

# RECOMMENDATIONS OF THE COMMISSION ON POSTAL SERVICE

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HEARINGS  
BEFORE THE  
SUBCOMMITTEE ON  
POSTAL OPERATIONS AND SERVICES  
OF THE  
COMMITTEE ON  
POST OFFICE AND CIVIL SERVICE  
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# RECOMMENDATIONS OF THE COMMISSION ON POSTAL SERVICE

THURSDAY, APRIL 28, 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 9:40 a.m., in room 311, Cannon House Office Building, Hon. James M. Hanley, chairman, presiding.

Mr. HANLEY. Today we begin hearings on the recently issued report of the Commission on Postal Service.

The Commission was created last year by Public Law 94-421. It was asked to give us a broad series of recommendations on important areas, such as public service financing, postal ratemaking, Postal Rate Commission operations, appointment of the Postmaster General by the President, and many others.

In addition, the Commission was given a broad mandate to define postal problems as it saw them and come up with some proposed solutions.

Frankly, I am quite ambivalent about the report.

The Commission members and staff, I know, have worked hard and diligently, and I commend them for completing a large task within such a short period of time. The Commission members and staff are to be commended again for their willingness to serve in this capacity.

Yet, I must admit that I am disappointed in the tone and the tenor of the final product. It seems that again we are being told that the American public must accept poorer service, higher rates, and greater appropriations.

I recognize the difficulties, but I frankly hoped that the Commission itself would have spent more time trying to pursue ways in which service could be improved and rates held at a relatively reasonable level, rather than to accept at face value the doomsday prophecies of the Postal Service's management.

I am particularly disturbed that the Commission was highly critical of management but failed to recommend any significant changes in the Board of Governors or the appointment of the Postmaster General. Indeed, while it pinpointed many problems caused by management, it made no recommendations or comments on management structure.

Also disturbing is the Commission's failure to recommend more adequate public service funding and to specify what these funds should be used for.

Finally, I am perplexed that there is almost no mention of the role which Congress should take, except in a negative sense. The Commis-

sion was created because Congress was deeply concerned that the Postal Service was not serving the people as well as it should. Congress wants and should have an expanded role in postal affairs. I am sorry that the Commission addressed this very legitimate concern only indirectly.

However, to be fair, the Commission report had some good points. High on the list was its support of greater postal involvement in electronic communications and its criticism of the paucity of the Postal Service's research and development program. Many other points, such as the insistence that the Postal Service do a better job in recruiting and promoting women, were very well taken.

We are pleased to have here today the Chairman of the Commission, Mr. Gaylord Freeman; the Vice Chairman of the Commission, Mr. James Rademacher; Commissioner Paul Krebs, and Commissioner Rose Blakely.

My friends, it is a pleasure to welcome you here this morning. Mr. Chairman, we look forward to your presentation.

**STATEMENT OF GAYLORD FREEMAN, CHAIRMAN, COMMISSION ON POSTAL SERVICE; ACCOMPANIED BY JAMES RADEMACHER, VICE CHAIRMAN; PAUL KREBS, COMMISSION MEMBER; ROSE BLAKELY, COMMISSION MEMBER; DAVID MINTON, EXECUTIVE DIRECTOR; AND JOHN CAMERON, DEPUTY GENERAL COUNSEL**

Mr. FREEMAN. Thank you, Mr. Chairman and members of the subcommittee.

I am Gaylord Freeman, chairman of the Commission on Postal Services. With me, as you announced, are James Rademacher, vice chairman and previously president of the National Association of Letter Carriers, Rose Blakely, Commissioner and Washington businesswoman, and Paul Krebs, Commissioner and former Congressman from New Jersey.

On behalf of the Commission I wish to express our appreciation for your so speedily convening to consider the report of the Commission on Postal Service. We hope that our work since last November will help Congress and the President evaluate the problems of the Postal Service and make policy decisions which will help preserve this great public service.

I presume that most members of the committee and your staff have had an opportunity to read at least the first volume of our report during the past week. Therefore, I would rather respond to some of the issues which we and you have raised, rather than simply enumerate what we recommend.

Since presenting our report on April 18, I have read a number of articles expressing the opinion that Congress, and perhaps the President, will not be happy with our report. We were particularly impressed that you, Mr. Chairman, were quoted in the Washington Post as expressing your disappointment because we recommended cuts in service.

We appreciate your use of "ambivalent" this morning and the reference to some good points in the report.

First, let me say in response to your comment, Mr. Hanley, that I share your disappointment that we could not reach the conclusion

that services should be expanded rather than reduced. But the evidence would not allow that conclusion. We contracted with four reputable firms, all possessing expertise in postal affairs or in the field of electronic communications. All predicted that the Postal Service in its present form simply cannot survive unless postal rates rise beyond a politically and publicly acceptable level, or unless subsidies are greatly increased. We foresee the decline of the Postal Service as a delivery system, for unless it finds dramatically new methods of combining its delivery system with some form of electronic communication, it will inevitably suffer such volume and revenue losses, which will not automatically be offset by similar cost reductions, that services must be drastically reduced over a period of time.

The Postal Service has attempted to achieve an increase in productivity. Through increasing the use of letter-sorting machines—from 25 percent to 63 percent—and increasing vehicular use in delivery routes—from 58 percent to 83 percent—productivity in terms of mail handled per man-hour has increased at an average annual rate of 1.3, but labor costs have risen so much more rapidly that the volume handled per dollar has declined 9 percent.

In the 5 years since the reorganization of the Postal Service, at the end of fiscal 1971, total expenses have increased from approximately \$9 billion to roughly \$14 billion, an actual increase of \$5,048,156,000. That might seem an inordinate increase, but of the several components set forth in the table on page 13 of our report, the expenses for depreciation, building occupancy and "other" have increased only \$83 million, accounting for 1.6 percent of the total increase. With the increase in oil prices, transportation is up \$270 million and accounts for 5.36 percent of the increase.

The real cause of the increased expenditures is compensation for labor. Despite a reduction of 24,000 man-years between 1972 and 1976, total compensation has risen \$4,694 million.

This one item alone accounts for 93 percent of the increase in expenditures.

Why have labor costs risen so severely? Partly, of course, due to inflation—the Consumer Price Index has risen 40 percent in this period. But the primary cause is the congressional mandate that the Postal Service pay wage rates comparable to those in the private sector. It has done so. As of February of 1975 the Postal Service was paying an average of \$8.05 per hour, inclusive of fringes, as compared to \$8.04 for employees in steel, oil, transportation, and communication industries. Since then postal wage rates have kept pace with those in private industry and now average \$9.10 per hour, including fringes. Thus, of the \$5 billion increase, \$4.7 billion is due directly to the congressional requirement.

It is significant to note that today's average Postal Service compensation is 15 cents per minute. Thus every 1-ounce first-class letter which in the aggregate of collection, sorting, transportation, and delivery takes the time of any one clerk as much as 1 minute adds over 2 cents to the postal deficit.

The Postal Service is expensive and it will become more so.

Our long-range outlook for the Postal Service is dismal.

Eighty percent of first-class mail is business mail. Seventy percent of first-class mail is comprised of payment transactions, the mailing of bills, checks, receipts, and transfers of checks to banks. The Postal

Service is going to lose a large part of this desirable business. The use of point of sale and other electronic systems will eliminate much of this 70 percent of first-class mail sometime during the next 20 years.

Other business correspondence accounts for only 10 percent of first-class mail but the Postal Service is likely to lose much of this to facsimile and other forms of electronic communication unless it aggressively enters the electronic field. The remainder, 20 percent, of first-class mail is greeting cards and personal letter correspondence, amounting to less than 20 percent of the pieces but accounting for a higher proportion of the total cost. Incidentally, personal correspondence accounts for only 3 percent of the total.

Increased rates in those classes of mail which are subject to competition—second, third, and fourth class—will result in the loss of a substantial part of present revenue and will leave the Postal Service with only the most expensive type of deliveries.

That is not a very pretty picture. What can be done?

The Commission sees only four possible courses:

1. Increase the Postal Service efficiency, and that would include the adoption, we would hope, of much greater use of electronic communications;
2. Substantially increase postal rates;
3. Substantially increase appropriations; or
4. Reduce the levels of service.

Some further improvement in efficiency should be achieved, and in our forecasts we estimated a saving of some 36,000 man-years (below the 1977 level) by 1985. But we must expect increases in wage rates to more than offset this reduction in man-years with a resultant net increase in compensation costs. The only opportunity for a significant increase in productivity and revenue lies in electronic communications which the Postal Service appears reluctant to enter.

A substantial further increase in postal rates will merely divert mail volume and result in further deficits.

If postal rates remain at present levels, we anticipate the cost to the Treasury and to the taxpayers will rise to an annual cost estimated to total \$12 billion by 1985.

We fully understand the reluctance to suggest reductions in the levels of service, but we are not over-awed by that prospect. Six-day delivery to 76 million addresses is taken for granted. It is, however, an extravagance. The average family does not expect its groceries, its milk, its medical services to be delivered to the home any more, and, if delivery is available, its cost is such that few families choose to pay for it. If the costs of delivery of the mail were charged directly to the recipient, the public would probably not care to pay for the elaborate delivery system which it enjoys today. The A. C. Nielsen survey which we commissioned indicates that the public recognizes this fact. Eighty percent of the respondents indicated that they will accept 5-day delivery in order to hold down postal rates.

Rather than rely on a massive increase in rates or appropriations, anticipate a great increase in efficiency, or suggest a major cut in service, the Commission has opted for modest changes in each of these areas. Our recommendations would, if adopted:

1. Urge the 36,000 man-year reduction in employees;
2. Suggest an increase in postage rates at an annual rate of

about 6 percent to a level of 22 cents for a first-class stamp in 1985 and corresponding increases in the rate for other classes of mail;

3. Propose a public service appropriation of 10 percent of the preceding year's Postal Service expenditures; and

4. Reduce the level of service moderately by cutting delivery from 6 to 5 days.

I know that there is little political advantage in telling the public that postage rates and subsidies are going up and levels of service are to decline. Nobody wins friends by such Cassandra-like pronouncements, but the facts are inescapable and we believe that the public would prefer modest increases in rates and appropriations and the 5-day delivery to any extreme increase in appropriations or major curtailments of service at this time.

If the Congress and the President wish to appropriate several billion dollars a year more to maintain service at our present levels and keep postal rates at low levels, you may, of course, do so. But in view of the overall financial position of the U.S. Government, we believe that such a vast expenditure of money to maintain a postal delivery system when the use of the system is declining—and will decline a great deal more—is an expenditure of tax revenues which may not be in the best interests of the Nation.

We also recommend that Congress reevaluate the whole problem just 6 years from now because by 1983 we will have a much better idea of the impact and timing of the impact of electronic communications upon mail volume than we can possibly have today.

A further point relates to the identification of specific public service aspects of the Postal Service. In the period of time available, this task proved impossible. Indeed, our two consultants, National Economic Research Associates and Arthur D. Little, suggested that the task was probably impossible even with a much greater expenditure of time. I would like to say, however, that in my judgment the whole postal system is a public service. I want to assure you that no private enterprise would ever consider for 1 minute entering into a postal delivery system similar to our Nation's Postal Service with 40,000 postal facilities. I doubt very seriously if a private system would have 10,000. No private enterprise would deliver mail 6 days a week at the available rates, and certainly not in rural areas.

Our report identifies some 15 specific public services which the Postal Service now performs. The list could be expanded. That does not mean that merely because the Postal Service is a public service its costs should be paid entirely by the taxpayer. A number of our witnesses protested that the Department of Defense and the Department of Agriculture are not required to be self-supporting, and hence neither should the Postal Service. That is a facile analogy but really irrelevant. The availability of the postal delivery system is of such incalculable benefit to the business community, which is its primary customer, that the taxpayer should not be asked to bear the entire burden of the system.

The taxpayers have always paid a relatively modest portion of the postal costs. For the 10 years prior to reorganization this averaged 18 percent of operating costs. Since 1971 when the reorganization hit us, it has averaged 12.9 percent and has been declining as a percentage. I think it was 11.9 percent last year.

We believe that the Postal Service will always require taxpayer support if service is to be maintained at reasonable levels and rates do not rise to a level where large volumes are driven away. But because of the impact of electronic communications, we are unprepared to recommend a level of support beyond 1985. Congress is fully capable of reassessing the problem in 1983, and we have no hesitation in limiting our recommendations to the short-term financial problems of the Postal Service.

Finally, I would like to comment on our recommendation that the present organization of the Postal Service be preserved; that is, that the Board of Governors not be abolished. Our Commission evaluated the available written evidence of the Governors and had one meeting with three members of the Board of Governors: the Chairman, the Vice Chairman, and the Chairman of the Finance Committee. We acknowledge disappointment with the Governors' performance to date. For instance, the billion dollar bulk mail facility program appears to have been instituted with only cursory review by the Governors, and there were at least some knowledgeable postal employees at high levels who felt that the decision was ill-advised. We are certain that the legislative and appropriation committees of Congress would have given greater scrutiny to such undertakings.

Nevertheless, we do not believe that the Postal Service would be improved if the Governors were disbanded and the President appointed the Postmaster General. As a practical political consideration, to put the problems of the Postal Service directly back into the laps of the President and the Congress would subject them to myriad pressures from both mailer and labor groups, as well as public complaints.

From the standpoint of facing the very difficult decisions ahead for the Postal Service, we think that continuing to operate the Postal Service on a nonpolitical basis would be best. That doesn't mean that the Postmaster General is required to be a bad politician or to ignore the wishes of the committees of Congress which have jurisdiction over that agency, or to take actions which he knows will be politically unpopular simply to demonstrate his independence. It is our view that many of the problems which have arisen between the Congress and the Postal Service since 1970 could have been resolved more happily if the Postal Service had not seemed so aloof from the legitimate inquiries of Congress. A more involved and responsive Board of Governors should prove helpful to both the Postal Service and to the public.

Let me conclude by saying that we believe the Postal Service faces very difficult times. I have no doubt personally that the Postal Service of 1997 will be a vastly different organization than it is today. By that time most business communications will have been diverted to faster and less expensive electronic media. And obviously that means that as we lose a large portion of the most profitable mail, we will have to put such charges on the other classes that we will lose their volume and revenue.

Public opinion surveys show that a great many people do not believe there is an energy crisis. I think a similar problem may exist in understanding postal problems. Since it isn't happening today and we cannot prove exactly when it will happen, many people may be incredulous. We believe that Congress should exercise a greater measure of

foresight than the average citizen is required to use and recognize that the future of the Postal Service is bleak and that the impact upon our society will be substantial.

With this very brief introduction, I would be pleased to attempt to answer any questions that you may want to propound. On the other hand, Commissioners Krebs and Rademacher, who dissented on two or three points, might like to make a statement and you may prefer to have them do so now.

Thank you.

Mr. HANLEY. Thank you very much, Mr. Chairman, and I believe that probably we can pursue this best by first hearing out your colleagues prior to asking questions.

Commissioner Krebs.

### STATEMENT OF COMMISSIONER PAUL KREBS

Mr. KREBS. Thank you, Mr. Chairman and members of the subcommittee.

I am Paul J. Krebs, of Livingston, N.J. I would like to thank you for this opportunity to appear before the subcommittee. You face a complex task, as I well know from my experience of the last 6 months. As you assess the changing role of the Postal Service in meeting the communication needs of the American people, and the optimal method of financing that role, I hope that the report of our Commission, the studies of our contractors, and the observations of 525 mail users from across the Nation who appeared before us in public hearings will be of assistance to the Congress.

I appear before you today as a member of the Commission on Postal Service who has dissenting views on several important Commission recommendations. I am also testifying as Chairman of the Commission's Subcommittee on Electronic Communications.

By way of introduction, allow me first to express my consternation at some of the misinterpretations of our work which have appeared in the press. The public has been informed that the Commission has recommended the abolition of 6-day delivery and that we devoted ourselves simply to identifying services which might be eliminated. Not enough significance has been given to our recommendation that public appropriations be increased so that services like those provided by thousands of small, rural post offices might be maintained.

While I will discuss later my dissenting views on 6-day delivery, I believe it is critical to note that the Commission did recognize that the Postal Service is a "public service" which can not and should not be expected to attain self-support. Like other Government agencies which provide public services, the Postal Service will require more than the present nominal support provided by appropriations. The current public service appropriation of \$920 million constitutes less than 6 percent of the total costs. The Commission has recommended that appropriations be increased to 10 percent of costs. Commissioner Rademacher and I recommend 13 percent to allow funding of a sixth day of delivery. If this particular recommendation is implemented, it should go a long way toward eliminating the hand-to-mouth financial condition of the Postal Service, accompanied by frequent rate increases.

As a second prefatory comment, I will report to you that, in my opinion, the most difficult task faced by the Commission was untangling the inconsistent data received from the Postal Service itself. Although we worked with a liaison office within the Postal Service, inconsistent data were frequently submitted to us. Apparently little effort was made to reconcile the work product of different departments within the Postal Service. It is our impression that this organization is composed of balkanized departments which devote far too little time toward developing coherent agencywide policies. It is a credit to our consultants that they were able to piece together so successfully the parts of the data puzzle. I respectfully suggest that you bear this problem in mind as you consider for yourselves the possible reforms of the Postal Service recommended in the Commission's report.

An example of this problem of immediate relevance to you is the recent statement of the Postmaster General announcing a \$5 million surplus for the year ending March 25, 1977. This statement fails to recognize that the rates in effect during this period were set by the Postal Rate Commission at levels designed to recover \$207.8 million per year above current operating expenses which should be devoted annually to retiring operating indebtedness of \$1.454 billion incurred since 1971. The reported surplus is \$202.8 million short of what the rates were designed to recover, and it is my understanding that no operating debt has been retired. While I do not seek to belittle recent accomplishments of the Postal Service, I use this example to urge you always to insist upon the complete story from postal management.

In my opinion postal management has abandoned hope of developing a Postal Service able to meet the changing communication needs of the American public in the coming decade. Annual research and development expenditures have averaged only \$23 million since Postal Reorganization—that should be \$23 million annually, underscored—roughly 0.2 percent of total postal expenditures. This level of funding only serves to keep the research and development department alive. Our investigation of this matter, which included an inspection of the research and development center in Rockville, Md. lead us to conclude that research and development is given very low priority by management, that leadership within the department is inadequate, and that there is little coordination between the research and development department and those within the Postal Service who must implement the projects actually undertaken.

Research and development must occupy a center position in postal management, fully coordinated with the operations and market research departments. Further, it must be headed by personnel with strong backgrounds in research and capable of dealing effectively with contractors in the private sector.

This leads quite naturally to a discussion of the Commission's unanimous findings on electronic communications. Although representatives of the Postal Service may tell you that studies are underway to define its role in the era of expanded electronic communications, it is my opinion that postal management is actually trying to avoid making any decision on that role. In fact, I have detected a predilection against any involvement at all. During its meeting with representatives of the Postal Board of Governors, the Commission was informed by one Governor that electronic communication was

simply too revolutionary a topic to have merited serious consideration by the Board up to that point in time.

I want to say parenthetically while I am on that point, Mr. Chairman, that during this same interview with the Chairman of the Board of Governors, the vice chairman and the chairman of the Finance Committee, we were questioning them about their leadership, for which we felt they were responsible in setting programmatic plans for the Postal Service down on paper. And the chairman very quickly said, "Well, we have a 5-year plan."

We said, "Do you have a copy of the 5-year plan with you?"

And he said, "No, we don't, as a matter of fact."

I said, "Will you tell us what is in the 5-year plan?"

And he fumbled for a little bit and said, "Well, the truth of the matter is I haven't read it."

It seems to me this bespeaks the lack of interest on the Board of Governors and the lack of any meaningful leadership in determining the course the Postal Service should take.

I will deal later on with the question of the bulk mail center project and how this decision was made by the Board of Governors in the face of the statistics that this was a bad move to make.

However revolutionary, it is inescapable that electronic communications will change the media by which businesses and individuals communicate. In so doing, the demands of the public upon its Postal Service will also change, most imminently through large diversions of first-class mail volume.

Arthur D. Little, Inc., a Commission contractor on electronic communications, predicts virtually no growth in first-class mail volume through 1985. A total of 17 billion pieces will be diverted to the new electronic communication systems which will become commercially viable during this period. The private express statutes, which have traditionally preserved the letter monopoly, will be powerless to stem this diversion.

To meet its public obligations the Postal Service must first conduct market studies to determine whether diversion to electronic communications can be dampened if defensive marketing strategies are employed to retain volume, or if new services can be offered which may provide new sources of income.

Second, it must develop both long- and short-term decisions on whether to provide electronic communication services. In the 5 months available for study, the Commission was unable to assemble all of the necessary data on these matters. Our contractors gave excellent presentations on mail diversions which would result from electronic communications. However, the development of comprehensive postal strategy was simply too complex a task for so short a period. But this is really an assignment for postal management who have at their command the full resources of the Postal Service and, hopefully, a research and development budget significantly larger than \$23 million. Moreover, these critical decisions require the full support of management to assure their successful implementation—it is unlikely that specific decisions reached by this Commission could be imposed upon an unwilling postal management.

For these reasons, the Commission recommended that the Postal Service give immediate attention to implementing a short-term role

and that a 2-year limit be set for the definition of a long-term role. I respectfully urge you, the Congress, to monitor the progress of this work over the next 2 years. At the end of this period a most thorough investigation should be made of the Service's reasons for or against providing electronic communications services to the American public, including—

1. The capability of private sector firms to provide these services;
2. Comparative costs of several feasible systems which the Postal Service might establish and their methods of deployment across the Nation; and
3. The Postal Service's recommendation of the optimal system or systems.

Contrary to the opinion of the majority, I recommended that the Board of Governors be abolished and that the Postmaster General and Deputy Postmaster General be directly appointed by the President, subject to Senate confirmation. I believe that a part-time Board can never exercise control over postal management.

And I want to say parenthetically that, by statute, the Board of Governors is restricted in the amount of meetings they can hold during the course of a year, and it seems to me a pretty inefficient way of running a \$16 billion business to have a part-time Board of Governors that in many instances have abrogated all of their authority, real or theoretical, to the Postmaster General, and he in turn is accountable to no one.

The waste of resources caused by management's precipitous investment in the bulk mail system, theoretically directed by the Governors, is the foremost example of this problem.

Let me call your attention here to page 101 of our report which indicates that virtually, without exception, the decline in parcel post volume suffered by the Postal Service from 1959 through 1976 has brought the total number of parcels handled by the Parcel Post Section of the Postal Service below the 400-million-piece minimum requirement needed to maintain the Bulk Mail System Center on a self-sufficient basis. If you look at that chart it shows that the volume for 1976 was 338 million pieces, and based on the experience over these 18 years, the projected volume of parcel post handled by the Postal Service by 1985 will be 137 million pieces a year—far, far below the 400 million required to justify the investment of a billion dollars of the American taxpayers' money to build 21 bulk-mail centers around the country.

Other examples have been mentioned in Mr. Freeman's statement.

The majority has curiously attempted to make management more accountable by further diffusing it in yet another body—an advisory council which, by the way, would meet, if the suggestion by the majority of this Commission is followed, twice a year simply to hear reports from the Board of Governors with no authority over the Board and no right to change or challenge any of their decisions. Their claim is that by maintaining the Board and requiring it periodically to report to the Advisory Council, we can motivate the Governors to actually govern. But who, I ask, would motivate the Advisory Council?

This recommendation is supposed to preserve the Postmaster General from direct political influence on the conduct of postal affairs.

However, I fail to see how the appointment of a Postmaster General by Presidentially-appointed Governors is significantly less "political" than direct appointment of the Postmaster General by the President.

And I want to say that as long as you have a non-functioning, non-performing Board, as this Board of Governors has been since postal reorganization, the Postmaster General is, in fact, accountable to no one, and I think it is important that he be accountable to the President and to the Congress so ultimately you can be accountable to the electorate the next time you run.

Furthermore, I see no problem in political appointment for it assures the management accountability which the Governors have been remiss not to demand.

As a second point of disagreement from the majority, I dissented on the method by which postal rates should be approved by the Postal Rate Commission. Although I agree that the Governors play a superfluous role which should be eliminated, as well as the Board itself, I do not believe that the Postal Rate Commission should be given final rate-making authority subject only to judicial review. Instead, I recommend that the Postal Rate Commission submit recommended decisions to the Congress. Present law requires the Postal Rate Commission to consider important social factors in setting rates which are best left to Congress. My recommendation would assure that these factors are properly taken into account in each rate proceeding.

The Rate Commission should be authorized to propose a recommended decision on rates. The decision would be submitted to both Houses of Congress. If Congress did not act within 90 days to disapprove the decision, it would become effective. If Congress disapproved, the decision would be returned to the Rate Commission for a new recommendation. If Congress disapproved the second decision, Congress would be deemed to have appropriated the additional funds that Postal Service would have received if the decision had become effective.

The Study Commission recommendation which has probably caused the greatest public reaction is that the number of delivery days be cut from 6 to 5 per week. I joined with Commissioner James Rademacher, who is here and will testify in his own behalf. We both opposed this recommendation and urged instead that the level of public appropriations be established as 13 percent of prior year expenses, rather than the majority's 10 percent, to finance this necessary service. It is unconscionable to ask the American public to pay higher postal rates in future years for less service than they now receive. A sixth day of delivery adds only one-half cent to the price of a first-class stamp.

Further, I cannot recommend that good postal jobs be eliminated, as they would under this recommendation, during a period of high unemployment, when I believe the latest appropriation to provide jobs for unemployed people in the country approximated some \$21.5 billion.

Service must be enhanced rather than diminished. This is the best method of preserving mail volume. In addition to retaining a sixth delivery day, I would also preserve night processing of mail and would reverse the existing policy of offering very limited mail pickup from collection boxes. And let me underscore that. The best informed advice this Commission received was that approximately 60 percent of pickup opportunities afforded the American users of the Postal Services have

been eliminated either in the form of reduced pickups at established boxes or the elimination of boxes, to the extent that, as I said before, 60 percent of the opportunity is lost. I mail a lot of mail from the Newark Airport when I am in a hurry to have the letter delivered. And, from many of the boxes in the jet airport, one of the best and most modern in the world, there is only one pickup a day.

A special recommendation was made by Commissioner Rademacher and Johnson and me concerning the proposed relocation of a mail processing facility out of Toms River, N.J. The needs of this growing community for the facility are well documented in the Commission's report and I will not belabor them here. I do want to stress the fact that the Postal Service made its decision to relocate this facility without community input. This is not the first example of autocratic decisionmaking brought to our attention. It is bad government and bad business which can impair community services and also the image of the Postal Service. Although I encourage the Postal Service to achieve economics wherever possible, it must not blindside itself to the public need.

Finally, I would like to comment briefly on a special assignment which I was given by the Chairman and the rest of the Commission to investigate alleged violations of the Davis-Bacon Act by contractors retained by the Postal Service on facility renovation projects. After the Commission received testimony on this matter from Mr. James A. Grogan, president of the New Jersey State Building and Construction Trade Council, I conducted an investigation to determine its relevance to the major issues before us. Although this problem was not treated in our report, I believe it is important to raise for your consideration my strong suspicion that certain contractors retained by the Postal Service in New Jersey, perhaps nationwide as well, are not paying prevailing area wage rates as required by the Davis-Bacon Act, and that illegal aliens are being employed on postal facility renovation projects.

As a matter of fact, if you read the testimony, the Senator from New Jersey and a Congressman who recently retired from Congress were conducting hearings and sent one of their staff to investigate, and when they entered the postal facility four people jumped out of the window and ran, and when they finally apprehended them they turned out to be illegal aliens working on a project in one of these postal facilities.

The Postal Service is clearly bound by the provisions of the Davis-Bacon Act, and I would urge you to insist upon strict enforcement.

This concludes my prepared remarks, and I welcome any questions which you may have. I again thank you for this opportunity to testify.

Mr. HANLEY. Thank you very much, Commissioner Krebs.

Commissioner Rademacher.

Mr. WILSON. Mr. Chairman, before Mr. Rademacher proceeds, how much time is going to be taken with the statements of the representatives here? We have been reading all about their recommendations in the Wall Street Journal and the New York Times as they have completed each vote on something, and I don't know personally that we have to listen to this lengthy testimony. The House is going into

session at 11 o'clock. Members may want to leave at that time. I think we should get to the question period as soon as possible.

Mr. HANLEY. If the gentleman will yield, your point is well taken in that the House will be going in at 11 o'clock, which then leaves us subject to interruption. However, as I understand it, Mr. Rademacher's presentation is going to be relatively brief, and initially he did not intend a presentation.

Am I correct, Mr. Rademacher, in that?

Mr. RADEMACHER. You are correct, Mr. Chairman. I do not have prepared testimony, I have just a few words to say in response to some things that have already been said.

#### STATEMENT OF VICE CHAIRMAN JAMES RADEMACHER

Mr. RADEMACHER. Mr. Chairman and members of the subcommittee, I am certain that most members of Congress and most of the American public would have liked to have had the Commission recommend no postage rate at all, a total service run completely by subsidy, 7-day mail delivery, and the head of the Democratic Party as the Postmaster General.

Well, I think we would not have been serving the purpose that was intended if that was what this Commission reported. So we did the best that we could.

There was a variety, a good mixture of membership on this Commission coming from various walks of life. I was very sensitive and at times refused to be recognized as a labor leader on the Commission because I felt that with 36 years of Postal Service, I should be able to speak out based upon that experience, having worked under 12 Postmaster Generals during those 36 years. That is probably the reason that I did at the time support the movement to retain the present structure of the Postal Service. My union feelings were very evident at that time when I voted to support the retention of the system, because I am fully aware that postal employees are no longer covered by civil service.

I am fully aware that if the Postmaster General is appointed by the President of the United States, that the letter carrier would also eventually be appointed by the Postmaster. I was fully aware that we have made some progress, and I resent the criticism that has been made in the press and in other areas concerning wages of postal employees because Congress directed that wages be increased when it enacted the Postal Reorganization Act. As far as comparability is concerned, we have not attained it with our own competitors, the United Parcel Service. We are still better than a dollar an hour off, and I do not consider that as comparability.

The Commission learned very rapidly the same conclusion that has been learned by studies over the last 50 years of the Postal Service. There is only one way to save money, and that is eliminate employees and service. And so that is what they set about to do. And when you analyze what they did do, what we did do—and I take equal responsibility—on page 40 of our report you will find that we succeeded in finding \$624 million available, a very insignificant amount of a \$15

billion budget. That is all that this Commission could find available to destroy the Postal Service.

We had a mission that was more than just to come before this Congress and talk about public service because we were hung with one feature of H.R. 6303 that said we were to discuss and study current and future levels of service and the extent to which they should be supported by appropriations.

I did join with Commissioner Krebs in urging the retention of Saturday mail service, and I did so not based upon whether or not it is needed, because the Commission did not have the time to study the impact of the loss of Saturday service to people such as pensioners who depended upon that Saturday delivery for a check, to farmers in particular who depend on daily reports that are received on Saturday that effect agriculture, and receive Thursday's newspapers on Saturday and would not receive them until Monday. We did not study that.

We studied the cost impact, and as Commissioner Krebs stated, it is less than a half cent of postage today. In 1985, naturally it could be better than 1 cent of postage. But I don't believe the American people or this Congress are ready to eliminate 16 percent of the mail service for the sake of what amounts to, at the present time, less than 1 cent of postage.

Now, it is true that the very reputable Nielson Corp. asked the American people—3,000 of them out of some 200 million—whether or not they would be willing to forgo one day of mail service instead of having higher postage. If they knew what they were talking about a half cent of postage, everyone would have answered, "We want our 6-day delivery."

But they weren't asked that kind of question. They were asked the question, "Would you be willing to forgo one day of delivery if we don't raise your postage?" And if someone asked that question, I'd be thinking about a 28-cent postage stamp.

And so I did join with Commissioner Krebs and urge the Congress to appropriate merely 3 percent more per year, or 13 percent of the previous year's expenses, so this Nation could continue to enjoy the sixth day of delivery which is important in the lives of many Americans.

There has been some criticism about productivity and it all depends upon how you measure it. But I say to any person who is willing to listen and who is a realist, when the records show that there are 55,000 fewer employees today than there were 3 years ago handling 3 percent more mail than there was 3 years ago, there has been more than a 1-percent increase in productivity, and the employees are deserving of every cent they have received in wage increases.

And let me repeat what I have said over and over again, having been one of the authors of the present postal contract, we had the cheapest, the most modest contract in the history of the labor movement, one that was very difficult to get ratified. And I am not the least bit ashamed of it, and I am proud of the productivity of employees who are working under extreme pressures at any time, even 6 days a week.

Our Commission studied very hard. We weren't a Commission that just listened to staff and read reports and then voted. We had various groups come before us. I don't know how many witnesses we heard altogether, but there were at least 500, counting Washington experts

who came before us because we were not satisfied that the Postal Service was telling us the kinds of facts that were considered to be fruitful. We also had them evaluated by two different firms to verify the authenticity of those statements.

And in those statements we learned, yes, you can prevent errors. There is a 7 percent-plus error on machines today that cannot be avoided unless you slow down the machine, which will then become more costly, and you might as well not have the machine. We learned that.

Getting back to 6-day mail service, another reason why Commissioner Krebs and I feel so strongly about it is that hidden in this report is a matter that has not come to the attention of the American people strongly enough. The Commission, including this speaker, did agree that the Postal Service could reduce its tours to two a day instead of three, could eliminate a night tour, could eliminate differential pay and save money, about \$134 million if they did it within the next couple of years—\$134 million a year. But when you eliminate the night tour, mail processing ceases at 9 o'clock. All the airmail that arrives at National Airport, Mr. Chairman and members of this subcommittee, at 10 o'clock on Thursday night—airmail from the west coast—would not be delivered until Monday under the proposal, which is already being implemented by the Postal Service.

And that has been another concern of ours.

All of us have got to be concerned about the future of the Postal Service. And Congress in its wisdom—whether it was wise or not is not the issue—has seen fit to make certain that the Postal Service pay the civil service retirement fund for any future wage increases represented by an unfunded liability. And we have learned together, all of us, that by 1985, which is just around the corner, \$2 to \$3 billion of the postal budget will be earmarked just for the retirement system and for injury compensation, which I personally do not feel should be an obligation of people who are using the U.S. mail service.

I defend the Advisory Council that Commissioner Krebs talked about. I think that unionists, mail users, and the public at large have got a right to know what the Postal Service is doing. And no matter what happens to the structure of the Postal Service, I am convinced that there ought to be a reinstatement of the Advisory Council which the Congress saw fit to include in the original Postal Reorganization Act.

I will say a couple of things in conclusion.

One is that if you will subtract the cost of inflation, the energy crisis, rate increase delays, management bungling, there is no problem in the Postal Service today that a reasonable and realistic appropriation could not relieve.

And now, in view of the fact that in this last week I have heard some very disturbing news, it is necessary that I make this statement.

In view of the seeming arrogance on the part of postal management in moving swiftly to implement those recommendations which adversely affect the American people, namely preparation to decrease service by 16 percent before Congress has even had an opportunity to evaluate the Commission's report, I can no longer subscribe to the theory that the Postal Service be independent from congressional control. Therefore, I publicly proclaim my dissent from continuation

of the present method of structuring the Postal Service and would strongly urge that any legislation accomplishing this amendment to the Postal Reorganization Act contain guarantees that politicizing begins and ends with the appointment of the Postmaster General.

Mr. HANLEY. Thank you very much, Commissioner Rademacher. Commissioner Blakely.

#### STATEMENT OF COMMISSIONER ROSE BLAKELY

Ms. BLAKELY. Mr. Chairman, I appear simply to support the views of the majority. I wish that we had come to you with a wonderful answer to the problems, but in fact I don't think there is one, and in my limited judgment this is the best solution.

Mr. HANLEY. Thank you very much, Commissioner Blakely.

Mr. Freeman, initially I want to clarify a point that you made in your testimony.

You suggest my unhappiness with the inability of the Commission to come back with a recommendation that would have the effect of expanding upon Postal Service. I don't believe I ever made such a pronouncement, nor would it ever have been my intention to do that. My criticism has been vested in the management of the Postal Service for its reluctance to move in the direction of sophisticating the methodology so that it could be competitive within its legal authority.

You will agree that it has failed miserably to move in the direction of taking a look at the possibility of the electronic transmission of messages, or to take a look at what the banking industry has done in the area of electronic transfer of funds. This is my fundamental criticism.

Mr. Krebs has pronounced in his testimony exactly what I have been saying for a number of years. Had the leadership of the Postal Service back in 1976 embarked upon the type of program that Mr. Krebs alludes to in his testimony today, the Service would, in my judgment, not at all be in the dilemma that it is.

I am not critical of the Commission for not coming back with a report that suggests expansion. My criticism relates to the failure of those at the top in not one, not two, but in three administrations, to move progressively as their counterparts in the private sector might have.

Hypothetically consider this example: If the General Motors Board decided not to move in the direction of automatic transmission and all of the other devices now a part of a 1977 automobile, the industry would have been bankrupt had it not kept pace with its counterparts in the industry.

This is my fundamental criticism.

I have long said to the management of the agency, "Take a look at what your counterpart agency in the private sector is doing, the United Parcel Service, which is doing a fine job."

There has been a continuing reluctance on the part of this management to even do that. I am advised by United Parcel, who have been extremely cooperative, that postal management to this day has failed to accept its invitation to talk with, consult with, call upon them.

These are the reasons that I am highly critical of what you have come back here with when, in effect, you really don't lift a finger from

the standpoint of criticism of management. You are saying, in essence, "Business as usual, my friends," despite the fact that this team of management over the course of these 7 years has brought the institution to the threshold of complete bankruptcy. We had to bail it out last year through the enactment of my legislation, 6303. Had that not become law, it was reasonable to believe that perhaps by November of last year the institution couldn't even make its payroll.

So I think these are some of the reasons. And I could recite a litany and this committee can document everything that we say when we stand critical of this management.

We are working this morning under the 5-minute rule here, and I would guess that probably my 5 minutes are consumed.

May I impose upon you to ask the chairman for a commentary on what I have said up to this point.

Mr. FREEMAN. Yes, Mr. Chairman.

I would say it was the unanimous opinion of our Commission that everything you have just said about the Postal Service is absolutely right. They have resisted entry into electronic communication, and to our dismay on one occasion when they indicated an unwillingness to even go into the facsimile field, I asked the Postal Service representative if they would allow other companies then to provide transmission of messages that way, and he said they would not permit that. This was a direct statement that this form of technological progress was not to be made available to the public.

I think that the members of the Commission feel just as strongly as you do on that score. And it was our intention throughout the report to indicate our feeling that there should be an entirely different attitude—and I would agree that the resistance comes from the very top within the Postal Service. We feel that they should be much more aggressive.

I would say in very modest defense of the Postal Service that in connection with facsimile transmission, they have said that this was tried in England and in Sweden—much smaller countries, to be sure—and that there was no demand for the service. And I think this is a legitimate consideration. However, we asked if they had made any market study, as to whether companies in this country would use it, and they have not. They also said they didn't feel the Postal Service should enter into relationships with a single company. And we asked if they were exploring it with many companies, and they said they were not.

Mr. HANLEY. Thank you, Mr. Freeman. Obviously they don't even want to consider what has happened in Japan, the great progress that has been made within the postal system. As I said to Mr. Bailar just several weeks ago when he continued to relate satisfaction with what his agency was doing—I said:

What about Japan? Japan is on the brink of implementation of a fine electronics message transmission system, not only for its postal system but gross national product of Japan stands to gain heavily because it will be marketing that service in all countries of the world, and it could well be that we here in America, supposedly the most technologically astute nation in the world community, will be buying that technology from Japan, and that is to the disappointing performance of the present Postmaster General and his predecessors.

Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman.

We appreciate the Commission coming in, and we have been reading your reports as we go along. I kept thinking as I read this, that it must have been an experience to Mr. Freeman, being a banker, to look at the type of management structure we have in the post office. Because we have a divided authority, a divided responsibility, and a political impossibility.

I was glad Mr. Rademacher said what he did. I have always been impressed with your carriers of the post office. I think in that particular branch you still feel like you are riding a horse and it really is a great spirit. Sometimes the new members of the post office staff don't have the same enthusiasm as the old ones that have been career people.

I wanted to say, frankly, I am one that thinks that a 5-day week is a pretty good idea. My postman works 5 days and that is his route—5 days. So it wouldn't make much difference to him. All we'd be doing is alternating the guy who is the substitute. It can be one very practical approach to cost reduction.

Another thing that impressed me was this idea about rural post offices closing, where they have practically no mail volume at all. But this seems to be a political impossibility.

Now, I do think you all could change the basis of financing small post offices. You have seen businesses that have different ways of paying their agents. Sometimes they are on a commission, sometimes on a salary, sometimes on a combination basis. I wonder why you don't make a contract with these little post offices where you would contract with the postmaster on a 50-50 basis. In other words, he would be entitled to run that post office, and 50 percent of the total local income produced by that post office—and I say "local income" because he could go out and sell stamps to Sears, Roebuck in a big city or something—but with 50 percent of local sales. Many of them might be willing to quit, but on the other hand you'd be surprised how many would carry on with a realistic economic basis.

Our problem here is Congress is elected by the people and we are very responsive to the people. We had a hearing recently—and our chairman is the hardest working, most diligent fellow I ever saw. I sat here with him, and he asked everybody on the Post Office Committee to come in and suggest ways to cut expenses. And he and I were the only two talking about cutting expenses.

We are subject to election every 2 years, and the Post Office just cannot look for Congress to ever give you any strength. Just being pragmatic about this thing, Congressmen are not ever going to suggest cutting expenses. And I have come to the conclusion that we ought to go back to where we were when we got in this mess. I believe the Government ought to own the post office. I was on the other side but it just doesn't work being half horse and half cow; it is a mixed up animal. The President should be responsible. The President should name the Postmaster General and Congress should be directly responsible so we couldn't pass the buck.

It is going to be interesting what we do. I think Ben Bailar is a good man. I know Congress always blasts the management because that is an easy way to do it.

Thank you, Mr. Chairman.

Mr. HANLEY. Thank you, Mr. Collins.

Mr. Wilson.

Mr. WILSON. Mr. Freeman, can you tell me anything that your Commission accomplished that wasn't already known by Mr. Hanley's subcommittee or my subcommittee through the hearings we held?

Mr. FREEMAN. I cannot. I think the Committee and probably the Congress has known for some time that the increased wage in an activity of which 86 percent of the cost is labor, without some limitation on the extent and growth of that service, is inevitably going to be extraordinarily expensive, and it must be paid for ultimately and in large and ever increasing part by the Government. I think the Congress knows this. I think it knew it last year when it authorized the appointment of this Commission and it intended the Commission, in a sense, to report what the Congress already knew, but to make it somewhat the scapegoat in making recommendations.

Mr. WILSON. It cost \$1 million, approximately, for the work that your Commission has done, Mr. Freeman, and that is probably one of the biggest wastes of \$1 million that I can imagine.

Mr. FREEMAN. We didn't create the Commission.

Mr. WILSON. I realize that. Congress created it. It was a compromise shoved down our throat in conference. Mr. McGee thought it would be a good way to avoid holding hearings himself so he created a commission.

Mr. Freeman, you sit on the board of Time, Inc. and I think Mr. Rhodes is chairman of the board of directors of Reader's Digest. You make some rather significant recommendations as far as ratemaking is concerned on second- and third-class rates, including the recommendation that the attributable cost be limited to 60 percent of total cost.

I don't know whether Mr. Taylor is on the board of any magazine or book publisher. But don't you think you should have disqualified yourselves, or did you disqualify yourselves from these particular recommendations involving rates?

Mr. FREEMAN. Going to your first point, sir, when I was called up and asked if I would serve on the Commission, I immediately pointed out that I was on the board of Time, Inc. And the man who was calling for the then President said, "That is one of the reasons you were chosen." So I did not feel any conflict at that point.

The method of charging the magazines, which had been previously established, a second-class rate, was not changed by the Commission one way or the other. The limitation of attributable costs to 60 percent would be a matter of importance to the magazines.

Mr. WILSON. But wouldn't your recommendations place a greater burden on the first-class users? You stated in effect that the rates should not be dependent upon the costs of delivery of the mail but should be based on some other system. If your recommendations are followed, the poor first-class user in the long run is going to be the one to pay the extra rates, isn't that true?

Mr. FREEMAN. Our recommendation, sir, was that the earlier statement of the Congress should prevail that some nine factors should be considered in the establishment of rates, and that the recent December 28 decision in the greeting card case should not control. Our recommendation is merely to make more effective the statutory provisions that have been adopted by the Congress.

Now, going beyond that—

Mr. WILSON. Well, we are so limited on time that mine is probably about up now. I wanted to ask Mr. Krebs a question—and I am going to stay around for the second and third round of this hearing.

Mr. Krebs, first I'd like to commend you for having the intestinal fortitude to take the position you have on so many of these matters. You gave very strong endorsement for my legislation, I believe.

Mr. KREBS. I wasn't aware of it but I'm happy to join you.

Mr. WILSON. You and Commissioners Rademacher and Johnson made a special recommendation concerning the proposed relocation of the facility in Toms River, N.J., your home state. And you mentioned that this was not the only case where input had not been taken from the community, that it was one of many cases.

Did you recommend that any other areas be reconsidered or just the one in New Jersey?

Mr. KREBS. One in East St. Louis, too. And I want to say for the record that while I am from New Jersey, I am a Democrat and have been all my life. The bulk of the area being served by this facility that is being moved is in a Republican congressional district. But one of the Senators, three Congressmen, all the local mayors, all the chiefs of police, all of the local county boards of freeholders, all the unions, all of the senior citizen organizations, all of the real estate organizations expressed the unanimous feeling of the community throughout this whole affair. Senior citizens are gathering in this area, and they all came and pleaded that this not be done. And the Postal Service cavalierly ignored this and said, "We have seen nothing you have said that will change our minds."

Mr. WILSON. You have mentioned only one, but if there were others, I commend you for them as well.

Mr. KREBS. There were others, but this was the most recent.

Mr. WILSON. Thank you.

Mr. HANLEY. Thank you, Mr. Wilson.

Mr. CORCORAN.

Mr. CORCORAN. Thank you, Mr. Chairman.

I appreciate the work and time that the Commission has devoted to the examination of the Postal Service problems, and I particularly sympathize with the complexity of the problem, and I think you have touched on some of the possible avenues of solution.

I have read your report, and I have considered your recommendations, and I do have some misgivings about some of them, but I don't think that now is the time to dwell on my views. Rather I'd like to use the opportunity to clarify, Mr. Chairman, a general theme that I see running through the comments you made this morning and in particular some of the recommendations that you are presenting.

I think you devoted a great deal of attention to the impact that the electronic communication business will have on first-class mail in the present Postal Service. It seems also that you are recommending that the Postal Service, and especially the Congress, recognize this developing trend, and I believe I read in your report that you are recommending that the Postal Service get into the electronics communication business.

Is that true or not?

Mr. FREEMAN. It is our recommendation that they become much more aggressive and give far greater priority to the exploration of

whether there is a market for services that they could render through electronic transmission of messages.

We believe that they would find that there is a very substantial market and a very real role for the Postal Service.

I can't say that we know that that is certain, but we feel that they are remiss in not giving this the highest priority, because we feel that if they do not find a substitute for the transmission of messages, they will lose their business. And if they lose a large part of the first-class mail, which is the profitable mail, and have to increase the rates charged on second, third, and fourth-class, which they are losing already, we will wind up with a very elaborate delivery system of 40,000 facilities, and no mail except from one long part of the country to another long remote part of the country, having lost the bulk of the business, newspaper and magazine mail.

Mr. CORCORAN. Entering into the electronics communication business, as you suggest, would—as I am sure you especially would appreciate—require a substantial capital investment. Would you foresee that as being a new capital investment or some modification of the existing 40,000 facilities?

Mr. FREEMAN. The proposition that was made to the Postal Service, which interested us tremendously, was the proposition by the Xerox Corp. that it would put facsimile facilities in a series of post offices in the major cities, and they would put these in at Xerox cost. They would be owned by Xerox. The only expenses on the part of the Postal Service would be (a) teaching its people how to operate the facsimile machines, and (b) a charge that they anticipated, 60 cents to A.T. & T. and 60 cents to Xerox for each sheet. Their suggestion was that the Postal Service charge something over \$4 for the service.

So that particular proposition did not require a large capital investment, and it would permit an exploratory period in which, if the Postal Service were disappointed, it could withdraw this.

Mr. KREBS. Could I just add one thing, Mr. Corcoran, please, that I think is important in understanding their complete apathy in this area. The Xerox proposal Mr. Freeman mentioned would have been a joint venture for which Xerox would have done the market research. It would have cost the Postal Service \$20 million and Xerox would have put \$20 million up. It would have initially served 32 cities across the country, and over a period of 7 years if it had been successful Xerox was prepared—and the state of the art is such that they have the hardware to do it—to provide facilities that would have reached 96.7 percent of all the metropolitan areas in this country.

Postal Service management turned it down because it hadn't been solicited competitively. Mr. Freeman and the rest of us asked them why didn't they go out on competitive bidding, and we still haven't got an answer. The simple answer is they haven't done it because essentially they have no desire to get involved in this field.

Mr. CORCORAN. Thank you, Commissioner.—

My time is up, but let me say that it appears from what you said the entrance of the Postal Service into the electronics business does not necessarily mean the Government going in alone. It means recognizing the opportunity and perhaps going into contractual relations with private industry.

Mr. FREEMAN. The Postal Service has a magnificent gathering and distribution system. If it provided those facilities and a private corporation provided the transmission from one post office to the other, they could have a cooperative initial effort.

Mr. CORCORAN. I agree, this linkage of the public and private sectors should be tried in my opinion.

Mr. FREEMAN. And the Postal Service might find other ways that it could serve the public without the private participation.

Mr. CORCORAN. Thank you very much.

Mr. HANLEY. Thank you, Mr. Corcoran.

Mrs. Schroeder.

Mrs. SCHROEDER. Thank you, Mr. Chairman.

I would like to join Mr. Wilson in commending Mr. Krebs on his courageous outspoken dissent, with which I agree.

Let me say I was very, very displeased with this report. I hear you once again taking the old line of the second-class mailers, which is saying that we must tax bread to subsidize the cost of the cake-eaters. Now, if you are not a cake-eater you don't like to have your bread taxed. And we are taxing the bread very heavily, which is the first-class mail. And the first-class mail is picking up the cost of the second-class mail. It is very clear.

I find that part of your report, pages 62, 63, and 64, is shocking. You are telling us what our legislative history is.

On page 64 you are saying that we have decided that with postal rates, we didn't want full cost—that that really wasn't part of the legislative history.

Now, I would like to read to you sections of the act in particular section 3622(b)(3), which says that each class of mail will bear the direct and indirect postal cost attributable to that class, plus that portion of all other costs which are reasonably assignable to such class.

Then you can go on and look at section 403(c), which says that the Postal Service and the Postal Rate Commission are prohibited from any undue or unreasonable discrimination among users of the mail.

Now, I don't know how the Rate Commission can find out if there is undue discrimination if they can't allocate costs. And I think that the whole act makes that very clear. I think prior cases have made that very clear. And as I look at the assertions that you have made on pages 62 and 63, what you are telling us is you don't dare raise the price of second-class mail because you will cut down the volume. But the same thing happens if you raise the price of first-class mail, and you also see absolutely no way you can attribute more than 50 percent of the cost.

And I think if any business in America were to say that they couldn't attribute costs, the IRS would throw them out, especially with that kind of mandate.

So I really must say that I was most disappointed.

I talked to the chairman before the hearing and requested that this subcommittee once again ask the GAO to finish the rate study that they had begun, and if it's all right with the chairman—it was begun and never quite published—could we as a subcommittee ask them to update that report?

Mr. HANLEY. Mrs. Schroeder, you make an excellent point, as I

mentioned earlier. Certainly the subcommittee will pursue your suggestion and will have from GAO a final report.

Mrs. SCHROEDER. I just think that is the very guts of the matter. We have to find out. It is very difficult for Congress, especially after last night when we watched our marvelous budget procedure—it is very difficult to figure out what we are subsidizing, who we are subsidizing, where the money is going, without having that kind of accounting tool, a very basic cost attribution, cost-accounting tool. I think the law clearly mandated that. I find it shocking that you didn't think that it did. And I find the assertions conclusionary and don't see citations or anything that you would expect when you make those kinds of statements.

Mr. FREEMAN. Ma'am, on page 60 and 61 of the report you will see that section 3622(b) of title 39 contains the criteria that the Congress has insisted that the Commission consider in recommending rates. And you will see there are a variety of elements in addition to the costs.

And look at No. 8, "the educational, cultural, scientific, and informational value to the recipient of mail matter."

It is not intended to be based entirely on the cost. That is the first point.

Ms. SCHROEDER. Excuse me. I agree with that. The only problem is we still must note costs before we can crank in factor No. 8.

Mr. FREEMAN. I am all for that. The Postal Service has attempted to estimate the costs of the various categories and the extent to which the present rates cover that. And I can't remember the page right now, although I will find it in a few minutes, but there are two other points I'd like to make.

First, you said that we said if you increase the second-class rates we will lose the second-class mail, and isn't this also true of first-class mail? It is not really so because in first-class mail the Postal Service has monopoly. You can't go to a competitor.

Ms. SCHROEDER. But electronics fund transfer is going to cut into that.

Mr. FREEMAN. Yes, it will over a considerable period of time, and that is why we paid so much attention to that.

There is another issue, and I'd like to give a minute to that. Because when our hearings began I felt precisely the way you do at the moment, that the magazines and newspapers were getting far more service than they were paying for.

However, as we heard more witnesses, I realized that—take the magazines as an example—the magazines sent second-class are not paying their share of 6-day-a-week delivery, but they don't want 6-day-a-week delivery. They are not paying their share of 30,000 post offices, but they don't want 30,000 post offices. They feel that they are subsidizing this very elaborate delivery system which is wanted by recipients, but not by the senders.

Ms. SCHROEDER. I think we have to go vote, unfortunately, but I'd love to argue with you on that.

Mr. HANLEY. If the gentleman will yield, I regret the inconvenience, but we do have a vote, so the committee will stand in recess for 10 minutes.

[Whereupon, a short recess was taken.]

Mr. HANLEY. At the time of the committee's recess, I believe Mrs. Schroeder's time had just expired.

The Chair recognizes the gentleman from Illinois, Mr. Derwinski.

Mr. DERWINSKI. Thank you, Mr. Chairman.

Mr. Freeman, I am rather—I won't say pleased with your report, but I think your report is quite practical. It is realistic. You can't make a silk purse out of a sow's ear, so when you are discussing the Postal Service you can't really proclaim or suggest tremendous innovations because the Post Office is a very traditional operation, and there are limitations to what innovations it can absorb.

Looking through your report, overall it makes sense to me. It doesn't create utopia or answer a lot of complaints, but we didn't expect you to turn the whole Postal Service around.

On page 10 of your testimony this morning, you referred to pressures from both mailer and labor groups as well as public complaints that would place upon the President and the Congress if we took the Postal Service directly back into our control.

Would you care to elaborate on that in any way?

Mr. FREEMAN. I know that some of the mailers, and I know that at least one of the unions, would like to avoid, in the mailer's case, the establishment of rates through a judicial type of proceeding. They would rather, by private discussions with Congressmen, arrive at rate structures without the glare of publicity that is attendant upon a judicial-type hearing. And I would think that many of the Congressmen would feel that they would much prefer to be relieved of that kind of pressure from all types of mailers.

I would also think that if the Postmaster General were appointed by the President directly, some of the labor unions feel that that would end collective bargaining, and that they would be back seeking their wage increases through negotiations with the Congress. This would subject some of the Congressmen to considerable pressures, particularly those in areas where there was a strong organized labor structure. And I would think that they would prefer to avoid those pressures.

Mr. DERWINSKI. In one of the points you made, you have made a specific estimate that by 1985 the annual cost to the taxpayers, and therefore the Treasury, of supporting the Postal Service would be \$12 billion.

Now, that is only 7 fiscal years away, and I imagine that \$12 billion would be a staggering headache to the Director of OMB or whoever is President at that time.

Again, could you tell us how your Commission arrived at that \$12 billion figure?

Mr. FREEMAN. I think that was in a report delivered in January of this year, which was prepared by the Postal Service. I don't know what the name of it is. This was a paper that they prepared, and it showed a revenue of \$14.8 billion and a total cost of \$26.8 billion. So that is a difference of \$12 billion.

I have some reservations about any such figures from the Postal Service, as I know you do, but that is what we relied on in this instance.

Mr. DERWINSKI. Commissioner Krebs, I know our colleagues commended you for what they called your courage, and I, too, commend you for touching upon a very delicate subject. I think you are ab-

solutely accurate when you review the inconsistent data received from the Civil Service.

You then went on to make note of the recent statement of the Postmaster General boasting of his \$5 million surplus. And like you, I believe it is a bookkeeping gimmick and not a legitimate statement of the postal finances.

But keeping that in mind, do you then share the view of the other Commissioners of the monumental financial problems the post office faces in the future?

Mr. KREBS. Well, this was alluded to obliquely earlier in the testimony. I believe the essential problem is that the Postal Service never came to the Congress and asked them to reckon with the force of inflation. And I think that is one answer to your question.

The other answer to your question is we are dealing with a figure projected 7 years hence or 8 years hence that will still be related to the annual budget of this country. You can't take it out of context. And I think it remains constant as a percentage of the total Federal budget, or pretty close to constant.

Mr. DERWINSKI. Thank you, Mr. Chairman.

Mr. HANLEY. Thank you, Mr. Derwinski.

Mr. Solarz.

Mr. SOLARZ. Thank you, Mr. Chairman.

I'm sorry I wasn't able to be here from the beginning of the hearing, but we were completing work in the International Relations Committee on the foreign aid bill and I had several amendments that had to be attended to.

I understand in my absence my good friend, the gentlewoman from Colorado, raised some questions concerning the propriety of providing a continuing subsidy for second-class mail on the grounds that this would, in fact, require those people who don't read magazines, newspapers, or other periodicals that take advantage of the subsidized rate to, in effect, pay for material they don't get the immediate benefit of.

I'd like to ask the gentlemen from the Commission who are with us today whether or not they would agree with the observation that the cultural and intellectual vitality of the Nation is not, in fact, served by the periodicals, magazines, and newspapers which we now have in the country, and the extent to which they would agree that an increase in the second-class rate by making it more difficult for many of these magazines which are on the very margin of economic survival to continue publication would ultimately be a disservice to the Nation. Is it not true that we have, in effect, a significant national interest in encouraging the broadest possible dissemination of ideas and information; and that, in fact, the decline in the number of periodicals published in this country over the course of the last several decades, due to the inexorable increase in costs, only some of which obviously are attributable to the increasing postal rates, has been really most unfortunate; and that this subsidy recognizes, in effect, the national interest in making it possible to the extent feasible for those publications to remain in print?

Mr. FREEMAN. Yes, sir, I think there is a great national interest in maintaining a wide diversity of news accounts and editorial comment.

I think we are losing that in part because of the increase in postal rates.

And let me point out, as I am sure you know, that the second-class magazine rate is not subsidized after 1979. Within 2 years it will be paying its full costs.

Now, I think that though there has been a loss of some journals in the last few years, and in part this is due to the postal rates, it is also due to changes in the public's reading habits. The television report of news has badly hurt the newspapers, for instance. Many people in modest circumstances get the news free on the television. This imposes a tremendous burden on the television companies, and there is a tendency there to report the dramatic events rather than the more substantive ones—I shouldn't be saying that in the presence of our friends from television here. But the phasing out of the subsidy for second-class mail is probably justified. And I would think that the loss of periodicals is due partly to the cost and partly also due to changes in public attitudes toward the news.

Mr. SOLARZ. Would you like to comment on that as well?

Mr. KREBS. I would like to call your attention, Congressman, to the Postal Policy Act statement on page 26. I think this refers to the point you are raising.

I also would like to suggest that the threat to volume is best dramatized by the number of inserts that fall out of your daily and Sunday newspapers, and the higher you raise rates for second- and third-class mail, the more competition you are making for yourself. And in order to preserve the public service aspect, which I think is adequately spelled out in the 1958 Postal Policy Act statement, it seems to demand in my judgment that this kind of consideration be given.

Mr. SOLARZ. Would you favor a continuation of the subsidy?

Mr. KREBS. No; I think the subsidies will phase out in not too many years.

Mr. SOLARZ. If you both agree the national interest does require the widest possible dissemination of ideas and information and if, in fact, periodicals, which now get the benefit of the second-class subsidy, would find it more difficult to continue providing this service to the country if the subsidy is eliminated, I'm not sure how you come to the conclusion that we should continue the policy of phasing the subsidy out if, in fact, it is in our interest to make it easier for these publications to remain in print.

Mr. KREBS. This is one of the reasons the Commission recommended to the Congress respectfully that by 1983 you take another look at this total problem. And again, it wasn't possible to come up with recommendations that accommodated all of the needs of all of the mail users. And I would say that our report in this sense represents a compromise of the needs of varying and differing interests.

But it is something for which we didn't think we could make recommendations forevermore and suggested that you take a look at it in a few years.

Mr. SOLARZ. You recall, I am sure, Thomas Jefferson's observation to the effect that given a choice between a free government and a free press, he would choose the latter rather than the former, because you could have a free press without a free government but you couldn't

have a free government without a free press. And it doesn't do much good to have a free press if it is financially impossible to print.

Just one final question, if I might, Mr. Chairman.

Most of my constituents, I think, seem to be more concerned about what they conceive to be bad management in the Postal Service than rates, although they are concerned about the latter as well. I get numerous complaints about delivery of mail and the time it takes to get a letter from one area to the other.

Is there anything in your judgment that we in the Congress can do to deal with this problem of poor postal service and inefficient postal management?

Mr. FREEMAN. The Postal Service is, of course, attempting to do this. The vehicle they are using primarily is the employment of a large number of additional supervisory personnel which, of course, is expensive. They believe that with better supervision they will achieve greater efficiency. And from my visits to post offices, I think this is probably true.

If you would visit Washington or New York or Chicago Post Offices, you would see a lot of people that aren't working, unless you are being taken on a tour by the postmaster. You would see a lot of people who are visiting or having coffee or just standing around, and you'd see thousands of bags of mail that were not moving.

The background of original employment in the Postal Service has been such that it has been very difficult to get an efficient, fast tempo into the personnel.

— If you would compare a United Parcel Service "hub," they call it, with a Postal Service bulk mail center, you'd see a very real difference in the tempo at which the people work. The Postal Service acts more like a Government agency. They have complete security. Nobody is going to fire them. To fire somebody for inefficiency in the Postal Service is a major undertaking. I think this is a handicap that it is very difficult to overcome.

Mr. KREBS. I would like to supplement that. I first of all don't agree that there is overwhelming malingering on the part of the postal employees. I think a large part of this might very well be made manifest to you if you walk through the New York City General Post Office or Washington Post Office and saw the inadequate, ancient plant they are required to work in, the conditions they are required to work under, unsanitary and unhealthful conditions.

To put to you the questions contained in my minority views, I'd say, yes, the top management is inefficient. I think the top management in most cases, since the postal reorganization, is ill-equipped to run the Postal Service. They brought in, under the first Postmaster General, under the reorganization, the former president of the National Chamber of Commerce. They brought in under the second Postmaster and executive from the American Can Co., and the third is from American Can. And I think there are enough hardworking, dedicated people in the Postal Service who know how to run it if more attention were paid to the competency of people who are selected for these top executive spots.

Mr. HANLEY. Thank you, Mr. Solarz.

Mr. Gilman.

**MR. GILMAN.** Thank you, Mr. Chairman.

I want to join my colleagues in commending the Commissioners for their work in this activity and for the giving of their time—I assume it was quite extensive—in trying to resolve some of the problems that are confronting our Nation and confronting the Postal Service.

But I am frank to say that I am not satisfied with the final conclusions and recommendations that were arrived at by the Commission. As a matter of fact, I am quite disappointed in the substance of the report. And I might say that I probably shouldn't be too much surprised because in August of last year when considering the Postal Reorganization Act Amendments of 1975 before the House I stated—I am quoting from the record at that time—

I cannot envision just how a blue-ribbon commission with a brief duration of 4 to 5 months can possibly uncover any new remedies that have not already been endlessly discussed and debated either in committee or on the floor of the House. However, given the political reality of present circumstances, I am prepared to adopt a "wait and see" attitude and let a fresh Congress grapple with the Commission's recommendations on the mammoth problems of Postal Service should the Congress be unwilling or unable to accomplish something in their own right.

But apparently the "wait and see" period didn't accomplish too much. I only hope Congress is now prepared to address the major problems confronting the Postal Service, and you have certainly highlighted some of those problems, even though you have not come up with what I can see are any new initiatives.

I think the report is quite cosmetic and there has been no in-depth analysis of the organizational and structural problems. I am very concerned that no management consultants were hired.

I may be in error about that. Did you take on any management consultant people who analyzed the structure and operation and made management recommendations? And if they were made, where are they in the report?

**MR. FREEMAN.** Well, they are in succeeding volumes, sir. We have five consultants in different fields. Lewin & Associates primarily analyzed postal organization. We also had Arthur D. Little and George Washington University.

**MR. GILMAN.** Didn't George Washington University concentrate on the electronic communications?

**MR. FREEMAN.** Yes.

**MR. GILMAN.** What did Arthur Lewin concentrate on?

**MR. FREEMAN.** On management, structure of the Post Office, and the forecasts of income and expenses at different levels.

**MR. GILMAN.** Isn't Arthur Lewin mostly an economic type of group?

**MR. FREEMAN.** No, I think Mr. Lewin's background was the Postal Service. I think he was the assistant to the Postmaster. Larry Lewin was with the Post Office for some time and was the Assistant to the Postmaster General, and I think you could say he is an economist, but primarily his area was based on a study of the management of the Postal Service.

**MR. GILMAN.** Was he the only management consultant, then?

**MR. FREEMAN.** Yes.

**MR. GILMAN.** Essentially what did the Commission spend in your work?

Mr. FREEMAN. I think our total expenditures ran about \$550,000, plus the printing by the Government Printing Office, and I don't know what that will run. I would guess it would run \$150,000.

Mr. GILMAN. And when did you actually start to work? I understand there was quite a bit of organizational work. When did you actually start your study and analysis work?

Mr. FREEMAN. We had our first meeting on October 28, which was before some of the members had even been designated or notified of their appointments. Within a week after that, we engaged our chief of staff, David Minton, with whom I expect you are all acquainted.

Mr. GILMAN. When did you start getting into the hearing stage and analysis stage?

Mr. FREEMAN. I think it was December that we started having hearings.

Mr. GILMAN. And when did you conclude your work?

Mr. FREEMAN. I think it was in February, wasn't it?

Mr. KREBS. Yes.

Mr. GILMAN. In February?

Mr. FREEMAN. Yes.

Mr. GILMAN. So essentially it was 2 or 3 months of work, is that it?

Mr. FREEMAN. Oh, no, we worked from October 28 until we turned in a report on April 18. That was the period of our existence. And we were working all of the time. We did an awful lot of work after the hearings.

Mr. GILMAN. Mr. Chairman, my time is running out, and I would like to ask just one or two other questions. Please correct me if I am wrong.

Essentially the major recommendations you came up with in this 3- or 4-month study was to cut back on Saturday service at the same time the reports indicate we should be trying to give the public as much service as possible; to conduct referendums on whether or not to close post offices and maybe close them up if there is a postmaster who is retired and there is attrition in that post office; to discard any obsolete services; to emphasize timely delivery; to explore electronic communications; and to increase postal subsidies and rates.

These are what I have delineated that seem to me to be the essential recommendations you have made; is that correct?

Mr. FREEMAN. I think that is largely true, yes.

Mr. GILMAN. Are there any new initiatives in any of these recommendations that this committee has not explored in depth before? Do you see anything new or any structural changes or any recommendations that you have made to the Congress that really are pertinent?

Mr. FREEMAN. You made significant structural changes 7 years ago that went into effect on July 1, 1971. On the whole, with perhaps one exception, we felt the structure you set up was an improvement and that it is making some progress, and that that structure should be allowed to continue for some additional period in order to finally conclude whether that was the best structure or not.

Mr. GILMAN. If I might interrupt, the basis of that structure was an independent service.

Mr. FREEMAN. Yes, sir.

Mr. GILMAN. And now you are telling us to change that and take back the control?

Mr. FREEMAN. No; we are not telling you that. We are telling you not to change it, to keep it the way it is. Commissioner Krebs's recommendation is to do away with the present structure, give the appointment back to the President and involve the Congress more actively in ratemaking and other facets.

Mr. GILMAN. Is Mr. Krebs the only member of the Commission that is of that opinion?

Mr. FREEMAN. Yes, sir.

Mr. GILMAN. Well, frankly—and I know my time has run, Mr. Chairman, and I regret we don't have more time and I hope we will have further opportunity—I am inclined to agree with my colleague from California, Mr. Wilson, there is a great deal of waste in expenditure here if these are the only recommendations that Commission could come up with. I think you had the opportunity and the ability to make some really indepth review, and I regret and am disappointed that you have not come forward with any better initiatives than these few I cited earlier.

Thank you, Mr. Chairman.

Mr. HANLEY. Thank you, Mr. Gilman.

We will now commence a second round, so, of course, you will have the opportunity to resume.

Mr. Freeman, you make reference on page 2 and page 3 to postal pay. You cite it as a major factor in regard to the fiscal status of the agency, and cite as a primary cause the congressional mandate that postal wages be comparable to those in the private sector.

In your opinion, are postal employees paid more than they should be paid?

Mr. FREEMAN. I think that the mandate has probably properly been carried out in the sense that they are paid comparably to those workers in the private sector who are in large part in highly organized activities, highly unionized activities.

Are they paid too much? I don't suppose anybody gathers a lot of flowers by saying that any large group is paid too much.

I think that to put their salaries on a really equal basis when they have considerably greater security than in the private sector results in a combination that may be higher than is absolutely necessary.

Mr. HANLEY. With regard to the congressional mandate—and I would not want the implication to be that the Congress has mandated a situation which directs excessive payments of wages to any Federal employee—the mandate, of course, relates to the Comparability Act of 1967 instituted for the purpose of bringing wages in line with those in the private sector.

Now, if you make a comparison—and I don't know whether the Commission has—of the Postal Service and any other agency of Government—have you made that comparison by chance? Have you compared postal wages with wages paid Federal employees in any other agency?

Mr. FREEMAN. I have not seen a significant study of that kind. I have been led to believe that the wages paid to Postal Service employees are higher than would be true throughout the Government agencies generally. And I think there is a particular section of the

statute, sir, of title 39, section 101(c), which applies particularly to the Postal Service as an employer:

"The Postal Service shall achieve and maintain compensation for its officers and employees comparable to the rates and types of compensation paid in the private sector of the economy of the United States."

I think that is a specific provision.

Mr. HANLEY. That is the intent of Congress, that the matter be equated exactly with their counterparts in the private sector.

What the agency might do beyond that might be a decision made by the management of the U.S. Postal Service, in no degree a congressional mandate.

Mr. FREEMAN. Yes; beyond the equivalency, that would be so.

Mr. HANLEY. If there is something there beyond what those in the private sector are getting, that is a decision made by postal management, not the Congress.

It is kind of an interesting note that when you take a look at what the counterpart in the private sector pays—and I refer specifically to the United Parcel Service, which again I commend—its employees actually enjoy higher wages than those employed by the USPS. Of course, you were aware of that.

Mr. FREEMAN. Yes, sir. There would be two thoughts I'd have on that. First, the current wage arrangement was negotiated in the Postal Service in 1975. The arrangement with the United Parcel people was late last year or early in 1977, so there is some time difference.

Beyond that, there is a difference in employment of the two types. If you go to a United Parcel hub station—and it is very interesting and I expect you have been there—they employ a large number of people for 4 hours a day, mostly young college people who are earning \$25 or \$30 a day on the side, so to speak. And they work at almost feverish pace. They have, I believe, far less security in the long run, and far less room for personal activities than do the employees of the Postal Service.

Mr. HANLEY. Political activity—under the law the postal employee cannot be involved in that.

Mr. FREEMAN. That was a bad choice of words. I mean in the U.S. Parcel Service hub station they aren't standing around talking and in the post office they are.

Mr. HANLEY. I see. Just another point on the subject of labor. You have mentioned collective bargaining, and I just want to make it clear that whatever type of legislative package is assembled by this committee, it is certainly going to contain a provision that assures that collective bargaining, in the sense that it has prevailed since 1970, would continue to prevail.

There are some who seem to misinterpret, saying that an agency where the head of it is appointed or elected cannot move with a collective bargaining procedure. Well, this is untrue. We have many examples. TVA, of course, the Tennessee Valley Authority, being one of them, and from there you go to units of State and local government where collective bargaining is widespread, despite the fact that those in charge of managing are either appointed or elected.

So should the committee move in the direction of Presidential appointment of the Postmaster General, abolition of the Board of Governors, the collective bargaining provision would not be altered at all.

I guess my time has expired, and I guess Mr. Wilson is next at bat.  
Mr. WILSON. Thank you, Mr. Chairman.

Mr. Freeman, with the exception of your recommendation on the electronic transfer of mail, by recommending a continuation of the Board of Governors with authority to appoint the Postmaster General, a cutback in home delivery to 5 days, greater subsidies without added accountability to Congress or the President, haven't you really given the postal managers everything they want? I am just wondering who had the real input in your report?

Did the staff have an opportunity to assist you with your report, or did the Postal Service have the greatest amount of input into this?

Mr. FREEMAN. Well, let me say in the first instance I would not quite accept your statement. We did recommend that the final authority on rates would be the Postal Rate Commission and not the Board of Governors. That was a change that they didn't care for much.

We recommend that the Postal Rate Commission be independent of the Postal Service in terms of its funding. That was another thing.

Mr. WILSON. I already had this in my bill before you came out with the report.

Mr. FREEMAN. Fine. I am glad we are in agreement on one point.

Mr. WILSON. Well, all right. I like to be responsible for my own committee reports, but I must depend on staff because they have the time to do the job. I am just concerned that you probably did not use this practice in writing this particular report.

Mr. FREEMAN. Oh, yes, we did, sir. The chief of our staff, who was brought to us or we got him from the staff of the Postal Committee of the House of Representatives, David Minton—he had previously been on the staff of the Senate committee, and to my knowledge has never been associated with the Postal Service directly. We received many papers that we asked for from the Postal Service, but I must say rather than controlling our line of thought it was like pulling teeth to get anything from the Postal Service.

Mr. WILSON. Well, all right. I am a little surprised at your reasoning for the continued preference to second-class mailers. You say that they don't need all the postal facilities, they don't need all the trucks, they don't need all of the letter carriers, so they don't think they should have to pay for all these things.

Doesn't this really apply to every mail user there is?

Mr. FREEMAN. Yes.

Mr. WILSON. I suppose the people out in rural areas don't need the big city post offices. Isn't that really an unreasonable excuse for giving second-class mailers a preference?

Mr. FREEMAN. I don't think it's an unreasonable point. The fact is—and I think you have put your finger on it—none of the mailers would elect to have this distribution system if they had to pay for it. Business mail, we'll say, accounts for 80 percent of the first-class, and could be delivered satisfactorily 3 days a week at the post office and people could pick it up.

The extensive delivery system is wanted not by the mailers but by the recipients. And the recipients as such do not pay for it at all.

Mr. WILSON. If the recipients weren't happy with it, my God, the mailers wouldn't have any business. Aren't the recipients the ones that we are trying to service? They are the ones that we are taking care of with this Postal Service. They are the ones we should be satisfying. I don't understand that reverse reasoning of yours.

Mr. FREEMAN. Well, let me express it this way. When I was young, the groceries were delivered to the house. The drugstore sent a boy up on a bicycle to deliver the drugs. The milkman came every day. The doctor made house calls.

In the intervening years we have had a big change in our society. Labor costs have risen very rapidly and have made this delivery system expensive. On the other hand, the increase in wages has given the average family the wherewithal to have an automobile. So our society has changed. Families go to the supermarket and get their groceries.

Mr. WILSON. Maybe we should abolish the Postal Service completely.

Mr. FREEMAN. No, I don't believe that would be necessary. But I believe, sir, that in another 20 or 25 years, though we will have a Postal Service, the actual delivery will be far less.

Mr. WILSON. I think you hit it on the head. If your report is followed, we won't have a Postal Service. This will be the end of the Postal Service.

You mentioned the relaxing of the private express statutes.

You indicate that they should be relaxed in order to pick and choose certain elements of the priority delivery market for business needs.

Isn't this something that would really destroy the Postal Service completely if we relaxed the private express statutes?

Mr. FREEMAN. It would and we are not for it.

Mr. WILSON. You are in your report.

Mr. FREEMAN. I think there are two areas in which we think there might be some relaxation.

The first is a relatively unimportant one, but when a shipper ships freight across the ocean, they very often like to send reports of the documents and other matters with that shipment so that it will arrive at the same time. Many of the shipping companies resent having to pay postage on those messages that are sent by freight or by the shippers with their goods. That is a relatively minor thing.

Mr. WILSON. Let me ask just one more question. My time has run out again. On parcel post, the Postal Service has a peculiar philosophy that they are not supposed to try to regain any of the lost business. Do you agree with that?

Mr. FREEMAN. No, sir.

Mr. WILSON. How are they going to regain any business if they implement your recommendation of a 5-day delivery week?

Mr. FREEMAN. There are two answers to that. First, we recommend that the delivery windows in the post offices would be open on Saturday. Second, it is my recollection—and I am not positive of this—that our recommendation was that parcels would be delivered on the sixth day.

Mr. WILSON. Did Mr. Johnson support 5-day delivery because the clerks would continue to work 6 days a week and only the letter carriers would be restricted to 5 days a week?

Mr. FREEMAN. I think that is really a little unfair to Mr. Johnson. That may very well have influenced him to some extent, but I have been with him at dinners with members of his union as we traveled around the country together, and I think David Johnson understands, and a good many of his people understand, that unless moves are made to make the Postal Service more economical, they just may not have their jobs in another 20 or 25 years.

Mr. WILSON. Thank you, Mr. Chairman, I'm sorry I exceeded my time.

Mr. HANLEY. Thank you, Mr. Wilson.

Mr. KREBS. Mr. Chairman, may I intrude 1 minute? I think it is important to go back to the first question Mr. Wilson asked. For the record, it is my considered judgment that the staff of this Commission played a very meaningful role in the ultimate product.

I do want to suggest respectfully to the Congress, however, that the next time such a Commission is appointed you might want to give a second thought to whether the Postmaster General is appointed to serve on such a Commission. I think he should not have been there. I think his presence unduly influenced people, and I think it was a mistake to have him there. It was impossible to have a completely objective Commission serving in this area.

I would also like to point out something of which you may not be aware.

One of the reasons I am sure the Board of Governors is a nonperforming Board of Governors is the fact that Mr. Louis Cox, the General Counsel of the Postal Service, is also the Executive Director of the Board of Governors. And this, to me, is a flagrant conflict of interest.

Mr. WILSON. Thank you very much, Mr. Krebs.

Mr. HANLEY. Thank you, Mr. Krebs.

Mr. Derwinski.

Mr. DERWINSKI. Thank you, Mr. Chairman.

Commissioner Krebs, you served in Congress with us. In fact, you served in the days before postal reform, if I recall. And I think to be objective one must recognize that the reason the Postal Service has the monumental headaches is not that they were created the last 6 years. They were created before that, when Congress and the political control of the Post Office permitted facilities to go downhill at a time when volume was increasing. So what the new management has had to face for the last 6 years is to salvage some order out of chaos. They haven't created chaos; they inherited it. That's a fact.

My question basically is this: We had a pattern in the late 1960's where we would increase postage rates 1 cent a year at the time postal employees received a pay raise. In fact, postage was being used to cover not only the postal employees' salaries but the salaries of other Federal civilian employees.

If the executive branch and the legislative branch take back control of the Postal Service and are therefore responsible for its total budget, I envision nothing but a repeat performance of a tie-in between increased rates every time the Federal Establishment is demanding a

pay increase. Congress, being political, will yield to that kind of pressure, and I don't see that as a step forward. I see that as a monumental step backward.

But I would like to direct a question to Commissioner Blakely. Of all the Commissioners, you came into this, ma'am, with the least experience relative to the Postal Service. Therefore, in my judgment, you should be the most objective and you should have received an education.

Based on your 6-month look at the Postal Service, is there any special cure or, let's say, any insolvable problems you think you have noted?

Ms. BLAKELY. Any solvable problems?

Mr. DERWINSKI. Insolvable.

Ms. BLAKELY. Well, the trend of inflation is insoluble, as far as the Post Office is concerned. I agree with you. I think the problems that face the Post Office are not totally of their own making. And I have come to the conclusion that really our report is not what I wanted to be able to say, but it is the only thing that in all honestly I can say.

I was very much opposed to having hearings around the country. I thought that it would be a waste of money—I am a taxpayer. But I am glad we did that because I learned quite a bit going around the country and listening to other people talk about their post offices.

Have I answered you?

Mr. DERWINSKI. Yes. In other words, you felt in traveling around the country—

Ms. BLAKELY. I think we should listen to those people. I listened to them. I learned a lot. I really don't think that people are furious in every respect with their post offices. I think generally speaking that they do not find it a total disaster. They certainly don't want higher rates, but if you can compare a 13-cent stamp with a 15-cent telephone call, maybe that is not so bad.

Mr. DERWINSKI. Mr. Freeman, I am aware that in addition to your official meetings, you also met informally with members and you and all the Commissioners did your best to become totally familiar with the problems of the Postal Service.

I think you have noted in listening to members that the Postal Service management is about as popular as a bastard at a family reunion. Part of that is their philosophy and part of that is their attitude that they didn't need Congress because they were quasi-independent.

I have the feeling that it is this lack of appreciation for public relations and for the public image that also contributed to the complaints in the field.

Did you run into that during your nationwide chain of hearings?

Mr. FREEMAN. Yes, we did. We ran into unhappiness on the part of many postmasters who felt that everything was decided in Washington and that they were not consulted very much.

I think the present Postmaster General is more aware of the importance of improving your relationship with the Congress than his predecessor. I think he comes from a fine family, has a fine education, is highly motivated, and wants to do the best job he can. He is frightened of Congress. I think many of the acts for which we criticize him are the result of his concern lest he be criticized by the Congress. He takes a very defensive attitude about competing for parcel post. He

says, "The Congress would not want me to compete with a private, tax-paying organization."

We didn't feel he was right about that because, my gosh, the Postal Service had all the business and United Parcel Service took it away and the Postal Service ought to be able to go back and compete.

Mr. HANLEY. I regret to have to interrupt, but once again we have a vote on the floor. Hence, the hearing will stand recessed for 10 minutes.

[Whereupon, a short recess was taken.]

Mr. HANLEY. On the occasion of the recess, Mr. Derwinski's time expired and the Chair recognizes Ms. Schroeder.

Ms. SCHROEDER. Thank you very much, Mr. Chairman. And again let me just pursue this rate and attributable cost thing a little bit more.

Since the Postal Service came into effect and was created, first-class rates have gone up 66 percent. Also people in first class have to pay that, as you well know, because the private express statute only applies to first-class rates. So if you are using first-class mail that is the only place you can go, whereas the other classes of mail can go other different places.

Now, one of the things that surprises me in your argument is that you were saying we have to keep the price of second-class mail and third-class and fourth-class down or they will go elsewhere. On the other hand, if you look at the history of the Postal Service—and I assume that is what the Commission did—you will notice that the greatest increase has been in first class, and the most service reduction has been in first class. Most of the major service reductions have impacted on first class more than anything else.

So while the second-class users may not care about delivery more than three times a week or something like that, obviously the first-class users do.

Now, how do you work that into your formula?

Mr. FREEMAN. Well, ma'am, I suppose that any of us, if we were in business and we had competition in one of our product lines and not in the other, we would tend to increase the price a bit where we had the monopoly and reduce the price where we had competition, reduce the price to where it covered our out-of-pocket costs and made some small contribution to the overhead.

And I think that is really what has been happening in the Postal Service.

As to your preliminary statement that there has been more of a reduction of the quality of service in first-class mail than others. I am not entirely certain of that. When they did away with air mail and virtually put all first class in the air, I think that that was thought to be an improvement in the first-class service. It certainly wasn't an improvement in the air mail which we no longer have, but I think it probably was an improvement in the first class.

Ms. SCHROEDER. The one thing that the second-class mail users can do if they feel they are being overpriced for what they are getting, which is what I kind of hear you saying—and you said originally you would have agreed with my statements but you changed your mind because in talking about magazines you said there is a lot they didn't like. It must be cheaper to use—magazines could set up their own delivery but they haven't done that.

Mr. FREEMAN. I think the Reader's Digest has done that in 40 cities, and others in a more limited number of cities. I think they can find they can deliver cheaper in those areas where there is a fairly high concentration of subscribers, but obviously can't deliver at anywhere near as low a cost in scattered areas.

Ms. SCHROEDER. Except one of the things you said they didn't like being billed for was individual residential boxes and daily deliveries, so that kind of chutzpah.

Mr. FREEMAN. They'd be quite content to have their subscribers pick up their copies of the magazine at the post office or a cluster box, rather than have it delivered to the house. And since very few of the magazines deliver more than once a week, they'd be content with 1 or 2 days' delivery.

Ms. SCHROEDER. I think an awful lot of people using first class are probably billed for a lot of things they don't like. The bulk mail facility—an awful lot of that came out of, quote "institutional costs," which happened to come out of institutional users, and not a piece of first-class mail goes through the bulk mail facilities, which I find incredible. But there is no way for first class users to go.

Then when I mentioned the attributable cost, you said there were many other factors, with which I agree. But it seems to me under the rate structure as we have it, it is difficult to take those factors into account. Because while National Geographic may be very educational and we may want it, I am offended by Playboy falling in the same classification. And they do fall in the same classification. And so I see no help or no dealing with the rate structure.

You don't address yourself to that, really, and what we end up doing is because there may be one good thing in the class, we are forced to accept the whole class. And from a business and policymaking perspective, it puts us in an impossible position.

Mr. FREEMAN. I can't answer that. There is a feeling—and I think a widespread feeling and one expressed by Congress many times—that they do want to encourage the distribution of these very cultural news periodicals, and yet they have Hustler in there which they say is a bad thing. And you say, "Why don't you eliminate some of those?" And they say, "Well, that would be interference with the freedom of expression and we can't."

Ms. SCHROEDER. I think we can have freedom of expression, but the question is whether we should have subsidized expression. If we want to subsidize cultural things, that is different than subsidizing free speech.

And I am all for subsidizing—as I read this, it says "educational, cultural, scientific"—it is very specific. And I don't see Penthouse or Playboy falling in there. Maybe it's very scientific. I don't know.

Mr. WILSON. It's very cultural.

[Laughter.]

Ms. SCHROEDER. But, you see, here is where I come in. There are many things, I, as a policymaker, may be very willing to subsidize, especially mail for the blind, certain books. And I have no problem with that No. 8 in the act. The only problem is we are forced to have a whole class that contains any number of things that I don't think fall within that. And it isn't free speech because nobody is talking about making Penthouse pay more than their fair share. I am saying

they should at least have to pay their fair share, and I, a first-class mail user, shouldn't have to subsidize that. I don't mind subsidizing some other things, but I shouldn't have to subsidize that.

So by your accepting the Postal Service's continuing to go along the way they do, which I think is a violation of the statutes and which the courts think is a violation of the statutes. And by not dealing with this whole class situation, we are really forced to continue down this incredible path.

Obviously Penthouse isn't going to come up here, but they will find a member of their class to come up here that is very difficult to reject as policymakers, and we get used that way, and at some point the taxpayer will just say, "That's it," and the whole Postal Service will go down the chute because we haven't dealt with this.

Mr. FREEMAN. If I had my druthers—and I can't speak for any other Commissioner because we didn't discuss this—I would prefer to see every user of the mail pay the same scheduled rates. And if the Congress felt that there were some things that it should encourage, I would prefer to see that encouragement given separately from the mails. And I would like to see every recipient of mail pay for the right to receive it.

If we do believe in a market economy, it would not be impossible to charge, let's say, \$2 for the right to pick up your mail at the post office for 1 year, \$10 for a box, \$20 for a cluster, \$30 for a curbside, or \$40 for delivery to your house. We get our beef, our milk, and our other items on the basis of the price we want to pay. But we all get the same elaborate mail service, and somebody has to pay for it.

Ms. SCHROEDER. But that somebody shouldn't be the group that can't go anywhere else, the first-class users. That is what I object to in your testimony on page 5.

Mr. FREEMAN. If you make them pay less, who makes up the loss? You can't charge it to the second, third, and fourth class. We have lost in the last couple of years 37 percent of our parcels; we have lost second-class mail; we have lost third-class mail, except for the non-profit preferred which had a 30-odd percent increase.

The competition is such that we believe that we really can't afford to increase the rates of these other classes more than about 6 percent a year or we will find that we have a diminishing revenue.

Ms. SCHROEDER. Well, I have gone way over my time, and I apologize, Mr. Chairman, but I want to say I hear what you are saying. But I also think it deals with poor service. That is a lot of the reason you have lost it. I think, too, we have also lost first class, and that is the goose that is laying the golden egg, and when the goose leaves there won't be any more golden eggs.

Mr. FREEMAN. That is right, that's what we are worried about.

Ms. SCHROEDER. And there goes second, third, and fourth class. I realize they want to hold the goose hostage, but the goose is getting smaller every year and the eggs will get smaller every year, and there is going to be Penthouse looking for its subsidy.

Mr. FREEMAN. And the yolk will be on us.

[Laughter.]

Mr. HANLEY. Thank you, Ms. Schroeder.

Mr. Chairman, on page 9 of your testimony, alluding to the Board of Governors again, you are inconsistent in the sense that you register

your disappointment with the performance of the Board. Yet, you resist the abolishment of the Board.

Are you then saying that, "The concept should be preserved, but let's get a new team. Let's wash out those sitting on the Board and have the concept prevail"? Is that what your intent was, to get rid of everybody sitting on the Board?

Apparently it is because certainly responsibility suggests that you wouldn't want that type of tenure to continue. Maybe you'd better explain.

Mr. FREEMAN. I don't know that we would go quite that far. We do believe it is desirable to maintain the Board. Any man running an organization as large as the Postal Service—700,000 employees—benefits from having somebody that is interested to whom he can talk. If you are running a corporation, it is nice to have a board of directors because you don't want them to make every decision for you but you like to exchange thoughts with them if they are intelligent and experienced people. So we think a board does play a role or can play a role.

We have been, and I think unanimously, disappointed with the performance of the Board of Governors over the last several years because we believe they didn't feel an adequate sense of commitment.

We have not recommended that they all be discharged. We have recommended that the number be reduced and that there be some option for appointment of new members. And then we have recommended something that is a little bit peculiar, I recognize.

When we had the Governors or the three leading Governors to talk to us, we found they couldn't answer our questions. We found they weren't informed. As Commissioner Krebs pointed out in one instance, we found an attitude that was really incomprehensible to us. And the majority of us felt if we had the opportunity to talk to those men two or three times a year, they would either attempt to know a great deal more about it than they do now or they'd quit.

We said:

How can we create something that will press them, whose questions they will have to answer, by whom their knowledge or ignorance or spirit will be discovered?

And since there had been this Advisory Committee in the past, we thought if that were reconstituted with representatives of the unions, representatives of the mailers, and four representatives of the public, two appointed by the House and two by the Senate, we would have a jury or a group that would force the Governors to expose their ideas, their knowledge or the lack of it, and that this would serve a disciplinary purpose.

Mr. HANLEY. Well, the virtual indictment contained within your testimony here suggests that if I am a member of the Board of Governors, it's high time that I quit.

So that again points up one of the reasons for my disappointment with your recommendations. It just isn't conceivable to me that I can, in effect, pat on the back and say, "OK, business as usual," despite the fact that your action or inaction as a member of the Board of Governors has led the institution to the dilemma that it's in.

If I am going to sit as a member of a board of directors or a board of governors or whatever, immediately, assuming that I am a responsi-

ble person, I recognize my responsibility to the entity that I am working with, in this instance the taxpayers of America.

So as we recount the mistakes made by that institution which from the standpoint of dollars runs into the hundreds and hundreds of millions of dollars, then they have fallen short of that responsibility, and apparently as individuals they do not recognize it.

Mr. FREEMAN. There has been a considerable turnover in the personnel. We can't indict every member for everything that has been done wrong over a period of years, since it was a changing group. But otherwise I think what you have said is correct.

Mr. HANLEY. But fundamentally the team is pretty much intact, as I understand it. There have been changes and there are several vacancies right now.

But I think again, all of that firms up the argument where somehow or other, to get a handle on this agency, we have to develop some concept where the people running the agency recognize their obligation to the American people to be responsive.

I agree with you completely. That was the intent back when the concept was first envisioned, that here are a group of responsible, objective people who are going to sit about that table as members of the Board. They are going to develop program and policy in concert with what best suits the majority of the American people. They then are going to transmit that directive to the manager or, in this case, the Postmaster General. He, then, is required to follow out those directives.

But as opposed to its working that way, we have a situation similar to the cart before the horse. And it is very obvious that from the very beginning the PMG unilaterally has been determining program and policy, and the Board of Governors apparently have been just nodding their head in approval.

Mr. Krebs, for instance, has alluded to the debacle with regard to the bulk plants where we fall far short right now of the necessary volume to break even. And if anyone can show us how that volume is going to generate to the point where the bulk plant system alone can be solvent—nothing less than a miracle could have it that way.

So again, as Mr. Krebs said in his testimony, it is obvious that at some point in the not too distant future the taxpayers are going to have 23 very, very expensive buildings on their hands as surplus—for what?

Mr. FREEMAN. I'd like to say one word in defense of the Postal Service, although that is not my duty, on that bulk mail system.

In retrospect it has proved to be unwise, and yet last Christmas time when the United Parcel was on strike, the bulk mail facilities did handle an extraordinarily large volume of parcels efficiently and quickly.

If our wishes were put into effect and the Postal Service aggressively went out to recapture more of the parcel business, I think the bulk mail facilities would seem much more useful than they do now, with what is otherwise a continuously diminishing volume.

Mr. HANLEY. I know my time has expired, but if I could take just 1 minute to wash this part of it out, this part of it out, this concept, the present concept, that is, what could well be the proposal for the weeks

ahead, whereas the Postmaster General's position moves back into the President's Cabinet, so now you have a situation here where that individual is going to be surrounded by a number of skilled people very knowledgeable in the area of postal affairs. He is going to draw upon them along with, hopefully, his own competency. He is going to draw upon them for counseling as he develops program and policy.

And should in the course of it all, he be doing something that obviously or apparently isn't in concert with the national interest, and when the majority of the Members of Congress transmit a message, "Look, Mr. Postmaster General, what you are doing is wrong because the majority of my constituents aren't happy with it"—that sort of transmittal of majority preference to the Postmaster General that he had better listen and he had better respond, because if he doesn't, then the Chief Executive will tap the gentleman or the gentlelady, whichever is the case, on the shoulder and say, "I want to talk to you," and then he's going to spell it out to him. And that individual had better be responsive or he would soon be replaced.

Mr. FREEMAN. I think the argument is a persuasive one, and yet the Congress adopted the reorganization because under the earlier system where the Postmaster General was appointed by the President we had a complete collapse of the Post Office.

Mr. HANLEY. I beg to differ with you, Mr. Freeman. The status of the Agency was far better—far better—prior to 1970 than it has been since.

And as you know, the catalyst for this whole change came from influences on the outside who became gung-ho. For instance, the Citizens Committee for Postal Reform, which pressed and pressed and pressed and said, "Take it away from the Congress. Put it in the hands of those from the private sector. Make it a quasi-corporation, and any problems we have with the Agency will fade off into the atmosphere."

Check the fiscal status of the Agency today, check virtually everything about it, and you will find that the level of it is somewhat beneath what it was back in 1970.

Talk about the morale of the people out in the field, the employees. Though their remuneration is better and in concert with present-day economy, the morale is terrible. Talk with postmasters across the country and get a reading on their attitude.

So all of this has happened since 1970. We didn't have that sort of problem prior to that year.

I don't want to deny you the opportunity to respond, and we are going to take as much time here as is necessary this afternoon, but I do owe recognition to my friend to the left, Mr. Gilman.

Mr. GILMAN. Thank you, Mr. Chairman.

Gentlemen, I have been reading with a great deal of interest your recommendations with regard to the Board of Governors, to the Advisory Council, to the Postal Rate Commission, and apparently you feel that all three groups should be retained, with maybe minor changes of reducing their structure and number. And yet, the feeling pervades this committee, and I think pervades the Congress, that the Board of Governors has really been a rubber stamp. We have heard some comments here this afternoon with regard to the rubberstamp attitude of the Board of Governors.

How do we make this Board of Governors more responsive? Not merely by changing numbers or shifting chairs. It would seem to me we'd need more than that sort of attitude.

How do we make the Advisory Council more active? Not just by mere reduction in numbers or calling frequent meetings. What do we do about the Postal Rate Commission's time?

You say time has not been a major factor. Seventeen months reduced to now 10 months I think you say still isn't a good experience rating of that Commission. It seems to me there ought to be a little more substance to the recommendations with regard to these three major organizations that are supposed to be directing our major policy within the Postal Service.

Would you care to comment on that? And I know it's pretty broad.

Mr. FREEMAN. There are several points. I will take them up perhaps in reverse order.

As to the Postal Rate Commission, they did take an inordinate amount of time in their first two cases. As you say, the third case consumed about 9½ months. Nine-and-a-half months is not a long time, compared to most regulatory bodies, either State utility commissions or Federal regulatory bodies.

We have recommended that this be reduced somewhat, but I don't think we would recommend less than 9 months.

You see, the Commission is required to hold regular adjudicatory proceedings with all parties having the right to cross-examine everyone, and there are hundreds of people and organizations involved in these proceedings.

It isn't that they take a long time after submission of the evidence to arrive at their conclusions.

Mr. GILMAN. I think we had a recitation, when one of the subcommittees dug into this whole procedure, that it took several months, as a matter of fact, for some decisions to come out.

Mr. FREEMAN. I think that was true.

Mr. GILMAN. Following the submission of evidence?

Mr. FREEMAN. I think that was true in the earlier two cases. I don't think it was true in the third case. And I would not indict the Commission on the length of time of the third case or hopefully of cases in the future.

I am ashamed to say I forgot what you were discussing earlier.

Mr. GILMAN. We were talking about how to put more teeth into the Board of Governors and Advisory Council and the Postal Rate Commission to make them more responsive to the needs and give them more responsibility.

For example, if you have a board of directors in a corporation—and I know you have served in such capacity many times—certainly that board has a responsibility to its stockholders, but I don't see that existing here with the Postal Board of Governors.

Mr. FREEMAN. We debated at some length putting the head of OMB on that Board, and I had suggested, but perhaps not very intelligently, that we put the head of the Congressional Budget Committee. However, I understand there is a policy not to have that officer participate in any proceeding but merely be an examiner. We thought that would be useful.

We debated at some length whether there should be congressional

representatives on that committee, and we thought there were advantages and disadvantages. We finally agreed we would not want congressional representatives.

We would like to have the Board be an influential body that provided the discipline, and perhaps if we had a member of each House on there it would be useful.

We do think some such scrutinizing and challenging group would fulfill a function.

Mr. GILMAN. Did you make that as part of your recommendation? I didn't see it in here.

Mr. FREEMAN. No, what we have recommended in here is that the President appoint three representatives from labor and the mailers, and the Senate and House each appoint two members.

Mr. GILMAN. That is for the Advisory Council or the Board?

Mr. FREEMAN. The Advisory Council.

Mr. GILMAN. What about the Board? What can we do about making them more responsive?

Mr. FREEMAN. I really don't know what we can do to make them more responsive. We can say, on the one hand, we'd like the President to appoint the Postmaster General, and he can appoint a fine man, but he can pick lousy members of the Board of Governors.

Mr. WILSON. May I interrupt?

Mr. GILMAN. Yes.

Mr. WILSON. Perhaps if they took it out of politics, Mr. Freeman, it might be more responsible.

Mr. FREEMAN. I don't know how we can do it entirely. I think there is a provision now that only five of the Board of Governors can be of one party.

Mr. WILSON. They are political appointees, though.

Mr. FREEMAN. Yes, I think that's true. And I don't know how you would avoid that.

Mr. GILMAN. Mr. Krebs, did you have something?

Mr. KREBS. I just want to add something that supports my views regarding the abrogation of any responsibility on the part of the Board of Governors with respect to rate fixing. They approved the rate increase for the Postmaster General without knowing the amount of money being requested, and they were reprimanded by the U.S. court of appeals for doing so. They just signed a blank check and submitted it to the Rate Commission on the basis of what the Postmaster General asked for.

This, to me, is a deplorable lack of responsibility.

Mr. GILMAN. Are you suggesting the abolition completely of the Board?

Mr. KREBS. I certainly am.

Mr. GILMAN. What type of device or mechanism are you suggesting as a substitute?

Mr. KREBS. I think whether or not it is adequate or whether or not anybody likes it, the President and the American Congress are held responsible for the shortcomings of the Postal Service, and it seems there is nothing more political about the Postmaster General being appointed by the President with the advice and consent of the Congress than the Secretary of Agriculture or any other official of the Federal Government. The Postal Service is part of the Federal Gov-

ernment and has been for 200 years, and whether or not you give it some quasi-independent status, it is still part of the U.S. Government and will continue to be. And I think somebody accountable to the electorate ought to exercise responsibility.

Mr. GILMAN. Mr. Chairman, I know I am over my time, but on page 30 you say it is estimated that the rate of compensation increases for postal employees between 1976 and 1985 will be lower than the rate in the private sector, nonfarm economy. What do you base that conclusion on?

Mr. FREEMAN. At the bottom of pages 30 and 31?

Mr. GILMAN. Yes, on page 30 of volume 1. You are estimating compensation increases between 1976 and 1985 will be lower for postal employees than the rate in the private sector.

Mr. FREEMAN. The figures for this estimate came from our consultants. The theory was really twofold. First, postal employees have had a very rapid increase in compensation from the governmental level, if you will, to the private-sector level, plus inflation.

Second, there is not the opportunity for continued increases in productivity in the Postal Service that there is in the private sector generally. And I find even among the employees, the organized employees of the Postal Service, a recognition of the problems that face the Postal Service in the future, and I hesitate to say it but I think there is a tempering of their demand. I think there is an increasing recognition that the trick is to hold onto the jobs rather than to scare the dickens out of the Postal Service with very large demands for wage increases. I believe that.

Mr. GILMAN. Thank you. I believe my time has run.

Thank you, Mr. Chairman.

Mr. HANLEY. Thank you, Mr. Gilman.

Mr. Wilson.

Mr. WILSON. Thank you, Mr. Chairman.

Mr. Krebs, can you tell me was it at Mr. Bailar's recommendation or did he have any input into the recommendation that you reduce the number of Governors from nine to seven?

Mr. KREBS. No; that was strictly a determination made by the Commission.

Mr. WILSON. What was the rationale for it, can you tell me?

Mr. KREBS. Since that was not my position, I would prefer that its authors speak for it. I don't know.

Mr. WILSON. Can you tell me why, actually? As I see it, it gives Mr. Bailar a stronger hold on the Board of Governors.

What is the rationale for decreasing the number from nine to seven?

Mr. FREEMAN. I think there were two influences, sir.

One, there had been a tendency in the last several years to reduce the number of commissioners or governors or similar roles in Government agencies.

Two, there was a feeling that nine is more than necessary. We did discuss whether it should be seven or five, and finally concluded that seven was perhaps a desirable number. This was not at all the suggestion of the Postal Service.

Mr. WILSON. I don't know whether it was by design or not, Mr. Freeman, but are you aware that by reducing it to seven this would

make it 1 year longer for President Carter—unless we abolish the Board—to get a Board that he has appointed the majority of?

Mr. FREEMAN. No; I did not.

Mr. WILSON. Under the present law, by December 1979 he would have five appointments to the Board, which would give him a majority. Under the reduction to seven he doesn't get four appointments until December of 1980. That wasn't by design?

Mr. FREEMAN. I didn't know; no.

Mr. WILSON. My understanding is that your Commission was to report to the Congress and the President. In the light of this, do you have any comment on Mr. Conway's attempt to implement the 5-day delivery of mail? Do you feel he acted properly?

Mr. FREEMAN. No; I felt very badly about what he did. I think he jeopardized to some extent an objective review of the Commission's recommendations. I think it embarrassed some of the labor men on our Commission. And I am disappointed that this was done.

Mr. WILSON. I only have one other question, Mr. Chairman. It is in connection with this Nielsen survey on the 6-day delivery.

Who determined what question would be asked or how the question would be phrased? Was it Nielsen themselves?

Mr. FREEMAN. First, we prepared a list. It was really the Chief of Staff, Mr. Minton, who prepared the list. We went over it and made some revisions and sent it to A. C. Nielsen. The Nielsen organization went over it and made suggestions on changes to fit the mechanical arrangements of their telephone interview system.

But the material which we sought, the guidance that we sought and the questions to that end were primarily those developed by the Commission and its staff.

Mr. WILSON. Mr. Freeman, don't you think the result was predictable based on the question that was asked? Do you want to have 5-day delivery and guarantee having no higher postal rates for a reasonable length of time?

They related it to rate increases, didn't they?

Mr. FREEMAN. No; I don't believe it was predictable.

Mr. WILSON. I wonder if you have a copy of what the question was. Maybe we don't have the proper information here.

Mr. FREEMAN. It is question 2 on page 8 of volume 2 of our report. These are hard for me to read, I must say. "There are a number of changes that can be made to help hold down postage rate increases. One of these is the frequency of delivery. In order to hold down postage rates, would you be willing to have a 5-day delivery instead of a 6-day delivery?"

And they answered, "Yes."

Mr. WILSON. As I look at it here, Mr. Freeman, it says exactly what I thought it did, that, "In order to keep rates down, would you be willing to have a 5-day delivery instead of a 6-day delivery?"

Mr. FREEMAN. Yes, sir.

Mr. WILSON. You just about knew what you were going to get, then, didn't you?

Mr. FREEMAN. No; I don't think so. We asked this because we hadn't made up our minds on the subject at that time.

Mr. WILSON. Couldn't you tell how that survey was going to turn out with that question asked the way it was?

Mr. FREEMAN. I couldn't.

Mr. WILSON. Was the Nielsen survey a big factor in your decision to recommend reduction from 6 to 5 days?

Mr. FREEMAN. Yes; I'd have to say that both the Nielsen response to that and conversations that we had with the witnesses as we went around the country led us to the conclusion that this was a reasonable step to take.

Mr. WILSON. Was this a phone survey?

Mr. FREEMAN. Yes; it was a phone survey.

Mr. WILSON. Mr. Freeman, you say you spoke to three members of the Board of Governors and you were disappointed at the lack of knowledge they showed of the Postal Service.

Mr. FREEMAN. Yes, sir.

Mr. WILSON. Did you find during your interview with them any understanding at all of the issues related to electronic mail?

Mr. FREEMAN. Well, we were embarrassed, actually, by that discussion, because when I think of it, Commissioner Krebs asked one of the Governors about this topic and he just passed it off and said, "It's silly to talk about anything as far away as that." And it absolutely dumbfounded us that he would take that kind of attitude.

Mr. WILSON. This is one of the intelligent ones. [Laughter.]

Mr. FREEMAN. I hate to say.

Mr. WILSON. Would you have any objection to telling us who the three were that you talked to?

Mr. FREEMAN. No. One was the Chairman who used to be the head of Exxon, Mike Wright, from Houston.

Earl Holding, who is an independent oil man. I think he is headquartered in Wyoming.

Mr. WILSON. I thought he was pretty smart.

Mr. FREEMAN. A good Scandinavian type and a very successful businessman. He is the Vice Chairman.

And Crocker Nevin who used to be a banker and is Chairman of the finance committee was the third one.

Mr. WILSON. It is amazing that among those three there wouldn't be any understanding, or at least visible understanding, of electronic mail and its future.

Now, it is true, I guess, that the Commission has essentially endorsed the findings of my investigation of the bulk mail system, and you agree that the building of the system was a mistake. In other words, as far as you have been able to determine, it has not worked satisfactorily; has it?

Mr. FREEMAN. As far as we can determine, it operates fairly satisfactorily mechanically, but it represents an investment far in excess of that which was necessary to handle the continuously decreasing volume—and there are other weaknesses. There are too many very big ones instead of small ones which the United Parcel uses very effectively.

Mr. WILSON. Did your study show that the volume of parcels that the Postal Service will be handling in this fiscal year, or calendar year, will be less than what it cost to break even?

Mr. FREEMAN. It will be just about at the level. They anticipated a good return at a volume of 400 million parcels or more. Last year it dropped just below the 400 million, and I would guess that this year it would come out to 285, 315, somewhere in that area. And I would

think that between last year and this year there would be the transition from a very modest return to a loss.

Mr. WILSON. They are down to about 300 million now; aren't they?

Mr. FREEMAN. Yes; I think it was 338 million last year, and I think they would probably be a shade below 300 million this year.

Mr. WILSON. Mr. Krebs.

Mr. KREBS. Based on the experience as measured from 1959 to date, the Commission projects that by 1985 they will be down to 137 million pieces, which will be far below the break-even point.

Mr. FREEMAN. This will happen unless the Postal Service has the spirit and the congressional encouragement and the ability to go out and get a good volume of that business back—and that is not certain. But we urge the Postal Service to reduce their rates to where it would merely cover their attributable costs and a shade beyond that, and go out aggressively to get the business, like you would if you owned the business yourself. You'd just be out there all the time trying to get the business.

Mr. WILSON. That is what we thought, too. We couldn't believe it when Mr. Brower, the former head of the bulk mail system, testified before my subcommittee that he didn't feel there was any need to go out and compete for the business they lost. He felt, once they had lost it that it belonged to the private sector; they didn't feel it was their job to go out and try to get it back.

Mr. FREEMAN. They say that they want the business. The Postmaster General says he is not sure it's appropriate for the Postal Service to go out and compete aggressively against a private taxpaying entity. Though most of us on the Commission are all for private business, I think our feeling was that the Postal Service once had the business and if United Parcel had been imaginative enough to get part of it away, certainly the Postal Service had the right to try to get it back.

Mr. WILSON. Did you try to determine what could be done with those buildings in your study? Do you have any recommendation as to how we could utilize those facilities now that the parcel post has dropped to such a level that the system can't be utilized as planned.

Mr. FREEMAN. Sir, I don't think they can be used for anything except that for which they are designed. Although they are large and relatively inexpensively constructed metal frames, the money is invested in the very elaborate machinery to move the parcels about within the structure and distribute them to the 100 different trucks that are parked alongside the building. It would be my offhand guess that the cost of removing all of that equipment would exceed the sale value of the building, although you could probably get something for the land.

They really can't be used for anything except that for which they were designed, and the only way you can do that is to get the business.

Mr. WILSON. Getting back to the Board of Governors again, had Mr. Irvine's term expired by the time you went into business?

Mr. FREEMAN. Yes, sir.

Mr. WILSON. He was not on the Board then?

Mr. KREBS. His term expired at the end of December and we were in business before that.

Mr. WILSON. We were a little disappointed he didn't get reappointed because he was the only person on there, apparently, who had any

knowledge of the Postal Service. We thought it very strange that the one knowledgeable person wasn't reappointed. I guess the reason was he knew as much as the Postmaster General.

Mr. KREBS. As the chairman suggested, the first meeting of the Commission was October 28, and Bill Irvine's term expired in December. And I would agree with you, after having spoken to Bill, the fact that he knew so much about the Postal Service and spoke out militated against his being reappointed.

Mr. WILSON. That is quite an indictment against the system that has been used. And quite probably we should abolish the whole thing. I don't know why we don't.

Do you think, Mr. Freeman, in order to prevent political pressure from being applied to the Secretary of HEW and other cabinet officers, we ought to have a board of governors for those departments?

Mr. FREEMAN. No, sir.

Mr. WILSON. What is so unique about the Postmaster General that he has to be protected from all of this alleged political pressure?

Mr. FREEMAN. Well, the President is elected on the basis of a platform or a program that he asks to carry out, and he should be allowed to designate his lieutenants or Cabinet members to carry out his program.

An instance where we have faced this issue in the past concerns a President's economic policy? Should he be permitted to appoint the Chairman of the Federal Reserve System? And as you know, this has been debated for years without any conclusive determination.

The Postal Service was thought to be something different from the Secretary of the Treasury, I think in two respects.

First, it is an ongoing operation not really dependent upon the partisan political program of a candidate. And second, I had the impression—and you would know much more about this than I would sir—that there was a feeling that the political appointment not only led to inefficiency in the structure but that it was a real problem to the President and to the Congress. This would allow them to get that monkey off their back, to be less directly associated with the Postal Service, which has the unique feature of being important to every citizen, whereas with the Defense Department, who the heck knows about what it's doing—it's quite different. Because it impacts every family, the Postal Service generates more complaints, more criticisms. And I have had the impression that the Congress and the President were pleased at the prospect of being relieved of some of that burden.

Mr. WILSON. Incidentally, you indicated that you thought that the old U.S. Post Office Department had fallen apart and that was the reason we passed the law that created the Postal Service. Mr. Hanley responded very well to that. I must say also that we really got conned up here in Congress by Mr. Nixon's group.

Seeing what we had and what we have now, just about every member of this committee who voted to reorganize in 1970 would have second thoughts today. And I am one of those. The reorganization bill only came out of this committee by one vote, incidentally.

Mr. FREEMAN. I don't have anywhere near your experience and judgment. I look at it in somewhat of a paradoxical way, but I do know back in 1966, the Chicago Post Office, where I come from, completely collapsed—they couldn't get trucks in, couldn't get trucks out;

no mail was delivered at all for a period of days. And I thought after that Larry O'Brien said that the post office was in a race with disaster. That was all background that I had, and I had assumed that was causation.

Mr. WILSON. Now, Mr. Rademacher joined Mr. Krebs in supporting the abolition of the Board of Governors this morning, didn't he?

Mr. KREBS. No; we only concurred on retaining the sixth day of delivery.

Mr. WILSON. His statement this morning.

Mr. KREBS. He didn't change his statement that much. He stopped short of endorsing me or supporting my point of view on the Board of Governors and the Presidential appointment.

Mr. HANLEY. Maybe, Mr. Freeman, I wonder if you'd be willing to join Mr. Rademacher in coming over to the other side?

Mr. FREEMAN. No, but I will say one thing that might be of interest to you. Mr. Rademacher was very strong on the Board of Governors but we asked him to attend the last meeting of the Board of Governors, and I think his conviction, though it didn't disappear, certainly weakened.

Mr. KREBS. Mr. Chairman, I think it is important, if I might intrude on your allocation of time, for the reporter to read Mr. Rademacher's response back, because it is my recollection that he was justifiably and understandably angry at Assistant Postmaster General Conway's letter preempting the responsibility of the President and Congress, but he stopped short of endorsing my recommendation. He said he strongly supports the elimination of politics, but he didn't say how that would be accomplished and I'd like for the reporter to read it.

[The portion of Mr. Rademacher's testimony referred to was read by the reporter.]

Mr. WILSON. What did he say?

Mr. BLAKELY. I think he said he'd like the Postmaster General appointed by the President. That is what he said—but no further politics.

Mr. HANLEY. My understanding on the basis of his chat with me was that he now supports the Postmaster General at a Cabinet level and abolition of the Board of Governors. That was my interpretation.

Mr. KREBS. I welcome his support, and I am happy that you talked to him because I didn't hear it.

Mr. HANLEY. Mr. Wilson.

Mr. WILSON. I have no more questions Mr. Chairman.

Mr. HANLEY. Mr. Chairman, I know that you and your fellow Commissioners have a 2 o'clock date at the White House, so we will rapidly move to wrap this up.

If I might pose a question again related to the statute, as I understand it, you embrace the protection of the statute, of the private express statute, that it would remain essentially the same; is that correct?

Mr. FREEMAN. Yes, sir, and I am glad you brought that up. One of the members of the Letter Carriers Union approached me during our last recess. We say in here that if the Postal Service is not prepared to render a particular service, that that ought to be thrown open to the private sector. And this gentleman said, "Now, does this mean that the private companies ought to be allowed to deliver mail on Saturday, if that is the day the Postal Service will not deliver?"

And my answer was that I didn't think the Commission had explored this point but I am certain their opinion would be no, that they did not feel that the Postal Service had thrown open the Saturday for competition from private express companies.

Mr. HANLEY. I see.

Well, when we deliberate the matter of 5-day service, the question arises in my mind—and I wondered if the Commission had considered this, in recognition of your position on 5-day service—the possibility of a court case resulting from the failure of the USPS to provide this service on that sixth business day.

Way back at the inception, of course, the private express statute was given the agency on the basis of its agreement to provide that service 6 days per week. When people have talked about the possibility of 5-day service, I have wondered if they were not jeopardizing the ability of the agency to maintain the accommodation of that statute. Because if, in the business world, entities choose to determine that denial of this service on Saturday is going to jeopardize the stability of that particular business or industry, then the Postal Service would have lost its case for preservation of the private express statute.

And should the matter be thrust into a court, I envision a court ruling against a business or industrial entity whose stability is threatened, whose economic stability is threatened, by a process of Government.

So did the Commission give this any thought at all?

That is, essentially, are you not, by suggesting 5-day service, jeopardizing the private express statute?

Mr. FREEMAN. I don't think we considered that. My offhand opinion, as an old lawyer, would be that there would be no obligation on the part of the Government or the Postal Service to provide any particular degree of service, and that the termination of Saturday delivery would not result in an actionable cause by a citizen, nor vitiate the effectiveness of the private express statutes.

But that is just one unstudied opinion.

Mr. HANLEY. I am afraid it would give cause to the development of a case and, in particular, businesses that are highly dependent upon a continuing cash flow or, for that matter, businesses who rely heavily on mail order, who would be denied that 1 day's service would then, I believe, have the right to insist that they had to have that service one way or the other, and if it weren't going to be provided by the USPS, then they would have to look to someone in the private sector to provide it.

Mr. FREEMAN. We have provided in our recommendation, sir, that the window delivery in the post offices would be available on the day that mail would not be delivered.

So it would be possible, I would believe, that a company could get its mail.

Mr. HANLEY. Well, this and all matters relating to your recommendations, of course, as you know, will be subject to much in the way of deliberation.

I have a number of questions left, but we shan't impose upon you people any longer. We will provide your staff with the questions and hopefully you will respond in writing.

And I do want to say to each of you that despite my disappointment with the report—I guess this doesn't necessarily apply to Commission-

er Krebs because his minority views are pretty much my own by sheer coincidence—but in any event, my deep gratitude for what you have done. I know that it has not been an easy task. And I want to salute you in particular, Mr. Chairman, for the background on the subject matter that you have developed in a relatively short period of time, coming aboard essentially cold not too long ago, and to be able to articulate and respond as you have. And to have put the effort that you have into this effort is certainly highly commendable, and in my judgment you and your fellow Commissioners have served our nation well. And we will look forward to working along, and our goal is identical, and that is how we get this agency on the track; how we do what is best for the national interest.

And on that I would say that several weeks ago I communicated with the President urging him to give consideration to the institution of a national policy on the Postal Service; take a look and determine exactly what role the Federal Government should be playing in the provision of this service in the 20th century in recognition of the dramatic changes that I anticipate in the field of communications.

We have another committee in the House working feverishly rewriting the Communications Act. And I have said that as I look downstream I see us on the brink of a communications revolution.

We talk about the parcel business. Well, whether or not the agency should even be in the parcel business is a matter to be considered.

So we put it all together and have sent it down to the President and are hopeful that he will give consideration to the development of such a policy, and in so doing that certainly would make the task of the legislative branch more definite and we'd know better what we should be doing.

Mr. Wilson.

Mr. WILSON. Thank you, Mr. Hanley.

I know the people have to go, and I will just say briefly that I appreciate your presence here, Mr. Freeman. You have been very patient and understanding, and it's been a difficult session.

Mr. FREEMAN. I would just respond to that by saying that every member made this their major activity during the life of the Commission. The meetings were well attended, and each member has acquitted himself or herself extremely well.

Mr. HANLEY. With that, the hearing will stand adjourned pending call of the Chair.

[Whereupon, at 1:45 p.m., the hearing was adjourned, subject to the call of the Chair.]

[The correspondence which follows was received for inclusion in the record, subsequent to the testimony of the Commission on Postal Service witnesses.]

#### QUESTION FOR THE COMMISSION

1. On pages 52 and 53 you indicate that something must be done to improve parcel post volume, yet you make no specific recommendations. What would you do to improve parcel post?

2. Could you elaborate on your recommendation that greater progress must be made in the selection and appointment of women to positions in the Postal Service?

3. You point out that the return on investment for the bulk mail system has been poor. What about the return on investment for other capital projects?

4. You are highly critical of the methods used by the Postal Service to measure productivity. Will you elaborate on your recommendation that a new method be implemented—what advantages are there in your recommended method?

5. I was very pleased with your recommendations concerning electronic mail. However, there are some who believe that the opportunity has already passed and that the Postal Service will not be able to enter significantly into the electronic mail field. What is your opinion.

6. Do you believe that either the postal monopoly statutes or the Communications Act should be amended to assure the Postal Service some role in future electronic communications?

7. Why do you recommend that the Postal Service take another two years in order to decide whether it should become involved in telecommunications? Is this not more procrastination?

8. Some experts in the telecommunications field feel that the Postal Service should not get into electronic mail because it would be in direct competition with services provided by the private sector. How would you respond to this opinion?

9. When I originally proposed an increase in public service appropriations four years ago, I maintained, as you do, that a general appropriation was better than one tied to specific services. Yet that approach has been consistently criticized as being an invitation to inefficiency by postal management. Now it appears you are returning to the original concept. Don't you feel that by tying appropriations to specific services—that is, we actually "buy" these services as any other customer—we will be propelling management to greater efficiency?

10. You mention on page 29, and elsewhere through the report, that the Nielson survey indicates that the public is willing to accept moderate reductions in service rather than pay more taxes or higher postal rates. Your own scenario on page 40, however, indicates that if all your major recommendations for service cuts and increases in appropriations are carried out, we will still have a 22 cent stamp in 1985. Don't you think that if the respondents knew this, the answers may have been substantially different?

11. You mention that your program would bring "moderate" rate increases. Do you really believe that the public would consider a 9 cent increase in the next seven years "moderate"?

12. You recommend 5-day a week delivery. Did you do any serious studies on the impact this might have on business? On rural areas?

13. You recommend a subclass for guaranteed overnight delivery at a higher rate. Then you recommend altering mail processing schedules and cutting out a day of delivery which will probably slow down the rest of the mail. Shouldn't this slower class then be given a rate reduction? In other words, is it fair to raise the rates for increased service and not to lower rates for reduced service?

14. You have some satisfactorily soothing things to say about the necessity of keeping small post offices open. Yet the criteria you list on page 52 appear to give the Postal Service virtual carte blanche since you say only one of the three conditions has to exist. Since the legislation you propose also eliminates the lengthy procedures designed to protect the public, it is obvious that more small post offices could be closed more quickly than current law and policy allows. Was that your intent?

15. You mention on page 62 that fully allocated costs led to the decline in parcel post volume over the past several years. Can you verify that this was the real cause?

16. You recommend that Congress enact into law a method of allocating cost which will preserve the volume of 2nd, 3rd, and 4th class mail. Then you recommend that a 60 percent cap be placed on attributable costs. If you have enacted a satisfactory method, why is it necessary to place an arbitrary cap on attributable costs?

17. One of the criticisms of the court case to which you refer is that the rule of inverse elasticity was not one of the rate criteria mandated by Congress. Do you think that it should be?

**COMMISSION ON POSTAL SERVICE**

(Public Law 94-421)

1750 K Street, N.W.  
Suite 801  
Washington, DC 20006  
634-4174

May 10, 1977

Honorable James M. Hanley  
Chairman  
Subcommittee on Postal Operations  
and Services  
U. S. House of Representatives  
Washington, D. C. 20515

Dear Mr. Chairman:

This is in response to the questions you submitted to the Commission. The views expressed are the views of the majority of the commissioners based on the Commission's report and investigations.

1. The Commission believes that reliability of delivery of parcel post and the frequency of damage can be improved by improving facilities and transporting methods, eliminating drops, and better scheduling. However, the principle reason for mailers using delivery services other than the parcel post is the cost. If the Commission's recommendations are adopted relating to attributable costs, a marginal mark up for parcel post rates should be adopted to insure that parcel post rates are competitively attractive.

2. Testimony before the Commission demonstrated that the Postal Service has failed to recruit women for higher level positions. No woman has ever served in any executive management position in the Postal Service or in the Post Office Department. I respectfully refer you to the testimony of Ms. Patricia Leeper on page 1358 of the Commission hearings for evidence of this problem.

3. The Commission did not examine the return on investment except for return on capital for the bulk mail system. Our impression was that accurate data on investment return is difficult to obtain.

4. I respectfully refer you to the Commission's contractor's report by National Economics Research Associates in

Volume II of the Report. The principle advantage of a different measure of productivity is that it would more accurately reflect manpower utilization. As the number of odd shaped pieces of mail and parcel post pieces decline, productivity should necessarily increase because of the ease of handling letters. Present postal productivity measurement does not take into account this change in character of the mail stream.

5. The Commission believes that the Postal Service still has an adequate opportunity to enter the field of electronic communications.

6. The Commission did not address this issue.

7. Because of the complexity of the problem, the Commission believes that the two-year period is a reasonable time for the Postal Service to study electronic communications before making a final decision.

8. Although the Postal Service might be in a position of competing with private enterprise in electronic communications, the alternative would be for the Postal Service either to disappear as the principle means of paper communications in the United States, or for the taxpayer to be called upon to subsidize heavily the costs of maintaining a declining system. The Commission believes that entering into electronic communications is a preferable course of action.

9. We see no relation between general appropriations and management efficiency. Efficiency is a measure of output per dollar. Any subsidy may moderate management's zeal, but we find no evidence that that has been the case since postal reorganization. (Nor, for that matter, is there much evidence to indicate that top management in the Post Office Department was "inefficient" because Congress appropriated postal revenues.) The disadvantage of specifically designated appropriations, in our opinion, is that it requires the maintenance of services, such as Saturday mail delivery, without an objective evaluation of the relative value of such a service. The Commission's experience, for instance, indicated that the public sentiment regarding Saturday service was overwhelmingly in favor of discontinuing Saturday service as a means of helping to control postal rate increases. On the other hand, the opinion of postal unions was overwhelmingly opposed. We recognize that the Congress may require the Postal Service to continue to perform a specific function. Our recommendation was not based on political acceptability; it was based on our view that the inevitable decline of the Postal Service over the next 20 years requires reductions in service and avoidance of greater costs.

10. We have no way of knowing whether the public response would have been different had we phrased the question differently. A proper rephrasal, however, would have been to reveal the public's reaction to having a 22¢ stamp or a 28¢ stamp in 1985 and inquire into the public's willingness to accept reduced service in the hope of paying a lower rate.

11. Probably not.

12. The supplemental Nielsen survey was specifically directed to rural residents and the basic Nielsen survey included questions regarding small business establishments. No other impact studies were made.

13. We believe that it is not a question of fairness, but of economic necessity. Section 3621 requires that the postal revenues and appropriations equal postal costs. Unless further appropriations are made, rates for first class mail, even if first class service is reduced, cannot be lowered unless other forms of revenues are found. A one-cent reduction would cost the Postal Service more than half a billion dollars, a loss which very likely could not be made up through revenues derived from priority mail.

14. The Commission viewed the provisions of section 404(b) of title 39, as enacted by Public Law 94-421, as imposing an administrative obligation upon the Postal Service, but not effectively prohibiting the Postal Service from closing or consolidating any post office. Upon the completion of a hearing and an appeal to the Postal Rate Commission, the Postal Service determination to close any office was absolute regardless of the outcome of the appeal. We recommended instead of a lengthy and ultimately futile administrative procedure, that the Postal Service be precluded from closing any post office unless (1) a vacancy exists in the postmastership, (2) conditions (other than economic conditions) change, or (3) a majority of the patrons of the post office vote to close the office.

The first condition was the rule followed by the Post Office Department prior to postal reorganization. Under that rule, post offices were closed or consolidated regularly as the population became more urban. The number of post offices in the United States declined from 71,000 in 1910 to approximately 30,000 today. Also, since there is substantial evidence to indicate that postmasters and their associations have been vitally interested in this problem, the Commission felt that guaranteeing a postmaster his local position until retirement would help alleviate some of the political pressure which has been brought to bear.

The conditions we envision in the second instance are physical--that is, some genuine change in the community must occur. Two examples brought to our attention were (1) a town disappearing because of a flood control project built by the Corps of Engineers which resulted in the physical disappearance of the town under water; and (2) closing of the post office because the military installation on which the post office was located was closed by the Defense Department.

15. The Commission statement regarding fully allocated costs and parcel post volume was that rates based on fully allocated cost accounting were a "principle cause of the long term decline of parcel post volume". Evidence supporting the Commission's conclusion include regular increases in parcel post volume up until the enactment of Public Law 82-199 in 1952, which established reduced size and weight limits for parcels moving between first class offices, and the rigid cost recovery requirements of the Supplemental Appropriations Act of 1951. Parcel post rate increases in the 1960s and 70s, in our opinion, have contributed to parcel post volume losses. Service may also be a factor, but no witness appearing before our Commission or conferring with our Commissioners cited any factor other than cost as a reason for not using parcel post.

16. The Congress apparently thought it had enacted a "satisfactory method" of fixing postal rates in 1970. The interpretation of that law by the Chief Administrative Law Judge of the Postal Rate Commission and subsequently by the United States Court of Appeals for the District of Columbia, clearly demonstrates that the language used in section 3622 of title 39 may not have accurately reflected Congressional intent. The legislative history surrounding the Postal Reorganization Act indicates that both Congress and the Post Office Department considered "attributable cost" to be about 50% of total cost and section 3622 was written to insure that every class of mail or type of mail service would pay that level of cost plus some portion of other costs based on factors other than cost causation. If the Court of Appeals decision of December 28, 1976 in the greeting card case is permitted to stand, we believe that Congress' intent cannot be carried out. In addition, we believe that a regulatory agency has a natural tendency to seek purely objective standards, such as cost causation, to fix rates. We believe that the only sure way to avoid volume losses in all subordinate classes of mail (and thereby protect postal revenues and the viability of the postal system) is to enact a limitation upon the level of attributable costs.

18. The Commission recommends that section 3622 be revised so that "demand factors" can be taken into account in

fixing rates. Although demand is not specifically cited in section 3622 of title 39, the law does state that "the value of the mail service" shall be taken into account. Because the Court of Appeals has construed this section to mean something other than what Congress apparently intended it to mean, we believe the law should be revised to include demand as a statutory criterion for rate fixing.

Sincerely,

A handwritten signature in cursive script that reads "David Minton". The signature is written in dark ink and is positioned above the printed name.

DAVID MINTON  
Executive Director

**COMMISSION ON POSTAL SERVICE**

(Public Law 94-421)

1750 K Street, N.W.  
 Suite 801  
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Gaylord Freeman, Chairman  
 Rose Blakely  
 David Johnson  
 Paul Krebs  
 James Rademacher  
 Kent Rhee  
 Hobart Taylor

David Minton, Executive Director  
 Lawrence A. Monaco, General Counsel

May 11, 1977

Ex Officio  
 Benjamin F. Baller  
 Postmaster General  
 Clyde S. DuPont, Chairman  
 Postal Rate Commission

Mr. Richard A. Barton  
 Staff Director  
 Subcommittee on Postal Operations  
 and Services  
 122 Cannon House Office Building  
 Washington, D. C. 20515

Dear Richard:

Thank you for your letter of May 10 enclosing three questions submitted by Representative Charles H. Wilson of California concerning curblines and cluster box delivery.

The Commission did not address the issue of curblines and cluster box delivery in its report; however, I think it would be fair to say that a majority of the Commission would support administrative actions to help control increases in postal costs. Delivery addresses increase by about 1.7 million each year. The cost of door-to-door delivery is substantially greater than the cost of curblines or cluster box delivery and facing mounting costs and declining volume, the Commission would probably favor the continued development of curblines and cluster box service.

The issue of local ordinances prohibiting construction of curblines boxes has been considered by the United States District Court in California. The principal issue is whether local government has the authority to issue regulations controlling the activities of the Federal Government. That issue was not directly addressed in the District Court case, but there is a long string of cases decided by the Supreme Court of the United States which support the paramount sovereignty of the United States over any of the constituent State governments. In other words, it is my opinion that such local ordinances are clearly unconstitutional.

Sincerely,



David Minton  
 Executive Director

# RECOMMENDATIONS OF THE COMMISSION ON POSTAL SERVICE

MONDAY, MAY 9, 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 10:35 a.m. in room 311 of the Cannon House Office Building, Hon. James M. Hanley (chairman of the subcommittee) presiding.

Mr. HANLEY. The subcommittee reconvenes this morning for the purpose of hearing from the Postal Rate Commission its observations on the recent recommendations of the Study Commission on the U.S. Postal Service.

It is a pleasure to welcome you, Chairman DuPont. I am confident that your testimony will prove interesting.

## STATEMENT OF CLYDE S. DuPONT, CHAIRMAN, POSTAL RATE COMMISSION

Mr. DuPont. Thank you very much, Mr. Chairman. It is always a pleasure to appear before you and I deeply appreciate this opportunity to present my views on the report of the Commission on Postal Service.

The opinions I will be expressing are my own, and are based on my observations as a nonvoting ex officio member of the CPS as well as on my experience with the Postal Rate Commission.

My statement runs approximately 14 pages and, if I may, I would like to read that statement. Then I have appended to my oral statement a more complete appendix commenting more fully on the legislative proposals of the Commission.

Mr. HANLEY. Without objection, so ordered.

Mr. DuPont. Thank you.

Although today I am not testifying to an official position of the Postal Rate Commission, I still wish 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 me to express views indicating any prejudgment on the merits.

With that exception, I will be happy to answer any questions.

I should like to discuss the CPS report generally and to touch upon some of its legislative recommendations.

In general, I should like first to pay tribute to the chairman, members, and staff of the CPS for the extensive collection of information in its report and appendixes bearing on the condition of the U.S. Postal Service.

The Commission went to great lengths to obtain input from as many sources as possible regarding the Service, and they did it in a very short period of time.

The facts are there for all to read, and I believe the Commission on Postal Service deserves a vote of thanks for pulling all of this information together for you, the President, and the interested public.

With regard to time, as the Committee knows, we at the Postal Rate Commission have had considerable experience with highly expedited proceedings and on the basis of that experience I can say that the CPS

It is clear from the report that the CPS has not attempted to recommend a single "quick-fix" solution to the problems of the Postal Service.

Instead, it has proposed a number of different partial remedies, focusing on a number of possible means of improving the Service's condition and assuring its future as a viable institution of Government.

Neither service cuts, increased appropriations, nor ventures into new forms of communication, taken alone, would be likely to solve the Postal Service's problems—at least at what the CPS believes would be an acceptable cost.

The CPS has therefore proposed moderate advances on several fronts which, taken together, appear to have a better chance of success.

Among the most forward-looking of the CPS's proposals is its strong recommendation that the Postal Service immediately investigate the possibilities of electronic message transmission.

No student of postal affairs can look with unconcern on the prospect of drastic diminution of letter mail volume, especially since a severe volume decline carries with it the threat of higher rates and thus potential further diminution of volume.

The Postal Service possesses an unrivaled nationwide collection and distribution system with over 35,000 outlets. It would be a serious waste of a great national resource if we did not explore the potential adaptability of this system to electronic message service.

Turning next to the CPS proposals which would directly affect the Postal Rate Commission, I may say that there are a number of findings in the report with which I completely agree.

I was pleased that the CPS recognized and endorsed the value of an independent regulatory body as part of our postal system.

I am also convinced—as a majority of the Commission has been in the past—that our decisions should be final and subject only to judicial review.

Every other regulatory agency is so structured as to render final decisions, reviewable by the courts. Nor do the Governors, in exercising their present limited review powers, employ any standard of review which a court would not equally well utilize.

So far as the technicalities of ratemaking are concerned, the Governors are not expected to be experts in the same sense as the Commission.

I believe, therefore, that the CPS is right to urge that this additional administrative step be abolished.

Closely related to this proposal, and independently desirable as well, is the recommendation that both we and the Postal Service be authorized to appear in court by agency counsel rather than being represented by the Department of Justice.

Other regulatory agencies have this authority, and in a situation where the Postal Service might be appealing a final decision of our Commission it would be clearly impossible for the Justice Department to represent both sides.

Moreover, the Department's attorneys, though highly capable, cannot be expected to possess specialized expertise in postal rates and classifications.

The legal representation proposal made by the CPS would be a step toward greater efficiency in the review process.

One of the most significant recommendations of the CPS is its proposal to amend section 3622 of the Postal Reorganization Act to clarify the standards for ratemaking.

The Postal Rate Commission's interpretation and application of these standards—which we think are in accord with Congress intent—has caused some controversy, and last December the court of appeals issued a decision calling for a different ratemaking method. That decision has created still more controversies.

I believe that decision is wrong; and if it reaches the Supreme Court, I believe the Justices can be shown that the court of appeals' decision should be reversed.

But legislative correction of the Court of Appeals' interpretation is equally available and desirable.

In the appendix to my statement there is a more extended discussion of this important proposal.

At this point I would say only that I fully support the CPS proposal to revise section 3622(b)(1) to make it clear that noncost factors have a legitimate and highly important place in postal rate determinations.

The reasoning used by the CPS—that the great increases in second, third, and fourth-class rates which the court's theory would require would drive those items out of the postal system altogether and thus cause increases in first-class rates—seems to me perfectly sound.

Thus I fully endorse the CPS proposal to require that:

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.

The language, together with the principle embodied in the CPS proposed section 3622(b)(2) represents the ratemaking method which Congress originally intended and which we have tried to implement.

I part company from the CPS, however, when it goes on to propose a permanent 60-percent ceiling on the cost attributions and a rigid definition of 3 years as the period to be considered in evaluating variability.

I do not exclude the possibility that at some future time an attribution ceiling—though perhaps a ceiling that can change from time to time—might be appropriate.

But the CPS proposal is both premature and overly inflexible.

This question, again, is discussed in more detail in the appendix.

To make just one example of the excessive rigidity of the CPS formulation: suppose that a few years hence the Service did become significantly involved in electronic message transmission. Its entire cost picture might change radically, and the proposed 60-percent ceiling on attributions might then become totally unrealistic.

In addition, of course, the imposition of these inflexible limits would tend to nullify the expert regulatory function the Commission was established to perform.

Congress in 1970 directed us to find out how much it costs in fact to collect, process, and deliver each class of mail.

While cost allocation has perhaps generated more theoretical controversy than any other aspect of postal ratemaking, the definition of the Service's revenue requirement is no less important.

The CPS here makes two suggestions which I cannot endorse: First, that the Service's allowance for contingencies be limited to 2 percent of operating expenses, depreciation, and debt service and, second, that no recovery of past years' losses be allowed for.

In our last rate case, after considering evidence pro and con, we allowed a 4 percent contingency provision and a \$207.8 million annual item for recovery of past losses.

I believe both of these actions were fully supported by the record in that case, and by sound reasoning as well.

Of course, the need for, and appropriate level of, any contingency provision or allowance for past loss recovery would be independently assessed in each future case.

As these matters are now in litigation before the court of appeals, and could thus come before us again, I shall not discuss the merits any further.

However, my own view is that here the CPS recommendations would likely lead to an unnecessary increase in required appropriations.

The CPS makes two recommendations regarding procedures which I should like to discuss briefly in the context of rate decisions, for it is there that their impact would be felt.

The CPS proposes to require rate cases to be decided in 9 months rather than the 10 months Congress mandated in Public Law 94-421 last year.

It also proposes that the Commission be required to deal with related rate and classification matters in the same docket unless it finds that greater expedition and fairness require separate proceedings.

I believe that the first of these proposals should be rejected.

The 10-month deadline under which we now operate, and which we met in docket R76-1, seems to me about the minimum time that can be allowed without curtailing the rights of the parties to challenge the basis for a postal rate increase and to develop convincing rebuttal cases.

I need not say that our Commission remains committed to maximum expedition consistent with procedural fairness.

If we find that we can complete a rate case in 9 months, or 7, without any sacrifice of fairness, than we shall do so.

So far as I am concerned, Parkinson's law does not apply to postal rate cases.

But at this time I do not see how a still tighter deadline than the

one Congress chose to enact only 7 months ago can be imposed without threatening some curtailment of public participation.

The second proposal—to require, so far as consistent with maximum expedition and fairness, that related classification and rate matters be handled in the same docket—is wholly unnecessary.

I believe that the Commission, like any regulatory agency, has inherent power to consider related matters together in this way. That we have seldom done so in the past reflects exactly the concerns recognized by the CPS: expedition and fairness.

In rate cases particularly we should not be required to expend time on deferrable classification issues which could as well be decided in classification dockets.

If we are required to include those items in rate cases, the 10-month time schedule may not be met.

Clearly, where the central issues cannot be fully and fairly decided without extending the inquiry into related classification or rate matters, we will include the additional questions in our proceedings and decisions.

But this type of scheduling is generally left to the administrative direction of the agency, and I recommend that this be done here as well.

Turning to mail classification matters, I should like to comment on the CPS proposal to freeze the present four main classes of mail.

This provision represents a considerable departure from the original intent of Congress in passing the Postal Reorganization Act.

At that time it was contemplated that the Postal Service, the Commission, and mail users would have full latitude to explore a complete restructuring of mail classification.

The Kappel Commission suggested, for example, a reformed realignment of the system based on functional types of mail: messages, merchandise, and bulk mail.

We have been, and are currently, engaged in an exploration of basic reform in docket MC76-5. The Postal Service and parties to our proceedings have been engaged in formulating and executing long-term, in-depth studies aimed at improving present mail classifications.

I do not believe that the possibilities of improvement inherent in this effort should be foreclosed by legislative freezing of the four main classes.

The CPS in effect recommends that the types of mail historically accommodated by the postal system should continue to be served.

That is certainly a worthy objective. Indeed, in our first mail classification decision in our docket MC73-1 we stated that future proposals would be examined for their consistency with basic reform.

In this connection, we have reviewed new mail classification proposals to insure that—if adopted—they would not hamper future reclassifications.

Equally important, we have carefully reviewed classification proposals to guard against any adverse effect upon (1) mail volumes, and (2) upon the continued availability of services to all mail users and to all categories of mail matter.

But I do not believe that this objective has to be attained by petrifying the classification structure.

If Congress wishes to adjure the Commission to provide a suitable place in the classification schedule for all types of mail heretofore car-

ried by the Service, it would be better done by adding that requirement to the general policy sections of the act, such as section 101.

The CPS proposed a number of organizational changes in the Postal Rate Commission. The most striking is its suggestion that the number of Commissioners be reduced from five to three. I strongly recommend against this change.

Indeed, it seems inconsistent with the CPS's own proposal to reinforce and make more specific the professional qualifications to be required of appointees to the Commission.

The CPS recommends that Commissioners be professionally qualified in postal affairs, law, economics, or utility regulation.

This is certainly a worthy objective. Indeed, the list might be expanded to include accounting, finance, and industrial engineering, all of which disciplines have relevance to the Commission's work.

I believe it would be far easier to obtain the desired mixture of professional disciplines on a five-member Commission than it would be if the panel were reduced to three.

In addition, I believe that geographical diversity among the members of a Commission is a desirable goal; this, too, is easier with five members.

A final reason for maintenance of the Commission at five members is that we have experimented successfully with the practice of having Commissioners sit as presiding officers in cases requiring the development of an evidentiary record.

Were we reduced to three members, it might be difficult to continue this procedure, and any streamlining of the institution achieved by reducing the numbers of members might be canceled in part by the need to employ more administrative law judges.

I therefore would urge that this proposal be rejected.

The CPS also proposes that the Commission be funded from the Treasury through the appropriations process rather than continuing to obtain its budget from the Postal Service Fund.

As the committee knows, it was Congress intention that mail users bear the costs of regulation—via revenue from rates deposited in the Postal Service Fund—and that these costs were not to be borne by taxpayers.

Of course, I recognize the present arrangement—wherein the Governors of the Postal Service pass upon our budget—is somewhat anomalous—that the regulated entity provides the budget for the regulatory agency.

It has, nevertheless, worked reasonably well.

I believe that the better solution to the apparent problem of Commission independence would be to establish a neutral arbiter with authority to review any excision from our budget request which the Governors might make.

When the General Accounting Office sought our comments on its recommendation regarding Commission budgeting, we suggested that the Commission should continue to be funded as it is now, but that the Director of the Office of Management and Budget be required to approve any budget cut the Governors proposed to make.

GAO did not agree with this suggestion—preferring to recommend that the review task be assigned to Congress—but I believe our suggestion represents the simplest and most efficient way of both assuring

the independence of the Commission and reducing the complexity of the budgeting process.

I address myself now to the proposed \$625 million appropriation.

While I do not intend to discuss the various appropriations proposals made by the CPS, I do wish to comment briefly on the proposed \$625 million appropriation to retire the Service's operating debt.

The CPS relates this suggestion to its proposed ban on any future allowance for recovery of past losses through rates and fees.

In my view, the question whether this cost should be borne by the taxpayer or the ratepayer is essentially one for the Congress to make.

Operating under the break-even standard of section 3621, we allowed in the last rate case for a past loss recovery—most of which was directly related to the retirement of the operating debt by which the Service had covered its operating losses.

Under the law the Commission in its last rate case was presented with a revenue need of the Postal Service of \$1.4 billion for losses incurred in fiscal years 1972-75.

From the evidence received in that case we felt the request was supportable. The question was whether the revenue should come from the ratepayer or the taxpayer.

We could not guess what Congress would do and, to insure that the money was forthcoming, the only alternative was to include it in the rates.

As I stated earlier, I believe that action was entirely justified by the record. On the other hand, I recognize as well that Congress may decide that the CPS appropriation proposal is a preferable method of dealing with the remaining deficit.

Finally, there are a number of proposals submitted by the CPS which are important, but which do not warrant extended comment as a part of my oral statement.

They are in the main discussed in the appendix or are matters in which we possess no special competence and, accordingly, we would defer to the wisdom of Congress as to whether such proposals should be enacted into law.

Specifically I submit no comments with respect to the level of the public service appropriation or the proposed changes in the Service's organization—particularly composition or elimination of the Board of Governors.

Also, but for a different reason, I have no comments to offer on the proposed elimination of Saturday deliveries: This is a matter which potentially will be before the Commission and on which, therefore, it would be inappropriate for me to comment at this time.

Our appendix contains analytical comments concerning my support or opposition to proposals concerning:

(1) new statutory standards governing the closing of small post offices, which I oppose;

(2) the addition of an additional statutory standard to be applied in mail classification cases related to the educational, cultural, scientific, and informational benefits of mail matter, which I support; and

(3) changes in calculating preferred mail rates—which is essentially an appropriations matter—and proposals for uniform

maximum size and weight limits of nonletter mail; the latter of which I support.

Also, the CPS has suggested a relaxation of the private express statutes. The matter of implementing these statutes is not within the Commission's jurisdiction and, accordingly, I express no views on this proposal.

Similarly, I have no special views to present concerning CPS's proposed limitation on the permissible outstanding obligations for the Service's operating expenses which would be set at \$500 million.

This concludes my prepared statement, Mr. Chairman.

I would urge that the committee examine the appendix, which contains a number of comments on the CPS proposals which time does not permit me to mention here.

Also, the legal staff of the Postal Rate Commission has drawn up a side-by-side comparison comparing the CPS's legislative proposals with the present law.

If the committee staff would find it useful, I will make it available to the staff.

Having served on the Hill, I know that it is very—at least from my experience it has been—profitable to have these side by side and we have worked it out for committee use if you so desire.

I would be happy to answer any questions you may have, Mr. Chairman, or Congresswoman Schroeder.

Mr. HANLEY. Thank you very much, Chairman DuPont, for your very fine testimony.

I believe I would be remiss if I didn't salute you for your efforts through your tenure on the Commission. I have always been impressed with your dedication.

I, contrarily, had been very distressed with your predecessor's. You have provided a ray of hope, a ray of light in that the Commission might well work in accord with the will of the Congress. I think that under the circumstances that you work with, that you are trying very hard to do a good job, and I know it is very difficult for the Commission to do this because of the uncertainty that prevails with regard to exactly what the function of the Postal Service is.

As you may know, I have submitted to the President a recommendation that would call for the institution of a national policy on postal service, giving recognition to the many changes that have happened in the course of the last decade or so, and changes that we envision as probably happening during the future decade or so.

All of us in the legislative branch and certainly the Rate Commission I think could function far better if we knew exactly what the role of the Federal Government should be from the standpoint of the provision of this service.

I am especially interested in our defining exactly what aspects of this overhead are truly attributable to public service.

Once, with that definition in hand, then we are in a far better position to clarify any obligation of the U.S. Treasury insofar as the overhead of the institution is concerned.

I can appreciate that you have to work under that shroud for the present, and I hope very much that that can be clarified in the not too distant future.

You allude to your support for the Commission's recommendations

related to electronics and I, too, concur with your support and recommendation and study of the Commission in this matter.

What in your judgment would be the rationale for the reluctance of the management of the Postal Service to move in the direction of electronic transmission of mail?

Mr. DUPONT. As an ex officio member of the Study Commission, Mr. Chairman, I was exposed to the same evidence that Chairman Freeman and others on the Commission were.

I mean that the Postal Service had submitted a number of documents to us on research projects that they had underway.

The budget of the Postal Service devoted to research.

We also had Chairman M. A. Wright along with two of his colleagues, appear before us. And, I believe these were the statements by Postmaster General Bailar which he gave before you on electronic transmission of messages.

As you know, we were concerned at the Commission with a very bleak future for the Postal Service where costs were going up and volume was going down.

How do you reconcile this to keep the Postal Service a viable institution of Government?

One reason we heard was that in those areas where private industry is participating and moving ahead, it should not have competition from a Federal entity. Or since private industry is moving very quickly into electronic transmission of messages—and here I am paraphrasing and putting my own words into what I have heard—Government had no business being there.

The position of the Commission and my position, even though I was not a voting member, was that the Postal Service certainly should investigate the possibility of getting into joint ventures.

We heard from Xerox. We then discussed matters of joint venture at length, and felt that with the picture as it was—the loss of first-class mail volume had drastic consequences for the Postal Service if something was not worked out to handle the electronic transmission of messages.

Otherwise, the Postal Service would just be handed hard copy and that hard copy, the amount, would diminish considerably. The result would be either rates going out of sight, or having the Congress pick up a greater part of the tab from the general treasury.

I do know that the Postmaster General has now revealed that the Postal Service has let out a contract for an extensive investigation into picking up the recommendation of the Study Commission and I certainly applaud that.

I think electronic transmission of messages is an essential element for postal research and development, but this is for Congress to decide. It does involve a policy matter of the Postal Service as to the extent—putting it in purest form, getting into competition with private industry. Certainly as you well know there is a place for reconciliation of these philosophies. This is essentially my view if the Postal Service is to remain viable.

Mr. HANLEY. As you know, we have had some very interesting testimony from members of the scientific community who have proposed some very exciting and dramatic things that could have been used by the Service and should be in use by the Service now but, un-

fortunately, the Service has on a continuing basis walked away from any such proposals.

I think in fairness the Service had the responsibility to let it be known, why it didn't appear interested to sophisticate its methodologies and services. If the committee was provided with a sufficient rationale, of course, we would have understood.

But in the judgment of many of us, there certainly is much in the area of electronics that should have been considered that could have been implemented by the Service under its existing authority; that is, the Private Express Statute.

So I have, of course, charged those who administer the agency with irresponsibility for their failure to do this and in recognition of the continuing decline of revenue.

We are working under the 5-minute rule. That being the case, I defer to my friend and colleague Mrs. Schroeder.

Mrs. SCHROEDER. Thank you very much, and I appreciated your testimony and the obvious time and effort you have put into it.

I have to apologize because I have to leave in a little bit, Mr. Chairman. I have about 10 appointments going simultaneously this Monday morning.

But one of the things I was interested in in your testimony were your comments about the court decision that had come down in the allocation of rates, of cost of the different rate structures.

I noticed in your statement you said one of the reasons that you felt the court decision was incorrect and that legislation should be taken in order to clarify it was because you were afraid that we would chase out second-, third-, and fourth-class mail users if the rate went up.

Don't you think we will also force out first-class mail users if the rates go up?

Mr. DUPONT. That has already occurred in parcel post. If I may answer your question this way, Mrs. Schroeder, I disagree with the court decision because the volume projections used in that case in R74-1 we felt were not solid.

The volume projections used by Judge Wenner in our second rate case were the same volume projections used by the Postal Service in projecting a 10-cent first-class rate.

Judge Wenner recommended an 8.5-cent rate.

The shift of going from 10 to 8.5 cents was in the nature of \$3 billion.

To use the same volume projections for both rates we felt was just not solid.

And, in view of the fact that the evidence could not completely demonstrate the effect on volume or the shift of mail volume I was convinced as a Commissioner that we could not risk that volume loss. We have lost volume in fourth class.

The criteria given to us in the law says that we should find what is the attributable costs of each class of mail.

The Postal Service's budget does not allow itself or can be refined to zero in on what it actually costs to handle a piece of mail whether it be first-class, second-class, third-class, or fourth-class.

So, before we move on to a drastic change in rates, I feel that we should have a better knowledge on what the effect may be on volume and—consequently on revenue.

Since 1976 when the new rates went into effect, the Postal Service

has just been about as close to break even as possible. They have been \$20 million in the red, \$20 million in the black either way and, in a \$14 billion operation, that is as close to break even as one can come.

So with the 1976 rates, volume has been maintained at a fairly stable level and as rates have.

I am afraid that if we shift too much one way without a solid projection of volume we might lose volume. It is like a fuse set that you can turn on, turn off, and it will stop.

Once we lose——

Mrs. SCHROEDER. If I can recoup my time, I am not sure what you are saying.

You said that before we do this we should have a better determination of costs; right?

Mr. DUPONT. Yes. And volume.

Mrs. SCHROEDER. How are we going to get a better determination of costs if we don't do a better job of allocating the costs?

Mr. DUPONT. I think the evidence we must get with the criteria that Congress has given us, will result in a better allocation of costs.

So I don't——

Mrs. SCHROEDER. So you would be in favor of the portion of the decision that goes to talking about better allocation of the cost?

Mr. DUPONT. Yes.

Mrs. SCHROEDER. My question is I don't know how to make such judgments without better allocation of the costs and I don't know how to deal with the classification system until we have a better allocation of the cost and to know whether it is correct or incorrect and who we are subsidizing and to what extent.

So as a policymaker, I find it very difficult to deal with the whole classification system and the rate structure because I feel we are just pulling figures out of the air and we are really doing a lot of educated guessing which so often turns out to be wrong.

Mr. DUPONT. We are not in disagreement.

I agree with you that we should have a better allocation of costs. That, there is no disagreement there.

Mrs. SCHROEDER. It is now, what theory do you use to allocate costs?

Mr. DUPONT. We have decided at the Commission that volume variability should be the theory that we follow. When a cost increases or decreases at the same time that volume increases or decreases, this tells us that a particular class of mail or a particular cost can be attributed to a particular class of mail.

There is a segment of costs that do not change, which call institutional or overhead costs. We are making better inroads and having better evidence to determine what portion that is.

So as you say, it is all theory, trying to determine the proper cost allocation.

Mrs. SCHROEDER. My time has expired, but I am delighted to hear you say that because I have been most dismayed looking at it from an accounting and business standpoint as to how the cost allocations have been made in the past, and I think we really do need to look at it with a very professional viewpoint. To help us in the future.

Thank you very much again.

Mr. HANLEY. Thank you, Mrs. Schroeder.

To carry on just a bit about cost ascertainment, this in my judgment has, again, been one of your fundamental problems.

I related earlier to policy, just what role the Government should pay from the standpoint of public service.

I think akin to that also is the cost ascertainment process. I have always been a skeptic of it. I have urged the agency to develop within its research and development program a better way of doing cost ascertainment.

It is essentially determined in the same sense that it has been traditionally, and that is rather arbitrarily.

One of the major deficiencies within the mandate of the institution, is its failure to get with it from the standpoint of a reasonably accurate cost ascertainment procedure.

In the process of background on the Commission—and this does not relate to the study commission per se, we were plagued for a number of years with a great turnover in the Postal Rate Commission from the standpoint of Commissioners and Chairmen.

Can you tell the committee how many people have served as Commissioners since the inception of the Commission?

Mr. DUPONT. As you know, we now have one vacancy. We are operating with four Commissioners. The term of the other Commissioner expired last October 14. So really there are two positions that have not yet been filled.

We initially of course had five Commissioners. There is only one remaining of the original five, Commissioner Saponaro.

We have had, I believe, 10 different Commissioners, 4 different Chairmen, in 5 years. I left these figures at my office, but I will be glad to provide you with them.

Mr. HANLEY. I see.

Mr. DUPONT. Before I went down to the Commission, I was asked if I wanted to stay outside and throw rocks or get in and work. And here I am.

I have enjoyed the work, but we do need more stability with the Commissioners.

I think the instability that we have gone through has had a detrimental effect on staff, on moving ahead.

It is a long educational process that one has to go through to learn postal rates, rate setting and mail classification, and if there was any way of getting better continuity, I would urge that it be done.

I think the terms for which we serve are fine. I think new blood is always welcome. But we have long enough terms to get our expertise up, and we should be sensitive to the needs of the Congress, the President, and the American public.

Therefore, I would not advocate extending the terms. But I do believe it is essential to find Commissioners who are dedicated, who are determined to stay and sit on our cases and work like we have done in the past 2½ years.

Mr. HANLEY. Well, I would agree that the recognition of the highly technical subject matter that you deal with, that certainly tenure should work to the advantage of the cause.

There are presently two vacancies?

Mr. DUPONT. Yes, sir.

Mr. HANLEY. And these two vacancies are created as a result of the retirement of whom?

Mr. DUPONT. Commissioner Miltich whose term expired on November 22, was not reappointed. His term ended November 22 last year. He decided since he was not reappointed that he would look elsewhere. Therefore, he has left the employment of the Commission.

The other one is Commissioner Saponaro whose term expired on November 14.

The law reads that a Commissioner whose term expires shall continue to sit for a maximum of 1 year following the expiration date of his term or until a successor is qualified and confirmed by the Senate.

Mr. HANLEY. As you recall, the intent of the law was that at no given time more than three Commissioners of the same political party would serve on the Commission.

Can you tell the committee how many Democrats have served on the Commission since its inception?

Mr. DUPONT. I do not know from its inception, Mr. Chairman.

At the present time there are none. There are now two Republicans, one independent and one conservative.

During the time that I have served on the Commission, as of September 1974, there was one Democrat whose term expired on October 14, 1974. He was not reappointed.

I shall be happy to get those figures for you.

Mr. HANLEY. Please do.

Mr. DUPONT. But I do not have them at my fingertips.

Mr. HANLEY. Fine. If you would provide the list of that information, we would appreciate it.

Mr. DUPONT. Yes; I shall.

Mr. HANLEY. So presently there are no Democrats sitting on the Commission?

Mr. DUPONT. That's right.

Mr. HANLEY. I have a problem with page 5 of your testimony, where you support legislative correction of the court of appeals decision. Isn't there a danger that the courts might accept that as proof of the court of appeals decision, that it was initially accurate?

Mr. DUPONT. That is a risk, yes. But I believe our case is just, and when the case is presented to the Supreme Court, I believe that the Court will realize and compare the statute where you have told us that we have nine criteria on which to base rates or to judge rates, and cost, with the court of appeals decision, on fully allocated, fully distributed costing, and determine this is not the way to go.

There is no one cost factor that is put ahead of others, we believe that our decision and the evidence we would present to the Supreme Court would make this obvious.

I also urge Congress to reinstitute and support and make more firm the fact that we are to consider the nine criteria, none of which overshadow the other eight. And, whichever comes first, I would urge that it happen as soon as possible because I anticipate that the Postal Service will be filing another rate case with us maybe mid-June or July, depending on whether the Governors take final action.

They discussed ratesetting at their May meeting last week and called for a more complete discussion at their June meeting in Kansas.

So I would hope that we would have 9½ months to complete our next case.

We may have to consider alternatives in setting rates in the case. But I would hope that the Congress or the Supreme Court affirming our position would act quickly.

Mr. HANLEY. Now, on page 4 of your statement you agree that the Commission's decisions be final.

Now, assuming that as a matter of national policy, the agency is categorized as a service first agency. I noted some time ago that it appears that the Congress should have some input here. I have offered the suggestion that the Congress be given veto authority, that, within 60 days after a rate Commission determination, the Congress could override the decision of the Rate Commission. It would be my intent that if such a veto occurred, then of course, the Congress as representatives of the people would also incur the obligation for any additional funding. Congress would recognize the importance of your decision and the ability of the agency to sustain its overhead.

I am saying that should the Congress have the veto authority. Congress would take into consideration that the Rate Commission has delved into this matter and has come up with a decision and that moneys that would not be kicked up from the user direct would then have to be funded out of the U.S. Treasury.

What would be your position on that?

Mr. DUPONT. A prime concern of mine is as you have expressed, where is the money going to come from.

If a decision of the Rate Commission is in effect vetoed by the Congress, then the money has to come from someplace, and it should come fairly quickly. The procedure we follow uses a further test year in setting rates. When the Postal Service makes a filing with us, they look to a future test year, and protect that in 1 year or 2 years they will need a certain amount of money. So there is some time to play with.

But a prime concern of mine is that when we come out with our decision, that it is not delayed.

The Postal Service does need its money in that test year. And, frankly, I have some misgivings about how quickly the Congress would act to appropriate the funds necessary should a decision of ours be vetoed.

Of course, hope springs eternal in ratesetting as it does on the golf course, and you always hope that the decision you make is right and it will be endorsed by the Congress and I don't foresee you vetoing any rates that we set at all.

But should that occur, my prime concern is the money.

Mr. HANLEY. Sure.

Well, I would hope very much that that particular concern could be put to rest by the quality of the administration of the agency.

Now, if the agency is going to continue to function as it has, and that is with 11th hour requirements of money to keep alive, then that doesn't say much about the quality of those who are running the agency.

I would hope that resultant from the action of this Congress, we come upon an era of good sound management within the Postal Service.

So I would hope very much that whatever the Congress decides to do in this 95th Congress, the result of it is going to be a management that runs somewhat like successful management in the private sector.

You know we have in the private sector an industry or business comes upon hard times in certain areas. That doesn't mean that that industry is going to collapse. Most likely there is a sufficient reserve there, prudently so, to carry the industry over that troubled water.

That is the challenge of management and that is the type of management that I for one would like to see heading up this institution.

Mr. DUPONT. In that scenario, I have no objections. I think that the Congress is the will of the people. Their actions are what this thing is all about. And for the Congress to have veto power over our decisions, I have no problems with.

Hopefully, we will come through with our adversary process, sufficient input from the States, from the interested public—individuals as well as mail users—and the Postal Service, to produce a decision that is acceptable to the American public, understanding all of the ramifications. I want to emphasize at this point, Mr. Chairman, that I believe there is some time to play with, depending on the test year that is selected.

We don't want to push the test year too far forward because then everyone is talking about blue sky. We are looking for a reconciliation, that is, far enough that the Postal Service will not be put into a financial bind, and possibly if a veto provision was written into the act we could accommodate and look for that kind of accommodation.

But, with this, I must say I do not have any difficulty laying everything else aside as you stated.

Mr. HANLEY. Fine.

Now, going to page 6 here of your testimony, you support the Rate Commission's policy of allowing the Postal Service to factor in a \$207 million line item for recovery of prior year losses.

Now, that being the case, in the next rate case do you intend to inquire of the Service as to why this figure has never been budgeted for the purpose for which it was supposed to be used?

Mr. DUPONT. Yes. Of course, the situation in fiscal year 1976, which was the test year, the new rates went into effect in January, even though half of the test year had already gone by the boards. Postal Service had accumulated a loss of \$1.1 billion as of January 31, 1975. So for half of the test year, we budgeted \$207 million in the fiscal year 1976 and for 7 consecutive years following.

So really it was the hybrid year, fiscal 1976, which was the test year when the \$207 million was cranked in.

You sense some amount of hesitation on my part, because this is something we will be discussing in our rate case. My comments are a little shaky right now because I am trying to tread a fine line of the rulings in the *Pillsbury* case not to comment on the merits.

Certainly if the \$207 million was used to pay off previous years losses, operating expenses, debt service, and other ramifications of it—I am dismayed somewhat.

But, on the other hand, if we had not cranked in the \$207 million, for fiscal year 1976, the Postal Service would have been in much worse shape.

I believe that we will discuss it and examine the evidence at length in the next rate case when they come in.

Mr. HANLEY. In the event Congress appropriates \$625 million to retire the Service's operating debt, isn't there a serious question as to whether it should continue to include the \$207 million figure in its revenue requirement and, that being the case, would you judge that to be a significant factor in the next rate case?

Mr. DUPONT. If I may put your question the way I can answer it, will it be a significant factor in the next rate case? Absolutely.

Mr. HANLEY. On page 12 you say that it is desirable to have geographical diversity on the Rate Commission. I just wondered what this had to do in the matter of setting postal rates. To what advantage would that be?

Mr. DUPONT. Assuming that the primary qualifications of expertise in law, postal matters and the like, I think having someone from different geographical areas rather than having all of the Commissioners coming from Washington, D.C., is a qualification that can be very helpful. It will give input on classification service matters.

From my experience, having a Commissioner come from a particular part of the country makes one feel more akin or more attuned to what the Commissioner is doing, and not as reluctant to ask questions or write letters or make inquiries. The Commissioner is known personally, coming from a country area where closing of post offices or five mail delivery may have well come up, and I think, as you, having to be sensitive to the needs of your constituents. Commissioners also I feel, serve a constituency. The primary constituency immediately being of course, the Congress and the President. We should be sensitive to having that intercourse between someone, say, in the country or rural area rather than just city people coming from Washington D.C., assuming of course, that the primary qualifications are there to begin with.

Mr. HANLEY. Well, I appreciate that explanation. It certainly does make sense that a mix, urban-rural, would certainly provide a far better cross-section.

Now, you suggest that as an alternative to the Commission's recommendation regarding your budget that the Director of OMB be required to approve any budget cut that the Board of Governors might wish to make.

It would appear to me that that could be the worst of both worlds with two other agencies looking over your shoulder and with some control over your finances.

I just wonder how this would reduce the complexity of budgetary process as you suggest on page 13 of your testimony.

Mr. DUPONT. I must admit to a philosophical position that I was persuaded to take back in 1969 and 1970, and that has continued, and so I am looking for a way to continue adhering to that philosophical position. That is, that the Postal Rate Commission is part of the Nation's postal system.

The philosophy back in 1969-70 was that the mail user should pay for the bulk of the system. The fact that we are, in my view, a part of the postal system means that we should draw, and continue to draw our operating expenses from the Postal Service fund. If we came to

the Congress we would draw from the General Treasury and not from the Postal Service fund.

So looking for an arbiter, in my view frankly, our independence has not been compromised with the situation we now face.

But others see this as an infringement on our independence. They would prefer to take us from the Postal Service fund to the General Treasury.

It costs us \$2.7 million or \$3 million to operate. This is a small amount.

Philosophically though because there have been accusations that the independence of the Commission may be compromised, I was looking for a situation that would resolve what other people have seen as infringement.

I do believe that the Director of OMB can sign off one way or the other and furnish the arbiter.

If the Congress feels we should come up to the Hill and get money from the General Treasury, that won't hurt us at all. I would welcome coming to the Congress to have you look over our budget request, but philosophically I prefer staying with the Postal Service fund and looking for an arbiter.

Frankly, that is why that suggestion was made to look at the GAO and here.

Mr. HANLEY. With regard to the budgetary process and your personnel system, if the Rate Commission were to switch to the regular budgetary process rather than fund its activities through the Postal Service, then would this not require the Commission to switch to the general schedule and, as such, eliminate its own semiautonomous system?

Mr. DUPONT. Yes.

Mr. HANLEY. It would?

Mr. DUPONT. Yes. Since I have been Chairman we have moved to follow the general schedule almost completely.

Unlike the Postal Service, we are restricted in the levels of pay we can give our employees. Therefore, we are following the general schedule.

Looking for the day you should decide to have us come up here for our funding, the transition would not be that drastic. In fact, it wouldn't be drastic at all.

Again, I go back to my philosophy. We are trying to follow the general schedule as closely as possible. We will do that.

Mr. HANLEY. Now, to continue our discussion about budget, you support the continuation of the current budgetary arrangements.

Has the Service ever cut a budget request on you?

Mr. DUPONT. Yes.

Mr. HANLEY. And why?

Mr. DUPONT. Yes, 2 years ago before I went to the Commission, it had under discussion the institution and establishment of what is commonly referred to in regulatory agencies as a system of accounts. I call it a periodic reporting system. The regulatee comes in periodically with data on its operations so that when a rate filing is submitted everyone is knowledgeable on the financial condition of the utility. Other regulatory agencies, the public utilities that are being regulated, do come in with periodic filings.

The name that is given to this periodic filing, as I said, in other regulatory agencies is a system of accounts.

We felt that this was essential. In view of the need to expedite our proceedings, our rate proceedings particularly, we wanted to have the Postal Service give us periodic filings rather than come in with the rate filing and bringing in material 2 feet high. This causes everybody to go through it and takes at least 7 months for discovery to see what the Postal Service actually was saying—what their financial condition was.

So in 1975 we added to our budget an amount of \$470 million, I believe, or was it 700—\$700,000 excuse me. To establish within the Commission a system of accounts.

The Postal Service immediately threw up its hands and said, "You are going to impose on us a new system of accounts," which was not really our intent. But sometimes you need a two by four, as I was told by my father, to get somebody's attention.

We have been trying to establish a system of accounts or periodic reporting system.

The Governors turned us down, but they said in the letter denying that amount of money that, "We will cooperate with you in coming up with a reporting system that would accommodate the needs of the parties and the Commission and still not infringe on the managerial prerogatives of the Postal Service."

We said, "Fine, we will work with you."

We agreed to that reduction.

They reduced us. We then moved, though much slower than we had hoped, to set up a periodic reporting system.

It was only after approximately 14 months of discussions that we arrived at a periodic reporting system that gives us a start where we have the material coming into us monthly, quarterly, whatever the Postal Service brings up, and how they report it.

We have it coming in. The parties and the Commission staff are able to review the Postal Service's financial condition before a rate filing. This will I am convinced, help us to expedite by cutting down the amount of discovery that is necessary for the parties, and moving our cases ahead much quicker than they did previously.

Mr. HANLEY. I am a bit concerned about the procedure. And I guess skeptical of the thought that there is a possibility that the agency under this procedure is in a position to actively influence directly or indirectly the Commission's activity.

Is that reasonable, to be a bit apprehensive?

Mr. DUPONT. No. Because of this. The material that they give us is subjected to cross-examination by people who are well-schooled in postal operations and postal finances. Should at any time—and this has happened—the parties find some area of data that we feel is deficient, we have the right to make disallowances or to question the Postal Service much more extensively regarding these matters.

I believe that we have gone through the evolutionary process, the early stages, and now have obtained enough sophistication to know and, have a feel for, what is solid and what is not.

Therefore, even though the Postal Service can, in effect, not give us information that we feel is necessary, through this adversary process

that is very extensive and very detailed, we can come up hopefully with the right answer.

There are a number of people around this town and around the country who have a great deal of sophistication regarding postal operations now and postal finances, and we are in a much better shape now to question the Postal Service's findings and their operations than we were 5 years ago or even 2 years ago.

Mr. HANLEY. What you say is comforting and hopefully will set my apprehension to rest.

Now, you support the Commission's reasoning that the move toward full distributed costs would bring volume losses in the second-, third-, and fourth-class mail which would lead to even higher first-class rates.

This has been a theory that is often stated but I am yet to see any serious economic studies which would give us a good picture of the overall effects of such a costing methodology.

Has your Commission conducted any such study?

Mr. DuPONT. Yes, we have, and we will submit that, what we have.

We also have extensive testimony in our hearing transcripts, addressing the inverse elasticity rule that we follow, showing that there are competitive modes of delivery available to mailers right now.

For the first time, in our last case we had extensive testimony given to us by MPA and by third-class mailers that did have an effect on the rates that we set.

For instance, the information we got from MPA showed that their experiment in Hagerstown, Md. with a private delivery service had a rate of 14 cents a piece for this type of delivery service.

We looked at the rates and decided that the competitive modes of delivery were not that threatening to the Postal Service. Though at some point they may very well become threatening.

Therefore, we have to watch this very carefully.

With third-class mail, as with parcel post, we found evidence that the competition was much stricter. Therefore, we reduced the rate that was proposed to us by the Postal Service. It was obvious that there is a relationship and that at some point a rate may become too high. Also the alternative modes of delivery will be competitive as they are now with UPS and parcel post.

So we do have that evidence before us showing the effect, and we have taken that into consideration in the rates that we have set.

We have to refine it. We have to get better evidence, and we will in our next case. We do have a study and evidence from our cases indicating that this is so.

Mr. HANLEY. With regard to the closing of post offices and under the newly effective provision for appeal, what steps has the Commission taken?

Mr. DuPONT. As you know, we have rules, since the Congress gave us that responsibility, that require the Postal Service to file with us a filing at least 90 days before they put a rate change into effect. This applies also to service changes with post office closings.

With post office closings, since we are just the appellate body, the record that comes to us will be what the lawyers call—will not be a trial de nova—trial beginning.

We only get the appeal record, which has been brought together by the Postal Service. Then we get the appeals from the individuals.

We do have a set of rules that we issued several months ago and we have distributed to the Postal Service to others.

We are now waiting to see what rules the Postal Service will be adopting for post office closings.

We are asking that widespread distribution be made of our rulings throughout the country, particularly at a post office, where a closing has been determined to be made by the Postal Service.

This is about all that I can say at this point. We have established rules, but we have not received any closings. When I was around with the Commission on Postal Service, there were a number of inquires I received regarding this and I have sent them copies of our rules.

We are also making available to them the services of the officer of the Commission. As you know, within the Commission we have to have somebody to represent the interests of the public in general. We have the officer of the Commission whose services made available to anyone—any appellant who wants to take advantage of that.

Mr. HANLEY. Tell me, is the Commission presently employing any administrative law judges?

Mr. DUPONT. No. We lost our one administrative law judge last month. He went to the Civil Aeronautics Board. And my intent is to have the Commissioners sit on the cases, preside at the cases.

I find, frankly, as far as the Postal Rate Commission is concerned, that this is the best way to operate. We are very cognizant of the need to expedite, the need for fairness, the need to get as much evidence as possible, and input into the Commission as to what is happening.

We have five classification cases going right now, post office closings, a move to 5-day delivery, and then a rate case again, I feel that the Commissioners should preside at the cases like you preside at these hearings.

I feel that under the present circumstances I would rather stay with Commissioners presiding at the cases rather than having an administrative law judge.

That is what we are getting paid for. That is our responsibility. I can see no reason, frankly, to get an administrative law judge at this time.

It may be that at some future time we may need someone when the case load becomes heavier, should that ever be the situation I do believe that with five Commissioners the caseload can be handled very well.

Therefore, we do not have any administrative law judges at this time.

And, again, I feel that the Commissioners should come up here and appear before you and get your views.

Administrative law judges are fairly independent. I would rather have the Commissioners come up and appear here before the Congress.

Mr. HANLEY. Well, I appreciate what you have said, and hopefully through the course of this year we can develop more in the way of this type of colloquy.

Well, in conclusion, in your judgment does the Postal Rate Commission enjoy the capability whereas it could provide the direction

to top management of the agency which ultimately would provide the return to the American public of the 3-cent first-class stamp?

That is too tough.

Deliberate that one and answer by letter.

Mr. DuPONT. Since that is an item that may come up for discussion before the Rate Commission, I can't discuss the merits of it. But I do feel we have the expertise.

Frankly, I believe the Postal Service has too. Right now they have underway 10 studies. The first one reportedly will begin this month on mail flow where they can isolate these costs. They have household studies, nonhousehold studies, market demand studies. I think these are things that the Postal Service and Congress needs very badly to determine how mail moves, what it costs, and what the demands are. I think the Postal Service can be much further ahead to bring the Congress good information on which to make policy.

I would like to state that I think your suggestion to the administration that you establish a national postal policy is absolutely essential, one that really has been lacking in my view. And I hope that we can get that policy, and will be guided by it.

Mr. HANLEY. Well, it would appear to me that that is essential if we are going to have the agency emerge from the dilemma that it is in and provide properly for the American people.

Just one final question.

The premium rate available to first-class mailers for doing certain steps on their own, how is that working out?

Mr. DuPONT. Very well. As you know, we are moving in our first classification case and even now, to presort discounts. When a mailer avoids certain functions for the Postal Service, that should be taken into consideration.

But it is essential to find out what the savings are and what those steps cost the Postal Service.

We have moved ahead in allowing for presort discounts, when the evidence in these cases have justified that. And we are moving into this area much faster.

I appreciate the Postmaster General's statement to the Comstock Club in Sacramento earlier this year saying that they were going to move ahead with giving discounts.

We already have in our cases given presort discounts. That is doing very well. I am pleased with it and the mailers are pleased with it. But essential to this is finding the costs again for these processes.

Mr. HANLEY. Yes. Any idea with regard to percentage of first-class mail that is enjoying that benefit?

Mr. DuPONT. I don't have it at my fingertips, but we can get it. We have it available in the Commission.

Mr. HANLEY. That information could be helpful to the committee.

I want to express, on behalf of the full committee, our appreciation for your appearance here this morning, Chairman DuPont.

Your testimony is indeed excellent. Certainly I know that it was well thought out and I can appreciate the problems of the Commission in attempting to resolve the very difficult problems that you deal with.

We are hopeful that a combination of things, essentially the national policies that we have alluded to, far better than the traditional cost ascertainment system, could provide your Rate Commission with better tools with which to work as we proceed through the years ahead.

The hearing stands adjourned pending call of the Chair.

[Whereupon, at 12 noon, the hearing was adjourned, subject to the call of the Chair.]

[The appendix to the prepared statement of Mr. DuPont follows:]

#### APPENDIX TO CHAIRMAN CLYDE S. DUPONT'S STATEMENT

*Introduction.* This Appendix discusses in detail the legislative recommendations made by the Commission on Postal Service ("CPS") which directly affect the powers and activities of the Postal Rate Commission. The section numbers are those of the draft bill printed in Volume 1 of the CPS report, and the page numbers are also those of that volume.

1. *Closing of Post Offices* (§ 3, p. 85). The CPS draft bill would amend 39 U.S.C. § 404(b) to change the standards for closing a post office and to eliminate the as yet untried statutory mechanism for Postal Rate Commission review of Postal Service decisions to close or consolidate offices. The CPS proposal would appear to eliminate any consideration of economic savings resulting from a closing. (Compare present 39 U.S.C. § 404(b)(2)(D).) This seems too restrictive a standard; a plainly uneconomic office could be closed only if a majority of the patrons agreed or if the postmastership fell vacant. The standards of present § 404(b)(2) appear more realistic, while still requiring adequate protection for the public.

Elimination of PRC review can not be supported by any argument from experience, since the review mechanism has not yet been invoked by postal patrons. If the intent of the CPS bill is to eliminate *any* independent review of post office closings, it is not likely to succeed. An action can be brought in District Court<sup>1</sup> to enjoin the closing, and under 28 U.S.C. § 1331 no particular monetary amount in controversy need be shown. Review by the PRC seems likely to be cheaper, speedier, and simpler than a court action. This would be to the advantage of the public. The CPS recommendation therefore seems premature at best, and could have the effect of making public participation in the review process much more difficult.

2. *Legal representation* (§ 4, pp. 85-86). The proposal of the CPS to allow both the Service and the PRC to appear in court by their own attorneys in cases arising under chapter 36 (*i.e.*, regulatory matters) should be enacted. Both agencies have consistently supported it. At present, the Department of Justice must represent both agencies, and this arrangement has already led to one awkward situation where the Service and the Commission were on opposite sides.<sup>2</sup> If the CPS recommendation that PRC decisions be final and subject only to judicial review (which the Service would have the right to seek) were adopted, the situation confronting the Justice Department would become virtually intolerable. The CPS amendment would correct this situation, as well as placing the PRC on the same footing as most other regulatory agencies.

If the CPS proposal to modify post office closing procedures is not adopted, and PRC review of such actions remains part of the Act, then the statutory delegation of self-representation authority should be correspondingly amended. These cases do not arise under chapter 36, and so would not be covered by the CPS language. References to § 404 should be added to the references to "chapter 36" [proposed § 409(d)(2)] and "this chapter" (proposed § 3605) in the CPS bill.

3. *Professional Qualifications of PRC Members* (§ 6(2), p. 86). The CPS proposes to require that Commissioners be chosen "on the basis of their professional qualifications in postal affairs, law, economics, or utility regulation." Present law requires that nominees be professionally qualified, without specifying particular disciplines.

The list of relevant professional skills could be considerably expanded beyond those the CPS has enumerated. For example, the original 1969 postal reorganization bill (H.R. 17070, 91st Congress, § 1251) called for expertise in "the legal

<sup>1</sup> See *Simon v. United States Postal Services*, — F. Supp. —, D.D.C. No. 76-0322 (1976).

<sup>2</sup> *Associated Third Class Mail Users v. United States Postal Service*, 405 F. Supp. 1109 (D.D.C., 1975), affirmed, — F. 2d —, D.C. Cir. No. 77-2227 (Dec. 28, 1976).

profession, economics, cost accounting, engineering, management or postal rates." Even this list could be added to: finance, transportation, marketing, and other subdisciplines of accounting could be quite as useful as the skills listed.

Indeed, in view of the difficulty of predicting all the professional skills that might be needed, we would suggest a more flexible approach than that of the CPS: development of a comprehensive list of desirable skills which would then be made advisory but not absolutely binding on the President. He could thus appoint persons with unusual but plainly relevant expertise.

Under present law, the President has had this type of flexibility. Experience has shown that the Commissioners appointed in this way have successfully discharged the Commission's business, and have quickly assimilated the technical knowledge necessary to carry out their duties—including that of sitting *en banc* and presiding directly at evidentiary hearings.

4. *Reduction of Commission membership from five to three* (§ 6(b), p. 87). The recommendation to reduce the Commission's membership to three is not a desirable one. While it may appear to promote the "streamlining" of government, any such advantage would be canceled out by the adverse effects of the reduction.

The CPS's own recommendation that a broad range of professional skills be represented in the PRC would be more difficult to achieve if membership were reduced to three. Valuable diversity of geographic background among Commissioners would also be reduced. In addition, the PRC has experimented successfully with the practice of having Commissioners sit as presiding officers in hearings. If the scope of this practice were reduced by a reduction in membership, it might be necessary to make greater use of Administrative Law Judges—thereby sacrificing much of the theoretical "streamlining" advantage of the CPS proposal.

Moreover, there is no administrative symptom suggesting that reduction in membership would improve PRC efficiency. Experience shows that a 5-member Commission can and does dispose of its business expeditiously and well.

If Congress were to adopt the CPS proposal, however, a serious practical deficiency in it should be corrected. Under the CPS' scheme, the Commission would have a total membership of four for two years.<sup>3</sup> During that period, any matter on which the vote was 2 to 2 simply could not be disposed of. This is especially serious in that the Commission expects to hear the evidence directly in future rate cases; thus there is no possibility of such cases being disposed of through affirmance of an Initial Decision by an equally divided vote. Proper expedition of rate cases—demanded by Congress in Public Law 94-421—could thus become impossible as a matter of law.

The only means of correcting this difficulty would appear to be to give the Chairman of the PRC a tie-breaking vote in cases where the Commission was equally divided.

5. *Funding of the PRC Through Appropriations* (§ 6(c), p. 87). The CPS proposes that the Commission should be funded through the appropriations process rather than by drawing on the Postal Service Fund with limited budget review by the Governors. The present system is admittedly somewhat anomalous, in that the regulated entity provides the regulators' budget, but in general it has worked satisfactorily. It is the view of the Commission that its independence is not compromised by the present procedure. However, if Congress perceives a potential problem of Commission independence, it can be better remedied by providing a neutral arbiter who would review any proposed reduction by the Governors.<sup>4</sup> The most logical choice for such an assignment would be the Director of the Office of Management and Budget. This procedure would both assure the independence of the PRC and retain the simplicity of its budget process.

6. *Changes to 39 U.S.C. § 3621* (§ 7, pp. 87-88). There are several sub-issues raised by § 7 of the CPS draft bill, discussed herein *seriatim*.

A. The first sentence of the new § 3621 proposed by CPS would vest authority to change rates and fees in the PRC. This reflects the CPS's recommendation that PRC decisions be final: that proposal, and the reasons why it should be adopted, are discussed in detail in the main statement.

B. The elements of the revenue requirement which forms the basis of postal rates would be affected in a number of ways by the CPS bill. The bill would redefine the elements includable, place a limit of two percent on allowable contingency provisions, and prohibit the inclusion of any allowance for the recovery of past losses.

<sup>3</sup> From Oct. 15, 1978 through Oct. 14, 1980 (§ 6(b)(4)).

<sup>4</sup> The Governors are not authorized to veto or change any line item in the PRC budget. 39 U.S.C. § 3604(d)(1).

Present law provides, as an element of the revenue requirement, for "sinking funds or other retirements of obligations to the extent that such provision exceeds applicable depreciation charges." The CPS bill omits this item and thus presumably intends to prohibit sinking funds.<sup>5</sup> There does not appear to be any inherent disadvantage in the use of a sinking fund to retire past deficits represented by operating debt; indeed, the CPS itself implies that if revenues associated with the allowance for past-loss recovery had been applied to such a fund, the allowance itself would be less objectionable. See CPS Report, vol. 1, p. 71. Under these circumstances, it seems premature at best to prohibit the use of sinking funds for this purpose. Moreover, such a prohibition would tend to depart from the "break-even" philosophy which underlies the Postal Reorganization Act. The better course would be to leave the sinking fund available as a means of restoring the financial condition of the Service.

The CPS also proposes to prohibit the allowance of any sums for the recovery of past losses. This ban—coupled with a proposed appropriation of \$625 million to retire operating debt outstanding as of September 30, 1978—is apparently intended to "wipe the slate clean" and to require timely rate increases and economical operations in the future. It is by no means certain that the CPS proposal is workable, however. It is not unlikely, in the first place, that more operating debt will have been incurred by the end of FY 1978. The CPS appropriation proposal thus may be inadequate to achieve its purpose. Second, there is a distinct possibility of major changes in the Service's cost picture in future years. For example, experimentation with electronic message transmission could cause temporary changes of considerable size. Under these circumstances it would seem preferable to allow postal management sufficient leeway to choose the most efficient financing mechanism.

Finally, the CPS argues in favor of limiting contingency allowances to two percent of operating expenses, depreciation, and debt service. This seems an unduly low limit; indeed, the history of contingency allowances recommended by the PRC in the past shows that—without any limit other than the statutory prescription of reasonableness—the amounts allowed have been no more than adequate. The Kappel Commission recommended an allowance of three to five percent. Moreover, the PRC has not adopted any particular figure as a rule of thumb. The need for, and amount of, a contingency allowance will be examined independently in each case.

C. As revised in the CPS draft bill, § 3621 omits any mention of establishment of mail classifications. The mechanisms for classification are incorporated elsewhere in the bill, and are commented on at Paragraphs 12–15, *infra*.

7. *Initiation of Rate Cases* (§ 7(2), p. 88). The CPS revision of present § 3622 (a) requires that the Postal Service, before bringing a rate case before the PRC, must find "that each such change would be in the public interest of this and in accordance with the policies of this title." This provision—which is retained from existing law—apparently would perpetuate the rule of *Associated Third Class Mail Users v. U.S. Postal Service*, *supra*, that the Governors must review and approve in detail each rate request before it may be submitted to the Commission.

8. *Ratemaking standards* (§ 7(2), pp. 88–89). The CPS proposes a large number of changes in § 3622(b), the central ratemaking provision of the Act.

A. As a basic rule of cost allocation, the CPS would revise the first sentence of § 3622(b) (1) to read: "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, subclass, or type of service."

It seems quite clear from the body of the CPS Report (see pp. 6, 7, 63–64) that this amendment is specifically intended to reverse the judicial interpretation placed on the Act in *National Association of Greeting Card Publishers v. U.S. Postal Service* — F. 2d — D.C. Cir. No. 75–1856, December 28, 1976). In that decision, as the Report makes clear, the court adopted a construction of the Act which subordinates all of its other ratemaking criteria to the objective of attributing costs on the basis of causation.<sup>6</sup>

<sup>5</sup> Sinking funds would be available for the retirement of operating as well as capital borrowings. See PRC Op., R76–1, pp. 32–34.

<sup>6</sup> To achieve this end, the court showed a willingness to entertain rough or approximate methods of judging causation. Indeed, it chided the Commission for an "allegiance to the goal of greatest possible accuracy," which it said "fatally flaws" the ratemaking approach used. Slip op., p. 41.

The CPS recommendation would restore to their intended role in ratemaking the noncost factors used to assign institutional costs. In doing so, it would in effect institutionalize the methods used by the PRC in past rate cases, which are consistent both with the legislative intent and with the best interests of the mailing public. As the CPS Report points out (Vol. 1, p. 63), the methods endorsed by the courts would result in substantial rate increases for the classes of mail having alternative delivery systems available. Experience shows that volume in these classes is sensitive to rate increases. Thus, if volume in those classes declined, the heavy fixed costs of the Service would fall increasingly on first-class mail—the apparent short-term beneficiary of maximized cost attributions.

The Commission fully endorses the change proposed in the first sentence of § 3622(b)(1). It is suggested, however, that its meaning would be clarified by altering the definitional phrase to read: “. . . those postal costs which are attributable to that class, subclass, or type because the costs vary [etc.].”

B. Thus far the recommendation of the CPS is entirely in accord with the original intent of Congress and with sound ratemaking principles. The next alteration proposed to § 3622(b)(1), however, is not a desirable one. The CPS advocates two mathematical limitations on the exercise of the ratemaking method embodied in the first sentence of § 3622(b)(1): (i) An absolute ceiling of 60% on the proportion of costs that may be causally attributed; and (ii) A limit of three years on the period which may be considered to determine whether costs vary with volume.

Neither of these essentially arbitrary limits is necessary, or consistent with the regulatory functions assigned to the Commission. It is arguable that a limitation on the maximum level of attributions might contribute some stability and predictability to postal rates.<sup>7</sup> But stability in rates cannot realistically be pursued when costs are not stable.

It is not unlikely that the costs of the Postal Service will change significantly in nature as well as in amount in future years. For example, if the Service were to become actively involved in electronic message transmission, new categories of expenditures, with different causal factors, would make their appearance. Another example is suggested by the Postmaster General's prediction (*Wall Street Journal*, May 3, 1977) that potential savings from 5-day per week delivery (estimated at \$412 million) would not be fully realized for three years. These are specimens of the kind of change which a rigid limitation attributions would leave out of account.

It is also quite possible that—contrary to the accepted economic theory and underlying the present provisions of the Act—some classes of mail could, under the proposed 60 percent ceiling, be priced below incremental cost. When Congress prescribed “attributable cost” as a floor for prices, it did not have in mind that an arbitrary definition of that term might be employed to make the price floor less than incremental cost. Indeed, as the CPS Report itself recognizes (vol. 1, p. 60), Congress intended incremental cost to establish that price floor. Artificial limits on attributions, therefore, such as the 60 percent proposed here, would undercut the original intent of the Act.

Finally, it is clear that Congress intended attribution—like the other technical procedures of ratemaking—to be performed by an expert body making judgments on the basis of an evidentiary record. Artificial limitations such as the 60 percent “cap” on attributions are inconsistent with this approach.

The time limitation on consideration of cost variability is open to the same objections. The determination of a reasonable planning cycle for variability analysis is as much a part of the Commission's expert function as the determination of variability itself. Moreover, the limitation of the period considered to three years would place an additional limit on attributions, since the longer the period taken into account the higher the level of cost variability apparent. It might be argued that the three-year period is appropriate as reflecting the length of the Postal Service labor contract. But that contract period is not immutable; rather it is subject to negotiation between the Service and the unions.

<sup>7</sup> Even if this argument were accepted, it would still be preferable to provide a ceiling that could change from time to time to reflect the changing economic realities of postal operations. One possible method might be a periodic study (e.g., every four years), conducted by the PRC and submitted to Congress with a recommendation for the next four-years' limit on attribution levels. If not vetoed by either House, this limit would become the governing one until superseded by the next report.

In summary, therefore, the amendment to the first sentence of § 3622(b) (1) is highly desirable, and should be favorably considered by Congress. The two numerical limitations on application of volume variability should be rejected.

9. *Relationship between Appropriations and Ratemaking* (§ 7(2), p. 88). As in the present law, § 3622(b) (2) would govern the assignment of costs not attributed on the basis of causation. Subsection (2) (A)–(E) contain the standards which the PRC would be required to observe in making these assignments; the CPS proposals in this respect are discussed below at Paragraph 10. Here, however, it is necessary to discuss one point in the preliminary portion of § 3622(b) (2).

The costs which are to be apportioned in accordance with the listed noncost factors are, under the CPS proposal, to be diminished by "an estimated amount for public service appropriations" before being assigned. This specific treatment of public service appropriations as a single deduction from unattributed costs raises a significant question. Section 3621 now requires—and the CPS bill would not change it in this respect—that income plus appropriations equal total estimated costs. Its attributed costs are calculated as a portion of total estimated costs, and all remaining costs are then reduced only by the amount of public service appropriations before being assigned on the basis of the proposed § 3622 (b) (2) factors, it is possible for some income items other than rate revenue and public service appropriations to be left out of account. These miscellaneous items would include Postal Service investment income, miscellaneous fees, and international mail revenues. The result of failing to account for these items would be to produce needlessly high rates and excess revenues. Inasmuch as the appropriate deductions are made as a matter of course in rate cases under current practice, it is questionable whether the CPS amendment is needed at all.

10. *Changes in Noncost Factors* (§ 7(2), pp. 88–89) The five paragraphs, lettered (A) through (E), of § 3622(b) (2) in the CPS proposal would make certain changes in the factors currently used to distribute institutional costs among the mail classes. One change which is probably not desirable is the elimination of present § 3622(b) (9): "such other factors as the Commission deems appropriate." There may be unusual circumstances which should be reflected in the assignment of institutional costs, and it would be desirable for the Commission to have clear authority to consider them. Likewise, the CPS proposes to eliminate present § 3622(b) (1): "the establishment and maintenance of a fair and equitable schedule." While the Commission would certainly attempt to meet this standard whether or not it was articulated, no good reason appears for striking it from the statute. The CPS has also removed from § 3622 the factor concerning degree of preparation by the mailer of mail matter; however, it has added this factor to the mail classification section (§ 3623), and it may well be that it can be better administered there. Simplicity of structure and "simple identifiable relationships" among the various rates are a requirement of present law [§ 3622(b) (2)]; this provision is removed by the CPS. It represents a worthwhile, if not paramount, value is ratemaking and probably should be retained. The CPS has added, as new § 3622(b) (2) (E), a factor concerning "the relative demand for each class or subclass of mail or type of mail service." This is a meritorious proposal, which is consistent with the Commission's use of relative demand elasticity as an important tool in assigning institutional costs.

11. *Temporary Rate Provisions* (§ 7(4), p. 89). One comment should be made on the CPS's proposed subsection 3641(d), which provides that temporary rates established by the Postal Service under § 3641 may remain in effect for up to 150 days after the Commission issues its decision. The ancestor of this provision in present law was enacted on the theory that the Governors of the Postal Service required a reasonable time in which to consider (and possibly decide to remand for reconsideration) a recommended decision of the PRC. By giving the PRC final decisional authority, the CPS draft bill makes this provision obsolete for its original purpose. It may be noted that the CPS's proposed new § 3624 (d) (3) leaves it to the PRC to prescribe an effective date for new rates; thus this provision is inconsistent with the one allowing the Governors to retain a temporary rate in effect when the PRC-prescribed permanent rate is different.<sup>8</sup> The inconsistency, if inadvertent should be corrected by omitting the revision of § 3641(d). Prescription of the effective date of new rates is a proper function of the regulatory agency. If the intention of the inconsistent provision is to the pro-

<sup>8</sup>The CPS would amend § 3641 to permit the Service to institute temporary rates, "in accordance with the proposal under consideration by the Commission"—but the Commission may, of course, prescribe other rates than those proposed. In that event, the temporary and permanent rates would differ.

vision of an "extrajudicial stay" which the Governors may invoke, it is equally undesirable. Appellate courts can stay an order of an agency if certain showings as to its unduly harmful effect on the respondent are made. This should remain a judicial function, not a privilege of one party to the proceeding.

12. *Classification Amendments: Legislative freezing of Major Mail Classes* (§ 8(a), pp. 89-90). The CPS recommends that § 3623 be amended to require that there be at all times a separate class for (i) letters and other matter sealed against inspection, (ii) newspapers and other periodical publications, (iii) advertising and miscellaneous matter under 16 ounces and not required to use another class, and (iv) parcels and other items not required to use some different class. Congress, in 1970, did not envision such a limitation on future restructuring of the classification schedule. As the Kappel Commission Report (p. 136) indicates, some sweeping proposals for realignment of the traditional structure were before Congress at that time, and the statute adopted allows full latitude to explore them. If—as is understandable—the CPS desires to guard against the exclusion of any of the historic types of mail from the postal system through the adoption of a reformed classification schedule, it is not necessary to accomplish this end by refusing in advance to countenance any basic reorientation of mail classification. It can be made a binding requirement of the statute, or expressed as a general policy, that all those types of mail must continue to be accommodated by the system, whatever shape the future classification schedule may take.

13. *Change in Classification Standards* (§ 8(a), p. 90). The CPS has proposed certain changes to the classification standards of § 3623(c). As it did with respect to ratemaking standards, the CPS has omitted both the general "fair and equitable" standard and the general provision for the Commission to consider other factors not specifically enumerated. Both should be retained in the statute, for the same reasons mentioned in Paragraph 10 above. The transfer of the "degree of preparation" standard from the rate to the classification section has also been commented on above.

The omission of the "fair and equitable" standard is particularly unfortunate here because, unlike the situation with respect to rates, § 101(d) does not speak directly to classifications.<sup>9</sup> There is no apparent reason for this omission, but if Congress determines to remove the general standard from § 3623 it might be desirable to broaden § 101(d) to cover classifications as well as rates.

The CPS would also add to the classification criteria an "educational, cultural, scientific, and informational value" standard. Congress added this criterion to the rate provisions in 1976. These considerations are a traditional element of mail classification legislation enacted before 1970. While they are difficult to quantify, participants in classification proceedings can be encouraged to overcome the difficulty with appropriate evidence.

14. *Initiating Mail Classification Proceedings* (§ 8(a), P. 90). The CPS would add a new subsection 3623(d) to the effect that "[t]he Postal Service or the Commission may propose changes in the mail classification schedule." The Commission now has, and has used, authority [under § 3623(b)] to initiate mail classification proceedings on its own motion. It is important that any amended § 3623 clearly preserve this authority; however, the proposed § 3623(d) could conceivably be read as meaning that the PRC may propose changes only in the context of a proceeding initiated by a Postal Service filing. To avoid such a construction, which does not appear to be what the CPS intended, it might be well to add a second sentence to the new § 3623(d): "The Commission shall institute proceedings, in accordance with § 3624, upon such proposed changes."

15. *Temporary Mail Classifications—Institution by Postal Service* (§ 8(b), pp. 90-91). Under this proposed amendment, the period between the filing of a Postal Service classification change proposal and the possible institution of temporary classification changes by it (the PRC not having yet issued a decision in the premises) would be enlarged from 90 to 180 days. This change would not accomplish any practical result except to give the public additional notice of potential temporary classifications. While theoretically the probabilities of a PRC decision issuing before temporary classifications can be imposed is increased, it is in fact unlikely that in a controverted case of any complexity a decision would be rendered in 180 days. The proposed change does not reflect

<sup>9</sup> Section 101(d) reads: "Postal rates shall be established to apportion the costs of all postal operations to all users of the mail on a fair and equitable basis." One—but not the only—aspect of fairness and equity is addressed with reference to classifications as well as rates in § 403(c), which forbids undue discrimination.

any administrative problem existing today, since the Postal Service has not placed any temporary classifications into effect in advance to PRC decision. The change therefore seems unnecessary.

16. *Change in PRC Decisional Process—Rate and Classification Matters in Common Docket* (§ 9(a)(1)). The OPS proposal to require—unless the demands of expedition and fairness dictate otherwise—that related rate and classification matters be dealt with in the same docket seems unnecessary. It is inherent in the power of a regulatory agency to arrange its docket and conduct its business efficiently either to separate or to combine such related matters. The Commission shares this power, and the fact that such related matters have seldom been combined in one docket reflects the demands of expedition and fairness—that is, the exceptions provided for by the CPS draft bill would, if experience is a guide, tend to outweigh the rule. This is, of course, particularly true in rate cases, where a statutory time limit has been imposed.

17. *Nine-month Rate Case Deadline*, (§ 9(a), p. 91). The CPS recommends that the time limit of 10 months on decision in rate cases, established by P.L. 94-421, be reduced to 9 months. This reduction in an already close schedule would seriously interfere with the rights of the parties to present, cross-examine, and rebut evidence and to present legal argument—all of which rights are (quite properly) preserved in the CPS bill. The gain, if any, to the Postal Service would be relatively minor, and the CPS report does not appear to advance any reasons for the reduction.

18. *Finality of Decision* (§ 9(a), pp. 91-92). The CPS proposes several amendments of a technical nature to §§ 3624, 3628, 3662, and 3684, to effectuate its proposal to make PRC decisions final. In addition, of course, it would delete § 3625 in its entirety. The CPS amendments appear to be technically sound and adequate to accomplish the general change intended.

19. *Preferred Mail Rates* (§ 10, p. 92). The CPS' proposal to cause preferred mail eventually to pay full rates (including institutional cost components) rather than rates reflecting only attributable costs, as presently provided, is not one on which the Commission would normally comment—as it involves essentially a question of appropriations policy. However, one technical question should be raised. It is apparent (although the CPS did not specifically so state) that the gradual elimination of the preferred subclasses is intended to begin with the end of 16-year phasing as currently provided for in § 3626(a)(1). The CPS bill apparently assumes that the terminal date will be July 5, 1987, since § 10(b) declares that the effective date of the amendment is July 6, 1987. However, the end of the current 16-year phasing schedule will be July 6, 1988, since the effective date of the first rate decision (which is the key date for determining the end of phasing) was July 6, 1972. The CPS bill therefore appears to contain a presumably unintended one-year incursion into the currently applicable phasing schedule.

20. *Size and Weight Limits* (§ 11, p. 93). The CPS proposal to amend § 3682 appears to be intended to make uniform the maximum size and weight limits for non-letter mail; it would apply the 100-inch/70-pound limit to all such items and not merely to those meeting the requirements of present § 3682(b). The amendment would probably tend to make parcel post service more widely available, with a beneficial effect on volume in that highly competitive class. A potentially misleading locution in the CPS' proposed subsection 3682(b) should be corrected: the proposed bill states that the "Postal Service may establish size and weight limits for letter mail" in the manner prescribed for mail classification cases under subchapter II. This is a near-reproduction of existing language; but as the CPS would make PRC decisions final, omitting the Governors' review, it is inconsistent to speak of the Service's "establishing" these limits. The substitution of "Commission" for "Postal Service" in this sentence would cure the defect.

21. *Changes in Mail Service* (§ 13(b), pp. 93-94). This proposed change would substitute informal rulemaking (under 5 U.S.C. § 553) for the present requirement of formal, on-the-record proceedings in cases under § 3661 involving changes in the nature of service. It does not seem that if the Commission found evidentiary proceedings actually needed for part or all of such a case, they would be positively forbidden by the direction to use the less formal procedures. However, it would be preferable to allow the PRC the necessary administrative flexibility to adopt the best mode of procedure. This could be accomplished by making the applicable language read: "The Commission shall conduct a proceeding under Section 553 of title 5 (or, if it finds the requirements of fairness necessitate so doing, under sections 556 and 557 of title 5)."

**22. Miscellaneous Provisions.** Two relatively minor amendments proposed by the CPS require little comment. The CPS would amend § 3624(d) to specify matters that must be addressed in PRC opinions, the CPS's list essentially reflects the PRC's present opinion-writing practice. The only new item is a requirement that the effective date of new rates or classifications be specified. This reflects the CPS's recommendation that PRC decisions be final.

The CPS also would require [in § 3624(e)] that the Commission decision be printed by the Public Printer within 10 days of its issuance. This also reflects present law and practice. While it might be more economical—in view of the fact that under the CPS bill Commission decisions would be final—to employ the Commission's own print of its decision, the matter is essentially one for the discretion of Congress.

In this connection it might be of assistance to the public if a printed (rather than microfilmed) edition of the entire record were required to be prepared by the Public Printer, as was the practice in earlier PRC rate cases.

[The following letter and its attachments were received for inclusion in the record subsequent to the testimony of Chairman DuPont.]

POSTAL RATE COMMISSION,  
Washington, D.C., May 13, 1977.

HON. JAMES M. HANLEY,  
*Chairman, Subcommittee on Postal Operations and Services, Committee on Post Office and Civil Service, House of Representatives, Washington, D.C.*

DEAR CHAIRMAN HANLEY: At the hearings before the Subcommittee on Postal Operations and Services, on May 9, 1977, you requested that I supply information on two points: (1) the effect, as found by the Commission, of volume declines in second, third, and fourth class owing to rate increases in those classes on first-class rates, and (2) the names, tenures, and political affiliations of past and present members of the Postal Rate Commission.

I am enclosing two attachments responding to your inquiries.

The first attachment summarizes, in narrative form, the findings and expressions of ratemaking and economic principles contained in the second and third postal rate decisions issued by the Commission, regarding the probability that large-scale rate increases in second, third and fourth class mail might drive substantial quantities of this mail matter out of the postal system altogether, to the ultimate detriment of first-class mail (which would be required to shoulder the remaining burden of fixed postal costs). As the summary makes evident, the Commission has considered this probability in both cases, and the third case (Docket R76-1) represents a considerable advance on the second in the exactness of the techniques and the quality of the record data available to the Commission.

The second attachment is a complete list of the eleven individuals who have served as members of the Postal Rate Commission since its establishment. Together with their names, the table shows the dates of their assuming and leaving office, and the political party (if any) with which each Commissioner was affiliated.

I am also transmitting as a third attachment two substitute pages to replace pages 15 and 16 of the Appendix to my statement given before the Subcommittee. On reviewing the technical discussion of the Commission on Postal Service's proposed revision of 39 U.S.C. § 3622(b)(2), I have concluded that the principal problem with the draftsmanship of the preliminary part of that section is the apparent distinction drawn between public service appropriations and other non-rate income items of the Postal Service. A literal reading of the bill might suggest that those items need not be subtracted (although they should be) in calculating the revenue required from rates and fees. This would lead to a higher revenue level from rates than is really needed. It would appear, upon further reflection, that the draftsman of § 3622(b)(2) intended merely to codify the Commission's ratemaking practices—but has inadvertently omitted certain essential revenue components. In these circumstances, as the revised pages suggest, there may be no real reason for the amendment. No related revisions to my oral statement are required.

If I can supply any further information on any of the material transmitted, please let me know.

Sincerely,

CLYDE S. DUPONT,  
*Chairman.*

**SUMMARY OF RECENT POSTAL RATE COMMISSION DETERMINATIONS REGARDING  
VOLUME EFFECTS OF RATE INCREASES AS A GUIDE TO RATE LEVELS**

The Chairman of the House Postal Operations and Services Subcommittee has requested a summary statement showing the findings of the Postal Rate Commission with respect to potential mail volume losses as a result of rate increases. The question has arisen in connection with a statement by the Commission on Postal Service that increases in second-, third-, and fourth-class rates which would be necessitated by the decision in *National Association of Greeting Card Publishers v. United States Postal Service*. — F. 2d — (D.C. Cir. 75-1856, December 28, 1976) would drive large volumes of such mail out of the Postal system. The ultimate result of such volume losses would be to reimpose substantial fixed costs on first-class mail—the intended beneficiary of the court's costing and pricing approach.

The view of the CPS is consistent with the findings made and principles employed by the Commission in the two most recent rate cases. A summary of the major relevant sections of these decisions follows.

In Docket No. R74-1, the Commission had available a ranking of the major mail classes in order of relative demand elasticity. See PRC Op. R74-1, p. 177. The Commission also recognized certain class linkages: relationships in which rate changes would produce a shift of volume from one mail class to another. Using demand theory as a principal guide to prediction of the effects of rate changes, the Commission considered the volume (and hence revenue) consequences of the various proposals.

With regard to first-class mail, a pure demand analysis would not have been feasible, even had the Commission desired to rely solely on that measure. The Postal Service has established a policy "not to take advantage of its [statutory] monopoly over first-class mail." (PRC Op. R74-1, p. 193.) The Commission accepted this policy, and adjusted first-class rates so as to prescribe only a reasonable markup over attributable costs—while not holding rates down to a level that would have cast excessive burdens on other classes.

In Docket R74-1—unlike Docket R76-1, discussed below—there was little or no showing made as to the potential of higher second-class rates for driving volume into alternative channels of delivery. There was little more evidence offered with regard to third-class bulk mail, though the Commission did analyze the competitive channels available for both "distribution" and "direct response" advertising.<sup>1</sup> The Commission found the first type especially prone to diversion into television, radio, hand-delivered circulars, and newspaper advertisements or inserts. PRC Op. R74-1, pp. 277 et seq.

A more complete picture of competition and potential volume loss was available with regard to fourth-class parcel post. Here the record showed that, for business mailers especially, United Parcel Service (UPS) was an active competitor for parcel volume. See PRC Op. R-741, pp. 288 et seq. In particular, a market study conducted by Booz, Allen & Hamilton documented the strong attraction UPS exercises for business mailers. The rates recommended by the Commission reflected this showing.

The analysis of potential volume declines in these classes of mail was further refined in the third rate case (Docket No. R76-1, issued June 30, 1976). In the R74-1 decision, as noted above, only relative elasticities of demand for various classes were available. In Docket R74-1, a reasonable quantification of these elasticities was performed.

In Docket R76-1, the Commission considered the effect of higher letter rates on first-class volume. See PRC Op. R76-1, pp. 165 et seq. Two principal concerns were expressed: first, that the 13-cent/11-cent (degressive) rate itself might cause a decline in volume, and second, that electronic message transmission in particular might divert volume from first-class. In both of these respects the Commission found the data insufficient to make firm predictions, and urged the Service to: (1) monitor the volume of letter mail; (2) reevaluate the projected elasticity of demand for first-class; and (3) collect data to evaluate the relationship, if any, "between the letter mail rate and the loss of volume to alternative means of communication." (PRC Op. R76-1, p. 166) <sup>2</sup>

<sup>1</sup> Distribution advertising aims at creating awareness of and interest in a product or service; direct response advertising seeks to secure, as a direct reaction to the message, an order for the product offered.

<sup>2</sup> In this connection, we also suggested that the Service add a variable to its Inverse Elasticity Rule model to represent increasing use of electronic communications. See PRC op. R76-1, appendix H, p. 11.

A related problem regarding first-class was that of diversion from letters to post and postal cards. The Commission found that the Service's proposed 10-cent card rate was too high, and that it would carry with it an excessive cost coverage. This determination raised the question whether a larger (4-cent) differential between cards and letters would divert letter volume into cards. The Commission discussed this question at PRC Op. R76-1, pp. 170 et seq., and found that any diversion would be negligible.

Considerable inquiry in Docket R76-1 was devoted to the volume effect of second-class rates. Since second-class matter, unlike letters, may lawfully be carried by private enterprises, the principal question was the potential of private delivery as an alternative to mailing.

The private delivery industry, the Commission found, is in its infancy. Thus, few historical data are available concerning its potential large-scale effect on second-class volume. A Postal Service witness in Docket R76-1 constructed a hypothetical private delivery service ("Magserv") for periodicals. On this basis he attempted to gauge the possible magnitude of diversion. Intervenor witnesses contributed considerable data regarding experimental private delivery programs, and criticized some of the assumptions of the "Magserv" study. See PRC Op. R76-1, pp. 193 et seq.

The Commission concluded "that for some publications private delivery is a realistic alternative to the Postal Service." (PRC Op. R76-1, p. 198.) The data, however, did not permit any other firm conclusions regarding the magnitude of the challenge. The capital and labor costs of private delivery systems in particular remained somewhat unclear. The Commission found that the rates it was recommending were below the average cost of private delivery as shown by the record, but stated that further increases (tending to move rates into an area of greater elasticity) would divert some second-class matter to private carriers. Rates were recommended with this fact in mind.

Diversion of a different type was at issue in regard to third-class bulk mail. It was shown that the advertising which makes up most of this mail matter can be carried out by television, radio, newspaper and magazine advertisements (including inserts), billboards, and private carriers delivering unaddressed circulars.<sup>3</sup> See PRC Op. R76-1, p. 230. This fact was taken into account in fixing the rates.

Brisk competition exist between the Postal Service and private carriers (principally UPS) for parcel post business; indeed, it is common knowledge that much of this traffic has already been diverted to UPS.<sup>4</sup> The Postal Service witness recommended, and the Commission adopted, an increase which accounted for the realities of competition. He foresaw that any substantial increase in parcel post rates could cause a decline in net revenue because of further diversion to UPS. His analysis of the competitive situations led to the conclusion that—had he not scaled down the increase indicated by a strict application of the inverse elasticity rule—the price would reach an area of increasing elasticity with a resultant loss of volumes. See PRC Op. R76-1, pp. 244-246. The Commission found this approach well supported, though in need of some detailed refinements.

<sup>3</sup> When a third-class bulk piece is addressed specifically, it is subject to the Private Express Statutes.

<sup>4</sup> UPS, an intervenor in Docket R76-1, urged that parcel post rates be raised twice as much as the Service proposed. See PRC op. R76-1, p. 243. Presumably this indicates a perception that active price competition exists in the parcel traffic.

## MEMBERS OF THE POSTAL RATE COMMISSION (1970-1977)

<u>Name</u>	<u>Political Affiliation</u>	<u>Position</u>	<u>Appointed</u>	<u>Term of Office</u>
William J. Crowley	R	Chairman	Oct. 15, 1970	Resigned May 1, 1973
Nathan A. Baily	D	Commissioner	Oct. 15, 1970	Term expired Oct. 14, 1974
Howard Elliott, Jr.	R	Commissioner	Nov. 23, 1970	Resigned February 18, 1973
John L. Ryan	R	Commissioner Chairman	Nov. 23, 1970 Aug. 4, 1973	Resigned Oct. 31, 1973
Frank P. Saponaro	Ind.	Commissioner	Oct. 15, 1970	Term expired Oct. 14, 1976 <u>1/</u>
Carlos C. Villarreal	R	Commissioner	Apr. 5, 1973	Term expires Nov. 22, 1978
Rod Kreger	R	Commissioner	Aug. 6, 1973	Resigned Jan. 7, 1974
Fred B. Rhodes	R	Chairman	Jan. 18, 1974	Resigned Dec. 30, 1974
Clyde S. DuPont	R	Commissioner Acting Chairman Chairman	Sept. 20, 1974 Jan. 14, 1975 Mar. 14, 1975	Term expires Oct. 14, 1980
Kieran O'Doherty	N.Y. Cons.	Commissioner	Feb. 20, 1975	Term expires Oct. 14, 1980
Paul A. Miltich	R	Commissioner	Mar. 13, 1975	Term expired Nov. 22, 1976 Resigned Mar. 7, 1977 <u>1/</u>

Under the provisions of Section 3, Pub. L. 94-421, enacted September 24, 1976, Commissioners may continue to serve after the expiration of their term until a successor has qualified. Commissioner Saponaro is continuing to serve (May 10, 1977) beyond his term. Commissioner Miltich resigned about three and one-half months after the expiration of his term.