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THE POSTAL SERVICE ACT OF 1977

JOINT HEARINGS

BEFORE THE

SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES

AND THE

SUBCOMMITTEE ON POSTAL PERSONNEL AND MODERNIZATION

OF THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

FIRST SESSION

ON

H.R. 7700

A BILL TO AMEND TITLE 39, UNITED STATES CODE, TO ESTABLISH CONGRESSIONAL REVIEW OF POSTAL RATE DECISIONS, TO INCREASE CONGRESSIONAL OVERSIGHT OF THE UNITED STATES POSTAL SERVICE, TO ABOLISH THE BOARD OF GOVERNORS OF THE UNITED STATES POSTAL SERVICE, AND FOR OTHER PURPOSES

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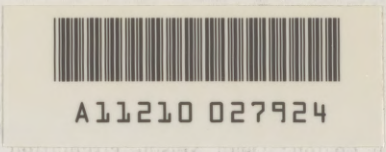
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THE POSTAL SERVICE ACT OF 1977

TUESDAY, JULY 19, 1977

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

The subcommittee met at 9:30 a.m., in room 1302, Longworth House Office Building, Hon. James M. Hanley (chairman of the subcommittee) presiding.

Mr. HANLEY. Today we begin hearings on H.R. 7700 sponsored by Representative Charlie Wilson and myself. The Subcommittee on Postal Operations will concentrate on those sections on the bill under its jurisdiction; primarily those dealing with postal rates, services, and financing issues.

The concepts embodied in H.R. 7700 are indeed important. The bill makes a serious attempt to bring the Postal Service back into a more normal and truthful relationship with the executive and legislative branches of the Government.

The Postal Service is a governmental agency which can make policy affecting more than 200 million citizens of this country. I believe that it is not good public policy to insulate so important an agency almost completely from those who have been elected to govern this country.

The issues in H.R. 7700 are clear cut and have been debated continuously almost since the passage of the Postal Reorganization Act of 1970. Therefore, I do not believe extensive and exhausting hearings are needed once again.

We expect to complete this series of hearings this week, with the possible exception of administration and postal witnesses. These were originally scheduled to testify yesterday, but administration spokesman said that the administration's position on postal issues was not yet completed.

We hope to get that position momentarily and will immediately schedule administrative and postal witnesses upon its receipt.

I would also like to announce that it is my intention to call a subcommittee meeting to begin markup of our sections of H.R. 7700 next week. The specific date will be announced soon, after we judge the progress of the hearings we are beginning today.

Our first witness is Mr. Leo Albert on behalf of the Association of American Publishers. Mr. Albert, it is a pleasure to have you this morning, and certainly, in recognition of your expertise in this area, I am confident that your testimony today will contribute much to the deliberations of this subcommittee.

STATEMENT OF LEO ALBERT, CHAIRMAN OF THE BOARD, PRENTIS HALL INTERNATIONAL, ON BEHALF OF THE ASSOCIATION OF AMERICAN PUBLISHERS, ACCOMPANIED BY RICHARD SCHMIDT, JR., COUNSEL, ASSOCIATION OF AMERICAN PUBLISHERS

Mr. ALBERT. Thank you, Mr. Chairman.

Mr. HANLEY. For the purpose of the record, if you would, introduce your associate.

Mr. ALBERT. I am accompanied this morning by Richard M. Schmidt, Jr., counsel for the Association of American Publishers. I am Leo Albert, chairman of Prentice Hall International and Chairman of the Postal Committee of the Association of American Publishers.

Our association is pleased to respond to the request of this committee to comment on H.R. 7700.

The Association of American Publishers is a nonprofit organization with a membership of over 320 publishing organization with a membership of over 320 publishing organizations, including not only trade book houses, large and small, but also school and college textbook publishers, book clubs, university presses, and the publishing departments of religious denominations.

The AAP maintains its headquarters at 1 Park Avenue, New York City 10016, and a Washington office at Suite 480, 1707 L Street, NW., 20036.

We find ourselves in general agreement with the thrust of H.R. 7700 as introduced by Congressmen Hanley and Wilson.

In our opinion events of the last 10 days have illustrated more than ever the need for legislation of the type before this committee. As you are well aware, the Postal Service has proposed a 34.3-percent increase in special rate fourth class postage rates and a 23.6-percent increase in the library rate. This means that the full first-pound rate for the shipment of books through the mail will jump from 40 cents to 55 cents, with an increase from 14 cents to 18 cents for each additional pound through 7 pounds, and from 8 cents to 11 cents for every pound over 7. Under the Postal Service's proposal, it will cost 73 cents to send the average book through the mail (assuming a 1½ pound weight). This is almost a fivefold increase over the book rate in existence at the time of the Postal Reorganization Act of 1970.

This is one of the highest percentage increases ever proposed by the Postal Service for any class of mail service.

The AAP strongly endorses section 2 of the bill which makes decisions in rate, fee, and classification cases by the Postal Rate Commission subject to congressional veto.

As we stated in a position paper presented to the Commission on Postal Service in December of 1976, we feel that Congress should function as the ultimate authority on postal rates. We feel that Congress should review recommendations from the Postal Rate Commission as they concern rates, fees and classification, and accept, reject or modify these recommendations before they can take effect. We stated then and we reiterate again, "Congress should, as it does under governmental reorganization acts now in existence, have 60 to 90 days to conduct such reviews."

We further stated:

> We feel strongly that this proposed enlargement of congressional responsibility concerning postal rates would be in keeping with present realities: (a) Congress has been removed from ratemaking since 1970, but the result has been increasingly large postal deficits, which Congress is being asked to make good; (b) there is evidence of congressional desire to play a larger policy role (although not to return to the detailed ratemaking function of pre-1970; and (c) in organizational terms, it is sound and prudent to relate participation and authority more closely to ultimate responsibility for postal funding, and such ultimate responsibility resides in Congress.

We further endorse the concept of creating a more precise methodology for the setting of postal rates and reaffirming the congressional intent of the Postal Reorganization Act of 1970 which has been largely ignored by the U.S. Court of Appeals for the District of Columbia. It is interesting to note that the court of appeals in the so-called Greeting Card case completely ignored the actions of this committee and the full Congress (Public Law 94–421) in 1976. You gave recognition to the public service aspect of books and other educational materials at special rate fourth class by amending section 3622(b) of title 39 U.S.C. adding new criteria for the setting of rates and fees by the Postal Rate Commission—specifically, that the Commission must take into consideration "(8) the educational, cultural, scientific, and informational value to the recipient of mail matters."

While we endorse in principle your section 4, we do not think the amount provided is sufficient. The concept of the U.S. Postal Service as a public service is fundamental. Every citizen has an equal right to postal service, which is to say a right of equal access to information through the mail. It is estimated that there are 77 million home mailboxes in the United States. The postman must accordingly cover these postal routes at regular intervals, whether or not any particular household receives or sends mail on a particular day. The cost of this is illustrated by the Postal Service staff study, "The Necessity for Change," under date of December 1, 1975 (Committee Print 94–26, House of Representatives Committee on Post Office and Civil Service), which states at page 5:

> Postal delivery services cost $3.8 billion in fiscal year 1975, approximately 32 percent of total postal cost. . . . The major determinants of this cost are the frequency of delivery (six days a week and the mode of delivery whether to the door, a curb line box, etc.).

In accordance with the public service concept, the service must be available whenever the householder needs it. You have, in recognition of this fact, in section 4 provided for 6-day-a-week delivery. The householder normally receives through the mail a good deal of basic information—that is, tax statements, utility bills, social security checks, bank statements, books, magazines and newspapers, which is important to the orderly operation of society and which justifies funding the postal service through general tax revenues. Moreover, the principle of equal citizenship makes it necessary that certain rates be uniform and moderate.

We point out that special rate fourth class is a "deferred" service, meaning that normal delivery time is measured in many days and weeks as compared to "preferred" service such as first class.

We do not contend that special rate fourth class, which carries knowledge to the people of this country in the form of books, requires the expedited service of first class, or even "Red Tag" second class mail. Books through the mail are handled as a "deferred" service, which means that 6-day service is not needed for the delivery of books. Therefore, we contend that costs incurred for 6-day service should not be attributed to the delivery of books. Since delivery services account for approximately 32 percent of the total postal cost, it is our judgment that a larger portion than 15 percent of the total budget of the Postal Service should be appropriated for public service. In our opinion, it would be equitable to allocate one-third of the budget to public service and have two-thirds of the revenue requirements obtained from the mailers through the payment of postage.

We further strongly endorse section 11 as to congressional review on capital expenditures. If Congress had functioned in this role previously, we would not, in all probability, have seen the creation of the bulk mail centers. This billion-dollar creation was announced as a program to guarantee the efficient movement of bulk mail (consisting mainly of packages) through the mails and to guarantee to the Postal Service an adequate business base, so that it could compete with those outside carriers who have been accused of "cream skimming" in concentrated metropolitan areas. Unfortunately, it has not worked out as planned. While the bulk mail system was started with great promises, the book publishing industry now loses, as shown by the hearings before this committee on the operations of the bulk mail centers, something between 5 and 7 million books per year through physical battering that breaks open the cartons in which they are shipped. To make matters worse, these "loose in the mail" books are then sold at public auction—frequently to commercial firms who resell them at discount to legitimate book shops.

As you know, we have worked with the postal authorities to correct the serious deficiencies, and we credit them with a genuine desire to make the bulk mail centers work efficiently. On the other hand, we have grave doubts whether major improvements are possible. We recommend an independent study by outside consultants to determine if major improvements in the bulk mail centers can be effectively implemented.

Not only is the Postal Service saddled with the bulk mail system, but if the circuit court of appeals' opinion in the *Greeting Card* case holds, we may see the entire cost of the bulk mail centers attributed to special rate fourth class, which will do nothing but drive books and other educational materials out of the postal system.

As you know, private parcel carriers now handle more than half of the Nation's parcel shipments. The current efforts to assign more attributable costs to classes other than first class mail will only have the result that more and more mail now handled by the postal system will revert to outside private carriers. Private delivery services have made a good start toward assuming a substantial portion of magazine delivery in this country. Book publishers are now taking a very serious look at alternative private delivery services, and the circuit court of appeals' opinion coupled with the Postal Service's most recent request

for a tremendous rate increase will only accelerate this effort. Further efforts to attribute more cost to special rate fourth class will undoubtedly result in a substantial loss of volume to the postal system should present trends continue.

The United States is by far the largest producer of books in the world, in absolute terms, and probably leads in the per capita production and consumption of books as well. The United States is also the largest exporter of books in the world. The book publishing industry depends on the educational system, including libraries, for fully half of its market.

It depends for its freedom to publish on the first amendment and the adherence to its principles by all levels of government.

It is heavily dependent upon the postal system, domestically and internationally, for equitable and preferential rates, adequate service and satisfactory conditions of mailing.

The U.S. book publishing industry is both relatively small and highly competitive. While large in comparison with book publishing in other countries, the total annual sales $3.8 billion are small than the sales of many individual U.S. corporations in other fields. Robert K. Nathan, consulting economist, stated in a report for the book publishing industry of November 1970:

> The book publishing industry is not very large, as mass production industries go; its importance is far out of proportion to its size. It is highly competitive and high-risk industry. Moreover, it is predominantly an industry of small firms: nearly three-fourths had 20 employees or less, and even the larger firms averaged only about 170 employees. No book publisher controls more than a small fraction of the total market, and many new firms are launched each year.

The unique role of books as an educational, cultural and political resource has long been recognized in our society. Books are essential in a society whose functioning depends upon the prompt, widespread and dependable dissemination of information. But if they are to fulfill the needs of society, they must be readily available in all sections of the country at reasonable rates.

The Congress and executive branch of the Federal Government have also recognized the educational, cultural role of books in many ways, and thus the justification for a preferential book rate. Congress established special mail rates for books so that a citizen, a school, or a library in California, Alaska or Hawaii is obligated to pay no more for a book from the publishing centers of the East and Midwest than does the suburban resident outside New York City or Chicago. The growth in the per capita consumption of books in the United States to one of the highest level in the world is not unrelated to this farsighted policy of the Congress.

Books, along with music, newspapers and magazines, are accorded special treatment under the Universal Postal Convention. Also, the United States imposes no custom duty on the importation of books nor on music, maps, newspapers and magazines from any country in the world under the terms of Public Law 89–651. This law was enacted in 1966 pursuant to U.S. adherence to the International Convention entitled "Agreement on the Importation of Educational, Cultural and Scientific Materials" Florence agreement. Some 62 other countries are also parties to the Florence agreement.

In 1942 Congress established by statute a nationwide book rate, separate from zoned parcel post in fourth class, which continued a special classification for books set up by President Roosevelt by Executive order in 1938. From 1942 to 1958, no essential change was made in the definition of those materials eligible for book rate, that is, consisting of "books containing no advertising except incidental announcements of other books."

In 1951 Congress took decisive action to preserve the single nationwide book rate and to prevent it from being reabsorbed into zoned parcel post. In that year, the Interstate Commerce Commission approved a Post Office Department proposal to increase the rate for fourth class mail by limiting the nationwide book rate to book packages weighing less than 10 pounds. Book packages over that weight would have been required to be mailed via zoned parcel post. Faced with this action by the ICC, Congress by Public Law 233, 82d Congress removed the book rate from the jurisdiction of the Interstate Commerce Commission and reserved it entirely to the Congress; at the same time, it provided that books, along with a limited number of other materials, would continue to enjoy the maximum weight and size limits for fourth class mail, namely, 70 pounds weight and 100 inches in length and girth combined.

In 1958, the Congress, acting on the recommendation of the Post Office Department Public Law 85–426, added other educational materials such as films, sheet music, educational tests, authors' manuscripts and sound recordings to the book rate. This same law also gave books and other educational materials special status by authorizing public service appropriations to make up the difference between estimated postal revenues and actual postage costs.

Other than some modest rate increases and the addition of some minor categories of materials, there were no further legislative changes with respect to the special fourth class rate until the Postal Reorganization Act of 1970.

The Postal Reorganization Act of 1970 was, with respect to the nature and location of responsibility for setting of postal rates, the result of a compromise between the House and Senate bills. By and large, the Senate provisions prevailed.

The House bill provided that Congress would continue to set rates for nonprofit organizations, books and other educational and cultural materials, and for libraries. Congress was also authorized to appropriate a subsidy for these rates to make up the difference between the revenues they would produce and the actual cost to the Postal Service. The Senate bill preserved no role for the Congress in setting rates of any type, but turned over the entire responsibility for rate-setting, within certain broad policy standards, to the Postal Service and the Postal Rate Commission.

At the same time, the Senate bill introduced the principle of phasing rate increases over a period of years, and the Senate committee report expressed the expectation that the Postal Rate Commission would give careful consideration to "the public service which certain preferred rates have historically performed."

The committee report went on to state:

Reduced rates for within county newspapers, for libraries, for books, and for associations of rural electrification co-ops were enacted for very good reason—that the public generally benefits from such rates.

When the Senate committee bill came to the floor of the Senate, an amendment was proposed by Senators Mansfield of Montana and Scott of Pennsylvania; the majority and minority leaders that was accepted by the chairman of the Post Office Committee. It was designed to remove any possibility that the Postal Rate Commission might create differential rates based on distance for books, for other educational and cultural materials in the special fourth class category, and for materials eligible for the library rate.

The statements by Senators Mansfield, Scott and other cosponsors of the amendment also make clear that the Senate expected that the Postal Rate Commission would take into account the educational and cultural values of the materials in this special fourth class category, both in maintaining a uniform rate and in setting the level of the rate, even though the Senate was not directly instructing the Commission to establish specific rates.

The following quotations are from the Congressional Record of June 30, 1970:

Senator Mansfield:

These uniform rates serve important educational and cultural purposes, insuring that all citizens, libraries, and educational institutions have the same access to these materials, no matter where they may be located. (Cong. Record, June 30, 1970, page S10324).

Senator Scott:

We are dealing with the Postal Service not as a mere transportation device, but as a vital link in the distribution of educational and cultural materials. * * *

The importance of library materials specifically was first recognized when Congress in the 1920's established, by law, the so-called library rate covering the exchange of library materials between libraries, and between libraries and their patrons. A second special rate for educational materials, started in 1938, applied a nationwide flat rate for books at the same level as that for the editorial content of magazines and newspapers. Under this rate, which has been continued by successive acts of Congress, the buyers of books, educational films, music, and other educational and cultural materials pay the same transportation charges for their purchases, whether they live near the large publishing centers of the East and Midwest, or whether they live in the most remote areas of the continental or offshore States.

* * * * * * *

Present law sets forth certain classes of mail which the Congress has designated as a public service function not required to bear the full overhead of their cost to the Post Office Department. The special fourth-class rate for books and other educational materials, and the library rate, are among these classes so designated.

Mr. President, the Kappel Commission of Postal Reform, the administration's original proposal on postal reorganization and the House-passed bill on this subject . . . all go much further than the amendment which I am cosponsoring today. They provide that not only shall there be a flat nationwide rate for library and educational materials, but they also reserve the level of that rate to the Congress itself, rather than turn the question of this rate level over to the Postal Rate Commission.

Our amendment, however, does preserve the essential element of national uniformity. * * *

It is, of course, our hope that members of the Postal Rate Commission . . . will take carefully into account the historical recognition of the importance of educational materials when they are faced ultimately with this rate decision. (Cong. Record, June 30, 1970, page S10325).

Senator CRANSTON.

It is basic to our democracy that all of our people have free and easy access to books and other printed materials through our libraries and in our schools. This open circulation of the words and ideas of men is the very currency of our democracy.

I believe we must take whatever steps are necessary and pay the price to assure that we maintain the free flow of printed words throughout our Nation. (Cong. Record, June 30, 1970, page S10326).

We submit that all of our people cannot have free and easy access to books and other printed materials if the Postal Service persists in what appears to be an effort to price books out of the system.

Only last year did we see further congressional recognition of the public service aspect of the distribution of books through the mails as shown in the House of Representatives report accompanying H.R. 8603 (Report 94–391). Commenting on section 13 of section 3682 of title 39 U.S.C., which permits books—when mailed by a publisher or distributor to a school, college, university or library—to be entitled to the Library Rate, the report states:

Libraries and schools currently receive at least half their books by mail. As a result, every dollar paid for book postage further erodes library and school budgets. The situation is worse for small rural libraries and schools which receive an estimated 90 percent of their books by mail. Under this amendment, these libraries would benefit from the lower rate. The potential cost of applying the library rate to this situation is considered a minor item in postal finances.

We commend the sponsors of this bill and this committee for once again taking the lead in attempting to solve the problems of this most vital public entity—the United States Postal Service.

Mr. HANLEY. Thank you, Mr. Albert.

You indicate that acceptance of the implications of the court of appeals' decision might drive books out of the mail stream. Have you done any specific studies as to how much might be diverted to private carriers and at what rate threshold this might occur?

Mr. ALBERT. No, we have not, Mr. Chairman. But if all of the attributable costs were assigned to the bulk mail centers, I believe that the rates would have to be increased to the point where it would be economical for us to use other types of delivery service. A great deal of the volume would be diverted from the Postal Service.

Mr. HANLEY. You indicated in your testimony that it costs 73 cents to mail a 1½-pound book. What would be the cost of the same type of delivery if you sent it through United Parcel?

Mr. ALBERT. It would depend on the zone. In the first, second, and third zones it would be much cheaper to use UPS. But we haven't yet made studies on whether zones beyond the third would be more or less expensive using UPS or other private carriers.

Mr. HANLEY. Back here on page 7 you expressed the fear that the cost of the bulk mail centers may be placed entirely on special-rate fourth-class mail. Frankly I look upon this as a bit of exaggeration or perhaps you may anticipate the complete collapse of parcel post or the regular rate third class mail. Would that be your rationale?

Mr. ALBERT. There is a steady decline in the volume of parcel post and book publishers are still very dependent on the Postal Service for delivery of the books. As the parcel post volume declines, if the cost is to be attributed to the volume going through the system, books, invariably, will have to carry much of that freight.

Mr. HANLEY. Do publishers use UPS?

Mr. ALBERT. Yes, they do. For zones 1 and 2 at the moment.

Mr. HANLEY. About what percent of your volume would you use UPS for?

Mr. ALBERT. It would vary depending on the type of publishing, the location of the publisher. In our own case I would say 90 percent of our books go out through the Postal System and 10 percent through UPS.

Mr. HANLEY. Thank you, Mr. Albert. Mr. Solarz.

Mr. SOLARZ. Thank you, Mr. Chairman.

Mr. Albert, I would like to get a better sense of the factual foundation behind your presentation. Do you have any idea how many books are sent through the mail each year by American publishers?

[Pause.]

Mr. SOLARZ. While you are trying to get that information let's move on to some other questions. Do you have any sense of the total amount of money spent by publishers in the last year, for example, sending books through the mail?

Mr. ALBERT. I don't believe we have those figures.

Mr. SOLARZ. Could you give us any idea of the percentage of the books which you send to book dealers or distributors as distinguished from books that are sent directly to individuals who have ordered them for their own use?

Mr. ALBERT. On page 15 we state that "Libraries and schools currently receive at least half their books by mail."

Mr. SOLARZ. The question is books that are sent out by book publishers in the country—is the basic mechanism for the distribution of books by mail, or are they shipped by truck, by train, or privately? In other words, I am trying to get a sense on how you get books into commercial distribution.

Mr. ALBERT. It depends again on the type of books. Elementary, high school books would be shipped mostly by truck to depositories who then would be distributed through the mails to the ultimate user. College textbooks are shipped primarily through the mail to libraries and universities. Of course, direct mail is mostly through the mail.

Mr. SOLARZ. What about the books that don't fall into those categories—fiction and nonfiction books that you find in bookstores. Are those mailed to bookstores?

Mr. ALBERT. They would either be shipped by UPS or through the mails. Again, UPS would be used for the first two or three zones and the Postal Service for all other zones.

Mr. SOLARZ. Are the mails primarily used to send books to individuals who have ordered them or are they used primarily to send to bookstores or institutions or the libraries?

Mr. ALBERT. Both. They are used to send books to bookstores and to people that order them directly from the publisher.

Mr. SOLARZ. Now, when an individual orders a book directly from the publisher is the cost of the postage added into the price the individual pays for the book?

Mr. ALBERT. Yes, it is. Well, it is not factored into the price of the book but it is charged additionally.

Mr. SOLARZ. So if the book is $10.98 and the postage is 75 cents you would pay $11.72.

Mr. ALBERT. That's right.

Mr. SOLARZ. Could you tell us how much money the publishers in the country are paying for postage now under the current rate? How much it is costing a year?

Mr. ALBERT. Something in the neighborhood of $450 million.

Mr. SOLARZ. So how much more would you have to pay if this rate increase went into effect?

Mr. ALBERT. Thirty-five percent more.

Mr. SOLARZ. Now, what specifically are you recommending that we do about this? I wasn't quite clear from your testimony.

Mr. ALBERT. We are recommending two things basically. One is that greater recognition be given to the public service aspect of the Postal Service and two, that consideration be given to rates for second, third and special rates and fourth, because unless the rates are kept under reasonable control that volume will leave the Service which will still leave the Service with responsibility of having to deliver first class mail and the increased overhead will require a tremendous subsidy—much more than if the rates are kept in reasonable balance so that publishers can afford to continue to use the Service as a delivery system.

Mr. SOLARZ. So, I understand that you support strongly section 2 of the bill which gives the Congress the right to the adoption of the concurrent resolution to veto a rate increase which has been recommended by the Postal Rate Commission.

My understanding is that Congress, under the terms of section 2 can either disapprove it or do nothing. If it does nothing it takes effect. If it disapproves it then presumably the existing rate remains in effect.

How would you feel about an amendment to the bill which would give the Congress the right to go beyond really accepting or rejecting a recommended rate increase and establishing a rate somewhere between the existing rate and the rate recommended by the Postal Rate Commission?

Mr. ALBERT. I would not be opposed to that. I presume that this would be done on the basis that there is a public service consideration and the revenue foregone would then be appropriated through the Congress as a subsidy.

I would not be opposed to it. I think it would be a good idea.

Mr. SOLARZ. Thank you very much.

Mr. HANLEY. Mr. Corcoran?

Mr. CORCORAN. Thank you, Mr. Chairman. First of all, Mr. Chairman, on behalf of the minority let me express our pleasure at the introduction of H.R. 7700 and the speed with which the hearings are being conducted and testimony is being taken.

It is clear that the issues raised in H.R. 7700 are critical and need to be resolved in this Congress. We appreciate the efforts of the chairman and Congressman Wilson for taking leadership in raising these issues.

Mr. Albert, I appreciate your coming here this morning to give your reactions to H.R. 7700 and also, incidentally, your reaction to the activities of the last couple of weeks as they relate to your industry.

First of all, are you suggesting in your statement that either the elimination of the special rate fourth class or a substantial increase in the special rate fourth class and the library rate, as recently proposed by the Postal Service, would impinge on the citizen's rights under the first amendment of the Constitution?

Mr. ALBERT. Yes; I believe it would because I think every citizen has an equal right to receive information and since the most expedient way to receive information is through the mail, if there are discriminatory rates I think it would be impinging on the first amendment.

Mr. CORCORAN. Can you tell us whether or not the membership of your association—the American Publishers—have experienced a decline in business volume as a result of the increasing book rates since 1970?

Mr. ALBERT. I believe that we can prove, especially where libraries are concerned, that there has been a decline because libraries have fixed budgets. Since part of that budget must be used to pay postal costs, there has been a decline in purchases of books—in numbers of books purchased.

Mr. CORCORAN. Has your industry done any comparison with the rates in other countries or services? In other words, how do we compare in this country for the delivery of books with other countries around the world?

Mr. ALBERT. We haven't made any specific studies. My guess is that our rates would be favorable.

Mr. CORCORAN. One final question. On page 2 of your statement you state the position that Congress should review recommendations from the Postal Rate Commission as they concern rates and classifications, and accept, reject, or modify these before they take effect.

This seems to go beyond the provisions of H.R. 7700. Why do you think Congress should involve itself more in the rate-setting process?

Mr. ALBERT. Well, because Congress has been out of the rate-setting process since 1970 and we can see the result. I believe that if we accept the concept that there is a public service aspect to the Postal Service and that only the Congress can decide what that percentage should be, and only Congress should provide the funds for that service, then it follows that the Congress should be involved in rate setting and we believe that Congress should also be involved in the wage setting because we cannot control one without controlling the other.

Mr. CORCORAN. It would follow then that any involvement of Congress in both the setting of rates and wages would, of course, also primarily involve us in the deficit that would probably result. Do you have any idea at this point what magnitude that deficit might be?

Mr. ALBERT. In our testimony we suggest that it would be 32 percent of total postal costs. That is why we recommend that that should be the subsidy contributed by the Congress.

Mr. CORCORAN. I have no further questions. Thank you very much.

Mr. HANLEY. Mr. Wilson.

Mr. WILSON. Thank you very much. Mr. Albert, on page 7 you make reference to the *Greeting Card* case. Would you give us what you feel is the significance of the *Greeting Card* case?

Mr. ALBERT. I will defer to counsel on that.

Mr. SCHMIDT. Congressman, the *Greeting Card* case is the decision from the Circuit Court of Appeals in the District of Columbia where it was appealed by the National Association of Greeting Card publishers in the 10-cent rate case, there is still one pending on the 13-cent rate.

Judge Bazelon in effect adopted a cost of service concept on distribution of costs.

You in your bill here have attempted to cure that by putting the 60 percent arbitrary limitation on the distribution of costs. This is what we are saying that if you go to it you might conceivably have on the volume basis all of the bulk mail center costs attributed to special rate fourth class.

Should that happen with a $1 billion capital investment and continuing high cost operation, you can conceivably see the book rate going to $1, $2, or $3 a book sent through the mails which would obviously drive us out of your system.

As a matter of fact, at the present time several of our publishers are looking for alternative methods of distribution. You can go into an urban area or highly concentrated population area and you go to an alternative system of distribution where you have delivery—five or six deliveries a block.

But what you leave out are the rural areas and the nonprofitable areas which the Postal Service must continue to serve. We like to use the example of the town of Moose, Wyo. which has a post office and very few people but they still have people who are buying books out there. No private carrier wants to get into that because this is not profitable.

But it is a public service concept, we think, that the people of Moose, Wyo. should have the right to books and magazines and other mail as much as the people of Los Angeles, for example, where you could have an alternative delivery system.

Mr. WILSON. Thank you very much. What is the situation insofar as the damage to books in the bulk mail centers? Has it improved any as a result of your work with the Postal Service or has it gotten worse?

Mr. ALBERT. Mr. Wilson, it has improved somewhat but the damage figures are still much too high. I don't know what the damage report will show for the last 12 months, but there has been a slight decrease. But, I guess the damage rate is still around 5 million units.

Mr. WILSON. Are you convinced that your publishers are packing the books properly? In our trips overseas checking military mail it was discovered that there is a great amount of damage done to parcels that come from mail order houses because of poor packaging.

Now, I didn't notice this among the publishers as much as I did among the catalog companies like Sears, Penneys, Montgomery Wards, Spiegel, and so forth.

Mr. ALBERT. Yes; we did have problems with packaging about 2 years ago. We formed a committee of publishers and postal people. Together we developed new guidelines which have been adopted by most of the publishers.

Since then there has been a great improvement. The Postal Service is satisfied that we are using the right weight materials and we are packaging our books properly.

Mr. WILSON. I am sure that you are doing the best that you can, however, I think the Postal Service is accepting packages that are not properly prepared.

Mr. SCHMIDT. Congressman, if I may. I think you've got a different concept of nonbook packages through the mail because of the different size and shape of the product. Most of the books that are packaged are on a uniform machine line and therefore are set up with proper cardboard weight and the proper dunnage.

I don't think the problem with packaging is as severe as with books where you have the uniformity of machine preparation as you have in other areas where you have different sizes of packages that have to be packaged individually.

Mr. WILSON. I didn't get to hear your statement. It was concluded when I came in but I did glance through it. Do you have any recommendations to H.R. 7700?

Mr. ALBERT. We are suggesting that the public service subsidy should be higher than 15 percent. We think it should be closer to a third of the total postal cost. We feel that if a six-day delivery service were considered desirable it is not required by book publishers and therefore this special rate fourth class should not be made to pay for that 6-day delivery service.

We believe—we endorse very strongly the idea that Congress should have the control over wages and rates.

Mr. WILSON. Thank you very much.

Mr. HANLEY. Thank you, Mr. Wilson. Mr. Gilman.

Mr. GILMAN. Thank you, Mr. Chairman. I'm sorry I was not here for the beginning of your testimony. I would like to address a few questions to Mr. Albert.

It is good to see you again.

Mr. ALBERT. Thank you.

Mr. GILMAN. Mr. Albert, have you estimated the impact on this business of the 34.3 percent increase on the special rate fourth-class postage rates and the 23.6 percent increase in the library rate as proposed?

Mr. ALBERT. We have not been able to evaluate that in terms of the average purchaser, but we can in terms of library purchases because library budgets are fixed. So, the 35 percent increase in postal rates means a 35 percent decline in volume. That is the money that is available for the purchase of books. The more money libraries have to spend on postage the less money they will have to purchase books.

Mr. GILMAN. I assume then that you take advantage of the United Parcel Service in your business.

Mr. ALBERT. Yes; we do.

Mr. GILMAN. Considering the fact that they take more business away from the U.S. Postal Service how do you think that the Postal Service can make its parcel post more of an advantage?

Mr. ALBERT. I think the Postal Service is doing pretty much everything it can do now to be competitive. But, we can't lose sight of the fact that UPS does not have to deliver to every little town within the country; the Postal Service does.

There is no way, while the Postal Service has to render that service, for it to compete with a private carrier who can pick and choose his territories. And, hence the reason why we think a public service is warranted.

Mr. GILMAN. Would you be in a favor of a two-tiered delivery system whereby certain sections of the country would continue to receive 6-day delivery while other sections that do not show demonstrable need would receive deliveries 5 days a week?

Mr. ALBERT. I think it would be difficult to administer and I think it would be a difficult concept to sell. I think the people that are getting 4-day and 5-day delivery would wonder why some are getting 6. Especially if they were paying the same postal rates.

Mr. GILMAN. Would you favor relaxing the private express statutes?

Mr. ALBERT. No; I would not. I think that the Postal Service provides a very vital communications link to this Nation. I think if the private express statute were even abolished temporarily it would result in chaos. It would result in loss of volume to the Postal Service in large urban areas.

It would be possible for private carriers to skim the cream off the top, so to speak. And I think again it would destroy the service to the point where it would have a very adverse impact on communications in this country.

Mr. GILMAN. You may have touched on this in prior testimony; do you have any recommendations as to how the Postal Service could improve its service to publishers?

Mr. ALBERT. The one way they could improve their service would be to improve the bulk mail centers. At the present time packages over 25 pounds cannot be handled in the system. They must be handled manually outside of the bulk mail system which creates added costs.

So, we strongly believe that the system should be improved so that heavier packages can be processed through the system.

We believe that improvements need to be made in the system generally so that we don't experience as many damaged parcels as we do now. We also believe that the parcels that are damaged should not be auctioned off at our expense.

I mentioned before that at the moment we believe there are between 5 million and 7 million books per year being damaged by the system.

Mr. GILMAN. You mentioned that the system should be able to accommodate heavier packages. What size packages should the system be abel to handle?

Mr. ALBERT. The system should be able to handle a package weighing 100 pounds.

Mr. GILMAN. Thank you.

Mr. HANLEY. Thank you, Mr. Gilman. Mr. Ford.

Mr. FORD. Thank you very much, Mr. Chairman. Mr. Albert, you and your association have provided your eminent counsel right here before the committee. I would like to compliment you at the outset on the fact that your statement in supoprt of the Hanley and Wilson bill, while speaking for an organization which has very special interests to represent, presents to the Congress a kind of broad approach and one that doesn't always come from an association with very special interests involved. We do appreciate the fact that, responding particularly to Mr. Gilbert's question, you demonstrate that you recognize that we are back into a situation where this piece of legislation may well be thought of by some people as an opportunity to get that bite of the apple, the bite which they have been denied in the past.

I am sure that there will be attempts to use this as a vehicle to weaken the express statutes. Some people believe that we are getting the post office out of competition with private enterprise as soon as possible.

Mr. WILSON. And so does the Postmaster General.

Mr. FORD. Well, he has been doing more than his share. I do appreciate that.

Back in 1974 when what can be known as S. 411 was passed, it was the policy adopted by the Congress after extensive hearings and a good deal of consideration that the then-contemplated, sudden increase in postage rates, particularly for the people whom you represent as well as for people dealing in other classes of mail, was in fact going to drive people out of the communications industry in this country.

Most members of this committee at that time agreed that the original purposes of the Postal Service as a means of disseminating information and providing communication had not diminished, though there were some other alternatives, like television, and so on, to books, magazines, newspapers, and other materials traditionally transported through the mail.

The proposal that the Postmaster General announced a week or so ago struck me as having the overall impact of putting us back at square one, where we were before we adopted S. 411 in 1974. Now, I have not had an opportunity to see the figures and the brief on what changes in this situation there might be that would make it different today.

But, is it a fair assumption that we are in danger of reversing the attempt that Congress made to save in increases of this kind with action, I guess like S. 411, if nothing is done before the Postmaster's recommendations are acted upon by the Postal Rate Commission?

Mr. ALBERT. That is correct.

Mr. FORD. For some of us that suggests a reason for some emergency in handling this legislation and getting a better handle on the operations over there. Do you agree with that?

Mr. ALBERT. Yes; I do. The increase for the first pound of a book would go from 40 cents to 55 cents. It is a tremendous increase. I think it would have an impact on disseminating information to people in this country.

Mr. FORD. Counsel tells me that for the classes of mail involved in the phasing, the increase amounts to about a 35-percent jump.

Mr. ALBERT. That is correct.

Mr. FORD. It was our determination at the time of passage of that legislation that a 35-percent jump would be fatal for many of the traditional users of the mail.

Mr. ALBERT. It is hard for us to understand why the Postmaster General would make this kind of recommendation which in a sense flies in the face of the recommendations of this Congress—that in setting the rates consideration should be given to the cultural educational value of the materials being shipped.

Yet books will now be given the highest increase of any class of mail.

Mr. FORD. It took a good many years for me to get that language into law, and I was shocked to see proceedings in which, for a large part, the Postal Service was arguing that what the language intended was that material that had cultural, educational, and informational value had become so valuable that a higher rate was justified—the exact opposite of your intention of including that language in this legislation.

I don't know if they have disabused themselves of that misunderstanding over there, after all of the years during which that language was discussed. What we used to get into legislation on this side, the various postal management people would get back out on the Senate side. However, there is ample legislative history to show that we intended that this payment be a form of public service—payment that we were willing, as a matter of policy, to accept as a cost of operating the Postal Service.

It also appears to me that the Postmaster General, if he, in fact, would like to see the Service survive as it is now, is being somewhat shortsighted. It appears to me, that the classes of mail that he now attempts to hit most directly are the varied classes of mail that the public supports.

If he drives these classes of mail out of the Service, the support for a subsidized service to provide educational and cultural information material is going to dry up.

How do you feel about that?

Mr. ALBERT. Yes; it seems imprudent to us that he would recommend such increases for books because in the end we can use alternate services. And that still leaves the Postal Service with the same overhead. Therefore, the Postmaster General will have to come to the Congress and ask for larger and larger subsidies.

It seems to us that if he gave careful consideration to second, third, and special rate, and fourth class, that would help to keep the overhead costs of the Postal Service down and therefore the subsidies required would ultimately be less than if he drives us out of the system.

So, it seems to us shortsighted that he would force us to leave the Postal Service.

Mr. FORD. Thank you very much.

Mr. HANLEY. Thank you, Mr. Ford. Mr. Solarz.

Mr. SOLARZ. Thank you very much, Mr. Chairman. Mr. Albert, do you know what percentage a book costs, generally speaking?

Mr. ALBERT. Well, that depends on the price of the book.

Mr. SOLARZ. I understand that. Don't you have any industrywide figures?

Mr. ALBERT. No. A medical book costs $25 or $30 and it weighs 10 pounds. A paperback book costs $1.95 and it weighs 1 pound.

Mr. SOLARZ. You have no industrywide figures. Do you have any figures for any different kinds of books to provide to the committee as examples? You don't have to do it right now but I think it would be useful for the record. I certainly would be interested in seeing that.

Do you compare the increase in publishing costs attributed to postage over the last several years as compared to the increase in publishing costs for other components involved with publishing a book, printing, labor, that sort of thing, and editorial expenses?

Mr. ALBERT. We could supply that information, but I don't have it right now. We know that production costs have not gone up fivefold since 1970.

Mr. SOLARZ. I think it would be useful for the committee to know what the relationship has been between the increase in postage costs and the increase in other costs.

As a whole, are book sales going up in the country?

Mr. ALBERT. Yes.

Mr. SOLARZ. Do you know how much for each year for the last several years?

Mr. ALBERT. Yes. We will have to get that information later.

Mr. SOLARZ. I am talking in terms of volumes of books, not the money spent.

Mr. ALBERT. We will have to figure that out because dollar figures would be misleading. We are talking about units sold rather than dollars.

We will have to provide that information to the committee later.

Mr. SOLARZ. And yet, in spite of the fact that there has been an increase in the costs of both the postage, as well as the increase in printing, editorial expenses, et cetera, the volume of books that have been sold are going up.

Mr. FORD. Will the gentleman yield to me?

Mr. SOLARZ. Yes.

Mr. FORD. Those of us who have advocated openly the continued subsidization of the classes described by Mr. Albert have been aware of the fact that the ultimate cost is borne by libraries, schools, research institutions, students, and so on. As a matter of fact, the subsidy involved here is not a subsidy of the book industry, since the cost of postage traditionally has been passed on to the ultimate recipient of the book.

We limit the subsidy based upon to whom and how you mail the book. If you mail the book to an ordinary commercial outlet, you don't get the same advantage you do if you were mailing the book to a library or to an educational institution. The ultimate recipients of the subsidy are the people who participate in education, and the Post Office is directed at facilitating the receipt of that material by people who are using it in education.

So, we don't subsidize the industry; we subsidize the user.

Mr. SOLARZ. I think the gentleman makes an interesting point. But the increase that the Postal Rate Commission is recommending would be for which categories of books? Would it be just for books sent to the individuals?

Mr. ALBERT. The mailings to libraries have been increased by 24 percent and to other buyers by 34 percent—35 percent.

Mr. SOLARZ. One final question. How would you feel about a change in the policy of uniform rates whereby it costs the same percent to send it from New York to San Francisco as to send it from New York to Washington if you knew the expenses to be involved to be greater?

Mr. ALBERT. I can best answer that by saying that I feel about that as I would about charging the people of New York City more for defense than someone in Podunk.

Mr. SOLARZ. I'm not sure that I get your analogy.

Mr. ALBERT. Well, defense is something that every citizen is entitled to equally. The Postal Service, in my view, is something that every citizen is entitled to equally. Therefore, the rates should be uniform no matter where the person happens to live. Geography should not enter into the rates.

Mr. SOLARZ. Thank you, Mr. Albert.

Mr. HANLEY. Mr. Gilman?

Mr. GILMAN. Thank you, Mr. Chairman.

Mr. Albert, I understand your interest in getting Congress involved in postal rate determinations, and I must say that I have reservations concerning congressional involvement in the ratemaking responsibilities. It would seem to me to be a process that could lead to a lot of problems.

Mr. ALBERT. I don't see how the Congress can avoid getting involved to some degree. We know for a fact that the Postal Service cannot operate as a business, cannot operate as a profitmaking organization, while it has to give the service that is called for by the Congress.

For that reason I think the Congress must get involved in ratesetting; and under the proposed law, the Postal Rate Commission would make recommendations to the Congress. The Congress would either approve or disapprove.

Congress would disapprove rates only if it deemed that the new rates were not in the national interest. Only Congress has the authority to do that.

Mr. GILMAN. Are you proposing that the Congress should go further than the veto powers suggested?

Mr. ALBERT. Yes. I think that if the Congress does not approve of the rates being recommended and recommends a rate that is lower than what is being recommended, that indicates to me that a subsidy would be called for because the revenue forgone would have to be made up in some way.

Mr. GILMAN. What troubles me is that the Commission has taken anywhere from 10 to 17 months to even a longer period of time to dig into the facts on any Rate Commission issue. I am wondering what sort of expertise Congress would have in that sort of review process—it is a very lengthy process and it needs a lot of expertise.

If the Congress comes in and says, "That hearing is over-ruled," the issues could lead to some problems both to the Postal Service and to the users. I question whether Congress should go that far. Veto power, yes, I think that would give Congress the opportunity to send it back for further study, but I question whether Congress should place itself in a judicial capacity and whether it would be then exceeding kind of balance that you might like to have.

Mr. SCHMIDT. I would like to point out, Mr. Gilman, that what Mr. Albert has said is that he endorses the provision of 7,700 with possible modification which is to say, if the Postal Commission came out with a 25-cent first-class stamp recommendation, Congress might well say, "No, we can't take this from a public interest standpoint. We are willing to modify that. We are going to cut it back 5, 6, 7, or 8 cents." But the money has to come from someplace.

After looking at the records of the findings the Postal Rate Commission submits to you, you have to make the decision of do we come in for a public service subsidy for that amount or do we let it go through. I think that's what we are talking about. We are not saying that you would go through full-scale hearings. Presumably you would have a record presented to you by the Postal Rate Commission with the basis for their findings.

But you have the policy decisions to make, and that is why we suggested that roughly one-third of this should be on a public service concept because it is going to be up to the Congress to pay for it or rather it will have to make the decision to have the United States public pay for it out of general tax revenues.

Therefore, we think you should have something to say about it. We are going to have to weigh the public service need versus what you are willing to pay for it.

Mr. GILMAN. Well, actually, sir, you are placing the Congress in an appellate jurisdiction.

Mr. SMITH. That is true.

Mr. GILMAN. Well, that would mean further congressional hearings.

Mr. SCHMIDT. Well, I don't say that you wouldn't have further hearings. You could certainly have further hearings. You could——

Mr. GILMAN. Well, that's the point, Mr. Schmidt. If you are suggesting further hearings, then aren't we unduly further complicating this process?

Mr. SCHMIDT. I don't think so. On the appellate level in our court system you don't have a complete and de novo review. You would take this on an appellate type review which would certainly take much less time than the 10 months that the Postal Rate Commission will have.

Mr. GILMAN. Of course, our thrust in this committee has been to try to limit the ratemaking process wherever we can. The Postal Rate Commission indicates that it would take a 6-month timetable. That's the latest Postal Service request. We have been trying to whittle that time period down as much as possible.

And by adding an appellate type of review we would just be lengthening that review process rather than shortening it.

Mr. SCHMIDT. Well, you might be adding to it for a certain extent, but the question is do you let it run rampant without any type of review or control or are you going to take the time necessary to make sure that it is equitable treatment for the American public.

I don't think another 90 days is going to make that much difference. I would recommend 90 instead of 60 here, but that would be——

Mr. GILMAN. 90 days for——

Mr. SCHMIDT. For your review up here on the appellate levelt. You have skilled staff that will be following the proceedings and would make their reports. I don't think you would have to have extensive public hearings on it.

Mr. GILMAN. But you would suggest some sort of hearing process on it.

Mr. SCHMIDT. Well, I think any presentation involves a brief hearing. Yes. Whether any of this would work I would not know, but I think it would be worth a try.

Mr. GILMAN. I appreciate your comments.

Mr. HANLEY. Thank you very much, Mr. Gilman. Mr. Albert, your suggestion with regard to the possibility of one-third of the cost allocated to public service sounds pretty good to me and hopefully to the administration. That suggestion might make our 15-percent proposal seem far more attractive.

We had hoped that by this time the administration would develop a position on this bill, and I can assume that it only results due to the cost factor here. I happen to be in agreement with what you say.

A recent overture on the part of the Postmaster General with regard to rates is further evidence of his insensitivity to the institution as a public service agency. That is what this legislation is all about. Hopefully, if we could have it enacted into law, we are going to put the whole matter into a far better perspective if enacted.

It would say that a majority of the people in the United States look upon it truly as a public service institution. Hopefully from that point we can develop an appropriate dollar formula which would have the effect of relieving so much of the agony that has prevailed through the years associated with this agency.

As I have said so many, many times, virtually every other agency of Government enjoys the status of appropriation and in so many instances without question except when it comes to the Postal Service. It has to endure the stigma of subsidy as though we are getting something that really isn't due.

Personally, I can't think of a better investment Government can make than to encourage dissemination of cultural and informational material through your industry.

On behalf of the committee, let me express our deep appreciation for your appearance this morning. Personally I am delighted that you are in support of the bill. I am delighted that you could be the leadoff witness today, and hopefully today will be a milestone in the history of that agency whereas the end results will be a turnabout and will put the agency into its proper perspective.

Thank you very much.

Mr. ALBERT. Thank you very much, Mr. Chairman.

Mr. HANLEY. Mr. Albert, I think Mr. Solarz made an excellent point with regard to your overhead. If you would follow through and provide the committee with the percentage figures, your increased costs over a given period of time outside of postal rates per se, that would be very helpful to us.

Mr. ALBERT. That would be manufacturing and other costs.

Mr. HANLEY. All of your costs, and if you break down the percentage factor from the standpoint of your overhead with all of the necessities and then your postal rate increases. That would be very helpful.

Our next witness this morning is Mr. Henry Brief, executive director of the Recording Industry Association. I understand that Mr. Brief is accompanied by Mr. Alan Kayes of RCA Music Service and Mr. Herbert Trossman of Columbia House.

STATEMENT OF HENRY BRIEF, EXECUTIVE DIRECTOR OF THE RECORDING INDUSTRY ASSOCIATION OF AMERICA, ACCOMPANIED BY ALAN KAYES, MANAGER, BUSINESS AFFAIRS, RCA MUSIC SERVICE; AND HERBERT TROSSMAN, VICE PRESIDENT FOR BUSINESS AND GOVERNMENTAL RELATIONS, COLUMBIA HOUSE

Mr. BRIEF. Thank you, Mr. Chairman. My name is Henry Brief. I am the executive director of the Recording Industry of America located at One East 57th Street, New York City. Our 59 member and associate member companies account for close to 90 percent of the phonograph records and prerecorded tapes made and sold in the United States.

I think the subcommittee for giving us the opportunity to appear here today.

Since our purpose here is to discuss the recording industry and its relationship to, and the extent of its dependence on the Postal Service, I ask the committee's indulgence to play a very short recording.

[The content of the recording follows:]

It's hard to believe only a century ago there were no recordings.

A word once spoken, a sound once made, a note once sung or played was lost forever, impossible of being recaptured and preserved.

Then, in 1877, Thomas Alva Edison recited into a horn, "Mary Had a Little Lamb." The vibrations of his voice made a stylus cut grooves on a piece of tin-foil he wrapped around a rotating cylinder and that's how it all began.

In the hundred years since then, the world has been entertained by recordings and educated by them. Recordings today serve as books for the blind, as texts for learning, as priceless historical documents that preserve for future generations the voices and artistry of performers and public figures.

Today, for example, we can still hear the immortal Caruso—(excerpt of Caruso's "Vesti la Giubba.")

Or, a symphony conducted by Toscanini—(excerpt from Beethoven's "Fifth Symphony.")

Or, Gershwin himself knocking out his "Rhapsody in Blue"—(excerpt from "Rhapsody in Blue.")

We can go back to the early days of jazz, and listen to Kid Ory play "Tiger Rag"—(excerpts from "Tiger Rag.")

Or, take a nostalgic trip back to the Swing Era of the 40's, and hear Duke Ellington play "Take the 'A' Train"—(excerpts from "Take the 'A' Train.")

We can be thrilled once again by Richard Burton as "Hamlet"—("To be or Not To Be" soliloquy.)

Or, have Julie Andrews repeat her unforgettable performance in "My Fair Lady" right in your own living room ("I Could Have Danced All Night.")

Think what it would be if we could hear George Washington or Abraham Lincoln, but we can still reawaken the memory of some of our great public figures by listening to them again (excerpts from speeches by Adlai Stevenson and John F. Kennedy.)

Perhaps the most exciting event of this century, man's first landing on the Moon, has been preserved for all time on a recording (commentary on Moon landing by Walter Kronkite and Wally Shirra.)

Making a recording is the business of selling art—art which has brought pleasure and cultural enrichment to the people of the world—a priceless heritage that we are able to pass on to future generations.

This is Francis Robinson of the Metropolitan Opera. An enthusiast once said that recorded sound was the loveliest miracle in a century of miracles. He wasn't far wrong.

Mr. HANLEY. If the gentleman will yield, thus, history is made in the House of Representatives on the 19th day of July 1977. [Laughter.]

Mr. BRIEF. Mr. Chairman and members of the subcommittee, we hope this all-too-brief montage of what the recording industry has produced over the past century will heighten your appreciation of who we are and what we do and the kind of material we send through the industry.

I might mention in passing that last night the music division of the Library of Congress opened an exhibit on the centennial of sound recordings which will go on until the end of October. I highly recommend that the members and their staffs visit that exhibit in the great hall.

Mr. Chairman, we appear here because mail order distribution has become an increasingly important supply channel for a broad segment of the American public whose cultural interests are served by sound recordings played in the home, in schools and colleges, in libraries, churches and community centers throughout the land.

In many areas of our country there are no retail record outlets or there exist only small outlets with little depth or spectrum of catalog. The U.S. Postal Service is therefore the only practical distribution system that is fully responsive to the varied and diverse tastes of the American public.

Having investigated other means of distribution, we have come to the conclusion that lack of sufficient density of customers in a given area gives us no practical, cost-effective alternative to the U.S. Postal Service.

Although the Congress has recognized sound recordings as cultural and educational materials by according them the special fourth class mail rate, postage costs even within that rate have risen so rapidly and alarmingly over the past 8 years that we are rapidly reaching the point at which the public will be either unable or unwilling to pay the cost of obtaining cultural materials through the mails.

For example, the reference was made by a previous witness to the latest proposed increase on special rate fourth class mail which is averaged out at 34.3 percent. It happens to be the largest single increase in rates for a major category of mail. But even that figure is misleading in as much as a large portion of the phonograph records mailed by clubs enters the mailstream at under 1 pound. Since the new proposed rate would hike the 1 pound rate from 40 to 55 cents, it actually means an increase of 37.5 percent.

We, therefore, urge this subcommittee to continue to recognize the public service aspects of the special fourth class rate by recommending that Congress include in an increased public service appropriation, that which is necessary to the very survival of the postal system, the sufficient funding to maintain a uniform postal delivery service for educational and cultural materials throughout the country at reasonable rates.

In this connection, insofar as H.R. 7700 is concerned, RIAA strongly supports the three proposed alterations to section 3622 of title 39, of the United States Code, particularly the proposed subsection (b) (2) relating to the limitation to 60 percent of attributable costs.

When one considers the broad range of services performed by the U.S. Postal Service over and above its basic responsibility to deliver first-class mail, it's entirely reasonable that there be a fixed limit on the amount of costs which should be attributable to any class or subclass of mail.

Finally, Mr. Chairman, I would like to take notice of the fact that this hearing coincides with the chairman's birthday and to deliver to him the best wishes of my colleagues.

We are now available to answer any questions the members may have.

Thank you.

Mr. HANLEY. Thank you very much. Mr. Brief, for your testimony, certainly for the innovation that occurred here in the committee room this morning.

I express my appreciation for your support of the legislation that we are considering and certainly I am delighted with this support.

You are in complete agreement that the Postmaster General should be appointed by the President of the United States?

Mr. BRIEF. I think the appointment of the Postmaster General is less important than a greater congressional oversight on the operations of the Postal Service. I think it is less important than the strengthening of the Board of Governors of the U.S. Postal Service so that it exercises greater control over parts sustained by the Postal Service.

Mr. HANLEY. What is your assessment of the role of the Board of Governors today? Is it necessary or productive?

Mr. BRIEF. Yes; I think it is necessary. I think it should act as a Board of Directors of any corporate entity would act in assuring the efficient operation of the Postal Service with regard not only to the rate aspect and performance aspect, but such items as labor costs, et cetera.

Mr. HANLEY. Do I understand you to say that you felt the function of the Board of Governors and its activities through the 6 or 7 years warrants its continuation?

Mr. BRIEF. Yes; Mr. Chairman. By and large, but it should be revitalized, as we say in our statement. It should have the function of continually overseeing the activities of the Postal Service to adjudge the effectiveness and efficiency of its operations.

Its members should be chosen for their expertise, be it technical, financial, educational, management, labor relations, or technological research.

Mr. HANLEY. If I may respectfully submit, I detect an inconsistency in your testimony. You stress the essentiality of consideration by the agency for the public service funding, particularly in your instance because of the cultural values associated with the distribution of records.

That consideration has not been made at all either by the Postmaster General or the Board of Governors. In fact, their actions have been directly contrary to what you suggest in your testimony.

And yet you endorse the concept.

Mr. BRIEF. We endorse the concept of their overseeing the operational responsibility of the Postal Service.

Mr. HANLEY. But their responsibility is bound to do exactly that. So, it is a little difficult for me to understand or assign a consistency to your prepared text and your enunciated report of doing business as usual.

Mr. BRIEF. What we are trying to say, Mr. Chairman, is that just because a body is given responsibility does not necessarily imply that they will carry that responsibility out well. I think in that area I agree with what you are saying in the same way that we pointed out that having created a special fourth-class rate and also as a result of the Mansfield-Scott amendment—requiring a single uniform national rate for books and records—we would presuppose that educational and cultural materials would have been spurred to be delivered to the American public.

Yet we find by all of these increases that actually the will of the Congress is being subverted.

Mr. HANLEY. Thank you very much. Mr. Solarz.

Mr. SOLARZ. Thank you, Mr. Chairman. Mr. Brief, do you by any chance have the kind of information that we tried to get from the publishers in terms of the increase in costs for your industry which result from the increase in postage rates as compared to the increase in your other costs from say, the establishment of the USPS to the present time?

Mr. BRIEF. We don't have that information either, Mr. Solarz.

Mr. SOLARZ. Could you get it for us?

Mr. KAYES. We can certainly try to get it from the extent that it is available from our sources. We represent one segment of the industry and while most of the mail delivery of records is accomplished through record and tape clubs and some of the television mail order activities, it is very difficult to get a handle on what the rest of the industry does.

Mr. SOLARZ. Do you pay different rates for records that are sent to educational institutions and libraries than for records that are sent to individuals through mail order clubs or whatever?

Mr. KAYES. There is no library rate for records.

Mr. SOLARZ. Is there an institutional rate?

Mr. KAYES. No, sir. There is a special fourth-class rate.

Mr. SOLARZ. So, it is the same.

Mr. KAYES. Right.

Mr. SOLARZ. Would you tell us what percentage of the recordings are sold to individuals as distinguished from institutions.

Mr. KAYES. Again speaking only for the mail order aspect of it since all of the deliveries of records from record and tape clubs are directed to individuals, all of that volume then is indeed directed to private institutions.

Mr. SOLARZ. I gather most of your recordings and the typical record weighs more or less the same.

Mr. KAYES. Under a pound.

Mr. SOLARZ. What is the average cost of a recording today?

Mr. KAYES. To a club member?

Mr. SOLARZ. Say to a club member.

Mr. KAYES. A record sells for $6.98 or $7.98 and a tape cassette or cartridge $7.98 or $8.98.

Mr. SOLARZ. Does that include postage?

Mr. KAYES. No.

Mr. SOLARZ. How much is the postage?

Mr. KAYES. Postage and handling is on top of that and it depends on the number of units shipped. But it averages about 75 cents, I would say.

Mr. SOLARZ. Presumably if this Postal Rate Commission rate went into effect it will increase the rate to 15 cents so you are talking about a dollar's worth of postage.

Mr. KAYES. That is a reasonable assessment.

Mr. SOLARZ. I assume that record sales have gone up substantially over the course of the last couple of years.

Mr. KAYES. The share of the record and tape club market has not gone up in relation to the extended volume of the industry.

Mr. SOLARZ. But it has gone up?

Mr. KAYES. Yes.

Mr. SOLARZ. Can you give us the figures?

Mr. KAYES. They are not in my possession at the moment but we can certainly assemble them for you.

Mr. SOLARZ. During that period of time there will presumably be increases in the postal rates. So, OK, my question is this. I am all in favor of encouraging cultural activities and exchanges and I was impressed with your recording. One of the most interesting presentations I have heard here in 3 years. Anybody that can give us a recording of Adlai Stevenson can't be all bad. [Laughter.]

And I would really like to help you but at the same time, logically, I feel obligated to ask this question. If, in spite of the increase in postage rates the volume of sales has been going up, how do you go about demonstrating the fact that further increase in rates, particularly 15 cents to a total of $7 or $8 of what a consumer has to spend for a recording is going to materially reduce the total number of sales in the country thereby reducing the total number of this cultural material that enters the cultural mainstream of the country?

Mr. KAYES. May I attempt a partial explanation of that?

Mr. SOLARZ. Yes.

Mr. KAYES. Two of the factors that make mail order buying of records through record and tape clubs desirable are one, cost savings, and two, the preselection aspect that is available to a member.

At the moment that the cost savings evaporate, the value of the club to that member evaporates at the same time. We don't know what that critical point is, but in truth, if someone enjoys a record or tape today he has some built-in cost savings as part of his membership.

If postage and handling eradicates those savings then the club's values disappear.

That is as short an answer that I would like to give you.

Mr. SOLARZ. And what are the rates for records in record stores as compared to what they are through the record club?

Mr. KAYES. It depends on what marketplace and it depends on what day of the week, literally. Discount record stores offer records and

tapes for as little as $3.40 on certain days of the week, and on other days of the week they offer them at full prices.

There is no uniform figure in the record stores.

Mr. SOLARZ. Thank you.

Mr. BRIEF. Mr. Solarz, may I answer that. I think you will find several points about our prepared testimony that are responsive to the question that you just asked.

We point out that the characteristics of club membership pretty much follows the population characteristics of the country. What you do is that as you increase the postal rates is that you take people and have them buy them retail where there are retail outlets.

This phenomena of discounting on mass merchandise has also introduced a phenomena where there is a very small spectrum of available merchandise in the store. Only what is fresh, new, hot, wonderful, and great—the greatest turnover in the shortest amount of time. Which is one of the appealing things about a club because it has a broader selection that is available to the consumer.

What you wind up doing, therefore, is that those people that have an alternative will exercise that alternative. Those that do not would either drop out of the club and buy nothing and therefore be deprived of this or will be the very people to whom these increases are imposed.

Mr. HANLEY. Thank you. Mr. Corcoran.

Mr. CORCORAN. Thank you, Mr. Chairman. Mr. Brief, I appreciate your testimony here this morning.

I think the thrust of what you are saying is that the experience since 1970 has not been very satisfactory. Therefore, I have a couple of questions.

If Congress were to assume the responsibility of subsidizing postal revenues to cover postal expenses, what role should we take in determining what would be legitimate and appropriate postal expenses?

Mr. BRIEF. I think this would be—the part of your being asked to underwrite the public service contribution. I can say on the one hand—how you can be asked to subsidize the Postal Service, and on the other hand might be given an oversight capacity.

Mr. CORCORAN. In other words, you are implying that if we were to assume a much greater role in subsidizing the deficit than we now have, we ought to have the right to examine the operation and the budgeting practices of that agency just like any other agency of the Government?

Mr. BRIEF. Absolutely, Mr. Corcoran.

Mr. CORCORAN. Second, in your opening remarks you talked about the fact that the break-even concept contained in the Postal Reorganization of 1970 has proved to be unworkable and impracticable. What would you suggest to be substituted in its place?

Mr. BRIEF. I would substitute that this is a public service institution and should be treated as such. We can't ask an agency to be put on a "business as usual" basis at the same time expecting them to maintain what are obviously nonprofitable areas.

If they were to dismiss all of these nonprofitable areas as other corporations would, then you wouldn't be rendering a service to the American public.

Mr. CORCORAN. So that the economy's efficiencies that you would have and require would be the same kind of economy and efficiencies that Congress requires of the Federal Government, especially in the Office of Management and Budget.

Mr. BRIEF. Yes.

Mr. CORCORAN. Thank you very much.

Mr. HANLEY. Thank you, Mr. Corcoran. Mr. Ryan.

Mr. RYAN. Mr. Chairman, I have one question. What I am hearing now and what I have heard for some time is that industry is affected by the present structure of the Postal Service.

They are saying that "We would like to have the Congress rescue us from the Board of Directors of the Postal Service." It is insensitive so I assume the conclusion is that we will become more sensitive if we have a congressional oversight as the Hanley bill requires.

I think of a parallel situation, going back about 15 years, when there was some other kind of reform which was very similar. The reasoning went that Congressmen shouldn't be voting for their own salaries. It should be taken out of their hands and given to some commission outside of the Government because such an objective group could do a better job.

Now, 15 years later the shoe is on the other foot, and there is great public clamor in the press saying that a Congressmen shouldn't be so chicken and afraid to vote for their own salaries—that the Commission is trying to subvert the process of Government.

In the same sense I remember years ago when the hue and cry was on about the enormous subsidies to the publishing industry and to the record industry and so on by Congress, and Congress was thereby corrupted because they were being bought off by you gentlemen in private enterprise trying to make a dollar, and that the Postal Service should be required to pay its own way.

Now my question, Mr. Chairman, as it relates to that particular point—who is to say, that if we adopt the Hanley concept—which I think is an extremely interesting and useful concept myself—if we adopt it today the wheel of fortune going around one more time that there won't be another hue and cry in another 10 or 12 years to do away with this system of postal subsidies and put it on a paying basis?

At which point we would not hear much, I don't think, and we did not hear enough years ago in our position to that kind of concept from the industries involved.

Can you give me any kind of comment on what you think the experience has been, what the future would look like as far as participation and support of the ideas and concepts you are partly communicating to me? You, as part of the communications media, would have some influence on the public concept.

Mr. BRIEF. That is a hard and complex question.

Mr. RYAN. I realize it is complex, but it is the basis for the bill.

Mr. BRIEF. Let me point out that the best comment I can give you is to how this concept of a "pay-as-you-go" Postal Service has worked out. It is readily imminent—our rates, for example, have risen fivefold, including the latest rate proposal, in 8 years.

Mr. RYAN. 500 percent?

Mr. BRIEF. Yes; and the deficit sustained by the Postal Service has mounted astronomically, and if nothing is done there is no sign at all

that this just won't proceed—not on an arithmetical basis, but on a geometrical basis.

Mr. RYAN. Well, I asked the question. I'm sure that Mr. Solarz' response to your experience this morning. It has been a long time since I have heard an expression of Hamlet's suicidal thought, but I would rather refer you to a poem by Rudyard Kipling, entitled "Tommy," in which the phrase or line appears, "Tommy" this, or "Tommy" that, "Tommy, stay outside. But, step, this way, Mr. Atkins, when the troopers are outside."

When things are going well, Congress pretty much has become the pillar upon which all kinds of sins are visited. But when there is trouble and suddenly there appears to be a good idea to have Congress be the representative of people themselves, reflecting what they want and making decisions.

We have had that function removed and now you are advocating the return of that function to Congress, of which I heartily approve. But, again, I must say, Mr. Chairman, that this whole cycle comes and goes, and I can't help but think that a good part of the problem is that the function Congress performs is not adequately understood during times when industry seems to be healthy and functioning well.

When they are in trouble, they call for help. They could save themselves a good deal of trouble and grief on occasion by recognizing the principle in the good times as well as the bad.

That's all I have to say.

Mr. HANLEY. Well, thank you, Mr. Ryan. As a brief response to what you said, I can only say that hindsight is better, and certainly the Reorganization Act of 1970 today has proved to be a disaster from the standpoint of public service.

So, as you look back, the old way was far better.

Are there any further questions from the committee?

[No response.]

Mr. HANLEY. Mr. Brief, Mr. Kayes, Mr. Trossman, on behalf of the committee, our appreciation for your time here this morning. Thanks very much.

Mr. BRIEF. Thank you for listening to us.

[The complete statement follows:]

STATEMENT OF THE RECORDING INDUSTRY ASSOCIATION OF AMERICA

My name is Henry Brief. I am executive director of the Recording Industry Association of America, located at One East 57th Street, New York City. Our 59 member and associate member companies account for close to 90 percent of the phonograph records and prerecorded tapes produced and sold in the United States. In 1976, estimated industry sales at manufacturers' suggested list price value were in excess of $2.74 billion, approximately $300 million, of which is attributable to record and tape club and other mail order sales through television and other promotional channels.

In 1976, record clubs alone accounted for more than $25 million worth of postal revenue, the bulk of which may be attributed to third-class and special fourth-class mailings, the balance made up of first class.

In its written and oral testimony before the Commission on Postal Service, which is now part of the public record of those hearings, RIAA made a number of recommendations to the Commission, among which were the following:

1. The break-even concept of postal operations, embodied in the Postal Reorganization Act of 1970, has proved to be unworkable and impracticable and should be abandoned.

2. The Public Service aspects of postal operations should be more broadly defined and clarified.

3. Special Rate Fourth-Class mail should be preserved, together with the letter and spirit of Congress's intent in embodying the Mansfield-Scott Amendment in the Reorganization Act.

4. In order to reduce the constantly widening gap between postal service income and expenditures, certain service reductions should be considered by Congress.

5. RIAA also asked the Commission to recommend to the Congress that Section 3622(b) of the Postal Reorganization Act be clarified by Amendment to reaffirm that the previous and current ratemaking methodology employed by the Postal Rate Commission is consistent with Congressional intent, and at the same time remove any question that the Postal Rate Commission has a mandate from Congress to give full effect to all of the criteria in Section 3622(b) in its future recommendations to Congress.

The Commission on Postal Service has since published its conclusions and recommendations and RIAA is pleased to note that certain, if not all portions of the Commission's recommendations, correspond with those of RIAA. While RIAA does not agree with all of the 13 major recommendations that have been made by the Commission in its report to the President and Congress, we are in general agreement with some of them. RIAA's recommendations also are on common ground with those of the Association of American Publishers, the Direct Mail Marketing Association, and the Mail Advertising Service Association (MASA). The viewpoint and recommendations we share are summarized in a position paper that has been prepared, a copy of which is being submitted separately.

RIAA believes that the entire legislative history of the Postal Reorganization Act manifests clear Congressional intent to treat Fourth-Class Special Rate mail differently from other Fourth-Class mail. The Mansfield-Scott Amendment underscores that intent. RIAA believes that both the Postal Service and, to a lesser degree, the Postal Rate Commission subverted Congress's intent to treat Special Fourth-Class Mail differently, by ignoring the consideration Congress has given to the transportation of the cultural materials through the mails.

Independent studies and the findings of at least one Federal Court describe club members who select sound recordings as their chief source of home cultural involvement as a separate and instinct segment of the record buying public. They are identifiable by their need or desire to secure expert assistance and guidance in building libraries and collections of sound recordings at substantial cost savings.

Ease of selection and cost savings are the elements that have satisfied the needs of this large cross-section of the American public, at the same time permitting the clubs to operate at volume levels that provide members with economic benefits not otherwise generally available.

But the scales of cost savings are delicately balanced, and to tip them by increasing postage, shipping and handling charges so that the economies of club membership are erased, can have serious consequencies.

This bears directly on membership attrition, the increasing cost of securing membership replacements, and indeed, how successfully mail-order clubs can continue to serve their members in a future threatened by successive rounds of large postal rate increases.

The geographic effect of this threat can best be appreciated by relating it to data on U.S. population concentrations by counties, prepared by the A. C. Nielson Co., and a parallel study of distribution of membership in the Columbia Record Club in 1970, using the same criteria.

Club membership distribution was found to be identical to national population concentrations by county. For example, it was found that in large urban counties U.S. population was 38.5 percent, as compared to club membership of 38 percent; medium urban population was 26.4 perecnt as compared to club membership of 27.6 percent; urban-rural population was 19.3 percent as compared to club membership of 19.2 percent; and in highly rural counties with a population of 15.8 percent the club membership was 15.2 percent—for a total of 100 percent.

There has been no significant change since that time, so it is reasonable to state that record club membership distribution is almost identical to the population at large. This demonstrates the universal appeal to consumers of the shopping comfort, convenience, economy and breadth of selection that the clubs offer.

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It should be noted, however, that the urban-rural and highly rural concentrations of club members, constituting 34 percent of the total, do not have general access to full-line retail record stores in low-density areas. They would be particularly disadvantaged both as to availability and cost of cultural materials in comparison to their large and medium-urban area counterparts, who reside in communities where retail discount record and tapes stores can be found in profusion. Those record buyers have at least a cost alternative, if not the comfort, convenience and selection advantage of record clubs.

These considerations aside, the failure of Congress to meet squarely the need for increased public service appropriations will simply diminish the importance of the role books and records play in cross-fertilizing the cultural interests of all age levels of our society.

Mail order distribution has become a most important supply channel for a broad segment of the American public whose cultural interests are served by sound recordings played in the home, in schools and colleges, in libraries, churches, and community centers throughout the land.

In many areas where there are either no retail record outlets with little depth or spectrum of catalog, the U.S. Postal Service is the only practical distribution system that is fully responsive to the public's varied and diverse tastes.

RIAA hopes this Subcommittee will assess the need to maintain the viability of cultural materials that are distributed through the mails. This can best be done, in RIAA's opinion, by making specific provision for an increased and permanent Public Service appropriation, and by including broadened and clarifying language wtih respect to ratemaking methodology that would preclude a repetition of the Federal Court of Appeals' decision that is opposed by the Postal Service itself. Thank you.

COMMENTS OF THE ASSOCIATION OF AMERICAN PUBLISHERS (AAP), THE DIRECT/MAIL MARKETING ASSOCIATION (DMMA), THE MAIL ADVERTISING SERVICE ASSOCIATION (MASA), AND THE RECORDING INDUSTRY ASSOCIATION OF AMERICA (RIAA)

The Postal Service is, in a free society, the one basic and indispensable system for personal communication, as well as the medium through which business is conducted.

The Postal Service renders an indispensable public service which truly helps to bind the nation together. Further, no private carrier could afford to give every citizen of the country identical service or product at one national price, regardless of distance. By tradition and congressional direction, the Postal Service has done so.

RECOMMENDATIONS

Public service appropriations

I. For reasons of public policy rather than economic viability, rural operations and a large number of small post offices continue to be maintained. Many recipients pay nothing for delivery which in frequency and mode is at higher levels than many senders want or need. The costs of such "public" services—i.e., services justified on the basis of public policy rather than on economics—should be funded by general tax revenues.

II. The Postal Service should be a business only in the sense of utilizing businesslike methods of management. It cannot and should not attempt to make a profit, but it should be effectively operated and managed. To the extent that as a matter of public policy its services include activities which a profit-oriented business could not afford to offer for economic reasons, general tax revenues must supplement the revenues received from postal rates and fees.

III. Most mailers favor consistency and predictability of service rather than frequency. In providing six-day-a-week delivery, as well as delivery to the door (rather than curbside), the Postal Service is providing more service than most mailers need or want.

Congress and the Executive Branch eventually must decide whether in the national interest the country should have a viable and cost-effective postal service that meets the needs of most mailers and recipients, or whether it will abandon its traditional role, severely curtail public service, and concentrate only on those aspects of service that will provide revenue that offsets cost of operations. If a

costly, all-encompassing system is chosen, it would not only be unfair to charge the mail senders for the incremental costs implicit in that choice, but might well be self-defeating in driving profitable mail volume out of the postal system and into the arms of other carriers and methods of distribution.

IV. The level of funding by appropriation should be sufficient to cover the cost of public services that Congress requires the Postal Service to provide. The great majority of mailers would not pay for certain services in a competitive marketplace. The nationwide service presently offered by the Postal Service necessarily requires uneconomic operations in low-density areas. Mailers should not be expected to offset the costs of these public services resulting from such uneconomic operations by having to absorb excessive rate increases.

V. The public service aspects of postal operations should be more broadly defined and clarified. The definition of public service should be based on a social and historical interpretation of the role the Postal Service as first articulated in the Constitution and thereafter periodically reaffirmed by the Congress.

The public service criterion now used by the Postal Service stems from the Kappel Commission's content that the Postal Service should operate like a business and attain self-sufficiency. Under this criterion, if the Congress requires that the Postal Service provide a certain service that most mailers will not buy in the marketplace, and Congress does not provide the necessary appropriations, the Postal Service must increase its rates to offset the costs of such a service, whether the mailers utilize that service or not.

The compelling criterion should recognize the fact that the Postal Service is by law a public service. Therefore, the expenses incurred in performing services that inure to the benefit of the public at large are indeed public services, should be treated as public service costs, and should be funded by Congress to the extent that the costs of such public services exceed operating revenues.

Those public services would include, but not be limited to: providing a nationwide network of services and facilities for the dissemination of information, communication of intelligence, the advancement of education and culture.

The fundamental charter and responsibility of the Postal Service to provide a truly national communications system for the public good should remain unchanged from what it was when the Postal Service was originally mandated by the Constitution.

VI. According to the Postal Service Staff Study, "The Necessity for Change", postal delivery services cost $3.8 billion in fiscal year 1975, approximately 32 percent of total postal cost . . . The major determinants of this cost are the frequency of delivery (six days a week) and the mode of delivery (whether to the door, a curb line box, etc . . .)".

In accordance with the public service concept, Congress should determine whether these services must be available whenever the recipient wants them, or, in the view of their high cost, modifications must be instituted both in frequency as well as type of delivery service. But the mailer should not be penalized with higher rates purely to provide services that the mailer does not need or use.

Postal Rates and Classification

VIII. The Postal Rate Commission should not be abolished, nor should its functions be returned to Congress. The Rate Commission has introduced a degree of rational economic analysis to the ratemaking process which was lacking when Congress had the entire responsibility for ratesetting. If Congress wants more participation than it now has, the present law should be amended to provide for Congressional review and veto power over the Postal Rate Commission's rate recommendations and decisions.

VIIII. The Board of Governors should be revitalized. It should have the function of continually overseeing the activities of the Postal Service, to judge the effectiveness and efficiency of its operations, and to maintain an apolitical posture. Its members should be chosen for their expertise in technical, financial, education, management, labor relations, and technological research areas.

IX. A recent U.S. Apellate Court decision in the case of the National Association of Greeting Card Publishers vs. United States Postal Service, et al. threatens to profoundly affect the rate-making methodology of the Postal Rate Commission.

If sustained, the decison will seriously and adversely affect all mailers, but particularly second, third and special rate fourth class mailers.

It could produce such drastic rate increases for other classes of non-letter mail as ultimately to drive them away from the Postal Service. Inevitably, a sharp decline in the volume of non-letter mail will lead to rate increases for First Class mail.

The Court failed properly to take into consideration the provisions of Section 3622(b) of the Postal Reorganization Act, namely all the factors which are to be employed by the Commission in establishing rates. In 1976, Congress added another factor, to wit: "the educational, cultural, scientific and informational value to the recipient of mail matter." In doing so, Congress reaffirmed that additional criteria must be considered in establishing rates other than assignable or attributable costs, for newspapers, magazines, books, sound recordings, and other cultural and informational materials.

The Executive Branch should recommend to Congress that Section 3622(b) be clarified by amendment to:

(*a*) Reaffirm that the rate-making methodology employed by the Postal Rate Commission does reflect Congressional intent; and

(*b*) Remove any question that the Postal Rate Commission has a mandate from Congress to give full effect to all of the criteria in Section 3622(b) in its future rate recommendations.

X. If Congress decides it is in the national interest to subsidize traditional postal services despite the long-term cost of such a policy, such a decision need not be based on whether such expenditures are better spent on the Postal Service or on other needs. Public Service appropriations for the Postal Service must be viewed as being as important as the defense establishment, health education, welfare, the needs of labor, the farmer, and urban blight. Budget savings through the elimination of waste and inefficiency and increased productivity at all levels of government can help offset the dollar requirements of an increased and permanent Public Service appropriation.

Postal Management

XI. Congressional advocacy of returning a measure of accountability for postal policy making and operations to the President and the Congress is overt recognition of the fact that the break-even concept of operating the Postal Service, as articulated in the Postal Reorganization Act of 1970, has proven to be unrealistic and unworkable and should be replaced by closer overview and review by the Executive and Legislative branches of government.

A decision as to whether the President or the Board of Governors of the Postal Service should select the Postmaster General has less urgency than the necessity of a decision to establish proper controls and administrative review over postal service labor and wage negotiations, capital expenditures, research and development and operating efficiency. A policy determination with respect to the role of the Postal Service in electronic communications and transmission should only be made at the highest level of government.

Wage scale escalations and cost of living adjustments not offset by increases in productivity defy the possibility of operating the Postal Service on a break-even basis. But this does not mean rigid performance and productivity standards and strict financial controls should be relaxed or abandoned. That is the real responsibility of good postal management.

No matter how effective postal service management may be at its top and secondary decision-making levels, certain policy decisions can only be made at the Executive and Legislative levels, because they involve the entire citizenry and business community of our country and should only be made at the topmost governmental level.

Private Express Statutes

XII. The private express statutes should neither be modified nor repealed. However, it must be recognized that this places a responsibility on the Postal Service to provide the prompt and efficient service required by both mailers and recipients. It should further be recognized that any loss of mail volume to private carriers in the second, third class or special rate fourth class categories would result in higher costs to the remaining users, including schools and libraries. Since third class mail is a profitable element of the Postal Service operation, any dimunition of volume would have a negative effect on rates charged to all other users, especially those who normally use first class, second class, and special rate fourth class mail.

Conclusion

XIII. Finally, the Administration should regard the impact and effect of mail volume synergistically, particularly with respect to rate increases imposed on the various classifications of mail that comprise the whole. Second class, special fourth class, and even substantial elements of first class volume are heavily dependent upon the ability to mail third class advertising matter at reasonable rates.

Third class mail is already profitable to the Postal Service and hence contributes more than its share to institutional costs. Disproportionate rate increases for that class will inevitably lead to a substantial diversion of volume to other carriers. This will cause increases to recipient of second and special rate fourth class matter and will similarly trigger further diversion of those classes to private carriers. It must be recognized that third class advertising mail is the locomotive that pulls the train of consumer needs in the educational, cultural and information fields. Any dramatic increase in those rates will adversely impact every consumer in the country.

Mr. HANLEY. Our next witness this morning is Mr. Tod Ackerly, general counsel for the Direct Mail Marketing Association. Mr. Ackerly, it's a pleasure to have you with us this morning.

STATEMENT OF TOD ACKERLY, GENERAL COUNSEL, DIRECT MAIL/MARKETING ASSOCIATION, ACCOMPANIED BY CELIA WALLACE

Mr. ACKERLY. Thank you, Mr. Chairman.

My name is Tod Ackerly; I am counsel for the Direct Mail/Marketing Association. Since my oral remarks will be brief, I will request that our written statement already filed with the committee be included in the record of these proceedings.

Mr. HANLEY. Without objection, your entire text will be a part of the minutes of this hearing.

Mr. ACKERLY. DMMA is an association of approximately 1,700 member companies that use direct mail as an integral part of their business. The membership encompasses virtually all kinds of businesses, including retailers, magazine and book publishers, book and record clubs, mail order houses, fundraisers, utilities, and the like.

It also includes those who produce or create direct mail such as advertising agencies and printers.

DMMA's members utilize all classes of mail. Therefore, DMMA's interest is not limited to one class; rather, it is in the viability of the Postal Service as a whole.

That is, reliable postal services that fulfill the need for a nationwide communications network at the least possible cost.

Direct mail advertising goes primarily by bulk third-class mail, although a significant amount goes by first class as well. Testimony before the Postal Rate Commission in each of the previous rate proceedings has shown that advertising mail returns a handsome profit to the Postal Service, which it can ill afford to lose.

A lot of advertising mail has been lost and much more will be lost if postal rates continue to rise so precipitiously. Direct mail is only one advertising medium, and since it is typically used by businessmen who continually evaluate the relative economic advantage of various modes of advertising, it is extremely sensitive to changes in postal rates. A few statistics will illustrate this point.

Third-class circular mail dropped from 14 billion pieces in 1972 to 13 billion pieces in 1976. By contrast, newspaper preprinted inserts showed a steady growth from 10 billion inserts in 1971 to 18 billion in 1976. Private delivery services are also growing, and they are estimated already to have passed 2 billion pieces per year.

In short, direct mail advertising has been stagnating while competitive forms have grown rapidly.

I mention these facts not only to demonstrate DMMA's experience and the breadth of its interest but also its vital concern in an efficient, well-run Postal Service.

DMMA supports H.R. 7700 and most of its major provisions, basically because the bill creates what we believe to be the right amount of political input in an essentially corporate structure.

The Postal Service is, of course, a unique national institution. In many respects it can usefully be analogized to a typical business corporation. It operates in an environment of competitive economic forces and requires the maximum possible efficiency of operation.

On the other hand, of course, it is an institution deeply affected by the public interest. Therefore, our national political institutions should have an important voice in the major policy decisions. Let me mention just a few specifics.

First, and perhaps most important, H.R. 7700 properly recognizes that the Nation asks the Postal Service to provide many services that most mailers do not need and ordinarily would not pay for. It makes good business sense as well as sound national policy for the Nation to pay the costs of these uneconomic services through public service appropriations.

Ideally, the amount of these appropriations should be based on the costs of the uneconomic services. Since these costs cannot be calculated with accuracy at the present time, the amount of the appropriations should be 20 percent of the previous year's operating budget. This is close to the historical average for 1946 through 1971 and corresponds closely to the Postal Service estimate published in the study "The Necessity for Change."

DMMA also supports the ratemaking portion of H.R. 7700, including the nonitem veto that would return to Congress the ultimate responsibility for ratemaking.

Perhaps even more importantly, the bill reverses the decision in the *Greeting Card* case. This decision would impose a cost allocation approach that is arbitrary and presents a wholly spurious appearance of accuracy.

The bill would require each class of mail to bear those costs that it demonstrably causes. This attributable cost principle is not only fair; it is also important for the financial health of the Postal Service because it is a clear indication of the true costs of handling each class, and at the same time gives an indication of the profit or the contribution to overhead that each class provides.

We do, however, have some relatively technical difficulties with the ratemaking provision. For example, we do not believe that the 60-percent limitation is appropriate. It is contrary to the general proper principle of cost causation. It would entail outright cost subsidiza-

tion between classes, and we cannot even figure out which, if any, classes it would necessarily benefit.

Also, the legislation is drafted to limit attributable costs to those that vary with volume. Volume, however, is not the only parameter of cost variation. Capacity is another, and a very important one to the Postal Service because of the problem of peakloads.

Mr. Chairman, that concludes my oral testimony. Our positions with respect with the other sections of the bill are set forth in our written statement.

I would be happy to answer any questions that you may have at this time.

Mr. HANLEY. Thank you very much, Mr. Ackerly, for your excellent testimony. Perhaps I am a bit biased on behalf of your position, because I have always looked upon your industry as a major contributor to our Nation's gross national product.

I think that the investment that the vendor makes in postage costs should be accompanied by a very definite interest and commitment on the part of the Federal Government.

You have referred to the 60-percent cost attribution. Now under the other costing language contained in other parts of the bill, would you expect attribution to rise substantially above the 60-percent level?

Mr. ACKERLY. Mr. Chairman, that, of course, would depend on studies that the Postal Service will be making over the next several years as they further define their costs and techniques.

The answer to your question is yes. I have not unfortunately, because of apparent problems in the Postal Service printing shop, been able to see a copy of the most recent rate filing. I understand that the attributable costs they have identified are slightly in excess of 60 percent in this filing. I would assume that in future years as their costing techniques become more refined that it would increase somewhat above that level.

My own guess would be that it would not go substantially more than 10 percent of that level.

Mr. HANLEY. What is your opinion of the present, that is, the traditional cost ascertainment process? Do you think that it is fairly accurate?

Mr. ACKERLY. When you say the "cost ascertainment process" are you talking about the cost ascertainment system prior to 1970?

Mr. HANLEY. Yes.

Mr. ACKERLY. This, of course, is a cost allocation approach similar to the one that was approved by the court of appeals in the *Greeting Card* case. I do not think that it provides useful data from the point of ratemaking or from the point of view of the internal Postal Service decisionmaking.

The allocations are completely arbitrary without any relationship to actual causation and therefore perform really no useful function.

Mr. HANLEY. You mentioned that the appointment of the Postmaster General or the House abolition of the Board of Governors are low priority items. Do you actually have a position on this? Are you in support of it or opposed?

Mr. ACKERLY. Mr. Chairman, we do not oppose the provisions of H.R. 7700 with respect to the Presidential appointment.

Mr. HANLEY. Thank you. Mr. Solarz.

Mr. SOLARZ. Thank you, Mr. Chairman. I am rather attracted to your argument that it makes sense for the Government to pick up in effect public service costs which the Postal Service incurs and that mailers shouldn't be obligated to pay for services which they neither need or want.

But by requiring them to do so you can raise the rates to the point where it becomes counterproductive to that use of the mail, thereby producing the decline in volume which in turn produces revenues which in turn require an increase in subsidy.

I would be interested first in how you define the public service aspects on what the Postal Service does. That is to say, those services which they provide which mailers neither need nor want and which are not economical. And, then if you could give us your views as to how one would go about determining what costs are attributable to these public service aspects of the operation.

Mr. ACKERLY. Congressman, you of course have asked a very important and at the same time a very difficult question. There is naturally a large gray area depending upon which mailer you are talking about.

I think, though, that there are some public services that the Post Office performs that, I would say, most mailers really would not buy in the marketplace. I would include among these 6-day delivery, I would include among these the maintenance of small rural post offices.

I know there is dispute about whether certain mailers want or would buy certain other services.

Mr. SOLARZ. You are talking about a figure of 20 percent as the recommended level of Government subsidy of the Postal Service. I can't believe that 20 percent of the cost of the Postal Service can be attributed a 6-day delivery and to maintaining offices in rural areas alone.

Those two things together constitute a relatively small percentage of the total cost.

Mr. ACKERLY. That is correct. The figures that we used in our testimony come from the Postal Service staff study. If you would like, I can read you the cost categories that they have included in the public service category. I believe I have it with me.

Mr. SOLARZ. And on what basis do they attribute the cost to these uneconomical services?

Mr. ACKERLY. I am not familiar, of course, with the details of their studies. The filings that the Postal Service has made in the various rate cases have demonstrated that they have very detailed figures as to costs and although I am not sure how they got it, I am sure that it would not be too difficult a process to come up with detailed costs.

The public service activities that are listed in the study "Necessity for Change" include with respect to delivery both modes and frequency. That is, central delivery to residences and businesses, central mail room, centralized locked receptacles or lock boxes. With respect to frequency the cost of providing 6-day delivery instead of 5 days to businesses and 3 days to residences, with respect to service standards, the cost of present standards versus delayed mechanized day shift operations.

Then there are additional small amounts of dollars for certain retailing operations and criminal investigations. This is all on page 21 of the study.

Mr. SOLARZ. I gather you favor that section in the bill which gives the Congress the right to veto a rate increase.

Mr. ACKERLY. Yes, we do.

Mr. SOLARZ. Do you think that Congress has the right to set the rate on its own somewhere between the existing rate and the recommended rate? Do you think that we should find an alternative or either rejecting the rate and thereby leaving the existing rate in effect or being given the opportunity to set a rate somewhere between the recommended one and the existing one?

Mr. ACKERLY. We would oppose the ability of Congress to set a rate in between the two.

One of the great benefits of the Postal Reorganization Act and the activities of the Postal Rate Commission has been the establishment of scientific economic principles and their utilization in setting postal rates.

We believe that the Postal Rate Commission has performed a valuable function in this respect. Congress ought to have the ultimate veto power over rates. But to get Congress involved in the details or setting rates would add another level of decisionmaking on this issue which we believe would not be appropriate.

Mr. SOLARZ. One final question, Mr. Chairman. Is it true that if you increase third-class rates, the volume would decline somewhat? Have you done any studies to indicate whether the loss in volume is compensated for by the increase in income due to the higher rate which has been implemented? Because that would seem to me to be in effect the bottom line in terms of the financial status of the Postal Service.

Mr. ACKERLY. Mr. Congressman, the answer to your question is no. We have not done any studies. The Postal Service in each of its rate filings has an estimate of the elasticity of demand of third-class mail, which is what you are talking about.

In the last rate case I believe their estimate was that although third-class was very substantially sensitive to price increases, it did not reach the level of unit elasticity, where the level of postal receipts would decline with increasing rates. I do not know what their estimate is in the rate case that they have just filed.

Mr. SOLARZ. Well, I understand that here again rate increases from the public interest point of view, the particular rate increase even though it produces a decline in volume also produces an increase in revenues. What would be the objection?

Mr. ACKERLY. I am not exactly sure that I understand your question. We are not opposed to rate increases per se. We realize that the Postal Service has increasing costs and it is the increasing costs that have caused some problems. Most of these are labor costs—over 85 percent of them are.

We agree with the concept that mailers should pick up their equitable portion of the increased costs. So, we are not opposed to rate increases to this extent.

Our major position is that every effort should be made to have the Post Office run and managed in the most efficient manner possible to

keep the rate increases to the bare minimum possible. I am not sure that that is responsive to your question.

Mr. SOLARZ. Let's just follow up on that for 1 second. Is there anything in this bill, as you read it, which in any way enhances our capacity to get the Postal Serviec to function more efficiently? Would it reduce waste, thereby keeping rates down? And if not, is there anything that you think should be in the bill to give us that?

Mr. ACKERLY. The answer is yes, there are some things we think should be in the bill.

As I mentioned a moment ago, postal wages are the main element of postal costs and postal wages have increased greatly under the collective bargaining system. We believe that there ought to be a coupling of the rate settlement process and the wage process so that at least the people who are making the decisions with respect to the rates also have some input with respect to the wages. We have some suggestions about that in our written testimony, including the comparability of postal wages with wages of other Federal employees.

Mr. SOLARZ. Thank you, Mr. Chairman.

Mr. HANLEY. Thank you, Mr. Solarz. Mr. Corcoran.

Mr. CORCORAN. Thank you, Mr. Chairman. Mr. Ackerly, I appreciate your testimony here this morning. In the discussion with my colleagues from New York you talk about a broad range of services that the Postal Service currently provides, only some of which help your industry. Does that imply that perhaps your industry would be better served by a private express statute that would allow your industry to go out and buy the specific types of services that you want?

Mr. ACKERLY. Congressman, our position with respect to the private express statutes is that they should not be repealed. We feel that the Postal Service properly managed and run can provide a very valuable service to our industry.

What is most important to our industry is the reliability and predictability of delivery. This has been a major problem our industry has had with the Postal Service. If that could be improved then the value of the Postal Service to the industry would be greatly enhanced.

Mr. CORCORAN. On page 4 of your testimony you refer to the "break-even concept" in the Postal Reorganization Act of 1970 as being a "pay later" concept. What would you use as a discipline to bring about the kind of economy and efficiency that we would all like to see in the opeartion of the Postal Service.

Mr. ACKERLY. Congressman, I think you have put your finger on the question of who should be the Postmaster General's boss. The most importnat thing is that the Postmaster General himself and his entire organization be organized and run in the most efficient manner possible.

We do not oppose the provision in H.R. 7700 which would provide for the Presidential appointment of the Postmaster General which would in effect make him responsible to the White House.

Mr. CORCORAN. I have one last question regarding your attachement A here in your testimony, on the back of your statement. It is a little bit confusing to me.

Prior to 1971 the Congress appropriated the entire operating budget of the Post Office Department and, therefore, your first column prior to 1971 shows the overall operating deficit or the distance between postal revenues and postal expenses. The figures in column 1 after 1971, however, would represent something else. Would you explain a little bit more about that aspect of the chart?

Mr. ACKERLY. What we are trying to demonstate here—and you are quite right about the fact that prior to 1971 Congress did appropriate all the moneys.

The left-hand column, the first column where there are dollar figures, is in effect the deficits, the makeup that the Treasury had to come up with between the operating revenues of the Postal Service and the total expenses.

What we are trying to demonstrate is that the public service appropriations that the Congress made during these 25 years was on the average close to 19 percent.

Mr. CORCORAN. In view of the thrust of your testimony that the experience thus far with the Postal Service since 1970 has been quite unsatisfactory, would that imply that to go back to something like we had before or something as contained in H.R. 7700 would bring about a rather substantial increase in the amount of public financing for the new Postal Service?

Mr. ACKERLY. Congressman, the experience in the last several years, of course, has not been all good. I don't think it is our position, on the other hand, that it has been all bad.

In fact there have been numerous benefits, I think, in the last 6 or 7 years.

I think the problem that has caused the increase in postal rates has been one of postal costs. Not only have these been affected by wages, but other operating costs of the Postal Service as well. Some investment decisions, we believe, have been questionable.

We think that there is room for improvement upon the system that we have at the present time. We think that H.R. 7700 can come very close to making those kinds of improvements that are necessary to reach what we believe, at least, to be the proper balance between public input into an organization and an organization structured basically to run efficiently and provide the kind of services that the Nation needs at the lowest possible cost.

Mr. CORCORAN. Do you think a closer rein by Congress is going to improve the investing decisions of the Postal Service?

Mr. ACKERLY. I think that when you come to the major decisions of investment, hundreds of millions of dollars, that this is the kind of national policy that Congress should at least have the ability to have some input into.

Mr. CORCORAN. Thank you.

Mr. HANLEY. Thank you, Mr. Corcoran. Mr. Ryan.

Mr. RYAN. Recently I sent a newsletter out with a questionnaire on the back. We received, thousands of replies, which appears to be a pretty good sample, on the question—of whether periodicals and direct mail advertising should pay their own way even though the price of delivery to you would be increased. The results were that about 4 to 1 would want periodicals to pay their own way.

Mr. ACKERLY. Congressman, I honestly do not know the answer to that question. I am not involved directly in the public relations activity of DMMA. Obviously that questionnaire shows the public still has a great misunderstanding of whether or not third class mail, advertising mail, pays its own way.

In fact, it pays a great deal more. The contribution to overhead of the Postal Service is a good deal larger than any other class. I would be happy to supply for the record, however, the programs that DMMA has along the lines of your question.

Mr. RYAN. I think it would help. My own attitude has been that years ago it was like beating a dead horse among other things to try to convince a public that there was some kind of value in direct mail advertising—junk mail. When they didn't see or hear anything except for one side, it is junk mail. And, if you don't deliver junk, we would be better off without it.

I think you and I both know that it is a substantial industry and if we talk about jobs in connection with the B–1 bomber or jobs in connection with atomic energy or jobs in connection with anything else, you also talk about jobs directly affected by a healthy mail advertising industry.

I have a hunch that people, if they are concerned about that kind of thing, might take a somewhat softer view of the matter if they had some alternative impressions to the ones they now have.

I have never seen the direct mail advertising industry indicate to the public, as the oil company is doing now, the advantage of having large, strong and profitable oil companies, and that sort of thing. In view of the storm of questions that have been raised in the last few years about oil, oil prices, oil companies, gouging, and so on, they certainly responded with a kind of PR campaign. It must be terribly expensive and it has had some significant effect.

When I get the result of a questionnaire like that and then I am asked to vote to help the industry survive, I've got a conflict that is of some concern to me because, obviously, it isn't a particularly popular vote.

Ms. WALLACE. Mr. Chairman, with your permission, I would like to respond to Congressman Ryan's question because I, not Mr. Ackerly, am really in a position to do so.

Over the past 7 years, motivated by the concern and really, the misunderstanding and lack of knowledge on the part of the general public, Congressman, as you pointed out, the association mounted a consumer affairs and public relations program to try to address some of the misunderstandings.

That particular one, certainly being one—I must say I wouldn't like my job to rest on the measurement of your questionnaire. We have had a great deal of response in various ways to our efforts to educate the public and to disseminate facts such as that.

That has been the most difficult misunderstanding to address, as I say, because it has been so complex. We have also attempted to be more responsive on behalf of the industry to consumers' interests in enabling them to have their names moved from mailing lists, and to increase or diminish the amount of mail advertising they receive.

The consumer program call mail preference service has been our attempt to apprise the public in the form of space advertisements, contact with the media, action line editors, and Members of Congress as well, just to inform that this service existed.

Mr. RYAN. This is precisely my point. There is an entire area of direct mail purchase which I don't think the average person connects with direct mail advertisement as such.

Ms. WALLACE. You are right. One thing that we have found over the years is that the consumer definition of what direct mail is often doesn't include catalogs, for example.

It is a long and difficult process. The association has committed resources to it, and I think the fact that you have even brought it up gives us motivation to continue in this direction and some encouragement.

Mr. RYAN. Perhaps I have expanded your office.

Ms. WALLACE. I would say just in closing that I appreciate the opportunity and also, if anything more in this regard can be useful to the committee we would be most happy to supply it and also welcome any suggestions like this.

Mr. RYAN. If you have any information regarding what you do, as a matter of course—because I think that unless something unpredictable happens, I intend to support, and support very strongly, the Hanley bill and the part of it that relates to that particular function.

But I think I would like to have some kind of ammunition when the question is raised later on in connection with that newsletter.

I am sure the members can use the information. If you have any information, we would appreciate it.

Mr. HANLEY. Thank you, Mr. Ryan. Just to carry on for a moment what I alluded earlier to the very meaningful purpose this industry serves from a standpoint of gross national product, interestingly enough it was back in the thirties with the administration of the great Franklin D. Roosevelt. At that time he recognized the value of a fourth-class mail as an aid to the sagging economy and accelerated attention to the use of it for the purpose of hopefully helping us spin out of the depression.

The committee appreciates your support for H.R. 7700 and your effort is deeply appreciated.

Mr. ACKERLY. Thank you, Mr. Chairman. It is a pleasure to have been here.

Mr. HANLEY. Thank you.

[The complete statement follows.]

STATEMENT OF DIRECT MAIL/MARKETING ASSOCIATION, INC.

DMMA is the largest and oldest international trade association representing firms involved in direct mail advertising. The majority of DMMA's 1,700 members use direct mail as an integral part of their business—manufacturers, wholesalers, retailers, publishers, mail order houses, insurance companies, fundraisers, public utilities, financial services, and so forth. In addition, our membership includes those who produce or create direct mail such as advertising agencies, letter shops, and printers, as well as suppliers such as list brokers, paper producers, and envelope manufacturers.

Direct mail contributes substantially to the company

Advertising is one of the country's largest businesses. It is a significant contributing force to economic and social progress and one of the major forms of communication that binds the country together.

Marketing by direct mail is almost infinite in variety. It is used to reach pinpointed markets and for mass distribution. It is used to deliver products, to raise funds for charitable causes, to get candidates elected to public office. The wide array of product and services promoted and sold by direct mail is estimated to have a value of more than $60 billion annually and supports a substantial number of jobs.

Direct mail advertising goes primarily by bulk third-class mail, although a significant amount goes by first-class, too. Both classes are money-makers for the Service in the sense that each makes a large (and in percentage terms, about the same) contribution to fixed costs. The old canard that third-class bulk mail did not cover its costs stemmed from the obsolete accounting system which the old Post Office Department once used and which did not permit segregation of costs on the basis of which class of mail cause them. Under the modern principles now used by the USPS, it has become clear that advertising mail returns a handsome profit to the Service which it can ill afford to lose.

Direct mail is being priced out of USPS

A lot of advertising mail has already been lost and much more will be if postal prices continue to rise precipitously. Direct mail is but one advertising medium and, since it is typically used by businessmen who continually evaluate the relative economic advantage of their advertising mix among various modes of advertising, it is extremely sensitive to changes in postal prices.

Magazines, newspapers, newspaper inserts, and radio/TV, all offer competing advertising opportunities. The radical increase in newspaper inserts and radio/TV advertising—contrasted with the relative stagnation of third-class mail volume—indicates that direct mail is being priced out of the market. Further, in many densely populated areas, private delivery systems offer delivery alternatives to the USPS.

Postal Service statistics show that third-class circular mail dropped from 14 billion pieces in 1972 to 13 billion in 1976. By contrast, newspaper preprinted inserts have shown steady growth in volume—from 10 billion inserts in 1971 to 18 billion in 1976 according to the Newspaper Advertising Bureau. Private delivery systems are also growing; while overall volume statistics are not yet published, we have estimated, based on figures from organizations like National Association of Advertising Publishers, the National Postal Service and Impact Media, Inc., that private delivery has already passed 2 billion pieces per year.

We set forth these facts to show that DMMA has had a long-standing and crucial interest in the continued viability of the Postal Service, and that it has a background of knowledge and experience which gives it a reasonable basis for constructively commenting on some of the issues facing the Committee. We now turn to those issues.

An institution both political and economic

Since DMMA represents mailers who utilize all classes of mail, its interests transcend inter-class boundaries. DMMA's primary interest is in reliable postal services that fulfill the national need for a nationwide communications network at the least possible cost.

The major challenge posed by the "Postal Service Act of 1977" is to define the proper role for our political institutions in the management of an institution that functions in a competitive economic environment. The Postal Service performs valuable public services and is an institution in whose well-being the nation as a whole has a vital interest. At the same time, it functions within, and is affected by, an environment of competitive economic forces and requires the maximum possible efficiency of operation.

DMMA believes that the reform set in motion by the Postal Reorganization Act of 1970 was basically well-conceived, except for the break-even concept—a fatal error. The Postal Service has benefited from an organizational structure designed to maximize the efficiency of, and remove politics from, day-to-day op-

erations. On major policy issues it has, however, suffered from a lack of guidance from its constituency, the American public. Thus, DMMA urges retention of most of the current institutional structure, but provision for ultimate Congressional responsibility for major policies, such as rates, wages, service levels and public appropriations. Accordingly, DMMA generally supports H.R. 7700 and most of its major provisions.

Public service appropriations

H.R. 7700 properly recognizes the single most important point: a significant portion of Postal Service operations are performed as a public service to the nation as a whole and the nation should pay the reasonable costs of those functions that cannot be justified on an economic basis.

As was emphasized in the recent report of the Commission on Postal Service, the nation derives enormous intangible benefits from an effective means of communication between any two parts of the country. The CPS report also properly focused on those tangible aspects of the service provided by the Postal Service that are in excess of commercial viability and would not be offered by a commercial, profitmaking enterprise.

Those USPS functions that cannot be justified on an economic basis, such as readiness to serve any area no matter how remote or sparsely populated, universal 6-day deliveries, door delivery, and the like, are justifiable only on the basis that the recipients or the nation as a whole, or both, desire such service even though the mailers do not. The recipient pays nothing for delivery which in frequency (i.e., 6 days a week) and mode (i.e., to the door) is at higher levels than many senders want or need.

The costs of such "public" services—i.e., services justified on the basis of public policy rather than on economics—should be funded by the taxpayers.

What should the level of public service funding be? First, we think it should be sufficient to cover the cost of service Congress requires the Postal Service to provide but which a great majority of mail senders would not buy in the marketplace; it should be sufficient to take into account the fact that nationwide service necessarily requires uneconomic operations in low-density areas.

Second, it should be based on a fixed formula or formulae so as to provide the degree of stability and predictability that the Postal Service needs for proper financial management and that mailers need in order to make rational business decisions.

The Commission on Postal Service stated that today it is too difficult to calculate specific price tags for the various public service aspects of the Postal Service's operations and that any public service appropriation should not be based on amounts for specified activities.

DMMA believes that ultimately the general level of public service appropriations should be determined by calculating the cost of these uneconomic public services; in the meantime, at the very least, an attempt should be made to determine the order of magnitude of the "tangible" public service operations.

One approach would be analyze and put a price tag on three different kinds of public service: what might be called its national, community, and individual aspects:

—Nationally, the Postal Service network is pervasive, far more pervasive than it would be if based wholly on marketplace considerations.

—In communities, the Postal Service maintains a far greater number of offices than can be economically justified.

—Individually, mail recipients receive service which in terms of both frequency and mode is greater than most of the senders who are paying the bill want, or most of the recipients need.

The results of this analysis might then be aggregated and keyed to a formula which would automatically reflect order-of-magnitude changes in cost levels. One possibility would be to allocate "X" dollars for every postal delivery stop as the measure of public service funding. This would help to take into account the fact that such potential stops, which represent a fixed (and growing) network cost, will, according to the Commission, increase by about 17 million addresses between 1976 and 1985.

Until adequate calculations can be made, DMMA believes that the public service appropriation should be fixed at the amount of 20 percent of the previous fiscal

year's operating expenses. The exact dollar figure would, of course, vary depending on the past year's expenses, but the amount could be easily calculated by multiplying 20 percent times a known figure, thereby promoting the needed rate stability and reasonable predictability.

Twenty percent (20 percent) is the appropriate level of public service appropriation from several points of view. The Postal Service staff study "The Necessity for Change" (December 10, 1976) estimates that the cost of providing uneconomic public service activities was $2.845 billion in fiscal year 1975, or approximately 22.5 percent of total USPS costs. Moreover, Congressional appropriations have historically provided an average of 18.9 percent of total postal costs. See Attachments A hereto.

The so-called public service appropriation contained in the present law is for a diminishing portion of the Service's annual budget, so that, as time has passed, the sender of mail has had to pick up an increasing portion of the cost for those services dictated by political choice rather than economic demand. As we have long recommended, a public service appropriation in a fixed amount would, at least, generally keep pace with inflation.

An approach whereby the taxpayers as a whole would supplement the revenues received from rates and fees to the extent of the noneconomic public services provided by USPS is not only logical and fair, it also makes practical sense. As stated above, the volume of direct mail advertising is, because of competitive conditions, extremely sensitive to postal price changes. To charge direct mail advertisers, through the postal rate structure, for the costs of non-economic postal services drives a lot of volume out of the mails to other advertising media or modes of delivery.

We agree with the Commission on Postal Service that postal service beyond the needs of most mailers is presently provided. We also agree with the Postal Service staff study, "The Necessity for Change", that "Congress eventually must decide whether it wants a cheap postal service that meets the needs of most mailers, or whether it wants an expensive system that seeks to meet a variety of postal needs." If Congress chooses the expensive system, it would not only be unfair to charge the mail senders for the incremental costs implied by that choice, it might well be self-defeating by driving profitable mail out of the postal system to an extent not compensable by increasing rates.

Rational rate-making principles

DMMA believes that the rate-making concepts and procedures established by the Postal Reorganization Act of 1970 have been beneficial in introducing a high degree of rationality and scientific analysis into the postal rate-making process. While DMMA has not always fully agreed with the results of these proceedings, it fully supports the principle that each class should bear those costs it causes, plus a reasonable portion of postal overhead costs. This principle is one most likely to promote the future economic viability of the Postal Service.

Accordingly, DMMA fully supports the provisions contained in Section 3 of H.R. 7700 that would reverse the arbitrary cost allocation approach approved by the decision of the U.S. Circuit Court of Appeals for the District of Columbia Circuit in the Greeting Card case and re-affirm the "attributable costs" concept originally intended by Congress.

DMMA also supports the proposed amendment to Section 3621 that would establish a 2-percent contingency provision and eliminate past losses from the revenue requirement of "total estimated costs." The most recent Recommended Decision of the Postal Rate Commission included in the revenue requirement over $200 million in past losses. DMMA argued at the time, and continue to believe, that such inclusion was contrary to proper rate-making principles. Legislative clarification of this point would be beneficial.

While the proposed revision of Section 3622 would reaffirm that "attributable costs" are those costs characterized by an identifiable causal relationship with specific classes of mail, the proposed language contains unnecessary and arbitrary limitations upon the application of this proper general principle. For eaxmple, the bill would create an arbitrary 60 percent limitation and provide for the pro rata reduction of attributable costs to the extent that actual attributable costs exceed 60 percent of the revenue requirement. The effect of the 60 percent provision would be outright cross-subsidization: the judgmental allocation of attributable costs in proportions different from the proportions of their causation. The 60

percent figure does, of course, correspond closely to the proportion of attributable costs identified in the last rate proceeding and therefore may be reasonable at the present time, given the present configuration of Postal Service costs and the present methods of identifying cost relationships. Conditions may change, however. Congress should not impede the application of the proper general principle by establishing any specific level of attributable costs.

Also, the draft legislation would limit attributable costs to those that vary with volume. Volume is not the only parameter of cost variation. For example, it has long been recognized that the Postal Service's need to provide sufficient capacity to handle peak loads for priority mail increases postal costs. In this instance, it is the capacity needed to provide the required service, rather than mail volume, that is the parameter of cost incurrence. If capacity changes, costs will change, even though overall volume may remain constant. Further studies may reveal other parameters of cost incurrence. Congress should not impede the development of proper costing principles by limiting the parameters of cost variation to volume.

DMMA supports the provision limiting to 3 years the time period over which costs must vary in order to qualify as attributable costs. Although this figure is somewhat arbitrary, DMMA believes that it is a reasonable choice justifiable on the grounds that it would establish a needed clear line in a very gray area. A 1-year period of variability is clearly too short because it fails to take into account changes (such as those in capacity) that occur over identifiable periods of time greater than 1 year. On the other hand, if the period of variability is extended beyond 3 years, the important distinction between variable and fixed costs rapidly disappears.

The proposed amendments to Section 3622 would also revise the list of rate-making factors currently contained in section 3622(b). The bill would add as a proposed subsection (E) "the relative demand for each class or subclass of mail or type of mail service." This addition is apparently intended to reaffirm the validity of the relative demand pricing concepts, including the "Inverse Elasticity Rule," that have been utilized to distribute institutional costs in the last three rate proceedings. The Postal Rate Commission has agreed that relative demand pricing is the primary pricing concept; therefore, this provision should be listed first in the list of pricing factors.

Also, the current law contains the following factor in the list of pricing factors:

"The degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service."

This provision has been eliminated from the revised section 3622 without explanation.

Mailers of all classes do, of course, provide valuable presortation and other mail preparation services, the costs of which are not fully compensated by a reduction in attributable costs. Fairness requires that there be at least some consideration of the mailers' efforts in the distribution of institutional costs. Accordingly, this provision should be retained in the legislation in its current form. Alternatively, the following phrase should be added to section 3622 (b)(3)(A) of the bill: "the degree of preparation of mail performed by the mailer."

Section 2 of H.R. 7700 would provide that a decision of the Postal Rate Commission in rate, fee and classification cases would be subject to a congressional veto, but only as to the decision as a whole.

As was indicated above, DMMA supports the nonitem congressional veto and supports the elimination of the role of the Board of Governors in rate decisions. An item-by-item veto of a rate decision could lead to serious mischief.

Postal wages

A major, if not the major deficiency of the Postal Reorganization Act is its decoupling of the process for setting rates from the process of fixing the compensation of postal employees. When both postal costs and rates were controlled by Congress, there was at least a potential interaction, which tended to put a cap on both. Increases in costs had to be reflected in a political decision to increase rates or appropriations, or both. This beneficial interaction no longer exists. As a practical matter, rates are now set by the Commission; costs are fixed by the Service. As a practical if not a legal matter, the Service knows that

it can pass through to the ratepayers the results of its collective bargaining. In our judgment, this situation is one of the reasons why rates have gone up so fast and will continue to do so unless conditions are changed.

It is axiomatic that the Postal Service, over 85 percent of whose costs are labor costs, cannot retain its financial viability unless the wages of postal employees are brought to a reasonable level. One way to accomplish this objective would be to legislate comparability with the federal pay scales. Alternatively, the Postal Rate Commission, the expert body charged with recommending rates, could be empowered to perform a similar function with respect to wages, by reviewing the initial wage proposals made by the Postal Service, and by the unions if they desire to present a counterproposal for consideration. A similar review could be made of the final wage settlement.

The first alternative would involve the statutory establishment of the principle of wage equality for all government employees, including USPS employees, recognizing that the Postal Service is a governmental function and truly a public service. Specifically, Congress might authorize or direct the Civil Service Commission or the Wage Board in the executive branch to be the judge of such equality, thus making such judgments a matter of presidential authority. The 1970 statute was designed to equalize postal wages with those of other government employees. This has now been more than accomplished.

As an alternative, if Congress decides it advisable to retain the current collective bargaining system, it should at least assure that the comparability and rate impact of the USPS initial bargaining position be examined by an expert body.

This could be accomplished by giving the Postal Rate Commission (PRC) the added responsibility of reviewing and reporting on various wage proposals. For example, the Postal Service could be required, and the unions invited, to submit their initial positions to the PRC a reasonable time prior to the beginning of the collective bargaining process. The PRC could then be authorized to report to the Service and to the Congress on the wage comparability and the rate impact of such positions. Likewise, the results of the collective bargaining process could be submitted to the PRC for a similar review prior to their becoming effective.

Postal management

A decision as to whether the President of the United States or the Board of Governors of the Postal Service should select the Postmaster General, we believe, has less urgency than the necessity of a decision to establish proper controls and administrative review over Postal Service labor and wage negotiations, capital expenditures, research and development and operating efficiency. Wage scale escalations and cost of living adjustments not offset by increases in productivity defy the possibility of operating the Postal Service at reasonable rates even with a substantial public service appropriation. The real responsibility of good postal management is the institution of effective performance and productivity standards and strict financial controls.

DMMA supports the provision of section 7 of the bill allowing the Postal Service and the Postal Rate Commission to represent themselves without the prior consent of the Attorney General in court cases arising out of Commission proceedings on rate, classification and service matters.

Levels of service

As was indicated above, DMMA believes that levels of service are a policy matter of such nationwide concern that they should be determined by the Congress. For example, on the matter of 6-day delivery, DMMA believes that reliability of delivery, rather than frequency, is the most important factor and that 6-day-per-week delivery is more frequent than most postal customers need. DMMA believes, however, that this issue is one that reaches the level of national policy and should be resolved by the Congress. If 6-day delivery is maintained, public service appropriations should be increased sufficiently to cover the related costs. Other issues of service levels, such as the maintenance of rural post offices, are also matters of national policy, and although it may not be practical for Congress to become involved in each proposed closing, it should at least establish principles to be applied in this respect. The costs related to the maintenance of uneconomic offices should be covered by public service appropriations.

Year	U.S. Treasury appropriations to USPOD/USPS (millions)	Total operating expenses: USPOD/USPS (millions)	U.S. Treasury appropriations to USPOD/USPS as percent of ITA total operating expenses
USPOD			
1946	$148.1	$1,353.7	10.9
1947	274.9	1,504.8	18.3
1948	343.9	1,687.8	20.4
1949	591.5	2,149.3	27.5
1950	589.6	2,222.9	26.5
1951	551.5	2,341.4	23.6
1952	682.4	2,666.9	25.6
1953	618.8	2,742.1	22.6
954	391.9	2,667.7	14.7
1955	362.7	2,712.2	13.4
1956	464.0	2,883.3	16.1
1957	522.0	3,044.4	17.1
1958	891.0	3,440.8	25.9
1959	605.0	3,640.4	16.8
1960	634.0	3,874.0	16.4
1961	875.0	4,249.4	20.6
1962	837.0	4,331.6	19.3
1963	808.0	4,698.5	17.2
1964	689.0	4,927.8	14.0
1965	762.0	5,275.8	14.4
1966	947.0	5,726.5	16.5
1967	1,171.0	6,249.0	18.7
1968	1,131.0	6,544.0	17.3
1969	1,114.0	7,168.0	15.5
1970	1,567.0	7,867.0	19.9
1971	2,242.0	8,955.0	25.0
USPS			
1972	1,424.0	9,585.0	14.9
1973	1,486.0	9,926.0	15.0
1974	1,750.0	11,295.0	15.5
1975	1,533.0	12,574.0	12.2
1976	1,645.0	13,923.0	11.8
Total:			
1946–71	19,814.0	104,924.0	18.9
1972–76	7,883.0	57,303.0	13.7

Source: U.S. Treasury Appropriations to USPOD/USPS, 1946–55, Annual Financial Report USPOD fiscal year 1955; 1956–66, annual report of PMG for each year; 1967–71, Annual Report of PMG fiscal year 1971, and 1972–76, Annual Report of PMG fiscal year 1976. Total operating expenses: USPOD/USPS, 1946–66: Survey of Postal Rates, USPOD Apr. 17, 1967; 1967–70: Annual Report of PMG for each year; and 1971–76: Annual Report of PMG fiscal year 1976.

Mr. HANLEY. Our next witness is Mr. Alan J. Tichnor, president of Colourpicture Publishers, Inc. I understand that Mr. Tichnor is accompanied by Mr. Harry Lambeth.

I am delighted to have you here this morning.

STATEMENT OF ALAN J. TICHNOR, PRESIDENT, COLOURPICTURE PUBLISHERS, INC., ACCOMPANIED BY HARRY LAMBETH, COUNSEL

Mr. TICHNOR. Thank you, Mr. Chairman. I am Alan J. Tichnor, president of Colourpicture Publishers of Boston, Mass., manufacturers of scenic post cards. I testify in behalf of the council to "Save the Post Card," an organization comprised largely of members of the Post Card Manufacturers Association and the Post Card Distributors Association.

I am also president of the Post Card Manufacturers Association.

With me at the counsel table is Harry J. Lambeth, attorney for the council and PCMA.

Since my oral remarks are brief, I request that the written testimony be incorporated into the record.

Mr. HANLEY. Without objection so ordered.

Mr. TICHNOR. I represent a small industry whose product is used by many of our citizens as a low-cost, friendly way to say hello while vacationing or traveling.

The message on the post card is usually quite brief. "Wish you were here," "Love to all back home," or "Greetings from our National Parks" but every post card through its picture of the locale being visited also says in a very subtle way "See America First."

It is that product and this message that we are struggling to keep alive so that it may continue to be available to all our citizens, rich or poor, men or women, adult or child.

The picture post card should not, yet it must not, be unfairly or arbitrarily priced out of the reach of our tourist citizens. It also bears a heavier burden of overhead costs than any other type of class of mail.

Just last year Administrative Law Judge Wenner found that a post card would carry a 5.7 cent postal rate for the services it enjoyed if overhead and other costs were charged the same as the way they are charged to a letter. The legislation that created the U.S. Postal Service provided that every class and type of mail should carry its own costs. Yet, this has not happened.

First-class mail carries a greater burden than any other class. And the post card carries an even heavier burden than the letter.

My written testimony supports section 3 of H.R. 7700 to correct the ratemaking procedure—a comparison of postal rate increases for post cards in the consumer price index from the base year 1929 when it only required a 1-cent stamp to mail a post card, and the base year 1968 when the rate was 5 cents.

Depending upon how you view the figures, the increased postage on post cards is either double or quadruple the increase in the price index.

In our written testimony and again in this brief statement we ask no subsidy, we ask no gifts, all we ask is that the post card be treated fairly and equitably.

If you have any questions, I will be glad to answer them.

Mr. HANLEY. Thank you very much Mr. Tichnor. You maintain that the volume declined with the increases in rates. Yet, according to your figures it appears that the most post cards were mailed in 1975 when the rate was 9 cents than in 1965 when the rate was 4 cents. This being a fact, do you have any comments?

Mr. TICHNOR. Yes; there are two types of post cards. One is the postal card that is furnished by the Government and from 1965 until 1975 that cut in half its volume more than half. The post card has maintained—the picture post card has maintained its volume but the population has grown. The population is traveling more, yet there is no increase in the volume of the use of this card as there is for most other products in the country.

Mr. HANLEY. So you attribute that to the growing population?

Mr. TICHNOR. I attribute it to the fact that people travel more today and that a picture, due to television and other things, a picture has more significance.

Mr. HANLEY. I see.

Mr. TICHNOR. The Chinese said, "A picture is worth more than 10,000 words."

Mr. HANLEY. Do you support the language and thoughts—methodology which is contained in the bill?

Mr. TICHNOR. Yes; we do. We do suggest in our testimony that there should be a procedure—that actually rather than this being an appeal, that the Postal Service should be requesting approval for the change first because most small items on a veto method would never really excite enough interest to take care of the small person such as the postcard sender.

Mr. HANLEY. I see. Are there members of the Council who are not members of the Post Card Manufacturers Association or the Post Card Distributors Association?

Mr. TICHNOR. No; there are not. The Council is made up primarily of manufacturers and distributors throughout the country. There are hundreds of distributors throughout the country.

Mr. HANLEY. Mr. Solarz.

Mr. SOLARZ. Mr. Tichnor, excuse my naivete, but what is the difference between a postal card and a post card?

Mr. TICHNOR. A private picture post card is one that we manufacture. We supply the paper, ink, printing, distribution, and all. At the same rate, the Government supplies a card which it prints, ships to all post offices throughout the United States, sells, and makes available without any charge. That is the Government postal card.

Mr. SOLARZ. Well, according to your own statements here on page 10 of your written testimony, while the use of postal cards has declined substantially since 1965, the use of post cards, which I gather you manufacture, has increased by what seems to be about 33 percent—between 65 and 75.

Mr. TICHNOR. From 1970 until 1975 it was virtually stagnant.

Mr. SOLARZ. But from 1965 to 1975 it has gone up to 400 million.

Mr. TICHNOR. That is correct. The entire growth, however, was 1965 to 1970, and that has a lot to do with the travel of the American public.

Mr. SOLARZ. I am also confused on another point you made. You said it is unfair to require people who send post cards to pay a first-class rate when they are not interested in overnight delivery.

I was under the impression that the rate for post cards was substantially less than the rate for a first-class letter. So, in what sense are the rates for post cards first class if they are in fact substantially less?

Mr. TICHNOR. Well, there are a number of reasons. When the process for the cross figures were laid out, it was found and was shown by Post Office figures to Judge Wenner, and Judge Wenner recommended a post card at its true cost carrying its own share of the burden should be posted at 5.7 cents.

Mr. SOLARZ. Does that include its fair share of institutional and nonattributable costs?

Mr. TICHNOR. Yes. Right. The post card, for instance, on attributable costs carries a heavier burden than a first-class letter. Why, no one can explain, but it does. Post cards do not have directory service.

If you incorrectly address a letter, the post card is just thrown out. Now, we requested a two-tiered system for post cards which has just been turned down. We maintain that the post-card user does not need 6-day service. That time is not the essence of the message "Greetings from our national parks." Los Angeles, or wherever it may be; it is just a friendly message back home. Time is not the same as required for a letter.

So, we want it to have a separate tier. We are confused by the President's suggestion to the Postal Service that they establish a citizen's letter and maintain the 13-cent rate, but at tthe same time the citizen post card, he says, to add a penny to. We don't understand that.

Mr. SOLARZ. Right now if you send a post card you are guaranteed overnight delivery? You are supposed to get overnight delivery?

Mr. TICHNOR. No; I don't believe on a post card.

Mr. SOLARZ. You say that people aren't interested in immediate delivery and therefore should have a lesser rate?

Mr. TICHNOR. Correct.

Mr. SOLARZ. So, presumably they are paying for immediate delivery right now.

Mr. TICHNOR. That is correct.

Mr. SOLARZ. You just said they weren't.

Mr. TICHNOR. We are getting what delivery exists, but we don't ask for overnight delivery.

Mr. SOLARZ. But this is the understanding that when you send a post card you are supposed to get the same delivery. A letter gets first class?

Mr. TICHNOR. I believe so. Yes.

Mr. SOLARZ. I understand. You are saying, charge less for a post card and make up for it by in effect slowing down the delivery.

Mr. TICHNOR. Correct.

Mr. SOLARZ. Would slowing down the delivery result in decreased costs to the Postal Service?

Mr. TICHNOR. No; it won't. A post card is mailed from, for example, from vacation lands which are not high volume areas—it actually helps the coast of New Jersey, for example, where there are small post offices. That increases their volume in handling.

It is almost the reverse of the problem of rural mail delivery because most of our vacation lands are rural.

Mr. SOLARZ. Let me ask you one final question. Do you have any sense of how many post cards the average person sends when they are sending a post card from a vacation place that they have gone to? Do you have any statistics on that?

Mr. TICHNOR. I believe we ran a survey several years ago, and the average buy is about six or seven.

Mr. SOLARZ. So, it is hard for me to imagine how for a person to send six or seven post cards, an increase of 1 cent or 2 cents, making a total increase in cost of, say, 10 cents or 12 cents, is going to lead them to the conclusion that they shouldn't send the cards at all.

If you are sending several hundred, it would obviously add up. Are they going to refrain from sending post cards?

Mr. TICHNOR. In product pricing, what you call is price point; and when you get beyond certain price points, the public stops buying. We feel that we have just about reached this price point, and that if the post card went over 10 cents, I think it would be a total disaster to the post card. We resent the encroachment on the 10-cent point.

Mr. SOLARZ. How do you know that? I know it is your judgment; do you have surveys taken to substantiate it?

Mr. TICHNOR. Perhaps our counsel has an answer to that, but family-wise we have been in the post card business for 80 years or more, dad and the entire family. We know the tariff situation years ago

when they allowed tariffs to come into this country. We know what first happened when the post card went from 1 to 2 cents—it dropped down.

The only reason why the post card has maintained its recent strength is because of the vigorous nature of the inflation that we have suffered and it hasn't meant that much.

But the 10 cents price point we feel is a critical price point that would be disastrous beyond that.

Mr. LAMBETH. We have made some surveys, informal ones at tourist points, San Francisco, Chicago, New York, the Statue of Liberty, and places like that. Those travelers that we interviewed said that if the postage keeps going up they will mail fewer cards or not mail as many cards.

I noticed today coming over here there is a vendor on the street next to one of these stands selling post cards for 7 cents. Well, this is less than the stamp costs. So, when you have to pay more to mail the cards than the cost of the cards this is an inhibiting factor and we believe and our survey confirms it that people will buy less.

But you did ask in particular whether cards are given overnight service. Well, this is the goal of the Postal Service and it isn't achieved, which we don't want.

But we find that if post cards were given a deferred service they could be processed during the off hours. They wouldn't have to be done at night. This is what is happening at a number of European post offices. In France and Holland, and at least several other countries there is a deferred rate for post cards and they limit the message to five words. I guess that is to keep a person from writing a book on the back of a card if he could.

We suggested to the Postal Service here that if they wanted to follow that line, 10 words, 5 words—to set that limitation. They refused to follow. The French post office finds that this is most successful.

Mr. SOLARZ. The bottom line of what you are saying is that if we have a lesser rate for post cards presumably Government subsidy is going to have to increase to make up the difference.

Mr. TICHNOR. Excuse, there is no Government subsidy on post cards.

Mr. SOLARZ. But it seems to us the decision is to trade-off between what other functions could be performed by Government for that amount of money compared to the amount it would take to subsidize the loss of revenue for a cut in rates to the Post Office. How do you compare the need for things like day care centers, Federal aid to education, and medicare and medicaid programs, and all of that sort of thing with the value of letting someone send a post card on a vacation for less money?

Mr. TICHNOR. As I understand the enabling legislation of the U.S. Postal Service, each class of mail was to bear its own burden. We should not be subsidizing day care centers or anything else. Actually, we are paying a cost of mass mailing care packages of those centers that are currently first-class post offices that don't use them at all.

That is a part of the overhead structure. I would like to clarify the answer to your earlier question about the increase in volume of post cards.

The increase came at a time when travel within the United States increased considerably and much of the foreign travel decreased. I

think that is the reason why the post card volume was on the rise in spite of the increase in postage.

Mr. SOLAZ. Thank you, Mr. Chairman.

Mr. HANLEY. Thank you, Mr. Solarz.

Gentlemen, on behalf of the committee our deep appreciation for your input this morning. You have been most helpful. Thank you very much.

Mr. TICHNOR. Thank you.

[The complete statement follows:]

STATEMENT OF THE COUNCIL TO SAVE THE POST CARD

I am Alan J. Tichnor, president of Colourpictures, Inc. of Boston, manufacturers of scenic picture post cards. I testify in behalf of the Council to Save the Post Card, an organization comprised largely of members of the Post Card Manufacturers Association and the Post Card Distributors Association. I also am president of the Post Card Manufacturers Association. With me at the counsel table is Harry J. Lambeth, attorney for the Council and PCMA.

Both the Council and PCMA have their headquarters in Washington. The Post Card Manufacturers Association is comprised of business firms that make about 75 percent of the color, scenic, picture post cards manufactured in the United States for an estimated total annual dollars business volume of more than $25 million.

In addition to the employees of the post card manufacturers and post card distributors, thousands of other persons are involved in the chain of production of the picture post card—from the photographer who takes the scenic photo to the more than 100,000 retail shops that sell picture post cards.

Our members are greatly concerned about the drift of the Postal Service from a once dependable government service in the days of when neither "snow nor rain nor heat nor gloom of night" stayed mail service to a present government agency that appears to have lost its pride and its dependability while offering less-and-less service at higher-and-higher rates. Only a government monopoly can continue to operate with such a track record.

That is why our organization is appreciative of this committee permitting us to share our views on the Hanley-Wilson bill, H.R. 7700, to restore the once-held, great respect and high standards of the Post Office. Our interest extends beyond maintaining the picture post card as an American custom that encourage travel and enhances the curture of our nation. We are concerned about the survival of the American postal system, and we believe that H.R. 7700 is a step toward restoring what once was the best postal system in the world.

In offering H.R. 7700, Reps. James M. Hanley and Charles H. Wilson, sponsors of the legislation, agree that Congress in 1970 "went too far in creating an agency which was insulated from the needs and desires of the American public".

This is correct, and it is common knowledge that the present independent agency type of postal system has not worked, and the public is displeased. The 1970 act is part of a post-World War II syndrome of Congress abdictating its authority to the executive branch and to a host of newly-created administrative agencies beyond the reach of the public.

Americans want their congressmen to retain some control and monitor federal agencies directed by bureaucrats safely beyond the public opinion of the ballot box.

While H.R. 7700 may not be the panacea to postal problems, we feel that it would be the beginning of a return to improved mail service at affordable, non-discriminatory rates. With a veto power of Congress over the heads of the Postal Rate Commission, the Commission and the Postal Service should be motivated.

Observations on the proposed act

From the subcommittee's synopsis of H.R. 7700, we offer our views.

We endorse, with reservations, Section 2 which provides for a congressional veto within 60 days of rate and classification rulings of the Postal Rate Commission.

While this appears an improvement it is not the cure-all of a most difficult problem. The wheels of Congress turn slowly. In the real world of legislation,

it would take a most unreasonable decision by the Rate Commission to raise the ire of Congress.

Section 2 also would require a general veto of the Rate Commission's full decision, precluding item vetoes. For the post card industry, other smaller industry mailers, or groups of citizens, it would be almost impossible to marshall a ground swell of public opinion strong enough to motivate Congress to veto a 1 or 2-cent rate increase. Only the huge mail order houses and national publications carry enough influence for veto action.

Yet a 1 or 2-cent increase in an already overburdened share of postal costs now placed on the picture post card could well mean an end to the industry.

Postal rate increases have been and will continue to be a creeping attack on the public's purpose and the possible demise of an industry. While 1-cent may sound insignificant, it is comparable to the constant drop of water on the strongest boulder. If continued, it will result in the slow death of an industry. When the Postal Service replaced the Post Office in 1970 the post card postage was 5 cents. It is now 9 cents with higher rates forecast within a year.

Item vetoes

It is our view that the Committee in reviewing H.R. 7700 after these hearings should provide for item vetoes on rates.

Rather than requiring the public to carry an almost impossible burden of motivating a veto, this Committee should reverse the administrative coin and require congressional approval before the Rate Commission's recommendations could be implemented. An alternative would be to permit the veto by either the House or Senate rather than requiring both Houses to concur as is now provided in H.R. 7700.

Rate setting

Section 3 of H.R. 7700 deals with a more precise methodology for the setting of postal rates to reaffirm the congressional intent of the Postal Reorganization Act of 1970. It is in this area that the post card industry suffers great discrimination, carrying far more than its share of postage rates for the value of the post card.

The post card has always been classified as first-class mail, probably because 100 years ago it was a key method of communication. It used to be called the "poor man's letter". In today's era the telephone virtually has replaced the post card as a communication vehicle.

The post card permits no privacy for its message. Its limited space permits only the briefest of message. It lacks return-to-sender service, and it does not have the ability to carry an enclosure of a $10,000 check which may be sent by first-class mail for only 4 cents more than the post card rate.

The tourist's scenic card is merely a greeting of the customary, "Wish you were here" message to friends "back home". While it does not require fast delivery, it is now caught in the new philosophy of postal authorities that seeks next-day delivery for first-class mail. This is unwanted by the tourist; yet, he is required to pay for such first-class service.

President calls for citizen rate

We requested from the Postal Service (Case MC–76–1) a special deferred mail class with a corresponding reduction in rate. Last month, the Postal Rate Commission announced it would recommend that the Board of Governors of the Postal Service reject our request. The Postal Service opposed our petition, preferring to maintain the post card in the high-priced postage rate spread of first-class mail.

In the meantime, President Carter suggeted to Postmaster General Benjamin Bailar that the Postal Service create a low cost "citizen" rate for first-class postage for use by consumers as a means of reducing the burden of rising postal costs.

The post card truly is a citizen message, and we would hope that Congress join President Carter in endorsing a citizen letter-post card rate.

The President's request serves to support similar calls for a service that is less expensive.

The Congress when it passed the Postal Service Act in 1970 specifically ordered (Section 3623(c)(4)) the Postal Rate Commission to consider recommendations that would deal with a classification for mail that does not need a high degree of reliability and speed. Several major European postal services have adopted special rates for post cards sent on a deferred or non-priority basis and with a limited message.

Post card manufacturers have urged the Rate Commission to order the Postal Service to institute non-priority mail, but the Commission has refused. Meanwhile the Postal Service continues to stress overnight delivery of first-class mail with, of course, higher postage. We believe that this is not what the average citizen wants.

Post card rates arbitrary

In the most recent rate hearing (1975) before the Commission (R76–1) the Commission sought a 3-cent post card raise from 7-cents to 10-cents and a 3-cent letter increase from 10-cents to 13-cents. Had this been allowed, it would have meant that the post card rate increase would have been an appalling 42.9 percent raise, while the first-class letter rate was 29.3 percent. The average overall class rate would have been a 26 percent raise.

The Rate Commission, fortunately, did not accept the full proposed post card rate, but set it at the present 9 cents, or an increase of 28.57 percent. The letter rate was 30 percent, indicating post cards are paying far more than their value.

Administrative Law Judge Wenner, now retired, recommended a 5-cent rate for post cards. In his earlier 1973 decision (R–74–1) he recognized, as does Section 3 of the proposed bill, the unfairness of certain assigned costs to various classes of mail.

Judge Wenner in his opinion of May 28, 1975, took critical notice of this:

"Postal Service arbitrarily and unduly limits the portion of its total costs that it attributes to the classes of mail. . . . All the remaining costs are deemed by the Postal Service to be 'fixed' costs."

He then cited an amazing example at page 10 of his opinion:

"The new $1 billion bulk mail system will handle bulk third and fourth-class mail and some second-class mail. Because Postal Service classifies buildings and equipment as 'fixed' costs, 48 percent of the cost of this system will be charged to first-class mail on the basis of its relative inelasticity of demand, even though it will not use any of these facilities."

Card rate leapfrogs CPI

An analysis of post card postage rates and the Consumer Price Index from 1929 (when the penny post card was common) to 1975 graphically shows percentagewise how post card postage has quadrupled the CPI.

Year	% Increase Card Postage Over base year			CPI* Over base year		
1929	Base	1¢		Base	51.3	
1952	100%	2¢		55%	79.5	
1959	200%	3¢		70.1%	87.3	
1963	300%	4¢		78.7%	91.7	
1968	400%	5¢	Base	103.1%	104.2	Base
1972	500%	6¢	20%	144.2%	125.3	20%
1974	700%	8¢	60%	159.4	133.1	27.7%
1975 Sept.	600%	7¢	20%		151.7	45.1%
1975 Dec.	800%	9¢	80%	202.9%	155.4	49.1%
					147.7	(yr. Aver.)

* Consumer Price Index based on 1967 equalling 100

Postage has gone up 800 percent since 1929 whereas the CPI has risen only 203 percent. In 1968, the year closest to the CPI base year of 1967, post card postage was 5 cents. From 1968 to 1975 it has risen 80 percent whereas the CPI has gone up only 49 percent. First class postage rates have gone up some 62 percent since 1968.

Obviously the post card has been carrying far more than its value share of the burden of first class postage rates and inflation.

Conclusion

It is our belief that the intent of Congress in creating the Postal Rate Commission and the Postal Service as a quasi-government corporation seven years ago wanted equity and fairness to all classes of mail. The new system, however, has placed a great burden on first-class letter mail and an even greater weight on the simple picture post card with its built-in limitations for service and value.

We think the present 9-cent post card rate is enormously unfair, especially when first-class priority service is forced upon the scenic post card user when such service is not wanted.

If it is the policy of Congress to continue the postage subsidization of newspapers, magazines, parcel post and mail of nonprofit special interest groups we do not object to this policy as long as the post card user and personal letter writer do not have to accept the burden as such favoritism.

H.R. 7700 could restore fairness

We are hopeful that the proposed limitations in Section 3 of H.R. 7700 will relieve the postage burden now imposed on post cards. At least it is a step toward improvement.

Our concern is great because the use of scenic post cards has declined in recent years. With the decline in the use of cards the number of significant manufacturers specializing in post cards also has declined from 22 to 9. This reflected in the membership of the Post Card Manufacturers Association which has decreased from 11 to 5 members. For the most part the firms have gone out of business.

Postal Services figures also confirm the decline in the mailing of post and postal cards, indicating high postage is now making itself felt. USPS Witness Edward J. McCaffrey, general manager of the rate design division, testified in the most recent rate case (R–76–1) on volume changes. In Table 1, page 8 of his statement, he cited the following volume trends in million pieces:

1965:	
Postal cards	1,095
Post cards	1,284
1970:	
Postal cards	798
Post cards	1,569
1971:	
Postal cards	714
Post cards	1,709
1972:	
Postal cards	572
Post cards	1,646
1973:	
Postal cards	606
Post cards	1,647
1974:	
Postal cards	566
Post cards	1,728
1975:	
Postal cards	468
Post cards	1,656

While H.R. 7700 contains other provisions of importance to mail users and the public, they are not directly concerned with scenic post cards; thus the Council to Save the Post Card makes no comment on these related sections of the bill.

The Council asks that the Subcommittee give consideration to its views and suggestions for improving the postal service and in relieving picture post cards of the responsibility of carrying other classes of mail on its already overburdened postage shoulders.

Mr. HANLEY. Our next witness is Mr. Ivan Gluckman, representative of the National Association of Secondary School Principals. I understand Mr. Gluckman is accompanied by Dr. Ed Keller of the National Association of Elementary School Principals and Mrs. Dona Creasy of the American Home Economics Association.

On behalf of the committee, welcome, and we are delighted to have you with us.

STATEMENT OF IVAN GLUCKMAN, ASSOCIATION COUNSEL, NATIONAL ASSOCIATION OF SECONDARY SCHOOL PRINCIPALS; ACCOMPANIED BY DR. ED KELLER, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF ELEMENTARY SCHOOL PRINCIPALS; AND DONA CREASY, AMERICAN HOME ECONOMICS ASSOCIATION

Mr. GLUCKMAN. Thank you very much, Mr. Chairman and members of the committee. It is our pleasure to be here to have this opportunity to present some of our concerns about the bill and the matters that are before the subcommittee at this time.

My name is Ivan Gluckman. I am legal and legislative counsel to the National Association of Secondary School Principals for which I am a full-time employee, incidentally. I reside in Reston, Va., where our headquarters are located.

The NASSP is a professional association of some 35,000 members, made up primarily of principals, assistant principals, and other building administrators of middle, junior and senior high schools throughout the United States.

Our members have the continuing obligation of improving the quality of education and reducing its costs to the citizens that they serve.

I hardly need to remind this committee of the tremendous pressure, local and national, on our members to accomplish both of these obligations at an accelerated rate.

Our members need all the help and encouragement they can get to accomplish the assignments given them. My appearance here today is to ask help from this committee so that we may improve the quality of education at the lowest cost possible or practical.

Specifically, I direct the attention of the committee to one particular problem. We wish to request that teaching aids when mailed by a publisher or distributor to schools, colleges, and universities be afforded the library book rate which this committee extended to books mailed to our schools when you enacted an amendment to that effect in the Postal Reorganization Act amendments of 1976–77.

Our members are certainly grateful for this consideration and while the amendment of 1976 has been helpful in reducing the operating costs of the schools, it has one great shortcoming which has developed since that time which prevents educational institutions from enjoying the full benefits which we anticipated and which I am sure that this committee intended.

The Postal Service has ruled that many teaching aids and learning aids do not meet the requirements of books as defined and it therefore cannot be granted the library book rate.

Further, when such aids are shipped with books, the entire shipment will then be denied this rate.

The Postal Service states: "The Postal Service does not have the authority to extend the use of the new library rate regulation beyond the limitation established by law." Of course, that means as they interpret the law and that is why we are required to come back here to you.

Teaching aids and learning aids are widely used by instructors and students to broaden text coverage, to illustrate text material by suggesting or presenting illustrations or examples, to show how material in one course can be utilized in the study of other subjects, and by presenting new related material not contained in texts.

In addition to being of assistance in improving the quality of education, they frequently lower the financial outlays necessary for new textbooks by supplementing older books. Teaching and learning aids are essential elements in providing low-cost quality education, and we believe they deserve to be classed as educational tools in exactly the same way that books are classified and subject to the same postal rates. These aids are frequently made available by book publishers, however, publishers are not the exclusive source of all such aids. They may be made available at the time books are ordered and mailed with the books, or they may be ordered separately and mailed without other material.

The type of material varies from time-to-time, and it is therefore impossible to state a particular form of presentation that future aids may take. As a result, the intended use of the material should be the guideline for the Postal Service's use in its classification.

It is hoped that the intent of usage rather than the form of the object may guide the Postal Service and that specific legislation may be enacted to this end.

Mr. Chairman, and other members of this committee, the NASSP strongly urges that teaching and learning aids be afforded the library rate when mailed by a publisher or distributor to educational institutions when mailed alone or in mixed shipments with books, and we ask that any postal bill acted on by this committee contain an amendment to accomplish this purpose.

It was estimated that the 1976 amendment granting the library rate to books mailed to libraries and educational institutions would reduce postal revenue by $5 million. This sum was probably based on the volume of books shipped prior to 1976 when teaching aids were included in many such shipments.

Thus, the revenue loss resulting from the amendment proposed has been largely anticipated. Moreover, since many publishers have been using other than the Postal Service for book delivery, their return to the usage of the Postal Service might actually enhance rather than diminish postal revenues. So, while it is impossible to project we would estimate that the proposal we are making will not actually cost any further loss of postal revenues.

I would like to add one other comment. My associates here with me at the table can perhaps provide you with some additional information. I've looked over the information particularly that Mrs. Creasy here on my right has which I think forms a really excellent case study of the kind of problems that the schools are up against.

Aside from the actual additional costs, I was impressed, in looking it over, with the example that it offers of the enormous paperwork and time consumption that I know the Congress, all the Members of the Congress are concerned with in trying to operate under these interpretations of the Postal Service which get narrower and narrower to the point of being medieval.

Ms. Creasy has one letter—in atempting to justify shipments—that ran five pages single space in trying to explain when a book is a book and not a pamphlet and it is a teaching aid and nothing else. Of course, it was to no avail, I might add.

This is a side issue, while I think a very important side issue, to the actual cost situation that was presented here. Apparently unless we are very specific in the law the Postal Service is going to continue to make these extremely narrow distinctions in materials, disregarding the fact that the purpose is the same, whether it is 24 pages, 23 pages, or other minor matters.

We would be glad to proceed at your pleasure, Mr. Chairman.

Mr. HANLEY. Mrs. Creasy.

Mrs. CREASY. Mr. Chairman, and members of this Subcommittee on Postal Operations and Services, I am Dona Newberry Creasy from Ossining, N.Y.

I appreciate the opportunity to appear before this committee to represent the concerns of the American Home Economics Association.

The American Home Economics Association is an educational and scientific organization dedicated to improving the quality and standards of individual and family life through education, research, cooperative programs, and public information.

Our more than 52,000 members are specialists in all areas of family life—nutrition, housing, family economics, child development, clothing, art, communications, and family relations.

Mr. Chairman, we are here today to urge the granting of the library rate for teaching and learning aids when mailed to educational institutions. This rate should be made available to teaching aids when mailed alone or in combination with other material allowable under the library rate.

I have read the testimonies of Mr. Gluckman and Dr. Keller, which in many ways express our problems and the reasons why teaching and learning aids should receive the same mailing privileges as books. I shall use my time in pointing out the special situations which our members face.

Home economics is an interdisciplinary study of arts and sciences designed to enhance the quality of individual and family life. Because ours is a dynamic and progressive society, changes occur more often than new textbooks are published. We need to know and tell our students what's happening in child development, marriage and family relations, consumerism, money management, nutrition, food preparation, clothing and textiles, housing, and anything else that affects the individual as a social and economic unit.

Needless to say, textbooks cannot be revised often enough to keep abreast of all the changes in all of these fields. We in home economics depend on a great deal of "nonbook" material to keep our classes current and relevant.

In addition, for many of these subjects, the printed word does not sufficiently convey the desired message. In community education programs, our teachers have few if any textbooks appropriate for adults and, of necessity, must rely on nonbook teaching materials.

Also, home economists are very much involved in teaching disadvantaged persons. How can textbooks provide the inexpensive flexibility needed to meet the varying needs and problems of these individuals and families?

Some of our teaching aids are provided free as a public service by a variety of manufacturers and associations. Some are produced by publishers who do not have texts in the "book" format as defined by the current postal regulations.

More and more, these producers are adding the cost of postage to their materials because they are unable to absorb the cost. And this is not a small difference. Under current library rates, a pound of material may be sent for 11 cents. The third-class rate for that same pound is 94 cents.

Why am I here today, representing the concerns of home economics? I'm here because many of the materials home economists use in large quantities do not enjoy any of the special rates set up under the existing regulations.

They do not qualify by their format, as do bound books, films, and filmstrips, and all sheet music, whether bound or not.

They do qualify by their subject matter as do math, science, and herbarium materials.

This is despite the fact that for over 100 years, Congress has supported home economics education and research under the Morrill Act of 1862, and has continued that support in more recent times with funds for consumer, homemaking, and vocational education.

We are required to pay the rate applied to any commercial product, whether serving an educational purpose or not. There is no defense for discriminatory treatment among subject areas.

We feel that home economics materials should be treated on the most favorable basis afforded any educational subject area. We think that all educational materials sent to a bona fide institution for instructional purposes should be treated equally.

As you know, all educational institutions are now hard pressed to find sufficient funds. Lower postal rates for teaching materials will help to contain the expense of education in each community.

The American Home Economics Association sincerely requests that this committee extend the privilege of the library rate to all teaching and learning aids. Such a mandate by the committee in this legislation, would assist not only home economics, but the entire educational community in providing quality education at the lowest possible cost.

If our association may be of other assistance to this committee, we would consider it a privilege to work with you. Thank you, Mr. Chairman, for this opportunity to appear before this subcommittee on behalf of the American Home Economics Association.

Mr. HANLEY. Thank you very much, Ms. Creasy.

May I ask a particular as it concerns home economics. What would a teaching aid be?

Ms. CREASY. A teaching aid may take the form of a poster, student work materials such as a workbook, demonstration materials, wall charts, samples.

Mr. HANLEY. Food samples?

Ms. CREASY. Perhaps. I was thinking more of textile samples or equipment samples. It would be important in teaching techniques or dealing with methods. Perhaps it would be as simple as a ruler for teaching metric measurements and dealing with patterns and recipes and things like that.

Mr. HANLEY. I see. Well, you make a good point, and certainly I can only assure you that as we move along with this legislation, the inclusion of teaching and learning aids will be given a great deal of consideration.

On behalf of the committee, I want to express our appreciation for your appearance and interest, and your support for H.R. 7700.

Mr. GLUCKMAN. Thank you, Mr. Chairman. We did, of course, submit some specific language to the staff of the committee which could be used to effect the purposes to which we are concerned. Thank you very much.

Mr. HANLEY. Our next witness is Mr. Emmet Lucey, general counsel on behalf of a number of entities, the International Labor Press Association, National Rural and Electric Cooperative Association, the Catholic Press Association, Associated Church Press, the American Jewish Press Association, and the Evangelical Press Association.

Mr. Lucey, in recognition of your great expertise in this subject matter, the committee is deeply appreciative for your appearance here today.

STATEMENT OF EMMET LUCEY, WASHINGTON GENERAL COUNSEL, INTERNATIONAL LABOR PRESS ASSOCIATION, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, CATHOLIC PRESS ASSOCIATION, ASSOCIATED CHURCH PRESS, AMERICAN JEWISH PRESS ASSOCIATION, AND EVANGELICAL PRESS ASSOCIATION

Mr. LUCEY. Mr. Chairman, thank you very much. I will make my remarks quite brief.

My name is Charles Emmet Lucey, and I am a practicing attorney here in Washington. I appear here on behalf of four named nonprofit church-related publisher associations. I am authorized to advise you, Mr. Chairman, that my statement of views, the association's statements of views, are endorsed by the National Rural Electric Cooperative Association and the AFL–CIO International Labor Press.

I file with my statement, Mr. Chairman, a letter of endorsement from the AFL–CIO International Press as well as a statement on behalf of that association, and I also advise the committee that the National Rural Electric Cooperative Association will file its own statement within several days before the record is closed.

Mr. HANLEY. Without objection, all of these materials you have mentioned will be incorporated into the minutes of this hearing.

Mr. LUCEY. Mr. Chairman, without qualification we endorse H.R. 7700. Some provisions, obviously, are more important to us than others.

The costing formula suits us to a "T." It is something we have been endorsing for some time and urging for some time. I notice that in respect to your question to DMMA, you asked about costs ascertained in the past.

There are two responses to that, Mr. Chairman. The attributable costs which nonprofits pay have risen over the past 2 years from 46 or 47 percent total cost to be imposed of 61 percent by the new rate increase that was filed last week. You know, Mr. Chairman, a year or two ago the Office of the Commission recommended an attributable cost of 78 percent.

So we think that a formula such as you have imposed here on variable cost attribution with a ceiling, not a floor, a ceiling of 60 percent, we think that is very, very important. We think that the public service appropriation provision of the bill is also important, Mr. Chairman, and the only amendment that we would ask which is also endorsed by the labor press is that should the Postal Service decide to suspend 6-day delivery, that in fact the appropriation shall—not may—be used to pay for that sixth day.

You asked, Mr. Chairman, whether the cost ascertainment provisions in the past—to the Postal Reorganization Act—had worked during the first few years. I would like to say to you that they have not worked, and that is why we are urging you to further the purposes of H.R. 7700.

We have overpaid. The nonproducts have paid by the admission of the Postal Rate Commission $55 million in the first 4 years of this Postal Rate Commission functioning. That's equivalent to one-third of this year's budget, Mr. Chairman, which we have already overpaid and cannot, under law, get back.

Lastly, Mr. Chairman, beyond H.R. 7700 a quick underscoring of why we are here. On July 6 of this year our postal rates went up per pound 13 percent under the S. 411 "stretchout." Our per-piece went up one-third—33⅓ percent. New rates dumped on us by the Postal Service propose a 22.7-percent increase in the poundage rate and a 20-percent increase in the per-piece rate.

Mr. Chairman, those rates are truly onerous, they would not be that way if we in fact had a costing formula which gets back to the original provisions of the Postal Reorganization Act, section 3622, which instructed the Postal Rate Commission to take into consideration a number of factors, not just the break-even factor, a number of factors in fixing postal rates for nonprofits.

Thank you, Mr. Chairman.

Mr. HANLEY. Thank you very much, Mr. Lucey. Just one quick question. Could you support the costing language if we removed the 60-percent cap on cost attribution.

Mr. LUCEY. We can support it, Mr. Chairman, although there are differences on this point—I must say to you—among users of second-class mail.

We believe that if that formula is properly followed up by the Postal Rate Commission, that indeed that would turn out to be a ceiling, not a floor, and the cost attribution would be considerably less than 60 percent.

I know there is a difference on that, and I think we are working on an econometric model on it for the use of this committee.

Mr. HANLEY. We are delighted with the support you have outlined for us for H.R. 7700, on behalf of the numerous organizations which you represent.

On behalf of the full subcommittee, our deep appreciation to you.

[Mr. Lucey's prepared statement, a letter and statement from the International Labor Press Association, and a statement from the National Association of Elementary School Principals, follow:]

STATEMENT OF THE CATHOLIC PRESS ASSOCIATION, ASSOCIATED CHURCH PRESS, EVANGELICAL PRESS ASSOCIATION, AND THE AMERICAN JEWISH PRESS ASSOCIATION

The four named associations are pleased to present to this Subcommittee their views on matters of critical importance affecting the United States Postal Service, the Postal Rate Commission and non-profit and preferred second-class mail users which require your attention and study.

Since the inception of the Postal Reorganization Act, these associations have spoken as one in testifying many times before committees of Congress and in proceedings before the Postal Rate Commission. These religious press associations —as one—support the views expressed in this statement.

Together, the Catholic Press Association, the Associated Church Press, Evangelical Press Association and the American Jewish Press Association represent some 700 non-profit religious publications or publishers. The total per issue circulation of our member publications is approximately 70 million, of which about 20 million is attributable to newspapers and about 50 million attributable to magazines. Member religious publications deliver over 1 billion pieces of mail, read by several billion subscribers and others.

Our member publications are primarily users of second-class postal services, but they also make extensive use of first, third and fourth class postal services in the normal operation of their publishing businesses.

The Associated Church Press, a membership association of about 200 publications, most of which are Protestant, but some of which are Catholic or Orthodox, is headquartered in Geneva, Illinois.

The Catholic Press Association, a membership association of 139 newspapers, 108 magazines and 10 publishers of general Catholic literature, such as pamphlets and books, is located at 119 North Park Avenue, Rockville Centre, New York. Its members represent approximately 60 percent of the total Catholic newspaper and magazine circulation in the United States—or about 27 million per issue or one-half billion circulation per year.

The Evangelical Press Association, headquartered in La Canada, California, has approximately 175 member publications, mostly magazines, with a total circulation of 20 million.

The American Jewish Press Association founded in 1943, is an association of 52 English language publications in the United States and Canada, with headquarters at 611 Oliver Street, St. Louis, Missouri. Its member publishers have a weekly circulation of 400,000 newspapers and magazines.

The sheer inequity of subjecting the non-profit and preferred press—religious, agricultural, scientific, labor, veterans, fraternal, cooperatives and others—to postage rate increases adopted in the last four years aggregating well over 1,000% when effective prompts our appearance here today.

When the annual postage bill for Decision Magazine increases from 1971 to 1976 by 44% to $1.8 million and when "Our Sunday Visitor" sees its second-class postage bill similarly rise on its family of religious publications from $70,000 to $153,000 ($496,000 at the end of the "Stretch-out") with circulation for both remaining relatively constant, those publications and their fellow religious publishers cannot idly suffer the financial hardship being worked upon them.

We endorse H.R. 7700 wth enthusiasm and say to the sponsors thereof that we appreciate their efforts on behalf of mailers. However, we will confine our remarks to those several provisions of the bill most directly affecting preferred and non-profit mail users.

The concept of retained congressional oversight and veto authority over rate, fee and classification decisions of the Postal Rate Commission is one which we

had sought to have implemented for some time. Only through this mechanism can the Postal Rate Commission be made responsible to our elected officials and through them, to mail users.

We have the clear impression that the Postal Rate Commission's decisions to date have been made without any consideration being given to the effect which those decisions have had and will have on non-profit and preferred publishers and publications. Postage rates for us have increased by 1,000 percent and more and only phasing has halted what would otherwise have been a disaster. There is no way—repeat, no way—that the papers and journals of thought of labor organizations, fraternal groups, cooperatives, veterans, church and agriculture interests can absorb or pass along to subscribers and advertisers the postage rate increases which the Commission has levied.

In passing the Postal Reorganization Act of 1970, Congress mandated in Section 3622 the several criteria which the Commission should follow in handing down postage rate increases. In essence, Congress directed the Commission to give consideration to the effect of the increase on the mailer and the recipient alike and to consider the merit or worth of the mailed piece. However, the Commission has seen fit to consider only the cost criteria and no other. We think that putting Congress back into the picture—even in this limited way—is the proper answer and way to deal with this runaway Commission.

As most members of this Committee know, the non-profit and preferred press associations represented here today have in the past sought to have imposed some sort of a ceiling on second-class rates to be paid by their publisher members. Historically, prior to 1970, these users of the mail paid roughly half or less of the rate paid by for-profit publishers. In so providing, Congress was taking into consideration the contribution which our publishers make to the moral, educational, cultural, scientific and informational fiber and welfare of this great country. Congress recognized the importance of maintaining through the written word the community of interest our various publishers share with and bind their member groups together.

By law, the non-profits and preferred mailers are required to pay only the directly attributable costs of handling their mail. This has escalated from a cost factor of 50 percent or less of total postal costs to in excess of 60 percent now and heading for 80 percent or more. Accordingly, we endorse the provision of the proposed legislation which would impose a ceiling of 60 percent of total cost on those costs which can be labeled attributable costs. While this ceiling may not take us back to the favorable position we held prior to the enactment of the Postal Reorganization Act, it should serve to stem the tide which has been rolling over us with increasing velocity thanks to the Postal Rate Commission.

So too do we endorse the precise costing methodology or formula which the sponsors of H.R. 7700 have written in. We are of the view that a literal and strict application of this methodology to second-class non-profit and preferred mailers will give recognition to the fact that the incremental costs to the Postal Service of handling our mail is minimal indeed.

Lastly, on H.R. 7700, if it is the decision of this Committee and Congress that the Postal Service Board of Governors be abolished and that the Postmaster General and Deputy Postmaster General be appointed by the President with Senate confirmation, we are in favor of such action. Any action which enhances or increases the responsibility of the Postal Service and the Commission to the Congress and mail users who support that service and whom which they are supposed to serve, would be a major improvement over the present situation.

Finally, Mr. Chairman, beyond H.R. 7700, we are sure that Congress will want to examine most carefully the Postal Service's much talked of proposal to cut out 6th-day delivery. Not only are the jobs and incomes of many at stake, the timeliness of deliveries and the freshness of news is threatened by such action. If the Postal Service is to be permitted to further curtail its delivery as a stop-gap measure to temporarily ease its largely self-induced financial problems, what service or what days delivery will be cut out next as a temporary solution to a future problem.

Churches depend on Saturday delivery of their bundled papers and magazines for Sunday delivery to church-goers as well as individually delivered papers on which some churches are just as dependent. Non-subscription sales of religious publications occur at the church doorstep on Saturday and Sunday—not the following Monday or Tuesday! Further, dated program material in many of the weeklies (Sunday School lesson aids, youth programs, etc.) will lose most of their value to publisher and reader if not delivered before Sunday. Not only is

there no delivery mechanism for bundled papers if delivery is postopned from Saturday to Monday, the news becomes impossibly stale. To accelerate publication by one day would also result in a further "staling" of the news. We would like to see later deadlines—not earlier.

Even if the Postal Service is correct in its estimate of dollar savings as a result of elimination of 6th-day delivery, the amount saved pales in the face of the postal deficit.

Thank you for listening to us.

(Respectfully submitted, by Charles Emmet Lucey, Esquire, Harrison, Lucey & Sagle, Washington Counsel for: American Jewish Press Association, Associated Church Press, Catholic Press Association, and Evangelical Press Association.)

INTERNATIONAL LABOR PRESS
ASSOCIATION, AFL–CIO—CLC,
Washington, D.C., July 19, 1977.

Mr. JAMES M. HANLEY,
Chairman, Subcommittee on Postal Operations and Services, Post Office and Civil Service Committee, Cannon Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: Due to pressing personal business, I will be unable to testify in person before the subcommittee in support of H.R. 7700. I have asked Mr. Charles Emmet Lucey to present to you the testimony of the International Labor Press Association for inclusion in the record.

The religious publications represented by Mr. Lucey and the labor publications represented by ILPA share many common problems. I have reviewed his testimony and support it unequivocably.

Mr. Lucey, in his responses to questions, is hereby authorized to speak on behalf of ILPA. If the subcommittee members or staff so desire, I would be happy to respond in writing for the record to any questions.

Sincerely,

ALLEN Y. ZACK,
Secretary-Treasurer, International Labor Press Association.

STATEMENT OF ALLEN Y. ZACK, SECRETARY-TREASURER, INTERNATIONAL LABOR PRESS ASSOCIATION, AFL–CIO, CLC

The International Labor Press Association, AFL–CIO/CLC, which represents more than 500 publications of the AFL–CIO and its affiliates and subordinate bodies, believes H.R. 7700, the Postal Service Act of 1977, constitutes a comprehensive, workable program for dealing with postal problems.

An overwhelming majority of publications produced by members of the ILPA are entered under second class permits and qualify for preferred non-profit postal rates. Some are entered under third class, while a few are distributed through first class mail or by hand delivery. These publications have a combined per issue circulation of approximately 20 million copies.

The publications range from mimeographed newsletters circulating to fewer than 50 persons to newspapers and magazines with circulations in the hundreds of thousands. All are supported either entirely or to a substantial degree by the dues money of union members. Fewer than 20 percent contain any advertising, and less than 10 percent rely on advertising for survival. The constitution of the ILPA severely limits the solicitation and nature of advertising which can appear in its member publications. These restrictions, while limiting the financial resources available to our member publications, are essential for the preservation of a free labor press that truly represents union members.

Despite the rather impressive combined per issue circulation of ILPA members—about 20 million—the publications they produce have been suffering since the Postal Reorganization Act of 1970. Nearly 50 percent of ILPA's member publications have reduced their frequency of issue, cut back on the number of pages or format, or eliminated staff positions. About 75 member publications have ceased publication entirely. Increased postal rates or charges for postal services have been the principal reason for these curtailments.

Moreover, a recent survey by ILPA of non-member local union publications indicated that half of these had suffered similar cutbacks or ceased publication entirely. Postal rate increases, again, were cited as the main reason.

Union publications supply their member/readers with information that usually cannot be obtained through any other source. This information includes data about negotiations, union elections, financial reports, grievances, union policy and legal matters of concern to union members.

Union publication also supply their readers with information about the elections that are held each year for about 500,000 union offices, and report on the approximately 150,000 collective bargaining agreements that are negotiated annually. Additionally, unions have a representative democratic governing structure which requires rank-and-file members to be knowledgeable on national economic and social issues in order to choose as delegates to state or national union conventions those persons who best represent their views.

Except for news about strikes or contract negotiations in basic industries, the commercial media carry little information of this nature. And much of the information they do carry is incomplete, inaccurate or not timely.

Congress has recognized the poor financial standing of publications of non-profit organizations, such as the labor press. In fact, the view of Congress has been that these non-profit publications were a rich source of information for the public, and, therefore, it established a structure of preferred postal rates for qualified non-profit organizations.

But this preferential rate structure, under which non-profit publications paid approximately half the commercial rate, was destroyed following enactment of the Postal Reorganization Act. In fact, the largest percentage increases in postal rates have fallen on publications of qualified non-profit organizations.

The ILPA believes that many of the problems the Postal Service is now facing can be directly connected to the Postal Reorganization Act. That Act brought forward the idea that a government postal service should somehow break even or make a profit. Ever since the Act took effect, the management of the Postal Service has been operated by profit-and-loss charts, rather than by performance and service. The inevitable result has been cutbacks in service and increases in rates, both of which have undermined confidence in the U.S. Postal Service.

Right now, the Postal Service is the victim of a classic Catch-22 dilemma—the vicious circle of increasing rates and declining services, which cause reduced volume, which, in turn, lead to further rate hikes and service cutbacks. The current Postmaster General persists in his plan to cut delivery to five days a week, seek higher postal rates and resume small post office closings. Reductions of the 6-day delivery week by one day would mean the elimination of 20,000 letter carrier jobs. If the current Postmaster General had his way, another 15,000 postal workers would soon be reduced to working only two to four hours a week.

It is the belief of the H.P.A. that H.R. 7700 may well make it possible for Congress to halt the trend towards deteriorating postal service, and also to eliminate or at least reduce some of the problems created for non-profit publications by the Postal Reorganization Act.

The ILPA strongly supports H.R. 7700, and has the following positions on the various sections of H.R. 7700.

Section 2. "Congressional review of rate, fee, and classification decisions"

ILPA strongly supports section 2 of H.R. 7700. The ILPA believes that any decision as significant as a change in postal rates must be reviewed by the elected representatives of the people. Far too often decisions affecting citizens are made by quasi-independent bodies that are insulated from the general public. Congress is directly responsible, and therefore far more conscientious in its efforts to obtain citizen input before making wide-reaching decisions.

Further, the ILPA strongly supports efforts to establish less costly and restrictive procedures for non-profit organizations and the general public to participate in rate change cases before the Postal Rate Commission. The expensive procedures of the Administrative Practices Act virtually freeze out participation from nonprofit groups and ordinary citizens.

Section 3. "Changing rates and fees"

For the publications ILPA represents, section 3 is the heart of H.R. 7700. By providing a more precise system of setting fair and equitable rates, Congress would be bringing order into the ratemaking structure. Since rates would be based on short-term variable costs, with no more than a 2 percent contingency allowed for recovery of past losses by the USPS, this section would eliminate much of the confusion over definitions that has resulted in what we believe to be decisions by the PRC that are in conflict with the intent of Congress in the 1970 Act.

The 60 percent ceiling on attributable costs established in this section would eliminate the sense of doom with which non-profit mailers greet the announcement of proposed rate increases. The proposed ceiling would enable our publications to better plan for coping with rate increases, because they would know the increases would fall within a certain range and not suddenly jump to 70, 75, or 80 percent of attributable costs, as would happen under the current rate structure.

In addition, ILPA endorses President Carter's proposal for somewhat reduced rate for first class mail of private citizens that meets certain standards. We believe this proposal should be written into this section, and not left to the Postal Service and the PRC, which could lead to a legal test concerning the statutory authority for such a proposal.

The amount of revenue involved is insignificant when compared with the goal of restoring public confidence in the Postal Service. We believe such a special first class rate should be treated as "revenue foregone" and included in the authorization under Section 4.

This is the second action this year by President Carter that has helped build confidence in the Postal Service and provide an incentive for the increased volume we all believe essential to healthy growth of the USPS. In his budget proposals, the President also included funding for the stretchout in postal rate increases, thus ending the efforts of the Nixon-Ford administration to circumvent a congressional directive.

ILPA is surprised and dismayed by the opposition expressed by the business community to President Carter's proposal for a reduced rate for first class mail of private citizens. Business presently enjoys discounts for certain types of presorted business mail and a volume discount for business reply mail. It is time the mail of private citizens be given a break.

Section 4. "Authorization of appropriations to United States postal service"

The ILPA urges that the 15 percent public service subsidy provided by general federal revenues proposed in this section be increased to 20 percent. A 15 percent subsidy is insufficient and unrealistic in light of the historic levels of federal contributions to postal services before 1970 and the current needs of the Postal Service. The 15 percent subsidy would aid the Postal Service only in the elimination of debt.

A 20 percent subsidy is far more realistic, since it would help maintain service levels and stabilize postal rates. Moreover, a 20 percent subsidy would restore the federal funding to pre-1970 levels.

ILPA supports the specific authorization of the public service subsidy for continuation of six-day-a-week delivery, the operation of rural post offices, the citizen rate, and a modern research and development program. We believe the subsidy should also be authorized for maintaining the historic and beneficial rate structure for publications of qualified non-profit organizations.

The intention of the Postal Service to eliminate Saturday delivery and accelerate the closing of rural post offices is penny wise and pound foolish. It would necessitate an unwise further reduction of delivery standards—an important factor in declining mail volume. The piecemeal dismantling of the Postal Service represented by such decisions by postal management does more to destroy public confidence in the Postal Service than any rate hike.

ILPA is not impressed by the so-called public opinion survey conducted for the Commission on Postal Service, which Postmaster Bailar cited in announcing his determination to eliminate Saturday delivery. That survey was designed to produce a desired result and to justify the Postal Service's planned reduction of services. The options were loaded with code words, such as "higher government subsidy," and did not cover all options, such as restoring the government contribution to its historic levels.

The decision to close rural post offices, which provide a sense of identity for communities across America, and eliminate Saturday delivery were made in a vacuum. What would the costs be to the government in terms of increased expenditures for welfare and unemployment compensation for the elimination of 20,000 letter carrier jobs? What is the cost in terms of public confidence in their government by a further reduction in the only continuing person-to-person contact the government maintains with its citizens—the letter carrier delivering the mail? What is the human value to society of an observant, professional letter carrier who notices when shut-ins have not picked up the previous day's mail and may need assistance?

Further, the business week in America is expanding, not contracting. The Postal Service is vital for business; the billings it brings to the door; the mail orders, etc. For many workers, Saturday is the day to conduct personal business, and we submit that full postal services on Saturday are essential for the conduct of personal business of millions of Americans.

Finally, cutting back on the number of delivery days would adversely affect the readers of second-class publications. Rural newspapers, many magazines, church circulars and other mail are timed for Saturday delivery. This mail would now be delivered on Tuesday, because the carriers would be overwhelmed with the added first class volume on Monday.

Section 5. "Postal Rate Commission budgets."

ILPA supports Section 5, because we believe a separate budget for the Commission will help make that body more independent of the Postmaster General and less dependent upon him for its very survival. It is axiomatic that the party that controls the purse-strings calls the tune, and the PRC has been humming the Postmaster General's song.

Section 7. "Legal representation."

ILPA strongly supports Section 7.

Section 8. "Organization of Postal Service; rate, fee, and classification decisions of Postal Rate Commission

ILPA believes presidential appointment of the Postmaster General and the Deputy Postmaster General, subject to confirmation by the Senate, would restore the spirit of public service so lacking in present postal management. We oppose making the PMG a member of the President's cabinet. Presidential appointment would not mean politicizing the Postal Service; rather, we believe it would restore public accountability to the position and allow for much needed congressional supervision.

Section 9. "Post office closings and consolidations"

ILPA supports this section because we believe the public must have the opportunity to be heard on decisions that will affect their daily lives.

Section 11. "Review of proposed capital investments"

ILPA strongly supports congressional review of heavy capital expenditures by the Postal Service. It is our firm belief that these expenditures, virtually unchecked in recent years, have deprived the Postal Service of operating revenue and therefore have been used as the scapegoat to justify service cutbacks.

Section 12. "Effect on collective bargaining agreements"

One of the most positive effects of the Postal Reorganization Act of 1970 has been the collective bargaining provisions. The Dark Ages approach to low postal rates through inadequate wages for postal employees has been laid to rest. Collective bargaining has provided postal employees with a voice in their own destiny, improved morale and led to development of a more professional Postal Service.

Those who lay the blame for postal problems on the fact that postal workers have achieved a living wage are blind to the fact that the dedicated postal worker has been the one who has kept the system together and operating in the face of monumental mismanagement and concerted efforts to dismantle postal services.

ILPA believes H.R. 7700 would go a long way towards eliminating many of the causes of the deterioration of the Postal Service.

We believe the Postal Service is, and must continue to be, an essential government service. In a country as large as the United States, reasonable and equitable postal rates and services are vital to the well-being of a nation and its citizens.

ILPA is proud to support H.R. 7700 and urges prompt Committee action on it.

STATEMENT OF DR. EDWARD KELLER, DEPUTY EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF ELEMENTARY SCHOOL PRINCIPALS

Mr. Chairman and members of the Subcommittee on Postal Operations and Services, I am Dr. Edward Keller, Deputy Executive Director of the National Association of Elementary School Principals. Our organization has 25,000 mem-

bers located in almost every community and many rural areas in the United States. I wish to thank you for affording me the opportunity to appear before you to express the need of our members to obtain library book rates for teaching and learning aids mailed by publishers and distributors to educational institutions.

Mr. Ivan Gluckman of the National Association of Secondary School Principals has presented the situation which most every educational institution faces and he has proposed a method of helping school principals to improve the quality of education through encouraging the use of teaching and learning aids without greatly increasing the cost of supplying educational services. Our Association fully endorses his statement. I shall try not to repeat the material covered by Mr. Gluckman but I shall use my time in pointing out some special reasons why we support the Amendment to which he refers.

Thousands of elementary schools are located in smaller communities and rural areas where many ancillary social, cultural and educational institutions such as public libraries and museums are scarce or nonexistant. Teachers in such schools are compelled to fill such voids through the use of teaching aids to supplement texts if the student is not to be denied a desirable background for further education. Elementary education continues to be the basis for all future education. In smaller communities, classroom teachers are frequently required to teach several different subjects and often several different grades. Teaching aids are often used to help the instructor make the transition from one subject and one class to another. Younger students are inclined to absorb a subject more thoroughly if they are supplied examples and illustrations not covered by text material. Teaching aids are widely used for this purpose. While these statements are not meant to cover all of the usage and needs for teaching aids, they will suffice to show that such aids are essential to improve the quality of elementary education.

I hardly need to emphasize that the cost of education comprises a large portion of local and in some cases state tax levies. By permitting teaching aids to be mailed to educational institutions at the library book rate, his Committee will be aiding in improved cost control of our schools while encouraging the quality of education.

We appreciate this opportunity to have shared our concerns and recommendations with you.

Mr. HANLEY. The hearing stands adjourned until Thursday morning.

[Whereupon, at 12:30 p.m., the hearing was adjourned.]

THE POSTAL SERVICE ACT OF 1977

THURDAY, JULY 21, 1977

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

The subcommittee met at 9:30 a.m. in room 304, Cannon House Office Building, Hon. James M. Hanley (chairman of the subcommittee) presiding.

Mr. HANLEY. This morning we resume our hearings on H.R. 7700, and our first witness is Hon. Paul Simon, esteemed gentleman from Illinois.

Paul, we are delighted to have you with us this morning, and certainly in recognition of your long-time interest in this subject matter, and I confident that your testimony is going to contribute measurably to the deliberations of this subcommittee.

Mr. SIMON. Thank you, Mr. Chairman. I wish I could plead guilty that my testimony would contribute immeasurably. I served with real pleasure on your subcommittee under your leadership. I know that the end product that you are going to produce is going to be a good one.

Mr. HANLEY. Thank you.

STATEMENT OF HON. PAUL SIMON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. SIMON. Let me just very briefly touch on really four points. No. 1, the basic thrust of this bill is sound, letting the President appoint the Postmaster General, getting some control back in the Postal Service.

Second, the small town post office procedure, and you and I have discussed that briefly, I think that portion of the bill needs strengthening so we don't have phoney hearings; and then the Postal Service goes ahead and closes the small post offices anyway. Nor do I want any phoney polls, where they give people a choice of a variety of things, none of which is keeping the post office going in that small town. I think that some protection for these smaller communities is important. I think the sentiment in Congress, evidenced by the number of people cosponsoring the legislation, such as Mrs. Smith from Nebraska who is here, in this general area is strong.

The third point that I would hope would become a part of the bill through an amendment is that in towns of 5,000 or less, local peo-

ple have the priority of being named postmaster. I run into problems constantly on this; other members do also. I'm not suggesting if no one is qualified in the local community that you stick to that community. But what is happening is you pull people into that community who don't know the community, who don't know the people, who have no interest in that community. It is bad public relations for the Federal Government. It's had public relations for the Postal Service, and it results in less effective service.

It was very interesting to me that when I sent out a "Dear Colleague" on this particular bill, and I have a bill on this subject, within 24 or 48 hours, we had 40 or 50 cosponsors. It was like lightening. The sentiment is overwhelming. I think the sentiment is based on good sound reason.

Finally, Mr. Chairman, I would like to see not only revision on the rates you have in the bill, but some kind of a suggestion that those rates cannot grow faster than the consumer price index. There's no reason we should permit the Postal Service to not only reduce its service through excessive rate increases, but to be part of the inflation in this country. We ought to see that the Federal Government is a deflationary factor rather than an inflationary factor. In fact, the Postal Service has been an inflationary factor in the last decade.

Basically, that's my testimony, Mr. Chairman. Once again I applaud your leadership in this whole area. You have been patient, able, and you have been able to get the job done in the past. I think you're going to do it again this time when we really need your leadership.

Mr. HANLEY. Paul, thank you very much for what you have said. I am most grateful. Hopefully all of us working together are going to be able to produce something in this Congress that will, in effect, resolve the long-standing dilemma.

I embrace your position on rural post office closings. It is my intent to make it very clear that when the agency determines it feasible to close a rural post office, it will schedule a hearing in that community. There will be no phony polls. The participants in the polls will be the residents of the community themselves. Assuming that the majority of the people of that community want that post office to remain open, it shall remain open.

What you have said about the appointment of the postmaster in communities where the population is 5,000 or under is certainly worthy of consideration. I frankly had not heard that one before.

But, Paul, are you saying that in the event of an opening, then consideration would be given to anyone regardless of whether or not they were presently associated with that office?

Mr. SIMON. Ideally, I think that ought to be the situation, providing they can pass the test and they show some competence to do the job. I'm sure you're going to find some communities where there are not people who meet the qualifications. In those instances, you have no choice but to go outside.

Too often I find in small communities, where the postmaster's job is not only seeing the mail gets delivered, but he can tell people how to get to Nellie Smith's house, and all the other things a small town postmaster has to do. You get someone in there who doesn't know Nellie Smith, and he really couldn't care. It really makes for a bad situation for the Postal Service in that community.

I just had one letter in the mail from some people who heard about the bill I have, the suggestion for 5,000 or less. It's a community in Iowa, I believe, where they wanted to start picketing the Postal Service because someone came in as postmaster who knew nothing about the town, and who was obviously causing some problems. They wanted to know if I thought they should start picketing. I said, "I hope we can solve this without your picketing the post office."

Mr. HANLEY. There's certainly a lot to be said in favor of that proposal. That will be given a great deal of consideration. Traditionally, prior to 1970, that postmaster was really the key in that community and served a great purpose, because he had a fix on virtually everything that was happening. He or she provided a great service for all the people.

Mr. SIMON. We encourage that community leadership.

Mr. HANLEY. That's right. Certainly we will give that possibility a great deal of consideration, unlike the present procedure; whereas if someone from that local office doesn't meet the criteria, pass the test, that is to say, then they go outside of that area. So possibly we could develop a procedure whereas people associated with that office might have first shot at it.

Mr. SIMON. I think so. I might say there are cases where local people meet the criteria, but the regional supervisor has a friend or brother-in-law that he wants to give the postmastership to and it doesn't go to that local person. There are some things to be said against the old-fashioned politics of appointing the postmaster. Now we have new politics in the post office. That new one is infinitely worse than the old one.

Again I am not suggesting that unqualified people be appointed. I'm not suggesting that you're going to have a pure system without any preference. But local people who know that community ought to be encouraged, not discouraged.

Mr. HANLEY.I would assume that your thinking would be that Members of Congress will not become involved in this selection process.

Mr. SIMON. I know some colleagues favor that. I don't think we ought to go back to that.

Mr. HANLEY. Fine. Well, the other points you make with regard to the consumer price index, you and I have talked about that in the past. I asked you, I think a year or two ago, to hold off on that, because we're dealing with something that is rather complex, but there certainly is a great deal of merit to the procedure that you suggest, and we will give that a great of consideration during the course of these weeks and months.

Paul, our deep appreciation from the full subcommittee for your time and effort in this matter. We hope to have this measure up in the full House reasonably soon. We had House action on it this year.

Mr. SIMON. My thanks again to you: not only you, but the staff whom I have had a chance to work with. I know you have a great crew to work with. A appreciate it. Thank you.

crew to work with. I appreciate it. Thank you.

Our next witness this morning is another great person who has evidenced a great deal of interest in this subject matter, my very dear friend, Representative Virginia Smith. You and I have spent a great

deal of time on this subject matter. I am most aware of your very keen interest and the input you have provided this committee through the course of these rather difficult years. Again, we look forward to your presentation, I'm sure it is going to be meaningful.

Mrs. SMITH. Thank you very much for your kind comments, Mr. Hanley. I want you to know how much I appreciate your leadership, your kindness, your understanding, and your cooperation. I think under your leadership of this fine subcommittee, we are going to get this problem solved.

Mr. HANLEY. Thank you.

STATEMENT OF HON. VIRGINIA SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mrs. SMITH. I commend you and Mr. Wilson for your bill. I think it is an excellent one. I think that it brings back some measure of control into the hands of the Congress and the President which I think is necessary to solve our postal problems.

As you know, I have introduced a bill, H.R. 8048, which deals specifically with some of our rural problems, some that my good friend Congressman Simon commented on, and I would like to run through them very briefly.

There is a mandate in this bill that we not only have a hearing, but that two-thirds of the people in the community be willing to vote to have the post office closed or rural route consolidated before it is done. My people report that for these hearings—I think Mr. Simon called them "phoney" hearings—the Postal Service management just comes out and tells the local people what to do. They don't feel they have had any voice. I think we should guarantee they will really have a voice before they lose their post office or before the quality of service is reduced.

Second, it would require, as your bill does, a 6-day mail service in communities of less than 100,000. Now, of course, this 100,000 figure is not set in concrete in my mind. I do know to small communities the 6-day service is so very, very vital, and you and I agree on that point.

Third, it would insure that each county seat of government would have a post office. It wouldn't seem that we should have to have this in national legislation, but right in my district, I have counties where there's only one post office left in the county. The route has been consolidated and taken away from that town. I think it's very important to the people of the community in a county where their local seat of government is located to be assured that where the courthouse is, there is also going to be a post office.

Fourth, it would provide that the chief administrative officer in each post office be a postmaster. This would insure that in each post office, the person in charge would be an officially recognized authority with a supervisory capacity.

Fifth, I recommend that we have an accounting of all Postal Service funds spent on mail services in rural areas, because we need to point up that rural service is not the most costly when it comes to providing service and equipment and personnel for our people.

It seems that in the current name of efficiency the sacrifices are always called for on the part of the small town and rural people, which I think is grossly unfair. We also have forgotten the vital point of service.

I would like to include a letter of endorsement from the National League of Postmasters and excerpts from a large number of letters from my district which outline some of the problems I have discussed and the desperate situation that we face in our area.

I know you agree with me that quality postal service is essential across America.

I do thank you again for giving me the opportunity to work with you and to speak here this morning.

Mr. HANLEY. Thank you, Virginia.

[See pp. 270–83.]

Mr. HANLEY. I know we are pretty much on a frequency; our goal is identical.

The suggestions that you have offered here today certainly merit consideration, and I think that if we had a better cost ascertainment program going within the agency, we would have a better handle on costs. With regard to taxpayers in a rural community, their post office is essentially the only piece of action that they enjoy out of the Federal pie, although they, by their tax moneys underwrite the cost of all of the Federal programs enjoyed by their urban brethren. Is it fair to deny this set of taxpayers that one thing the Federal Government is doing for them when they cannot enjoy mass transportation, they can't enjoy susidized housing, or a multitude of other programs that are available to their fellow citizens by virtue of location in a populated area. I don't think there's anything fair associated with the premise we should deny these people a local post office.

Mrs. SMITH. I am very grateful to have you make that comment. I know this is your belief, and I will quote you, if I may, in my district, because people ask me in these small towns, they say, "This is all we get and look at what all those city people get."

A gentleman said to me just last week at a town hall meeting, "We get our mail delivered only twice a week. Why should it be delivered three times a day in New York City?

These are very difficult questions to answer when the Postal Service is supposed to provide equal service across America.

Mr. HANLEY. Their obligation to the Internal Revenue Service is identical.

Again, Virginia, you make some excellent points. You have certainly provided me with a great deal of encouragement through the course of this effort. I am confident that working together as we do in the spirit of cooperation, we are going to see this measure enacted into law.

Mrs. SMITH. Thank you again. I appreciate your friendship and leadership.

Mr. HANLEY. Bless you, and thank you, Virginia.

Our next witness this morning is my friend and colleague, the gentleman from New Jersey, Representative William J. Hughes, who again has evidenced great interest in this subject matter, and through the course of our many informal hearings has provided me with much help.

Bill, it's a delight to have you with us this morning.

Mr. HUGHES. Mr. Chairman, thank you very much for permitting me to testify, and also for the direction and assistance you have given me in the short time I have been in Congress.

I can honestly say, Mr. Chairman, in the some 2½ years I have been in Congress nothing has been more frustrating to me than my dealing with the Postal Service. I have met on numerous occasions with the Postmaster General and their liaison staff, and I have often felt I might have done just as well by talking to the wall. I wasn't really reaching anyone. My frustration is the same frustration that people in my district have with the U.S. Postal Service.

There is a total lack of accountability. I don't know who the Postmaster General or the executives of the Postal Service are accountable to; I don't know that they are accountable to anyone. I think that is the thrust of my testimony—because it is the essence of our problem.

I am going to try to be brief, because I have a statement which I would like to offer in full for the record.

Mr. HANLEY. Without objection your entire text will be incorporated into the minutes of this hearing.

[The complete statement follows:]

PREPARED STATEMENT OF HON. WILLIAM J. HUGHES

Mr. Chairman and members of the subcommittee, I am grateful for this opportunity to share with you some of my thoughts on Postal reform and the recommendations of the Commission on Postal Service.

I might begin with my own recommendation that the Postmaster General and the Executives of the Postal Service receive their paychecks only through delivery by mail, preferably timed so that they will be delivered on Saturdays.

Although I make that recommendation in jest, it does serve to illustrate an important point: The services of the Post Office are extremely important to a great many of the American people in their private lives, and to government and business. To the extent that the Postal Service recognizes the importance of the mail, the better our service will be.

The most important thing for all to realize is that the Postal Service is a service.

In 1971, we began what might now be called a "noble experiment"—we embarked upon a program that had a goal of making the Post Office a self-sustaining operation.

We have now had six years with that experiment, and it may well be time to rethink that goal in light of what we have learned.

The fact may very well be that a service like mail delivery cannot and should not be made self-sustaining without very serious cutbacks in the level and quality of service.

The situation may not be at all unlike other areas of commerce, such as the airlines. We all know that air travel between certain cities on heavily travelled routes could be cheaper than it is. But by keeping the air fares at a certain level, we are guaranteeing that service will be provided to other lesser travelled routes, that would not otherwise be receiving adequate service, or any service at all. It is, in effect, a subsidy.

So it is with the Post Office.

Rural delivery is expensive. We might very well save dollars by closing Post Offices or by cutting back home deliveries to five or three days a week or by making the publications of non-profit organizations pay full rates for delivery.

All of those steps would save money. Just as would eliminating home mail delivery entirely in favor of Post Office boxes, or even by weekly community mail-calls, as was suggested by one editorial cartoonist who showed the local Postmaster calling out names in the middle of a crowded square.

But in reality, the mail is a vital means of communication.

At the time our constitution was written, it was the only means of communication. It was so important that our nation's founders made mail delivery and the establishment of post roads the sole prerogative of the Federal Government.

In assessing where the Postal Service is going from here, we must balance that classic role against our real fiscal constraints, and reach a number of value judgments about the importance of preserving that original communications role as opposed to the importance of cutting costs.

This brings me to my first major point.

Congress must reassume its proper role in supervising the mail service. We must once again have a Postmaster General appointed by the President and confirmed by the Senate. We must reassume a role in the setting of postal rates.

Certainly something is wrong when the top officials of the Postal Service will not even appear before a Committee or Subcommittee of the House. It is a public service that is offered by the Post Office—one that is given to us for supervision by the constitution. There is no way that we can fulfill our constitutional role if we are snubbed by the one official with primary responsibility for that role.

But it is our responsibility and we assume it. We can delegate that responsibility to any commission we please, but the public still looks to us and holds us accountable. Unfortunately, the present system prevents the public through their elected Representatives from holding the Postal Service accountable. They are marching to a different drummer.

On the subject of five-day mail delivery, I must disagree with the Commission on the discontinuance of Saturday mail delivery. It is not only something that private individuals look forward to: It is also the lifeblood of a substantial number of businesses.

If mail is to be discontinued on a day, Saturday is the worst possible choice. It means bigger backlogs on Mondays, and on the eight separate occasions which are Monday holidays, it means an overwhelming backlog that will delay mail for the rest of the week.

In its recommendations on increased electronic communication, I agree with the Commission on Postal Service. They recognized that the Postal Service must remain competitive or face a downward spiral of decreasing patronage followed by higher prices giving rise to even less patronage.

Unfortunately, their recommendations on increased use of private couriers sent to overlook the danger of that same downward spiral. Private couriers will undoubtedly profit from the Postal Service's most lucrative routes, and completely ignore the more costly routes, such as in rural areas. Since it was our intention in setting up the Postal Service that it "should provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities," the recommendations of the Commission seem to go against sound public policy. Private couriers might eventually skim off the cream, and leave the Postal Service with a preponderance of routes which are marginally profitable., or not profitable at all.

There are many other areas of postal reform which I might mention, but there is one of particular importance, the closing of rural post offices.

39 U.S.C. 101(b) makes it abundantly clear that rural post offices were not to be closed solely because they were not self-sustaining. Unfortunately, in its haste to cut costs, this directive seems to have been totally ignored by the Postal Service.

The Commission recommended that post office be closed only when (1) a Postmaster vacancy occurs; (2) changed circumstances require the closing of the office; or (3) a majority of the voting patrons of the office vote to close the local Post Office.

I have no argument with the last two recommendations, but the first is rather strange. A post office is not there to serve the Postmaster. It is there to serve a community. A vacancy in the office of Postmaster should be completely irrelevant in a decision to close a Post Office.

I must make reference to a situation in my own Congressional District, which relates to the closing of the Mail Processing facility in Toms River, N.J. This

was the subject of additional views of Commissioners Krebs, Rademacher and Johnson of the Commission on Page 105 of the Commission report.

Those views go to the issue of whether many of the closings and cutbacks and consolidations approved by the Postal Service are truly prudent on the basis of cost-cutting objectives.

It is worthy of note that we had a hearing by the Commission in Toms River on the issue of whether the Mail Processing facility should be closed. Of the four Commissioners who attended, three came away convinced that it was not a good move.

The three Commissioners concluded that "the Toms River area has a need for the Mail Processing facility that far outweighs the small savings the Postal Service can expect . . ." from its closing.

Weighing heavily in their recommendations was the extremely rapid growth of Ocean County, where the facility is located, the likelihood that savings would be much less than anticipated, and that they would be only temporary in nature.

Because of my own close involvement in this question and my knowledge of the area, I strongly agree with the findings of the three Commissioners. Accordingly, I recommend that we need additional language in the Postal Reorganization Act that spells out, in greater detail, the circumstances under which various post offices and other faciilties should be closed.

Included in these should be considerations of future population and economic growth, and the long-range rather than short-range nature of any savings that might grow out of a particular closing.

The recommendations of the Commission give us good guidance in this regard. On the possibility of "changed circumstances," it is clear that there will be a greater need for the Toms River facility in the future—not a lesser need—due to the County's phenomenal growth.

If community wishes are any indication, we had a non-binding referendum in November of 1976 that opposed, by 60–40 percent, any change in the Toms River operation. In that referendum, 67,000 Ocean County voters expressed their opposition to any change.

None of these factors, however, had any impact on the Postal Service, which went ahead and announced the move without any consultation at all with state or local officials.

I believe, as did the three Commissioners, that the Postal Service should now admit that this was a bad decision, and reverse itself. However, there is little likelihood of that because the Postal Service listens to no one.

In conclusion, I hope that we can draw upon the mistakes of the past few years and learn from them in the upcoming reform of the Postal Service. In doing so, we must recognize the far-reaching economic consequences of Postal decisions on individual communities and on employment, as well as upon the fundamental purpose of mail delivery service.

There are important considerations which must not be lost in our desire to cut costs. Saving money is important—but we must not become so enamoured with the idea of cutting costs that we lose sight of the basic goals of the Post Office.

Mr. HANLEY. You may continue.

STATEMENT OF HON. WILLIAM J. HUGHES, A REPRESENTATIVE FROM THE STATE OF NEW JERSEY

Mr. HUGHES. Mr. Chairman, I am a cosponsor of H.R. 7700 and strongly support it. I think the thrust of the legislation is sound.

In 1971 we embarked upon a noble experiment, a program that had a goal of making the Post Office a self-sustaining operation. We have now had 6 years with that experiment, and I think it's now time we rethink that goal.

If, in fact, the U.S. taxpayers will be called upon to provide subsidies, obviously through their representatives, they are going to have to have some degree of participation in the decisionmaking.

My colleague before me touched upon the problems with rural post offices. I touch upon that in my testimony. She touched upon the 6-day as opposed to 5-day mail service. I'm not going to repeat that testimony, but I subscribe to it. My thinking is in total accord.

I think we could do a lot of things to cut cost. We could stop the home delivery altogether. We could close down a lot of processing facilities, and we could take a lot of other steps at this point including closing rural post offices to cut cost in a effort to try to keep cost down. That's not what the American public wants. I don't think that that's in the interests of anyone at this point. Obviously it's time we reassessed many of these policies.

I would like to touch upon a number of things that the Postal Service Commission recommended, because I think that they had a number of really good suggestions, but then I have some grave misgivings about a number of others.

There's no question in my mind but the Postmaster General must be appointed by the President and confirmed by the Senate. There's no question but the Congress should have some say in ratemaking. I'm not saying the moving role, but we should have some say, by way of veto, if need be, of Postal Service rates. I subscribe to trying the postal rates to the consumer price index.

I have some question about the recommendations of the Postal Commission in using private carriers, because of the concern that perhaps they will take the cream but leave us, unfortunately, with those routes that are not very profitable.

I don't think the Postal Service is any different than the situation with our airlines or other forms of transportation whereby we provide a subsidy, in essence, to those routes, that are not profitable. The airline carriers, among others, have to service areas where it's not productive, and they do that by servicing at the same time areas where they do make a profit. The same thing with the Postal Service.

The Commission recommended that post offices particularly in rural areas be closed only when a postmaster vacancy occurs, changed circumstances require the closing of the office, or a majority of the voting patrons of the office vote to close the local post office. I think the last two criteria have a great deal of merit, but I fail to understand how when a vacancy occurs by a postmaster retiring or otherwise leaving the post should have anything to do with the closing of a rural post office. The rural post office is not there as an accommodation to the postmaster, and it seems to me that the criteria should be based upon the last two recommendations of the Postal Service Commission.

Finally, I would like to make reference to a situation in my own congressional district, the closing of the mail processing facility in Toms River. The chairman knows we had discussions on this. It has created a cause celebre in south New Jersey. I would like to describe the area.

The Toms River area is the fastest growing area in the entire country. My congressional district is the largest geographically and population-wise in New Jersey. I now have a population up around 560,000, about 100,000 over the normal size for a district. Most of that concentration is in Ocean County, the Toms River area. It's an area

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that's going to experience tremendous additional growth in the years ahead, because south of Toms River is Atlantic City, where we have casinos, plus we are beginning the development of the Outer Continental Shelf. We also have a tremendous migration taking place from north to south Jersey. My area is extremely rural; the migration is out of north Jersey and the Philadelphia communities to the Atlantic and ocean part of the State.

The Postal Service totally ignored the population shifts in closing the Toms River processing center and the Atlantic City processing center to move Atlantic City to Bellmawr and Toms River to Hammil Township. The population trends are away from those areas and into the Ocean County area and Atlantic City.

We brought this to the attention of the Postal Service. They totally ignored the long-range growth problems in that area. The figures, cost figures, that were originally given to us were once again phony figures with no basis in fact. In fact, when we had the initial meeting with the Postal Service, they wouldn't discuss with us the cost figures that were submitted. So, in that particular situation, the Postal Service just totally ignored the criteria that should have been utilized.

In conclusion, Mr. Chairman, I hope we can draw upon the mistakes of the past few years and learn from them in the upcoming reform of the Postal Service. I am sure that we will. It seems to me if we regain some of the control that we have to have, we will put back into effect once again the check-and-balance system that is so essential to the operation of all aspects of Government. The Postal Service has to be accountable to the people of this country. They are not right now.

Thank you, Mr. Chairman.

Mr. HANLEY. Thank you, Bill, for your very fine testimony. I think the Toms River problem, which I am quite familiar with, is a classic example of irresponsiveness on the part of top-level management of the agency.

I am reminded of a privilege I had a couple of weeks ago to spend 50 minutes with the President, one-on-one, to discuss postal affairs. His question was, "What should we do?"

I said:

> Mr. President, I respectfully submit that we have to reestablish within that agency responsiveness, which, unfortunately, went up the flue back in 1970 with the Postal Reorganization Act. We can do this, Mr. President, if you appoint the Postmaster General, subject to Senate confirmation, and abolish the Board of Governors. Once having accomplished that, we again have an agency that must be responsive to the will of the majority of the American people. When the people evidence their position to their elected representatives, then their elected representatives are going to convey that position to the committee, and the committee, in turn, is going to convey that position to your people. I am confident that positive action will be the result, as it was prior to 1970.

So you, Bill, have evidenced our frustration because of the irresponsiveness of the people enjoying this kind of authority who don't have to account to the electorate as you and I have to.

Mr. HUGHES. Mr. Chairman, you're so right. In our system of government, our constituents indicate to us their frustrations and their concerns, and then we are called upon to try to do something about it. We are at a dead end with the Postal Service. We can't effectively communicate those frustrations and those concerns.

I might say, Mr. Chairman, with the Toms River facility, at my request and your assistance, the Postal Commission came into Toms River and took testimony, you may recall. Three of the four commissioners came away from those hearings convinced that the proposed relocation of the processing center was a mistake on the part of the Postal Service. Part of the recommendations of the three commissioners is that the Toms River processing decision be reviewed and reversed.

Mr. HANLEY. Well, what you say, Bill, is par for the course. We can recount many, many horrendous and costly mistakes to the taxpayers of the United States.

I think of the bulk mail processing system that many of us oppose that cost about $1 billion. That was a decision made solely by management in the Postal Service. We, the elected representatives, have nothing to say about it. For that matter, the President of the United States has nothing to say abut it.

Postal managers have sat in their ivory tower for 7 years. The tower is about to crumble in the foreseeable future. I envision that that agency is once again going to become responsive to the American people. That is going to happen with the enactment of H.R. 7700.

Bill, again, our appreciation for your appearance here this morning.

Mr. HUGHES. I appreciate your outstanding contributions, Mr. Chairman. Thank you.

Mr. HANLEY. Our next witness this morning is our friend and colleague, Representative Alvin Baldus.

Al, we are delighted to have you here this morning. Again I am most aware of your deep concern about the plight of this agency, as you and I have discussed informally on many occasions. It's nice to have you aboard in formal fashion this morning.

Mr. BALDUS. Thank you, Mr. Chairman. I would like to associate myself with the colloquy of you and Representative Hughes and express my concern.

Before I begin my testimony, I would like to say the Postal Service no doubt had a great stock in building the country. It was just a necessary ingredient. Now at a time when we see a resurgence of interest in living in rural communities, they can continue to have an effect, if they don't neglect their social obligations to the rural area.

My testimony, my staff tells me, I can easily read in 5 minutes, or I can say it in about 20.

STATEMENT OF HON. ALVIN BALDUS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. BALDUS. Mr. Chairman, members of the committee, it is my pleasure to appear before you again to discuss Postal Service matters. My rural constituents have been enjoying the current lull in the closing of small post offices. I intend to discuss today ways in which we can insure that, when the closings begin again, the views and concerns of affected local citizens are given all proper consideration. Before moving on to that discussion, however, I would like to raise a few other points.

I am a cosponsor of Chairman Wilson's resolution expressing opposition to reducing delivery service to 5 days a week. I feel that this proposal is symptomatic of the zeal with which the Postal Service is pursuing economic considerations at the expense of service considerations. This zeal also appears in their continuing efforts to reduce services to rural areas. The Postal Service, while it has not become self-sustaining, has done a good job of minimizing losses without cutting these services, yet they persist in their efforts to cut the services.

The steadfast callausness of the Postal Service has led me to consponsor the Postal Service Act of 1977, introduced by Chairman Hanley and Chairman Wilson. The Postal Reorganization Act of 1970 was a step in the right direction, it just went too far. It is obvious that our years of experience since 1970 have been accurately reflected in H.R. 7700. The bill is not a repudiation of the 1970 act, rather it is a fine-tuning based on our experiences. My assessment is that it would be easily passed on the House floor.

I would like to mention in passing a problem which has been brought to my attention by several of my constituents. Under the terms of Public Law 94–421, educational materials, including books, may be mailed by publishers or distributors to a school, college, university, or library at a special library rate which is cheaper than the book rate. The problem arises because the recipients of these books must mail rejected samples back to the publishers, but they cannot use the special library rate to do so. They must use the more expensive book rate. It would make sense to me to allow the libraries to also have the advantage of the special library rate.

Now, let's get back to rural delivery questions. The last time I appeared before you, the question centered on the closing of small post offices. This year we can add to that the consolidation of rural routes. I want to stress that I am not absolutely opposed to all closings or consolidations on principle. I am opposed to insenitive efforts to sneak these changes through with either no participation or only token participation on the part of the affected citizens in the decisionmaking process.

H.R. 7700 would require public hearings to be held before a post office can be closed. I think you should also impose the public hearings requirement on proposed consolidations of rural routes. It is also important that the public hearings consist of more than a token effort. If you have a public hearing and all 200 people object to the closing, but the post office is closed anyway, the holding of the hearing has done little more than meet the letter of the law. The Postal Service has been arguing for over 2 years now that service is improved when small post offices are closed and that local citizens can learn to prefer a rural route. I think that in many cases that can be true. But if it is true, then why not require the Postal Service to get approval of the local citizens in a bonafide public hearing. If the Postal Service would treat the people with respect and frankness, they might be surprised at the reaction they would receive.

My major recommendation today is that in marking up H.R. 7700 you establish a scheduled system for the consideration of post office closings. I would recommend a system whereby on a certain day of each year the Postal Service would publicly list all post offices which

are proposed to be closed in the next year. This would be followed by a set period of time during which public hearings must be held with sufficient advance notice. There would then be a set date for announcing which post offices would actually be closed, followed by a period for appealing such decisions. Finally, there would then be a set day for the actual closing of post offices, perhaps timed with the end of the fiscal year.

A scheduled system would facilitate the consideration of closings and would provoke a positive response from small communities. Communities would automatically know whether their post office was to be closed or if they were "safe" for another year. They would be better prepared for the public hearing. Uncertainty and anxiety would be removed from dealing with the Postal Service.

My ultimate argument for the system, however, is that there is no rational explanation for not having a system. As things stand now, the entire cycle of considering a post office for closing is entirely dependent on the whom of the sectional manager. Let's organize the mess so that people can understand it.

Thank you, Mr. Chairman.

Mr. HANLEY. Thank you very much for your fine presentation. I will not respond to what you have said about rural post offices, because I think you were in the room at the time I responded to a previous witness.

I like very much your description of what we are doing, that we are are fine-tuning the act of 1970. Hindsight is always better. We are most aware of the shortcomings of that act. They were unintentional. Unfortunately, they have proven disastrous. So, the intent of what we are doing right now is, as you put it so well, "fine-tuning the act of 1970."

You also, in your opinion, suggest that as you see it, the measure will be easily passed on the floor. Of course, I am delighted with that very optimistic projection, and I am further delighted to say that the reaction to the bill in general has been excellent, which leads us to believe we do have broad support for it.

Also, I appreciate very much your interest and effort through these several years. You have been especially helpful to this committee, and I am confident that we can remain on that frequency, in the Congress.

Mr. Ryan?

Mr. RYAN. Mr. Baldus, I appreciate your being here.

Mr. HANLEY. Al, again thanks so much.

Mr. BALDUS. Thank you, Mr. Chairman.

Mr. RYAN. Mr. Chairman, if I may, before we go any farther, I would like to ask that you include in the record some material I have received from postal workers in my own district in San Mateo County, Calif., who are having a rather tough time with some significant reassignment because of the USPS's intent to consolidate mail processing. The materials relate directly to the testimony we have been hearing these last few meetings. I would like to have those included in the record.

Mr. HANLEY. Without objection, so ordered.

[See p. 297.]

Mr. RYAN (acting chairman). The next witnesses are Mr. Joseph Vacca and Mr. Patrick Nilan.

I would like the record to show at this point we have with us a former member of this House, who is now working for the National Association of Letter Carriers, Mr. Jerry Waldie, who was a member of this House, a colleague of mine from Sacramento, in some ways, I guess, my boss. We welcome you.

Mr. WALDIE. Thank you.

Mr. VACCA. Mr. Chairman, accompanying me this morning is the legislative director for the American Postal Workers Union, Patrick Nilan, with his assistant legislative director, APWU, Mr. Edward Bowley, and my executive vice president and legislative director for the National Association of Letter Carriers, and my administrative assistant, who we all recognize.

STATEMENT OF J. JOSEPH VACCA, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL-CIO; ACCOMPANIED BY T. R. HUERTA, EXECUTIVE VICE PRESIDENT AND JEROME WALDIE, ADMINISTRATIVE ASSISTANT

Mr. VACCA. Mr. Chairman, the National Association of Letter Carriers, AFL-CIO, the American Postal Workers Union AFL-CIO and the Federal-Public Service Division of Laborers' International Union of North American, AFL-CIO, have joined together in this statement of position of H.R. 7700.

Each of our organizations has heretofore testified in support of most provisions contained in H.R. 7700 when hearings were held on H.R. 19 and H.R. 6520.

At that time, we expressed our complete support for the Presidential appointment of the Postmaster General, the abolition of the Board of Governors, the increase in public service funding, the increase in Congressional oversight exemplified by greater control over capital expenditures and a veto power over Postal Rate Commission decisions, and the commitment to assuring the integrity of the collective bargaining process.

We do not intend to dwell on that prior testimony but, instead, will limit our comments to provisions contained in H.R. 7700 that were not in the previous legislation.

Of great concern to us, Mr. Chairman, are the provisions in H.R. 7700 that discriminate overtly against parcel post and in favor of private carriers. We have long been troubled with the loss of parcel-post business to private carriers. We believe H.R. 7700 will accelerate that already depressing trend.

Parcel post is singled out for such discriminatory treatment by denying the benefit of any of the public service appropriation. Further discrimination occurs in the application of discriminatory ratemaking principles requiring parcel post to recover a proportionate share of all costs, not just those attributable to parcel post, again favoring the private carrier and hampering parcel post in its efforts to compete.

The result of this provision would be to inevitably raise parcel-post rates, and just as inevitably, accelerate the loss of parcel-post business to the private carrier even beyond the point of loss we are now suffering.

We urge that your committee amend this section of H.R. 7700 to substitute the language contained on this subject in prior legislation.

We do, however, commend section 6 of H.R. 7700 creating a uniform size limitation of 100 inches in girth and length combined and a maximum weight of 70 pounds. The present system of permitting size and weight limitations to vary according to the class of post office is confusing to the postal patron and operates to increase the competitive disadvantage we now experience with the private carriers.

We support the change in the existing inflexible formula for determining the public service appropriation as being $920 million. Your proposal to increase that appropriation to the more flexible formula of 15 percent of the previous year's budget is a vast improvement. We believe, however, the figure of 20 percent or better would more realistically reflect postal needs.

Mr. Chairman, we support the provisions of H.R. 7700 which direct the USPS to increase its efforts in research and development in electronics communications. The hearings held by Mr. Hanley on this subject quite clearly demonstrated the total neglect of this important revolution occurring in the communications field. We have long believed that the USPS is predominantly situated to take advantage of the electronic communications now being developed. A failure to utilize these techniques in our efforts to deliver the mail is tantamount to a decision to permit the Postal Service to decline to the point of nonexistence. We believe the USPS can play a vital and commanding role in developing and utilizing both EMTS and EFTS. But a commitment by management to that policy has been totally absent. We hope H.R. 7700 will begin to remedy this ommission.

Mr. RYAN. You can suspend at this point. I have exactly 4 minutes to get over to the floor for a vote. I presume Mr. Hanley will be returning. In order to maintain my batting average, you will have to excuse me.

[Whereupon, at 10:22 a.m. the hearing was recessed.]

Mr. HANLEY. I regret the necessity of the recess due to the vote. We will proceed.

Mr. VACCA. We broke at a very appropriate time. You can hear the last two paragraphs.

Finally, Mr. Chairman, we are particularly pleased with the provisions that mandate 6-day delivery as a minimum standard for patron service. It is increasingly clear that the Postmaster General is intent on procuring a reduction in service to 5 days a week. Only the passage of law freezing those minimum standards will protect them against his efforts to eliminate the sixth day of delivery.

We commend Congressman Wilson and Congressman Hanley for their persistent and valuable efforts to improve the Postal Service of this Nation. It is often a thankless task, but we who are so totally involved in both the successes and the failures of this vital communications system want you to know of our continued gratitude for the efforts you have made.

Mr. Chairman, I would like to have Pat Nilan make any comments he would like to make.

Mr. HANLEY. Thank you, President Vacca. Mr. Nilan.

STATEMENT OF PATRICK NILAN, NATIONAL LEGISLATIVE DIRECTOR, AMERICAN POSTAL WORKERS UNION, ACCOMPANIED BY EDWARD BOWLEY, ASSISTANT LEGISLATIVE DIRECTOR

Mr. NILAN. Well, it's a real pleasure for us to appear collectively, Mr. Chairman. I think you know between our brother and sister letter carriers, we represent a half a million postal workers, by far the majority of postal workers in this country.

Mr. HANLEY. I am delighted with the unanimity that you show here today. There have been times in the past it wasn't quite this way. We are delighted you are all together on a frequency that's going to lead to some good.

Mr. NILAN. I would like to, on behalf of myself and our colleagues, particularly commend you as the principal sponsor of H.R. 7700 for including in the bill the new subsection 3 on the part of collective bargaining. Our union did have some serious reservations about protection of the collective bargaining. Reading in subsection 3, we are delighted with that and appreciate it very much.

I would only like to add a few additional comments in regard to my colleagues on the pending legislation. We have always tried to be realistic and understanding when we appear before a committee of Congress. They, in turn, have been kind to listen to our recommendations. I say this because in the area of the parcel post amendment, we recall very well in the 94th Congress in H.R. 8603 that a similar situation developed at that time. While we weren't totally happy, being perfectly honest, we did go along with the new section, which is section 3682 of title 39, because at least it was a realistic compromise between the divergent views with the parcel rate structure. What we are saying is in lieu of the language presently addressed to that original section and section 6 of H.R. 7700, that it either be stricken or it be amended consistent with the present provision in law.

As I say, we would like to have more, but at least it's our understanding at that time it resulted in maintaining the status quo. It did not give the U.S. Postal Service any further advantage over the private sector, nor was the opposite true either. We certainly would hope that the type of language included in the pending bill also maintain equity for both.

We commend you for the proposal to increase the size and weight limitations between the first-class offices. If we had our druthers, we would like to see no size or weight limitations on parcel post.

We believe the proposal you have offered is realistic and acceptable. I join with Mr. Vacca in assuring you we will work with you to seek enactment, with only one suggested recommendation for change.

Mr. HALEY. Thank you, Mr. Nilan; I appreciate your testimony and what you have said. I think that that's what it's all about, attempting to arrive at a reasonable compromise, everybody realizing that each of us can't have it all or have his own way. As we proceed with this legislation, that's what our effort is. Hopefully, no one gets hurt and everybody is treated reasonably.

Mr. NILAN. Mr. Chairman, I would just like to add one other point, and that is that we are very much concerned with that provision as related to proposed sharply increased parcel post rates by the Post-

master General several weeks ago, which would be somewhere around a 26-percent increase. This, on top of everything else, would make it very difficult for USPS parcel post business to survive.

Mr. HANLEY. We are in the process of taking a hard look at the Postmaster General's proposal which is presently pending before the Rate Commission. I have a very special interest in what he is attempting from the standpoint of parcels. It could well be that what he is giving in one sense, he is retrieving quite heavily in another.

Was someone else going to make a statement?

Mr. VACCA. Mr. Chairman, we would like to associate ourselves with the testimony of your colleagues who have testified before us. Their concerns are our concerns. We are so very happy to hear that they are coming here to tell you about them. Thank you.

Mr. HANLEY. As I mentioned earlier, I am delighted to reiterate that the tenor in the House seems to me to be one of broad acceptance for our effort here. It appears that we have great support for it. I am very hopeful that the administration will soon come out with a position, hopefully in support of it. I know the President's No. 1 priority is to the time-honored budget problem, and in particular relates to his 1981 zero-based budget target. I can appreciate how belabored he is in his consideration of this, because this isn't the only one he has to think about. There are some 31 pieces of legislation on his desk, all of which constitute additions to the budget. Of course, if he goes with all of them, obviously his long-sought goal for zero-based budgeting would go up the flue. So, I am most considerate of the problem he has.

Beyond that part of it, I think we are all pretty much on a frequency.

Mr. VACCA. Mr. Chairman, I would like to have Mr. Waldie, who is my administrative assistant in legislative matters, comment on your bill.

Mr. HANLEY. For what it's worth, I was wondering why you didn't have our Nation's No. 1 expert on that subject make a statement.

Mr. VACCA. He's the dessert, the best for last.

Mr. HANLEY. Jerry, I am delighted to have you with us.

Mr. WALDIE. Thank you, Mr. Chairman. In part, I remain silent and reticent because I, and I'm sure you, have had misgivings about the role that I played in bringing about the dilemma with which we are now confronted.

Mr. HANLEY. I often wonder whether you have lost any sleep as you rekindle your thoughts going back to 1969 and 1970.

Mr. WALDIE. I have rekindled them. The only part of that reorganization package that I think has worked out satisfactorily for the benefit of the system has been the collective bargaining package. I think that has been a positive step forward in terms of labor-management relations. I hope that will continue without any interruptions.

Mr. HANLEY. If I might just comment on that. I know initially when we created the Postal Service, there was deep concern about its possible effect on collective bargaining. Initially, I didn't see that type of problem developing, and thought we were in the real position to defend the principle. We have all kinds of precedents. In any event, to clarify the issue, we felt it best to contain that provision.

Mr. WALDIE. Well, we are grateful you did. I think the thrust of H.R. 7700 and all of its predecessors in which you have particularly been involved, addresses or redresses the essential error we made in our organization concept of the postal entity, the U.S. Postal Service; that is, that we were under the mistaken impression that the concept to break even made some sense. It did not then; it does not now. I think almost everyone perceives that.

The problem that you really address in this bill that I think is important is the accountability of the administration of that service. Under the concept of the original Postal Reorganization Act, there just simply was no accountability to the Congress of the United States. I would really seriously urge that you try and move this bill, Mr. Chairman, as quickly as you can.

Let me just cite the latest example of what I believe to be illustrative of the failure to have any concern with accountability at all on the part of postal management. That is, the persistence, the incredible persistence on the part of the Postmaster General of implementing under the authority that he possesses a reduction in the delivery days from 6 to 5 days a week in the face of a position already adopted by the U.S. Senate overwhelmingly that it is their intent that 6-day delivery standards be maintained, and the position in the process of being adopted by the House of Representatives by a resolution stating similar congressional intent that already possesses over 230 cosponsors. Even in the fact of that congressional intent that has manifested itself, I suspect, as clearly as possible, the Postmaster General, as late as 2 weeks ago, when he appeared before the Board of Governors, though he did not make the specific request that he had indicated he would for permission to apply to the Postal Rate Commission for a reduction to 5-day delivery, he announced he intended to do so. He followed that announcement by an invitation to the presidents of the unions before you today, who constitute the collective bargaining unit of the postal employees, he repeated an invitation rejected by them previously to discuss ways of reduction of delivery to 5 days. That leads me to believe, Mr. Chairman, that the management of the Postal Service not only does not reflect any sensitivity to the concerns of the people as reflected by their representatives in the Congress of the United States, but that the accountability that is required will only be brought about by changing the Postal Reorganization Act.

You have suggested Presidential appointment of the Postmaster General and abolition of the Board of Governors. I think only those sorts of structural changes in the present Postal Reorganization Act will bring about the kind of sensitivity to the patrons' concern that is reflected in Congress better than any place in the country. Absent that, I just think we are going to be constantly in turmoil in terms of present policies, which have been reduction of service and increase of rates. That's been the interminable conflict that will never be resolved until the Congress intrudes itself into that pattern in some better way than they have in the past. They cannot do so in the existing system.

I really hope, Mr. Chairman, that the thrust of your bill will be taken as seriously as possible by Congress, and that they resolve this problem as quickly as possible.

Mr. HANLEY. Thank you very much, Jerry, for your excellent observations. As you talked there, I can only think here we are dealing with an agency whose basic purpose is communication, and ironically, it appears that the leadership of the agency doesn't have the capacity to get the message.

You refer to Charlie Wilson's resolution in Congress, of which I am delighted to be a cosponsor, which transmits a rather strong message.

I introduced a simple resolution concerning cutbacks in postal services, in the previous Congress, and I enjoyed, I believe, 270, or perhaps more, cosponsors. I know we went to a record vote in the House and I know it produced 399 aye votes, which reflected the mood of the Congress and representatives of the people. They were transmitting a message with regard to the attitude of the American people on this service. But, unfortunately, the message doesn't get through up top. Obviously, under the present concept, the message will never get through. The only end to break that barrier is to enact this legislation.

Hindsight has it that we were less than prudent when we bestowed upon the Postmaster General, for instance, the ability to unilaterally spend up to $10 million without consultation, without conference, and perhaps despite total opposition of the Congress.

So again, thanks very much for what you have said, Jerry.

At this point, I want to defer to my friend and colleague, Mr. Ryan.

Mr. RYAN. Thank you, Mr. Chairman.

I have a couple of matters that I think have a bearing on this. I have some correspondence here from Daly City, Calif., and there's a paragraph I would like to read. This is simply referring to some ways vital energy resources are being wasted as a result of the centralization by the Postal Service. This refers to what was Jerry Waldie's former district.

"I think it is important to look at what happened in Lafayette, Calif. All their carriers were transferred to the Walnut Creek Post Office. Now the carriers will leave their homes in Lafayette, drive 5 to 10 miles to Walnut Creek to pick up the mail to be delivered, drive back to Lafayette and deliver the mail, then go back to the Walnut Creek Post Office to punch out, and then back to their homes. That's a minimum of 20 miles a day, 500 miles a month, 6,000 miles a year per carrier, not counting the time wasted, gasoline wasted, polluting of the air, and poor service, for what?"

I think that is an illustration of one of the problems with the whole concept of consolidation, wherein the only criteria considered is saving dollars at the central location by centralizing as much as possible, a determination made unilaterally by the Postal Service itself. The result is there are all kinds of anomolies such as this.

I could recite my own problem. Before I moved a couple of months ago to Capitol Hill, there was a message left at my home to please pick up a package. There was a post office about a mile down the road. That package wasn't at that post office, it was 20 miles away over in Rockville. In vain I did call them and say, "Would you mind when you run your mail over to bring that with you." They couldn't understand; it didn't go by the rules.

The rules we have, Mr. Chairman, simply don't fit any kind of rationale other than it's convenient for the present postal structure, and it reflects also its inability to recognize and respond to people's needs. That, I think, is the point on which some kind of significant change is necessary.

Mr. VACCA. Mr. Ryan, may I comment on what you said. Our organization, the National Association of Letter Carriers, has opposed that centralization of the letter carriers, because it is creating more "park and loop" routes, that is, where the Postal Service gives them a jeep; then they drive on the route; and they use that jeep as a moving storage box and still walk and deliver to the area. But the greatest opposition there ought to be to it, and the insensitivity of the Postal Service to the President's energy proposal, is that those jeeps only get 5 miles to a gallon. They waste an awful lot of gasoline.

Mr. RYAN. May I ask to what extent have the members of your union expressed their concern regarding reassignment to central mail processing centers?

Mr. NILAN. I can respond for postal clerks, maintenance employees, special messengers, and others that our union represents. They are very distressed about it and disturbed because there's been such a great impact in the last 3 or 4 years.

When Congressman Hughes testified a few minutes ago, talking about the situation up at Toms River, this type of controversy has been going on all over the country. There are too many examples to mention.

Of course, workers, regardless of their types of employment are always disturbed and unhappy when they feel they have an ongoing job and operation convenient to their home and community, and suddenly they are told that 90 days or 60 days later their jobs are going to be moved 15, 20, or 100 miles away. Our people have had to move up to 100, 150 miles just to retain employment. At least they have the opportunity for a job. It has been a great morale problem in the union.

Mr. RYAN. Have any of the unions themselves and their staffs tried to analyze the effect from the energy standpoint of these policies that have been implemented so far and are going to be reimplemented?

Mr. VACCA. Yes; Congressman. We have even sent a letter to the President of the United States with respect to the effect on the energy crisis.

Mr. RYAN. Can you give us for the record any kind of specific figures on the effects it's had on the energy user?

Mr. VACCA. I don't have those figures with me. We will certainly make them available for you.

Mr. RYAN. If you would, we would appreciate it.

Mr. NILAN. Mr. Ryan, we have an industrial engineer who has been working on figures in relation to collective bargaining. We would be happy to submit them.

Mr. RYAN. I can't help but be curious of the effect this has had. Obviously with the centralization of the operations, simply to feed these machines in bulk, we are paying a price in other materials apart from the human materials. We have an idea about that. I would like to have as much specific information as possible about the energy expenditures, and to what extent they have a negative effect on the President's direction in trying to cut back.

Mr. NILAN. The Postal Service could probably give you some figures—I don't know how reliable they would be—on the basis of their transmitting mail from satellite installations to distribution centers. They should have some very interesting figures.

Mr. RYAN. I know about the situation in Daly City.

Mr. VACCA. I am preparing an arbitration case with reference to that city right now.

Mr. HANLEY. Thank you, Mr. Ryan. Mr. Wilson.

Mr. WILSON. Mr. Chairman, I didn't have the benefit of hearing the testimony of the gentlemen. I am interested in your position on section 4(b), the provision of H.R. 7700 which favors the United Parcel Service. Have you suggested any changes in the wording of that section?

Mr. VACCA. Yes; we recommended that you go back to the language in H.R. 8603.

Mr. WILSON. It was put in H.R. 7700 under the jurisdiction that Mr. Hanley's subcommittee has. I do not agree with the present wording. I do feel that as long as we are subsidizing other classes of mail, there's no reason we shouldn't subsidize parcel post.

Mr. NILAN. On that, Mr. Wilson, from the history of the 94th Congress, many of us from diverse sides of the question tried to work out a solution, and it was acceptable at that time, even though not happily by us or by the other interests, but it was a compromise solution that we felt we had to accept realistically. We wanted more; we would rather have no restrictions. We do hope something can be worked out.

Mr. WILSON. I have been glancing through United Parcel Service statement which I find very self-serving. I'm anxious to have them appear.

That's all, Mr. Chairman.

Mr. HANLEY. Thank you, Mr. Wilson.

Just very briefly on this same subject matter, if memory serves me right, prior to the Postal Reorganization Act of 1970, there was a legal requirement not attached to other classes of mail whereas parcel post was required to break even within 4 percent of the fully allocated costs; is that correct?

Mr. NILAN. I am not familiar with that part. Did that come when the ICC got in the act?

Mr. HANLEY. I believe so.

Mr. NILAN. We vigorously opposed that at that time, too.

Mr. HANLEY. Mr. Vacca, Mr. Ryan spoke about energy. What was the attitude of the carriers that use the Jeeps? It's been a very controversial thing. I know in speaking for this congressional office, many, many constituents have questioned the advisability of that Jeep going up and down the street. I know in my home community, traditionally the letter carrier boarded the bus out of downtown and went out to his particular neighborhood. Much of that has been supplanted toward the use of Jeeps.

Is there opposition on the part of your association with regard to the Jeep concept?

Mr. VACCA. The association's position is we should eliminate the Jeeps and get back to public transportation. In cities that have public transportation, it would help eliminate pollution and save gasoline.

We have 230,000 members in our organization. I'm sure they don't all agree, but the majority does.

Mr. HANLEY. Would you be aware of any States which might show, as a result of the use of jeeps, the level of employment has dropped substantially?

Mr. VACCA. Yes; we could that.

Hr. HANLEY. Is that a fact? Has the level of employment dropped as a result of the use of jeeps?

Mr. VACCA. Well, the travel by vehicles directly from the post office to the job place, the work place, was cut down some, not dramatically, versus public transportation. Naturally, a loss of jobs has occurred.

More important, Mr. Chairman, is the substitution of hard time for soft time under these circumstances. When you have an 8-hour route that is established on the basis of public transportation of, say, 20 minutes or a half hour transporting yourself to that route, and you reduce that transportation time but you are not in the hard time, that is, walking and delivering. When you reduce that time and add the reduction of that time to the walking, you have then added to the hard time for soft time.

Mr. HANLEY. I believe in talking about the gasoline costs, the Service has consistently said for every 1-cent increase in a gallon of gasoline, it was reflected by a $3 million budget add on.

Mr. NILAN. That's my recollection.

Mr. VACCA. I believe in a presentation before the Board of Governors, I recall the figure was 20 million gallons of gas could be saved a year if we went from 6 to 5 days. If you eliminate the 80,000 jeeps, you can save five times that much.

Mr. HANLEY. Very interesting comparison.

I have no further questions.

Mr. WILSON. I have no further questions.

Mr. HANLEY. Again, on behalf of the full subcommittee, our deep appreciation for your appearance here this morning, and for your essential support on behalf of H.R. 7700. We hope very much to conclude this brief series of hearings very soon. Hopefully we can embark upon the markup process next week.

Again, thanks so much for your appearance, interest, and support.

Mr. VACCA. Thank you, Mr. Chairman.

Mr. HANLEY. Our next witness is representing the United States Parcel Service, its vice president, Mr. Robert E. Smith.

Mr. Smith, it's a pleasure to have you with us this morning. Again, in recognition of your keen background on the subject matters, and for the recognition of the fact that in the private sector you are the UPS, I am confident that your testimony will be most productive.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. HANLEY. You may proceed.

STATEMENT OF ROBERT E. SMITH, VICE PRESIDENT, UNITED PARCEL SERVICE

Mr. SMITH. I am Robert E. Smith, a vice president of United Parcel Service. I have been associated with the company for over 20 years. During most of that time and at present, my work has involved managerial responsibilities in the business development area.

My purpose in appearing before this committee today is to present the views of United Parcel Service on issues related to postal subsidies and to describe how the provisions of H.R. 7700 would affect private delivery services which today carry the vast majority of the Nation's parcels.

The subsidy issues center on provisions in sections 3 and 4 of the proposed bill. Our support for H.R. 7700 is possible because the wording regarding cost coverage and appropriations for parcel post is retained in section 4. Without it, our position on the bill would necessarily be changed. I would like to explain the reasons why this would be necessary.

PARCEL POST SUBSIDIES CREATE UNFAIR GOVERNMENT COMPETITION

We believe it is important to underscore the fact that the Postal Service is engaged in two basically different businesses. One is the transmission of messages and information, and the second is the transportation of personal property and merchandise.

The propriety of subsidizing the transmission of messages is quite a different matter from subsidizing the transportation of parcels.

While it may be proper to subsidize the mails to some degree, it is improper to subsidize parcel post in the delivery of merchandise in competition with private industry companies which are satisfactorily serving the public. In fact, the public has chosen by a wide margin to use the services in the private sector available to them today. The Postal Service's delivery of parcels in this competitive area should not be unfairly supported by taxpayer funds from the Federal Treasury.

Nor is it proper for parcel post to benefit by other classes of mail paying the costs it has caused. In our view, failure to determine the costs of each class of mail and to charge rates that cover those costs has been responsible for a major part of the financial difficulties of the Postal Service today.

We believe our position is in harmony with what has been the policy of Congress ever since the beginning of parcel post service in 1913. At that time, Congress required parcel post to charge rates that covered the costs of the service so it would not compete unfairly with private enterprise and so that new services would not be discouraged from entering the parcel delivery field.

In the succeeding years, Congress repeatedly reaffirmed and strengthened this principle. As a result, today we have a strong and versatile private sector meeting the needs of the public and filling an important and useful economic public service. It is worth noting, too, that it has not cost the taxpayer a single dollar to support the private delivery services. In fact, in the past 5 years, United Parcel Service itself has paid over $247 million in Federal income taxes alone.

UPS SUPPORTS THE WORDING IN SECTION 4 OF THE BILL

We believe that H.R. 7700 continues the principles of fair parcel post competition. Section 4 of the bill provides clear language that prevents appropriations from being used to reduce the rates of parcel

post. The new wording also states specifically that parcel post rates must cover the costs caused by the service. The wording follows:

(b) Section 2401(i) of title 39, United States Code, is amended to read as follows:

(i)(1) Any appropriations made under this section shall not be expended or otherwise used in such a manner as to effect a reduction in any rate for zone rated parcel post as required in chapter 36 of this title.

(2) Any rate for zone rated parcels shall recover—

(A) any attributable cost determined under section 3622 (a) of this title;

(B) any direct or indirect cost which is a consequence of providing services for zone rated parcels; and

(C) a fair share of any other costs.

With this wording, the Postal Service would be free to unfairly reduce parcel post rates through the use of enormously increased subsidies this bill would provide.

HIDDEN SUBSIDIES ARE ALSO DANGEROUS TO COMPETITION

Our concern over parcel post subsidy, however, goes beyond appropriations. Hidden subsidies resulting from the improper determination of costs can also injure competition. Overcharging one class of mail to subsidize another is explicitly forbidden by the present act. Yet, the U.S. Court of Appeals for the District of Columbia Circuit, in two decisions regarding previous rate cases, found that the Postal Service was not properly allocating costs. This resulted in first-class mail supporting other classes of mail.

Unfortunately, H.R. 7700 does not cure this practice but will actually exaggerate it. Section 3 of the bill completely rewrites section 3622 of the act which presently calls for proper allocation of costs to each class. Among other things, the proposed section 3622 creates a ceiling of 60 percent on costs attributed to classes of mail. This permits the Postal Service to use only its own judgment to decide which classes pay the other 40 percent of its costs. It would not require cost recovery for parcel post, but even worse, it would allow greater latitude in subsidizing parcel post with revenues from other classes, where the Postal Service has an actual or legal monopoly.

SECTION 4 OF THE BILL PRESERVES FAIR COMPETITION

Should the wording on parcel post rates and appropriations be dropped from section 4 of the bill, we would urge that section 3622 of the act be preserved without change. If section 3 is enacted into law without the specific wording regarding parcel post contained in section 4, the survival of private delivery services would be in jeopardy. Thousands of jobs of taxpaying employees would be on the line. Millions of people sending and receiving parcels through the private sector would face being deprived of services they want.

Today, all kinds of businesses and people from every walk of life send and receive their packages by United Parcel Service. Our drivers and brown delivery vehicles are seen in all parts of the 48 continental States, and we also have services to and from the island of Oahu, Hawaii, and Anchorage, Alaska. A more complete review of our service and an analysis of our competition with parcel post is contained

in part 2 of my statement. I also review the history of congressional policy on cost recovery in part 2.

This year is a milestone for the 86,000 people at United Parcel Service. In just a few weeks we will reach our 70th anniversary. I believe the progress of our company is an outstanding example of the use of the rights guaranteed under our Constitution and the laws passed by Congress. Only in America could a business grow from a small basement office with a handful of employees to a nationwide service that will deliver over a billion parcels this year.

Relying on the assurances of fair government competition, thousands of people have worked to build our service to what it is today. They have earned the respect of the American public and are making an important contribution to the economy of the Nation. I am confident that this Congress would not permit a Government service, fed by taxpayer subsidy, to be the instrument of their destruction.

We believe that if the wording of section 4 remains a part of H.R. 7700, this will preserve the principles of fair competition that have been the policy of Congress for many years.

UNITED PARCEL SERVICE HAS DEVELOPED INTO A NATIONWIDE SERVICE

United Parcel Service provides prompt, dependable, low-cost parcel delivery for the general public. UPS has specialized in the delivery of parcels since our founding in 1907, beginning as a service for retail stores. Since 1922, we have also provided parcel delivery as a common carrier for all types of shippers. The parcel delivery business is our entire business.

In 1953, we began to extend our common carrier services from a small operation in southern California to one covering steadily increasing broad areas of the country with a door-to-door parcel pickup and delivery service. In a series of extensions, our geographical coverage grew until in July 1975, we had interstate operations throughout the 48 contiguous States. Then in 1976, service was extended to the island of Oahu, Hawaii, and in 1977 to Anchorage, Alaska.

Thus, with the arrival of our 70th year, UPS people proudly serve all of the population in the contiguous United States—rural urban, and suburban—as the most extensive alternative means of parcel delivery to that of the Postal Service. Except for a few minor regulatory restrictions which we are attempting to remove, UPS will pick up at any location, sort, transport, and deliver any package to any address from any customer with equal diligence whether he gives us 1 package or 1,000.

UPS COMPETES WITH PARCEL POST

While parcel post deliveries account for only about three-tenths of 1 percent of the total Postal Service volume, parcels are the entire livelihood of over 86,000 UPS people. UPS is now handling over 1 billion parcels a year. Each day packages are picked up by drivers in over 45,000 vehicles at over 400,000 pickup locations such as individual residences, factories, farms, and businesses of all types. In addition, parcel are also received at over 1,000 UPS facilities. Deliveries are made daily to millions of consignees.

Although UPS presently delivers more packages than handled in the parcel post service, other classes of mail, in the aggregate, carry more packages than we do. In fact, the Postal Service itself is the largest competitor of parcel post. About 1 billion packages a year are handled by the Postal Service in other classes of mail where more favorable rates are available to certain types of subsidized users. For instance, fourth-class special rate for books and other educational materials has over 300 million packages.

Other alternatives to the Postal Service for the transportation of merchandise are many. United Parcel Service and other private sector services are successfully transporting packages directly to the premises of receivers in the most remote areas of America. With UPS service to all 50 States, the public has never been better served. Even today the public is not as well served by parcel post as by the private sector.

CONTRARY TO POSTAL ASSERTIONS, UPS SERVES THE PUBLIC EVERYWHERE

With the excellent job our people do today covering extensive territories to even the most remote areas, we still hear false charges from those at top levels of the Postal Service that United Parcel Service "skims the cream of the package business." Even more serious, allegations have been made that it is our practice to give high cost rural parcels to the Postal Service to deliver for us.

Unfortunately, we have discovered that some Members of Congress, as a result of hearing these misleading statements, believe that subsidy for parcel post is needed, because it is the only service covering rural America. I hope that member of this committee now know better and would not support appropriations for this reason.

These completely erroneous statements and others made by the Postmaster General and other postal managers at congressional hearings and at postal forums, continue to come up despite repeated efforts by our officials to set the record straight. We have written to the Postmaster General on three occasions in the past year to clarify the record and to seek his help in stopping such statements. Answers have not been received to two of our letters. In a recent letter, we told the Postmaster General:

> This the third time that I have had write to you to inform you and your staff that it is not our policy nor the practice of United Parcel Service to give parcels to the Postal Service that have been given us to deliver. I requested you to give us any information of instances where this is happening because we would have it discontinued immediately. To date you have not supplied any data, so I can only assume that there is none.

The Postal Service refuses to acknowledge that United Parcel Service, with only minor exceptions imposed by regulatory authorities, will pick up a package at any address, whether the customer is large or small, and make a delivery to any address, whether it is rural, suburban, or urban.

By contrast, the Postal Service makes no parcel pickups, except for a favored group of large volume shippers. As for deliveries, people in thousands of towns, primarily where there are second-, third-, and fourth-class post offices, do not have package delivery at all. They must pick up mail, including packages, at local post offices.

RURAL AREAS BENEFIT BY UPS SERVICE

The beneficial effect of UPS service in rural areas is clearly evident in a recent Department of Transportation report (DOT–TST–76–80). The DOT sponsored this study on the needs and problems of rural communities related to transportation. One page 59, the report states:

> Almost everywhere United Parcel Service was very highly praised, and it appears that whatever lack of satisfaction might have been due to poor truck service was more than made up for by the excellence of the pickup and delivery service of UPS.

CONGRESS HAS ALWAYS INSISTED THAT PARCEL POST MUST PAY ITS OWN WAY

When Congress created parcel post 65 years ago, it also supported from the beginning the concept of fair competition with the private sector. The act of August 24, 1912 (37 stat. 550), established the policy that parcel post should pay its own way.

Succeeding Congresses not only supported this principle, but tightened enforcement of the concept of parcel post rates covering its costs. At all times it has been clear that Congress recognized the difference between the Postal Service message business and its parcel delivery business.

The Postal Reorganization Act of 1970 continued for parcel post, and extended to other classes and types of mail the basic policy that each class of mail should bear its own direct and indirect attributable costs, plus a portion of residual, nonattributable costs.

Yet, in spite of the clear directives of the law, the Postal Service did not fulfill the requirements of proper cost recovery.

In 1972 Chief Examiner Seymour Wenner of the Postal Rate Commission wrote:

> If somebody gets something for nothing somebody else has to pay for it. If the rate for a class doesn't meet the long-run cost of providing the service, other classes or the taxpayer will have to pay for it. The only way to determine and control this is to determine the long-run costs of classes of mail.
>
> The scope for judgment in setting rates should be reduced. Distributing billions of dollars on the basis of thinly supported judgments is not an acceptable method. And it is an invitation to pressures which Congress sought to avoid.

Then in 1973 Chief Judge Bazelon, U.S. Court of Appeals for the District of Columbia Circuit said:

> But when the Postal Rate Commission establishes guidelines for future rate proposals, it may wish to take a hard look at both the manner in which Postal Service assigns unattributable costs and the amount of costs that it designates unattributable. The Commission would be well advised in this undertaking to begin with the excellent opinion of Chief Examiner Seymour Wenner.

Once again in 1976 the court of appeals in a unanimous decision said:

> We conclude that in the circumstances of this case the Commission's almost exclusive reliance on a cost variability approach to attribution contravenes a primary purpose of subsection 3622(b)(3) and therefore fails to comply with the Act.
>
> (2) Assignment. The Commission's value-of-service approach to assignment of unattributed costs also fails to comply with a plain requirement of the Act.

We heartily endorse these findings. We would only point out to this committee that if the Postal Service had followed the requirements of the law, today Congress would have more specific data on the cost of delivering various classes of mail. Such information would have been most helpful to Congress in determining the appropriations it wished to make to various users. And quite possibly, it might have removed the necessity for subsidies on the scale contained in H.R. 7700.

Thank you, Mr. Chairman.

Mr. WILSON. Mr. Smith, what's wrong with section 3622 as it now stands?

Mr. SMITH. Section 3622 is now in the act, sir; I have no criticism of it.

Mr. WILSON. Do we need section 4(b) of H.R. 7700?

Mr. SMITH. Well, we would, because in section 3 of the bill, it rewrites section 3622 in the present act and makes some changes that would otherwise not be acceptable.

Mr. WILSON. The opponents to your position state that they would be satisfied without section 4(b).

Mr. SMITH. I'm afraid I'm not certain of the number you're quoting.

Mr. GOULD [counsel]. What we're referring to is H.R. 8603 as passed into law. What Chairman Wilson wants to know is if you would support the language that was included in H.R. 8603 concerning the parcel post subsidy.

Mr. SMITH. No; our basic position is that there should be no subsidy.

Mr. WILSON. You know, Mr. Smith, you make an awfully strong argument for doing away with the private express statutes. Where did you get the idea that parcel post is the only thing that's different and that it requires special treatment?

Mr. SMITH. Well, Congress has always considered this over the years and has always treated parcel post as something different by requiring it to cover the cost.

Mr. WILSON. Let's not go by what Congress did back in 1913. It doesn't make sense to me when you say, don't subsidize parcel post; let us have the freedom we want to compete on any basis we can.

Mr. SMITH. Well, the private express statutes, as I understand it, Mr. Wilson, protect the letter.

Mr. WILSON. That's right.

Mr. SMITH. Parcel post doesn't come under that.

Mr. WILSON. I know it doesn't.

Mr. SMITH. We have relied on the word of Congress in 1913, we did again in 1958, and in 1966, where it reinforced the whole idea that parcel post competes with the private sector and should cover its costs. The only leeway it gave before 1970 was an accounting leeway, 4 percent, because they couldn't estimate the cost any closer than that. They required them to cover all their cost.

Mr. WILSON. Don't you benefit by that proposed rate increase that the Postal Service has come up with?

Mr. SMITH. I would only point this out—the last time parcel post rates were increased was 1975, and in the time between then and now, our rates have increased 20 percent with no increase in parcel post. In the meantime, I would only point out the rates that are proposed

for parcel post now won't take effect until next year, 10 months from now. I think we will be facing another rate increase by then.

Mr. WILSON. Is UPS able to service any place in the country at the present time?

Mr. SMITH. There's not a place in the country that we will not provide service to as long as there is a road so we can get to the place.

Mr. WILSON. Should we eliminate the parcel post service of USPS and let you folks handle all the business?

Mr. SMITH. No; I see no reason to eliminate that.

Mr. WILSON. Can you handle all the parcel post business in the country?

Mr. SMITH. I don't really know what all the business would be. I see no reason for us to handle all the business.

Mr. WILSON. If you could, maybe we should eliminate the costly bulk mail system, and we could save the Postal Service a lot of money. If you are able to go every place the Postal Service can, if you can deliver all the parcel post throughout the country, maybe we ought to let you do it.

Mr. SMITH. I would think that it's good for the public to be able to have a choice. The Postal Service is a huge network with 40,000 installations.

Mr. WILSON. Do you think we need a Postal Service?

Mr. SMITH. Absolutely. We are one of their best customers.

Mr. WILSON. You say you are?

Mr. SMITH. Yes, sir.

Mr. WILSON. I thought you took umbrage at the fact that they state they carry some of your packages?

Mr. SMITH. I would like to explain. All of our billing, which is on a weekly basis, to over 400,000 businesses is carried on through the Postal Service. Our bill at the Post Office is about $3 million a year. I think that that would make us a good customer.

Mr. WILSON. They are not inaccurate when they say they carry some of your business?

Mr. SMITH. They carry our mail, our letters.

Mr. WILSON. You take offense at this in your statement, that the Postal Service has been stating that they carry a lot of your business.

Mr. SMITH. Perhaps I could explain that, Mr. Wilson. What we're referring to is packages that customers give to us to deliver, and we do deliver them. But the Postal Service has claimed that we don't. What they have claimed is that in high cost areas, we pay the postage and have them deliver. That's untrue. I have never been given an example of where that has happened.

Mr. WILSON. Do you think this committee is moving too fast on this legislation?

Mr. SMITH. I think as far as the provisions regarding subsidy for parcel post, these provisions are very good, and this is the thrust of our interest in this legislation.

Mr. WILSON. You indicated to me the other night that you hoped we wouldn't start marking up H.R. 7700 right away.

I put H.R. 19 in on the first day of this Congress. We have held hearings on the legislation. Now we're holding hearings on H.R. 7700, highlighting those provisions that come under Mr. Hanley's jurisdic-

tion. What we're talking about are things that have been discussed in both of our subcommittees for the last several years. I don't think it's anything new, any new philosophy that's being discussed.

Don't you think we should proceed as quickly as we can and not have any delays?

Mr. SMITH. I certainly would support that view.

Mr. WILSON. What happens if we rewrite section 4(b) in a way that you don't want? Would you oppose the bill?

Mr. SMITH. I think our position necessarily would change. One of the alternate approaches, which I suggest in my testimony, would be to have section 3622 that is presently in the act remain the way it is. So, that would be a possibility.

Mr. WILSON. It's my understanding that was a compromise that was worked out. And as far as I know, you're the only special group that has anything in this bill for them specifically. I don't think there is anything in it for the magazine publishers, for the book publishers, for the record people, unless you consider the additional subsidy which covers everyone. You're the only organization that actually has a section written into this bill to take care of them. I wonder if that's fair to the public?

Mr. SMITH. Mr. Wilson, that particular section of the bill isn't going to cost the taxpayers a penny. That particular section continues a policy of Congress favoring fair competition. We are not asking for any subsidy. We are not asking for any special privilege. Primarily we are asking for a fair chance to compete with the Government. The Postal Service has an $18 billion budget compared to parcel post of $600 million. The potential ability of them to use funds given to them for other things to cut parcel post rates is tremendous. We must make plans in our business and look to the future. All we are asking in this bill is the opportunity to compete fairly, not for a special privilege.

Mr. WILSON. Compete fairly, but you don't want them to compete fairly.

Mr. SMITH. That's the fairest way: Pay their own costs.

Mr. WILSON. You look at the record for the last 10 or 15 years and see what's happened. Maybe it's stupidity on the part of the Postal Service; maybe it's their failure to recognize there are new ways of delivering parcel post. Their concept of bulk mail system is all wrong. They goofed completely. When I see what has happened to your business, then you come in here and want something special to boot, well, it doesn't make sense to me.

Mr. SMITH. I don't really believe that is something special. I think it's something Congress has always viewed and looked upon as being appropriate and fair. There are other companies in the field delivering packages. I think the unfairness would be if our Government felt that it was proper to cut the rates of the Government service to take packages away from that industry.

Mr. WILSON. Well, I can't believe that would happen.

Mr. SMITH. It's close to happening now.

Mr. WILSON. I have exhausted my time, Mr. Chairman.

Mr. HANLEY. Thank you, Mr. Wilson. I regret very much I had to depart for a vote and was unable to hear your presentation. Be assured that I will read your testimony thoroughly.

I came in on the tail end, so to speak, of this colloquy. All I want to say is that it is in no way my intent to be unfair to any entity whatsoever. Hopefully, we adhere to the principle of fairness to all.

With regard to the UPS, I have done a great deal of study on it, and with respect to my very dear friend Charlie Wilson, on the basis of the background I developed on the UPS over the years, I have great respect for the institution. I have not been able to see where it has asked for any special favor from the U.S. Government. Clearly, it has been a major contributor to the gross national product of this Nation and pays a large tax bill. For instance, the U.S. Postal Service paid nothing in the way of Federal or States taxes on gasoline. The UPS happens to be obligated to that payment, just as I as a private citizen or any of the people in this room. So be it with the whole gamut of taxes.

It was not my intent, or anyone's intent, to make a provision favoring UPS unfairly, or any other entity. Whatever appears in the language of this bill was a result that was put there objectively with good and sufficient reason.

Mr. WILSON. Mr. Chairman, if I may just comment. On various radio and television shows that I have done with colleagues on the subject of the Postal Service, I have commended the UPS for doing an outstanding job. I think the USPS should have talked to UPS and let them help develop their bulk mail system. I think they should have utilized the expertise of this company.

I just detect in this statement—it's a statement I wouldn't expect to hear from a company that has been so successful—an unnecessary self-serving and uncompromising tone.

Mr. HANLEY. Thank you, Mr. Wilson.

I think perhaps it's the tone of the statement. I might suggest that you get together with Mr. Smith and other people of UPS and have a little chat about this, and hopefully, the smoke can be cleared.

UPS happens to be where it is today because of efficiencies that over the years it has been able to accomplish, as opposed to the deficiencies in the traditional institution, the U.S. Postal Service. For instance, it was so disheartening to me to learn some time ago that the head of UPS in the spirit of cooperation attempted to meet with the leadership of he U.S. Postal Service, the Postmaster General, to develop some dialog that would be helpful to the Postal Service. Well, the door of the Postmaster General remained shut and has been shut to this day.

The same thing with regard to Western Union, and as you know, I have been very critical of the Postal Service for not having embarked upon a sophisticated system which would have provided it with the ability to enjoy mailgram service. Several weeks ago I spoke with the leadership of Western Union. They explained and documented what they did to pull that industry, that chestnut, out of the fire. They were in very serious trouble, but decided that through an R. & D. program they were going to make an investment to see if they couldn't get out. They invested $1 billion, and it wasn't easy for them to come up with the money. But as a result of that investment, and a lot of great initiative they built into that institution over the course of the last 5 or 6 years, they are now on top of it.

They again have attempted to get the ear of the Postmaster General offering some suggestions to him as to what this agency might be able to do in the way of sophisticating its operations.

We have two major entities in the private sector, both evidencing total cooperation with the Postal Service, but finding that the Service does not want to sit down with them. If the Postmaster General has benefited by the spirit of cooperation evidenced by both UPS and Western Union, perhaps he wouldn't be in the trouble he's in today. I don't think it's that big an issue. I hope we don't develop a problem with that.

Mr. Smith, for the benefit of the committee, would it be possible for UPS to provide us with an accounting of exactly what it does for IRS in the form of taxes?

Mr. SMITH. It's in the second part of my testimony, $246 million in Federal income taxes in the past 5 years.

Mr. HANLEY. Is that all-inclusive, everything?

Mr. SMITH. That would be Federal income taxes. It would not include local taxes.

Mr. HANLEY. I mean would it include gasoline taxes? Do we have that information?

Mr. SMITH. I will get it for you, sir.

Mr. HANLEY. Anything further, Mr. Wilson?

Mr. WILSON. Nothing. Thank you very much.

Mr. HANLEY. Again, thanks so much for your appearance here this morning.

[The information follows:]

UNITED PARCEL SERVICE,
Greenwich, Conn., August 2, 1977.

Hon. JAMES M. HANLEY,
Chairman, Subcommittee on Postal Service, Committee on Post Office and Civil Service, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: In response to your request when I appeared before your subcommittee on July 21, I am enclosing the following information on taxes and other levies paid by United Parcel Service that the Postal Service does not have to pay.

In the years 1972 to 1976, UPS paid (in millions):

Federal, State, and city income taxes	$270.0
Gasoline, fuel, and oil taxes	58.7
Real estate taxes	34.8
Social security	214.4
Vehicle licenses and registration fees	32.0
Highway tolls	15.6
Other miscellaneous taxes	12.7
Total	638.2

I hope this information will be of interest to your committee in considering the advantages parcel post already enjoys over private delivery services.

Sincerely,

ROBERT E. SMITH,
Vice President.

Mr. HANLEY. Our next witness this morning is a representative of the International Brotherhood of Teamsters, Mr. R. V. Durham, director of safety and health.

Mr. Durham, we are delighted to have you here. For the record, would you introduce your associate.

Mr. DURHAM. Thank you, Mr. Chairman. Accompanying me this morning is Mr. Bartley M. O'Hara, legislative counsel for our office here in Washington.

Mr. HANLEY. If I might say, there's a striking resemblance between Mr. O'Hara and the Chief Executive.

Mr. DURHAM. I don't think they are both from Georgia.

Mr. HANLEY. We do welcome you.

STATEMENT OF R. V. DURHAM, DIRECTOR OF SAFETY AND HEALTH, INTERNATIONAL BROTHERHOOD OF TEAMSTERS; ACCOMPANIED BY BARTLEY M. O'HARA, LEGISLATIVE COUNSEL

Mr. DURHAM. My name is R. V. Durham; I am director of safety and health for the International Brotherhood of Teamsters. I am appearing on behalf of general president Frank E. Fitzsimmons who is unable to be with you today.

Our organization represents over 2 million members, and included in that membership are 100,000 workers in private parcel delivery.

For that reason, we are vitally interested in legislation affecting these individuals. H.R. 7700, the bill before us today, is such a piece of legislation; and we believe it provides needed protection to our members and at the same time assures a comprehensive parcel delivery system.

Of great importance is section 4(b) of the bill.

We support this provision because it will (1) prevent the Postal Service from using its subsidy, our members' taxes, to destroy our jobs in the parcel delivery industry; (2) continue to allow the Postal Service the opportunity to participate in parcel delivery on fair basis; and (3) continue to provide the shipping public with alternative modes for delivery of their parcels.

As noted above, over 100,000 of our members are employed in the parcel delivery industry. These are good jobs. Without the protections of section 4(b), we believe these jobs will disappear and with them the private parcel delivery industry.

That is, the bill without section 4(b) would allow the Postal Service the opportunity to structure its parcel rates so as to make private competition virtually impossible.

When that occurs, our members will be unemployed. Thus, we will be actively engaged in an effort to preserve the terms of section 4(b) of H.R. 7700.

It is our understanding that the Postal Service delivers approximately 300 million packages a year. The private sector is probably 5 or 6 times greater.

Thus, the Postal Service does provide delivery. In the absence of section 4(b), however, the Postal Service could reduce its rates to levels where the private sector would be unable to compete.

Moreover, the rate reductions would be effectuated not through efficient business practices but through the use of subsidies, our taxes.

In our view, the alternative provided by section 4(b) insures a fair competitive atmosphere for all who provide parcel delivery service.

Finally, the amount of Postal Service volume in parcel delivery is insignificant vis-a-vis the entire postal system. That is, parcels repre-

sent only three tenths of 1 percent of the volume handled by the Service.

With the protections afforded by section 4(b), the shipping public will be assured of parcel deliveries by both the private and public sectors.

Alternatively, without this provision, shippers will be faced with Government-only parcel delivery.

In summary, we urge the committee to retain the current provisions of section 4(b) of H.R. 7700 because it will protect our jobs, insure fair competition in the parcel delivery industry and allow shippers to continue to choose between private and public service.

Thank you, Mr. Chairman.

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

To comment on your testimony would be repetitious. You have already heard my response. I am deeply appreciative of your appearance.

Mr. Wilson.

Mr. WILSON. Mr. Chairman, I appreciate having an opportunity to hear this testimony. It's the first time a representative of the Teamsters has appeared. They generally support me at election time. I have never had the privilege of hearing them.

I wonder if you are not exaggerating the importance of 4(b). You don't have 4(b) now in our postal laws. How can all of these dire things happen if you don't have 4(b)? You're people going out of business, and all of your employees losing their jobs, and so forth. If you don't have it now and it hasn't happened, I can't believe it's as serious as you tell us it is.

Mr. DURHAM. In the present law there's a provision that pretty much takes care of it. Our concern with the new bill is without section 4 in there, we could very easily possibly be facing or we would face a situation where there would be significant declines. As you heard mentioned by one of the parcel carriers, they have had to increase their rates, and if we do not remain competitive, we are going to lose a lot of jobs. People are going to go to a point for service, but when costs become prohibitive, they will sacrifice service for lower rates.

Mr. WILSON. If we were to stay with the present law, it would require a change in section 4 of H.R. 7700. This is what I want to do. Maybe I will be outvoted and it will remain the way it is in the bill. However, I would want to assure you that I want no less than what we presently have as far as United Parcel Service is concerned. I wouldn't think that would cause UPS any great harm.

Mr. HANLEY. Would the gentleman yield?

Mr. WILSON. Certainly.

Mr. HANLEY. It's not less in the bill than it currently is.

Mr. WILSON. Why are we putting it in then?

Mr. HANLEY. Simply as a reiteration and strengthening of the principle expressed in section 3622 of H.R. 8603.

Mr. WILSON. Does it spell it out in words?

Mr. HANLEY. It's simply reiteration of the policy previously identified.

Mr. WILSON. Again, I don't know why we have section 4(b) then, if that's what the case is.

Mr. HANLEY. That's all it is. So I really don't think it's that great an issue.

Mr. WILSON. Well, it is a big issue. It's what all these people talked about all morning.

Mr. HANLEY. Possibly there was more emphasis placed on it then there should have been.

I'm sorry the issue has developed, and apparently, there's a misunderstanding.

Mr. WILSON. If I misunderstand, Jim, I'm not hard to get along with.

Mr. HANLEY. I know. As you said, perhaps the tone of Mr. Smith's testimony suggested that there was an attempt there to detect something they were getting that they hadn' had in the past. I think in conversation we can resolve that.

Mr. O'HARA. Mr. Chairman, our understanding of the bill is not to give United Parcel Service undue advantage over the Postal Service; that is not our impression of it. We certainly aren't testifying to that.

Mr. WILSON. My understanding is that Mr. Lapenta is in agreement with your statement.

Mr. O'HARA. I have heard conversations around that area, but I have not spoken with Mr. Lapenta myself. I don't believe anyone in our organization has.

Mr. WILSON. He has indicated that he is satisfied with the bill as it stands, and that he would like us to move as quickly as possible. That's the same position you folks take.

Mr. O'HARA. Yes. We would be guided by your wisdom.

Mr. HANLEY. That is the position. They are in support of the bill.

Gentlemen, thanks so much for your appearance this morning.

Our next witnesses will be Mr. Edward J. Lord, assistant director of the National Legislative Commission, and Mr. James F. O'Neil, publisher of the American Legion magazine.

We are delighted to see you this morning. I am aware of your long-time interest in this subject matter. I can understand the reason for it.

STATEMENT OF JAMES F. O'NEIL, PUBLISHER, THE AMERICAN LEGION MAGAZINE, ACCOMPANIED BY EDWARD J. LORD, ASSISTANT DIRECTOR, NATIONAL LEGISLATIVE COMMISSION; AND DEAN NELSON, CIRCULATION MANAGER, INDIANAPOLIS, IND.

Mr. O'NEIL. Mr. Chairman and Mr. Wilson, first of all I would like to present Mr. Dean Nelson who is with me here today. He is the circulation manager in Indianapolis.

Mr. HANLEY. I am delighted to have you with us.

Mr. O'NEIL. Mr. Chairman and members of the subcommittee. the American Legion thanks you and welcomes the opportunity to address itself to the legislation on Postal Service now before you for consideration. We appreciate your interest not only on our current problems but the assistance given to us in the past.

The American Legion endorses in principle the provisions of the Postal Service Act of 1977 as reflected in H.R. 7700. Examination of

previous testimony will reveal that the American Legion has consistently supported the belief that the Congress is better equipped with the expertise in the fixing of posital rates, especially for a nonprofit publication such as the American Legion magazine. Members of Congress are closer to the people and the sensitivities of the issues than are the bureaucrats who in the main have a tendency to employ the techniques of ratefixing regulatory bodies.

The American Legion favors giving Congress veto power over Postal Rate Commission decisions; the reaffirmation of congressional interest in ratefixing; and an increase in the public service appropriations to 15 percent and for a 2-year period rather than the permanent provision of the present law.

Until such time as the delegates to a national convention or the national executive committee establish American Legion positions on any changes of 6-day week delivery or appointment of the Postmaster General by the President, we must decline comment on these facets of the act under discussion.

The dissemination of public information is a key question as we view it. Certainly the preferential treatment accorded to nonprofit publications by the Congress over the years should not be overlooked. The gap between the rates of the profit and nonprofit oriented publications has been considerably narrowed since the Postal Reorganization Act went into effect. By 1987 when the prevailing phaseout schedule of yearly increases ends, so will that difference in second-class postage costs.

The most recent projections of the Postal Service would further increase these expenditures. Our estimates based on these proposals fix the amount the American Legion magazine will be called upon to pay at $1 per member or subscriber, or a yearly bill of approximately $2,700,000 in 1988. Our 1977 costs will be about $725,000.

The American Legion magazine is the only direct conduit between the national organization and the individual member. We feel proud of our publication. It is not only purveyor of news of special interest to the Legionnaires and veterans and their families, but it is a magazine that can be enjoyed by every member of a household. Readership interest is high, especially due to its general editorial content with the American Legion news per se being restricted to about eight pages.

Among the top interest features are the pro and con pages familiar to the Congress which are devoted to the opposing opinions of our legislators on vital issues of the day. Student reaction to the history articles runs high. Braille editions of the magazine are distributed without charge to blinded veterans irrespective of American Legion membership.

If the present rising cost trend prevails the American Legion magazine could be priced out of existence with the Postal Service playing a major role in such a possibility. I am sure that other nonprofit publications are facing similar problems.

Reference has been made to attributable costs by the Postal Service. These are the amounts that are determined by the Postal Service as costs of rendering service to a particular class of mail. The American Legion is barred from participating in postal rate hearings as an intervenor or partial intervenor because of the high cost involved. We do

not have the staff or resources. My own belief is it would take at least a quarter of a million dollars to assemble the data necessary to participate in this matter.

I know that this committee and other committees in Congress have been concerned about the per piece cost and the impact it's had on the distribution of magazines. Well, per piece cost of the American Legion magazine was increased on July 6 from 0.8 cents to 1.1 cents, raising our monthly second-class postage bill by nearly $8,000, and in the last two issues of the magazine, the per piece charge represents 37 percent of our second-class postage costs, and by the phasing out, it is estimated that it will represent 58 percent of the total second-class postage costs.

We have been involved, as others have been, in spiraling inflation, paper cost increases, and Postal Service increases. Our paper costs since 1973 increased by 71 percent, printing by about 39 percent, and Postal Service more than 125 percent. So, we are deeply concerned about the future of the magazine, and we are hopeful that the controls as outlined in H.R. 7700 would become a part of the law, because we feel it will bring us some needed relief.

Thank you very much, Mr. Chairman.

Mr. HANLEY. Thank you very much, Mr. O'Neil. I perhaps am a bit biased with respect to your position, as I am a lifetime member of the American Legion.

I have a question. As a lifetime member, I haven't been required to pay dues for quite some time. Some years ago, the good Lord liked me and said it would be a good investment to become a lifetime member, and since that time, we have had about 20 years of inflation.

What is the annual membership fee?

Mr. O'NEIL. It varies, because it's determined by the post, Mr. Chairman. I would say that the average now would be approximately $10 per year per member. Five years ago it would have been near $8 per member per year, but there are some posts where it would be as high as $25 per member per year. The allocation that goes from the dues to the magazine would be on the basis of $1.50, and to the national organization, $2, of that cost structure. Then the States, or departments as they are referred to in our structure, would receive a percentage of the dues, and the remainder would go to the post.

Mr. HANLEY. So, the subscription cost is actually $1.50 per member.

Mr. O'NEIL. For a member of the American Legion. For a nonmember—we only have probably 15,000 nonmember subscribers—it would be $3, double what it would be for the member. Up until 1975 at the Minneapolis convention, the allocation of dues for the magazine was $1 per year per member. It was raised to $1.50 at that convention.

Mr. HANLEY. Had it not been for the enactment of the funding of S. 411, your plight at this point would be extremely difficult.

Mr. O'NEIL. It certainly would have been. We would have been faced with disaster, Mr. Chairman.

Mr. HANLEY. Well, Mr. O'Neil, I am quite cognizant of the problem of rates as it affects your publication, and of course, I have a strong proponent of traditional consideration to all nonprofit publications. Hopefully, with the enactment of this legislation, you and other publishers in that category will be assured that the traditional accomodation will prevail. As I have said so many times, our Founding

Fathers expressed this interest and laid heavy emphasis on the role of the U.S. Postal Service as a disseminator of information, cultural and educational, and they were very emphatic about the use of the word "reason," so that all people in America, regardless of what level of the economic ladder they stood on, could enjoy a continuing flow of printed material into their homes.

I know as a recipient of your magazine that throught the years I certainly have enjoyed it and look upon it as highly informational, and it's my key to what's going on in the veterans' world.

So, I appreciate your support, and hopefully in the not too distant future this bill will become fact, and the problem you have in this sense will be alleviated.

Mr. Wilson.

Mr. WILSON. Only one question, Mr. Chairman.

It's nice seeing you, Mr. O'Neil and your associates. My dues are $15 a year; I'm in the middle there someplace. I didn't take advantage of this life membership like Mr. Hanley.

You say that the American Legion favors the proposal to give Congress a veto power over rates and an increase in the public service appropriation. Then you're not prepared to comment about the other features of the bill.

I was just wondering if you had resolutions on other provisions of H.R. 7700.

Mr. O'NEIL. They will come up at the convention in Denver. The others were part of the policy before.

Mr. WILSON. You had already passed resolutions.

Mr. O'NEIL. That's correct. Basically, we were in accord with that before. The others will have to be acted upon in Denver.

Mr. WILSON. That's all, Mr. Chairman.

Mr. HANLEY. Thanks so much for your appearance this morning.

We do have another witness. Due to a vote, the committee will go into a recess for about 10 minutes.

[Whereupon, at 11:54 a.m., the hearing was recessed.]

Mr. HANLEY. Our next witness is Mr. Donald H. Schwab, director of national legislative service, Veterans of Foreign Wars of the United States.

Mr. Schwab, I am delighted to have you with us. I regret the delay, but it was due to a vote, and I'm sure you understand.

Mr. SCHWAB. Yes; I do.

Mr. HANLEY. We are delighted to have you with us and look forward to your expression of views and the position of the Veterans of Foreign Wars.

STATEMENT OF DONALD H. SCHWAB, DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. SCHWAB. Mr. Chairman and members of the subcommittee, thank you for the privilege of appearing before this distinguished subcommittee to present the views of the Veterans of Foreign Wars of the United States with respect to pending legislation.

The bill presently under consideration, H.R. 7700, was introduced by the chairman of this subcommittee, the Honorable James M. Hanley

(New York) for himself and the Honorable Charles H. Wilson (California), chairman of the Subcommittee on Postal Personnel and Modernization. Identified as the "Postal Service Act of 1977," the bill would make a number of changes to title 39 of the United States Code, intended by its sponsors to give both the President and Congress a greater voice in setting and monitoring postal policy.

Although H.R. 7700 is innovative and would improve upon the Postal Reorganization Act of 1970, section 3 thereof is of the utmost importance to the V.F.W., as it is to all nonprofit mailers. Under this portion of the bill a more precise methodology for the setting of postal rates is established to reaffirm congressional intent in the Postal Reorganization Act of 1970.

Rates are to be based on short-term variable costs with a 60 percent ceiling on attributable costs. Institutional costs will be allocated according to other criteria outlined in the law. In addition, the Postal Service may not include more than 2 percent for contingencies or provisions for recovery for prior year losses in costs to be covered by postal rates.

As you are aware, section 3622, title 39, U.S.C., enunciates eight criteria to be followed by the Postal Rate Commission in setting postal rates. Although subparagraph (b)(3) thereof stipulates each class of mail will bear the direct or indirect postal costs attributable to that class, other listed criteria direct the Commission to give due consideration to the value of the mail to both the sender and recipient in setting postal rates. The Commission has failed to abide by all the congressionally determined criteria for setting rates. The Postal Reorganization Act failed to provide either definition or guidelines for defining "attributable" costs. In the absence thereof, the Postal Service and the Postal Rate Commission have eroded traditional rates for nonprofit organizations.

The pre-1970 nonprofit rate was approximately 46 percent of the full rate, and this has been increased by the Postal Service to approximately 60 percent currently. The Postal Rate Commission has proposed an increase to 80 percent of the full rate. Such an increase could well toll the death knell for not only our VFW magazine, with a monthly circulation of nearly 1.9 million, but also, our Ladies Auxiliary magazine, with a monthly circulation of some 580,000 and numerous VFW State publications.

Our VFW magazine is one of very few vehicles by which veterans, their dependents, and survivors are informed of their benefits. To the news media, veterans' benefits and activities are not normally considered newsworthy, and, therefore, there is a paucity of such valuable information in the press, on the radio or television.

In view of the foregoing, the voting delegates to our last national convention, representing our nearly 1.9 million members, passed Resolution No. 698, entitled, "Non-Profit Postal Rates," a copy of which is appended to my testimony. In addition, one of our priority legislative goals is to "seek legislation restricting postal rates for qualified nonprofit organizations to not more than 50 percent of rates established for nonpreferred mail.

Although section 3 of H.R. 7700 does not fulfill the letter of the current position of the Veterans of Foreign Wars, it is in concert with the spirit thereof. Obviously, we would prefer the establishment of a rate

50 percent of that for nonpreferred mail, but we could live with a 60 percent ceiling if, in fact, that rate is firm.

In conclusion, Mr. Chairman, permit me to state the Veterans of Foreign Wars appreciates the concern and initiative displayed by you and Mr. Wilson in attempting to resolve the inadequacies of the Postal Reorganization Act of 1970.

Thank you.

[The resolution follows:]

RESOLUTION No. 698, NON-PROFIT POSTAL RATES

Whereas, the Postal Reorganization Act enunciates eight criteria to be followed bp the Commissioner of the Postal Rate Commission in setting postal rates; and

Whereas, subparagraph (b)(2) thereof directs the Commission to give due consideration to the value of the mail to both the sender and recipient in setting postal rates; and

Whereas, the Postal Rate Commission has failed to abide by all the Congressionally determined criteria for setting rates; and

Whereas, the Postal Reorganization Act provided neither definition nor guidance for defining "attributable" costs; and

Whereas, in the absence thereof the Postal Service and the Postal Rate Commission have eroded prior traditional rates for non-profit organizations; and

Whereas, the Officer of the Commission has proposed a non-profit rate of almost 80 percent of the full rate; and the pre-1970 non-profit rate was approximately 46 percent of the full rate and this has been increased by the Postal Service to approximately 56 percent currently; now, therefore,

Be it resolved, by the 77th National Convention of the Veterans of Foreign Wars of the United States, we seek the introduction and passage of legislation by the Congress of the United States to provide that qualified non-profit organizations shall pay postage rates in an amount not to exceed 50 perecnt of whatever postage rates are established for non-preferred mail.

(Adopted by the 77th National Convention of the Veterans of Foreign Wars of the United States held in New York, N.Y., August 13 through 20, 1976. Resolution No. 698.)

Mr. HANLEY. On behalf of the committee, I certainly express our gratitude to you. Any response I might make would be repetitious, because I believe you have been in the room and have heard my previous responses, and the same would apply to your testimony.

The 60-percent figure was arrived at in the hope that we were making a decent compromise that would be acceptable to most. Our fundamental mission, of course, is seeing enacted into law H.R. 7700. I don't know what the difference that 10 percent would have meant to the VFW and other nonprofits. But living in the world of the real as we do, we have to agree to reach certain compromises. Generally speaking, it was deemed by most all entities that was a fair percentage figure.

Let me express our deep appreciation to you for your efforts and interest, and hopefully we can get the measure passed into law reasonably quick, and allay the apprehension that has for far too long troubled, in particular, nonprofit publications.

Thank you very much, Mr. Schwab.

Mr. SCHWAB. Thank you, Mr. Chairman.

Mr. HANLEY. The hearing will adjourn until tomorrow at 9:30 a.m.

[Whereupon, at 12:15 a.m., the hearing was adjourned until 9:30 a.m. the following day.]

THE POSTAL SERVICE ACT OF 1977

FRIDAY, JULY 22, 1977

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

The subcommittee met at 12:50 p.m., in room 311, Cannon House Office Building, Hon. James M. Hanley (chairman of the subcommittee) presiding.

Mr. HANLEY. This morning we resume the hearing associated with H.R. 7700, and our first witness this morning is Mr. J. Edward Day, general counsel of the Associated Third Class Mail Users.

Mr. Day, it's a pleasure to have you with us. Certainly your long-time involvement in the subject matter makes you an expert witness.

STATEMENT OF J. EDWARD DAY, GENERAL COUNSEL, ASSOCIATED THIRD CLASS MAIL USERS; ACCOMPANIED BY BARBARA BISON FORD

Mr. DAY. Thank you, Mr. Chairman. I am accompanied by Ms. Barbara Bison Ford, who is with our law firm. I think more than a few of you have met the head of our association, Mr. Bill Irvine.

Mr. Chairman, My name is J. Edward Day. I am a lawyer in general practice and am general counsel of Associated Third Class Mail Users. ATCMU is a long-established trade association of about 500 users, some large and some small, of bulk third-class advertising mail. Some ATCMU members are charitable organizations which use the not-for-profit rate for bulk third-class mail. ATCMU concentrates on third-class mail issues. It is not a statistical gathering organization, so volumes handled by its members are not collected. However, it is estimated that its members send several billion pieces of bulk third-class mail annually.

I appear here today to give the comments of ATCMU on H.R. 7700, the Postal Service Act of 1977.

We are not here to attack Postal Service management or to say they have accomplished nothing. But one little bit of history is highly enlightening. Before so-called postal reform, the 3-cent first-class rate lasted 25 years—from 1933 to 1958—through two wars and two periods of post-war inflation. We are convinced that elected representatives should have the final authority over the amounts that will be charged to millions of Americans all over the country for use of the various classes and subclasses of mail.

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This subcommittee and the sponsors of H.R. 7700 are to be congratulated for grappling with so many important issues in this bill and for pressing so hard for timely action. This bill faces up to the hard decisions.

Before giving our specific views, I think it would be helpful to first talk a little about third-class mail.

SOME KEY FACTS ABOUT BULK THIRD-CLASS MAIL

Aside from first-class mail, third class is by far the largest class of mail in terms of both percent of Postal Service mail volume and percent of Postal Service revenue dollar.

Third-class mail is used for direct mail advertising, mail order merchandising and for fund solicitation by not-for-profit organizations. Today, most third class moves at bulk rates which means the mailers themselves have to do most of the sorting work which would otherwise have to be done by the post office. The principal items moving under this bulk subclass are circulars, brochures, flyers and books and catalogs weighing less than 16 ounces.

It was estimated by a Department of Commerce study over 20 years ago that advertising mail generates as much as $40 billion in sales of goods and services per year. That figure would be much higher now. We are urging the Department of Commerce to make a new study to update the details of the vital role of direct mail advertising in our economy.

The evidence indicates that commercial bulk third-class mail is the most profitable major category of mail percentagewise which the Postal Service has. We are a deferred service and we do most of the work. Bulk third class is much like a direct-dial long-distance telephone call made in the evening. We help to pay for the system by using it in off-peak hours.

Bulk third class competes for the advertising dollar with all the other forms of advertising media. The Postal Service follows the untenable view that addressed advertising material is subject to the postal monopoly. But that doesn't force anyone to stay with direct mail when they find other forms of advertising are less expensive in relation to results produced.

The basic minimum rate for commercial bulk third-class mail has gone up 670 percent since the early 1950's. During that time, the cost of living has gone up only about 120 percent.

In addition, bulk third-class mail had a new highly expensive mandatory requirement for presorting by mailers to ZIP code forced upon it in the late 1960's with no related reduction in the postage rate. And now we are told in the latest of the frequent Postal Service rate increase filings that another class of mail should get a special discount for doing a type of presorting we already do and must do with no discount.

THE POSTAL SERVICE ACT OF 1977

There should be renewed congressional participation in decisions on Postal ratemaking

First of all, we wholeheartedly support the general concept of section 2 of H.R. 7700 that Congress should take back authority over

the rates of postal services and fees. Specifically, we support the requirement that the Postal Rate Commission should make its recommendations to Congress instead of to the Postal Service Governors. The way it is now is like a public utility commission letting the board of directors of the telephone company have the final say on its own rates.

Although the Postal Service Governors have the power to send back or, ultimately, to modify a rate decision of the Postal Rate Commission, we believe the fact that the Governors have never done so is highly significant. The practicalities are that the pressure of mounting deficits makes it impossible for the Governors to delay by rejecting a Commission recommended decision. We believe that this same pressure would make ineffective the congressional veto power provided for in section 2 of this bill.

We urge adoption of another much more meaningful way of restoring to a workable degree congressional supervision of postal ratemaking. Instead of just giving Congress veto power, we believe that an affirmative vote should be required. The Postal Rate Commission would become an advisory body to Congress, holding hearings on the Postal Service's request for rate increases and making recommendations much in the same way the Commission operates today. However, the Postal Rate Commission would make its recommendation to Congress. No new rates would go into effect until Congress passed legislation. Affirmative action would be required, which we think will work out better and give Congress more control and authority over the rate decisions.

Congress would not be stuck with the Commission's rate proposal or risk mounting deficits while the Commission reconsidered its proposed rates. Congress itself could modify the rates and put them into effect.

Of course, we do not recommend lengthy and detailed hearings by Congress on all cost and impact data which the Rate Commission will have already examined in full. But we believe that it is especially important that Congress take a close look at the 20 percent of the Postal Service's revenue requirement which is allocated among the classes on the basis of noncost criteria.

In the recent request for a rate increase which the Postal Service filed with the Commission, the Postal Service allocated this 20 percent of their proposed revenue requirement strictly on the basis of its judgment of how each subclass fares in relation to the other classes and subclasses on the noncost criteria spelled out by Congress in previous legislation, such as the value of the service. This type of practical, judgmental evaluation is exactly what Congress is equipped to make without an excessive expenditure of time. Although the recommendations of the Commission should be helpful in making the options clear, these judgments as to how much, in addition to its properly attributable costs, each class and subclass of mail should be required to pay are broad policy decisions which should be affirmatively decided by Congress.

Although Congress should also have the final authority over the determination of the assignment of costs to each class and subclass of mail, we anticipate that the Postal Rate Commission's recommenda-

tions in this area would usually reflect the correct principles and the relevant evidence.

If it is not practicable for Congress to use the Postal Rate Commission as an advisory body, with the final rates enacted by Congress, then ATCMU would support section 2 of the bill. However, we propose two amendments which we believe will strengthen the bill. We think that it is essential for Congress to have an item veto, rather than for Congress to have only the veto or not-to-veto choice as to a total package of $2 or $3 billion in increases. With an item veto allowable, Congress could permit the majority of the rate increases to go into effect while isolating the specific class or subclass at issue. Any shortfall created by an item veto would be significantly less than the shortfall created by a veto of the whole rate package. The huge appropriation automatically authorized by a veto of the whole package in essence will prevent congressional exercise of this veto power and turn Congress into nothing more than a paper tiger.

Another amendment we believe would strengthen section 2 is to allow Congress to modify the rates recommended by the Postal Rate Commission, rather than requiring a resubmission to the Commission. This would allow Congress the option to avoid the time-consuming process of resubmitting the proposed rates to the Postal Rate Commission with the temporary rates expiring in the meantime and rates going up and down like a yo-yo.

It is essential to avoid raising postal rate so much and so often that it drives people away from the system.

The annual public service appropriation should be 20 percent of the Postal Service budget

ATCMU supports the increased annual public service appropriation contained in section 4 of the bill. However, we believe that this appropriation should be 20 percent, rather than 15 percent, of the total budget of the Postal Service for the prior fiscal year. This would make an annual total of something over $3 billion in contrast to the current level of $920 million.

Only through a very substantial increase in the public service appropriation for the Postal Service can a continuation of large and frequent rate increases be slowed down.

The Postal Service forecasts that if they continue on the present basis with the level of public service appropriation provided for in existing law, the first-class rate will be 28 cents by fiscal year 1985. The Commission on Postal Service, as you know, recommended a public service appropriation of 10 percent of the previous fiscal year's operating expenses and also proposed discontinuation of Saturday delivery. The combination of these two recommendations brought the forecasted first-class rate for 1985 down to 22 cents.

It is interesting to note that the public service appropriation of 20 percent of the previous fiscal year's operating expenses, as recommended by ATCMU and by other mailer groups, would achieve results remarkably similar to those of the Commission proposal without elimination of Saturday delivery. As shown in the Commission's report, the 20 percent public service appropriation would likewise result in a 22-cent first-class rate in fiscal year 1985. In fact, Commission

figures show that under the 20 percent public service appropriation figure it would not be necessary for the first-class rate to be increased until fiscal year 1980, and then only to 15 cents.

We do not seek to dismantle the post office. But it must be recognized that many services it provides are public service and governmental in nature and would not be provided at the same level by a private company.

The proposed increased appropriation is justified not only on the basis of the public service and general governmental aspects of the Postal Service but also as related to other governmental programs. The recently enacted public works jobs bill to increase jobs and improve the economy (H.R. 11) provides another $4 billion in addition to $2 billion already authorized in the expectation of creating a few hundred thousand new jobs. These new jobs would be on the public payroll through Federal grants to local governments to improve public services. The added appropriation for the Postal Service is completely justified as an extension of this type of economic stimulus program.

Since the Postal Service has such a high level of spending and employ 1 percent of all the working people in the Nation, its financial operations should be tied to the overall efforts of the Federal Government in the economic and public benefit areas. Instead, in recent times, when the Federal Government was enacting tax cuts or tax rebates to stimulate the economy, the Postal Service at the same time was raising rates thereby taking money out of the economy and adding to inflation.

There is nothing new or revolutionary about using the Postal Service as a means of assisting with carrying out national economic goals. During the recession of the early 1960's, there was a speed-up in the authorization and construction of leased postal facilities for the specific purpose of assisting in improving economic conditions.

We do not agree that the increased public service appropriation should be committed as heavily as the bill provides to research and development.

Budget squeeze problems and budget balancing goals should not stand as a bar to treating the Postal Service once again as a part of the overall Federal Government responsibility and providing it with adequate general revenue funds. Before so-called "postal reform," the post office for many years received about 18 percent of its overall budget from general funds. Now, it receives only about 6 percent as a public service appropriation.

Congress is considering what to do with the billions of dollars in annual proceeds from the tax on crude oil. The tax would bring the Treasury as much as $4.6 billion next year, $9.1 billion in 1979 and $13.8 billion in 1980.

There have been all kinds of proposals as to what to do with this money.

What better way to recycle some of this money to consumers than by using it to up the public service appropriation to the Postal Service thereby slowing down rate increases and service cuts. We are convinced that would be much more meaningful and sensible than the pending proposal to reduce payroll withholding by about 50 cents a

person per week, particularly since much of that rebate might well be spent on buying petroleum products.

Section 3 of H.R. 7700 on assignment of postal costs should be adopted

Third, ATCMU supports section 3 of the bill to correct the highly unrealistic decision of the U.S. Court of Appeals for the District of Columbia Circuit in the *National Association of Greeting Card Publishers* case. Such an amendment would avoid the unfair result of forced assignment of costs to particular classes and subclasses of mail even when such classes or subclasses did not cause the particular costs so assigned. Congress should make it crystal clear that all of the criteria listed in section 3622 of the act must be considered.

Arbitrary loading of substantial additional costs on to the nonpriority classes of mail would be self-defeating in that it would drive away volume from the Postal Service. The Postal Service staff study, "The Necessity for Change," points out that bulk rate advertising mail is "relatively expensive." That is a colossal understatement. The study continues:

> The large business mailers who generate most of today's revenues can and will find more economical alternatives to the Postal System. Their flight from the system will trigger revenue losses disproportionate to cost recovery.

In order to offset these losses of volume and revenue, the rate for first-class mail would have to be increased still further in order to support the system.

The President should appoint the postmaster general

Fourth, we endorse section 8 of the bill.

The Postmaster General should be appointed by the President with the advice and consent of the Senate. He should be a full-fledged Cabinet member, as was true prior to 1970, with the prestige and influence of that position. Otherwise, he is likely to continue to be a person with no more access to and influence with the White House (or Congress) than the head of the Government Printing Office. Correspondingly, the United States Postal Service should again be considered a department of the Government, just like the Commerce Department or HEW. H.R. 7700 does not go this far. It leaves the Postal Service as an "independent establishment."

We are, of course, not recommending a return to patronage appointment of postmasters and rural letter carirers. That is a red herring.

The Board of Governors should be abolished

The Board of Governors should be abolished. If the Postmaster General is appointed by the President and, particularly, if he is a full-fledged Cabinet member, there is no longer a need for a Board of Governors. The members of the Board of Governors have largely been figureheads and rubber stamps for policies of the Postal Service full-time management, as transmitted to them by the General Counsel of the Postal Service. It is impossible for the members of the Board of Governors, as businessmen with primary responsibilities in private life, to take enough time to become productive or effective as an authentic managing board for the Postal Service. The Carter administration is attempting to eliminate as many government part-time advisory

boards at it can. We believe the Board of Governors is a good place to start.

There are two additional subjects which we urge should be covered in the Postal Service Act of 1977.

The classification schedule should be stabilized to end the present chaotic uncertainty

Congress should enact legislation to retain the four major classes of mail as proposed in the report of the Commission on Postal Service. These classes have been in use for decades and are working well.

The officer of the Commission or ombudsman of the Postal Rate Commission is pushing a radical proposal to have a major revision of the postal classification schedule to classify mail by shape. There is no visible public demand for far-reaching changes in postal classifications, and the current state of protracted uncertainty should be eliminated by enacting the four major classifications into law.

Our view on this issue can be summed up in the words which Mr. Bert Lance has made famous: "If it ain't broke, don't fix it."

Proposed collective bargaining agreements should be subject to independent review

A final subject in our ATCMU position relates to labor contracts. We feel that there should be some type of independent review of proposed collective bargaining agreements with postal employee unions before they become effective.

Postal wages have risen above comparability as compared both to private industry and to other Federal Government employees. There is a widely held impression that in some of the bargaining the Postal Service representatives have not had the necessary experience, commitment, or feeling of long-term responsibility for the results of their efforts. It may also be that the Postal Service has been too anxious to avoid disruption in service.

Since 85 percent of postal costs are personnel costs, the only way to bring costs under control at present levels of service is to impose some type of restraint and review on increases in personnel costs. This is not, by any means, an antiunion or antilabor posture. Even in welfare state England, the labor government continually finds it necessary to resist or restrain pay demands by employees in public and private enterprises. In superliberal Canada, the Government has had many confrontations with the postal employees over the levels of pay.

We would prefer, if it were practicable, for Congress itself or for the legislative or appropriations committees having postal responsibility to reach a decision on the proposed collective bargaining agreements before they could become effective. With the enormous pressure of work with which Congress is already burdened, this may not be practicable. We would hope it could be done by a chance-to-veto approach such as we are proposing for increase in postal rates.

An alternative would be to require that before the collective bargaining agreements could go into effect, it would be necessary for the proposed agreements to be certified by the General Accounting Office or by the Bureau of Policies and Standards at the Civil Service Commission as being not greater than 4 percent above comparability as

measured by employment elsewhere in the Federal Government and employment in private industry.

This type of a certification procedure would not be a new thing in the postal area. As many of you will recall, there was on the books for many years a certification procedure relating to parcel post rates. In effect, that law said that the Postal Service could not draw down any appropriated funds from the Treasury unless there was a certification that parcel post operations were within 4 percent of break-even. The independent agency which considered parcel post rates was the Interstate Commerce Commission.

Many of the critics and commentators on the Postal Service say repeatedly that postal costs are out of control. There has been a reduction in total number of employees, but the rates continue to go up and up.

In a private company, a wage bargainer is typically around for a long time to live with the results of his efforts. For some reason, there seems to have been an overly casual attitude about the key importance of the wage bargaining responsibilities at the Postal Service.

SUMMARY

To summarize, our main comments are as follows:

1. There should be renewed congressional participation in decisions on postal ratemaking and postal wage levels.

2. The Post Office should be made a full-fledged part of the Federal Government again and should receive much greater support—20 percent of its budget—from general revenues.

3. Stability should be restored to the classification schedule.

There is no use saying, as the Postal Service does and has said for many years, that our postal rates aren't so bad as compared with other countries. The mail volume in other countries is incredibly limited compared to the huge total volume handled by our Postal Service. Figures may have changed a little from when I last went into them, but the situation roughly is that with only 6 percent of the population of the world, the United States handles half of all the mail in the world; the New York City metropolitan area has more mail volume than all of Great Britain; and the Chicago metropolitan area has more mail volume than all of Japan. With this enormous volume using the system, our rates should be very much lower than those in other countries. We feel we can have restraint on rates without the slightest interference with comparability for postal employee wages.

When we say that we in ATCMU are in favor of Presidential appointment of the Postmaster General and abolition of the Board of Governors, we are not come-latelies. We have been saying all along that the Post Office should be and continues to be an integral part of and a department of the Federal Government just like the Commerce Department or HEW and HUD. I realize this sounds like "I told you so," but as counsel for ATCMU I testified five times in 1969 and 1970 before Congressional committees totally opposing the so-called Postal Reorganization Act to set up a postal corporation. At that time, ATCMU made a substantial investment in thoroughly researching the proposal, and we concluded that the postal corporation—which

was an old and often rejected idea—would result in skyrocketing rates and curtailed service.

It is with that background that we congratulate the sponsors of T.R. 7700 for pressing so hard for timely action on these key features of this bill which would bring the Post Office back into the Government and back into a more responsive relationship to Congress and the public.

That concludes my summary, Mr. Chairman.

Mr. HANLEY. Thank you very much, Mr. Day, for your very excellent testimony. I know no one on the scene today who is better equipped than you to make a comparison of concepts of the system sinec 1970 and the system prior to it. It relates to your splendid performance and service to our Nation as Postmaster General back in the Kennedy years. The committee is indeed fortunate to have your observations. You make salient points in your presentation.

I observe on a continuing basis the attitude and demoralization which has taken place throughout the ranks of the Postal Service since the conception of the act in 1970. A different attitude prevailed during administrations such as yours, when it appeared that there was total dedication; everybody was interested in making the store function properly.

Mr. DAY. Thank you, sir.

Mr. HANLEY. Ed, if I may ask, what is your opinion of the proposal relating to the citizen rate?

Mr. DAY. Our association has not taken any position on that subject. I certainly don't want to attack motherhood. That's going to be before the Postal Rate Commission for the next 10 months, and there will be questions such as whether it is discriminatory, as to whether it is enforceable. As you well know, it again is an old idea. One of your distinguished colleagues has introduced a bill with that idea in several past sessions of the Congress. I'd say the reaction in the press has not been all-out endorsement of the idea, but we don't know; our organization has not taken a position on that subject.

My personal observation, Mr. Chairman, is that there is something anyone can observe as a matter of common sense, and this is a personal observation, but hand-addressed mail is harder to handle than mail that's addressed with typewritten and mechanical processes. Unfortunately, some people don't have good handwriting, and they don't always spell things correctly. I think that the use of optical scanning equipment, even though it has progressed considerably, is going to have problems with hand-addressed mail.

Mr. HANLEY. In your testimony you make reference to research and development, suggesting that that allocation not be included under the category of public service costs. Could you expand upon that?

Mr. DAY. Yes; I certainly agree, Mr. Chairman, there should be more research and development, that the leadership of the research and development effort at the Postal Service should be moved up to a higher level. But I think to say that the increased public service appropriation should be used in part to put the Postal Service research operation on the same level of that of a company in private business raises problems. Companies in private business are usually trying to think up new products and new ways to get the edge on their com-

petitors, and the Postal Service as to its most basic service—first-class mail—doesn't have a competitor.

I think there could be much more done in the way of Postal Service research and development. But I don't think it should be at the dollar level that I am interpreting the language of the proposed bill to indicate.

Mr. HANLEY. Well, I have to differ with you when you say the Postal Service doesn't have a competitor. In essence, it does have to compete. It is not out looking for new service areas, but it must protect the service area that it has traditionally held. To do that requires sophistication and constant upgrading, otherwise the traditional type of service has lost its appeal, and in many instances its necessity as far as Joe Public is concerned. So we have said many times that well would it be if the agency would generate and place heavy emphasis on R. & D. to keep abreast of the times so that within—may I use these words advisedly—within its existent authority that it is providing the best and most sophisticated methodology. So, it is competitive in that sense. If it doesn't do that, obviously it's not in a position some years hence to provide a service which would be attractive to the multitude.

I am advised that my time has expired. Mr. Solarz.

Mr. SOLARZ. Thank you very much, Mr. Chairman.

Mr. Day, I was delighted to see you have come out in favor of an item veto over the recommendations of the Rate Commission as a way of perhaps improving the bill before us, because that's an idea to which I would say I was very sympathetic myself.

I have a number of questions I would like to ask you about your attitude toward this legislation and some of the problems which are posed by it.

First of all, you recommend that we increase the public subsidy from 15 percent, contained in the bill, to 20 percent. I would like to ask you how you would respond to the argument that the resources which would be required to increase the subsidy to 20 percent could far better be used by the Federal Government to pay for and subsidize a broad range of public service and social welfare programs, which are desperately needed in this country. Obviously, the users of the mail are all in favor of avoiding or at least minimizing future rate increases. But listening to the testimony which has been forthcoming to this committee in the last week or so, I am struck by the fact that the representatives of publishers, recorders, and other groups which use the mail very heavily all concede in spite of past increases that volume has gone up anyway. We are selling more books, magazines, records, more this, more that; and while I certainly don't want to gratuitously create a problem for them, every dollar we spend on public subsidy for the Postal Service is $1 less for welfare programs, national health insurance, day care centers, increases in social security, and the like. I would like to know how you justify in light of those considerations a request for an increase in the Postal Service subsidy to 20 percent.

Mr. DAY. I certainly agree with you that that is a key point in talking about an additional public service appropriation. We know that we are competing with many pressures for additional Federal money. However, I have given two specific examples of why I think that this

isn't simply asking for a handout. You do have that public works jobs program, which I described in my statement and which is one of the programs that has been talked about as being a means of stimulating the economy. It is a program directed at jobs in different areas. The Postal Service has been used in the past, before it adopted its present philosophy, to assist in economic stimulus programs. During the early 1960's, when we would have normally started about 2,000 new leased post office facilities a year, because of the administration's decision that they wanted all Government departments to assist in economic stimulus, that total was moved up to 4,000 a year.

Also, I have followed with a tremendous amount of curiosity the activity in relation to the huge amount of money that's coming from the new tax on crude oil, and you have followed it, I am sure, 10 times more closely. It does seem there's a certain amount of floundering as to what to do with this money. It would sound like a gift from heaven. I think some of the things that have been proposed for it don't really help with the overall effort. As I said in my statement, to give a 50-cent-a-week decrease to each taxpayer in withholding tax is more likely to give people another two-thirds of a gallon of gas to go someplace with than it is to help the overall energy program.

Mr. SOLARZ. You represent the third-class users. If, presumably, there was an increase in third-class rates, I gather that that would presumably impact on volume. But from a public interest point of view, even if the volume were to decrease somewhat of the third-class mail, or if the volume were not to increase as much as it otherwise would have increased, so long as the net proceeds which come into the post office is the result of increased rate than they would otherwise have been if the increase hadn't gone into effect, why is that not still in the public service? In other words, even assuming that there's something of a decrease in volume, so long as the increase in rates produces more revenue than would otherwise have been available for the Postal Service, why is that necessarily such a terrible thing?

Mr. DAY. Because, Congressman, we feel we have been clobbered in the rate field by a 670-percent increase in our basic rate in relation to the 120-percent increase in the cost of living that was going on at the same time. There's something wrong with that. We are a means of merchandising for tens of thousands of businesses, many of which are small and which cannot afford TV spots and full-page ads in the Washington Post. With direct mail they are able to zero in on a particular likely audience for their products, and postal costs are a tremendous part of the total direct mail advertising costs of the businesses.

Mr. SOLARZ. Excuse me, do you have any evidence available that you can submit to the committee, because I think it really would be useful, which would demonstrate that any third-class users have, in effect, been driven out of business or have significantly or substantially curtailed the use of the third-class mail as a result of previous increases?

Mr. DAY. Yes; there was a marked decrease in third-class volume after the increase that went into effect as a result of the second rate case. The third-class volume rate now is running considerably below

the so-called Postal Service plan for third class volume. As I say, third-class mail, in my opinion, and I am convinced of this on the basis of the evidence, is the biggest profit maker for the Postal Service and should be kept in a position where we don't have to face a situation of people going out of business, or having to give up.

It is important to realize that Postal Service monthly volume figures for bulk third-class mail combine "regular-rate" (commercial) bulk third class and "nonprofit rate" bulk third class.

Most bulk third-class mail consists of circulars, and of these about one-third go at the nonprofit rate.

Postal Service figures just released show that for the period 1971 to 1976—when there were three rate increases—the volume for regular rate bulk third-class circulars did not go up at all, in fact, declined slightly. During the same period, nonprofit rate circulars, which move at a very low rate, went up 37 percent.

Even for the prior period, from 1960 to 1971—when there were two rate increases—the volume of regular rate circulars increased only 16 percent while the volume of nonprofit rate circulars for that same 11-year period increased 12 percent.

Third class competes with every other form of advertising media. People are making decisions daily as to whether they get the most bang for their buck out of using third class or whether they do better to go to newspaper ads or do better to go to something else. Right at the present time, on the latest figures, third-class volume is running 94 percent of the Postal Service planned volume; it's running ahead of last year, but it should be because of the upturn in the economy. It's running only 94 percent of plan.

Mr. SOLARZ. Thank you very much.

Mr. HANLEY. Thank you, Mr. Solarz.

With regard to the colloquy between you and Mr. Day, I am reminded that a very important facet of third-class mail is often lost. In fact, it wasn't even brought up in this colloquy, but as the impact of it on the national economy. Back in the 1930's, during the administration of Franklin D. Roosevelt, heavy emphasis was laid on the use of third-class mail as one of the tools whereas the Nation might evolve from the Depression. In my judgment, it has served a great purpose, and I think it's been a grossly maligned category of mail. Those who saw fit to assign to it the name or rather the description "junk mail" actually weren't doing the national interest a favor. I know statistically that third class mail provides a substantive input for the gross national product.

Beyond that, Mr. Day, you recommend that a rate increase require an affirmative vote by Congress, and that Congress be allowed to modify rates. In recognition of your knowledge of the pressures brought on Congress through the rate hearings, wouldn't this be tantamount to bringing ratemaking virtually completely back into the Congress, and we would rather not do that.

Mr. DAY. I don't think so, Mr. Chairman. I think it would be very comparable to what happens now at the U.S. International Trade Commission. They are basically an advisory body. They hear all types of voluminous testimony and statistics, and then they make a recommendation which can be modified or vetoed by the President, and if

the Congress further wants to modify or veto it, they can do so. That doesn't mean that you bring before the House Ways and Means Committee all types of statisticians and expert witnesses who take up days and days of time and thousands and tens of thousands of pages of trancript, such as takes place at the Postal Rate Commission. You would have all that testimony taken by the Postal Rate Commission. Congress would be able to pinpoint a particular area where it might consider that the rate was wrong. We have seen from the way the present setup works that it is simply not feasible to have an all up or all down type of veto, because that's what the Governors of the Postal Service have now, and they cannot afford to vote down a Rate Commission rate increase recommendation because they are talking about $2- or $3-billion increases each time. So, they have to swallow the whole package whatever it is.

Mr. HANLEY. The position of those who sit on the Board of Governors and the position of the Congress would be totally different; Members of Congress, of course, concurring with the will of the majority of their constituents. The Board of Governors have a different responsibility. So, we are simply saying in that provision of this bill that if the majority of the American people through their communications with their respective Members of Congress evidence their indignation and unhappiness, well, then the Congress, as representatives of the people, is going to say to the Rate Commission, "Send it back to the drawing boards." If there cannot be agreement, Members of Congress must recognize that the shortfall from the standpoint of revenue has come to the U.S. Treasury.

With respect to your concerns on collective bargaining, it seems to me that the collective bargaining is not collective bargaining if a third nonparticipant, other than an arbitrator, can dictate the result. Now, wouldn't it be more open if you would just recommend the abolition of collective bargaining?

Mr. DAY. No, not at all, Mr. Chairman, we don't recommend anything of that kind. We don't want to see any erosion of the comparability principle. But, as I say in my full statement, there are many other people who have gone into this thing very thoroughly who are convinced that from having been below comparability in the old days, postal wages have now gotten above comparability. It's not unusual to have types of wage restraint. Right now there's a proposal that has been made by the President and is being considered by Congress, as you know, to abolish some of the top steps in the Federal pay schedule in general for rank and file employees. In any type of government, no matter how sympathetic and positive one is about labor costs and the legitimate interests of labor, there must be some types of restraint. With 85 percent of the Postal budget going for personnel costs, there's got to be some consideration of whether the Postal Service has gone overboard on wages for the reasons I outlined in my statement.

I think they—the Postal Service—have been too casual about it; I think they have had people that didn't have a long-term commitment to living with whatever bargaining agreeemnt they entered into. I think they should be urged to take it as a more responsible long-term part of their responsibilities.

Mr. HANLEY. Thank you, Mr. Day.

Mr. Solarz.

Mr. SOLARZ. Thank you, Mr. Chairman.

Mr. Day, what is your view of the section of the bill which requires the retention of 6-day-a-week service? I'm sure you know that the estimates are that a reduction in service to 5 days a week would have somewhere between $300 and $400 million. I'm curious whether you think such a reduction in service would make sense, and what impact it would have on the interest which you represent.

Mr. DAY. Well, I always hate to give this kind of answer, Congressman. Our Association, which is my client in this case, has not taken any position on that subject. $400 million is 10 days' spending for the Postal Service, and even in the proposal that has been made, the implementation of that 5-day delivery program, if it were to take place, is going to be spread over quite a few years.

I would say this is something that, regardless of pros and cons, is not going to happen. As you well know, the Senate has voted, without as far as I know one dissenting vote, to maintain 6-day delivery. So, I think it's rather an academic subject at the moment.

Our Association, as such, has no position on it.

Mr. SOLARZ. Would 5-day-a-week service create any problems for third class users?

Mr. DAY. We have differences of opinion within our own organization with that. That was discussed at length at a meeting of our board of directors. Some of our members feel that we're really getting only 5-day delivery now, because they state as experts who are in the business full-time that very little bulk third class mail is delivered on Mondays at the present time because of the collection from the weekend, and that bothers some of them.

As you know, we do not seek speed of delivery, but we do seek some type of reliability of the delivery schedule so we don't run into the situation where delivery is deferred so long that the sale is over or the promotion is academic by the time the person receives the third class mail.

Mr. SOLARZ. How would you feel about an amendment to the bill which would give the Postal Service the right to let competitive bids for the delivery of mail by airlines? Right now, as you know, they are obligated to provide a comparable share of mail to each airline on a particular route, which obviously limits their ability to get the best price for volume available on that particular route. Some people have suggested that if such a requirement were eliminated that it could produce highly significant savings. Do you think that would make sense?

Mr. DAY. Well, I don't purport to be an expert on that subject, but many smaller nontrunk airlines are subsidized and perhaps this is an indirect way of assisting with that. I don't see anything wrong myself with spreading the business around. I would hate to see the Post Office enter into a contract with one trucking company to deliver all the star route mail in the country.

Mr. SOLARZ. In other words, you think that even if the Postal Service can get a much better price, thereby saving significant amounts of money by having competitive bids, that it should be required to pay more than it would otherwise have?

Mr. DAY. I think it depends on what the figure is of the amount of money. If it's $10 million—one fourth of 1 day's spending it's one thing; if it saves $400 or $500 million it's certainly a different thing. I don't know the figures on that, Congressman.

Mr. SOLARZ. What is your feeling about rural post offices and the extent to which——

Mr. DAY. That is another thing on which the association has not officially taken a position. The amouts to be saved by closing any one rural post office are hardly worth the hassle that is involved in getting it closed, because many people forget that fourth class post offices are generally in a store or bus station and there the postmaster is paid as a part-time person.

The figures as produced by the Congressional Budget Office on the closing of small post offices, indicate that it's not going to solve the Postal financial problem by any means.

Mr. SOLARZ. How would you feel as a way of generating additional revenues for the Postal Service permitting Postal trucks to carry advertisements on the side of them, which would be tasteful, not similar to the kinds of advertising they now have on buses and subway trains in New York, Washington, and other metropolitan areas around the country?

Mr. DAY. I don't see anything wrong with it. I must say, I think our beautiful Washington subway is a big improvement over all the smelly hot dog stands in the New York subway, and I think the fact that we have something we can be proud of rather than something we tolerate is partly contributed to by the fact that you're not accosted with every kind of commercial venture in there. Postal trucks are a different proposition, but any time you put people in administrative jobs into the position of saying what is tasteful and what isn't, who knows, you might get another Hustler magazine problem.

Mr. SOLARZ. Well, I would say if it can be sent through the mails, it probably should be permitted on the trucks which deliver the mail.

Mr. DAY. In that case, some of the trucks will become very interesting.

[Whereupon, at 10:15 a.m. the hearing was recessed.]

Mr. HANLEY. I have no further questions. I want to again on behalf of the committee express our appreciation for your appearance here this morning, and as I have said before, certainly your expertise is fully appreciated. Your testimony is excellent and we are most appreciative to your association for its support in behalf of 7700.

Mr. DAY. Thank you, Mr. Chairman. I do want to emphasize the fact that while we differ here on some points, we are not here to pick at this bill. This bill covers all the big issues. In fact, a man on the White House staff who is the specialist on postal problems said those very words, to me: All the big issues are in that bill.

Thank you, Mr. Chairman.

Mr. HANLEY. Mr. Day, would you agree in all probability H.R. 7700 is the finest piece of legislation dealing with the Postal Service since H.R. 1798 in 1823, known as the Postal Updating Act?

Mr. DAY. As I remember the hearing on that bill——

[Laughter.]

Mr. HANLEY. Thank you.

Our next witness is Mr. Timothy May, as general counsel of the Parcel Post Association.

Mr. May, similar to your predecessor, we look upon you as one of the great national experts on the Postal Service, and we are most aware of the exemplary service you provided in your official capacity with this agency in some of its better days.

Mr. MAY. Thank you very much for your kind remarks, Mr. Chairman. Given the state of the Postal Service, I don't know whether that's flattery or not.

Mr. David Bunn, who is the executive vice president of the association, is accompanying me.

Mr. HANLEY. We are delighted to have Mr. Bunn with us today also, who has evidenced great expertise in this case.

Mr. MAY. We, of course, have a prepared statement, and we won't read that in the interest of time, but would simply highlight some of the points in the statement.

Mr. HANLEY. You may continue.

STATEMENT OF TIMOTHY J. MAY, GENERAL COUNSEL, PARCEL POST ASSOCIATION, ACCOMPANIED BY DAVID BUNN, EXECUTIVE VICE PRESIDENT

Mr. MAY. As the chairman well knows, and perhaps other people don't, the Parcel Post Association is composed of approximately 200 small and medium-sized businesses that are totally dependent upon the U.S. Postal Service for every aspect of their business. They do most of their selling through the mail, by sending out advertising circulars or catalogues to reach their customers. Their customers order their materials by sending in an order through the U.S. mail, and then the order is filled and it is sent to the customer either through the post office, or primarily through the use of United Parcel Service; whereas our members several years ago before that were primarily users of the postal system. I would think, without having exact figures, most of our members now make greater utilization of United Parcel Service than they do the post office.

Because the postal system is such an indispensable part of the functioning of these businesses, our members have to look at the postal system as a business, and a something that furnishes a service that they need as a business, and they have rather well-defined ideas and experiences about what they need from the post office. Those needs are quite different than what their needs as citizens are, and what their preferences as a citizen may be.

I'm sure that as a citizen most of our members, just as I myself, value the full service type of post office we have had in the past, perhaps as much if not more than any other government service. It's certainly one of the few Government services that manifests itself in our life every day, and they value it highly, just as I do and as everyone does.

As businessmen, they have to make a hard analysis of whether they need all those services for their business, particularly if they are going to be asked to pay for them.

Very frankly, Mr. Chairman, we do not need, as businesses, delivery 6 days a week, 5 days a week. We just don't need that. We don't need 40,000 post offices all around the country. Most of my members either have plant loading or take their parcels down to a central disbursing place in the post office. They don't need lots of collection boxes as businessmen.

They need everyone of those things as citizens, and this is what brings me to the main thing we would like to say about your bill. We like it a great deal. One of the reasons we really like it is, unlike so much of what's gone on in the past, and so many other critics of the post office who want to complain about the deterioration in service and escalation in rates, they very seldom have any provision for who is going to pay for this. Now obviously the post office, like any other major enterprise, is as susceptible to inflation as anyone else. You cannot have a sustained service as we have had in the past without having either rate increases or deterioration of service. One of the provisions of your bill faces that and answers a national policy question.

It says we have debated that and litsened to it; we have learned about how we can save all this money by shutting down post offices, by curtailing delivery days, and we, the Congress, who represent the people, we have heard from our people and we know what they want. They know a lot better than some fellow over in the Office of Management and Budget or some polltaker. We know what the American people want, and what they want is the kind of postal system they are used to, and that means that that letter carrier comes to their home 6 days a week, and it means their small businesses perhaps get two deliveries a day, which are very important.

It means you're not going to shut down every office in every place and move to some relatively massive installation. You have made that policy decision yourself. The committee may make it and that is precisely where that decision should be made.

The thing that is most responsible about your bill is that it says:

> And we understand that decision costs money; we understand that it would not be fair to make the users of that system, that is, people who pay postage, pay for the entire run of the system, because all Americans are beneficiaries of this system and it's for them, it's for every citizen that we have determined we are going to maintain this high service standard. Because all Americans are beneficiaries, we are going to have the Congress acquit itself of its responsibility by appropriating a reasonable amount of money to pay for that kind of continued service.

We do, in fact, applaud that.

What we do despair at is the constant criticism of the post office and criticism of the service and criticism of the rates without anybody being willing to pay the bill. This legislation says, "We understand that, and we know we have a responsibility to pay for that, and here is the mechanism for doing that."

In all of these things, you do have to finally arrive at what is an educated guess as to the proper amount of that infusion. I have heard some witnesses testify it should be 20 percent or even more. I may agree with that, but I don't think it's realistic.

I think, Mr. Chairman, your bill has arrived at a realistic figure, a figure which the people downtown may be able to live with in terms

of managing their budget, a figure that your colleagues in Congress, who understand not as much about the system as the members of this committee do, may feel is a tolerable amount of money to spend. So, I think if we could get that 15 percent, it would solve a great many of the problems that the Postal Service has today.

We do, if you will note from our testimony, have some problem with the formula, and we understand why there's a limitation on the use of this money to effect rate levels for parcel post. Parcel post historically has been that class of mail which has had competition. In the origins of the parcel post system, Congress was concerned, and the private carriers were concerned, that the Government not be able to unfairly compete with private industry. There wasn't a monopoly there and, in fact, the postal system really got into the parcel business to make sure there was a national system and wouldn't be totally dependent upon regional transportation. For most of this century, Congress has, in fact, required that parcel post pay a little bit more than any other class of mail. The reason they did that, they wanted to make sure they were not going to harm any private competitior. So there are some fine antecedents to the limits in the language of your bill.

But history has come a long way since then, for example, since 1970, when postal reorganization occurred. In 1970 the Postal Service carried more parcels than the United Parcel Service did. Well, under the postal reorganization, as you know, Mr. Chairman, there has been an appropriation to the post office of some $920 million, and that money has been used by the post office, as Congress intended, to slightly reduce the rates that all classes of mail have had to pay.

The curious thing about it is that first class mail has gotten the biggest share of that $920 million. In fact, what's little understood when critics want to talk about the subsidized mail classes, in fact, first class mail is and has been the most heavily subsidized class of mail by Congress. Of the amount of the appropriation for the subsidy to the Postal Service, first class mail has gotten more than any other class of mail. It's also a fact that parcel post has gotten, both in absolute and relative terms, the least amount of this subsidy. Nevertheless, it did help.

So, you have had an operation of 6 to 7 years under this system where there was a subsidy benefiting parcel post that hasn't hurt any part of the private delivery system. Quite the contrary, since 1970 to the present time, when the postal system used to carry more parcels than the United Parcel Service, as of today, United Parcel Service carries three times as many parcels as the post office, some 900 million parcels for United Parcel Service versus only some 300 million for the post office, in a declining amount.

So, we have had an evolutionary change; where at one time the Government was the very strong, powerful carrier, and the private businessman was the one that needed protection, and there were very sound historical reasons for doing that; we no longer have that situation. The United Parcel Service does not need protection from the post office. The post office could very well us some help and ideas from the United Parcel Service.

So you have a situation now, I think, where it can be demonstrated rather clearly that the private delivery system no longer needs this protection, and since they don't need that protection, we think it would

be unwise to unnecessarily inflate parcel post rates, which is what would happen if they are denied any of the public service appropriation, when it's not necessary to protect anybody, and we think the case is conclusive, although there were sound reasons in the past for doing that.

Second, we are extremely pleased with the attempts of your legislation to deal with the mess and confusion that the court of appeals has made of postal ratemaking. We think there is never going to be any perfect formula for fixing the rates, because rate fixing is as much an art as it is a science. But to the extent that it's practical, we think that this legislative language gives some very clear-cut, practically applicable principles to the Rate Commission and to the courts, to say, "Now this is what Congress meant." Moreover, we think this language really does nothing other than make clear what the Congress intended to do in the first place when it passed the Postal Reorganization Act. The courts seem to have a great deal of difficulty figuring out what it is Congress intended to do. This is basically what that does.

As I say, it's not perfect, Mr. Chairman, and I don't think you can make a perfect formula. I think it's one that is fair and can be reasonably applied.

You will recall this, of course, Mr. Chairman, as we all did at the time back in 1969 and 1970. We had a situation where most of us believed, as did all of the experts then at the post office and on the Hill who had looked into it, that in the postal system you had a situation where approximately half of the costs of the system were system costs; they were big fixed costs of the network of offices, this vast work force, all the equipment you had to have. If you're going to have a national postal system, these are costs that would not vary. You had to have that to be in business, whether you had one piece of mail or 100 billion pieces of mail. Half of this cost had to be there.

Congress said, "Well, the other half of postal costs, those costs, we want whatever class of mail causes those costs, we want them to pay for it. We want everybody to do that."

But it was assumed at the time that some 50 percent were variable or attributable, and there were a lot of different names used for it; they finally ended up in the congressional language being called "attributable costs." The attributable costs were those 50 percent that had been thought would go up or down depending upon how volume went up or down. So, if you put in an extra piece of second class mail, all of a sudden those costs increase. This was the intent.

The other 50 percent is fixed and you can't do anything about that. That cost we will have different classes of mail bear in accordance with the standards, and Congress enumerated some standards, and some of them are fairly vague, as often is the case.

But the general idea was we don't want to price people out of the postal system, so those who can afford the least, as to this extra 50 percent, they'll get the least amount of that burden, and the people who can afford it most will get the most. That way you keep a maximum volume of mail in the system, and that way you have a system that is a great utility to all the people, which is what Congress wants.

It doesn't want a postal system that caters to one segment of society or one business of the society. Congress wants a national system that

everybody can use, that has prices that are not only fair, but are at an acceptable level so that everybody can continue to use it. That's what your legislative language attempts to do.

There has been some discussion and concern about an additional provision in your bill that says, "in any event, no more than 60 percent of this cost, total cost, can be attributed to classes of mail on a cost basis."

Again, that's a kind of a practical handle to take some of the art out of ratemaking, where the Congress is saying:

> We know the Rate Commissioners are artists and the courts are artists. We would like to fix it a little more. We don't want to entirely eliminate their flexibility. We would like to get something a little more fixed.

We have a situation now, whereas 7 years ago everyone thought only 50 percent of the costs were variable and attributable, through great leaps of the imagination and through all kinds of manipulation of data and formulas, that the Post Office has now managed to get that figure up to 60 percent. It took three rate proceedings to get them to finally move that figure up to 60 percent. So that, or course, we assume is where the 60 percent comes from. It's a very practicable, workable way. It gives a very reasonable standard to the Rate Commission and to the courts to apply. It takes a lot of doubts and guessing out of ratemaking, which we think is desirable, given some of the strange pronouncements that have been issued from the Commission, from administrative law judges and from the courts.

But what is astonishing is that depending upon whom you listen to or which decision you read, the rate could have ranged, for first-class mail anywhere from 8 cents to 20 cents. Increases for one class have ranged from 10 percent to 200 percent. Well, something is wrong when presumably educated and experienced people, after listening to a year's testimony by experts, are still able to be so confused that they come down with rate schedules that are that widely different.

Therefore, we like your proposal, Mr. Chairman, which says:

> Well, let's put a little reality into this thing; you will still have some opportunity to maneuver a little bit and apply some judgment standards, but we don't want you to go too far. It's our collective judgment and wisdom and best evidence we could find so far that 60 percent of the total costs of the system are costs that vary with the volume of mail in that system. The other 40 percent are largely costs which no matter what your volume is, you're going to have if you have a national system.

So, Mr. Chairman, I don't want to take up too much of the committee's time; I do think that this is an excellent effort on the part of the committee. We hope it succeeds. Although there are some minor changes we hope would be made, we applaud the work of the committee, Mr. Chairman, Mr. Wilson, in doing this. We do, in fact, think that if this could be passed in the House, a number of problems of the Postal Service would be solved. It doesn't merely tinker with superficial things. It makes a fundamental congressional policy statement by the Congress about the Postal Service the American people are going to have for decades to come, and provides a reasonable and workable way for financing that system.

Thank you, Mr. Chairman.

Mr. HANLEY. Well, thank you very much, Mr. May. I want to commend you on what I judge to be an excellent presentation, which certainly evidenced your great expertise in this field.

You laid the groundwork in your dialog about inflation, and this is a part of the problem that not everyone reflects upon. Most of the folks appear to think that inflation doesn't affect the U.S. Postal Service. I think that one of the great shortcomings in the Act of 1970 was the provision whereas the public service funding would be but 10 percent of that current fiscal year's budget, which meant that Congress gave no consideration at all to the possibility of expanding inflation. Realistically there was no way that efficiency could be produced in that agency that quickly, and allow it to live within that 10-percent mandate.

I have thought many times had the Postmaster General at that time come back in the general Congress and reminded it of the impact of inflation on the agency, and perhaps offered the suggestion that that be amended whereas it would be 10 percent of the current fiscal year's budpet, I doubt very much that the existent fiscal dilemma would prevail. That's all academic now.

You said that first-class mail is actually heavily subsidized. Could you expand upon that, Mr. May?

Mr. MAY. Yes. It requires a little math, but what happens each year, the Postal Service takes the $920 million they get, so they subtract—for example, for next year they assume they are going to have a $17 billion operating cost. So the first thing they do is take the $920 million, which we will call a billion dollars, they subtract a billion from the 17 billion, and say we only have to get 16 billion back in rates, and they fix their rates.

The first thing is they take all attributable costs and assign them to all the classes of mail. Let's assume that that produces $10 billion, so they have to make up $6 billion more in revenue. So they say, how do we do that? Well, we spread that around the different classes of mail, the difference they have to make up. If they didn't have the billion dollars from Congress each year, then that billion dollars would have to be apportioned to the different classes of mail.

They have apportioned those costs largely on the basis of which class of mail should have the highest cost. First-class mail has had it, some years third-class mail has been almost as high, sometimes higher. But over those 7 years, first-class mail has been determined to have that—they should have the highest cost, first-class mail being more than 50 percent of the volume in the system to begin with, and having the highest cost coverage. Approximately, I would say, 60 percent of every bit of the $920 million that has gone to the Postal Service; at least 60 percent of that has been used directly to benefit first-class mail.

I think it's conservative to say that each year that you have had a public service appropriation of $920 million, but for that, the first-class-mail rate would have been 1 cent higher than it has been; currently it would not be 13 cents but it would be 14 cents. That's just the way it works.

On the other hand, some of the other classes of mail get an insignificant amount, but every bit helps. It has been very inadequate. There are critics of the system and critics of subsidy, who on the one hand are always wanting to defend first-class mail and say they are taking a bad loss—the truth of the matter is that no class of mail has gotten the amount of subsidy in this system that first-class mail has.

Mr. HANLEY. That being the case, what's your position on the proposed citizen rate?

Mr. MAY. Well, I want to assure you that the association does not yet have a position on it.

Mr. HANLEY. Aside from the association, with your expertise, what do you think about it?

Mr. MAY. I tell you the problem I see with it is that it could have a tendency to sweep the problem under the rug. I think there are some good things about it. The only good thing is that it will tend to make people less restive about the Postal Service, and that can be helpful. It can be helpful to Members of Congress who won't get as many complaints from your constituents. It will be helpful for people at L'Enfant Plaza who get complaints from their customers and from the Hill. Everything helps somewhat.

The trouble is in the price. It does have a serious problem. To the extent those who have the responsibility to deal with the problem put it off because the heat's off for a while, that could be very harmful. I don't think any of us resent the ordinary citizen getting a lower rate, although it certainly could never be cost justified, but lots of things aren't cost justified.

But there is a problem that it's almost a regressive form of taxation, because the rich and poor pay the same. This is not a proposal that says, "We are going to have a 13-cent stamp for the poorer people versus 16 cents for the richer people." The fact of the matter is statistics suggest the more affluent a family is the more first-class mail they use. So, this could be viewed as a regressive form of taxation, except that the business users of the system have been elected to pay for this, and so it isn't progressive in the sense you try to determine who are the needy people you don't want to deny this service to. You make a decision that they can't really afford it.

On the contrary, that same rate proposal that the Postmaster General has sent off calls for a 26-percent increase in the parcel post. Mr. Chairman, my members are not very much in the parcel post system any more, and most businesses aren't. It's the ordinary citizen who is still using the parcel post system.

I wonder about the wisdom of a proposal that pretends it's going to help the ordinary citizen by telling them we are not going to increase the first-class-mail rate, and then at the same time increases their parcel post rate by 26 percent. According to the Wage Price Council, the average family spends more dollars per year on parcel post than they do on first-class mail. So the net effect of that proposal is not going to be to stabilize the average family's postal costs, it's going to be to substantially increase them.

So, those are some of the problems I see with it.

Mr. HANLEY. Thank you.

Mr. BUNN. I would just like to say, Mr. Chairman, we are familiar with the bill Mr. Ford has introducted in Congress; we think his bill is much fairer.

Mr. HANLEY. Thank you very much, Mr. Bunn and Mr. May.

Mr. Solarz.

Mr. SOLARZ. Thank you, Mr. Chairman.

Let me ask you a question about the users of the parcel post. Do you have any idea of the percentage of packages which are sent

through the parcel post which are sent by individuals as distinguished from businesses?

Mr. MAY. I don't have anything that's statistically based, Mr. Solarz, although there are studies ongoing now. My guess is that some 60 percent of those parcels are individual parcels, but I could not document that. I don't think anybody can.

Mr. SOLARZ. What would you think of a kind of citizen rate for parcel post whereby the individual who wanted to send a package to their relative somewhere, or whatever the purpose was, would be entitled to a somewhat lesser rate than if a business wanted to send that?

Mr. MAY. The problem I see with that is the same problem I see with the citizen stamp proposal, which is that the business is paying for this in the final analysis, particularly parcel post, because most of these businesses sell with the transportation charges added on; the consumers pays those charges, and most of the business transactions involving mail-order sales, parcel post is used, so you're not going to help the citizen out. The business is just going to pass that on to the consumer.

Moreover, I do want to revert back to my earlier testimony, Mr. Solarz. I don't think you were here when I made my original remarks. The 15 percent of subsidy, or whatever it wants to be called in the chairman's bill, is going to sustain and provide services that my members who are in business neither need nor want. That 15 percent is designed to pay for a maintenance of a system that the American people want. It is the American people, not my clients, who want 6-day delivery; it is the American people who want 40,000 postal installations, not my clients.

Mr. SOLARZ. The relevant issue is, I think, who pays for the services and what the most progressive mechanism for funding those services may be.

You indicated in your testimony, I think, that you approved of section 2 of the bill, which gives Congress the right to disapprove rate recommendations by the Postal Rate Commission.

Mr. MAY. I do indeed.

Mr. SOLARZ. Of course, as a practical proposal, if the Rate Commission were to submit 600 rate recommendations, and Congress was unhappy with one or two or three of them, it's difficult to envision a situation in which the Congress would reject the whole lot of them simply because it disapproved of a minute percentage of them.

How would you feel about the possibility of an amendment to the bill which would give the Congress an item veto, as it were, over those particular rate recommendations which it found objectionable?

Mr. MAY. I might want very much to have that opportunity for the future, but I don't think it would be workable. I'm afraid that kind of process would be tantamount to restoring to Congress the rate-making function, a function that the Congress does not want to have back in its lap.

This provision I think equips the Congress with the opportunity to correct a decision that is so bad that it is evidently contrary to the public interest and whole viability of the national postal system, but it does not involve the Congress in detail, which an item veto would, because everybody who is dissatisfied with their rate would be up begging the Congress to give an item veto on that. It seems

hard to me to realize how Congress could do that without conducting their own set of hearings on each individual rate, which I think involves the Congress in a way that it doesn't want to be involved. But I agree with you that it will be a rare day when Congress exercises that veto power.

Mr. SOLARZ. How do you feel about 6-day delivery service?

Mr. MAY. As a private citizen I think that the postal system which I am paying taxes for is the best deal I get as a citizen. I want it continued, and if it takes more of my taxes to continue it, I want it. It's just a great convenience to me.

I will give you another example. I was very annoyed at my law office when they cut out the second delivery.

Mr. SOLARZ. I have no doubt it's a great convenience to you. You appreciate getting mail 6 days a week rather than 5 even though that's costing somewhere between $300 million and $400 million; can you envision any other conceivable uses of that money which might perhaps benefit you and the American people more?

Mr. MAY. No; and I mean no, I do not believe that there's any wiser expenditure of $400 million of tax money than that 6-day delivery. There are always projects you can put some money into. I do think there are a lot of other Government projects we can get rid of to keep the 6-day delivery going. There's always that question; what is the priority. You can always conceive of a program that is more appealing or demanding than anything we are doing. The question is: let's reexamine all of the Government programs, many of which don't do anything for a majority of the American people, before we jettison the 6-day delivery because we can't pay for it, something that does, in fact, benefit every single American in the United States. I don't know of any other Government program like that.

Mr. SOLARZ. Thank you, Mr. Chairman.

Mr. HANLEY. Thank you, Mr. Solarz.

Mr. Wilson.

Mr. WILSON. Thank you, Mr. Chairman.

Mr. May, most of the witnesses have supported all of the provisions of H.R. 7700.

In the case of the recording industry, the witnesses did not take a position on the appointment of the Postmaster General by the President and doing away with the Board of Governors, while everyone else supported these features of the bill. In the case of your organization, and some of the unions who were testifying yesterday, you oppose section 4(b).

Let's talk about section 4(b). There was confusion between Mr. Hanley and myself yesterday as to what the effect of section 4(b) was. Mr. Hanley seemed to feel it was a reiteration of present law.

When H.R. 8603 was adopted, only 10 percent of $920 million could be used to subsidize parcel post; is that correct?

Mr. MAY. That is correct.

Mr. WILSON. Under 4(b) not a single percentage of $920 million or any additional subsidy that might come from H.R. 7700 could be used for the purpose of subsidizing parcel post. It wipes out any assistance at all. That's been given to parcel post.

Mr. MAY. That is the way we read it. That may not have been the intention of the language, but that is the way we read it.

Mr. WILSON. I read it the same way. There's a considerable difference between the present law and what's proposed in section 4(b) of 7700.

Mr. MAY. Yes; that one constitutes a change.

Mr. WILSON. Wouldn't it be fairer if it were written in the law that no more than 10 percent of whatever subsidy was given through H.R. 7700 could be allowed for parcel post subsidy?

Mr. MAY. We think that would be fairer. We don't believe that the protection is any longer needed. While there were valid historical reasons in the past for there to be concern about the Government unfairly harming private carriers, we think the changes that have occurred are such that there no longer is a need for that protection, and there should be no concern.

Mr. WILSON. Well, I agree; I don't think there should be any restriction, myself. I'm trying to think of some reasonable compromise. We haven't seemed to be able to come up with it.

Mr. MAY. The 10 percent, if amended to be 10 percent, it would pretty much maintain the status quo with some slight changes.

Mr. WILSON. Now, on the parcel size, I have to confess ignorance. What is the situation at the present time on parcel sizes? Would you recommend a change?

Mr. MAY Well, it does; this is truly an anachronism in the law. It goes back to a time when there used to be a railroad express service, for example, and they were then just like United Parcel Service; these, size restrictions were built up to protect these private carriers. So it was deemed if you were sending parcels between first-class offices, then that would be usually in a major city. A major city would be served by a truck line or rail line. So there was a limit on the size of the parcel.

The limit that is proposed in the legislation is to increase the size from 84 inches to 100 inches and 70 pounds irrespective of the class of post office to which it's shipped or from which it's shipped as well.

Mr. WILSON. Excuse me, do you feel that the weight should be any greater than 70 pounds? Is there a need for a change in size 100 inches to 180 inches?

Mr. MAY. We have suggested if you increase it to 108 inches it would accommodate some problems our members have who have extra large parcels. They don't weigh that much.

Mr. WILSON. Mr. Chairman, there are only three members here. I hope we are not going to be restricted to 5 minutes. We hardly get a chance to ask a question or two. I don't have a reputation of being long-winded or taking unnecessary amounts of time.

Mr. HANLEY. I just want to make a point. We do have four sets of witnesses from out of town whom we anticipate hearing from throughout the course of this day.

Mr. WILSON. Mr. Chairman, this is one of the most important parts of the bill.

Mr. HANLEY. The gentleman will proceed.

Mr. WILSON. A statement was made yesterday by the UPS representative concerning the taxes paid by United Parcel Service. What sort of makeup is your organization?

Mr. MAY. We have some 200 small- and medium-sized mail order businesses primarily. Of course, they all pay taxes and employ people.

Mr. WILSON. Would you furnish for the record the total amount of taxes paid by your members? If it could be related as much as possible to their business with the Postal Service it would be helpful.

Mr. MAY. It will necessarily be an estimate. We will try to make the most informed estimate we can.

Mr. WILSON. Thank you very much, Mr. Chairman.

Mr. HANLEY. Thank you, Mr. Wilson.

Mr. May, your support for H.R. 7700 is well demonstrated by your testimony. You don't make any specific reference to the appointment of the Postmaster General by the President along with the abolition of the Board of Governors. I assume you, of course, support that provision of the bill.

Mr. MAY. Yes; the association is on record of supporting that. Although, we do think the other provisions of your bill are the critical ones, and that if they are not addressed, then it won't make any difference.

Mr. HANLEY. Again, Mr. May and Mr. Bunn, our deep appreciation for your appearance here today.

[Mr. May's statement follows:]

PREPARED STATEMENT OF TIMOTHY J. MAY, GENERAL COUNSEL OF THE PARCEL SHIPPERS ASSOCIATION

I am appearing here today on behalf of the Parcel Shippers Association, an organization of approximately 200 members, primarily small businesses, who use the Postal Service to deliver small parcels to their customers. A large number of our members are also extensive users of the United Parcel Service as well as the Post Office for delivery of parcels. I should also add that most of these businesses are heavily reliant upon, if not totally dependent upon, the Postal Service as the means for soliciting sales from their customers; and these customers in turn use the United States Postal Service to place orders for merchandise, and to pay their bills for that merchandise. So, in a very real sense, the fate of these businesses, whether they prosper or fail, whether their employees have jobs or become another statistic in the unemployment roles, is linked to the fate of the Postal Service.

Thus, our members must look at the Postal Service, the way in which it operates, its mission, its costs and funding sources, from the point of view of what is essential to their business. At the same time, these members are beneficiaries, as American citizens, of a service-oriented Post Office that performs a myriad of services that benefit them as citizens just as it benefits all Americans.

Our members believe that they know what they need for their business in the way of postal services. And they are willing to pay for the costs of the services they need. They solicit orders primarily through the use of third class circular letter mail and through catalogs. For these business purposes they do not need a service which sends a letter carrier to the home of every American citizen six days a week. Their business does not require that there be a vast network of large and small post offices which honeycomb the country in every area however remote; nor do they need the extensive array of collection services and window services supplied at post offices. As a business they do not require those services.

At the same time, we must emphasize, these businesses are run by people who, like every other American citizen, enjoy the fact that the letter carrier comes to their home every day or comes to their business office twice a day; they very much enjoy having a conveniently located post office where they can transact their personal postal needs; the convenience of having closely located collection boxes where several pick ups a day are made to speed their mail to its destination. It is a service provided by their government since the founding of the country, one which they are accustomed to; one which they appreciate and which they expect their government to provide. But as business men our members now find that their businesses are being compelled to pay for this vast array of services to

benefit all U.S. citizens through ever higher postal rates. These rates pay, not just for those essential services that their business requires, but for all of those services that the American citizen receives and for which that citizen does not now pay. The amount of the citizen's taxes devoted to the payment of those services is an insignificant percentage of the actual cost of those services.

Prior to postal reorganization, and at least since the Second World War, approximately 20 percent of the cost of running the Postal Service was paid for from taxes. But even then people used to talk about the deficits of the Post Office and complain about its inefficiencies and its inability to pay for itself, as though this were not a government service. Indeed, these sentiments fueled the reform movement. A great part of the reform effort was good; many of the artificial limitations on sound business management were removed; postal managers were given real authority to operate in a businesslike way; merit replaced patronage, for example, in the selection of postmasters, as the principal means by which job advancement was secured in the Postal Service. And these things were all good. It seems to us, however, that postal reform was fundamentally flawed by the statutory mandate that this service should "break-even," because, at the same time, both the Congress and the public expected a continuation of, if not an improvement in, all of the services they had been accustomed to receiving when a significant part of the costs of these services was paid for from tax revenues. You can't have it both ways—then or now.

Our members have reviewed H.R. 7700, the very comprehensive legislation which you, Mr. Chairman, and Congressman Wilson have co-sponsored. Overall we are extremely pleased with the major provisions of that legislation. Unlike many other proposals that have been advanced that would deal with only one particular problem of the Postal Service, or would tinker with superficial aspects of it, H.R. 7700 makes a realistic effort to deal in a comprehensive way with one of the most vital of governmental services.

Many critics of the Postal Service, both within and without the government, who loudly criticize its many failings, somehow imagine that this system, which is as susceptible to inflationary forces, if not more so, as any other large enterprise, can continue to provide all of the services that the American public has come to expect without getting the money to do it, either from rate increases or from Congressional appropriations. H.R. 7700 takes realistic account of the fact that a substantial mission of the Postal Service is to maintain a high level of service to every American citizen as in the past; and that such a Service cannot possibly be paid for solely by those who make mailings and therefore pay postage. A great part of the postal system and the services it performs are there, not to service the business needs of large mail users, such as members of our Association, but rather to service the needs of the American people. H.R. 7700 authorizes, as a public service appropriation an amount of 15 perecnt of the prior fiscal year's operating expenses. This is in contrast to the present authorized fixed level of some $920 million, which in today's budget represents only somewhere between 5 and 6 percent of total postage operating costs.

However, Mr. Chairman, I must candidly state that the members of our organization are extremely alarmed about one provision attached to the authorization of this appropriation. Parcel post is singled out for discriminatory treatment; it would be denied the benefit of any of the additional amount of the appropriation; worse it would also be denied any benefit of the current $920 million appropriations which is used to effect slight rate reductions for all classes of mail at present. I might add, parenthetically, that under the present system the principal beneficiary of the $920 million appropriation is first class mail, and the class which currently derives the least benefit from that appropriation, both on an absolute and a relative basis, is parcel post. Yet, your legislation, while recognizing the misguided policy, the unfairness, and the inadequacy of the $920 million appropriation, nevertheless, provides that no part of the new appropriation, the 15 percent of prior year operating expenses, can be applied to cause a reduction in parcel post rates, but, on the other hand, may be used to reduce the rates for all other classes of mail. Therefore, as to only one class of mail, and only as to those users of that class of mail, this legislation, rather than helping, will harm that class of mail and those users.

The presumed justification for this limitation, as explained in the Committee's synopsis, is to ensure that "Public service appropriations may not be used to reduce parcel post rates in unfair competition against private enterprise." We should point out that under the present arrangement, where some part of the

$920 million presently authorized has been used to effect a slightly lower rate for parcel post than would otherwise prevail, there have been no economic disadvantages to the principal competitor of the parcel post system, the United Parcel Service.

Quite the contrary; while the parcel post system has steadily declined in revenues and volume, the United Parcel Service has prospered greatly during the years in which this $920 million public service subsidy has been paid to the Postal Service. Thus, this discriminatory treatment of parcel post cannot be justified as a provision necessary to protect United Parcel Service or any other carrier from unfair competitive advantage.

I might also add that the Postal Service has lost substantially all of the large volume parcel business to United Parcel Service, so that much of the volume remaining in the postal system is the single-piece shipment of a parcel by the ordinary mail user, that same person that President Carter has now just requested be the beneficiary of a so-called "citizen" rate, which is to be lower than the business first class rate. The result of this legislation would inevitably be to raise parcel rates to the ordinary citizen user of the postal system and at the same time would produce no protection, not already enjoyed, for United Parcel Service and other private delivery systems. It is a provision that affords no protection to anyone who needs it; and on the contrary penalizes both the postal system, its employees, and those who are compelled to use the parcel post system because they have no alternative—the ordinary citizen.

H.R. 7700 also deals with what we believe to be the second most serious problem confronting the continuation of a viable Postal Service, and that is the appropriate rate making methodology. The recent action of the United States Court of Appeals rendering invalid the rate making methodology utilized by the Postal Service and endorsed by the Postal Rate Commission in the last three postal rate proceedings could very well destroy the viability of the postal system if ever required to be implemented. Without attempting in this forum to reargue the various errors in that Decision, we believe that everyone can concede that the principal thrust of that Decision would be to require postal rate making to be based on a system of fully distributed costs, a system which ignores, for all practical purposes, every other consideration except cost. Such a system further assumes that all postal costs do have a specific cause in the sense that a particular class of mail caused the incurrence of those costs; and it further assumes that there is a reliable method for determining how all costs were caused and by what class of mail. This, of course, is economic nonsense; worse, it is a totally erroneous reading of Congressional intent. For those of us who worked on the Postal Reorganization Act, if there was one thing that was crystal clear, it was that the Congress rejected fully distributed costing as a rate making technique.

The parcel post system has already been placed in jeopardy by past rate increases; for example, in the last rate case, the Postal Rate Commission approved a rate increase for parcel post of 10%. That increase was imposed even though parcel post rates were already substantially higher than the rates of its principal competitor. That increase had the predictable result of driving out of the Postal Service what remained of the cream of the high volume business parcels. The Postal Service lost and United Parcel Service gained.

The Rate Commission felt it had no choice but to impose that 10% increase based on its reading of the law as requiring that parcel post pay its fair share of costs. However, the results of that modest increase are clear. Attached as an Exhibit is a Table showing the decline in parcel post volumes under the present law and under the present application of rate making methodology.

As bad as that is, it is hard to imagine the devastation that would be wrought if the Court of Appeals Decision were to have been implemented in the last rate case. If the Court's methodology were implemented and a cost based rate making system adopted, that Decision would have decreed not a 10% increase in parcel post rates, which has proved quite damaging, but an incredible 40 to 50% increase in those rates. It need hardly be argued that no business would be using the postal system at those rates if there were any alternative. The only remaining users of the parcel post system would be the citizen who has no choice when trying to transport a single parcel except to use the Postal Service. The ordinary citizen either does not know that United Parcel Service even exists, or he cannot use it if he does know it exists. United Parcel Service rates and practices are tailored to the business man who ships in volume, not to the ordinary citizen who has an occasional parcel to send.

The Court of Appeals Decision is a quite conscious attempt, as was the Decision of Administrative Law Judge Wenner which the court endorsed, to reduce the price of first class mail, in the naive belief that first class mail is the class that is important to the ordinary citizen and the price of which has real economic impact on the ordinary citizen. That approach reqiured that revenues lost by these lower first class rates would be made up by imposing enormous rate increases upon second, third and fourth class mail, those classes of mail presumed by the Court to be the classes used by business. Of course, that doesn't happen to be the case. The citizen ends up paying for all of these rates whether he realizes it or not, either directly or in the cost of goods and services which he buys. Thus, a rate making system that drives up the prices of second, third and fourth class mail to the point where it substantially diminishes the usability of the postal system by those classes of mail, all for the sake of achieving an insignificant reduction in the first class rate, is a rate making system which will drive up total postal costs which are borne by the citizenry, and will debase the utility of a national postal system, with a consequent reduction in the levels of service.

Consequently, our Association wholeheartedly supports the provisions of H.R. 7700 which would return rate making to the system envisioned by Congress in the first place.

It is a rate making system that acknowledges and accepts the very real fact that a national postal system with 30,000 post offices, delivery six days a week, and a vast array of collection boxes and numerous other services for every citizen is a postal system which has a substantial percentage of its costs which are fixed in the very nature of the establishment of the system, costs which are independent of any fluctuations in the volumes of different classes of mail. It is a rate making system that directs the Postal Rate Commission to determine how much of the Postal Service costs are a direct result of, or are caused by, the provision of postal services to a particular class of mail, and provides that that class of mail pay at a minimum for those costs. That system also envisions that the remainder of those costs, costs which the Congress in its judgment believes approximates 40% of total costs, will be apportioned among all classes of mail utilizing the various criteria set out in the Act and giving due consideration to whether or not the apportionment of that burden will have a serious effect upon the continued utility of that system to those mail users.

However, Mr. Chairman, we find once again that H.R. 7700 attaches a condition to this new rate making system, and that is that a special method for fixing rates will be adopted for fixing parcel post rates. Whereas first, second, third class, and special fourth class mail rates would be fixed on the basis of being required to recover all costs attributed to that class of mail because they vary with volume, parcel post is required to recover a proportionate share of all costs, irrespective of whether parcel service caused directly or indirectly, the incurrence of those costs. In other words, while decreeing a sensible and necessary rate making rationale for all other classes of mail, the legislation requires parcel post rates to be fixed on a fully allocated cost basis which would require the allocation of costs to parcel post in a way different than every other class of mail and in a way unrelated to the cause and effect relationship of those costs. Again, the inevitable result of this method of rate setting will be to cause enormous price increases in parcel post which would be largely visited upon the ordinary citizen. Members of our Association fail to understand how one rate making system is fair and equitable for fixing the rates for all other classes of mail, but that a very special and discriminatory system must be devised for the fixing of parcel post rates.

Finally, Mr. Chairman, our members were quite gratified that your legislation has a provision which would remove some of the archaic restrictions on the size and weight limits for parcel post.

The legislation proposes there be uniform maximum size and weight of 100" in girth and length combined with a maximum weight of 70 lbs., irrespective of the class of post office to or from which the parcel is shipped. We would prefer to see the maximum size raised to 108", rather than 100", since some of our members do have parcels within that size range, and the exclusion of those sized parcels creates extreme hardship and logistical difficulty for those members. Because parcels often referred to as balloon parcels may be substantial in size without weighing much, the legislation contains a provision that there

would be a minimum rate for parcels measuring over 84'' equivalent at least to the minimum rate for a 25 lb. parcel. This further condition in the legislation no doubt is derived from the recommendation of the Commission on Postal Service. However, we believe that it is extremely inadvisable for legislation to decree a particular rate level for a particular class of mail. After all it is for that very purpose that Congress has established a Postal Rate Commission. If there are added costs to the handling of lightweight oversized parcels, we believe that the Postal Rate Commission is perfectly capable of measuring those added costs and determining, after a hearing at which evidence is entered, what the appropriate minimum for such parcels should be.

We applaud the efforts of the Chairman and his colleagues to take serious action that will reverse the declining fortunes of the Postal Service and the harm and devastation that will ensue for citizens and businesses alike if this trend is not reversed. While the legislation deals with a number of minor provisions, many of which we believe are very helpful, the really important provisions of this legislation address the very large questions which deal with the future and the survival of the Postal Service. The legislation faces up to those problems in a very realistic and responsible way and makes legislative proposals which are quite properly the policy function of the Congress as the representatives of the people. We do not believe that it is the province of some official at the Office of Management and Budget who does not want to spend money to make a decision that we will no longer have a national postal system serving all the people. Nor do we believe that it is the province of a Postal Service or the Executive Branch to make a similar decision that postal rates will be priced beyond an acceptable level to the users of that system. We believe those decisions on levels of service and appropriate prices for those services is a decision that only the Congress can make on behalf of the American people.

EXHIBIT 1

PARCEL POST—UNITED PARCEL SERVICE VOLUMES: 1952–76

[Millions of pieces]

Year [1]	Parcel Post	United Parcel Service
1952	1,047	7
1953	1,043	11
1954	995	16
1955	948	24
1956	973	33
1957	976	44
1958	951	51
1959	857	64
1960	840	82
1961	800	99
1962	792	117
1963	789	148
1964	778	193
1965	742	244
1966	744	281
1967	725	327
1968	664	356
1969	644	449
1970	570	494
1971	536	547
1972	498	648
1973	475	732
1974	431	777
1975	400	880
1976	338	[2] 977

[1] Parcel post fiscal years. UPS calendar years.
[2] 12-mo period ending Sept. 30, 1976.

Mr. HANLEY. Our next witness is Mr. Stephen E. Kelly, president of Magazine Publishers Association. Mr. Kelly is accompanied by Mr. John Burzio as Washington counsel and Mr. Chapin Carpenter as Washington vice president.

Mr. KELLY. Thank you, Mr. Chairman.

I particularly wanted to appear in your hearing to once again thank you, Mr. Chairman, and your associates for your persistence in attacking this important problem to the Nation, maintaining communications.

Mr. HANLEY. We welcome you.

STATEMENT OF STEPHEN E. KELLY, PRESIDENT, MAGAZINE PUBLISHERS ASSOCIATION, ACCOMPANIED BY JOHN BURZIO, WASHINGTON COUNSEL; AND CHAPIN CARPENTER, WASHINGTON VICE PRESIDENT

Mr. KELLY. MPA is a trade association incorporated under the laws of the State of New York. Its membership consists primarily of consumer magazine publishers; it has 150 members who publish more than 500 magazines. These magazines account for 60 percent of the total audited magazine circulation reported by the Audit Bureau of Circulations and 80 percent of total magazine advertising revenues reported by the Publishers Information Bureau. MPA has both for-profit and nonprofit members. Its members use every subclass of second-class mail and controlled circulation for the distribution of their magazines to subscribers throughout the Nation. Its members use first-class mail primarily for business correspondence and billing, third-class mail for solicitation of new and renewal subscriptions, and special rate fourth class for the distribution, when applicable, of books and records. Its members also use, to varying degrees, almost all the other services—for example, address correction—provided by the U.S. Postal Service.

MPA welcomes this opportunity to comment on the provisions of H.R. 7700. MPA's comments are directed to those provisions of the bill which most directly affect its members.

CONGRESSIONAL VETO

MPA supports section 2, which provides for a congressional veto of Postal Rate Commission decisions. MPA would prefer, however, that Congress participate affirmatively, rather than negatively, in the ratemaking process. This could be achieved by making the Commission an advisory body to the Congress with its recommended decisions submitted to Congress for its consideration and approval.

Most of the current noncost ratemaking criteria and the new ones contained in H.R. 7700 require the exercise of judgment in areas related to broad social and public policy. Examples are the present criterion which requires the Commission to consider "the educational, cultural, scientific and informational value of the mail matter to the recipient" and the proposed criterion, "the benefit to the Nation generally of the kinds of mail matter entered into the postal system." Application of these criteria require value judgments more appropriately made by elected representatives in the Congress.

The Commission's decisions would provide the Congress with specific findings of fact, based on hearings on the record, and the reasoned analysis and expert opinion of the Commissioners on complex and technical issues related to cost methodology and allocation and the

application of appropriate pricing theories based on sound economic theory. Congress would have the benefit of independent and impartial opinions in these areas and could apply its own collective political judgment in assessing the broader noncost criteria.

If the Committee is not inclined at this time to participate affirmatively in the ratemaking process, MPA urges that section 2 be amended to provide for veto of Commission decisions by resolution of either House. This type of veto was contained in H.R. 17070, which was approved by this committee and the House in 1970; but it was stricken in conference. The schedules of the House and Senate do not parallel each other; their workloads vary. There may be times when careful consideration of a Commission decision cannot be given simply because of the press of other matters, even though one House should vigorously disagree with and pass a veto resolution of the decision. The judgment of one House should be sufficient to warrant veto of Commission decisions and thereby require further Commission consideration.

PUBLIC SERVICE APPROPRIATIONS

MPA supports a higher level of public service appropriations, as would be authorized by section 4(a). MPA suggests, however, that a 20-percent authorization would be more appropriate than the 15 percent in H.R. 7700. Even a 20-percent authorization would be lower than the costs of specific tangible services which the Commission on Postal Service and its contractors identified as genuinely related to public service. Twenty percent would be only slightly higher than the level of appropriations made annually prior to passage of the Postal Reorganization Act of 1970.

Greater public service appropriations are required to prevent higher rates from being imposed on mail senders, the majority of which do not need and do not want the variety of services provided primarily for the benefit of the mail recipient. Since reorganization rates have already been driven so high that mail volume has stagnated. Second-class regular rate volume has declined. It will continue to decline as rates increase further; second-class publishers are being driven, against their will, to alternate means of delivering their magazines in the private sector. The study Commission identified volume loss as the greatest problem confronting the Postal Service. An adequate public service appropriation would impede, if not halt, that volume loss. Spiralling postal costs cannot and will not continue to be paid for just by mail senders.

The study Commission also recommended a one-time, separate appropriation of $625 million to pay the remaining outstanding operating indebtedness of the Postal Service. This would restore the Postal Service to the equity position it had at its inception. This would relieve current and future mail users of the burden of paying off indebtedness incurred for the benefit of mail users in prior years. It is consistent with the amendment to section 3621 contained in section 3(a) of the bill, which would exclude past losses from the revenue requirement. Public utilities in the private sector are not permitted to charge current rate payers to retire operating debt. Neither should the Postal Service.

REVENUE REQUIREMENT

MPA supports the amendments to section 3621 contained in section 3(a) of the bill which (1) would limit the Postal Service contingency provision to 2 percent of estimated operating expenses and (2) would exclude repayment of past losses from the revenue requirement.

The study Commission examined these issues and came to the same conclusions as the sponsors of H.R. 7700. With respect to the contingency provision, its report stated:

> The Postal Service should be allowed a reasonable amount for contingencies, but the amount should not be a cushion to absorb increased expenses resulting from inadequate management controls or poor estimates of revenues and expenses. * * * A 2-percent rate, to pay only for unforeseeable and uncontrollable expenses, will require the Postal Service to exercise good mangement to control costs and to analyze sources of revenues and expenditures more carefully. (At page 70.)

With respect to repayment of past losses, the report stated:

> The Commission recommends that recovery of prior year losses be prohibited for the following reasons:
>
> (1) The proper actions to prevent losses are to insure that rate increases are requested and implemented when needed, and for management to live within its budget.
>
> (2) Additional revenues resulting from the recovery of prior year losses have not been used to repay operating debt, nor are they being set aside in a sinking fund for this purpose. Instead, they are being used for operating purposes. The additional revenues thus take the form of an additional financial cushion reducing the pressures on postal management to control costs.
>
> The principle of recovering prior year losses through future rate increases is unsound and inequitable and should be expressly prohibited by statute. (At page 71.)

RATEMAKING CRITERIA

MPA supports the amendments to section 3622 contained in section 3(b) of the bill. These amendments to the ratemaking criteria of the act are required to affirm Congress original intent and thereby to prevent the adverse consequences that will follow upon application of the recent court of appeals decision to the ratemaking process. The study Commission specifically recognized the danger of volume losses in second-, third-, and fourth-class mail that would be caused by application of the court decision. The threat that the Postal Service will become prohibitively expensive for second-class publishers is of great concern to MPA.

Although it may be possible to interpret the language of the court decision in a way to prevent inordinately high allocations of costs on divertible classes of mail, it seems clear that the court looked with great favor on the approach of the Postal Rate Commission's Chief Administrative Law Judge. Application of that approach to postal ratemaking will, over time, lead to second-class rate increases so high that a substantial volume of newspapers and magazines will either be diverted to the private sector for delivery or simply cease to exist due to declines in circulation.

The cost per piece for the average second-class regular rate publication will be 317 percent greater in July 1979 than it was in 1971. The increase would have been much more than that, if the cost approach

suggested by the court had been applied. MPA estimates, conservatively, that this approach would have increased second-class regular rates by another $200 million over what the Postal Rate Commission recommended in the last rate case, based on fiscal 1976 costs. This higher second-class rate would be 495 percent greater on a cents per piece basis, than the average second-class regular rate postage paid in 1971.

MPA, therefore, supports the changes in ratemaking criteria contained in section 3(b). Those changes would limit to 60 percent the allocation of postal costs based solely on cost and accounting techniques. The remaining 40 percent would be allocated among the classes of mail based on market demand and public policy considerations. These changes would explicitly write into the statute what MPA believes the Congress originally intended when it passed the Postal Reorganization Act. The choice of a cost methodology is a matter of basic public policy which the Congress should determine. It is too important to be left for the courts to decide.

MAIL CLASSIFICATION

MPA urges the committee to amend H.R. 7700 to include the study commission's recommended amendments to section 3623 of the act, which concerns mail classification. In addition to modifying the criteria that must be considered in making mail classification decisions, the amendments would preserve by statute the existing major classes of mail.

In support of this recommendation the report of the study commission stated:

> We recommend that Congress intervene to the extent of guaranteeing the preservation of those classes of mail which have characterized the postal system for at least a century and a half.
>
> In view of Congress' continued interest in preserving the concept of social values in the classification of mail, a view with which this Commission unanimously and strongly agrees, Congress should enact legislation requiring the continuance of the four historic classes of mail—letters, newspapers and other periodicals, printed matter and miscellaneous matter, and parcels. From that starting point, the Commission may make significant modifications that will improve the classification system, but the Commission should not be permitted to abolish the four basic classes. (At page 67.)

CONCLUSION

The new rate increases proposed by the Postal Service just last week add to the need for prompt consideration and approval of the amendments to the act discussed above. For second-class regular rate the average increase is 29 percent, among the largest for any major mail user group. The increase will fall especially hard on publishers of small circulation magazines who do not have the volume or density of distribution to qualify for the discount 5-digit rate proposed by the Postal Service. The Postal Service's attempt to comply with the court of appeals decision results in an unfair and inordinately high amount of "service-related costs" being "reasonably assigned" to second-class regular rate. There is no time to wait for the judicial process to correct the error of the court of appeals. Congressional action is needed now.

We thank you for permitting us to present this statement. Again, we repeat, we do commend your activity in attempting to solve this most difficult problem.

Thank you, Mr. Chairman.

Mr. HANLEY. Thank you very much, Mr. Kelly, for your very excellent presentation.

With regard to your reference to the public service appropriation, of course, one of the problems we had is identification of the components of public service. You recommend the increase to 20 percent. Can you tell us what you feel these moneys should be used for?

Mr. KELLY. Well, I recall, Mr. Chairman, that even before the act came into being on August 12, 1970, it was presented as even higher than 20 percent.

As to the uses of this additional spread from your 15 to 20, I will ask counsel to comment.

Mr. BURZIO. Mr. Chairman, I would refer you to the report of the study commission in which it enumerated a number of specific services provided by the Postal Service demanded and needed by the recipients of mail rather than the senders. Both that commission, and earlier staff studies by the Postal Service itself, put a price tag in excess of 20 percent of the current cost of operating the Postal Service. Using that test, whether the particular service is one that is needed and provides a benefit to the recipient rather than the sender, you can identify the specific service and the cost.

Mr. HANLEY. What is your personal opinion or the impact of the court of appeals decision on the first-class rate?

Mr. BURZIO. I think inevitably, Mr. Chairman, there will be an adverse impact on first-class rates for the reasons Mr. May gave earlier. I can hardly improve upon the answer he gave, nor can I improve upon the findings and conclusions and reasons given by the study commission. There I would refer you to the chapter in which they identify volume loss as the most serious problem facing the Postal Service. They made a finding, and I believe it's true, that as volume leaves the service, a corresponding amount of costs will not. There's a large amount of Postal Service costs that are fixed in nature, and they will remain in the system regardless of volume. As second-class and fourth-class volumes leave the system, the remaining costs have to be spread somewhere, and the bulk of those costs will be spread to first class.

Mr. HANLEY. We are, of course, appreciative of your support of H.R. 7700.

Specifically, you don't have any reservations about the provision whereas the Postmaster General and Deputy Postmaster General would be appointed by the President, and passage of the legislation also would require abolishment of the Board of Governors. You're in support of that.

Mr. KELLY. We certainly are. We support your bill and the intent of your bill. As I recall, your initial press release called for much more involvement and a greater voice, I think is the phrase you used, in the Postal Service, both Presidential and congressional. That intent we certainly support.

Mr. HANLEY. Thank you.

Mr. Solarz.

Mr. SOLARZ. Thank you, Mr. Chairman.

Could you give the committee any figures on the number of magazines which are currently being published in the country compared to the number that were being published, say, 10 years ago?

Mr. KELLY. This is a very difficult figure, not dodging the question. It's very difficult to keep score. Magazines run the gamut; it could be a local fraternal letter or a national distribution of some 20 million. That sweeping figure has sometimes been as high as 9,700. As far as the difference between now and 10 years ago, I don't have that figure with me.

Mr. SOLARZ. Is it your impression that there are more magazines now or fewer magazines today than there were a decade ago?

Mr. KELLY. Well, there are more in terms of magazines of special interest, for example, many more, as our interests in this country expand. You now find highly specialized interest magazines. On that basis I would have to say, yes, there are more, but nothing like a Life or Look.

Mr. SOLARZ. Do you have any figures on the number of magazines that have gone out of circulation in the last decade.

Mr. KELLY. Well, we have certainly had some big ones like Life, Look, and Saturday Evening Post within the last decade.

Mr. CARPENTER. I would like to add one thing, Congressman. In 1974, a study was done of new magazine titles that has been started over the preceding 5-year period. The study showed that for every 10 magazines that had started the previous period, that 7 of them were out of business. In other words, a lot of them started out as new products.

Mr. SOLARZ. Out of every 10, 7 went out of business?

Mr. CARPENTER. Over that period of time. We submitted that to the Postal Rate Commission as part of our testimony in a rate case.

Mr. SOLARZ. Do you have any information on the extent to which these magazines went out of business because of the postage rates they had to pay? Was that a contributing factor?

Mr. KELLY. It certainly was, Congressman, and was announced by the management of certainly Life magazine when it ceased publication. When they announced the decision of Look, it was one of the three major reasons for going out of business.

Mr. SOLARZ. Do you have any figures on the extent to which postal rates constitute percentage of the average cost of publishing magazines these days?

Mr. KELLY. Yes; it's escalated obviously since the Reorganization Act has been in effect. It is now currently running about 8 percent. Looking down the road to 1980, we will be paying something like 12 to 14 percent of our total expenses.

Mr. SOLARZ. If the projected rates continue going up?

Mr. KELLY. Yes.

Mr. SOLARZ. Would you assume that that would result in a number of magazines going out of circulation?

Mr. KELLY. Well, it's very difficult to assume that. After all, we are businessmen. We try to make adjustments where possible. When you have any fixed cost and no other place to go for any service, you have to make adjustments. I think before assuming the magazines will

go out of business; there are all sorts of curtailments that go on.

Mr. SOLARZ. Your association represents small as well as large magazine publishers?

Mr. KELLY. Yes; we run the total gamut—12,000 to 20 million plus.

Mr. SOLARZ. Everything from Playboy to New Republic.

Mr. KELLY. Playboy is not in our group; New Republic is.

Mr. SOLARZ. What would you think of a provision, that with respect to the first 250,000 copies of a magazine sent through the mail, that the rate which was determined for those magazines would have to be based on nothing more than the attributable cost of sending them out, thereby preventing, with respect to the first quarter of a million copies, the Rate Commission from adding a share of the institutional costs of the Postal Service to the rate for those magazines as a way of making things easier for small magazines of the country?

Mr. KELLY. It's been discussed over several years; it's almost into this bill. It would be very acceptable.

Mr. SOLARZ. You wouldn't have any objections.

Mr. KELLY. No.

Mr. SOLARZ. Would that provide an inducement in your judgment for people to start publishing new magazines?

Mr. KELLY. Certainly.

Mr. SOLARZ. Would you expect it to result in the publication of more magazines than would otherwise have been the case?

Mr. KELLY. I would only hope so.

Mr. SOLARZ. My only feeling is magazines contribute to the cultural, intellectual, and political life of this country. I think we have a significant public interest to protect in encouraging magazine publication for the dissemination of ideas.

Thank you, Mr. Chairman.

Mr. HANLEY. Thank you, Mr. Solarz.

Mr. Kelly, what would the impact on the industry have been had S. 411 not been enacted into law and funded as of this point? Do you feel that a number of publications might have ceased to exist?

Mr. KELLY. Absolutely, Mr. Chairman, unequivocally that was a great salvation and gave us a chance to do the kind of business we are in; we don't change our prices overnight because we cannot change our prices. We have contracts with the publishers. It has been a tremendous help. I can hardly overstate that.

Mr. HANLEY. Back in 1970 when all of this was in the think tank, did the industry have a conception as to what the impact of enactment of that bill would be insofar as rates were concerned?

Mr. KELLY. I think, Mr. Chairman, as you read our testimony—in fact, I recall being with an official of the soon to be USPS. After we gave our testimony he said, were you for this bill or against this bill, because we had various areas of concern. There were four principal areas of concern we came down hard on. There was real concern. We went back and looked at our testimony; unfortunately, it was really quite prophetic.

Gentlemen, we have no further questions. Once again, we want to express our appreciation to you for your appearance here this morning and for your support of H.R. 7700.

Mr. KELLY. Thank you.

Mr. HANLEY. Our next witness is Ms. Amelia Grinstead, National Board of Directors of the Girl Scouts of America.

Ms. Grinstead, we are delighted to have you with us. For the record, would you introduce your associate.

Ms. GRINSTEAD. Yes. I am accompanied by Jack Fry, who is the publisher for the Girl Scout magazines.

Mr. HANLEY. Fine, we are delighted to have you with us.

Mr. FRY. Thank you, Mr. Chairman.

STATEMENT OF AMELIA GRINSTEAD, NATIONAL BOARD OF DIRECTORS, GIRL SCOUTS OF AMERICA, ACCOMPANIED BY JACK FRY, PUBLISHER

Ms. GRINSTEAD. Mr. Chairman, my name is Amelia Grinstead. I am assistant secretary and a member of the National Board of Directors of Girl Scouts of the U.S.A. Girl Scouts of the U.S.A. appreciates this opportunity to appear before the Subcommittee on Postal Operations and Services to present our views on postal matters.

Girl Scouts of the U.S.A., which serves 2.6 million girls in the United States ages 6 to 17 years, under the leadership of 537,000 adults, is dedicated to the purpose of inspiring girls with the highest ideals of character, conduct, patriotism and service, that they may become happy and resourceful citizens. The constitution of the Girl Scouts of the U.S.A. embodies the principles of service to God, country, and mankind. The program is carried out in small groups with adult leadership and provides a wide range of activities developed around the interests and needs of girls.

We have depended on the U.S. Postal Service as a primary delivery system of the Girl Scout program and in the administration of the organization. Girl Scouts of the U.S.A. and the 349 councils across the Nation are heavy users of all classes of mail.

In 1970 the total postage bill for Girl Scouts of the U.S.A. and its councils was $600,000. In 1977 the estimated cost will be $1,200,000. This 100-percent increase is completely the result of increased postal rates; in fact, volume of mail has declined over this period. We live in ever-present danger of even higher postal rates if Congress should fail to appropriate postal service funds for revenues foregone, as provided in Public Law 93–328. Under the current phasing schedules we estimate that total postal costs of Girl Scouts of the U.S.A. will escalate to $4 million by 1987, calculated at today's volume levels.

Girl Scouts of the U.S.A. is dependent on dues for its major sources of revenue. In order to make Girl Scouting available to all girls regardless of ethnic or economic background and to recruit and retain a maximum membership, Girl Scouts of the U.S.A. has kept the membership dues at $2 per year since 1969. Any change in the dues must be enacted by the National Council of Girl Scouts.

Individual Girl Scout Councils, however, are dependent on community and federated fund groups for the bulk of their operating funds. Although community and federated fund sources have increased, they have failed to match the rate of inflation. It is unlikely that these revenue sources will keep pace with the increases in postal rates scheduled for the next 10 years.

We face a bleak future of escalating postal rates which could result in having to curtail our services to girls and the community, unless Congress acts to hold the line on rate increases for educational and social institutions like Girl Scouts of the U.S.A. operating in the public service.

Historically, Congress has ruled that services performed by the Postal Service that provide public benefits should be subsidized by appropriations of general tax revenues. We believe that Congress, not the Postal Rate Commission, should decide to what degree institutions in the public service should be subsidized through preferred postal rates.

With regard to H.R. 7700, we believe that in addition to congressional veto power over postal rate increases, the Congress should direct exactly how the proposed increase in authorization of appropriations to the Postal Service should be applied to the various elements of postal service. This distribution should not be delegated to the Postal Rate Commision without specific direction from Congress.

We respectfully request that Congress consider the educational and social benefit derived by the country from organizations such as Girl Scouts of the U.S.A., and direct that such organizations continue to receive preferred subclasses of mail services. This preference should be subsidized by means of a public service appropriation of general tax revenues.

If such consideration is not granted, it is almost assured that the public benefits of girl scouting will be diminished in the United States as a result of sharply escalating postal rates.

We thank this subcommittee for the opportunity to present our views.

Mr. HANLEY. Thank you very much for your excellent testimony. I think your presentation is a classic example of what some of us on this committee have been trying to express for a long, long time with respect to the cultural importance associated with the concept of reasonable rates for the various classes of the mail. Your organization is especially to be commended in that area of postal rates alone. Your overhead has doubled since 1970, yet in essentially the same time since 1969 you have kept your membership dues the same, $2 per year. You have got to be a set of magicians.

Ms. GRINSTEAD. It has not been an easy task. Again, as I stated in the testimony, we have felt it was important to make the organization accessible to all girls, and this we think has been a way of doing that, to maintain our membership dues at a nominal level. We are unsure as to how long we can continue at this level, with our expenses, including the postal rates we pay as well, with the general inflation continuing to rise and having an impact on the organization.

Mr. HANLEY. Well, if you intend to make it available to all girls, it's our intent on this committee to assure the American public that they will enjoy a continuing flow of printed material regardless of what step on the economic or social ladder they sit.

I want to commend you for what you do. I don't know that I have any questions. I do want to say this to you: contained in this measure is the authorization process which will have the effect of providing insight for the Congress into the Postal Service budget, and, if necessary, direction with regard to how these moneys are to be spent.

Ms. GRINSTEAD. Does this presently include any percent guideline insofar as the nonprofit preferred rates are concerned?

Mr. HANLEY. That will all be taken under consideration.

Ms. GRINSTEAD. This is our main concern, that No. 1, the appropriations continue to be made by the Congress and certainly at least the present 15-percent level. Of course, knowing the inflationary impact throughout our economy, I think that the Congress ought to maintain the higher percentage for appropriations. Further, that there be some direction so once appropriations are made available, their distributions especially as it impacts the nonprofit area also be maintained.

Mr. HANLEY. Well, the authorization process that we have envisioned resulting from passage of this bill will provide Congress with the opportunity to keep its finger on the pulse of how these moneys are being spent. If in the judgment of the committee they are not being spent appropriately, then we will take appropriate action.

Mr. Solarz.

Mr. SOLARZ. Thank you, Mr. Chairman.

I only have one or two questions. I first want to indicate what a superb job the witness has done, and what a significant contribution the Girl Scouts have made to literally millions of women in our country. I certainly think we ought to do everything we can to encourage fine organizations like this to continue their important work.

How large is the circulation of your Girl Scout magazine?

Ms. GRINSTEAD. There are actually three publications Girl Scouts of the U.S.A. publishes, the largest of which is the American Girl. I believe that that is——

Mr. FRY. Six hundred thousand.

Ms. GRINSTEAD. It reaches almost 2 million girls. We also have a magazine for leaders, for the adult structure of the scouts. I will ask Mr. Fry to give you the figure.

Mr. FRY. That is 537,000.

Ms. GRINSTEAD. Then the newest publication, the Daisy Magazine, which is for the younger ages, the Brownie and junior age girls. Our circulation is 150,000, but it's only 3 years old and growing.

Mr. SOLARZ. I gather that you would be sympathetic to the amendment to the bill that I referred to earlier which would result with a reduced rate, as it were, for the first 250,000 copies of the magazine sent through the mail.

Mr. FRY. Yes, I think we could support that wholeheartedly.

Mr. SOLARZ. That's very courageous of you.

Ms. GRINSTEAD. Of course, we hope that the new magazine will pick up and grow in circulation, because this is a major segment of our membership. We feel it's an important adjunct.

Mr. SOLARZ. Your magazines are sent out under second class.

Mr. FRY. We are under second-class preferred.

Mr. SOLARZ. Would you endorse the concept of an item veto for the Congress over postal rates recommended by the Rate Commission?

Mr. FRY. If that's directed to me, yes; I would. This is basically what we are talking about. The chairman referred to the components of public service. We feel that these are clearly the jurisdiction of the Congress and should not become a part of the ratemaking process. If you had an item veto, you could, in fact, detect if you felt that any

particular element of public service was being discriminated against. That's what we really mean by suggesting that Congress ought to have direct authority over how the appropriation would be distributed.

Mr. SOLARZ. Do you see any difference by giving the Congress the right to affirmatively enact postal rates on the one hand, which used to be the situation that prevailed prior to the Postal Reorganization Act, on the one hand, and giving the Congress the right to item-veto rate recommendations of the Postal Rate Commission, on the other?

Mr. FRY. I think it is a matter of practicality. The system whereby the Rate Commission performs the rate and veto power of Congress would be the best method.

Mr. SOLARZ. I think so, too. I would like to know why.

Mr. FRY. I think here in the very area of appropriations whereby the Girl Scouts of the U.S.A. are given their preference. If the Rate Commission decided that the preference should be reduced or done away with toward the purpose of supporting some other public service, then I think it's up to Congress to decide how that appropriation should be fairly distributed among all of the public services within the Postal Service.

Mr. SOLARZ. Thank you very much, Mr. Chairman.

Mr. HANLEY. Thank you, Mr. Solarz.

Ms. Grinstead, I want to express our appreciation on behalf of the committee for your appearance here this morning. As I said, your testimony provides the committee with a classic example of what many of us have been talking about for a long time.

Just one concluding question: was S. 411, which I'm sure you're familiar with, beneficial to your publication?

Mr. FRY. Yes, I can say that without it, I doubt very much if there would be three Girl Scout magazines today. As you know, S. 411 extended the Reorganization Act for organizations like ours for second class from 8 years to 16 years. This gave us a very good respite to adjust our economic situation.

Mr. HANLEY. Thank you very much again for your presentation.

Ms. GRINSTEAD. Thank you very much, Mr. Chairman. Thank you also for your kind comments about the Girl Scouts. We appreciate that.

Mr. HANLEY. It's from the heart.

Our next witness this morning is Mr. James R. Cregan, general counsel for the National Newspaper Association.

Mr. Cregan, it's a pleasure to have you with us. For the record, would you introduce your associate.

STATEMENT OF JAMES R. CREGAN, GENERAL COUNSEL, NATIONAL NEWSPAPER ASSOCIATION, ACCOMPANIED BY PATRICIA GALLAGHER, STAFF ATTORNEY

Mr. CREGAN. With me is Patricia Gallagher, who is staff attorney for the National Newspaper Association.

Mr. HANLEY. Ms. Gallagher, we are delighted to have you with us.

Ms. GALLAGHER. Thank you, Mr. Chairman.

Mr. CREGAN. My name is James R. Cregan. I am general counsel of the National Newspaper Association, an organization of some 900

smaller-city daily and 5,500 weekly newspapers with members in each of the 50 States, the District of Columbia, Guam, and the Virgin Islands.

We speak today also on behalf of the American Newspaper Publishers Association, a trade association of newspapers whose more than 1,240 members represent more than 90 percent of the daily and Sunday newspaper circulation in the United States.

At the outset, we wish to commend, and thank, the distinguished chairman of this subcommittee, and the distinguished chairman of the Subcommittee on Postal Personnel and Modernization, for their forthright and courageous leadership in confronting one of the most critical—and difficult—problems facing America today: the future of the Nation's postal system. We are confident that this leadership will result in meaningful postal reform legislation in consonance with the needs of the Nation as a whole.

We believe H.R. 7700 is the foundation upon which a viable postal service can and should be built. We wholeheartedly endorse the spirit and philosophy of the bill, and, with only a few reservations, we support its letter.

In commenting on H.R. 7700, we would like to focus, from our perspective, on the several points which we consider essential to any potentially successful plan for postal reform. As we will see all of these points, in principle, are recognized by and embodied in this bill.

THE POSTAL SERVICE IS A PUBLIC SERVICE

Any potentially successful proposal for change must be grounded upon the recognition of one fundamental principle: The Postal Service is a public service. All else flows from this. Any plan not founded upon this principle is doomed to failure.

The key to H.R. 7700 is that it is founded upon this principle. It is premised upon the Postal Service being a service to the American people.

The fundamental weakness of the Postal Reorganization Act, and the Postal Service by the statute. On the one hand, the Postal Service is required to be an efficient, essentially self-supporting enterprise on the model of a private-sector corporation. On the other, the same Postal Service, in accordance with 39 U.S.C. 101(a), is to be "operated as a basic and fundamental service" to the American people. It should be obvious to all by now that the Postal Service cannot successfully attain both goals.

Six years of experience have clearly demonstrated that the Postal Service cannot carry out its mandate. It simply cannot be both a public service and a self-supporting corporation. Plainly, it is not efficient business practice to deliver mail to the North Slope of Alaska or to the Indians living at the bottom of the Grand Canyon. Such practices are a public service. They are an essential part of, in the words of 36 U.S.C. 101(a), "binding the Nation together."

One illustrative result of this statutory conflict is the Postal Service's systematic closing of post offices in small towns and rural communities. It is considered "inefficient" to maintain these post offices, which traditionally have served as the tangible symbol of our Nation in those areas, aside from providing the local residents with valued and neces-

sary services. For many communities, to close their post offices is to destroy their identity. Strictly speaking, the maintenance of small rural post offices may not be "good business." But it is good government. It is, in the truest sense of the term, a "public service."

A like point may be made concerning uniform 6-day delivery. No self-supporting private enterprise would provide such service. The Postal Service evidently has come to recognize this fact, and has ready a plan to eliminate Saturday service, and is actively studying a 3-day delivery scheme. We will comment in depth on this point later.

The decision to close rural post offices and the plan to slash deliveries are but two of an increasing number of such "economy" measures being taken by a Postal Service which has determined it has no choice but to sacrifice its public service mandate upon the altar of "efficient business practice."

We feel particularly qualified to comment on a specific and critically important aspect of the "public service" issue—that is, the historically crucial role played by the mails in the development of our Nation and the maintenance of our delicately balanced social, economic, and political systems. That role, quite simply, has been and continues to be, to serve as a conduit for the news and information the citizens of a self-governing, economically free nation must have.

Postal policy toward the press, since the inception of our Nation, has been based upon the principle that the flow of news and information to and among the American people is to be enhanced and encouraged.

The Postal Act of 1792 provided for free delivery of newspapers between printers and a 1-cent fee for newspapers carried more than 100 miles. A congressional committee at that time, in providing for the low rates, declared:

> Circulation of political intelligence is * * * justly reckoned among the surest means of preventing the degeneracy of a free government.

President Washington agreed, calling the wide circulation of knowledge, "the security of a free constitution." He argued for "the conveyance of newspapers and periodical publications in the public vehicles without expense." President Washington actually asked for a repeal of the 1-cent fee provided for in the Postal Act of 1792.

These low rates were a significant factor in the growth of a free press in this country. In the first 30 years of the 19th century, the number of newspapers increased from 200 to 1,200.

Congress continued to recognize both the importance of the postal service to the press and the importance of the press to the Nation. The Postal Act of 1845 provided for free in-county mailing of newspapers and for low rates for out-of-county mailings.

In designing the Postal Reorganization Act of 1970, Congress did not ignore history, and did not reject the wisdom of two centuries—despite the U.S. Court of Appeals' contrary interpretation of the act last December, to be discussed below. Encouragement of the broad dissemination of information and "intelligence" has been and should remain part of the foundation of our postal system—part of the "binding together of the Nation."

Acceptance of the Postal Service as a public service naturally leads to a recognition of what are, to us, the three fundamental, interrelated

issues upon which hangs the future of this vital institution. To a discussion of these issues we now turn.

THE NEED FOR APPROPRIATIONS

The acceptance of the Postal Service as a public service does not necessarily mean its acceptance as a totally tax-supported service, such as national defense. Nor does it mean total abdication of the principles and practices of sound, professional business management. It does mean the acceptance of the need for permanent public service appropriations in accordance with a rational scheme which will guarantee a measure of stability and predictability for all concerned—the Congress, the Postal Service, and the mail-using public.

H.R. 7700 wisely recognizes this fact. As called for by section 4(a) of the bill, the level of appropriations should be increased, and the level should be keyed to a percentage of the prior fiscal year's operating expenses. We would prefer to see his provision made a permanent part of the Nation's postal law, rather than be limited to 2 years. If this period is viewed as a "trial," however, we are confident that all concerned will, as a result, perceive the wisdom of this concept, and renew it for the years after 1980.

As to the actual amount of appropriations, we continue to adhere to the position we have long espoused: That the level of public appropriations should be set at 20 percent of the prior year's operating expenses. At a time when countless billions of dollars are either being appropriated or foregone for a plethora of specialized programs, it is hardly unreasonable to have a level of 20 percent public appropriations for a service which, in a truly unique and personal way, touches the life of every American.

The Postal Service itself has estimated its public service costs to be approximately 20 percent of total expenditures. And it should be remembered that, whenever the Postal Service moves to slash expenditures, public service is the first target—witness 6-day delivery and small post offices.

RATES AND SERVICES

Postal rates and services must reflect the public service character of the mail system. We believe that the mails should be accessible to all. The system must serve as a wide variety of users and purposes, providing adequate service at reasonable cost to all. It is in the interest of each class of user—the public interest—that the volume of all classes be maximized.

The setting of postal rates cannot be analogized to the setting of interstate gas rates or airline freight rates. The consideration of postal ratemaking and mail classification are so intertwined with considerations of public policy as to be inseparable. Rates have always been determined in accordance with roughly equal consideration of cost factors and public policy and market judgments.

This traditional and public-spirited methodology was obliterated on December 28, 1976, by a momentous decision of the U.S. Court of Appeals here in Washington.

In its decision, the court in effect ruled out of the postal ratemaking all considerations of public policy and public service. The court

read and interpreted the nine ratemaking factors contained in title 39 of the United States Code in such a way as to render meaningless all but one: The "requirement" that each class of mail bear its attributable costs. The court has now directed that postal rates be set to the greatest degree possible in accordance with strict cost accounting techniques. Effectively read out of the statute were the other 8 statutory factors, which we feel show Congress did not intend postal ratemaking to be insulated from considerations of public service and public policy.

The impact of this ruling on the costs of using the mails is staggering. The portent of the ruling is particularly overwhelming for our members, America's newspapers.

The impact on newspapers is illustrated by the following chart excerpted from the NNA–ANPA brief on exceptions filed with the Postal Rate Commission after the administrative law judge's decision in the rate case which was the subject of the court's ruling (Docket R–74–1). If the law judge's recommended rates had been adopted, the increases in postage costs for a sampling of 10 newspapers would have been as follows:

TOTAL 2-CLASS POSTAGE COSTS

	1974	Projected at judge's rates	Percent increase
Burlington (Vt.) Free Press	$120,000	$366,000	205
Salina (Kans.) Journal	121,857	367,144	201
Cheyenne (Wyo.) Eagle & State Tribune	16,500	51,450	212
Greenville (S.C.) News & Piedmont	121,700	377,812	210
Watertown (S. Dak.) Public Opinion	77,750	229,118	195
Williamsport (Pa.) Grit	1,350,000	3,800,000	181
Grand Forks (N. Dak.) Herald	105,421	310,000	194
Howard Co. (Md.) Columbia	12,302	59,667	385
Sikesville (Md.) Herald	1,438	8,135	478
Essex (Md.) Times	1,143	7,388	546

The court of appeals made it clear in its decision that it believes, at the very least, these rate increases should have been adopted.

To further underscore the urgency of the situation, it should be noted that the court of appeals now has pending before it a decision on whether to order the most recently decided rate case—Docket R–76–1—reconvened and redecided immediately in accordance with its interpretation of the statutory requirements of postal ratemaking. This decision could be issued at any time.

Aside from its devastation of second-class mail, the court's ruling, if not overturned, will result in disaster for all classes of mail, for all users, and for the postal system and Nation as a whole.

Those who advocate the court-approved ratemaking methodology on behalf of first-class mailers are, we believe, extremely short-sighted. If rates for second, third, and fourth class rise as precipitously as the court would have them rise, every mailer in these classes who possibly could do so would leave the mails quickly as possible. As the volume of these classes decline, first class will be left with more and more of the cost burden—to the benefit of no one, except perhaps the operators of private delivery systems. What will be left is a total perversion of the two-centuries-old philosophy of the American postal

system: That the system is a unique, living institution which serves the Nation and its complex needs—personal, social, political, and economic—in many and varied ways.

The impact will be particularly poignant, we feel, for those very special institutions, small newspapers serving rural populations. Located in geographically dispersed areas—where homes are often many miles apart—subscribers are heavily reliant upon the mail for delivery of the vital news and information carried by these newspapers. Private carrier delivery of newspapers in these areas has always been considered unfeasible. But with the calamitous rate increases which would be brought on by the court's decision, even these newspapers would have to seek alternate means of delivery—with grim consequences for the newspapers which fail, and their subscribers.

For these reasons, we wholeheartedly support the ratemaking criteria set forth by section 3 of H.R. 7700.

We believe the bill's approach—"capping" attributable costs at 60 percent—is a sound and workable solution to the problems we have outlined here. We support it in the interest of America's newspapers—and in the interest of the Nation as a whole.

PUBLIC ACCOUNTABILITY

A public service institution must be publicly accountable. We believe that the present postal structure—the Postal Service and the Postal Rate Commission—is far too insulated from consideration of the public will and public policy, and from the embodiments of the public will and public policy: The Congress and the President.

Because, as we have said, postal policy is so intertwined with public policy as to be inseparable, we believe that Congress and the President must assert stronger control over postal policy.

A strong argument can be made in favor of a return to complete Congressional control over the Postal Service. Realistically, however, this is not an option, and we do not advocate it here.

We do strongly believe, however, that the Congress should have at least a strong oversight function over all postal operations, and should have meaningful veto authority over all rate and classification decisions of the Postal Rate Commission.

6-DAY DELIVERY OF MAIL IS A PUBLIC SERVICE WHICH MUST BE CONTINUED

As we all know, the Postal Service intends to eliminate Saturday delivery of mail by January of next year. The Postal Service for at least the past 2 years has made no secret of its desire to eliminate Saturday delivery, and has let it be known that even a 3-day delivery scheme is under active study.

As we mentioned earlier, such a plan may be justifiable in terms of hard, cold business judgments, but is not justifiable in terms of public service and public policy.

We fear the Postal Service's view may suffer from too narrow a perspective on this issue. Although Saturday may be a "'down day" in metropolitan areas, especially on the east and west coasts, it is

merely another day of the week in the other regions of the Nation, especially rural agricultural communities.

Newspapers, especially newspapers serving nonmetropolitan regions, are acutely sensitive to the possibility of the elimination of Saturday delivery. As we have pointed out, these newspapers and their subscribers are heavily and uniquely reliant upon the mail for delivery.

Here is a brief sampling of comments we have received from our members on the prospect of ending Saturday delivery:

Rural America relies on 6-day mail service and the daily newspaper is vital to the business decisions made by our country's farmers. If Saturday deliveries are eliminated our farmers will not receive adequate marketing information, weather forecasts, and other news items necessary for successful farming . . . a farm business man would not have this information from Thursday market closings until Tuesday. The Forum, Fargo-Moorhead (ND).

The primary purposes of the Postal Service are exactly those expressed in its title: service. Consider the impact elimination of Saturday delivery would have on postal patrons, small communities such as ours, and newspapers such as this who have the strange notion that the community newspaper and the U.S. Postal Service should be partners—not opponents—in meeting the needs of communities the nation over. The Bainbridge (GA) Post-Searchlight, Inc.

Our Friday paper would be a complete loss to our advertisers and our subscribers. . . Surely a Friday paper delivered on Monday has lost all news value and reader interest. . . Bucyrus (OH) Telegraph-Forum.

Such action would seriously hamper the dissemination of news to the citizens of our country by the thousands of daily and weekly newspapers in the U.S.A. which are published on Friday. Murray (KY) Ledger and Times.

I would like to point out a major consequence of not having Saturday delivery in rural areas, which of course makes up the greater portion of the United States. In our area, here in eastern Ohio, many communities are effectively barred postal communication from noon on Saturday until noon on Monday. The reason this is so is that people on rural routes who may receive or send mail on Saturday afternoon must await until Monday noon to again send or receive mail. This two day period represents 28 percent of the week. If we discontinue Saturday service, it therefore means that rural families will have to go from Friday noon until Monday noon which now becomes 43 percent of the week. Cadiz (OH) Harrison News-Herald.

With the increasing costs of mail we should be getting more service, not less. Dayton (WA) Chronicle.

The elimination of Saturday delivery when we have a federal holiday on the following Monday would be an extreme hardship on small weekly newspapers. The gap would be from Friday morning until Tuesday morning. Schoonmaker Publishers, (OK) Sentinel.

This would not only involve a castrophic economic impact on our business, but would also mean the postal service would lose yet another source of income. Middlesboro (KY) Daily news.

The bulk of our readers and advertisers would find an end to Saturday's delivery of the Friday paper by mail would create an intolerable burden. West Plains (MO) Daily Quill.

We would not only be placed in an unfair competitive position with regard to the daily newspapers in being able to solicit weekend advertising, but are also seriously concerned about the effect on Mom and Pop merchants who depend on reaching customers through the community newspaper, Lerner Newspapers, Chicago (IL).

Our printer's schedule also would be affected (we use a central plant). Thursday is already a heavily scheduled printing day. Fayette (MO) Democrat-Leader.

It is obvious that Saturday delivery cannot be discontinued without striking a severe blow at a large and vitally important portion of America.

We are deeply gratified that section 4 of H.R. 7700 provides for the continuation of 6-day delivery as a public service. We suggest only that the language of the proposed statutory section 2401(b)(3) be

tightened so that the intent of the Congress on this issue is unmistakably clear. The section, we respectfully urge, should read: "(3) Expenditures which shall be made by the Postal Service from funds appropriated under paragraph (1) of this subsection shall include expenditures for * * * (c) the continuation of the frequency of mail delivery service in effect on June 1, 1977."

One of the public services performed by the Postal Service is 6-day delivery which is identified by the Commission on Postal Service in its report. It is a vital public service which should be continued—and which can be continued with the enactment of the increase in public service appropriations for which H.R. 7700 provides, so as to insure adequate levels of essential services for all Americans.

On behalf of our entire membership, we thank you for moving forward with this critically important legislation, and for permitting us to express our views here today.

We will be happy to try to answer any questions you may have.

Mr. HANLEY. Thank you very much for your excellent testimony, Mr. Cregan.

With regard to the 6-day delivery provision in our bill, we have defined that primarily because of its impact on smaller communities throughout America where they are dependent upon the Postal Service for delivery of newspapers. I can't envision any American wanting to deny their fellow citizen this service. Certainly people in heavily populated urban areas don't have that sort of need, but there are many people who are dependent upon that service.

Mr. CREGAN. That's true, Mr. Chairman. We certainly appreciate your efforts in this regard. In these rural areas, newspapers are still serving the role they served 200 years ago, providing the most basic and essential news of the local community and the world. Many of the areas which our members serve are not even reached by the mass communications media which are so familiar to people who live in urban areas. It's extremely important to these people that they receive full and adequate service.

Mr. HANLEY. You have reflected on the fact that reasonable postal rates were the major reason for the growth of newspapers; I agree with that. There has been a decline in the number of newspapers in the last decade. Do you have any idea of how much of this decline could be attributable to increased postal rates?

Mr. CREGAN. I don't have any precise figures at hand, Mr. Chairman, but I think the importance of postal rates to newspapers is indicated by the fact that total newspaper circulation in the mail has been declining greater than the total circulation of newspapers has been declining. The newspapers again in rural areas are the ones that are most severely impacted by rising postal rates. I think you could definitely attribute rising postal rates as a major factor for the decline of circulation in rural areas. I think those newspapers which have been flourishing in recent years are the ones which have been able to get out of the mail. I would point particularly to the growth in recent years of suburban newspapers. There has been tremendous growth in the past decade of this type of newspaper. I think that is owing in large part to the fact that they have gotten out of the mail and they have gone increasingly

to carriers for delivery, the private delivery system. I think these are factors, although I don't have any precise figures or indicators of postal rates to newspapers.

Mr. HANLEY. Later on today we will be hearing from Mr. Lester Miller, who is president of the National Association of Rural Letter Carriers. I feel certain he will be placing a great deal of emphasis on this part of this bill in recognition of their knowledge of how important that Saturday delivery is to their service area.

Mr. Solarz.

Mr. SOLARZ. Thank you very much, Mr. Chairman.

I appreciate your testimony. How would you feel about an item veto on rate increases?

Mr. CREGAN. Well, frankly, in examining the bill, as we point out in the statement, we support the principle of a congressional veto, and we support a meaningful veto. I have reservations as to whether the language in the bill, as presently written, could ever be implemented in practical terms, especially if there were a rollback factor in effect. If the Postal Service had already implemented higher rates on the basis of the Postal Rate Commission's decision, Congress would be put in the position of not only appropriating funds to make up the difference, but rolling back rates, which would create, I think, a chaotic situation. We would certainly support an amendment to create a meaningful veto provision. We think it's essential.

I might say also that the need for a comprehensive veto might be somewhat obviated through adoption of the ratemaking criteria contained in the bill. I think if the Postal Rate Commission had the precise criteria before it laid out by the bill, then only in the most drastic and arbitrary dereliction of duty would the Postal Rate Commission be able to subvert the will of the Congress. Then I think it would be very clear the Congress would have to exercise its veto authority.

Mr. SOLARZ. You have spoken about the problems that would be created if 6-day delivery service were eliminated, particularly in the rural areas where these weekly newspapers generally arrive on Saturdays, which if they didn't arrive would presumably inconvenience alot of people. There is, however, nothing that I know of which would require necessarily, the elimination of Saturday delivery, even assuming you cut back from 6 to 5 days of the service week, since presumably you could in certain areas have delivery on Tuesday through Saturday with no delivery on Sunday and Monday. Supposing that we permitted the Postal Service to make its own management determination about whether to cut back to 5-day service, but provided that wherever they wanted to do that, there would have to be a kind of local option whereby the people in the affected area would be given the right to choose the additional day of the week on which there would be no delivery. Would that make the elimination of 6-day service acceptable?

Mr. CREGAN. No, it wouldn't make it acceptable to us, Congressman. As we point out in our prepared statement, 6-day delivery means 6 days. It's essential to people in the rural communities.

Mr. SOLARZ. In terms of newspapers, you say you've got to get them there on Saturday. It there were enough people in the area concerned about that, they could elect to continue getting mail on Saturday.

Mr. CREGAN. These people in the rural areas need their newspapers every day, Monday through Saturday, to obtain basic information, not only about their community and the world news, but also basic economic information they need to operate their enterprise, market prices and such. I'm certainly no farmer, but I know they rely on and must have this information Monday through Saturday. They operate on a 6-day basis. Sunday in a rural area, even though some times of the year they work on Sunday, is the only down day of the week in these areas.

Mr. SOLARZ. Supposing then you had a provision whereby 6-day service had to be maintained in the rural areas where there were no viable alternatives to the delivery of newspapers each day, but permitted the reduction to 5-day service around the country where there were alternatives to home delivery in terms of getting this information to the hands of the people?

Mr. CREGAN. I know this has been proposed by several people, having 5-day service in metropolitan areas and 6-day service in nonmetropolitan areas. I, frankly, don't know how that would be implemented, how they would determine what areas needed 6-day and what areas required only 5-day service. I just don't know that would be managed.

Mr. SOLARZ. Supposing it could be?

Mr. CREGAN. That kind of question I really couldn't answer.

Mr. SOLARZ. Let me ask you this. Do you know what percentage of people living in the rural parts of the country get newspapers delivered every day?

Mr. CREGAN. I have no precise figures, but I know it's an extremely high percentage of the total household population that receives a newspaper in the mail every day in the rural areas. I don't have any figures on that. I could certainly try to see if there are any studies or surveys and provide that for you.

Mr. SOLARZ. As a practical proposition, if the Postal Service can eliminate 6-day delivery, what would the people who receive newspapers every day at their homes end up doing, do you think?

Mr. CREGAN. I really don't know if they could make that adjustment. I suppose it would be a matter of grinning and bearing it, because in those areas where people live miles and miles from any town and miles from even the next resident, there really would be no alternative unless the area were served by some sort of mass media. It would be a very difficult situation.

Mr. SOLARZ. Thank you very much, Mr. Chairman.

Mr. HANLEY. Mr. Cregan, do you believe periodic authorization rather than permanent authorization of public service appropriations will seriously affect rate procedure?

Mr. CREGAN. I think there's a definite need for predictability on the matter of appropriations. I think everybody concerned, as we point out in the statement, needs to know what the appropriation figure will be. I think the Postal Service needs that; I think mail users need that for their management. Our essential point is that there must be, of course, No. 1, adequate public service funding, and No. 2, predictable public service funding.

Mr. HANLEY. A previous witness suggested that the recent court decision reflected the views of Congress. Would you say that was an accurate evaluation?

Mr. CREGAN. That the court of appeals decision did reflect the views of Congress? I don't see how it possibly could have. I cannot see Congress writing eight additional ratemaking factors into the laws of the United States just as an exercise. I think Congress must have meant that those other eight factors be considered in setting postal rates.

Mr. HANLEY. Now, you point out the effect of what a recommendation might have on newspaper rates. Have you done an analysis on what the result in volume loss would be and what adverse impact, such as volume loss, might have on the price of first-class mail?

Mr. CREGAN. We haven't done any surveying on the overall impact on volume. I think the Commission on Postal Service certainly concluded that there would be tremendous loss of volume in second, third, and fourth class. I do know that in the period 1970 to 1975, there has been approximately a 10-percent decline in the Postal Service's share of newspaper circulation, net share. This, of course, is the period since reorganization when second-class rates have been rising. I think without a doubt that implementation of the court of appeals methodology would leave newspapers with no alternative other than to get out if at all possible.

Mr. HANLEY. The Association, as evidenced by your testimony, is in support of H.R. 7700, and, of course, that would include specifically the appointment of the Postmaster General by the President and abolition of the Board of Governors; is that your position?

Mr. CREGAN. We would certainly feel that that is included under the term public accountability, which is one of the three basic points we believe are essential. We are very disturbed about the proposed reduction to 5-day service. We think this serves as a prime example of the need for more public accountability. I think in recent weeks, the Congress has made its feelings on 6-day delivery rather clear, and yet, according to all the reports we receive, the Postal Service has every intention of moving forward with its 5-day delivery plan. Even though it has temporarily postponed that, we understand that they do intend to make that move later this year. So, although our organization has not taken any specific position with regard to Presidential appointment of the Postmaster General and abolition of the Board of Governors, I think that's certainly included under public accountability.

Mr. HANLEY. Mr. Cregan and Ms. Gallagher, again, our deep appreciation for your interest and efforts as evidenced by your appearance and presentation here today. We are most grateful for your support of 7700, and hope very much that our collective efforts will see it's enacted into law. Thank you.

Mr. CREGAN. Thank you, Mr. Chairman.

Mr. HANLEY. Our next witness is Ms. Carol C. Henderson, assistant director, Washington office, American Library Association.

Ms. Henderson, we are pleased to have you with us this morning.

STATEMENT OF CAROL C. HENDERSON, ASSISTANT DIRECTOR, AMERICAN LIBRARY ASSOCIATION, WASHINGTON OFFICE

Ms. HENDERSON. My name is Carol C. Henderson. I am assistant director of the American Library Association's Washington office.

The association is a nonprofit educational association of some 35,000 librarians, educators, trustees, and other public-spirited citizens concerned with the development of library and information services for the American public.

We are pleased to have this opportunity to testify today in support of H.R. 7700, the Postal Service Act of 1977. We are encouraged by the fact that the chairman of the Subcommittee on Postal Operations has joined forces with the chairman of the Subcommittee on Personnel and Modernization to sponsor this bill, and by the fact that you have begun hearings so promptly. We believe H.R. 7700 will serve as a useful discussion document and ultimately will lead to much-needed postal reform legislation in the 95th Congress.

As you know, the American Library Association has been very much concerned over many years with postal matters. Libraries use all classes of mail, but our interest has been concentrated on two subclasses of fourth-class mail: The library rate, which is used by libraries for loans of materials between libraries and their patrons; and the special fourth-class rate which covers books and other educational and cultural materials.

Since the Postal Reorganization Act of 1970 (Public Law 91–375), libraries have experienced ever-escalating postal costs, and there appears to be no letup in sight.

It is generally true to say that every dollar libraries spend for postage means a dollar less spent for books, magazines, tapes, or films for the use of the American people. Library budgets are severely strained today. In many cities, libraries have been forced to sharply reduce their purchase of materials. And to make matters worse, curtailed hours of service and even staff layoffs have been the rule rather than the exception, particularly in major urban areas. Let me give a few examples. Buffalo has lost 42 percent of its work force, with the result that branches are open only 2 or 3 days a week. San Francisco's book budget has been slashed from $850,000 to $650,000, and service hours have been reduced. Los Angeles has lost more than 40 staff members in the budget crunch. Brooklyn has suffered broad curtailments and is expecting more. The plight of the New York Public Library is well known.

Spiraling postal costs are just one more problem adding to the fiscal crisis many libraries face today. The library rate provides a good example. Five years ago, a library was able to mail a 3-pound package of books to a patron for a 10-cent stamp. Since July 6, when the latest rate increases took effect, it costs a library 19 cents to mail this same package of books to a patron. Thus, within a 5-year period, we have witnessed an increase of nearly 100 percent. In addition, the most recent request of the Postal Service would increase the library rate 31 percent beyond the present phased rate schedule—from 29 cents to 38 cents. The 3-pound package of books would then require 62 cents postage.

The newest rate proposal would also push the full book rate from 40 to 55 cents—a 37-percent increase. Such increases are not easily absorbed by libraries. They are no longer able to keep up with the new information being produced. To take college and university libraries

as an example, since 1968 the annual increase in expenditures for books and other library materials dropped from 20 percent to 1.9 percent, although the average book price increased 93 percent. During the same period, the percentage academic libraries spent on library materials out of their total budget dropped from 37 to 27 percent.

Enactment of postal legislation in the 93d Congress extending the phase-in period for rate increases—Public Law 93–328—and in the 94th Congress allowing publishers and distributors to use the library rate in their mailings to libraries and educational institutions—Public Law 94–421—was helpful to libraries throughout the country. Without postal amendment such as these, libraries today would be paying far more in postal costs than they are now required to pay. An additional amendment to Public Law 94–421 added new criteria for the setting of rates--"the educational, cultural, scientific, and informational value to the recipient of mail matter." In light of this congressional directive, it is particularly ironic that the Postal Service is recommending such unusually large increases for the library and book rates.

Despite the significant help afforded libraries by Public Laws 93–328 and 94–421, the problem of continuously escalating postal costs seems to remain with us. For this reason, we support a substantial increase in funds authorized for public service purposes. In previous years, we have endorsed a 20-percent public service contribution by the Federal Government. The 15-percent contribution provided by H.R. 7700 would be a step in the right direction. It is certainly clear by now that the present level of public service appropriations is totally inadequate to meet the financial needs of the Postal Service.

We also support the provision of H.R. 7700 that would require congressional review of large capital improvement projects such as the new bulk mail system. While there is no assurance that all "bugs" can be anticipated in advance, at least some of the problems with the bulk mail system as it affects libraries could probably have been eliminated at the drawing board stage. The bulk mail facilities are not properly equipped to handle film cases, for example, and as a result films shipped to and from libraries are being delayed for low-priority manual processing, with the result that those who order films for viewing are receiving them only after the scheduled viewing date has passed. The Postal Service has proposed as an answer to this problem that all film shippers invest in new standard sized film cases. This would be a major expenditure for film shippers, some of which are nonprofit libraries which simply cannot afford it.

There are other problems. Materials shipped to libraries from publishers are never received because the mailing labels are torn off by the machinery in the bulk mail centers. A librarian in southern Illinois reported that last December some 10,000 books and 3,500 records received from the bulk mail center in Chicago were auctioned at the post office in his community. These materials were claimed by the Postal Service and auctioned because their labels had been torn off by the automated bulk machines so neither sender nor intended recipient were known. A librarian in upstate New York has reported to us that the Postal Service there auctions library books that have met the same fate

in the bulk mail centers, but in this case the books could be identified by the chargeout card still in the book pockets. Apparently the Postal Service looked no further than the missing label to determine the owner of the books in question. We believe these stories are not isolated instances but symptomatic of generally unacceptable postal procedures and practices that must be corrected. We believe additional congressional oversight into projects such as the bulk mail centers is badly needed.

Finally, Mr. Chairman, we would like to propose one amendment that is not included in H.R. 7700 to correct an anomaly that was created by the Postal Amendments of 1976—Public Law 94–421. As you know, Public Law 94–421 made it possible for publishers and distributors to mail materials to libraries at the library rate. Previously, they had been required to pay the higher fourth-class book rate. The savings made possible by this provision are expected to benefit the libraries that receive by mail materials they purchase from publishers and distributors, because postal costs have traditionally been passed on from publisher to purchaser. We supported this amendment. We were, however, dismayed to learn that Public Law 94–421 contains no provision allowing a library to pay the library rate on material returned to the publisher. Should a library wish to return a book to the publisher, it must pay the higher fourth-class book rate. We believe this inability on the part of libraries to use the library rate when mailing materials to publishers or distributors is an inequitable result of Public Law 94–421 that was neither anticipated nor intended by the 94th Congress. We urge you to correct this inequity early in the 95th Congress, by adding a provision to H.R. 7700 that would allow material mailed from a publisher or distributor to a school, college, university, or library at the library rate to be also returned to the publisher or distributor by the school, college, university, or library at that same rate.

In conclusion, Mr. Chairman and members of the subcommittee, the American Library Association appreciates this opportunity to present its views and recommendations for strengthening H.R. 7700, and we stand ready to be of whatever assistance we can in helping you develop a sound postal bill that will make significant progress toward assuring prompt and reasonably-priced mail service to all Americans.

Mr. HANLEY. Ms. Henderson, thank you very much for your excellent testimony.

To reflect briefly on the amendment you have suggested, certainly in my judgment it merits a great deal of consideration, and I assure you that as we pursue this activity, we will do exactly that.

Ms. HENDERSON. Thank you, Mr. Chairman.

Mr. HANLEY. We will give it a great deal of consideration. Just off the top, it makes much sense to me.

Your testimony, as I said to the young lady who represented the Girl Scouts of America, presents a classic example of what we are talking about here, the great advantage derived by our society through the traditional type of mail services. I don't know of a better investment our Nation can make than employing its dollars for the purpose of assisting programs such as the one you are professionally involved in.

Ms. HENDERSON. We appreciate your kind remarks and the opportunity to present our views.

Mr. HANLEY. I am reminded that a previous witness testified for including teaching aids among the materials which can be mailed by publishers and distributors to libraries. Would you be in support of that?

Ms. HENDERSON. We would generally be in favor of a fairly broad definition of a book. We have not received any communications from our members on this particular problem. It's quite possible that it affects educational institutions in the area other than libraries, but we would certainly be sympathetic.

Mr. HANLEY. To back up again to the amendment you suggest, do you have any idea of how many books are returned to publishers or distributors, and if not, if you could get that information and provide it to the committee reasonably soon, it would be helpful.

Ms. HENDERSON. It's something that every library that receives books or materials from publishers has to do occasionally. It's not a large number by any means. It would be done for reasons such as an occasional error in the book received, and it would have to be returned; or on examination a book may have a section of pages printed twice, something like that. It would be a very small percentage of the materials that libraries receive by mail, and the revenus loss would certainly be insignificant.

Mr. HANLEY. I see. Your reference to the damage problem and bulk mail facilities has previously been alluded to in testimony by the representative of the Book Publishers Association.

Well, Ms. Henderson, on behalf of the committee, our deep appreciation for your appearance here this morning.

Ms. HENDERSON. Thank you very much, Mr. Chairman.

Mr. HANLEY. Our next witness is Mr. Lester Miller of the National Rural Letter Carriers' Association. Mr. Miller is accompanied by Mr. Clifford E. Edwards, vice president.

Gentlemen, we are delighted to have you with us this morning, and certainly in recognition of your long-time involvement in this subject matter, I am confident that your testimony is going to prove most interesting to the committee.

Mr. MILLER. Thank you, Mr. Chairman.

STATEMENT OF LESTER F. MILLER, PRESIDENT, NATIONAL RURAL LETTER CARRIERS' ASSOCIATION, ACCOMPANIED BY CLIFFORD E. EDWARDS, VICE PRESIDENT

Mr. MILLER. Mr. Chairman, I am Lester F. Miller, president of the National Rural Letter Carriers' Association, an organization representing nearly 70,000 regular, substitute, auxiliary, and retired rural carriers. I am accompanied today by our vice president, Clifford E. Edwards. The rural carriers we represent serve over 40 million Americans in rural and suburban areas, 6 days each week. We sincerely hope we may be permitted to continue the traditional 6-day service to rural America.

We commend both of you, Mr. Hanley and Mr. Wilson, for combining your efforts in sponsoring this comprehensive postal legislation, H.R. 7700. We believe the time has come for the Congress to redefine some of the goals of the U.S. Postal Service and to reestablish some of its basic principles.

The Postal Reorganization Act of 1970 set forth a goal of self-sufficiency by 1984. This goal did not take into account the magnitude of public service costs and did not foresee the double-digit inflation we have experienced for a period of time since then. Both factors have contributed to the Postal Service's inability to attain self-sufficiency.

It was you, Congressman Hanley, who were among the first to recognize that the goal of self-sufficiency was unattainable. As long as 4 years ago, in August of 1973, you cautioned our delegates at our national convention in Richmond, Va., that the Postal Service could never become self-sufficient without substantial rate increases or continued reductions in service. This was a very prophetic conclusion. The problem has become even more acute than you could have anticipated then.

H.R. 7700 addresses itself in a very realistic manner to the financial deficiency of the Postal Service. It would provide a 15-percent appropriation from the general Treasury of the previous year's operating costs of the Postal Service for public service costs. This is certainly far more realistic than the fixed amount provided under present law. The fixed amount of $920 million annual subsidy provided in the Postal Reorganization Act to compensate for public service costs has proven inadequate. Inflation has decreased its actual value and the amount was probably too low in the beginning.

We suspect that there is a greater degree of public service rendered by the U.S. Postal Service than is currently believed. The rural delivery service is a part of that public service cost. It could never become self-supporting if it was dependent upon the revenue generated on the rural route. Rural customers are basically recipients of mail rather than senders of mail. We contend, however, that the recipient of mail is just as important as the mailer, even though it is the mailer who generates the revenue. There could be no complete mail service without delivery service to every patron in this land.

Obviously, such deliveries are more costly due to the distances involved, but the rapid expansion of rural delivery after its inception in 1896 played a major role in the history and development of rural America. No one is more appreciative of mail delivery service than those who reside in the rural areas. No job in the Postal Service is more rewarding than serving as a rural carrier.

We have supported additional appropriations for the Postal Service from the time it became evident that it could not become self-sufficient and still fulfill its public service obligations. We believe the American people consider the public service rendered by the Postal Service as important as, if not more important than, other Government services, and are willing to pay for that service.

H.R. 7700 would also give the Congress an opportunity to not only review the public service appropriation every 2 years, but also supplement at such time that it felt proposed postage rate increases were unreasonable. We heartily endorse this concept contained in the bill.

We also concur that the Congress should approve major capital improvement investments of $200 million or more. This will require postal management to justify major expenditures for capital improvements before they are made, instead of trying to explain them after the fact. When postal reform was being considered in 1969 and

early 1970, this Association had serious reservations about the final outcome. We were concerned even then with service curtailments. This writer can vividly recall writing an editorial in an issue of the National Rural Letter Carrier in 1969 that:

> We believe the Post Office Department should remain a Postal Service in deed and not in name only. In its quest for a balanced budget as a corporation, it could soon lose its traditional service aspect. It could soon become interested only in the profitable aspects of the service. What would inevitably happen? Service would be curtailed. . .

Our concerns about curtailment of service have proven very prophetic.

However, in spite of that prediction in 1969, we were hardly prepared for the proposal now being recommended by postal management to the Board of Governors to reduce the frequency of mail deliveries to 5 days each week. This recommendation is most disturbing to us.

We are always greatly concerned about any reduction in postal service to the American people. We believe the service should be improved rather than reduced. There have already been too many reductions in service to meet the unattainable goal of self-sufficiency.

Any reduction in the number of days of delivery per week would likely affect the people we serve more than any other group. Unlike urban dwellers, a vast majority of rural postal customers must rely upon the rural carrier for the delivery of the daily newspapers, market reports, machinery parts, etc. The rural carrier's arrival is awaited with anticipation each day by many rural customers. Any reduction of current service levels would prove very unpopular and meet with much opposition from rural people. Farmers take their rural delivery service very seriously.

Implementation of the 5-day week would eventually deprive regular and substitute rural carriers of a certain amount of their present employment. Such a plan would eventually result in less delivery routes and less employment for rural carriers and other delivery employees. We estimate there would be an eventual loss of the equivalent of 3,500 rural carrier positions. At a time when unemployment is a national problem, it seems inconsistent for the Government to be considering the reduction of an essential Government service which would create more unemployment to add to the present problem.

We predict the savings of 5-day delivery would be far less than have been estimated. The volume of mail to be handled would be virtually the same and only and delivery trip would be eliminated if a 5-day schedule was adopted. It would place a double volume of mail on the carrier, to be cased and delivered on Monday. This would cause disruption to his schedule for several days of the following week. When a holiday occurs on Monday, as it does 8 times this year, it would create an almost impossible situation to handle 3 days of mail in one delivery trip. During those weeks, mail would be curtailed most of the week until the backlog was finally delivered. The only solution would be to provide auxiliary assistance to the regular carrier on the day following a Monday holiday. In fact, it may be necessary to provide such auxiliary assistance each Monday to cope with the double burden of two days' mail. This would certainly reduce the estimated savings of time and money on rural delivery. The other alternative would be to curtail mail for several days each week.

The reduction of mail delivery from 6 to 5 days a week certainly seems inconsistent with the recommendation of the Postal Service Commission that the "Postal Service should make dependability of timely delivery its primary service objective." Elimination of 1 day of delivery and curtailment of mail on many of the remaining days certainly does not lend itself to "dependability of timely delivery."

Furthermore, in spite of the so-called Nielsen survey, we do not believe that the American people will be pleased with a reduction in service at the same time that postage rates are being increased and additional appropriations are being made. The Congress would be placing itself in an unfavorable position if it allowed such a situation to occur.

We believe the Congress should establish minimum delivery standards for the U.S. Postal Service below which service levels could not be reduced. A decision as important as that of frequency of delivery—5 days or 6 days—should not be made by anyone other than the elected representatives of the people themselves: the Congress. We are extremely pleased, therefore, that H.R. 7700 provides "the continuation of the frequency of mail delivery service in effect on June 1, 1977." This provision would assure 6-day delivery.

The U.S. Postal Service should have no qualms about competing aggressively to recover lost parcel business. Any statutory restrictions on parcel post should be removed. The limit of 40 pounds for parcels between first-class offices, unless mailed to or from a rural-route customer, is utterly ridiculous. It should be removed and the 70-pound limit apply universally. Thus, we are pleased that H.R. 7700 does increase the maximum size and weight limits of parcel post to 100 inches in girth and length combined, and to 70 pounds in weight.

We are especially pleased with the protective language in H.R. 7700 for the collective bargaining procedure in the Postal Service. Many inequities have been corrected and many improvements have been made in the area of salaries and fringe benefits. In fact, during the past year, the National Rural Letter Carriers' Association was able to resolve a most difficult problem regarding the pay system of rural carriers through negotiations with the Postal Service. We believe in the collective bargaining process. We think H.R. 7700 would preserve that important provision of the Postal Reorganization Act.

We agree with those who believe there should be more accountability to the Congress and the President. Perhaps, the elimination of the Board of Governors is the only practical way to accomplish this. We do not believe an appointed Board of Governors should have the authority to effect such a drastic reduction in the level of service as 5-day delivery, which it is now considering. We feel very strongly that only the Congress should make that determination. After all, it will be the Congress who will share the burden of complaints of poor service if this drastic proposal is allowed to become a reality. Therefore, only the elected representatives of the people, who are accountable to the people, should make this important decision.

We urge prompt action on H.R. 7700 to assure continuation of 6-day delivery and a sound Postal Service. The members we represent have pride in their work and have a deep concern about the future of the Postal Service. Many have devoted a lifetime of service to it. They

have been in the front line of defense in representing the Postal Service and the Federal Government throughout rural America. They are looking to the Congress to save them from the embarrassment of apologizing to their customers for 5-day delivery. The motto of our Association is "Service With a Smile." We sincerely hope you will make it possible for us to continue to render such service 6 days a week.

Thank you, Mr. Chairman.

Mr. HANLEY. Thank you, Mr. Miller, for your excellent testimony.

You were present at the time the gentleman representing the National Newspaper Association was here, and he stressed, too, absolute importance of the 6-day delivery particularly because of the heavy dependence of rural Americans on receiving those newspapers on Saturday.

One of our greatest problems with the Postal Service, of course, has been its irresponsiveness to the will of the majority of the American people. Even at this late date, it continues to be evidenced on a day-to-day basis by either the actions or nonactions taken by the leadership of the USPS. They continue to pursue the 5-day week possibility; they continue to pursue the elimination of rural post offices, even though the Congress by resolution last year cosponsored a measure that I introduced that enjoyed about 300 cosponsors. We had a vote on the floor of just about 400 aye votes, and it was transmitting a message to the leadership of the Postal Service: Here's the way the American people want it.

My friend and colleague, Congressman Wilson, has introduced a resolution pertaining to 6-day delivery. That also has brought acceptance and converts from the representatives of the majority of the people. Yet, each time these proposals come up, they have no impact on the leadership of this agency.

By virtue of the fact that this has been the name of the game since 1970, we concluded that the only way we are going to make this agency responsive to the will of the majority is to have up top an individual who is responsible to an elected official.

I was privileged some weeks ago to meet with the President for 50 minutes on this subject matter on a one-to-one basis. In response to one of his very early questions, I said:

> Mr. President, I respectfully submit the first thing we have got to do is make the agency responsive to the will of the majority of the people. The only way we are going to accomplish that is to have you, Mr. President, appoint the Postmaster General, along with the abolition of the Board of Governors.

I feel very strongly that this is very fundamental of the intent and success of the legislation we are dealing with.

I appreciate the general support of your association in behalf of 7700. Specifically, are you in agreement with this position on presidential appointment of the Postmaster General?

Mr. MILLER. Yes; we have come to that position. I think the issue of 5-day delivery has caused us to reach that conclusion. We agree that there must be greater control of the Postal Service by the Congress; and the insensitiveness and irresponsiveness of the present postal management and the Board of Governors to the will of the Congress on this very important issue of 5-day delivery, leads us to the conclusion that the only solution will be to abolish the Board of Governors, and

obviously if the Board of Governors is abolished, the appointment of the Postmaster General would then be by the President of the United States.

Mr. HANLEY. I appreciate that position, and I assure you that the intent of this committee is not in any way to bring politics per se back into this institution. Our fundamental purpose is to make the agency more responsive. Then a Representative in responding to his or her constituents can, if necessary, call a problem to the attention of the President. The President would then direct an inquiry to the Postmaster General. We are then guaranteeing a response and could respond to our constituents in accord with our constitutional responsibilities.

I appreciate that position, President Miller. You and I have worked on this subject matter for a long time. I have always had the highest regard for those who are shepherding the National Rural Letter Carriers Association, and I have always found you and your predecessors to be absolutely objective and not self-serving. I really don't have any further questions.

Mr. Gilman.

Mr. GILMAN. Thank you, Mr. Chairman.

I, too, want to welcome you, Mr. Miller, before our subcommittee. I appreciate your comments and your analysis of the proposed legislation. Certainly it will be helpful to us as we deliberate further on this measure.

In your opinion, Mr. Miller, are the present restrictions on the closing of post offices adequate?

Mr. MILLER. I would say the present restrictions are probably adequate.

Mr. GILMAN. Would you support the language of section 4(b) which denies a subsidy for parcel post rates?

Mr. MILLER. No; I feel that there should not be any change from the present situation on subsidies for parcel post. I feel the Postal Service should be allowed to aggressively try to recover parcel post business. So, we do have some reservations about that particular section.

Mr. GILMAN. Where do you think we have lost most of our parcel post business, and in what areas do you think the Postal Service could improve its service in order to regain its parcel post business.

Where do you think we failed most with parcel post post?

Mr. MILLER. Well, I feel that for the most part the parcel post rates have been somewhat higher than other private carrier rates; and then, too. I feel the Postal Service should make some provision for pickup service on parcel post as do the private carriers. We do find this to be rather inconvenient for ourselves when we have parcel post to mail, to have to deliver it to a postal station.

Mr. GILMAN. It's been stated by a prior witness that the major deficiency of the Postal Reorganization Act was in decoupling of the process for setting rates from the process of fixing the compensation of the postal employees. That witness went on to suggest that Congress either legislate comparability between postal employees' wages and the Federal pay scales or empower the Postal Rate Commission with the authority to review financial wage settlements. Would you care to comment on that proposal?

Mr. MILLER. I think a later witness stated that it would not be very practical to have an independent party review the results of collective bargaining agreements, and I certainly would agree with that. I do not feel that there could be an independent party reviewing the results of the collective bargaining agreement except an arbitrator. Collective bargaining has proven very satisfactory, both to the Postal Service and to the postal employees. We have now come nearer to comparability than we ever did in the past. We had some very low wages in the Postal Service prior to the Postal Reorganization Act.

Mr. GILMAN. I don't believe I have any further questions.

Thank you, Mr. Chairman.

Mr. HANLEY. Thank you, Mr. Gilman.

Mr. Miller and Mr. Edwards, on behalf of the committee, our deep appreciation to you for your interest and for your assistance to the Congress with this measure. I commend you and your entire membership for the tremendous dedication which I have always observed within your ranks.

Mr. MILLER. Thank you, Mr. Chairman.

Mr. HANLEY. Mr. Frank Cawley, counsel for Agricultural Publishers Association, is the next witness.

STATEMENT OF FRANK CAWLEY, COUNSEL, AGRICULTURAL PUBLISHERS ASSOCIATION

Mr. CAWLEY. Mr. Chairman, the Agricultural Publishers Association, Inc. (APA) is a nonprofit corporation created under the laws of Illinois. Its membership comprises 13 companies who publish 28 State and regional agricultural magazines, many of which have been providing farming "know how" to rural families of America for over 100 years. A list of the member magazines and their circulation is included at the end of my statement. These are all paid circulation publications, under second-class mail.

APA supports the provisions of H.R. 7700 with one exception. We urge a public service appropriation of at least 20 percent of the prior year's operating expenses. This should better insure the maintenance of a 6-day delivery, the encouragement of a vital flow of information to all the electorate, and the retention of many uneconomic rural post offices—the only personal contact with the Federal Government for our small towns and rural population.

Agricultural magazines have made far-reaching adjustments during the past 5 years in an effort to adapt to escalating postal rates. In numerous instances subscription prices have tripled or quadrupled, and major farm magazines have revamped circulation strategies to avoid financial deficits commonly associated with subscription sales departments in years past. As a result, many farm magazines are finishing a satisfactory financial year in 1976.

But the higher subscription prices required in order to keep pace with postage costs are forcing many worthy, but low-income farm families to discontinue their farm magazine subscriptions. They aren't renewing subscriptions at the much higher prices, and the ever-higher postage costs in prospect for the years ahead will make the problem even more acute.

This is contrary to the principle of an easy flow of information to all the electorate, as set forth in the early years of the post office sys-

tem. It tends to disfranchise low income, difficult to reach post office customers—many of whom have the greatest need for information supplied by farm magazines.

A mistake is made by those who consider second class postage rates as a subsidy to farm magazines. Rather than this, low postage rates for farm magazines, the rural free delivery system, and village and small town post offices should be considered as service functions to help keep all the electorate informed through low cost print media.

The strongest magazines, serving the Nation's best farmers, can survive almost any exorbitant postal rates we are likely to face. These magazaines will simply serve high income customers who can afford to pay $25 to $50 a year for a farm magazine subscription. But poorer, less fortunate families will be deprived of a variety of helpful information sources, and the less affluent magazines serving small special groups of farmers will face financial difficulties.

This means that costly and less satisfactory government information programs will likely be demanded in some future year to fill these information voids in rural areas.

It will be so much more logical, and less costly, to maintain a strong service oriented postal system like we have known in the past—one designed to serve all the people. To say that the Postal Service must operate like a business is to refute the "service to all of the electorate" concept. Rural routes and small town post offices should not be expected to pay their way like profitable businesses. Nor should city postal service customers and American businesses be expected to shoulder the deficits from rural areas. It is simply a matter of recognizing that the delivery of mail is a service that should be available to all citizens just like roads, educational systems and other similar services that are provided by the the Government.

APA believes the Agricultural magazine is a vital artery of scientific information from the laboratory to the land. Our Department of Agriculture has advised that by the end of this century, the American farmer will have to provide much more food and fiber on fewer acres. An estimated 80 million people will be added to our United States population and about 3 billion more to the world population in the next quarter century. According to former Secretary Earl Butz:

> We must give him (the farmer) the tools of production. We must help him find safe ways to use them. We must expedite discovery and testing of new and even safer agents of production. We must shorten the time span from discovery to practical application.

What better method to achieve this vital education in the national interest than the dedicated publication and use of the Agricultural magazine. This tool of agricultural production has demonstrated its efficacy over the past century in America. In survey after survey conducted by colleges of agriculture, farmers have rated the Agricultural magazine in first place as a source of information on the business of farming.

It is in the public interest to preserve this tool of production, and recognition and support by our Federal Government will go a long ways towards this end. The Congress would be justified in returning to the 1.5 cents per pound rate both editorial and advertising content that existed for 1st and 2nd zone second class mailings from 1935 to 1958, at least as a source of encouragement to paid circulation "Science

of Agriculture" magazines. The difference in alleged costs should be added to public service appropriations.

The problem is preserving the force and effect of "Science of Agriculture" magazines. Persons who doubt the need for a strong rural press in the present day are misinformed. No other part of the mass media is geared to filling this information void in rural areas. Radio and television do not provide solutions to the lack of "how to" information for farmers. And newspaper distribution in rural areas is already following, or will follow, the same trends as magazine circulation—that is, circulation will tend to concentrate in easier to reach, higher income families.

In the discussion of this postal rates issue, we must not lose sight of rural mail delivery and our small town post offices. Rural delivery was formed as "rural free delivery" to provide rural residents with mail service comparable to that of the city dweller. Both rural delivery and the local, small town post offices do not raise sufficient revenues to cover their costs, and they were never intended to be self-sustaining. Their losses should be included in Public Service Appropriations as a means for extending the unifying force of our postal operations to the entire Nation. As with rural free delivery, we certainly have not reached a point where we tell our citizens we shall continue the service only if they pay and pay excessively for it.

What better example of the effects of mounting postal costs than with the farm publications now facing a 500 percent hike over 1971 rates. In a recent hearing before the Postal Rate Commission (docket MC 76–2) a senior officer of The Harvest Publishing Co., Cleveland, Ohio, testified that since 1971 his company had been forced to raise subscription rates from $1 per year to $4 per year with a resultant loss in circulation of 2 million copies per year. Also, that as they seek an increase to $5 per year, they are meeting heavy buyer resistance and further losses. Do we provide an effective postal service to rural communities as provided by Public Law 91–375, when we are forced by rate hikes to price our magazines out of the market?

What is also seriously concerned here is the science of agriculture category in the law. Public Law 90–206 provided that agricultural magazines shipped for delivery to rural patrons in zones 1 and 2 be considered in the science of agriculture subclass under the preferred-rate category. The congressional reports and debates clearly indicated that Congress intended that agricultural magazines shipped for delivery to rural patrons in zones 1 and 2 be classed "rates of postage: preferred". However, the Postal Rate Commission has ruled that the science of agriculture preferred rate applies only to the advertising portion of APA magazines, by law. This results in a hybrid class of mail—half regular (editorial content) and half preferred (advertising content). We doubt this reflects congressional intent. At the urging of the Postal Rate Commission we have previously approached the Congress on this problem.

In Report No. 93–369 on H.R. 8929, dated June 10, 1973, the House Post Office and Civil Service Committee reaffirmed legislative intent with a clear statutory amendment and the following statement:

> The editorial content of publications devoted to the science of agriculture will receive the same phasing and preferred rate as will apply to the advertising content of these same publiactions, that is, nine-year phasing in biennial increments. This will correct an anomaly rising under former postal rate provisions and continued under the Postal Reorganization Act which granted the preferred

second-class phasing and rate only to the advertising content of such magazines when mailed to zones 1 and 2. Without this adjustment nonadvertising content would have been charged a higher rate than advertising content. This language merely provides that all of the contents of an agricultural publication will receive the same rate treatment.

APA urges the Congress to resolve this conflict and reestablish the full preferred status for agricultural magazines shipped for delivery in zones 1 and 2, as was originally intended, and as the House of Representatives was willing to do in 1973 for which we are indebted to this distinguished committee.

The financial impact or risks involved in these issues are limited. APA involves less than 2 percent of total second-class volume and a tiny fraction of the 34,000 publications with second-class entry in the U.S. Postal Service. In 1971, Mathematica, Inc., in referring to agricultural magazines callously stated that "from the point of view of the Postal Service, however, this segment accounts for about 1 percent of total second-class mail revenues, so that the continued decline of farm magazines is not likely to have larger repercussions on mail revenues."

Gentlemen, in the national interest we must halt the disfranchising of a large segment of the popultion—low-income rural people—and make it practical for all of the Nation's farmers to receive this important tool of farming, the agricultural magazine.

Thank you.

Agricultural Publishers Association

	Average circulation [1]
American Agriculturist	124,020
Arizona Farmer-Ranchman	5,129
California Farmer	63,078
The Cattleman	27,593
Colorado Rancher-Farmer	30,427
The Dakota Farmer	78,127
The Farmer	188,180
The Florida Cattleman	7,865
Hoard's Dairyman	262,423
Idaho Farmer-Stockman	23,634
Kansas Farmer	73,343
Kansas Farmer-Stockman	71,832
Michigan Farmer	82,017
Missouri Ruralist	94,533
Montana Farmer-Stockman	26,020
Nebraska Farmer	81,434
Ohio Farmer	100,638
Oklahoma Farmer-Stockman	74,183
Oregon Farmer-Stockman	30,583
Pennsylvania Farmer	86,183
Prairie Farmer	275,054
Progressive Farmer	936,162
Texas Farmer-Stockman	181,953
Utah Farmer-Stockman	11,780
Wallaces Farmer	163,786
Washington Farmer-Stockman	38,512
Wisconsin Agriculturist	104,128
Farm Journal	1,554,199
Total	4,796,816

[1] ABC publishers statement June 30, 1976.

(APA membership comprises of 13 companies with 28 publications with a total circulation of 4,796,816.)

Mr. HANLEY. Thank you very much, Mr. Cawley. I really don't have any questions. I assure you that we will take a look at the aspect of it that you suggested we might adjust. If memory serves me correctly, it was passed by the House and then subsequently knocked out in the Senate in H.R. 8929. Am I right?

Mr. CAWLEY. I don't believe that bill was ever taken up in the Senate. It seems to me it was passed by the House and stopped there, Mr. Chairman.

Mr. HANLEY. Well, the same bill, a different number, ultimately became S. 411.

Mr. CAWLEY. We would appreciate your careful consideration of that proposition.

Mr. HANLEY. Be assured that we will take a look at it.

Mr. CAWLEY. There are some 34,000 pubilcations with second-class entry; I'm only speaking for about 38 of them here today. So, we are very, very minute in this whole classification scheme.

Mr. HANLEY. Mr. Gilman.

Mr. GILMAN. I want to thank the gentleman for his statement.

Mr. HANLEY. Thank you very much for your time and effort this morning.

Mr. CAWLEY. Thank you.

Mr. HANLEY. Congressman Hamilton Fish intended to appear here this morning, but because of a conflict in the House could not. Thus, I ask unanimous consent that his testimony appear in the record as though read in full.

STATEMENT OF HON. HAMILTON FISH, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. FISH. Mr. Chairman, members of the Subcommittee on Postal Operations and Services, I am Hamilton Fish, Jr., representing the 25th District of New York, which includes the counties of Dutchess and Putnam and parts of the counties of Ulster and Columbia and Westchester. I wish to thank the chairman, my very able neighbor from Syracuse, for permitting me this time to present my views both on the state of the U.S. Postal Service and on H.R. 7700, the Postal Service Act of 1977. My appearance here today is prompted by the continuous complaints and frustrations evidenced by my constituents.

The state of the Postal Service is disastrous. Despite three substantial rate increases in 5 years, supplemental authorized appropriations of $1.2 billion and large borrowings to defray operating expenses, the Postal Service faces severe liquidity problems and anticipates deficits totaling $2.7 billion in 1977 and 1978 unless postage rates are substantially raised again. At the same time, the reliability of delivery has lessened, service has been curtailed, and rural and community post offices have been closed severing in many cases, the citizens' one identifiable link with their Government.

As a Member of Congress in 1970, I, along with several of the members of this distinguished subcommittee, and most of the Members of Congress, participated in the enactment of the Postal Reorganization Act, which abolished the old Post Office Department as a Cabinet-level department and created in its stead the U.S. Postal Service as an independent establishment of the executive branch.

The reform set in motion by the Postal Reorganization Act of 1970 was basically well-intentioned, but fatally flawed by abdicating our authority, and therefore, responsibility to a quasi-executive department beyond the reach of public accountability; and by directing that postal rates enable the Postal Service to achieve a nearly self-sustaining revenue-cost position by 1985, subject to revenue foregone and an annual subsidy.

Burdened by inept management, experiencing declining mail volume and skyrocketing inflation and substantial fixed costs, operating independently of both the legislative and executive branches, insulated from public opinion, it was not difficult to predict that the Postal Service would choose to pursue a course that meant even higher, more discriminatory postage rates and steadily diminishing service at the expense of their uneconomic public service functions.

While H.R. 7700 may not be the cure for all of what ails the Postal Service, by at least reaffirming ultimate congressional responsibility for major postal policies and repudiating the break-even directive of 1970, this subcommittee may have intervened in time to save the Postal Service from becoming a growing drain on the Treasury. I will now turn, Mr. Chairman, to the specific provisions of H.R. 7700.

SECTION 2

I second the need for a congressional veto within 60 days of rate and classification rulings of the Postal Rate Commission. I would not support, however, either a requirement for congressional approval prior to the implementation of a rate hike or an item veto as I understand has been suggested by several prior witnesses. I firmly believe now, as I did back in 1970, that Congress should not be in the business of setting postal rates.

I do suggest one amendment to section 2 that would provide for the indexing of first-class postage, somewhat along the lines of H.R. 7537, the Citizens' Postal Rate Relief Act, but without the designation of a blatantly capricious, uneconomic and unenforceable political double standard as between citizen and business users of the same basic class of service.

SECTION 3

I approve of the precise costing methodology adopted by the subcommittee that reaffirms the attributable-costs concept originally intended by Congress. I would not, however, wish to see a permanent 60-percent ceiling on attributable costs. The 60-percent figure does correspond today closely to the proportion of attributable costs identified in the last rate proceeding. However, methodology and availability of data may, and hopefully will, improve enabling the Postal Rate Commission to attribute to each class even more costs that likely were the result of providing the particular service in that class.

SECTION 4

I wholeheartedly support the higher public service appropriations figure of 15 percent of the prior fiscal year's operating expenses if that language will insure a freeze on current levels of service including the

continued operation of 38,000 rural and community postal facilities, door-to-door delivery, and 6-day-a-week delivery. In addition, I commend the subcommittee for authorizing funds for the establishment of research and development programs equivalent in direction and scope to R. & D. carried out by communications industries.

SECTION 5

The Congress should have long ago established a separate budget for the Postal Rate Commission that guarantees the impartiality and integrity of the Commission's decisions.

SECTIONS 6, 7, AND 8

I will skip sections 6 and 7 which I generally favor. Presidential appointment of both the Postmaster General and the Deputy Postmaster General, subject to Senate confirmation, should be required. Mr. Chairman, the present Board of Governors, possessing little or no postal experience, has not as yet taken issue with or disapproved any course of action suggested by the Postmaster General. I call for the appointment of a Board of persons knowledgeable in the postal business.

SECTIONS 10 AND 11

Sound business acumen, as well as the past practices of the Postal Service, make it very difficult to take issue with the provisions of these two sections.

Finally, I would ask this subcommittee to consider the establishment of a new deferred mail class with a corresponding reduction in rates. This class would be available to all users who do not require a high degree of reliability and speed in the delivery of their mail.

Mr. GILMAN. Mr. Chairman, I read the gentleman from New York's testimony with a great deal of interest. I would like to compliment the gentleman from New York for having taken the time to share with us his thoughts regarding this important legislation.

Mr. HANLEY. Thank you, Mr. Gilman.

The hearing will adjourn subject to the call of the Chair.

[Whereupon, at 12:50 p.m., the hearing was adjourned.]

POSTAL SERVICE ACT OF 1977

TUESDAY, SEPTEMBER 20, 1977

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

The subcommittees met at 10 a.m. in room 311, Cannon House Office Building, Hon. James M. Hanley presiding.

Mr. HANLEY. Today is the last in a series of hearings on the Postal Service Act of 1977, H.R. 7700.

Because of the complexity of the bill, the Subcommittee on Postal Operations and Services and the Subcommittee on Postal Personnel and Modernization shares joint jurisdiction.

We have been holding separate hearings until today. Now we are joining together for the final hearing to receive testimony from administration witnesses regarding the overall thrust of the administration's postal policy.

The two subcommittees will begin joint markup of H.R. 7700 immediately.

Most of you are fully aware that H.R. 7700 is no flash in the pan.

For the past 5 years, both subcommittees have been working hard on almost every postal problem imaginable. After long study, we have come to the conclusion that significant changes must be made. Those changes are reflected in H.R. 7700.

The conclusions have been reached for the large part without the assistance of the Postal Service, which has carefully avoided meaningful dialogue with Congress, or any previous administration prior to the present one. Often, I have felt that the only people who care about the Postal Service are Congress and those who receive the mail. A large group indeed, but a group which has not had much impact on postal management.

I am sure that none of us will agree completely with the administration's position. After all, we have the benefit of a longer and deeper involvement in the thicket of postal affairs.

Nevertheless, I am pleased that we have finally reached this point, and I certainly can pledge that this subcommittee looks forward to working with both the administration and the Senate for an expeditious conclusion to our work.

It is also a pleasure to welcome as cochairman of this hearing, my friend and colleague, Chairman Charles H. Wilson of the Subcommittee on Postal Personnel and Modernization. Mr. Wilson.

Mr. WILSON. Thank you, Mr. Hanley.

I'm sure that before long we will have other members of the committee with us. We all have two committees that are meeting and we have to flip a coin to decide which one we attend.

The subcommittee hearings conclude today on postal reform legislation which is designed to correct many of the obvious shortcomings of the 1970 Reorganization Act. As one of the principal members of Congress responsible for investigations which exposed the Postal Service's most glaring failures, including the billion bulk mail system, I want to emphasize as we begin this morning that I intend to do everything in my power to see that meaningful postal reform is signed into law.

H.R. 7700 is the product of years of study and investigation. It represents the recognition of the fact that basic structural changes in management and different funding mechanisms are needed if the postal system is to remain a viable public service.

Now the first day of the Congress back in January, I sponsored H.R. 19 which has subsequently evolved into the present legislation which I have been pleased to cosponsor with my good friend Jim Hanley.

It's important to note that subcommittee hearings on postal reform legislation began more than 6 months ago on March 16, 1977. Clearly the time has now come for action on the bill. We must recognize that the precise language of the bill as it now stands is not necessarily carved in granite. There are differences among the parties who are dedicated to meaningful postal reform. I trust they can be resolved here at this stage of the legislative process so a package with wide support can be brought to the House floor. We must be careful, however, to focus only on the basic issues—the postal reform in this bill. If the package becomes simply a Christmas tree of special interest amendments it is unlikely to receive serious consideration in the House.

It is unfortunate that it has taken 6 months for this hearing to be scheduled. Certainly we must understand that any new administration is faced with numerous problems and policy decisions. At any rate, with hard work and deication I am confident that we can have postal reform before the end of 1978.

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

First, we will be hearing from OMB, as representative of the administration. OMB will be followed by Mr. Finch, as representative of the Postmaster General. We then intend to resume the activity this afternoon at 2 o'clock and at that time we will hear from Mr. Clyde DuPont, as representative from the Postal Rate Commission.

At this point, it's a pleasure to call upon Mr. W. Bowman Cutter, Executive Associate Director for Budget, Office of Management and Budget.

Mr. Cutter, we are delighted to have you with us and if for the purpose of the record you would be good enough to introduce your associate.

STATEMENT OF W. BOWMAN CUTTER, EXECUTIVE ASSOCIATE DIRECTOR FOR BUDGET, OFFICE OF MANAGEMENT AND BUDGET, ACCOMPANIED BY DENNIS GREEN, ASSOCIATE DIRECTOR FOR ECONOMICS AND GOVERNMENT, OFFICE OF MANAGEMENT AND BUDGET

Mr. CUTTER. Yes, sir, I intended to. We very much appreciate the opportunity to be here, and my colleague is Mr. Dennis Green, Associate Director for Economics and Government, Office of Management and Budget.

Mr. HANLEY. Mr. Green, it's a pleasure to have you with us today.

Mr. GREEN. Thank you.

Mr. CUTTER. Mr. Chairman, members of the committee, I appreciate the opportunity to appear before you today to discuss the administration's position on postal policy and to comment on H.R. 7700, the Postal Service Act of 1977.

Let me begin by saying that the administration has a very real concern in seeing that the American public receives the best, most efficient mail service—at the lowest cost. We recognize that our postal system is an important and vital link in maintaining the free flow of communication and commerce throughout the country. We believe that all aspects of that system should continue to receive very serious consideration given their short- and long-term impact on mail users and the general public.

We believe that the efforts begun in 1970 to overcome the problems which faced the old Post Office Department—mounting deficits, low morale and poor working conditions, and a lack of modern techniques for handling the mail—should be continued. As you are aware, the primary objectives of the Postal Reorganization Act were to improve the conditions under which employees work, to provide adequate services at reasonable rates, and to create a self-sufficient postal system by 1984. Progress has been made toward accomplishing these goals. The average postal worker's wages and fringe benefits now average $17,300, and working conditions in postal facilities have been greatly improved. The Postal Service continues to provide a wide range of services, delivering mail in most instances on a timely basis, and at rates which are next to the lowest in the Western World. After a period of adjustment during which postal management struggled with double-digit inflation and even higher gas and oil prices, it is estimated that the Service's annual deficit—taking into account the Federal subsidy payment—will decline from $1.2 billion in 1976 to between $300 and $500 million for fiscal year 1977—the lowest level since 1973.

Despite progress, however, holding the line on costs in the face of declining growth in mail volume and increased demand for services to new households, presents a continuing challenge to postal management. In addition, recent developments add a new dimension to the challenges that face the Service: The impact of a rapidly changing electronic communications technology on mail volume and ultimately on postal services must be assessed and responded to by the Postal Service.

We believe that the most equitable way for meeting these challenges is to retain a Postal Service that is essentially independent and able to balance the needs of mail users against the cost of the services provided. In our view, a postal system having the flexibility and freedom to conduct its operations according to market demand and the public need is a desirable system to retain. We believe that—with few exceptions—the basic principles and structure underlying the 1970 Postal Reorganization Act remain viable and provide a sound mechanism for providing efficient and effective mail service to the general public.

H.R. 7700 would amend the Reorganization Act in three significant ways: First, by increasing the level of Federal subsidy for postal operations; second, by eliminating the Postal Board of Governors and requiring appointment of the Postmaster General by the President; and third, by altering the present ratesetting process. I would like to focus my remarks today in these three specific areas.

Section 4 of the bill would require that the public service appropriation to the Postal Service be increased from the present level of $920 million to a level tied to 15 percent of the Service's previous year's operating costs. At the 15 percent level, public service appropriations to the Postal Service could reach $2.7 billion by fiscal year 1979. We oppose increasing the public service subsidy in this way. We believe that the public would be best served if the Postal Service is allowed to continue to conduct its operations in a business-like manner. In our opinion, the principle embodied in the Reorganization Act, that ultimately those who utilize postal services—and not the taxpayer—should bear the costs of those services, is still a valid and reasonable concept. Increasing the public service subsidy and tying it to a fixed percentage not only undercuts the principle of self-sufficiency, it establishes conditions under which postal management will be less inclined to seek ways for increasing efficiency in the postal system and reducing costs.

While we do not support a subsidy at any percentage level of prior year operating costs, and while today we can see no reason to make any adjustments in the current public service appropriation, we do believe that we must continue to watch the Postal Service's financial progress. A clear trend in the Postal Service's ability to achieve financial stability has not yet emerged. We believe that any adjustments—such as continuing the $920 million public service subsidy beyond 1979— should be made only in response to a definite trend.

We would, however, favor the idea of separately identifying in the budget—by class of mail—the revenue foregone subsidy appropriated to the Postal Service for carrying certain categories of mail at either free or reduced rates. We believe that specifically indicating those who benefit from Federal subsidies will allow the public, the Congress, and the administration to better track, monitor, and evaluate the contribution of Federal funds to subsidizing certain mail users.

The second major area of H.R. 7700 which I would like to address relates to section 8 of the bill, which would abolish the existing Postal Board of Governors and provide for Presidential appointment of the Postmaster General with Senate confirmation. While we continue to

support the independence of the Postal Service, we believe that there is merit in having the Postmaster General appointed by the President and confirmed by the Senate. Such appointment would, in our opinion, provide for a better structural setting for communication among the Service, Congress, and the executive branch for discussion and resolution of postal policy issues of national importance. We would urge, however, that, in keeping with the general philosophy of independence, the appointment be tied to a specific term; for example, 6 years.

While we support Presidential appointment of the Postmaster General, we do not support the proposal in section 8 to eliminate the Board of Governors. We believe that such a Board is important to bringing to postal management independent views and judgments on general postal matters. While the Board has not been as strong a force as anticipated in dealing with postal problems, this does not in and of itself warrant the Board's elimination. The President intends to use his current opportunity to fill vacancies on the Board by seeking well-qualified individuals whose appointments can contribute toward improving the important role of the Board.

Finally, let me turn to a third major feature of H.R. 7700. Section 2 of the bill would subject decisions of the Postal Rate Commission in rate, fee, and classification cases to possible congressional veto and would authorize appropriations to cover any shortfalls in funds created by such a veto. Although we recognize and appreciate efforts by the Congress to insure that rate decisions act in the best interest of the public, we feel that there are sufficient safeguards in the Reorganization Act to insure that reasonable rates are set without the need for compromising the independence of the ratesetting process. We believe that the Commissioners of the Postal Rate Commission, appointed by the President and confirmed by the Senate, can render just decisions based on a fair allocation of costs to the various classes of mail. Furthermore, we wish to point out that the provision of section 2 providing for a concurrent resolution of disapproval of rate recommendations would in our opinion be unconstitutional since it would allow Congress to take an action having the effect of law without Presidential review. The Attorney General has generally held that concurrent resolutions which affect executive actions are unconstitutional.

In an effort to further enhance the independence of the Rate Commission and the rate setting process, we do support the proposal contained in section 5 of the bill to fund the Commission's operations out of appropriated funds rather than out of postal revenues.

We believe that the Congress and the executive branch have a responsibility to the American public to work together to insure the continued viability of an effective, efficient, and low-cost postal system. We intend to cooperate fully in working with you toward the resolution of the problems which we still face.

Mr. Chairman, that concludes my prepared remarks and I would be happy to answer any questions which you or members of the committee may have.

Mr. HANLEY. Thank you very much, Mr. Cutter. I'm pleased with the decision of the administration to support the concept of Presidential appointment of the Postmaster General. That, in the opinion

of this individual, and I believe the committee as a whole, is a step in the right direction.

Having said that, I'm extremely disappointed with the thrust of the position with regard to appropriations. Having adopted that position, I'm not surprised at your differing views with regard to congressional veto over Postal Rate Commission decisions. If this position were adopted, our problem is not only not going to go away but it's going to be expanded upon considerably.

In essence, what you are saying here is that the administration then would support the position of those who envision a 24-cent stamp within 4 or 5 years and other possible rate hikes not only for first-class mailers but for all classes of mail.

Just on that subject alone, this committee has given a great deal of attention to this problem over a good number of years. I will cite one example of what's going to happen if we pursue the course suggested by the position you have outlined here. Let's look at the financial outlook of one magazine in particular, one with a circulation of less than 250,000. In 1973, its yearly postal costs was just over $82,000. As of July of this year, that postal cost increased to in excess of $182,000, well over two times, in a 4-year period. That's very bad. But even worse is this: if the proposed hikes become fact, the postal bill of this particular one operation will increase from the present $182,000 plus to beyond $358,000.

Now mind you, an increase in postal costs from $82,000 in 1973 to $358,000 today. There are in excess of 10,000 magazines in America that happen to fall within this category. So what you're saying is that these people, these publishers, had better anticipate curtain call because there is no way that they can continue to exist.

I have long talked about our Founding Fathers and the role that they felt the Postal Service should play in the American society, and that was the dissemination of reading material to all Americans, regardless of their social or economic status. I have said this thousands of times publicly. Apparently that message still doesn't sink in.

The concept that you envision is going to cause publications in the category that I have just alluded to, to undoubtedly go out of business.

The thousands of nonprofit publications, again—I refer to organs such as the American Legion, the VFW, religious periodicals, and so forth—the position that you embrace provides nothing in the way of a ray of sunshine for any of them. So they, too, along with the category that I have already alluded to, face going out of business. I don't think that's what the President really has in mind.

We will be elaborating a great deal on this as we go downstream. I'm just going to scan through your testimony here for a moment, if you will bear with me.

You say that you believe that all aspects of the system should receive very serious consideration. Well, in fact, all aspects of the system have been under very serious consideration for a good number of years. That's what led to the Reorganization Act of 1970, and then, as a result of the shortcomings inherent in the act, this committee has kept the agency under the microscope. So we, the Congress, have given this matter all kinds of consideration.

You talk about the efforts begun in 1970 which were intended to overcome a number of problems you cite, such as mounting deficits,

experience has had it that the act of 1970 did nothing to alleviate mounting deficits. The accumulated obligations of the agency today are in excess of $4.5 billion.

You talk about low morale in the sense that morale has improved since 1970. The facts of the matter is that despite the incentive factor provided during these 7 years, we find that morale in the institiution is at the lowest ebb in the history of the agency, and all you have got to do is take your investigative staff out into the country and visit any postal station in America, and you will document what I'm saying today when we talk about morale. It's a fundamental built into the legislation to produce a situation that once again will produce within the hearts and minds of all postal workers a dedication traditionally prevalent to the agency.

You relate to the self-sufficient postal system by 1984. Well, if you embrace that concept, you're embracing the concept that was created in 1970 which has proven to be an absolute failure.

Now, the agency is going to either respond to what the majority of the American people want or it isn't, and if you're going to continue to embrace the concept of a self-sufficient postal system, then let us abolish the private express statute. That's what you would be forcing upon the system because you're going to drive business away from the system.

I have already alluded to one category of mailer, and that would apply to virtually all of them should your position be embraced and supported. There isn't any other thing but for to contemplate the bankruptcy of this agency because you are driving mailers away from it on a day-to-day basis, which will cause it to give way to the abolishment of the private express statute.

There are other members here at this point, so at this point we will defer to Mr. Wilson, and then perhaps in fairness to all subsequent to his remarks we will then have the 5-minute rule. Mr. Wilson.

Mr. WILSON. I don't have any remarks. I want to ask some questions.

Mr. Cutter, on the first page you commented about the efforts since 1970 to overcome the problems which faced the old Post Office Department. Where do you get the facts that all the things you state in your statement were true prior to 1970? I'm not sure that the morale is any better now than it was back then or that the financial condition of the Postal Service is any better or that there's been any improvement in the Postal Service. How did you come to this conclusion?

Mr. CUTTER. I'd have to say, sir, that those are our judgments and to a degree they stem from one or two facts. The first is that our judgment and our look at the trend in postal employee wages is that it's been up, and substantially higher than the trend of Federal workers, which in our judgment would lead to an improved morale; and the second is, in looking at the operation of the Postal Service—and I don't want to present ourselves as defending every aspect of the Postal Service, and I don't think you would interpret my testimony as saying that—the Postal Service is at this point, at least by our statistics, the most productive—it has the highest productivity of any Postal Service in the Western World, which in our judgment at least indicates a continuing development of modern techniques, perhaps not at the level and in the trend that we would like to see, but it seems to me that it indicates improvement.

Mr. WILSON. This has probably always been true. I would assume that before 1970, we were doing better than the other countries in the Western World, also.

Mr. CUTTER. And we have continued to, sir, and I think the overall point I would make is that these issues are subjective ones, and that it is our judgment that the current concept is a valid one and that there have been improvements.

Mr. WILSON. Well, it sounds like that part of your statement was taken from something that you got from the Postal Service.

Now, as far as the Service's annual deficit, on page 2, taking into account the Federal subsidy payment, you say the deficit will decline from $1.2 billion in 1976 to between $300 and $500 million. Again, where did you get those figures?

Mr. CUTTER. Those are our own figures.

Mr. WILSON. And how did you get those figures? No one has been able to get them out of the Postal Service. The Rate Commission can't get it. Nobody else can get it.

Mr. CUTTER. Those figures were given to us by the Postal Service.

Mr. WILSON. All right, sir. Mr. Bailar has been trying to con the public into thinking that the USPS is coming out of the red. He indicated there was a $5 million surplus a short time ago, and, of course, there was a little bookkeeping manilpulation pulled. I would suspect that if you had access to all of the data yourself that, if anything, the deficit is going to get larger. Actually, what they have done is they have balanced their budget with loans and subsidies. I think they are presenting a financial picture that is very inaccurate and certainly disputable.

Now isn't it true that under your proposal final responsibility for postal decisionmaking will still rest with the Board of Governors and not the Postmaster General?

Mr. CUTTER. Excuse me. Would you repeat the question?

Mr. WILSON. Isn't it true that under your proposal final responsibility for postal decisionmaking will still rest with the Board of Governors and not the Postmaster General?

Mr. CUTTER. Yes, sir.

Mr. WILSON. Well, what's the point in having an appointed Postmaster General then? What is the purpose of this if the Board of Governors is still going to be technically running things? They don't really run it now. The Postmaster General runs them, but you hope to be able to put more competent people in. Somehow you're going to find better qualified people than we have been able to find in the past. They would then in effect run the Postmaster General. Is that it?

Mr. CUTTER. Let me answer that question in somewhat greater length. We see in the proposal that we have made, which as I understood it was a proposal that you all welcomed, a balancing of two sets of concerns. On the one hand, a concern that the Postal Service and the Postmaster General have a considerable degree of managerial autonomy. This is a large organization. If thought of in terms of private sector organizations, which it is not entirely appropriate to do, I would estimate it to be perhaps the second largest corporation in the world. In any instance, it is an extremely large and complex organization and it seem in our judgment that the day to day leadership must have considerable autonomy.

On the other hand, the issues with which it fundamentally deals, with which the institution is fundamentally concerned, are of great public importance. Therefore, in our judgment, this is a unique kind of organization. It straddles the public and private world and we feel that the appointment of the Postmaster General for a specific term does in fact meet those concerns, that it walks the line between giving managerial autonomy, which we think it ought to have, and providing some form of longer term public control.

Now with respect to the role of the Board, it's not my understanding of the way boards function in other walks of life, both public and private, that the only valuable function of a board is to appoint or retain a chief executive officer. In our judgment, a board composed of highly qualified and dedicated men and women could in fact contribute a great deal in terms of advice and counsel to the person responsible for running an organization as complex and as important as this. So we would not, as I say, tie the value of the Board solely to the question of an appointed Postmaster General.

Mr. WILSON. Well, first let me say that I think we certainly welcome your statement. I see some opportunities for us to work out some legislation that will help to improve the Postal Service, and I would assume that much of what we are discussing is still negotiable over a period of time, and that the administration has not closed the door to any other alternatives.

Mr. CUTTER. We do not regard ourselves as dogmatic in very many things, sir.

Mr. WILSON. What expertise do you have in OMB on the Postal Service? I understand that you presented some options to the President. The Domestic Council presented some options, and the combination of those is what he was given to consider.

Mr. CUTTER. Yes, sir. That's the standard procedure through which we go to the President for a decision.

Mr. WILSON. Now since you're not recommending additional funding, how should the postal deficit be made up? Does the President favor closing the rural post offices and eliminating Saturday mail delivery?

Mr. CUTTER. I'm glad you brought that up because I did want to respond to some of the comments that have been made earlier. We do not see any inherent link between our proposal and any specific alteration in services such as the one you mentioned. To a degree, I think the question is a somewhat more abstract one, but a terribly important one, which is: What conditions does one want to establish? Does one want to establish a set of conditions under which the post office is given the maximum incentive to develop efficiencies, to manage its businesses well, to think in terms of businesses it ought to enter, to think in terms of how it ought to provide its services, or does one want to develop conditions under which one provides the maximum incentives for inefficiency?

In our judgment—and I think this was a universal feeling as we considered this question—the technique of tying a subsidy to previous year's operating costs seemed to us to be an extremely cost ineffective means of accomplishing something. It seemed to us that this gave a high incentive to management to operate inefficiently, to raise those operating costs.

When I was in the private sector I never considered cost-plus contracts to be the greatest deal in the world for the person who gave them out, and this seems to me to be a parallel of a cost-plus contract and I don't think it's a good deal for the Government.

So that passing the technique, you come to the question of the amount of money, and I think that we would assert a couple things there. The first is that we would assert that the trend is not clear. The deficit, according to the Postal Service, seems to be down. I will agree with you that the word isn't in on that, that that's not written on stone, and we certainly can't look—even if it's right, at a 1-year trend and project it. There are complicating factors like the strike last year which clearly helped the Postal Service offset a larger deficit. Wt don't know what that deficit would have been otherwise. It looks like we are in a period where we ought to wait and see before we put in an additional $2.6 or $2.7 billion in Federal money next year and $16 billion over the next 4 years.

The executive has a responsibility, as does the Congress, for placing priorities on the use of scarce resources when we are faced with—I ought to say after a year at OMB—practically infinite demands for those resources.

Going on just a little bit further, we do not tie our proposal to the concerns about services that both of you have raised, but we do see that there are important questions of costs involved and ultimately additional money comes from sources that all of us can identify. They come from additional rates, additional subsidies or additional managerial efficiencies. That's where they come from.

Mr. WILSON. Let me ask a couple more questions here, Mr. Cutter, before I have to relinquish my time.

You have opposed congressional veto of postal rates. Are you in favor of continuing the Board of Governors' veto of postal rates? You see, they now have the veto power over the Postal Rate Commission. You would favor continuing that while you're opposed to congressional veto?

Mr. CUTTER. Sir, we support the current rate-setting process. We most specifically, in this setting and as a general position, oppose the congressional veto for both the specific reasons I stated and for the general reason I alluded to.

Mr. WILSON. What independence does the Rate Commission have if you continue that policy? I thought your intention was to try to make the Rate Commission more independent of the Postal Service. Right now they get budgeted by them. There's little independence.

Mr. CUTTER. As I indicated, we agree with that point and we have proposed that they not be budgeted out of the postal revenues but by congressional appropriations.

Mr. WILSON. You say you do not favor the Postal Rate Commission being budgeted out of the postal revenues?

Mr. CUTTER. Yes, sir.

Mr. WILSON. You do favor them being budgeted separately; is that right?

Mr. CUTTER. Yes. I'm trying to find the point in my statement. Yes, sir; that's right. I'm trying to find the point in my testimony where I can quote it.

Mr. WILSON. Assuming we keep the Board of Governors, there is also a Federal Employees Pay Council and there was a Postal Service Advisory Council in which employee representatives make up part of the membership. The only thing was, the Advisory Council met and their counsel was never asked for. If you retain the Board of Governors, do you tihnk President Carter would consider putting some employee representatives on the Board of Governors instead of these "fat cats" who have been making up the Board of Governors in the past?

Mr. CUTTER. Two points. First, let me quote just so as to have answered the question and to have been fully responsive. I said in my testimony, in an effort to further enhance the independence of the Rate Commission in the ratesetting process, we do support the proposal contained in section 5 of the bill to fund the Commission's operations out of appropriated funds rather than out of postal revenues. Our judgment is that that is a good proposal and that we ought to support it.

Now, going back to your question, the President would fully intend to appoint the most qualified people he could find and surely employees would be among that group to be considered. I can't give you a commitment as to who precisely he would appoint. I don't think he's made decisions like that yet, but certainly the employees ought to be in the group and seriously considered.

Mr. WILSON. That's been the policy in the past, appointing supposedly the most qualified, but it always winds up being some doctor form Hawaii who Senator Fong recommended or a business leader from Chicago who Mr. Derwinski favored. In other words, the makeup of the Board in the past has been pretty political in spite of the fact it's supposed to be a nonpolitical organization.

How would you determine the most qualified person?

Mr. CUTTER. Sir, I think that's a human process. I think that it depends on your sense of whether or not we could or we would do that and it depends a great deal on your sense of trust in us.

In this area the President would attempt to find the best people possible. The Board does nobody any good if it's not composed of capable people.

Mr. WILSON. The majority of the members of this committee favor Presidential appointment of the Postmaster General. We want the Postmaster General responsible to the President. He or she should be responsible to somebody we think other than a Board of Governors which the Postmaster General runs himself.

Mr. CUTTER. If I can comment on that, as I made the point to you immediately before the testimony——

Mr. WILSON. I was going to follow that with why do we need a Board of Governors? I suppose that's something that's negotiable.

Mr. CUTTER. Let me comment on that by saying, on the thrust of your first points, we see a critical necessity for drawing a line between managerial autonomy and public control. We think that an organization of this scope and complexity requires managerial time. It cannot be run day to day by someone who has to have his eye constantly on another party, another group, with perhaps very different day-to-day interests. We believe that managerial autonomy on a day-to-day basis

is important to the Postal Service and, much more important, it's important to the public.

However, we feel this is an organization that straddles two worlds. It has private aspects an it has critically important public aspects. For those reasons, we support Presidential appointment to a set term. We feel that the existence of the set term provides the President and the public with the control and perspective over the overriding public issues that a President should have control and perspective over. That's the reason we have chosen that course and why we have chosen to walk that line.

Going back to the role of the Board, as I said a few minutes ago, I don't personally see—I don't think that any of us see—the only role of the Board being the appointment of the Postmaster General. We see in an organization this complex, with critical responsibilities in both the private and the public worlds, a Board of highly capable men and women from many walks of life being an important source of advice and counsel. We are not dogmatic about that, but that is a judgment that we have.

Mr. WILSON. Well, I'm going to relinquish my time now so the other members can ask questions. Hopefully, I will have an opportunity to ask some more questions. However, I would only state that under the old system the Postmaster General was supposedly appointed for a 4-year term and I think that even with a 6-year appointment, the President would still control the length of tenure of that Postmaster General. If the President wants to relieve him, I'm sure that he would be able to do it, even though the 6 years had not run out. And, I think that is important and good.

Mr. CUTTER. That would not be our intention. That was not the point we had in mind in drafting it.

Mr. WILSON. I realize that.

Mr. CUTTER. If I could add one point——

Mr. HANLEY. If the gentleman would yield, time is running out on us and in recognition of the agenda we have here today, as of this point the committee will adopt the 5-minute rule and you will have the opportunity to expound further on that particular subject. The chair recognizes Mr. Lott.

Mr. CUTTER. May I just answer—it will take 5 seconds—a question that had been previously asked?

With respect to Board veto of the Postal Rate Commission rates, it's not a question that the President specifically addressed. It is a question we would be pleased to discuss and negotiate with the committee.

Mr. LOTT. Thank you, Mr. Chairman. I don't think I will need more than 5 minutes anyway, but I would like to say, Mr. Cutter, first, we appreciate your coming here and presenting your testimony today, and the thing that I appreciate about it is that it is basically a positive statement. I think that's good. Rather than coming in with all critical comment with regard to the Postal Service, you have a very positive approach and I think that's good. I was pleased, and I'm sure Mr. Wilson was, that you made particular note of the fact that there's an appreciable impact on the Postal Service being caused by the rapidly changing electronic communications technology on the volume

of mail and that is something we've got to deal with. We've got to address it and if the Postal Service doesn't get into this field, to me it will spell doom for the Postal Service. So I'm pleased that you made that note.

I would like to pursue a couple questions that Mr. Wilson addressed to you. I never did hear you actually say if OMB or the President had taken a position on the Saturday closing and the closing of small rural post offices. You addressed it in general but you never did give us a specific answer. If you have not taken a position on that yet, I'd like to hear it. If you have or if you're moving one way or the other, this committee is very interested in that.

Mr. CUTTER. I guess there are two points. One, I said that we do not feel that the thrust of this testimony involves any direct, indirect, implicit or explicit link to a decision about those. Two, the President has not made explicit decisions about those and will not. I think he regards, appropriately, that the decision is for the Postmaster General.

As a matter of preference, I think the President feels that services for the American public ought to be the highest level of service that we can afford and that the American people want.

Mr. LOTT. What you're saying is that this is a matter that should be left up to the Postmaster General and the Postal Service and should not be decided by the President? Is that it?

Mr. CUTTER. Yes, sir.

Mr. LOTT. All right. Now as I understand it, productivity in the Postal Service has been going up but efficiency has been going down. How do you plan to deal with the rising cost problem in the Postal Service? You can't just wait for something to hopefully happen that would change the direction of the increasing cost. Did you address that problem? Since you're from OMB I think that would be a very vital consideration for you. Do you have any particular ideas of how we are going to deal with it and the reason I asked that question is to follow on the other. We're going to have to do something to deal with the ever-increasing cost in the Postal Service and the question is, what?

Mr. CUTTER. Productivity is going up. I preface this immediately by saying that our statistics are Postal Service statistics and that we don't have independent sources of statistics and I think what you meant by efficiency is that total cost is also going up so, in a sense, efficiency is going down.

I guess our view is as follows: First, we do not have a clear sense of the short-term trends. The information that we have been given by the Postal Service is favorable, but I would hasten to add it's short term and that one has to discount it by some anomalous incidents like the strike which clearly would have helped and almost certainly did help the Postal Service, but we don't feel that at this point in time there is basis for an up or down vote on what direction the Postal Service is going in terms of cost control and internal management.

A second point that we would make is that while this simply may not seem credible—and to a group such as your subcommittees that have been looking at postal services for as long as you have, I can understand the impatience—we also don't think there's been a sufficient trial given to the concepts. In the period since the reorganization we have

gone through a period of double-digit inflation. We have gone through a period of the highest rise in energy costs in our country's history; and just a little statistic, every penny on a gallon of gas costs the Postal Service $3.5 million a year. So that there have been cost effects that have hit the Postal Service.

And finally, my own experience in the private sector tells me the toughest thing you can do with respect to an organization is to attempt a turnaround. This is extremely difficult to accomplish, but if you do accomplish it, the payoffs are very, very large and we are trying and we are still within the time horizon that most businesses guess at in terms of the length of time it will take them to turn around much less complex and much smaller organizations.

A final point we would make is it's also a question of institutional structure. Where ought your bets to be? Basically, we assume that this organization has got to pay a substantial amount of its own way. What bet do you want to make on that being accomplished? Do you want to bet that will be accomplished by an institutional structure which provides very substantial managerial autonomy buttressed by the right and ability of the public sector to take a longer term perspective and make that count, or do you want to bet on a structure which once again brings back the day to day decisions into the complexities of every day political life? And I would assert that neither Congress nor the executive branch wants that to happen. I don't think either of us see that road as a way that will produce a Postal Service that we think is efficient and well run and serves the need of the American public.

Mr. LOTT. Let me say this. We are still having to provide subsidies to the Postal Service, so we as representatives of the people have to give some answers to the people, and if the people are going to pay the bill we feel we have a right ot have some input into what happens to the Postal Service now. If the people are going to pay the bill, they have got a right to have some say about Saturday closings and the proposed closing of rural post offices. That's why we are here today.

Mr. CUTTER. We would think section 9 of the bill, which requires hearings before closing or consolidating post offices, is essential and that public consultation is critical to an organization which has public responsibilities. We would not oppose it but support it.

Mr. LOTT. But when you have a hearing they tell you what they are fixing to do and then you have a problem. Basically, I agree with the positions you have espoused here today with regard to the specific term, 6 years, for the Postmaster General. I don't have any particular problem with the Presidential appointment of the Postmaster General and confirmation. I basically have gone along with that. At the same time, I have maintained in this committee's hearings in the past that we should retain the Board of Governors and that they should have some input into the Postal Service direction. I trust you and the President in this appointment, so I hope maybe the rest of this committee will. That's all, Mr. Chairman.

Mr. HANLEY. Thank you, Mr. Lott.

Mrs. Schroeder.

Mrs. SCHROEDER. Thank you, Mr. Chairman.

I appreciate your appearing in front of the committee to express the administration's views. You're saying, I think, that the adminis-

tration wants the Postal Service still to be more of a business organization and I just want to ask a few philosophical questions about that.

If you allow the Board of Governors to continue, would you allow them also to be liable for directors' liability as they would in any other business organization, or would they be able to hide under the cloak of their quasi-governmental responsibility? I guess one of the frustrations this committee has had has been that we say it's a business organization when that's convenient and we say it's governmental when that's convenient, and nobody is really sure what the Postal Corporation really is. It's governmental if the Hatch Act applies, but it's not governmental enough that we want to give subsidies. If we're going to keep these Board of Governors—and our hearings have been devastating on it—they kept no minutes of their meetings. It just really has looked like a jolly fun club. Would you allow them to be liable to users if they are not watching the assets and proceeding in a diligent manner?

Mr. CUTTER. A couple things. First, I'll get to the answer. We don't see it so much as busines versus public, but as a question of what is the appropriate institution. I just chose not to characterize it as a business because it has such public responsibilities that that's about as meaningless as doing it the other way.

I am personally a great believer in organization regularity and if a board has been functioning without minutes and without a sense of accountability, that seems to me to be a circumstance that can't continue. I don't know the issues that you have considered carefully, and obviously you have considered them more carefully than I have, with respect to directors' liability. I think that's an area we would be happy to discuss further and it certainly is not one we are dogmatic about and, as you see, we have not taken a position.

Mrs. SCHROEDER. As you say on page 3, the Postal Service should be allowed to continue its operations in a businesslike manner. I think part of the subcommittees' frustration is we don't believe they have been operating in a businesslike manner and yet—and you're also saying you don't like the subsidy that's in the bill. I think a lot of us would like to find a way we didn't have to vote for more money. But the other side of the coin is if we truly chew through the umbilical cord and say instead of giving the subsidy they are on their own, do we want to give the Board of Governors, for example, the right then to be able to sell off postal property and lease it back, which would be a business way of raising money if they can't keep money? That could be a little bit scary as this property were purchased by the taxpayers and there could be a real backlash if you wanted to go that far in allowing the Board of Governors or the Postmaster General that kind of authority. If they, say, sell every post office and then lease it back, it would certainly give them a cash flow, but I'm not sure where that goes in the long run.

I think those are the things we have to talk about because part of the problem has been the mixed nature of the breed.

Mr. CUTTER. Well, the critical problem in this area is how do you hold management responsible and accountable; and the point you have made about the board of director's liability is one we would be happy to explore more.

Mrs. SCHROEDER. I think the board of director liability is one and then how much authority—if we are really going to let them be businesslike, are we going to let them do what any corporation could do and they could vote to sell their property and lease it back? They could do those kind of things. We haven't really done that. If we don't allow them to do that, then what is our fallback if the rosy picture we're getting turns out not to be so rosy when we look at the books further down the line?

Those are the things that we want to deal with in this bill rather than Band-Aids. We want a long-time solution and a better identification of the beast: what is it; is it private; is it public; is it service oriented or business oriented?

I did like on page 4 your comment about the idea of separately identifying the budget by class of mail, the revenue subsidy that was going to that section. My assumption is that if we were to proceed down that manner we would have a tighter cost allocation analysis done than the one that is foreseen in the bill, the 60-percent allocation.

Mr. CUTTER. I don't understand—as I was talking to the staff director prior to the testimony—the cost accounting of the Postal Service and I'm not sure very many other people in the world do. The direction of the general increase in the cost allocation is one that we support, without being tied to specific numbers. It's one we would be happy to discuss further. And the point of that comment on page 4 was that if we provide subsidies, we ought to make it very clear that the taxpayer will pay them.

Mrs. SCHROEDER. I agree with you. I think I have been one of the real advocates of cost allocation and truly feel that the Postal Reorganization Act originally mandated more cost allocation. I think the first-class mail users found out they were really purchasing bulk facilities which they would never use in first-class mail and many of those things have not worked out in the manner that people had hoped they would.

Mr. CUTTER. I think the point is we can't be in the position of saying to postal users they ought to pay their fare share of the cost that they incur without knowing with reasonable precision what those costs are.

Mrs. SCHROEDER. I guess I must say I can tell you have looked at this and I appreciate you going along with the Presidential appointment of the Postmaster General and I think that's important. I question whether or not the Board of Governors should really be allowed to continue based on what's happened, and I like your emphasis on cost allocation. I just think that what is so important and what we should all sit down and really discuss is what is our philosophy going to be about the Postal Service because I see the Congress—it's kind of like the "tar baby." The Congress really gets very frustrated in having to come up with the deficits and having no input at all really on services. You call your local postmaster and they kind of thumb their nose and it's difficult to explain to the taxpayers why they don't have to respond to you, and yet we also hesitate to take the assets that were accumulated with public money and really just cut them off and say, "All right. You're a business and have at it in the same manner any other business would be." So I think that somehow we have to have a

better philosophical understanding as to what our real long-term goal is going to be. I feel, unfortunately, we are really going to have to get much more than into the management of it, whether we like it or not and whether it's pleasant or not over on the governmental side, that it is a governmental service and to think it's ever going to run at a profit—it's not, and what we have got to do is find some way to make it efficient. But I think that the philosophical questions that I was asking you about—the liability of the Board of Governors to users and whether or not we allow them to sell the assets and lease them back and how far we let them go with all this, what we do about the employees—do we really allow them to be full-fledged private sector employees, which we haven't so far and so forth—become very critical, and I think this is really the time that we need to look at it rather than just trying to patch something together for a while, because I think we have been looking at it and studying so long that we want something to happen fairly soon.

Mr. CUTTER. We would be happy to have those discussions. I would just make one point. It seems to us in an organization of this size, they almost necessarily have to grant a very, very sizable amount of managerial time, and I guess I would come down more on the other side of the line than you, but not for basic philosophical reasons at all, but much more based on pragmatism, that with an organization of this size and this complexity, I simply don't see the Congress or the Executive being able to get the kind of service that you indeed want unless we set up the institutional conditions that encourage that rather than dabble in the operation of an immense organization.

So we really come down on two twin pillars. One is extensive managerial autonomy, and the other is high visibility so we know what is being subsidized so the taxpayer knows that and so that the user knows that. Those are the anchors that we tend to rely on, but there are discussions that obviously can't be finished here today and we'd be happy to have them.

Mrs. SCHROEDER. Thank you. My time has expired, but I think it is important to decide it's one thing or another.

Mr. HANLEY. Thank you, Mrs. Schroeder.

Mr. Corcoran.

Mr. CORCORAN. Thank you, Mr. Chairman.

Let me begin by saying that I'm very disappointed in the position that you represent as the Carter administration's reaction to the current problems of the Postal Service and your recommendations for what we might do in order to deal with them at this time.

I think, in general, I understand your statement to be one which says, "let's continue business as usual." Let's ignore the hemorrhage that we see taking place at the moment. Let's not deal with the concern within the organization and outside in public about the quality and the character of the postal delivery at this time. I think that what we have to do is recognize that we have some tough decisions to make and we have to face up to them. Though I can understand the desire to ignore those decisions, I don't think we can continue to ignore them forever.

Let me be specific. First of all, with respect to the hemorrhage I referred to, I think that just looking at the Postal Service operations

from a financial standpoint today indicates that we do have a trend which is going in the opposite direction from what you would have us believe. In fact, I call your attention to the memorandum from the Director of Planning and Operations of September 15 to the Commissioners of the Postal Rate Commission and I quote:

> The Postal Service has sustained a net loss of $93.7 million for accounting period XI, the largest such loss in fiscal 1977. This accounting period loss now brings the Service's total loss figure to $193.3 million. A $24.9 million loss was recorded for the comparable accounting period a year ago.
>
> The attached table compares operating results for this period with those of the comparable period of last year. In comparison with a year ago, mail volume this period is up 3.9 percent, total income is up 6 percent, expenses are up 12.8 percent, and productivity is up 4 percent.

Now I ask you, based on your comments about the desire and your recommendation that the administration and Congress just monitor what's going on, what are you doing as an official of OMB to monitor this on a monthly basis, to follow where the trends are, and to give us some assurance that there is going to be some kind of public accountability and restraint developed over what's going on in the Postal Service today?

Mr. CUTTER. Let me make four points. The first is that we do not feel that we have chosen not to look at questions or to take the easy road. I would argue that to choose a subsidy which could be in the neighborhood of $13 to $17 billion over the next 4 or 5 years is not the toughest way to go.

Second, with respect to the statistics you quoted, the increase of revenue of 6 percent and at the same time an increase of expenses of 12 percent seems to me to indicate precisely that problem. If you set up an institutional circumstance such that you provide a high incentive to mismanagement in the Postal Service, you're going to see that wedge get even bigger than that. You have to set up, it seems to us, a circumstance in which the postal management has a high incentive to manage its affairs prudently and well. To provide them with a monetary incentive to inflate their costs each year for prospective gains in public appropriations in the next year just doesn't seem to us to be the way to do that.

Now as to our view of how to proceed, our judgment is an institutional one. It is, as you said just a second ago, that we do not feel that either we or you have the capacity, individual decision by individual decision, to interfere with the autonomous managerial judgments. We think our perspective ought to be longer term and broader.

As to whether or not we monitor it daily or monthly, under the Reorganization Act, one of the staff indicated a couple things which I would have said more awkardly—OMB has no authority to review postal operations by law under the Reorganization Act, and by law the U.S. Postal Service is not subject to the Budget and Accounting Act. I can tell you that we do follow quite closely trends in postal operations. We do get periodic reports, and over the last 3 months our reports have been an awful lot more frequent than monthly. We have spent a lot of time on this.

But to underline the major point again, we don't think the solution lies in monthly reports to OMB but, rather, in an insitutional structure

which recognizes both the public and the private characteristics of this institution and lets the management operate it.

Mr. CORCORAN. You mentioned earlier in your comments that you come from a background in private industry before your association with OMB. Well, I, likewise, come from a background of private industry and organization, and I think that it's a lot of bunk to try to tell us and the American people that the two pillars of managerial autonomy and high visibility will ever get us into a position where we are going to be controlling what the Postal Service does.

You missed the main point and the main point is, who's going to set policy, and that's what I want to know. Under this scheme that you have just outlined, who's going to set policy for the Postal Service?

Mr. CUTTER. We feel that policy in most respects will be set by the Postmaster General.

Mr. CORCORAN. So we are going to give all the authority—not managerial autonomy—but we are going to give the whole ball of wax to the Postmaster General? Is that the recommendation of the Carter administration?

Mr. CUTTER. And in addition to that, we and the Congress retain the right to decide what public service subsidies will be paid by the taxpayer—which in a broad sense determines what public services represent.

Mr. CORCORAN. If he makes a mistake, we bail him out? Is that the subsidy concept?

Mr. CUTTER. That is not what I said, sir.

Mr. CORCORAN. That's what it sounded like to me. If you're going to give him all the authority to set policy and to manage the organization, and then if he comes up with a deficit at the end, then we're going to bail him out; is that correct?

Mr. CUTTER. Our point on that, sir, is we do not think that the short-term view we have is a good view of the financial trends.

Mr. CORCORAN. When do you think you'll get it?

Mr. CUTTER. I can't predict that.

Mr. CORCORAN. Thank you.

Mr. HANLEY. Thank you, Mr. Corcoran.

Mr. Solarz.

Mr. SOLARZ. Thank you, Mr. Chairman.

Mr. Cutter, I think you have made a thoughful presentation and you have highlighted some of the underlying issues contained in this legislation. I have to confess that I'm somewhat skeptical about your confidence in the notion of managerial autonomy as a way of providing for the best Postal Service that we could get in this country.

I come from New York, and it seems that every decade or so in a fit of good government frenzy, we take certain vital city operations outside of the control of the city fathers and hand them over to quasi-independent corporations, and then after several years, after we have had an opportunity to look at what these quasi-independent corporations have done, there's a big hue and cry to bring them back under public control.

It seems to me that with respect to the Postal Service that there are a number of fundamental policy questions which are essentially political in character and which therefore ought to be made by the political

institutions of the society. I don't think anybody would suggest that Congress ought to get involved in the day-to-day operations of the Postal Service, and I rather have a feeling that you have set up a kind of conceptual strawman because I'm not sure that I see anything in this legislation which is currently before us which would in fact involve the Congress in making the kind of day-to-day decisions which I think you were referring to in your testimony.

Could you perhaps enlighten us on that score because I certainly find myself, as the other members of the committee do, occupied with all sorts of other weighty matters. I don't want to spend 12 hours a day running the Postal Service. What is there in this bill which causes you concern in that regard?

Mr. CUTTER. I don't think that when I gave my testimony or in answer to questions that I was pinpointing a section of the bill, and I didn't intend to. It began as a discussion with Congresswoman Schroeder about one's philosophy about how to approach the Postal Service, and the point that I was making was that as an institutional question, I think the public sector would be better served by allowing the institution a very considerable amount of autonomy.

Now what, on the edges, is policy that we set and what isn't, I don't know, but I have a feeling that when push comes to shove on each issue that if you don't allow much room there, you will have difficulty ever getting your hands on that target.

Mr. SOLARZ. Let's move from the abstract to the concrete. There's one issue about which I am particularly concerned, and that has to do with the postal rates for second-class mail insofar as they affect small magazines in this country. I think the chairman indicated that out of 9,800 magazines in the country, about 9,500 of them have circulations of less than a quarter of a million, and I'm sure, as a thoughtful citizen, that you know as well as I do that these magazines contribute in a very profound sense to the political, social, and intellectual vitality of the Nation.

Since 1970 and by the end of 1979, based on the projected increases which are likely to take place for second-class mail, based on the recommendations of the Postal Service, there will have been a 400-percent increase in the rate for second-class mail during that period of time, which is obviously far higher than the increase in the cost of living, and it seems to me it would put in jeopardy the survival of many of these publications.

Now, I note that on August 26 of this year in a statement by the President to non-Washington editors and news directors, the President indicated—and I quote:

> I would always put a heavy emphasis on the need for the Postal Service to provide to our readers of periodicals of all kinds that information without unnecessary financial burden. I favor the encouragement of the dissemination of news with beneficial postal rates as we have always had as part of our postal service since I have known it.

Now, I refer to President Carter's statement because I was planning to offer an amendment to this legislation which would, in effect, provide the mailing rates for magazines with circulation of 250,000 or less, would not exceed the attributable cost of that publication.

In the absence of this amendment, as I have indicated, postal rates for small magazines would go up drastically, and we estimate cost of

this amendment in revenue forgone amounts would be somewhere in the vicinity of $35 million.

Now, based on the President's statement and your own work in this area, would it be safe to assume that the administration would be sympathetic to this amendment?

Mr. CUTTER, Well, our comment on the revenue subsidy reflects the fact that we are very concerned with this problem. We feel those are matters of genuine public policy. The President in his statement has made that clear, and we feel that there are areas of postal service that the public ought to pay for, and we think there are adequate mechanisms now to make certain that those are paid, and our point really is that the public sector's decisions with respect to paying for services ought to be visible.

Mr. SOLARZ. Yes, I know, and we are trying to make it visible right now, and I am trying to make visible your response to my question which got lost in a fog of rhetoric.

Mr. CUTTER. I'm sorry.

Mr. SOLARZ. The Postal Service made certain recommendations to rate increases in second-class mail which will have the effect of substantially increasing the postal rate for small magazines. I'm planning to offer an amendment which would provide that mailing rates for small magazines not exceed their attributable cost to the Postal Service.

Mr. CUTTER. You mean direct costs or variable costs?

Mr. SOLARZ. That's right. This would cost somewhere in the vicinity of $35 million but it would be identifiable. It would be visible and we would authorize an appropriation to cover the revenue forgone as a result of the adoption of that amendment.

What I'm asking you is, as a matter of public policy, given the President's previous statement on this subject in general, would the administration be sympathetic to this approach as a way of avoiding the necessity for what would otherwise be a tremendous increase in postal rates for small magazines, the survival of which contribute significantly to the intellectual social and political and cultural vitality of this country, or do you prefer to price them out of the market?

Mr. CUTTER. Three points. First, as the President has said, we are sympathetic to that problem and would be happy to discuss it and soon. I don't know in detail the allocation problems that that raises and, therefore, not as a matter of policy but simply as a matter of knowledge I can't say yes or no, but I can say we are sympathetic to that and the President's comments on that indicated that.

Mr. SOLARZ. You're sympathetic to the effort to help small magazines?

Mr. CUTTER. Yes. Second, we would want to make the point that, by extending the current phase-in, many of the specific subsidies, the revenue-foregone subsidies, can be continued and that's something that is a matter of public policy which ought to be considered. We did that in the fiscal 1978 year budget and you may want to consider that again.

The final point is that we do think that we ought to all look at those costs and at that increase. A number of percentage increases seem extraordinarily high because the base is very, very small and nobody can

have been in this matter for the past 5 or 6 months and not talked to an awful lot of people from small magazines that presented the concern that you presented in very graphic terms, and people have come to the OMB and the Domestic Council and made that point. In some respects and in some cases, that's a highly convincing point. In other cases, a high increase over a low base still winds up to be pennies per ounce. So I'm not sure that I agree that you would see magazines by the thousands going out of business and we would want to look at that point specifically, but we are sympathetic to the problem and the President's comments indicate that, and we would be happy to discuss it further before your markup.

Mr. SOLARZ. If we were to accept your recommendation to remove from this bill the provision which would specify the public service appropriation of the USPS constitute 15 percent of last year's operating budget and more or less stick with the amounts that have been authorized and appropriated in the past, wouldn't that inevitably result in a larger increase in postal rates than would otherwise be the case were this bill to be adopted with that provision intact?

Mr. CUTTER. I think it's back to the point that I made before that we intend no implicit or explicit link between the testimony and service cuts. It's exactly the same question, but, similarly, we don't see any rate rises. We want incentives to be for good and efficient management, and we do not think the mechanisms provided in the bill provide that, and we think a different kind of mechanism which bases the subsidy much more on the sense of what is necessary and required, and indicates where we are at a point in time, is more appropriate. So I guess the answer is "No."

Mr. HANLEY. Thank you, Mr. Solarz.

Mr. Gilman.

Mr. GILMAN. Thank you, Mr Chairman. Obviously from your statement, the administration does support public appropriations for the public service aspects of the Postal Service. Am I correct in that assumption from your statement?

Mr. CUTTER. Yes, sir.

Mr. GILMAN. Has the administration attempted to define the public service aspects of the Postal Service and, if so, can you tell us what they are?

Mr. CUTTER. I can't tell you in detail. The answer is "No, we don't have a definitive definition." The subsidy that we have continued for public service is based on the definitions that are in the Postal Reorganization Act. We are, at the moment, at a point where we don't really see the need for increasing or changing the current law and we would like to look at the choices between that and straightlining the $920 million, but we really don't see at this point the basis for going beyond that. Our view is based on an overall sense of the picture which is subjective rather than a definition of public service.

Mr. GILMAN. Generally, what do you see to be the public service aspects of the Postal Service? I'm sure that OMB has arrived at some consideration.

Mr. CUTTER. Not in the way you have asked that question, but it seems to me that the principal public service expenditures of the Postal Service have to do with the kinds of services it provides and the types

of subsidies that are provided that make that possible. The subsidies occur in two forms. They occur, one, in the form of revenue foregone and, a public service payment—and the total of the subsidy comes out to $1.6 billion of which roughly $680 million is for revenue foregone and roughly $920 million is for a public service payment, but they all eventually pay for specific kinds of end uses and classes of postal service.

Mr. GILMAN. Are you saying that the public service aspects cost about $900 million and the revenue foregone has nothing to do with the public service aspects?

Mr. CUTTER. Oh, no. I said those two elements—revenue foregone and the direct expenditures for public service—together, compose the public service cost.

Mr. GILMAN. So the public service cost would be about $1.6 billion?

Mr. CUTTER. Yes.

Mr. GILMAN. What is the administration's position on section 4(b) of H.R. 7700 relating to the parcel post subsidies Do you support the language of 4(b) as it's presently drafted?

Mr. CUTTER. We have not taken a position on it. We left, as the chairman said at the start, a number of points open where we were willing to discuss as you move to markup.

Mr. GILMAN. I don't quite follow that.

Mr. CUTTER. We do not have an administration position on that specific section.

Mr. GILMAN. But you intend to forward a position during markup?

Mr. CUTTER. We are willing to discuss aspects of the bill which I have not taken a position on. We will discuss them prior to markup and during markup.

Mr. GILMAN. Mr. Chairman, may I direct a question to the Chair? When do we intend to mark up the bill.

Mr. HANLEY. We will begin to mark up not later than Friday. It was our intent to commence that activity on Thursday but because of the religious holiday consideration is being given to deferring or postponing that meeting until Friday.

Mr. GILMAN. Mr. Cutter, would we be able to get the administration's position prior to markup.

Mr. CUTTER. As I indicated before, some of them we don't have a set position on and we are simply willing to discuss and negotiate. We will go back and go through the pieces of the bill where we have not taken a position and those where we feel we want to come to a specific position we will come to you before markup on.

Mr. GILMAN. Well, since we are confronted with a markup in 2 or 3 days, I think it would be to the advantage of the committee if we could have the administration's position on these important elements. I think certainly the language with regard to parcel post subsidies is an important one and one that we should consider and if there are other important elements you haven't expressed an opinion on I think it would be most beneficial to the committee to have these views prior to embarking on our markup.

Mr. CUTTER. We will arrange that.

Mr. GILMAN. Does the administration endorse the repealing of the private express statute?

Mr. CUTTER. No, sir.

Mr. GILMAN. I have no further questions, Mr. Chairman.

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

With profound respect to you, as of this juncture, I can only think that much of what you have said is full of inconsistencies. Let me get it clear in my mind. You have said that the concept of the Reorganization Act of 1970 should continue. That is, become self-sufficient by 1984. Am I correct?

Mr. CUTTER. We see no reason to abandon that concept at this point.

Mr. HANLEY. OK. Then, on the other hand, you have said that the President insists the American people enjoy the highest level of service. You said, "what the people want." Let us deal in the world of reality and reality suggests that you cannot have it both ways. You're going to do one thing or the other, and if you're going to cling to the concept of the act of 1970, then you cannot do what the majority of the American people want. You cannot maintain the quality of postal service traditional in this country. There is no way of doing it. That's your major fundamental inconsistency.

Let me remind you, if the President really wants to do what the American people want, then refer to the resolution passed in the last Congress by a vote of 399 to 30, stating that the people wanted no reductions in service.

In a few days we will be dealing with another similar resolution that enjoys support in the Congress, an expression of what the people of America want from the U.S. Postal Service. Essentially all they are asking for is that they be assured that the quality of Postal Service be perpetuated and that rates remain reasonable.

You must realize that if you cling to the breakeven concept then you will have support all of the rate hikes essential to simply do business, not as usual, but under highly restrictive situations. Let me remind you that to stave off bankruptcy last year the Congress had to infuse into the agency additional moneys to the extent of $61 billion, just to keep the ship afloat, so that come that pay day not too many months away back in that year the agency would be able to meet its payroll. We gave the agency a bonding authority back in 1970 ostensibly to be used for the purpose of capital improvement to bring the agency into the 20th century from the standpoint of methodology and technology. For 4 consecutive years one quarter of that bonding authority has been utilized for operating expenses. Congress has pumped into the agency $500 billion plus user revenues just to keep it alive.

Even the Study Commission said it was absolutely essential that the 10-percent appropriation, I refer to it as an appropriation, some refer to it as subsidy, even the Study Commission said it was essential to the operation that that 10 percent continue to prevail. The Commission described that 10 percent as absolutely essential, and recommended the elimination of Saturday delivery even with that subsidy or appropriation.

You have referred to interference with managerial judgment. My friend, that's what this activity is all about, because of the profound errors in managerial judgment that has produced the dilemma that the American people now suffer. That's what we want to correct. I could

refer to a litany of things. For instance, thrusting the construction program on to the backs of the Corps of Engineers, denying 4 years of progress that could have been resolved had the ordinary in-house construction division been allowed to do its thing. Unfortunately, the initial Postmaster General under this act junked it and caused us 4 years in the way of setback plus hundreds of millions of dollars because of delayed construction and the inflationary factor.

At one point you said, essentially, How do you hold management responsible? Very simple. By doing what we say and what you are agreeing to from the standpoint of Presidential appointment of the Postmaster General, and then when a managerial error is obvious you excuse the gentleman. The President fires the Postmaster General, as he would any other Cabinet officer. That is how you transmit a message to management.

I could, and Mr. Wilson could, elaborate on the horrendous errors with regard to the bulk plant situation. We could go on forever.

Let me correct you. You say on page 4 of your testimony, "We would, however, favor the idea of separately identifying the budget by class of mail, the revenue foregone subsidy." That is already the case. The classes are identified and the amounts are stipulated. I will level with you, I believe the basis for OMB position as representative of the President, happens to all relate to zero-based budget for 1981. I think that's what it's all about and that's the fundamental upon which the fiscal aspect position has been presented to this committee this morning.

As I relate back to what I said originally, there isn't any way you can have it both ways. So the administration is going to have to go on record and say to the American public that we expect that every user of mail is going to underwrite the total overhead of the U.S. Postal Service, contrary to the tradition of this country. That's what the administration would be forced to go on record as saying if it clings to the position you have suggested in your testimony.

Your comments, please?

Mr. CUTTER. As I said, it's fair to say we do not agree with many of the points that you have made. We think there's a great difference between what we would like to provide and what we believe it is possible to provide—we think there's a difference between saying that we would like to provide the highest level of service to the American people that they are willing to pay for and saying that we would like to provide the highest level of service the American people can dream up. I would think that this is the point that we have made or tried to make in terms of this bill.

Mr. HANLEY. At this point, if I might ask you this question, is it the intent of the administration that the postal patron they pay for the service in toto?

Mr. CUTTER. Excuse me?

Mr. HANLEY. Is it the intent of the administration that the postal user pay in full to underwrite the overhead of the U.S. Postal Service? Is that the intent of the administration?

Mr. CUTTER. I think it's premature to raise that question. The original reorganization provided a continuing public service subsidy until 1984. We are 7 years away from that. We think that phasing out

can be extended if that seems prudent now or we can wait and see what occurs then. We just don't think that the evidence is in and we don't think we have to make that decision now.

Mr. HANLEY. May I ask a question at this point then? How do you envision the possibility of, for instance, 6-day service, that being the case? Are you saying that the administration is opposed to that 6-day service?

Mr. CUTTER. We are not. As I said earlier, we do not see an implicit or explicit link between the points I have made in this testimony and such questions as the 6-day service. We think that management can, in fact, manage the postal service so that that kind of service is continued if that is a high priority of the American people, and we support the provision of the bill that provides hearings so the public can make their wishes known, and if I can once again go back to the final point you made about the 10 percent subsidy that the study commission espoused and that this bill has arranged for, our position is that that mechanism absolutely guarantees an inefficient functioning management of the Postal Service.

Mr. HANLEY. All right. Then, that being the case, are you saying by virtue of appropriations that we make the Defense Department each year that that guarantees inefficiencies in the Defense Department?

Mr. CUTTER. The link I'm making is between tying this year's appropriation to last year's cost. That seems to me to be a positive incentive to postal management to inflate each year's cost.

The whole purpose of the zero-based budgeting process is to make certain that such inefficiencies don't occur in the Defense Department and we are going at that as rigorously as we can.

Mr. HANLEY. Well, if what you said is the case, it would be a very sad reflection on whoever it is that's going to head up this agency and avoid his or her removal as leadership—that would be a sad reflection on the President.

We keep talking and describing as moneys provided from the U.S. Treasury to the Postal Service as subsidy and I have always wondered about this. All other agencies of the Government enjoy the apparent status of appropriations and, of course, it's interesting to note that the dollars we talk about relating to the operation of the Postal Service are, for instance, multiplied five times by the Department of Agriculture by virtue of appropriations. So we are talking about something here that has been well thought out, that a great deal of consideration has been given to by a good number of people who have worked long in this vineyard, and we seem to think by the adoption of the provision contained in this bill that that's the best possible way of having this institution evolve from its dilemma and provide the traditional type of service.

Now you have referred to a possibility of a multibillion dollar cost over a period of years. That is not at all the case. It's not the intent of the legislation. Essentially what we are talking about is a 2-year authorization and the President has the authority to request any or all of the moneys authorized. We would assume that the President would request the moneys that he deemed essential to keep the agency

on track. So we are not burying ourselves in concrete here with a dollar factor. It's a 2-year authorization subject to many, many things. So when you talk about commitment, a long-term commitment for the expenditure of many billions of dollars, that is not at all the case. Many factors will be considered in association with the expenditure of this authority, chief of which is going to be how well that Postmaster General makes the institution work.

Mr. CUTTER. Just let me make one point. We did not use the term subsidy as a derogatory term and if you felt that I meant it that way or phrased it in those terms I was misunderstood and I didn't intend it.

Mr. HANLEY. I just remind you that sensibly we are talking about an add-on from the standpoint of the budget of possibly approximately $8 billion under a 2-year authorization condition. That would be $1 billion in excess of the present obligation assumed by Government with respect to the U.S. Postal Service. That's all we're talking about.

Mr. CUTTER. Sir, at least in the world I have seen here, day follows night. Appropriations follow authorizations and longer year authorizations follow shorter year authorizations and our concern remains the same.

Mr. HANLEY. Well, of course, the expenditure has to be rationalized and certainly if in the President's judgment there is sufficient merit associated with it, then he would ask for these moneys.

Mr. WILSON First. I want to compliment Mr. Corcoran. I think he made some very fine observations and hit the problem right on the head. I think you made a great contribution this morning, Mr. Corcoran.

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

Mr. WILSON. Yes.

Mr. HANLEY. I would like to echo your remarks. I commend Mr. Corcoran.

Mr. WILSON. Mr. Cutter, this morning is the first time any of us have met you and it's unfortunate that we have not had the oportunity to meet with the Office of Management and Budget to discuss this matter before a policy came from OMB. Perhaps from now on we can communicate together and we might be able to help one another considerably by giving you some expertise that we have. Also, I feel we represent the public's thinking. I hope all in the future this will be possible.

Mr. CUTTER. We would be pleased to have such discussions. I do want to say this was a decision of the President and the staff work was done jointly by the Domestic Council and by OMB. It's not only OMB.

Mr. WILSON. If the President had lived up to his campaign promise this could have been resolved some time ago. I have a release out of St. Louis, Mo. dated October 30, 1976, in which the President made some very strong statements about the Postal Service. In fact, he said, "Postal rates have risen by 63 percent in the last 5 years, twice as fast as the overall inflation rate. Even so, the Postal Service now loses $250,000 every hour. By the end of this fiscal year it will have spent nearly $12 million more than it takes in," and he goes on and on, and

further says he is "going to take immediate steps to try and make our Postal Service efficient and dependable once again."

I suspect that this statement, made just prior to the election, struck a pretty good note with the American people. It's unfortunate that the President isn't now recognizing the value of doing something about the Postal Service. I would think that the President would recognize the importance of the Postal Service to the American people. I would hope that the President would go much further than indicated by your statement today.

Mr. CUTTER. Sir, I think the President fully realizes that this issue is of importance to the Postal Service and we feel that he's aproached these discussions in a constructive way and this is the start of a long dialog.

Mr. WILSON. Well, I hope so. We don't have too much longer.

Mr. GILMAN. Would the gentleman yield?

Mr. WILSON. Yes.

Mr. GILMAN. I thank the gentleman for raising this issue. I think that it is extremely important that we move expeditiously, and I know both you gentlemen, both our distinguished chairman and Mr. Wilson, have given a great deal of time and effort to the reorganization problems, and I'm distressed to learn that the administration has been sitting on the problem for so long a period of time.

How long had OMB worked on the recommendations to the President?

Mr. CUTTER. OMB has worked jointly with the Domestic Council for several months.

Mr. GILMAN. When did you submit your recommendation to the President?

Mr. CUTTER. I can't remember the exact date, sir.

Mr. GILMAN. It was my understanding that it wasn't submitted until just this past week. Is that correct?

Mr. CUTTER. I think that's the first—I really don't know the exact day. Last week was the first time I think the President saw this particular draft. It's by no means the first time the President has discussed these issues.

Mr. GILMAN. Then, essentially, it wasn't a Presidential delay. It was an OMB delay?

Mr. CUTTER. As I said a couple times, this was staffwork that was done jointly by OMB and the Domestic Council by the President's staff. It's not an OMB position.

Mr. WILSON. Let me reclaim my time just a moment because I was discussing this same matter. Actually, Mr. Cutter, the President didn't make a decision until close to midnight last night on what was going to be discussed here today, did he?

Mr. CUTTER. I think that's accurate.

Mr. WILSON. And you didn't finish your statement until about 9 o'clock this morning. Is that correct?

Mr. CUTTER. All aspects of the statement.

Mr. WILSON. Actually, now I'm quite optimistic about our marking up the bill. I think that we should feel free to mark it up pretty much the way the bill is written and then see what happens. Because of the limited time that you have had to work up a statement, I think

that the administrations position can be improved upon and that there's much more that you will eventually agree to. I say very frankly—and I have tried to restrain myself as much as I could this morning—but I think someone in the Postal Service could have prepared this statement. You could have contacted Mr. Finch or Mr. Byrne over at the Postal Service and come up with the same thing without any difficulty. I suspect most of your figures about anticipated deficits were obtained from the Postal Service because it was certainly different from the information that the President had received when he made this very fine statement less than a year ago on October 30, 1976. Obviously, he wasn't getting his figures from the Postal Service at that time.

The Postmaster General—I haven't heard him make this statement, but he's been quoted as saying if the President comes out for Presidential appointment of the Postmaster General that he will resign. Do you think that the President would be happy to receive that resignation?

Mr. CUTTER. I have never heard the Postmaster General make the statement. He's never made it to me, and I don't think the President is anywhere near a decision on that.

Mr. WILSON. Well, thank you very much, Mr. Cutter, and we do have other witnesses and more that has to be taken up. I appreciate you coming here and having the opportunity to become acquainted with you.

Mr. HANLEY. Thank you, Mr. Wilson.

Mr. GILMAN. Mr. Chairman, I have just an additional question or two.

Mr. Cutter, I have always been interested in the policymaking responsibilities of OMB, and I'm still learning a lot more about what OMB does with regard to this. In developing a policy on this particular issue, was there a dialog with this committee, between OMB and the committee?

Mr. CUTTER. As I said, I think three times before, this was developed jointly by OMB and the Domestic Council. As I understand it, there had been discussions between members of the Domestic Council and this committee staff, but I'm not certain about that—yes; there have been.

Mr. HANLEY. Would the gentleman yield?

Mr. GILMAN. Yes.

Mr. HANLEY. In answer to the question, the answer is no.

Mr. GILMAN. The chairman says there was no dialog. Was there a dialog between OMB and the Domestic Council and the Postal Service with regard to the policymaking?

Mr. CUTTER. I will go back. As I understand it, there have been discussions between our staffs and these subcommittees' staffs.

Mr. HANLEY. If the gentleman will yield, as late as Thursday of last week we urged that before a position was adopted by OMB, it would be well that we enjoyed an informal conference for the purpose of discussion. That was made to the gentleman seated behind you, Mr. Malson. We heard nothing further from OMB until 9 o'clock this morning. There was no discussion. It was just a statement of position, period.

Mr. GILMAN. I thank the chairman for his comment, and this is the kind of unilateral policymaking that distresses me, and I have been hearing this in other areas recently. The President decided to do away with the Office of Reorganization Policy, and I was astounded to hear that OMB hadn't discussed the proposal with the chief policymakers in the executive branch. Has there been a dialog on this subject with the Postal Service prior to you making the decision?

Mr. CUTTER. My understanding is that a member of the White House staff has discussed these issues widely with members of this committee, with members of this committee staff, with members of the Postal Service, with the postal employee representatives, with general experts of postal matters.

Mr. GILMAN. If you have discussed it with members of this committee, I haven't had any discussion, and our distinguished chairman says he hasn't had any discussion. Can you tell us what other members of the committee you have discussed this proposal with?

Mr. CUTTER. I think the point the chairman made was that the conclusions had not been brought here prior to the testimony. As I understand it—maybe Mr. Chairman, I'm completely wrong, but as I understand it, our staff did in fact have discussions with your staff.

Mr. HANLEY. Well, if they did, I was not present, and all I know is what I previously said. White House staff last week consulted with Mr. Wilson and myself, and that was the extent of consulation, and that was really not a consultation. That was a presentation of possible position. It was at that point that I suggested to White House staff that it would be well if we have an informal conference with OMB for the purpose of discussion prior to anything formal. That meeting never came about.

Mr. GILMAN. I thank the chairman. I would hope that OMB at least in this proposal will attempt to have a better dialog with our committee and at least before markup session present to all of the members of the committee your views with regard to the major policy considerations, and I hope that in the future when there are policy considerations, that there would be a better dialog between the policy people in OMB, some of the policymaking people in the various departments, as well as in Congress, so that there could be a more fruitful exchange and a more meaningful program adopted.

Mr. HANLEY. Thank you, Mr. Gilman.

Gentlemen, we appreciate your presence here this morning. I can only conclude that this is only the beginning of some ongoing dialog where hopefully we can develop a better understanding with regard to the legislative tools we deem essential if the USPS is going to survive. Thank you, and the hearing will adjourn until 2 p.m.

[Whereupon, at 12:10 p.m., the hearing was recessed, to be reconvened this same day at 2 p.m.]

AFTERNOON SESSION

Mr. HANLEY. We resume the hearing on H.R. 7700 and our first witness this afternoon is Mr. Jim Finch, Assistant Postmaster General for Government Relations.

Mr. Finch, we are delighted to have you with us. I would be less than candid if I didn't say that to the best of my knowledge this is the

first time that a congressional liaison person appeared as a witness on behalf of the agency. So your appearance here today is indeed a distinctive one. We look forward to your remarks in behalf of the Postmaster General.

STATEMENT OF JIM FINCH, ASSISTANT POSTMASTER GENERAL

Mr. FINCH. Thank you, Mr. Chairman.

Mr. Chairman, members of the committee, my name is Jim Finch, Assistant Postmaster General for Government Relations, and I appear at your invitation to present the Postal Service's views on H.R. 7700. We appreciate the opportunity to share our thoughts with you as you carry out your legislative responsibilities.

The Postal Service opposes this bill, which we believe would not serve the best interests of the public.

May I say at the outset it's a pleasure to be here to offer views on behalf of the Postal Service on H.R. 7700. I would also like to note for the record the Postal Service is mindful of the work of this committee not only this session of Congress but in prior sessions of Congress and the important responsibility that you have in making legislative determinations on what kind of a Postal Service the public of this country has to serve it in the years to come. We think we, above all people, know the importance of that endeavor and it is our intent to be helpful to this committee and your colleagues in the Congress in whatever way we can in seeing that the best legislation possible for a better Postal Service in the future is the result of your efforts.

Mr. FINCH. Before getting to my statement, I'd like to touch on a few points that were raised that would seem to be of interest to the various members of the committee during this morning's session when Mr. Cutter from OMB was before you.

I do this, Mr. Chairman, not to be argumentative, nor not to take opposition with any position stated here either by OMB or implied in the questioning by the members of the committee, but merely because I feel very strongly that the subject matter before this committee is important for the Congress and for the public. The members of this committee and your colleagues in the Congress need to have a full and complete and accurate factual record upon which to make their determinations ultimately.

To begin with, Mr. Chairman, you, in your statement this morning, being somewhat critical of the OMB and the position it took in its statement on the proposed 15 percent of prior year budget for public service subsidy increase, mentioned the specific example of a magazine which, if I recall correctly, in fiscal year 1973 or 1973 had a total postage bill of $84,000. This year it would be paying something in the magnitude of $182,000 and if the phasing ran out over the future years as under the present act it would be paying in the neighborhood of $358,000. I think my general familiarity with postal rate matters would lead me to believe that that magnitude of increase is probably correct and when expressed in percentage terms can at times sound quite awesome.

What I think is important for the members of this committee to understand, and it's important for the mail users to understand and

it's important for the public to understand, is how the proposed subsidy increase or appropriation increase in H.R. 7700 as proposed would impact just the kind of situation which you have alluded to this morning.

The fact of the matter is, in the postal ratemaking mechanism as it exists under the Postal Reorganization Act, public service subsidies are backed off the top of the total revenue requirement at the outset. Those mailers who pay the littlest or the smallest percentage contribution to the fixed overhead benefit the littlest from the public service appropriations. Those mailers who on the other hand have the highest percentage markup over their attributable costs would benefit the greatest amount from an increase in public service appropriations.

I did some rough calculations over the noon hour, Mr. Chairman. As you know, I have done some postal rate work in the past and while I wouldn't stand by non-hour calculations, an increase as that proposed in H.R. 7700 of 15 percent of the prior year's budget, which would amount to a sum of $2.7 billion in fiscal year 1979, which would be an increase from the taxpayer of a total of $1.8 million, would benefit the second-class regular rate payers less than 1 percent of the total revenues.

As a practical matter, the rate relief for second-class regular rate, as the illustration you gave this morning, is less than 1 percent.

You also went on to mention nonprofit organizations such as the American Legion, the VFW. Under the ratemaking mechanism no nonprofit mailer would stand to gain any rate benefit regardless of how large an increase in the public service subsidy. By law, under the Postal Reorganization Act, nonprofit rates are set at the attributable cost level and increases in the public service subsidy do not impact those attributable costs one iota.

Moving on to another subject raised this morning, it was alleged that the Postal Service had engaged in extensive borrowing every year of its existence in order to meet its payroll. Fiscal year 1977 is drawing to a close. Postal management has decided not to exercise its borrowing authority for operating cost this year. We will not borrow in fiscal year 1977, which makes a break in past practice.

Additional comments were offered this morning that we were having difficulties last year and we were in danger of not meeting our payroll and had not the Congress bailed us out with a billion-dollar appropriation in Public Law 94–421, we couldn't have met our payroll. Mr. Chairman, as a matter of fact, the billion-dollar appropriation in Public Law 94–421 specifically set out by the Congress to be used for the sole purpose of paying back prior operating deficit obligations. There's a distinct difference between a profit and loss statement and a cash flow statement. We paid off a billion dollars worth of notes to the Treasury with that billion dollars worth of appropriations. It did not put one penny of that billion dollars into the paycheck of any Postal Service employee. The mechanics of the accounting just don't work that way.

Another point raised this morning—and this one by Chairman Wilson if I recall—was that we had in effect tried to deceive the public and I presume the Congress by accounting measures when we had announced a $15 million surplus at the transition quarter and a

break even for the 12 months of operation which ended in March of this year. That was not Postal Service book juggling. It did not include the proceeds from borrowing. It did not include the billion-dollar appropriation to the Postal Service under Public Law 94–421. Those financial statements issued by the Postal Service were fully audited by the accounting firm of Ernst & Ernst, and I don't think a firm of that national reputation would risk its reputation in order to help the Postal Service pull the wool over the public or the Congress eyes.

Another point I would like to touch on, and this one was raised, I think, by Mrs. Schroeder this morning when she was commenting on thhe operation of the Postal Service's Board of Governors—perhaps a misstatement by accident, but she made this statement—that no minutes were taken and no sense of accountability were evident in the Board carrying out its functions. It's been the Board's practice since its inception to adopt its minutes after each meeting. Those minutes have been for the 3½ years I have been at the Postal Service on public view in our library and in our public affairs office and have been readily available to any member of the public who cared to ask for them.

Mr. Corcoran this morning made a critical comment to the extent that the Postal Service was heading into further financial disaster. He read from the summary of one of our accounting periods that the last accounting period that the Postal Service had suffered a dollar loss in the magnitude of $93 million. Those on this committee will readily know that $93 million, while a large sum of money, is not astronomical in terms of Postal Service finances. I would point out for your consideration that is the largest accounting period loss in this fiscal year and that well over half of that amount was due directly to the $600 contractual increase in our employees pay which became effective in July of this year and an amount which went to each of our 600,000 bargaining unit employees.

Mr. Chairman, we have, in the fact that we are now in the third month of a rate case and yet we are now beginning to inch up toward a $100 million a month loss, evidence once again of the difficulty that management of this type of organization has in planning adequately for the future to have its income meet its outgo. We will continue to suffer some losses until such time as we receive new rate revenues from that now pending case.

I would like, if I might now, Mr. Chairman, to present my prepared statement.

Directly or indirectly, H.R. 7700 would affect almost every aspect of postal operations. In general, the provisions of the bill fall into four categories:

First, revisions in the organization of the Postal Service, including elimination of the Board of Governors.

Second, financial provisions, including a new formula for authorizing public service appropriations.

Third, a revamped ratemaking system, including a two-House congressional veto.

Fourth, miscellaneous provisions dealing with a wide variety of minor postal questions.

Our testimony on this will deal in turn with these four groups of provisions.

In our opinion, the provisions dealing with Postal Service management and organization are potentially the most harmful part of the bill. Section 8 would abolish the Postal Service Board of Governors and require Presidential appointment and Senate confirmation of the Postmaster General.

The Postmaster General would exercise most powers now assigned to the Board, and would appoint the Deputy Postmaster General. However, he would have no power of executive review over the rate and classification decisions of the Postal Rate Commission.

We believe that the existing structure of the Postal Service is soundly conceived and well suited to the Nation's postal needs. It provides for continuity of management, control of capital and other financial resources, modern industrial relations, nonpolitical ratemaking, and flexibility to provide services matched to customer needs.

Dismembering this structure would be a disservice to the public interest. The structure of the Postal Service underscores commitment to good Government, as well as to efficiency.

Past experience teaches that return to the former structure would in all probability destroy the continuity and the quality of management policy in the Postal Service. Each new administration would bring at least one new Postmaster General, new priorities, and new obligations.

Long-term planning for the future operation or modernization of the postal system would be highly unlikely in such an environment, as would any serious effort to examine basic choices regarding the nature of future postal services.

The future ability of the Postal Service to perform well is largely dependent on the senior management positions being held by experienced, able career employees.

Returning to the old system would make it difficult at best to recruit top flight career people to fill senior-appointed positions serving at the pleasure of the Postmaster General when their tenure could depend on political change rather than their own performance.

History also presents a graphic example of what happens to the Postal Service when it is operated as one of many political agencies. The Post Office Department was the orphan child of the Federal Establishment. It suffered at once from a chronic shortage of the capital financing needed to maintain modern facilities and equipment, and from a lack of management incentives to hold down operating costs.

Its rates were perennially understated, or skewed in favor of those with extra political clout. Its overgrown labor force was the consistently underpaid victim of more pressing budgetary priorities.

Decisions at all levels were subject to unremitting influence from outside the postal system. The accumulated effects of these factors lead to the near collapse of the postal system and the enactment of sweeping reforms in 1970.

H.R. 7700 itself testifies to the damage it could do to the postal system. Section 12 of the bill proclaims that nothing in the proposed Act would affect the collective bargaining authority of the Postal Service.

In our view, this provision is nothing less than wishful thinking. Politically appointed postal officials would find it difficult to separate

postal issues from nonpostal concerns in their negotiations with union representatives.

For instance, postal bargainers might be under pressure to hold wage agreements within certain limits or "go easy" or "hang tough" on certain contract terms to secure union political support for nonpostal goals.

Whatever its other results, traditional partisan appointment of top postal executives would probably destroy true collective bargaining for postal employess. Under the collective-bargaining system established by the Postal Reorganization Act, postal workers have at last achieved "comparability" with employees in the private sector. We believe it would be regrettable to sacrifice these gains.

The financial provisions of H.R. 7700 raise important policy questions. Section 4 would repeal the current public service authorization, based on 10 percent of the postal appropriation in fiscal year 1971, and substitute for fiscal year 1979 and fiscal year 1980 authorizations of 15 percent of the total operating expenses of the Postal Service for the preceding fiscal year.

This is, to say the least, an expensive proposition. On the basis of current estimates, it would increase the authorized fiscal year 1979 public service appropriation to the Postal Service from $920 million to approximately $2.5 billion.

In the foreseeable future, we believe that an adequate level of postal services can be maintained at reasonable rates without increasing the current level of public service funding.

However, we recognize the authority of Congress and the administration to decide this issue as a matter of public policy. The Postal Service stands ready to provide any level of postal service which the American people want and are willing to pay for.

In addition, we are concerned about the uncertainty that would be created in the ratemaking process by the 2-year authorization of the proposed public service subsidy.

We are also concerned, Mr. Chairman, that although much support has been given during these hearings for a very substantial increase in taxpayer contribution through public service appropriations, little attention has been paid as to who the beneficiaries would be under the statutory ratemaking provisions.

We have serious reservations about the language of proposed 39 U.S.C. 2401(i), dealing with the rates for zone-rated parcel post. The proposed language, which is even more obscure than the special interest provision now in the law, would add unwelcome complexity to postal rate proceedings.

If, as we suspect, this language is intended to impose on parcel post some unique handicap in the ratemaking process, we would strongly oppose its enactment.

We do not believe there is any excuse to place parcel post at a special disadvantage to benefit privately owned, profitmaking parcel delivery systems. This is especially true with regard to those private systems which provide limited services or cater to a selective market. These shippers already derive ample competitive advantage from the fact that parcel post must stand ready to serve all the people every day.

The Commission on Postal Service recommended that the Postal Service attempt to make parcel post more competitive, citing the value

of parcel post as "the only nationwide parcel delivery system conveniently available at reasonable prices to all citizens."

If, as the Commission suggests, the Postal Service should stay in the race for parcel business, it makes no sense to nail its feet to the floor with restrictive special interest legislation.

In a third area, H.R. 7700 would completely revise the ratemaking and classification processes. Abolishing the Board of Governors of the Postal Service would eliminate the limited opportunities which now exist for executive review of the rate and classification decisions on the Postal Rate Commission.

Eliminating the review authority for rate decisions would remove a useful mechanism for correcting minor technical oversights, as well as protecting the postal system against a defective recommendation which failed to cover projected costs.

However, the loss of executive review authority with regard to classification decisions woulld be even more objectionable. Its loss would deprive the Postal Service of the ability to decide what kinds or categories of services it can and should provide to the public.

Rather, an outside agency having no responsibility for postal operations would have virtually unlimited authority—subject only to congressional review—to determine the range and character of postal services.

This would divide authority from responsibility on a grand scale, without unpredictable consequences. Accordingly, we strongly oppose this provision.

Section 2(a) of the bill would allow a final rate or classification decision of the Postal Rate Commission to be vetoed by a concurrent resolution of disapproval within 60 legislative days after the decision is delivered to Congress.

There may be serious constitutional problems with this proposed legislative veto of Commission decisions. A similar procedure was recommended by the Kappel Commission and included in an early draft of the Postal Reorganization Act. However, the Department of Justice considered this provision an unconstitutional violation of the principle of separation of powers, as well as an infringement of the President's veto power.

Aside from the constitutional question, the legislative veto mechanism raises a number of other sticky problems.

For example, the bill does not clearly state when appellate review would be available. In fact, the bill might accidentally foreclose such review.

The bill would repeal 39 U.S.C. 3625(e), which now requires publication of a rate decision by the Public Printer. However, as amended and redesignated by 39 U.S.C. 3627, the appellate review provision would permit appeal of a Rate Commission decision "within 15 days after its publication by the Public Printer."

Since publication would no longer be required, and is not an essential element of a decision, review might be unavailable if by chance the decision were not submitted for publication, or if it were published by a commercial printer. Section 3(a) would set a 2-percent limit on

the contingency-allowance portion of the revenue requirement for setting postage rates. This limit appears unnecessarily restrictive.

Deciding what contingency is justified under particular facts is the kind of expert judgment the Postal Rate Commission was created to make. If we are to have a Rate Commission, its functions should not be chipped away in this fashion.

Recent experience shows that a 2-percent allowance would almost certainly be inadequate. In both fiscal years 1975 and 1976, actual expenses exceeded the projected revenue requirement by more than 4 percent. Unpredictable factors such as an oil embargo or a rate delay may drastically affect postal finances from time to time.

It should be noted that the Study Commission recommendation concerning allowance for contingencies was coupled with a suggestion for taxpayer financing of losses of previous years.

The Postal Service is not requesting taxpayer financing of previous losses. We believe it is consistent with the overall intent of the act that those costs should be borne by postal ratepayers.

However, we do not think that the Commission report can fairly be cited in support of the contingency limitation while ignoring the taxpayer financing provision.

Part of proposed 39 U.S.C. 3621 would prohibit the inclusion of a provision for repayment of past losses in the total estimated costs of the Postal Service. We strenuously oppose this provision, which would reverse a recent decision of the Postal Rate Commission that recovery of losses of previous years from present rates is both equitable and in the public interest.

In general, past losses have been incurred because of breakdowns in the ratemaking process and unanticipated financial developments such as the oil embargo. Recovery of these losses through postal rates is consistent with the principles that ratepayers should finance the services they receive and that the system generally should be self-sustaining.

Section 3(b) would overrule the appellate decision in the *Greeting Card Publishers* case, regarding assignment of costs in postal ratemaking.

The proposed amendment would define attributable costs as those which vary with mail volume over a period of not more than 3 years, subject to the qualification that no more than 60 percent of all costs could be attributed. Criteria such as value of service would be used to assign unattributed expenses among the categories of mail.

We agree that the *Greeting Card Publishers* decision was unfortunate. Most authorities share the view that postal costs should be attributed on the basis of marginal or "incremental" costs. In Rate Commission proceedings, these expenses have been termed "volume variable costs."

If, instead, substantially more costs are attributed through "cost of service" techniques, little room would be left to consider market factors such as value of service or customer demand. This in turn would drive up the costs and the rates for the categories of mail most sensitive to price increases. The likely result would be a loss of volume in those categories, forcing other classes of mail to bear an appreciably

greater share of overhead. To avoid these unfortunate developments, it will be necessary to preserve the general pricing principles developed in prior rate proceedings.

However, we are not persuaded that the proposed ceiling on attributable costs and the rigid 3-year "length of run" for defining these short term costs are the best way to deal with this issue. We believe that the general objective to preserve a place for noncost factors in postal ratemaking can be accomplished without the enactment of these overly restrictive provisions.

Finally, H.R. 7700 contains a number of miscellaneous provisions which address a catalog of relatively minor postal problems and concerns. Section 5, for example, would finance the Postal Rate Commission through the annual appropriations process, not from the Postal Service fund. We do not oppose this provision.

We would welcome enactment of section 6, which would set standard size and weight limits for parcels at all post offices. The present size and weight restrictions at first-class post offices, originally created to benefit a now-defunct private parcel carrier, have been a continuing source of confusion to postal customers and a hindrance to postal management. We suggest that the effective date provision of this section, which is designed to protect the Postal Service from having to carry very large but very light "balloon parcels" at unfavorable rates, is unduly cumbersome.

We believe is would be preferable to provide in section 6(b) of the bill that the new uniform limits would become effective on a date prescribed by the Postal Service by regulation. This would give the Postal Service increased flexibility in seeking protective rate changes.

We would also favor section 7, which would authorize the Postal Service and the Postal Rate Commission to control their own litigation in cases arising under the ratemaking chapter of title 39. We suggest that this section should be expanded to enable the Postal Service to control its litigation generally—a proposal passed by the House in the last Congress.

Like rate litigation, lawsuits involving collective bargaining and a number of other postal issues have little in common with cases typically handled by Justice Department attorneys. Many of these lawsuits, like rate cases, arise from administrative litigation already handled by Postal Service counsel.

We oppose section 9, which would add a mandatory community hearing to the long list of procedural requirements in the post office closing statute. We believe that requiring a hearing in every case on top of what is already required would be an indulgence in administrative overkill. The present statute, somewhat cumbersome in its own right, affords customers an opportunity to review any proposed closing in detail, to submit their views and have them fully taken into account, and to appeal a closing decision to the Postal Rate Commission.

The Postal Service recently published proposed implementing regulations in the Federal Register for public comment. The statute and proposed regulations would require a full and careful review, which would take from 4 to 8 months, during which time the local customers would have ample opportunity to get their views across both to the

Postal Service and to the Commission. Under our proposed regulations, public hearings can be held at the discretion of local management.

Section 10 of the bill would apply the Federal Property Act to the initial capital assets of the Postal Service. The property of agencies subject to the Property Act under the general authority of the GSA administrator.

The administrator sets procedures for the disposal of property declared "excess" by an agency. "Excess" property may be transferred to other Federal agencies, sold or donated as surplus, or in some circumstances transferred to State agencies.

In an ordinary interagency transfer of excess real property, the receiving agency pays 50 percent of the appraised fair market value of the property. Funds from this reimbursement or from the sale of surplus property are paid into the Treasury as miscellaneous receipts.

Under 39 U.S.C. 2005, the Postal Service covenanted in 1972 with purchasers of its bonds and that assets pledged for the payment of principal and interest on those bonds would not be disposed of in any way that would have a material adverse effect on their rights of security. If put into effect, section 10 would require any funds received from an interagency transfer or public sale of Postal Service property to be paid to the Treasury as miscellaneous receipts, instead of being available for payment to bond holders under the covenant.

In our opinion, this could impair the obligation of a Postal Service contract, contrary to 39 U.S.C. 208. Accordingly, if enacted, section 10 would probably be a nullity until February 1, 1977, when Postal Service bonds are due and the covenants will be released. In any event, we oppose this proposal as an unjustified diversion of postal assets to nonpostal purposes.

Finally, section 11 would require the Postal Service to seek the advice of the postal legislative committees on any capital investment project with an estimated cost of $200 million. We do not object to this proposal.

As you know, Mr. Chairman, under the provisions of Public Law 94–421, the Postal Service is required to submit annually a comprehensive statement on the plans and policies of the Postal Service.

We suggest that the proposed 4-month time limit for delaying the start of a project needs further drafting. A project should not be left hanging by the failure of one committee to meet its deadline.

Mr. Chairman, we appreciate the opportunity to appear and present the Postal Service views and we look forward to working with the members of these committees toward our common goal—a Postal Service that best serves the American people.

I will be happy to answer any questions you may have.

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

There's a question in my mind—and believe me, I mean no disrespect to you, because I look upon you as a very fine, very capable, dedicated person—why was the Postmaster General not interested in testifying?

Mr. FINCH. Mr. Chairman, I don't think I stated that Mr. Bailar was not interested in testifying. As you know, we have had this hear-

ing scheduled and rescheduled and rescheduled and certainly not at the committee's desire over a long period of time. The Postmaster General has made several changes and adjustments in his schedule over these varying dates to attempt to be here with the committee and it so happened that he had a conflict this morning which didn't allow him to be here on such short notice.

Mr. HANLEY. Well, the Postmaster General has been aware of the fact that this hearing has been pending. I believe it's the most important piece of legislation to be considered by the Congress since the enactment of the Reorganization Act of 1970. So it just strikes me as strange that the leadership of the agency would be reluctant to testify. I think if I were him, I would be looking forward to the opportunity. I say this with due deference to him. I think it certainly is of concern, I would think, to all members of the committee that the substance that we're dealing with was apparently thought rather lightly by the Postmaster General.

To clarify a point which you made in relation to my reference to the publications that stand to be hurt by ever-increasing increases in rates, the point is that they will benefit through the attributable cost factor. Of course, you are aware of that.

Mr. FINCH. Yes, sir, I'm aware of the argument that they will benefit through the attributable cost factor.

Mr. HANLEY. That's why this measure is so important to them.

Mr. FINCH. But as I understood your statement this morning, it was made in the context of an administration opposition to the proposed increase in public service subsidy and I thought it important to point out for the record that the two specific examples you pointed out—the regular rate second-class publication and the nonprofit publication—in the first instance, have a de minimis impact on their rates and in the second, none.

Mr. HANLEY. Of course, the attributable cost factor is of measureable consequence to them.

Mr. FINCH. Yes, sir.

Mr. HANLEY. And that's one of the reasons for their deep concern about this measure.

Now apparently, on the basis of your testimony, the committee has done a pretty poor job in attempting to come up with a solution to the problems of the agency. There are very few sections of the bill that you support according to your testimony. I regret that disagreement. The measure we have before us is, in the collective judgment of a good number of people who are dedicated people on this committee, a pretty good approach to the solution of the problem. So we regret the position of the agency, but I guess we can understand it.

You talked about the fiscal status of the agency and I made references this morning to the shadow that hung over the horizon a year or two ago with regard to the possibility of the agency encountering a problem in meeting its payroll. Are you saying today that that was not a problem at all, that that cloud didn't hang on the horizon a year or two ago?

Mr. FINCH. Absolutely not, sir. That cloud was there and indeed it was a dark cloud. My specific response was that the $1 billion amount in terms of the two $500 million appropriations in Public Law 94–421

which were specifically limited to paying off outstanding obligations did not go to meet the payroll problem. That's all.

Mr. HANLEY. It's $1 billion, of course. When I said it was intended to offset bankruptcy, what the agency was doing was rolling over those obligations much in the fashion that the city of New York did. So the effort there was to apply that to the outstanding debt to negate the necessity of a continued rollover of indebtedness which again would have led the agency into bankruptcy, and that's what it was all about, and I assume that that's the reason that the Postmaster General supported and requested that funding.

Mr. FINCH. Yes, sir. I think that's a fair statement. In the long run, it did enable us to not be faced with the responsibility of rolling over $1 billion worth of outstanding debt. The specific point I was trying to make in that respect was we had in our cash flow problem at that time a relatively minor amount of money which would have been due and payable that fiscal year on the carrying charges for $1 billion worth of Treasury notes we had outstanding. The gain to our cash flow position was a relatively minor one, again, as far as ability to meet the payroll as against the ability to pay off the debt and not pay the interest on it for that year.

I don't mean we didn't appreciate the money and it didn't in the long term help. It didn't help us meet the payroll of the next week.

Mr. HANLEY. The continuing requirement on the part of the agency to dip into that bonding authority for the purpose of assisting operating expenses to the tune of $500 million per year, that in and by itself transmitted a rather strong message with regard to the fiscal problems of the agency, all of which are reflected on the management of the agency.

Mr. FINCH. Mr. Chairman, my only response to that would be it's not—I'm sure as you know, being a businessman yourself, it's not ever a pleasurable task to have to borrow to meet your operating obligations. The Postal Service management has had to do that in past periods. It hasn't been a pleasant thing. The law did provide for that mechanism and we have exercised it. We think now we have turned the corner on that and we are not going to borrow that $500 million this fiscal year 1977. We think the improvement has been marked enough so we don't have to reach into that pocket, if you will, in order to meet our operating obligations.

Mr. HANLEY. Well, it's because of these things and because of the general unhappiness that prevails in the Congress with regard to the agency that provided us with the catalyst for this effort. We would far rather be doing something else and we'd rather be applauding the agency for its success in implementing the act of 1970. On a continuing basis, both in the House and Senate, we hear from very unhappy members wondering what we're going to do about the Postal Service. We have got a responsibility to move forward and after analysis put together a prescription for the patient, and that's what we are dealing with here today.

For instance, you said that each new administration would bring new priorities and new management. If this is true, why do we continue to put up with this system of Government, since the same applies to every agency when there's a change of administration. That's traditional to the institution of Government.

Mr. FINCH. I think traditional with the sense of, if you will, normal departments and agencies of the Federal Government, Mr. Chairman, and I think very important, quite frankly, to the political process which supports our Republic. The distinction I'm trying to make is that I think a case can be made that the Postal Service occupies an, if you will, unique place in the spectrum of Federal agencies. It has physical facilities in over 40,000 locations and it has something on the magnitude of 650,000 employees. In the days preceding the Postal Reorganization Act, there seemed to be general consensus among knowledgeable people—and I will confess at the outset I was not a postal employee at that time nor did I know much about postal services other than where to put my letters when I went to mail them—that the system had been abused and because it is a service organization basically its only existence is to perform a service for the American public, that it is distinguishable from an HEW or HUD or Department of Interior, and that what is really needed over the long haul in order to perform that service adequately at a level the public finds acceptable and efficiently at a level that the public is willing to pay for, is to build a system where there's an opportunity for people in the Postal Service who learn from the bottom up, if you will, to succeed to higher levels of responsibility and ultimately to senior positions that can run that agency.

It's not so much a policy direction that you would expect to be necessary and certainly appropriate with the change of administration, but it's a how do you get the job done and the cutting off of the ability of career, knowledgeable postal employees to in effect run the agency I think is the stumbling block that I see as the problem of returning to that process.

Mr. HANLEY. I think we all agree that long-range planning and implementation is essential to the success of any business. The record indicates that the turnover on the part of top level people in the agency since 1971 has been somewhat higher than it ever was in the history of the agency. I think in terms of, for instance, the Postmaster General, in a relatively short period of time we have had three Postmaster Generals. So how has this concept aided continuity since 1971 to 1977 or approximately a 6-year period when it has had three Postmaster Generals?

We can refer to the record and document that there is a large turnover on the part of top level people who have come into the agency. They spend just a short time with it and then went back to the private sector. That track record is far in excess of the experience prior to 1971.

Mr. FINCH. Mr. Chairman, I cannot obviously defend that turnover that's existed since 1971. I think you and the other members of the committee who have been in Congress for a number of years are fully cognizant of the fact that any change in structure, whether it's a reorganization plan or a piece of legislation which creates a new department pulling together varying programs, at best creates an opportunity to do things better.

Writing a provision into a piece of legislation that says we are going to have a structure that's going to do better doesn't make it happen. The best it can do is create an opportunity. I don't think those in

present postal service management are proud of the fact that there was a turnover of perhaps more than there should be in the early days. For obvious self-serving reasons, you know, we tend to focus on the last couple years.

The record of the past, while I'm certain you could point to specifics where there have been longer tenures of Postmaster Generals, you will also note that since the turn of this century 10 of the Postmaster Generals either were at the time they became Postmaster Generals or shortly after they finished their tenure as Postmaster Generals, were either the chairman of their national political party or the campaign leader for a major party candidate for a national election, and the average tenure of those people since 1900 runs something like 2 years and 3 or 4 months.

Mr. HANLEY. I feel I must say at this point that it hasn't differed very much under this concept.

Mr. FINCH. The timing hasn't, no; but there was one critical factor that at least I have been told by people who are experienced under both systems, which is that a politically appointed Postmaster General in the prereorganization act days when it came time to consider such things as long-range planning—how much money out of this budget should we seek in developing mechanization, how much should we put in a long-term program in mechanism, how much can we afford to put into improving facilities for working conditions of our employees, how much can we afford to put into research and development efforts looking 10 or 20 years down the road—the answer was usually very little or none, because I'm not going to be here when the payoff comes.

I think that's a problem considering the present legislation that this committee needs to give sufficient attention to. I think you and Mr. Wilson have both been in the forefront of those who have said too little attention in the past has been given to research and development and toward looking toward the future, and my judgment is that the thrust of this legislation is to put us right back into that quagmire.

Mr. HANLEY. I mentioned earlier this morning that despite the fine incentive factor that now prevails in the agency, the morale of the people leaves an awful lot to be desired. It's interesting to note the number of people in the agency who once qualified for retirement, moves immediately away from the agency. In the past, very dedicated, enthusiastic employees, though qualified for retirement, preferred to keep working because he kind of liked what he or she was doing. Obviously, the morale was quite good and there was a certain sense of pride associated with his or her involvement in the agency.

As you have it today, generally speaking, just as soon as that retirement entitlement date approaches, the person has their application in for retirement. So, again, that bespeaks much about the quality of top level management and that's of deep concern to me. On a continuing basis we lose these experienced and dedicated people who under a better working climate certainly would carry on with their employment for a few more years.

Mr. FINCH. Mr. Chairman, if I may respond, I'm not, quite frankly, familiar with the statistics on the average age of eligible retirees that leave now as under the old system. I know that there's no effort that I'm aware of in the Postal Service to encourage that in any way, and

while one might say that I'm obviously not in a position in which to be a valid pollster, my general impression from Postal Service employees I run into, both in my official capacity and in my private citizen capacity, is that they're generally, by and large, proud to be employees of the U.S. Postal Service. Now that pride to be an employee of the Postal Service does not mean that they like every rule or every restriction or every directive that comes down the pipe. I find myself in that category every once in a while, quite frankly, and I think it's true of most of us who work in any large organization. But I think there is a reservoir of esprit de corps there.

Some of the unrest has come from uncertainty and the turnover that you alluded to and some of it has come about in my judgment because of a basic change in the system which was not an idea from on high of a cadre of senior postal officials sitting in a smoke-filled room in the 10th floor of an ivory tower, but it's a mandate written into the Postal Reorganization Act.

The act says "provide a reasonable level of service at a reasonable price," and in order to do that with a double-digit inflation we have faced in the last few years, there's got to be some tough decisions made and I can well understand the feeling of a postal employee who with 15 or 20 years service under his belt, who in the old days when little attention was given to the budget or how money was expended and he kind of ran a free-wheeling shop on his own and nobody paid much attention to what happened out there in the hinterland, might be a little uncomfortable where there is an attempt to implant a system of fiscal integrity and saying how are we really spending the public's money; are we getting the best return when we invest a dollar of our ratepayers' or taxpayers' money. I think it's a very human reaction, and I think that is somewhat what you and I and others see exhibited in what is determined today unrest or bad morale in the postal system.

I think that the morale basically is good and we have a group of excellent, able employees who are mainly intent on giving the public good service.

Mr. HANLEY. Well, you hit the nail on the head on the No. 1 complaint that I run into most frequently when you said the ivory tower. One of the great problems within your institution since the inception of the act has been that a postmaster can't call his own shots unless someone from on high says yes or no.

Mr. Wilson.

Mr. WILSON. Thank you.

Actually, I guess we shouldn't waste any time asking questions, Mr. Hanley, because I think that the testimony of the Postal Service is predictable. They don't want the Postmaster General appointed by the President and they don't want to abolish the Board of Governors because they would lose their jobs. And they don't want to lose any of the other authority they have.

Mr. Finch, the thing that continually disturbs me is when you people, who don't know what you're talking about, talk about the Post Office Department. These statements that it was ready to go bankrupt and there was low morale and it was in a quagmire are convenient exaggerations. Where in the world did you pick up that sort of stuff? This Postal Reform Act of 1970 was sold to the Congress by a couple of good salesmen, Larry O'Brien and Red Blount.

We got conned very frankly when we created the USPS. You have had more serious problems since it's been under the Postal Service.

You talk about some Christmas back a few years before it became the Postal Service, yet the USPS has had a couple of Christmases with pretty serious problems—around 1971–72 if I'm not mistaken.

Mr. FINCH. 1972; yes.

Mr. WILSON. Why do you keep talking about it being such a bad system?

Mr. FINCH. Mr. Chairman, I can only tell you how I come to that conclusion personally and, quite frankly, it's been on the same basis that I guess a lot of us come to conclusions, on some basis other than firsthand, personal observation.

I was not around in the old days and wouldn't pretend to be knowledgeable on a firsthand basis. I am quite familiar with the legislative history that surrounded the enactment of the Postal Reorganization Act. I have read a lot of comments and speeches by people who were considered knowledgeable at that time. I am a student of the Kappel Commission report and the difficulties that they found. I have talked at length with numerous Postal Service employees who had responsible positions back in those days and I'm well aware of the fact that Mr. O'Brien—I know nothing about his business endeavors or any other type of endeavors since he left the service of the Government—I happen to know that he came to the conclusion after 11 months in office as Postmaster General that the problems were serious enough—and I'm not aware of anybody who would label Mr. O'Brien as lacking in political astuteness—that he felt encumbered to go talk to President Lyndon Johnson and said this thing needs to be changed, and evidently he made a convincing enough case to President Johnson, that he appointed the Kappel Commission, which basically laid the foundation of what became the act.

I have talked to people who told me in the old days their opportunities were nil for advancement for assumption of meaningful responsibility in the system. I have noted in the Kappel Commission report that 80 percent of the employees who entered the Postal Service prior to the Reorganization Act either retired or left it in the same job at the same grade level at which they entered. I find that, quite frankly, an absolutely horrifying fact.

Mr. WILSON. Mr. Finch, I thought a very significant thing happened here a week or so ago when the presidents of seven organizations representing postal employees went to the White House, the four craft unions, the postal supervisors and the two Postmasters organizations. They went to the White House as a group with a common statement that they agreed to. They support this bill entirely. They represent over 600,000 postal workers, which is almost the whole work force of the Postal Service. Are they wrong? Don't they know what they are doing? Are they incompetent? Aren't they interested in the welfare of the Postal Service? Why would they get together as a group and take such unusual action as that?

Mr. FINCH. Mr. Chairman, obviously the best people to put that question to are those representatives who were there, and I would not pretend for one moment to question their sincerity or their integrity nor their sincere desire to have a Postal Service that best serves the American people. I don't know why.

I think they have probably progressed handsomely under the present system and perhaps the present system, with its cost pressures, are getting to the point where things are getting a little tougher and maybe they view that another change in the system would let them progress a little more than they will under the present system.

I quite frankly don't know, but in saying that and in saying that I represent a viewpoint here today which differs with them in substance, I want to emphasize once again it does not attack their integrity nor their sincerity and their beliefs.

Mr. WILSON. It's a very unusual thing, isn't it, Mr. Finch, when representatives of management have to go to court against their boss? They should be working side by side, but you have forced, by your arbitrary activities and your failures—when I say you, I mean the Postal Service, you have failed to follow the law that was passed by Congress.

Now isn't this unusual that postmasters and supervisors have gone to court? This doesn't speak well for the great management that you say you have over there.

Mr. FINCH. I don't believe I alluded to any great management over there, Mr. Chairman.

Mr. WILSON. Well, in your statement you talk about the great senior management positions being held by experienced, able career employees and how you won't be able to replace people like that. They must be great in your opinion or they must have some special expertise to make you think that nobody else can replace them.

Mr. FINCH. Absolutely not. I think there are many able career employees within the system. My concern that I am expressing about going back to the political process is that those people——

Mr. WILSON. What's wrong with politics?

Mr. FINCH. Absolutely nothing. I think it's an essential fabric of what makes this Republic work, no question about it.

Mr. WILSON. What in the world do you think you've got over there now? You mean to tell me there's no politics in the L'Enfant Plaza now?

Mr. FINCH. Mr. Chairman, to the best of my knowledge, there are no politics in the senior level of the postal management in the Postal Service at this time. When my present position was discussed with me, and I discussed that appointment with the Postmaster General, he never asked what my politics were, what my political affiliations were, and I haven't the faintest idea today whether he knows what they are.

Mr. WILSON. He probably didn't have to. I know there are Democrats over there. We've got a few of them. Not very many, though.

Mr. FINCH. I don't have any record, but I would guess in the upper management the majority of them——

Mr. WILSON. There's been a continuity in the Postmasters General, I have to agree with you there. Mr. Blount was first and his handpicked assistant Mr. Klassen replaced him, and his protege Mr. Bailar replaced him. I don't know who Mr. Bailer is going to have replace him if we keep the same system, but it will be somebody in the same mold I suppose.

Mr. FINCH. It might be interesting for the committee to note that for the first time in its history the Postal Service now has a Deputy

Assistant Postmaster General who started as a postal clerk 30 years ago and has worked his way up on his merits.

Mr. WILSON. That's good. You refer to these senior management positions being held by experienced, able career employees. Of course, once they have served 6 months, they are career employees, aren't they?

Mr. FINCH. I'm not certain if there is a definition of that term.

Mr. WILSON. I would say that the bulk of your top senior officials are people who were appointed out of business when the Postal Service was organized. Now they are career employees.

Mr. FINCH. Which I think, Mr. Chairman—and probably not without some considerable help from the members of this committee—points out that the Postal Service, rather than being an unresponsive organization, has learned a little bit in 6 years. I don't quarrel with your facts at all. I think the top 20 or so officials in the Postal Service senior management now, they probably average something over 20 years of postal service, and I know the regional postmaster generals now all are over-15-year veterans of the Postal Service. Yes; we are making some progress in that regard.

Mr. WILSON. On page 2 of your statement, you support the existing structure of the Board of Governors. Can you tell us some specific postal decisions that were actually initiated by the Board of Governors and not by the PMG and his staff?

Mr. FINCH. Yes, sir. They chose the Postmaster General. They chose the Deputy Postmaster General.

Mr. WILSON. They chose the Postmaster General. Do they seek them out themselves or was the Postmaster General handed to them?

Mr. FINCH. I beg your pardon?

Mr. WILSON. Did the Board of Governors seek out the Postmaster General? You say that's your example of something they have done, initiated on their own. Did they seek him out, actually look around for a Postmaster General, or was he there and handed to them?

Mr. FINCH. Mr. Chairman, I was not privy to that selection process, and I honestly don't know.

Mr. WILSON. Mr. Blount was brought in by Mr. Nixon, and Mr. Klassen was his assistant. Mr. Bailar was Mr. Klassen's assistant.

Mr. FINCH. Mr. Bailar was a Senior Assistant Postmaster General of Finance at one time. Then he headed up the operations group. He was then Deputy Postmaster General. For some time he enjoyed a progression of responsible positions.

I was not going to stop with choosing the Postmaster General. There are other things. It was the Board who first raised the question and suggested that management look into the advisability of discontinuing the airmail service, which we have done at a cost saving of considerable amounts of money, with no diminution of service to the public. The Board has come before them now all capital investment programs in excess of $5 million each. They look at them and look at return on investment statements, and they approve them ultimately. They approve most major policy positions taken by the Postal Service.

Mr. WILSON. You said that you had no opposition to a congressional review of all capital improvement programs in excess of $200 million.

Mr. FINCH. Yes, sir.

Mr. WILSON. Do you think that could be lowered without any inconvenience to the Postal Service to, let's say, $50 million?

Mr. FINCH. To how much, sir?

Mr. WILSON. To $50 million.

Mr. FINCH. Mr. Chairman, I don't want to get—first of all, I'm not qualified to get into the line-drawing session with you. I certainly think it could be lowered reasonably. I think it would do well both for the committee and the Postal Service if we had some experienced people—I really don't know how many projects we have in excess of $50 million. I don't think too many. I can't imagine any other than a major metropolitan mail processing facility.

One interesting footnote for history, Mr. Chairman—and we get into this, and I'm sure what triggered inclusion of that provision in the act probably is your, among others, long-term interest in the bulk mail system. The bulk mail system was actually designed, and a decision was made prior to enactment of the Postal Reorganization Act. So that's not one that can be tied to the fallacies of the act.

Mr. WILSON. Well, you haven't done much to improve it, though.

Mr. FINCH. I think our latest operating statistics, Mr. Chairman—and quite frankly, with some considerable help from you and your staff in looking into some of the problems—we have shown considerable improvement. We have improved considerably the mechanization. We have had our damage rates cut down to very, very tolerable limits. We are processing that mail through the old system. We've got a problem of volume. There is no question about that.

Mr. WILSON. Are you processing 95 percent without any damage?

Mr. FINCH. Mr. Chairman, I think—and I will be happy to check and supply it for the record, but I think the damage rate is down below a half of 1 percent.

Mr. WILSON. The reason I mentioned 95 percent is that's the standard figure the Postal Service comes up with on everything—95 percent of the mail is delivered overnight, and 95 percent of the postal facilities are safe and meet OSHA standards, and everything is about a 95-percent achievement. I just figured that that would probably be what the factor was in the bulk mail facilties.

Mr. FINCH. I will be happy to supply it for the record, but I think it's something under one-half of 1 percent at the present time.

Mr. WILSON. I have no further questions at this time, Mr. Chairman.

Mr. HANLEY. Thank you, Mr. Wilson.

Mr. Finch, now you talk about the uncertainty of the ratemaking process if there's a 2-year authorization. I judge what you're saying to be rhetoric since there's no uncertainty now that all authorized money will be appropriated. The fact is that this has not been the case for third-class regular rate mail. So isn't that just a bit of rhetoric?

Mr. FINCH. No, sir, I don't think so. It certainly wasn't intended as rhetoric. What I intended to lay out for the committee's consideration with that statement was the fact that if we had a 2-year authorization and assuming that at some point in the future you continue that 2-year authorization cycle and the Postal Service money was appropriated for the second year of that 2-year authorization, and say 6 months from the end of it the Postal Service faced the need to generate some

new revenues through a rate proceeding. It's a very time-consuming, complex, and difficult task to put together a rate case, and you have to make certain assumptions about revenues. I would know of no defensible way management could sit down and assume we are going to have x number of dollars in that future test year period from public service appropriations from the Congress if the Congress hadn't reconsidered it at that time.

The problem is not one of lack of good faith on the Congress part, or the President's part. It's how do you make it fit the ratemaking process? I'm sure Mr. DuPont and his colleagues can speak to that point when they get here, but if you're going through a 10-month rate proceeding on a very specific revenue requirement and you don't know whether a big hunk of it is or is not in fact going to be there at the end of the pipe, you pretty much have to go back to starting at ground zero again. You can't just plug in or not plug in a large amount of public service appropriations because the costs are dealth with differently.

Mr. HANLEY. Well, we live here in an environment of uncertainty, so I can't place that much validity in your opposition to it.

Mr. FINCH. I think the biggest difficulty, Mr. Chairman, is the likelihood of rate instability which would come from that provision.

Mr. HANLEY. Now you oppose the proposed ceiling on attributable costs and the 3-year period for defining short-term costs. What's your position on the other cost attribution language in the bill?

Mr. FINCH. Mr. Chairman, first of all, I'd like to elaborate a little bit on that. We oppose that provision as drafted. I think my statement clearly says we have had difficulty with that court of appeals decision and having had the honor of arguing that decision and seeing it not come out 100 percent in favor of the position I was supporting, it's with some bit of feeling that I speak on this issue. I think perhaps some legislative treatment would be helpful in this area.

My problem is I don't think that specific 60-percent ceiling with the 3-year cutoff will in the future get us by the court of appeals and my statement is not any more specific on that point than it is quite frankly and I will talk a little more freely here than I do in my statement because I don't see a representative from the court of appeals here.

We've got a 13-cent case pending before that court at this time. We are making a strong argument that the improvement made in the ratemaking process between the 10-cent case which resulted in this unfortunate decision and the 13-cent case, improvement enough was made that the court ought to let it alone. We also have pending before the Postal Rate Commission a fourth-rate case in which we have attempted, I think in good faith, without doing violence to the original statutory language in the act, to put together a hybrid case that would both keep us wihin a reasonable shot at the intent of the act and hopefully get us by the court of appeals, should that become necessary.

I and the people at the Postal Service would be more than pleased to work with this committee and its staff and anybody who's interested in trying to put together some language if the committee is interested to treat this very serious problem, and I don't make light of the problem. I just don't think that specific language would slow the court of appeals down very long.

Mr. HANLEY. I think Mr. Wilson made an excellent point when he alluded to the problem of those in a supervisory capacity since the inception of the act when back then in good faith language provided for consultation. So here's really your front line of management who are going to implement the policy and the program from on high and since the very beginning you haven't been able to get along with them. Is that true? Obviously it is because of the number of court cases related to the problems of supervisors, and this should never have been. How do you cultivate a decent climate for these people to go out and implement your program and policy if you're going to turn your back on the spirit of the law?

Mr. FINCH. Mr. Chairman, I think the point you make is an important one and obviously any management down through the ranks of management has to work together as one team toward one goal in order for the public to be best served. I obviously can't speak with firsthand knowledge because that's not been within the scope of my responsibility to deal with the consultation. I do know that there was unrest with the system in 1974. The supervisors took management to court and the court said the Postal Service management had been complying with the requirement in the act. You know, they are unhappy over several issues and I guess there are points on which reasonable men can differ. I'm aware of the supervisor arbitration legislation pending before the Congress and I assume the Congress will eventually work its way on that bill. I think probably, Mr. Chairman, some reasonable room could be made on both sides of that issue.

Mr. HANLEY. It's long overdue, isn't it?

Mr. FINCH. In my judgment.

Mr. HANLEY. If leadership of the agency had complied with the spirit of the law, hopefully a good attitude would have prevailed that would have filtered down through the ranks so that you wouldn't have the morale problem that you do have and I allude to that once again. You mentioned that when you go out into the field all is whipped cream and pecan. Obviously, that employee isn't going to say to you what he or she really has on his or her mind.

I have to say that I resent the fact that the Postmaster General didn't come today to bite the bullet himself. I think very highly of you, but you're in a very difficult position and there are a lot of things we would have liked to have pursued with the Postmaster General.

You made reference to the fact that there is a Deputy Postmaster General. If the Postmaster General had something so pressing—and I really can't think of anything that would be more important at this point in time than his apearance before this committee—I would have assumed that he would send his deputy. I recall during the course of our previous hearings he did not want to come before this committee. He did go before the Senate committee but not before this one. So his failure to appear today puts us in a rather awkward position and certainly puts you in a rather awkward position.

Mr. Wilson.

Mr. WILSON. Just one other question. Mr. Finch, you made reference to section 3 of H.R. 7700, the 60-percent cap. You say the way the bill was written you didn't think it would work. Can you tell us why you think it wouldn't work or how the language could be changed to make it more workable?

Mr. FINCH. If that's what I said, Mr. Chairman, let me stand corrected. I didn't say I didn't think it would work. I said I don't think it's the way to deal with what I consider to be a real problem that would be most successful vis-a-vis the court. Yes, I made an offer. I will be happy myself and anybody else at the Postal Service to work with the committee and the staff to offer some suggestions to help on that. I think the court would look on that as a bit arbitrary and I think here are some ways to deal with the same problem we're trying to get at and do it in such a way that it's likely to have a better chance of standing up on appeal.

Mr. WILSON. All right. Thank you.

Mr. FINCH. Mr. Hanley, if I might respond for just a moment to the last statement you made, Mr. Bailar's absence here today is certainly in no way, shape, or form intended as an affront to this committee or to Congress. To correct the record, he did appear before this committee in the first oversight hearing in this session. He's been scheduled on numerous occasions to appear before the committee on this bill and its predecessor. We just ran into some scheduling difficulties, quite frankly. Mr. Bailar asked if I would come do this because this bill dealt in some technical areas, with rates and other matters, and he thought if I came in his stead it might be of some help to the committee. But I can certainly say in his behalf there's no intention to pass up an opportunity to appear before this committee or in any way to affront the Congress or the committee.

Mr. HANLEY. That's a case very simply dealt with with a phone call from the Postmaster General realting this impossible problem that he's confronted with and couldn't perhaps you adjust the schedule to accommodate me. I'm confident that Mr. Wilson and I could have done that.

Mr. FINCH. Well, Mr. Chairman, the schedule has been changing for the last couple months and the word I got last weekend is the schedule is "x" and it's not going to change any more.

Mr. HANLEY. We won't belabor that any longer. All I can say is if I were in his position I would assign top priority to appearance here today.

Mr. Wilson.

Mr. WILSON. I was only going to say, Mr. Hanley, that I don't think we have ever had the assurance that the Postmaster General was going to be here, whether it was last June or July or any of these meetings we had scheduled on this legislation. We had asked that he be here and we were assured that there would be some representation here, but I don't think we ever were assured that Mr. Bailar would be here at any time.

Mr. FINCH. We had clearly scheduled him for an appearance.

Mr. HANLEY. Thank you, Mr. Finch.

Mr. FINCH. Thank you, Mr. Chairman. I enjoyed the opportunity to be here.

Mr. HANLEY. The next witness is Mr. Clyde DuPont, Chairman of the Postal Rate Commission. Mr. DuPont, we are delighted to have you here today along with your fellow Commissioners and if for the purpose of the record you would introduce each of your fellow Commissioners.

STATEMENT OF CLYDE S. DUPONT, CHAIRMAN, POSTAL RATE COMMISSION; ACCOMPANIED BY VICE CHAIRMAN VILLARREAL, AND COMMISSIONERS O'DOHERTY AND SAPONARO

Mr. DuPont. Thank you, Chairman Hanley.

We deeply appreciate the opportunity to appear before you today. I will introduce my colleagues. To my immediate left is Vice Chairman Villarreal and to my right is our senior member Commissioner Saponaro, and to his right is Commissioner O'Doherty.

Mr. Wilson. Mr. Hanley, before Mr. DuPont starts I would like to make a point. In my case and possibly in Mr. Hanley's also, we may not be hard and fast on a congressional veto. Mr. DuPont, I recognize your opposition to the congressional veto at the beginning. I wonder if you might in your remarks, Mr. DuPont, cover the issue of whether there should be anything in the law that would require the Postal Service to give you certain financial information in order for you to better handle your rate cases? I recognize there have been some difficulties getting all the information you needed in the past. Therefore, I would like to know if you feel that this should be in law or whether you think it could be handled on a negotiable basis.

Mr. DuPont. I shall, Chairman Wilson.

Before beginning, however, I have introduced the sitting Commissioners. I would also like, with your indulgence, to introduce Mr. Simeon Bright, who is a Commissioner-designate awaiting confirmation by the Senate. Mr. Bright is here to observe the proceedings and I'd like to introduce him at this time.

Mr. Hanley. Fine. We are delighted to have you with us today.

Mr. DuPont. We look forward to having him on the Commission for a number of reasons, one to fill out all of the slots that we do have, and somewhat sheepishly I say we look forward to having him onboard on the other side of the political spectrum if I might say so.

Before beginning, I realize that this committee is under some time constraints and I would like to submit my statement for the record and just briefly point out the important areas of my statement and address myself to the question from Chairman Wilson.

We would ask the committee's indulgence in not asking questions that bear on matters at issue, or likely to be at issue, in cases before us because we are precluded from commenting on the merits of such issues.

Mr. Hanley. We will appreciate your summary and, without objection, the entire text of your testimony will be incorporated into the minutes of this hearing after your summary.

Mr. DuPont. Addressing myself to the legislative veto of rate classification proceedings, our position is that Congress should set appropriations for the Postal Service. However, we would ask the Congress to deal with the problem directly, meaning that you set the appropriations be the depressant for rates rather than using a legislative veto over the decisions that we render. I think this would add stability to the rate-setting process. I also think it would serve the public best by having an appropriation that everybody knows is going to be appropriated, and let the rates be depressed by when we take it off the top of the Postal Service's rate revenue need.

With regard to your legislative veto on classification, we believe that that should not be. Setting mail classification can be very involved. It can take into consideration economic theories and the like and we feel that we, as the expert body to consider classification matters, should be free to set those or set the mail classifications as we see fit after a complete hearing.

We feel there is an even more onerous burden placed on the Congress if they were to have legislative veto over classification cases rendered by the Postal Rate Commission.

We endorse the attribution of variable costs factors, with the exception of Commissioner Saponaro who has a different view.

We are opposed to the 60 percent cap on attributable costs and the 3-year volume variability period. We also oppose the prohibition on approving prior year losses through rates and also the prohibition on the use of sinking funds by the Postal Service.

We are also opposed to having a 2 percent limit on the contingency allowances. The reasons for our oppostition are all stated in our prepared text.

We are opposed to the parcel post provisions in the bill, however, we do endorse finality of commission decisions if the Board of Governors of the Service are abolished. If they are retained, then the Commission is split on whether the Commission should have finality of decisions.

We have asked the committee to consider including in the bill a provision giving us the option of having formal or informal proceedings. This is also covered in our statement.

That is as brief a summary as I can give you, however, I will address myself to the question that Chairman Wilson posed to me.

We feel in this regard we have adopted a periodic reporting system whereby the Postal Service is required to submit certain information to us based on periodic, monthly, quarterly, semiannual, and annual reports. This is progressing very will. However, as we go through this rate case I'm sure we will discover more areas where information is needed by the Rate Commission.

My own personal view is that it would not hurt to have something in the statute authorizing us to move ahead with an expanded periodic reporting system if necessary. We are in the formative stages of this right now. We are waiting for a request from the intervenors in our case to see what type of information they have. As we move through a rate case there are interrogatories given to or submitted to the Postal Service for data and we are going through these interrogatories to see what can be incorporated into a periodic reporting system that would help us expedite our cases more than we already have.

Last time we appeared before you, Chairman Wilson, you cited the fact that possibly we could move to 7 months for considering rates. I did not say that we could not, but at this stage I feel that the 10-month time limit that you have mandated for us will be met. I do feel that a provision in the law giving us the authority to move and get additional data from the Postal Service would assist us in expediting our cases.

Mr. WILSON. I wonder, Mr. DuPont, if you feel there might be some value to having it written in the law, if you would assist the staff of the committee in developing language that would be adequate to do this.

Mr. DuPont. Yes. We could do that. Yes would be the answer to that question, in the affirmative.

Mr. Wilson. I only have one question, Mr. Hanley, and let me get it out of the way and then you can proceed. Are you completed with your statement?

Mr. DuPont. Yes, I have completed my statement.

Mr. Wilson. My question has reference to section 4(b) where it was written into the bill that there would be no subsidy used to affect the parcel post rates. I'm in agreement with you on this. Do you support the present law which places a 10-percent limit on how far parcel rates can be lowered as a result of appropriations?

Mr. DuPont. I would like to duck that question because it does get into a subject that——

Mr. Wilson. Well, does present law as changed by H.R. 8603, cause any problems for you?

Mr. DuPont. We have not run into any problems with it as of this date, sir.

Mr. Wilson. All right. Thank you very much.

[The prepared statement follows:]

PREPARED STATEMENT OF CLYDE S. DUPONT, CHAIRMAN, POSTAL RATE COMMISSION

Mr. Chairman, it is a pleasure to appear before the Subcommittee today to discuss H.R. 7700. Except where noted, my statement represents the views of the Commission. Vice Chairman Villarreal and Commissioners O'Doherty and Saponaro are here with me at the witness table.

We would like to ask the Committee's indulgence in not asking questions that bear on matters at issue, or likely to be at issue, in cases before us. As you are aware, we conduct our proceedings on a strictly on-the-record basis, as required by the Postal Reorganization Act, and it would be improper for us to express views indicating any prejudgment on the merits of matters before us for decision. With that exception, we will be happy to answer any questions.

INTRODUCTION

Preliminarily, we should emphasize that some legislative proposals raised by H.R. 7700 lie outside our special area of competence. Thus we are expressing no views on abolition of the Governors of the Postal Service; Presidential appointment of the Postmaster General, with Senate confirmation; increases in the authorized public service appropriaitons; biennial (rather than permanent) authorization of such appropriations; Congressional review of large Postal Service capital projects; or legislative mandating of continued six-day delivery. Matters of this kind are peculiarly within Congress' province. Where these proposals would affect the regulatory process, however, we will try to show how, and with what consequences.

LEGISLATIVE VETO OF RATE AND CLASSIFICATION DECISIONS

The most striking institutional change contained in H.R. 7700 is the proposal for Congressional veto power over all rate and classification decisions by the Commission. Under the bill, if both Houses voted to disapprove a decision within 60 days of its submission, it would not become effective. H.R. 7700 also authorizes appropriations to offset any postal revenue reduction caused by a legislative veto of Commission rate decisions.

Congress certainly should decide how far the Postal Service should be supported by rate revenues, and how far by appropriations. But we do not believe that the ad hoc legislative veto is the best means of making that decision. We think Congress should make that decision directly; that is, to should decide on the level of support to be drawn from the general Treasury, appropriate funds accordingly, and then allow the appropriation to have its inevitable effect of lowering the rates arrived at by the normal ratemaking process.

Appropriations—both under present law and under H.R. 7700—are subtracted from total costs in determining the Service's rate revenue need. Thus the higher the appropriations, the less mailers need to be charged and rates would be held down across the board. See 39 U.S.C. § 3621. This process, in our view, would better serve to keep the postal system in stable financial condition than the H.R. 7700 proposal of first disallowing a rate adjustment and only then—at some indeterminate later time—making up the resulting revenue shortfall through an appropriations bill.

As we all know, the appropriations process is necessarily time-consuming. Congress must take the time to inform itself of the agency's needs and balance them against those of other Federal activities. There is also likely to be uncertainty as to the level of appropriations needed. They could be calculated from figures in the rejected Commission decision, but Congress is under no compulsion to employ those figures. It could make its own estimate, and the Executive Branch, with potentially different views of the relative needs of various programs, might make a different one. The delay and possible reduction of revenues all would work to the financial detriment of the Service.

Also, continuing inflation could cause more uncertainty. If the Postal Service found it necessary to file successive rate requests with us—with intervening Congressional rejections of our decisions—the relationship between rates and appropriations could become very complicated particularly if a current rate case were to overtake an earlier case still awaiting Congressional action with respect to appropriations.

Under these circumstances, an appropriation bill designed to restore the Service's condition might turn out to be either insufficient or excessive for that purpose.

All these problems could be avoided if Congress would first decide whether to increase appropriations—using the conventional authorization appropriations mechanisms—and then permit the ratemaking process to take account of the enacted appropriations in setting rates. This would not only increase the Service's revenue security, but also permit more deliberate and thorough consideration of the need for, and appropriate level of, appropriations. The time pressure on Congress—which would be an inevitable effect of first cutting the Service's expected revenues and then considering appropriations—would not affect the appropriations process.

An incidental, though by no means unimportant, advantage of making appropriations first and securing lower rates thereafter would be the avoidance of the thorny constitutional problems that seem to surround most legislative veto provisions. The relationship between judicial and Congressional review of administrative decisions is also clouded. What is clear is that effective judicial review would be more difficult if Congressional review intervened, given the coequal status of the Legislative and Judicial branches.

LEGISLATIVE VETO OF CLASSIFICATION DECISIONS

We are convinced that the legislative veto mechanism is even less suitable in the mail classification area. These differ fundamentally from rate decisions. Classification decisions are generally much more circumscribed in their applicability and financial impact. Moreover, they often involve highly technical matters of mail flow and handling, and require detailed operational, as well as economic, analysis. We believe it would be wasteful of Congress' time to review all of them. The legislative role in classification policy is an important one, but to us it seems to lie more appropriately in the broad policy areas, such as recognition of the social value of certain types of mail. If Congress perceives a need for change in these policies, however, it can act through affirmative legislation. Automatic review of classification decisions—with only a negative voice in the form those decisions take—seems both unnecessary and inefficient.

We also have one technical comment, which concerns the tolling of the 60-day period for veto when Congress adjourns sine die. This adjournment, which might extend over some months, could greatly extend the period when new rates—which the Service might badly need—could not go into effect. It might be better, when a decision is submitted toward the end of a Congress, to allow the Service to put the rates approved in the decision into effect temporarily, and to extend to the new Congress a new 60-day period for review.

RATEMAKING PROVISIONS—ATTRIBUTION OF VARIABLE COSTS

Section 3 of H.R. 7700 would change the substantive ratemaking standards now embodied in 39 U.S.C. § 3622. Except for Commissioner Saponaro, who takes a different view, we all agree that the revision of the first sentence of § 3622(b)(2) would be an excellent one. That change is the one which would require that each class of mail or type of service "bear those postal costs attributable to that class, subclass or type because the costs vary with the volume of that class or subclass or type of service."

An almost identical amendment was advocated by the Commission on Postal Service, in whose report it is made clear that the intent of the language was to reverse the judicial interpretation placed on § 3622 in *National Association of Greeting Card Publishers* v. *United States Postal Service*, —— F. 2d ——, D.C. Cir. No. 75-1856 (December 28, 1976). That decision subordinated all other ratemaking criteria to the objective of attributing costs by pyramiding cost allocations—even if the methods used were rough or approximate. The Court's favored methodology would lead to substantial rate increases for those classes having alternative delivery systems available. Experience demonstrates that volume in these classes is very sensitive to rate increases. If that volume declined, the Service's heavy fixed costs, now borne by all such classes, would fall increasingly on first-class mail—the apparent short-term beneficiary of increased attributions. H.R. 7700, would restore the original intent of Congress by restoring to their proper role the noncost factors used to assign institutional costs. We believe it would be manifestly in the public interest to do so, and we favor adoption of the amendment.[1]

ARBITRARY LIMITS ON ATTRIBUTION

H.R. 7700 would make two other changes in § 3622; however, neither of them, in our judgment, should be adopted at this point in postal rate development. It would place an absolute limit of 60 percent on the proportion of costs that we may attribute on the basis of causation, and second, limit to 3 years the period that may be considered in determining whether costs vary with volume.[2] Congress delegated the technical processes of ratemaking—including cost attribution—to us as an expert body working from an evidentiary record. The 60 percent limitation could result in pricing some classes below their incremental cost, which runs counter to accepted economic theory and to Congress' intent in drafting the Act. Determining the period over which costs may vary with volume is also a matter of sophisticated economic judgment—not mechanical limitation. It is arguable that the 60 percent "cap" might make rates more stable and predictable, though there is nothing in the history of postal regulation which would suggest that we are likely to raise attributions arbitrarily. If it were desired to achieve this end by enacting some limit on attributions, it would be far better to allow it to vary periodically to reflect the changing realities of postal operations. This might be done by requiring us to prepare at fixed intervals a study and related legislative recommendation on attribution levels. Concomitantly each legislated attribution limit would be required to have a definite life span—for instance, four years. In this way, Congress would undertake the responsibility of periodically reviewing the attribution limit and either changing or re-enacting it, as it thought best.

NONCOST RATEMAKING FACTORS

H.R. 7700 would revise the noncost factors used to assign nonattributable costs. Some of the changes are worthwhile improvements. New § 3622(b)(3)(E) would add as a specific factor "the relative demand for each class or subclass of mail service." This is consistent with the Commission's use of relative demand elasticity as an important tool in assigning institutional costs, and we would favor its inclusion. One idea which is not found in H.R. 7700, but perhaps should be included, is the transferral of the standard concerning the degree of mailer preparation from § 3622 to the classification provision, § 3623. This question, in

[1] An editorial note on the language of the amendment is found in the technical appendix to this statement.

[2] This provision of H.R. 7700 omits one category of costs which should be allocated on the basis of cause. See the technical appendix hereto for a discussion of this point.

our experience, arises more often in classification than in rate proceedings, and the standard can be better administered in that context.

Some changes made by H.R. 7700, however, we do oppose. The bill would delete present § 3622(b)(9): "such other factors as the Commission deems appropriate." Unforeseen circumstances may arise, suggesting the utilization of cost assignment factors similar to those now expressed in the statute. The Commission should have clear authority to consider them. Also unwarranted, we think, is the deletion of present §§ 3622(b)(1) (establishment and maintenance of a "fair and equitable" schedule) and 3622(b)(2) (simplicity of structure and simple, identifiable relationships). These are standard regulatory objectives—especially the first mentioned—and we would attempt to meet them even if they were not spelled out in the statute. However, we see no good reason to remove them.

PRIOR YEAR LOSSES

H.R. 7700 would enact a new version of present § 3621, containing three changes which we believe are unwarranted. First, the bill would prohibit any allowance for recovery of past years' losses. A majority of us oppose this change; Commissioner Saponaro has separate views on it. We used the technique in the third rate case to insure that the Service would "break even," as the Act requires.

PROHIBITION OF SINKING FUNDS

H.R. 7700 also omits from the revised § 3621 any provision for sinking funds—a financing device explicitly permitted by present law and utilized with respect to the Service's 6⅞ percent Series A bonds issued in 1972.

The bill takes both this amendment and the prohibition on recovery of past losses from the report of the Commission on Postal Service, but omits the corresponding recommendation of the CPS for a special $625 million appropriation to dispose of the Service's outstanding operating debt. While we are far from sure that even $625 million would prove adequate for this purpose, the omission of that feature of the CPS scheme could make the prohibition on past loss recovery completely infeasible. Nor is it at all certain that further substantial losses will not occur, and have to be financed in some fashion. Under these circumstances, prohibiting recovery of past losses seems premature.

TWO-PERCENT CONTINGENCY ALLOWANCE

The third undesirable feature of the proposed new § 3621 is the placing of a two-percent limit on the provision for contingencies in determining the total estimated costs of the Service. The Report of the President's Commission on Postal Organization (June 1968), p. 82, recommended setting Postal Service rates at a level sufficient to meet projected costs "plus about three to five percent to meet unanticipated costs." Under present statutory language, providing that "total estimated costs shall include . . . a reasonable provision for contingencies," we have approved contingency allowances ranging from 1.2 to 4 percent of estimated costs. These allowances did not prove excessive. On the contrary, unanticipated costs—due to unforeseeable inflation, fuel cost increases, and other events—turned out to be larger than the allowances made. The breakeven policy of § 3621 would be ill served by placing this constraint on the provision for contingencies.

IMPROPER PENALTY ON PARCEL POST

Section 4(b) of H.R. 7700 would amend present § 2401(i) of the Act in a way we believe is unfair and potentially disastrous to parcel post and the millions of citizens who use it. It would impose two special—and unjustified—ratemaking requirements on that important class of mail.

First, parcel post would be denied any benefit whatever from the public service appropriations authorized in § 2401. The bill forbids any part of the appropriation from being "expended or otherwise used in such a maner as to effect a reduction in any rate for zone rated parcel post as required in chapter 36 of this title." This appears to mean that, in fixing parcel post rates, the Commission may not reduce the Service's overall revenue requirement by the amount of the public service appropriation. Parcel post customers would be charged as through there were no such appropriation; users of other classes will receive all the benefits of the subsidy.

This, in our view, is not only inequitable but illogical as well. The public service appropriation is explicity directed, in H.R. 7700, to objects directly relating to all classes of mail—among other things, to: (A) the continued operation of post offices in communities in which post offices may not be deemed to be self-sustaining; and (B) the continuation of the frequency of mail delivery service in effect on June 1, 1977.

These are "network" costs, which support parcel post service just as they do all other mail classes. There is no logical reason why, if these common costs are to be paid in part by appropriations, one class of service should be charged as though the appropriations did not exist.

Even more disturbing from the standpoint of sound regulation is the provision proposed as new §2401(i) (2):

"Any rate for zone rated parcels shall recover—

"(A) any attributable cost determined under section 362(a) of this title;

"(B) any direct or indirect cost which is a consequence of providing services for zone rates parcels; and

"(C) a fair share of any other costs."

This provision sets up a special ratemaking standard for one class, thereby institutionalizing a severe undue discrimination. Read together with H.R. 7700's revision of § 3622(a), this provision would single out parcel post as the only class to which the 60-percent ceiling on attributable costs would not apply. Instead, it would be charged its full attributable costs, and then be required to pay a "fair share of any other costs." The meaning of this last expression is perhaps not altogether clear, but it appears to require that costs be assigned in accordance with the factors of § 3622(b) (3) as revised by H.R. 7700. This procedure would reduce any benefit parcel post users might otherwise receive if demand analysis showed that parcel post should be assigned a relatively low proportion of nonattributable costs.

We think parcel post is too valuable a service to the American people to be subjected to unsupportable discriminations imposed by statute. The staff analysis attached to H.R. 7700 states that the purpose of this amendment is to insure that: "Public service appropriations may not be used to reduce parcel post rates in unfair competition against private enterprise."

Unless it is considered that any competition with private enterprise is "unfair"—and we do not think that is the draftsman's meaning—this provision is unnecessary and inappropriate. The history of parcel post in the past few years has shown continuously declining volumes. The Post Service's package-carrying service must continue to be available, at reasonable cost, to all Americans, whether they live in populous cities or sparsely settled rural areas. In addition, under both present law and H.R. 7700, it is explicitly required that the Commission take into into account ". . . the effect of the proposed rates on the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters."

The normal regulatory process is an adequate and appropriate means of balancing private carriers' interests against those of the mail-using public. It should be allowed to function under general, equitable standards—not made the vehicle for special statutory preferences to a particular industry at the expense of the mailing public.

FINALITY OF COMMISSION DECISIONS

H.R. 7700 would make Commission decisions final, and subject only to judicial review (following a Congressional decision not to veto the decision). If H.R. 7700's proposal to abolish the Board of Governors of the Service is enacted, and subjecting our decisions only to judicial review after opportunity for Congress sional veto, then we unanimously support the finality proposal. We believe it would not be in the public interest to vest the Postmaster General, having singular executive powers he would then have, with the review authority over our decisions—authority which is now vested in the Presidentially-appointed Governors.

On the other hand, if the Governors (and their present statutory authority to review our decisions) are retained, the four present members of the Commission are evenly divided on the finality proposal. Commissioner Saponaro and I would continue to support it; Vice Chairman Villarreal and Commissioner O'Doherty would then oppose it.

SELF-REPRESENTATION IN THE COURTS

Section 7 of H.R. 7700 would enact a much-needed reform: the provisions of authority to both the Commission and the Service to appear in court by their own attorneys in all chapter 36 (that is, regulatory) cases. At present, the Justice Department is required to represent both agencies. This has already led to one awkward situation in a case where we and the Service were on opposing sides. If legislation is enacted making our decisions final, this awkward situation might become intolerable, since the Service might then—for the first time—be appealing against a Commission decision. Section 7, in authorizing us to represent ourselves, would do no more than place us on the same footing as most other regulatory agencies. We recommend its enactment.

THE COMMISSION'S BUDGET

Section 5 of H.R. 7700 would place our budget under the appropriations process rather than retaining it as an item drawn from the Postal Service Fund. Except for Commissioner Saponaro, who supports the change, we believe the present system should be retained. There is a superficial anomaly in having the agency whose rates we review supply our operating budget and conduct a limited review of it, but in practice the system has worked satisfactorily. It has not compromised our independence in any way. It is, of course, in the Service's interest for us to have adequate staffing and resources so that regulatory proceedings can go forward expeditiously. Moreover, Congress intended both that we and the Service should act cooperatively where cooperation is appropriate, and that the costs of potsal regulation should be borne by the mail user, rather than the taxpayer. The present budgeting system has permitted achievement of both goals.

If Congress does perceive a potential problem of Commission independence, it can better be remedied by providing a neutral arbiter who would review any budget reduction by the Governors (or the Postmaster General, if the Governors are abolished). The Director of the Office of Management and Budget seems a logical choice for this function, which is basically one of settling a distribution of funds problem within the Executive Branch.

POSSIBLE ADDITIONAL USES OF RULEMAKING PROCEDURES

Up to this point, we have discussed provisions contained in H.R. 7700; here we should like to suggest an addition to the bill. The Commission on Postal Service proposed amending § 3661, dealing with changes in postal service, to call for informal rulemaking as opposed to on-the-record proceedings. We would suggest including this change in any reform legislation. The provision should allow the Commission flexibility to use either informal or formal procedures as the demands of the case require—or even both types of procedure in a single case, if appropriate. In addition we believe § 3623, governing classification cases should be similarly amended. Some matters of classification formally required to be dealt with in on-the-record proceedings under §§ 556 and 557 of the Administrative Procedure Act, do not really require those elaborate procedures, as there are no disputes of fact. Thus they would be more efficiently dealt with by informal rulemaking.

CONCLUSION

In concluding, I would like to comment on two other matters regarding present Postal Rate Commission operations.

First, our workload. On July 13 the Postal Service filed a rate increase request with us. Under the terms of present law we are to issue our decision in that case by May 13. On July 14 we issued Order No. 167 instituting the rate filing as Docket R77–1 and set out a tentative schedule with July 28 as the date for the first prehearing conference, February 7, 1978 as the last day of hearings, and March 24, 1978 as the date for oral argument. The request involves approximately $2.4 billion in additional revenues for the Service—almost $2 billion of which will come from rates and fees. I anticipate this rate case will involve more complex evidence than the previous three, particularly with the 13 cent "citizen" stamp proposal before us. However, as complex and involved as it may be we have every intention of meeting the May 13 deadline set by statute.

At the same time that the rate case is proceeding we will be moving ahead with the issuance of fourteen mail classification decisions coming out of four classification cases whose records were closed several months ago. We have already issued twelve decisions in those cases. We also have pending two additional mail classification cases and have one on remand from the Governors.

The second item concerns presiding officers in PRC cases and the need for a complement of five commissioners.

Since I assumed the Commission chairmanship 2½ years ago, we have instituted the practice of having commissioners preside in our rate cases and in some of our classification cases. We have decided to expand that practice and appoint commissioners as presiding officers in all of our cases. As I have stated to you previously I believe we, as commissioners, have the reponsibility to hear the evidence in our cases first hand and we have moved to this end. So far the results of this practice have been expeditious conduct of our cases and in my opinion, establishment of comprehensive evidentiary records on which we can base our decisions.

In part because of this new practice, I strongly disagree with the Commission on Postal Service's recommendation that the number of commissioners be reduced from five to three. I am pleased to see that you have not recommended such action in H.R. 7700. If we are to move ahead with having commissioners preside in all of our cases, I am convinced that responsibility can best be carried forward with a complement of five commissioners. In addition, the broader experience available through five commissioners has and will continue to help us reach more reasoned decisions than three would. Therefore, I most strongly urge that we be authorized to continue as a five-member Commission.

That concludes my prepared statement for the Commission. As mentioned, some of my colleagues have separate views on some of the matters discussed, and they would appreciate the opportunity to express them at this time. We will all be happy to answer any questions you may have.

APPENDIX

Technical notes on various provisions of H.R. 7700

1. Section 3(b), amending 39 U.S.C. § 3622(b)(2).—Section 3(b) of H.R. 7700 would create a new definition of attributable cost, as follows: "Each class or subclass of mail or type of service shall bear those postal costs attributable to that class, subclass, or type because the cost vary with the volume of that class or subclass or type of service."

While a majority of the Commission supports this change, we believe that the structure of the sentence would be clearer if it were amended to read: "Each class or subclass of mail or type of service shall bear those postal costs which are attributable to that class, subclass, or type because the costs vary with the volume of that class or subclass or type of service."

This change is not intended to alter the meaning of the sentence in any way.

2. Section 3(b), amending 39 U.S.C. § 3622(b)(2).—The amendment made to the second sentence of § 3622(b)(2)—requiring that attributable costs be those which "vary with volume over three years or less"—is not favored by the Commission. There is, however, a technical correction that should be made in it in the event of its enactment. No provision is made for "specfic fixed costs"—that category (approximately two percent of total costs) which do not vary with volume but are nevertheless identifiable with a particular class of mail. Clearly, these costs should in fairness be allocated to the class that causes them. To correct this omission, the definition in proposed § 3622(b)(2) would, if enacted, have to be modified to read: ". . . Attributable costs shall be those costs which vary with volume over 3 years or less plus those costs which do not vary with volume but are incurred as a consequence of providing one and only one specific class of mail or type of service."

3. Section 7, authorizing self-representation in the courts.—Section 7 of H.R. 7700 would authorize both the Commission and the Postal Service to appear in court by their own attorneys in litigation arising under chapter 36 of title 39. The Commission strongly favors this change. We suggest, however, that there is a possibility that litigation might arise between the Commission and the Postal Service in connection with a Commission review of a post office closing decision by the Servce. (Appellate jurisdiction over such orders was vested in the Commission by Pub. L. 94-421.) Since these matters arise under § 404(b) of the Act, they would not be covered by the references in § 7 of H.R. 7700, which refer only

to chapter 36. We therefore suggest changing the reference to Postal Service self-representation in § 7(a) of the bill to read: "The Postal Service may represent itself in litigation arising under chapter 36 *or section 404(b)* of this title. . . ." Correspondingly, the amendment made by § 7(b)(1) of H.R. 7700 should be changed to read: "The Commission may represent itself in litigation arising under this chapter or under section 404(b) of this title."

Mr. DuPont. Commissioner Saponaro would like to summarize his statement if he might.

Mr. Saponaro. I would like to summarize on the assumption that my complete statement is in the record as we have discussed.

I would like to address first the 60 percent cap on attributable costs and the short term variability. There's a point I'd like to call to the committee's attention. This limitation, as I see it, relates specifically to a finding by the court of appeals by the following language: "Had Congress intended, for instance, that cost variability be acceptable as an exclusive method for identifying attributable costs, it in all likelihood would not have given seemingly equal importance to the attribution of indirect, as of direct, postal costs. Strictly speaking, indirect costs may not be attributed by cost variability, at least not by short-term variability; rather, attribution of such costs as a practical matter necessitates the use to some degree of cost allocation formulae based on accounting principles."

Now what's the significance of that? If we look at the most recent filing of the Postal Service in the last rate case, R76–1, we find that their own attribution of indirect costs amounted to 26 percent of attributable costs. Now if we relate that to the total accrued costs, that means that the attribution of direct attributable costs would have been 41 percent, and the indirect attributable costs would have been 14 percent.

So it seems to me that's the target that this particular language is aimed at.

Now if we also look at the language of the Postal Rate Commission, the Postal Rate Commission in R74–1, faced up to this and stated: "once the variable costs have been identified, the variable direct costs can be allocated immediately to the individual classes causing them, and the variable indirect can be assigned on accounting bases to the several classes causing them."

Furthermore, this Commission is on record endorsing long-run variable costs and they have criticized the Postal Service in this manner, stating: "The immediate requirement is for costing methods which, although not perfect in every respect, will reasonably develop the attributable cost by subclass and service. The schedule implied above by the Service for reaching these goals seems overly long; it should be redrawn, and the pace quickened."

Therefore, I think that the present language of the act in this regard is satisfactory.

Now with respect to the assignment of all other costs, that's the repealing of the existing section 3622(b)(3), the proposed language would require that in completing the process of allocating the costs, at least 40 percent or maybe even 60 percent of the unattributed costs be assigned on the basis of so-called "noncost" factors. Now although I consider the proposed H.R. 7700 section 3622(b)(3)(A) to have definite cost consequences, the proposed section 3622(b)(3)(E) is the most pervasive of these factors.

As I see it, demand analysis has not been an effective method of allocating 40 percent, or more, of the costs as the final prices for classes of mail. The Commission itself in employing the "relative elasticity of demand" allocation technique acknowledged that "The record shows that each of the mail classes is technically inelastic, in that an increase in the rates of any class will bring some increase in net revenue, albeit at reduced volume." That's a very significant finding as I see it.

As I pointed out in my dissenting opinion in the third rate case, the attempt by the Postal Service to quantify its elasticity estimates which, as the Commission stated in its opinion, could serve as direct input to a more mathematical implementation of IER—that's the inverse elasticity rule—was not realized. Of the 27 classes under consideration, the allocation of the unattributed costs for 25 of them had to be either stipulated, linked to stipulated prices, or constrained by stipulated prices in advance of using the IER model.

Additionally, in its review of the second rate case, the court of appeals noted that:

> Even if proper circumstances did prevail, *i.e.*, if at least one class of mail were demand elastic, it is doubtful whether the Commission could properly employ the inverse elasticity rule, as it apparently did here, as a mechanical device to take into account through a single formula *all* the noncost factors set forth in the Act. The Commission is required to exercise its discretion in fact, and under the terms of the Act this may necessitate that it give individual and specific consideration to each of the enumerated noncost factors even if after such consideration it properly decides not to vary from proportional markups on the basis of any particular factor.

As I see it also, the legislative history in the Senate report and the court decision indicated that the Reorganization Act was passed to bring about change and not to preserve the economic and business relationships which had existed.

Now with respect to the prior year losses, I'm not in agreement with the Commission on that. I believe that the proposed legislation is right. I believe that the committee on Postal Service was right on target. This question of recovery of prior year losses goes to the equity position of the Postal Service. The law is completely silent on what that equity position should be. As I see it, that's a matter for Congress to decide. Recently there was an appropriation of $1 billion and I think this is a congressional matter, so I agree with your proposal on that.

With respect to the Commission's budget, I'm in complete agreement with the committee on the proposed legislation on that. If this Commission is going to have finality of decision, I think it's completely proper that the Congress review the operation of this Commission, review our budget, and have complete oversight on a yearly basis as they do with other agencies, so I'm in agreement with those particular points.

[The prepared statement follows:]

STATEMENT OF COMMISSIONER FRANK P. SAPONARO

As Chairman DuPont indicated in his statement, I have different views with resect to sections 3 and 5 of this bill which would amend the act's ratemaking criteria including the prohibition of an allowance for the recovery of prior year losses and which would establish the independence of our budget, respectively.

CHANGES IN RATEMAKING PROVISIONS

With respect to Section 3(b) of the Bill which would amend Section 3622(b) of the Act, the thrust of this legislative provision is to repeal § 3622(b)(3), that is the attribution of direct and indirect costs and the reasonable assignment of all other costs to the classes of mail and mail services.

Attribution of costs

In the first instance, the proposad § 3622(b)(2) would adopt short-term (three-year) variability and a 60 percent "cap" as the new basis for attribution of costs to classes of mail. Therefore, in the name of legislatively reversing the Court, the principal result would be to permit only the attribution of short-term variable costs thereby limiting attribution to the direct coss which are traceable only to one class of mail. Such a limitation apparently relates to the Court's finding on this very point. In its recent review of R74–1, the Court said:

". . . Giving the statute a plain reading it seems clear that the first of the subsection's [§ 3622(b)(3)] dual requirements calls for something more than minimal attribution. Had Congress intended, for instance, that cost variability be acceptable as an exclusive method for identifying attributable costs, it in all likelihood would not have given seemingly equal importance to the attribution of indirect, as of direct, postal costs. Strictly speaking, indirect costs may not be attributed by cost variability, at least not by short-term variability; rather, attribution of such costs as a practical matter necessitates the use of some degree of cost allocation formulae based on accounting principles." [*Nat'l Ass'n of Greeting Card Publishers* v. *United States Postal Service*, —— F. 2d —— (D.C.Cir. 1976) (U.S. App. D.C. docket nos. 75–1856, –1857, Dec. 28, 1976 slip op. at 30) (hereinafter referred to as "*NAGCP–I*, slip op.")]

The significance of the proposed type of restrictive cost attribution, notwithstanding a 60 percent "cap," becomes apparent when it is realized that in the most recent case (R76–1) the Postal Service's own attribution of indirect costs amounted to 26 percent of attributable costs. When related to total accrued costs, the direct attributable costs amounted to 41 percent and the indirect attributable costs were 14 percent of such costs [R76–1, USPS Exhibit 42 (Orenstein), Table 8].

Furthermore, with respect to the attribution of indirect costs, the Postal Rate Commission (PRC) has agreed that indirect costs must be assigned on accounting bases; for example it stated:

". . . In general, the direct or traceable costs benefit one class, or are incurred in the production of one type of service; and the indirect costs are incurred in the production of two or more services, and must be apportioned on volume or other bases among them. . . .

* * * * * * *

". . . once the variable costs have been identified, the variable direct costs can be allocated immediately to the individual classes causing them, and the variable indirect can be assigned on accounting bases to the several classes causing them." [R74–1, Comm. Op. at 97 and 99 (1975)]

In this regard the Commission recently stated that the Service must move toward a long-run variable cost method [R76–1, Comm. Op. at 127 (1976)]. Further, in criticizing the Service's claim that several years would be required to complete this task the Commission stated:

". . . The immediate requirement is for costing methods which, although not perfect in every respect, will reasonably develop the attributable cost by subclass and service. The schedule implied above by the Service for reaching these goals seems overly long; it should be redrawn, and the pace quickened." [*Id.* at 84–85]

Therefore, the proposed § 3622(b)(2) not only repeals 3622(b)(3) and legislatively reverses the Court, but also runs contrary to the Commission's statements. Notwithstanding my disagreement with the Commission's level of attribution in the last two cases, as I fully discussed in my dissents in those cases, I believe the present cost attribution requirements of § 3622(b)(3) are sound.

Assignment of all other costs

In the second instance of repealing the existing § 3622(b)(3), the proposed § 3622(b)(3) would require that, in completing the process of allocating the

costs, at least 40 percent, or maybe even 60 percent, of the unattributed costs be assigned to the classes of mail on the basis of so-called "noncost" factors. Although I consider the proposed § 3622(b)(3)(A) to have definite cost consequences, the proposed § 3622(b)(3)(E) is the most pervasive of these factors.

Demand analysis has not been an effective method of allocating 40 percent, or more, of the costs as the final prices for classes of mail. For example, in the second rate case (R74–1), the PRC, in employing the "relative elasticity of demand" allocation technique acknowledged that:

". . . The record shows that each of the mail classes is technically inelastic, in that an increase in the rates of any class will bring some increase in net revenue, albeit at reduced volume. . . ." [R74–1, Comm. Op. at 163 (1975) (footnote omitted)]

The significance of this finding by the Commission is apparent. Notwithstanding its comments concerning volume sensitivity due to rate increases, the fact remains that because of the inelasticity of demand, the volume losses among the so-called "rate sensitive" classes result in a net revenue gain for the Postal Service. Therefore, from a net revenue standpoint, the efficacy of this cost allocation technique is questionable.

Additionally, as I pointed out in my dissenting opinion in the third rate case (R76–1), the attempt by the Postal Service to quantify its elasticity estimates which, as the Commission stated in its opinion in R76–1 (at 123) ". . . could serve as direct input to a more mathematical implementation of IER. . . ." was not realized. Of the twenty-seven classes under consideration, the allocation of the unattributed costs (or the resulting final prices) for twenty-five of them had to be either stipulated, linked to stipulated prices, or constrained by stipulated prices in advance of using the IER model. As in the prior two cases (R71–1 and R74–1), this was required because each class of mail was inelastic [*see* R76–1, Tr. 15/3019 (Jan. 29, 1976)].

Second, the propriety of this type of cost allocation proposed is also questionable. For example, the Court, in its review of the first rate case (R71–1), with which I agree, severely criticized the "relative elasticity of demand" cost allocation technique as—". . . an unstructured and well nigh unreviewable discretion. . . ." [*Ass'n of American Publishers, Inc.* v. *Governors, United States Postal Service.* 485 F. 2d 768, 778 (D.C. Cir. 1973)].

Additionally, in its review of the second rate case (R74–1), the Court also noted: ". . . We conclude that the Commission's present method for assigning unattributed costs proceeds from a faulty premise in contravention of the Act and therefore must be rejected." [94]

* * * * * * *

Finally, in supporting the use of the "relative elasticity of demand" allocation method, which is proposed here, the Commission has stated in its two most recent rate decisions (R74–1 and R76–1) that this method allocates the unattributed costs resulting in final prices which—". . . preserve[s] economic and business relationships among the classes that were developed over many years. . . ." [R76–1, Comm. Op. at 155 (1976); R74–1, Comm. Op. at 167 (1975)].

As I stated in my dissent in R74–1, it is my view that the Postal Reorganization Act in large measure was designed to move away from the continuation of the preferential and discriminatory practices of the past postal ratemaking process. This view is primarily supported in the Senate Report which lead to the adoption of the Act:

". . . in order to achieve true postal reform, as almost every witness before the committee has pledged himself to do, postal rates of [sic] past, as they are reflected in the provisions relating to mail classification and postal rates, must be made subject to change." [S. Rep. 91–912, 91st Cong., 2d Sess. 11–12 (1970)]

It is particularly noteworthy that the Court, in its recent review of R74–1, has also expressed this same view. The Court stated:

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[94] "* * * even if proper circumstances did prevail, *i.e.*, if at least one class of mail were demand elastic, it is doubtful whether the Commission could properly employ the inverse elasticity rule, as it apparently did here, as a mechanical device to take into account through a single formula *all* the noncost factors set forth in the Act. *See* 1–627. The Commission is required to exercise its discretion in fact, and under the terms of the Act this may necessitate that it give individual and specific consideration to each of the enumerated noncost factors even if after such consideration it properly decides not to vary from proportional markups on the basis of any particular factor." [*NAGCP–I*, slip. op. at 45–46]

". . . it would be anomalous to construe subsection 3622(b)(3) as permitting a grudging use of cost-of-service principles which, by expanding the residuum of costs subject to discretionary allocation [demand method], simply preserves the potential for continuing the very same discriminatory treatment that the Act so clearly intended to remedy." [*NAGCP–I*, slip op. at 38]

Thus, the proposed § 3622(b)(3)(E), which would be used to allocate 40 percent or more of the costs of postal operations, has been shown to be an unsatisfactory ratemaking criterion. Accordingly, for the reasons discussed above, I believe that the present ratemaking provisions of the Act are sound.

Prior year losses

With respect to Section 3(a)(1) of the Bill which would amend Section 3621 of the Act to prohibit inclusion of an allowance in the revenue requirements for prior year losses, the Commission on Postal Service (CPS) has correctly characterized that the purpose of this allowance is in terms of the Postal Service's request in the last rate case (R76–1), that is to restore the equity position to the level—approximately $1.6 billion—that it was when the Postal Reorganization Act became effective. The CPS has further stated that an allowance of this type is improper for ratemaking purposes. Its recommendation that this allowance be expressly prohibited by statute has been incorporated into the Bill and I agree with this proposal.

As I stated in my dissent in R76–1, the Act is silent as to what the equity position of the Postal Service should be. I agree that this is a matter which may more appropriately be resolved by the Congress as the situation so requires. For example, the Congress has already authorized and appropriated $1.0 billion to reduce past—fiscal years 1976 and 1977—operating indebtedness which, in turn, has resulted in a corresponding increase in the Postal Service's equity position. Whether the additional $625 million appropriation proposed by the CPS is required is a matter best left to the discretion of the Congress.

THE COMMISSION'S BUDGET

With respect to Section 5 of the Bill which would amend Section 3604(d) of the Act, it is my view that if this Commission is going to be given final decisional authority it is only fitting that the Congress exert appropriation oversight of our functions and performance. Therefore, I agree with the proposed amendment. However, in light of the Commission's view Congress may wish, in reviewing and approving the PRC budget, to direct that the funds be provided from the "Postal Service Fund" in lieu of the "General Treasury", thus causing the postal ratepayers to bear their share of the ratemaking costs.

Commissioner DuPont. Mr. Chairman, may I make a remark on this? I'd just like to report to this committee some of the activities that we're involved in now. You are all aware that we have underway now a rate case filed with us on July 13, 1977, by the Postal Service. This morning we held our third prehearing conference. We move into public hearings and cross-examination of the Postal Service witnesses on October 31. We will complete our hearings on February 7 and have oral argument on March 24, 1978. We are aiming to meet the decision deadline that you set for us, which will be May 13.

At the present time we have 34 interveners in the case. We also have 13 limited participants. We have adopted a new rule called a commenter rule, whereby any citizen who is interested in the case or expresses a view with regard to the case pending before us can make their views known. These comments are placed on file for all to review. If some of the participants to the case feel that a subject brought up in one of the commenters letters deserves airing, they can do so in our hearings.

As of today we have received 341 comments or letters with regard to our rate case. Another thing that we have done which we're all very proud of is the Commission now sits as a body to hear the cases. We

started this in R76–1, and are continuing it in this rate case. We have also moved to have the Commissioners sit on our other cases and mail classification cases. We have Commissioner O'Doherty now presiding in our MC76–2 mail classification case.

My intent as chairman is to assign these cases as they come along to the Commissioners. I feel that we have the time and the responsibility to hear the evidence firsthand rather than going through an administrative law judge. It has worked very well. I think that our morale is high. I, for one, am very proud of the record established by the Postal Rate Commission, and I'm sure that my colleagues are with me on this.

Our staff right now is approximately 75. We are looking forward to having a new Commissioner on the Board which will take our total staff, including Commissioners and their staffs, up to approximately 87.

Our budget for fiscal year 1978 will be $3.3 million, an increase of approximately 5 percent over fiscal year 1977. This I want to give to you because I feel, I don't know when we'll have another chance to come before you to present what is going on at the Postal Rate Commission.

So with your indulgence, I chose to take this time to give you these very few notes on our operations.

Mr. HANLEY. We appreciate your comments, Mr. Chairman, and your fellow Commissioner, Frank.

From my observation, I have personally been pleased with what I have observed coming out of the Rate Commission over the last year or two—that is, the period prior to that when we stewed in a great deal of frustration related to the turnover on the Commission, and in particular, with regard to the Chairman.

So I guess that it's safe to say that from the standpoint of tenure, you're the oldest Chairman in the history of the Commission.

Commissioner DUPONT. It wouldn't have taken much effort. [Laughter.]

Mr. HANLEY. For that I congratulate you and I am most aware of the complexities which you people have to deal with. The task, indeed, is not an easy one.

So I think it good that there is assembled a team that has devoted considerable time to the subject matter. I think the more time spent on it, the greater purpose you as individuals can serve to the overall cause.

I have but a few questions here. I'll address this to the Chairman.

Some have maintained that biennial authorization of public service appropriations might be unacceptable, be an unacceptable uncertainty in the regulating process. I don't believe that the Commission has taken a position on this.

What would your position be?

Commissioner DUPONT. As a ratesetting body, we of course strive for great stability with regard to that proposal biennial appropriations; my own view is that it does not add too much to instability. I think biennially we would, from my standpoint, be able to crank it in with some amount of certainty. You do have a public service appropriation that is set at $920 million. Frankly, I feel that without an escalator clause, that $920 million has just wasted away.

So that in contrast, if you are not going for a certain percentage of the previous year's budget. I think that biennial is a good compromise because implicit in it is an escalator clause that would correct some of the deficiencies that exist with regard to the $920 million.

My colleagues may differ with me on this.

Mr. HANLEY. Is that the general consensus from the Commission?

Commissioner SAPONARO. I think the overriding feature, as I see it, is trying to get some certainty.

In other words, we don't have any control over when the rate filing is going to be made with us. That's up to the Postal Service.

So that it seems to me they've got to be in a position so that when they submit some numbers to us, they know they've got something certain.

One of the real problems that we've had in the first three rate cases has been that during the period of the cases the cost estimates of the Postal Service have changed, and in the first one they used up the contingency allowance and in the second one there was a deficiency.

So I think the overriding factor is the question of certainty and whatever way that you gentlemen see that you can bring about that certainty. It's something that we don't have control of. We don't make the filing.

Mr. HANLEY. Now in view of your position with regard to the veto power over the rates, then should the Congress set levels of support to the Postal Service, which in turn would tend to reduce pressure on the rate structure? Would that be an alternative?

Commissioner DUPONT. That is an alternative. I feel it is better than the veto provision that is presently in the bill.

As we stated in our submission to you, we feel that the Congress should set the appropriation level, whatever it may be, and then let it act to hold down rates through that mechanism, rather than going through some other, through what is presently in the bill.

I think that is an alternative that is better than the legislative veto that is presently in the bill.

I think that the details would have to be worked out if that is how you would choose to go. And our staff, certainly, at the Rate Commission, would be happy to work with and assist the committee staff in this effort if that is the way that you all decide to go. But our best advice at this point is to set the appropriation level at a particular rate, whatever it may be, and then let that be the depressant on rates.

Mr. HANLEY. When witnesses testify before the Commission suggesting that by virtue of increased rates their use of the service will diminish, is this an influencing factor on your determinations?

Commissioner DUPONT. Yes, sir. In fact, that's one of the factors that's written into the law, that we have to take into consideration the effect of the rates on the users of the mail. According to one instance, in the last rate case, R76–1, where we were looking for evidence of this type, third class mail users came in and gave us their figures on what is happening in the marketplace with regard to third class mail.

As a consequence of hearing that testimony and having it cross-examined by Postal Service lawyers and others, we determined in our final rate decision to reduce the rate for third class from that which had been proposed by the Postal Service.

So in response to your question, Mr. Chairman, yes, it does play a role in our consideration and our decisions.

Mr. HANLEY. You made reference to your receipt of in excess of 300 letters from individual citizens. What do they write about? Are they expressing some dismay about increased postal costs or rates?

Commissioner DUPONT. Yes, sir, it covers the entire spectrum. I have a breakdown here. Of course most of them address themselves to the citizens' stamp proposal. Some of them come from paraplegics because attacking the requirements where it has to be handwritten. Paraplegics usually type the addresses of the addressee and return address, and they say if this is a requirement, if this is to benefit me, how?

We also receive letters from veterans' organizations who send out these little stickers with addresses on them and they say, if you require it to be handwritten, this will cut down on our charitable contributions that we receive.

There are letters that oppose all the increases and there are other comments. They cover the entire spectrum, Mr. Chairman.

Mr. HANLEY. Are the majority of these letters they write on the citizens' rate proposal and the conditions associated with that rate?

Commissioner DUPONT. Yes, sir, there are approximately, if my addition is correct, 253 letters addressing them to the citizens' rate. That is a breakdown. Fifty are opposed to all the increases, 48 comment in other areas.

Mr. HANLEY. Mr. Wilson?

Mr. WILSON. I only wanted to comment that I think the Rate Commission has come a long way. It wasn't long ago that we were all calling for dismantling the Rate Commission and doing away with them, and I was one of the leaders of that. But now what we're trying to do, as in my original bill, H.R. 19, is to give you more independence so you can do a better job.

As far as I am concerned, you're doing a fine job and this is a big plus for the Rate Commission.

Commissioner DUPONT. Thank you, Mr. Chairman.

Mr. WILSON. That's all I have.

Mr. HANLEY. Mr. Chairman, can you hazard a guess as to how seriously rates for first class mail might be affected in the long run? Should the court of appeals decision stand?

Commissioner DUPONT. I'm afraid that I can't at this time, Mr. Chairman. This is something that's under consideration. Attributable costs have been increasing, as sophistication in reviewing processing costs of the Postal Service improve.

I don't think I would hazard a guess. I have a gut feeling, that if the NAGCP decision were to stand, that it would have a very severe impact on the other classes of mail, second, third, and fourth class, because the rate may very well go up.

This is why a majority of the Commission was fearful of the administrative law judge's decision in our second rate case, R74–1. We feel however, that the court decision violates the law as expressed in the original Postal Reorganization Act, and as amended by last year's amendments.

And it is in that context that I think we oppose it because it does not allow the Commission to give adequate, or make adequate allowance for the other factors, factors other than costs that are contained in the Postal Reorganization Act.

Mr. HANLEY. Mr. Chairman, though really outside of the realm of direct interests here, the matter of the Presidential appointment of the Postmaster General, in recognition of your many years in this, what is your personal position? Is that a difficult one?

Commisioner DUPONT. Very difficult, Mr. Chairman. Very difficult.

Mr. HANLEY. I guess what you want to say is that you are in agreement with the legislation, but it's difficult for you to say so.

Commissioner DUPONT. May I answer it this way, Mr. Chairman? As you know, I spent a number of years on Capitol Hill as a staff member.

My own feeling is, and this is a very personal feeling, is, that every decision made in Washington is a political decision. And we should take into account, within the restrictions of the law, the political impacts of the decisions that we make.

We are here, the Rate Commission, the Postmaster General, you, all others in Government, to serve the American people. The American people make their wishes known through your legislative actions.

These actions and the decisions rendered by the Congress and the President in laws, are the directives by which we act. There are restrictions as to how we take political views into consideration.

So in answer to your question, I feel that we should be aware of the political ramifications of our acts. This is why I feel that it is imperative that the Commissioners, if at all possible, that the Postal Rate Commissioners preside over and sit en banc in Commision hearings.

Yes, we feel some of the political heat. We should feel it. But on the other hand, we also have to be objective and do what we thing is fair and right and equitable under the provisions of the law, whether we sit as Commissioners, or Postmaster General, or any other capacity.

That would be about as close as I would like to come to answering your question, Mr. Chairman.

Mr. HANLEY. Thank you.

To those of us who were here in 1970, it was assumed that direct and indirect contributions would not rise much above 50 percent; hence our provisions for nonprofit mail. Regardless of what is said by the courts and some commissioners, few members of Congress would have supported the ratemaking sections of the Postal Reorganization Act had it been known that direct and indirect attributions would rise even as high as it is, or has, rather.

In view of the current decisions, what would you recommend Congress do if it wished to maintain the relation between regular and preferred rates, which existed before 1970?

Commissioner DUPONT. We are still in the process of analyzing postal costs. In the act of 1970, of course, the theory was that each class of mail should pay those costs that that particular class causes within the mail processing system. No one knows for sure exactly what these processes would cost; how much was overhead, how

much was indeed cost by particular class of mail. The Kappel Commission came out and said attributable costs were of the nature of 50 percent: Postal Service mailers have become more sophisticated. I believe it was in the Kappel Commission that someone within the Postal Service said that it was 50 or 60 percent. This is why we have a collegial body of commissioners.

Commissioner O'Doherty has just corrected me. The Kappel Commission said 60 percent. But we have become more sophisticated in analyzing costs. Yes, a 60-percent capital or a 50-percent capital, or a provision in law saying that nonprofit mail shall pay only a certain portion of that paid by the commercial mailers, is a way of doing it.

This is a policy decision of the Congress to decide. Your proposal is one that would indeed serve that purpose. Attributable costs may indeed go up higher. But I'll say this: that it may also go lower, and possibly setting a percentage of the commercial rate would be an alternative at this time. We have not thought about that in great depth, Mr. Chairman, but if you'd like us to, we'll certainly discuss it among ourselves more fully and come up with a proposal to you.

Mr. HANLEY. We'd appreciate that very much.

Commissioner SAPONARO. Mr. Hanley, as you know, I dissented in R–74 and R–76. So I am in agreement with the conclusions that the court of appeals came down with.

Now, what you're talking about is trying to prescribe some policy limitations which are strictly within the realm of what you want.

And it seems to me tha if that's what the Congress wants, some kind of limitation, I think that this should be written into the law, so there are no ifs, ands or buts about it.

But I think the way the law is now, it has been correctly interpreted, as far as I'm concerned. I stated so in my dissent, and I just tried to give you in the brief statement I made here, some of the potential consequences of what the court said in its decision about cost variability. Now if you limit the attribution to cost variability, just as sure as I'm sitting here today, I know there are going to be people coming up, and they're going to say, it's only the direct cost that may now be attributed.

Now, the facts of life are that from the very beginning the Postal Service has been developing its costs, direct costs, and indirect costs. Now, what do we mean by that? The direct costs are those that affect one class of mail, and the indirect costs affect more than one class of mail. And they are related.

And the economic analysis is that you allocate the indirect costs, or attribute the indirect costs, if you please, on some accounting basis, in the same ratio that the direct costs are attributed.

So if the social good, or other policy which is strictly a congressional policy, calls for something of that character, it should be set out. I recall, from the legislative history and I'm sure you're familiar with it, that in 1954 there was a proposal made unilaterally by the Postal Service that said, well, first class rates have got to cover the costs; second class rates, only 50 percent of the costs; third class rates, 75 percent; and first class pick up the rest.

Now, for whatever reasons, Congress decided not to pass it. It wasn't done. But the writing in of some social benefit, I think, is particularly your prerogative.

Mr. HANLEY. May I ask, Mr. Chairman, your updated opinion of the cost ascertainment process employed by the Postal Service?

Commissioner DUPONT. I think it is a good one. The present system of going through the costs of the Postal Service, I think, is much more sophisticated than the cost ascertainment system that was used prior to 1968.

The Postal Service is coming out with a better cost breakdown than they had previously. So I think it has improved considerably. There is a way to go still but frankly, in my opinion, we've gotten to a point where if you take surveys to break down costs, is the benefit-cost ratio there?

For instance, going into fourth class post offices to ascertain how much of the time the postmaster spent on sorting mail, administrative duties, trying to break causality down, as contrasted with overhead. Is the money that you spend on that kind of survey worth it?

So we're now getting down, I think, to a cost-benefit ratio picture. But they have increased, I think, considerably. There is, I'm sure, other improvements that could be made.

Mr. HANLEY. I am pleased with what you have said. I have long thought that that's probably the most important tool that you people have.

Commissioner SAPONARO. May I make an additional comment. Mr. Chairman, on the cost ascertainment system?

I'd like to just pinpoint a particular area that I think really is the heart of the whole problem on this question of attribution. And I Know you're concerned about it.

There are four basic functions in the Postal Service. This will take me just a couple minutes. Four basic functions: The processing function, and in that, by using the cost ascertainment data, the Postal Service attributes 96 percent of the cost to the classes of service. The Postal Rate Commission agreed.

Then, the transportation function: By using the cost ascertainment data, they've attributed 94 percent of the costs.

Now, the other major functions, the largest function is the collection, acceptance and delivery of mail. Now, you break that down into the in-office work of the city delivery carriers and special delivery: 98 percent of the costs are attributable.

The real heart of this whole problem, where I think the major differences are between those that differ on cost attribution, is in the delivery of mail from the time it leaves the post office to the time it gets into the house of the recipient.

The Postal Service would attribute only 23 percent of their costs—they did that in the last case. The Postal Service—I mean, the Rate Commission, in its decision, attributed 32 percent of the costs.

Now, I did it a different way, and I attributed overall about 90 percent of the costs by using data from the cost ascertainment system.

So I'm focusing for you and for this committee, I hope, the real heart of the problem: the attribution of costs involving the delivery of mail from the Postal Service facilities to the customer. That's the heart of the problem.

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

Mr. Wilson?

Mr. WILSON. I have nothing more.

Mr. HANLEY. Well, gentlemen, on behalf of the full committee, our deep appreciation for your participation here this afternoon. You are assisting the deliberations of this committee immeasurably.

Commissioner DUPONT. Thank you, Mr. Chairman.

Mr. HANLEY. The subcommittee stands adjourned.

[Whereupon, at 4:05 p.m., the subcommittee was adjourned.]

[The statements and letters which follow were received for inclusion in the record:]

STATEMENT OF HON. JAMES L. OBERSTAR, A REPRESENTATIVE FROM THE STATE OF MINNESOTA

Mr. Chairman, thank you for this opportunity to testify on behalf of my bill, H.R. 8238, which is identical to H.R. 7700, the Postal Service Act of 1977.

Ever since the Postal Reorganization Act of 1970, I have been increasingly concerned about the failure of the U.S. Postal Service to carry out its mission to provide effective postal service to all the people of this country.

Service has deteriorated, costs have risen, small town post offices have been closed, and millions of dollars have been wasted on technological "improvements" of dubious value or effectiveness.

Postmaster General Bailar's support of the Postal Rate Commission's recommendation to eliminate Saturday delivery is the most recent example of USPS tunnel vision. It shows why so many people feel USPS no longer deserves its name, because the "service" part of their mission has been relegated to a back seat role—which postal customers and employees alike deplore.

The Postal Service Act of 1977 would go a long way toward correcting these problems by reasserting a degree of Congressional control over USPS.

However, in our efforts to reform USPS, I hope we will not inadvertently undo some of the major accomplishments of the Postal Reorganization Act of 1970. Primarily, I am referring to the section which awarded postal employees the rights of collective bargaining. This right must not be weakened in any way, shape or form.

Since the legislation which this Subcommittee is considering is quite comprehensive, I will not discuss all the proposed amendments. There are, nevertheless, a few items which I feel are especially important. These are: Section 3 dealing with the methodology for setting postal rates; Section 4 dealing with authorized appropriation levels, six day delivery and rural post offices; Section 8 abolishing the Postal Service Board of Governors and reinstating presidential appointments of the Postmaster General; Section 9 dealing with Post Office closings and Section 11 dealing with major capital programs.

Mr. Chairman, I have no doubt that the members of this Committee will give this legislation their most careful and thoughtful consideration, and will report out a bill which will significantly alleviate the postal problems in this country.

I thank you for your untiring efforts on behalf of postal patrons and employees, and also for this opportunity to share my concerns with you.

STATEMENT OF HON. ADAM BENJAMIN, JR., A REPRESENTATIVE FROM THE STATE OF INDIANA

I would especially like to thank Chairman Hanley for the opportunity to express my opinions on Postal Reform and to have these comments included in the final Hearing Report of the House Post Office and Civil Service Committee's Subcommittee on Postal Operations and Services.

While I do not wish to address all of the provisions of H.R. 7700, I would like to specifically pinpoint some problems which directly affect my district and others as well throughout the country. Delays in receiving the mail has been one of the major complaints I have received since I assumed office in January. Unfortunately, in some areas in my District, mail service has reached a state where there's almost a refusal to deliver the mail. In my estimation, postal reform is as important to constituents as welfare reform, governmental reorganization, and energy legislation. People want to be able to depend on the U.S. Postal Service for fast, efficient mail delivery. People want to feel confident that their letters and packages will be delivered promptly and intact.

I realize that the Subcommittee is quite familiar with an historical perspective on this dilemma so I would like to succinctly present my observations while also informing members about specific problems encountered in my home area. First, I believe that improving management of the Postal Service is the best way to improve the quality of mail delivery. The Postal Service should have more direct accountability to Congress and the Postal Service's Board of Governors should be abolished. The Postmaster General should be returned to Presidential appointee status with Senate confirmation.

I am particularly opposed to the findings of the Commission on Postal Service with respect to reducing six day mail delivery. As a stop-gap measure, until hearings could be held on H.R. 7700, I added my name to the list of cosponsors of H. Con. Res. 237 which basically stated that it was the sense of the Congress that the United States Postal Service should not reduce the frequency of mail delivery services which was in effect for such user on June 1, 1977.

In addition, I would like to call upon Chairman Hanley and this Subcommittee to aid my District in having door-to-door postal service restored in Highland, Ind. I was petitioned on behalf of 300 families in Highland who have been receiving their mail by Postal Service Delivery at curbside. Although this is a quiet, residential area, the curb side mail boxes are often vandalized and mutilated. Mail has been stolen by unknown persons. Occasionally, the mail box doors are opened by pranking children allowing the mail to be blown away by the wind. Firecrackers have been placed inside the boxes by vandals. Some boxes have even been stolen or bent and mutilated by careless drivers.

This past winter, the local snow plows often left very large drifts along the curbs in this area. Mail delivery was refused to any box that was not free of snow. During the severely cold weather, new residents experienced great difficulty because of their inability to sink the mail box poles into the deeply frozen ground. Often a delivery truck or unaware visitor will leave a vehicle impeding access to a mail box. As a result, no mail would be delivered to those residents on that day. It is extremely difficult for residents of this area to understand the inequitable delivery service that occurs in their subdivision. In several locations, adjacent houses may not be eligible for the same type of service because of civil town boundaries or arbitrarily drawn Postal Service delivery zones.

I am calling upon this Subcommittee to investigate this situation and hopefully find some satisfactory remedy for these citizens. I have contacted all of the pertinent postal officials in the First District in addition to the Postmaster General. However, I feel the magnitude of this problem typifies the need for postal reform and thus I present it to you today for your information and assistance.

Thank you.

STATEMENT OF HON. BALTASAR CORRADA, RESIDENT COMMISSIONER FROM PUERTO RICO

My name is Baltasar Corrada, Resident Commissioner from Puerto Rico to the U.S. Congress. I am pleased to be able to present this written testimony for inclusion in the Subcommittee's record of hearings on H.R. 7700, The U.S. Postal Service Reform Act of 1977. Although I was unable to appear before you personally during your subcommittee's recent hearings on this matter I would like to express my firm support for H.R. 7700.

Puerto Rico is a high population density island with 3.2 million U.S. citizens living on 3,500 square miles. Low income levels and high telephone rates have caused mail service to remain a key method of communication between mainland residents and residents of Puerto Rico, some 1,600 miles away from New York. As a result, reform of the procedures and operations of the U.S. Postal Service (USPS) is a matter of great interest and concern to the people of Puerto Rico.

A recent decision by the USPS has virtually turned Puerto Rico into a single postal zone by delegating the processing and distribution of mail for the entire island to the San Juan area. This type of decision exemplifies two major problems with the way the USPS currently operates. The most significant problem involves the lack of communication and consultation between the decision making strata of the USPS and the postmasters and residents of the community affected by those decisions. The closing or consolidation of post offices deeply affects community life in the affected areas and any decision by the USPS which does not take the human element into direct consideration is not in furtherance of

the USPS' public service function. Consultation with postmasters at pre-decision stages is extremely important if the USPS is to remain attuned to the postal needs of the people it is serving. I believe Sec. 404 of H.R. 7700 would adequately encourage increased communication and consultation between the USPS and the postmasters and residents of areas which may be affected by proposed USPS action or policy. Sec. 404 encourages the much needed consultation by requiring the holding of a hearing relating to any proposed closing or consolidation in the area which would be affected by such proposed closing or consolidation.

I fully support the notion that the USPS is a public service organization whose primary function is to provide a maximum degree of effective and regular postal service nationwide. It is not intended to be a profit making entity. I am glad to see that Sec. 2041(ii) of H.R. 7700 promotes the USPS primary function by providing a federal subsidy for the continued operation of post offices in communities in which post offices may not be deemed to be self-sustaining. Small town post offices are often an integral part of the community life in the areas they serve. Administrative costs should not solely determine whether a post office remains operational. The same subsection provides for the continuance of the frequency of mail we currently enjoy, thereby opposing recent efforts to cut back mail delivery service to 5 days a week.

In conclusion I would like to stress the importance of improving communication and consultation between the USPS and local postmasters and residents of areas which may be affected by a USPS decision to close or consolidate post offices. I feel H.R. 7700 accomplishes this.

I wish to commend Chairman Hanley and members of this Subcommittee for conducting these much needed hearings on Postal Service Reform.

STATEMENT OF JOHN C. GOODMAN, PRESIDENT, NATIONAL ASSOCIATION OF POSTMASTERS OF THE UNITED STATES

Mr. Chairman and Members of the Subcommittee, I am John C. Goodman, president of the National Association of Postmasters of the United States. I have the privilege of representing approximately 27,000 Postmasters on active duty and 6,000 Retired Postmasters.

On behalf of our membership, I thank you for allowing me to submit testimony to such a knowledgeable, legislative body as your Subcommittee—and each Postmaster would join me in expressing to you our appreciation to speak out on the failure of our Postal Service.

H.R. 7700 offers possible solutions to a postal problem which has become more and more apparent—the top management of the United States Postal Service is not now accountable to the public it serves through the duly elected representatives of the people, nor is it sensitive to the valid fears and low morale of the employees it manages.

Simply stated, H.R. 7700 provides for:

(1) Postal Rate Commission decisions in rate, fee and classification cases being subject to Congressional vote.

(2) A more precise methodology for the setting of postal rates to reaffirm Congressional intent in the Postal Reorganization Act of 1970.

(3) Authorization for public service appropriations being increased to 15 percent of the prior year's operating expenses, with specification that the money is authorized for, among other things, six-day a week delivery, the operation of rural post offices, etc.

(4) That the Postal Rate Commission's budget be separated from the Postal Service's and the Postal Service will no longer have any control over the Postal Rate Commission's finances.

(5) A maximum size limitation of 100 inches in girth and length combined and a maximum weight limitation of 70 pounds are uniformly applied to parcels mailed from all post offices.

(6) The appointment of the Postmaster General by the President with Senate confirmation.

(7) Abolition of the Postal Service's Board of Governors.

(8) The Postal Service must hold a public hearing in any community where it is considering closing a post office.

(9) The Postal Service is required to follow procedures for disposing of excess property followed by other federal agencies.

(10) That there be Congressional review of large capital improvement projects, such as the erstwhile billion dollar bulk mail system.

(11) That this act has no effect on the collective bargaining process outlined in the Postal Reorganization Act of 1970. NAPUS supports each of these provisions.

During the past few years NAPUS has testified repeatedly before the Post Office and Civil Service Committees of the U.S. Senate and the U.S. House of Representatives, stating clearly what the various problems are facing the U.S. Postal Service and our proposed solutions for the same. It is felt that we have made known to all what our positions are and to reiterate them again and again would be repetitious and redundant and all that it would serve would to needlessly take time from a very busy committee.

Therefore, we would like to state simply, and unequivocally that the National Association of Postmasters of the United States supports what H.R. 7700 provides for as stated above and that it sincerely feels if the provisions of H.R. 7700 are enacted into law that much will be accomplished towards ensuring that "Service" will again be the paramount goal of the U.S. Postal Service and that the Postal Service will once more be responsive to the needs and wishes of the American people.

In conclusion, let me say that NAPUS sees no alternative but to express disappointment in the Commission Report and disillusionment with current Postal Service management and their objectives to destroy full service.

Should the U.S. Postal Service be allowed to continue its present course, disregarding the public interest, reducing service and raising rates, I believe the Private Express Statutes will eventually be repealed and that this nation's bond of communication will ultimately be destroyed.

I sincerely appreciate this opportunity to present to you our views and to let you know that we will be happy to help you in the support of H.R. 7700 in any way that we can.

JOHN JAY DALY ASSOCIATES, INC.,
Washington, D.C., July 26, 1977.

HON. JAMES M. HANLEY,
Chairman, Subcommittee on Postal Operations and Services, House Post Office and Civil Service Committee, Cannon House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: The following supplemental information is submitted on behalf of Henry Brief, Executive Director of the Recording Industry Association of America (1 East 57th Street, New York, NY 10017) in hopes it can be made a permanent part of the hearing record on HR 7700.

During RIAA's testimony before your subcommittee on July 19, I am afraid that perhaps we did not make clear the position of the Recording Industry Association of America (RIAA) with respect to the future existence, functions and responsibilities of the Board of Governors of the United States Postal Service or on the question of who appoints the Postmaster General.

Let me state at the outset that RIAA can fully support the provision of HR 7700 which calls for the appointment of the Postmaster General by the President of the United States, subject to confirmation by the U.S. Senate.

What we sought to convey to you during the hearing, quite badly it seems, is that in our view it is crucial that the United States Postal Service operate with a much greater degree of accountability to the Executive and Legislative branches of the Government than is presently the case.

We feel that such accountability can be realized either by revitalizing the Board of Governors by selecting as members those who have expertise in technical, financial, educational, management, labor relations and technological research areas; or, if the President and Congress so decide, by abolishing the Board of Governors and making the Postmaster General a Presidential appointee subject to confirmation by the Senate, as are the heads of the other departments in the Federal Government.

It was with this in mind that we stated that the question of who appoints a Postmaster General was of lesser importance than the paramount question of accountability. We certainly did not intend to convey an impression that we oppose the Presidential appointment of the Postmaster General.

In addition to this clarification, we should also like to respond to some of the questions asked by Mr. Solarz for which we did not have answers at the time of the hearing.

First, in 1971, total record industry sales at list price value amounted to $1.744 billion, of which sound recordings mailed by clubs and mail-order houses amounted to $259 million or 14.8 percent. In 1976, total industry sales came to $2.737 billion, of which club and mail-order sales accounted for $295 million or 10.7 percent. This confirms our comment that club and mail-order sales of sound recordings did not keep pace with industry's general growth pattern—the industry's growth between 1971 and 1976 was close to 57 percent while club and mail-order growth was about 14 percent.

Furthermore, we are also including some computations made by two of our club members on the relative increases of postal rates in comparison with those of other elements in its club operations.

CASE HISTORY OF RCA MUSIC SERVICE

Between 1972 and 1976, the 3rd Class bulk mail rate went from $42 per thousand to $77 per thousand. For RCA Music Service, postage was 27 percent of the cost of mailing a standard promotional mailing to potential enrollees in RCA's tape and record clubs. In January 1977, postage on the same promotional mailing represented 41 percent of the mailing cost. In 1975, that mailing cost $157 per thousand in the mail. In 1977, it cost $187, an increase of $30 or 19 percent. Postage alone increased $35, an increase of 83 percent. Cost of materials used in the mailing were held down by resorting to a plastic envelope and lighter paper. Component costs came down from $64 in 1972 to $56 (per thousand) in 1976, a drop of 14 percent. Service costs of RCA suppliers went up slightly during that period.

Between 1969 and July 1977, the minimum one-pound Special 4th Class rate rose from 12 cents to 30 cents, an increase of 150 percent. In its new rate proposals, just submitted to the Postal Rate Commission, the present one-pound rate of 30 cents for a one-pound record would rise to a fully phased rate of 55 cents. At that level, the increase over the 1969 rate of 12 cents would be 358 percent, and the increase over the present rate would be 83 percent.

Yet the increase in the regular Club price of a single record unit over the same period was 40 percent (from $4.98 to $6.98), even though the standard manufacturing cost of a record increase 62.7 percent. Fulfillment costs per member, excluding warehousing costs and postage, were rerduced 17.1 percent between 1970 and 1976 through improved operational efficiency and productivity, making it possible to limit the increase in shipping and handling costs between 1971 and the present to 33.9 percent for a single L.P. record. (Shipping and handling charges in 1971 were 59 cents per record. Currently they are 79 cents.)

CASE HISTORY OF COLUMBIA HOUSE

The statistics from another of our members, Columbia House, should also prove useful. Between 1970 and 1977, the third class bulk rate went from $40 per thousand to $77 per thousand—an increase of 93 percent. At the same time (in 1970), a promotional mailing to potential Columbia House customers cost $87 per thousand, excluding postage; the cost rose only 7 percent (to $93 per thousands) in 1977.

For Columbia House in 1970, postage was 36 percent of the cost of the promotional piece mailed to potential customers. In 1977, postage on the same type of promotional mailing represented 45 percent of the promotional cost.

As with RCA, for Columbia House between 1970 and July 1977 the minimum Special Fourth Class rate for one pound rose from 12 cents to 30 cents—an increase of 150 percent; in its new rate proposals, just submitted to the PRC, the present USPS one-pound rate of 30 cents would rise to a fully phased rate of 55 cents; at that level the increase over the 1970 rate would be 358 percent—and an increase over the present rate of 83 percent. Yet, the increase in the regular club price of a single Columbia House record over the same period was 40 percent (from $4.98 to $6.98)—even though the manufacturing costs of a record increased 45 percent. Fulfillment costs per member (excluding warehousing costs and postage) were reduced 35 percent between 1970 and 1977 through improved operational efficiencies and productivity.

Finally, although Special Fourth Class rate postage increased 150 percent during the 1970–1977 time period, Columbia House passed along only a 44 percent increase in the shipping and handling charges to its customers. The 51 cents shipping and handling charges in 1970 rose to 75 cents in 1977 for a single unit shipment.

We should like to point out that the consumer is the one ultimately penalized by these increases, particularly with regard to postal rates, because these costs are passed along to him. The benefits he derives from club membership—ease of selection, expert assistance and guidance in building libraries and collections of sound recordings, and substantial cost savings—are being erased by such increases.

We hope this information will assist members of the Subcommittee in their consideration of H.R. 7700.

If we can be of further help, please don't hesitate to contact us here in Washington at 659–2925.

Sincerely,

JOHN JAY DALY,
Washington Representative,
Recording Industry Association of American, Inc.

MIDWEST LABOR PRESS ASSOCIATION,
Chicago, Ill., August 26, 1977.

Representative JAMES HANLEY,
Chairman, House Subcommittee on Postal Operations and Services, House Post Office and Civil Service Committee, Cannon House Office Building, Washington, D.C.

DEAR MR. HANLEY: Enclosed is a statement of the Midwest Labor Press Association's executive board regarding H.R. 7700. Our organization represents editors of publications throughout the midwest representing local labor unions, state federations, metropolitan labor councils and international unions.

As our statement makes clear, it is vital that the postal service of our country not discriminate against communications of organizations such as ours, that represent the working people of our society. We strongly urge your valuable consideration and action on H.R. 7700.

Kindest personal regards.

Sincerely,

ROCHELLE D. HART,
Executive Secretary.

STATEMENT SUBMITTED BY ROCHELLE D. HART, EXECUTIVE SECRETARY, EXECUTIVE BOARD OF THE MIDWEST LABOR PRESS ASSOCIATION

The Midwest Labor Press Association is a regional affiliate of the International Labor Press Association representing publications of local unions, state federations of unions, regional central bodies, and international unions of the American Federation of Labor and Congress of Industrial Organizations, the Canadian Labour Congress, and the United Auto Workers, from ten midwestern states.

We wish to go on record with the Subcommittee on Postal Operations and Services of the House Post Office and Civil Service Committee in support of H.R. 7700, the Postal Service Act of 1977.

On July 19, 1977, Allen Y. Zack, Secretary-Treasurer of the International Labor Press Association, AFL–CIO, CLC, presented a comprehensive statement to the subcommittee setting forth the reasons why the labor press is in full support of this bill.

The Midwest Labor Press Association is in full accord with the substance of this statement, and wishes to reiterate the hardship that is being imposed on union members throughout the nation by the present postal regulations.

Many of our member organizations have had to cut their publications entirely, or cut back on the number of pages, the frequency of publication, or eliminate staff positions.

This is a serious infringement on the rights of America's union members, because union publications supply information to the members that usually can't be obtained through any other source. This information includes data about

negotiations, union elections, financial reports, grievances, union policy and legal matters of concern to union members.

Union publications also supply their readers with information about the elections that are held each year for about 500,000 union offices, and report on the approximately 150,000 collective bargaining agreements that are negotiated annually. Additionally, unions have a representative democratic governing structure which requires rank-and-file members to be knowledgeable on national economic and social issues to choose as delegates to state or national union conventions those persons who best represent their views.

If unions are to remain democratic organizations where the rank-and-file member has the opportunity to be knowledgeable about contract bargaining demands, activities and policies of officers and governing bodies, and other matters of concern, and to participate in decision making regarding these matters, it is imperative that union publications not be destroyed or made ineffective by postal regulations that reduce their ability to communicate.

The Midwest Labor Press Association concurs with ILPA's position that H.R. 7700 would go a long way towards eliminating many of the causes of the Postal Service's deterioration.

The Postal Service is, and must continue to be, an essential government service. In a country as large as the United States, reasonable and equitable postal rates and services are necessary to preserve the democratic principles so vital to keeping this nation and its citizens members of a free society.

MLPA supports H.R. 7700 and urges prompt Committee action to approve it.

STATEMENT OF ROBERT D. PARTRIDGE, EXECUTIVE VICE PRESIDENT, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

My name is Robert D. Partridge and I am the executive vice president of the National Rural Electric Cooperative Association. NRECA is the national organization of nearly 1,000 REA-financed, nonprofit cooperatives which deliver central station electricity to approximately 25-million people throughout 46 states. These rural electric cooperative systems serve in the sparsely populated areas of the United States.

NRECA publishes and mails (under the qualified nonprofit second-class rates) the following:

1. Rural Electrification Magazine (monthly).
2. Rural Electric Newsletter (weekly, except biweekly October–January).
3. Management Quarterly.

In addition, NRECA has among its members 31 state associations which also mail publications under the qualified nonprofit second-class rates. The papers or magazines are circulated to the members of rural electric cooperatives within their states. These publications have a combined circulation of more than 4-million. In many cases, they are the only publications received by these rural residents.

Since the establishment of the Postal Service as an independent government agency, these publications have had to contend with ever-spiraling postal rates. As a result of increases already planned—and not including future increases the Postal Service is seeking or will seek—rates for some of them will increase as much as 10-fold over the current phasing-in period.

These publications, which for the most part are relatively small in size but with relatively large statewide circulation, are particularly concerned that the effect of the Postal Service increases is to place an extremely heavy burden on small publications.

Congress, in establishing the second-class category and its special rate, recognized clearly the need for all citizens—urban and rural—to have access to printed information at reasonable osts. It was the specific and deliberate intent of Congress to foster a wide variety of publications and to assure their availability throughout the nation—at a subsidy, if necessary.

In 1974, Congress reaffirmed this intent by overwhelmingly passing legislation which extended the phasing-in period for second-class rates sought by the Postal Service. In each year since then, the Congress has appropriated the funds necessary to implement this extended phasing-in schedule.

The 31 rural electric associations which publish magazines and newspapers for the consumer-members of the rural electric systems within their states are,

we believe, performing a vital function in disseminating information on energy and other important issues. To cite just one example: they have been at the forefront of providing information on energy conservation in the home and have been promoting home weatherization programs far beyond what newspapers or other publications have been doing.

I do not exaggerate when I say that most of these publications operate on minimum budgets and that the actions of the Postal Service regarding rates could determine if they survive.

We have previously expressed our support of oral and written comments submitted by Mr. Emmet Lucy on behalf of us and other special rate second-class publications.

We are in full concurrence with his statements relating to rates and services affecting nonprofit second-class mail users.

Additionally, we urge the Subcommittee to carefully consider the importance of maintaining post offices in rural America. It goes without saying that without the post office, rural America would be even more isolated from the rest of the Nation.

We would also like to summarize our position on the following points as they relate to our publications and those of our member systems and to rural America in general:

1. We believe Congress should adopt a definition of "attributable" costs which would require the Postal Service and the Postal Rate Commission to give proper consideration to social, cultural and intellectual factors as well as cost factors. Cost factors appear to have dominated previous rate determinations.
2. We believe that there should be a ceiling of no more than 60 percent, and preferably 50 percent of total costs set on attributable costs.
3. We believe that Congress should maintain a review or oversight function over the Postal Service on matters such as rate setting or classification.
4. We oppose curtailment of Saturday mail service.
5. We support simplification of administrative proceedings on postal rates and services. These proceedings are so complicated and expensive that few can participate in them.
6. We support Congressional approval of the appointment of the Postmaster General.

Let me close by saying that we appreciate the consideration this Subcommittee is giving to the future of our postal operations. There is probably no single agency that more directly touches the lives of the American people than the Postal Service. Therefore it is vital that the Postal Service operate in the public interest. It should not be—nor have to be—so concerned with the balance sheet that it neglects to properly serve public welfare.

Somehow, the Postal Reorganization Act made the balance sheet more important. We urge the Congress to correct this inequity.

Statement of American Retail Federation, Inc.

The American Retail Federation, composed of the Central Council of National Retail Associations, made up of 31 national retail associations (list attached); the National Conference of State Retail Associations, made up of the 50 statewide retail associations (list attached); together with corporate sustaining members, represents, through this membership, an industry that is vitally concerned with the postal services of this country. On December 20, 1976, the Federation submitted its policies pertaining to the postal service to the study commission of the Congress and its comments on those policies. Subsequent to the issuance of the report of that commission in April of 1977, the members of the Federation's Transportation and Postal Committee reviewed the issues, comments, and legislative recommendations in that report in relation to the approved Federation policies and authorized the filing of this statement as to the following determinations and recommendations thereon.

Levels of Public Service

Four items are embraced within this category in the Postal Service Commission Report (page 6), including: (1) the conditions under which certain Post Offices should be closed; (2) a reduction in mail deliveries from 6 to 5

days a week; (3) the necessity to allow the Postal Service the flexibility to meet changing circumstances; and, (4) dependability of timely delivery service as the primary objective rather than fast delivery or lower cost. The Federation policy supports the Postal Service as an essential government institution with a duty to provide universal service which should be administered according to sound business management principles included in which should be the authority to exercise effective control over new appointments and personnel and over its physical plants and facilities. Therefore, on this premise, the Federation is in accord with the above four recommendations as being sound business principles. If, in the judgment of the Congress, there is found reason for the limitation on the Postal Service to effectuate these recommendations, then the continued services are to be considered as public services for which the deficienes in revenue should be met by the taxpayers as a whole through the appropriation process.

ELECTRONIC COMMUNICATIONS

The Commission report (page 6) recommends that the Postal Service should (1) pursue the possible use of existing electronic communications systems, and (2) determine the public need for a Postal Service system to collect, transmit, and deliver messages electronically. The Federation has previously expressed its views that electronic communications facilities having the ability to receive and transmit on-line data regarding financial transactions between depository and non-depository institutions be permitted to develop in response to the pressure of the competitive marketplace and must be neither owned nor operated by the government. (Before the Committee on Regulatory Issues of the National Commission on Electronic Fund Transfers, October 29, 1976.) Further, as to message communications, the first recommendation of the Commission report indicates the use of existing systems for the electronic transmission and the Postal Service to provide the collection and delivery service.

Although the Federation does not oppose the Postal Service's use of electronic communications systems, it does oppose the use of public financing to develop an electronic communications system which would compete with private electronic fund transfers systems, especially where the Postal Service by deficit financing could secure a virtual monopoly over such communications, even outside of the private express monopoly. The Federation also urges that electronic fund transfers of any type, whether the transfer of value or accounting data, are not and should not be within the scope of the private express monopoly. Therefore, the adopted Federation position is in support of studies by the Postal Service to determine future public needs for electronic communications, provided that electronic transfers of any type, whether the transfer of value, or accounting data, or communications, are not within the scope of the private express monopoly. In so recommending, the Federation points to the need for adequate provisions for safeguarding the privacy and confidentiality of any material transmitted through the Postal Service in any electronic system.

PUBLIC SERVICE APPROPRIATIONS

Two recommendations are made as to appropriateness to cover the public service aspects of the Postal Service: (1) 10 percent of the postal expenses incurred during the preceding fiscal year and (2) $625 million to eliminate the present Postal Service accumulated indebtedness. The Federation policy recognizes that there are many functions performed by the Postal Service for which there may be an annual public service appropriation which takes into consideration the social and public interest costs of maintaining the facilities for a national postal establishment. As indicated above, this may occur in the number of days service or in the number of post offices maintained. The Federation does not endorse any percentage of specific amount, although it does concur in the recognition of the need for reimbursement appropriations of social or public interest costs as distinguished from those incurred under sound business management principles.

POSTAL RATES AND CLASSIFICATIONS

Recommendation (9) of the report (page 7), together with the legislative proposal (pages 88–89), attempts to deal with various interpretations by Administrative Law Judges, the Postal Rate Commission, the Postal Service, and the

courts, as to what constitutes "attributable costs" to be assigned each class and subclass of mail and does so by limiting such costs to a maximum of 60 percent of total costs. The balance of costs, otherwise referred to as institutional costs, would then be subject to pricing factors or principles. The Federation policy as to ratemaking fundamentals urges, first, a modernized cost accounting system. Then, supported by evidence that the Postal Service is establishing measurable procedures, policies, and methods to improve productivity and service, the rate schedules should be formulated with considerations of pricing, classification, and modern marketing techniques which would provide more efficient economical service and encourage greater use of the services. The rate schedules should not be self-defeating from a revenue return standpoint and should be established in conformity, and in coordination with, business practices. Therefore, although appreciative of the efforts of the Commission to be definitive as to the application of costs to the ratemaking process, the Federation does not support any specific maximum or stated percentage such as 60 percent, and would prefer that Congressional guidelines, if legislated, be in the nature of, and consistent with, the Federation policy.

It is further recommended that the mail be retained in four major classifications with rather difficult standards for changes therein. (Report, No. 10, page 7 and pages 89, 90) Although some radical changes have been proposed by the Officer of the Commission, such as a proposal to substitute a size-shape-weight based classification in lieu of the existing four classes of mail, the Federation believes that the present system for proposing and considering classification changes before the Postal Rate Commission, with each proposal judged on the merits, is satisfactory. As indicated heretofore, the Federation policy supports those classification changes that would provide more efficient service and would encourage greater usage. The Federation wishes to stress its support of the United States Postal Service's efforts to develop a "work sharing" system that fosters cost savings to the Post Office through presort discounts to mailers. We do not recommend the proposed changes.

The last item under this category of recommendations is (11) which, although making an exception in the case of the private carriage of time-value letter mail, would not allow any "general" relaxation of the private express statutes to be determined by the Congress. In creating the United States Postal Service, the enabling act of Congress called for a two year study of the existing statutes dealing with the governmental monopoly on letter mail.

The Postal Service did undertake such a review in which the Federation submitted its views, including the fundamental argument that only the Congress had the responsibility and authority for expressing and defining the private express statutes. The Postal Service did provide, as urged by the Federation, for a suspension of the application of the statutes as to data processing materials, although a specific hourly limitation was appended. (Comprehensive Standards for Permissible Private Carriage, Fed. Reg. Vol. 39, No. 180, Mon., September 16, 1974, pages 33209 et. seq.)

The Postal Rate Commission also undertook a proceedings to determine its jurisdiction, or lack thereof, as to regulations implementing the private express statutes. Again, the Federation urged that this was a matter for the Congress and the Commission, in fact, determined not to assert a general jurisdiction thereon. (Docket RM 76–4, Aug. 14, 1976). The Federation policy supports reform of the private express statutes, without repeal thereof, which would provide in the definition of "letter" a specific exemption for data processing materials (as distinguished from a suspension with time restrictions for such material) and an exemption for communications between corporations when one is a wholly owned or majority owned subsidiary of the other, and no expansion of the "letter" definition without Congressional approval. The Federation, while concurring in opposition to any general relaxation, does urge the adoption of the above limitations.

ORGANIZATION OF THE POSTAL SYSTEM

The Commission report includes its major recommendations with one for the preservation of the Board of Governors and for their appointive powers as to the Postmaster General and Deputy Postmaster General and, two, for the continuation of the Postal Rate Commission with final authority in rate and classification proceedings subject only to judicial review. The Federation approves the first and has some reservations as to the second of these suggestions. Federation policy calls for "adequate procedural safeguards" as to rate and

classification matters and the present system of Commission review, Board of Governor approval, and judicial review seems consistent with this policy. Although it may be said that many regulatory agencies presently have final authority to deal with matters within their jurisdiction subject only to judicial review, and can be said to be examples which could reasonably be the pattern for the postal determinations coming before the Commission, it must be pointed out that the postal rate and classifications affect almost every segment of the economy and the public. Unlike other regulatory agencies, there may be added justification for the present system and the Federation urges its retention.

GENERAL SUGGESTIONS AND RECOMMENDATIONS

In other sections of volume 1 of the Commission's report, various suggestions are made as to which the Federation has the following views.

The Postal Service is urged to take effective action to improve every aspect of parcel post service and make it competitive to ensure the continuation of this vitally important—and unique—postal service (page 53). One of the most important means of accomplishing this objective is within the power of the Congress. In creating the United States Postal Service, the Congress carried forward the provision, long protested by the American Retail Federation, for different sizes and weights of parcel post packages dependent on the types or class of Post office (Public Law 91–375, 91st Congress, H.R. 17070, August 12, 1970 § 3682). The Federation again urges that the Congress reestablish the size and weight limits on parcel post to a uniform 100 inches in girth and length combined, and 70 pounds in order to restore this postal service as a competitive small package system for the public.

The Commission recommends unlimited air transportation contacting authority for the Postal Service (pages 53–54). The Federation has no objection to easing the slow and cumbersome methods now used to set rates for the air carriage of the mails, but cautious against the reinstitution of the equivalent of Sec. 22 of the I.C. Act. We urge that the Postal Service be permitted to deal or contact directly with the air carriers for transportation services on the same basis as private shippers with no special rates, services, or facilities not equally available to all like users.

After a discussion of differing percentage amounts, the Commission recommends a 2 percent budget allocation for unforseeable and uncontrollable expenses (page 70). The Federation concurs that sound business management would include a provision for contingencies, but believes that this should be stated as a "reasonable amount" and not prescribed by a percentum.

As to the recommendation for greater employment of women in positions of higher levels (page 80), the Federation has, and will continue to, support equal employment opportunity for *all* persons, and reasonable and practicable measures to achieve that end.

The Commission recommends the reinstitution of the Postal Service Advisory Council, consisting of ten members (page 77). The Federation does not agree. Although in agreement as to the need for greater attention to the voice of the public on postal policies, much of which is directed to the members of the Congress, and to a lesser degree to the Postal Service and the Postal Rate Commission, we do not recommend the creation of a Council for that purpose.

The Commission endorses a research and development program (pages 80–81) and a better public relations organization (page 54). It is the view of the Federation that these two suggestions are related. While in agreement that the research and development program might be improved, the Postal Service has accomplished a significant public relations improvement. The Federation favors greater emphasis on research and development in keeping with its recommendations for business-like decisions, but that they should be coupled with public hearings on the specific matters under consideration in order to obtain a greater degree of user observations and comments.

As to other recommendations dealing with postal operations, such as the number of collection boxes, an increase in non-profit rates, and expanded zip code to facilitate mechanical sorting, greater use of optical character readers and Bar Code systems, a new weighted system for measuring productivity, and the establishment of more convenient Post Office and Station hours and locations, the Federation believes that these should be determined on sound business management principles with the objective of postal operations at the lowest possible cost compatible with efficient service.

The American Retail Federation is appreciative of the opportunity of presenting its views for your consideration on this most important matter.

STATEMENT OF DONALD R. TAUB, ON THE BEHALF OF THE NATIONAL ASSOCIATION OF GREETING CARD PUBLISHERS

I am Donald R. Taub, president of the National Association of Greeting Card Publishers (NAGCP), a national trade association of the greeting card publishing industry, members of which sell greeting cards through 150,000 retail outlets in all 50 states. Our members produce 85 percent of the 5 billion greeting cards mailed annually in the United States.

Athough NAGCP's members utilize first, fourth and at times third class mail, our major concern for the future of the Postal Service, unlike many of the organizations which have been involved in postal ratemaking and legislation in the past several years, does not derive from our own members' mailings. Rather, NAGCP's concern comes from the collective interest of its ultimate consumer, the tens of millions of private citizens who regularly mail personal correspondence and greeting cards. Because of this unique relationship between NAGCP and the general public, I submit these comments today not only as the representative for NAGCP members, but as spokesman for the average private citizen.

Any thoughtful discussion of the mission of the U. S. Postal Service must begin with a definition of that mission. The basic function of the Postal Service is to provide a *universal delivery service* which guarantees access to all citizens. While numerous technological developments have impacted the Postal Service, none of these will ever duplicate that mission, a mission which has caused and will continue to cause the USPS to occupy a central position in our society. Without the Postal Service, our culture is diminished, our democracy weakened. We have in the Postal Service a national asset worth whatever it costs to maintain.

With the brief exception of the Civil War years, the Postal Service has never been able to produce revenues sufficient to cover costs of operating the system. In 1971, the USPS was given a statutory mandate to "break even." In the years since, the USPS, predictably, has found that the traditional mail "user" increasingly has become unwilling to pay the costs of maintaining service to this universal system. Even more predictably, the high-volume mailer has hastened to search for lower cost alternatives to the mails. The USPS has only two alternatives if they are to "break-even"—

1. Continue to increase postal rates, hastening the search for alternative means of delivery, thereby further drying up the mail stream, which causes further rate increases, ad infinitum.

2. Eliminate traditional services . . . this satisfies high-volume mailers who are reluctant to support them. But it has created considerable ill will among the 76,000,000 plus recipients to whom traditional services are apparently very important.

If we are to maintain the universal delivery system, then we must acknowledge that the maintenance of that system must be considered a service for public benefit to be supported in part by public funds. About a year ago, the Department of Commerce's Office of Telecommunications was asked by the Office of Telecommunications Policy to assess the impact of electronic technologies on the U.S. Postal Service. In testimony before the House Subcommittee on Postal Operations and Services, the Chief, Policy Research Division, of the Office of Telecommunications stated:

"In conclusion, new technologies should help solve our communications problems, not create new problems. Our basic concern is that adequate communications services are available to all Americans. More specifically, traditional hard-copy delivery of mail must be maintained in some manner. We must maintain the essential postal functions, while carefully considering changes needed in the institution."

The Postal Service cannot, should not and will not be supported purely on its economic merits. The vast number of delivery points that must be maintained cannot be serviced economically because of their isolation and/or low volume. Attempts to charge recipients postal fees would cause a withdrawal from the system by those who are unwilling or unable to pay those fees as well as impose diseconomies.

It has become increasingly obvious to all that present postal policies must be subject to comprehensive legislative reform. We believe such reform must fully consider the basic issues presented below:

SERVICE

The basic position of NAGCP is that *all* postal services traditionally and historically provided to the public should be maintained unless and until the American people are willing to surrender or diminish that service. The inequities which are promoted in the name of efficiency are best illustrated by the recommendation of the Commission on Postal Service to reduce home delivery from six days to five days. This service reduction would amount to a sixteen percent cutback in service to the public, but a savings to the Postal Service of less than three percent in total expenses.

As we have attempted to illustrate, the Postal Service provides an essential service to every citizen. Drastic service curtailments now would vitiate that service and would be a blow to the American public. On the other hand, the financial exigencies of the Postal Service require that postal management, based upon present law, resort to reduced services and/or increased rates. NAGCP is not in a position to evaluate all postal services and decide which are more vital than others. It may be that private individuals would prefer to receive non-priority service, with consequent savings in rate, than pay the exorbitant rates forecast for first-class mail. Further, some might suggest that Saturday residential delivery may not be necessary. But before *any* service is eliminated or curtailed, NAGCP strongly believes that reliable, in-depth studies should be made with active public participation to measure the value of the service in question to the public.

The Chairman of the full Post Office & Civil Service Committee, Mr. Nix, suggested in a speech before the Pennsylvania State Association of Letter Carriers, on August 19, that the time had arrived to return the decision on services offered by the Postal Service to the Congress of the United States. He then stated that he will introduce legislation which will require the Postmaster General to submit all national changes in service to Congress for 60 days for its consideration and approval. He concluded his speech with these words:

"The time has come for Congress to reassert its Constitutional responsibility and role in determining postal policy. If the people are willing to give up Saturday delivery, then through the system of representative Government, that will be done. But the day of decisions by those who do not represent the people must come to an end."

"I want the system to work well, and in my judgment, it can only work well if it serves the people in the manner the people of this Republic choose to be served. We, in Congress, responsible to the people in free elections, will make those decisions."

We agree with Chairman Nix and will strongly support his legislation when it is introduced.

Implications of service cuts go far beyond the fact that citizens may be denied a sixth day of mail delivery, for example. The real and more serious question, which I do not believe has been presented to these Subcommittees, is the impact such service cuts have on the Private Express Statute. NAGCP has always held and will continue to hold that the Private Express Statute should not be diminished or relaxed in any way. But, how logical an argument can be made against a private corporation which wishes to provide a service to the public which the Postal Service has determined is no longer necessary, too expensive or can be cut to reach a "break-even" point. If a business is willing to provide Saturday mail delivery when the Postal Service won't, should the Postal Service be allowed to hide behind the Private Express Statute and prevent a service from being offered which is desired by the recipients of the mail. We think not, but we urge Congress to be acutely aware of the impact a "simple" cut in service may have on eventually eroding the extremely important Private Express Statute.

The preservation of the Private Express Statute is imperative if good and affordable service is to be available to all. The Private Express Statute serves as a guarantee that all areas of the nation and all citizens will be provided postal letter service. Abolition of those statutes would result in cream-skimming by

delivery companies. The result to the Postal Service would be a financial cataclysm. It would be left with only the most costly mail. Rates would skyrocket; service would be pared to the bone. And private individuals would suffer in the consequence, not only would they receive worse service, but little, if any of their mail, would be handled by the outside delivery companies.

POSTAL RATES

Postage rates should be set with no class of mail incurring costs associated with another class of mail.

Even at today's postal rates, the business mailer is placed in a preferred position, financially, over the private citizen. Postal costs incurred by businesses are treated as business expenses and are thus tax deductible. While the net cost of a first class, thirteen cent stamp to a citizen is thirteen cents; to the business mailer, the net cost for the same stamp is about 6½ cents, without regard to the additional one cent discount now received by business mailers for presorting their mail. The inequities in first class mail are further broadened when the public service subsidy of $920 million is considered. At present, about 80 percent of first class mail is business mail, the remaining 20 percent being private mail. Thus 80 percent of the subsidy supplied to the first class mail benefits the business mailer. On the other hand, about two-thirds of the tax revenues used to support the public service subsidy are collected from the individual taxpayer, the balance coming from corporate and other taxpayers.

NAGCP strongly believes that the rights of private citizens to communicate through the written word, should be protected fully by the continuation of a viable postal system and that such right should be encouraged to the fullest extent possible by a reasonable postal rate for private citizens, leading thereby to an increased volume of mail. The impact of a Citizens' Rate is greatest on those individuals who are presently isolated, whether economically or geographically, from the more expensive modes of communications. We speak of those individuals who live on fixed incomes or are located in some remote part of this vast nation, to whom the Postal Service, with reasonable postal rates, is their only practical means of communication. The concept envisioned here is not substantially different than that legislation which provided federal monies to telephone and electric cooperatives to provide service to those segments of the public not serviced by the regulated utilities.

NAGCP PROPOSED LEGISLATION

The mission of the USPS has been defined as service. Such service should be priced so as to encourage, or at least not discourage, utilization of the system. Most persons would probably accept as reasonable and fair periodic increases in rates which were no larger than those experienced in general.

NAGCP supports the concept of the Citizen Rate as proposed by the President. The President's proposal, as adopted by the Postal Service and requested of the Postal Rate Commission, would provide for a private citizen first class postal rate of thirteen cents until, according to the Deputy Postmaster General, 1981.

After an examination of the Postal Service proposal, NAGCP believes its and the President's objectives are better met within the legislative proposal, H.R. 7537, introduced on June 1, 1977 by Congressman William D. Ford. Under his bill, the USPS would announce the new citizen rate to be effective at midnight on December 31, of each even numbered year, based upon the cost-of-living increases which have occurred since the base year. Further increases would be calculated every two years thereafter, based upon the increases in the cost-of-living. Revenues foregone by the Postal Service, under this law, would be provided for under 39 USC 2401(c). The dollar amount of the "revenues foregone" required to be appropriated for the Citizen Stamp, as originally estimated by us, would, in light of the rate proposal filed by the USPS, be substantially less. In the Postal Service's testimony to the Postal Rate Commission, it estimates that the reasonably assignable costs of handling citizen mail is 2.3 cents less than such costs incurred in handling a normal first class letter. Our estimates of "revenue foregone" had been based upon the higher not lower figure.

It is the hope of the NAGCP that these Subcommittees will favorably consider that legislation and add it to the provisions of H.R. 7700 as it is reported from these Subcommittees. While the concept of the Citizens' Rate, as advanced by

President Carter, is sound, and we strongly endorse that concept, we believe that the specific means of implementing that concept are best contained in the provisions of Congressman Ford's bill, H.R. 7537, as opposed to the restrictions proposed and contained in the USPS recommendtaion to the Postal Rate Commission.

The balance of this statement will be directed generally to some of the provisions of your bill, H.R. 7700.

PUBLIC SERVICE APPROPRIATION

The concept of "public service costs" by definition is irreconcilable with the notion that the Postal Service must be run so as to generate sufficient revenue to cover all its costs (i.e., break even) without a full public service subsidy. The reason for this is basic: certain postal services are essential to the recipients of the mail—the public. To mailers, these services may not be so important, so they are not willing to pay for them. The situation per se results in a revenue deficit. So long as the Postal Service provides services to recipients of mail because they need and desire them, this situation will exist. If the Postal Service were to act as a business, it would serve only mailers, and would not provide service mailers were unwilling to pay for, no matter how necessary those services were to the general public. The Postal Service, however, is not a business existing merely for the benefit of mailers. It is a vital service which exists to serve all Americans. It must be preserved in the future through public service appropriations which permit continuance of essential services at a reasonable rate. The Postal Service is a service. It cannot be run as a service without appropriations, but those appropriations need not freeze rates; they need only be sufficient to cover those costs that, if the Postal Service were a business, it woul dnot incur. This will permit maintenance of all essential services at rates which are acceptable and which increase in reasonable increments. And it will allow service cutbacks to the extent the public finds some present services unnecessary.

The Postal Service staff study, "The Necessity for Change," demonstrates that the Postal Service currently incurs $2.845 billion of public service costs which it would not incur were it to operate as a business. This is 20.2 percent of the Postal Service's fiscal year 1976 operating costs of $14,090,433,000. Accordingly, we strongly believe that a subsidy of 20 percent of the Postal Service's would currently be $2.818 billion, would permit rates to remain at a level that would be acceptable, and would also permit preservation of service at levels that would permit the Postal Service to continue to carry out its purpose and meet its policy goals. The 20 percent subsidy would reflect a level of appropriations reached, and even exceeded, in the recent past, just prior to reorganization of the Post Office Department.

For example, appropriations totalled 23.3 percent of Post Office operating expenses in 1971 and 17.2 percent in 1970. This standard of public service appropriations from 1976 to 1981 would increase Congressional appropriations over the amount called for in the current statute by an average of $1.9 billion annually. Any figure less than the 20 percent, such as the 15 percent figure proposed in H.R. 7700, can only result in the continuing financial problems of the Postal Service and ultimately in postal rates set so high as to divert massive volumes of mail to the private sector. The real question is not how much subsidy should go to the Postal Service, but rather how soon can the full 20 percent subsidy be used to prevent the decay of an essential, national system of communication.

PRESIDENTIAL APPOINTMENT OF THE POSTMASTER GENERAL

With the enactment of the Postal Reorganization Act of 1970, Congress and the Administration attempted to create an independent Postal Service and removed themselves from responsibility for it. Without such public responsibility the Postal Service, in our opinion, has been unresponsive to the needs of the public, catering instead to the needs of the mass, business mail users. It is the position of this Association that it would be beneficial to the Postal Service and to the public if the Administration has a sense of responsibility to the public for the Postal Service. Whether this means the Presidential appointment of the Postmaster General, or some other means, we are not prepared to say. We think this is best determined by Congress.

Finally, we turn our attention to the Postal Rate Commission. We feel that the Commission has been less than effective. Although it was conceived to be an independent body which would review rate-making methodology and decide upon rate increases, it has tended to become little more than an expensive intermediate pause between rate increases.

It has generally followed the dictates of the USPS and has ignored other opinion. We recommend the following changes for the Rate Commission: the Commission must be absolutely independent of the USPS; it must be separately funded by appropriation from Congress; it must have the necessary power to obtain the required accounting data and other information; and it should make assessments of the impact of such things such as Electronic Funds Transfer System upon postal policy.

We believe that maintenance of a strong postal system is a national imperative of the highest order. We must again renew faith of the citizen in the Postal Service. Ultimately, it must be the mail user who by his use of the mails maintains the viability of the Postal Service. Now is the critical juncture in postal history; now we must rebuilt a Postal Service which has the trust and confidence of the people it serves.

One last word about the proposed Citizens' Rates as advanced in H.R. 7537. Since President Carter's inauguration, he has attempted, with success we believe, to "reach out to the people," through his call-in programs, town meetings, fireside chats, etc. But the single greatest means of access by the American public to the President and the President to the people is through the individual letter. The present financial problems of the Postal Service threaten the availability of this historic means of communication *and* promise to push postal rates for the average citizen beyond their ability to pay. NAGCP believes that a citizen's postal rate will, among other things, increase the tendency of each individual to communicate with his or here elected representatives, with his or her government and with other individuals. Such increased communication can only benefit this country's Postal Service and the country as a whole. Continued loss of this means of communication, because of unreasonable rate increases, can only diminish all of us.

COX, LANGFORD & BROWN,
Washington, D.C., July 25, 1977.

Hon. STEPHEN J. SOLARZ,
U.S. House of Representatives,
Longworth House Office Building, Washington, D.C.

DEAR CONGRESSMAN: During the hearing on Friday before the Subcommittee on Postal Operations and Services on H.R. 7700, you asked me whether I could document the statement that the volume of direct mail advertising sent by bulk third-class mail declines following a rate increase.

I pointed out that there had been such a significant decline after the conclusion of the second rate case before the Postal Rate Commission.

It is important to realize that Postal Service monthly volume figures for bulk third-class mail combined "regular-rate" (commercial) bulk third class and "nonprofit rate" bulk third class.

Most bulk third-class mail consists of circulars, and of these about one-third go at the nonprofit rate

Postal Service figures just released show that for the period 1971 to 1976 (when there were three rate increases), the volume for regular rate bulk third-class circulars did not go up at all, in fact, declined slightly. During the same period, nonprofit rate circulars, which move at a very low rate, went up 37 percent.

Even for the prior period, from 1960 to 1971 (when there were two rate increases), the volume of regular rate circulars increased only 16 percent while the volume of nonprofit rate circulars for that same 11-year period increased 121 percent.

For your convenience, I am enclosing two tables which give the details of the volume data summarized above. They are taken from the direct testimony of Edward J. McCaffrey who is General Manager of the Rate Design Division of the Office of Rates at the Postal Service. This testimony has just been filed as part of the new rate case.

I know you are snowed under with the large number of issues that are pending, but when you are going to have a few minutes or are free for lunch, I would like to come over—which I can do on very short notice—and discuss any postal matters of interest with you.

Best wishes,

Sincerely,

J. EDWARD DAY.

EXCERPT FROM THE TESTIMONY OF EDWARD J. McCAFFREY DATED JULY 13, 1977

3D-CLASS VOLUME TRENDS BY SUBCLASS

[In millions of pieces]

	1960	1971	1975	1976	Percent change 1960 to 1971	Percent change 1971 to 1976
Single piece	[1] 3,476	907	745	685	[2] 74	−24
Regular-rate bulk:						
Circulars	11,336	13,159	13,100	13,150	16	0
Books and catalogs	1,076	2,090	2,622	2,712	94	30
Total, regular	12,412	15,249	15,722	15,862	23	4
Nonprofit-rate bulk:						
Circulars	1,937	4,273	5,312	5,845	121	37
Books and catalogs	86	103	126	121	20	17
Total, nonprofit	2,022	4,376	5,438	5,966	116	36
Total	17,910	20,532	22,650	22,513	15	10

[1] Data for 1960 are not comparable to data for later years. Substantial volumes of single-piece 3d-class mail were shifted to 1st class with the establishment of minimum-rate parity between these classes on Jan. 7, 1968.
[2] Affected by shift to 1st class of single-piece 3d class.

PERCENTAGE OF TOTAL 3D CLASS

	1955	1960	1971	1976
Single piece	22	19	4	[1] 3
Regular-rate bulk:				
Circulars	63	63	64	58
Books and catalogs	6	6	10	12
Total, regular	69	69	74	70
Nonprofit-rate bulk:				
Circulars	9	11	21	26
Books and catalogs	3	3	1	([2])
Total, nonprofit	9	11	21	27
Total	100	99	99	100

[1] Affected by shift to first class of single-piece 3d class with establishment of minimum-rate parity, effective on Jan. 7 1968, (Public Law No. 90-206).
[2] Represents 5/10 of 1 percent.

3D CLASS MAIL AS PERCENTAGE OF TOTAL PIECE VOLUME

[Percent]

	1947	1960	1970	1976
3d class	19	28	24	25
All other	81	72	76	75

STATEMENT OF STEPHEN F. OWEN, JR., GENERAL COUNSEL, THE CLASSROOM PERIODICAL PUBLISHERS ASSOCIATION

The Classroom Periodical Publishers Association (CPPA) is a group of publishers who publish classroom periodicals and religious school materials. These periodicals are utilized in public schools, parochial schools and religious instruction classes. Current members are Xerox Education Center, Inc.; David C. Cook Publishing Co., Scholastic Magazine, Inc.; Scripture Press Publishers, Inc.; and Standard Publishing Co. This group of publishers provide 30,000,000 classroom and religious school periodicals each week aimed at supplying pupils, teachers, Sunday schools and school boards with current materials for instruction in social studies, religion, current affairs, civics, citizenship, language, arts, science, homemaking, health, physical education, and a variety of other subject areas.

It should be noted that these educational and religious publications are devised for use in connection with student instruction and are not circulated to the general public either on newsstands or through general means of distribution. The subscriptions for these educational and religious training tools are paid for by the children themselves, by the churches they attend, or by the schools they attend. These publications and their dissemination are, therefore, particularly sensitive to increases in cost. Our members have made every effort to keep these subscription costs at as low a level as is feasible so as not to deny access to this material in any community for reasons of price. Unfortunately, postage has become an increasingly large component of the cost of individual subscriptions.

MEMBER EFFORTS TO REDUCE DELIVERY COSTS

The Association's interests are in the maintenance of a postal system which is operated in as efficient a manner as possible. Increasing postal costs have the effect of deterring and restricting the dissemination of these valuable educational and religious materials since the subscribers, whether they be the school children or the churches or schools they attend, may not be able to afford what has, in recent years, been a spiraling increase in the cost of providing these publications. The Association and its members strive to maintain the lowest cost to the subscriber, and to this end have been actively involved in seeking the lowest postal rates and the most efficient methods of delivering their publications. The CPPA has been involved as a limited participant in every rate case since Postal Reorganization.

While the Postal Service has generally done an excellent job in delivering classroom periodicals over the years, there have been deficiencies. To help facilitiate efficient delivery of classroom periodicals, classroom publishers prepare the mail in zip sequence, pre-sorting to three and five digit zip codes, plant load and ship directly to destination mail centers for bulk delivery to schools by the USPS. This extensive mail processing results in less in-office handling of the mail by the Postal Service, and saves the Postal Service money. In addition, the way in which classroom and religious school periodicals are delievered at their destination reduces the amount of Postal Service handling and, thereby, reduces the Postal Service's costs. These publications are delivered in bulk to a school system or religious school, addressed usually to a teacher who then further distributes the publication to the individual subscribers. This is unlike a magazine such as Time or Newsweek magazine which must be delivered to each individual subscriber by the Postal Service carrier. The additional handling required for such other newspapers and magazines is avoided by the method of delievery associated with classroom periodicals. As is evident, the method of processing and delivering classroom and religious school periodicals requires little handling by the Postal Service, thereby minimizing the attributable and institutional costs associated with classroom publications.

PUBLIC SERVICE ASPECT OF CLASSROOM AND RELIGIOUS INSTRUCTION SCHOOL PUBLICATIONS

By charging the Commission on Postal Service with the responsibility for examining the public service aspects of the Postal system, Congress has recognized that there are elements of the Postal system which relate solely to a public service function.

We strongly endorse the recommendation of the Commission on Postal Service that the level of public service appropriations should be increased which the distinguished Chairman of this Subcommittee has seen fit to set at 15 percent of postal expenses incurred in the preceding fiscal year in Section 4 of H.R. 7700. In fact, serious consideration should be given to raising this figure to 20 percent for reasons which we will explain.

We believe that classroom and religious school periodicals clearly fall within the public service aspect of the Postal system. It was in recognition of the educational and social value and public service contribution to good citizenship that classroom and religious instruction school periodicals make, that the Congress saw fit to provide a preferential rate to classroom and religious school publications in 1961. While the preferential rate for these publications still exists, it is now subject to the discretion of the Postal Rate Commission as established under the Postal Reorganization Act (P.L. 91–375, August 12, 1970).

LEGISLATIVE HISTORY OF CLASSROOM RATE

Notwithstanding the Postal Rate Commission's discretion in the establishment of postal rates for classroom publications, an examination of the legislative history of the Postal Reorganization Act makes it clear that Congress *intended* that value of public service be the basis for postal rates of certain preferential classes, including classroom and Sunday school publications. A brief review of the history of postal rates as they relate to classroom publications will provide insight into the public service considerations which led to the establishment of preferential rates for classroom publications.

Between 1939 and 1947, there were no postal rate increases. In 1947, Congress considered a bill to increase postal rates. This bill eventually became Public Law 900, approved July 3, 1948. Significantly, while the law approved rate increases of all classes of mail, rates for second class mail were not increased. At this time, classroom publications were included within the second class regular rate.

In 1951, Congress once again considered and passed postal rate legislation. As a result of testimony by the Classroom Periodical Publishers Association and others, classroom and religious instruction publications were exempted from rate increases. Again, in 1958, Congress considered postal rate legislation, and specifically classroom publications. While regular second class rates were further increased, the classroom rate remained the same.

In 1961, Congress passed legislation which was enacted as Public Law 87–793, approved on October 11, 1962. This law established the rate of classroom publications at 60 percent of the regular second class postal rate. This fixed rate of 60 percent of the regular second class postal rate continued during the subsequent rate increase legislation and became known as the "classroom rate".

This brief history of postal rates affecting classroom and religious instruction publications serves to illustrate Congress' intent to provide preferred rates for this type of mail. Congress has long recognized the public service aspects of the Postal system and has evidenced an intent to maintain certain public service aspects in the future. Significantly, in establishing the Postal Rate Commission pursuant to the Postal Reorganization Act of 1970, Congress specifically stated its intention that the public service value of certain publications not be excluded from the consideration of the establishment of postal rates.

In summary, the concept of providing a general Congressional appropriation for public service would assist publications such as ours which are mandated by Congress to pay no more than the direct and indirect postal costs attributable to our publications.

Let us now discuss this issue more directly in light of a specific recommendation of the Commission on Postal Service.

The Commission on Postal Service carefully reviewed the overall situation on allocation of costs to various classes of mail and concluded that some limitations on the attribution of costs should be made.

We strongly support the recommendation of the Commission and Section 3 of H.R. 7700 that attributable costs be limited to 60 percent of total postal costs.

On page 63 of its volume I, the Commission well summarizes the situation in these words:

"This Commission recommends that Congress enact into law a method of allocating costs that will help preserve second, third, and fourth class mail volume for the Postal Service. The decision of the United States Court of Appeals for

the District of Columbia Circuit, rejecting the assignment of a substantial portion of postal costs on the basis of non-cost criteria, is not in the best interest of the Postal Service and the Nation it serves because of its severe future impact on volume, revenues, and costs. Allocating costs without regard to non-cost criteria may appear to benefit first class mail users. In the long run, however, that method of allocating costs will drive away second, third, and fourth class volume and revenue, and in turn require even greater increases in first class rates. Third class commercial mail now pays its attributable costs and contributes more than $450 million toward the institutional costs of the postal system—the maintenance of 40,000 postal facilities across the land. If more costs are attributed to subordinate classes of mail and volume continues to decline, either the burden on the first class mail user or on the taxpayer must increase. A method of allocating costs, reflecting volume variability which encourages the retention and growth of mail volume, will help avoid this result."

There are two factors associated with classroom and religious instruction periodicals which have historically contributed to generally lower postal rates: the public service function and the extensive mail preparation characteristics which result in lower costs to the Postal Service. For these reasons, the Postal Reorganization Act of 1970 included the following provision:

"§ 3626. Reduced rates.

"If the rates of postage for any class of mail or kind of mailer under former sections 4358 (classroom & religious instruction publications) . . . of this title, as such rates existed on the effective date of this subchapter, are, on the effective date of the first rate decision under this subchapter affecting that class or kind, less than the rates established by such decision, a separate rate schedule shall be adopted for that class or kind effective each time rates are established or changed under this subchapter, with annual increases as nearly equal as practicable, so that—

"(1) the revenues received from rates for mail under former sections 4358 . . . shall not, on and after the first day of the tenth year following the effective date of the first rate decision applicable to that class or kind, *exceed the direct and indirect postal costs attributable to mail of such class or kind (excluding all other costs of the Postal Service)*." [Emphasis supplied].

We concur with Congress' judgment that classroom and religious instruction periodicals pay their fair share of attributable costs, with the difference between revenues and attributable costs being paid out of public funds. However, it should be noted that at the time of Postal Reorganization, attributable costs made up about 45 percent of total postal costs with the other 55 percent deemed institutional costs which would not be attributed to any particular class of mail. The proportion of attributable costs to total postal costs have steadily increased from approximately 45 percent to about 60 percent because of action taken by the Postal Rate Commission with indications of even higher percentages in the future. Should this trend continue, Congress' intent in establishing preferred and reduced rates for these publications (based on paying only attributable costs) will be circumvented and will become meaningless. Thus, the Commission is correct in recommending that the proportion of attributable costs allocated to classes of mail be stopped at the 60 percent level.

Congress clearly views the Postal Service as encompassing a public service. To this end, Congress clearly mandated in Section 101 of the Postal Reorganization Act of 1970 that public service and social value be the foundation for providing postal services:

"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."

As further evidence of the Congress' intent concerning the public service criteria of rate setting, Congress passed the Postal Reorganization Act Amendments of 1976. In particular, Section 3622(b) of Title 39, United States Code, which directs the Rate Commission to take account of certain factors in setting postal rates, was amended by adding the following: "(8) the educational, cultural, scientific, and informational value to the recipient of mail matter; and".

This is direct recognition by the Congress of the importance of publications such as classroom periodicals to our Nation's citizens.

Classroom publishers produce material which is clearly in the public interest. This has historically been recognized by Congress going back as far as 1948,

and has continued to date. Any plan for the continuance of the Postal system must take account of the public service aspects of that system and provide for their continuance. There can be no greater public service than the education of our children and to this end, classroom publishers will continue to produce quality material which can be used in the instruction of our children over a wide range of subjects, and will continue to cooperate with the Postal Service in its efficient distribution.

POSTAL RATE COMMISSION

In setting postal rates for second class mail (classroom publications), special rate fourth class mail and library rate mail, the Postal Rate Commission has ignored the criteria recognized by Congress as essential to the proper establishment of such rates. Prior to postal reorganization, the following rates were applicable to classroom publications:

Second-class mail.—Nonadvertising, 2.04 cents; advertising zone five, 6.66 cents; Minimum pre piece, 0.78 cents.

Special rate fourth-class.—Per pound, 12 cents; each additional pound, 6 cents.

Library rate.—Per pound, 5 cents; each additional pound, 2 cents.

Since the first rate case after postal reorganization, which began in 1971 (Docket No. R71–1) and finally ended on June 5, 1972, with the decision of the Postal Rate Commission, the rates applicable to classroom publications have dramatically increased. As a result of the Commission's decision in the postal rate and fee increase case, Docket No. 76–1, the rates now applicable to classroom publications are as follows:

Second-class mail—Classroom publications.—Nonadvertising, 5.4 cents (full unphased rate); advertising zone five, 9.5 cents (full, unphased rate); per piece, 2.5 cents (full, unphased rate).

Special rate fourth class.—First pound, 40 cents (full, unphased rate); each additional pound through 7 pounds, 14 cents (full, unphased rate); each additional pound over 7 pounds, 8 cents (full, unphased rate).

Library rate.—Per pound, 29 cents (full, unphased rate); each additional pound, 9 cents (full, unphased rate).

Presorted special rate fourth class:[1] first pound, five digit presort, 4 cent discount phased; three digit presort, 3 cent discount phased.

The Postal Rate Commission is an inefficient means of establishing postal rates. The rate proceedings and classification proceedings are much too long and burdensome to small groups such as ours. The fragmentation of the proceedings in the classification case, Docket No. MC73–1, was unnecessary, and has led to further delays in establishing a new classification system for the Postal Service.

Our Association has repeatedly attempted to get the Postal Rate Commission in each rate case to take some account of the educational and public service value of classroom publications. The Postal Rate Commission has consistently ignored "public service" as a factor to be weighed in setting postal rates. The Commission has taken a strictly mathematical approach to the setting of postal rates and seems unable to handle the public policy aspects involved in considering factors such as educational value and public service to our country at large. Public interest, public service and social benefit are not concepts that can be measured on any mathematical or economic scale.

If the Postal Service is to be treated as a public service, many if not all classes of mail will need to be subsidized. Such a system, based on public service costs, will need to provide for the Nation's needs. At the same time, the Postal Service must strive to provide its public service in the most economical manner. Nevertheless, should the Postal Service fail in this regard, Congress must not shirk its responsibility to provide for the general welfare.

For these reasons, the Classroom Periodical Publishers Association strongly supports H.R. 7700—The Postal Service Act of 1977—and expresses its appreciation for the sincere and dedicated efforts of the Subcommittee in trying to reach a fair legislative solution to the many postal problems.

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[1] This rate was established as a result of a settlement in the classification proceeding, Docket No. MC73–1, phase one. It is interesting to note that the way in which this presort discount has been interpreted and applied by the postal service actually acts as a deterrent to presortation because it does not provide a large enough discount to offset the costs to the mailer of presorting its mail to five and three digit zips.

CONCLUSION

The long history of the postal system indicates that it is viewed as a public service. There is no doubt that adjustments in the manner of providing postal services are needed. But adjustment must not eliminate the public service aspects of the postal system. Providing educational, cultural, religious, social, scientific and informational publications to our Nation's children is probably the most important public service provided by the Postal Service. Enabling our citizens to acquire these publications at low subscription rates is a desirable goal which must be achieved, even if it requires a continuous subsidization of the postal costs associated with such publications.

Most of the information communicated today by television, radio, newspapers and magazines is geared toward the adult world. But children need cultural, social, educational and religious materials aimed exclusively at them. This kind of material reaches the Nation's children primarily by mail. Any postal system which does not enable the children to obtain these materials at low cost does a disservice to the Nation. Delivery of the mail is critical to providing classroom and religious school publications. All the cost of this delivery function cannot be borne by the children, schools, or churches. It must be at least partially borne by the postal system as part of its public service function.

[The following letter and the excerpts from correspondence which follow, were submitted for the record by Congresswoman Virginia Smith.]

NATIONAL LEAGUE OF POSTMASTERS
OF THE UNITED STATES

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Mailing Address—P.O. Box 2074, Arlington, Va. 22202 · Telephone—(703) 892-2940

July 18, 1977

Honorable Virginia Smith
Representative from Nebraska
1005 Longworth HOB
Washington, D.C. 20515

Dear Mrs. Smith:

On behalf of the National League of Postmasters, permit me to express to you our sincere appreciation for the amendments you are offering to the present postal legislation.

Our organization and rural America will be forever grateful for the interest and concern shown by you on their behalf. It will be only through the foresight of people such as yourself that the Postal Service can once again become truly a service to the American people.

Certainly, the time has come when Congress must once again intercede on behalf of the American people to correct iniquities that exist in the present Postal Reorganization Act. Congress must exercise its right to act as oversight committee of the present top management of the Postal Service.

Since 1971, the Postal Service has failed miserably to provide the service expected by both Congress and the American public. We have witnessed continued cuts in service in rural America and yet postage rates have continued to climb. Inflation has contributed to a large extent, but cannot be blamed for the entire deficit that we face today. Much of it can, however, be attributed to bad management decisions.

The Congress has an obligation to the American people to provide legislation that will once again return the high level of service to which we are entitled and to make top management of the Postal Service accountable for their actions.

The National League of Postmasters feels it is absolutely necessary that the Postmaster General once again become a part of the President's Cabinet, making him accountable to both the Executive and Legislative Branches of our Government. We also fully support present legislation which calls for Presidential appointment of the Postmaster General and abolition of the Board of Governors. The League also fully supports legislation offered by your colleagues, Honorable Charles

Wilson and Honorable James Hanley in H.R. 7700. It is our sincere hope that legislation can be adopted by Congress that will accomplish these goals.

Again, I congratulate you in your endeavor, and you may rest assured that you will go down in history as a defending champion of Postmasters in all of America.

If our organization can ever be of any assistance to you please do not hesitate to call on us.

Sincerely,

Gene

EUGENE B. DALTON
President, NLP

[EXCERPTS FROM CORRESPONDENCE]

I recently completed 20 years as a rural mail carrier. During those years, I have witnessed many changes, most of which I would call good. During the past three or four years however, a few steps have been implemented which make me wonder if management has forgotten that the last word of our department's name is SERVICE! It seems to me they care little about the ones who serve, the general public.

The latest "boo-boo" they are currently considering is the 5 day per week delivery schedule. As one who has patiently endured the consequences of a few 3 day week-end holidays, I know what the situation would be if we followed that schedule each week--Catastrophic! If this thing really goes through I know nearly all my patrons will be most unhappy. The farming community generally has only one afternoon each week when they can sit down to relax in a favorite chair and pick up the "funnies" or yesterday's papers, and that is on Sunday. If we don't deliver on Saturday, news is "old hat."

--Rural mail carrier

I think that the closing of postoffices in small rural communities is a negative approach to postal problems. In view of the fact that communication is so important to people, it seems outlandish to think that the United States of America, the richest nation in the world, cannot afford to have a post office in each rural town that is easily accessable to all citizens where they can mail a letter, buy stamps and pick up their mail at their convenience during normal business hours.

In my own town, I can tell you that if the postoffice were to close, it would be a traumatic experience for the townspeople. I venture to say that 90% of the people come

to the postoffice daily, and many of them twice daily. For some people, I am sure this trip to the postoffice is somewhat like a social event, for even though they might not receive any mail that day, it give them a chance to socialize a little and talk to their friends.

As you are no doubt aware, the postmasters' organizations are presently involved in litigation over salary matters,--the gist of it being that rank and file employees have received raises of some $1500 per year since July 1, 1975, while postmasters have received only token raises during this time.

In my own case, this "token" raise has been only $325 since July 1, 1975. In many small town postoffices, the rural carrier, who is supervised by the postmaster, receives a higher salary than the postmaster. This kind of salary schedule can only result in discouraging talented and qualified people from seeking to advance to supervisory and leadership positions. I also think it is deplorable that postmasters have to resort to court action to get fair salary treatment.

Again, I say that the richest nation in the world should be able to afford the best postal service in the world for all of the people.

--Postmaster

My personal feeling is the Postal System will never be any better under the present system and Postmaster General. Unless he is again appointed by the President with the approval of Congress he will not be answerable to anyone. I recall you experience along these lines when the Balden and Ayr Post Offices were considered for closing. If my memory serves me, he refused to see you for a couple of weeks. I felt that if he would not make himself available to a Congressman, he should have been dismissed immediately. I can not vizualize anything being accomplished until this office is again back in the control of the President and Congress. Any subsidies forth coming would just be squandered for things like Bulk Mail Centers or some other fiasco.

I hope no one has been fooled by the fact that we have operated in the black the last two quarters. I find this hard to believe. If it is true perhaps I can shed some light as to how this was achieved. Last Saturday morning, I received notice that my Salary is to be cut from $12,760 to $11,544. The revenue in this office has droped from 34 units to 29. This was accomplished by consolidating the mail route. In the process, they transferred 15 families to another route and 4 to another. My work load remains the same or increased as instead of one seperation for one rural route, I now have two seperations for two routes plus all the mail to be forwarded to the families transfered to the other routes. Yet I am to take a cut in pay. $12,760 this day and age is no great wage. Last fall, if my children would have been living

at home, I would have been considered poverty level and my son would have qualified for meals at reduced rates at school. If they down grade a Postmaster far enough, he will either quit or transfer creating a vacancy which will be grounds to close another office for another great savings.

Little does it matter if you cut service or ruin the system as long as it looks like your operating in the black and can hang on to your own job.

I feel very strongly on this subject. I think the biggest problem with the Postal System today is the Postmaster General and his office and the fact that he doesn't seem to be answerable to anyone.

--Postmaster

I am writing about the Post office. I have been a city carrier for 16 years. Since it has been put into a corporation there has been many changes.

One in the last two years is that a rural route is to be filled by the rural substitute. If he has 1 year in he gets the job. It used to be that a city carrier or clerk with seniority would get the job.

I think that is was better when it was under Congress.

In the first place it was never suppose to make a profit. All the postoffice in the world do not make any profit. Even Japan which has the most people per square mile.

So I don't see how they expect us to when we have the lest people per square mile.

They keep adding on to the city routes an still we are suppose get the work done in 8 hours.

I have been reading our postal record magizine that the disability has gone up by 600 percent. So you can see by 1980 disability will be costing the Government 1 billion dollars.

It would be better to have more people working than disabled.

They cut out 100,000 postoffice jobs now. Know wonder the service is getting worse.

--Letter carrier

Our rural postoffices should be kept open and our customers served the same as the urban areas and they are equally entitled to the same service.

I shall close in knowing you are really working for the rural post offices in your 3rd Congressional District and we are most thankful to you and I truly respect you for your continued efforts in this area and it means so

much to me to keep my post office open and all my customers really want it that way too--we'll be working with you--

--Postal Service employee

Small town Postmasters and some other postal employees have had no pay increases of any kind for a long time. and no cost of living allowance either. Those employees represented by Labor Unions have had several pay raises and "cost of living" allowance increases.

--Postmaster

This, one might hope, could bring a fresh outlook to our Postal System: one wherein "profit and loss" considerations might be replaced with "service" to the people (patrons of a fair and benevolent system)--thus re-instated as top priority.

Our Law-and-policy Makers like you, Virginia, are the only last hope of many a beleagured Postmaster in the NCD (Non-City-Delivery) Postoffices who have lost salary compensation, clerk help, and pride in the system. Not because they do not have jurisdiction over a City Route! (Rural and/or Star Routes, no matter the length & number, do not count for categorizing thus.)

We need a right angle turn in the attitude of Postal management. So that the only representative of the U.S. government in a small community, the Postmaster, can continue to serve in pleasure and in pride.

The rural people in America are most honest, hard-working and deserving of their leaders consideration.

--Postmaster

The biggest complaint that I can submit to you concerning the psotal operation is the fact that we still have rural customers receiving mail only three days a week. As you say in your letter to Mr. Bailar, these rural people are just as important as those who live in populated areas. I can' understand the reason for the discrimination.

Consolidation of routes was put into effect here in 1974 and I have no criticism of the consolidation per se. However, it did involve merging a three-day week route with a six-day route without any improvement in service to the three-day week customers. I can't but believe that the same six-day a week service should be available to all rural customers of a post office regardless of location or how thinly populated.

--Postmaster

Brandon, Ne.

The people of our community certainly want to thank you for the interest in the Postal Service in the rural areas. We almost lost our Post Office a year ago and the people were really concerned. We are right on the hi-way and the mail truck goes through here going to Venango. We can see no reason he can't drop off our mail. We do have 3 business places here that depend on the mail. The Country Shop, McCown Landleveling and the Fitzgerald-Stewart elevators Ourada Implement--a few miles from Brandon--get their mail here too. They all gets the parts they need through the Post Office. Last year we all sent in our comments to North Platte and there was a man out of No. P. that was up here talking to all of us.

Thanking you again for supporting our rural areas. Hoping we can keep our Post Office. I don't think any of us want to drive 7 miles to Venango to mail a package especially when the mail truck comes through Brandon morning and night. He also drops off our No. Platte papers each day.

--Clerk in charge
small town post office

I'm sure there have been times in the past when the rural people along with small Post Office Postmasters felt they were fighting a losing battle. I have always felt that Benjamin Franklin intended for the Post Office to be a service to all the American people and not just the ones who live in the big city. I hope you get some answers to your questions when you visit Mr. Bailer and that other Congressman and Senators will join you in your fight to help small town postal operations.

There are a couple of items I would like to mention to you that sort of reflect the attitude that higher management has toward a small office Postmaster. Except for $150.00 in Jan. of 1976 it has been almost two years since we have had a raise of any kind. Meanwhile craft workers in the Postal Service have received about $1500.00 and many Postmasters now find themselves making less than thepeople they supervise. It almost seems like higher management may have decided they gave craft workers to much and so will take it out on us since we can't do much about it. Anyhow I can't help but feel there is something sadly wrong with this situation.

The other item I wanted to mention is the restriction on convention leave effective Jan.1, 1977. I have always attended District meetings held every three months in some nearby town. I looked forward to meeting with other Postmasters and discussing problems and exchanging information with them. We were allowed ten days convention leave a year and were allowed to take this leave to attend these District meetings and or State and National conventions. Now if we want to attend District meetings we must take annual leave and we can use convention leave to attend one of the two State conventions held in Nebr. every year or

attend a National convention. On paper it may appear that the Postal Service will save some money but it appears to me that they just don't realize that there are some things you don't always put a dollar sign on.

--Postmaster

I am, and have been, a small office postmaster for in excess of twenty-five years. Prior to receiving my commission as postmaster I worked in another small town as a postal clerk. I write a monthly column for our state postmasters' paper, The Nebraska Postmaster. I correspond rather extensively with people all about the country both within and outside my line of work. I, accordingly, feel that I know something of small town post office and rural postal service.

Unfortunately, in the past two years--since the advent of Mr. Bailar as Postmaster General--the feeling has been pervasive that not only do I know something of rural postal service but that I probably know more than many of those who make up the policy-making level of the service to which I have devoted a major portion of my adult life.

Either I know more or I care more. And either choice is a damning indictment of present postal management.

One is hesitant to charge incompetency, indifference, or immorality yet for some reason the problems and needs of small town and rural America simply do not register with the Washington level of the postal service. They turn a deaf ear and a blind eye and go blithely on as though the sooner small town and rural America is erased and gone the better.

One has but to note the backlog of court cases pending against the postal administration charging them with violation of U.S.P.S. charter stipulations, with disregard of veterans' preference rights, with discrimination against postmasters and supervisors in pay administration to realize that there has been a fundamental change in postal management morality.

Again one wonders if upper-level postal management is unaware of the true situation or indifferent to it.

The rural carriers group, the city carriers, the post office clerks and supervisors and postmasters are all at odds with postal management. Our customers are at odds; Congress, to all indications, is. One must suspect that something grossly wrong is in effect at the Washington level.

It is my personal fervent hope that Congress will open wide the system, call attention to each program or lack of program, stipulate what services it wants, and then make each member and level of management answerable for his performance.

A function by fiat, in secrecy, answerable to no one, as seems to be the present situation, can only lead to ever steepening decline in service and public faith until collapse and ruin overtakes the whole structure.

--Postmaster

Feel that closing these small offices would cause our towns to lose their identity. Closing the schools started this trend and now the Post Offices. I am for progress always but would like to maintain the Status Quo. All progress is not good especially when it reflects on the Rural Areas.

It appears to me that the sparsely populated areas, if the P.O. Department succeeds in these closings, will suffer poor service and more mail delays. Hope you can "headem off at the pass."

--Small town postmaster

It seems to me as if the Postmaster General is pushing too fast in implementing changes where employees are concerned. I feel that no job should be abolished where the employee is within ten years of retirement on full annuity except with his consent to accept alternatives such as; an equal or higher level job offered to him and it is his choice to refuse with no penalty and continue to be given a chance to bid for any other future openings which he might desire, if qualified for.

I feel that I am now working for a corporation whose policies can be put into effect with impunity and has no consideration for employees who are not represented by a labor union. Top management seems to be interested only in the bottom line which shows profit or loss. I interpret this to mean, "Go ahead and do it if it will save money. It might be unfair, but let those who are being affected, fight. If they can't get the situation corrected, then we have won and saved a few dollars." It seems as though pay policies and job classification are being clouded and complicated so that few employees understand what is going on within the Postal Department.

I never cared much for how some labor unions have been run, but I can now personally understand a need for them. I never thought I would see the day when this would have to be considered by certain supervisors and small office Postmasters. The individual no longer counts, unless he can be used to help some one climb the ladder of promotion or so called success. I like to consider myself as one of the plain solid citizens who does his job, is satisfied to be a family man and likes to live in one community for many years, who considers his job important, but not everything in life, and who is entitled

to fairness inpay treatment. Sure, any job can be reclassified to all previous years on the job. Todays economics makes this obligatory. The next person who wants the job, if it is still there, will know what it is paying. If he is a new employee he can look forward to pay increases in proportion to his years on the job, and not a pay decrease as is happening to some employees.

A rural route never did, does not now, and most likely never will pay its way. It is an example of service to the people and I doubt that it will ever be discontinued although in this day and age there is less need, in some areas, than when it first started. So where does the small post office fit in the scheme as it also provides service?

It is a tough question, but I feel that attrition by retirements and quits will, if given enough time, take care of any excess employees.

--small town Postmaster

We dare not let the postal system run loose without any jurisdiction by the people whom it serves. The people know what kind of service they want and expect and if we cannot give this kind of service, they will be turning to other means of communication thereby reducing the volumn of mail, causing increases in prices, and soon the postal system will be on one fast merry-go-round to destruction.

Somehow, there has to be an answer to financial problems besides depriving rural people of service. I am officer in charge of a small post office on the chopping block when the moratorium on post offices closings became effective. I have heard nothing concerning the matter since, but realize that it is just a matter of time before there will be another plan to remove us from the list of offices.

We have a star route 68 miles long and 21 boxes rented in the post office besides 2 general deliveries. Our community consists of nearly all older people who would find it very difficult to have to go to Benkelman for their postal supplies. Also it gives the people a social gathering place. It keeps all our homes joined together as one community. I know this is no reason dollar-wise, but I believe the best way to keep the people happy with their service is to be able to meet them face to face each day, know them personally, and serve them above the call of duty. We may not be the richest, most intelligent, or even the most productive, but we are a very real community who will be deeply deprived if our post office, or route is changed, thereby taking our post office from us.

--Officer in charge
rural post office

I am writing this correspondence in reference to the fast becoming extinct Postal Service. We must recognize that the Postal Service represents an essential public service for many people in our country. The ability to communicate through the mails must not only be sustained but also improved.

In the past five years nearly 1500 small post offices have been closed and local service has been allowed to deteriorate with 1/3 to 1/2 of the collection boxes eliminated and those that are left are collected far less times. Seldom after 6:00 P.M. and harly at all on weekends. At the same time we have 167 top executives of the USPS drawing salaries of $37,000. to $58,000.

During the same period 50,000 employees have been eliminated and 15,000 supervisors added. I have often heard that employees should speak well of their company. This I cannot disagree with but equally is it not true to speak well of your employees. Praise them for a job well done and encourage them in their desire to do a good job and deliver all the mail each day. Has this been done? --Hardly--instead supervisors are directed to spend up to four hours each day, simply driving around, wasting the taxpayers money so that the overworked letter carrier can be harassed for some minor infraction and suspended for seven to fourteen days. Is this the way to build morale, company spirit and a good solid work force--I say no and every human being who in honest with himself would say no. We pray that President Carter will make the changes to bring service back to the American people. The U.S. Mail Service is vital if the United States is to continue to grow and remain strong.

The mail monopoly must remain in the hands of the Postal Service or else there will be hundreds of hands in the publics mail boxes eliminating the security of the mail that has for so many years been protected by the professional letter carrier.

We need thousands of additional routes and carriers to do the job right. Delivery to the door not at the curb or down the street like so many patrons are receiving so called service in my area. Please don't let the same thing happen to the Postal Service that happened to the railroads.

--Postal Service employee

Please take into consideration my request that you oppose any proposal from the Commission on Postal Service to reduce mail delivery to 5 days a week.

This action can only cause problems. It will lower patron service & force postal employees to handle 6 days of mail volume into 5 days.

At a time when the new administration & Congress is working toward full employment, any action which would eliminate jobs has to be thoroughly researched and justified.

Thank you.

--letter carrier's wife

Just read where you asked for an extension of moratorium on the post office closings until Oct. 31. I wonder if the people that thought of closing the small post offices realize how far that we live from a larger post office. We live in Nebraska but our address is LaGrange, Wyoming. I work in LaGrange and if we had to mail a package we would have to drive 50 miles. Or when I send out the statements for the business I would have to drive 50 miles to get buy my stamps.

Hope you can get something done with the post offices and maybe help the little guy. We have to make a living too. I am also a rancher wife in Nebraska. Things are getting very slow out here. I know in the business line our has dropped over 3000.000 a month since the first ot year compared to 1976. Heard where the stores in Scottbluff were saying the same thing.

Thanks for listening to our troubles out here.

--Rural postal patron

I think you can understand what eliminating Saturday rural delivery will do to our Weekender paper. One of the reasons we started in in 1967 was because we could not get distribution on a Sunday paper. Since that time Columbus, North Platte and other Nebraska dailies have gone to similar week end papers, printing late Friday night to get high school week end sports over the area they serve. Of course, we all depend on Saturday delivery to get our mail distribution to readers while it's news.

At the same time there's been a great change in people's shopping habits. With large shopping malls Sunday and week-end shopping has become a main shopping time for most families.

It isn't just the fact that rural subscribers will lose one day of mail service, it's when they'll lose it. It will be the death knoll of Weekender papers with area sports coverage. The powers that be in Washington couldn't care less, perhaps. But out here in the provinces and small towns, this is meaningful to most people. I bet 4 out of 5 of them would not willingly sacrifice Saturday delivery, as was stated after yesterday's announcement that it now appears a reality.

We did set up a committee to explore alternative means of distribution on a statewide basis. If we're forced to go this way, it's possible we might develop a system that will work all days and take second class out of the postal service. Is that desirable?

--Ralph Clark, Manager
GRAND ISLAND INDEPENDENT

I am writing to you in concern over the future actions taken by the Commission on Postal Services. Rumors from reliable sources state that a recommendation to President Carter will be made to discontinue the Saturday delivery of postal matter.

I must stress to you the major hardship that will be created for our subscribers, many of whom are rural residents without access to other sources of newspapers. The real victim of the proposed termination of Saturday service is the individual subscriber, the small town residents, and the farmers who must depend on the U.S. mail service for their reading material.

The many inflation fighting advertisements in all newspapers printed for the use of subscribers during the weekend will no longer be of value if Saturday delivery is abolished. This will create another major hardship on our fight to curb inflation and help economic growth in the U.S.A.

I ask for your support in voicing the opinion of newspaper publishers and circulators. We do not want discontinuance of Saturday postal service. It will not only create a burden on our industry, but also on the people of our great country.

--Bernie C. Gitt
Circulation Manager
HASTINGS DAILY TRIBUNE

This letter is to inform you that I am very much opposed to the Post Offices being closed on Saturday for the following reasons:

1. Many people from our town work in Columbus so by the time they get home from work the post office window is closed. The only time they can buy stamps, mail a package or pick up a package mailed to them is on Saturday morning. When will they do this if the Post office is closed on Sat.?

2. We subscribe to the Columbus Telegram which is an evening paper, therefore we get the paper in the next days mail. Fridays news will be a little outdated by the time we get our mail at 1 P.M. Monday. If Monday is a holiday it will be 1 P.M. Tues. before we get Fridays paper. There was talk that if the Post Offices should close on Sat., the Telegram would start a rural delivery of their own. This will probably result in higher subscription rates and the post office will be losing revenue. The rural carrier will be paid the same wage to sort half as much mail. Many business places are open on Saturday and depend on their mail to carry on their business.

3. It will cause employment problems as it is set up in smaller post offices now the club works each Saturday morning and when the post master is on vacation or attending postal meetings during the week. With a cut in hours many clerks will be seeking other employment. Also it will be hard for the clerk to keep up with the new rules and patrons if they only work once in awhile instead of once a week.

5. For many elderly people and others as well the mail is the highlight of their day.

--Rural postal patron

We have received notice that the U.S. Postal Service proposes to eliminate Saturday delivery on rural routes by Aug. 1 as a cost-cutting device. It is obvious this would be a great inconvenience to postal patrons, as well as those sending mail. For instance, our Friday evening newspaper, now delivered Saturday morning, would not be received until Monday morning. This would greatly decrease the value of the paper to the subscriber, and probably result in the loss of subscribers.

One alternative might be to seek another means of getting the paper delivered to the rural subscriber Saturday morning, thus bypassing the postal service. The cost of this might be prohibitive for us.

For years, we have been having our papers taken by private carrier to the post offices in the nearby towns of Loomis, Bertrand, Funk, Axtell and Wilcox so the postal patrons can receive the paper the day of publication. We still pay the postal service for the delivery.

Your consideration of this Saturday delivery problem will be appreciated. We hope the Saturday rural delivery can be continued.

--Dwight King
Publisher
HOLDREGE DAILY CITIZEN

I will make this short to conserve your time. I have been hearing something recently about the postal service planning on cutting out Saturday deliveries.

This is my purpose for writing=to protest such a plan. Our rural mail service is bad enough. Our church must rely upon the mails for Sunday School materials and other related supplies, most of which barely make it on time as it is. More bad service we don't need.

We here in the congregation urge you to bend every effort to prevent any further cutbacks in our mail service.

--Pastor

Am writing in regard to the Postal Service's proposed stopping mail delivery on Saturdays. We are very much against it. We don't know why whenever the Postal Service gets into trouble their first thought is to cut service when the best way to get back into the black is to give more service. The way the Postal Service is going about getting in the black just isn't working. We opposed the closing of the local Postoffice on Saturday also.

As a manufacturer we get a lot of parcels everyday by UPS. If the Postal Service would initiate a pickup service they could get all the business away from UPS that they wanted. They have already spent the money for the facilities for handling parcels. The UPS charges for this service and so could the Postal Service.

It is obvious that what we need is a Postal Service employee running the Postal Service instead of a can company executive.

There is no possible way it will be self supporting because of the costs of rural mail delivery and the small Postoffices no matter how many services are cut out. It will always operate in the red because it was never intended to be a money making organization.

--businessman

Regular Common Carrier Conference

1616 P Street, N.W., Washington, D.C. 20036 / (202) 797-5266

Rep. James M. Hanley
Chairman
Subcommittee on Postal Operations
and Services
Cannon House Office Building
Room 239
Washington, D. C. 20515

Dear Chairman Hanley:

The Regular Common Carrier Conference is quite concerned by the proposed increase in size and weight limits of mail, other than letter mail, as set forth on page 9, line 21 of H. R. 7700.

> "(a) The maximum size of mail, other than letter mail, is 100 inches in girth and length combined, and the maximum weight is 70 pounds"

This provision would increase the size and weight of packages moving between first class post offices as follows:

Weight: from 40 pounds to 70 pounds
Size: from 80 inches to 100 inches

Our membership is comprised of over 850 motor common carriers of general freight on whom the shippers of our nation rely to provide adequate and responsive less-than-truckload service to every point in the country. As a practical matter, the proposed weight change would depart from the traditional definition of a parcel, 50 pounds or less, and bring the Postal Service into direct competition with general freight carriers for a substantial portion of the traffic we now handle.

Perhaps the best way to illustrate the reason for our concern will be to cite a few cogent facts drawn from traffic data of the Rocky Mountain Tariff Bureau (RMB). This data represents only the transcontinental traffic moving under RMB tariffs. During the year 1975, this limited sample of traffic movements shows that the general freight carriers handled over 4 million shipments weighing 100 pounds or less. The average size shipment under 100 pounds was 61 pounds. And the volume of shipments 100 pounds or less represented 22.4% of the total number of shipments handled by general freight carriers.

Directly in point, 2.8 million of the 1975 Rocky Mountain shipments weighed between 50 and 100 pounds. This volume equates to 16% of the total number of shipments handled by general freight carriers and 71.4% of the shipments less than 100 pounds.

From the information set forth above, it is readily apparent that shipments weighing 40-70 pounds are a very important part of the traffic which is handled by general freight motor common carriers. Any change in legislation which might subject this essential traffic to diversion is likely to result in less efficient common carrier service and would adversely affect both the general freight carriers and the shippers who depend on our service.

For these reasons, we urge your Committee not to increase the weight of non-letter mail which may be handled between first class post offices.

Respectfully,

Keith G. O'Brien

Regular Common Carrier Conference

1616 P Street, N.W., Washington, D.C. 20036 / (202) 797-5266

Rep. James M. Hanley
Chairman
Subcommittee on Postal Operations
and Services
122 Cannon House Office Building
Washington, D. C. 20515

Dear Chairman Hanley:

We very much appreciate your inclusion of my letter in opposition to the section in H.R. 7700 which would increase the size and weight limits for parcel post in the record of hearings on the proposed legislation.

The statistical profile included in my previous letter was meant to define the area of potential impact on the system of motor common carriers of general freight if first class post offices were permitted to accept packages weighing up to 70 pounds. Unfortunately, we do not have a more detailed analysis of traffic moving between all possible combinations of rural and urban regions.

In place of a quantified display based on actual traffic data, we can provide a fair measure of our concern in conceptual terms. The lifting of the 40-pound restriction on parcels mailed at and moving between first class post offices would impact directly on major traffic lanes. The 70-pound restriction currently effective in offices other than first class affect only minor traffic lanes. For this reason, the adverse impact on our carriers to this point has been relatively minor.

Our primary concern lies with the traffic flows of consumer products (finished goods) and components used in further manufacturing (partially finished goods). In large part, this freight moves either (1) between major urban production areas (which closely equate to areas served by first class post offices) or (2) from urban production areas to surburban and rural consuming areas (the latter closely equates to areas served by other than first class post offices). The U.S.P.S. is restricted to 40 pound parcels in these traffic lanes.

Parcels moving between less-than-first-class post offices, and from those offices to first class offices come under the 70-pound restriction. Total traffic in these lanes is substantially less than in those described above. It is quite reasonable to expect that much of the package traffic in the minor lanes is citizen to citizen traffic rather than commercial traffic.

Citizen to citizen traffic including small gifts and personal belongings is only a small fraction of the total volume of freight moving in our nation. Accordingly, the maximun potential impact of this type of traffic on the system of general freight motor common carriers is relatively small. The commercial freight market which U.S.P.S. could enter by raising the present 40-pound restriction to 70 pounds in first class post offices is an entirely different matter. The potential adverse impact in terms of possible diversion of essential traffic from our carriers would be considerable. It is for these reasons that I urged in my first letter that the present description of parcel service should be maintained. We do appreciate your consideration of our concerns.

Sincerely,

Keith G. O'Brien

TRANSPORTATION ASSOCIATION OF AMERICA
SUITE 1107 • 1100 17TH STREET, N.W. • WASHINGTON, D.C. 20036 • (202) 296-2470

PAUL J. TIERNEY
PRESIDENT

July 27, 1977

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

Dear Chairman Hanley:

The broad membership of the Transportation Association of America has a strong interest in the United States Postal Service in a variety of ways. While all of TAA's corporate members rely on 1st and 3rd Class mail services, many of its shipper members are heavy users of 2nd and 4th Class services. Also, many of our airline, truck and railroad members transport the mail as intercity cargo, while other carriers compete directly with the USPS in the parcel and small-package field.

For the record, TAA is a national policy organization made up of transport users, investors, suppliers, and carriers of all modes who work together to develop policies designed to maintain the strongest possible U.S. transportation system under private-enterprise principles. These policies are developed through eight permanent advisory panels (users, investors, and air, freight forwarder, highway, pipeline, rail, and water carriers respectively) on which serve approximately 250 top transport executives. Final approval is given by formal action by the 115-member TAA Board of Directors. A copy of the Board's current membership is attached.

It should be noted that in all instances where TAA expresses views they are based on policies that have been reviewed by the eight panels referred to above, and after all these panels have expressed support of, or non-opposition to, these policies.

While existing TAA policies do not cover many of the provisions in H.R. 7700, they do apply in those instances discussed hereinafter:

Section 2 - Postal Rate Commission Decisions

TAA opposes Section 2 of H.R. 7700 as written, which makes decisions of the Postal Rate Commission subject to Congressional veto. The Postal Rate Commission performs an economic regulatory function that not only requires specific expertise, but also impartiality and independence. We believe that the Commission's decisions should be final in both rate and classification matters, and subject only to judicial review. While the members of the Commission must obviously take into consideration the broad policy guidelines set by the Congress, their decisions should be developed independently.

One of the major objectives of the Postal Reorganization Act of 1970 was to create an independent U.S. Postal Service able to carry out its essential mail services in as businesslike manner as possible. This means a minimum of both Executive Branch and Congressional influence in regulatory matters such as rates and classifications. By giving Congress the right to veto decisions in these key areas, we again introduce the element of political pressure that proved so disruptive in the past. TAA

therefore urges retention of the present independent status of the Postal Rate Commission.

Section 3 - Postal Service Cost Allocations

TAA's primary concern with Section 3 relates to those provisions which will limit attributable costs to 60 percent of the total cost of the Postal Service. As we interpret it, Section 3 would give the Postal Service the right to allocate the remaining 40 percent of costs among the various classes of mail, largely without regard to cost, thus allowing cross-subsidization among the different classes of mail. While we recognize that the public-service nature of general mail services such as letters and publications may require some subsidization, we do not believe that this should apply to parcel post because of its being a direct competitor to private-enterprise carriers of parcels and small packages.

As noted below, provisions in Section 4 of H.R. 7700 relating to parcel post services, if retained, should prevent its direct or cross subsidization. We favor the retention of these provisions. If they are removed or substantially amended, the attributable cost provisions in Section 3 should in turn be amended to prevent cross-subsidization of parcel post service.

Section 4 - Appropriations to USPS

As indicated above, TAA recognizes the need to subsidize some postal services, but not parcel post, which competes directly with privately owned commercial carriers both able and willing to provide similar services to the general public. An underlying policy of TAA is one that opposes direct competition between Government and commercial transport services when the latter are adequate and available at fair and reasonable rates. In most instances, private competitors of parcel post are publicly regulated to assure adequacy of service and reasonableness of rates.

Private carriers, both surface and air, have shown a keen interest in developing the parcel and small-package business. They are progressive, innovative, and offer fast and reliable transport services. Their contributions to the economy are evidenced by their growing acceptance by the public and their success. It would be unfair to subject them to Government-subsidized competition and thus stop an encouraging trend towards improved small-package transport services.

Accordingly, TAA strongly supports the language in Section 4 that specifically prohibits the use of appropriations from general tax revenues to help cover the costs of parcel post services. TAA likewise supports the three-part ratemaking criteria that calls for recovery of attributable costs, indirect or institutional costs, and other costs fairly allocable to parcel post services. We believe that the long-supported principle of recovery of full costs in the parcel post field should be reaffirmed as set forth in Section 4. TAA, thus, urges retention of the present language.

A policy just recently approved by the TAA Board "endorses the operation of the USPS in accordance with sound business practices" and supports the "elimination of costly excessive services such as six-day delivery operations and marginal post offices where comparable mail service can be provided from more efficient facilities." Such action was taken in support of USPS efforts to control costs as an alternate to the escalation of postal rates. Section 4 of H.R. 7700 specifically authorizes the use of additional appropriations from general taxes to continue six-day deliveries. If Congress believes Saturday deliveries are needed in the public interest and welfare, the subsidy approach appears to be the only way to justify it because of the very heavy drain on USPS revenues in providing this service.

Section 8 - Presidential Appointment of Postmaster General

TAA opposes Section 8, which would abolish the USPS Board of Governors and again give the President the power to appoint the Postmaster General. This, we believe would be a step backward and contrary to the objectives of the Postal Reorganization Act of 1970 -- to create an independent Postal Service with maximum opportunity to operate as a business enterprise and with as much freedom as possible from political pressures and influences.

While the U.S. Postal Service has not lived up to the promises of its advocates in 1970, the reasons cannot be attributed to its basic organizational structure. As noted by the Commission on Postal Services, changes in technology -- especially in the electronics and communications fields -- have had a sharp competitive impact on the volume of some classes of mail. In the parcel and small-package areas, private carriers have been able to attract sizeable volumes of traffic that in the past have moved by parcel post.

We cannot see where the return to a one-man Postal Service control subject to strong political pressures will enhance the opportunity for service improvements. We can see, however, such a change bringing a move toward even greater subsidies and resistance to reduction of services regardless of their economic justification. TAA, thus, urges retention of the present organizational structure of the USPS, with a Presidentially appointed Board of Governors, who in turn appoint the Postmaster General.

We appreciate the opportunity to express our Association's views on this important bill and request that this letter be made a part of the formal record of the hearings on H.R. 7700.

Respectfully yours,

Paul J. Tierney
President

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September 6, 1977

Honorable James M. Hanley
Chairman, Subcommittee onPostal
Operations and Services
Room 122, Cannon House Office Building
Washington, D.C. 20515

In Re: H.R. 7700

Dear Chairman Hanley

Recently when Mr. Leo Albert, Chairman of the Association of American Publishers, Inc. Postal Affairs Committee, appeared before your Subcommittee to testify concerning H. R. 7700, the Subcommittee requested that AAP furnish additional information and the same is set forth below.

AAP was asked to furnish industry-wide figures on the cost of postage. Unfortunately, we do not have separate industry-wide figures available, but the statement of the United States Postal Service in its most recent filing for a rate increase before the Postal Rate Commission (R77-1) states that the total revenues received by the Postal Service for Special Rate Fourth Class Mail for fiscal year 1977 is $181,500,000; for the Library Rate it is $13,200,000. Books constitute the major portion of Special Rate Fourth Class and Library Rate mail, but it should be understood that Special Rate Fourth Class Mail now includes in addition to books 16 millimeter or narrower width films and catalogs of films, printed music, printed objective test materials; sound recordings, playscripts and manuscripts for books, periodicals, and music; printed educational reference charts permanently processed for preservation.

The Library Rate is applicable to the same items when shipped to schools, colleges, universities, public libraries, insofar as it concerns books, and all other items within the class when mailed to the foregoing or to or from non-profit religious, educational, scientific, philanthropic, agricultural, labor, veterans, or fraternal organizations or organizations.

Edward J. McCaffrey, in direct testimony filed on behalf of the United States Postal Service in R77-1, states:

> "From the mid-1950's to 1974, special-rate fourth-class volume had shown steady increases. The increases largely reflected legislative action which expanded the scope of the special-rate category and the considerable growth experienced by book and record/tape clubs over the years. More recently, however, the volume trend is less clear, apparently declining in FY 1975 in response to recession in the economy and the imposition of (Docket No. R74-1) temporary rates."

The Postal Service filing shows a volume trend for special-rate fourth-class as follows:

TABLE 38

VOLUME TREND
(pieces in millions)

1970	1971	1972	1973	1974	1975	1976
275	288	282	301	305	279	307

The Postal Service states concerning library rate:

> "The Nation's libraries are heavy users of this class. The use of mail exchange eliminates unnecessary duplication of materials by individual libraries while providing a wide assortment of titles. Small libraries use the Postal Service to expand their limited variety of lending materials, and large libraries are dependent on mail exchange of specialized materials for research."

The Postal Service points out that the library rate was recently expanded to include books mailed by a publisher or distributor to a school, college, university, or library. The volume trend in the use of the library rate is shown by the following table, as published by the United States Postal Service:

TABLE 42

LIBRARY-RATE VOLUME TRENDS
(millions of pieces)

1965	1970	1971	1972	1973	1974	1975	1976
17	25	30	28	31	35	42	39

The Postal Service witness Bernard Sobin in his testimony filed before the Postal Rate Commission in Docket No. R77-1 states:

> "At present full rates for special rate fourth, the postage is a significant part of the total price to a buyer of a single record or book. Presorted, the first pound or fraction has a full rate of 36 cents. A book frequently weighs more than two pounds, which should add another 28 cents above the 36 cents of postage for a record. The approximately 34 percent increase in rates proposed in the present proceeding would make the postage a larger factor in decisions on how to buy, and it might make postage a significant enough part of the total cost to effect even the decisions of some customers on how much to buy."

AAP was further asked to show the increase in volume of the number of books sold over the last several years. John P. Dessauer, Inc. has been working with AAP in an attempt to obtain statistical information concerning book sales in the United States. Attached as Exhibit A to this letter is a chart showing the estimated consumer expenditures in dollars and units for sale of books from 1971 through 1975. The top graph shows sales in dollars, and the bottom graph shows the units.

We are now informed by John P. Dessauer that for 1976 the estimated sales of books are 4.6 billion, an increase of 9.6 percent over the year before. Dessauer states

> "However, this increased expenditure actually purchased marginally fewer units (1.26- billion), as average consumer expenditures per book also rose 9.6 percent."

As the chart shows, the total dollars spent for books increased, but the total number of books sold decreased.

We were further asked to give the comparison of increase in postage cost to the increase in other costs incurred by publishers. We have no industry-wide comparative figures, but have asked several publishers for this information, for their individual companies. They have given us this information on a confidential basis, and we believe these specific examples given, without identification of the individual companies, give a representative sample of the industry as a whole.
We asked that the figures be given from the date of the passage of the Postal Reorganization Act of 1970 through 1976.

It must be kept in mind that at the time of the passage of the Postal Reorganization Act special rate fourth class rates were 12 cents for the first pound, 6 cents for the second pound, and as of July, 1977, the rates were 30 cents for the first pound, 11 cents for the second pound through 7 pounds, and 8 cents for each additional pound over 7 pounds. This is an increase of 150 percent in the first pound rate. As the Committee knows, these rates are being phased into the full rate over an 8-year period, and we are currently in the sixth year of the 8-year phasing. The individual companies will be identified simply by letter.

Data on Cost and Price Increases
from July 1970 to July 1977

Company A -- Cost of paper increase -- 86%
Manufacturing (printing and binding) increase -- 54%
Sales price increase -- 61%

Company B -- Cost of paper increase -- 89%
Manufacturing (printing and binding) increase -- 72%
Sales price increase -- 31%*/
Labor costs increase --70%

Company C -- 1970 through 1976.

*/ College books only.

Paper cost increase -- 65%
Manufacturing (printing and binding) increase - -42%
Sales price increase -- 39%

Company D -- 1972 through 1976

Paper cost increase -- 100%
Manufacturing (printing and binding)increase - 50%
Selling price increase -- 60%

Company E -- 1970 through 1976

Paper cost increase -- 77%
Manufacturing (printing and binding) increase -- 61%
Selling price increase -- 61%

Company F -- 1970 through 1976

Paper cost increase -- 101%
Manufacturing (printing and binding) increase -- 26%
Selling price increase -- 48%

Richard M. Schmidt, Jr.
Counsel, Association of
American Publishers, Inc.

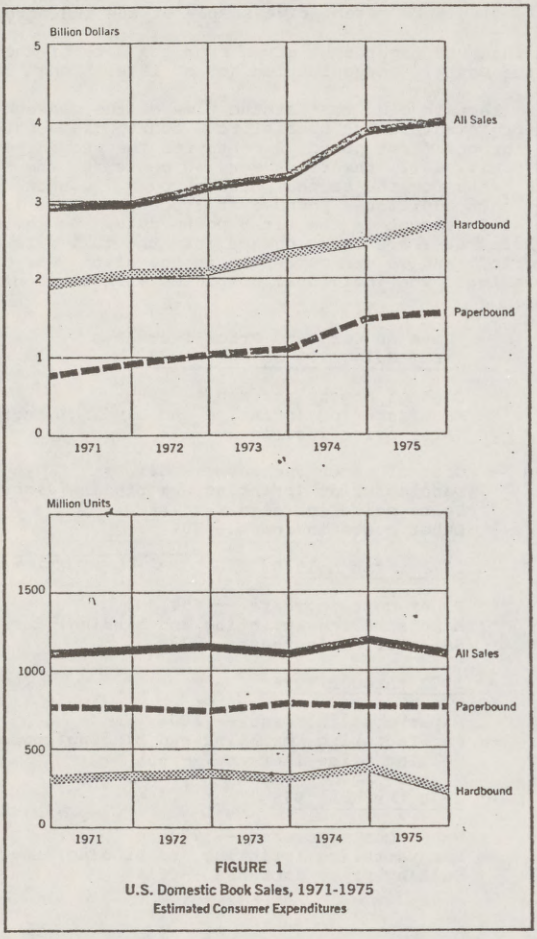

FIGURE 1
U.S. Domestic Book Sales, 1971-1975
Estimated Consumer Expenditures

SEPTEMBER 9, 1977

Honorable James Hanley
United States House of Representatives
Washington, D.C.

Dear Representative Hanley,

Confirming a recent telephone discussion with Ms. Storey, a member of your staff, the purpose of this letter is to provide testimony for your investigation connected with HR 7700. We call your attention to the fact that the U.S. Postal Service is regularly violating a law passed by you and your fellow legislators. In this violation, some 400,000 armed services veterans are having their basic employment rights systematically violated. Further, those provisions of the Civil Service Commission regulations and the Federal Personnel Manual designed to protect the rights and careers of federal employees are being ignored by both the Civil Service Commission and the senior management policy makers of the Postal Service.

The law in question is HR 17070, passed into law in August 1970 as the Postal Reorganization Act. The violated rights are the veterans' preference guarantees specifically incorporated in Section 1005 (a) (2) of Title 39, U.S. Code as set out in Section 2 of HR 17070. We believe it was clearly the will and intent of Congress to provide U.S. Postal Service preference eligibles the same benefits that exist for veterans in any other agency with respect to appointment and employment.

In fact, an internal C.S.C. policy memorandum dated August 6, 1970 interpreted the newly passed law in just that way (SEE EXHIBIT I) Subsequently, the Postal Service reconfirmed this veterans' rights commitment in 1971-72 when normal reduction in force procedures were carried out in its first service-wide reorganization.

The current U.S.P.S. senior officials not only do not use R.I.F. procedures or other Veterans' Preference Act procedures, but deny that they even apply to a general U.S.P.S. reorganization now taking place. Not only are veterans not being informed of their rights and appeal avenues per existing law, but a number of veterans have been seriously misinformed -- or told that they have no veterans rights at all.

In fact, the Postal Service has been reorganizing since January 1976 without providing to its employees those procedures that apply such as are contained in the Federal Personnel Manual Chapter 351 and other CSC regulations.

It is for these reasons that over 100 veterans at U.S. Postal Service Headquarters in Washington, D.C. banded together out of concern to form an American Legion Post (Benjamin Franklin Post #66). They are frustrated with the actions of certain of their senior officials who have charged ahead with a broad reorganization despite a negative opinion on it by C.S.C.

Veterans in the Postal Service are also very concerned that several letters from the American Legion National Commander Bill Rogers and the American Legion's legal counsel to PMG Bailer, seeking review and negotiation, have been sidetracked into the hands of the very officials who gave birth to this allegedly unlawful reorganization process. They are also concerned that two Post members who have won their recent F.E.A.A. and subsequent A.R.B. appeals have had no corrective action taken by U.S.P.S. officials, and that U.S.P.S. officials are now violating their own regulations in order to prevent other veterans from making successful F.E.A.A. appeals, (e.g. by refusing to issue SF 50s unless certain forms are signed voluntarily accepting downgraded assignments and/or reductions in rank).

In this regard, the Postal Service has recently engaged in a scheme to further undermine veterans rights. Postal Service management has informed them that, unless they sign a Postal Service form accepting reassignment, they may be subject to arbitrary transfer or removal. The Postal Service has warned that it will not accept the form if the employee states on it that he or she is not waiving any Veterans' Preference Act rights in accepting the reassignment.

Under this coercion, many preference eligible employees are acceding to management pressure. The Postal Service has recently begun issuing SF 50s in respect to some of these employees who have been intimidated into signing the acceptance forms.

We believe, and our legal counsel confirms, that this position is illegal and arbitrary. An employee whose financial security depends on steady income has little choice but to succumb to management pressure when faced with such a threat. Further, the coerced acceptance of such reassignments provides the Postal Service with an argument, albeit specious, that such reassignments are voluntarily accepted.

While we assume the F.E.A.A. will eventually hear such veterans' appeals because SF 50s have now been issued, we fear that such appellants may face the burden of demonstrating that their reassignments were involuntary. This added burden is part and parcel of the Postal Service's planned scheme to evade the Veterans' Preference Act restrictions on reductions in force and reductions in rank. It may also be intended to outflank any Civil Service Commission investigation of the Postal Service concerning these questionable personnel practices.

Fundamentally, the American Legion, Benjamin Franklin Post 66s' position is that the Postal Service's violation of the Veterans' Preference Act arises from the "realignment" imposed on its Headquarters PES level employees. This realignment is, in fact, a "reorganization" as referenced in 5 U.S.C. Par. 3502 and Commission regulations implementing this statutory provision, 5 C.F.R. Part 351. This reorganization has deprived many of the preference eligible veterans the rights accorded them under 5 C.F.R. Part 351. In certain instances, some are also undergoing the adverse action of a reduction-in-rank without the safeguards to which they are entitled under 5 U.S.C. Par 7701 and 5 C.F.R. Part 752.

Further, it is our contention that the Veterans' Preference Act places clear limitations on the Postal Service's personnel practices notwithstanding any independent status that the Service might otherwise enjoy. One of these limitations indicates that the provisions of Title 5 U.S.C. relating to Preference Eligible employees must be applied to:

> "....an applicant for appointment and any officer or employee of the Postal Service in the same manner and under the same conditions as if the applicant, officer, or employee were subject to the competitive service...."

We contend that the Postal Service has disregarded this limitation in its personnel practices with respect to preference eligible employees in the PES levels at its Headquarters. We believe that a Commission investigation would confirm our report of planned, persistent violations of the Veterans' Preference Act.

Additionally, the Civil Service Commission has jurisdiction to investigate such violations under 5 U.S.C. Par. 1303 which states, in part:

> "The Civil Service Commission may investigate and report on matters concerning -- regulations prescribed by the Commission under Par 1302 (a) of this title (and) the execution of the provisions of this title that relate to the administration of the competitive service."

However, the Commission has failed to investigate or take other appropriate actions in accordance with the statutory provisions just cited, or in accordance with its own authority, 5 C.F.R. Par. 5.2 (a provision of C.S.C. Rule V) which states that:

> "The Commission may make appropriate investigations to secure enforcement of the Civil Service Act, rules and regulations...."

Therefore, we allege violations of 5 U.S.C. Paragraphs 2108, 3502, and 7701, and C.S.C. regulations found in 5 C.F.R. Parts 351 and 752. In our opinion, there is no doubt that the C.S.C. has jurisdiction to investigate these violations.

As indicated earlier, the American Legion Department of D.C., and the National Officers of the American Legion have strongly supported Post 66 in its struggle to obtain for all preference eligible veterans their rightful protection under existing laws. As evidence of this fact we enclose EXHIBITS II and III. These are an American Legion News Service release dated December 3, 1976 and a copy of Resolution Number 219 seeking $10,000 financial aid from the Legion to press an appropriate class-action lawsuit. This resolution was unanimously passed last month by the American Legion National Convention in Denver, Colorado.

Further documentation of our alleged abuses of existing laws resulted when our legal counsel (Vom Baur, Coburn, Simmons & Turtle) thoroughly investigated the claimed violating policies of the U.S.P.S. as well as six selected F.E.A.A. appeals of Post 66 members. The law firm concluded that serious violations did take place and consequently wrote on June 7, 1977 to C.S.C. Deputy General Counsel Joseph B. Scott that:

"...We further believe that these violations have resulted in several extremely unfair effects upon certain Postal Service employees. We are attaching summaries of six individual cases as examples of (the) Postal Service's flagrant disregard of the Veterans' Preference Act. In some of these cases the Commission's own Federal Employees Appeal Authority has said that these individuals have no personal remedy before the Commission. The F.E.A.A. has based these decisions on threshold jurisdictional technicalities. Consequently, many of our clients find themselves in a 'Catch-22' situation. This is one of the considerations that has led us to request that the Commission investigate the Postal Service's violations. If the Commission does not take immediate action to investigate these violations the Postal Service may terminally prejudice our clients' ability to obtain an adequate remedy for the violation of their Veterans' Preference rights...."

Two recent newspaper articles summarized quite well the "Catch-22" position in which many Postal Service employees find themselves because of arbitrary and illegal policy judgements by senior U.S.P.S. officials. These articles are by Bob Williams, Managing Editor of the Federal Times, and John Cramer, columnist for the Washington Star. Copies of these articles are included as EXHIBIT IV.

In conclusion, we ask your help as Subcommittee Chairman to:

A. Call for the C.S.C. to make an official investigative audit of U.S.P.S. personnel policies and practices as they apply to veterans,

B. Include in your proposed Postal Service Reorganization Act of 1977 (HR 7700) a provision that would return all non-bargaining unit U.S.P.S. employees to the full jurisdiction and protection of C.S.C. regulations and Federal Personnel Manual provisions.

Post 66, Department and National American Legion Office officials would welcome the opportunity to personally testify to the above cited abuses.

Thank you in advance for your continued interest, and for including this material in the official testimony related to your HR 7700 bill.

[NOTE.--The attachments referred to were retained in subcommittee files.]

Sincerely,

Norman Horton

Norman Horton, Post Commander Post 66
and for the MEMBERS OF THE
EXECUTIVE COMMITTEE
Benjamin Franklin Post 66
The American Legion
Post Office Box 23021
Washington, D.C. 20024

[The following information was furnished by Congressman Leo J. Ryan, for inclusion in the hearing record.]

The purpose of our request for a 180-day "moratorium" is to allow time for Congress and others to re-evaluate the Area Mail Processing program. Investigation of conditions in 21 large and small California post offices, and study of USPS documents and various studies on the Postal Service, shows that the following consequences are likely to follow implementation of Centralized Mail Processing:

I. POORER SERVICE

Experience in cities that have lost their mail processing function -- like San Carlos, San Bruno, and Riverside -- shows that delays in mail delivery is one inevitable result. One Bay Area city's entire shipment of first class mail was sent to another city, and not recovered until the next day.... Earlier "cut-off" times for early-morning truck departures mean that day after day, substantial quantities of first-class mail arrive at the destination post office a day late.... Letter sorting machines (LSM) have an average 9% error rate (plus a high "mangle rate"), according to the US GAO, which means 1 out of 11 letters gets missent. Glendale Postmaster Hal Hemmingsen testified in Congress that LSMs in some offices "run up as high as 20 to 25% error rate."....Cutbacks in the clerk force invariably mean longer lines at P. O. windows, fewer collections and Special Delivery runs, inconvenience and poorer service to the public all along the line.

Even our postmasters, who are forced to implement these insane programs, are privately opposed to it. This was shown dramatically in 1975, when the National Association of Postmasters voted 2855 to 0 to sue the USPS to prevent these wholesale cuts in service.

II. JOBS ELIMINATED

One out of 100 US jobholders works for the Post Office. TheP. O.'s goal is to force people to quit or retire early-- and not replace them. Eliminating these jobs means an equal number of people will be forced to depend on public support for their livelihood--at taxpayer expense. More unemployment! In San Mateo County and elsewhere.

III. POST OFFICES CLOSED

Area Mail Processing is directly related to the proposals to close up to 17,000 post offices. First they centralize the clerks, then they centralize the carriers. Then they say, "How can we justify all these half-empty buildings?" Thus management justifies closing post offices and curtailing service. But far from being an "economy move," centralization and machine processing actually results in higher costs for the taxpayer and higher rates for the postal user.

Locally, management is considering closing down Vista Grande and Colma stations (for "not generating enough revenue" and being "unprofitable"), at great inconvenience to poor and working people (especially senior citizens, who make up about 40% of the population of these neighborhoods) and to small businesses. And this is at a time when we need more postal stations (particularly in fast-growing Serramonte).

In the future, in the light of announced USPS plans including Centralized Mail Processing, it is not at all far-fetched to envision the serious curtailment if not the closing of the Daly City Post Office. What if Daly City's carriers are "centralized" to South San Francisco, for example -- how long would Daly City's Main Office (a leased building) be allowed to exist? S. F. sectional center officials, including Jefferson Wilson, are already referring to Daly City as if it were a mere sub-station of San Francisco (see S. F. Examiner article, 5/20/77). Allowing the transfer of Daly City's mail processing to San Francisco would be the first step toward making this a reality.

Daly City fought for years to get its own Post Office. And, as the second largest city (and fastest growing large city) in San Mateo County, Daly City should fight to keep it.

IV. WASTE OF VITAL ENERGY RESOURCES/POLLUTION OF ENVIRONMENT

Centralization results in tremendous waste of fuel, with more gas consumption by private cars (employees getting to and from work) and by postal vehicles. The 24-hour machine processing that goes with it consumes large amounts of electricity (also depleting energy resources). Look at the immediate future as outlined by our USPS "planners":

Step One is centralizing the clerks, at places like Rincon, Airport Mail Facility, Oakland. Then they want to centralize mail processing even more, in one big factory (called a "General Mail Facility") for the entire Bay Area. According to word from the regional office, one plan on the drawing board calls for all Rincon Annex mail processing to be closed down and moved to Oakland with 18 months. In other words a Daly City clerk forced to work at Rincon this August may shortly find himself having to commute to Oakland! While it is true that this particular plan may not be implemented, one like it surely will -- if these mad mail "experts" have their way!

Step Two is centralizing the carriers. Look what happened to Lafayette, California. All their carriers were moved to the Walnut Creek P. O. Now, in the morning, carriers leave their homes in the Lafayette area, drive 5 or 10 miles to Walnut Creek, case their mail, drive back to Lafayette and deliver it, then back to the Walnut Creek P. O., punch out, then back again to their homes in Lafayette. That's a minimum of 20 miles a day, 500 miles a month, 6000 miles a year per carrier -- not counting mileage delivering the mail. Wasted time, gas and money, polluted air, and worse service, for what?

V. HARDSHIP TO EMPLOYEES FORCED TO MOVE -- The avowed goal of the USPS is to reduce the employment rolls. And one of the unstated purposes of Centralized Mail Processing is to force people to quit or retire early. Reassignment plans almost seem to be designed to cause the greatest hardship to the greatest number of workers. Clerks are being forced to become carriers against their will (preventing many part-time flexible carriers from becoming full-time regulars)... Clerks in Daly City -- and a thousand more at Rincon and the Airport Mail Facility -- are being forced to give up permanent bid positions, and to accept jobs and location and hours of work not of their choice.....A change of hours will make it impossible for one single mother to care for her family, and force her to either give up her job, or give up her seniority and guaranteed-40-hours regular status....

Parking is unavailable near Rincon Annex, where clerks from Daly City and other towns are to be "centralized" -- yet public transportation is poor and getting worse. Most clerks going to Rincon will be reporting for work between 10 p.m. and midnight, when buses and BART run infrequently. (BART doesn't run at all on weekends, yet Rincon mail processing goes on 7 days a week.) This raises questions about the safety of women workers on buses or walking to work from public transportation late at night.

In general, these moves result in tremendous personal inconvenience for the workers affected, often forcing people to sell their homes, uproot their families, pull their children out of school, or spend long hours commuting, at some risk to personal safety.

VI. WORKING CONDITIONS INTOLERABLE, AS RINCON SWIMS IN A SEA OF MAIL

Centralized Mail Processing is inefficient. It overworks the employees, and yet, contrary to USPS claims, the net output per employee of accurately-directed mail has not increased. At Rincon Annex and the Airport Mail Facility, they can't handle the present volume of mail, despite the fact that most clerks regularly work excessive overtime. How do they figure they can handle more mail, when Daly City's mail and that of other cities is added to the torrent?

Working conditions in the Rincon mail factory are terrible. Excessive overtime over prolonged periods is not only hard on the workers and their families, and creates a safety problem, it also costs the USPS millions of dollars in overtime (and deprives unemployed workers of the jobs they need).

Mangled mail is only one of the casualties of machine processing; another is the machine operators themselves, who find the job so gruelling and full of tension that the majority do not last long on the job. A study is under way to explore whether operating a Letter Sorting Machine 8 hours a day contributes to mental and physical strains including susceptibility to heart attack.

STATEMENT OF JOHN V. "SKIP" MARANEY
EXECUTIVE DIRECTOR, NATIONAL STAR ROUTE MAIL CARRIERS ASSOCIATION
BEFORE THE SUB COMMITTEE ON POSTAL OPERATIONS AND SERVICES
U. S. HOUSE OF REPRESENTATIVES COMMITTEE ON POST OFFICE & CIVIL SERVICE
HR 7700
JULY, 1977

Mr. Chairman:

My name is John V. "Skip" Maraney and I am Executive Director of the National Star Route Mail Carriers' Association. Our Association ultimately represents some 12,000 small businessmen and women who contract with the U. S. Postal Service for over the highway transportation of the mail. My comments today will be brief as we are primarily concerned with Postmaster General Bailer's announced proposal to cut delivery service from 6 to 5 days a week.

Without stating we are absolutely and unilaterally opposed to Mr. Bailer's proposal, we are most apprehensive as to what affect the implementation of such a system would have on our

contractor's contract rate. Star Route contractors have certain fixed operating costs, such as vehicle payments, insurance, vehicle license, etc., which do not change irrespective of how many days they are required to operate their routes. If there was a 6 to 5 day reduction, we are afraid the Postal Service would want a pro-rata reduction in each affected contract. As you know, Mr. Chairman, star route contractors operate on minimum profits and in this day and age they could ill-afford a one day per week reduction in their wages.

Over 80 percent of our contractors engage in no other employment and it is quite conceivable that if they did not agree to such a pro-rata reduction they could lose their contract or at least be forced to re-bid it and risk being underbid.

We appreciate the opportunity to express our views and will be more than happy to answer any questions you or the members of your sub committee may have.

Thank you.

EVERETT HERALD P.O. BOX 930 EVERETT, WASHINGTON 98206

June 28, 1977

The Honorable Warren Magnuson
Old Senate Building
Washington, D.C. 20013

Dear Senator Magnuson:

As a daily newspaper publisher in Snohomish County, we wish to voice our concerns about the proposal of the Commission on Postal Service to reduce mail delivery to five days a week. Several essential aspects of our business would be significantly impacted by the loss of mail service on Saturday.

In our news area, we rely on regional correspondents to furnish, by mail, news and photographs from their specific area in time to meet our publishing deadlines. This is also true of materials from news services located primarily in the east, the timely content of which must be published on specific days.

Insertion orders and advertising materials are also received by mail, usually from agencies in Chicago and New York. Most insertion orders for legal notices, required by law to be published, arrive by mail. Prepublished copies of advertisements must be provided our advertisers on a timely basis for approval. Because our customers are from a wide geographical area, mail delivery is the only practical way to complete this transaction.

All payments due are sent to us by mail. Although the banking institutions are not operating on Saturday, our business offices are open to record such remittances. This is of great significance at month end when we are preparing invoices with payments recorded upon receipt.

Because some of our newspapers are delivered by the Postal Service, the elimination of Saturday delivery would provide our subscribers with a severe disservice. The news and advertising content of our newspaper is most timely. Curtailing Saturday delivery would delay receipt of our product by our customers for two days, not one. The proposal could

bring about the loss of most of our mail subscribers because they live in areas that are uneconomical to serve with home delivery.

We urge you to give priority consideration to our viewpoint in this matter.

Sincerely,

Robert D. Best Jr.
Publisher

Larry L. Hanson
Marketing Director

CREATIVE
Educational Resource Associates, Inc.
137 Charter Circle, Ossining, N.Y. 10562 (914) 941-4796

July 22, 1977

Representative James Hanley
Room 239, Cannon House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Hanley:

Thank you again for the opportunity to testify before the Subcommittee on Postal Operations and Services on July 19 to represent the concerns of the American Home Economics Association regarding postal rates for educational materials. I regret that time ran so short at the end of the hearing because I was prepared to answer questions pertaining to the cost of postage vs UPS delivery of educational materials, and other important information pertaining to the production, marketing, delivery, and use of educational materials. I did stop by the Subcommittee's office later that day to leave samples of some educational materials and to discuss with a member of the staff some of my particular concerns as a producer of educational materials.

I am vice president of a very small enterprise owned by me and my husband. Among my various duties, I have weighed the packages, licked the stamps, dealt with both the Postal Service and U.P.S., and handled orders and delivery complaints. I can provide some information which earlier testimonies did not contain (or accurately reflect) regarding costs and services. I can also discuss some of the gross inequities in current Library Rate and Special Fourth Class Rate regulations, and the great frustration we have encountered in attempting to deal with the Postal Service at all levels (except for our local Ossining post office, which has been very cooperative). We have also appealed to the Small Business Administration, seeking help through its advocacy role for small business -- but to no avail.

At present we produce only spirit masters (which create the "purple copies" so familiar to every student). Our materials are almost entirely in home economics, but we have plans to expand into other subject areas in the future. I left samples of some of our materials in your subcommittee's office. We

have been forced under the existing regulations to use Third Class Rates, having been told by the sectional, regional, and national postal authorities that our materials do not qualify for the preferred Special Fourth Class or Library rates. This means that it costs us 94¢ to send a pound of our materials, rather than 11¢(Library Rate), or 30¢(Special 4th Class). We feel that the existing rate classifications are unfairly biased, in that there seems to be no overall principles to justify the inclusion of some materials and the exclusion of others. Some materials are given favorable rates based on their physical construction (e.g., bound books of at least 24 pages, all filmstrips, sound recordings, educational reference charts permanently processed for preservation, etc.), some on their literary form (e.g., objective test materials, all sheet music, playscripts, etc.), others on their intended audience (e.g., science and math classroom kits, looseleaf pages and binders for doctors and medical students). We feel that the underlying intent and rationale of both the Special Fourth Class and Library rates must have been to encourage the distribution and use of certain types of material having a literary, instructional, or informational value. The postal authorities have agreed on the educational merit of our materials and on the fact that they are clearly designed for school use, but there seems to be no way we can legally use any of the existing preferential rate structures.

In addition to the great expense of Third Class postage, there is considerable inconvenience and expense in applying it. We send out many packages weighing less than one pound, each of which must be weighed to the ounce, because the postage changes with every two ounces. (I might add, there are no single postage stamps printed for most of these amounts -- e.g., 61¢, 72¢, 83¢, 94¢.) Moreover, packages sent under the Library Rate and Special Fourth Class Rate seem to receive better treatment and faster delivery than Third Class Mail.

I have talked with other small businesses in similar predicaments. I have found that the preferential rates are applied very unevenly. I have often heard that it's a matter of shopping for a "friendly" post office. One publisher found his post office would allow his sets of spirit masters to be sent as bound books if he stapled them together. (This is certainly no convenience to the teacher, and may even damage the spirit masters.)

We cannot bear this heavy burden of postage expense much longer without substantial increases in our prices to schools. We do not bill schools for postage/delivery expense because many of our orders are cash orders, and it would be quite complicated to list on our order form the particular current postage expense for each item and combination of items that may be ordered. We do add 50¢ when we send out invoices -- to cover the expense of the invoice, envelope, First Class postage, and clerical work.

Mr. Hanley, we are only a very small business, feeling very frustrated by the great inequities in the existing postal regulations. We do not have the time or money (or secretary!) to carry our cause much farther. If we are forced to add postage expense to our selling prices (as most other educational publishers do, judging from "estimated shipping expense" added by some schools on many of our incoming purchase orders), it will add 10% to 15% to our prices. This adds substantially to a school's expense of buying useful educational materials.

My husband is a former English teacher, and I taught a variety of home economics and family life courses in the South. In addition, I was editor of a professional home economics magazine for several years, and I am currently under contract for textbooks with two different publishers. We are well acquainted through personal experience with the great value of, and need for, teaching materials that supplement textbooks.

We certainly hope relief is on the way for both producers and consumers of educational materials. I am also sending a separate letter explaining our situation to Congressman Ford of your committee, because of his particular interest in education. Please let me know if I can be of any assistance to you or your committee in the future.

Respectfully,

Donna Newberry Creasy

Donna Newberry Creasy
Vice President

AMERICAN PACKAGE EXPRESS CARRIERS ASSOCIATION

Division of
Film, Air and Package Carriers Conference, Inc.

1616 P St., N.W. • Washington, D.C. 20036 • (202) 797-5363

July 27, 1977

The Honorable James M. Hanley
Chairman
Committee on Post Office and Civil Service
House of Representatives
Washington, D.C. 20515

H.R. 7700 - Postal Reorganization - Sizes

Dear Mr. Hanley:

This is to advise the members of this Association are concerned with provisions of the subject named Bill. As shown under the heading "Size and Weight Limite", which proposes to amend Section 6(a), Section 3682 of Title 39, United States Code, so as to increase the size of mail, other than lettermail, to 100 inches in girth and length combined and the maximun weight to 70 lbs.

We understand this will increase the size of parcels moving between first class post offices from the current 80 inches to 100 inches, and the weight from 40 lbs. to 70 lbs.

Our membership consists of motor carriers who specialize in handling the small parcels and packages, both certificated by the Interstate Commerce Commission and non-certificated local parcel companies. Those certificated by the ICC in many instances, have certificates that restrict their transportation to packages or articles each weighing not more than a specific weight, for example 70-100 lbs. It is evident they are specialists in the small package field and compete directly with the postal service and would be vitally interested in a provision that would allow the postal service to expand its operations to handling larger parcels between first class post offices.

We ask your Committee to consider the effect of this legislation on the operations of the small package express carrier and delete this proposed increase in size and weight of parcel post moving between first class post offices.

Respectfully submitted,

Abbott J. Sher
President

ASSOCIATION OF SECOND CLASS MAIL PUBLICATIONS, INC.
1518 K Street, N.W., Washington, D. C. 20005

STATEMENT TO THE
POSTAL OPERATIONS AND SERVICES SUBCOMMITTEE
OF THE HOUSE POST OFFICE AND CIVIL SERVICE COMMITTEE
ON HR. 7700

The Association of Second Class Mail Publications, Inc., is an association of publishers of magazines and newspapers - both profit and non-profit - which have Second Class mail entry in the U. S. Postal Service. We wish to comment briefly on HR. 7700, which has been jointly introduced into the House of Representatives by Representatives James M. Hanley and Charles H. Wilson.

This association endorses HR. 7700. We consider it legislation badly needed at this time to halt the further deterioration of postal service, preserve a reasonably viable postal service and to guarantee the continued life of the majority of magazines and newspapers which rely and depend on postal delivery of their products.

A new postal rate increase proposal has just been submitted by the U. S. Postal Service to the Postal Rate Commission. The staggering rate increase proposals are virtually confiscatory as far as periodical publishing is concerned, particularly for the smaller circulation publication. Freedom of the Press, a precious national resource, is endangered by the spiraling rates, and the public's right to read and to know is continually being limited.

The Postal Reorganization Act has proven to be a failure. It is impossible to support and sustain a Postal Service out of postage rates and fees collected from direct users of the mail system. A break-even financial policy seems to assume that those who put material into the mail system are users while recipients of mail are not. Every man, woman and child in the United States expects and assumes that the total mail apparatus will be available and functioning whenever he wants it, either to mail something or to continue something through the mail that has been requested.

The United States Postal Service is the only basic government service that is provided for all citizens of the United States. It is probably the only government service which taxpayers would be willing to see their tax dollars underwrite. For many years, it was necessary to underwrite postal deficits from the U. S. Treasury. These so-called deficits represented the difference between what was collected in postal rates and fees and what it cost to operate the postal system. For some reason the payment out of the Treasury to meet this difference is called a "subsidy." How can the Federal Government subsidize itself? Is the tremendous amount of money that is expended for tanks and aircraft carriers called a subsidy for the Defense Department?

A favorite argument of those who oppose a postal establishment partially underwritten by government funds is that this is not fair to the taxpayers. Why should this be? The U. S. Postal Service operates the most important and most vital communications system in the country. The existence and stability of our economy, the free enterprise system and the morale of the citizenry is dependent on a reliable, consistent, speedy and reasonably-priced Postal System. Why should the taxpayers of the nation be opposed or assumed to be opposed to such important and worthy objectives?

We feel that it is essential that the United States Congress eventually determine the place of a Postal Service in American life. Is it to be a vital public service and is it to be a public utility? Or is it to be a poor relation of government?

Should not the important contribution of a postal distribution system be recognized and supported with adequate financing from postal rates, fees and taxpayers dollars so as to provide the reliable service everyone has come to expect? In the overall, the amount of money involved is peanuts. If American citizens were given an opportunity to rank services of the Federal Government on a scale of 1 to 10, what other service of government would they list ahead of the postal service, an activity of government which under the proposed 1977 Budget would receive about 1/400th of all moneys appropriated for government programs, activities and services in that year.

A long-standing policy of government has favored the movement of informational and educational materials such as magazines and newspapers through mail channels at low postal rates so as to encourage and stimulate the dissemination of ideas, opinions and knowledge. The apparatus of the mail establishment was utilized for this purpose because it had been set up and operated under the Private Express statutes for the movement of First Class letters and documents. Now, these periodicals are being told they must "pay their own way" on the same basis as First Class mail. This discourages and threatens to eliminate the publishing and distribution of a large number of newspapers and magazines. Steps toward lower rates for magazines and newspapers always bring out the cry that such successful mass distribution publications as Time, Readers Digest and the Wall Street Journal would enjoy windfall profits. One would get the impression that these three are the only publications mailed at Second Class Mail rates. Over 35,000 magazines and newspapers have qualified for Second Class mail rates, which means approximately 34,997 other magazines and publications are involved. Neither of the three publications mentioned are members of this organization but we consider the financial success of three important and successful publications as being irrelevent to the overall problem.

There are business papers, such as Footwear News which is vital to a struggling footwear industry, Public Utilities Fortnightly, a publication with a small circulation that is important to a beleagured utility industry; agricultural papers such as the Kansas Farmer and Pest Control which help a struggling agricultural economy; specialized publications like Psychology Today and the National Georgraphic Magazine which are very informative; hobbies magazines such as Antiques and Model Railroading that are important to citizen morale; to say nothing of medical journals, scientific journals, many with limited circulations; Atlantic Monthly which has pioneered many of our finest writers; New Republic that has pioneered new ideas; Parents which is a vital source of information and data for mothers and fathers; Jack and Jill or Boys Life, publications of high quality for young people; newspapers like the Christian Science Monitor, Grit or The Sporting News; religious publications like the Christian Century and the Catholic Standard which enrich the lives of our citizens; small town weekly newspapers that are a part of rural and small town life; the Evergreen Review, Apartment Life, National Humane Review, Ebony Magazine, Holiday, Today's Health, American Heritage, Yankee, Leatherneck, Current History, Arizona Highways, Boating, Football Digest, Baby Care, Modern Living, Farm Journal, Publishers Weekly, Editor and Publisher, Advertising Age, Oil and Gas Journal and over 34,000 more. The United States is unique in the extent of its published word. The preservation of its democratic government is dependent on an informed citizenry.

The American citizen is probably better acquainted with its postal system and its employees than with any other agency of government. Recent surveys and polls indicate an increasing losss of confidence in government institutions and officials. The deterioration of the Postal Service, highly visible to the citizen, has probably contributed to this loss in confidence. No longer in the public mind does the Postal Service personify the majesty and power and security of the Federal Government.

We wish to comment briefly on some of the recommended provisions of HR 7700:

1. Post Office closings: This association believes that if a community post office is performing a significant service, postal and otherwise, it should not be closed; however, if such a facility does not perform such a service and the area can be adequately serviced by another post office nearby, it should be closed. We concede, nevertheless, that as provided for in HR 7700, a community should be consulted through a public hearing before a post office is closed.

2. Five-Day Delivery Week: This association opposes a reduction from a six-day weekly mail delivery schedule to a five-day weekly schedule, or any further deterioration in postal service. There has been enough service deterioration now. Elimination of mail deliveries on a Saturday, let's say, would not just affect Saturdays, but would impact deliveries in days following.

3. Public Service Appropriations: We favor increasing the level of "public service" appropriations to at least 15% of postal expenses incurred the previous fiscal year, and in fact, sincerely feel that a 20% appropriation would be more realistic and appropriate.

4. Attributable Costs: This is a confusing area that seems to change with each rate increase proposal. A more precise system than now utilized must be written into law for the setting of fair and equitable postal rates in all classes. We favor HR 7700's provision for setting a ceiling of 60% on attributable costs of mailing for rate determinations.

5. Postal Rate Commission: In the absence of any other improvement, we favor a Congressional veto over rate and classification decisions of the Postal Rate Commission. We do not feel that the Postal Rate Commission as it is now constituted is responsive to all those concerned with postal rates and problems. The proceedings of the Commission are so time-consuming and costly, that the financially modest organization, firm or individual has little or no imput. This association successfully petitioned the Postal Rate Commission several years ago to created a "Limited Participator" category of intervenor to permit participation of those with limited means and staff. The petition was granted and such a category created. This step proved to be fine in theory but not in practice. A legislative type hearing would get a more meaningful response from the mailing public than the current regid judical advisary proceeding with which only attorneys can cope - and not always very successfully.

6. Electronic Communications: We wish to comment on an area about which there have been many comments as well as criticisms of the Postal Service. The Postal Service has been criticized on all sides for not undertaking research and investigation into the possibilities of electronic transcription in future years. The Postal Services does not fully utilize the technology that is available to it today. Several years ago this organization submitted a proposal to Congress which would create a new category of mail - Air Second Class - which would make it possible to move Second Class mail around the country by air. Congress approved this legislation. But the Postal Service has refused to implemnt this service. Rates were recommended by the Postal Service which were 200 and 300% above the regular Second Class rates for this air service, yet the Postal Service stated it cost no more to move First Class mail by air than it did by surface facilities. Magazines and newspapers thus continue to move by slow surface means with service from New York City to Los Angeles sometimes being ten to twelve days. No wonder the larger publications are going out of the mail stream for faster and cheaper handling and delivery.

THE NATIONAL INDUSTRIAL TRAFFIC LEAGUE

PROMOTER OF SOUND ECONOMICAL TRANSPORTATION

Office of the President • 900 Long Ridge Road • Stamford, CT 06902

July 28, 1977

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The Honorable James M. Hanley
Chairman
House Post Office and Civil Service Committee's
Subcommittee on Postal Operations & Services
122 Cannon House Office Building
Washington, DC 20515

Dear Chairman Hanley:

The National Industrial Traffic League submits this statement for the record of hearings on H. R. 7700, the "Postal Service Act of 1977."

The League is a voluntary organization of 1800 shippers, shippers' associations, boards of trade, chambers of commerce and other entities concerned with rates, traffic and transportation services of all carrier modes. It is the only shipper organization which represents all types of shippers nationwide. Its members include large, medium and small shippers who use all modes of transportation and who ship all types of commodities. The League is not a panel or committee of a trade group, or a spokesman for a particular commodity or transportation point of view, and does not permit carrier membership.

The League's primary concern is to provide for the nation and all its shippers a sound, efficient, well-managed transportation system, privately owned and operated.

To arrive at positions reflective of the broad range of shipper interests within the League, the League membership at its annual and special meetings considers, debates and votes on actions to be taken. Durings its seventy years of existence, the League has frequently been the spokesman for the nation's shippers before Congress on proposed transportation and regulatory reform legislation.

H. R. 7700 has a number of key provisions. These include:

*Congressional veto power over postal rate increases.
*Appointment of the Postmaster General by the President with Senate confirmation.
*Abolition of the Postal Service Board of Governors.
*A substantial increase in authorization of appropriations to the Postal Service for public service purposes.
*Maintenance of a six-day a week delivery.
*Biennial, rather than permanent, authorization of public service appropriations.
*Congressional review of large capital improvement projects, such as the erstwhile bill dollar bulk mail system.

A synopsis of H. R. 7700, the "Postal Service Act of 1977" follows:

Synopsis of the Postal Service Act of 1977

Sec. 1. Title.

Sec. 2. Postal Rate Commission decisions in rate, fee and classification cases are subject to Congressional veto. Congress will have sixty days to veto such decisions. Both Houses must concur. Only the decision as a whole is subject to veto; there is no item veto. Appropriations are authorized to cover any shortfall created by a veto. Except for these provisions, Postal Rate Commission decisions will be final.

Sec. 3. A more precise methodology for the setting of postal rates is established to reaffirm Congressional intent in the Postal Reorganization Act of 1970. Rates are to be based on short term variable costs with a 60% ceiling on attributable costs. Institutional costs will be allocated according to other criteria outlined in the law. In addition, the Postal Service may not include more than 2% for contingencies or provisions for recovery for prior year losses in costs to be covered by postal rates.

Sec. 4. Authorization for public service appropriations is increased from the current 10 percent of 1971 postal appropriations ($920 million) to 15 percent of the prior fiscal year's operating expenses. The provision in the Postal Reorganization Act reducing the amount of public service authorizations beginning in 1979 is eliminated.

The authorization is for only a two-year period, rather than the permanent authorization included in current law.

It is also specified that the money is authorized for, among other things, six-day a week delivery, the operation of rural post offices, and a modern research and development program.

Public service appropriations may not be used to reduce parcel post rates in unfair competition against private enterprise.

Sec. 5. The Postal Rate Commission's budget is separated from the Postal Service's and the Postal Service will no longer have any control over the Postal Service Commission's finances.

Sec. 6. A maximum size limitation of 100 inches in girth and length combined and a maximum weight limitation of 70 pounds are uniformly applied to parcels mailed from all post offices. Currently, size and weight limitations vary according to the class of post office.

Sec. 7. Both the Postal Service and the Postal Rate Commission may represent themselves without the prior consent of the Attorney General in court cases arising out of Postal Rate Commission proceedings on rate, classification, and service matters.

Sec. 8. The Postal Service Board of Governors is abolished and the Postmaster General and Deputy Postmaster General are to be appointed by the President with Senate confirmation.

Sec. 9. The Postal Service must hold a public hearing in any community where it is considering closing a post office.

Sec. 10. The Postal Service is required to follow procedures for disposing of excess property followed by other federal agencies. This provision applies only to properties turned over to the Postal Service as a result of the passage of the Postal Reorganization Act of 1970.

Sec. 11. The Postal Service may not begin any capital program exceeding a total cost of $200 million until receiving a recommendation from Congress. The recommendation will be based on hearings and studies conducted by Congress on the proposal submitted by the Postal Service. The recommendation on a specific project must be transmitted to the Postal Service within four months after submission of the proposal to Congress.

Sec. 12. No provisions in this act are intended to have an effect on the collective bargaining process outlined in the Postal Reorganization Act of 1970.

Sec. 13. Effective date - 90 days after date of enactment.

Wherever possible, League policies and positions on postal and transportation issues and legislation are adopted by membership action at the League's Annual Meeting in November. This November League members will have the opportunity to vote on certain key issues contained in the Commission on Postal Service Report not specifically covered by League policy. The result may well bring about amendments to present League policies and quite possibly new League policies regarding the U. S. Postal Service. The League members have adopted the following policies specifically directed to the Postal Service.

F. Policies Directed to the Postal Service

F-1 Postal Organization

(a) The League favors operation of the postal service by a government corporation which is administered according to sound business principles.
(b) The postal corporation should have power to exercise effective control over appointments and personnel.
(c) The postal corporation should have control over its physical plants and facilities and be directly responsible for funds received and expended.
(d) The postal service should be self-sustaining.
(e) Adequate provisions should be made for safeguarding the privacy and confidentiality of material transmitted through the postal service.

F-2 Postal Rates and Charges

(a) Legislation should be supported to remove discrimination between classes of post offices as size and weight of parcels accepted for mailing. The League recommends 100 united inches as a standard for size and 70 pounds as a standard for weight uniformly for all parcel post.
(b) Proposed changes in rates and charges should be subject to public hearing before a board consisting wholly of members independent of responsibility for postal operations.

The League is *opposed* to provisions of H. R. 7700, or any amendments which would:

(1) Return the appointment of the Postmaster General and Deputy to the President with the advice and consent of the Senate;
(2) Require that all postal revenues be returned to the Treasury and be subject to annual appropriations;
(3) Exclude any class or subclass of mail from annual appropriations;
(4) Eliminate Postal Service borrowing authority for other than capital improvements;
(5) Prevent or allow elimination of door, curbline, and cluster-box delivery, except for apartment buildings;
(6) Remove the ceiling on temporary rates or the time-limitation on Rate Commission action after which temporary rates go into effect;
(7) Eliminate the power of the Postal Rate Commission to review proposals of the Postal Service.

We respectfully urge you to review our comments and hope you will consider our viewpoint regarding H. R. 7700 and the U. S. Postal Service. The League thanks you, Chairman Hanley, for including our statement in the record of hearings on H. R. 7700.

Sincerely,

J. Robert Morton

J. Robert Morton
President

95TH CONGRESS
1ST SESSION

H. R. 7700

IN THE HOUSE OF REPRESENTATIVES

JUNE 9, 1977

Mr. HANLEY (for himself and Mr. CHARLES H. WILSON of California) introduced the following bill; which was referred to the Committee on Post Office and Civil Service

A BILL

To amend title 39, United States Code, to establish congressional review of postal rate decisions, to increase congressional oversight of the United States Postal Service, to abolish the Board of Governors of the United States Postal Service, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Postal Service Act of 1977".

CONGRESSIONAL REVIEW OF RATE, FEE, AND CLASSIFICATION DECISIONS

SEC. 2. (a) Section 3624 of title 39, United States Code, is amended by adding at the end thereof the following new subsection:

"(e) (1) Any final decision of the Commission under this section shall take effect if, and only if—

"(A) the Commission delivers a copy of such final decision to the Senate and to the House of Representatives; and

"(B) before the close of the 60-day period which begins on the day on which the copies of such final decision are delivered to the Senate and to the House of Representatives, the Congress does not adopt, by an affirmative vote of a majority of those present and voting in each House, a concurrent resolution of disapproval.

"(2) The 60-day period referred to in paragraph (1) of this subsection shall be computed by excluding—

"(A) the days on which either House is not in session because of an adjournment of more than 3 days to a day certain or an adjournment of the Congress sine die; and

"(B) any Saturday and Sunday, not excluded under subparagraph (A) of this paragraph, when either House is not in session.

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"(3) For purposes of this subsection, the term 'concurrent resolution of disapproval' means only a concurrent resolution of the Congress, the matter after the resolving clause of which is as follows: 'That the Congress does not favor the taking effect of the final decision transmitted to the Congress by the Postal Rate Commission on ————', the blank space therein being filled with the day and year.".

(b) Section 2401 of title 39, United States Code, is amended by adding at the end thereof the following new subsection:

"(j) There are authorized to be appropriated to the Postal Service each fiscal year such sums as may be necessary to offset any reduction in the estimated revenues of the Postal Service which results from any adoption of a concurrent resolution by the Congress under section 3624(e) of this title disapproving any final decision of the Postal Rate Commission.".

(c) Section 3641(e) of title 39, United States Code, is amended by adding at the end thereof the following new sentence: "In any case in which the Congress adopts a concurrent resolution under section 3624(e) of this title disapproving any final decision of the Commission, any such temporary change shall be effective for a period ending not later than 30 days after the date of the adoption of such concurrent resolution.".

CHANGING RATES AND FEES

SEC. 3. (a) (1) Section 3621 of title 39, United States Code, is amended to read as follows:

"§ 3621. Authority to fix rates and fees

"The Postal Rate Commission may change rates of postage and fees for postal services in accordance with this chapter. Postal rates and fees shall be reasonable, equitable, and sufficient to enable the Postal Service under honest, efficient, and economical management to maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States. Postal rates and fees shall provide sufficient revenues so that the total estimated income and appropriations to the Postal Service will equal as nearly as practicable total estimated costs of the Postal Service. For purposes of this section, 'total estimated cost' includes (without limitation)—

"(1) operating expenses;

"(2) depreciation on capital facilities and equipment;

"(3) interest on debt and amortization of debt discount and expenses; and

"(4) a provision for contingencies, not to exceed 2 percent of an amount equal to the total of those items referred to in paragraph (1) through paragraph (3)

of this section, for unforeseeable and uncontrollable occurrences;

but does not include a provision for repayment of past losses.".

(2) The item relating to section 3621 in the table of sections for subchapter II of chapter 36 of title 39, United States Code, is amended by striking out "classes" and inserting in lieu thereof "fees".

(b) Section 3622 of title 39, United States Code, is amended to read as follows:

"§ 3622. Rates and fees

"(a) The Postal Service shall propose rate schedules to the Postal Rate Commission recommending changes in a rate or rates of postage or in a fee or fees for postal services if the Postal Service determines that each such change would be in the public interest and in accordance with the policies of this title.

"(b) (1) Upon receiving any proposal from the Postal Service, the Commission shall make a decision on the request for changes in rates or fees in each class or subclass of mail or type of service in accordance with the policies of this title and the requirements of this subsection.

"(2) Each class or subclass of mail or type of service shall bear those postal costs attributable to that class, subclass, or type because the costs vary with the volume of that class or subclass or type of service. Attributable costs shall be those costs which vary with volume over 3 years or less. If attributable costs exceed 60 percent of total estimated costs, the attributable costs of each class, subclass, or type shall be reduced to an amount that is determined by multiplying the attributable costs of the class, subclass, or type by a fraction whose numerator is 60 and denominator is a whole number equal to the percentage of total estimated costs determined to be attributable.

"(3) The remaining costs not attributed under paragraph (2) of this subsection shall be apportioned, after deducting an estimated amount for public service appropriations, among each class or subclass of mail or type of service as a revenue burden on the basis of—

"(A) the quality and character of the mail service provided to both the sender and the recipient, including collection, speed of transmission, privacy, and priority of handling and delivery;

"(B) the effect of the proposed rates on the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;

"(C) the available alternative means of sending

and receiving letters and other mail matter at reasonable costs;

"(D) the educational, cultural, scientific, and informational benefit of the mail matter to the Nation; and

"(E) the relative demand for each class or subclass of mail or type of mail service.".

(c) Section 3626(a)(1) of title 39, United States Code, is amended by inserting before the semicolon at the end thereof a comma and the following: "as may be reduced under section 3622(b)(1) of this title".

AUTHORIZATION OF APPROPRIATIONS TO UNITED STATES POSTAL SERVICE

SEC. 4. (a) Section 2401(b) of title 39, United States Code, is amended to read as follows:

"(b)(1) As reimbursement to the Postal Service for public service costs incurred by it in providing a maximum degree of effective and regular postal service nationwide, there are authorized to be appropriated to the Postal Service, for each of the fiscal years ending September 30, 1979, and September 30, 1980, an amount equal to 15 percent of the total operating expenses of the Postal Service for the immediately preceding fiscal year.

"(2) Notwithstanding any other provision of law, no appropriation shall be made to the Postal Service under

paragraph (1) of this subsection for any fiscal year beginning on or after October 1, 1980, unless previously authorized by legislation enacted by the Congress after the effective date of the Postal Service Act of 1977.

"(3) Expenditures which may be made by the Postal Service from funds appropriated under paragraph (1) of this subsection shall include expenditures for—

"(A) the continued operation of post offices in communities in which post offices may not be deemed to be self-sustaining;

"(B) the establishment of research and development programs equivalent in direction and scope to research and development programs carried out by communications businesses in the private sector of the economy; and

"(C) the continuation of the frequency of mail delivery service in effect on June 1, 1977.".

(b) Section 2401(i) of title 39, United States Code, is amended to read as follows:

"(i)(1) Any appropriations made under this section shall not be expended or otherwise used in such a manner as to effect a reduction in any rate for zone rated parcel post as required in chapter 36 of this title.

"(2) Any rate for zone rated parcels shall recover—

"(A) any attributable cost determined under section 3622 (a) of this title;

"(B) any direct or indirect cost which is a consequence of providing services for zone rated parcels; and

"(C) a fair share of any other costs.".

POSTAL RATE COMMISSION BUDGETS

SEC. 5. Section 3604 (d) of title 39, United States Code, is amended to read as follows:

"(d) The Commission annually shall prepare and submit to the President a separate budget of the expenses of the Commission, including expenses for facilities, supplies, compensation, and employee benefits. The President shall include the budget of the Commission, with his recommendations but without revision, as a separate item in the budget required by section 11 of title 31 to be transmitted to the Congress.".

SIZE AND WEIGHT LIMITS

SEC. 6. (a) Section 3682 of title 39, United States Code, is amended to read as follows:

"**§ 3682. Size and weight limits**

"(a) The maximum size of mail, other than letter mail, is 100 inches in girth and length combined, and the maximum weight is 70 pounds.

"(b) The Postal Service may establish size and weight limits for letter mail in the same manner prescribed for changes in the mail classification schedule under subchapter II of this chapter.".

(b) The amendment made by subsection (a) of this section is not effective until the zone rate for a parcel, measuring over 84 inches in length and girth combined, is at least equal to the minimum rate for a 25-pound parcel addressed to the same zone.

LEGAL REPRESENTATION

SEC. 7. (a) Section 409 (d) of title 39, United States Code, is amended to read as follows:

"(d) (1) Except as provided in paragraph (2) of this subsection, the Attorney General of the United States shall furnish the Postal Service, under section 411 of this title, with any legal representation the Postal Service may require. With the prior consent of the Attorney General, the Postal Service may represent itself through its own attorneys or through attorneys whose services may be obtained by contract.

"(2) The Postal Service may represent itself in litigation arising under chapter 36 of this title without obtaining the consent of the Attorney General. The Postal Service may represent itself in such litigation through its own attorneys,

or through attorneys whose services are obtained by contract.".

(b) (1) Subchapter I of chapter 36 of title 39, United States Code, is amended by adding at the end thereof the following new section:

"§ 3605. Legal representation

"The Commission may represent itself in litigation arising under this chapter without obtaining the consent of the Attorney General. The Commission may represent itself in such litigation through its own attorneys or through attorneys whose services are obtained by contract.".

(2) The table of sections for subchapter I of chapter 36 of title 39, United States Code, is amended by adding at the end thereof the following new item:

"3605. Legal representation.".

ORGANIZATION OF POSTAL SERVICE; RATE, FEE, AND CLASSIFICATION DECISIONS OF POSTAL RATE COMMISSION

SEC. 8. (a) (1) Section 202 of title 39, United States Code, is amended to read as follows:

"§ 202. Postmaster General

"The chief executive officer of the Postal Service is the Postmaster General, who shall be appointed by the President, by and with the advice and consent of the Senate. The pay of the Postmaster General shall be at an annual rate

equal to the annual rate of basic pay, as in effect from time to time, for level I of the Executive Schedule of section 5312 of title 5.".

(2) The table of sections for chapter 2 of title 39, United States Code, is amended by striking out the item relating to section 202 and inserting in lieu thereof the following new item:

"202. Postmaster General.".

(b) (1) Section 203 of title 39, United States Code, is amended to read as follows:

"§ 203. Deputy Postmaster General

"The deputy chief executive officer of the Postal Service is the Deputy Postmaster General, who shall be appointed by the Postmaster General. The Postmaster General shall fix the term of service of, and shall have the power to remove, the Deputy Postmaster General. The pay of the Deputy Postmaster General shall be at an annual rate, fixed and adjusted by the Postmaster General, not more than $2,500 less than the annual rate of basic pay of the Postmaster General, as in effect from time to time.".

(2) The table of sections for chapter 2 of title 39, United States Code, is amended by striking out the item relating to section 203 and inserting in lieu thereof the following new item:

"203. Deputy Postmaster General.".

(c) (1) Section 205 of title 39, United States Code, is amended to read as follows:

"§ 205. General authority of Postmaster General

"The Postmaster General shall direct and control the expenditures and review the practices and policies of the Postal Service and perform other functions and duties prescribed by this title.".

(2) The table of sections for chapter 2 of title 39, United States Code, is amended by striking out the item relating to section 205 and inserting in lieu thereof the following new item:

"205. General authority of Postmaster General.".

(d) (1) (A) Section 102 of title 39, United States Code, is amended to read as follows:

"§ 102. Definition

"As used in this title, 'Postal Service' means the United States Postal Service established by section 201 of this title.".

(B) The table of sections for chapter 1 of title 39, United States Code, is amended by striking out the item relating to section 102 and inserting in lieu thereof the following new item:

"102. Definition.".

(2) Section 204 of title 39, United States Code, is amended by striking out "Board" and inserting in lieu thereof "Postmaster General".

(3) Section 207 of title 39, United States Code, is amended by striking out "Board" and inserting in lieu thereof "Postmaster General".

(4) (A) Title 39, United States Code, is amended by striking out section 402.

(B) The table of sections for chapter 4 of title 39, United States Code, is amended by striking out the item relating to section 402.

(5) Section 1001 (d) of title 39, United States Code, is amended by striking out "of the Board or".

(6) Section 1002 (a) of title 39, United States Code, is amended by striking out "Governor or".

(7) Section 1011 of title 39, United States Code, is amended by striking out "Board" and inserting in lieu thereof "Postmaster General".

(8) Section 2402 of title 39, United States Code, is amended to read as follows:

"§ 2402. Annual report

"The Postmaster General shall submit to the President and to the Congress an annual report concerning the operations of the Postal Service under this title.".

(9) (A) Section 3623 (a) of title 39, United States Code, is amended by striking out "make a recommended" and inserting in lieu thereof "render a".

(B) Section 3623 (b) of title 39, United States Code, is amended—

(i) by striking out "submit" the first place it appears therein and inserting in lieu thereof "render";

(ii) by striking out "submit to the Governors" and inserting in lieu thereof "render"; and

(iii) by striking out "recommended".

(C) Section 3623 (c) of title 39, United States Code, is amended by striking out "make a recommended" and inserting in lieu thereof "render".

(10) (A) The heading for section 3624 of title 39, United States Code, is amended by striking out **Recommended decisions**" and inserting in lieu thereof "**Decisions**".

(B) Section 3624 (a) of title 39, United States Code, is amended by striking out "recommend" and inserting in lieu thereof "render".

(C) Section 3624 (c) (1) of title 39, United States Code, is amended—

(i) by striking out "recommended" the first place it appears therein;

(ii) by striking out "transmit its recommended" and inserting in lieu thereof "render its"; and

(iii) by striking out "to the Governors under subsection (d) of this section".

(D) Section 3624 (d) of title 39, United States Code, is amended to read as follows:

"(d) The Commission shall determine the date or dates on which the new rates, fees, mail classification schedule, and changes in the schedule shall become effective. The decisions of the Commission shall be final, subject to the provisions of subsection (e) of this section, and shall not be subject to approval, allowance under protest, modification, or rejection by the Postal Service.".

(11) (A) Title 39, United States Code, is amended by striking out section 3625, and by redesignating section 3626 through section 3628 as section 3625 through section 3627, respectively.

(B) Section 3626 of title 39, United States Code, as so redesignated by subparagraph (A), is amended by striking out "3626 of this title" and inserting in lieu thereof "3625 of this title".

(C) The table of sections for subchapter II of chapter 36 of title 39, United States Code, is amended by striking out the items relating to section 3624 through section 3628 and inserting in lieu thereof the following new items:

"3624. Decisions of Commission.
"3625. Reduced rates.
"3626. Adjusting free and reduced rates.
"3627. Appellate review.".

(12) (A) The first sentence of section 3627 of title 39, United States Code, as so redesignated by paragraph (11) (A), is amended—

(i) by striking out "decision of the Governors to approve, allow under protest, or modify the recommended"; and

(ii) by inserting "under section 3624(c) of this title" immediately after "Postal Rate Commission".

(B) The second sentence of section 3627 of title 39, United States Code, as so redesignated by paragraph (11) (A), is amended by striking out "and the Governors".

(C) The last sentence of section 3627 of title 39, United States Code, as so redesignated by paragraph (11) (A), is amended by striking out "or Governors".

(13) (A) Section 3641(a) of title 39, United States Code, is amended—

(i) by striking out "transmit a recommended" and inserting in lieu thereof "render a"; and

(ii) by striking out "to the Governors".

(B) Section 3641(d) of title 39, United States Code, is amended—

(i) by striking out "transmits its recommended" and inserting in lieu thereof "renders its";

(ii) by striking out "to the Governors under section 3624(d) of this title"; and

(iii) by striking out "Governors" and inserting in lieu thereof "Commission".

(C) The first sentence of section 3641(e) of title 39, United States Code, is amended—

(i) by striking out "transmit to the Governors" and inserting in lieu thereof "render a decision"; and

(ii) by striking out "recommended".

(D) The second sentence of section 3641(e) of title 39, United States Code, is amended by striking out "transmitted its recommended decision to the Governors" and inserting in lieu thereof "rendered its decision".

(14) Section 3684 of title 39, United States Code, is amended by striking out "Governors" and inserting in lieu thereof "Postmaster General".

(15) Section 5206(c) of title 39, United States Code, is amended by striking out "Board" each place it appears therein and inserting in lieu thereof "Postmaster General".

POST OFFICE CLOSINGS AND CONSOLIDATIONS

SEC. 9. Section 404(b)(1) of title 39, United States Code, is amended by adding at the end thereof the following new sentence: "The Postal Service shall conduct a hearing relating to such proposed closing or consolidation during

such 60-day period in the area which would be affected by such proposed closing or consolidation.".

SURPLUS AND EXCESS PROPERTY

SEC. 10. (a) Section 410(b)(4) of title 39, United States Code, is amended—

(1) by striking out "and" at the end of subparagraph (E);

(2) by redesignating subparagraph (F) as subparagraph (G); and

(3) by inserting after subparagraph (E) the following new subparagraph:

"(F) chapter 10 (relating to management and disposal of Government property), except that the provisions of such chapter shall apply only to property held by the Postal Service at the time of its establishment by section 201 of this title, as enacted by section 2 of the Postal Reorganization Act; and".

(b) Section 401(5) of title 39, United States Code, is amended by inserting before "to acquire" the following: "subject to the provisions of section 410(b)(4)(F) of this title,".

REVIEW OF PROPOSED CAPITAL INVESTMENTS

SEC. 11. (a) Chapter 20 of title 39, United States Code, is amended by adding at the end thereof the following new section:

"§ 2011. Review of proposed capital investments

"(a) The Postal Service may not carry out any capital investment project having a total estimated cost which exceeds $200,000,000 unless the Postal Service, before commencing such project, transmits a report to the Committee on Governmental Affairs of the Senate and the Committee on Post Office and Civil Service of the House of Representatives. Such report shall contain a detailed description of the project involved, together with a justification for such project.

"(b) The Committee on Governmental Affairs of the Senate and the Committee on Post Office and Civil Service of the House of Representatives, upon receiving any report from the Postal Service under subsection (a) of this section, shall review the project involved and conduct such hearings with respect to such project as each committee considers necessary. Each such committee shall transmit recommendations to the Postal Service with respect to such project no later than 4 months after receiving a report under subsection (a) of this section.

"(c) The Postal Service may not commence any capital investment project with respect to which a report has been transmitted by the Postal Service under subsection (a) of this section until the Postal Service has received recommendations with respect to such project from the Committee on Governmental Affairs of the Senate and the Committee

on Post Office and Civil Service of the House of Representatives under subsection (b) of this section. The Postal Service shall take such recommendations into account in making its final determination with respect to carrying out the project involved.

"(d) For purposes of this section, the term 'capital investment project' means any project the cost of which is not properly chargeable, under generally accepted accounting principles, as an expense of operation and maintenance.".

(b) The table of sections for chapter 20 of title 39, United States Code, is amended by adding at the end thereof the following new item:

"2011. Review of proposed capital investments.".

EFFECT ON COLLECTIVE BARGAINING AGREEMENTS

SEC. 12. Nothing in this Act, or in any amendment made by this Act, affects—

(1) any collective bargaining agreement entered into by the United States Postal Service which is in effect on the effective date of this Act;

(2) the authority of the United States Postal Service under chapter 12 of title 39, United States Code, to engage in collective bargaining with respect to any collective bargaining agreement into which the United States Postal Service may enter; or

(3) any obligations entered into by the Postal Service in any future collective bargaining agreement.

EFFECTIVE DATE

SEC. 13. The provisions of this Act, and the amendments made by this Act, shall take effect 90 days after the date of enactment of this Act.