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GENERAL OVERSIGHT AND POSTAL SERVICE BUDGET

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HEARING

BEFORE THE

SUBCOMMITTEE ON

AL OPERATIONS AND SERVICES

OF THE

COMMITTEE ON

OFFICE AND CIVIL SERVICE

USE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

FIRST SESSION

MARCH 15, 1977

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(RICHARD A. BARTON, *Subcommittee Staff Director*, Room 122, Cannon Building—
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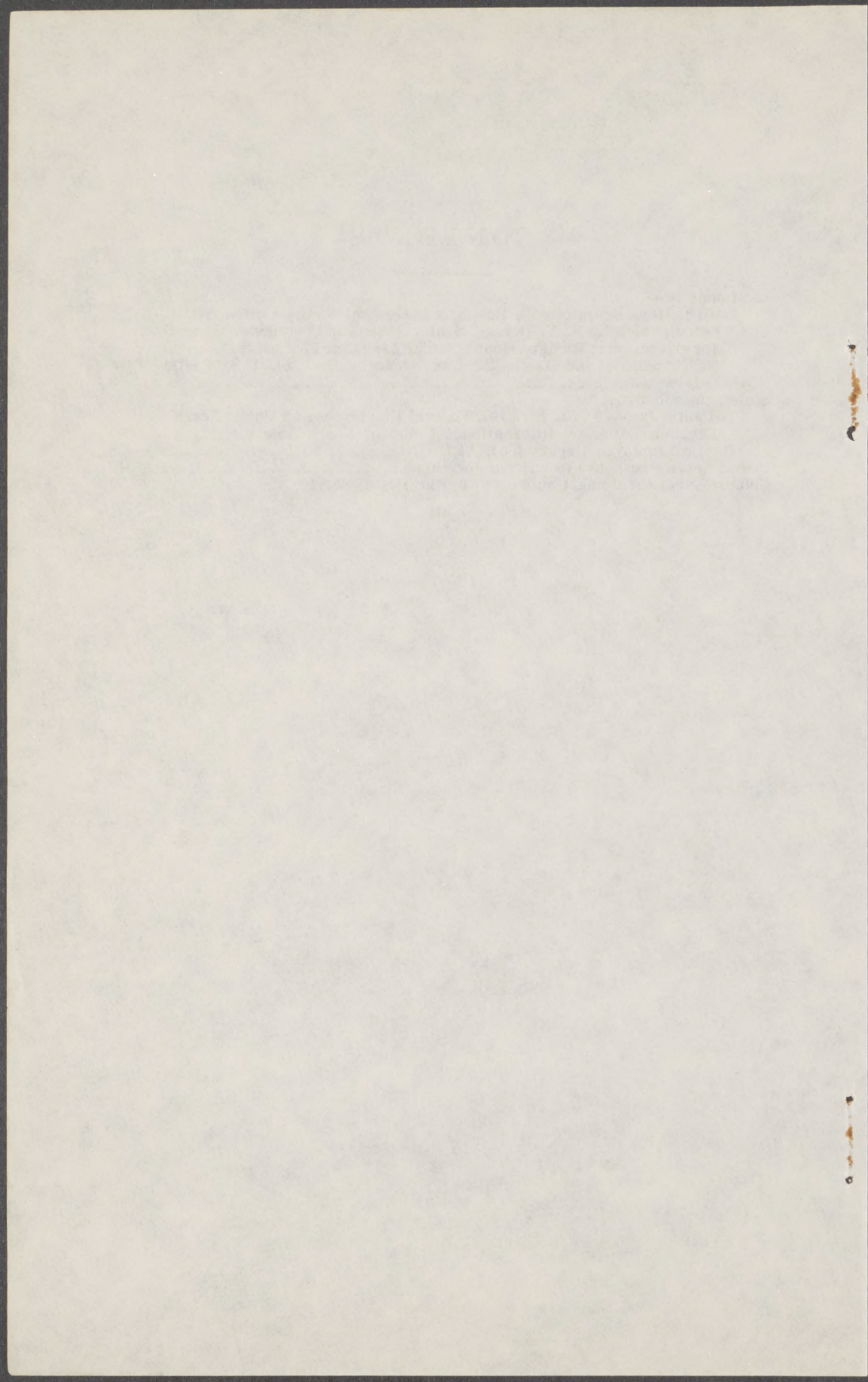
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GENERAL OVERSIGHT AND POSTAL SERVICE BUDGET

TUESDAY, MARCH 15, 1977

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

The subcommittee met at 9:30 a.m. in room 311 of the Cannon House Office Building, Hon. James M. Hanley (chairman of the subcommittee) presiding.

Mr. HANLEY. Today we are holding an unusual hearing for the Post Office Civil Service Committee.

It is the beginning of what should become a regular feature of the congressional oversight of the USPS.

Public Law 94-421 required the Postal Service to submit to Congress the same budget material it submitted to the President. At the same time, also required was a comprehensive statement on compliance with the Postal Reorganization Act of 1970, and any other material requested.

Subsequently, a hearing must be held by both the Senate and House Post Office and Civil Service Committee by March 15 of each year.

Because of the series of unusual circumstances, our schedule has slipped slightly. The material required did not arrive until mid-January instead of November, as originally anticipated. Uncertainty surrounding committee organization and staffing again slowed the staff work.

The subject was not referred to this subcommittee until early February. This is not to say that these will not be useful and fruitful hearings. I am very encouraged by this new process. However, I expect that next year's hearings will be more extensive and searching.

I hope that we will have far more time for staff analysis and I want to work with the Postal Service to see if a more meaningful, pertinent, and up-to-date format can be developed for future hearings. Also, next year I hope we will have some help from the Senate.

The hearing today is just the beginning of what will ultimately be an extensive series of hearings on many postal subjects by both this subcommittee and the Subcommittee on Postal Personnel and Modernization.

Soon the Commission on Postal Service will issue its report and we will begin in earnest to develop a package for reform. All in all, it should prove an interesting year for those who are interested in postal matters.

Prior to calling upon our witness this morning, I recognize the time problem of the gentleman from California who I want to welcome

aboard as a new member of this committee. I refer to Congressman Leo Ryan.

Leo, in the event you have something you might want to offer, perhaps this would be the time.

Mr. RYAN. Mr. Chairman, I thank you for taking me out of order like this.

I want to first of all apologize to those who are here, because these hearings are very serious and very important.

My absence is not because I don't have a desire to learn, but because I have my own Subcommittee on Government Operations this morning at 10 o'clock. It begins its final hearings on the cause and effect of the failure of the Teton Dam, which has massive implications for all the water resources of the country from now on.

Otherwise, I would be here. And I intend to be here as much as I can after today.

However, there are a couple of comments I would like to make while I have the opportunity while the Postmaster General is here regarding how far I think we have to go, as far as the post office and this subcommittee is concerned.

First of all, my background, I think as you know, is a teacher. One of the things I did as a teacher when times were tough and salaries weren't good, was to work during the Christmas season at the post office. So I have delivered mail for enough time in my life to have some experience and some idea of what being a postal worker is like. I still have some very fond memories of that.

At the same time, I note the changes that have occurred since the days I worked for the Postal Service. I am concerned about what has happened in an effort to get significant change and the resultant effects.

The assumption was years ago when we changed from the system we had to what we have now that the customer would be better served and the cost would be brought under control.

I am not sure the costs have been brought under control Mr. Chairman. I certainly do not believe today the customer is being better served than he was. Some of the concepts that the Post Office Department has today must be reexamined.

I would like to refer to one in particular because I think it is typical of the kind of reexamination I think is necessary by the post office department.

We still believe, apparently, the post office department that American society consists of the middle class where the father works, the mother stays home and raises the kids and everything is nice and they have two cars and so on. Substantially that is not the case any longer.

At least 39 percent I am told of the working force in this country are women and in a large percentage of the cases both the husband and wife work because they have to. The result is that the delivery of services to the customer is based upon systems that don't work.

For example today in most communities in my own district there is no one at home during the day, so that when packages are delivered during the day and there is no one home and a slip is left "Please come by and pick it up at the post office," by the time the husband and/or wife gets home at night, the post office is closed.

If they try to do it on Saturday, oftentimes it is closed on Saturday before they can get there. The fact is, the post office is not open when the customer is home and able to take advantage of that particular situation.

The second thing to recognize—it is not recognized by the post office department today sufficiently enough—is that policy changes must take place in government because of the critical energy situation in this country.

There has been no substantial reexamination that I am aware of for the need to reexamine postal routes and services based upon the needs of the customer to use less of their own transportation in getting services from and delivering packages, for instance, letters, and so on, to the post office.

We ought to be reexamining the whole concept of the Postal Service based upon current, social, and economic conditions today. I don't believe we are doing it sufficiently yet, Mr. Chairman.

I think that is part of what I would like to inquire about while I am able to remain here and talk about these problems.

I realize the Postal Service cannot achieve some of these goals, overnight but they must recognize them and begin to work on them.

On the other hand, I would like to find some reassurance in the budget this year and the comments that have been made that there is sufficient recognition of these kinds of changes in American life and some kind of response is required from the Postal Service.

Thank you, Mr. Chairman.

Mr. HANLEY. Thank you, Leo, for your presentation. And we look forward to working along with you as we attempt to resolve some or hopefully all of the problems of this institution.

General Bailar, it is a delight to have you and your associates with us this morning, and, if you will, proceed.

For the purpose of the record, if you would be good enough to introduce each of your associates at the table.

STATEMENT OF HON. BENJAMIN F. BAILAR, POSTMASTER GENERAL, ACCOMPANIED BY E. V. DORSEY, SENIOR ASSISTANT POSTMASTER GENERAL FOR OPERATIONS; RICHARD GOULD, SENIOR ASSISTANT POSTMASTER GENERAL FOR FINANCE; AND LOUIS A. COX, GENERAL COUNSEL

Mr. BAILAR. Mr. Chairman, members of the subcommittee, it is a pleasure to be here today.

With me at the table on my immediate left is Mr. E. V. Dorsey, Senior Assistant Postmaster General for Operations. On my right, Mr. Richard Gould, Senior Assistant Postmaster General for Finance. and, on my far left, Mr. Louis A. Cox, the General Counsel.

I would like to begin this morning by stating to you my understanding of why we are here today. These hearings have been referred to as the "Postal Service Budget Hearings," but it is my understanding that Public Law 94-421, enacted last year, intended them to be more than that.

New 39 U.S.C. section 2401(g), enacted by that act, requires the Postal Service to furnish you a copy of our budget as background for these hearings.

However, that provision of law also requires that we present to you a "comprehensive statement" relating to the following matters: (1) our compliance with statutory policies; (2) data on the speed and reliability of mail service; (3) mail volume; (4) productivity; (5) trends in postal operations; (6) analyses of the impact of internal and external factors upon the Postal Service; and (7) such other matters as the committees may determine necessary to ensure that the Congress is fully and currently consulted and informed on postal operations, plans, and policies.

In short, my understanding is that these hearings were intended to be general and comprehensive oversight hearings on the state of the Postal Service. In this connection we have earlier provided to you the required comprehensive statement. In our question and answer session, we look forward to getting your views and comments on that information. In addition, as this is our first appearance before you since the new oversight provisions were enacted, your suggestions as to how we can make this presentation more useful to your committee in the future would be particularly welcome.

However, before we get to that, there are some personal observations that I want to add to the detailed information and data already supplied to you.

I want you to know that in my opinion the state of the health of the Postal Service is good today; much better than in the past. This is true in spite of the fact that recently we have faced a number of crises: most recently, the accumulation of a massive deficit in excess of \$1 billion last year; two major strikes of the United Parcel Service, one of which threatened to strangle the system during the peak Christmas mailing season; all in the midst of a responsible but intensive cost-cutting program designed to make the Postal Service a leaner and more efficient organization.

Vast improvements have been made and others are possible, given patience and perseverance. In early November we announced two matters of importance: first, our delivery performance—our service—was the best it has been in 5 years and, second, for the first time in the history of the Postal Service we ended an official Government reporting period in the black. We had a surplus of \$15 million in the transition quarter between fiscal 1976 and fiscal 1977—from July through September, calendar 1976. More recently, for the 3 months ending December 31, 1976, postal revenues have again exceeded expenses, after providing for appropriate reserves, by \$69.8 million.

Thus, for the last 6 months of calendar year 1976, the Postal Service produced an \$85 million surplus. Because of our improved financial outlook, I have advised the Board of Governors of the Postal Service that it is not necessary to raise postal rates in 1977.

However, achievement of a surplus for the last 6 months would not have been possible had we not undertaken a stringent cost-cutting program. Mr. Chairman, as you have stated, no one has been more insistent than you that the waste be trimmed from the Postal Service budget, and that the Postal Service husband its resources as carefully as its customers do their household budgets. But opposition to our cost-cutting efforts has in most cases far outweighed any support we have received.

A recent example that has met vehement opposition is our plan to transfer some mail processing from one eastern town to another, only 40 miles away, to take advantage of a new mechanized facility. The General Accounting Office was asked to conduct a full-scale investigation of this matter. When the GAO issued its report recently, it described the proposed consolidation as "generally favorable," one that would result in improved service for the area and reduced costs for the Postal Service.

In fact, the report estimated that we would probably save nearly \$3.5 million over 10 years, substantially exceeding our original very conservative estimate. I am at a loss to understand how anyone who is interested in efficient and economic service can be opposed to this step, particularly anyone who is interested in the average American taxpayer.

It is also important to note that our financial outlook brightened during perhaps the most severe test of postal operations in history. In times past, it is doubtful the system could have accommodated both the effects of the parcel strike and the heavy Christmas volume. You will recall the Christmas performance which was the focus of this subcommittee's oversight hearings only a very few years ago. This time, in spite of the extra demands made on us, our Christmas operation was very successful. We moved the mail and we moved it well. Postal employees up and down the line performed in the very finest tradition of dedicated public service. Their morale was high. They displayed admirable resilience and resourcefulness in terribly demanding circumstances.

The entire performance was characterized by a "can-do" spirit and professional competence that speaks volumes for the capabilities of the Postal Service.

This accomplishment should give the members of this subcommittee tremendous pride and confidence in the men and women of the Postal Service, the people who made this achievement possible. Day in and day out—even in the snow of the coldest winter in recent years—these people have labored to produce results which I believe justly deserve high marks in comparison with any other service provided the public.

As is obvious to any observer of the Postal Service, we have not undertaken a major reorganization in the past 2 years and I have followed a policy of promotion from within in filling management positions. Nineteen out of 19 appointments to positions of officer rank in the Postal Service have been persons already on our payroll. Each of these appointments has, in turn, created a chain of opportunities for advancement on down the line.

Not only has this policy carried one step further the spirit of the Postal Reorganization Act, it has provided us with experienced management, steeped in postal know-how, and has shown postal employees all up and down the line that even the top jobs are available on the basis of the merits of their performance.

Of the 15,000 postmasters appointed since postal reorganization, approximately 10,000 had prior experience in one or more of the crafts, and another 3,000 were from the ranks of the supervisors.

I am personally convinced that our recent successes in maintaining service while reducing our costs is directly attributable to two factors: experienced leadership and the incentive created by the opportunities for advancement under the current system.

Despite progress in controlling costs and maintaining service—progress of which we can be proud—I feel it my duty to inject a note of caution against underestimating the problems that lie ahead.

It must be understood that these current operating results have kept our situation from further deteriorating. They have not begun to reduce the burden of accumulated past deficits, which continues to hang over our heads and is nearly as threatening as before. Moreover, we will not maintain our current financial performance for long at present rate levels, because further cost increases are already assured. Many of these cost increases, such as those for unfunded retirement liability, are essentially beyond our control. Also, our modest surplus has come during the fat part of the postal year—the part when mail volume is at its annual best.

Finally, and perhaps most important, we continue to have very little room to adjust for unforeseen difficulties, any of which could produce a crisis. For example, a recent court decision has increased the possibility that the present permanent rate schedule could be determined invalid. While we would hope that an orderly transition following such a decision would be provided, that is by no means certain.

In short, while we have succeeded for the moment in stopping the decline in the financial position of the Postal Service, continuing efforts are required to produce an economically viable mail system.

The months following the upcoming submission of the report of the Commission on Postal Service represent an important time for the Postal Service. Important decisions will be made. The issues involved are difficult ones and should be fully explored and decided on their own merits. However, a postal system operating with a substantial negative equity is in a particularly vulnerable position, not far from hand-to-mouth as successive payrolls come due.

Despite the best of intentions toward maintaining the status quo, or waiting for orderly change, such an operation has an impetus of its own which tends to require that increasing costs be matched immediately by increased rates or cost reductions affecting service.

Recently I testified before the House and Senate Appropriations Committees in favor of the \$500 million supplemental appropriation for fiscal year 1977 to restore part of the lost equity of the Postal Service, as authorized last year. This capital infusion is needed to increase the stability of the system in the important time ahead. I was glad to see that the Congress recently provided room for this amount in the third concurrent resolution on the budget. I would hope that the members of this subcommittee will support the supplemental when it comes up for consideration on the floor of the House.

As I indicated earlier, I look forward to discussing with you and answering your questions concerning the information we have presented to you under the new oversight provisions of the Postal Reorganization Act Amendments of 1976. We welcome your oversight because I believe this is an important part of the present process under which postal officials can be held accountable to the Congress and the public. This concludes my prepared statement.

Thank you, Mr. Chairman.

Mr. HANLEY. Thank you very much, General Bailar.

This morning the subcommittee will adhere to the 5-minute rule so that hopefully all members present will have the opportunity for fair dialog.

I want to commend you and the institution for what you have referred to in your statement related to the service provided by USPS during the UPS strike and I am quite aware, as are all of the members of this committee, of the apprehension that prevailed on the part of the mailers during that difficult period. You are to be commended for the way you took care of that and provided the service under very difficult circumstances. We must remember that during that strike your people worked under the most difficult weather conditions possible in the history of our country.

Mr. BAILAR. Thank you.

Mr. HANLEY. On page 4 you have related to opposition in an Eastern area with regard to an effort to transfer some mail processing. Very briefly, could you tell us where that was?

Mr. BAILAR. Toms River, N.J.

Mr. HANLEY. And the source of the opposition?

Mr. BAILAR. I believe it included Congressman Hughes and Congressman Forsythe, although there has been some concern registered really throughout the New Jersey delegation in terms of congressional concern. The principal opposition, Mr. Chairman, is from the local unit of the APWU. The head of that unit has been strongly opposed to this move which would have the effect of moving some 39 jobs from the Toms River facility.

Mr. HANLEY. I can only assume that the Members of Congress voicing opposition were reflecting the attitude of their constituents.

Mr. BAILAR. I am sure that is the case; yes.

Mr. HANLEY. You make reference to the court case which is pending. Any further observation on that?

Mr. BAILAR. Well, I would make a few comments, Mr. Chairman. That court case has, I think, devastating implications for the American people. If the present ruling is allowed to stand, it could have the effect of tying postal rates almost exclusively on the basis of cost. It would ignore the other criteria, in my judgment, which Congress outlined in the original Postal Reorganization Act, including such fundamental elements as elasticity of demand. It would have the potential of effectively destroying our capacity to serve certain classes of mail, which would reduce our volume as well as our capacity to serve the public. I think I just can't speak strongly enough about the efforts that I am going to invoke to maintain a rate structure which I think is in the interest of the American people and consistent with the intent of Congress when it passed that act.

We are going to appeal that. We are going to pursue the appeal vigorously and if necessary I would support legislative action to clarify what I consider to be the intent of the original act.

Mr. HANLEY. You pointed to some productivity increases during the last several years. However, the office of telecommunications in the Department of Commerce estimate that actual efficiency in terms of pieces of mail handled per year has been steadily decreasing over the past 30 years. Do you think we can ever reverse this trend?

Mr. BAILAR. Mr. Chairman, in my judgment, and I think the statistics will bear me out on this, the number of pieces per postal employee has increased in recent years. I think some of the controversy about productivity has been generated by people that say the mix has changed. And as you get mail that is going a different distance or a higher percentage of first class than fourth class or whatever, you ought to weight the different pieces of mail when you calculate your productivity.

We haven't found a satisfactory means of doing that and the productivity figures are systemwide. Over the course of 1971 to 1978, we show a rather consistent increase in productivity in our budget, Mr. Chairman, on page 94, with a slip in 1974 and a very slight decline in the transitional quarter.

Mr. HANLEY. Thank you.

Mr. Collins?

Mr. COLLINS. Mr. Chairman, I wonder if I can pass for now.

Mr. HANLEY. Mr. Solarz.

Mr. SOLARZ. Thank you, Mr. Chairman. Mr. Bailar, I am a little bit confused by the esoteric nature of some of the accounting practices in your budget presentation. In particular, I am interested in an explanation of how you can take credit for the surpluses which have been reported in the last several months on the one hand, when you acknowledge in your own testimony that you have accumulated deficits on the other hand. It seems to me that revenues that come in are appropriately earmarked for the payment of debts. That would be a sound and conservative accounting procedure. But, I would like to know on what basis the Postal Service can claim to be running at a surplus when it has, as I understand it, several billion dollars of unpaid debts?

I know New York City is playing this kind of financial game, but I would hope that the Postal Service would conduct its accounting somewhat in a more straightforward fashion.

Mr. BAILAR. Mr. Solarz, let me start by saying that the Postal Service operated at a deficit from the inception through 1976. In the transitional quarter we operated at a modest surplus on the basis of the expenses and revenues in that period. In the first quarter of fiscal 1977 we reported a more substantial surplus on the basis of operations in that quarter.

Now, we have built into our rate cases a repayment of prior years losses but it is spread over a period of time. The concept is not that we would repay it immediately but it would be spread, I think, it is over 7 years. We recognize full well the need to replace that equity but when I have made statements about the Service it is focused on the operation in that period.

Mr. SOLARZ. Do you think it would be a fair claim for New York City to make that, if it excluded its obligations to pay debt service, it would have a balanced budget, even if one took into account that its net service operation resulted in a substantially unbalanced budget? Isn't this kind of a ledger situation designed to indicate the Postal Service has already reached a state of self-equilibrium when in fact its continuing operation has kept it in a substantial deficit position?

Mr. BAILAR. To answer your first question. I don't think it would be right for New York City to do that and the Postal Service is not doing

that. And our expenses in the period we are talking about include debt service, interest on the accumulated debt. We have that interest expense in our accounts. I don't have the number at my fingertips but I will be happy to supply it for the record, how many millions of dollars in each of those quarters. It is something on the order of \$54 million for debt service. It is in there and I believe it ought to be in there.

Mr. SOLARZ. My staff has been conducting an investigation recently about what we call the "great mail ripoff of the 1970's." According to our estimates there appear to be hundreds of millions of pieces of mail which are stolen from the system, not by employees of the Postal Service, but by individuals who are ripping off mailboxes around the country each year, for what we project to be, conservatively, an estimated value in excess of at least \$1 billion a year.

Social Security, for example, reports there are about 434,000 stolen checks a year with a value of about \$87 million a year. If one added to that the value of welfare checks, pension checks, payroll checks, personal checks and other valuable merchandise which are ripped off from postal boxes, obviously it adds up to a tidy sum. According to the statistics provided by your Department, there has been a 38-percent increase since 1973 in reported mailbox burglaries. At the same time, figures indicate that since 1974 there has been about a 9-percent reduction in the number of inspectors employed by the system.

I would like to know what you are doing about this problem. I think it is obviously a very serious one and it would appear to me that the Postal Service is being essentially indifferent to the increasing problem of postal theft and has not responded to the development of what might be termed an "emergency situation" in the appropriate way. The same time the thefts are going up, the number of personnel you have designated to deal with it has been going down.

Mr. BAILLAR. Mr. Solarz, I would like to make a general response, and then ask Mr. Dorsey to deal with your question in its specifics. The general response is one of concern, which I am sure is shared by everyone in this room, over the problems that have been experienced in our society in recent years with regard to disregard of the law. I can remember as a young man, you just left mailboxes alone. You didn't put a snowball in them or anything because that was federally protected property. But our society is experiencing lawlessness on many fronts today. It affects the mails and much else besides. Now you have the guard downstairs, although the idea of having your briefcase inspected when you want to visit your Congressman—the idea is repugnant.

I would like to ask Mr. Dorsey to respond to the specific point you raise.

Mr. DORSEY. You mentioned checks. Our survey shows that in fiscal 1976, the number of complaints that we received about lost checks broke down in this order: 75,858 U.S. Treasury checks; 74,423 State checks; and others, 7,245 which gives us a total of 157,526 checks for a value of \$30,500,000.

I am at a loss to reconcile my figures with yours. These are the records that we have been furnished by the Inspection Service, who maintains surveillance. I might add, out of this 157,526 complaints of stolen checks, there resulted 11,975 arrests for the stealing of the checks. Keep in mind, many checks are stolen after they leave our custody.

Social security checks, for instance—we don't have custody of them totally. After we deliver them, somebody else has responsibility.

Mr. BAILAR. I am aware of your concern as well as your comments this morning about the decline in the number of people. I believe the statement dealt with the security force. We are cutting back on our security forces but we are supplementing the security work with closed circuit television and various electronic and automatic devices, with the aim of providing better security than we have now.

I am concerned about the discrepancies between the numbers you have and what we have. We can have somebody check it out and reconcile it for you.

[The following information was subsequently provided:]

Mr. Harvey Cable, Assistant Director of Claims Division, U.S. Treasury furnished statistical information regarding complaints of nonreceipt of Treasury checks for the period July 1 to December 31, 1976. The statistical information is the same as furnished Congressman Solarz.

U.S. Treasury statistics for the above-mentioned six-month period show they received 464,708 complaints of nonreceipt of Treasury checks; of this total, 218,833 were Social Security checks. To reconcile these statistics for six months with those used by Congressman Solarz to represent complaints received for all of 1976, it would be necessary to approximately double the six-month total and assume its accuracy.

The Check Claims Division does not keep statistics to show the number of complaints of nonreceipts that are resolved by the issuing agency by their inquiries which reveal the check was in fact received and the complaint was made prematurely. The record does show that in the last six months of 1976, 67,600 of the 464,708 complaints involved checks which were believed cashed on forged endorsements, and these were referred to the United States Secret Service (USSS) for investigation of alleged forgeries.

Of the 67,600 Treasury checks referred to USPS, they referred 42,416 to the Inspection Service for investigation of possible mail violations. Duplicate checks are issued by the original disbursing offices to payees who did not receive their check and where the original was never cashed.

Complaints, therefore, are resolved in one of three basic ways:

1. It is determined the complaint is not valid and the check was received and cashed by the payee.
2. It is determined the complaint is valid and the check was probably forged and cashed. Appropriate investigation is made by the USSS and Inspection Service.
3. It is determined the complaint is valid but the original check was not cashed. A duplicate is issued.

The Check Claims Division does not have any record of the number of complaints resolved by issuance of a duplicate check to indicate how many nonreceipts were the fault of the Postal Service. Since this information may be available at the individual disbursing office, action is being taken to develop the facts and to formulate corrective action in those instances where the nonreceipt of these checks is the fault of the USPS.

In answer to the question regarding information being furnished to the USPS by the Administrator of the Social Security Administration relating to complaints of nonreceipt of Social Security checks, no record, file or information has been found to indicate that any such liaison or cooperation was ever offered or requested.

The statistics of the Inspection Service showing the number of U.S. Treasury check complaints resulting from alleged thefts from the mail do not, nor can they be, correlated to the number of complaints received by the Check Claims Division of the U.S. Treasury on a one to one basis. Neither is it reasonable to summarily conclude that all cases of the nonreceipt of a check is the fault of the U.S. Postal Service.

Although the Treasury Department does not have statistics to support the number of nonreceipts by categories, their experience has been that numerous complaints are made because the checks do not arrive on the expected day;

people move and neglect to furnish a forwarding address; checks are received by some aged persons who actually forget receiving them; checks are lost after delivery; checks are received by members of the payee's family who appropriate the check for their own use; and, checks have been inadvertently lost by disbursing offices before the checks have been placed in the mail.

Mr. SOLARZ. Thank you.

Mr. HANLEY. Thank you, Mr. Solarz.

Just to follow up for 1 second one of Mr. Solarz' points, at any time has the leadership of the Social Security Administration called this to your attention or expressed its indignation at this situation or whatever?

Mr. BAILAR. Not to my knowledge, Mr. Chairman.

Mr. HANLEY. You have had no complaints from the Administrator of Social Security?

Mr. BAILAR. Not to my knowledge. It could be that complaints were registered elsewhere in the Postal Service that didn't get to my attention. I gather nobody else at the table is aware of it either. I will be happy to check and advise you about that.

Mr. HANLEY. We would appreciate it if you would. Because again if the problem is of that scope and the Administrator or the Commissioner of Social Security has not been in contact with you folks, then it would appear to me there is little dereliction of responsibility on his part. A lost check doubles the obligation for that particular month of the fund.

Would you advise the committee as to whether or not you have had a complaint or complaints from the Social Security Administrator. Thank you.

Mr. Collins?

Mr. COLLINS. Thank you, Mr. Chairman.

General, what percent of your total expenses are your labor costs?

Mr. BAILAR. I believe the number is currently 86 percent, including wages and fringe benefits, things related directly to labor.

Mr. COLLINS. In your productivity for the past few years, how have labor costs related, the increase in labor costs, related to your gains in productivity? Have they done as well as other segments?

Mr. BAILAR. As well as—

Mr. COLLINS. Other segments of your operation? If it is 86 percent, it is your basic factor. For instance, are your costs of trucks up this much? Let's just take 5 years ago. Take 5 years ago. How has your cost of labor gone up compared to your other basic costs?

Mr. BAILAR. As you can readily see from the 86 percent, we don't have many other costs to compare. I think the other single largest area is energy, where we pay for heating of the plants and running of vehicles—

Mr. COLLINS. You don't have any control over that.

Mr. BAILAR. We have control over how much we use but not the cost of it.

Mr. COLLINS. About 2 weeks ago, I guess it was, I was talking to a magazine publisher who said that you paid a higher scale than he did, and yet you are a big factor in his costs because he has to send out material. He told me as he saw it, your costs this year per average labor was \$21,000. In your figures here I notice the average salary of an ungraded position is \$16,714. Does that include fringe benefits? Is that your total cost?

Mr. BAILAR. It does not include fringe benefits. Mr. Collins. I can give you a couple of specific numbers. The \$16,000 is evidently out of the budget. Let me give you a couple of specifics on individual crafts.

Mr. COLLINS. This is a personnel summary, right, in the middle of the page. It is an unnumbered page. It is right above the tag that says "Congressional budget submission." In the gray book. Anyhow, just in passing, do you know of any industry that pays an equivalent wage schedule to the postal system?

Mr. BAILAR. We have compared our wages, Mr. Collins, with those industries organized by some of the larger national unions. I am thinking of such as the auto workers and steel workers. The last comparison we had had postal workers almost identical in average to the workers organized by the largest half-a-dozen unions.

Mr. COLLINS. General, you have been in business before. Do you think that is a fair comparison? You know in those areas they end up with greater productivity per labor hour whereas in your business it is all labor. What business do you have, like a grocery business or something, where it is all labor that you can relate to?

Mr. BAILAR. Well, I can't relate the wages that you can afford to pay the workers to how heavily mechanized you are. I have difficulty understanding the mechanization has much to do with justification of what you pay your workers. Postal workers are well paid, Mr. Collins. There is no denying that.

Mr. COLLINS. The fact that you are \$16,714 for 1977—is that right?

Mr. BAILAR. If it is in the budget, I assume it is. I can't find the page. That is the right order of magnitude.

Mr. COLLINS. How much fringe? Do you have about \$5,000 worth of fringe that goes with that?

Mr. BAILAR. Something over 20 percent.

Mr. COLLINS. So it is in the area of \$21,000. How much was the average laborer making, say, 5 years ago? Have we doubled the cost of the postal salary system in the past 10 years?

Mr. BAILAR. In the past 10 years, more than double, yes, sir.

Mr. COLLINS. Is there any reason why we have more than doubled? The inflation has been about what 50 percent?

Mr. BAILAR. Over 10 years? I think it's been more than that. Postal workers have done well in the last 6 or 8 years. I think their gains have exceeded those in the consumer price index. It is my understanding that one of the intentions of the original Postal Reorganization Act was to improve the level of wages in the Postal Service.

Mr. COLLINS. I have a specific figure here. I didn't have this from comparative figures, but they took in 1968, which is only 9 years ago, the starting salary for a letter carrier was \$5,938. What would be the average starting salary of that same level today, would you think?

Mr. BAILAR. Well, I was getting ready to get to that. The starting salary for a letter carrier now, for the regular full-time letter carrier, is \$12,400 and the maximum is \$15,007, on an annual basis.

Mr. COLLINS. In the negotiations, do you think the labor unions have been more successful than management in the negotiations?

Mr. BAILAR. The only negotiation I have had personal experience with was in 1975. I think, frankly, that that was a good agreement. It was characterized in some of the business press as the cheapest major

labor contract to be negotiated that year. It involved a 4-percent-per-year increase in base, plus a cost-of-living allowance that was estimated would work out to about 7, 7½ per year in total.

Mr. COLLINS. You gave them a 4-percent increase, plus cost-of-living. Was that 4 percent related to productivity?

Mr. BAILAR. No; that is an increase in base, regardless.

Mr. COLLINS. Why do you give them 4 percent instead of relating it to cost-of-living? What was the basis for 4 percent?

Mr. BAILAR. In all candor, it is tradition. The general package in collective bargaining involves some increases in base and some increases in cost-of-living.

I suppose management would like to have the entire package wrapped into the base.

Mr. COLLINS. Let me go back to something else you say in your costs.

I noticed you had a rapid escalation in your retirement. You went from \$3 billion deferred retirement cost to \$5.7 billion. That nearly doubled it in 1 year. Why did you do that?

Mr. BAILAR. The retirement cost is a calculation based on the civil service retirement fund, for the unfunded liability.

They, in effect, tell us what it is; the Civil Service Commission does.

As I think you are aware, Mr. Collins, most Federal departments—all Federal departments, except the Postal Service—have their unfunded retirement liability submitted to Congress by the Civil Service Commission and it is paid en masse or the appropriation is made once a year.

In the case of the Postal Service there was a law in 1973, if I am not mistaken, which said that because we entered into collective bargaining with our unions, we would be responsible for the unfunded liability, so we get the bill directly from the Civil Service Commission.

I think you see here a reflection of an accounting practice which is probably the right practice for the Postal Service and the Federal Government as a whole.

I would suggest that the unfunded retirement for the rest of the Government has gone through similar increases, but perhaps has not been shown in the way that draws attention to it, as it does in the Postal Service.

Mr. COLLINS. As we know, all the retirement funds in the Government are kept in a loose basis.

Mr. BAILAR. This is not.

Mr. COLLINS. You are trying to put yours on a realistic basis.

Mr. BAILAR. It is a large sum of money.

Mr. COLLINS. I want to commend you for that, because the other day an agency came out with a statement criticizing loose account practices, and I thought that was an absurd statement, when we do it the way we do.

Mr. BAILAR. We were required by law in 1973 or 1974, to do it this way.

Mr. HANLEY. Mr. Wilson?

Mr. WILSON. I might say, Mr. Collins, with the exception of the Mail Handlers Union, the postal unions are very reluctant to support any changes in the Postal Service at the present time.

Mr. Bailar, I am concerned as Mr. Solarz is, about the speeches you have made before organizations in which you have praised the savings that have taken place. The paper surpluses, aren't they?

Mr. BAILAR. Mr. Wilson, No. 1, they are not paper surpluses. They are real. The transition quarter was audited by our accounting firm.

Second, I have never intended or stated that the surpluses indicated that the Postal Service was out of the woods.

I think I was quoted at the time of the transition quarter as saying one swallow doesn't make a summer.

On both occasions, I said we are making some headway, we have solved some of our immediate short-term problems, but there are some very fundamental and serious long-range problems that are yet to be resolved.

Mr. WILSON. I have been very concerned about the insufficient amount of money the Postal Service has been devoting to research and development. You are going to have to get involved in the electronic transfer of messages as soon as possible. The study made by the National Research Counsel, for you, showed that research and development in the commercial sector averaged 3.7 percent of gross revenues.

In the communication industries it was 5.2 percent. By contrast, the Postal Service devotes less than one-half of 1 percent of its operating budget for research and development.

Now, hasn't this been something that you have been lax on?

Mr. BAILAR. I don't believe we have been lax on it, Mr. Chairman. I think the comparison with some high technology industries is really not a proper measure of how much money the Postal Service ought to be spending on research.

The Postal Service is a labor-intensive organization.

In addition to our research money, we spend some money on industrial engineering, trying to do our existing job more efficiently, which I think would have to be added to research money, to make the comparison valid.

You referred to the National Research Council and their studies. They—and I think I can state their case, fairly, suggest that the Postal Service ought to get into—or can get into—electronic mail message systems. I have personally spoken to Dr. Rader, who is the leader of that effort, and he will acknowledge readily that they have not looked at the question of cost-effectiveness in the marketplace.

I don't think anybody in the Postal Service questions it from a feasibility standpoint. The thing we are concerned about is the volume and economic impact.

Mr. WILSON. Someone is going to do it in the Government.

It seems reasonable it ought to be the Postal Service, so you can keep as much volume as you can.

Mr. BAILAR. Electronic funds transfer has been taken under the friendly wing of the Federal Reserve Bank. The things that are being done now are largely being done by the Fed.

As far as the electronics message service is concerned, we have serious questions about whether there is really a market for it. We have had some experiments in this connection.

Foreign postal administrations had had some experiments, and we had a facsimile test between Washington and New York for a period

of months, that averaged out to, I think, about one message a day. The British and Swedish postal administrations experimented with this sort of thing. I think they had something like 2-year tests. I will give you the specifics for the record.

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

The General Directorate of Posts in Sweden initiated a facsimile system in June 1973 called "Teleletter." This system provides service between ten major cities and is designed to provide convenient availability to approximately 40 percent of the Swedish business population. There are a number of service offerings at a variety of prices. A message sent from a post office and collected by the addressee at a destination post office costs \$3.75 for the first page and \$2.47 for each additional page. Special delivery within two hours of deposit costs another \$1.25 per message. Service to or from privately-owned machines is available at prices ranging between \$1.20 to \$2.40 per page.

The Teleletter system produced a total volume of 500 messages over a period of two calendar years (1974 and 1975). Revenues totaled less than five thousand dollars.

The British Post Office initiated facsimile service in October 1974 with offices in 12 major cities offering "Postfax." The Postfax system utilized Plessey equipment which was chosen for its compatibility with most privately-owned facsimile equipment in the United Kingdom. Post office to post office service was priced at \$5.00 for the initial page and \$3.00 per additional page. Input or output through privately-owned machines reduced prices to \$4.00 for the initial page and \$2.50 per additional page. Special delivery service to the destinating addressee cost an additional \$1.20.

In October 1975 Postfax was expanded to provide service between 22 cities and allow "dial-up" access to privately-owned machines on a contractual basis.

During the 2 years between October 1974 and September 1976 Postfax handled a total of 150 messages. Postfax was terminated in September 1976 due to the lack of public interest and the economic losses entailed.

Mr. WILSON. Have you concluded then there is no future for this in the Postal Service?

Mr. BAILAR. I have concluded it is something we ought not to do now on an operational basis. We have spent some money in trying to keep our options open, but to get back to the original question, I think the amount of research we are doing in this activity is appropriate for the moment.

Mr. WILSON. Mr. Dorsey last year told us that the break-even point for the bulk mail system was 300 million pieces per year.

Apparently you are dropping down below the 300 million-piece volume. What do you estimate, about 225 million in 1979?

Mr. DORSEY. I am not sure, Mr. Chairman. The last time I checked it was about 300 million. It may be lower.

Mr. WILSON. What was the figure?

Mr. DORSEY. 300 million. The last I heard, when I checked, we had an annual volume of 300 million—

Mr. WILSON. But the projection for the next year or two is lower; isn't it? I mean for the last year or two?

If you do go down below the 300 million-piece figure, what are you going to do? Are you going to take any steps? Are you going to convert some of those buildings to other purposes? What do you intend to do if it is not cost-effective?

Mr. BAILAR. We have two or three avenues, none of which are going to be very easy. One is trying to get some of that volume back and build up the volume. One is to find other parts of the mail stream, if there are any, that can be handled efficiently without any service compromise in the bulk mail system.

One is to see if there is some way we can pull our horns in a bit in those bulk-mail facilities that we have.

Mr. WILSON. It just seems to me, Mr. Bailar, with the extra business you got as a result of the UPS strike over the holidays, and for some time prior to the holidays, that you should have picked up a lot of old business and retained it. Have you been able to keep most of that or did they go back to UPS?

Mr. BAILAR. We picked up a great deal of business, Mr. Wilson. It was helpful to us financially. I think in all candor, we would not have been able to handle the UPS strike and Christmas volume, as we did, if we had not had the bulk mail facilities. I would have to tell you, we have not managed to retain that business. That we have lost it, virtually all that we had on a one-time basis. I would like to comment, if I can take a minute, to talk about the postal rate structure and some of the difficulties that we have.

We have historically had rather monolithic costs. We have charged at a flat rate for all first-class mail up until very recently. This letter [demonstrating] has a stamp; we had to print, sell it, cancel it, get it out of the corner collection box. This one even has an incorrect zip code. This other one was run through a meter; we didn't have to sell the stamp or cancel it, and it is brought on a large tray and we are now offering a lower rate for qualified presorted first class mail, so this particular bill was delivered for 12 cents.

I have commented recently that we are going to be proposing the same thing in second class, the next time we file a rate case.

At the same time I indicated it is something we have to look at in third- and fourth-class mail.

We have a situation currently where if a commercial mailer comes to the Postal Service with 1,000 well-wrapped, 3-pound packages with meter strips, and they have all been weighed and have the meter strips applied, and brings them to the dock, we charge them the same as we charge for one 3-pound package up front, where we have to weigh it, we have to fill out insurance slips, and so.

Those two items cost differently. We are going to have to reflect that in our rate structure and eventually get to the point where our rates are tied more closely to the costs.

We have not done that historically. It has been, I think a large contributor to the loss of the parcel business over the last 20 years, as our private competitors have come in and zeroed in on the best business we have had, because its rates on the average level have exceeded the cost of that selected part of the business.

We are going to be making those changes principally to make sure we don't have the problems with second- and third-class mail in the future we have already experienced in first class. I would hope we can gain volume with that. But until we do that sort of thing, the situation we had in December with the United Parcel Service strike, I think, will be repeated.

People will come to us when they have to. When the private systems are back to work, customers are going to leave us, because those commercial customers with high density business can get it in hand cheaper than the Postal Service.

That is why I think these rate changes have to be made. I think that is important to the future of our parcel business.

Mr. HANLEY. Thank you very much, Mr. Wilson.

Mr. Wilson alluded to a subject matter that is very close to my heart when he spoke of research and development.

I long ago concluded that the woeful inadequacy that exists within your agency from the standpoint of research and development is the major contributor to the problems of the USPS.

Going back to 1966, I advanced some ideas with regard to what should have been done with regard to research and development. Mr. Wilson and I were primarily responsible back then for the appointment of an assistant postmaster general in charge of a good R. & D. program.

I refer, of course, to Dr. Leo Packerd, who began to generate the type of program appropriate to the needs that existed in this agency.

Unfortunately this effort was supported by a changing administration and to this day that effort has never since gotten off the ground.

Now, it is disheartening to me when I hear you say that you feel the degree of R. & D. is appropriate for the institution, when I compare what you are doing with, for instance, what Japan has and is doing—a most sophisticated electronic system, that they intend not only to be applied to the processing of their own mail, but they intend to merchandise their systems all over the world, probably, and hopefully selling their system to others, all because of the good R. & D. program that they moved with a few years back.

The attitude of the Postal Service today, for the last 7 years, has been one to me that seems to be highly protective of private enterprise at the cost of quality of service and the expense of the taxpayers, as indicated really by the budget we are discussing today.

Long ago, had we picked up and embraced the concept that Mr. Packerd thought ideal and appropriate for the institution, for instance you would not have given the franchise to Western Union that it enjoys today.

It is very troublesome to me, the fact that your agency in effect does all of the physical work associated with the delivery of those communications, yet you get that much in the way of a return [indicating] that was a service that well could have been provided by the U.S. Postal Service, without at all infringing upon private enterprise.

The service could have been provided to the 217 million Americans at a figure far less than what Western Union charges. It would have added substantively to the revenue of your agency, perhaps to the degree that you would not be really in the bind that you are in. I intend to get into this heavily and I know Mr. Wilson does.

For what it is worth I think that is really the key to your whole problem, the fact that you have not been with it, the feeling that prevails, the attitude that prevails to me, reminds me of perhaps back when the Pony Express was going by the board while someone said, no, we cannot invest in those four-wheel vehicles because somebody else can buy them and do it for the general public.

So, I think it is a tragedy, what has happened from the standpoint of R. & D., and I know Mr. Wilson has some very good ideas, and I

hope to join forces with him, hopefully, if it is not too late—and it could well be too late—for us to develop the type of program appropriate to the needs of the 20th century of this Postal Service.

Mr. Corcoran?

Mr. CORCORAN. Thank you, Mr. Chairman.

I have enjoyed the enlightening and I think forthright testimony of the Postmaster General. I would like to ask a couple of questions with respect to the budget itself.

First of all, with respect to the revenue side of the budget, it is my understanding that you do not contemplate—and there is an assumption in the budget to that effect—any increase in postal rates for this coming year. Have you forecast when the next postal rate increase might occur?

If so, when will you be filing for that approval?

Mr. BAILAR. Mr. Corcoran, there are two statements here that I think are perhaps a little misleading.

One is my statement that we would not be raising rates during 1977. There is also a statement somewhere in this budget that the budget is predicated on existing rates through fiscal 1978. That has been done because those are the ground rules that were laid down for us by the Office of Management and Budget when they said, "Put your budget together on this basis."

I rather expect that there may be a rate increase in fiscal 1978 for calendar 1978. I have commented while we do not need a rate increase in 1977, we clearly will need additional income in 1978.

The amount of the timing is very much up in the air right now for principally two reasons. One is the deliberations of the study commission are focusing among other things on what the public service subsidy ought to be. I think for the Postal Service to move to raise rates before that study commission has finished their work and before the Congress has had a chance to at least react to it would be a little irresponsible.

Second, a rate case is a rather complex thing which takes some time for us to prepare and file with the Postal Rate Commission, and the circuit court—if my terminology is right—this circuit court ruling which we were hit with this winter has forced us to pull back and either wait for a clarification of what the final legal situation is going to be, or at the very least to modify our filings so that when we do file with the Rate Commission we are in compliance as well as we can be with the prevailing opinion at that time.

I think when the study commission finishes its work and when this legal situation gets a little clearer, we are going to be in a position and perhaps have to move toward a rate increase. Once we do that, we are faced with a 10-month delay before we can actually implement the increase.

I would say the earliest date we could have an increase would be sometime in the late winter or early spring of 1978.

Mr. CORCORAN. In view of the relationship between the time that it takes to get the approval and the effect that would have on the budget, is it not true that the \$1.7 billion deficit contemplated for fiscal 1978 might in fact change as the months unfold?

Mr. BAILAR. Yes; I hope it will change.

If we were to put a rate increase into effect in the time frame that I mentioned, or if we had an increase in public service appropriation, either of those would presumably have the effect of reducing or hopefully eliminating the deficit in fiscal 1978.

Mr. CORCORAN. With respect to the other side of the budget, on the expenditure side, people in my part of the country are of course very concerned about some of the efforts made in recent years to reduce the costs, particularly as they affect service. I am speaking, of course, first of all about the closing of small post offices.

In the budget that you tentatively have submitted here, is there any provision for closing small post offices?

Mr. BAILAR. No; I do not believe so—if there is any, it is nominal, Mr. Corcoran.

I would also mention to you that the program that we pursued in 1976 was actually a reduction in small-office closings from that in previous years. It created a great deal of concern on the part of a lot of people because we changed some of the rules by which we would review cases, but in point of fact the offices closed in 1976 were about 250, whereas previously the average was about 300.

The budget anticipates a reduction from fiscal 1977 to fiscal 1978 of 303 offices.

Mr. CORCORAN. My time has expired. I do have a few other questions which I would like to submit in writing for your answers later.

Mr. BAILAR. Fine.

Mr. CORCORAN. Thank you very much.

Mr. HANLEY. Thank you, Mr. Corcoran.

Mr. Solarz?

Mr. SOLARZ. Thank you, Mr. Chairman.

General, I would like to pursue if I may, the line of inquiry I initiated before on the problem of postal theft.

I regret to say the statistics which your people offered in this regard seemed to me to be substantially misleading. I think it would be a profound mistake to assume that every time a check is lost or stolen from the mail, the intended recipient of that check reports it to the Postal Service.

The confidence of the public being what it is in the USPS, I should think most people that do not receive their checks probably despair of getting any affirmative action when they report that they never received the check.

Our information comes from the Department of the Treasury. I think it might make sense for your people to look into this yourselves. They tell us that in 1976 there were approximately 434,000 social security checks which reportedly never arrive in the mailboxes of their intended recipients.

This obviously is costing the Treasury a substantial amount of money. It seems to be an indication of a very serious problem. Your own figures I think will confirm the fact that since 1973 there has been a 38-percent increase in break-ins to collection and relay boxes across the country.

At the same time, as you indicated, the total number of inspectors has been declining. I think, sir, this a rather serious problem that requires perhaps greater attention than previously.

Mr. BAILAR. Your point about the Treasury is well taken.

Mr. SOLARZ. I would like to raise another question concerning the problem of special delivery mail. I am particularly concerned here by what seems to me to be essentially false advertising on the part of the Postal Service.

As you know, it now costs approximately \$1.38 to send a regular first-class letter special delivery. And yet, according to the head of the special delivery craft, a gentleman with nearly 40 years' experience in the Postal Service, approximately 50 percent of the special delivery letters are delivered precisely the same fashion as first-class mail, which is to say, that they do not in fact receive any special attention.

It seems to me if we are going to have a category of special delivery service for which people are paying substantially extra, that they ought in fact to receive special delivery service. If it is not possible for the service to provide them with this kind of special attention, then I think we ought to eliminate the category completely.

I wonder if you could comment on the extent to which in fact these special delivery letters are processed in the same way as first-class mail; if this is the case, whether or not you think that this is in effect a situation where the Postal Service is engaging in false advertising.

Mr. BAILAR. Mr. Solarz, I cannot give you the precise number. I will see whatever we can supply for the record. I will tell you what our policy is and why we do it that way. I think I can make it fairly clear that what we are trying to do is to give the best service possible.

In a city such as Washington, D.C., or in your congressional district, we have several special delivery runs each day. In the case of Washington, I believe there are four. We have an additional rule that when a letter can get out more promptly or as promptly with the regular letter carrier it will be delivered that way.

If a letter comes in during the night and the first special delivery run is in the morning, and it can get out as quickly and more cheaply by going by the regular letter carrier, we send it that way. We do not do that if it is going to compromise service in any way.

If I can take a couple of minutes to talk about the economics, the average postal employee including fringes makes 16 cents per minute. The special fee is \$1.25, which is less than 8 minutes worth of money for the labor and does not include the cost of running a vehicle or anything of that sort.

The fact of the matter is that special delivery is an extremely expensive service, and we have to provide it as efficiently as possible to do what we set out to do.

Now, I called Western Union on Sunday night and asked them about physical delivery of a telegram. "What does it cost to have a telegram actually delivered in Washington, D.C.?" I did not want to talk about putting it in the mail.

The answer was, Over and above the regular telegram charges, \$3. I think that is probably a reflection of what making the separate trips, regardless of the time of the day and that sort of thing, costs.

We are trying to balance off the cost against the public service.

Mr. SOLARZ. My time has expired, but let me say, General, I think the American people are under the impression when they pay for special delivery mail that the mail will be handled in a way different from the way it would be handled if they sent it first class.

It appears as if in at least half of the cases it is not handled differently. I think that creates a situation where people are being misled, which I do not think is appropriate.

Mr. BAILAR. It is handled through the letter carrier on a special basis but I think it would be irresponsible for us to send it out on a special run to satisfy some cosmetic need when it can be delivered by the regular carrier.

I do not mean to pass off your concern about misrepresentation, but I think we have an obligation to do it as efficiently as we can.

Mr. HANLEY. Thank you, Mr. Solarz.

General, you just mentioned that Western Union advised you that for its physical delivery of that communication, and I assume that is for a different service area, that the add-on is \$3.

What does your agency charge Western Union per piece, assuming this is just a straight telegram within that particular service area? What do you charge Western Union?

Mr. BAILAR. I could not hear your question, Mr. Chairman.

Mr. HANLEY. You advised that Western Union told you that they charge the patron \$3 should they have to make the physical delivery of that communication. My question is: Using your service, what do you charge Western Union?

Mr. BAILAR. If they send it in the mail we charge 13 cents.

Mr. HANLEY. It goes simply as a first-class letter for Western Union.

Mr. BAILAR. There are two levels of service. If they are sending you a telegram, they call you up on the phone and say, "Here is the message. We will mail you a copy." They pay postage.

In the case of a mailgram, where we deliver it on a regular letter carrier run, they pay something over 30 cents, the equivalent of two-and-a-half or three times the postage.

But neither of those involve the kind of delivery Mr. Solarz was talking about.

Mr. HANLEY. Of course you absolutely guarantee Western Union that that piece will be delivered that day; is that right?

Mr. DORSEY. The next day.

Mr. HANLEY. Would you explain to me accurately how you do that?

Mr. DORSEY. With the ordinary telegram. Mr. Chairman, say they were to call you and say, "Congressman Hanley, we have a telegram for you," and read it over the phone.

Mr. HANLEY. I know that. I am asking about your part in it.

Mr. DORSEY. They would then mail that as Mr. Bailar says in an ordinary envelope, 13-cent stamp, it would be delivered with the regular mail on the next day basis, in which we try to achieve 95 percent performance on all mail. We don't give Western Union any special service if they simply mail it.

Now, if it's a mailgram, it then comes into one of our post offices, where we have a teleprinter, in the post office, it's printed out, enveloped by us, taken to a mail carrier and delivered that day. Now, we do not perform 100 percent there, either, because sometimes we get the telegram too late in the morning.

Mr. HANLEY. What do you charge for that service?

Mr. DORSEY. We charge 37 cents, including postage.

Mr. HANLEY. Then essentially, how, in fairness to the general public, can you expect a \$1.25 for special delivery?

Mr. BAILAR. You are talking about a different service, Mr. Chairman.

Mr. HANLEY. Yes. I guess you are right in a sense, but in any event, you're assuring Western Union that that piece is going to be delivered that day. Am I right?

Mr. DORSEY. Up to 95 percent. Keep in mind, Mr. Chairman, there are requirements it must be into the system by a certain hour, it must be received at the office designation by a certain hour. That would not necessarily apply to special delivery.

Mr. HANLEY. My time has expired. Mr. Collins?

Mr. COLLINS. Thank you. I agree with the chairman on this Western Union, I think there are considerable differences between the post office business and the facility you have of providing extra service to Western Union. For instance, Western Union has an extensive telephone facility for taking the messages and they have offices for taking them. You don't have any facility of that type. The big difference, as I see it, is that Western Union provides a credit facility and you are strictly on a cash basis.

Do you do anything on a credit basis?

Mr. BAILAR. No, sir.

Mr. COLLINS. I hope you never get into it because you have enough problems the way we are.

Mr. BAILAR. We do handle a couple of Government contracts on a credit basis and they have not been very happy experiences.

Mr. COLLINS. In comparing the average salary that you make in the post office, I think the most fair comparison would be with an industry that is not mechanical, because the great way to make money, going back to old John L. Lewis, he found it out in the coal industry, he helped them mechanize but as they mechanized he in turn raised the salary of the coal workers. You have never been very mechanical. Therefore, the only fair way to relate the wages of your workers is with industries that are not very mechanical, such as banking or insurance.

Now, looking at banking and insurance down here, this figures back several years, October of 1976, but we still had a big step coming up by June, but it shows banking at \$3.73. Insurance at \$4.56. And Postal Service at \$7.20.

What I want to ask is why has your industry resisted mechanization so much? Because you are paid like a mechanized industry but you work like a service industry.

Mr. BAILAR. Mr. Collins, I don't think the postal industry, to use your word, has resisted mechanization that much. I would comment that our unions have generally been supportive of our efforts to mechanize. We have had I think a commendable degree of cooperation from them in terms of modernizing letter carriers which means eliminating separate parcel post relay routes, of installing bulk mail centers, cancellers, letter sorting machines.

We have had some difficulty on those scores and there have been pockets where some people have opposed them, but generally I think the policy of our unions has been quite responsive and they recognize that it is through that sort of program that we can afford to pay better salaries.

I don't really have any quarrel with them on their support efforts.

Mr. COLLINS. Let me go into an area that I know you have some difficulty with congressmen who are engaged in a popularity field every 2 years, but from a practical matter I have never seen any problem at my home in getting my mail out there at a box next to the street. I know a carrier can deliver much faster if everybody had a box next to the street. What percentage of your mail involves boxes next to the street?

Mr. BAILAR. About 20 percent, something of that sort. I'm just taking a real quick fix on some numbers that I saw some time ago.

Mr. COLLINS. How much faster can a carrier deliver mail when he rides along like that?

Mr. BAILAR. I can give it to you in dollars. It costs us something on the order of \$60 per address per year to deliver at the door, nationwide; \$47 per address per year at the curb; and somewhere in the middle \$30's per year to deliver in a cluster box down at the corner.

Mr. COLLINS. I can see why you have encouraged going toward cluster. I realize I am not speaking for most congressmen when I advocated this position, but why shouldn't the homeowner who wants to receive his mail at the door pay an additional charge, why shouldn't we charge him additionally for delivering his letters to the door, say, a dollar a month for that service, which is about what it runs?

Mr. BAILAR. I think the difficulty is severalfold. One is the political problems that you allude to in your comments. One is the expense of collecting revenue. I think as a practical matter it would not really be a saving to the Postal Service to have occasional curb line delivery in an area. You would have to have a whole community, so that the whole letter carrier's route would either be at the door or not—you have to go to a local election. It really has some practical difficulties.

Mr. COLLINS. Thank you.

Mr. HANLEY. Thank you, Mr. Collins.

Mr. Solarz referred a few minutes ago to false advertising. I understand the poster Mr. Barton is going to display has gone to very post office in the Nation.

Now, in recognition of your projection that that is a \$457 million deficit for 1977 and a \$1.7 billion deficit for 1978, don't you think the distribution and display of this poster is somewhat premature: "Our financial picture is getting brighter. In the recent transition quarter, people pitched in to produce a surplus. Let's keep it up. It's the best way to earn the public's trust."

Mr. BAILAR. No, sir.

Mr. HANLEY. Would you say it's premature?

Mr. BAILAR. No, sir. Our financial picture is getting brighter. There is no question about it, Mr. Chairman. We operated in the black in the transitional quarter. We are going to have a loss in the current quarter substantially less than what we had in 1975 and 1976. Productivity of postal employees is going up.

Mr. HANLEY. Of what great interest is it to the general public for the Postal Service to display this poster in post offices when at the same time the taxpayer realizes we had to add on from the standpoint of appropriations? I don't believe that is heartening, nor that it's worth the cost to the agency for the preparation and distribution of it.

If that kind of money were transferred into R. & D. it would make sense as opposed to this kind of expenditure being put into your, P. R. department.

Mr. BAILAR. Let me say first off, the results we had in getting in the black in the transitional quarter and in the first quarter of 1977 were without the add level appropriations authorized last year.

Secondly, I approved that poster personally. It's one, as I'm sure you know, it's one of a series of posters. The intent was to help improve morale of the postal workers, to explain to them the types of progress being made, the benefits of their efforts.

The other posters which for some reason you have chosen not to display here, Mr. Chairman, include the comparison of rates in this country with other countries. They show the U.S. postal rates as being favorable compared to other postal administrations. They show the productivity of the U.S. postal workers to be the highest of any industrialized country in the world.

That's a series of posters. It was done for that purpose and I would defend it vigorously. I think the money is being well spent, Mr. Chairman.

Mr. HANLEY. Mr. Bailar, if I can pursue for a minute or two the use of your contingency fund, in your projected deficit figures. In the budget document which we are working on you project a \$990 million operating deficit for fiscal year 1977. In the operating expenses, you list an item of \$602 million for contingencies.

Now, earlier this year, Mr. Gould filed an affidavit with the court of appeals projecting a \$400 million deficit, which in turns raises a question of what really is the contingency fund being used for?

In your judgment, will it be expended? In essence, I guess I ask, aren't you actually using the contingency fund to apply a greater reduction in projected deficits than actually exists? For what it's worth, to me, I see it as a bit of hocus-pocus.

Mr. BAILAR. A contingency amount is explicitly provided for in section 3621 of title 39. The last few words of that particular paragraph suggests the Postal Service revenue requirements should include provision for appropriate contingencies.

In recent years, the cost of living and cost of energy have increased, and we unfortunately needed our contingency amount and then some. When we put together a year's budget, we have added to that most recently 4 percent of the budget for unanticipated expenses and we use it. Because of our experience in the past years we have included it in our 1977 budget.

It now looks as if we may not need it in 1977, in large part because of our reduction in manpower.

Mr. HANLEY. That you won't use any of the contingency fund?

Mr. BAILAR. I think that's as fair or as safe a bet as I can find in postal finances. We had, I think it was \$602 million that you referred to in the budget and we now expert we can get through the year without having to use that. If we had anticipated the financial performance we are experiencing when the budget was put together, we would not put that contingency in there.

Mr. HANLEY. Well, it's heartening to enjoy your observations. Apparently there is a keen probability you won't be using it.

Mr. COLLINS. One thing that I wonder about, too, is the parcel service business. Do you intend to stay active in that? Have you tried to get out of it? Is it a moneymaker in the long run? Have you made plans to get out of it? Are you considering selling segments of it or just what is the future?

Mr. BAILAR. We have not considered trying to get out of it. We don't want to for a couple of reasons. One is, it is a service element. If you have ever tried to mail a package from here back to your district with a private parcel firm, you would know that that is much more difficult than mailing with the Postal Service. The number of installations here in the Washington area, for example—I think they have 2 or 3 and we have some 90, you know, which makes the Postal Service much more pervasive and available and I think the parcel business is an important part of our service to the public.

Secondly, the Postal Service has a tremendous number of fixed costs and the more business over which we have to spread that fixed cost, the more efficiently the Postal Service can run. If we were to lose the parcel business and take a couple of other examples which I hope we never lose, say, second, third, and fourth class, and be left only with first class, we would still have the large majority of our fixed costs spread over a lesser area and it would run postal rates up.

So, it's important to us financially, but more importantly than that, it is a big part of our service obligation to the public. We are not trying to get out of it.

Mr. COLLINS. In the rural areas, of course, this is a political issue, too. Those who live in rural areas believe that they are entitled to all types of service, but to what extent is the rural business losing business for the post office?

Mr. BAILAR. I don't think we have cost accounting, Mr. Collins, that would really let me answer your question with any degree of authority. The problem is how do you attribute your revenues. Do you attribute them to the sender or the recipient, and we have not been able to make a really meaningful determination of whether the revenue from the mailing of a parcel should be attributed to the sending or receiving location. I can't tell you how much money rural offices lose. I'm sure they lose some money.

Mr. COLLINS. You ran some figures which came up to the Hill and immediately everybody went straight up in the air where you were talking about some of the small post offices should be closed.

That's when the people starting raising noise about, "Well, it's a service. It's a service."

But where do you draw the line on whether it's service and all of us pay for a very expensive facility that could be consolidated?

Mr. BAILAR. Mr. Collins, where I draw the line is my conviction that we can provide good service to rural Americans without those small offices or without some of them. We were never ever proposing to terminate mail service to Americans when the General Accounting Office said we could close 12,000 and save \$100 million a year. We were talking about providing mail service through a different vehicle, specifically the rural letter carrier. That rural letter carrier is a rolling post office, he can sell stamps, accept parcels. We are talking about a different system.

Mr. COLLINS. I will tell you what I can't understand, you have those jerkwater towns out here—

Mr. BAILAR. I didn't use that term, Mr. Collins.

Mr. COLLINS. That have about 1,000 people in them and you have a post office there. I have a city out here with 35,000 and you won't give it a post office. What is the equity in the post office system for that?

Mr. BAILAR. I am not familiar with the specifics.

Mr. COLLINS. It's Farmer's Branch, Tex.

Mr. BAILAR. The citizenry would like to have it to be a separate post office?

Mr. COLLINS. They would like a separate ZIP code. We can't even get that. Every week I hear from that town. What is the consistency in the post office position?

Mr. BAILAR. We are trying to provide the service which is needed to deliver the mail efficiently. On that basis, I would contend, without having to review it personally—I haven't done it, but I will—on that basis, I think we can provide the service through a Farmer's branch or station, or whatever, that we can provide it through a rural letter carrier in the country, which is what we are trying to do.

Mr. COLLINS. Thank you.

Mr. HANLEY. Off the record.

[Discussion off the record.]

Mr. HANLEY. Pursuing the matter of bulk mail and parcel post for a bit, your volume projections show parcel volume slipping from 298.2 million pieces in 1977 to 225 million in 1979. Your own estimates are that it takes 300 million packages to break even. On top of this, parcel post delivery statistics are not very good. For example, in January you achieved a 7-day standard of delivery between Los Angeles and New York only 9 percent of the time. I am sorry to say that other figures are equally bad.

On the basis of what I have said, do you continue to project great optimism for the future of the bulk mail plants? If so, please explain how you are going to do it; how they are going to become economically feasible.

Mr. BAILAR. I am troubled by the future of parcel post in general, which is, obviously, a part of bulk mail. The bulk mail system, as I am sure you know, handles things besides parcel post. Our parcel rates have increased in recent years beyond those levels which we felt were appropriate. They have been imposed on us as a result of hearings before the Postal Rate Commission. They have been damaging to our ability to be competitive. It's been, possibly, the result of intervention before the Rate Commission by other parcel shippers who would like to see our rates as high as they can get them.

Our experience to date—and it is fragmentary and not altogether satisfying—has been that the bulk mail centers have provided perhaps some better service and some reduced damage rates, but not nearly as good as they ought to be. They have had some other benefits in terms of relief of overcrowding in big cities and improvement of working conditions for some of our employees, but I am deeply concerned about our parcel volume.

And, I guess, the three things that I think are most important to us in the next couple of years deal with the questions of services—speed of service—the thing you alluded to, which, while it is better than it was, is not what it ought to be, damage reduction, which is clearly an important part of the service.

But I think we are going to have to make some moves in our parcel rates along the lines of these two letters I showed you earlier, Mr. Chairman. I think, if we have any hope of regaining the volume of business in parcels, it is going to have to be done with the rate structure that recognizes that commercial shipments cost less and ought to be charged less. Until we do that, we are going to have a continuation of loss of volume in the parcel business. That is going to compare the ability of certain people, as well as the volume.

Mr. HANLEY. As I recall, the cost factor with regard to the bulk plants was somewhat in excess of a billion dollars?

Mr. BAILAR. I think it's just under a billion.

Mr. HANLEY. Well, a billion dollars. Back then, of course, there was some opposition to moving in the direction of that concept, but the proponents of it won their point and they have it. The record is fairly clear, that they had some rather rosy predictions as to how this was going to turn it around and produce a volume that made this investment most worthwhile. Is my memory correct?

Mr. BAILAR. Well, I wasn't here, but from what I understand, I think that's correct.

Mr. HANLEY. I think some of the people who continue to be associated with you were here at the time.

Mr. BAILAR. I think you put it fairly, from my understanding of the record back then at that time. I am not quarreling with you, Mr. Chairman.

Mr. HANLEY. I wonder, when people are responsible for very costly errors, what happens? Do they continue to be a part of the organization? In the private sector it doesn't work that way, does it, Mr. Collins?

Mr. COLLINS. That is a good point. Now all of the figures in the congressional submission are based on the assumption that there will be no rate increase next year.

Mr. BAILAR. That's correct.

Mr. HANLEY. I am aware of your colloquy on that, but in here you predict declines in the projected volume, in the comprehensive statement you predict declines and projected volume just prevent a rate increase. However, you don't provide any further projections. Would not the decline in volume as a result of the rate increase have significant impacts on other segments of the budget?

Mr. BAILAR. I think, Mr. Chairman, our experience has been that year-to-year declines are something on the order—when we have a rate increase—of perhaps 2 or 3 percent, from what volume might otherwise have been without the rate increase. I am dealing in approximations here.

If we had a decline in volume from the levels that are projected in the budget—that is, at existing rates—we think we will continue to

experience an increase, and if we did not experience the increase, we would need a little bit less manpower. I don't think it is a major item, because we are talking about something on the order of 2 to 3 percent volume; but, clearly, if our volumes change—for rates or any other reason—then our manpower needs and, maybe, to a lesser degree, our energy needs change.

Mr. HANLEY. Mr. Collins?

Mr. COLLINS. No questions. Thank you, Mr. Chairman.

Mr. HANLEY. The 1976 post rate decision in R76-1 included in the costs, upon which rates were based, an item for \$207.8 million a year for 7 years, to apply against prior years' losses. There is no line item in the budget indicating that the sum is being used for that purpose. And Government equity is continuing to decline substantially.

Why didn't you establish a sinking fund to guarantee that the money earmarked in the rate case would be used for the purpose intended? And add to that: may I ask, what is the money being used for?

Mr. BAILAR. Well, I think it is important to recognize, Mr. Chairman, there are two sets of numbers that have to be viewed. One is the income statement and one is the balance sheet. The income statement is our budget, and it is the revenue that is coming in and going on; and the provision for retirement of prior years' debts is a balance sheet item and does not enter directly into the consideration.

We would use the money along with our other cash flow, things like depreciation, of reduction of prior years' indebtedness, or to fund our capital program in 1977, as the occasion requires, or 1978.

Mr. HANLEY. Wouldn't it appear to you that it would be in better conformity if it were included as a line item in your budget?

Mr. BAILAR. I don't think it's necessary. It is included in our cash flow projections. That is, when we have debt that has to be repaid, if we have a sinking fund in connection with a bond issue that has to be established, we would have it in our cash planning as to how many dollars you have in the bank—that would be what we use it for. I don't know that it has to be in the budget itself.

Mr. GOULD. Mr. Chairman, we have reviewed this question with our outside auditors and, in terms of proper reflection in our income statement, it is being properly reflected. There is no need for a separate line item. Any surpluses that we have recorded so far do reflect on the Government in terms of reducing the negative equity we have now.

Mr. HANLEY. A while ago, the gentleman from California stated that the postal work force was cut by 53,000 participants at a savings of \$1 billion. I am going to recite some figures that indicate that statement may well be overly optimistic and perhaps misleading. No figure since 1972 indicates such a substantial decrease in employment over the long run.

The total staff-years have been reduced, or are proposed to be reduced, by only 32,949 since 1972. Item No. 2, the Postal Service budget estimates show a decline of only 43,589 positions from January 3 of 1975 to the end of fiscal year 1977. That happens to be the GAO figure. Along with the decline of only 8,138 position from the end of fiscal

year 1976. Now, the \$1 billion saving can only be achieved if all 53,000 positions were full-time, year-round jobs, and then substantial overtime would have to be paid.

Isn't this a fair evaluation, as opposed to the projection that, in fact, 53,000 positions have been eliminated at a savings of \$1 billion? We are working here with a GAO contention.

Mr. BAILAR. I don't believe it's a proper way to look at it, Mr. Chairman. I don't have a copy of those comments before me, but I believe I said the number of people on the payroll had declined by 53,000 from January of 1975, when it was 714,000, if I am not mistaken, and at the time I was speaking, it had declined by 53,000; and I believe I referred to that as having a value on the order of \$1 billion annualized. I don't have the precise words in front of me, but I think I made that quite clear.

The question, or further question, that is raised by your comments is, whether we are going to end up with more people at the end of fiscal 1977 than we now have, which, I guess, is the underlying assumption in the GAO statement, and I don't think we are.

Mr. HANLEY. I have not had the opportunity to make a definitive analysis here, but just a superficial one suggests that the decline in the number of actual man-hours is not that great. So I think that we should concern ourselves with man-hours, as opposed to positions, per se.

Were the casuals included in your figure?

Mr. BAILAR. Yes, sir. The number of people on the payroll. I think, Mr. Chairman that we are using fewer casuals now and, generally, we are using less overtime. If you could refresh my memory on the number the GAO was using for the level of postal productivity, the level of postal employment at the end of fiscal 1977, I would appreciate it.

Mr. HANLEY. It was 674,725.

Mr. BAILAR. Mr. Chairman, we now have on the payroll 659,000.

Mr. HANLEY. That is man-years.

Mr. BAILAR. We have 659,000 people on the payroll now, or as of the close of accounting period 5.

Mr. HANLEY. How many?

Mr. BAILAR. Well, the 25th of February, I am told. Very recently. The last time we looked at it.

Mr. HANLEY. What figure did you use?

Mr. BAILAR. 659,000 people on the payroll, which is substantially less than the GAO estimated for man-years during this year.

Mr. HANLEY. Well, just a comment with regard to the use of casuals, which is probably the most inefficient thing you could be doing, where an individual is brought aboard and, in essence, serves an apprenticeship of possibly 3 months and not more than 6 months, and then has to be turned out to pasture, then you bring on a new team that has to be taught and then subsequently released.

How many casuals in the course of the last fiscal year?

Mr. BAILAR. I can't give you the number offhand, Mr. Chairman.

Mr. HANLEY. Would you provide it for the record, please.

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

Number of paid casual employees¹ fiscal year 1976

A/P:	
1	20, 073
2	20, 851
3	18, 060
4	16, 741
5	19, 216
6	24, 740
7	25, 960
8	13, 560
9	13, 666
10	12, 400
11	11, 342
12	13, 657
13	16, 959

¹ Excludes rural substitutes.

Mr. Collins?

Mr. COLLINS. I wanted to ask you something about workman's compensation. I notice between 1973 and 1976 that you increased by 300 percent. According to the Department of Labor, the Postal Service has more disability claims than any other agency.

Now, in our report, it says there might be two possible reasons for this. One is, the U.S. Postal Service rarely challenges any disability claims. The Service has been criticized by the Department of Labor because of possible overpayment of disability claims. I am sure, on this you get help from the unions and help from everybody. Why is it that this situation exists?

Mr. BAILAR. Well, Mr. Collins, we challenged the Department of Labor on the amount of money that is charged to us. They make the final determination.

I will tell you that, the recent changes in worker's compensation laws have been extremely expensive and, in our judgment, the Department of Labor has been very liberal in their interpretation—a feeling that it is their mission to help postal employees, submitting claims, maximize their claims.

Mr. COLLINS. Have you challenged as much as other departments? Do you challenge most every claim?

Mr. BAILAR. I can tell you that we have, on 1-to-1 basis.

Mr. GOULD. We will challenge by withholding payment.

Mr. COLLINS. I am talking about the fact that you have increased by 300 percent in 3 years, which looks like anybody in the Post Office Department that files a claim can get a check, whether they are bona fide claims or not.

What disturbs me, there are people that are bona fide that don't ask for it and you have freeloaders that come in every time. It's a moral factor when someone that doesn't deserve it gets it.

Mr. DORSEY. Mr. Collins, our managers in the field attempt to controvert these claims whenever, in their judgment and the judgment of the physician, the compensation is not due, but as Mr. Bailar said, we don't make the decision.

Mr. COLLINS. Why have you had a 300-percent increase in 3 years?

Mr. DORSEY. Simply because the Labor Department has been overly generous in approving these claims.

Let me give you an example of a carrier who had flat feet and all he wanted was a pair of orthopedic shoes and he got a check for \$29,000. The poor fellow wouldn't cash the check. He was scared. All he wanted was a pair of orthopedic shoes because he had flat feet, I assume, since he was born.

Mr. COLLINS. And they just said, we will give you \$29,000?

Mr. DORSEY. That we were told.

Mr. GOULD. Also over the last 2 or 3 years, we have seen a tremendous increase in medical costs, inflation, awards, all of these have contributed to our costs. And we are not alone.

Mr. COLLINS. Of course, this is a factor that has affected the entire industry. This thing escalates and we will find that deserving cases won't be taken care of unless it stays in balance. That is my concern, that the deserving cases are taken care of and we keep it in balance.

Mr. DORSEY. If I can add, I think you will find before another committee, I think of the House, we testified, suggesting a number of changes in the law to correct some of these things that are happening.

Mr. COLLINS. That is good. Thank you, Mr. Dorsey.

Mr. HANLEY. Thank you, Mr. Collins.

General, on page 17 of the budget submission, I note a line item for proceeds from the sale of assets. Directly below it you have a line for a net worth value of assets. In every case, it appears that they are the same numbers. One a positive and the other a negative. Am I to understand there has been no appreciation of value whatsoever in the assets of the Postal Service, which it acquired from the Federal Government when the Service was created in 1970?

Further, has there been any sales of assets by the Postal Service as a result of the Reorganization Act, which have resulted in a profit to the Service?

Mr. BAILAR. Well, you certainly should not assume there has been no appreciation from these numbers, Mr. Chairman.

Mr. HANLEY. There has been no appreciation?

Mr. BAILAR. You should not assume there has been no appreciation from those numbers. The sale of assets, as you can see from the size of those numbers, is a relatively small issue here. Without having looked at that, that item specifically, I assume the people that put that particular budget item together said, well, we think we will sell about this much and for the sake of putting the budget together, let's assume they are sold at book value. Obviously, if we can get more than book value, we will do so.

In answering your more substantive question—about whether we have had some appreciation of our assets and whether we have sold some of them—there has been some appreciation in some postal real estate. I think, as a general rule, the things that we are selling are antiquated facilities. They are frequently located in congested areas, which do not have access to the interstates and therefore, in a number of cases, for the same reasons that they are not attractive real estate to us, they are not particularly attractive on the resale market.

There are obvious specific exceptions to that rule. We have sold some real estate, I would have to get some specifics for you as to the pieces and the value of the sale, as opposed to the book value. I will be happy to supply it. I don't have it with me.

Mr. HANLEY. Fine. If you will, please.

[The following was subsequently furnished:]

Properties disposed of in	Type of property		Total sales price	Total sales price of properties transferred to USPS by Reorganization Act
	Building	Site		
Fiscal year 1972.....	5		0	0
Fiscal year 1973.....	4		\$352,000.00	\$352,000.00
Fiscal year 1974.....	10	2	3,889,140.00	3,683,715.00
Fiscal year 1975.....	13	2	2,717,500.00	2,188,500.00
Fiscal year 1976.....	30	8	10,861,698.00	8,974,792.00
Transition quarter.....	11	1	1,829,385.53	1,696,385.53
Fiscal year 1977 AP-1—AP-3.....	11		3,807,683.00	3,791,383.00
Total.....	84	13	23,457,406.53	20,686,775.53

Mr. HANLEY. This brings to mind another point. In the last session of Congress, I introduced a piece, in the dying days of the 94th, that would have the Postal Service adhere to the standard GAO procedure when it came to the disposition of assets, that it picked up as a result of the act of 1970. My position was one of fairness to the taxpayers and those assets were paid for, of course, prior to the institution of the quasi-corporation; and other levels of government—State and local—have need for those facilities and the procedure of GAO should prevail. You wouldn't have any objection to that legislation, I am sure.

Mr. BAILAR. Mr. Chairman, I am not familiar with the details of the GSA procedures for disposing of assets.

I do know generally we offer through the normal set of steps, we search first through GSA for other Federal agencies that need a facility and eventually go through the offering to State and local government. We try to sell the facilities at appraised value and, frankly, I have no concern over the sequence or the rules by which we offer facilities to other governmental agencies.

I do have concern of the Postal Service realizing the maximum economic protection. The Government puts the Postal Service into operation with facilities on the basis that we need to operate and I would be reluctant to see them given away.

Mr. HANLEY. What you are saying is, you would use the same application that GAO has, as opposed to the one now used by the agency. Then if a facility becomes surplus, it is sold to the highest bidder, so we are saying if government on another level is interested in that facility, and in that the Postal Service has made no capital investment from the standpoint of purchase, well, then, the traditional Government disposal process will ensue. I won't belabor that any further.

Mr. COLLINS?

Mr. COLLINS. I don't have anything to add to that, Mr. Chairman. You covered it well.

Mr. HANLEY. If I can go back to a subject matter we have talked a little bit about earlier, research and development again. The National Academy of Science has estimated that major corporations average between 2 and 5 percent of the revenues and expenditures for R. & D.

The Postal Service has less than one-half of 1 percent. The failure of the Service to make a longer term substantial commitment to R. & D. may have incalculable effects on the future of the agency.

Again, it seems odd that an organization which was created to instill business-like methods into a tiring bureaucracy is acting in such an unbusiness-like way. Would you want to comment at all?

I don't think you had the opportunity to expound earlier, but time does prevail at this moment. Can you tell us a bit about your failure as a result of the R. & D. program?

Mr. BAILAR. I don't think there is such a failure, Mr. Chairman, so I guess I can't provide the kind of comment that you seem to be anticipating.

Mr. COLLINS. Mr. Chairman, could I follow up?

I am in complete agreement with the Chairman on R. & D., because there is a great opportunity with your 85-percent labor. I have never known of any industry anywhere that is so heavy in labor. For instance, in agriculture, when they used to be all a labor business, until they went mechanical, and I realize going door-to-door, there is no substitute for going, but in sorting mail and in some of the phases of handling it, it seems to me that we could expedite it tremendously through better systems. How much improvement have we made in the past 5 years as a result of developing new systems?

Mr. BAILAR. Mr. Collins, we have had the productivity increases that I referred to earlier, which have been partially the result of mechanization, partially the result of systems changes.

I would like to make very clear to both you and the chairman and your colleagues on this committee, I think the Postal Service has an obligation to do some research and development in the interest of handling the mail more efficiently.

I think the question here is not whether we have the obligation, but how much money ought to be spent in meeting that obligation. I guess, in a nutshell, what it boils down to is, I don't feel that the percentages that are being invested by some high technology firms that sponsor operations that involve a good deal of pure research, are appropriate for the Postal Service or for a Government agency. I think our work ought to be focused on developmental activity, as opposed to things like pure research; and we are doing that.

Mr. COLLINS. Let me ask you a specific case here. I have a check. A few years ago the way they handled the checks, where every one of them got handled individually, on the bottom they have the ink printed out and a thing reads it right off.

I was glad to hear you say there ought to be a differentiation in rates when somebody does a large percentage of the service for you. I was wondering why a big industry couldn't develop more of this printing on the envelopes, have them processed in some way, where we could do it.

I am not aware that we are doing any of this printing of addresses. Are we?

Mr. BAILAR. We are doing a good deal of work on that, Mr. Collins. I think the activity in this area that would be most evident to you, is what we refer to as bar coding, where an envelope has a series of bars and half-bars on it. Those are on there for postal processing. The difference between the check that you just showed us and the postal situation is basically that the checks are all bar-coded by the bank before you ever get them and the envelopes in the mail are not all bar-coded.

We don't know where they are all going. The bar coding has been applied in cases where the mailers use return-reply envelopes. Power companies, credit-card companies, they put a bar code on there in order to expedite the return of the material to them. That is very helpful to us. We have done some experimenting with adding bar codes after the customer addresses the envelope.

As you write out by hand, as I showed earlier, a postal operator looks at that and puts the bar code on the envelope. So far that has not been very productive to us, but we are looking at that sort of thing and I think that is an appropriate activity.

Mr. COLLINS. I read in the paper yesterday of a utility that tried to deliver their own invoices every month and it found it is better to go through you.

Do you make any concession, do you give them a penny savings, those that have coded the return envelopes or anything?

Mr. BAILAR. No; we have the reduced rate on the one I showed earlier, which has certain conditions, but bar coding is not one of them. It must be 500 pieces, has to be zip-coded, has to be metered and things of that sort.

I think if we could get to a pervasive enough use of the bar code, it would be desirable and it would take a proceeding before the Postal Rate Commission.

Our practice in recent months and years in selling bar coding has been that the people who are looking to get revenue back, you and I pay our power bills and put it in the mail. We go to the power company and we say, "You will get your checks quickly. You will speed up your flow, and we justify or we try to justify the expenses of applying that bar code on that basis. We have been fairly successful with it."

Mr. COLLINS. Thank you, General.

Mr. HANLEY. Thank you, Mr. Collins. When you took that check out you remind again of the comparison with regard to progress, the banking industry 10 years ago, in recognition of the economical problem it was developing resulting from passage of paper, committed itself to an R. & D. program which has brought it to the threshold of a complete change in that industry today, if you observe the mounting exchange of paper, checks every year, right now, I am told it is something like 28 million checks per year, but all of that within the next few years is going to fade off into oblivion, resulting from implementation of electronic transfer, which in turn, of course, is going to have a marked effect upon the volume of the U.S. Postal Service.

This is a point that I have tried to make for the last decade in trying to generate within this agency the type of R. & D. program that would allow it to sophisticate its service so it can continue to provide the service for our society, but those results fell on the proverbial deaf ears.

If you take what the banking industry has been able to do in this decade in terms of sophistication, staying with it, staying alive, as compared to what this 200-year-old institution has been able to do, there is a real difference.

General, on page 20, I note a line item under long-term debt for mortgages payable. What are these?

Mr. GOULD. Mr. Chairman, this is where we have actually purchased facilities from the private sector who would lease them to the Postal Service and we have assumed the mortgages. In most cases, it is a very favorable mortgage, too.

Mr. HANLEY. It is about the only instance then where you negotiate and assume something—

Mr. BAILAR. We don't go out and obtain mortgages.

Mr. GOULD. This is a situation where we actually purchase a prior leased facility.

Mr. HANLEY. General, could you philosophize on your management theory? Do you view each division as a profit center and/or do you manage by objectives?

Mr. BAILAR. Each division, I don't know what you are referring to when you talk about each division.

Mr. HANLEY. I am trying to develop a little better background with regard to your philosophy, in association with your responsibility. Very simply, do you view each division as a profit center?

Mr. BAILAR. Let me use the word "division" in a geographic sense, which is what I guess you have in mind.

Mr. HANLEY. Yes.

Mr. BAILAR. The answer to that is, no. I think each sectional center or district or region has to be viewed as a cost center. We have to control our costs as well as possible. But it is very clear to me from a rather cursory review of postal operations that some geographic units have a very high percentage of originating mail and some have a much higher percentage of destinating mail. You can take a relatively small post office which happens to have a commercial mailing service of some sort and they have very substantial revenues without the attendant transportation and delivery expenses.

Conversely, you can find some rural districts that have tremendous delivery expenses, that just don't have revenues coming in. I think it would be a gross mistake to view each postal unit on a geographic basis, on the basis of did it create more income than it costs. I just don't think that is the way it ought to be done.

I would extend those comments to include small rural post offices. There is a lot of issues there besides whether the post office is there or not. We have not been using that standard.

Mr. HANLEY. You made reference to the small rural post office. I know your figure was the projected cost savings. I believe it was GAO's figure. Is that figure about the same today?

Mr. DORSEY. It was \$100 million.

Mr. BAILAR. It was \$100 million for 12,000 offices, Mr. Chairman. First of all, it is a round number, obviously, to start with. And I assume there has been some inflation in the total cost.

Mr. HANLEY. It is around \$100 million—

Mr. BAILAR. For 12,000 offices, which they envision. The way they come up with the number of 12,000 offices, you take the assumption that the Postal Service can close x percent of fourth class offices and y percent of third class and I think it was 25 percent.

Then they took the average cost of maintaining the post office and that is where they came up with that number.

Mr. COLLINS. I was interested in the chairman's comments about cost and comparisons. Today the city we talk so much about is New York City, which should be an extremely low-cost post office city because of the condensed population and all the business it generates. How did New York City rate, costwise, in operations? Is it a high-cost or one of your lowest costs?

Mr. BAILAR. I can tell you a little about the productivity, Mr. Collins; without having the numbers right at hand, I would have to tell you it is not one of the lower cost. It is high density. But we have a couple of problems that offset that. One is, the traffic. Cross-town traffic in New York is congested. It takes a lot longer to move a block or two there than in other cities. Second, the facilities there are not as efficient, because they are generally lined up vertically. There is a lot of mail moving on elevators and things of that sort. When you are in a materials handling situation, which we are, that is very expensive.

Mr. COLLINS. Can you tell me which is your most expensive cities among the major cities and which is the most efficient?

Mr. BAILAR. I don't have it today.

Mr. COLLINS. I wonder if we can have those put in the record because I would like every city to be competitive in trying to achieve improvement.

[The following was subsequently submitted:]

FISCAL YEAR 1976 EXPENSES AT 25 LARGEST POST OFFICES

The ranking of post offices by expenses is not intended to reflect differences in operating efficiencies. Not only are expenses a function of total mail volume, they also depend on the mix of mail types, the percentage of originating, destinating, and local mail, and level of mechanization, etc. Therefore, no valid comparison between post offices can be made.

Name of post office:	Total fiscal year 1976 operating expenses (millions)
New York, N.Y.	\$460.4
Chicago, Ill.	308.2
Los Angeles, Calif.	195.3
Boston, Mass.	180.0
Philadelphia, Pa.	164.7
Washington, D.C.	141.5
Cleveland, Ohio	124.8
Detroit, Mich.	123.3
San Francisco, Calif.	119.1
St. Louis, Mo.	108.2
Brooklyn, N.Y.	107.2
Houston, Tex.	104.3
Baltimore, Md.	102.4
Pittsburgh, Pa.	100.8
Dallas, Tex.	91.1
Atlanta, Ga.	84.5
Cincinnati, Ohio	80.3
Miami, Fla.	76.6
Milwaukee, Wis.	74.7
Indianapolis, Ind.	67.4
Denver, Colo.	66.4
Minneapolis, Minn.	65.1
Seattle, Wash.	64.0
Kansas City, Mo.	62.4
Columbus, Ohio	56.8

Mr. BAILAR. I cannot pass some reference to my favorite city and I guess yours, in this country, without a little reference to the fact that 2 years ago, the Postal Service's financial situation, was being compared by many to the financial situation of New York City.

That criticism was not meant in a favorable light. We have undertaken some vigorous measures to reduce our costs. We have been successful. We have gotten into the black. I recognize they haven't been popular in some quarters, but I guess the point that I would want to leave this committee which is, I don't know of any way to have it both ways, Mr. Chairman.

We are doing what I think is right; we are doing what I think is right under the law, but something has to give somewhere in problems of this sort. We have held down our costs and improved our financial situation and I couldn't help but think last Sunday, as I was reading my New York Times, that had we not done some of the things we have done, we would be facing the same kind of financial crises this week that Mayor Beame is facing, which I am happy to tell you we are not facing on an immediate basis. That goes back to the comment with Congressman Wilson earlier; we have some long-range problems. In the close range we are on top of them. I hope you recognize this.

Mr. HANLEY. With reference to what you have said, I have said it many times, way back when I was initially proposing the concept of H.R. 8603, I was saying back then, the last thing Congress wants to do is to add on from the standpoint of expenditure of the Federal treasury. However, we cannot be blind to the circumstances that prevail within the agency and we have to come on with this Band-Aid in the hope that at some point in the not-too-distant future, the program will be advanced which will allow the agency the opportunity to spin out of its dilemma.

I think had there been support of that concept somewhat previous to the time that that support finally came on, your problem today would be somewhat less than it is. As you recall, we had a very difficult time with the administration, both previous administrations—

Mr. BAILAR. I recall it vividly.

Mr. HANLEY. So along with passage of 8603, the Congress, of course, and on a day-to-day basis, we get this message from Members of the House and the Senate, they are very anxious to know what is happening, what is down the road, and we are constantly referring to the Study Commission on the work it is doing and the expectation we hope for resulting from that activity.

So, we have a lot of work to do. Again, I think probably the major fault is the lack of the agency to move long ago in the direction of sophisticating the methodology so that you could have reduced the labor intensive factor, which in turn would have produced the efficiency. Had we pursued what we started in 1968, the necessity for H.R. 8603 wouldn't have surfaced and the agency itself would have been so much better off, and we would have had a lot of innovative services without infringing at all on private enterprise.

I am out of private enterprise and I don't want to do anything to adversely affect it, realizing this impact on our Nation's economy, but

along with it, I recognize the responsibility of this agency, too, to all of the people in this country. I recognize, I have complete cognizance of the years for the description of it as the chief artery of American commerce, so if it is a healthy viable factor, then the economy gains. But if it is not, all of us 200 million Americans suffer.

Mr. COLLINS. Mr. Chairman, I want to congratulate you on this hearing and your thought-provoking and stimulating questions. I couldn't help but think our colleagues are always eager to suggest how to spend money, but when you have a discussion of this type, talking about ways of cutting expenses, that you took the lead and I admire your courage and the fact that we have had such a stimulating discussion this morning. We never find many people that want to suggest ways to cut expenses around here.

Mr. HANLEY. I appreciate very much your very kind comments, Mr. Collins. We are about to conclude and I only want to say that we have looked downstream now to April 18 and the submission of that Study Commission's recommendations. I have prevailed upon the President to appoint one of his domestic advisers to this subject matter who will work in concert with the House and Senate Committee, subsequent to the receipt of those recommendations. They will be put under the microscope by the three entities.

Hopefully, the quality will be there whereas we can translate those recommendations into legislation. I would far prefer to do it that way, as to the other alternative which could have the effect of leading to the Repeal Act of 1970.

General, any further comments?

Mr. BAILAR. No; I think not, Mr. Chairman. I would be redundant if I started to talk about the good shape the Postal Service is in, so I will spare you that.

Mr. HANLEY. Mr. Collins?

Mr. COLLINS. I have nothing further, Mr. Chairman.

Mr. HANLEY. The hearing is adjourned.

[Whereupon, at 12:01 p.m., the hearing was adjourned.]

[The statements which follow were received for inclusion in the record subsequent to the hearings:]

STATEMENT OF THE PUBLIC EMPLOYEE DEPARTMENT, AFL-CIO

The Public Employee Department of the AFL-CIO is composed of twenty-nine national unions which have affiliated over one-and-one-half million members who work for the public. We are particularly concerned with the postal employees and the postal service itself, both as a constitutionally provided service of the United States government and as an indispensable element of our country's commercial and social life.

The problems that beset the Postal Service and therefore its employees, cannot by overstated.

The central problem is the myth that a governmental postal system is a business and should show a profit or at least break even. While the myth has no basis in principle or in fact, since this is a public, governmental "service," it is particularly ironic that some who advance the myth most vigorously, would at the same time divorce or "contract out" those aspects of the postal service which, in isolation, may from time to time be self-financing.

We urge first of all a recognition that this is a public service and that an annual appropriation of not less than 20% of estimated total revenues be maintained by Congress for the operation and maintenance of the system, which is

of value to every American. The Postmaster General should be appointed by the President, and confirmed by the Senate rather than hired by the Board of Governors. The Postal Rate Commission has been counterproductive to efficient operation of the Postal Service. Its duties can be performed by the Postal Service or its Board of Governors. A collective bargaining system in the Postal Service should be maintained as essential for justice to postal employees. The alternative is to continue low postal wages as an involuntary subsidy by public employees; a system to which we cannot return.

In the interest of the educational, economic and cultural advantages of second class postal rates for qualified nonprofit organizations, a ceiling should be established for it at no more than half the applicable commercial rate.

We still hope that the possibilities on the Postal Reorganization Act of 1970, unrealized today, can become reality. The problem is largely a problem of postal management.

An effective, government-operated Postal Service is essential for Americans to fully benefit from the rights guaranteed by the First Amendment.

**LABORERS'
INTERNATIONAL
UNION of North America**



AFFILIATED WITH AFL-CIO AND CLC

905 16th STREET, N.W. • WASHINGTON, D.C. 20006 • TEL. A/C 202-737-8320

March 22, 1977

The Honorable James M. Hanley
Chairman, Subcommittee on Postal
Operations and Services
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

At the hearing of your subcommittee on March 15, 1977, Senior Assistant Postmaster General Dorsey made an anecdotal remark about an unnamed postal worker who made a request for orthopedic shoes and got an alleged \$29,000 Federal Employees Compensation settlement.

He purported to show an unknown conclusion. Our Union asks that you not entertain anecdotal evidence unless supported by facts. We also request the remarks be stricken from the record of the hearing.

As pointed out in a similar situation last year, Assistant Secretary of Labor for Employment Standards stated:

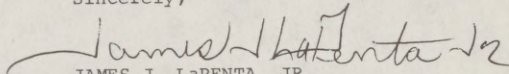
"Both the Federal Employees' Compensation Act and the Longshoremen's and Harbor Workers' Compensation Act set forth statutory requirements that must be followed as to benefits and assign the responsibility for administering these two programs to the U. S. Department of Labor. These laws reflect an awareness of the principles which serve as the basis for all workers' compensation laws and the intent of the Congress to establish an adequate benefit structure for injured workers

"and their survivors and administrative machinery for the timely delivery of these services.

"The Federal Employees' Compensation Act provides benefits for Federal employees and certain other groups who are injured or killed while in the performance of duty. The adjudication process under this program is established by statute and regulation. Each case is decided on the basis of probative medical and employment evidence which is required in every case. Employing agencies are expected and required to present to OWCP any evidence, medical or otherwise, that they have in connection with an injury alleged by an employee. The regulations governing the reporting of an injury specifically provide that 'the agency shall provide the office with any statements or data which may properly relate to the circumstances of the injury.' While it is desirable to have all information concerning a claim presented at time of submission the employer or any interested party may present evidence with respect to a claim at any time for consideration by the Department.

"We in the Department recognize that the management of this program is not immune to criticism. We invite constructive suggestions and we will do our best to remedy any genuine deficiencies. We have found, however, that where critics of these programs have done a more thorough analysis of workers' compensation systems, they have discovered that worker protections in this area are far broader than they initially perceived. What seemed at first to be faulty administration in favor of malingerer was in fact responsible adjudication in favor of a worker who had properly exercised his or her rights."

Sincerely,

A handwritten signature in dark ink, reading "James J. LaPenta, Jr." with a stylized flourish at the end.

JAMES J. LAPENTA, JR.
Director, Federal Employees
and Public Service Division



OFFICE OF THE POSTMASTER GENERAL
Washington, D.C. 20260

June 17, 1977

20 1977

MEMORANDUM FOR

Dick Barton

Attached are Postal Service responses to the written questions submitted by Subcommittee members at the conclusion of the March 15 hearing transmitted by your letter of May 2.

If there are any follow-up questions based on these answers, please let me know.

Jim Finch
Jim Finch

Attachment

QUESTION 1: Isn't it true that the bulk mail volume is now dropping below the 300 million piece volume figure which Mr. Dorsey testified last year was necessary to break-even?

ANSWER: Current forecasts for zone rated parcel post volumes on a GFY basis indicate 387.1 million pieces for GFY 77, 305.3 million for GFY 78, and 281.3 million for GFY 79. The GFY 78 and GFY 79 figures assume a parcel post rate increase. Without a rate increase the GFY 78 and GFY 79 parcel post volume figures are 332.5 million and 340.6 million, respectively.

It should be noted that the 387.1 million volume figure for GFY 77 includes the impact of the UPS strike. Two months of the three month strike occurred during GFY 77.

The impact of the UPS strike can be evaluated by addressing the fourth-class volumes, as published in the Financial and Operating Summaries, and their relationships to the same period last year.

YTD A/P 18, TQ* A/P 1,77 A/P 2 A/P 3 A/P 4 A/P 5 A/P 6 YTD,FY 77

(Prior to Strike) Strike Strike -----NO STRIKE-----

-12% SPLY +42.2% +19.0% +6/5% -1.5% -1.1% -4.5% +10.4%

*A/P 19/20 TQ volumes by class not available.

The above data indicates that fourth-class volumes, of which zone rated parcel post comprises 40-45%, are still declining. Since the rate of decline after the strike is less than the rate prior, apparently USPS has retained a portion of the former UPS users.

QUESTION 2: If the figure drops to 225 million in 1979 as projected, what steps can be taken? Will certain facilities be converted to other uses, or sold?

ANSWER: Certain steps have already been taken to expand the product lines and functions performed at the Bulk Mail Centers. For example, beginning September 1, 1977, small parcels and rolls will be processed exclusively through the Bulk Mail System. Additionally, a study is currently underway at the Jacksonville, Florida Bulk Mail Center to determine the feasibility of performing the primary sorting of circulars and flats at Bulk Mail Centers. This is a development test only, and no decision has been made by postal management on whether or not this processing will be done at Bulk Mail Centers. These steps are compatible with the basic national bulk mail system mission and will improve both the through-put and utilization of bulk mail centers. Therefore, the Postal Service has no present intention to convert or sell any of the bulk mail facilities and does not feel that such action will be necessary.

QUESTION 3: What has been the cost of modifying Bulk Mail Center mechanization to reduce the damage rates?

ANSWER: In May, 1976, the Postal Service formed a Damage Reduction Task Force for the express purpose of reducing parcel damage in Bulk Mail facilities. As a result of damage point identification, both prior to and during this effort, approximately eighty engineering changes have been directed to eliminate damage points. An estimated \$1.7 million will be spent to implement these changes. In addition, the Postal Service has invested in a new container unloader system for use in all Bulk Mail Centers. While the new container system is primarily intended to eliminate down time with present unloaders and reduce damage to equipment, parcel damage will also be reduced by bricklaying parcels in the new containers as opposed to the present system of loose-loading. The container unloader system will cost \$5.6 million to install.

QUESTION 4: Is it true that many inter-bulk mail center delivery standards are being met less than 10% of the time?

ANSWER: No. U. S. Postal Service Bulk Mail Center (BMC) delivery standards range from a two-day standard for deliveries within a BMC service area to three- through seven-day standards for inter-BMC deliveries. The two-day intra-BMC standard is the only delivery standard for which the Postal Service presently maintains figures measuring the percentage of nationwide BMC compliance with that standard.

At the conclusion of Accounting Period 8, nationwide BMC compliance with the two-day service area standard was accomplished 74.8% of the time.

Similar figures for inter-BMC deliveries are currently available only on a given facility to facility basis. However, a review of postal financial statistics indicates that these inter-BMC three- through seven-day delivery standards are being met in excess of 50% of the time. Beginning in Accounting Period 9, the Postal Service will compile national compliance figures for the three- through seven-day inter-BMC standards.

QUESTION 5: If this deterioration in service is not soon revised, what action will you take?

ANSWER: Rather than deteriorating, the parcel post service has improved over the first seven accounting periods of Fiscal Year 1977. This has been due to an aggressive approach to improving service, both intra- and inter-Bulk Mail Center, by all levels of postal management. A special service audit team from the Postal Service Headquarters has been working effectively with Regional, District, Management Sectional Centers and Bulk Mail Center management to facilitate these postal service improvements.

QUESTION 6: Why is the USPS devoting so little of its resources to research and development, compared to its competitors?

ANSWER: The USPS approach to research and development is based upon identification of requirements for new concepts, new mechanization, and other new equipment, and the improvement of that now in use. We see no validity in setting a level of R & D resource commitment based upon any arbitrary "percent of revenue" formula. Our revenue increases either from higher postage rates or expanding volume and there does not seem to be any rational relationship between those two factors and needs for research and development effort.

Today we have 35 R & D program headings on the books and in process, including some 125 subprojects within those major headings. These include a range of items such as: a new canceling ink, a new lightweight carrier satchel; new diesel engines for delivery vehicles; a large sorting machine for magazines, newspapers, etc.; and a new optical character reader-sorter for letter mail.

We are confident our present level of R & D expenditure covers our validated requirements, and our FY 1978 planned budget will more than double that of FY 1977 so as to expand a number of major programs including the continuing evaluation of Electronic Message Service System alternatives. We also recognize that if the Postal Service were to undertake the deployment of an electronic system, it would take a substantially higher level of R & D expenditures as has been suggested in outside reports, but this decision has not yet been made nor is there presently adequate operating and financial data on which to base such a decision.

QUESTION 7: Isn't it inevitable that electronic message transfer will dominate our communications systems in the future and make many present postal functions obsolete?

ANSWER: This question addresses an increasingly significant development in communications technology, but it overstates the case in our opinion. Certainly postal services must be viewed as one of a number of communications systems in this country. As new developments make other communications systems increasingly available and increasingly attractive from an economic standpoint, some messages that might have been sent through the postal system will be sent instead through other systems. As a consequence, that part of all communications which is sent through the postal system may well become a decreasing fraction of an expanding whole. Further, since a significant part of postal costs are costs of maintaining the system and do not vary proportionately with volume variances, postal

unit costs tend to vary somewhat inversely with volume. Accordingly, unit costs, and therefore postal rates, should tend to be greater to the extent that messages are sent through other communications systems instead of the postal system. But it by no means follows that a significant diversion of what now goes through the mails to other communications systems would result in the obsolescence of the postal system. For example, purely as a hypothetical example rather than a prediction, if at some point mail volume were to drop to, say, 70 billion pieces per year, the postal system would still represent a vital and basic part of the array of communications systems available for national use. Although rates might be perhaps 10 to 15% higher than they would be at an annual volume of around 90 billion pieces, and although the drop in volume would indicate that at those prices some postal functions previously of use to some members of the public had lost their utility, there is no persuasive reason to suppose that the postal system as a whole would lose its reason for existence.

QUESTION 8: Do you agree with the conclusions of the National Academy of Science study which states that continuing on your present path with respect to research and development will in essence destroy the financial viability of a nationwide postal system?

ANSWER: As indicated in answer to the previous question, there is no persuasive reason to suppose that the development of electronic communications systems as an attractive alternative for some messages previously sent through the mails will signal the destruction of a viable postal system. It will be a highly important development, which will require significant adaptations; but hypothesizing the demise of the postal system puts the case too strongly, in our view.

The Postal Service is quite aware that larger expenditures of resources would be required for research and development in the field of electronic communications if it becomes apparent that the Postal Service should make use of electronic communications technology on a much larger scale than presently planned. However, we believe that much of the detailed information needed to make the required decisions remains to be gathered. Particularly, it remains to be seen what specific kinds of services that the Postal Service might offer would find a sufficient unfulfilled public demand to be economically viable. Our present research and development efforts in the field of electronic communications are directed primarily toward developing additional needed information and experience in proper sequence and we believe those efforts are sufficient for that purpose.

QUESTION 9: What is the status of experimental letter sorting concepts first tested in Cincinnati?

ANSWER: The experimental Code Sort System tested in

Cincinnati is no longer in operation. The Postal Service concluded that it had obtained all necessary data required to enter into the next stage of development. This evolution is now active in the form of a new program entitled "Read Code Optical Character Reader" which was approved by the Board of Governors on March 1, 1977. By mid 1980, this program will yield deployed systems using optical recognition of multi-line address data which has been machine printed. The system will print bar codes on mail pieces for subsequent sorting to the incoming secondary level using bar code readers attached to standard letter sorting machines.

Because of its experimental nature, the Postal Service has chosen not to continue the use of the Cincinnati system, but it served as a vital basis for determining the technical and economic feasibility for next generation systems.

QUESTION 10: How much more can additional advanced letter sorting equipment save the Postal Service in labor costs?

ANSWER: Additional savings from the utilization of advanced letter sorting equipment is contingent upon present versus future state-of-the-art, the extent of change in letter mail volumes and the amount of letter mail ultimately presorted by customers. Justification for new equipment is based on Return On Investment (ROI) criteria using Capital Investment Committee procedures. Programs now under development with relatively short term (5-year) deployment potential represent possible annual savings of \$337 million.

Another significant potential saving in mail processing is in mechanization of the handling of FSPR's (Flats, Small Parcels, Rolls) which represents 24 billion pieces a year and are almost entirely sorted manually. If fully deployed by 1989, the currently planned Flat-Sorting Mechanization alone has a potential savings of \$390 million. The Postal Service is also developing systems to process this type of mail as well as working on other programs to improve systems efficiency and containerize mail.

QUESTION 11: Now that the prohibition against small post office closings has ended, do you anticipate any movement in this regard? Has the Postal Service developed the new regulations for small post office closings as yet?

ANSWER: The Postal Service has no plans to close a large number of post offices in the near future. Rather we expect that a need will develop to close offices at about the same rate as has been the practice throughout the present century. Thus, in order to meet the needs of a changing population, we may find it necessary to close several hundred in any one year.

Last year, Public Law 94-421 enacted specific statutory criteria for considering post office closings and new procedures to guarantee public participation. These requirements assure that any proposed closings will be handled case-by-case on the individual merits. We expect in the near future to publish for public comment proposed regulations needed to implement these new requirements.

QUESTION 12: What input and control over the development of USPS budget report is exercised by the Board of Governors? Isn't it true that the Governors are not intimately involved in the postal budget process?

ANSWER: Although the Board of Governors has delegated broad authority to the Postmaster General to exercise the powers of the Postal Service, consistent with 39 U.S.C. Section 402, it has explicitly reserved a substantial number of significant matters for its own decision. These matters include "approval of the annual Postal Service budget program in both tentative and final form, including requests for appropriations." (The quotation is from the Bylaws of the Board and may be found at 39 CFR Section 3.4(e).) The Board requires postal management to furnish it information on all aspects of the Postal Service budget plan, including the tentative and final annual budget submitted to OMB and the Congress and amendments to the budget. (39 CFR Section 3.7(a).)

In addition, the Board monitors the general financial progress of the Postal Service at least once each quarter. Further, it inquires into a variety of matters having significant budgetary consequences, with a view toward their budgetary significance, at many of its meetings which do not happen to involve formal budgetary reviews. Thus, it has reserved for its own decision all capital investment projects estimated to exceed \$5 million; it has frequently focused on levels of total work hours; it has insisted on careful control of overtime hours; it has required special reviews of workers compensation costs; and it has given significant direction to the financing program of the Postal Service.

Whether this all adds up to "intimate" involvement depends upon what is meant by "intimate". But it seems clear that the Board has taken on a very substantial responsibility in regard to Postal Service budgets and that it has carried out that responsibility in full accord with the direction of the Postal Reorganization Act.

QUESTION 13: Last year's amendments to the Postal Reorganization Act (P.L. 94-421) directed the Postal Service to provide either door or curbside delivery to all new residential addresses. In this regard, I would like to know:

(a) how the Postal Service has implemented this statutory provision;

- (b) what has been the Postal Service's experience in complying with this provision; and,
- (c) how many new residential addresses have been provided with door delivery service since the enactment of this provision?

ANSWER: (a) We made a delivery policy change to conform with provisions of Public Law 94-421 that only door or curblane delivery be offered to new addresses beginning to receive delivery through March 15, 1977. This change was by a TWX message dated November 18, 1976 (copy attached), and was sent to all Regional Postmasters General; Regional Directors, Customer Services; District Managers; and Management Sectional Center Managers.

- (b) This provision significantly reduced the efficiency of delivery management during the affected period and thereafter. There are communities where curblane delivery or clusterbox delivery has been fully accepted but under the law we had to offer and now continue to provide door or curblane service depending upon which type of delivery the area qualified for. Customers who did not qualify for door delivery service or who did not want curblane delivery sometimes experienced some delay in obtaining the initiation of delivery. Needless to say, delivery to new addresses also has been more expensive than it would have been had the restrictions of P.L. 94-421 not applied.

- (c) 36,103 residential door deliveries were approved between September 22, 1976, and March 15, 1977.

USPS SC HOU

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HQ MESSAGE NO 3962

FM WILLIAM F BOLGER DEPUTY POSTMASTER GENERAL
U S POSTAL SERVICE WASHINGTON D C 20260
TO REGIONAL POSTMASTERS GENERAL - ALL REGIONS
REGIONAL DIRECTORS, CUSTOMER SERVICES - ALL REGIONS
DISTRICT MANAGERS
MSC MANAGERS

SUBJECT: DELIVERY POLICY

THE USPS DELIVERY POLICY FOR THE ESTABLISHMENT AND EXTENSION OF CITY DELIVERY SERVICE IS CONTAINED IN REGIONAL INSTRUCTIONS 694-PO-142, FILING NO. 331-1, AMEND #5, DATED 9-29-72.

THE ENACTMENT OF PL 94-421 REQUIRES THAT THIS POLICY BE MODIFIED TO PROVIDE GENERALLY THAT ONLY DOOR OR CURBLANE DELIVERY BE OFFERED THROUGH MARCH 15, 1977. CONSEQUENTLY SECTION I OF THE REGIONAL INSTRUCTION IS TEMPORARILY SUPERSEDED AND SUPPLEMENTED TO READ, UNTIL MARCH 15, 1977, AS FOLLOWS:

I. DELIVERY POLICY - NEW ESTABLISHMENTS AND EXTENSIONS

IN NEW ESTABLISHMENTS AND EXTENSIONS, DELIVERY SHOULD BE AFFORDED IN AREAS THAT MEET THE CRITERIA IN SECTIONS 155.1 AND 155.2, POSTAL SERVICE MANUAL, SUPPLEMENTED AS FOLLOWS:

- A. DELIVERY SERVICE NORMALLY SHOULD BE BY MOTORIZED CARRIER TO CURBLINE BOXES.
- B. DOOR DELIVERY MAY BE PROVIDED IN THE PRINCIPAL BUSINESS DISTRICT, AND DENSELY POPULATED RESIDENTIAL AREAS WHERE THE AVERAGE LOT FRONTAGE DOES NOT EXCEED 50 FEET AND AVERAGE SET-BACK DISTANCE FROM THE CARRIER'S LINE OF TRAVEL DOES NOT EXCEED 30 FEET.
- C. DOOR DELIVERY SHOULD BE PROVIDED WHERE THE AREA IS SURROUNDED, OR CONTIGUOUS TO, DOOR DELIVERY TERRITORY. IN SITUATIONS WHERE SEVERAL HUNDRED DELIVERIES ARE IN A NEW DEVELOPMENT, NOT CONTIGUOUS TO EXISTING DOOR DELIVERY SERVICE BUT WHERE ALL OTHER CRITERIA ARE MET, DOOR DELIVERY MAY BE PROVIDED.
- D. OBVIOUSLY, PREDETERMINED CRITERIA CANNOT BE PRESCRIBED TO FIT EVERY CIRCUMSTANCE. THEREFORE, GOOD JUDGMENT SHOULD BE EXERCISED IN RENDERING DECISIONS WHERE UNUSUAL CONDITIONS MAY NECESSITATE DEVIATION FROM THESE CRITERIA. COMBINATION OF METHODS MAY BE NECESSARY TO PROVIDE ADEQUATE DELIVERY SERVICE TO ALL CUSTOMERS. ALL ESTABLISHMENTS OR EXTENSIONS OF DOOR DELIVERY SERVICE MUST HAVE FINAL APPROVAL OF THE REGIONAL POSTMASTER GENERAL OR HIS DESIGNEE.
- E. POSTMASTERS SHOULD MAINTAIN CLOSE LIAISON WITH THE CITY, TOWNSHIP, AND COUNTY ENGINEERING STAFF, OR THE OFFICIAL RESPONSIBLE FOR ISSUING BUILDING PERMITS. WHEN A POSTMASTER IS INFORMED OF BUILDING PERMITS, HE SHOULD CONTACT THE BUILDER, ARCHITECT AND/OR OWNER BEFORE CONSTRUCTION IS STARTED AND EXPLAIN THE OPTIONS OF POSTAL SERVICE WHICH MAY BE PROVIDED UNDER CURRENT REGULATIONS AND POLICY.
- F. PURCHASE, INSTALLATION, AND MAINTENANCE OF MAIL RECEPTACLES APPROPRIATE FOR DELIVERY SERVICE ARE NOT THE RESPONSIBILITY OF THE POSTAL SERVICE.
- G. THE ABOVE POLICY IS APPLICABLE TO MOBILE HOME SUBDIVISIONS, PARKS AND TRAILER COURTS CONSISTING OF PERMANENT TYPE OCCUPANTS. THE POLICY IS NOT APPLICABLE IN THOSE SITUATIONS WHERE THE OCCUPANTS ARE TRANSIENT.
- H. THE CURRENT POLICY REGARDING DELIVERY TO APARTMENT BUILDINGS IS NOT AFFECTED BY PL 94-421.
- I. THERE SHOULD BE NO MISUNDERSTANDING ON THE PART OF ANY POSTAL MANAGERS THAT IN CITY DELIVERY AREAS THE POSTAL SERVICE MUST OFFER TO PROVIDE DOOR, OR OFFER TO PROVIDE CURBLINE SERVICE TO ALL PERMANENT RESIDENTIAL ADDRESSES (OTHER THAN APARTMENT BUILDING ADDRESSES) TO WHICH SERVICE IS BEGUN ON OR AFTER SEPTEMBER 24, 1976.

THERE MAY BE EXCEPTIONAL SITUATIONS WHERE THE ONLY SERVICE FOR WHICH AN AREA QUALIFIES IS CURBLINE SERVICE, BUT WHERE THE

INSTALLATION OF CURBLINE BOXES IS IMPRACTICAL (SIDEWALKS ADJUT THE CURB, HEAVY STREET PARKING, IMPAIRED ACCESS TO CURBLINE BOXES, ETC.). ANOTHER EXCEPTIONAL SITUATION MIGHT BE WHERE CUSTOMERS HAVE PURCHASED OR INSTALLED CLUSTER BOXES BEFORE THE LAW WAS PASSED OR FOR SOME OTHER REASON DESIRE CLUSTERBOX DELIVERY. THE TERM "CLUSTERBOXES" INCLUDES NEIGHBORHOOD DELIVERY AND COLLECTION BOXES (NBU) OR ANY OTHER ARRANGEMENT UNDER WHICH TWO OR MORE HOUSEHOLDS, EXCLUDING APARTMENT HOUSE CUSTOMERS, GROUP THEIR MAILBOXES TO RECEIVE MAIL AT ONE DELIVERY LOCATION. IN THESE CASES THE POSTAL SERVICE MAY GIVE CUSTOMERS DELIVERY TO A BOX BEHIND THE SIDEWALK OR CLUSTERBOX DELIVERY WHEN THAT IS WHAT THEY CLEARLY WANT IN PREFERENCE TO THE DELIVERY OPTION FOR WHICH THEY WOULD OTHERWISE QUALIFY. ANOTHER EXCEPTIONAL SITUATION MAY BE THAT INVOLVING "FILL-IN" OF RESIDENTIAL AREAS ALREADY SERVED BY CLUSTERBOXES.

WHEN CUSTOMER PREFERENCE IS THE BASIS OF ASKING FOR AN EXCEPTION POSTAL MANAGERS MUST VERIFY DURING THE MORATORIUM PERIOD THAT THEIR CUSTOMERS REALLY DO PREFER ANOTHER FORM OF DELIVERY EVEN THOUGH AN OFFER OF DOOR OR OF CURB SERVICE HAS BEEN MADE. WRITTEN REQUESTS BY THE AFFECTED CUSTOMERS OR THEIR SPOKESMEN, OR REFERENCE TO WRITTEN LOCAL ORDINANCES OR RECORDED DEED COVENANTS ARE REASONABLE METHODS OF VERIFICATION.

- J. ALL EXCEPTIONAL SITUATIONS INVOLVING A PROPOSED TYPE OF DELIVERY OTHER THAN CURBLINE OR DOOR MUST BE SUBMITTED THROUGH CHANNELS TO THE SENIOR ASSISTANT POSTMASTER GENERAL, OPERATIONS GROUP, FOR APPROVAL. EACH SUCH CASE MUST INCLUDE A DESCRIPTION OF THE EXCEPTIONAL SITUATION, THE TYPE OF SERVICE PROPOSED AND A STATEMENT THAT THE APPROPRIATE VERIFICATION WITH THE CUSTOMER HAS BEEN MADE. NO PRIOR COMMITMENT SHALL BE MADE TO CUSTOMERS IN ANY CASE SUBMITTED FOR APPROVAL.

1140 NRS EST

11-18-76

LC

NNNN

USPS SC HOU

HQ USPS WSH B

QUESTION 14: There are many communities, particularly in California which require the sidewalks in all new residential subdivisions to be poured from one mold. This practice eliminates the usual strip of grass found between the curb and sidewalk. In addition, these communities usually forbid any type of permanent structure to be erected on the sidewalk. Thus curblin delivery is ruled out. What level of delivery service has the Postal Service provided for new residential subdivisions with those types of sidewalks since the enactment of P. L. 94-421? If the Postal Service has not provided door delivery, why not?

ANSWER:

The law required that the Postal Service offer door, or offer curblin delivery. In those situations where an area qualified only for curblin delivery, and that is what we offered, but the community refused to accept it because installation of curb boxes was considered impractical or for other reasons, the community could choose either to postpone the establishment of delivery, to install boxes behind the curb, or to volunteer to receive cluster box delivery. We were advised in an exchange of correspondence by Chairman Henderson (copy attached) that voluntary use of cluster boxes in such cases where curbside delivery was offered but was not acceptable to the community would be consistent with the intent of the statute. Door delivery has not been provided if the basic criteria of 50 foot frontage or 30 foot setback have not been met.

U.S. House of Representatives

Committee on Post Office and Civil Service

Washington, D.C. 20515

Honorable Benjamin F. Bailar
Postmaster General
U. S. Postal Service
Washington, D. C. 20260

October 6, 1976

Dear Mr. Postmaster General:

Thank you for your letter of October 1, 1976, in response to my letter of September 17, concerning the Pittsfield, Massachusetts post office and the guidelines designed to conform to the requirements of Public Law 94-421.

I appreciate your sending me a copy of the TWX from Deputy Postmaster General Bolger concerning post office closings, consolidations, and service changes.

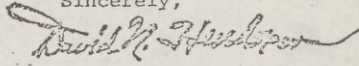
Two items in Mr. Bolger's TWX concern me. First, on page four, Mr. Bolger instructs field officers to request the specific approval of the Senior Assistant Postmaster General for Operations before extending any cluster box delivery service in areas where cluster box service is now provided. I find this instruction to be in conflict with the new section 2401(f) of title 39, which prohibits cluster box delivery to any residential address during the moratorium. There is no latitude in this prohibition.

Second, on page five, Mr. Bolger instructs field personnel to submit proposals to the Senior Assistant Postmaster General for changes involving personnel actions when there is doubt as to the effect upon services. I believe that the reassignment of any employees who are engaged in providing services to the public, particularly window clerks or similar employees, would violate the restrictions of the moratorium. We receive more mail

complaining about window service than any other subject. Changes which make any change at all in window service should not be most carefully reviewed to insure that service is not adversely affected. In any case where approval is given to such a request, I would like to be advised in writing of the circumstances.

With kind regards,

Sincerely,



DAVID N. HENDERSON
Chairman

OCT 13 1976

Honorable David N. Henderson
Chairman, Committee on Post Office
and Civil Service
House of Representatives
Washington, D. C. 20515

Dear Dave:

This will refer to your letter of October 6, concerning certain information contained in two items of a TWX message sent by the Deputy Postmaster General to our field installations regarding the requirements of Public Law 94-421.

The statement was not intended to conflict with the law; rather it was issued for the purpose of having field managers bring to our attention areas where the law may inhibit the Postal Service from extending any type of city delivery service to residents. A case in point may be Columbia, Maryland where it is understood that local restrictions do not allow curbside delivery or door delivery. We are trying to gain intelligence on this type of situation. When we do, it might be useful for Postal officials, you and members of your staff to review several of such cases to determine the effects of the law in these instances.

The provisions of the law are clear on the levels of service to be provided during the moratorium. The instruction on page 5 regarding reassignment of personnel was issued so that if the field managers had any doubt about the provisions

of the law, they will resolve the doubt with Headquarters before taking action. The levels of service provided July 1, 1976, will be continued through the moratorium period regardless of any necessary reassignment or attrition of personnel.

Sincerely,

signed Ben

Benjamin F. Bailar

THE POSTMASTER GENERAL
Washington, DC 20260

November 11, 1976

Honorable David N. Henderson
Chairman, Committee on Post Office
and Civil Service
House of Representatives
Washington, D.C. 20515.

Dear Dave:

This will supplement our report to you of October 18, 1976, replying to your letter of October 6, 1976, concerning the implementation of the delivery service provision of Public Law 94-421, 39 U.S.C. 2401(f).

We believe that if the service moratorium and the delivery service provisions are construed harmoniously, the Postal Service is not precluded by law from giving customers clusterbox delivery or delivery to a box behind the sidewalk when that is what they clearly want in preference to the delivery option for which they would otherwise qualify. The term "clusterboxes" includes neighborhood delivery and collection boxes (NEU) or any other concept under which two or more households, excluding apartment house customers, group their mailboxes to receive mail at one delivery location.

Several instances have come to our attention which indicate that construing the delivery service provision to be an absolute prohibition on the extension or establishment of clusterbox service during the moratorium period, regardless of the circumstances, could frustrate certain of our customers and defeat the Congressional intent that service levels be at least maintained during the moratorium period, 39 U.S.C. 2401(e)(2). In each of these exceptional instances, the form of delivery for which our customers would qualify and which we would offer, consistent with Public Law 94-421, is rejected for local reasons.

A number of cases have arisen where families purchased and installed a clusterbox unit well before delivery service was to be instituted, and the law was passed after purchase and installation of the box or boxes, but before service was instituted. This has happened, for example, in Fairfield and Livermore, California. In Fairfield, moreover, the city government has an ordinance prohibiting curbside boxes. The people had no foreknowledge that the law would be passed, and they do not understand why service cannot be instituted to the clusterboxes which they purchased and installed in good faith prior to enactment of the law.

In Roanoke Valley, Virginia, a similar situation has arisen where the housing developer has already purchased the neighborhood box units and has installed many of them, and customers have begun to purchase homes and move in. The law was passed after the purchase and installation of the boxes, and there is no provision for any other type of delivery. The residents who have moved in since the law was passed were promised, before they moved in, that clusterbox delivery would begin once they did move in.

Columbia, Maryland is a "new city" comprised of a number of distinct planned "villages", each of which is fully or partially completed. Each village is governed by a village plan, guaranteed by restrictive covenants. These plans presuppose the installation of a single type of clusterboxes in each village, and preclude each owner from making an individual decision to accept or cooperate with door or curbside delivery. Clusterbox delivery has already been initiated in the residential parts of Columbia, and the residents are legally bound to each other not to violate the village plans. If we cannot serve the remaining Columbia areas by clusterboxes, the customers will have to go to the post office to pick up their mail. In fact, at least 60 families are now calling for their mail.

In Mountlake Terrace, Washington, the city plan, embodied in city ordinances, requires the clustering of boxes and prescribes cement sidewalks abutting the curbs that are unsuitable for curbside delivery. The average frontage and setbacks of the single family homes are such that the homes do not qualify for door delivery under present regulations (promulgated in 1972) and would not even have qualified for door delivery under Post Office Department delivery regulations antedating postal reorganization by many years. Many clusterbox stands were installed in new developments before the law was passed, but service has not been instituted to most of the homes because they have not been occupied. Housing and sidewalks are similar in Broomfield, Colorado, and Antioch, California. In Antioch, the city government takes the position that it will allow its residents to erect boxes behind the sidewalk, but will not allow its residents to erect curbside boxes.

In Bowdon, Georgia, the mayor on behalf of the prospective

residents of a low-income housing project owned by the city has requested neighborhood box unit service (a form of clusterbox service) because of the greater security provided by the heavy steel construction of the MBU's, compared to either curbside boxes or boxes installed at the door. The residents of the homes would clearly be eligible under postal regulations for either door or curb service if they want it. Service is scheduled to be instituted during the moratorium period (January, 1977).

The common thread running through all these diverse examples is that for one reason or another the customers prefer or need a form of clusterbox delivery, notwithstanding that the Postal Service, in accordance with the delivery service provision of Pub. Law 94-421, would be willing to provide door or curbside delivery (or in some cases either one).

We anticipate, moreover, that instances will arise in the moratorium period where we will want to offer our new customers the further choice of delivery to individual boxes erected behind the sidewalk. These offers would be made in instances where the area is eligible to receive curbside delivery offered in accordance with 39 U.S.C. 2401(f), but where, because sidewalks are constructed to abut the curb or heavy street parking would impair ready access to the curb boxes by the carrier, installation of curblane boxes is impractical.

In sum, in localities where residents of single family homes are eligible to receive curbside or door delivery but choose not to receive such delivery, we plan to offer the customer the choice of either placing his mailbox behind the sidewalk in front of his residence, or grouping his box with others at a single point behind the sidewalk.

We believe that serving our customers in the manner they prefer would be legally sound, so long as it is clear that the choice of clusterbox service or service to a box behind the sidewalk is their choice, in preference to the kind of delivery for which they would otherwise qualify and which we would offer them in accordance with law. In this belief, we rely on the intent of Congress, expressed in one of the general moratorium provisions, 39 U.S.C. 2401(c)(2), that service levels not be reduced during the moratorium period, and the further general Congressional intent implicit in the legislative history that the Postal Service operate insofar as possible in a manner responsive to its customers. In consideration, however, of the points made in the third paragraph of your October 6th letter, we would appreciate receiving a further expression of your views on this matter.

Sincerely,

Benjamin F. Bailar

U.S. House of Representatives
 COMMITTEE ON POST OFFICE AND CIVIL SERVICE
 309 CANNON HOUSE OFFICE BUILDING
 Washington, D.C. 20515

Honorable Benjamin F. Bailar
 Postmaster General
 United States Postal Service
 Washington, D.C. 20260

November 15, 1976

Dear Ben:

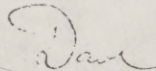
This is in response to your letter of November 11, 1976, giving examples of the kinds of exceptional instances in which you propose to institute delivery to clusters of boxes or to single boxes behind the sidewalk during the service moratorium period of Public Law 94-421.

The general intent of Congress in enacting Public Law 94-421, in my opinion, was to prohibit the Postal Service, during the service moratorium period, from requiring new delivery customers to accept clusterbox delivery. During this period, in city delivery areas, the Postal Service must offer to provide door, or offer to provide curb-line service to these new customers. As you know, many members of this Congress have received many complaints from their constituents about the practice of offering no form of home delivery but clusterbox delivery to persons who are eligible for some form of city delivery service but do not want clusterboxes. During the moratorium on the spread of the clusterbox requirement, the Commission on Postal Service has been instructed to study delivery practices and make a recommendation for the future.

In the meantime, in the exceptional case where the customers clearly want to receive clusterbox delivery or delivery to individual boxes behind the sidewalk, even though the Postal Service has offered other service, as Chairman of the House Post Office and Civil Service Committee, it is my opinion that the intent of Congress would be complied with in giving the customer what he wants. But I would caution that postal managers should be sure to verify during the moratorium period that their customers really do prefer another form of delivery even though an offer of door or of curb service has been made pursuant to law. Written requests by the affected customers or their spokesmen, or reference to written local ordinances or recorded deed covenants, seem to offer reasonable methods of verification.

I would appreciate receiving a report from the Postal Service in each instance when the Postal Service has agreed during the moratorium period to provide delivery service other than curblin or door delivery.

Sincerely,



DAVID N. HENDERSON
 Chairman

QUESTION 15: In the House passed version of H.R. 8603, there was a section which directed the Postal Service to provide door delivery to those new residential addresses where local zoning ordinances prohibited the construction or maintenance of structures on or adjacent to the public right of way, unless specific permission was granted by the locality involved to erect cluster boxes. If such a provision were to be inserted in any future legislation, would the Postal Service oppose it and if so, why?

ANSWER:

This description of the door delivery provision of the House-passed version of H.R. 8603 is not complete. The bill not only would have prohibited the use of cluster boxes for new addresses unless specifically approved by the local government; it also would have barred the use of curbside boxes for new addresses if a local zoning ordinance prohibited these and similar structures.

The Postal Service continues strongly to oppose such a provision. We believe that it simply is not fair to those who have to pay the bill for delivery services -- the purchasers of postage -- to neglect achieving economies in delivery costs that can be achieved in a reasonable way with only a small imposition on recipients of mail, who pay no charge for their delivery service. The postal system is faced today with a reality that cannot be ignored; the number of delivery points (and therefore our delivery costs) is increasing faster than mail volume (the base for postal revenue) is increasing. This means that steps must be taken to employ more economical forms of delivery. If we do not, the trend for mailers to turn to less expensive alternatives for sending their messages will be accelerated unnecessarily.

The needed economies will not be accomplished if left to individual local approval on a case-by-case basis. It is only natural for people to feel that while a policy may make sense generally, they would prefer to let someone else put it into practice. Nor would stopping the use of curbside and cluster boxes for new addresses be fair to the millions who already receive these kinds of delivery. Moreover, we have found that while there may be some natural initial reluctance to receive other than traditional kinds of delivery, those who have become used to collecting their mail from curbside or cluster boxes generally find these kinds of delivery acceptable. After all, when people today have to travel away from their homes to acquire practically every other product or service they receive in their daily lives, travelling to their own curb or to a convenient location in their immediate neighborhood to collect their mail is not very much to ask of most people.

[The comprehensive statement which follows was furnished by the U.S. Postal Service.]

I. COMPLIANCE WITH STATUTORY POLICIES, 39 U.S.C. §101

1. Fundamental service to the people

§ 101 (a):

The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities. The costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people.

Section 101 (a) summarizes the overall mission of the Postal Service and is implemented primarily through the more specific requirements enacted in the remainder of title 39, United States Code. The postal system established by that title is operated by an independent establishment of the executive branch of the Government of the United States, whose powers are directed by a Board of Governors comprised of 9 members appointed to represent the public interest generally by the President with the advice and consent of the Senate, and 2 executive officers, the Postmaster General and his Deputy, chosen, respectively, by the Governors and by the other members of the Board. The Postal Service is staffed by officers appointed by the Postmaster General and by employees who comprise the postal career service of the civil service.

The postal system established under title 39 is one of the largest organizations in the United States, as it must be to provide mail collection and delivery and other services for every community in the United States. Its services touch everyone--both in terms of availability of services and participation in paying for them. For those kinds of mail which have been deemed by the Congress to have special educational or other social value, special authority is provided for part of the postage burden to be relieved through appropriations from taxpayer funds. For other services for which charges are established, users of those

services have the right to insist upon fair and equitable treatment through the procedural protections of formal administrative proceedings before the Postal Rate Commission and judicial review in the courts.

Providing for a universal postal system operated by the Government and serving all citizens sets the goals of the Postal Service, but does not assure its success. Successful performance of the mission of the Postal Service depends upon hard work and good management by those delegated with its responsibilities, and upon assistance and good will on the part of the public and public representatives. The Postal Service is trying hard to fulfill those responsibilities, and believes that its record, as documented in these papers and other information and testimony that has been shared with the Congress by the Postal Service, the General Accounting Office, and others, shows noticeable progress since the reforms of 1970 which gave it birth. However, this measure of achievement does not signify that the difficult job assigned has become less challenging, or that unqualified success is around the corner. To the contrary, in many ways the goal of achieving better and more economical postal services--in the face of inflationary pressures and the increasing availability of substitute technologies--has become more difficult in recent years and promises to present greater challenges still in the years ahead. We welcome the assistance which effective Congressional oversight can provide in grappling with the hard tasks and difficult issues to be faced.

2. Service to Small or Rural Communities.

§101(b):

The Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining. No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities.

Postal services furnished to rural and small communities compare favorably to practically any other service provided to such communities. The Postal Service maintains its presence throughout the United States at approximately 40,000 locations nationwide. Much of the case for the retention of post offices even in the smallest of communities whose population and business activities have seriously declined over the years has centered on the argument that the post office is the one principal institution that has not yet abandoned those communities, around which community identity can be focused and preserved. The Postal Service also provides first-class mail service at the same rate for a letter mailed to or from a remote community in Alaska as for a letter mailed between addresses on Wall Street.

The Postal Service, and to a greater extent the General Accounting Office, have felt that good and economical service for small communities can best be maintained in some areas, as demographic factors and postal capabilities change, by substituting some other form of service for a small post office. This view has not been a new one. Over most of this century, each year has seen a net reduction of several hundred post offices nationwide. These offices have not been closed solely for operating at a deficit. If that standard were applied, most of the approximately 30,000 offices classified as post offices would have to be closed. Instead, offices have been closed only in the most extreme examples that have developed through the years of wasteful and inefficient service to changing communities for whom other effective service options can be much more economical.

In November, 1975, the Postal Service revised its regulations regarding closing and consolidation of post offices to provide more detailed procedures and criteria for such changes. A central criterion was the provision of equal or better service as part of the change. The General Accounting Office has found that in areas it surveyed where offices had been closed, the substitution of other forms of service often had been considered by the

community involved, once the change had been completed and the community had experience with it, as providing equal or better service.

The Postal Reorganization Act Amendments of 1976 enacted two new provisions with respect to post office closings. For the period before the report of the Commission on Postal Service, it prohibited post office closings except in limited circumstances. Since enactment of that statute, the Postal Service has not closed any post office and has no plans to close any office during the remainder of the moratorium. During the Fiscal Year 1976, the number of post offices was reduced by 233, leaving in service 30,521 post offices. A second new provision provides permanent procedures and criteria for closings and consolidations, which become effective on March 15, 1977. These procedures assure that consideration of any closing or consolidation will be conducted in a regular manner, involving participation by the local community, and that any customer who believes that a case has been made for not closing the office, or that proper procedures have not been followed, may resort to the Postal Rate Commission for a review of his complaint.

3. Employee Compensation and Career Advancement

§101(c):

As an employer, the Postal Service shall achieve and maintain compensation for its officers and employees comparable to the rates and types of compensation paid in the private sector of the economy of the United States. It shall place particular emphasis upon opportunities for career advancement of all officers and employees and the achievement of worthwhile and satisfying careers in the service of the United States.

a. Pay Comparability

Prior to the COLA and pay increase in November, 1976, as provided in the collective bargaining agreement with the national postal labor unions, the average rate per employee was \$13,963 per annum or \$6.71 an hour. The average rate of compensation earned by postal employees as of November 5, 1976 (bargaining units) is \$14,483 per annum or \$6.96 an hour. The average gross earnings are \$7.20 an hour.

A comparison of average gross earnings with those of all production or nonsupervisory employees in the private sector shows that Postal Service hourly gross earnings are higher. However, there is no reason to select the average private sector job as an appropriate comparability reference for the average postal job.

When gross earnings are compared with those in selected major private industries, the Postal Service falls in the middle range of the comparison:

Comparison of Gross Earnings Per Paid
Hour for Postal Service Bargaining
Unit Employees with those of Selected
Private Industries

<u>Industry</u>	<u>Type of Workers</u>	<u>Gross Earnings per Paid Hour</u>
Banking	Non-supervisory	\$3.72
Insurance	Non-supervisory	4.58
Paper and Allied Products	Production	5.52
Telephone Communications	Non-supervisory	6.56
Electric Utilities	Non-supervisory	6.69
Metal Cans	Production	7.18
<u>Postal Service</u>	<u>Bargaining Unit</u>	7.20
Autos	Production	7.33
Breweries	Production	8.01
Basic Steel	Production	8.04

Source: Data for the selected private industries are from the Bureau of Labor Statistics' Employment and Earning Series, October 1976.

In order to review the comparability of benefits as well as pay, the Postal 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 (including benefits) for employees in the industries surveyed was \$8.04 per hour as shown below.

Comparison of Compensation Costs in the
Postal 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>

b. Career Advancement

The Postal Service has endeavored to provide opportunities for career advancement of all of its officers and employees. The Postal Service has placed great emphasis on developing the training and development programs offered through the Postal Service Training and Development Institute (PST&DI).

The PST&DI's Management Academy reflects the Postal Service policy that all newly appointed supervisors, managers, and postmasters at offices with city delivery will receive appropriate job-related, centralized management training upon appointment and prior to assuming new job responsibility.

The PST&DI's Technical Center provides a comprehensive technical maintenance curriculum ranging from building and automotive maintenance through advanced electronic and computer systems maintenance. This curriculum covers 44 instructional programs providing development opportunities in 30 career fields.

In addition to the training programs provided by PST&DI, there are other postal programs designed to provide employees of high potential with training and developmental work experiences which will qualify them for advancement. Three such programs are the Management Associate, Management Trainee, and Executive Development Programs.

The Management Associate Program recruits potential managers with a good education from within and outside of the Postal Service. The Management Trainee Program recruits only from within USPS and is managed at the local level. Both programs use a series of rotational assignments of suitable variety and progressively increasing responsibility to prepare participants for responsible management positions in the field.

The Executive Development Program was curtailed in FY 1976 due to budget constraints. It is planned to be resumed in FY 1977. It typically chooses ten managers with executive potential and sends them to an executive development program at one of seven leading universities.

Broad training opportunities available to all employees are provided by the national network of 200 Postal Employees Development Centers (PEDC). The PEDC network has a job-related curriculum of 70 postal programs to assist officers and employees in developing their careers within the Postal Service. Most PEDCs are staffed to provide career counseling and guidance to officers and employees at all levels.

During the tenure of the present Postmaster General, the Postal Service has sought to assure that opportunities for career advancement within the Postal Service extend right to the top. It has been our policy to fill all management vacancies, to the maximum extent possible, with career postal employees, and restrictions on hiring from outside the Postal Service have been applied to headquarters, regional and district offices. Individuals appointed as officers of the Postal Service under 39 U.S.C. 204 by the present Postmaster General have been chosen from within the Postal Service, and almost all are long-time postal employees with previous service in the Post Office Department.

4. Postal Cost Apportionment

§101(d):

Postal rates shall be established to apportion the costs of all postal operations to all users of the mail on a fair and equitable basis.

The task of establishing a cost allocation system so that each class of mail will bear only those costs fairly and equitably attributable to it has not been easy. Study commissions, the Congress, the Postal Service, the Postal Rate Commission, and the Courts have all struggled with the question and no final conclusion has been reached. One thing that can be said is that the problem is a very complex and difficult one that cannot be resolved in a simplistic manner.

At one time, the Post Office Department operated a fully distributed cost system that was severely criticized by the Kappel Commission in 1968. Congress knew of these findings in 1970 and mandated a change from sterile accounting procedures to a cost methodology based on a technique used in the utility field, the identification of variable (or "incremental") costs by type of service.

The Postal Service has felt that the first three recommended decisions of the Postal Rate Commission and the decisions of the Governors had established a sound framework for future ratemaking proceedings. However, on December 28, 1976, a panel of the U. S. Court of Appeals of the District of Columbia ruled that in the second rate case the methods used by the Commission to allocate costs among the types of mail failed to comply with the requirements of title 39, although the Court has not ordered any particular action to implement its decision. The Postal Service continues to believe that the methodology followed by the Commission is the proper approach. The Board of Governors has directed management to explore every avenue of appeal and we expect to seek rehearing of the case before the Court en banc. The appeal from the third rate case is before the same Court and is presently awaiting decision.

We hope that the courts eventually will sustain what the Postal Service and the Commission believe to be the correct view of the law regarding cost allocation. However, if they do not, it may become necessary to consider whether further clarifying legislation is needed.

5. Important Letter Mail Priority

§101(e):

In determining all policies for postal services, the Postal Service shall give the highest priority to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.

Section 3623(d) of title 39 requires the Postal Service to maintain at least one class of mail for the transmission of letters sealed against inspection. First class and air mail traditionally have been the categories of service provided for important letters for which the security of sealing against inspection is an important protection.

Since it was established in 1972, the Postal Service has sought to divert increasing proportions of first-class mail from surface to faster air transportation. For a time, much of this mail was transported by air under a space available program. In 1975, the Service Improvement Program was developed to give all first-class mail equal boarding priority with air mail. After a favorable advisory opinion from the Postal Rate Commission, this program was placed into effect. During postal FY 1976, a total of 631,279,787 pounds of letter mail were transported by air by certificated air carriers and air taxi, a 22.5% increase over the previous postal fiscal year. Practically all first-class mail travelling 300 miles or more is now transported by air.

The priority given to expeditious delivery of first-class mail and priority mail (heavier sealed mail) is illustrated by the following comparative service standards established to provide Postal Service goals for delivery performance:

First Class Mail

- a. Overnight - Locally designated cities and SCFs
- b. Requirements - Up to and including 5:00 p.m. collections.
- c. Second Day - Locally designated states
- d. Third Day - Remaining outlying areas

Air Priority

- a. Overnight - Designated cities
- b. Requirements - Stated at mailing post offices
- c. Second Day - Nationwide

Surface Preferential

- a. Overnight - Up to 150 miles
 b. Requirements - 5:00 p.m. mailings

<u>2nd Day</u>	<u>3rd Day</u>	<u>4th Day</u>	<u>5th Day</u>	<u>6th Day</u>	<u>7th Day</u>
					Over
300 mi.	600 mi.	1,000 mi	1,400 mi.	1,800 mi.	1,800 mi.
Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8

Parcel Post - Other Mail

Standards for the delivery of parcel post, and other items have been set. The parcel post standard is aimed at delivery approximately a zone a day across the country. Local postal authorities have options to develop overnight delivery plans for parcel post where conditions permit.

6. Transportation Policies

§101(f):

In selecting modes of transportation, the Postal Service shall give highest consideration to the prompt and economical delivery of all mail and shall make a fair and equitable distribution of mail business to carriers providing similar modes of transportation services to the Postal Service. Modern methods of transporting mail by containerization and programs designed to achieve overnight transportation to the destination of important letter mail to all parts of the Nation shall be a primary goal of postal operations.

a. Transportation for Prompt and Economical Delivery

To meet the requirement for prompt and economical delivery, the Postal Service must guide its transportation programs through a difficult course of trade-offs between speed of service and cost of service available from the various transportation modes.

Certificated Air Carriers

Rates paid by the Postal Service for scheduled transportation by certificated air carriers are established by the Civil Aeronautics Board. With insignificant exceptions, the Postal Service must use this service if it is available when air transportation is needed. Due to declines in available flights during the most crucial night-time hours, the Postal Service in recent years exercised for the first time its authority under the Federal Aviation Act to order the continuation of scheduled flights needed for mail transportation. However, this option has proved costly and generally unsatisfactory. As a result, in order to implement our commitment to the movement of first-class mail by air wherever practical, we have been limited to schedules which the largely passenger-oriented certificated air carriers choose to provide or, where those are not timely, to the use of more expensive air taxis.

Air Taxi

At the beginning of 1976 the air taxi network consisted of 172 mail routes covering approximately 23,500,000 scheduled miles of service. As a result of restructuring and consolidation of routes, the cost of air taxi operations was reduced from 23 million dollars to 9.5 million dollars. Scheduled miles of service were reduced to 12 million miles per annum.

These changes were made without significant impact on service. The air taxi network is expected to continue at the current level of 100 mail routes throughout Fiscal Year 1977; for Fiscal Year 1978, an increase to approximately 115 routes is anticipated.

Highway Service

Procurement actions for this type service are regulated by section 5005 of the Postal Reorganization Act. Due consideration is given to the cost of transportation in determining whether to obtain transportation by the postal vehicle service or by contract prior to each instance of a contract award.

b. Distribution to Carriers

Mail transported by air is distributed to all available scheduled airline carriers that can provide the necessary service to meet our established service standards. Mail transported by highway, rail, or inland water is transported under contract after an advertisement for bids has been issued to all interested carriers.

c. Containerization

The Postal Service has developed a number of programs to take advantage of the benefits of containerization.

Palletized Mail Program

We have developed a 48" x 40" reusable wooden pallet to be used as a platform for building unit loads of bundled magazines. Palletized loads are shipped from the publisher's plant to major postal facilities. Pallets will be replacing the use of mail sacks in many instances. The major aims are to improve delivery service and cost, reduce damage, and improve working conditions for mail handlers.

Methods for preparing bundles and unit loads of magazines have been developed. These include techniques such as plastic strapping, film shrink, and film stretch wrapping. Material handling equipment for pallets has been selected and tested under this program.

Security Containers

The registered mail container which was developed to transport registered mail when it is shipped by air has been improved. This container is being used to enhance the security in handling mail in the Concentration and Convoy program. The use of these containers has eliminated the loss and theft of registered mail transported in this program.

Other, wheeled-type security containers are under development for handling registered mail when it is shipped via surface transportation.

Letter Mail Containers

We have developed a lightweight corrugated fiberboard tray/sleeve unit for use in the air shipment of letter mail. Machine sorted mail is shipped to destination offices fully protected from damage and oriented for subsequent machine processing. The tray/sleeve unit replaces the mail sacks previously used in these operations. On routes where airline containers are available, the trays are placed in these air containers with other mail.

Flats Mail Containers

We are developing a mail container for use with the flats mail sorter under development. The container is both stackable and nestable. It can be loaded automatically by the sorting machine; then directed and transported on a conveyor system for either subsequent sorting or dispatch to delivery offices. The container can be used by postal customers.

Small Parcels, Rolls (SPR) Containers

Development of a SPR for use in sorting and transporting this particular category of mail is programmed to begin in 1977. This container, like the Flats Mail Container, will be machine loadable and will be used in delivery, collection, and transportation of SPRs.

Transport Containers

Deployment of containers for the surface transportation of all classes of mail within a sectional center area and between major processing points has begun. These containers increase transportation cube utilization, operating efficiency, and service.

d. Overnight Transportation

In order to go out to a home or business in the morning's delivery run, the mail must be received at the office of destination for sorting to delivery routes during the early morning hours. At the outgoing end, collection, processing, and shipment to the airport in the case of mail requiring air transportation generally fall to the late afternoon and evening hours, after letter carriers have returned from their routes. If air transportation is needed, the time during which the mail must be available for placement on a plane usually occurs between 10:00 p.m. and 2:30 a.m. If the place where mail is deposited for collection or where it is to be delivered is not readily accessible to an airport with timely flights, if it requires processing at intermediate stops between collection and delivery, or if it is deposited in a collection box too late in the day, obviously the possibility for providing that mail overnight delivery is limited.

The Postal Service's service standards for first-class mail call for the targeting of overnight delivery of first-class mail deposited in time for 5:00 p.m. collections from each area to publicly designated cities and sectional center facility areas where overnight delivery is found to be feasible. Where overnight delivery has been set as a goal, the Origin-Destination Information System (ODIS) has indicated that this goal consistently has been met at least 95% of the time.

The Postal Service continually looks for ways to improve overnight delivery performance. During the past year, as the result of justified criticism that the importance of time deadlines for mail deposit to meet collection schedules had not been sufficiently communicated to the public, we have instituted a program to place the particular deadlines for individual collection boxes on signs on those boxes in huge letters that stand out so that customers would not mistake them.

7. Postal Facilities and Equipment

§101(g):

In planning and building new postal facilities, the Postal Service shall emphasize the need for facilities and equipment designed to create desirable working conditions for its officers and employees, a maximum degree of convenience for efficient postal services, proper access to existing and future air and surface transportation facilities, and control of costs to the Postal Service.

a. Working Conditions Improvement

The working conditions which existed in post offices prior to postal reorganization were noted by the President's Commission (Kappel Commission) in its June 1968 report which stated that:

Dissatisfaction with physical working conditions has been a major source of postal employee complaints. Though some modern post offices are pleasant enough places to work, working conditions in many are appalling. Many active post offices were built in the 1930's or before, when mail volume was less than half of what it is today. Dirty facilities, crowded and noisy work areas, inadequate locker space and rest rooms and poor lighting, heating and cooling systems are common. Local management rarely has the power to correct these conditions if correction costs money; it has little incentive to correct these conditions and many defenses in the rule books for not so doing.

Considering the obstacles faced we believe the Working Conditions Improvement Program (WCIP) begun in 1972 and concluded in 1975 was successful. The final program results were:

No. Employees in Fully Adequate Space	537,123	79.5%
No. Employees in Buildings Still Being Upgraded	47,098	7.0%
No. Employees in Buildings Scheduled for Imminent Replacement	84,778	12.5%
No. Employees in Other Inadequate Buildings	7,038	1.0%
TOTAL	676,037	100.0%

Of course, the standard of adequacy used in the program necessarily was based on what could realistically be expected to be achieved. Many postal facilities still are not what we would prefer them to be, and more attention to improving working conditions is called for in the future. However, we believe that any comparison of the inventory of physical structures with which the Postal Service began operation in 1970 with those in which our employees work today will show that the program and the capital investment it entailed were well worth the effort and money.

b. Facility Siting Criteria

In the planning and construction of new postal facilities, there are a number of employee, service, and economic conditions taken into consideration. Economy certainly must be a major factor in choosing between different alternatives. In addition, factors affecting employee working conditions are considered, including the availability of transportation and employee parking, the need for food service and training opportunities, and environmental standards. Sites for new buildings are also carefully chosen to provide convenient and efficient postal services. Mail processing plants are located with regard to existing and planned transportation modes for quick access to air facilities and highways to insure that service commitments can be met. The most prominent recent example was the Bulk Mail Network, which was designed to locate the Bulk Mail Centers for maximum benefit from available transportation. The area mail processing program includes similar goals. For locating carrier facilities, emphasis is placed on finding sites that will enable the Postal Service to provide timely delivery to businesses and residences. For retail facilities, emphasis is placed on providing optimum convenience for the customers to be served. The Postal Service has developed and received comments from the Postal Rate Commission on a Retail Analysis Program which has provided local managers with the tools to evaluate their communities' needs for facility placement in an organized, professional manner incorporating demand analysis and other sophisticated techniques.

PART II

POSTAL OPERATIONS

The purpose of this part is to respond to the requirement of 39 U.S.C. §2401(g)(2) for a comprehensive statement relating to:

postal operations generally, including data on the speed and reliability of service provided for the various classes of mail and types of mail service, mail volume, productivity, trends in postal operations, and analyses of the impact of internal and external factors upon the Postal Service;

a. Postal Operations Generally

A detailed compilation of data on mail volume, employment, and postal operations generally is provided in the printed annex to this report. Brief highlights of this information are presented below.

Selected Operating Statistics

	1976	% ^{1/}	1977	% ^{1/}	1978	% ^{1/}
Mail Volume (billions of pieces)...	89.8	0.6	92.7 ^{2/}	3.2	95.2 ^{2/}	2.7
Productivity (total employment)						
Average pieces per man-year....	131,318	2.0	137,397	4.6	140,130	2.0
Employment (end of year)						
Filled positions.....	679,036	...	670,898	...	674,986	...
Man-years.....	683,590	-1.4	674,725	-1.3	679,311	0.7
City Delivery:						
Number of routes.....	125,938	-2.3	124,300	-1.3	122,680	-1.3
Possible deliveries (millions)...	63.2	0.8	64.7	2.4	66.4	2.6
Special Deliveries (millions of pieces).....	69.2	-8.1	61.5	-11.1	60.2	-2.1
Rural Delivery:						
Number of routes.....	32,616	0.4	32,741	0.4	32,872	0.4
Families served (millions)....	13.9	3.7	14.5	4.3	15.1	4.1
Average daily routes miles.....	69.5	-0.6	69.5	...	69.5	...
Post Offices (end of year).....	<u>30,521</u>	<u>-0.8</u>	<u>30,220</u>	<u>-1.0</u>	<u>29,917</u>	<u>-1.0</u>
Contract Stations (number).....	3,796	-0.3	3,850	1.4	3,900	1.3
Total Active Vehicle Fleet (number).....	117,170	3.2	118,022	0.8	119,969	1.6
Interior and Platform Space Occupied (thousands of square feet).....	182,747	7.4	187,453	2.6	190,462	1.6

^{1/} Change over prior year

^{2/} Assumes no rate increases

b. Service Performance

In a report published in March 1976 entitled "A Summary of Observations on Postal Service Operations from July 1971 to January 1976," the General Accounting Office concluded that the Postal Service "is achieving high marks in delivery performance" and that it is "a fact that the mail is moving well."¹ The next-day delivery of 95 percent of the ZIP coded first-class mail deposited in time for 5:00 p.m. collection for delivery in locally designated cities and SCFs is still our service goal and has been achieved on a regular basis since its inception in August, 1971.

The evaluation of mail service by the public, however, tends to be highly subjective. This is so because, even though the Postal Service has achieved measurable success in the regular attainment of the 95% standards, the remaining 5% that fails to meet the standard will always contain some mail that is vital to the sender or recipient.

Significant improvement for the remaining 5% is not very likely unless inordinate additional costs are incurred. Machine errors probably can be reduced by improved engineering and human errors cut by additional supervision and training, but both of these entail eventual diminishing returns on spending. And events such as weather, power failures, vehicle breakdowns, aircraft delays and similar phenomena are too random and unpredictable to guard against economically. For the foreseeable future, first class mail service cannot be expected to improve dramatically.

The Postal Service expects that the speed and consistency of fourth-class mail performance will improve. The termination of the United Parcel Service strike, improvements in parcel handling procedures and increased experience in operating the Bulk Mail System should allow USPS to do better in its service performance.

¹/ Senate Committee on Post Office and Civil Service, 94th Cong., 2nd Sess., A Compendium of Studies, Articles, And Statements on U.S. Postal Service 17, 27 (Comm. Print 1976).

It is more difficult to project the achievement or perception of service in other, less objective areas. There always will be a long line at a postal window at various times and places. Unless the Postal Service employs twice as many carriers for only half a day, some householders and some businesses will complain about afternoon deliveries. And, as the Postal Service attempts to counter the pressures of rising costs, it will continue to receive complaints of service reductions even if they involve removing a collection box that generates two or three letters a day or closing a post office that only services the postmaster and his family.

c. Productivity^{1/}

As a result of the continuing deficits, the Postal Service has been criticized for "inefficiency."

By way of background, it is useful to examine the productivity of the old Post Office Department for the fiscal years immediately prior to the establishment of the U.S. Postal Service on July 1, 1971, e.g., the period from July 1, 1966 through June 30, 1971. During this five year period, mail volume averaged a 3.0% annual increase. Over this same period of time, many years of employment continued to increase while productivity was virtually stagnant. Between 1967-1971, many years of employment increased by 13.2% while productivity gains over this same period amounted to 1.6% or an average of 0.3% on an annual basis. Obviously, in spite of opportunities to absorb additional workload, virtually all increases in mail volume were handled essentially by a corresponding increase in employment.

1/ In this section "productivity" is measured using unweighted figures, dividing many years into total volume irrespective of mail piece characteristics. Other definitions of "productivity" could be offered that would yield different absolute numbers and percentages. However, the approach taken here is applied consistently to both the Post Office Department and the Postal Service, and is suitable for the purpose for which it is employed, namely, to show the direction of productivity trends since 1967 and the general magnitude of cost savings achieved because of the gains made.

TABLE I
Five Year Period
Prior to Postal Reorganization
(July 1, 1966 to June 30, 1971)

<u>Fiscal Year</u>	<u>Mail Volume (Millions)</u>	<u>ManYears</u>	<u>Productivity (Pcs/ManYear)</u>	<u>% Change Previous Year</u>
1971	86,983	723,581	120,212	+2.8
1970	84,882	725,913	116,931	+1.8
1969	82,005	713,979	114,856	+0.7
1968	79,517	696,964	114,091	-1.6
1967	78,367	675,849	115,953	-2.0
Base-1966	75,607	639,090	118,304	+0.4

Average Annual Productivity Increase for 5-Year Period = 0.32%

What has happened since the start of the U.S. Postal Service on July 1, 1971? In the 5 years since postal reorganization (through June 30, 1976), investments in new facilities and equipment, in conjunction with a major emphasis on operating efficiency, have resulted in a productivity improvement of 9.2% (or 1.85% average on an annual basis) during that period. This substantial six-fold productivity gain over the previous 5 year period was achieved during a time in which mail volume growth stagnated, averaging only a 0.6 increase per year. In spite of minimum volume growth which normally restricts productivity gains, the Postal Service accomplished productivity increases by reducing manyears by 5.5% in this period.

TABLE II
Five Year Period
Since Postal Reorganization
(July 1, 1971 to June 30, 1976)

<u>Fiscal Year</u>	<u>Mail Volume (Millions)</u>	<u>Manyears</u>	<u>Productivity (Pcs/ManYear)</u>	<u>% Change Previous Year</u>
1976	89,768	683,590	131,318	+2.0
1975	89,266	693,253	128,764	+0.6
1974	90,098	704,016	127,977	+2.4
1973	89,683	684,192	131,079	+6.4
1972	87,156	707,674	123,158	+2.5
1971	86,983	723,581	120,212	--

Average Annual Productivity Increase for 5-Year Period = 1.85%

These productivity gains have offset the need to increase operating expenses by several billion dollars. Table V shows the cost impact on the Postal Service if there had not been any gains in productivity during the past five fiscal years. The table demonstrates that the cumulative cost avoidance during this period was almost \$3.5 billion.

An extensive number of management actions, programs and decisions have been responsible for the productivity gains described above. First, there is the increased capital investment program. Since postal reorganization in 1971, capital investment for new facilities, equipment and vehicles has amounted to \$3.2 billion, an almost three-fold increase over the previous five year period.

TABLE III
Clerk-Mail Handler
Productivity Trends

Fiscal Year	Mail Volume (Millions)	Clerk-Mail Handler Man-Years	Productivity (Pcs/MY)	% Change Pre. Year
1976	89,768	307,233	292,182	+3.5
1975	89,266	316,091	282,406	+0.3
1974	90,098	319,963	281,589	-3.2
1973	89,683	308,323	290,874	+7.4
1972	87,156	321,752	270,879	+4.8
Base-1971	86,983	336,630	258,393	--

Average Annual Productivity Increase for 5-Year Period = 2.62%

TABLE IV
Letter Carrier Productivity Trends

Fiscal Year	Possible Deliveries (000)	City Delivery Carrier ManYears	Productivity Possible Deliveries Per Day	% Change ^{1/} Previous Year
1976	63,395	195,598	324.1	+3.3
1975	62,600	199,544	313.7	+3.6
1974	63,000	208,036	302.8	+3.6
1973	60,075	205,487	292.4	+8.4
1972	58,404	216,483	269.8	+3.1
Base-1971	56,985	217,669	261.8	--

Average Annual Productivity Increase for 5-Year Period = 4.76%

^{1/} Not adjusted for effects of Mail Markup, which transferred this function to Clerk craft.

TABLE V
Cost Impact of USPS Productivity Gains
Five Year Period (July 1, 1971-June 30, 1976)
Assume Productivity Level of FY 1971*

Fiscal Year	Mail Volume (Millions)	FY 1971 Productivity	Resultant ManYears	Actual ManYears	ManYear Avoidance	Cost Per ManYear Avoidance (\$)	FY Cost Avoidance (\$000)	Cumulative Cost Avoidance (\$000)
Base-1971	86,983	120,212	723,581	723,581	-	10,320	-	-
1972	87,156	120,212	725,020	707,674	17,346	11,421	198,109	198,109
1973	89,683	120,212	746,040	684,192	61,848	12,352	763,946	962,055
1974	90,098	120,212	749,493	704,016	45,477	13,695	622,808	1,584,863
1975	89,266	120,212	742,571	693,253	49,318	15,587	768,720	2,353,583
1976	89,768	120,212	746,747	683,590	63,157	17,534	1,107,395	3,460,978

*Last full year as Post Office Department

Also contributing to the productivity gains made over the past 5 years are such programs and management actions as:

1. More and improved street supervision of delivery services.
2. Better delivery route adjustment procedures.
3. Standardization of methods for the distribution, casing and delivery of mail.
4. Increased utilization of mechanization to process mail, including an emphasis of working incoming secondary mail on letter sorting machines.
5. Emphasis on delivery of mail to curb and cluster boxes as opposed to the more expensive form of delivery to the door.
6. Increased use of containers of all types to reduce cost of handling mail as well as retaining the machinability of such mail by virtue of the added protection provided by containers.
7. Installation of the central markup program whereby all undeliverable mail as addressed is handled on a centralized basis with mechanical assistance as compared with the former method whereby the individual carriers forwarded the mail for their routes. We estimate the net savings from this program to be in the area of \$40 million.
8. Maximum use of area mail processing and managed mail programs which permit mail to be worked at the most advantageous points or locations (which are not necessarily the points of origin) with no loss in service, but at a considerable reduced cost.
9. The implementation of the national bulk mail system which transformed a process which was basically 80% manual - 20% mechanized to just the opposite - 80% mechanized and 20% manual. The effectiveness of the bulk mail system was clearly demonstrated during the midwest UPS strike early last year and the more recent UPS strike on the East Coast.

Probably one of the most significant factors in improving the productivity of the Postal Service was the total removal of partisan political consideration and other non-merit factors from the promotion process. The Postal Service now has a truly merit promotion system which offers to every employee the opportunity to advance as high as his or her ability and performance will permit. The career employee is no longer dependent on which political party is in power in order to be promoted. It is performance and ability that count--not one's political acumen and affiliation. Since postal reorganization more than 15,500 postmasters have been appointed under the merit selection program. This has increased thousands of additional opportunities for advancement because of the vacancies created by these promotions.

Along with the merit promotion program, we have also instituted a merit pay system for all managers above the front line supervisor. Under this system, postal managers no longer receive annual automatic increases (sometimes described as "survival" increases) but have their salaries adjusted periodically on the basis of their performance. The amount of funds provided for merit pay increases is so structured that not all managers can get an increase each rating period so that the end result is that only those whose performance is best in their peer group are increased. Once a manager reaches the mid-point in his salary range, his performance must be outstanding to merit any further increases.

One further way of comparing productivity in the postal system is to relate it to performance in other countries. In this instance, the comparison is based on pieces of mail per employee.

Productivity Comparison for 10 Nations

Country	Year	Pieces of mail per employee
U.S.A.	76	131,318
Canada	74	113,823
Japan	73	105,417
Switzerland	73/74	105,211
Netherlands	72	96,996
Australia	75	79,300
Great Britain	73/74	55,608
West Germany	74	54,941
France	73/74	44,317
Italy	70	42,677

This analysis varies by the year of available data. In addition, it does not portray differences in levels of service. In France, for example, there is generally twice daily delivery. However, it still suggests a significant edge for the U.S. in mail efficiency when its vast geographical area is considered.

What does the future hold for the Postal Service in terms of further increasing productivity? Over the long haul, the picture is not too bright. Barring any major technological breakthroughs in the next four years in how we distribute and deliver mail (and we do not see any downstream) and with the possibility of further decreases in volume and an increase in the number of points or addressees to which less mail will have to be delivered, it is not unreasonable to assume that the Postal Service will find it difficult, if not impossible, to maintain the current level of productivity, let alone increase it.

d. Trends in Postal Operations

A moderate rate of overall economic growth, accompanied by inflationary cost pressures upon USPS and mailers, will cause many mailers to re-evaluate mail usage on a continuing basis. Thus, mailers can be expected to seek means to reduce their overall mail usage or to utilize competitive services offering price advantages.

For purposes of forecasting mail volume, it has been assumed that there will be recurring general rate increases at moderately frequent intervals. This assumption obviously is conjectural since scheduling of future increases will depend upon inflation, business activity, labor rates, productivity changes, the achievement of limits on operating costs and a number of other factors. Despite these uncertainties, it appears that future rate increases will be required and that planning should reflect the lower mail volume estimates likely to result from such rate increases.

First Class Mail

Despite monopoly protection, first class mail volume will be affected by competitive systems. Growth in the correspondence segment of first class mail may be slowed by increasing substitution of telephone for written messages. Personal correspondence volume, heavily concentrated in greeting cards, will be affected by price increases.

Postal Volume By Subclass of Mail (Mil. Pieces)
Assuming Future Rate Increases

	<u>1977</u>	<u>1978</u>	<u>1979</u>
First Class Rate - Cents	13	16	16
Total Mail	92,698.8	89,478.9	91,242.0
%Change	2.8	-3.5	2.0
Total First Class	52,741.9	51,183.0	52,082.1
%Change	2.0	-3.0	1.8
Priority Mail	214.5	210.7	223.6
%Change	5.2	-1.8	6.1
Second Class Nonprofit Publications	2,487.8	2,487.4	2,540.6
%Change	3.0	-0.0	2.1
Second Class Reg. Rate Publications	3,331.0	3,234.9	3,300.4
%Change	2.1	-2.9	2.0
Total Third Class Bulk Rate	24,241.3	22,892.5	23,706.9
%Change	2.3	-5.6	3.6
Fourth Class Zone Rated Parcels	298.2	241.1	225.1
%Change	-3.2	-19.2	-6.6
Fourth Class Catalogs	86.5	78.4	73.9
%Change	-6.0	-9.3	-5.8
Fourth Class Library Rate	39.6	40.3	45.8
%Change	10.0	1.8	13.5
All Other Mail	9,257.9	9,110.6	9,043.7
%Change	-0.7	-1.6	-0.7

As competition intensifies between the Bell System and specialized common carriers, it can be expected that business-to-business correspondence will begin to be converted to electronic systems, such as facsimile, magnetic card-to-card or tape-to-tape transfers, and teletypewriters. The loss to first class volume will be small at first and difficult to detect, but will increase as electronic systems proliferate.

Changes are occurring in billing and payment system concepts which may drain some anticipated growth in the transaction segment. Specifically, firms are experimenting with less frequent billing, consolidated billing, and automatic checking accounts.

In the longer run, the trend toward new electronic funds transfer systems will continue to gain momentum. Based upon plastic cards, these systems have already appeared in many metropolitan areas in the form of cash dispensing machines or "electronic tellers". The next phase of development will see retailer installation of point-of-sale terminals having the capacity to debit customers' accounts and credit merchants' accounts at the time of sale. The effect of this development in reducing transaction mail will likely not begin to be felt until after FY 77.

Second Class Mail

Publishers who are dependent upon second class mail will seek to reduce the cost of their distribution systems. Experiments with self-delivery to densely populated areas are likely to continue. It is expected that additional independent delivery systems will appear as publishers take on the remainder of the full-rate burden. In addition, publishers are seeking to increase the proportion of newsstand sales of existing publications and more publications will be introduced exclusively for retail distribution.

The growth of new specialty magazines, addressing specific interest groups, may offset some of the adverse effects of publishers' cost reduction efforts.

Third Class Mail

Third class mail is extremely sensitive to price increases. Single piece rate and bulk rate regular volume are more sensitive to rate increases than the class as a whole, with the difference made up by increases in bulk rate non-profit.

Third class mail will continue to face stiff competition from other advertising media, and losses to that competition can be expected as increased postal rates drive up the

comparative cost of direct mail advertising. In addition, consumer legislation aimed at protecting privacy is periodically introduced in Congress and several state legislatures. Some of these bills would severely curtail the sending of unsolicited material and, if enacted, could sharply reduce expected third class volume. Newspapers and independent delivery systems will continue to divert local advertising volume.

Fourth Class Mail

Only the special rate and library rate sub-classes of fourth class can be expected to withstand the effects of frequent price increases. The rate of decline in zone-rated parcel post may actually accelerate.

Projection of present trends would indicate a continued decline in the Postal Service share of a small parcel market which itself is growing at less than 2% per year.

Priority Mail/Express Mail

Priority mail and Express Mail will continue to encounter energetic competition from UPS (Blue Label Service) and from air couriers and airline package services. The total market is growing, but the USPS share will not keep pace without vigorous marketing efforts and close attention to service performance.

Given this analysis of probable future trends in volume by class, the prospects for attaining financial self-sufficiency through future rate increases appear cloudy at best. And, given the likelihood for minimal productivity increases over the long-term, postal costs and postage rates will climb.

Looking ahead, the Postal Service is confronted by the prospect of more intensive financial pressure. The result is a future marked by the following trends:

- (1) Despite continuing cost reduction programs, postal costs will continue to grow.
- (2) The average citizen apparently will continue to expect the full range of traditional services.
- (3) The cost of services will be increasingly loaded on fewer pieces of mail.
- (4) Mailers will shift to lower cost alternatives if they can.

e. The Impact of External Factors upon the Postal Service

To a great extent, like most institutions, the postal system is profoundly affected by trends and events outside of its direct control. In general, these can be divided into three areas: the economic environment, technological trends, and changes in basic consumer usage and perceptions as they relate to postal services.

The economic environment

The planning environment through FY 79 is one of modest economic growth with continuing inflationary pressures. The economic recovery is expected to rebound from its present slump with some form of assistance from the new Administration, with real economic growth averaging a modest 4.8% per annum for the forecast period.

The inflation outlook is expected to improve, at least by recent standards, with the Consumer Price Index averaging an annual growth of 5.4%. The price of energy and related products is expected to rise somewhat faster, averaging 10.8% growth for the period FY 77-79.

The continued rise in the cost of living has serious implications for the Postal Service. With over 90% of its total costs in labor and transportation, the pressure on postage rates can only grow more intense.

Interest rates are expected to remain high, increasing capital investment costs. In addition, housing starts, which require additional delivery coverage and a corresponding increase in cost, will continue to rise at an annual rate of slightly under 2 million units. These cost increases are essentially independent of changes in mail volume itself.

In summary, the economic climate, while expected to improve significantly over the next two or three years, will continue to be a source of substantial difficulty to the Postal Service by sharply increasing its operating costs.

Technological trends

To the extent that the Postal Service may be regarded as being in the business of "materials handling", the advances in related technology have been modest, but significant. Improvements in containerization and electromechanical sorting with the aid of computers have all contributed to a more efficient postal operation. Of most promise in the future will be the increased use of optical scanning equipment to electronically read and sort mail to its destination. The Postal Service expects to encourage widespread use of this technology over the next several years.

However, the mails comprise far more than "material". Currently, it is estimated that well over half of first class mail--or more than a third of all mail--consists of transactions, mainly bills and payments. Most of this mail is generated by computer today. In addition, newer office equipment, generating business mail, is being designed with the capability of interacting with a computer. In short, a large portion of the mail, as much as 40%, is theoretically susceptible to electronic in place of physical transmission. In view of this, a brief review of the growth in electronic systems is appropriate.

Electronic Message Services

The first telegraph message on record was sent in 1838. Telegraph service then began an expansion which continued until overtaken and replaced by telephone service, Telex, and TWX services. Recent message service entries include limited facsimile-transmission and data-communications services and Western Union's "Mailgram", utilizing electronic entry, switching, and transmission to a U.S. Postal Service installation, where a hard copy is produced and entered into the conventional mail stream for delivery by letter carrier.

Another class of service is offered by manufacturers of word processing or text editing equipments. Many equipments not only are stand-alone text editors, but also can communicate directly with similar equipments at other locations, using standard dial-up or dedicated telephone service. In these cases, control and supervisory functions must be performed by the users. As equipments of these types become more widespread, there will be tendencies to use them for messages to additional addresses. Commercial companies are already planning services which will allow direct communication among previously incompatible facsimile and alphanumeric terminals, including the communicating word processing equipments.

Electronic Funds Transfer

There is another large area which may be considered within the general category of electronic message systems. This area encompasses electronic communications to facilitate financial transactions--preauthorized payments, large dollar transfers, credit authorization, point of sale services, and teller functions. Such communications may collectively be called electronic funds transfer systems (EFTS).

The American Banking Association began studies of EFTS in 1968, with some systems being implemented in 1972. Since then, many additional systems have come on-line. A system introduced in Lincoln, Nebraska, in 1974, linked the First Federal Savings and Loan Association with several local supermarkets. Remote teller terminal installations are planned in several other states, but often face some conflict with existing state regulations. Banks which operate in several states experience regulatory problems greater than those encountered by banks which operate in only one state. Nevertheless, some estimates have been offered that indicate a total banking industry investment on the order of one billion dollars in EFT systems, mainly in remote terminals.

At this juncture it is virtually impossible to predict with any degree of certainty the speed and extent of the growth of electronic funds transfer. Not only are regulatory and public policy issues involved, but also significant changes in consumer habits. However, the cost reduction and control incentives are so compelling that it is reasonable to expect a significant shift from the use of mail to an electronic mode at some point in the future.

The same cost pressures and technological developments that have driven EFT to such visibility in the financial field have caused the Postal Service to investigate the feasibility of electronic message systems. Conceptually, an electronic message system could be designed to reduce the relative cost of sorting and transporting a significant portion of first class mail. While such a system could be structured to accommodate individual letters entered through lobby walk-in or word processing terminals, the primary market would be mass mailings such as utility bills entering the system in digital form. This type of system would provide faster service for long distance mailings and increased reliability and consistency of delivery. It would not reduce significantly the transit time for the majority of the mail that is destined for local or nearby delivery.

This concept is constrained by a traditional definition of mail. It utilizes hard copy output which is made available for customer pick-up at a postal facility or delivered by a letter carrier. However, the technical and economic feasibility of the idea has not been demonstrated.

The development of this type of electronic message system entails a number of uncertainties, but the biggest risk is the possibility that a comprehensive EFT concept might divert much of the traffic the system is designed to handle.

Assuming, however, that such a system were developed, it is conceivable that it might be extended to provide electronic mail delivery to the individual home and office. Obviously this is very long-range conjecture in an area filled with major policy problems, but there might be an economic rationale for pursuing this type of system. At present, the Postal Service is exploring these possibilities through a major systems definition study which is expected to produce detailed cost and technical feasibility data in early 1978.

Changes in consumer usage

While total mail volume has grown slightly over the past few years, there have been some changes in the mix, reflecting change in both pricing and social practice. For example, while first class mail has increased, there is some evidence that individual household correspondence is declining. One series of surveys conducted by the Postal Service showed the following trend.

Total Pieces Per Week Per Household

	<u>1975</u>	<u>1974</u>	<u>1972</u>
First class mail sent	2.6	3.2	3.8
Post & postal cards sent	0.1	0.1	0.2
Packages sent	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>
Total	2.8	3.4	4.1

While second and third class (publications and advertising) have been fairly constant in recent years, fourth class mail (parcels) has declined sharply, off nearly 50% from its high level in 1968. Within these classes, the segments of mail that are most heavily subsidized, such as charitable mailings, have shown the most substantial growth.

Finally, there is growing evidence that mail no longer is widely regarded or used as a medium of urgent communications, notably with households. Instead, the stress is on dependability of mail service rather than speed. This would appear to be generally consistent with the rapid growth in telecommunications and widespread experience with "instant" information.

The preceding discussion has described factors that largely are external to the postal system. Elsewhere in this report we have discussed "internal" factors such as productivity.

PART III FINANCIAL HIGHLIGHTS

The following is a general discussion of the state of postal finances. Much more detailed information is included in the attached schedule and in the printed annex to this report.

Since passage of the Postal Reorganization Act, the goal of self-sufficiency has eluded the Postal Service. The accumulated actual revenue deficiency in the period from FY 1972 through the transition period was \$2,776 million. The following table portrays the net income or loss for each period since reorganization.

Postal Service Net Income or (Loss)

<u>Fiscal</u> <u>Years</u>	<u>\$</u> <u>Millions</u>
1972	(175)
1973	(13)
1974	(438)
1975	(989)
1976	(1,176)
Transition Period	15

Specific occurrences, unforeseen in 1970 when postal reform legislation was considered and passed, acted to increase cost beyond any expectation. The most significant of these was inflation. Double-digit inflation was not foreseen as a real possibility by private or government economists in the early 1970's. During fiscal years 1974, 1975, and 1976, when the consumer price index increased a total of 29 percent over that of fiscal year 1973, cost-of-living allowances authorized in postal collective bargaining agreements triggered compensation increases in the aggregate amount of \$2.9 billion, an amount which is slightly larger than the accumulated deficit for fiscal years 1972 through 1976. A high and unforeseen rate of inflation essentially caused the expected impact of "normal" inflation upon employee compensation to grow by a factor of two. In addition, gasoline prices increased approximately thirty cents per gallon over those prevailing in fiscal year 1973, creating an annual cost impact of some \$103 million.

It is exceedingly difficult for any organization, particularly one as complex as the Postal Service, to develop and implement cost saving programs to offset increases of the magnitude that have occurred. Historically, the only means for absorbing fully such increases, in absence of prompt relief via rate adjustment, have been consumption of equity (assets net of liabilities) and debt financing.

On July 1, 1971, the Postal Service commenced operations with an equity (representing the capital investment of the U. S. Government) of \$1,686 million. The Service's September 30, 1976, equity balance (including a capital infusion of \$500 million authorized by P.L. 94-421) is a negative \$429 million. A reduction in equity represents a reduction in the assets of the system as a whole; consequently, the risk of diminution of capital investment in the Postal Service is the future prospect of reduced service or higher cost to be borne by the ratepayer, or both.

In order to absorb deficits experienced to date and to maintain the level of assets necessary to support adequate service to the public, the Postal Service has reluctantly resorted to borrowing. The Service currently has on its books \$1,125 million of debt incurred to meet operating expenses.

The Postal Service is no longer in a position to deal with fiscal adversities unless its equity position is restored. This basic point was recognized during the last year by enactment of the Postal Reorganization Act Amendments of 1976, which became law on September 24, 1976. Among other things, the Amendments authorized the appropriation to the Postal Service of two \$500 million amounts, to be applied against the accumulated operating indebtedness of the Postal Service as of September 30, 1976 and September 30, 1977. The need for financial renewal was also recognized in the most recent postal rate proceeding, Docket No. R76-1, when the Postal Rate Commission recommended and the Governors adopted rates which provide revenues sufficient to recover, over a seven year period, the deficits that occurred from fiscal 1972 through 1975.

While these measures coupled with stringent cost cutting measures have succeeded in slowing the worsening financial position of the Postal Service, further measures are required to produce an economically viable mail system.

In the absence of a further rate increase or service reduction, the Postal Service is estimating operating losses of \$990.5 million in fiscal year 1977 and \$1,736.4 million in fiscal year 1978. Deficits of this size should not be "met" through greater reliance on debt financing. The key to preserving the financial health of the system will be a fiscal plan that avoids such financing and provides sufficient revenues to permit rational management fiscal planning and the rendering of the level of services required by the Congress.

The following schedule provides information of actual and estimated expenditures, obligations incurred, and financing of expenses.

Financial Highlights
FY 1976 - 1978
(\$ in millions)

	1976 <u>Actual</u>	T.Q. <u>Actual</u>	1977 <u>Estimate</u>	1978 <u>Estimate</u>
<u>Obligations Incurred:</u>				
Operating expenses.....	14,111	3,437	15,569	16,651
Capital investment.....	458	85	658	695
Other funding requirements.....	64	15	54	65
Total obligations incurred....	14,633	3,538	16,281	17,411
<u>Financing:</u>				
Operating and other revenues....	-11,467	-3,081	-13,092	-13,539
Appropriations.....	- 1,708	- 934	- 2,272	- 1,696
Borrowing authority.....	- 1,458	477	- 917	- 2,176
Budget authority.....	...	...	...	...
<u>Budgeted Expenditures:</u>				
Payments.....	14,453	3,232	16,382	17,054
Cash receipts.....	13,314	3,531	14,876	15,239
Net expenditures.....	1,139	- 299	1,506	1,815
<u>Revenue and Expenses (Accrued Basis):</u>				
Operating expenses.....	14,113	3,446	15,681	16,785
Revenue other than				
appropriations.....	11,292	3,042	12,973	13,418
Net accrued expenses.....	2,821	404	2,708	3,367
Appropriations applied.....	1,645	419	1,718	1,631
Revenue deficiency (-) or				
surplus.....	- 1,176	15	- 990	- 1,736
<u>Unobligated Borrowing Authority</u>				
(end of year).....	5,331	5,808	4,891	2,715

