the kind of shortfall that we need help on now, and if so, how much, and in what form.

We are not convinced at this point that they need that \$1.3 billion for the period that is ahead. Our people are working with them. Our people are working with them on their cash flow, under various sets of assumptions, to see whether or not there is something that they need, and in what form.

We do not believe the right way to do this is to give just an out-and-out grant of \$1.3 billion. What happens in another year or two from now by way of grants?

I have to say to you that I have lived with operating subsidies in prior incarcerations in the Federal Government, and when you get to subsidies, whether they are given periodically, on a regular basis, or given in lump sum, every so often it really does take the edge off of taking a hard look at a business, as to conducting it better, and saving money, or improving your cash flow across apart from the subsidy.

Senator HOLLINGS. So if the Congress were to enact a subsidy, you would recommend a veto of the \$1.3 billion, is that right?

Mr. LYNN. Senator, I would want to see what you advocate.

You are saying \$1.3 billion?

Senator HOLLINGS. Right.

Mr. LYNN. I would say to you at this point I could not recommend to the President that that was needed at this particular point.

If Ben could come to me and prove the need I will approve whatever money is necessary to keep the Postal Service going.

The CHAIRMAN. If you approved it, the Congress would have no relevance, is that it?

Mr. LYNN. If he did prove it to the Congress, the same proof would satisfy us.

Senator HOLLINGS. But you do not have that proof now?

Mr. LYNN. We do not believe we have that proof now.

Senator HOLLINGS. So what would you recommend? We know we had this problem here, and you are the man for the White House now to oversee the Postal Service.

The CHAIRMAN. As a matter of fact, I got a bill in, and Senator Hollings, before we can check off on this bill we have to get a checkoff from OMB. You take a position on everything.

Mr. LYNN. We have to take a position on every bill, that is right.

The CHAIRMAN. So if you are checking off on those things, you are certainly looking at the \$3 billion that the Postmaster General says he needs.

What do you think he needs?

Mr. LYNN. Well, we do not believe he needs \$1.3 billion.

Senator HOLLINGS. What do you think he needs then?

Mr. LYNN. I think at least, based on the figures we have now, and we are continuing to work with him, that there may be no need for additional moneys, but if there is a need, it is not anywhere near \$1.3 billion.

Senator HOLLINGS. Am I led to believe that that decision is going to be made in the next 30, 60, or 90 days?

I get the idea that you are studying this thing. Is that a fact?

Mr. LYNN. Indeed, and we have been for a number of months.

Senator HOLLINGS. When would a conclusion be reached?

Mr. LYNN. Cal, where are we now?

The CHAIRMAN. June 30, I suppose.

Mr. COLLIER. Senator, the No. 1 point, I think, is the deficit.

The CHAIRMAN. \$3.1 billion is the deficit.

Mr. COLLIER. That is cumulative. I think that that is what the number refers to.

They have accumulated some deficits in past years that did not result in Federal funding, as you know. That is how they got the accumulation as high as it is.

We have set up a study, cooperating with the Postal Service, but it is mostly internal OMB to get further information on the financing question.

I should add, on the financing question, although we are aware that their projections do forecast a deficit, they have not made a formal request to cover the deficit with additional funding through the appropriations process.

Until that request is made, of course, we do not have a formal request to study in that respect.

We do have the legislation which authorizes various amounts of money.

Senator HOLLINGS. Let me get this through my mind.

BUDGET DEADLINE

The CHAIRMAN. Is not the deadline sometime in the spring that you have to submit the budget?

Senator HOLLINGS. We have to have everything by March 15, reported out by April, and adopted by the Senate and the House by May 15.

It has to be in that budget, and we are looking at it, and I missed it when the distinguished Postmaster General was here, but I heard him asking for more money.

You are taking the position that no request has been made?

Mr. LYNN. It is clear that Ben has been asking for the \$1.3 billion.

Senator HOLLINGS. Now, the White House knows of that request?

Mr. LYNN. We know of that request.

Senator HOLLINGS. All right.

Mr. LYNN. Now, wait a minute. He has not requested money of us.

Senator HOLLINGS. Oh, excuse me, then.

Mr. LYNN. He has not, but we know of his request.

Senator HOLLINGS. You and I.

Mr. LYNN. We know about it in the speeches.

As a matter of fact, Ben told me about it the day he, or the night before he gave the speech, where he said he wanted it.

Now, we have been, since then, working with him with respect to that, with respect to what his needs are, and I would go back to what I said before.

Based on what we have so far from them, we do not believe that he has made a case that they need the \$1.3 billion to prevent the thing that all of us are going to prevent, which is even having the Postal Service shut down for 1 day.

Senator HOLLINGS. Mr. Lynn, when do you propose that determination will be made by the Office of Management and Budget, as to whether he really needs it?

You say right this minute here, February 16, you just really have not made up your mind yet, am I correct?

Mr. LYNN. That is correct.

Senator HOLLINGS. But you will make up your mind, and my question is when?

Mr. COLLIER. Well, I do not believe we foresee at this point making a decision on the matter before the time that the Budget Committee must make their determination. That would be within the next couple of months.

I think that we have embarked upon an effort to determine what the long and the short range problems of the Postal Service are, but I do not believe that will be done for 4 months or so.

Senator HOLLINGS. Four months?

Mr. COLLIER. Approximately 4 months.

Senator HOLLINGS. So it will be 4 months before you really reach a decision.

Mr. COLLIER. Yes. I have heard the comments this morning, that the Postal Service might not be operating on July 1.

I must say I had not heard that before. I have not heard it from the Postal Service, from the standpoint of their cash flow situation.

Senator HOLLINGS. What is the cash flow situation, Mr. Collier?

Specifically, are you not aware that they are now financing their operational costs?

Mr. COLLIER. They are paying the bills as the bills are becoming due.

Senator HOLLINGS. They are actually borrowing money.

Mr. COLLIER. Yes, sir, they are paying part of the bill.

Senator HOLLINGS. They are borrowing money to pay the operational costs. They have accumulated \$3 billion or more in accumulated deficits.

In order to keep it operational they are asking for \$1.3 billion, and you folks are just studying it, and you are asking the Congress, or you did last November, to promise way ahead how much in cuts we are going to have.

You folks are in charge of the fiscal affairs of this Government. You appoint the Postal Rate Commission.

Did you ever prompt them to expedite their findings?

Mr. LYNN. I did not, and we did not.

Frankly, had I called the Postal Rate Commission and urged them to expedite their findings with regard to it I probably would have been on the front page of every newspaper in America for tampering with an independent, regulatory proceeding, and we have become very sensitive downtown over the years as to even picking up the phone and having a conversation with somebody on a regulatory commission.

Senator HOLLINGS. Do you recommend the change in that law?

Mr. LYNN. In what respect?

Senator HOLLINGS. To allow him to do the job.

Mr. LYNN. We have said in letters we have written on the House side that we would work with the committees in both the House and the Senate to review and pose changes of the Rate Commission's statute.

Now, you have had some very useful testimony here, and letters, and we would like to sit down and work with you as to possible changes.

I am concerned on the other side. I am for expeditious treatment, but on the other hand, I have seen how expeditious treatment can end up with some bad decisionmaking.

I would hope that having been through the rate process now two times, one way or the other, that now there is a working relationship that will tend to speed up beyond what we have had before.

The CHAIRMAN. A 10-month cutoff period—

Mr. LYNN. I understand that, but what I am saying is that we have had enough experience to cast whatever changes in the law we have in a way that does not ram down a decision making time for them.

I think they can act much quicker than they did on the prior ones. I feel that way strongly, and when we look at that accumulated deficit, when we look at the deficits they have been running, and as explained by Mr. Bailer's testimony himself, a good part, in fact, the major part of that deficit was caused by slowness in the ratemaking process.

Now, let us go to your budget process this year. If we had felt that they needed \$1.3 billion in order to continue to give Postal Service, during a reasonable period of time, to address with you people, and us, the issues that I raise, the questions that I raise there, we would have requested that money.

We do not believe that that money is necessary now. We do believe there is additional time, and we would hope that the budget committees would come to the same conclusion, and the authorizing committees, and the appropriations committees so we could look at where this thing is going during the long term.

I have to say to you that I would like to have some easy answers here today, but the particular thing that is bothering me at the moment, among many other issues, but the particular one is this one of demand for the services, and what is going to be happening to the demand, and what does that mean by way of competition from other sectors, what does it mean as to service across the Nation.

Because I happen to believe, yes, you have to have the Postal Service, and should have it in every place, and that we must reconcile various things but we do not believe that the Postal Service needs the money now.

We do not like the deficits they have been running, but we do believe there is going to be an improvement of their services if we all take some additional time to address this issue.

Senator HOLLINGS. Well, I want to yield to my colleague from Oklahoma, but it just seems to me that you do admit the function now of analyzing that deficit.

You are the Director of the OMB, and you should be analyzing that deficit, and we in the Congress are going to have to analyze the entire Pentagon budget, just within the Budget Committee, Senator Bellmon and myself, within the next 6 weeks.

It seems with that vast resource you have over there seeing as they have to finance operating costs, they have accumulated deficits, and an immediate need for \$1.3 billion in their own request before this committee, and we are going to have to find it one way or the other, and why you cannot find any quicker than the 4-month period, and I have talked to the chairman about continued oversight hearings, and looked at fundamental long range policy, and that is a different thing, but there is a fiscal problem facing this committee, and we are going to have to vote aye or nay, one way or the other, and we have to make up our minds, and you have not made up your mind, and you will not make it up for 4 months, is that true?

Mr. COLLIER. Mr. Chairman, we are aware at some point during the year there might be such a showing.

One of the reasons that we have felt that the legislation was not necessary at this time was that there seems to be in the existing statute—at least our counsel has advised us, at least the Postal Service agrees there is in the existing statute—authority to accept appropri-

tions during the transition period, which in our view runs through 1984. So if it became necessary at some point in response to these forecasts, it would be possible without further authorization, in our view, to provide an appropriation. But we have not reached the point where we are convinced that that is necessary.

That is one of the reasons why we feel the legislative approach is not essential at this point with regard to the action that the Congress takes.

Senator HOLLINGS. Well, I will just have to comment, and I do not want to emulate the chairman in a lecture, and take that much time, but I definitely get the feeling, Mr. Lynn, from your statement here, and the questions running all the way around, well, we can just take and use my whole 10 minutes about the service provided now is better than provided in 1970.

Nobody in America believes that.

Mr. LYNN. Whether they do or not, sir, I think the facts show it. What do they handle, 51 billion pieces of first class mail a year.

The CHAIRMAN. Down from 90 billion three years ago.

Mr. LYNN. But if you take even a one or two percent problem area, a one percent problem area, take the number of people out there that get mail that have a problem on that 1 percent of the total pieces, that is a lot of first-class mail headed your way, and our way, and the President's way, and Ben Bailar's way, most assuredly.

The only thing you are going to hear about are the complaints. It is a little like being with OMB. When we agree to an amount of funding, you do not hear anything about that. It is only when you disagree with the funding, and Ben Bailar hears, and we hear, and the President hears only where there are things that have been involved in a rate, but the service is better than it was in 1970, and they have made real progress.

Senator HOLLINGS. Well, I will only comment that thought that I gained from your testimony where you recommend nothing, that is you are not only not doing the job, but you do not have any idea of doing it at the executive level.

That is what disturbs me, because by the time we determine your responsibility, you say I will be partisan, or I would be on national TV if I recommended anything.

If that is the case, maybe we ought to change the basic law, but we are not doing anything about it here, and you are not doing anything about it over at the White House, and that is exactly the condition of the Postal Service today, no one is doing anything about it.

Now, that is very disconcerting to me, because the service is going down, and as a result those pieces of mail are going into private categories, and otherwise, and costs are going up, and with all the fiscal problems confronting us, your testimony is you are going to engage in a study, and 4 months from now hope to have a recommendation.

That does not help the committee very much that has to make a decision here in the next 2 months.

Mr. LYNN. But, Senator, we are saying to you you do not have to make a decision within the next 2 months.

We are saying there is authorizing legislation on the books now, that if the results of that study shows that the Postal Service needs additional money, a request can be made for appropriations at any

time within the next 3, 6, 9 months or 1 year, whatever it is, without the legislative committee taking any action whatsoever.

Senator HOLLINGS. They can make the request, but if it is not within that budget after the first and concurrent resolution, it would be virtually impossible to pass the Congress.

Mr. LYNN. Senator, let me reply to that.

Look at the first resolution, and what will happen in between, and I will make a wager now there will be other initiatives between the first and second resolution this year. There always are. There always have to be.

There are always unplanned contingencies that arise, and the Budget Control Act makes provision for those, Senator.

The time it really becomes binding is after the second concurrent resolution. That does not mean there is not a discipline with the first resolution. There is.

As you know, as an expert knows, and that does not prevent you from seeking other appropriations, where there is an urgent appropriation.

Senator HOLLINGS. Thank you, Mr. Chairman.

The CHAIRMAN. I just want to put on the record, as a supplement to Senator Hollings' line of questioning here, that we have not been biding our time. We have been working at this question.

We did not wait for you to get up here to testify, even though you were the first one invited.

Mr. LYNN. On that, Mr. Chairman, as you know, we are in the middle of the budget, and Congress wanted the budget 2 weeks early this year, and we had a current services budget to do.

The CHAIRMAN. But you are avoiding what has happened, Jim.

In the meantime, we have had the Postmaster General here, with the best expertise he could command, to take a reading on it. He said there are lots of things we are working on.

He is confident they can cut corners, but the point he makes, and I quote, "In view of our present financial crisis, additional temporary funding for the Postal Service is vital."

Mr. LYNN. When?

The CHAIRMAN. Vital at the beginning of the next fiscal year, October 1, 1976.

Now, we have the in-depth, umpteen-hundred-page study by the GAO, broken down into many fine categories.

The burden of their summary judgment is, the need is very real for the increase in subsidy on a temporary basis.

"Without such assistance," and I quote from their report, "this independent agency of the Federal Government, the Post Office, could find itself insolvent before the end of fiscal 1976." That is July 1 next. And in view of the deficit the Service already faces, the agency underscores the urgency of this allowance.

Now, you give us the additional expertise. We have gone through the best the Post Office can do in terms of making these estimates.

We have gone through the official arm of investigation of the Congress, the GAO, and they come up with similar recommendations.

They do not fault you on long-range projections, but between now and the next fiscal year, somebody, I almost said has to bite the bullet, though that is not a good phrase any more, but somebody has

to, and I can guarantee you that the Congress will have a great difficulty authorizing an additional appropriation if the White House does not budget it. We are not going to get caught in playing that game again.

We don't want to be kicked around as being big spenders, so we are asking you to level with us.

Mr. LYNN. We are leveling with you, Mr. Chairman.

The CHAIRMAN. You are ducking.

Mr. LYNN. No, we are not. We are not requesting the funds now, because we do not think they are needed now.

The CHAIRMAN. But you cannot tell us why they are not needed now, or where postal expenditures can be reduced.

We have to go on where the valid record is, and we have made an effort to arrive at that. In some areas we can agree with you. There are some cutbacks that can be made.

In the short range, these bills have to be paid, or the threat of insolvency is there, and that is the reason that Senator Hollings and Senator Bellmon, and the rest of the Senators have to be responsible on this issue, even though they may have the authorization to exceed that, they still have a budget ceiling, or are we going to have a big TV extravaganza downtown about how the Congress broke the President's budget again?

Well, let me say to that that we are getting fed up with it. We are asking for a leveling, and to take your share of the responsibility with us. We are trying to be honest about this question, and you are making it very difficult.

Mr. LYNN. Well, Mr. Chairman, the President, and we in OMB have leveled with the Congress on unpleasant issues.

The CHAIRMAN. I am confining it to the Postal Service.

Mr. LYNN. I would say, asking for money for defense is not something most people like.

We asked for more money for foreign aid, and most people do not like foreign aid, but we feel we have a national responsibility to ask for it, so that as far as responsibility is concerned, I think we take our share.

We also asked to cut some things that are near and dear to the hearts of a lot of people, and interest groups in America, and we get the letters and the correspondence on that, and that is where we get our name from time to time, as the "abominable no-man" downtown.

As far as responsibility is concerned, I think we show we take that responsibility.

Now, we think the responsibility here is to not ask for more money of the Congress of the United States, where the need for it has not been proven.

Cal Collier here has sat down with the people from the Postal Service, has tried to get justification on the number they have given, and at least as yet we do not have it.

When we look at their capacity with respect to borrowing, when we look at the cash flow that is coming in, yet we do not see that they have this need, at least they do not have it now. When we see that need we will be here, and we will ask for money. I applaud your stating that you are not going to give money where we have not asked for it in the budget.

I only wish I could get the Congress as a whole to go along with that kind of cooperation with the Administration, and we are not asking for the money. Since we are not asking for the money, we would hope that you would not appropriate, I mean signaling in your committee report that the money should be appropriated.

Senator HOLLINGS. Mr. Chairman, would you yield?

The CHAIRMAN. That is irresponsible, if I may say so. We have the record, based on investigation—the best we have available—that additional funding is needed. I do not know that you have something better, but maybe you have a secret there that we have not learned yet, and we need to know it very soon because the time is running out.

Senator HOLLINGS. Mr. Chairman, that is exactly what we are asking.

You say Cal has sat down, and you have been given the figures, and they do not warrant the need. That is what we want in your statement, not all the long-range questions how the Postal Service will look 10 years from now.

We have a financial difficulty now, but for right now you say you have been given some figures, or they do not hold water, or you do not agree with them.

Mr. COLLIER. Senator, what I was saying earlier is we have not been given a request for additional money.

Senator HOLLINGS. I though Mr. Lynn said he was given additional figures.

Mr. COLLIER. They have not attempted to justify it with additional money for fiscal year 1976, or fiscal year 1977, with the exception of the extended phasing subsidy, which was requested for fiscal year 1977.

There has not been, to my knowledge, and it would have come right across my desk if one did come in, a request for additional appropriations in fiscal year 1976 or 1977, for the Postal Service.

There has been a lot of discussion of legislation and what type of legislation might be appropriate.

The CHAIRMAN. Would you be willing to ask them for a request?

Senator HOLLINGS. Mr. Collier, would you write them a letter, and say I understand you are hanging around on Capitol Hill asking for \$1.3 billion?

Mr. COLLIER. There is no question I will pursue with the Post Service why they are asking the press and everybody else for money, and not the OMB.

The CHAIRMAN. The Chair rules that the Senator from Oklahoma has as much time as the chairman and Senator Hollings combined.

Senator BELLMON. Mine will be brief, Mr. Chairman.

Mr. Lynn, you stated on page 2 the deficit is \$3.6 billion, and in the budget for fiscal 1977 on page 297, you include the figure of \$1.458 billion for the Postal Service for fiscal 1977.

What will the accumulated deficit be at the end of fiscal 1977 if that amount of money is forthcoming?

Mr. COLLIER. I will have to provide that for the record.

Senator BELLMON. Are you anticipating spending an additional increment?

Mr. COLLIER. An additional increment to the deficit.

Senator BELLMON. In other words, this figure of \$1.458 billion is going to result in an additional deficit to the Postal Service in fiscal 1977, your budgeting deficit.

Mr. COLLIER. I believe that is correct, but I will provide that for the record, if you choose. I do not have the budget figure with me.

Mr. LYNN. No; the Senator is just asking a question. Cal, if we budget the amount that we show in this budget, what kind of additional deficit will they have for 1977?

What I would have to say to you, Senator, is that part of the review, if we are going to have a request which we have not had for \$1.3 billion to go into appropriations, what we will do is provide that kind of number to you.

I do not want to overstate this, that they have not called us, and therefore we have not done any work on it.

We have done some work, but it helps to get a regular process going that comes about from somebody saying to us we want to put in the budget of the United States another \$1.3 billion, and here is our request for money.

Senator BELLMON. You had to do some work to get this figure in the budget, and you should know what is left in the deficit, if this amount is forthcoming.

How much did you budget?

Mr. COLLIER. It is our estimate at the present time that in 1977 there will be slightly over \$1 billion additional deficit. Of course, this is a figure that we estimate, because for example, mail volume may be different.

The CHAIRMAN. \$1 billion.

Mr. COLLIER. Yes, sir.

The CHAIRMAN. That is without any input between now and July?

Mr. COLLIER. In fiscal year 1977, which begins October 1 and runs through the following September 30.

The CHAIRMAN. I want to make sure we are clear on that. It is a deficit of \$1 billion for fiscal year 1977?

Mr. COLLIER. Yes.

Senator BELLMON. So we have a deficit of \$3.6 billion, and we know it is going to be another \$1.3 billion, and you are budgeting an additional \$1 billion for fiscal 1977, right?

Mr. COLLIER. No. My figures would show \$4.6 billion.

Mr. LYNN. We included in our \$3.6 billion the TQ, so the transition quarter is \$3.6 billion.

Senator BELLMON. But the testimony shows that there is another \$1.3 billion that the Postal Service needs now before the end of this fiscal year. Mr. Chairman, that is in addition to the \$3.6 billion that Mr. Lynn cites in his statement.

Mr. LYNN. No; I do not think so.

The CHAIRMAN. It is my understanding that that \$1.3 billion is what they need between now and July 1 in order not to increase the deficit, even as they address themselves to their debt problem over the next 2, 3, or 4 fiscal years.

Senator BELLMON. Well, now, here is Mr. Lynn's statement, on page 2, where he says these increased costs have produced a series of consecutive deficits yielding \$3.6 billion.

Mr. LYNN. I should have been more specific. That means \$3.6 billion through the transitional quarter of September 30, 1976.

Senator BELLMON. So your figure includes the \$1.3 billion?

Mr. LYNN. Yes, sir.

The CHAIRMAN. And the fiscal year changeover, which comes in a later time this year, that is technically an error, I said July 1, because I am a creature of the old budget system, like changing your checks when January 1 rolls around.

Senator BELLMON. Mr. Lynn, my question is: Why do we not provide enough money in the budget, that is, the Postal Service budget? If they are \$1 billion short, why do we not go and pay it now, rather than add it to the deficit?

Mr. LYNN. It seems to me to do a bookkeeping entry with respect to taking taxpayers' money and pay it over to the Postal Service to wipe out accumulated deficits through the transitional quarter, without our working together as to where we want to come out as to long-term strategy of the Postal Service, as to what it should be doing, is not the way to go about it, that we should not do that piecemeal, and that would be a piecemeal approach.

Now, if it does end up that the Postal Service does not have the money under the given tools, that it needs to pay its bills, then something has got to be done about that, but that is a different story from wiping out accumulated deficit.

You can have a private company and private industry that has accumulated deficit, but that does not mean that that business is not going to continue.

It shows that on a historical basis it has been losing money, but that does not mean that the business cannot continue.

Those are two different concepts. Now, we are all going to see that the business continues. There just is not any doubt about that, but I think to take a cumulative deficit as showing any indication as to what, if anything, is needed to assure its continuance, during a given period of time, is the wrong way to approach the problem.

Senator BELLMON. After OMB gets its study completed and has the facts in hand, will they then propose an orderly way of retiring this deficit?

Mr. LYNN. I would think when we have as good a feel as we have, and believe me there will not be any fewer answers as the chairman was saying, that we will address the subject of retirement of the \$3.6 billion as to where, how much and over what period of time, and whether or not that is done by contributions from the Federal Treasury or whether to the extent all of it or part of it comes from its operations over an extended period of time.

But the fact that it has a deficit at a given moment, it seems to me, should not be the decisionmaking focus as to whether or not we should seek appropriations for additional moneys at this time.

Senator BELLMON. Then, as far as your testimony is concerned, as far as the Budget Committee is concerned, as far as this committee is concerned, the figure we should put in fiscal 1977 budget is the \$1.458 billion for the Postal Service?

Mr. LYNN. Yes, sir.

Senator BELLMON. And we should put nothing else in?

Mr. LYNN. That is right.

If, as we do the studies over the course of the months ahead, and I know Ben is anxious to work with us in this regard, and we want to work with him, that if we find that there is some money necessary to take care of that short-term period, of course we will request it.

In a way it is a little similar to the FEA, if I can use an example. The Energy Act was passed in the very end of the last session.

Now, with that act being signed in January, we have a job now working with the FEA as to how much more money we are going to have to put into the budget to take care of their problem. We know in that case that some more is going to be necessary. That is the difference.

Senator BELLMON. Mr. Lynn, we all know this is a Presidential election year.

You anticipate we will get that request for more money before or after the election?

Mr. LYNN. I would suspect—I would know if we come to the conclusion in the months immediately ahead that we need the money then, we will get the request in, and the election will not have anything to do with it.

Senator BELLMON. Within 4 months?

Mr. LYNN. Cal, how long will it take?

Mr. COLLIER. When we finish our review, we will decide if funding is necessary. If funding is necessary, we will propose it posthaste.

Senator BELLMON. You will finish the review in 4 months?

Mr. COLLIER. Yes, sir.

Senator BELLMON. How soon after the review is finished will we have the request?

Mr. LYNN. If the study and the review showed that more money was necessary, I would hope that the internal clearance processes could be expedited.

Within the executive branch of Government, an expedited treatment in that regard would probably be within a couple of weeks. I have to say to you, having been in government now for 7 months, to make promises in that connection is taking your life in your hands.

The CHAIRMAN. Is it not more likely to be November 3?

Mr. LYNN. I would not think so, sir. And by that I do not mean to be cute.

The CHAIRMAN. You have been around here and we have been around.

Mr. LYNN. I would certainly hope within a month, say, after the study is completed we would be in a position to request the money if the study showed the money were necessary. In fact, I would hope it would be a lot quicker than that.

I have had some reviews that you can get done in 72 hours, because everyone agrees on it within the executive branch.

On the other hand, if you run into objections as to how the study was done, and people within the executive branch do not concur with the way we did it, then it can take you longer, to go back either and satisfy them, or they satisfy us that the study was or was not done correctly.

Senator BELLMON. Mr. Chairman, if it takes 4 months for the study, 2 weeks for clearances, this means we would have the information about July 1.

Mr. LYNN. Somewhere in there, yes, July-August.

The CHAIRMAN. Senator Hollings.

Senator HOLLINGS. Mr. Chairman, thank you.

Mr. Lynn, referring again to your statement on page 5, where you say, "Certainly some further increases in postal rates seem unavoidable."

Now, the succeeding witness—and I will give you his statement and you can comment in writing to the committee, if you will, the GAO, which is prepared to testify, saying that the service today is not as good as it was before postal reorganization.

Mr. LYNN. All I can say on that, Senator, is that we look upon our relationship with GAO as being very good. We agree a good part of the time, but it has been known in the past that we have had disagreements with GAO. And I would hope that that would in no way affect our working relationship with them.

Senator HOLLINGS. Well, it is not so important how well you get along, but how wisely we appropriate and legislate. I do not care if you do not get along at all.

Mr. LYNN. We both would like to help in this regard.

Senator HOLLINGS. Listen to this statement:

We believe it is clear that the Postal Service needs financial relief that would be provided by the bill. The Agency is in severe financial straits. It foresees a need in the coming months to borrow as much as \$500 million to meet its operating expenses over and above the \$1 billion already borrowed for this purpose. The Service is in deficit position. Its future ability to service its growing debt is subject to question.

Now, taking this in context with your statement that further increases in postal rates seem unavoidable, are you going to be recommending—we only had a rate 2 months ago, I think, go from 10 to 13 cents in December—are you going to recommend a 16-cent or 17-cent postage stamp later this year?

What is your recommendation?

Mr. LYNN. First of all, I think, to divorce the issue from rate increases from the overall study would be wrong. But I will say to you that from what we have by way of our information that they probably will need some additional rate increases. We say we believe that that is probably inevitable. How much and when—and when—is something I would like to reserve judgment on this morning.

"When" is as important as "how much" because that gets into cash flow requirements for that money. I have to say to you I am concerned about further rate increases and would want to look at them cautiously as part of our overall appraisal because there is this problem of the demand going down if the rate goes up, and could affect unit costs.

Ben was very right in saying that that is something we have got to look at carefully. I will have to stand on my statement that we believe that, at some point, the question of time and how much, that some increases in rates are inevitable. Even if there is some increase, as I say, compared to at least the other countries of the world that are in industrialized positions, we still have a lower rate than every country, I believe, except Canada at the present time.

The CHAIRMAN. And the Soviet Union when they deliver it.

Mr. LYNN. I am sure we can keep our rates down and reduce them a lot more than we have them now if the taxpayers are willing to pay

for it out of the General Treasury. We could cut that rate in half if we wanted to appropriate every year out of the Treasury the money necessary to make up that difference.

But I detect on this committee the same kind of—I do not want to put words in your mouth—but the same kind of concern we have as to where is the right balance between the general taxpayer's obligation and having the mail service pay its own way.

Senator HOLLINGS. On paying its own way, what is your position as to the subsidy to magazines and newspapers?

Mr. LYNN. Our position is very clear on that.

We should continue the phaseout that was provided by the original bill. We should not give the additional phasing period of time. And, incidentally, when we talk about political decisions and so on, I can say to you that I have had many visits and many pieces of mail from people that have the benefits of the subsidy in that area, urging us to change our view in that regard.

The CHAIRMAN. Will the Senator yield on that point for a record point here?

Senator HOLLINGS. Yes.

The CHAIRMAN. Last year, and again this year, in the budget the Bureau of the Budget failed to carry a request for the funding authorized by the law of extended phasing for second-class mail.

Now, at stake this year is the sum of \$307 million.

It seems to me you are meeting yourself coming around the other side of the bush. You were just addressing yourself to the Senator's question about whether other factors, like newspapers and books and this sort of thing, should pay their way.

Should you increase their rates?

You applauded the Reorganization Act, that it was phasing them out over a period of years. Last year, and again, this year, the budget failed to carry a request for that portion of the subsidy, \$307 million, for second-class mail.

Mr. LYNN. I do not believe that is true, Mr. Chairman. Our budget does carry the amount for the phaseout of the subsidies provided by the Reorganization Act.

What it does not do is reflect funding for the changes made in that law to extend the phaseout even longer, and what we did do this year that was not done last year, we not only carried the Postal Service's request in the appendix to the budget, but in the budget itself we footnoted the reference over so people would know that the Postal Service asked for the funding for the extended phaseout given by the 1974 act.

The CHAIRMAN. Let me make sure we are talking about the same thing.

In 1974, under Public Law 93-328, the original Reorganization Act was amended to extend the phaseout slightly longer. This was necessary to make adjustments in the phasing of certain second-class mail.

It is my recollection that the President of the United States signed that law, was that correct?

Mr. LYNN. That is correct.

The CHAIRMAN. It is now the law under the amended Postal Reorganization Act. You do not submit in your budget the sum of \$307 million to reflect that adjusted phasing out of those costs, and yet you

are sitting here, telling the Senator from South Carolina—you are talking about both ways here, Jim, inadvertently, I am sure—but you did not allow for this extended phasing that you agreed to, that is the law of the land.

The President did not yell about it. He did not veto it. He signed the bill.

At least, in my own memory of constitutional law, that makes it almost legal, and it is the operational procedure under which the President of the United States is bound to proceed unless he makes another case to the Congress. And he did not.

He is not doing it now.

Mr. LYNN. Correct me if I am wrong, Mr. Chairman, but my recollection is that was authorizing legislation. I would ask—I do not remember whether this was signed by this President or not—was it?

The CHAIRMAN. Was this President not appointed by the succeeding President?

We have not had an election.

Mr. LYNN. What I am saying to you is there is authorizing legislation.

The CHAIRMAN. It is the law of the land. We do not rewrite the laws everytime we get a new President, however he comes in.

Mr. LYNN. No, Mr. Chairman. But I do not have to point out to you the difference between authorizing legislation and appropriations. I would say to you that there have been periods of time where very large authorizations have been given by the Congress and the President of the United States, particularly if they are a succeeding President, decides that given the overall budget, given the merits of the particular authorization, whether it is single-purpose bill or multi-purpose bill, that there should not be money for that particular purpose in the budget.

Under the Impoundment Control Act and other things that we now have, if the Congress of the United States should decide that taxpayers should spend another \$307 million of subsidy for second-, third- and fourth-class mail, and the President were to ask for a rescission of that amount of money, and Congress does not come forward, or if he decided not to ask for a rescission, he must spend that money, and that will be the end of that issue, just the way it is under every other issue.

We spend a lot of money today that we did not ask for, and we spend it in compliance with that law.

The CHAIRMAN. The President asked for a rescission last year?

Mr. LYNN. No, he did not.

The CHAIRMAN. I did not read that he had. Yet the budget did not allow it.

Mr. LYNN. We did not ask for the money, but we did not ask for a rescission.

The CHAIRMAN. That is cute, is it not?

Mr. LYNN. No,

The CHAIRMAN. Come on.

Mr. LYNN. We get at it from the other side of the Congress. Let me give you an example.

Where we do veto a bill and the veto is overridden, and then come up with a rescission right after it, we catch the devil from the whole

Congress—do you not believe in what the Congress has said? What are you coming up here only a few months later with a rescission for? We have told you how we feel about it.

I am sorry, sir. I cannot buy that.

The CHAIRMAN. We are here to talk about postal appropriation requests, Mr. Director, and somebody has got to buy it and pay for it. We are not torturing through all of these other categories in governmental appropriations.

We are trying to do an honest job of assessing this so we know where we stand and know where you stand. About the time that you get one leg down, you slip off the other side.

Here is a specific case.

This President did not ask for a rescission. This is the law of the land. You just did not allow the money. You did not make a request that the law be repealed or even submit proposed legislation up here that we change it.

We have got to abide by the law as we see it, because this is an ongoing factor over that transition period—I do not need to tell you this—to permit the transition into a more viable and more responsible meeting of the costs.

But, because of the cases made by many very small publications that their capital commitments, which are long range, require a longer phaseout than the educated guess we made at the beginning, and we had to make the guess as best we could, and while it is a mixed case, admittedly, it was the judgment that in the interest of equity, so as not to put out of business some rather sensitive small groups in publications, that it was better to try to extend the phaseout and take the consequences in meeting the costs.

Now, if the President wants that changed, let him stand up and say so, or you say so for him. But you are not doing it.

Mr. LYNN. Yes, Mr. Chairman, we are. In the budget of the United States. In the budget of the United States we are saying do not appropriate money for that purpose.

Now, whether or not we will ask for a rescission if Congress should do this, over our saying it should not be done, is something we always reserve the decision on for that time.

But we have come down on it. We have come down on it, let us say, with a lot of flak from various sources, and we have said that we do not think that money should be spent.

Now, reasonable minds can differ, but the President's position is very clear.

I have spoken to a number of the same groups that you have had communication with, and we have told them what the President's position is, and we restated the position most recently in the budget of the United States.

Why do we have to ask for a repeal of the law when there is a process that will carry out the President's will? That is simply not appropriating new additional money.

The CHAIRMAN. That is known as backdoor nonspending. You are ducking the issue.

Mr. LYNN. We do not believe we are.

The CHAIRMAN. We are entitled to know where you stand, and if you are going to recommend repeal of the law, phasing out, to know

where we stand, that \$307 million in the process would probably take us another 5 or 6 percent along the road toward meeting this rather considerable deficit, and you are not facing up to it, Jim.

Mr. LYNN. Mr. Chairman, let me just say to you where there are statutes, where you must spend the money under the authorizing legislation, like entitlement laws of various kinds, where you have to change the authorizing legislation, we recommend changes in the statutes.

I can give you instance after instance in this budget that we have submitted—in fact, there is some \$8 billion of them in authorizing legislation changes where that is required to make the kind of changes that the President proposes. But where no change in enabling legislation is necessary to achieve what we believe is the right thing to do for the country, all we do is seek less appropriations for the money or no appropriations. That is what we have done. It is a totally consistent position.

The CHAIRMAN. There are some ongoing costs in Government, as we have learned, from our Budget Committee colleagues, that are fixed costs. They are fixed costs because of the accumulation in the past that you cannot very readily turn around just in an arbitrary decision, commitments—well, interested, for example, on the debt.

If the President really wanted to get with it, he could cut that out for 3 months or 6 months.

Mr. LYNN. Cut what out? Interest on the debt?

The CHAIRMAN. Sure. Why not? It is an authorizing commitment.

Mr. LYNN. No, it is contractual—

The CHAIRMAN. Now, in this law that was modified, not wiped out but modified legislatively and signed by the executive branch of the Government, there was a built-in costing factor that had nothing to do with the uncertainties of the size of a program. It had only to do with carrying out the transitional process over into the new level of rates under the new Postal Service.

You arbitrarily cut it off. It seems to me that you are straining, at least, governmental executive integrity in terms of the ongoing cost that was taken on as an article of good faith by the terms of which alone long-range capital commitments can be adjusted, even though there were changes steadily along the way. And you are playing havoc with a process or responsibility.

We are asking you to help us.

Mr. LYNN. I will stand on my answer, Mr. Chairman. I believe I have explained it. All I would be doing is repeating myself.

The CHAIRMAN. I agree with that.

Mr. LYNN. As I say, I respectfully disagree with you. I do believe that the appropriate way for the President to express his views as to what ought to be done is through his request for appropriations in the budget. And he has done so in this case. I might add notwithstanding a good deal of outside comment that would say, Mr. President, it is \$307 million. Why do you not add it to the budget?

I believe his decision was the right one.

Senator BELLMON. On that point, could I raise a question?

The CHAIRMAN. Sure.

Senator BELLMON. Back to the figures in the budget, Mr. Lynn, fiscal year 1975, the amount in payments for the Postal Service fund was \$1.87 billion. In fiscal 1976, it was \$1.58 billion.

You requested \$1.46 billion for fiscal 1977. Is extra money for the extended phaseout included in the \$1.58 billion figure for fiscal 1976?

Mr. COLLIER. 1976, yes, because that is the amount Congress appropriated. That number is not what the President requested but what Congress appropriated.

Senator BELLMON. \$1.46 billion for fiscal 1977 does not include \$300 million—

Mr. COLLIER. That is right. The 1976 numbers are estimates based on the actions which the Appropriations Committee took.

Senator BELLMON. That is all, Mr. Chairman.

The CHAIRMAN. In the original concepts that we started with here, when we were trying to come to grips with this big question many years ago, one of the modifications that Congress introduced in the legislation that prevailed was the concept that there was a public service, a public interest factor of x dimension in the Postal Service, the fact that it was the only place where the flag of the United States was flown over public buildings, and in three-fourths of the communities in America, the fact that there were many other services that were rendered that had a binding effect on the Nation and made it very useful for the country as a whole. It was the feeling that was expressed during testimony that those who used the mails should not be charged for that cost as an incremental cost in the ratemaking process. And that the formula that we selected was roughly 10 percent, that 10 percent of the budget for fiscal year 1971.

Now, one of the compromises that we struck in the legislative process there was that we would fix that—well, finally to get the House to agree to our proposal from the Senate—that we would fix it at 10 percent of the postal budget for the year 1971. And one of the factors that brings us here is the obvious fact that that 10 percent of the 1971, if indeed a valid figure, was a frozen figure that was frozen before the very quick rise in inflationary costs, the rise in cost of living agreements, exercised through collective bargaining processes under the law, and also the extra costs due to the quick jump in energy, almost precipitous jump in energy costs, at the time of the beginning of the energy crisis, that those factors were not reflected anywhere.

General Motors raised its prices. The power companies continued to raise their prices. Everybody is raising them. And yet the Postal Service, about which we are trying to be responsible, was frozen in a position that was already out of date the year after it was enacted. That is one of the reasons why we are here to consider a new percentage.

My question is, now, how does that 10-percent formula, not 10 percent of 1971, but a 10-percent formula for the current year as a factor for the public service role in the public service, how does that grab you?

Mr. LYNN. Well, it grabs me as a number which reflects a democratic process, where there are conflicting pressures, and you arrive at a number. And as to whether that number is the right one, higher or lower, or no number at all, I do not think there is anyone who would say there is precision in this regard. There is a more basic principle

though, and that is the one to the extent to which we do want to have the users of the mail services be the people that pay for it.

The CHAIRMAN. Pay for what they use?

Mr. LYNN. That is right.

The CHAIRMAN. Are you willing to modify it that much or pay the whole service?

Mr. LYNN. Well, we do have the problem, and Ben referred to it in his testimony, if you ever try to get it precise, given various parts of the country and so on, even with modern day computers, you could not do it.

Also I do believe that there are nationwide objectives that call for mail service in the country. Some of that—well, it is a little like insurance. You have some people paying a higher premium in reference to their risk than other people do. And, incidently, the problem in insurance is equally severe, I find, as I worked in HUD and as I worked in the Commerce Department.

But as to what ought to be done about that now, as to whether or not, since there has been inflation, there should be additional moneys beyond the \$920 million each year, if so whether that should be done by some kind of escalator or whether it should be done by just an add-on of an additional amount of money to see how that flies for a period of time, or the like, it seems to me something that we ought to look at in connection with the kind of questions that I posed in the testimony.

That is going to take some time to look at because we now have the benefits of the service under the new act for a period of time, and I do not think you can decide that issue by itself. I think you have to do it looking at the others.

I will say to you that what came out of the House on the \$35 per house—there are two kinds of houses—what came out of the committee on \$35 per family is something that makes no sense at all to me. And I do not see where they came up with that figure at all.

I certainly do not see the taxpayers paying that kind of bill for mail service.

Mr. COLLIER. Mr. Chairman, further on the subsidy when Congress addressed it the first time and they provide 10 percent, they also provided a phaseout even of that 10 percent over a period running through 1984.

When Congress set up the original Reorganization Act, they contemplated the day in 1984 when the entire amount of the cost of the Postal Service would be borne by the users, not 90 percent or any other number.

The CHAIRMAN. In our search for some reasonable place to begin, we included in S. 2844 the provision that the public-service allowance would be 10 percent of the Postal budget for fiscal years 1977, 1978, and 1979. The budget for fiscal year 1977 will be \$15 billion. That is where we got the 1.5.

We are trying to start with that 10 percent concept. If it was valid, if it was close to validity in any way in 1971, then the theory would be it is closer to the mark than this arbitrary figure that the House, I think, guessed at. That is the reason that we thought we were taking a very responsible approach to it, to be more realistic and assist in tightening up of the operation.

Mr. LYNN. As Cal said, when the law was put together, I think there was a contemplation of even a phaseout of that particular amount of money, so that I do not think it represented a decision, at least at that time, by the Congress that the public service aspect justified a continuing subsidy forever. That does not mean that that is not an appropriate area to be addressed. Of course it is.

My own judgment, I have to say to you, or my own feeling at the present time, is we have got to address those harder long-time issues in connection with deciding whether you do want to introduce that kind of concept.

As I say, we are all in some ways creatures of our prior incarnations in Government, and my experience with operating subsidies generally has been so bad in other shops that I have been in, that I just must admit to having an instinctive feeling against them.

We have got to address that issue. We would like to address it with you.

I was pleased to see that in your introduction, I believe, of the hearings you said you put that bill in—put it on the table as something to work from, I am not sure these are the exact words—but a working draft, and let us see what kind of consensus we come to.

I have to say to you I am very concerned about the Postal Service, and having spent some real hours with Cal on this subject and others, some with Ben, no answers fly out at me.

Now, what that tells me is that every month it goes by, I think the Postal Service gets more experienced on where it has room for efficiencies; I think every month that goes by they get a better feel for where the world is going by way of communications in the United States.

If decisions have to be made today, then I make the decisions today. If we have a little time to consider all of the ramifications of the decision, I like taking that additional time.

I believe the President said in his budget message that you have to balance the desire for prompt action against the fact that, in some cases, the decision is not obvious to you right now. I just want to repeat once more what I said earlier, if we were to find that the Postal Service could not continue without additional Federal funds and there would be a hiatus in the period, of course we will be here requesting funds.

We cannot have that happen. From what we know as of this moment, there is still some time here for all of us to put our heads together to come up with overall strategy rather than the piecemeal approach.

We are asking that we all afford ourselves our time to do that.

The CHAIRMAN. There is a basic concept in our history that the Postal Service should, as nearly as possible, have a monopoly in letter mail. So that if a citizen chose to live in Coyote Springs, Wyo., or someplace else, he would not have to suffer from differential postal rates.

Are we still on common ground if we start with that assumption?

I mean that is why we have a national post office.

Mr. LYNN. That is certainly where I have started with my assumption, sir, that wherever you choose to live, you are entitled to postal service. That starts getting up into emerging technologies, and it gets into the area that we certainly have not been totally. We should

consider postal service with respect to how it is handled even within our own country where the apartment-house dweller is asked to come downstairs to get the mail, unless they have worked that out with the doorman.

Where I lived in Cleveland, because the houses had been there a long time, the postman delivers the mail right to the mailbox at my door.

In Bethesda, Md., I go out to the street and get it.

When I lived in Florida, you walked a quarter of a mile from the house to the nearest road to get the mail.

We have never been totally pure, but at least within a very close distance of where the person actually got up in the morning, you get your mail.

My own assumptions are that is what we ought to keep as a basic point and work from there. You do get into the kinds of issues that Ben is asking himself about, about how often mail should be delivered and whether or not you should go to the street and so on.

I have to say to you I have not made up my mind on this. I certainly have an open mind to listen to what he said as to the merits and demerits and the potential savings that are shown here with respect to it.

The hardest thing, really, is, in part, getting an understanding, it seems to me, of these cost matters and how much money is savable and how much is not, and is it worth it to save certain kinds of money with certain kinds of objectives.

PRIVATE EXPRESS STATUTES

The CHAIRMAN. With that basic concept, you do have fixed costs in the Postal Service, if we accept that most places, up to a given point, must have a Postal Service, a center with postal facilities and that sort of thing. You have fixed costs that have little relation to the cost of operation. That is fixed costs annually that very few post offices under the present structure, at least in the rate system and other factors, can pay off on.

In fact, we are told that 27,000 out of the roughly 30,000 post offices cannot possibly pay their own way, because they do not have that volume to go with it, and it is a relatively smaller number that could pay most of their own way.

But the moment you start putting that in, then you are penalizing the guys that choose to live in rural America, in quality living, that sort of thing, rather than live in teeming population areas where you have a volume that could probably pay off in a lot of things.

One of the basic concepts, as I understand it, was that that costing would be kind of prorated as national interest factor. This is really what we are groping for in that 10 percent figure.

What happens to us as we proceed from there with the other options that are pending before us to consider in regard to the private express statutes?

It seems to me you cannot play this both ways very readily. I am not sure.

We are willing to stay openminded on that, but I think it is very difficult to play that both ways without penalizing either many areas,

low population areas, or short of a demonstrated and refined new technology that would make it possible.

Do you have any expression you can share with us on the private sector as alternatives in this business?

Mr. LYNN. I have an instinctive—you say do we still work from given assumptions—I have always had an assumption that I operate on, that any time that I can give the benefit to the consumer of modern-day technology, I want to give it.

Wherever I can give somebody a given goods or services cheaper, and better service with the same amount of money or less money, I want to give it.

But you raise, I think, with slightly different words, Mr. Chairman, the very same questions that I raised in my statement, that you do get into some tradeoffs here that are going to be extremely difficult because if you have a smaller and smaller base of volume in those teaming areas, then the amount that you have to charge per piece to deliver elsewhere, well, it either goes up substantially or you have to have it subsidized by the Federal Government.

The CHAIRMAN. Or you abandon it.

Mr. LYNN. Or you abandon it.

And as I say to you, my other instinct that I mentioned earlier, I certainly do not want to abandon it.

So, now, how the heck do I reconcile these two biases? That is the kind of thing we are trying to work our way through.

All we are saying is we think we have got a little more time to work through it—

The CHAIRMAN. It seems to me if we repeal the private express statutes, of course you have abolished at least the ongoing concept of Postal Service of the United States from its very beginning because we do not have the technology now. We may get it some other day and age, we do not know. But we have got to get from where we are tomorrow and the day after tomorrow. We do not have that as a viable option.

There are those that loosely express that, and there are lots of people that say let the private sector do it because they are more efficient. That is the reason General Motors is taking all of these cars back now and having reevaluation, is it not? It is a mixed bag, however, you cut it.

Some of the private sector have done a good job in carrying some articles of mail to the prescribed markets, because it is special, even Spotted Horse, Wyo., but there are not many "Spotted Horse, Wyo." that receive that special consideration.

You see, the cost factor, the reason that you have to get the public service concept into this as a basic underwriter is that there is no incentive at a deliverable cost that is acceptable or meetable by the consumer at the other end, namely a person in a town under 20,000 could be met under a private concept without a subsidy.

So the next question is ought we to give this as national subsidy to a Government monopoly or are we to subsidize the private sector and let them do the job?

Mr. LYNN. It is, in my judgment, an unfair analogy to try to make, let us say—well, to try to make an analogy to certain other regulatory reforms that we have proposed within the administration in transportation areas.

I tried to think my way through that a week or so ago.

The CHAIRMAN. And cannot come up with the same answers.

Mr. LYNN. And if you do start with the bias and assumption that I share with you, I want to see the Postal Service all over the country, you cannot take any pure analogy and apply it.

I do think that what we have here on a very much more difficult arena is very similar to insurance. You could have a situation and, in fact, it is a problem in the country, in some areas of the country, where in the effort to cut the cost to the absolutely preferred risk, well, the insurer will only offer the services to that preferred risk, and other people who need protection as well end up paying an extremely high price for it.

Now, again, that is a balance. But there is some analogy there, but if you start with the bias that you and I share that there has to be service—

The CHAIRMAN. With the enlightenment that you and I share. It is not bias.

Mr. LYNN. Fine. Let us put it on that ground.

I have, over the years, wondered sometime about whether I am enlightened on it, but at least where I am in now let us put it that way—that it does present that kind of problem, sir, but it does also require taking a look at the kinds of services, how much, the opportunities for efficiency. We have never said that the opportunity for efficiency are the whole answer. But I think Ben Bailar would be the first to agree that there is still room to help on that side.

The question is, when you look at what rates you can charge in fairness, when you look at the opportunities for savings on the efficiency side, is there still a hiatus over the longer term that should be met and should be met through the taxpayers' dollar?

I think that is what you are grappling with, and that is what we are grappling with at the present time.

All we are asking is to take advantage of is to take advantage of the additional time we have to see that our answers in time represent a genuine improvement where we are now rather than trying to stopgap it.

I do want to repeat what I said earlier, that our position is if they reach the position where they cannot deliver the mail because they do not have the money, of course that mail is going to be delivered.

The CHAIRMAN. That is going to cost you \$1½ billion—

Mr. LYNN. As we said, we will sit down with Ben and company, and at least so far we have not had a case made to us that that is what it will take.

The CHAIRMAN. Perhaps this question should be to Mr. Collier.

Have you studied and assessed the GAO indepth study of this question?

Mr. COLLIER. I personally have not. Some of my staff members have looked at GAO reports.

The CHAIRMAN. But you have not?

Mr. COLLIER. I have not, Senator.

Mr. LYNN. We certainly will, sir.

The CHAIRMAN. I think you ought to have a look at it, and then we would be interested in knowing why they are all wet, and you need to make your own study.

We find ourselves spinning wheels here trying to outstudy somebody else once in awhile, and another means of delaying action. It is a good way to kind of run out the third quarter in order to maybe get another new lease on life.

I think the facts and figures are staring at us right now, the dimensions are pretty well drawn by real experts—not by McGee.

I would hope that maybe with a little time we could have another sitdown session at a point down the road because I think we need the best you can give us on your assessment of postal needs.

Mr. LYNN. We would be happy to do that.

The CHAIRMAN. Time is running out on us.

I appreciate your patience this morning. You are everybody's fall guy. Whenever we run out of answers up here, we call the Bureau of the Budget and ask them to come up so we can give it to them.

I appreciate your patience.

Mr. LYNN. As long as you realize, Mr. Chairman, as I do, that it goes with the territory, you can still manage to smile.

The CHAIRMAN. Thank you very much.

Mr. LYNN. Thank you, sir.

The CHAIRMAN. We have another witness scheduled. Every time we get down to the GAO, we come up against this crunch.

[Discussion off the record.]

The CHAIRMAN. Is Mr. Anderson here?

Mr. ANDERSON. Yes; I am.

The CHAIRMAN. I think we ought to arrange a hearing where we can start alphabetically, and Anderson comes first.

I want to check with the committee members. I would like to devote a full morning to this with the other members of the committee present.

It has not been a totally wasted affair for you, because I think it is good that you get the OMB position.

Mr. ANDERSON. Very enlightening.

The CHAIRMAN. Not enlightening, but revealing.

We will get back to you.

I want to find out if we can clear Friday morning, and get permission from the floor to hold a session of this hearing on Friday morning, and we will take it from there. I cannot speak with finality now until I check with the other members of the committee and the leadership. We will try to do that on Friday.

Perhaps, in light of the colloquy here this morning, you could also prepare some additional thoughts in regard to the exchange you heard. It ought to be helpful all the way around.

Please accept my apologies. We think what you have done here is the most meaningful thing that we have had done anywhere on this whole question, and that is the reason we keep delaying it until we can catch up with you, so we can be as smart as you are.

It is really a very excellent capsule of all of the hours that your outfit spent trying to live with this question and get the size of it.

You will hear from us immediately.

Mr. ANDERSON. Fine.

The CHAIRMAN. Thank you very much.

[Whereupon, at 12:25 p.m., the committee adjourned, subject to the call of the Chair.]

POSTAL REORGANIZATION

FRIDAY, FEBRUARY 20, 1976

U.S. SENATE,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The committee met, pursuant to call, at 10:03 a.m., in room 6202, Dirksen Senate Office Building, Hon. Gale W. McGee (chairman of the committee) presiding.

Also present: Senators Burdick, Bellmon, Fong and Stevens.

OPENING STATEMENT OF CHAIRMAN McGEE

The CHAIRMAN. This is the current hearing in the ongoing series of hearings and studies of this Senate committee. It is conducted for the purpose of examining the operations of the Postal Service under the Postal Reorganization Act of 1970, and updating and making relevant and current the existing status of affairs there in the post office.

I first want to read into the record a short item in the news, from the Wall Street Journal, on Friday, February 20, 1976. I read this because in the session that we had earlier this week, Monday, our witness, Jim Lynn, Director of the Office of Management and Budget—in the course of the colloquy that was made on the lack of contact between the administration and the Postal Service, and between the administration and the Congress, and the inadequacy of the administration's position on what they were going to do about the financial plight of the post office—Jim Lynn suggested that they now had a man who was in full charge down at the Office of Management and Budget. Calvin Collier, the General Counsel of OMB, appeared with Mr. Lynn on that occasion, on Monday, and he was represented as our great white hope for the White House coming to grips with the Postal Service for the Office of Management and Budget.

The Wall Street Journal carries this note, on Friday the 20th, which is approximately today: "Calvin J. Collier, General Counsel of the Office of Management and Budget, is expected to be named Chairman of the Federal Trade Commission shortly."

I think that speaks for itself. I guess we are going to have Mr. Lynn back again pretty soon, to see if we can pursue once more where the line of responsibility is going to fall.

We have been flimflammed now for almost 2 years, in trying to get somebody at the White House level to take the responsibility for being in touch with the Postal Service.

I repeat, the record that we have had with last two Postmasters General, Ted Klassen and the present. Those are the only Postmasters General we have had under the new reorganization.

Both men have said repeatedly to the leadership of this committee, we cannot get into the White House. The White House will not give us anybody that they would designate as being responsible for contact purposes with the post office.

Under the Reorganization Act this is an article of faith, and the faith has not been kept. So it is with the assurance the other day that we now had a new faith shattered before the week, the same week, was out.

We are beginning to wonder what to expect next week.

I would think that we may want to reopen the whole question with the Director of the Office of Management and Budget. Maybe we will have a new contract.

You do not need to make any speeches on that—

Senator FONG. No, except to say, Mr. Chairman, that here we have a board of directors—the Board of Governors—that should be really doing the work, following the various problems of the organization, suggesting remedies, and seeing that these remedies are carried out. To expect the White House to keep tab on the Board of Governors of a corporation as large as the Postal Service I would say would be very, very difficult.

Here we have a Board of Governors that is supposed to know what it is doing, and we have a Postmaster General who is supposed to be carrying out the activities of the organization.

The fact is that the members of the Board and the Postmaster General have not had the tenure that we expected them to have. They come to Washington for a few years, then leave. This organization seems to be always in turmoil, and I am just wondering whether we did right in having the Post Office reorganization in the first place.

I was loathe to go along with the idea that we have a Postal Service reorganized from what we had had before, and now it seems that I am proven right. I went along with the idea because everybody was for it—the mailers were for it, the employees were for it, and the administration was for it. All were saying that the new Postal Service would attain self-sufficiency, that the Postal Service would be able to pay its way, and now we find that it cannot pay its way.

I am very, very sad to hear about all the large deficits that the Postal Service is now choking up with. With the GAO's recommendation, there is no way by which we can attain self-sufficiency in the Postal Service, since competitive services have been draining away some of the services of the Postal organization.

In fairness to the administration, it would be very difficult for the administration to really inject its nose into the affairs of a Board of Governors which is supposed to know its duties.

That is all I have to say, Mr. Chairman.

The CHAIRMAN. You stopped short. Because you were about to remind us, as you always do, that the issue here is not the administration sticking its nose in anybody's business, but the administration instructing the Director of the Office of Management and Budget to request the subsidy funds in the budget—the subsequent adjustments to extend phasing which was signed by the administration and enacted by the Congress.

One of those factors, as my colleague will recall, since he and I were instrumental in putting it together, was the consensus that there is a public service factor present in the Postal Service.

We do not know how large that ought to be. We made a guess at the time of about 10 percent of the postal budget for 1971 would be a way of covering the national interest, the public interest, the public stake in the Postal Service of the United States.

We had no expertise, except that of an educated guess, after long hearings. The up-shot of it was that the inflationary process, since that 10 percent of the year 1971—about \$920 million—made the allowance inadequate. We had an increased energy cost, the new collective bargaining contract in the Postal Service, all of which in themselves are a major breakthrough in working—well, they changed the costing factors without an adequate option to increase rates, as any corporation would be entitled to do to meet the increased costs.

It would take the Office of Management and Budget about 4½ months to examine the problems of the Postal Service and the man who was going to do it was our friend, Mr. Calvin Collier, and now he has gone on to another position.

The news of Mr. Collier's impending appointment to the Federal Trade Commission came as a very disturbing factor, not because he should not be chairman there, because he may be a very well qualified individual, but because he was our new designee to try to infuse a sense of responsibility at the administration level in this operation—a balancing operation for the Postal Service.

So there is the rest of your speech, Hiram.

Senator FONG. I want to say that the administration has been faithful to the law in listing in its budget each year the \$920 million public-service subsidy. But the administration has been derelict in never requesting the phasing funds for third-class mailers, which was agreed to in the Postal Reorganization Act.

So that the third-class mailers now have to pay the higher rate when they should be receiving the phased rate, according to the Postal Reorganization Act. What impelled me mostly to go along with the reorganization bill was that we were at a loss as to how to set the postal rates.

Under the previous system, if a Senator had some friends who felt that a certain rate was a little too high, that Senator would try to cut it. Another Senator with friends who felt the rate was too low in another rate category would try to raise the rate. There was helter-skelter in ratemaking. It was something which we did not know enough about, which we did not really have the time to investigate, which we did on the spur of the moment, just because someone said this was it, and someone said this was not.

It was difficult for us to really understand what the whole situation was in the ratemaking process. So we decided to have a ratemaking commission which would look into all of the details of the organization and be able to come up with rates that were fair and adequate for the postal organization to carry on with its functions.

But ratemaking has not been able to really make the Postal Service financially responsible in carrying out of its duties. It is something we have yet to see, because the ratemaking process has been very slow. What we can do is to expedite the ratemaking process and see that it works fast so that the Postal Service would not go to a deeper deficit while waiting for this new change.

We can also look into the other matter of who is funneling some of the postal work away from the postal system, taking away the cream

of the business and leaving us the dregs of the business, so that the Government would have to give the Postal Service a large subsidy.

When we compare the Postal Service with the utility companies, we see that we do not allow other small utilities to drain away the cream of the work by taking the better routes and leaving the other routes unattended. We say that the public utility has to take care of the whole situation, and not let other people come in and syphon off the good parts.

Whether such a thing could be done here, I do not know. I do not know whether the loss of volume has been taken over by who, or where, or how.

I wonder if we have really gone into that part of the business, to see whether that could be salvaged.

All of these problems are big and complex problems which this committee found it was more or less in a very, very weak position to evaluate.

So that is why we were more or less compelled to go along with the postal reorganization, and to give it the dignity that we thought that it should have, and the personnel, and services, and the individuals who should be able to carry on this policy.

After 4 years, we find that we are back again, so that the Government, instead of seeing that an organization carries on in an efficient manner, must resuscitate the organization with a very large infusion of money.

I am very disappointed in the whole situation.

The CHAIRMAN. Do you not suppose that lots of people were naive in thinking that you could have a balanced postal budget, meeting all of its costs, its own costs, as long as you maintain the basic concept that everybody was entitled to equal service, equal opportunities under the Postal Service of the United States?

Senator FONG. We thought the 10-percent subsidy would do the job. Somehow it has not.

The CHAIRMAN. If we had 10 percent in 1971, and the 41-percent inflationary cost since then, the new labor contract has made up the entire difference. Minus the one other fact which we alluded to here this morning, and that was the drop in the volume, as the price goes up.

Obviously, the possibility of the greater use there falls off.

This is useful, I think, to recap what has transpired in hearings, and I know that Bill Anderson is sitting out there saying, this is probably where I came in.

He has been here now at the last two hearings, waiting for his day in court.

Each day the complexities of the problem would finally carry us out through the end of the allotted time, and Mr. Anderson, in the vernacular of the current day, our day not only will come, it has come, and here we are, and we are anxious to put you on without further delay.

Mr. Anderson is here on behalf of the General Accounting Office. He has at hand probably the most complete and exhaustive study of the Postal Service in its operations since the Reorganization Act of any known alternative sources of information.

He has, likewise, most recently, the updating of where we are now, and that is the reason that it is important that we examine very care-

fully what you have to suggest to us this morning, and what we can pursue with you in our questions.

Senator FONG. I want to welcome you, too, Mr. Anderson, and your colleagues.

You act now as an outside audit, to give us the outside view of the whole situation, which we have not had in this committee.

STATEMENT OF WILLIAM J. ANDERSON, DEPUTY DIRECTOR, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY JOHN LANDICHO, ROBERT A. PETERSON, AND THOMAS R. COLAN

Mr. ANDERSON. Thank you very much, Mr. Chairman. Let me introduce the gentleman at the table with me. Bob Peterson to my left, is the man in charge of our work at the Postal Service. He is physically situated at L'Enfant Plaza, and directs that 40-odd man-years of effort annually that we put into our Postal Service reviews. He reports to Mr. Landicho, on my right here, who is part of headquarters overhead, like myself, responsible for a number of other agencies as well as the Postal Service.

Tom Colan works for Bob Peterson over at the Postal Service, and he hopefully will answer the questions that the rest of us cannot handle, our detail man.

In any event, sir, I thought rather than read the statement, that I had prepared for delivery on Monday, it was, as you know, the second statement we had prepared, and differed slightly from the first one. We really had not expected to come back the second time.

That same 2-week interval is when we prepared that summary of observations that we submitted to you last Monday.

We thought, let us pull it all together, and give these people the benefit of all the work we have done. What I would like to do is briefly recap what we said in those first two statements, and then I would like to pay particular attention to the present needs, financial needs of the Postal Service that Mr. Lynn alluded to on Monday.

The CHAIRMAN. That will be excellent.

I thought you were going to tell us that you had now a third statement to completely reread, recycled, and reprepared because of the delays since last Monday.

Indeed, you are the boss, any way you want to go here is fine for us.

Mr. ANDERSON. All right, sir.

Let me then start with the second statement, really, as far as logical sequence goes.

The CHAIRMAN. Pull that mike closer to you. They cannot hear you in the back. Still further—it is the most insensitive microphone that man ever devised. It is on, you would not know it, but if you do not feel it on your tonsils, you are not coming through.

Mr. ANDERSON. In the second statement and the summary of observations, the way we organized it was to address each of the four principal objectives that the Postal Service had under the provisions of the Postal Reorganization Act.

Let me start with quality of mail service, which is the one thing that I noticed had the most play in the media as a result of the statement that was submitted on Monday.

First, we did point out in that statement that the quality of mail service based on the average number of days to deliver a first-class letter, has declined somewhat since 1969.

I want it clearly understood that we at GAO do not think it is bad. That was a tradeoff. The Postal Service has made some rather significant productivity gains over the last 4½ years. There was a price, though.

Through the managed mail program, through the area mail program, through the installation of the letter sorting machines, there have been slow but steady productivity gain, 6.4, the peak, as you recollect.

We calculated that had the Postal Service not made these productivity gains it would require 50,000 more people on the payroll today.

As far as we are concerned, it was a worthwhile tradeoff. Our mail may be moving slower, but it has been worth it.

We said that overall we thought the mails were moving reasonably well today, and we will stand by that statement, although, as we point out, there was a slight problem with the added wrinkle of letter sorting machines.

Whereas the manual error rate was estimated at 1 percent, we have observed out in the field installations, this is about 1 year, or 1½ years ago, that it was running as high as 7 or 8 percent.

The CHAIRMAN. That is the mechanical devices?

Mr. ANDERSON. That is right. We found that operators were making errors when they were keying the mail. They sit at a console, and the letters come before them. They are supposed to look at the ZIP code and punch in the numbers, usually the first three digits, and they were making mistakes.

The CHAIRMAN. And repeat for the record the difference in the incidence of error when it was manually done. It was about 1 percent?

Mr. ANDERSON. About 1 percent, yes sir.

The CHAIRMAN. With the new keyboard system, the punching?

Mr. ANDERSON. Seven percent was the average at the offices we visited during our review.

The CHAIRMAN. The machines handle that class of mail, would handle how many items that year?

Mr. ANDERSON. Well, I think the capacity is about 43,200 letters an hour. I really cannot give you an annual figure, except to say when you consider additional distributions that can be made, because the man has about 270 splits to make, rather than 48 when done manually that there is considerable productivity improvement.

The CHAIRMAN. That is a net gain?

Mr. ANDERSON. That is right. The problem is that your particularly important letter might be the one that somebody keys erroneously, and is going to be misrouted across the country. But it is the price—

The CHAIRMAN. I have gotten a few of those, eventually.

Mr. ANDERSON. I guess overall we are not critical of service.

The CHAIRMAN. At least part of our problem is that—the problem in terms of public image. If you were to take that 7 percent error in this category of mail handling, I assume that would—that percentage would run up into many hundreds of millions?

Mr. ANDERSON. That is correct, sir. After we did this job, we sat down with top management, and pointed out the problem, and made

some suggestions. The Service then moved out to try to do something about it.

Those figures are dated. I assume they have shown considerable improvement since we have done our work, but I am sure they have never gotten close to the error rate that we had manually.

The CHAIRMAN. Hiram and I have had letters from several of the several million, telling us how bad the Postal Service is.

What we are trying to keep in perspective here is the incidence of error in volume, in proportion to the total.

Mr. ANDERSON. Right, sir.

The CHAIRMAN. And likewise, perhaps you could get that for the record, if you can get your computers working, after you are through today.

Mr. ANDERSON. On letter mailings, we are talking about 50 billion pieces of mail, and let us take 1 percent which is the old manual rate. We would have had a half billion pieces being misrouted.

For mechanical processing, let us say 5 percent, we would have 2½ billion pieces. We calculated at the time when the 7 percent error rate was occurring, there was probably a letter floating around in the system for months on end. But they have moved out on that, but still it does represent, in sheer numbers, an awful lot of mail, although proportionately small.

Senator FONG. To get a better picture, could you tell us how many pieces of mail an hour one worker can handle normally.

Mr. ANDERSON. A minute, 30 letters, or 1,800 letters an hour. The 12 operators on the LSM moved 42,000 letters an hour. Approximately 3,500 each as opposed to 1,800 manually and in addition they are able to make further distributions because of the 270 splits rather than the 48.

So a significant difference.

The CHAIRMAN. On balance, it is your judgment, it is still a net gain, rather than a net loss?

Mr. ANDERSON. Absolutely, sir, a net gain, and we brought this out in some testimony we gave a couple of years ago on the House side concerning the mechanization systems. I sure you are aware that in Japan and Russia, they have virtually all the letters mailed read by optical character readers. There they have the envelope with the pre-printed squares, and you would write in the number, and the OCR was able to process the mail.

As we see it somewhere down the road, the Postal Service is never going to significantly improve productivity with existing processing equipment. I do not think they could make much gains, even with more letter sorters. We are up to 60 percent of letter mail with the machines.

I think I saw a figure sometime that they estimate as much as 85 percent could get one sort. Even then your productivity gains will be most modest.

The only route would be to go the route of the Japanese or the Russians.

The CHAIRMAN. Let us say the Japanese. We would get a bad opinion if we said the Russians.

Mr. ANDERSON. I know the Postal Service is aware of these systems. But we would need standardized envelopes. On that envelope you

would have a set of squares to insert the ZIP code that would be at a standard place on the envelope. If you had a scheme like that you could significantly improve productivity and reduce the missent mail problem, because it would be by machine rather than man.

The CHAIRMAN. Have you cleared this with Mr. Hallmark? Uniformity of envelopes?

Mr. ANDERSON. No.

Senator FONG. If a letter was missent, then the writer really missent it?

Mr. ANDERSON. That is right.

Senator FONG. So he cannot blame the post office?

Mr. ANDERSON. That is right. Somewhere down the road, in other words, I guess we feel that when you consider technology like that laying out there, self-sufficiency may not be completely impossible if it ever can be used. But we are talking down the road, and the Postal Service problems are today.

The CHAIRMAN. You see, the basic problem in this committee right now, and the problem that we are up against this year, is to examine the proposals that came over from the House, or advocated by many in the Senate, that we go back to square 1 and start over again.

Mr. ANDERSON. Right, sir.

The CHAIRMAN. And I gather what you are telling us is, that now at this point, some years along, under a new system in which we were, frankly, experimenting particularly in the mailing delivery, that the gain has been greater than the setback, and that we ought to weigh that carefully before we jump at a final conclusion on this.

Mr. ANDERSON. That is our belief on it; yes, sir.

Senator FONG. Do you believe that if these new innovations were made, following some of the other postal systems, that probably the subsidy need not continue?

Mr. ANDERSON. I would be reluctant to say that, sir, because we have looked, again in the same testimony that I referred to earlier, at what are the productivity problems that the Postal Service has.

Well, they said they have lots of people that have to face the public. You can take half the work force and say they, the carriers, can motorize more routes. But even with this kind of equipment you still have about that 200,000-odd people, the inside people, and while you could eliminate a slice of them, you are still going to have a lot of them around.

I would like to think, though, that there is a possibility, in any event, and I would like to see us keep the original objectives that led the Postal Service along in its time of troubles.

Senator FONG. What you are addressing yourself to is just the immediacy of the problem.

Mr. ANDERSON. That is correct.

Senator FONG. Rather than long-range solution.

Mr. ANDERSON. Right.

Senator FONG. That we are still in this experimental stage, after 4 years, turning a \$15 billion operation around.

Mr. ANDERSON. I would say these have been some extraordinary events that have put the Postal Service in a real bind.

The CHAIRMAN. Not due to the Postal Service?

Mr. ANDERSON. Excuse me?

The CHAIRMAN. Factors that were not invented by the Postal Service?

Mr. ANDERSON. That is right.

The CHAIRMAN. That was the Senator's question.

Mr. ANDERSON. I think it is important that we keep clear what we are talking about when we are talking about subsidy.

We have a basic subsidy formula in the reorganization that is 10 percent of the budget in 1971, roughly \$920 million, and whether that is still a relevant figure in terms of these phenomena that have occurred. Factors that were outside the influence or control of the Postal Service—inflation, labor contracts, the energy crunch, this sort of thing, and this bill is pending for purposes of discussion.

Proposals, to help meet through an additional subsidy in the emergency, to close that gap that exploded because of these outside forces. Roughly \$1.3 billion, or \$1.4 billion or \$1.5 billion, we say \$1.5 billion in the bill is earmarked for 3 years, in order to close that gap.

Now, the reason for that is that in projecting the Postal Service's predictable income and costs in this current fiscal year, even the Office of Management and Budget agrees that they are going to end up with a \$1.5 billion deficit for the year. That will place their total cumulative losses somewhere over \$3 billion, \$3.1 perhaps, and total liabilities will exceed their own assets. All of which means their insolvency without some transfusion.

The CHAIRMAN. That is the transfusion we were talking about with the Director of the Office of Management and Budget, and on which Mr. Collier was going to comment in 4½ months.

Mr. ANDERSON. In the absence of borrowing, the Postal Service would actually be insolvent, by their own projections, and by our look at their calculations. However, they still have borrowing authority available for operating expenses—\$500 million for fiscal 1976.

They would be, by their own calculations, about \$300 million short of being able to meet their cash requirements if nothing is done.

The CHAIRMAN. By June?

Mr. ANDERSON. By June of this year.

They do intend to borrow some \$700 million at that time to tide them over, in the absence of a subsidy.

The next crunch point, even with that \$700 million, would be about April of 1977. Again having borrowed this money, and borrowed additional money in 1977, they would be at a point where they project that they would not have the cash to meet their expenses. It is an unhealthy situation. Borrowing is really growing.

Their planned borrowing will come to \$5 billion that they will have outstanding in debt at the end of fiscal year 1977. September 30, 1977, that is, including a net of payback of \$604 million between now and then, but in any event, they will have \$5 billion of debt that the organization will be saddled with. That is really going to impact on their operation at that point, and you might as well write off self-sufficiency, unless you give them some help.

The CHAIRMAN. Hiram, in the private sector, what would you do in the private sector?

Senator FONG. I do not know.

The CHAIRMAN. Would you close them? They do not have that option.

You cannot close the Post Office because they are going broke.

Senator FONG. Is there not a limitation on the borrowing, as to how much they could put in operation?

Mr. ANDERSON. Yes, there is. There is an annual limit of \$500 million. Each year they can borrow up to \$2 billion against their total limit of \$10 billion, but each year the maximum for 1 year is \$2 billion. of which \$500 million may be used for operating expenses.

But I know one thing, I thought to myself this morning that if I was a private investor, and this organization had to survive on its own, I do not think I would put a dime in it. It would have to live on other resources.

Senator FONG. How is this affecting the borrowing?

Are they paying a high interest rate?

Mr. ANDERSON. No, sir; they benefit from whatever interest rate the Treasury is able to obtain on its money.

As you know, on their original bond issue of \$250 million, they went out to the private market. There was some criticism at the time.

After that the Federal Financing Bank was established, and originally the Federal Financing Bank was supposed to go to the market, but it found it was much cheaper to get its money from the Treasury.

In effect, whatever the Postal Service borrows, and these borrowings that we are talking about in June and next year, is coming right out of the U.S. Treasury and is just being funneled through the Federal Financing Bank.

Senator FONG. The Federal Treasury is the guarantor?

Mr. ANDERSON. That is right, sir, they are providing the money.

The CHAIRMAN. When Mr. Lynn was here, he said that additional public service funding for the Postal Service obscures the true costs of postal operation.

Could you comment on that? I do not mean editorially in terms of Mr. Lynn's statement, but the implications it has.

Mr. ANDERSON. The only thing I understand he is alluding to is right now the Postal Rate Commission is charged with approving a rate structure that will provide the Postal Service with what its money needs are, exclusive of the Federal appropriation. Therefore when you appropriate additional moneys to them, we have a smaller amount of costs to be charged out to the users of the mail, and in effect you are subsidizing, at least subsidizing to the extent that rates would be higher than otherwise for the various classes of mail.

The CHAIRMAN. Yes; whatever else our misgivings were on the committee, particularly with the few of us, we had a very strong feeling that we had to get the Congress out of the ratemaking business.

I mean if ever there was a complicated mechanism that would elude even our great expertise, we would be the last ones that ought to be setting rates, and they were often set by—you know, who talked to you last.

The Congress has no business in ratemaking, and yet we have a great many rate experts in both Houses of the Congress, every time they come up with a new proposal about the quick solution to the problem.

What it really is, it is an intrusion into the responsibility for setting rates.

We get advice every day from our colleagues: do not let them charge this much for this group, because we need them out in my State, or this group is a humanitarian group, they are just trying to do good work. They need the help that they can get through the Postal Service.

Everybody has a petitioner in his behalf, and we end up being the fall guys.

I think we are pretty much united, are we not, Quentin, that the Congress should not go into the ratemaking business?

Senator BURDICK. Yes, Mr. Chairman.

The CHAIRMAN. Just call me Mao.

There is one other phase there, involved in this gap in financing that you are addressing yourself to. It was Jim Lynn's suggestion to us that by providing a subsidy payment, we provide no incentive to increase efficiency.

Mr. ANDERSON. I would say that if the subsidy was based on some type of formula, as it is now and not just an amount to cover the shortfall, but say it was a fixed amount. You are providing them with an incentive to make sure that they can run the business with what they have to come up with themselves.

The CHAIRMAN. If we specialize a formula, and say this is the input in the Federal commitment, in the public interest, whatever the percentage might be, even if it were 10 percent where we started, we do not even permit 10 percent, it is riveted to 1971, and this is the thing that is hurting them.

If it were a formula that said 10 percent, or 12 percent, or 13 percent of the budgetary demands of the time, you meet the rest of it. You have got to close that gap, or you are on the spot?

Mr. ANDERSON. I would say, sir, that I take the short-term and the long-range look.

On the short term, I think the bill should give them money to keep their heads above water.

As to the long-range view, I would like to see what your Commission on Postal Service can come up with regarding the basic issue of how much of the taxpayers' money should be going into this organization, and which particular classes of mail users should benefit from it and to what extent.

The CHAIRMAN. You are referring to the expert Commission that the pending legislation calls for to assess, to review, and sort out, and assess what this public service equation ought to be?

Mr. ANDERSON. That is correct, sir.

The CHAIRMAN. We have never done that. We try to get views on it, but we have not had an indepth study of what the public-service function of the Postal Service ought to cost the public.

What would be the equitable, the fair factor that would be charged off in the subsidy category, rather than judging it offhand?

Mr. ANDERSON. It is an extremely complex problem. There are obviously no simple solutions.

The CHAIRMAN. We would hope that we could get something very helpful here, if that Commission is created for that one-shot purpose, namely to sort that out, and make a recommendation to us.

Meanwhile your suggestion is the obvious one, that we cannot close down the Post Office. We have to keep that going.

Mr. ANDERSON. That is right, sir. In effect, the money that the Postal Service is borrowing from the Federal Government are Federal expenses. This is really a Federal organization, and those moneys are being expended to operate it.

It is a question of whether you appropriate it annually, or whether you are using your borrowing authority from the Treasury.

Senator FONG. In your work here relative to the Postal organization, you only looked at it from the standpoint of what we have legislated and where the Postal Service stands now.

Did you go into the question of whether the 10-percent figure which we have set aside for public service is a fair one?

I presume you have not.

The CHAIRMAN. Ten percent of 1971, that is a fixed figure, not a variable percentage.

Mr. ANDERSON. We had a request a couple of years ago from Mr. Dulski when he was chairman of the House committee over there, to try to look into the legislative history and find out exactly what the Congress had in mind with this public service cost.

We found a lot of varying interpretations, and we found out that we could not tell Mr. Dulski that yes, this is precisely what that 10 percent is supposed to cover.

In other words, as far as we are concerned, the term public service has not been adequately defined, and I would hope that would be one of the first orders of business that the Commission on Postal Service would address.

Senator FONG. Actually you have no idea of what that percentage should be, because you do not know what it embraces?

Mr. ANDERSON. That is right, sir. I really do not know exactly.

Senator FONG. Now, we understand it.

The CHAIRMAN. Let me inject there.

As a result of our deliberations, from our side here, when we injected the 10 percent of the 1971 budget, it was a guesstimate, an educated assessment of what might be a place to start. But our first position was that the allowance ought to be 10 percent of the budget of the current year. But the House took a different view, that there was some inclination not to make it a formula 10 percent, and the compromise that we had in conference at the time, in order to get the bill moving—and the name of the business on the Hill is the spirit of compromise—was to accept the fixed 10 percent of the 1971 budget.

It seemed to me it was shortsighted then. I thought it should be 10 percent, as we discussed over here. Ten percent of whatever the budget was for the current year. That would have permitted them to roll a bit with the inflationary factor.

God knows we did not anticipate that, either. We were not that smart, but out of conference we got the compromise, which was the best you could get if you were going to get a law passed and adopted, and this is what was finally signed.

The House has considered several proposals, one being that the subsidy ought to be around 15 percent or more, ought to be a large figure.

Over here, the inclination has been that that is too high. But we are open to suggestion, and further evidence and education, to make a decision on whether it comes out 11 percent, or 12 percent, along in there.

We are prepared to suspend our current judgment until we get some more expertise into this, and that was the reason for the suggestion of this special commission, to have a hard look at the equities of a public service formula.

Mr. ANDERSON. Right, sir.

I recollect that in our second statement we refer to a concept of index, and I said we were studying it.

We have a group of systems analysts in GAO that are at the disposal of operating groups like ourselves, and there are two ways to look at this problem.

I guess, No. 1, what should the size of the Federal subsidy be, which in turn will determine what rates are to be.

Or No. 2, decide what rates should be and back into the Federal subsidy, except that you are kind of open ended on the amount of the subsidy on that basis.

But we are trying to study, what would the effect be, and retroactively, what would it have been had we pegged increases in postal rates to some index, maybe some part of the Consumer Price Index, and have the rates move generally with that. It seems this question of acceptability of rates is a real problem right now.

The CHAIRMAN. When you are speaking of rates, are you confining it to any particular class of mail?

Mr. ANDERSON. No, sir, we would need one final grand rate case that decides what the starting point will be, and have an index of different classes of mail.

The CHAIRMAN. May I say the consequences of that would be a whole army of unemployed lawyers around town.

Mr. ANDERSON. We are still studying it, and we want to make sure what all the ramifications are before we put out any piece of paper with GAO's name on it. We think it might have some merit in assuring that mail users are paying a fair price for the service they are getting, and I would imagine if postal rates move with prices generally, it would be acceptable. Then from that, you would have a basis to measure how effectively postal management was doing by how well their costs keep pace with the index, and then the Federal subsidy would perhaps be the difference.

The CHAIRMAN. We have been operating here under the 10-minute rule for questioning, and we have observed all the proxies we have, and the absentees on the committee for their 10 minutes, and Quent, your 10 minutes is next.

Senator BURDICK. Twenty minutes ago.

The CHAIRMAN. No; I was using Fritz's, and Ted Moss' and Jennings'.

Senator BURDICK. Thank you, Mr. Chairman.

When I came in, you were talking about the possibilities of having a standardized letter, envelope. When we got the message 5 or 6 years ago, that there would be a more efficiently operated post office, that Congress could not run it as well as some independent operation, the watchword was efficiency.

What has happened to the standard post office procedures, such as using a standard envelope?

What has happened to that in the last 4 or 5 years?

Mr. ANDERSON. There is a classification proposal now that provides, as you know, for a surcharge for off-sized envelopes.

The Postal Service has still not moved out the way it could in this area, as far as we are concerned, but again they are attuned to the sensitivity of Hallmark and people like that, which accounts for a large part of their revenues.

But I think we could say, based on what we know, they have not moved out as quickly as they could on matters like standardization of envelopes.

Senator BURDICK. Do you have an estimate of how much might be saved if we had the standardization?

Mr. ANDERSON. I would say that, if they standardized—and standardization does not mean they all have to be one size. There would be tolerances built in.

The CHAIRMAN. Some flexibility?

Mr. ANDERSON. The main thing would be the squares, which the OCR's would look to for processing information, would be uniformly placed.

You are talking about the difference between the speed of an OCR reading a letter, and sorting, and the speed of a group of people working an LSM machine.

They say they have 200,000 people working inside the post offices. You could probably cut that down in half, I am sure, and probably even further. That is right off the top of my head, but there would be substantial savings in the sorting process.

Senator BURDICK. As far as postcards and business cards, they carry an extra rate. Off-sized pieces?

Mr. ANDERSON. Absolutely.

Senator BURDICK. Do you recommend the standardization?

Mr. ANDERSON. I believe that somewhere down the road we can assume that Postal wages are going to continue to grow, at least to keep pace with the cost of living generally. If in fact volume continues to drop off in response to further rate increases, and even with increased subsidies, productivity improvements are going to be absolutely mandatory, if this outfit is going to continue providing useful service to the American people.

There is nothing that looks more promising than the use of optical character readers for mail sorting.

Senator BURDICK. I understand before I got in the committee room you recommended the closing of third- and fourth-class post offices, and that would save \$100 million?

Mr. ANDERSON. That is correct, sir. Although you are not really phrasing it in the words that our report did, and what the intent of the report was.

What we pointed out to the Postal Service, based on quite extensive field testing we did, that there are a number of small offices across the country that could be closed without affecting the mail service provided to those citizens.

We pointed out that right now there are 12 million American people that are served by rural delivery. There are 4 million Americans that are served by these third- and fourth-class post offices that we are talking about.

All we are doing is saying that in those cases where the citizens are willing to do it, and their mail service will not suffer, why not take some of those 4 million, and transfer them over to the 12-million category, and give them rural delivery, or replace their office with a community post office which is another option.

We believe that to the extent that we could provide people with the same quality, or better mail service, and you could save some money, it makes good commonsense, especially if the taxpayers' money is going to continue to be put in there.

Senator BURDICK. Well, your condition in there makes it quite different.

You said if the citizens are willing to do it.

Mr. ANDERSON. That is one of the ground rules that the Postal Service operates under, and that we set as a condition in our report.

The Postal Service is doing that, and in fact citizens are frequently more than willing to agree. It does mean, for example, where rural delivery is used in place of the local post office, they are getting home delivery. Something that those of us that live in the city and the rest of the rural Americans that are served by rural delivery take for granted.

Senator BURDICK. Mr. Chairman, I think I will file with this committee some exhibits, 100 to 500, by people in my State who are not willing, at this particular time. So you are going to have a problem there on the unwillingness.

Mr. ANDERSON. I wonder in the last analysis, sir, if you will accept the deep financial problems, and you can give these people at least as good, and frequently better quality mail service, and save some money. The Postal Service does take the trouble to solicit their views, but if you are going to give them something that is no less than millions of other Americans are getting, we can imagine the flack, and the report was—

Senator BURDICK. You mean you acknowledge there is some unwillingness in this area?

Mr. ANDERSON. Yes, sir, absolutely true, and we think it is a case of educating the public of the fact that that service does not suffer when these changes are made.

The CHAIRMAN. Is the postal formula on that, just to embellish the point that the Senator made, is the postal formula that you would replace it with equal or better service?

Mr. ANDERSON. That is—

The CHAIRMAN. That is a precondition which had not been mentioned.

Mr. ANDERSON. Yes, sir, absolutely.

The CHAIRMAN. But it is still a voluntary factor that would be present.

You see, the thing that disturbs the Senator from North Dakota, and many members of this committee, in fact, we all, I guess, represent States that have heavy rural residents, is that this was not to be optional with the users, but rather they were going to close down 12,000 post offices because they were marginal and rural and low use, this sort of thing, at very high cost, and this is the thing that is producing the largest incidence of a protest in both Houses of the Congress, and that is the thing that needs to be clarified here in terms of procedure.

Mr. ANDERSON. To the extent that the Congress represents the rural American people, yes.

The CHAIRMAN. But the optional approach, which is a revelation—we did have the impression that that was one of the things cranked into the formula, that there was going to be an arbitrary decision made to close out there below a certain line, 12,000, 8,000, 4,000 rural post offices.

Mr. ANDERSON. No, sir, that is unfortunate, that too many people have that impression.

The Postmaster General has issued revised criteria to be used in making a determination on closing these offices.

One of the four criteria is that the citizens, the majority of the citizens, have to be willing to accept this kind of service.

Senator BURDICK. You are saying majority, that could be 15 out of 29. You said the citizens would be willing?

Mr. ANDERSON. Pardon me, sir?

I am corrected here that it may not be as clear cut as I thought. I do not have my copy of the criteria here, but the Service will seek citizen inputs.

Perhaps we are too much hardhearted numbers in GAO, but to the extent that people can get the good service—there are so many instances cited in that very report where small offices were literally on opposite corners of a street. By the way, I might mention we had a number of letters from citizens that said they were glad to see that report come out, because what a waste of money it is to have small post offices within half a mile of each other, when people are driving 10 miles for their groceries.

I would like to think, Senator Burdick, in our report, we might have cast things into black and white. I believe that there are some large numbers in that 12,000 that can be closed, and should be closed, where people will be given good service.

The CHAIRMAN. Suppose it was half that number?

Senator BURDICK. What I am trying to say is that I am not for anything that is wasteful.

If we have a job to do on the other side of the street here, getting efficiency in our general operations, and make the rural areas run, first of all, without—like standardization that we talked about, which one should come first?

That is all I am asking you.

Mr. ANDERSON. Right, sir, I would not dare venture a guess.

Senator BURDICK. I am sure the standarization might come to \$100 million, too, in savings.

Who gets it first, that is my question?

Mr. ANDERSON. Obviously, sir, the point you are making, and making it well, is selectivity. The Postal Service has been closing these without too much of an uproar. We interviewed hundreds of citizens where offices were closed, and we found that they were happy with the service.

The CHAIRMAN. Your force was out to check that, is that right?

Mr. ANDERSON. Absolutely, sir.

In 28 States, out in rural areas, where these changes had been made, and we wanted to find out—all right, we used to have a post office, and we do not now.

What do you think about your mail service—and I think it was over 9 citizens out of 10 said, our service is at least as good or better than before. We are happy.

So we used that as a starting point in our review. Well, maybe we should be doing more of this.

Senator BURDICK. You see, one of the things the local—is my time up, Mr. Chairman?

The CHAIRMAN. Yes; but you have a borrowing quotient there.

Senator BURDICK. One of the things that we are looking for, these remote areas contribute to food, the balance of payments, and everything else, and I just do not like to see second-class citizens. Can we not attack this across the board?

Mr. ANDERSON. Right, sir. I agree there is a number of considerations.

Senator BURDICK. Thank you.

The CHAIRMAN. The Senator from Alaska.

Senator STEVENS. Thank you.

Mr. Anderson, I am sorry I did not get here to hear your statement.

The CHAIRMAN. It was not made. We have just been getting down to the nitty-gritty.

Senator STEVENS. You have not read your statement yet?

The CHAIRMAN. It has been made part of the record.

Senator STEVENS. My State still enjoys, along with the Senator from Hawaii, the dubious distinction of paying four times as much for telecommunications as anywhere in the United States, and I see a growing tendency to use telecommunications in place of communications which normally used the Postal Service extensively.

I think the transfer of funds in the social security area is a good example. Another is the use of telecommunications in the transfer of the banking funds which is growing.

Have you looked at these funds and data in terms of its impact on the Postal Service system?

Mr. ANDERSON. No, sir, not from a quantitative standpoint. I am not aware of any studies that have been made that could measure what the future effects, or even what the past effects of this have been on Postal Service volume.

There is no doubt that Postal Service volume has not increased like it had in the past years, and there is some correlation with disposable income, and with the number of households.

As to what lies down the road, I had a Postal Service official, in the last couple of months, tell me that they ought to be planning to go out of existence some time in the next 10 or 15 years as a result of these other methods of communication. The big uncertainty right now, and this applies to self-sufficiency and what lies down the road, is the elasticity of demand for postal products.

When you look at the particular classes of mail, on how they were affected in this past year when volume dropped, first class dropped somewhat, third class dropped, and second class went up.

Even with the information that we have had in the last year or two, we still do not know with precision at all what the elasticity is, and what will happen to the volume, and what the effect of these alternative means of communication is.

I think from a problem standpoint, you said GAO should do a study to try to come to grips on what the effect of these might be—I do not know how we could approach it, other than saying that Treasury checks are going to start moving electronically, and we are going to lose then many mailings a month on that, and that sort of thing.

I just do not know, sir. That is not much help; I am sorry.

Senator STEVENS. My friends in the television industry tell me it will not be too long before you will be able to send a facsimile sheet via a little machine on top of the television, and by using your telephone and diagraming on the machine it will appear on another television screen.

Now, if that is the case, the Postal Service system is going to be tied more to Ma Bell than anybody ever realized, is it not?

Mr. ANDERSON. Yes, sir, absolutely.

Senator STEVENS. And if that is the case, people who live in places like Holikachuk, and Little Diomedes, as well as some remote places in Hawaii, are going to face the problem of paying for communications on the basis of telephone rates rather than on the basis of a standardized postage rate which guarantees every person in the country a right to personalized communication at the same rate.

I am very fearful that where we are going right now is that we are just standing back and looking at something, and saying, "Isn't it fine, this new technology," without looking into its ramifications. I find it difficult to understand this; maybe it is our fault that we have not asked you to make that study, but I think someone should ask you to make a study to find out what impact this futuristic technology could have on the postal system, and upon the people in rural areas. I know the Senator from North Dakota is worried about losing post offices—I do not think the problem is that a post office will be there, but that communication system will not be going through the post office in 10 or 15 years. It will be going through the satellite system.

I just returned from Europe, and it is interesting. Because there you do not go to a post office, you go to the post and telecommunications office, and their system in Europe is such that whatever advantages are developed by means of telecommunications regarding efficiencies and economies, is automatically fed into their postal system.

I really think that we have to look, and Mr. Chairman, I would like to have this discussed at a committee meeting, to have the Office of Technology Assessment study this for Congress. If we are in a situation, I do not know what it cost the Senator from Hawaii, to call home but I think our phone rates in Alaska are worse. You can pick up the phone now and call for 22 cents a minute, as I recall, here in the South 48; however, it is \$3 a minute if you call from Nome.

Now, when you get into that kind of disparity, and if the country is going to depend on a phone system for the basis of personal communication, we are left out, and might as well be treated independently, and treated with foreign aid.

We cannot support a telecommunication system in a village of 20 to 100 people.

Mr. ANDERSON. I know the Postal Service has considered it to broaden the range of service it is offering. I do not know whether you have heard but one of the things they have considered in actual

study and made some volume projections on was something like the World War II V mail where your letter would be opened and photographed and photostated. Slightly something like the Mail-O-Gram satellite where it would be transmitted by satellite to a local office, then put in hard copy, and delivered out to the home.

So, I would hope that there are alternatives to the use of AT & A lines perhaps provided by the Postal Service that might keep the rate—

The CHAIRMAN. It might cut out a lot of letters in a hurry.

Mr. ANDERSON. I am sure it would.

Senator STEVENS. What about the computation system itself? Social security system is going to transfer funds by computer. The banking system is transferring funds by computer. I take it the Government is going to a considerable amount of communication by computerized telecommunications systems.

Why should we set up in the Federal Government a situation where every department has its own little postal service?

Mr. ANDERSON. You put your finger on the dilemma of a postal service, obviously, sir, and you have it there for some basic volume. We keep talking in terms of the structure of their costs and in their view to a great extent they are largely fixed. In other words, just maintaining the network and providing the capability to move the mails in volume. We are uncertain of what the effect on cost will be if the volume dwindles. For the National Bulk Mail System, they developed a whole range of estimates, the potential finally came down to something that they called, which, where everybody that could use the United Parcel Service is doing so and the only thing they are handling are the dogs and—

The CHAIRMAN. Handling the lost articles, yes.

Mr. ANDERSON. Right, sir.

So these are the things we were talking about earlier, Senator, that we think this Commission on Postal Service could probably address itself to: Where we are going, what it is going to look like, and what should the taxpayers' input be.

Senator STEVENS. Have you looked at the problem? I have read your report. However, I did not notice whether you have looked at the problem of magazines and others that are complaining about increased rates.

Mr. ANDERSON. I noted in fiscal year 1975 second-class mail circulation had the largest growth in volume of any class of mail provided by the Postal Service so apparently business is good.

Senator STEVENS. Well, have you made any recommendations in dealing with that portion of the service?

Mr. ANDERSON. No, sir. We thought that the Congress had taken a position on that when it opted for the extended phasing in second-class mail. This is one of the issues that that Commission on Postal Service is going to have to address itself to.

The other costs of those publications are increasing and to what extent should we pass on some of these higher postal costs to them, I would hope that would be decided.

Senator STEVENS. I am beseeched, as I am sure other members of the committee have been with questions of why can't we have carte

blanche on some things. We are going to have the publication representatives here in the next week or so, and there may be a request for another extension of phasing. I am wondering, has there been an historical study of the use of the mails by publishers? I remember the days when I used to deliver the Saturday Evening Post and a few other things just as newspapers are now delivered and now they use the postman. If the kids around the country are not making money for this kind of distribution, who is getting it? Have you done a study as to the impact of using mail for delivery as compared to personalized delivery solicitation?

Mr. ANDERSON. No, sir. We have looked at the wealth of information that has been submitted to the Postal Rate Commission, both pro and con, on what the effect of higher mailing costs have been, but we have not done any studies on our own.

It appeared there was no information that we could develop that had not already been generated. We have some views perhaps, but I am sure those—

Senator STEVENS. You have taken the position, as I understand it from your statement, that you are in favor of at least a short-term increase in financial assistance to the Postal Service.

Is that right?

Mr. ANDERSON. That is correct, sir.

We base that on the fact that without borrowing there are two projectable points in time when the Postal Service will absolutely be short of cash to meet its requirements and payroll costs. The first of these is for the first of June of this year. Without borrowing, their own cash flow projection shows they will be \$300 million short on cash. They do intend to borrow in June another \$700 million.

The next crunch point by their projection would be in April of 1977, even despite the rate increase now in place because of the higher cost. About 1 year and 2 months from now, they again would have a point in time after borrowing \$700 million this year where they would be in a crisis situation.

We point out that right now the Postal Service plans are going to leave them with outstanding debt of \$5 billion on September 30, 1977. And as we view it, we really agree with that provision of S. 2844 to give them some short-term help while this Commission decides what the long-range solution should be.

Senator STEVENS. How much of that is attributable to the new policy of the Government to charge the existing Federal buildings already paid for?

Mr. ANDERSON. I have no idea, sir, and I cannot speak to that.

The CHAIRMAN. It would be an interesting factor to crank into this.

Mr. ANDERSON. We do have some information on their aggregate—

Senator STEVENS. GSA is charging the Postal Service for a building that was built in 1934 in my State, and they are occupying those buildings. Are we in a situation where GSA is billing for a building which on the books that they have already paid off and then we appropriate the Postal Service money and then take it back from them through rents on the other end? I was just wondering how much of this really—how much is monopoly money as far as the deficit is concerned?

Mr. ANDERSON. I can say as a general proposition that in the great majority of the cases the Postal Service owns the building.

In other words, it is a limited number of instances where the Postal Service is renting space from the Federal Government. It would generally tend to be the other way.

Senator STEVENS. I think that is the way they want to go, but I think you will find a lot of the rural areas where you have a multipurpose building which is managed by GSA. I would like to see some figures on that because it may well be we can eliminate some of the deficit by changing bookkeeping procedures.

Mr. ANDERSON. That is readily available, sir, and we will supply it for the record.

[The aforementioned was subsequently supplied for the record:]

USPS SPACE RENTAL TRANSACTIONS WITH OTHER FEDERAL AGENCIES

The U.S. Postal Service rents space from other Federal agencies and also receives income from postal-owned space rented to other Federal agencies. In fiscal year 1975, rent payments exceeded rent income by about \$1.355 million.

Fiscal year 1975

Payments:

For use of GSA-owned buildings-----	\$27,537,000
Other Federal agencies-----	443,000
Total payments-----	<u>27,980,000</u>

Income:

From GSA for use of USPS-owned buildings-----	26,625,000
Total income-----	<u>26,625,000</u>

Senator STEVENS. The last question that I would like to ask is that I see my friend Senator Bellmon is here and I do not want to monopolize the time too much.

I am impressed with the fact that even with everything that is said we still have the best postal service in the system in the world. Have you had any comparison as to the items—such as you mentioned in your statement—as to the fact that the rate of delivery is better than it was in 1971 but not as good as it used to be. From my memory it was 1.65 days and it used to be 1.5 days in 1969. Do we have similar statistics for Canada, for the British, for the French service, Germany?

Mr. ANDERSON. No, we do not, sir. The only thing we know is the productivity. By the way, we are in complete agreement with you that the American postal system is overall as efficient or more efficient, especially in terms of pieces handled per man-year than any other system in the world.

I would say that in dealing with the postal service international organization and what literature we run across would indicate to us that we have relatively good mail service and that we are not lagging behind any other country in the quality of service.

I recently had a letter from a friend of mine who works for GAO who said it was out of sight and who told me that, "Gee, this talk about this excellent mail service in Europe is malarky." I say this because he has traveled all over as part of his GAO duty and he said the services were not as good as we are getting back in the United States.

Senator STEVENS. Well, I am of the opinion that we have the Cadillac of postal service and people of the country would be willing to

pay if we reminded them of that from time to time. The difficulty is we spend all our time criticizing and then we turn around and ask John Q. Citizen taxpayer to pay a little more for the service, which many keep saying is so bad, and as a practical matter we have the best in the world and it seems to me that it would be incumbent upon us at some time or other to start coming up with some reports that compare this system to the other systems and show the advantage of it and demonstrate to the American public why they should pay a little more and get even better service under those circumstances. I just went through the process of trying to have sent some communication in Europe for a period of a week and, believe me, I think it is apparent to anybody who travels over there the extent of the delay in the system and Canada has just come through—what, a 9-months strike? It was a strike of prolonged period of time. The added costs involved in that system now as a result of that strike have been horrendous and we averted that strike in this country by the Reorganization Act. In my opinion, I think Congress and everyone else should give our new system a chance. I do not think we should get so impatient about this system and hamstring it before it has had time to work.

But, above all, I would like to see something coming out of the distinguished agency such as yours that emphasizes the advantage of this system and the fact that it is working better than any other system in the world, and then we can go to the public and say, "Look, it is going to cost another 3 cents to maintain this Cadillac. If you want to pay Model T prices, then you are not going to have this Cadillac."

The CHAIRMAN. It costs more to get a Model T these days than it does for a Cadillac.

Senator STEVENS. But you do not go 90 miles per hour on the freeway in a Model T.

Thank you very much, Mr. Chairman.

The CHAIRMAN. The Cadillac analogy that you draw calls to mind that I noticed on the financial pages that one of the Cadillac models is now being recalled by General Motors and it may be set in the context in which we are looking at this here.

Senator STEVENS. I hope we are not going to recall this model. I do not think this model has had a chance to become a vintage yet.

The CHAIRMAN. On the basis of the 10-minute rule I want to inject a question that the Senator from South Carolina, Senator Hollings, asked me to put to you, so we are switching back on the two sides.

Senator Hollings is chairing the maritime hearing this morning and obviously cannot be in two places at the same time.

The burden of his question that he discussed with me was this: As you arrive at your judgments that you have shared here on delivery time and its relative qualities, is it post box to post box or portal to portal or do you allow for delay even before a letter starts on its way, that is, stacked back in the mailing room somewhere. Where do your readings begin and terminate in delivery-time measurement?

Mr. ANDERSON. Our figures correspond to those of the Postal Service which is measured from the date of the postmarking. To the extent that a collection from a particular box is not made, those figures obviously would be in error. We have in the course of several assignments

been looking at mail service in particular States at the request of certain of your colleagues. We have conducted our own test mailings.

These have disclosed that as a general proposition mail is collected as scheduled from the box and there is no lost time at the box.

Now, at the other end it is considered to be delivered if the carrier walks out of the post office with it and we are not——

The CHAIRMAN. Your measurement is when the carrier receives it?

Mr. ANDERSON. That is correct, sir. I am talking about the Postal Service origin destination and information system and it recognizes two points in time.

First, the postmark time, that is, it could have stayed in the collection box on the corner of 4th and E for 2 days but the Postal Service would obviously have no basis to start counting time of delivery until it was in the post office and postmarked.

At the other end of the line it would not be when it would arrive at your house, but rather the system would show the carrier recording date and assumes the mail would get delivered the same day, which was our observation.

The CHAIRMAN. If there is a measurable gap there in your statistics, where might be the higher incidence of time that is left out of your equation? Would it be at the beginning when it is picked up?

Mr. ANDERSON. I think that the figures provide an accurate measure of the time it takes.

The CHAIRMAN. You do not think there is a serious gap?

Mr. ANDERSON. No, sir. I would say this based on the studies we have done which included our own test mailings. We did a test during the Christmas period in several cities and found that boxes were not always being swept with regularity but as a general proposition there is no gap there.

The CHAIRMAN. In this sequence, even after the mail is dropped in the mailbox at the post office itself and in some instances they have had occasion where mail languished there before it was postmarked and then sent on its way—and how serious is that potential gap?

Mr. ANDERSON. We are not aware of any problem in that regard, sir. We have had our auditors in post offices across the country in many, many States, and at all times of the day and night observing postal operations and as far as we can see the system is designed and generally operating satisfactorily.

The CHAIRMAN. I think that this is an appropriate point perhaps for you to explain or supply for the record the dimensions of the kinds of oversight and investigations that you have been conducting in the Postal Service.

How many people do you have assigned to it, how extensive is your auditing of finances and operations? I think if we could get the dimension of that it would also be very helpful because I understand there is a great deal of commitment in terms of time, much beyond what we can do——

Mr. ANDERSON. Fine, sir. In this large document that we submitted, you will find a statement regarding the number of man-years we have put in. I think the aggregate is something like 200 man-years since the post——

The CHAIRMAN. 200 man-years?

Mr. ANDERSON [continuing]. Since the Postal Service came into existence. It runs around 40 to 45 man-years of effort a year.

The CHAIRMAN. 200 man-years since the new postal reorganization came into existence?

Mr. ANDERSON. That is correct.

The CHAIRMAN. The Postal Service.

Mr. ANDERSON. No; since July 1, 1971 to date.

Senator FONG. You say it represents 45 man-years per year?

Mr. ANDERSON. Right, sir, that is correct.

The CHAIRMAN. That would be full time?

Mr. ANDERSON. These are equivalent man-years, 40 to 45 equivalent man-years. We do an awful lot of work at the request of individual members, by the way. For example, reviews to look at why a particular site was selected in lieu of another one, why the Postal Service is going to move from downtown out to the suburbs. We do a wealth of work—why this particular bulk mail site was selected.

The CHAIRMAN. One of the criticisms or one of the questions raised about your indepth study, and this is not mine—I am relaying this—is that you have been so closely and deeply involved in postal matters that you have practically become one of them and therefore you are not objective.

Mr. ANDERSON. We would have to take exception to that, sir, because believe me the one thing that GAO likes to think it has to offer, is objectivity; and we try awfully hard to keep that. I think we probably have subjected the Postal Service to a little flap with our comments concerning what is happening to the mail service. In some cases, we do find ourselves taking the same position and sometimes before they do; but because it is our position and we think it is the right way.

The CHAIRMAN. You think the evidence requires that position, fine. I want that on the record here because whenever you finally get critics around the corner they run out this new ammunition and they will start questioning your judgment.

Mr. LANDICHO. I would like to add that half of our time is dedicated to what we call, as Bill mentioned, the congressional requests that both Houses mandated for us to do.

On the other hand, the remaining time we call self-initiated work. We do have this independence, if you will, to get into areas that we think are significant and nobody tells us how to call the shots or operate and hence our independence and objectivity.

Senator FONG. Will you furnish for the record Mr. Anderson, your findings relative to the cost of other systems? You did mention here in your statement that the rates are reasonable.

Mr. ANDERSON. Yes, sir.

Senator FONG. Compare^r to what other systems are charging their users, that the number of hours worked and the cost and the wages paid to the individual in various countries as compared to wages paid our people here and you will find that the rates we are now charging is reasonable.

Could you give us a breakdown of what the rates are in various countries that you have found?

Mr. ANDERSON. I can refer you to the overall report which was submitted and you will find that information in there.

We have a number of comparisons with United States and foreign postal systems, and one of them is comparing the rates, others comparing productivity and that sort of thing.

Senator FONG. What page is that?

Mr. ANDERSON. Page 18, sir, in the large document.

Senator FONG. And, comparing our system to those systems?

Mr. ANDERSON. Right, sir. It compares for example the cost of postage and also provides information on how much the postage rate went up in foreign countries compared to what it did in the United States. It compares, in U.S. cents, the price of postage in a number of countries and that particular figure shows the United States is well down the list. Our statement points out that the postage in other countries averages 19 cents for a unit of first-class postage as opposed to our 13 cents. We also have information on the amount of worktime it takes to buy a unit of first-class postage. That is always the way these comparisons are made concerning the amount of time it takes to buy a loaf of bread, that sort of thing.

Senator FONG. In view of what your finding says you have not made any recommendations as to whether the postage rate—

Mr. ANDERSON. Let me tell you that in our statement, in the original statement, I point out as far as we are concerned, at least for first-class postage, that is a reasonable rate. We express the opinion it could go up and it could still be reasonable compared with other countries and just based on the amount of time it takes an American worker to come up with the money to buy a unit of first-class postage.

Senator FONG. In your recommendation then our rates could go up and should go up—

Mr. ANDERSON. It still would be reasonable.

Senator FONG. You are still recommending that we take care of this added infusion of money?

Mr. ANDERSON. Right, sir; because on the short term—and I want to emphasize what I have been saying—there is a short-term financial bind as to how high rates should be allowed to rise. I brought out in the statement that being reasonable and being acceptable are, unfortunately, two different things. I think 13 cents is reasonable even though a lot of people are screaming about it. To the extent that increased postage rates would decrease the use of the mail for those purposes that we have a Postal Service and they are spelled out in the Reorganization Act, education, cultural, business, and the commerce of the country, it would affect that adversely. Something has to be done and I hope that this Commission on Postal Service will be trying to come up with an answer to basic problems like that and we would not propose to offer any solution.

Senator FONG. Do you think it is fair to try to saddle the taxpayer and to make up this deficit by an increase in order to take care of the prospective costs and the deficit?

Mr. ANDERSON. As I viewed your legislation it provides a subsidy of up to 10 percent, and that provides flexibility right there. I would assume that you will provide them enough money to insure continued solvency, and I would even say that you would not want them borrowing for operating costs. Over the next 18 months they intend to borrow another \$1 billion for operating costs, and to me they are really mortgaging the future. That is a violation of the basic tenets of good business, as you are well aware, borrowing money to pay your operating costs especially if it is long-term money, and they have already rolled over some of their short-term notes.

I would say you would want to provide them enough money to pay their bills and avoid borrowing to pay operating costs.

The CHAIRMAN. Senator Hollings has a bill in the committee that is under consideration that would forbid borrowing for operating cost.

Mr. ANDERSON. Right, sir.

The CHAIRMAN. And, your report likewise underscores that same point.

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. I think it is well worth constructive thinking by this committee in order to perhaps make that clear. It seems to me that was not the original intent of the borrowing authority, but we will resolve that as we go along here.

The Senator from Oklahoma.

Senator BELLMON. Thank you, Mr. Chairman.

Mr. Anderson, I want to present you with two problems that have come to our office in recent months. See if you can tell us how to deal with them.

The first has to do with the fact that on Friday, February 6, our office mailed a bundle of documents first-class from the Senate Post Office to Tulsa. It takes 21½ hours to fly to Tulsa from Dulles, and we understand first-class mail goes by air. Eleven days later those documents finally arrived.

Now, where were they?

Mr. ANDERSON. If I had to venture a guess I would have to say they were probably part of the missent mail problem that I referred to in my statement.

Senator BELLMON. No, you were referring to letter sorting. These were not letters. These were fairly large packages of documents.

Mr. ANDERSON. In the GAO review that led to that report concerning missent mail it was not restricted to individual letters. We found bags of letters, in other words, mail bags were being misdirected.

Senator BELLMON. But they do not go through letter sorting.

Mr. ANDERSON. That is right, the biggest problem is letter sorting.

Senator BELLMON. The problem seems to be a bunch of goof-offs. Do you ever fire anybody?

Mr. ANDERSON. Well, that is the Postal Service management's prerogative, sir, and I do not think they really have that right under their union agreements.

Senator BELLMON. You mean to say someone does not have to work and they just let the mail lie around for 11 days and still—

Mr. ANDERSON. I would prefer not to speak for the Postal Service, sir.

Senator BELLMON. Who do you speak for?

Mr. ANDERSON. The General Accounting Office.

Senator BELLMON. But you feel that they—you feel your study of them that they do discipline their employees when they violate this? Do you look into that?

Mr. ANDERSON. We have been in a lot of installations and I am talking about a lot of people and I would hate to castigate a bunch of people—700,000 people for perhaps what we see in one or two post offices. I really dare not speak about whether in fact those 700,000 are doing their job effectively.

Senator BELLMON. Talk about the ones you saw. Do you find the Postal Service employees are diligently going about their duties?

Mr. ANDERSON. Perhaps as a general proposition they shape up when the auditors are around, but we notice that they seem rather busy and productive. I am talking about Chicago which has a horrible, dirty old post office; and of course you always hear horror stories everywhere you go but this is really a touchy subject and I just do not have the information, sir.

I will be honest with you, we are talking about a lot of good people out there and there may be some people that are taking advantage of the system as there are in any system. As to whether the Postal Service has an unusual proportion of these people, I cannot say. I understand even General Motors and Ford have people smoking pot in the wash-rooms and they are getting away with this.

The CHAIRMAN. You suggested productivity, at least, as you could measure productivity which was the highest in the world.

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. That ought to be kept in the balance.

Senator BELLMON. Highest in the world compared to other postal systems and maybe there is a little goofing off in the other countries, too.

Mr. ANDERSON. It is quite possible.

Senator BELLMON. I do not intend to castigate the Postal Service but you mention in your statement here that the average day of delivering a letter—average time is now 1.65 days. It is not the average that kills us. It is these essential things that do.

For instance, I was going to give you the second case and I understand, Mr. Chairman, that I am a supporter of the Postal Service and I am not trying to go back to what we had; but 3 months ago—that is not the precise date, but the National Livestock Commission of Oklahoma mailed \$500,000 worth of checks to cattle and livestock producers for that day's sales at the Oklahoma livestock market. Three months now those checks have never been delivered and that at best we found that the Postal Service did pick up the mail and sent the bag to the warehouse at Memphis and physically they will probably be there for the next year.

In the meantime, we have got \$500,000 worth of money that belongs to the livestock producers that is tied up and unless they write for new checks and we have got several dozen checks for our constituents, and those are the kinds of things that are killing the Postal Service reputation.

Did you in your work, in your study, find that the Postal Service is trying to put an end to those kinds of mishandling of the mail?

Mr. ANDERSON. Yes, sir. They certainly are. They have instituted all kinds of controls to try and reduce the amount of mail—

Senator BELLMON. What would they do with this fellow that put that sack of checks into this pile of supposedly empty mail bags?

Mr. ANDERSON. They do have disciplinary procedures. I could not speak to what would have been done in a case like that. I just do not know.

The CHAIRMAN. The Senator is so right because that sets us back a million-odd years and we are trying to project really—

Senator BELLMON. We would like to help the Postal Service but they have got to help themselves. The problem I think comes from a very small percentage of postal workers who are either indifferent or absolutely lazy and I wonder if the Service is really trying to clean up its own house.

Mr. ANDERSON. I don't think its hands are tied, but the union contract obviously limits its flexibility with its no-layoff clause, grievance procedure and that sort of thing. I am sure that the postal employee is not treated the way UPS employees are where if you are not doing your job and you make a boo-boo they can point you to the door, you pick up your check, and you are gone.

Obviously, the Postal Service, in effect, is like the civil service. I am sure that we recognize that the procedures just are not adequate to weed people out of that system.

Senator BELLMON. Do you have any recommendation for procedures that we might put in place that would help us to make the system more efficient?

Mr. ANDERSON. We are now operating under collective bargaining arrangements and I can see nothing that can be done by fiat and anything that they do will be the subject of negotiations.

Senator BELLMON. You are saying we are helpless to deal with the union?

Mr. ANDERSON. Let me say the Postal Service is, sir, right now—
Senator BELLMON. Helpless?

Mr. ANDERSON. Well, no.

The CHAIRMAN. They negotiate voluntarily, do they not?

Mr. ANDERSON. That is right, sir.

Senator BELLMON. And, they depend on us to pick up the tab?

Mr. ANDERSON. Right, sir.

Senator BELLMON. So, I do not think we are helpless. We have control of the check book.

Do you have any recommendations as to how we deal with the problem?

Mr. ANDERSON. No, I really do not, sir. I do not see legally as a practical matter what you could do about it. In other words, the conditions and the terms of the employment of the postal worker are by law, and as I understand, subject to a matter of negotiations and contract between the employer, the U.S. Postal Service and the employee. The Federal Government, as I understand it—I am not a lawyer, sir, like yourself—would have no say in it.

The CHAIRMAN. God bless you—you are not a lawyer.

Senator BELLMON. It would seem to me that the wage contract would be in the interest of the employees as the contract is drawn up to furnish this benefit and should provide not for the employee who is making the whole system look bad and if it does, then we should show him the door.

The CHAIRMAN. There is a procedure in the contract for following that through that simply says, "McGee, you cannot intrude," and says "You can fire that character," otherwise you cannot have a negotiated contract. That is what collective bargaining is all about.

Mr. ANDERSON. What I would like to do Senator—it would be of interest to us—is provide for the record a figure on the number of postal employees that were removed for cause in the past couple of years.

Senator BELLMON. That would be very helpful.

The CHAIRMAN. That would be very good. The only other way they can reduce this is through attrition.

Mr. ANDERSON. That is correct.

Mr. BELLMON. Mr. Chairman, that is all I have. Thank you.

[Aforementioned information was subsequently supplied for the record:]

There were 9,792 postal employees separated from the Service "for cause" during fiscal year 1975. This represents 1.3 percent of the postal workforce.

The CHAIRMAN. I have one or two items. Thank you very much, Henry. I have two or three little items that I have in my hand here, a letter written to me signed by 76 Senators including members of the committee and the purport of the letter is that they want hearings on a bill to require the Postal Service to consider college catalogs and other college mail as second class. So that colleges might mail their catalogs at the second-class rate. This is part of our problem and its brings to the surface the matter of equities and how you best protect those equities.

Now, we are going to have to draw the line somewhere and determine what those equities are and then determine who is going to pay for them. That is the reason why many of us believe there has to be a realistic and effective Federal allowance to protect some of the on-going equity purposes guaranteed in a national Postal Service and this simply brings it to the fore again.

Did you make an audit or do you have any information on what this relative cost factor is, how much of their cost factor they pay in the rate that they are charged? How much of it we are carrying as a public service?

Mr. ANDERSON. Yes, sir. We are carrying about half and if you want to give me just a second here I will get some precise figures.

The CHAIRMAN. I will give you 3 seconds for that one.

Mr. ANDERSON. For regular rate second-class mail, which would be the type of publication you are talking about, postage revenues for the mail moved were \$188 million.

The amount of revenue would be \$188 million that they paid for and \$162 million they were subsidized for.

The CHAIRMAN. But there is a measurable gap there and the general view, at least at this end, there are many equitable circumstances; but the problem comes in judging where the break-off point is or where the cases that ought not to be allowed. You would be amazed at the public interest petitions that are filed with us here that say we need help to make sure we can hold our second-class privileges and I will not describe the more extreme and curious petitions for that kind of consideration because it would become obvious who it is.

But, I would like to say—

Mr. ANDERSON. I think that would be most challenging to the Commission on Postal Service.

The CHAIRMAN. Which leads me to my next question, and that is, very frankly, we have been impressed for some time over the integrity and the thoroughness of the GAO's activities in running through these things and checking out the Postal Service and my question to you is: Would it be within your capabilities in the light of your ex-

pertise on this, to do that—to undertake that which we were thinking of assigning to a special commission on this matter.

I need it for the record in order to do the best we can and God knows we do not need another commission if we can do it better some other way, but we want to get the job done. That is our first priority.

Mr. ANDERSON. I hate to beg off, sir, but what I would like to do perhaps if we could arrange for, say, a little thought time on this and think through exactly what the objectives of the Commission should be and get a better fix on what would be involved and see whether we have the inhouse resources to do it. I am sure that we could look into this and we do have people, for example, in our office of the General Counsel who can provide us legal assistance and that sort of thing.

The CHAIRMAN. It seems to me it would be easier up here to just create a new commission. But we would like to do it the wisest way that we can and if you take a little time and have your people together assess this for us, it may be that giving the study to GAO is a far more effective and wiser way for us to go. We have no pride in authorship. They were put forward to permit us to proceed from them and they are not sacred cows in any form. So, if you could do that we will have a little time that we could allow for this—

Mr. ANDERSON. I would hope we can get back to you within a week.

The CHAIRMAN. That would be, I would say, the speed course. That is great.

If you can give us, with a reasonable estimate of the dimensions and whether you would be equipped to do it or even whether it would take a little more manpower and we would have to put up some extra money for the time being for you to do that. We are trying to do it at the least costly way and most effective way.

Mr. ANDERSON. I am sure that we would like to draw on some outside consultants. There are some real experts out in the world but let us think about it and understand what the task is about and get back to you quickly, sir.

The CHAIRMAN. Yes.

I think one thing that is important is that we not lose sight of is that we as we look down the road ahead and at a far distance down the road we can see many very challenging and exciting prospects laden with uncertainties. But I think from the standpoint of this committee we have got to get to tomorrow and to April 1 and to June and to the end of the fiscal year and to the new budget year. We cannot sit here and wait for new magic to appear. And, therefore, our real task here is, as I see it, to face this imminent question of insolvency that is staring the Postal Service in the face and to express the hope that the administration would likewise live up to its responsibility in this matter. And it is a very hard rock and I do not know how else we are going to do it other than just to decide what that fair amount is and close that gap.

Mr. ANDERSON. I agree.

The CHAIRMAN. And, I am very much impressed with what you have shared with us this morning and what is in this compendium that you have presented to us.

Now, this was sent to every Member of the Congress.

Mr. ANDERSON. It has not yet gone out, sir. We wanted to wait until this hearing was over.

The CHAIRMAN. When would that be?

Mr. ANDERSON. We would hope next week. We have prepared a letter for Mr. Staats' signature. It will be going out and we intend to send each Member a copy of my statement and a letter from Mr. Staats will be found inside the cover pointing out those things and matters that might be of interest to everybody.

The CHAIRMAN. All right, with the expressed very genuine hope that our Members of the Congress will take advantage and the opportunity before they write their next letter or make their next speech to study this. That is hoping for a bit much, of course. In the first place, it will spoil a lot of fun for some people. You really throw a wet blanket over a lot of oratory around here on the Hill. And you lay that out rather clearly for us. There is no magic. It is not going to be easy but it requires at least an understanding.

Let me look at all of my scribblings here. I have no other questions that I want to put to you.

I just do not see any alternative for us in the short run except starting where we are, and that is a guarantee of relatively equal service all across the country in a national monopoly as a matter of principle for Postal Service, and that is expensive.

As I understand from the studies, most of the post offices of the United States, could not possibly pay their own way, could not possibly pay, and that is a built-in guarantee that we are not going to penalize a person for where he lives and that has to be cranked into the public service formula. I do not know how we get across the imprisonment of the system in some of these fundamentals.

The inclination is to judge the system as though it was General Motors or Ma Bell. Fred Kappel, from A.T. & T., headed the Postal Commission and was the first Chairman of the Board of Governors and he said running Ma Bell was never like this because the dimensions are so different. The national postal monopoly concept make comparison with private industry almost impossible. That is an education to a very fine business leader. Unless we are going to change that basis for the Postal Service we are limited in what we can do. We have either got to produce more money through subsidy or we have to turn out a temporary allocation to cover the emergency.

We have to increase the rates or we have to cut out the services.

If we end up without the money this fall and just say, "You guys down there, stay afloat if you can," they are eventually going to cut out service and that will blow the lid off everything across the country and our people, it seems to me, have to understand that has to be paid for. There is no other choice. You cannot close down a part of the plant. You cannot set it aside for 6 months or a year until things get a little better. It all has to operate. You are stuck with the capital investment.

We hope we have the wisdom up here not to throw out the baby.

I think that summarizes the kind of problem that we are faced with with the exception of the 535 Postmaster Generals that we have here on this Hill and each one has a different solution.

I have just talked to a gentleman the other day and spent 45 minutes, and he says we have got to take the Postal Service back in the hands of Congress and run it. He has never been on the Post Office Committee, never had to go through the ordeal of postal reorganiza-

tion. I asked him, "Why?" "Well, I will tell you why," and this was his full story, that he has got a woman postmaster in a rural area in his State and the Postal Service said she must retire because she reached retirement age and he did not want her out of there. The community wants her in there and therefore he wanted the Congress to take control so we can tell the post office they cannot displace this very fine woman who has been there this long time. And he was making this petition and had it put in the record so that she can see it and he was striking a blow for her and she thinks he is a great guy. We have a heavy responsibility and yet this is what we are engulfed by, surrounded by all the time, and I hope that we can keep our heads screwed on.

We were contemplating some studies on our own and I am having very serious second thoughts, very frankly, because I have been so impressed with the thoroughness of your investigation and I do not want to be guilty of just inventing something to do because I want to get the headlines in doing it. But we have the information you have provided and in many cases in areas that I was very conscious of, where we needed that information and you are supplying that. I want to have another look now to see whether what we ought to be doing is shoring up what you have told us, what your study indicates, and proceeding from there. But I do think we ought to have a cold look now at our own responsibility here and I appreciate what you have contributed here this morning. It was worth waiting for.

Thank you very much.

Mr. ANDERSON. Thank you, sir, and we appreciate it.

The CHAIRMAN. This committee is now adjourned.

[Whereupon, at 12:05 p.m., the subcommittee recessed to reconvene subject to the call of the Chair.]

[Prepared statements of Mr. Anderson, letter from the Comptroller General, and GAO report follow:]

United States General Accounting Office
Washington, D.C. 20548

FOR RELEASE ON DELIVERY
Expected at 10 a.m. EST
Wednesday, January 28, 1976

STATEMENT OF
WILLIAM J. ANDERSON, DEPUTY DIRECTOR
GENERAL GOVERNMENT DIVISION
BEFORE THE
COMMITTEE ON POST OFFICE AND
CIVIL SERVICE
UNITED STATES SENATE
ON
FINANCIAL STATUS OF
THE UNITED STATES POSTAL SERVICE

Mr. Chairman and Members of the Committee:

We are pleased to be here at your request to present our views on the financial problems of the Postal Service.

We will not dwell on the Service's need for short-term financial assistance. That need is very real. Without such assistance, this independent agency of the Federal Government could find itself insolvent before the end of fiscal year 1976. We believe the short-term financial assistance provided by Senate bill 2844 is appropriate.

Given that premise, Mr. Chairman, we believe our principal contribution to your Committee's deliberations would be to give our views on the obvious and overriding question of whether this situation necessarily signals the inability

of the Postal Service to achieve the objectives set for it by the Congress in the Postal Reorganization Act.

We will first discuss the causes of the Service's financial straits and then give you our reasons for believing that:

- self-sufficiency, although a desirable objective, may not be attainable, and that
- Postal Service independence has advantages, even in the absence of self-sufficiency.

CAUSES OF FINANCIAL PROBLEMS

About 2 years ago, we testified before your counterpart Committee in the House on the modernization efforts of the Postal Service. We noted in our statement that:

"With a postal work force of the present size, escalation of 5.5 percent annually will increase costs by close to half a billion dollars a year. Consequently, unless productivity can be substantially increased and the size of the work force reduced, rate increases will be forthcoming with increasing regularity--or the amount of the Federal subsidy will have to be enlarged to make up the difference (between revenues and costs)."

Events have proven us correct, but certainly in a considerably shorter time span than we had anticipated, thanks to the inflationary period the Nation has been passing through.

And this cost growth has been most severe in the area of employee compensation. At the time of reorganization, the Service's payroll costs amounted to about \$7.5 billion for

724,000 man-years of effort. In 1975, the Service paid \$10.8 billion for 693,000 man-years. The work force dropped slightly over the 4-year period, while payroll costs increased 45 percent.

Proportionally, fuel costs increased even more--from 25 to 45 cents per gallon for gasoline. As the Service has pointed out, each one-cent increase in the price of a gallon of gasoline increases its costs by \$3.5 million.

These pressures help explain why the annual cost of operating the Postal Service has risen by about \$3.5 billion since reorganization and why the price of a unit of first-class postage has risen from 6 to 13 cents over the same period.

Historically, the costs of operating the postal system have been split between the mail user and the taxpayer. However, a new wrinkle was introduced by passage of the Postal Reorganization Act. To that time, the Federal subsidy was a residual--the difference between the revenues generated by the congressionally authorized rate structure and the expenses of operating the Post Office Department.

In contrast, today the rates are, in effect, the residual. The amount of the Federal subsidy is largely fixed, being based on specific provisions of the Postal Reorganization Act.

If the Postal Service had continued to operate in the environment of yesteryear--price stability, relatively low-paid help--the new legislation would probably not have

caused any problems. Costs and postage rates would have remained stable.

This was not the case, however. The Service's costs have risen sharply in recent years, primarily a result of the significant increases won by postal workers--increases that have exceeded those obtained by workers in both the Government and private sectors. Under the former way of doing things, Congress would have had the option of raising postage rates to offset the rise in costs, or, if it so chose, to keep the rates stable and increase the amount of the subsidy.

That option is not available to the Postal Service. Its subsidy is fixed. It has no alternative to increasing rates and in the event of not increasing them quickly enough, to absorbing the added costs by digging into working capital and by short-term borrowing.

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The Postal Service's financial plans and budgets have, for the past several years, anticipated that costs would be covered by revenues. But this was not the case. Costs exceeded revenue during fiscal years 1974 and 1975 by, respectively, \$438 million and \$989 million. The loss for 1976 is estimated at \$1.5 billion.

What went wrong? Four things:

--Because inflation was unexpectedly severe, the cost-of-living adjustments to postal workers

were greater than anticipated--\$400 million more in 1975 alone.

- The added costs resulting from the fuel crises were not anticipated.
- Postage rates could not be raised to increase revenue as quickly as needed--the second rate case took 23 months to resolve, a period during which rates were frozen. And,
- Mail volume has not only not increased as expected, but has actually fallen.

Mr. Chairman, it's apparent from these causes that the Service's present financial difficulties are not all of its own making. This should be a consideration in weighing their implications.

SELF-SUFFICIENCY REMAINS
A DESIRABLE OBJECTIVE BUT
MAY NOT BE ATTAINABLE

Now to return to our initial question as to whether this situation signals the inability of the Service to achieve the objectives set for it in the Postal Reorganization Act. In particular, is there a need to reconsider the desirability, indeed feasibility, of self-sufficiency? Your bill, Mr. Chairman, S. 2844, would establish a Commission on Postal Service to identify and study the public service aspects of postal operations with a view to determining what portion of the Service's

expenses should be supported by appropriations. We endorse such a study.

Much of the controversy surrounding the Service today centers on the issue of rates. Until recently, the Service saw its mandate as requiring eventual self-sufficiency, with the mail user ultimately bearing the full costs of operating the Service. There is a school of thought, however, that postal operations contain public service aspects that should be borne by the general public.

Resolution of this issue, while desirable, is not a cure-all. Providing public service subsidies will keep rates lower than they otherwise would be and may enable the Service to continue to provide services it might otherwise eliminate. Subsidies, however, will not stem the tide of rising postal costs, nor preclude future rate increases.

Indeed, we have estimated that depending on productivity gains and inflation pressures, a unit of first-class postage could cost as much as 36 cents in 1984. This was discussed in our report to the House Post Office and Civil Service Committee "Forecast of Postal Service Self-Sufficiency Potential" (GGD-75-58, February 20, 1975). Even that figure could be understated since our calculations assumed that mail volume would continue to increase as in the past, in proportion to the growth of disposable personal income and the increase in the number of families

and individuals. This is not so certain; the recent volume declines indicate that demand for mail services is not as inelastic as previously thought.

Ideally, the calculated public service subsidy would be the difference between the revenues generated by reasonable and acceptable postage rates and the cost of operating the Postal Service. But what are reasonable postage rates? It is very possible that after the Commission determines what public service subsidies should be, the residual costs would still be high enough to require postage rates considered unacceptably high in some quarters. The present 13 cent first-class stamp is considered outrageous by many--despite being lower than the cost of a unit of first-class postage in a number of other countries. (See the attachment for a comparison of domestic and foreign rates.) How do you make a judgment on this? Surely it can't be left to intuition.

We are currently studying the pros and cons of tying postage rates to some index--perhaps the Consumer Price Index. Presumably, rates moving with prices generally will be more palatable to the public. Indexing would serve the dual purpose of setting an "acceptable" level of rates and providing a basis for determining the amount of the Federal subsidies--which would be an amount equal to Postal Service expenses less index-derived revenue. We expect that our study will shed light on whether indexing is a feasible alternative

to the existing rate-making procedures. One problem to be overcome is that indexing would probably give the Postal Service appropriated funds to cover the shortfall between revenue and expenses and, as such, provisions would have to be made to measure the effectiveness of management's actions.

What does all of this mean in terms of self-sufficiency? As we view it, Mr. Chairman, it means that self-sufficiency may, in fact, be unattainable. Unattainable, on the one hand, because it could result in postage rates so high as to inhibit the personal, educational, literary, and business correspondence of the people. Unattainable, on the other hand, because it may prove economically impossible because of declining volume and revenue in the face of increasing costs.

INDEPENDENCE HAS ADVANTAGES EVEN
IN ABSENCE OF SELF-SUFFICIENCY

Granted that self-sufficiency may not be possible, the question then arises as to the necessity or desirability of allowing the Postal Service to continue to operate with its present independence. If you concede that continuing Federal subsidies will be required, should the Congress strengthen its oversight by passing on the use the Service proposes to make of these funds? The provisions of H.R. 8603 do just this by providing that the Service's revenues go into the general fund of the Treasury and that funds to cover its expenses be appropriated annually by the Congress.

This is obviously a policy matter for the Congress to decide. We hope that in reaching this decision, sight not be lost of the problems that plagued the old Post Office Department:

- severe inability to obtain capital for needed improvements resulting in excess costs and service deficiencies;
- lack of incentive to control operating costs when losses are routinely covered by appropriations;
- inability to take reasonable business risks for new products, in research, or in new equipment and facilities; and
- lack of customer orientation.

The Postal Reorganization Act created the Postal Service as an independent agency in an effort to overcome these problems. As a result, the Service:

- has been able to obtain the capital needed to upgrade its plant and equipment,
- possesses a strong incentive to control costs because of the need to live within its own resources while keeping postage rate increases to a minimum,
- has taken risks in offering new products and developing new equipment, and
- does have a decided desire to please its customers.

The Service has had problems, but of a different nature. In weighing the need to undo the Postal Reorganization Act because of them, we hope the Congress will consider the advantages of the Service's present independence.

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Senate bill 2844, Mr. Chairman, provides a short-term (3 years) subsidy of up to 10 percent of Service expenses during which period the Commission on Postal Service would be considering the public service subsidy issue. We believe this a practical and workable approach.

Based on the Service's budget estimates, this subsidy would amount to about \$1.5 billion for fiscal year 1977. When added to the \$920 million subsidy already provided for in the Act, it provides a maximum subsidy that should be more than adequate to insure the Service's solvency.

Finally, both H.R. 8603 and S. 2844, Mr. Chairman, require the Postal Rate Commission to make its recommended decisions within 10 months. At the same time, the Postal Service is precluded from imposing temporary rate increases until that 10-month period has elapsed.

Under the House bill, since Postal Service expenses would be covered by appropriations, the inability to raise rates temporarily has little impact on the Service. It

merely transfers the cost burden from the mail user to the taxpayer. Under your bill, Mr. Chairman, the Service could again be caught in a squeeze between increasing costs and fixed rates, requiring borrowing and ultimately higher costs.

We believe consideration should be given to allowing the Postal Service the flexibility to impose temporary rates 90 days after requesting a decision from the Postal Rate Commission as is the case now.

This concludes my statement, Mr. Chairman. We will be happy to answer any questions you might have.

ATTACHMENT

SELECTED COUNTRIES' ESTIMATED LETTER POSTAGEJANUARY 1, 1976

	Estimated letter postage in national currency	Estimated letter postage in U.S. cents (note a)
Australia	.18 dollars	23.5
Belgium	6.50 francs	17.0
Canada	^b .08 dollars	7.8
France	.80 francs	18.4
Japan	50.00 yen	16.8
Netherlands	.50 guilders	19.0
Sweden	1.00 kronas	23.4
Switzerland	^c .30 francs	11.2
United Kingdom	.085 pounds	23.5
United States	.13 dollars	13.0
West Germany	.50 marks	19.5

^a Using foreign exchange rate prevailing on August 1, 1975.

^b Wage negotiations from the postal strike which began in October 1975, may result in increased rates.

^c Rate increase pending.

Source: U.S. Postal Service

United States General Accounting Office
Washington, D.C. 20548

FOR RELEASE ON DELIVERY
Expected at 10 a.m., EST
Monday, February 16, 1976

STATEMENT OF
WILLIAM J. ANDERSON, DEPUTY DIRECTOR
GENERAL GOVERNMENT DIVISION
BEFORE THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
UNITED STATES SENATE
ON THE
UNITED STATES POSTAL SERVICE

Mr. Chairman and Members of the Committee:

I appreciate your invitation to present you with yet another set of views on what ails the United States Postal Service and what remedies seem indicated by the prognosis. At our appearance here 3 weeks ago, we expressed to you our belief that (1) Postal Service self-sufficiency, although a desirable objective, may not be attainable, and (2) the agency's independence has advantages, even in the absence of self-sufficiency.

This second appearance is welcomed because it gives us an opportunity to further elaborate on the reasons for the positions we expressed in our earlier testimony. And this can best be accomplished by reviewing the first 4-1/2 years of the Postal Service's existence, and looking at what the agency's progress has been in terms of the major objectives set for it by the Postal Reorganization Act.

We have prepared a paper, Mr. Chairman, entitled " A Summary of Observations on Postal Service Operations from July 1971 to January 1976," which comments on these matters, primarily by reference to the 126 reports we have issued on Postal Service affairs since the agency came into existence on July 1, 1971.

My statement today will summarize the contents of the longer document and we leave to your discretion whether you make the latter a part of the record. It was, frankly, prepared not so much for the knowledgeable Members of this Committee but for the information of your colleagues who have not followed the activities of the Postal Service as closely as yourselves. We intend to provide a copy to each Senator and Member of Congress in the near future.

The four major goals set forth in the Postal Reorganization Act were

- To provide the American people with good mail service,
- To charge the public reasonable rates and fees for this service,
- To have postal revenues cover postal costs; that is, to achieve self-sufficiency, and
- To bring the wages and working conditions of the postal worker to levels comparable to those of the private sector.

After discussing the Service's progress and problems in moving toward each of these objectives, I will give the

reasons why, in light of this information, we endorse the provisions of S. 2844 concerning short-term financial relief, expedition of the ratemaking process, and establishment of a Commission on Postal Service.

Quality of Mail Service

Overall, service today is not as good as it was before postal reorganization--in terms of timeliness of delivery, and in terms of the bundle of other services provided by the Postal Service.

In 1969 the average time to deliver first-class mail was 1.5 days. In 1971, largely as a result of the turbulence caused by the impending reorganization, average delivery time rose as high as 2 days. Four and one-half years later, the average has been reduced to about 1.65 days--better than in 1971, but not as good as in 1969.

Regarding other services, the agency has cut back on business deliveries, mail collections, and Saturday window service.

The Postal Service asserts that its service today is good, pointing out that it is now consistently meeting its delivery standards for overnight delivery 95 percent of the time (our report on the Service's Origin-Destination Information System concluded that although performance statistics had certain weaknesses, the nationwide figures were reliable). On the other hand, (1) the agency's consumer advocate continues to receive hundreds of complaints weekly, (2) hardly a day

passes without an article critical of postal service appearing in one of the Nation's newspapers, and (3) Members of Congress continue to request us to take a look at the quality of mail service in their constituencies because of citizen complaints.

Who is right? Everyone!

It is a fact that overall the mail is moving well, although not as well as in 1969. It's also, unfortunately, probably correct to state that more mail is being delayed for longer periods than was the case a few years ago. And the part that isn't moving well, despite being proportionately small, still adds up to several billion pieces in the course of a year.

Our reviews indicate that a significant cause of these delays is missent mail. As discussed in our October 1974 report to the Congress entitled "Missent Mail--A Contributing Factor to Mail Delay and Increased Costs," there is an inanimate culprit--the multiposition letter sorting machine, the LSM. We point out in the report that our test of LSM operations at three post offices showed that about 7 percent of outgoing mail was being missent.

The Postal Service has been increasing the number of LSMs in use. It estimates that 60 percent of all letter mail was sorted on these machines during 1975. Based on our findings, it follows that the amount of missent mail has been increasing apace with the addition of this equipment.

The Postal Service has taken a number of actions to reduce the amount of missent mail. We're hopeful the Service will be successful in reducing the incidence of missending, but considering the billions of pieces being processed and the proneness of humans to err, we suspect that there will continue to be a substantial amount of misdirected mail as long as these machines are in use.

It would be unfair to the Service not to recognize that these problems have largely resulted from the agency's efforts to cut costs and improve productivity. They have succeeded to a certain extent, but there has been a price.

Reasonableness of rates

The Postal Reorganization Act sought good service and at reasonable prices. Once again, controversy. What are reasonable rates?

The general public may have already indicated their answer to this question. In 1975, mail volume dropped by 832 million pieces--the first such peace time decline since the depression.

One measure of the reasonableness of rates may be the cost of a unit of first-class postage in other countries. Recently, we compared data concerning revenue, expenses, and certain operational data for 10 major foreign postal systems with similar data for the Postal Service.

Using the foreign exchange rate prevailing on February 3, 1976, we observed that 9 of the 10 countries charged more

than 13 cents for a unit of first-class postage. The average rate prevailing in these 9 countries was 19 cents.

Another useful measure in evaluating rates is the time a factory worker must work to purchase postage for a letter. Americans work 1 minute and 22 seconds. The average for the other 10 countries is 2 minutes and 39 seconds, ranging from 54 seconds for Canadians to 4 minutes, 36 seconds for Britishers.

We also showed, incidentally, that the productivity of American postal workers in terms of letters per man-year exceeded those of all the other countries.

What does it all add up to? Well, in our opinion, it leads to the conclusion that the postage rate, at least for first-class mail, is reasonable--could increase and still be reasonable.

But being reasonable and being acceptable are two different things. The use of the mails by the public is decreasing in apparent response to higher rates. Certain businesses such as publications and mail order houses see the very economics of their operations and, because of higher costs, the marketability of their products as being severely threatened by the continuing increases in rates.

Self-sufficiency

Another objective of reorganization was to have the Postal Service ultimately pay its own way. Of all the act's objectives, this appears the least likely of fulfillment.

In the first 4 years of its existence, the Postal Service had revenues of \$35.3 billion from the sale of its postal services. Its costs during the same period were \$43.4 billion. Federal appropriations during the 4 years totaled \$6.5 billion.

The Service's assets exceeded its liabilities by \$1.7 billion when it started in business. By the end of fiscal year 1976, it is estimated that liabilities will exceed assets by \$1.3 billion--a \$3 billion cumulative loss, over and above the \$6.5 billion contributed by the Federal Government.

Inflation, failure to achieve planned productivity gains, unexpectedly low revenue because of volume drops, and the Service's inability to raise rates as quickly as necessary combined to undo the Service's financial plans.

The most ominous of the Service's problems was the drop in mail volume. Heretofore, the Service's and our own long-range forecasts of the feasibility of self-sufficiency were based on a continued growth in mail volume. In the past, this volume has consistently increased in, essentially, direct proportion to increases in the amount of disposable income and number of households.

As we pointed out in our testimony last month, this new phenomenon indicates that the demand for mail services is not as inelastic as previously thought. Costs, however, can be expected to continue their inexorable climb because

no real breakthroughs in productivity improvement appear imminent and wages--the major component of postal service costs--can be expected to keep pace with anticipated future inflation.

The consequence of the confluence of these two conditions is that, if the Postal Service is left to its own devices, postage rates will increase at a faster rate than costs generally, probably further decreasing the use of the mails, causing rates to increase even more rapidly, causing volume to further decrease, etcetera, etcetera. In the words of the Postmaster General to you last month, "It is a vicious circle."

And as Mr. Bailar pointed out, technological changes are aggravating the situation. Electronic funds transfer is increasing in usage, the use of computer terminals for direct exchange of information is on the upswing.

The outlook for self-sufficiency is not favorable.

Upgrading the postal worker

The Postal Reorganization Act tasked the Postal Service with:

- achieving and maintaining compensation for its employees comparable to the rates and types of compensation paid in the private sector, and
- providing desirable working conditions for its employees.

The Postal Service has achieved its objective of comparable compensation--too well in the eyes of some observers.

Last year, the Postal Service compared its workers' wages with those of workers in 14 top industries having strong unions and high wages, represented by organizations such as the United Steel Workers, United Auto Workers, Teamsters, and Communication Workers. They found that postal workers were averaging \$8.05 per hour (including fringes) versus \$8.04 per hour for the industrial workers.

The postal worker has done especially well in comparison with his fellows in the Civil Service. Formerly, the wages of the rank and file postal worker approximated that of a GS-5, step 5. In 1971, the postal worker was making \$8,012 and the GS-5 \$7,862. Next month, when the new salary increase under the current contract goes in effect, the postal worker will be making \$12,634 versus the GS-5's \$10,117. Including fringes, the respective figures are \$14,769 versus \$12,403. Over the 5-year period, including fringes, postal wages grew 65 percent, and those of the GS-5, 29 percent.

There are many who consider the postal worker to be overpaid and who are critical of Postal Service management for agreeing to such liberal increases. There is no doubt the postal worker has done well. Whether he has done too well is a subjective judgment. These wages and benefits were arrived at through collective bargaining and there is little basis on which to retrospectively judge whether the Service's representatives yielded positions they should have held.

Working conditions improvement is more susceptible of evaluation. In early 1972, the Service initiated a program that had the objective of having at least 95 percent of postal employees housed in adequate facilities by June 30, 1975. We reported in December 1974 that the program was adversely affected by management problems. Corrective actions were taken.

The program was subsequently completed at a total cost of \$260 million. According to the Postal Service, at the end of fiscal year 1975, 87 percent of postal employees were housed in fully adequate space or in buildings being upgraded. Another 12 percent were in buildings scheduled for replacement.

The Service has also had programs to reduce the number of accidents suffered by its employees. These have had success--the number of industrial and vehicle accidents decreased from 71,500 in 1971 to 56,400 in 1975--a drop of 21 percent.

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Mr. Chairman, that's our overview of what the Postal Service has been about these past 4-1/2 years. Now I'd like to return to the question of what this all means in terms of S. 2844.

First, we believe it is clear the Postal Service needs the financial relief that would be provided by the bill. The agency is in severe financial straits; it foresees a need in the coming months to borrow as much as \$500 million

to meet its operating expenses--over and above the \$1 billion already borrowed for this purpose. The Service is in a deficit position; its future ability to service its growing debt is subject to question.

Second, we endorse the bill's intent to expedite the ratemaking process. One of the causes of the Service's present liquidity problems was its inability to increase rates sooner than it did because action on an earlier request took 23 months to complete--a period during which costs increased significantly.

However, as we stated in our earlier testimony, we disagree with that part of S. 2844 which prevents the Service from imposing temporary rates. Events have shown that postal costs are volatile, and we believe that the Service should be able to raise its rates in response to sudden and unforeseen increases in its costs.

Finally, Mr. Chairman, we endorse the establishment of a Commission on Postal Service to identify and study the public service aspects of postal operations with a view to determining what portion of the Service's expenses should be supported by appropriations. It is abundantly clear that this is the most critical issue to be resolved concerning the future operations of the Postal Service.

That concludes my statement, Mr. Chairman. We will be happy to answer any questions you may have.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-164786

MAR 2 1976

The Honorable Gale W. McGee
Chairman, Committee on Post
Office and Civil Service
United States Senate

Dear Mr. Chairman:

On February 20, 1976, representatives of our Office testified before your Committee on the progress and problems of the Postal Service. One of the many topics discussed was the provision in Senate bill 2844 that would establish a Commission on Postal Service to identify and study the public service aspects of postal operations with a view to determining what portion of Service expenses should be supported by appropriations. We expressed our endorsement of such a study.

During the discussion, you very graciously noted that for some time you have been impressed with the integrity and thoroughness of our reviews of postal operations. You questioned whether, because of our knowledge about such operations, it might be within our capabilities to undertake the tasks intended for the Commission.

After careful consideration, we believe that the original idea proposed in S. 2844 should be followed.

A determination of what constitutes public service will require going beyond an analysis of available data--it will require a statement of policy based, to a large extent, on subjective judgment. Policy on this basis would seem best made by a group with expertise in various disciplines and representing various segments of society. Thus, a "blue-chip" Commission appointed by the President of the United States, President pro tempore of the Senate, Speaker of the House of Representatives, and the Postmaster General, as required by S. 2844, might be better suited than we to such a task.

Then there is the question of manpower availability. The work of the Commission will be very challenging and will require a considerable input of talent for an extended period of time. For us to assign a sufficient number of personnel experienced in postal affairs and still perform our audit responsibilities at the Postal Service would be difficult.

In addition, consideration must be given to the effect such involvement could have on our independence and objectivity. For example, we may want to review, over a period of time, the impact of

B-164786

changing conditions on the findings as to what constitutes public service functions and related costs. Such reviews would be more independent and objective if we did not participate in the original studies.

Accordingly, we suggest S. 2844 retain the provision establishing a Commission on Postal Service. We stand ready, however, to provide the Commission with whatever assistance we can on the basis of our past studies of the Postal Service.

Sincerely yours,

(SIGNED) ELMER B. STAATS

Comptroller General
of the United States



*UNITED STATES
GENERAL ACCOUNTING OFFICE*

A Summary Of Observations
On Postal Service
Operations From
July 1971 To January 1976

GGD-76-61

C o n t e n t s

CHAPTER		Page
1	A FRAMEWORK FOR EVALUATING THE POSTAL SERVICE	1
	Genesis of the Postal Service	1
	Objectives of the Postal Service	3
2	QUALITY OF MAIL SERVICE	4
	Delivery standards	4
	How successful has the Postal Service been in meeting its delivery standards?	4
	Are delivery performance statistics reliable?	5
	If mail service is good, why all the complaints?	8
	Other perceptions of quality mail service	9
	Where to from here?	11
	First-class improvement program	11
	Service in rural America	12
	Curbside and cluster box delivery	13
	Mechanization	14
	Conclusion	15
3	ARE POSTAL RATES REASONABLE AND EQUITABLE?	17
	What are reasonable rates?	17
	Comparison of domestic and foreign rates	18
	Consumer price index/rates relationship	23
	What are equitable rates?	23
	Future rates	26
	Postal Rate Commission/Postal Service relationship	27
	Timeliness of rate cases	28
4	BALANCING COSTS AND REVENUES	30
	Present financial condition	30
	Use of debt financing	32
	Conclusion	33
	Reasons for deficits	34
	Impact of inflation on Postal Service employee compensa- tion costs	34

CHAPTER		<u>Page</u>
4 (cont'd.)	Increased fuel and gasoline prices	34
	Higher employee pay required by Act	35
	What has the Service done to cut costs?	35
	Investment in new plant and equipment	35
	Productivity improvements	36
	Other labor economy measures	37
	Improved procurement practices	37
	Sole-source contracting and costs overruns	38
	Automatic data processing equipment purchases	39
	Professional services	40
	Mail transportation contracting	40
	Vehicle procurement	41
	Mechanization improvements	41
	National bulk mail system	42
	Other mechanization efforts	43
	Conclusion	44
5	PERSONNEL COMPENSATION AND WORKING CONDITIONS	45
	Employee compensation	45
	Career advancement	47
	Working conditions improvement program	47
	Employee accidents	48
	Conclusion	49
APPENDIX		
I	A listing by job classification of GAO reports issued on Postal Service operations	50
II	Digests of selected GAO reports	69
III	Chronology of GAO testimony on Postal Service operations before Senate and House committees	94

CHAPTER 1A FRAMEWORK FOR EVALUATINGTHE POSTAL SERVICE

Both before and after passage of the Postal Reorganization Act, GAO has maintained a strong audit presence in postal operations. During the period of the Postal Service's existence, about 225 staff-years of effort have been spent auditing postal operations. GAO has issued 126 reports on a wide range of postal topics during the period--11 were issued to the Congress, 74 were in response to requests of Committees or Members of Congress, and 41 were addressed to the Postmaster General or other Postal Service officials. A complete list of the reports issued is provided in appendix I; excerpts from selected reports are provided in appendix II.

The Comptroller General and other GAO officials have, on eight occasions, testified before Senate and House committees and subcommittees on the Postal Service's operations such as the financial status of the Service, savings available in postal operations in rural America, and procurement and contracting activities. (See appendix III.) GAO has also responded to numerous requests from the general public on various matters concerning the Postal Service.

Moreover, in this case, we believe the whole is more than the sum of the parts. Through its continuous monitoring of postal operations, GAO has gained insights into the Postal Service's problems that go beyond written reports on individual subjects.

The purpose then of this staff paper is simply to bring together in one document the sum of GAO's experience and expertise in postal operations to assist Members of the Congress in their efforts to find solutions to the Postal Service's problems.

GENESIS OF THE POSTAL SERVICE

In the years preceding the Postal Reorganization Act, the Post Office Department was engaged in what the Postmaster General termed a "race with catastrophe." In December 1963 and in October 1966 major breakdowns in the postal system resulted in millions of parcels and letters being delayed for extended periods. While the immediate causes of these breakdowns were identifiable and correctable, they were merely symptomatic of an organization that was in deep trouble. The Post Office Department's difficulties were caused by a series of inter-related problems including

- a management system that rendered impotent those in a position of responsibility,
- an antiquated physical plant incapable of handling the ever increasing volume of mail,
- a lack of mechanization necessitating vast armies of people to move the mails, and
- a workforce that suffered from poor pay, poor working conditions, poor career opportunities, and poor morale.

Recognizing the malaise inherent in the Post Office Department, the President established the Commission on Postal Organization in 1967.

In its 1968 report, the Commission recommended the establishment of an independent postal service free of the operating constraints that had plagued the Post Office Department. These constraints were best expressed in a short exchange between the Postmaster General and the Chairman of the Post Office's appropriations subcommittee:

Mr. Steed: General. . . would this be a fair summary: that at the present time, as the manager of the Post Office Department, you have no control over your workload, you have no control over the rates of revenue, you have no control over the pay rates of the employees that you employ, you have very little control over the conditions of the service of these employees, you have virtually no control, by the nature of it, of your physical facilities, and you have only a limited control, at best, over the transportation facilities that you are compelled to use--all of which adds up to a staggering amount of "no control" in terms of the duties you have to perform. . .

Mr. O'Brien: Mr. Chairman, I would have to generally agree with your premise. . . that is a staggering list of "no control." I don't know [whether] it has ever been put that succinctly to me. If it had been at an appropriate time, perhaps I wouldn't be sitting here.

The Congress was persuaded by the arguments advanced for an independent Postal Service and passed the Postal Reorganization Act in August 1970. The Postal Service began operations in July 1971, amidst high expectations of improved performance. In essence, it was felt that with independence, management would be able to cure the

ills of the postal system through the application of business-like practices.

Turning around the Postal Service is not an easy task considering it

- processes about 90 billion pieces of mail a year;
- employs 700,000;
- uses 220,000 vehicles;
- operates 40,000 post offices, stations, and branches;
- and
- spends about \$13 billion a year.

OBJECTIVES OF THE POSTAL SERVICE

As embodied in the Reorganization Act, the objectives of the Postal Service can be summarized as

- providing quality mail service,
- charging reasonable and equitable rates,
- attaining financial self-sufficiency, and
- providing fair treatment of employees.

A reasoned evaluation of the Postal Service's first 4-1/2 years of operation would of necessity require an evaluation of its performance in meeting each of these four objectives. From our work, we observe that:

- mail delivery standards, as established by the Postal Service, are generally being met,
- rates may be getting close to the unacceptable range,
- self-sufficiency has not been attained and there are no immediate prospects of doing so, and
- the lot of the postal employee has been greatly improved.

The remaining sections of this staff report goes into detail on GAO's findings and conclusions regarding the Service's performance and what might be done in each of these important areas.

CHAPTER 2QUALITY OF MAIL SERVICE

One of the major goals of the Postal Reorganization Act is good quality mail service. But what is quality mail service, and how do you measure it? The Postal Service answers these questions largely in terms of its success in meeting delivery performance standards established for first-class mail. It is currently meeting or exceeding these standards for the majority of such mail.

The Postal Service believes that mail service is good, the best in the world. Yet widespread discontent is evident from daily newspaper articles and continuing customer complaints to the Service and to their elected representatives.

DELIVERY STANDARDS

To provide quality mail delivery, the Service established the following standards for first-class mail:

- 1-day (overnight) delivery within local areas (generally within sectional centers and among adjoining sectional centers).
- 2-day delivery within a 600-mile radius.
- 3-day delivery to all other areas.

These standards apply only to mail which has the proper address and ZIP code and which is posted by the last mail pickup time--generally 5 p.m. The statistics indicating the extent of the Service's achievement of these goals are collected and analyzed under what is called the "Origin-Destination Information System" (ODIS).

How Successful Has The Postal Service
Been In Meeting Its Delivery Standards?

The Postal Service's standards for first-class mail in overnight areas were established in fiscal year 1972 and in 2- and 3-day areas about a year later. During the first year, about 94 percent of stamped first-class mail destined for local delivery was delivered overnight. Since then, delivery performance has improved and the Service consistently achieves its 95-percent goal. During the two quarters ending September 30, 1975, the Service achieved 96 percent on overnight delivery nationwide.

It has been less successful in 2-day and 3-day areas where delivery performance averaged in the mid to high 80's

initially. Performance has improved steadily. For the same two quarters, the Service achieved 94 percent in 2-day areas and 92 and 93 percent in 3-day areas, the highest delivery percentages to date.

In order to compare first-class mail delivery performance before and after the postal reorganization, we used average time to delivery, the only continuing measure of first-class mail service available. As shown on the graph below, first-class mail service has improved since July 1, 1971, when the postal reorganization became fully effective but is still not as good as the service provided during the last half of fiscal year 1969 under the former Post Office Department.

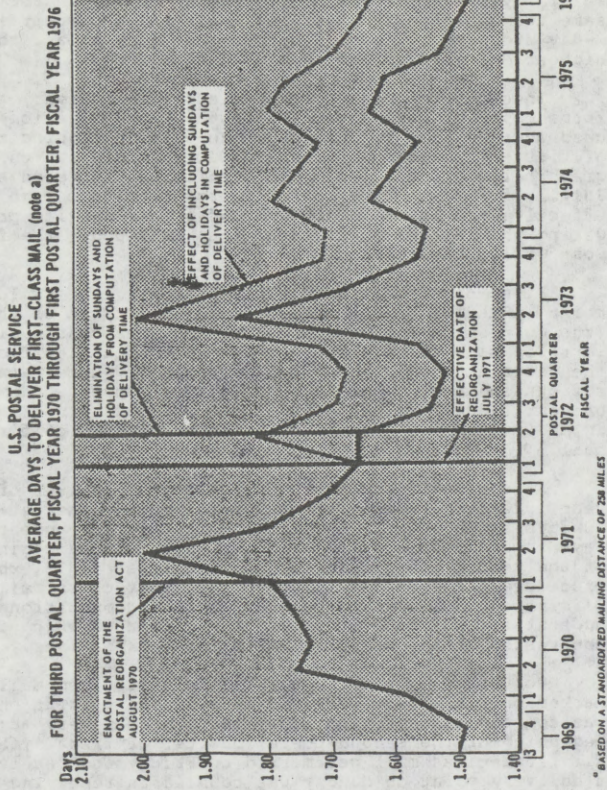
First-class mail service deteriorated to its lowest point in the first quarter following enactment of the act (the quarter ending December 1970) but has continually improved since that time. According to postal officials, the deterioration of service was caused by uncertainties surrounding the postal reorganization, management emphasis on cost reductions rather than on customer service, increases in mail volume, and changes in the processing of first-class mail.

At the beginning of the first postal quarter of fiscal year 1972, the Postal Service discontinued considering Sundays and holidays in computing the average number of days to deliver local first-class mail; at the beginning of the second postal quarter of fiscal year 1972, this procedure was expanded to cover all first-class mail. Eliminating Sundays and holidays in the computations understates the delivery time, the effect of which is contrasted on the graph in solid and broken lines.

For example, before July 1971, first-class mail postmarked on Friday and received at a delivery point on Monday was counted as receiving 3-day service; however, at the beginning of the second postal quarter of fiscal year 1972, all first-class mail postmarked on Friday and received at a delivery point on Monday was counted as receiving 2-day service. Eliminating Sundays and holidays in computing the average time to deliver first-class mail understates actual delivery time by an average 0.16 days.

Are Delivery Performance Statistics Reliable?

Since frequent reference is made to ODIS statistics as a measure of the quality of mail service, we looked into the accuracy and reliability of the system. In our report to the Congress entitled, "System for Measuring Mail Delivery Performance--Its Accuracy and Limits" (GGD-75-109, 10-17-75)



we pointed out that ODIS does provide a reliable measure of first-class mail delivery performance on a nationwide basis within the specifications established by the Service. That is, as pointed out above, it includes only stamped first-class mail which is properly addressed, ZIP coded, and deposited prior to the last mail pickup time--generally 5 p.m.

Delivery time is measured from the date mail is postmarked to the date it reaches the last delivery unit before being placed into the addressee's hands. Delays can occur prior to postmarking and in delivery which ODIS would not recognize. And, ODIS does not provide a reliable measure of other first-class mail (metered, permit, and Government). However, we have no reason to believe that this mail moves any differently than stamped.

The most important delivery statistic to the Service is overnight delivery. The geographic areas committed for overnight deliveries are determined by local postal management. Overnight commitments range from local metropolitan areas to an entire state or more. Generally, however, commitments are made to only those areas where postal management expects to meet its goal 95 percent of the time. The Service is continually expanding the overnight delivery areas which now include over 50 percent of first-class mail volume. The First-Class Improvement Program, currently being tested by the Service, will further expand overnight delivery areas as well as 2-day delivery areas. This program is discussed in more detail later in the report (see p. 11).

Although ODIS statistics are reliable on a nationwide basis, there are weaknesses in ODIS which make local overnight delivery performance statistics less reliable. Examples include

- ODIS can be manipulated at the local level.
- Samples for local areas may be too small for reliable biweekly performance reports.
- The system has a flaw resulting from dual purpose measurement of mail delivery performance and volume.
- Inadequately trained clerks make many data-recording errors. A well-trained, independent cadre would be the most effective way of assuring that tests are properly and accurately taken.
- Some data on the characteristics of sample mail is lost during the processing of data collection forms at Service headquarters.

Because of the large amount of data collected and the relatively small amounts of erroneously recorded and lost data, nationwide statistics are not greatly affected.

We made a number of recommendations to the Service for improving the accuracy and reliability of local delivery performance statistics. The Service concurred with our recommendations and has taken or begun corrective action on each.

IF MAIL SERVICE IS GOOD,
WHY ALL THE COMPLAINTS?

The Service is achieving high marks on delivery performance. Why then the seemingly widespread dissatisfaction with the quality of service as expressed through customer complaints, critical newspaper articles, and continued requests to us by Members of Congress to take a look at the quality of mail service in their constituencies? The volume of such complaints has prompted individual Members and oversight committees to request us to look into the quality of mail service in 17 cities or states.

Who's right? Everyone!

It's a fact that the mail is moving well. It's also, unfortunately, probably correct to state that more mail is being delayed for longer periods than was the case a few years ago. The explanation is obviously that although most of the mail is moving well, the part that isn't, despite being proportionately small, still adds up to several billion potential complaints a year. For example, even if the Service delivered 95 percent of the 51.4 billion pieces of first-class mail handled during fiscal year 1975 on time, 2.6 billion pieces would be late. Customer concern for delayed mail is substantiated in the early results of the Service's national customer complaint program. Complaints resulting from delayed mail led the list. Our reviews indicate that a substantial part of the delays is caused by missent mail.

As discussed in our October 1974 report to the Congress entitled "Missent Mail--A Contributing Factor to Mail Delay and Increased Costs," the multi-position letter sorting machine operation is largely to blame.

Before the Service began using letter sorting machines in the 1960's, it sorted all mail by hand. Today, it sorts less than half the letters manually in 49 and 77 bin cases of a type used when Benjamin Franklin was Postmaster General. Because of the limited capacity of these cases, several sorts are often necessary to properly distribute letters by hand. The hand-sorting rate is about 30 letters per minute.

The machines have increased the letter-sorting rate per operator to about 60 letters per minute and the distribution capacity to 277 bins. Thus, the need for several sortings of a letter has been reduced and productivity has been greatly increased. The 12 machine operators can process up to 43,200 letters per hour.

Our test of sorting machine operations at three post offices, however, showed that about 7 percent of outgoing mail was being missent. The delay in delivering missent mail is a major reason why the Service has not achieved its delivery standards in 2-day and 3-day areas.

Currently, about 60 percent of the 51 billion pieces of first-class mail are being processed on letter sorting machines. The Service is constantly adding more machines around the country to further mechanize the sorting of mail to speed deliveries and cut labor costs. At the time of reorganization, the Service had about 280 letter sorting machines. Today, including those on order, the Service has 712 such machines.

It follows that as more multi-position letter sorting machines are added, and more mail is processed on them, the amount of missent mail will rise proportionately--unless, and we stress "unless," the Postal Service can solve this problem. In response to the recommendations in our report, the Service has taken actions which have reduced the amount of missent mail. Examples include

- design changes to reduce both machine and operator errors,
- improved overall working conditions,
- established work standards,
- implemented quality control programs for improving letter-sorting machine output, and
- removing and expeditiously forwarding missent mail.

OTHER PERCEPTIONS OF QUALITY MAIL SERVICE

An exact definition of what constitutes quality mail service is hard to come by because the needs and perceptions of mail users differ. As we pointed out earlier, the Postal Service measures it in terms of delivery time for first-class mail. First-class mail accounts for 60 percent of total mail volume. It is probably the most important and certainly the most visible and easiest of the classes to

measure because of the postmark date. The Service gets more complaints about first class than any other class.

But complaints are also filed concerning the other three classes of mail; the dozen or more special services (express mail, special delivery, etc.); hours of collections, window service, and deliveries; and any number of other things. Obviously, some people do not measure the quality of mail service strictly in terms of first-class mail delivery speed.

As we pointed out in our report to the Congress entitled "Problems Affecting Mail Service And Improvements Being Taken" (B-114874, dated March 20, 1974) the Service took a number of economy measures at the time of reorganization which have affected the quality of mail service. They include

- reducing collection services,
- reducing delivery services, and
- curtailing Saturday window service.

People's perception of service deterioration is often cause by a misunderstanding of postal operations. The Service's area mail processing program, implemented in 1971, is a good example.

The objectives of the program are to achieve (1) more efficient processing through use of mechanized equipment, (2) better use of existing and planned facilities, and (3) better use of manpower. To achieve these objectives, all mail originating within a specified geographic area is consolidated at a sectional center facility for processing and for dispatch to its destination, a fairly radical change from the previous method whereby most mail was sorted locally.

The massing of mail at large facilities under area mail processing to take advantage of mechanization to reduce labor costs, although conceptually sound, resulted in numerous complaints. Many people could not accept the idea that it was cost effective to truck the mail over long distances to the mail processing facility only to be returned to the same locale to be delivered.

To get a better feel for the extent of customer dissatisfaction and to better direct its effort to solving problems, the Service instituted a nationwide consumer service system in the Fall of 1975. The Postmaster General stated that once established, the system would demonstrate both the Service's willingness to solve people's problems and the overall high quality of its service.

The key to the new system is the Consumer Service Card. The Consumer Service Card is a two-piece card--two postcards with carbon paper between them. It is bound with a detachable tab which, when pulled, removes the carbon paper and leaves two mailable, prepaid cards.

The card allows not only for complaints, but also for information requests, suggestions, and other comments, including compliments. One card goes to the local postmaster or station or branch manager, who has full responsibility for handling the complaint or inquiry. The other goes to the Office of Consumer Affairs in Washington, D.C., where the information is extracted to create an index of consumer satisfaction. Both halves of the card carry a unique serial number.

After acting satisfactorily on an individual Service Card, the postmaster jots an explanation of how the problem was handled on the reverse side of his copy of the card and mails it to Washington. The case is then marked closed.

Preliminary returns indicate fewer complaints than expected by the Service. During the first 7 weeks of the program, more than 148,000 consumer cards arrived at headquarters of which about 88.2 percent had complaints. It is still too early, however, to draw any conclusions on whether the volume of complaints indicate general satisfaction of customers with the quality of mail service.

WHERE TO FROM HERE?

What avenues are open to the Postal Service in the near future if it is to improve service and control rising costs? Obviously, a breakthrough in mechanization would be necessary to effect any substantial reduction in labor, which accounts for over 85 percent of the Service's expenditures. What then is the Service doing and what more can be done?

The Postal Service recently implemented its new First-Class Improvement Program and announced other service changes currently in process or under study. Some involve altering the form of services provided, but not the quality, such as closing small post offices and providing an alternative service. One proposal under study--eliminating delivery one day a week--would reduce the quality of mail service in the eyes of many. The Service estimates savings of about \$350 million would result if 5-day delivery was instituted.

First-Class Improvement Program

On October 11, 1975, the Service implemented the "First-Class Improvement Program" (FCIP), a test plan to upgrade

first-class mail service to achieve delivery equal to or better than airmail. Prior to the new program, airmail service was destined for 1- to 2-day delivery while first-class mail was destined for 1- to 3-day delivery depending on distance and available transportation. Under FCIP, 90 percent of all first-class mail weighing 13 ounces or less is programmed for next and second day delivery. For the mailing public, the practical effect of FCIP is that there no longer will be an advantage in purchasing airmail postage for domestic delivery.

The Service estimates that it will save \$90 to \$96 million by implementing FCIP because airmail will no longer be collected, handled, and processed separately from first-class mail. An independent study by the Postal Rate Commission concluded the Service might expect to achieve a net annual saving of at least \$88 million.

Because airmail and first-class mail will be receiving essentially the same level of service, the existence of two separate rate categories is planned to be discontinued if FCIP is determined successful. Cost, revenue, volume, and service data will be evaluated throughout the test period and within 9 months the Service will provide the Postal Rate Commission with its final evaluation of the program. This report will indicate (1) whether the program has succeeded in increasing the speed of delivery for first-class mail to the point where the need for airmail service no longer exists, (2) whether additional steps should be taken to improve the speed of delivery for first-class mail, and (3) whether some form of separately processed mail, such as an express service, is warranted.

Service In Rural America

In response to our report entitled "\$100 Million Could Be Saved Annually In Postal Operations In Rural America Without Affecting The Quality Of Service," the Service has begun to identify which small post offices could be closed without impairing service to their customers.

Mail service to rural areas is provided through 18,300 small offices (formerly referred to as third- and fourth-class post offices); 2,100 contractor operated facilities; and 30,700 rural routes. About 4 million families are served by the facilities. About 12 million families are given rural box delivery by rural carriers who are postal employees or contract carriers.

As we pointed out in our report, as many as 12,000 offices could be closed and mail services continued through an equally satisfactory but less costly alternative. The change amounts to little more than giving 2 million rural

families essentially the same type of service provided to the 12 million other rural families, and the Service's annual costs could be reduced by about \$100 million.

Unfortunately, when the report was released, some persons got the impression that we were advocating the wholesale, indiscriminate closure of small post offices to save money. This is not true. We are aware of the need to act judiciously in this matter.

Our concern about the impact of closing small post offices led us into 28 states in which we talked to hundreds of people most affected--the rural customer.

During our review, we personally asked hundreds of rural customers how their mail service was affected when their post offices were closed. These customers reside in 32 communities in 28 states all across the country. Communities selected were such that the postal customers could remember the service provided by their old post office and yet have sufficient experience with their new service to make a reasonable comparison. Given the geographic spread of the communities, we feel that the results are indicative of the nationwide attitudes of rural postal customers.

The results of our review were overwhelming. Ninety-one percent of all customers interviewed felt their new mail service was as good as, and in a number of instances better, than the service provided by their former post offices.

Curbside And Cluster Box Delivery

In another area of mail delivery the Service instituted a new policy of providing only curbside or cluster box delivery to new housing developments. Developments currently receiving door-to-door service would not be affected. The Service estimates that the average door-to-door delivery costs \$49, while curbside and cluster box deliveries average \$39 and \$24, respectively.

During the past 5 years, motorized delivery and improved methods have allowed the Service to handle a 13-percent increase in delivery points, while reducing the number of carriers and drivers by almost 5 percent. The Service estimated that delivering to curbside and cluster boxes could reduce fuel costs and save the Service \$115 million by 1980.

The Service has met with strong opposition to this policy in many local areas, some in the form of ordinances which prohibit residents from installing curbside boxes. S. 2844 would restrict the Service's use of cluster boxes

in any case in which a unit of local government does not specifically approve the use of such cluster box delivery service. The Service is opposed to this proposal.

Mechanization

To speed mail deliveries, increase productivity, and reduce costs, the Service is steadily increasing the amount of mail being sorted on letter sorting machines. Two changes in the mail distribution system have enabled the Service to do this--the Managed Mail Program, implemented in February 1970, and Area Mail Processing, implemented in February 1971. Under the Managed Mail Program, post offices sort mail going out of State to large, mechanized facilities in each State designated as State distribution centers. At the State distribution center, mail is sorted and sent to the other mechanized facilities in the State for processing and delivery. Previously, post offices sorted mail directly to the individual mechanized facilities in the destination State.

Under Area Mail Processing, all mail originating within a specified geographic area is consolidated at a mechanized facility for processing and for dispatch to its destination. The objectives of mail massing under Area Mail Processing are to achieve (1) more efficient processing through use of mechanized equipment, (2) better use of existing and planned facilities, and (3) better use of manpower.

In fiscal year 1972, about 35 percent of letter mail was sorted by machine; whereas, in fiscal year 1975, about 60 percent was machine sorted. We believe that more emphasis should be placed on standardizing both the size of letters and ZIP code placement to further increase the benefits of mechanization. The Service has been reluctant to move in this direction because of possible adverse reaction from the public.

Japan and the Soviet Union are developing systems which require standardization of envelope sizes and the use of preprinted blocks for address codes which are optically read. With this system, handwritten script can be optically read. The optical character reader currently in use in our system can only be used with certain typed addresses. The Soviet and Japanese systems overcome the principal problem of where to look on the envelope for the material to be read. A further refinement would be to expand the number of digits in the ZIP code to allow for optical secondary sorting--sorting down to the sequence of individual addresses within a delivery route.

The Postal Service is also continuing to test a system known as Letter Mail Code Sort System. In this system,

a machine-readable code is imprinted on an envelope the first time the address is read, either by a postal worker or an optical character reader. With this imprint, the letter can be sorted by machine at all subsequent processing points.

This mail processing equipment was to be an integral part of a highly mechanized mail processing system--the Preferential Mail System--which the Service had under study. At the request of the Chairman, Senate Post Office and Civil Service Committee, we examined the program and issued a report--"Observations On The Preferential Mail System" (B-114874, Oct. 30, 1973).

The Service originally estimated--based largely on studies made by private firms--that the proposed system would reduce operating cost by about \$1 billion a year. The basic concept of the system provided for about 180 highly mechanized processing centers, as opposed to the less mechanized 588 centers the system then had.

Our report concluded that the new type of equipment had not been proven in the field, the economic advantages of the new equipment were overstated in a study contracted for by the Service, the advantages of 180 centers vs. 588 centers were also overstated in the study, and the massing of mail at 180 processing centers could cause mail service quality to deteriorate.

The report noted that the Service had deferred implementation of the Preferential Mail System until the Letter Mail Code Sort System had been successfully demonstrated and the Service had proved that it has the technical and managerial ability to implement the National Bulk Mail System. We concluded that, overall, the Service's decision to defer action was appropriate.

CONCLUSION

At present, quality of mail service equates with speed of delivery for first-class mail. The Postal Service has established reasonable delivery standards for first-class mail; it is consistently meeting or exceeding a 95-percent delivery goal in overnight delivery areas which accounts for the majority of this mail. It is approaching this goal in other areas.

What about the future? The Postmaster General has questioned whether the present structure of traditional postal services is essential or even relevant to future national needs. In fiscal year 1975, letter mail volume dropped. Was the drop a sign of dissatisfaction with

present postal services, inroads made by more advanced technology, or merely the manifestation of a stagnant economy?

The recent drop in volume coupled with forecasts of continuing inflation and technological developments in communications which might affect demand for traditional postal services were topics of general discussion in the January 6, 1976, meeting of the Board of Governors. As a result, the Board requested that a report on planning for the Postal Service's future be presented at the next meeting. If the Service is to remain a viable part of American society, it must continue to keep abreast of society's needs.

CHAPTER 3ARE POSTAL RATES REASONABLEAND EQUITABLE?

Much of the criticism of the Postal Service centers on the fact that postal rates have increased dramatically since reorganization. In 1971, a unit of first-class mail cost \$.08, increased to \$.10 in 1974, and in 1975 increased, on a temporary basis, to the current rate of \$.13. First-class rates tell only one side of the story, however. Rates for other classes of mail have increased even more rapidly. On the basis of complaints raised with each postage hike, indications are that rates may be getting close to the unacceptable range.

The furor over the present rates can be attributed, in part, to the historically low rates that prevailed for newspapers and magazines. Congress had, in the past, subsidized such rates. Under reorganization, these rates have been climbing to bear their full share of the costs. The increases have hurt some concerns.

Section 3621 of the Postal Reorganization Act provides (in part) that:

"****Postal rates and fees shall be reasonable and equitable and sufficient to enable the Postal Service under honest, efficient, and economical management to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States. Postal rates and fees shall provide sufficient revenues so that the total estimated income and appropriations to the Postal Service will equal as nearly as practicable total estimated costs of the Postal Service."

To fulfill what it sees as its mandate under the act, the Postal Service filed a request with the Postal Rate Commission on September 18, 1975, for a permanent rate increase averaging 26 percent and which would provide an estimated \$2.4 billion in additional revenues. This is the third rate increase proposed since passage of the Postal Reorganization Act in 1970.

WHAT ARE REASONABLE RATES?

The obvious question to be answered is what are reasonable rates?

In one sense, the general public may have already indicated their answer to the question. In fiscal year 1975, mail volume dropped by 832 million pieces. This is the first time since the depression that peace time mail volume has failed to increase and may be the beginning of things to come. In recent congressional testimony, the Postmaster General questioned the validity of the assumption behind the Reorganization Act that mail volume would continue to increase indefinitely and stated that if rates continue to rise, large-volume mailers would find more economical alternatives to the Postal Service.

He also observed that unless the pace of rate increases is slackened, the Postal Service may be caught in a vicious cycle of rate increases to compensate for volume decreases brought on by rate increases.

Accepting the fact that there is general unhappiness with the way rates have been going, the question remains as to how well the Postal Service is doing. There are some other indicators.

Comparison of Domestic and Foreign Rates

One indication of reasonable rates may be the cost of a unit of first-class postage in other countries. In a recent report (GGD-76-35, Dec. 11, 1975), we compared data concerning revenue, expenses, and some operational data for 10 major foreign postal systems with similar data for the Service. We have since updated these figures.

Using the foreign exchange rate prevailing on February 3, 1976, and a 13-cent first class rate for the United States, we found a range in price from 23.0 cents for Sweden to 8.0 cents (the only rate lower than the United States) for Canada. We also found that, overall, the Service:

- handles from 5 to 56 times more letter mail,
- handles more letters per postal employee, and
- covers a larger geographical area.

Another useful measure in evaluating postal systems may be the time a factory worker must work to purchase postage for a letter. Of the citizens of the 10 countries, only the Canadians work less time for postage than do U.S. workers. This could change, however, if postal charges are increased in Canada because of wage negotiations resulting from the postal workers' strike.

Comparisons of postal efficiency based solely on postal rates, however, are of doubtful validity because the rates are based on different operations and financing. For example, some countries

- combine telecommunications, financial (savings accounts and life insurance), or radio functions with postal operations.

- erase their postal deficit, if any, either by revenues generated by the other functions or a Government subsidy.

- conversely, use excess postal revenues, if any, to eliminate deficits in the other functions.

Accordingly, stamp prices may not be established strictly on the basis of postal expenses. More detailed comparisons of various statistics are in the following tables.

CHANGES IN SELECTED COUNTRIES'
LETTER POSTAGE FOR THE 17 MONTHS
ENDED FEBRUARY 1976

Country	Cost of letter postage (national currency)		Percentage change
	August 30, 1974	February 3, 1976	
Australia	.07 dollars	.18 dollars	157
Belgium	5.00 francs	6.50 francs	30
Canada	.08 dollars	^a .08 dollars	--
France	.50 francs	.80 francs	60
Japan	20.00 yen	50.00 yen	150
Netherlands	.40 guilders	^b .50 guilders	25
Sweden	.75 kronas	1.00 kronas	33
Switzerland	.30 francs	.40 francs	33
United Kingdom	.045 pounds	.085 pounds	89
United States	.10 dollars	.13 dollars	30
West Germany	.50 marks	.50 marks	--

^a Wage negotiations from the postal strike, which began in Oct. 1975, may result in increased rates.

^b Rate increase to .55 guilders planned for April 1, 1976.

Source: U.S. Postal Service

SELECTED COUNTRIES' ESTIMATED LETTER POSTAGEFEBRUARY 1976

	<u>Estimated letter postage in national currency</u>	<u>Estimated letter postage in U.S. cents (note a)</u>
Australia	.18 dollars	22.9
Belgium	6.50 francs	16.7
Canada	^b .08 dollars	8.0
France	.80 francs	18.0
Japan	50.00 yen	16.6
Netherlands	^c .50 guilders	20.7
Sweden	1.00 kronas	23.0
Switzerland	.40 francs	15.5
United Kingdom	.085 pounds	17.3
United States	.13 dollars	13.0
West Germany	.50 marks	19.5

^a Using foreign exchange rate prevailing on Feb. 3, 1976.

^b Wage negotiations from the postal strike, which began in Oct. 1975, may result in increased rates.

^c Rate increase to .55 guilders planned for April 1, 1976.

Source: U.S. Postal Service

MINUTES OF WORKTIME REQUIRED
IN SELECTED COUNTRIES TO EARN
THE COST OF LETTER POSTAGE

<u>Country</u>	<u>a</u> Estimated compensation per hour	Estimated cost of letter postage in national currency February 3, 1976	Minutes of work- time required to earn the cost of letter postage
Australia	2.99 dollars	.18 dollars	3 min. 37 sec.
Belgium	202.30 francs	6.50 francs	1 min. 56 sec.
Canada	5.35 dollars	^b .08 dollars	54 sec.
France	16.25 francs	.80 francs	2 min. 57 sec.
Japan	782.00 yen	50.00 yen	3 min. 50 sec.
Netherlands	13.24 guilders	^c .50 guilders	2 min. 16 sec.
Sweden	24.29 kronas	1.00 kronas	2 min. 28 sec.
Switzerland	14.36 francs	.40 francs	1 min. 40 sec.
United Kingdom	1.108 pounds	.085 pounds	4 min. 36 sec.
United States	5.70 dollars	.13 dollars	1 min. 22 sec.
West Germany	13.67 marks	.50 marks	2 min. 12 sec.

^a Preliminary estimates from U.S. Bureau of Labor Statistics for 1974. Represents wages of manufacturing workers and value of fringe benefits.

^b Wage negotiations from the postal strike, which began in Oct. 1975, may result in increased costs.

^c Rate increase to .55 guilders planned for April 1, 1976.

Source: U.S. Postal Service

Consumer Price Index/Rates
Relationship

Another indication of reasonable rates may be how rate increases compare with increases in the Consumer Price Index (CPI). As presented in its 1973-1974 annual report, the Postal Service compared the price of first-class postage with the CPI and found that first-class postage had risen historically at a lesser rate than the CPI. The base year for beginning the comparison was 1933. Had first-class postage followed the CPI

in 1958,	instead of	4 cents	it would have been	6.4 cents
" 1963,	"	5 cents	" " " "	6.7 cents
" 1968,	"	6 cents	" " " "	7.6 cents
" 1971,	"	8 cents	" " " "	8.9 cents
" 1974,	"	10 cents	" " " "	10.7 cents

Over more recent years, the price of postage has increased more rapidly than most other prices. As a consequence, the CPI component for postage has, in fiscal year 1974, increased to 175.4 percent of base year 1967 (1967=100). By year's end, the overall CPI indicator for the economy stood at 147.1 of base year 1967. (See p. 27 for a further discussion of the use of indexing.)

WHAT ARE EQUITABLE RATES?

In the Postal Reorganization Act, the Congress established the principles upon which equitable postal rates are to be based. With respect to the Postal Service's costs, the Congress specifically provided that the Postal Rate Commission was required to insure that each class of mail or type of mail service bears the direct and indirect costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type.

In its report explaining the Reorganization Act, the Senate Post Office and Civil Service Committee took note of the fact that there was a strong temptation to resolve the financial problems of the Post Office by charging the lion's share of all operational costs to first-class mail. The Committee believed that an independent Postal Rate Commission was needed to prevent such an imposition on first-class mail users.

The reason for the Committee's concern can readily be seen in the findings of the President's Commission on Postal Organization. The President's Commission criticized the

Post Office's Cost Ascertainment System because only 17 percent of total postal costs were directly identifiable with classes of mail. The remaining 83 percent of total costs were allocated to the classes of mail on the basis of one or more judgmental allocations. The large proportion of total costs judgmentally allocated, made it impossible to determine whether a particular class of mail paid its true costs.

In 1969, the Post Office Department took steps to improve its costing methods by developing a system to provide cost data on a continuing basis for postal ratemaking. Using the new costing system, the Postal Service filed its first proposal for increased rates with the Postal Rate Commission in 1971. Under this proposal, about half of the Service's total costs were attributed to the various classes of mail.

Much controversy was generated by the Service's costing methods revolving around charges that the method used resulted in some classes of mail not paying their true costs.

The Commission's Chief Administrative Law Judge stated that the Service's costing method gave the Service too much latitude to distribute large amounts of costs on the basis of judgments that were largely subjective and that the scope for judgment in setting rates should be reduced. He stated also that distributing billions of dollars on the basis of thinly supported judgments was not acceptable. He did, however, allow the cost allocations presented by the Service to stand with only minimum changes, on the basis that the record in the case did not permit the determination of rates on what should have been the proper basis. He indicated that he would expect better cost data in the next rate case.

Subsequently, the Service was taken to court by intervenors (mail users) in the 1971 rate case. The Chief Judge of the United States Court of Appeals for the District of Columbia, in an opinion upholding the increased postal rates, commented adversely on the Service's costing procedures. He said the Service's response to the act's requirement that costs be properly attributed, " * * * was questionable at best."

In the second rate case filed in September 1973, no change was made in the Service's costing criteria.

The presiding Administrative Law Judge found that the Service used the same costing methodology as in the first case with the result that one class of mailers were paying higher rates than necessary to the benefit of other mailers who were thus paying lower rates. To rectify the inequities

he believed existed, the Judge attributed an additional 25 percent of costs to the various classes of mail based on data made available to him by the Service. The Judge published his decision in May 1975, recommending a reduction in first-class mail rates and increases in other classes.

In its recommended decision, the Commission rejected the Law Judge's findings and generally agreed with the Service's costing methods. The Commission stated that by building on the Service's methods it had managed to raise the attributable cost level to 52.5 percent. An appeal in this rate case contesting the Service's and the Commission's costing methodology is currently pending in the U.S. Court of Appeals for the District of Columbia.

The Service, in its third filing for new rate increases in September 1975, broadened somewhat its definition of attributable costs. The new definition increased to 56 percent the proportion of total costs attributed to the classes of mail.

In December 1975, several intervenors in the third rate case also filed suit against the Service challenging the methodology used in determining rate increases under the second rate case and challenging the temporary rate increases proposed by the Service following the second rate case. In January 1976, these cases were consolidated for purposes of an appellate argument to be held later this month.

A detailed explanation of why the Service's methods continue to be challenged is complex, requiring lengthy explanations involving accounting and economic theory. However, a few examples showing how the Service's definition of attributable costs can be construed as resulting in users of one class of mail paying for costs incurred for the benefit of users of another class should illustrate why the controversy remains and is likely to remain.

The Service has invested about \$1 billion in a new bulk mail system. The bulk mail system will handle some second-, third-, and fourth-class mail, but no first-class mail. Under the Service's costing methods, first-class mail will be charged with about 29 percent of the bulk mail system's costs. Why? Because the Service treats about 50 percent of the bulk mail system's costs as institutional costs--costs of the enterprise as a whole--of which about 58 percent is allocated to first-class mail.

Similarly, letter sorting machines are used 90 percent of the time to process first-class mail and 10 percent of the time for single piece third-class mail. Some

of the costs of these machines are considered institutional costs and are charged not only to first- and third-class mail but to the other classes of mail as well, even though the machines are not used to process this mail.

Thus, the controversy continues as do the charges that certain classes of mail subsidize others.

FUTURE RATES

The previous sections discussed conditions as they exist today. What about the future?

We estimated in February 1975, that depending on productivity gains and inflation pressures, a unit of first-class postage could cost as much as 36 cents in 1984. This was discussed in our report to the House Post Office and Civil Service Committee "Forecast of Postal Service Self-Sufficiency Potential" (GGD-75-58, Feb. 20, 1975). In a more recent report, (GGD-76-19, Dec. 5, 1975), we updated our projections through 1978 to reflect a decrease in the estimate of growth of disposable personal income, a major factor in the projection of volume, and an increase in the estimate of future inflation.

Our forecast for fiscal year 1978, which assumes a total of 95.63 billion pieces of mail, an inflation rate of 8 percent, and annual productivity increases of 0.7 percent, indicates that with subsidies of zero and \$1 billion, the price of first-class postage would have to be \$0.18 and \$0.16, respectively, to recover expenses. The effect of inflation can be seen by considering that in terms of 1975 dollars, these figures would be \$0.14 and \$0.12, respectively. The Postmaster General has estimated that under the current appropriations system, first-class postage will be 23 cents in 1981. Conversely, if first-class postage rates were held to 13 cents, the Congress would be requested to appropriate \$8.5 billion by 1981.

In other sections of this report, we discuss why the annual cost of operating the Postal Service has risen by about \$3.5 billion since reorganization and why the price of a unit of first-class postage has risen from 6 to 13 cents over the same period.

Historically, the costs of operating the postal system have been split between the mail user and the taxpayer. However, a new wrinkle was introduced by passage of the Postal Reorganization Act. To that time, the Federal subsidy was a residual--the difference between the revenues generated by the congressionally authorized rate structure and the expenses of operating the Post Office Department.

In contrast, today the rates are, in effect, the residual. The amount of the Federal subsidy is largely fixed, being based on specific provisions of the Postal Reorganization Act. With no change in this principle, the reasonableness of rates could be considered academic in that you must recover costs.

A pending bill, S. 2844, would establish a Commission on Postal Service to identify and study the public service aspects of postal operations with a view to determining what portion of the Service's expenses should be supported by appropriations. We endorse such a study.

Ideally, the calculated public service subsidy would be the difference between the revenues generated by reasonable postage rates and the cost of operating the Postal Service. But again the question is what are reasonable postage rates? It is very possible that after the Commission determines what public service subsidies should be, the residual costs would still be high enough to require postage rates considered unacceptably high in some quarters.

We are currently studying the pros and cons of tying postage rates to some index--perhaps the Consumer Price Index. Presumably, rates moving with prices generally will be more palatable to the public. Indexing would serve the dual purpose of setting an "acceptable" level of rates and providing a basis for determining the amount of the Federal subsidies--which would be an amount equal to Postal Service expenses less index-derived revenue. Of course, Congress may choose not to subsidize part or all of the public service expenses.

We expect that our study will shed light on whether indexing is a feasible alternative to the existing rate-making procedures. One problem to be overcome is that indexing would probably give the Postal Service appropriated funds to cover the shortfall between revenue and expenses and, as such, provisions would have to be made to measure the effectiveness of management's actions.

POSTAL RATE COMMISSION/POSTAL SERVICE RELATIONSHIP

In 1970, the Congress made a judgment that rates and classifications should be based on a more elaborate and exact analysis than the time and staff resources of the Legislative Branch could provide. The Postal Reorganization Act was designed to take the whole question of mail rates and classification out of the political process, and to have these matters determined on the basis of an evidentiary record by an independent commission, selected on the basis of professional qualifications. Under the act, it is the Commission

that furnishes the only formal opportunity for users of the mails and other members of the public (1) to present their views on postal rates and classifications, (2) to question and evaluate the data submitted by the Service, and (3) to offer rebuttal evidence.

The legislative history of the act makes it clear that in creating the independent, bipartisan Postal Rate Commission, the Congress intended the Commission to serve as a "true partner" of the Governors of the Postal Service. The Senate Post Office and Civil Service Committee noted that if a bureaucratic struggle developed between the Commission and the Service, then the whole theory of independent ratemaking will have failed.

The need for a close working relationship was closely tied to the concern that ratemaking must be timely. Both Senate and House committees noted that since the Postal Service was a labor-intensive organization, it was important for the Commission to act promptly on rate requests.

Timeliness of Rate Cases

Since inception of the Postal Rate Commission, two rate increases have been completed. The first case took 17 months and the second 23 months. A third request is now in process.

In the Service's 1975 Annual Report, the Postmaster General stated:

"Rate relief did not take place during Fiscal 1975, and as a result, the Postal Service experienced a financial crisis that could have been avoided had the ratemaking process responded to the realities of the times.

Without question, postal rate revision calls for careful deliberation that uncovers the facts and preserves the right of all parties to be heard. The proceedings before the Postal Rate Commission, however, were prolonged to the point of threatening the economic future of the Postal Service."

In a statement before the Senate Committee on Post Office and Civil Service, the Postmaster General said that one of the major factors in the grave financial condition of the Service is the breakdown in the ratemaking process established under the Postal Reorganization Act. He stated further that if the Service's request for a 10-cent first-class stamp had been approved in a reasonable time, it would have been able to obtain a 13-cent first-class stamp in July 1975, and would not have the better-than-a-billion dollar deficit it accrued in the first half of fiscal year 1976.

These themes have been repeated often by many Service officials in many forums.

The Postal Rate Commission, while agreeing that there is a problem with the length of proceedings, feels the central reason is an inadequate Postal Service data base. It is the Commission's position that substantial expenditures of time are required by parties to obtain from the Service information they need to present evidence addressed to:

- (1) the revenue requirements of the Postal Service, and
- (2) the method it uses to allocate costs to the various classes of mail.

The Postal Service does not agree with this position. The Service believes that many of the interrogatories filed with them are trivial and unrelated to the issues at hand. It is clear that the goal of speedy rate deliberations has not been achieved. For the third rate case, the Commission made a number of changes intended to speed up the ratemaking process. Foremost is the decision of the Commission to hear the case directly, eliminating the role of the Administrative Law Judge.

Only time will tell if this will have a significant favorable effect.

CHAPTER 4

BALANCING COSTS AND REVENUES

The Postal Service is in very poor financial condition, as the data in this chapter will show. The questions that need to be asked as a result of the Service's inability to balance costs and revenues are

- Does the financial condition of the Service reveal some fundamental flaw in the thinking that an independent postal management team would be able to better control costs?
- What are the future prospects of the Service in reaching self-sufficiency?

Much of the criticism of the Service centers on the fact that the business-like practices that were supposed to be brought to bear on postal problems have not controlled costs or eliminated deficits. In assessing management's performance over the past 4-1/2 years, some distinction needs to be made between costs that were controllable by management and those that were not. In subsequent sections we attempt to do this.

Whether Postal Service self-sufficiency remains a viable long-term goal is a much more difficult question and one we are not in a position to address. In the short-run, self-sufficiency is clearly not possible without higher rates and/or less service.

To some, the failure of the Service to achieve self-sufficiency either now or in the future carries with it the failure of the idea that an independent Postal Service is a better way of providing service than existed previously. We hope that the information we can bring to bear on this issue will aid the Congress in deciding the future course and shape of the Postal Service.

PRESENT FINANCIAL CONDITION

The Service has lost money every year since its creation as shown in the table below:

STATEMENT OF OPERATIONS

	FY ENDING JUNE 30			
	<u>75</u>	<u>74</u>	<u>73</u>	<u>72</u>
	-----a/(millions)-----			
OPERATING REVENUE				
Mail Revenue				
--postage	\$ 9160.5	\$ 8184.7	\$7603.7	\$7261.5
--Federal Government				
payment	484.1	470.8	404.0	294.0
Special Services	370.5	352.8	332.2	343.7
Government Appropriations				
--public service cost	920.0	920.0	920.0	920.0
--revenue foregone	612.9	497.0	856.6	504.2
--other	--	b/ 333.4	--	--
Total Revenue	<u>\$11548.1</u>	<u>\$10758.8</u>	<u>\$9824.5</u>	<u>\$9308.4</u>
OPERATING EXPENSE				
Compensation and Employees				
Benefits	\$10805.4	\$ 9641.6	\$8450.9	\$8145.5
Other Expenses	1768.8	1653.8	1475.5	1439.8
Total Operating Expenses	<u>\$12574.2</u>	<u>\$11295.3</u>	<u>\$9926.4</u>	<u>\$9585.4</u>
OPERATING LOSS	<u>\$ 1026.1</u>	<u>\$ 536.6</u>	<u>\$ 101.9</u>	<u>\$ 277.0</u>
OTHER INCOME				
Interest Income	\$ 109.2	\$ 116.5	\$ 106.1	\$ 108.6
Interest Expense	71.9	18.3	17.2	7.1
Total Other Income	<u>\$ 37.3</u>	<u>\$ 98.2</u>	<u>\$ 88.9</u>	<u>\$ 101.6</u>
NET LOSS	<u>\$ 988.8</u>	<u>\$ 438.4</u>	<u>\$ 13.0</u>	<u>\$ 175.4</u>

a/
Columns may not foot due to rounding.

b/
Appropriations to offset (1) delay in implementation of temporary rate increases and (2) Civil Service retirement expenses.

On July 1, 1971, the Postal Service commenced operations with an equity (an excess of assets over liabilities) of \$1.7 billion. By June 30, 1975, the Service's equity balance had shrunk to \$190 million. It is expected to continue to decrease dramatically.

The changes in assets and liabilities and its effect on the Service's equity are detailed in the following table:

ANALYSIS OF INCREASES AND DECREASES
IN ASSETS, LIABILITIES, AND EQUITY
OF POSTAL SERVICE

<u>Fiscal year</u>	<u>Assets</u>	<u>Increase</u>	<u>Liabilities</u>	<u>Increase</u>	<u>Equity</u>
	----- (billions) -----				
1971	\$ 3.4	\$ --	\$ 1.7	\$ --	\$ 1.7
1972	4.7	1.3	3.2	1.5	1.5
1973	5.6	.9	4.0	.8	1.6
1974	6.8	1.2	5.7	1.7	1.1
1975	7.5	.7	7.3	1.6	.2
1976 (est.)	9.9	2.4	11.2	3.9	(1.3)
1977 (est.)	10.7	.8	13.5	2.3	(2.8)

The Postal Service is in a negative equity position, \$831 million, at December 31, 1975. In the private sector, an excess of liabilities over assets, coupled with revenues that regularly fail to cover expenses, strongly suggest that the entity is bankrupt.

The Postal Service's equity is not quite like that of a corporate entity since about \$1.5 billion of the Service's liabilities are held by the Federal Financing Bank of the U.S. Treasury, another Government entity.

Use of Debt Financing

In order to absorb its continuing deficits and to maintain the level of assets necessary to support adequate service to the public, the Postal Service resorted to borrowing. There is currently outstanding over \$1.75 billion of debt incurred to meet operating expenses and capital

expenditures. Two promissory notes of \$500 million each, for operating expenses, are held by the Federal Financing Bank. Another \$500 million promissory note also held by FFB is for capital expenditures. The repayment schedule of these three notes follows:

Debt Financing Repayment Schedule

to Federal Financing Bank

<u>Repayment schedule</u>	<u>Three promissory notes of \$500 million</u>		
	<u>May 30</u> <u>a/ 1975</u>	<u>July 11</u> <u>b/ 1975</u>	<u>May 30</u> <u>1975</u>
	------(millions)-----		
May 30, 1976	\$ --	\$200	\$ 20
May 30, 1977	--	200	20
May 30, 1978	200	100	20
May 30, 1979	200	--	20
May 30, 1980	100	--	20
May 30, 1981-85			400

a/ This debt incurred in FY 1974 at a high interest rate of 9.3 percent was due June 30, 1975; refinanced on May 30, 1975.

b/ One-year note "rolled-over" at July 11, 1975.

Additional long-term debt consists of \$250 million of 6-7/8 percent Postal Service bonds issued February 1, 1972, under a trust indenture secured by a first lien on revenue, income, fees, and appropriations; and mortgages payable of \$33.4 million secured by land and buildings. Interest on these mortgages range from 4 to 8 percent maturing from 1976 through 1998.

CONCLUSION

A reduction in equity represents a reduction in the assets of the system as a whole. Consequently, the Service is consuming its capital structure and, over time, there will be little or no money available for maintenance of plant and equipment let alone improvements. The future prospect is poorer service, higher rates to be borne by the users of the mails, or an increase in the Federal subsidy.

REASONS FOR DEFICITS

Chapter 3 outlined the increases in rates that have occurred since reorganization. Obviously, cost increases have greatly exceeded the revenue that increasing rates have generated. Why have costs increased so fast?

Impact of Inflation on Postal Service Employee Compensation Costs

The largest deficits occurred during the time (fiscal years 1974 and 1975) that inflation reached a nearly unprecedented rate. This had particular significance because cost-of-living pay adjustments for most postal workers are pegged to movements in the Consumer Price Index. With personnel costs representing 86 percent of the Service's expenses, large CPI increases have a significant impact on postal salary costs.

The Index increased 11 percent in FY 1974 and 9.3 percent in FY 1975 compared to increases of 2.9 percent in FY 1972 and 5.9 in FY 1973. The cost-of-living allowances based on the CPI resulted in increases in total pay to postal employees of \$987 million in the last 2 years. The Service's expenses for salaries and fringe benefits are shown below.

Salaries and Benefits

<u>Fiscal year</u>	<u>Amount</u>	<u>Percent of total expenses</u>
1975	\$10,805,408	85.9
1974	9,641,557	85.3
1973	8,450,914	85.1
1972	8,145,538	84.9

The increase in employee compensation is particularly significant since the Service used about 50,000 man-years less in 1975 than in 1971 when it began operations.

Increased Fuel and Gasoline Prices

As the operator of one of the world's largest vehicle fleets, the Service has been hit hard by the increases in gasoline prices. The Service consumes about 350 million gallons of gasoline in its owned, leased, and contracted vehicles. A 1-cent increase in gasoline prices adds about \$3.5 million to the Service's annual costs. Since 1971, the cost of gasoline to the Service has increased about 20 cents a gallon.

Similarly, the Service operates about 30,000 buildings. Since 1971, fuel costs have increased about 69 percent.

Higher Employee Pay Required by the Act

The Reorganization Act requires the Service to compensate postal workers at rates comparable to those paid in private industry. The compensation for about 620,000 postal workers moreover, is determined through the collective bargaining process and three labor agreements have been negotiated by the Service since reorganization. Prior to reorganization, postal workers' pay was linked to the pay of a GS-5 civil servant.

In fiscal year 1975, the higher rates of pay negotiated by the postal unions increased the Service's costs by about \$1.25 billion more than it would have been under the pay system used before reorganization.

Under the terms of the latest contract, postal workers will receive pay increases in March and November 1976 and July 1977.

WHAT HAS THE SERVICE DONE TO CUT COSTS?

The President's Commission on Postal Organization recognized that rate increases in an era of rising costs cannot be entirely avoided. However, it believed that in a well managed postal service, the need for rate increases could be largely offset by operating efficiencies. This belief was founded on the Commission's findings of obsolete work methods and the lack of mechanical aids for employees in the Post Office Department.

Since much of the improvements necessitated investments in new facilities and equipment, the Commission recognized that the full savings would not be realized for several years.

Investment in New Plant and Equipment

The old Post Office Department had not received adequate funds for capital investment to modernize its plant and equipment. As a consequence, the Service has had to spend billions of dollars in a short time period to upgrade its plant and equipment, as indicated by the chart below:

Capital Investment CommitmentsFiscal years 1971-76

<u>Category</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
	----- (thousands) -----				
Construction and building improvements	\$114,609	\$392,712	\$484,764	\$285,942	\$472,677
Mail processing equipment	67,823	258,439	231,398	63,869	134,782
Vehicles	28,255	44,018	43,098	59,208	78,123
Customer services equipment	4,519	6,535	8,850	13,401	17,440
Postal support equipment	<u>20,196</u>	<u>22,168</u>	<u>34,786</u>	<u>41,492</u>	<u>32,094</u>
	<u>\$235,402</u>	<u>\$723,872</u>	<u>\$802,896</u>	<u>\$463,912</u>	<u>\$735,116</u>

In fiscal year 1976 the Service expects to invest another \$954 million.

Productivity Improvements

Overall, the Service has made gains in productivity since the reorganization. In fiscal year 1971, 723,500 man-years were used to move 87 billion pieces of mail or 120,212 pieces per man-year. In fiscal year 1975, 693,000 man-years were used to move 89 billion pieces of mail or 128,764 per man-year. Had the productivity increase not occurred it would have taken 50,000 more man-years in fiscal year 1975 to move the mail.

The Postal Service, through the implementation of two major new programs to increase productivity--the Productivity Improvement Program and the Letter Carrier Route Evaluation System--anticipates further decreases in staff requirements.

The Productivity Improvement Program (PIP) is presently being tested in various post offices throughout the Nation. The objectives of this program are to:

- develop the capability to implement and maintain a computer model to calculate optimum mail processing staffing levels,

- maximize mail processing operations through mechanization,
- install a system to measure and evaluate cost saving methods, and
- identify opportunities for methods improvements.

The effectiveness of this program has yet to be determined due to its limited implementation.

Another efficiency program which has been tested by the Service is the Letter Carrier Route Evaluation System (LCRES). This system is intended to standardize letter carrier delivery routes in a metropolitan area, evening out the workload of letter carriers, thus allowing the Service to utilize its manpower more efficiently to meet delivery needs. LCRES has been tested in Kokomo, Indiana, and Portland, Oregon. At present, nationwide implementation of LCRES is the subject of an arbitration proceeding between the Postal Service and the National Association of Letter Carriers.

Other Labor Economy Measures

Other ways in which the Service is trying to reduce its labor costs is through the reassignment of excess craft employees and reduction of overtime. The Service has established a new Excess Craft Employee Reporting Procedure to enable it to systematically adjust its manpower requirements to fit the actual workload at every postal installation. Under the new system, understaffed offices will be brought up to strength by reassigning excess employees from other offices rather than hiring new employees.

Improved Procurement Practices

Procurement in the Postal Service is big business--well in excess of \$1 billion annually. Service contracting covers a wide variety of goods and services including: land acquisition, construction of buildings, mail processing equipment, vehicles, customer service, professional services, support services, building supplies, printing, fuel and utilities just to mention a few.

The Service's procurement policies and procedures emanate from the authority contained in section 410 of the Reorganization Act. Basically, this section exempted the Service from Federal laws relating to contracts with a few exceptions such as those laws pertaining to labor, civil rights, and criminality. As a result, the Service was given wide latitude in the conduct of its procurement activities.

Though the Service was given considerable freedom, its procurement policies and regulations closely parallel those of other Federal agencies.

Since reorganization, we have continually devoted part of our audit effort to procurement. Overall, our reviews have shown the Service record to be mixed--disclosing both good and bad aspects. Generally, problems we have noted occurred because (1) procedures were not followed and/or (2) the procedures were not adequate. When we have pointed out problems to the Service, it has instituted corrective actions. Some of our major efforts in the past are discussed below.

Sole-source contracting and cost overruns

This review was undertaken because of allegations that the Service was awarding an excessive number of sole-source contracts and that cost overruns were occurring on these contracts. The review was restricted to the headquarters contracting activities of the Procurement and Supply Department.

Sole-source contracts totaling \$98 million represented 25 percent by number and 44 percent by dollar value of total contract awards. A wide variety of goods and services were procured on a sole-source basis--from complex items such as Mark II Facer Cancellers to simple items such as office furniture and letter mail tray covers. Two reasons frequently used to justify sole source were:

- the item was urgently needed, and/or
- a particular contractor was the only source of supply.

We concluded, in certain cases, these justifications were questionable and that the Service could have avoided going sole source.

Cost overruns on sole-source contracts were not excessive. The \$28.2 million cost growth on 9 contracts we reviewed was caused by:

- definitization of letter contracts (\$18.3 million)
- changes to scope of work (\$7.5 million)
- cost overrun (\$2.4 million)

The Service instituted several corrective actions:

- establishing an office to identify future needs earlier so as to avoid the urgent needs;

- vesting sole authority for approving sole-source contracts over \$5,000 with Assistant Postmaster General, Procurement and Supply Department;
- establishing a policy to secure data rights to avoid being forced to obtain items from the previous supplier.

We noted some basic problem areas in procurement of developmental equipment. Briefly these were: (1) no high-level review committee with authority to modify or terminate programs moving in questionable directions or showing little progress or potential, (2) test and evaluation activities being largely under control of project management rather than being independent, and (3) lack of periodic cost benefit analyses to provide top management with information to evaluate programs in terms of costs to be incurred and benefits to be realized.

Postal officials told us that although mistakes were made in the accelerated effort to develop mechanization, lessons were learned from the experience and corrective actions were taken including:

- requiring more careful, formal justification for procurement actions;
- separating, organizationally, the testing and evaluation function; and
- requiring a verification of cost-benefit analysis.

Automatic data processing equipment purchases

We were requested to determine whether contracts for automatic data processing equipment for Postal Data Centers in St. Louis and New York City were fairly awarded. In both procurements, we found no evidence that the Service attempted to rig the awards. However, we did note some deficiencies.

In the St. Louis procurement, the request for proposal did not adequately describe the workload to be processed on vendor equipment and provide information on the criteria to be used to evaluate proposals. These deficiencies worked to the advantage of the vendor awarded the contract.

In the New York procurement, the request for proposal did not (1) adequately describe the workload requirements and the benchmark demonstration to be performed on vendor equipment or (2) provide information on the criteria to be used to evaluate vendor proposals.

As a result of the deficiencies, the Service revised its policies and procedures for selecting automatic data processing equipment.

Professional services

Our report on contract awards for advertising and promotional services demonstrates that questionable procurements may result when established procurement policy and procedures are bypassed.

Altogether, one contractor was paid a total of \$815,000 under four contracts, three purchase orders, and five claims. The initial contract was justified on the basis that the company was the only source. However, the Service did not attempt to locate other potential sources as required by regulations. The contractor acknowledged that other firms could have performed the work. Subsequent arrangements with the contractor were justified on the basis of the company's knowledge of postal operations and the high quality of its work.

The five claims were for projects undertaken on the basis of oral understandings which were not corroborated in formal contracts. In four of the five claims, the Service paid the contractor amounts shown on its invoices without audit to determine their reasonableness.

For the four formal contracts awarded the contractor, the cost and price data submitted was not sufficiently detailed to determine the reasonableness of proposed prices. Two of the contracts exceeded \$100,000, and audits were required but not performed.

The contracts discussed above along with several other professional services contracts were the subject of considerable adverse publicity because of the personal involvement of senior postal officials.

Mail transportation contracting

The Service uses contracted vehicle service as one means to transport mail between postal and private facilities. The bulk of the contracts, referred to as star routes, are for moving mail between cities and between post offices. Other star routes move mail between post offices and transportation terminals, airports, and postal and private stations. There are about 14,000 star route contracts throughout the country. Expenditures for these contracts totaled \$262 million in fiscal year 1973.

The Service was not promptly identifying opportunities to improve the routing of a star route vehicles. As a result, the Service was incurring unnecessary costs and fuel use. For example, the sectional center facilities at Rockford and Springfield, Illinois, could have saved about \$185,000 and 88,000 gallons of fuel annually by better coordination of their star routes.

We recommended that the Service issue instructions requiring periodic reviews of star routes and that the requisite procedures be covered in appropriate Postal Service training programs. We further recommended that the Service consider centralizing the review at a level higher than the sectional center facilities to

- provide independent analysis of the need for routes,
- eliminate jurisdictional problems involving different fiscal and contracting authorities, and
- build a degree of expertise for the personnel reviewing the star routes.

Service corrective actions included revised procedures for reviewing star routes and covering the review procedures in Service training programs. The Service is experimenting with centralizing star route contracting and administration.

Vehicle procurement

We reviewed a Service decision to purchase 35,695 1/4-ton vehicles for approximately \$102 million. The purpose of our review was to determine if (1) the cost benefit analyses used to justify the purchase were prepared properly and (2) the most economical procurement method was adopted.

We found that the cost benefit analyses were prepared using an accepted method. Also, the decision to purchase, rather than lease, was the more economical alternative.

Mechanization Improvements

The Service's primary research and development effort is geared toward mechanizing the mail stream. While productivity improvement can be achieved to some degree through better methods and management, the majority of future savings are expected to come through mechanization. The payout in mechanization, it is hoped, will take the form of increased speed and efficiency while at the same time reducing labor costs.

Chapter 2 discussed the advances made by the Service in mechanizing letter sorting operations. Some other mechanization efforts are discussed below.

National bulk mail system

The Postal Service is investing about \$1 billion in the National Bulk Mail System (NBMS)--a nationwide system for processing bulk mail. The NBMS represents the Service's first-scale attempt to develop a mechanized nationwide mail processing system. The system, approved on March 11, 1971, will consist of 21 bulk mail centers and 12 auxiliary service facilities located throughout the country. Its original estimated cost was \$950 million.

A 1970 study by a consulting firm to determine the benefits to be derived by a bulk mail system showed that such a national system would save about \$300 million annually. This savings determination was based on an analysis of what the 1969 actual bulk mail costs would have been had the bulk mail system been in operation at that time. On the basis of a June 1972 consultant's study, the Service stated the system would increase revenues and reduce costs by about \$500 million by 1984.

In GAO's report "Observations and Questions on the Development of the New National Bulk Mail System" (B-114874, Nov. 1, 1974), we stated that the Service's projection of \$500 million may prove correct, but it is far from certain for two reasons:

- The ^{unc}certainty of the Service's future share of the parcel delivery market and future revenues.
- The uncertainty of the accuracy of the Service's prediction of how the new system will affect its overall costs.

The Service expects the NBMS to be completely operational on March 27, 1976. The estimated cost to complete the system is about \$997 million, \$47 million more than the original estimate of \$950 million.

The Service lowered the estimated annual benefits to be realized from the system to \$209 million on March 4, 1975, and to \$149 million on July 1, 1975. On October 7, 1975, the Assistant Postmaster General, Bulk Mail Processing Department, stated that benefits from NBMS should exceed \$138 million annually, if parcel post volumes did not fall below 400 million pieces, and if bulk second- and third-class volumes did not drop below anticipated levels, for an investment return in excess of 10 percent.

Annual benefits of \$138 million would be a decrease of 54 percent in the original annual benefits estimate of \$300 million.

Other mechanization efforts

In testimony before the Subcommittee on Postal Facilities, Mail, and Labor Management, House Post Office and Civil Service Committee, in August 1974 we discussed the air culler, advanced facer canceller, and advanced optical character reader; three pieces of equipment being developed to reduce labor requirements.

To that time, the Service had spent about \$43.4 million developing these machines. Our general observations were that:

- none of the machines were suitable for full-scale production and deployment within the postal system, and
- all three had manpower requirement similar to existing alternatives and therefore did not appear to offer substantive manpower savings.

The ongoing mechanization program is divided into the following areas:

- Letter Mail
- Flats, Small Parcels, and Rolls
- Bulk Mail
- Transportation and Containerization
- Point-of-Sale
- Advanced Mail
- Technology Research

The long-range goal in transportation and containerization is to develop containers compatible with transportation (material handling equipment and vehicles). The Service's view is that containerization can improve productivity, while transportation improvements can achieve dollar savings primarily through reductions in fuel costs. An example of the Service effort is the use of electronic delivery vehicles. Currently, 350 1/4-ton electric vehicles are being field tested to determine whether they will be an economical alternative to the gasoline powered jeeps. Tentative plans call for the purchase of 1,000 additional vehicles in fiscal year 1976 and 5,000 in fiscal year 1977.

Under the Flats, Small Parcels, and Rolls (FSPR) Program, two proto-types have been developed--the envelope flat sorter and a small parcels and rolls sorter. The Service has plans to deploy these items.

The Point-of-Sale program involves developing self service equipment, window operations equipment, and delivery services equipment. Examples of Service equipment include stamp and coin vending machines and neighborhood "cluster boxes."

The Advanced Mail and Technology Research programs are really the "think tank" programs. The concept here is to evaluate new technologies in terms of potential Postal Service applications. For example, the Service is now studying the feasibility of an electronic message service system.

CONCLUSION

The 126 GAO reports demonstrate that there is much management can and should do to make the Service more efficient and effective. On the other hand, the facts, as we see them, do show that much of the Service's financial problems were beyond its control.

CHAPTER 5PERSONNEL COMPENSATION AND WORKING CONDITIONS

The Postal Reorganization Act tasked the Postal Service with

- achieving and maintaining compensation for its employees comparable to the rates and types of compensation paid in the private sector,
- providing all employees with opportunities for career advancements and achievements of worthwhile and satisfying careers, and
- providing desirable working conditions for its employees.

Since reorganization, the Postal Service has been successful in increasing employee compensation, establishing a comprehensive training program, improving working conditions, and reducing employee accidents. The impact of salary increases on the Service's goal of self-sufficiency was discussed in chapter 4.

EMPLOYEE COMPENSATION

The Act authorized employees to organize and bargain collectively with management on matters related to wages and hours. The first collective bargaining agreement was completed on November 18, 1970, and expired July 20, 1971. There have been three labor contracts since that time as follows:

<u>From</u>	<u>To</u>	<u>Term</u>
7/21/71	7/20/73	2 years
7/21/73	7/20/75	2 years
7/21/75	7/20/78	3 years

The Service conducted a study of compensation costs and occupational wage rates that covered 67 companies in manufacturing and nonmanufacturing industries during the period November 18, 1974, to February 7, 1975. According to the study, the average straight-time pay plus benefit cost for Service bargaining unit employees was \$8.05 per hour and the average wage for employees in the industries surveyed was \$8.04 per hour as shown below.

Comparison of Compensation Costs in the
Service With that in 14 Selected Industries
February 1975

	<u>Postal Service</u>	<u>Private sector</u>
Straight-time pay	\$ 6.02	\$ 5.55
Total benefits	<u>2.03</u>	<u>2.49</u>
Total Compensation	\$ <u>8.05</u>	\$ <u>8.04</u>

The survey results indicated that there was little difference in compensation costs between the Service and the private sector.

As a matter of interest, GAO has traced the compensation growth for employees of the Service. The following table shows salary growth for Service employees since reorganization. It also shows the salary growth for General Schedule employees, grade 5/step 5 and for Postal Service Schedule employees, grade 5/step 5 (the former equivalent point in the General Schedule and Service scales).

<u>Salary Growth Since Postal Reorganization</u>				Percent increase from 7/71 to 3/76
	<u>July 1, 1971</u> (note a)	<u>July 21, 1975</u> (note b)	<u>March 21, 1976</u> (note c)	
Postal Service				
Average Salary				
w/o fringes	\$8,694	\$13,254	\$13,650	57.00
w/fringes	9,746	15,493	15,957	63.73
Grade 5/step 5				
w/o fringes	\$8,012	\$12,238	\$12,634	57.69
w/fringes	8,981	14,306 (note d)	14,769 (note d)	64.45
General Schedule				
w/o fringes	\$7,862	\$ 9,632	\$10,117	28.68
w/fringes	8,813	11,809	12,403	40.73

a/ Compensation prior to collective bargaining.

b/ Date of first increase under current contract.

c/ Date of second increase under current contract.

d/ Does not reflect a contribution for retirement benefits as complete as the General Schedule.

By the end of the current contract period, July 1978, we estimate the average compensation and benefit costs per labor agreement employee will be \$18,700.

Since reorganization, total employee salaries and benefits costs have increased \$3.5 billion or 47 percent. This expense, as a percent of total postal expenses, has increased from 83.3 in 1971 to about 86 percent in 1975. Coupled with the compensation and benefit increases is the "no lay-off" clause. This package would certainly seem to give postal union employees a financial standing comparable to that of employees in the private sector of the economy.

CAREER ADVANCEMENT

The Postal Service training program is designed to increase employee opportunity for advancement and the professionalism of the organization. The Service's program is carried out through its Postal Employee Development Centers located in the larger and geographically acceptable post offices, Technical Center in Oklahoma, and Training and Development Institute in Maryland.

The Development Centers are the basic units in the Service's program. The centers, of which there were 170 in fiscal 1975, use self-learning techniques to enable employees to improve their general education or develop specific skills for better-paying jobs. An estimated 354,000 employees--over half the postal workforce--took courses at centers during 1975.

The Technical Center teaches advanced technical skills and the Development Institute specializes in management instruction. In 1975, the Institute started a new management development program designed to insure that all city-delivery supervisors, manager, and postmasters receive thorough training when they are appointed to a new management position. In fiscal year 1975, 55,342 employees attended the Center and 67,569 attended the Institute.

WORKING CONDITIONS IMPROVEMENT PROGRAM

The adequacy of many postal facilities had been a long-standing problem. The President's Commission on Postal Organization in its June 1968 report stated:

"Though some modern post offices are pleasant enough places to work, working conditions in many are appalling. * * * Dirty facilities, crowded and noisy work areas, inadequate locker space and rest rooms, and poor lighting and cooling systems are common."

Recognizing the problem, the Service, in early 1972, started a multi-million dollar effort--the Working Conditions Improvement Program (WCIP)--that had the objective of having at least 95 percent of postal employees housed in adequate facilities by June 30, 1975. The program's importance, as expressed by headquarters management, was such that it had a priority second only to expeditious and economic delivery of the mails. The program tackled problems ranging from poor lighting and ventilation on the workroom floor to sprucing up employee locker rooms.

On December 16, 1974, GAO reported to the Postmaster General that the program was not well managed in its early stages. As a result, its progress was hindered by problems that could have been avoided or ameliorated by better planning and execution. The problems inhibiting WCIP's progress during its early stages were:

- insufficient staffing and direction to effectively execute the program,
- inadequate reporting procedures for informing management of program progress,
- a need for improved identification of needed facility improvements,
- a need to obtain employee views on required facility improvement,
- inadequate guidance on improving leased facilities, and
- a need to insure that improvements are made in order of their priority.

Program management improved considerably during our review, to some extent, as a result of GAO discussions with and suggestions to postal managers.

The WCIP was completed in fiscal year 1975 with a total commitment of \$260 million. At the end of the fiscal year, 87 percent of postal employees were housed in fully adequate space or in buildings being upgraded. Another 12 percent were in buildings scheduled for replacement.

EMPLOYEE ACCIDENTS

The Service has taken action to reduce the number of accidents involving its employees. This includes the Service's efforts to modernize facilities, improve working conditions, and increase employees' awareness of safety.

The following table shows the number of industrial and vehicle accidents in the Service from fiscal year 1971 (pre-postal reorganization) to fiscal year 1975.

Postal Service Accident Statistics

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Number of accidents:					
Industrial	49,517	45,229	46,868	51,766	45,962
Vehicle	22,035	19,786	16,328	12,398	10,408

While there has been a favorable trend in the number of accidents, the cost of accidents including medical cost, payments for lost time, and property damage has risen steadily as shown in the following table.

Total Cost of Accidents

1972	\$18,336,805
1973	20,601,800
1974	21,280,104
1975	23,147,345

CONCLUSION

In many ways the post office is a better employer and a better place to work than it was prior to the reorganization. The amounts expended by the Service show that it is working to fulfill the objectives of the Postal Reorganization Act.

APPENDIX I

APPENDIX I

A LISTING
--BY JOB CLASSIFICATION--
OF
GAO REPORTS ISSUED
ON
POSTAL SERVICE OPERATIONS
- - - -
FISCAL YEAR 1972
THROUGH
JANUARY 31, 1976

APPENDIX I

APPENDIX I

<u>JOB CLASSIFICATION</u>	<u>PAGES</u>
QUALITY OF MAIL SERVICE	52 - 55
FACILITIES, VEHICLES, AND EQUIPMENT	56 - 62
PERSONNEL	63
FINANCE AND SPECIAL STUDIES	64 - 68

APPENDIX I

APPENDIX I

QUALITY MAIL SERVICE

	<u>Reference</u>	<u>Congress</u>	<u>Addressee and date issued</u> <u>Committees</u> <u>or Members</u> <u>of Congress</u>	<u>Agency</u> <u>officials</u>
<u>FISCAL YEAR 1972</u>				
Implementation of the bulk mail facility concept, Pittsburgh, PA (Request of Congressman H. R. Gross)	171594		9-07-71	
Questionable savings attributed to Key Cities Program	--			5-04-72
Survey of the transportation activities of the Post Office Department	114874			6-29-72
<u>FISCAL YEAR 1973</u>				
Determination of whether the Postal Service has improved first-class mail service (Request of Congressman H. R. Gross)	114874		12-01-72	
Quality of mail service in Florida (Request of Congressman Paul G. Rogers)	114874		5-02-73	
Quality of mail service in Texas (Request of Senator Lloyd M. Bentsen)	114874		5-15-73	
Examination of selected aspects of the preferential mail system (Request of Chairman, Subcommittee on Postal Facilities and Mail, House Committee on Post Office and Civil Service)	171594		6-25-73	
Survey of Self-Service Postal Center Program	--			9-21-72
Mail forwarded or returned to patrons	--			10-31-72
Evaluation of the letter mail code sort system prototype	114874			11-08-72

APPENDIX I

APPENDIX I

QUALITY MAIL SERVICE

	Reference	Congress	Addressee and date issued Committees or Members of Congress	Agency officials
<u>FISCAL YEAR 1973 (cont'd.)</u>				
Service-wide mail containeri- zation program needed	114874			1-18-73
Survey of the area and managed mail processing programs	--			2-08-73
Survey of damaged and lost parcels	--			3-13-73
Survey of registered and COD mail	--			3-19-73
<u>FISCAL YEAR 1974</u>				
Review of air mail improvement program	114874	8-06-73		
Problems affecting mail service and improvements being taken	114874	3-20-74		
Review status of mail service (Request of Chairman, House Post Office and Civil Service Committee)				
New York	114874		7-20-73	
Miami	114874		10-02-73	
Boston	114874		10-11-73	
Detroit	114874		10-19-73	
San Francisco	114874		1-03-74	
Denver	114874		1-04-74	
Honolulu	114874		1-07-74	
Los Angeles	114874		1-09-74	
New Orleans	114874		3-08-74	
Review quality of mail service in Delaware (Request of Cong- ressman Pierre S. du Pont)	114874		7-26-73	
Review handling of publications at Texarkana Sectional Center Facility (Request of Congress- man Wright Patman)	114874		9-28-73	

APPENDIX I

APPENDIX I

QUALITY MAIL SERVICE

	<u>Reference</u>	<u>Congress</u>	<u>Addressee and date issued</u> <u>Committees</u> <u>or Members</u> <u>of Congress</u>	<u>Agency</u> <u>officials</u>
<u>FISCAL YEAR 1974 (cont'd.)</u>				
Review quality of mail service in Alaska (Request of Senator Mike Gravel)	114874		10-26-73	
Observations on the Preferential Mail System (Request of Chairman, Senate Committee on Post Office and Civil Service)	114874		10-30-73	
Postal Service actions on problems cited in GAO report on mail service in Florida (Request of Congressman Paul G. Rogers)	114874		3-12-74	
Results of GAO test mailings during 1973 Christmas period	--			6-19-74
Review of letter sorting machine operations in Detroit	--			6-28-74
<u>FISCAL YEAR 1975</u>				
Missent mail--a contributing factor to mail delay and increased costs	GGD-75-002 114874	10-22-74		
Observations and questions on the development of the new National Bulk Mail System	GGD-75-31 114874	11-01-74		
\$100 million could be saved annually in postal operations in rural America without affecting the quality of service	GGD-75-87 114874	6-04-75		
Problems affecting mail service in New Haven, CT (Request of Congressman Robert N. Giaimo)	GGD-75-020 114874		9-04-74	

APPENDIX I

APPENDIX I

QUALITY MAIL SERVICE

			<u>Addressee and date issued</u>
	<u>Reference</u>	<u>Congress</u>	<u>Committees or Members of Congress</u> <u>Agency officials</u>
<u>FISCAL YEAR 1975 (cont'd.)</u>			
Information on certain costs of the National Bulk Mail System (Request of Congressman H. R. Gross)	GGD-75-042 114874		11-12-74
Review of airmail and first-class delivery times (Request of Senator Eagleton)	GGD-75-047 114874		12-17-74
Survey of the reliability of air transportation of mail	--		8-14-74
Report on improved mail service - 1973 Christmas period over 1972 Christmas period	114874		10-23-74
<u>FISCAL YEAR 1976</u>			
System for measuring mail delivery performance--its accuracy and limits	GGD-75-109 114874	10-17-75	
Quality of mail service in New Mexico (Request of Chairman, Subcommittee on Treasury, Postal Service and General Government, Senate Committee on Appropriations)	GGD-76-6 114874		11-04-75
Potential for savings through consolidating certain mail operations in the San Francisco and Seattle Postal Concentration Centers	--		10-17-75
Need to formulate policies and procedures which would ensure evaluation of trade-offs between transportation savings and service impact	--		11-07-75

APPENDIX I

APPENDIX I

FACILITIES, VEHICLES, AND EQUIPMENT

		<u>Addressee and date issued</u>	
	<u>Reference</u>	<u>Congress</u>	<u>Committee or Members of Congress</u>
			<u>Agency officials</u>
<u>FISCAL YEAR 1972</u>			
Contract for study of suitable interior finishes (Request of Congressman H. R. Gross)	172134		7-12-71
Planning a new postal facility in Charlotte Amalie, St. Thomas, Virgin Islands (Request of Chairman, Subcommittee on Public Buildings and Grounds, House Committee on Public Works)	171594		8-16-71
Site selection and contract awards for construction and mechanization of New York Bulk and Foreign Mail Facility (Request of Congressman H. R. Gross)	171594		10-29-71
Transfer of postal building site acquisition and construction responsibilities (Request of Chairman, Senate Committee on Post Office and Civil Service)	172186		11-03-71
Leasing vs buying Postal Service vehicle maintenance facility in New York City (Request of Congresswoman Bella S. Abzug)	114874		2-14-72
Selection of a new facility site in Thousand Oaks, CA (Request of Senators Alan Cranston and John V. Tunney)	171594		2-17-72
Examination of selected terminated architect-engineering design contracts (Request of Chairman, Subcommittee on Postal Facilities and Mail, House Committee on Post Office and Civil Service)	171594		6-13-72

APPENDIX I

APPENDIX I

FACILITIES, VEHICLES, AND EQUIPMENT

	<u>Reference</u>	<u>Congress</u>	<u>Addressee and date issued</u> <u>Committees</u> <u>or Members</u> <u>of Congress</u>	<u>Agency</u> <u>officials</u>
<u>FISCAL YEAR 1972 (cont'd.)</u>				
Leasing vs buying vehicle maintenance facility in New York City (Request of Congresswoman Bella S. Abzug, and Senators Jacob K. Javits and James L. Buckley)	114874		6-16-72	
Contract award and administration procedures	--			8-18-71
Vehicle maintenance program, San Francisco region	--			2-14-72
Procurement of security containers and safes to reduce burglary losses	--			4-17-72
Survey of vehicle utilization in Chicago area	--			4-18-72
<u>FISCAL YEAR 1973</u>				
Economies of a decision by the Postal Service to abrogate an existing lease arrangement - South Boston Postal Annex Addition, Boston, MA (Request of Congressman James B. Burke)	145650		12-29-72	
Review of the purchase of a new Postal Service Headquarters (Request of Chairman, Subcommittee on Postal Facilities and Mail, House Committee on Post Office and Civil Service)	114874		1-05-73	

APPENDIX I

APPENDIX I

FACILITIES, VEHICLES, AND EQUIPMENT

		<u>Addressee and date issued</u>	
	<u>Reference</u>	<u>Congress</u>	<u>Committees or Members of Congress</u> <u>Agency officials</u>
Selection of bulk mail facilities in Memphis, TN, and Philadelphia, PA (Request of Chairman, Subcommittee on Postal Facilities and Mail, House Committee on Post Office and Civil Service)	114874		1-30-73
Examination of the promotional activities of the U.S. Postal Service (Request of Congressman John M. Murphy)	114874		6-12-73

FISCAL YEAR 1974

Examination of construction contract awarded for Des Moines, Iowa, Bulk Mail Facility (Request of Chairman, House Committee on Post Office and Civil Service)	171594		7-19-73
Justification for leasing foreign-made vehicles (Request of Congressman Henry S. Reuss)	167196		9-05-73
Review of site selection, Cuba City, Wisconsin (Request of Congressman Vernon W. Thomson)	171594		9-19-73
Facility site selection procedures at Cincinnati, Ohio (Request of Congressman William J. Keating)	114874		10-19-73

APPENDIX I

APPENDIX I

FACILITIES, VEHICLES, AND EQUIPMENT

	<u>Reference</u>	<u>Congress</u>	<u>Addressee and date issued</u>	
			<u>Committees or Members of Congress</u>	<u>Agency officials</u>
<u>FISCAL YEAR 1974 (cont'd.)</u>				
Review of costs for Head- quarter's furnishings (Request of Senators Robert P. Griffin and John C. Stennis, and Congressmen Charles E. Bennett and H. R. Gross)	114874		12-14-73	
Review of cost of kitchens for Board of Governors and for Postmaster General (Request of Senator Alan Cranston)	114874		2-12-74	
Review of contracts with Burnaford and Company (Request of Senator Alan Cranston)	114874		6-12-74	
Review of Postal Service's \$3.8 million advertising campaign (Request of Senator Alan Cranston)	114874		6-25-74	
Review of expenditures to furnish and equip Postmaster General's new office (Request of Senator Sam Nunn)	114874		6-27-74	
Economic analysis on Letter Sorting Machines in Western Region	--			8-06-73
Need for improved security measures at, and a consoli- dation of, the St. Louis ADP facility	--			2-28-74

APPENDIX I

APPENDIX I

FACILITIES, VEHICLES, AND EQUIPMENT

	<u>Reference</u>	<u>Congress</u>	<u>Addressee and date issued</u> <u>Committees</u> <u>or Members</u> <u>of Congress</u>	<u>Agency</u> <u>officials</u>
<u>FISCAL YEAR 1975</u>				
Observations on Procurement of equipment for Postal Data Centers (Request of Chairman, House Committee on Post Office and Civil Service)	GGD-74-098 180235		7-17-74	
St. Louis, MO	GGD-74-099 180235		7-19-74	
New York, NY				
Review of site acquisition for Kansas City Bulk Mail Facility (Request of Congressman Larry Winn, Jr.)	GGD-74-102 171594		7-17-74	
Need for a review mechanism for contracted vehicle service	114874			7-03-74
Problems affecting operations at the St. Louis Postal Data Center	180235			12-10-74
Review of working conditions improvement program	114874			12-16-74
Observations on sole-source procurement and overruns (Request of Chairman, House Post Office and Civil Service Committee)	GGD-75-81 171594		5-09-75	
Review of policies regarding neighborhood collection and delivery boxes (Request of Senator Alan Cranston)	GGD-75-92 114874		6-09-75	

APPENDIX I

APPENDIX I

FACILITIES, VEHICLES, AND EQUIPMENT

		<u>Addressee and date issued</u>	
	<u>Reference</u>	<u>Congress</u>	<u>Committee or Members of Congress</u> <u>Agency officials</u>
<u>FISCAL YEAR 1976</u>			
Review site selection for new San Antonio postal facility (Request of Congressman Henry Gonzalez)	171594		8-11-75
Large contract for purchase of letter sorting machines by U.S. Postal Service (Request of Senator Stuart Symington)	GGD-75-100 173423		8-26-75
Efforts to develop improved mail processing equipment have not succeeded to date (Request of Chairman, House Committee on Post Office and Civil Service)	GGD-75-96 114874		9-19-75
Automotive Parts Distribution System (Request of Chairman, Subcommittee on Environmental Problems Affecting Small Business, House Permanent Select Committee on Small Business) (addressed to Chairman, House Committee on Small Business)	GGD-76-13 114874		11-05-75
Use of commercial facilities for the maintenance of postal vehicles (Request of Chairman, House Committee on Post Office and Civil Service)	GGD-76-30 114874		12-23-75

APPENDIX I

APPENDIX I

FACILITIES, VEHICLES, AND EQUIPMENT

		<u>Addressee and date issued</u>	
	<u>Reference</u>	<u>Congress</u>	<u>Committee or Members of Congress</u>
			<u>Agency official</u>
<u>FISCAL YEAR 1976 (cont'd.)</u>			
Postal Service justified in purchasing mail delivery vehicles (Request of Chairman, House Committee on Post Office and Civil Service)	GGD-76-40 114874		1-09-76

APPENDIX I

APPENDIX I

PERSONNEL

		<u>Addressee and date issued</u>	
		<u>Committees or Members of Congress</u>	<u>Agency official</u>
<u>Reference</u>	<u>Congress</u>		
<u>FISCAL YEAR 1972</u>			
Payroll activities at Atlanta Postal Data Center and Atlanta and Columbus, GA, and Greenville, SC, post offices	--		1-18-72
<u>FISCAL YEAR 1973</u>			
Examination into statements concerning use of overtime instead of replacing em- ployees who retire (Request of Congressman Edwin B. Forsythe)	114874	11-20-72	
Administration of sick leave within the Postal Service needs improvement	114874		2-28-73
<u>FISCAL YEAR 1974</u>			
Survey of Postal Service Training Programs	--		7-31-73
Procedures to reimburse Department of Labor for Workmen's Compensation paid to postal employees	--		10-25-73
Findings on Groettum-type overtime compensation	--		10-30-73

APPENDIX I

APPENDIX I

FINANCE AND SPECIAL STUDIES

			<u>Addressee and date issued</u>
			<u>Committees</u> <u>or Members</u> <u>of Congress</u>
	<u>Reference</u>	<u>Congress</u>	<u>Agency</u> <u>official</u>
<u>FISCAL YEAR 1972</u>			
Need to evaluate and improve postal source data system before further expansion	114874	7-01-71	
Need to increase rates to recover cost of providing service to commercial firms renting multiple post office boxes	114874	7-19-71	
Need to recover the costs of processing business reply mail	114874	10-28-71	
Determination of nonprofit organizations' eligibility for reduced postage rates should be improved	114874	4-04-72	
Research and engineering activities	--		1-28-71
Postal rates should be adjusted to recover costs of providing priority handling to publications	114874		3-23-71
Policies followed in selling and exchanging ZIP code directories	--		4-28-71
<u>FISCAL YEAR 1973</u>			
Improvements needed in collection of data for the U.S. Postal Service's revenue and cost analysis system	114874	2-20-73	
Examination into the rationale for engaging a firm of certified public accountants (Request of Congressman H. R. Gross)	114874		9-07-72

APPENDIX I

APPENDIX I

FINANCE AND SPECIAL STUDIES

	<u>Addressee and date issued</u>		
	<u>Reference</u>	<u>Congress</u>	<u>Committees or Members of Congress</u> <u>Agency officials</u>
<u>FISCAL YEAR 1973 (cont'd.)</u>			
Examination of statements concerning Postal Service authority to sell bonds (Request of Senator Alan Bible)	114874		12-13-72
Comparison of budgeted and actual obligations, fiscal year 1972 (Request of Congressman H. R. Gross)	114874		1-18-73
Evaluation of Postal Service opinion concerning possible conflict of interest on the part of Ernst & Ernst (Request of Congressman H. R. Gross)	114874		2-20-73
Comments on senders of third-class mail paying return postage (Request of Senator Mike Gravel)	114874		5-10-73
Survey of the Customer Cooperation Programs	--		10-26-72
Cash management practices	--		11-30-72
<u>FISCAL YEAR 1974</u>			
Information on law enforcement activities of the Postal Service (Request of Chairman, House Committee on Post Office and Civil Service)	114874		2-14-74
Cost reduction reporting program	--		7-31-73
Inspection Service's consumer protection activities relating to mail fraud	--		10-30-73
Variations in cost effectiveness of post offices during 1973 Christmas period	--		4-22-74

APPENDIX I

APPENDIX I

FINANCE AND SPECIAL STUDIES

	<u>Reference</u>	<u>Congress</u>	<u>Addressee and date issued</u> <u>Committees</u> <u>or Members</u> <u>of Congress</u>	<u>Agency</u> <u>official</u>
<u>FISCAL YEAR 1975</u>				
Report on second- and third-class mail rates and regulations (Request of Senator Alan Cranston)	GGD-74-097 114874		7-17-74	
Examination of Capital Investment Program (Request of Chairman, House Committee on Post Office and Civil Service)	GGD-75-017 119600		8-22-74	
Analysis of Public Service Costs (Request of Congressman Edward J. Derwinski)	GGD-75-025 114874		10-09-74	
Observations on sales of postal-related products and photocopy services (Request of Chairman, House Committee on Post Office and Civil Service; Senators Alan Cranston, Pete V. Domenici, Barry Goldwater, Sam Nunn, and Congressman John J. Rhodes)	GGD-75-29 114874		10-10-74	
Profitability of sales of printed return address envelopes (Request of Chairman, Subcommittee on Environmental Problems Affecting Small Business) (Congressman Hungate)	GGD-75-62 114874		2-13-75	
Review of billing system for DOD mail usage (Request of staff of Senate Committee on Appropriations)	GGD-75-1 182343		2-20-75	
Forecast of Postal Service self-sufficiency potential (Request of staff of House Committee on Post Office and Civil Service)	GGD-75-58 114874		2-20-75	

APPENDIX I

APPENDIX I

FINANCE AND SPECIAL STUDIES

	<u>Reference</u>	<u>Congress</u>	<u>Addressee and date issued</u> <u>Committees</u> <u>or Members</u> <u>of Congress</u>	<u>Agency</u> <u>official</u>
<u>FISCAL YEAR 1975 (cont'd.)</u>				
Survey of Postal Service's collection of customs duties	--			7-26-7
Survey of impact of new postal products and services on revenue, customers, and existing postal products	--			8-23-7
Survey of Postal Service procurement and material management	--			1-09-75
Assessment and collection of fourth-class mail revenues	--			5-19-75
<u>FISCAL YEAR 1976</u>				
Federal agencies could do more to economize on mailing costs (Request of Chairman, House Committee on Post Office and Civil Service)	GGD-75-99 114874		8-25-75	
Estimates of mail volume, expenses, and first-class postage under various subsidies for FY 76, 77, and 78 (Request of Congressman Leo Ryan)	GGD-76-19 114874		12-05-75	
Statistical Comparison of U.S. Postal Service with Selected Foreign Postal Systems (Request of Rep. Donald M. Fraser) (22388)	GGD-76-35 114874		12-11-75	
Alleged mismanagement of the District of Columbia's City Post Office (Request of Chairman, House Committee on Post Office and Civil Service)	GGD-76-41 114874		1-20-76	

APPENDIX I

APPENDIX I

FINANCE AND SPECIAL STUDIES

	<u>Reference</u>	<u>Congress</u>	Addressee and date issued <u>Committees</u> <u>or Members</u> <u>of Congress</u>	<u>Agency</u> <u>official</u>
<u>FISCAL YEAR 1976 (cont'd.)</u>				
Alleged improprieties at the Eugene, Oregon, Post Office (Joint request of Senator Mark O. Hatfield and Congressman James Weaver)	GGD-76-39 114874			1-30-76

APPENDIX II

APPENDIX II

DIGESTS
OF
SELECTED GAO REPORTS

ACQUISITION AND USE OF
POSTAL SOURCE DATA SYSTEM

In a report to the Congress, we stated that the Post Office Department began a multimillion dollar program to install a nationwide automated data collection and processing system, the Postal Source Data System (PSDS), which was to provide postal management with more timely and accurate information on employee time and attendance, labor hour distribution, and mail volumes processed than was possible under manual data systems. PSDS was to be installed initially in 75 of the largest post offices but the Department later made plans to install PSDS in 35 other large post offices.

The Department estimated in 1966 that (1) the total acquisition cost of PSDS would be \$30.2 million and (2) it would be fully operational in the initial 75 post offices by November 1968. The Department predicted that savings would average \$7.2 million annually, during each of the first 5 years of PSDS operations.

Despite the lack of sufficient data on the feasibility of proposed system and the types and quantities of equipment needed and contrary to the recommendation of its own study groups, the Department awarded a \$22.7 million contract for the purchase and nationwide installation of equipment for PSDS. The premature award of the contract resulted in acquisition of unneeded electronic data collection equipment costing \$1.2 million and of other equipment that was not used for substantial periods of time.

As of November 20, 1970, a fully operational system had not been implemented at 9 of the initial 75 post offices, including two of the largest in the country--New York, N.Y.; and Washington, D.C. PSDS acquisition costs at the initial 75 offices had reached \$44.5 million by February 1971, an increase of \$14.3 million over the original estimate.

We believed that the predicted savings would not be realized. Annual employee costs, as of October 1970, for authorized PSDS positions had exceeded the Department's original estimate of \$5.5 million by at least \$14.1 million. Increased costs also resulted from diversion of other postal employees from their regular duties to operate the system.

APPENDIX II

APPENDIX II

Other annual operational costs, for such items as supplies and services, maintenance, and amortization of equipment, had exceeded the Department's original estimate of \$9.1 million by at least \$7.9 million.

The reports generated by PSDS at the time of our review were less timely, less meaningful, and less accurate than reports available prior to installation of PSDS and therefore, were less useful to postal management.

Despite the many deficiencies in the system, the Department continued expanding PSDS to additional post offices.

We recommended that the Postmaster General (1) suspend the expansion program pending a comprehensive evaluation and cost-benefit study of PSDS and (2) curtail the procurement of equipment and software for the system and keep operational costs to a minimum pending the outcome of the evaluation and study.

The Postmaster General concurred generally with our recommendation that further expansion of PSDS be suspended pending a comprehensive evaluation and cost-benefit study of the system. He stated, however, that expansion of PSDS to 110 post offices would continue because the equipment had been purchased and the preparatory work at the offices was underway. We believed that it was neither a desirable nor a judicious use of funds to expand the system to 110 offices. Future expansion of PSDS, beyond the 110 offices, would depend on the outcome of a major review of the Service's management information needs which was planned for completion in late 1972. (B-114874, July 1, 1971)

MULTIPLE POST OFFICE BOX RENTALS

In a report to the Congress, we stated that many commercial firms receiving large volumes of mail had been renting numerous post-office boxes (multiple boxes). Each box was designated by a firm as the address to which its customers and other correspondents were to send particular types of business mail. In many instances there was no actual lock-box, but mail addressed to a box number was sorted and placed in a mail bag for pickup by the addressee. Boxes rented under these circumstances were referred to as phantom boxes.

The costs of providing commercial firms with multiple and phantom boxes at 80 selected large post offices exceeded the revenues by about \$3.1 million annually. These additional costs primarily consisted of increased clerical cost of sorting a large volume of mail sent to recipients with numerous post office boxes.

The Postmaster General advised us that the box rental policy would be revised to recover the costs of multiple and phantom box services. On July 1, 1975, the Postal Service revised box rental rates to cover the costs attributable to such. The Service anticipates increased annual revenues of \$40 million. (B-114874, July 19, 1971)

COST OF PROCESSING BUSINESS REPLY MAIL

Our report to the Congress noted that the Congress intended that fees charged for business reply mail service be adequate for recovering the cost of this service. Although Postal Service costs had increased, the fees had not been changed since they were established by law in 1958.

The Postal Service was not recovering the cost of providing the business reply mail service because personnel costs had increased significantly from the time the fees were established. The average direct labor cost for each piece of business reply mail exceeded the average fee by .9 cent at 13 postal facilities located in seven cities. The Postal Service processed 733 million pieces of business reply mail during fiscal year 1970.

We recommended that the Postal Service determine the nationwide cost of the business reply mail service and propose to the Postal Rate Commission appropriate fee adjustments to recover the costs of providing this service. The Postmaster General stated that the relationship between costs for a postal service and rates for that service was a matter for review by the Postal Rate Commission.

Because the Postal Service had not compiled information on the nationwide costs of providing the business reply mail service, we believed that an informed decision could not be made as to the fees that are required to recover the costs of providing the service. (B-114874, October 28, 1971)

SITE SELECTION, CONSTRUCTION,
AND MECHANIZATION

At the request of Congressman H. R. Gross, we reviewed the site selection and contract awards for the construction and mechanization of the U.S. Postal Service's New York Bulk and Foreign Mail Facility located in Jersey City, New Jersey. Emphasis was placed on certain allegations regarding cost overruns on the construction contract and the selection of the property owned by the Penn Central Railroad as the site for the postal facility. We reported that:

--Alternative properties were eliminated from consideration as potential sites for the facility before sufficient data had been obtained to form a reasonable judgment that the property acquired was the most feasible site under consideration.

The Service awarded a \$4.2 million contract for piling without obtaining more soil condition information on which to base better estimates of pile lengths. When actual soil conditions became known, additional piling was required, increasing the contract price by more than \$2.1 million.

Sufficient data was not obtained to reasonably support the Service's selection of the two architect and engineering firms to compete for the final design contract for the New York facility.

Had the Service obtained available information on construction activities and on the labor market in the New Jersey area, it could have prepared more reliable construction cost estimates and more realistic construction time schedules. Total project costs were originally estimated at \$62.3 million. The latest estimate is \$130.1 million.

The Service awarded, on a sole-source noncompetitive basis, an \$8.4 million contract for equipment critical to the economical operation of the facility. A preaward survey of the contractor's performance capability was not made and adequate measures to evaluate the contract prices were not taken.

The matters discussed in our report were the subject of extensive hearings held between October and December 1971 before the Subcommittee on Postal Facilities and Mail, House Committee on Post Office and Civil Service. (B-171594, October 29, 1971)

BASIC RESEARCH PROGRAMS

In a report to the Acting Assistant Postmaster General, Research Department, U.S. Postal Service, concerning the Service's research and engineering activities, we showed that there was no agencywide planning system that set forth goals and priorities for improving postal service which could be used to determine the feasibility of proposed research and development projects.

We concluded that, in the absence of an integrated, agencywide plan for improving postal operations and a timetable for implementation, the Service's research group had no real basis for evaluating the need for or the priority of projects proposed by the operating groups, research personnel, or outside sources. Further, we concluded that operating without such a plan was not conducive to getting the most out of the research dollars being spent. In 7 years, the budget for research had increased almost 10-fold--from \$12 million in 1966 to \$110 million in 1972.

A Headquarters Research Department official told us that certain organizational changes had occurred and that the Research Department was in a position to require justification, approval, and transfer of funds from operating groups before a project was initiated. He said that before any long-range and expensive research project was undertaken, a complete study and evaluation were made of benefits to be gained and economic advantages to be achieved. The official told us also that consideration was being given to integrating the project with existing and planned mechanization. (January 28, 1972)

APPENDIX II

APPENDIX II

PRIORITY MAIL HANDLING OF PUBLICATIONS

Our report to the Postmaster General stated that although not authorized by law, the Postal Service traditionally has provided priority handling to certain newspapers and periodicals. These publications receive priority handling for the same postage rates paid by publishers receiving nonpriority service. About 4.1 billion of the 9.4 billion pieces of second-class mail handled in fiscal year 1970 were given priority handling. Priority handling consists of expeditious distribution, dispatch, transit handling, and processing.

The Postal Service provided this priority service to mailers of some second-class matter without recovering the additional costs incurred. The Detroit Post Office incurred an additional \$197,000 in letter carrier costs to expedite handling certain periodicals during fiscal year 1970. Also, we estimated that the annual costs for clerks and mail handlers to prepare priority second-class mail were \$114,000 at the Washington, D.C., City Post Office; \$40,000 at the Detroit Post Office; and \$7,500 at the Seattle Post Office.

Because the criteria for determining which publications qualified for priority handling were vague, local post offices were inconsistent as to which publications should receive priority service.

The Postal Service advised us it would review the mail classification system, including the services needed by publishers, the costs of providing such services, and the appropriate rates to be charged. Although the Postal Service stated that our proposals would be considered in this study, it did not indicate that it would implement the recommendations. (B-114874, March 23, 1972)

REDUCED POSTAGE RATES
FOR NONPROFIT ORGANIZATIONS

In a report to the Congress, we noted that by law certain types of nonprofit organizations can qualify to mail matter at reduced second- and third-class postage rates. The reduced rates range from 23 to 60 percent less than the regular rates. Organizations such as business leagues, citizens' and civil improvement associations, and social clubs are not eligible for the reduced postage rates.

Because the Post Office Department had not been making proper determinations of the eligibility of nonprofit organizations for reduced rates, the Department had not collected substantial revenues to which it was entitled. At five post offices we reviewed, 115 organizations did not qualify for the reduced postage rates. We estimated that the Department undercharged these groups by \$1.5 million during a 1-year period.

The criteria used by postal personnel to determine the eligibility of nonprofit organizations for reduced postage rates was inadequate. Some organizations, as a result, were granted nonprofit mailing privileges at some post offices, while the same or similar organizations were denied these privileges at other post offices. The total amount of lost revenue to the Postal Service could be significant because it delivers an estimated 6.1 billion pieces of nonprofit mail nationwide annually.

On May 24, 1971, the Postal Service issued new guidelines for determining the eligibility of organizations for the reduced third-class postage rates. These guidelines were also being used for reviewing applications for the reduced second-class rates. (B-114874, April 4, 1972)

EVALUATION OF THE LETTER MAIL CODESORT SYSTEM PROTOTYPE IN CINCINNATI

The letter mail code sort system is designed to sort letters automatically by means of a machine-readable code imprinted on the envelopes. The Postal Service plans to install this system in 179 strategically located, large-volume postal facilities by 1978, at a cost of about \$7 million for each facility. The Postal Service believes that using the system will reduce mail-processing costs by about \$1 billion a year.

We reviewed the operating and testing of a prototype system at the Cincinnati Post Office. In a report to the Postmaster General, copies of which we sent to cognizant congressional committees, we noted that:

- A complete system had not been installed or tested.
- The partial system was not meeting Postal Service performance standards.
- The partial system cost more than the existing letter mail sorting system.

A Postal Service official advised us that the Postal Service recognized the need for demonstrating system equipment satisfactorily before making a major capital investment and that expanding the system had been delayed pending this demonstration. (B-114874, November 8, 1972)

APPENDIX II

APPENDIX II

ANALYSIS OF LEASE V. PURCHASE OF
SOUTH BOSTON POSTAL ANNEX ADDITION

In response to a request by Congressman James A. Burke, we reviewed the economics of a decision by the Postal Service to abrogate an existing lease arrangement and acquire by eminent domain the South Boston Postal Annex Addition in Boston.

In our report we stated that the Postal Service, in determining that purchasing would be more economical than leasing, did not consider real estate taxes foregone as a cost of ownership in the City of Boston. If the Postal Service had included real estate taxes foregone, the cost comparison would have shown that continuing to lease was less costly than purchasing. Our analysis showed a purchasing advantage of about \$8.4 million if real estate taxes were not included as a cost of ownership, and a leasing advantage of about \$3.6 million if they were included.

The Postal Service subsequently changed its policy and now considers the effect of removing property from local tax rolls, so that its policy is consistent with that of other Federal agencies. (B-145650, December 29, 1972)

IMPROVEMENTS NEEDED IN COLLECTION OF DATA
FOR THE REVENUE AND COST ANALYSIS SYSTEM

Under its revenue and cost analysis system, the Postal Service allocates total postal revenues and in-office labor costs to the various classes of mail and types of service. This is done on the basis of a statistical sampling of revenue and cost data at selected post offices. The allocated revenues and costs are used in assessing the adequacy of postal rates and fees. The allocations are also used in determining appropriations needed to cover costs of congressionally declared free and reduced-rate mail.

We reported to the Congress that participating post offices were not properly following the Postal Service's prescribed procedures for collecting revenue and cost data and, as a result, were submitting erroneous data. The Postal Service believes that the new effect of these errors may be minimal because of compensating errors. We recognize this possibility; on the other hand, the important uses being made of this data call for a high level of system integrity which can be achieved only by collecting sampling data as accurately as possible.

The Postal Service said that, in anticipation of our recommendations, it had:

- Increased the number of inspection visits to participating post offices.
- Developed additional training programs.
- Made further reviews relating to the reliability of its estimates. (B-114874, February 20, 1973)

REVIEW OF QUALITY OF
MAIL SERVICE IN FLORIDA

In a report prepared at the request of Congressman Paul G. Rogers, we concluded that mail service in Florida had deteriorated and that the problems affecting it were part of a nationwide pattern.

Mail volume in some areas, including Florida, increased at a faster rate than the Postal Service anticipated during calendar year 1972. Also, changes in the mail distribution system increased the workload at certain facilities, including the Miami, Orlando, and Tampa post offices. At the same time, the number of postal employees decreased. Thus, many facilities did not have enough employees to cope with increased workloads.

Letter-sorting machines scheduled for installation in the Miami and Orlando post offices before Christmas 1972 were not delivered until January 1973. Use of existing letter-sorting machines in Florida post offices resulted in much misdirected mail because of machine and operator errors.

Postal Service management acknowledged that the Service did have problems. Regarding Florida, the following actions were taken to improve service:

- Local postal facilities were given the authority and funds to hire additional personnel.
- Additional letter-sorting machines were installed.
- A new mechanized postal facility was scheduled to open in March 1973 to reduce the workload at other facilities.
- Postal Service headquarters is closely monitoring Florida operations. (B-114874, May 2, 1973)

AIRMAIL IMPROVEMENT PROGRAMOBJECTIVES UNREALIZED

The objectives of the airmail improvement program are to arrest and reverse the decline in airmail volume and thus increase revenues by offering improved service. This was the first program for which the Postal Service established overnight delivery standards between designated major cities.

We reported to the Congress that the Service established the program without making a market study to determine whether the program would be economical and that, in view of the continuing decline in airmail volume and the increased costs associated with the improved service, we questioned whether the program objectives will be achieved.

We recommended that the Service:

- Reevaluate the airmail improvement program to determine if it could be modified to better meet customer needs and, in turn, to increase participation or if it should be curtailed.
- Conduct adequate market studies before undertaking service improvement programs to insure that anticipated additional revenues will be sufficient to recover all costs associated with improving the service.

The Service concurred in our recommendations and stated it was examining possible modifications and making surveys to determine customer needs. (B-114874, August 6, 1973)

PHASEOUT OF THE CORPS OF ENGINEERS
FROM THE POSTAL SERVICE CONSTRUCTION PROGRAM

In a report to the Chairman, Committee on Post Office and Civil Service, we discussed the impact of the Office of Management and Budget decision to phase the Corps of Engineers out of Postal Service major construction programs by June 30, 1974. We stated that the National Bulk Mail System would be 60 to 95 percent complete as of the June 30 phaseout date, and, as such, would be adversely affected to the extent that the phaseout would

- delay completion of the bulk mail system by 3 to 6 months and result in a loss of Postal Service projected operational savings of \$50 to \$100 million,
- incur added costs from a joint Corps/Postal Service management effort,
- disrupt numerous equipment deliveries to the bulk mail facilities, and
- necessitate a reduction in force for about 350 Corps personnel.

On May 30, 1973, we outlined these findings in a letter to the Postmaster General and in a briefing to the staffs of the House Post Office and Civil Service Committee and the House Subcommittee on Postal Facilities, Mail, and Labor Management. On June 28, 1973, the Office of Management and Budget, at the request of the Postal Service, authorized extending the Corps' participation in the bulk mail system until its completion. (B-171594, October 2, 1973)

OBSERVATIONS ON THE PREFERENTIAL MAIL SYSTEM

Our report to the Chairman, Senate Committee on Post Office and Civil Service, stated that the economic justification for the Preferential Mail System was based largely on a contractor's study for the Postal Service that analyzed two basic types of mail processing equipment and two alternative letter mail processing systems.

Our evaluation of these analyses and of the equipment performance showed that:

- The study overstated the economic advantages of the new type of equipment relative to the type of equipment in use or under development.
- The new type of equipment has not yet been proven in the field.
- The study overstated the advantages of the Preferential Mail System network of about 180 processing centers relative to the less expensive alternative of 588 centers, generally the same as the existing system.

We stated also that mail massing at the 180 processing centers as recommended by the contractor could cause mail service quality to deteriorate.

The Postal Service has deferred implementing the new system until the equipment has been successfully demonstrated. We concluded that, overall, the Postal Service's decision to defer action on the Preferential Mail System was appropriate. (B-114874, October 30, 1973)

PROBLEMS AFFECTING MAIL SERVICE
AND IMPROVEMENTS BEING MADE

In a report to the Congress, we consolidated and summarized our observations made while responding to congressional requests from committees and Members of Congress to examine the quality of mail service in various States.

The quality of mail service deteriorated in late 1972 and early 1973 as a result of economy measures taken by the Postal Service. Costs were reduced but at the expense of service. The measures taken included reductions of collection and delivery services and curtailments of Saturday window service. More importantly, however, the Postal Service reduced the size of its work force through two early retirement campaigns and a hiring freeze.

In addition to the problems connected with economy measures, mail service was affected by sorting errors, unreliable airline transportation, and local employee morale problems.

The Postal Service has initiated actions to deal with these problems and some improvement in service has been observed. (B-114874, March 20, 1974)

MISSSENT MAIL--A CONTRIBUTINGFACTOR TO MAIL DELAYAND INCREASED COSTS

In a report to the Congress we discussed the causes and effects of missent mail. We found that although the high productivity of letter-sorting machines has helped the Service handle the increasing mail volume, operator errors, and careless handling of sorted mail have, to a certain extent, defeated the objectives of mechanization and added to the cost of mail delivery.

We made recommendations to the Postal Service aimed at reducing letter-sorting machine errors, improving environmental conditions, establishing work standards, and expediting the flow of missent mail to its proper destinations. The Postmaster General concurred with our recommendations and the Postal Service has initiated corrective action on many of the problems discussed in the report. (B-114874, October 22, 1974)

OBSERVATIONS AND QUESTIONS ON THE
DEVELOPMENT OF THE NEW NATIONAL
BULK MAIL SYSTEM

The Postal Service is investing about \$1 billion in a National Bulk Mail System (NBMS) to improve service for mailing parcels, circulars, and other bulk mail. Our report to the Congress described how the system will operate, the planning behind it, and potential problems ahead.

We observed that:

- The estimate of \$950 million to construct and equip the new system is still reasonably accurate.
- Omissions in the initial estimate understated the expected cost of the system, but these were offset by underruns in some items as of March 1, 1974.
- The Postal Service's projection that the NBMS will result in a financial benefit of \$500 million annually by 1984 may prove correct, but it is uncertain because of the uncertainty of the Service's future share of the parcel delivery market and future revenues and the uncertainty of the accuracy of the Service's prediction of how the new system will affect its overall costs.

We recommended that the Postmaster General analyze the national bulk mail routing system periodically to insure that the most effective and efficient system possible is operated.

The Postmaster General told GAO that:

- The Postal Service plans to analyze the routing system periodically.
- The new system will yield very favorable return on investment but the precise financial benefits will not be known until after the system is fully operational.
- The system will not work against the Service's ability to retain its share of an expanding parcel post market. (B-114874, November 1, 1974)

\$100 MILLION COULD BE SAVED
ANNUALLY IN POSTAL OPERATIONS
IN RURAL AMERICA WITHOUT
AFFECTING THE QUALITY OF SERVICE

Our report to the Congress noted that in spite of the receipt of a Federal subsidy of \$1.75 billion, in fiscal year 1974, the Postal Service was forced to borrow \$500 million to meet its expenses. Although postage rates have increased significantly, the cost of labor and fuel have risen even faster and the need to economize wherever possible has become more imperative. Such financial problems led GAO to reassess the pros and cons of closing some third and fourth class post offices.

Our review revealed that

- Quality of mail service given rural customers does not decline when small post offices are closed.
- About 12,000 small post offices could be closed with an estimated annual savings of \$100 million.
- The Postal Service has been closing a limited number of such post offices but is reluctant to continue due to Congressional concern and would like to see the legislation clarified before it continues to do so.

Our recommendations to the Postmaster General included the provision of more information to rural customers regarding services to be available after the closing of a post office and assurance to such customers that the full range of services available is being provided. In response to our report, on November 20, 1975, the Postmaster General announced a new post office discontinuance policy as part of a stringent cost control program. Under the new policy, many small offices will be considered individually for closing, including, for the first time, offices where a postmaster is presently assigned. Offices will be closed only when the alternative form of service is equivalent to or an improvement over that formerly provided. (B-114874, GGD-75-87, June 4, 1975)

SYSTEM FOR MEASURING MAILDELIVERY PERFORMANCE-ITSACCURACY AND LIMITS

In a report to the Congress, we evaluated the Origin-Destination Information System, (ODIS)--a system used by the Postal Service to judge how well it meets standards for first-class mail delivery.

We indicated that this system shows, on a nationwide basis, that 95 percent of local first-class mail receives overnight delivery. However, it concluded that although this statistic can be considered reliable, it is based only on stamped mail which accounts for 40 percent of first-class mail.

Our report also pointed out some weaknesses in the Origin-Destination Information System which make local overnight delivery performance statistics less reliable than the nationwide statistics. Some of these are:

- The System can be manipulated at the local level.
- The System has a flaw resulting from dual purpose measurement of mail delivery performance and volume.
- Inadequately trained clerks who make data-recording errors.

The report concluded that the relatively small amounts of erroneously recorded and lost data did not greatly affect nationwide statistics. However, improving the data accuracy and decreasing data loss would improve the reliability of local performance statistics.

We recommended ways for improving both the public conception of mail delivery performance statistics and the reliability and accuracy of local delivery performance.

The Service concurred with our recommendations and has initiated corrective actions in response to many of our recommendations. They have agreed to:

- make clear and specific the public announcements about what the mail delivery performance statistics represent;

APPENDIX II

APPENDIX II

- reemphasize their policy of limiting notice of ODIS tests to those personnel who need to be informed in order to conduct the tests properly;
- review the uses made of ODIS information, the degree of accuracy and reliability required and the relative priority of these various uses;
- actively explore the extension of the cadre system to additional offices;
- develop an audio-visual program to provide better training for ODIS data collection clerks; and
- initiate a study to evaluate the Optical Character Reader's error message printouts to determine the types of data lost and possible corrective action to minimize such losses. (B-114874, GGD-75-109, October 17, 1975)

FEDERAL AGENCIES COULD DO
MORE TO ECONOMIZE ON MAILING COSTS

In a report to the Chairman, Committee on Post Office and Civil Service, we concluded that Federal agencies could save millions of dollars by economizing in their mailing practices. These savings could be achieved by using:

- less expensive classes of mail service,
- special mail services such as special delivery, insured, and certified mail, only when warranted, and
- letter-size envelopes instead of the more costly "flats" or large size envelopes.

Prior to the Postal Reorganization Act of 1970, postal deficits were covered by appropriations from the U.S. Treasury. Federal agencies were not required to pay their fair share of mailing costs and as a result, the mailing practices of the agencies received little or no attention from management.

Since the reorganization, the Postal Service is striving to be a self-sustaining enterprise, it has adopted more accurate methods of determining Federal agencies' mailing costs. These new methods have resulted in higher mailing costs to agencies and increase managements' awareness of the potential for savings through proper control of mailing practices.

Officials of the National Archives and Records Service of the General Services Administration who are responsible for setting records management standards and controls over paperwork (including mail) concurred with the recommendations made in our report. To take corrective action and improve agency mailing practices, the National Archives and Record Service agreed to:

- Revise its Government-wide mailing instructions to provide clear guidance on the circumstance under which each class of mail or special mail service should be used.

APPENDIX II

APPENDIX II

--Expand its records management program evaluations to see that Federal agencies are (1) moving mail most economically, and (2) providing training to show mail users how to reduce mailing costs. (B-114874, August 25, 1975)

QUALITY OF MAIL SERVICEIN NEW MEXICO

In response to a request from the Chairman, Subcommittee on Treasury, Postal Service, and General Government, Senate Committee on Appropriations, we reviewed the quality of mail service in New Mexico.

In our report we stated that first-class mail delivery performance for New Mexico generally did not meet the Postal Service's goal of 95 percent on-time delivery. The mail delivery performance did, however, exceed that of the Western Region and the Nation. We also noted that there were problems with mail delivery performance concerning mail destined for New Mexico from 2- and 3-day areas. On-time delivery percentages for this mail were almost always below 95 percent and generally below regional and National performance.

The Postal Service has taken or proposed steps to improve mail service in New Mexico. These include:

- increased mechanization and proposed staffing changes at the Albuquerque State distribution center to facilitate processing all mail on the day received,
- changed responsibility so that the destination office is responsible for improving delivery performance on mail received from 2- and 3- day areas,
- increased monitoring of missent mail, and
- appointment of a quality control officer at the Albuquerque sectional center to upgrade the quality control program. (B-114874, November 4, 1975)

APPENDIX III

APPENDIX III

CHRONOLOGY OF
GENERAL ACCOUNTING OFFICE TESTIMONY
ON POSTAL SERVICE OPERATIONS
BEFORE
SENATE AND HOUSE COMMITTEES

APPENDIX III

APPENDIX III

January 28, 1976

Statement of Deputy Director, General Government Division, before the Committee on Post Office and Civil Service, United States Senate, on financial status of the United States Postal Service.

September 23, 1975

Statement of Director, General Government Division, before the Subcommittees on Postal Service and Postal Facilities, Mail, and Labor Management, Post Office and Civil Service Committee, United States House of Representatives, on savings available in postal operations in rural America.

March 20, 1975

Statement of the Comptroller General of the United States, before the Committee on Post Office and Civil Service, House of Representatives, on GAO reviews of Postal Service, Postal Rate Commission, and the Federal Civilian Work Force.

August 12, 1974

Statement of Director, General Government Division, before the Subcommittee on Postal Facilities, Mail, and Labor Management, Post Office and Civil Service Committee, United States House of Representatives, on procurement and contracting activities of the United States Postal Service.

April 30, 1974

Statement of Director, General Government Division, before the Subcommittee on Postal Facilities, Mail, and Labor Management, Post Office and Civil Service Committee, United States House of Representatives, on the modernization efforts of the United States Postal Service.

APPENDIX III

APPENDIX III

July 26, 1973

Statement of the Comptroller General of the United States,
before the Committee on Post Office and Civil Service,
United States Senate, on operation of the United States
Postal Service.

March 18, 1971

Statement of the Comptroller General of the United States,
before the Committee on Post Office and Civil Service,
House of Representatives, on GAO's relationship with
the new Postal Service.



