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The Postal Reorganization Act set four major goals for the Postal Service. While mail service today is not as good as it was prior to the reorganization, it has been gradually improving. The public is currently charged reasonable rates and fees for service, at least for first-class mail. The Postal Service has done much to improve working conditions, and pay and benefits have become comparable with that of the private sector. Of the four objectives, that of achieving self-sufficiency for the Postal Service appears least likely to be met. The Congress needs to devise a system that will provide the Postal Service management with the flexibility to manage, yet provide the Congress with the ability to insure that the Service is run in the best interests of the country. (SC)

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STATEMENT OF  
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BEFORE THE  
SUBCOMMITTEE ON ENERGY, NUCLEAR PROLIFERATION  
AND FEDERAL SERVICES  
COMMITTEE ON GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE  
ON THE  
UNITED STATES POSTAL SERVICE

Mr. Chairman and Members of the Subcommittee:

I appreciate your invitation to present our views on the operations and activities of the United States Postal Service.

Shortly over two years ago we appeared before the Senate oversight committee and presented our assessment of the Service's progress in meeting the four major goals set for it by the Postal Reorganization Act. These goals are to

- provide the American people with good mail service,
- charge the public reasonable rates and fees for this service,
- have postal revenues cover postal costs; that is, to achieve self-sufficiency, and
- bring the wages and working conditions of the postal worker to levels comparable to those of the private sector.

Today, I would like to update our assessment of the Service's progress and problems with respect to these goals in light of the many events and changes that have taken place since our previous testimony.

### Quality of Mail Service

Mail service today--in terms of timeliness of delivery--is not as good as it was prior to the postal reorganization, but it has been gradually improving.

In 1969 the average time to deliver first-class mail was 1.5 days. Just after the reorganization, the average time to deliver first-class mail rose to as high as 2 days. In 1976 and 1977 the average was 1.53 and 1.58 days, respectively. Considering the severity of our last two winters, these averages don't seem bad.

The Postal Service measures the quality of mail service largely in terms of its success in meeting delivery standards for first-class mail. The Service takes particular pride in its 95 percent ontime delivery performance for overnight areas. Over 60 percent of the first-class volume (54 billion pieces last year) is delivered overnight and over 96 percent of all first-class mail is delivered within 3 days.

And yet the largest single complaint by postal patrons concerns delayed mail. If we examine the Service's own delivery statistics, we find that even with its high ontime delivery performance marks, about 3 billion pieces of first-class mail were late last year. Quite frankly, Mr. Chairman, I doubt that the average postal customer knows what the Service's standards are or complains about

minor delays measured against these standards. It's the mail that is consistently or extremely late, lost, or damaged that makes a bad impression and causes complaints.

Our review work around the country over the past few years showed that there are sections or small pockets of the country which do not receive the quality delivery service indicated by the national average. In the Willimantic, Connecticut, area, where we recently completed work, for example, originating mail committed to overnight delivery averaged 94 percent ontime delivery. However, within that area, delivery performance statistics ranged from 100 percent ontime delivery for local Willimantic mail down to only 48 percent ontime delivery for mail destined for Worcester, Massachusetts.

Because the volume is small for mail going to Worcester and large for local Willimantic mail, the result is a combined performance of 94 percent ontime delivery. Similar areas of well below average performance can be found throughout the Nation. The cost of providing equal delivery services to every location, however, would be inordinately high.

Some services, such as those for bulk mail and more specifically fourth-class parcel post, continue to present problems to the Postal Service. The bulk mail system is greatly underutilized and continues to lose parcel business because the Service's rates are not competitive and deliveries are untimely and inconsistent.

On the other hand, special services such as Express Mail and Mailgram are flourishing. On October 9, 1977, Express Mail became the first new official class of mail since Airmail was introduced in 1918. In the last 5 years Express Mail volume increased over 25 times and Mailgram volume increased threefold.

Express Mail revenues grew from \$7,000 in 1970 to over \$46 million in 1977. During the same period, Mailgram revenues grew from \$18,000 to over \$10 million. Put in perspective, however, these specialty services have a limited appeal and together comprised only 4/10 of 1 percent of the Service's operating revenue for fiscal year 1977.

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Obviously people's perceptions of what quality mail service is do not all revolve around the speed with which the various types and classes of mail are delivered. In a sense, quality mail service is like beauty--it's in the eye of the beholder, or in this case, the user of the mail.

For the most part, the actions taken or planned by the Service to lower the cost of providing its services have also tended to raise the ire of some portion of the public. Many actions are viewed as reductions in the quality of service.

In the early days following reorganization, the Service cut back on business deliveries, mail collections, and Saturday window service. More recently it has begun restricting the size of letter mail, virtually eliminated extensions of door-to-door service, tightened packaging standards,

closed or consolidated offices, and talked up the possibility of cutting delivery service from 6 to 5 days. Taken collectively, the complaints leave the impression of widespread dissatisfaction even though the majority of the mail users appear to be satisfied with the delivery service they receive.

### Reasonableness of Rates

The Postal Reorganization Act sought good service at reasonable rates. Are today's postal rates reasonable? We believe that for at least first-class rates the answer is yes.

Just as important, however, is the acceptability of the rates to those who use the service. Evidently, the public thought the 13-cent first-class rate was both reasonable and acceptable.

But what about the new 15-cent rate that became effective on May 29th? Because it had been 29 months since the last across-the-board rate increase, we expect that following a period of shock, the public will again accept the new first-class rates as reasonable and mail volumes will continue to increase.

With the exception of 1975, mail volume has been steadily increasing. In 1977, volume was over 2 billion pieces greater than the previous volume high of 1974. This growth has to be attributed, to a large degree, to the fact that the 13-cent rate had not changed since December 31, 1975.

One measure of the reasonableness of rates is the cost of a unit of first-class postage in other countries. Recently

we compared data for 11 major foreign postal systems with similar data for the U.S. Postal Service. Using the foreign exchange rate prevailing on June 15, 1978, we observed that 10 of the 11 countries charged more than 15 cents for a unit of first-class postage. The average rate prevailing in these 10 countries was over 22 cents. Only Canadians pay less for a first-class stamp than Americans. However, the Canadian postal system is highly subsidized.

Another useful measure in evaluating the reasonableness of rates is the time a factory worker must work to purchase postage for a letter. Americans work 1 minute and 12 seconds. The average for the 11 foreign countries is about 2 minutes, ranging from 1 minute and 6 seconds for Canadians to 2 minutes and 54 seconds for Britishers, French and Japanese.

Third-class mail volumes are increasing along with first-class volumes. This is due largely to the subsidized rates for nonprofit organizations which effectively prevent any competition.

Second- and fourth-class volumes are declining. Most likely this is due to increased competition. Because higher and higher second-class rates are being phased in over a period of time to eliminate the subsidy second-class mailers enjoy, rates are now to the point where many users are looking for and finding alternatives to the Postal Service's delivery system.

Fourth-class parcels are exposed to more competition than any other mail class. This competition, over a period of years, has drained the Service's parcel volume. Good business practices by mail users dictate that they seek the most economical method to deliver their products.

### Self-sufficiency

Another objective of reorganization was to have the Postal Service ultimately pay its own way. Of all the Act's objectives, this appears the least likely to be fulfilled.

The Service has incurred losses in each year of operation, with a cumulative loss of \$3.5 billion since it started business. These losses are over and above the Government appropriations which amounted to \$10 billion during the same period. Some of the \$3.5 billion loss is from non-cash expenses, such as building and equipment depreciation. For the most part, however, Mr. Chairman, the Service had to borrow to cover its operating debt.

Since inception, the Service has borrowed over \$1.8 billion for this purpose, of which \$625 million remains outstanding. The Service does not foresee the need for further borrowings during this fiscal year to finance operations.

Although the Service began fiscal year 1977 on the positive side, it still ended the year with a \$687.8 million loss. The Service attributed the 1977 loss largely to the rapidly increasing costs for workers' compensation.



In fiscal year 1977, the Postal Service reported an expense of \$656.7 million for workers' compensation, nearly double what it was in 1976 and 8 times greater than it was in 1973.

In February, Mr. Chairman, you asked us to evaluate the reasonableness of the Service's reported cost for workers' compensation and the methodology the Service uses to determine the liability. We have found that the reported liability may not be accurate for two reasons--inaccuracies in the Department of Labor billings to the Service for compensation and medical costs and technical problems in the methodology the Service uses to determine the liability.

Probably a more important problem is in the program's administration--are claims being approved that should not be? GAO recently testified before the House Subcommittee on Compensation, Health and Safety that the Labor Department's administration leaves much to be desired.

The bottom line remains that workers' compensation costs--a major factor in the Service's losses--are increasing rapidly. Many feel the increased costs stem primarily from abuses of the program.

Since the Service has little control over workers' compensation costs, how is it attempting to control operating expenses? With personnel costs constituting 86 percent of the total operating expenses, most of the Service's efforts have been directed towards reducing labor costs.

Since reorganization, the Service has striven to improve productivity and reduce labor costs through mechanization. A major effort in this direction has been the implementation of area mail processing. Under this concept, mail processed at several post offices within an area is consolidated at a facility for processing and dispatch to its destination. By centralizing mail processing within an area, the Service is able to mechanize operations, increase worker productivity, reduce personnel costs, and make more efficient use of transportation.

In implementing area mail processing, however, the Service has met strong opposition from the public and its employees. This past year we have been asked by several Members of Congress to evaluate the Service's plans for consolidations to determine the reasonableness of projected savings, the potential effect on mail service, and the impact on employees. Although most of our evaluations were made before the consolidations took place, we found that the Service could save money, that mail service should not be effected, and that the impact on employees should be minimal. However, this does little to improve the acceptability of the actions to employees and the public.

The Postal Service expects that mail volume will continue to increase over the next few years. Its goal is to handle the increasing volume with fewer and fewer people, as in the recent past. While the area mail concept has appeared sound, we have found the Service's planning

for implementation could be improved--especially as it relates to employees. Since regular employees cannot be layed off, we feel the Service could better plan labor reductions needed to achieve projected savings, where these reductions must take place, and how best to implement these reductions.

The Service has been able to reduce employment through attrition from 741,216 in 1970 to 655,097 in 1977. But despite these reductions, personnel costs, both in terms of dollars and as a percent of total operating costs, have steadily risen. The need for the Service to continue to seek ways to improve productivity and reduce the size of its workforce is clear. However, the mere fact that this has been and will continue to be a high priority objective of management places great strains on its relations with the workforce.

Labor negotiations began on April 20, and we expect that the unions not only will want to share in the benefits of these productivity gains, but retain the no-layoff provision, and, according to news reports, set a floor on the size of the workforce. As a result, personnel costs will continue to play the major role in balancing the Service's finances and how well the Service is able to deal with these issues will determine its financial health for a long time to come.

The long range prospects for self-sufficiency are also bleak in view of the advances in communications which are expected to reduce the amount of letter mail. Studies have been made predicting that electronic systems may eventually divert 20 to 50 percent of first-class mail. Should this happen, the Service's goal of financial self-sufficiency at reasonable rates would be more difficult than ever since processing and delivery costs would not decrease in the same proportion as revenues.

#### Upgrading the postal worker

The Postal Reorganization Act tasked the Postal Service with:

- providing desirable working conditions for its employees, and
- achieving and maintaining compensation for its employees comparable to the rates and types of compensation paid in the private sector.

The Postal Service has done much to improve working conditions. In early 1972, the Service initiated a program with the objective of having at least 95 percent of the postal employees housed in adequate facilities by June 30, 1975. This was a "quick fix and upgrading" program that cost \$250 million. According to the Service, at the end of fiscal year 1975, 87 percent of the postal employees were housed in fully adequate space or in buildings being upgraded. Another 12 percent were in buildings scheduled for replacement. Replacement has

been a gradual process with the Service spending over \$2 billion on its building program since reorganization.

The compensation of postal employees--both in terms of pay and benefits has become comparable with that of the private sector. In fact, many observers believe it has surpassed comparability.

Collective bargaining has played the major role in increasing postal compensation. Through direct negotiation, bargaining unit employees have gained substantial pay increases. First line supervisors and other lower level white collar postal employees, through direct relationship with bargaining units, have also received rapid pay increases. However, some employees in professional and management positions have not done as well as their co-workers in the Service because they have no direct relationship with collective bargaining.

The average salary (including benefits) for bargaining employees has increased from \$8,513 in 1970 to \$17,331 in 1977, a 104 percent increase. The postal worker has done especially well in comparison with his fellow workers in the Civil Service. Before reorganization, postal bargaining and Civil Service employee wages were equal at the GS-5, step 4 level with a salary of \$7,202. In December 1977, the postal wage at this level was \$14,307 versus the GS-5's \$10,955. Thus, over the 8-year period postal wages grew 99 percent, and those of the GS-5, 52 percent. Postal workers have also done better than

other Federal workers in terms of fringe benefits. Under the current contract, the Service pays 100 percent of employee life insurance cost and 75 percent of health insurance cost, while the Government pays 33-1/3 percent and about 60 percent, respectively, for these benefits.

Before its labor negotiations in 1975, the Postal Service compared its workers' wages with those of workers in 14 top industries having strong unions--such as the United Steel Workers, United Auto Workers, Teamsters, and Communication Workers. The Service found that postal workers were averaging \$8.05 per hour (including fringes) versus \$8.04 per hour for industrial workers, and that postal average base wages were higher than those of the surveyed companies for 34 out of 36 matched occupations. The 1975 labor agreement provided for 10 wage adjustments. With 10 adjustments made through May 1978, the average hourly rate (excluding fringes) increased from \$6.02 in February 1975, to \$7.73. In a recent analysis, we found that the postal pay for all of the 36 occupations greatly exceeded Federal pay for comparable jobs.

The average salary (including benefits) for non-bargaining employees has increased from \$11,290 in 1970 to \$19,749 in 1977, or 75 percent. Supervisors and many postmasters have received rapid pay hikes to provide pay differentials between them and the craft employees, as required by the Reorganization Act. Prior to June 1976, technical, administrative, and clerical employees

were included in the same pay schedule as supervisors and postmasters. Thus, even though they have no supervisory functions, the technical, administrative and clerical employees benefited from the raises given supervisors.

In 1976, the Service compared salaries of 37 supervisory, technical, administrative, and clerical positions with salaries of comparable positions in the private sector. It found that postal salaries were higher for 33 of the positions. In a recent analysis we were able to identify approximate Civil Service grades for 22 of the positions and found postal salaries were higher in 19 cases.

For some postal professionals and managers, however, the Service has greater leeway in deciding the timing and amount of pay raises because these employees have no direct relationship with collective bargaining. Although these employees may have received large pay increases in the early years of the Postal Service and some top managers have salaries that may be considered high, many employees in professional and management positions have not received as many pay increases as other Postal Service or Civil Service workers.

We identified 41 professional and middle-managerial positions which were similar to positions that existed prior to the postal reorganization and compared their pay with the pay for related GS grades. We found that the Federal pay is higher for almost all the positions, especially those at the higher levels.

There are many who feel the postal worker is overpaid and who are critical of Postal Service management for providing such liberal increases. There is no doubt the postal worker has done well. Whether he has done too well is a subjective judgment.

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Has the status of postal employees improved? If the desirability of postal jobs is any indication, the answer is yes. This year the Service began testing to develop employment registers and applicants turned out in large numbers. In one recent case, 8,000 people applied for a test for 50 jobs to be opened in the next 2 years. It is interesting to note that many of these people are currently employed but are seeking a Postal Service job.

On the other hand, the growing vocalization of dissatisfaction among postal employees indicates they may not be satisfied with their status. This is demonstrated in many ways, only one of which is the number of requests we receive from Members of Congress to look into alleged problems brought to their attention by postal employees.

Probably the overriding reason for the dissatisfaction among employees stems from the Service's efforts to reduce its personnel costs--which, as I mentioned earlier, is by far the largest part of its budget. Service efforts to control compensation costs by limiting pay increases and establishing more specialized pay schedules have been met with court suits and further unionization. Service efforts



to reduce manpower needs through mechanization, consolidation and budget cuts have been met with grievances and court suits.

Improving the status of the postal employee may be a "no-win" situation. As employee compensation increases, so does the Service's operating costs and the pressure to reduce the size of its workforce. But the more the Service does to reduce its labor costs, the more dissatisfied postal employees become.

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Is More Congressional  
oversight needed?

To many people, including many in the Congress, independence for the Postal Service has brought with it a disregard for the public interest. Talk of ending Saturday mail delivery, closing rural post offices, using cluster boxes and the like, coupled with the consolidations of facilities, cut-backs in window services and mail pick-ups that have already occurred have led many to believe that the Postal Reorganization Act was a fundamental mistake and that the Executive Branch and/or elected officials in the Congress need to be able to exert more effective postal oversight.

We would be the last to say that the Congress should sit idly by while the Postal Service embarks on a course of action that is opposite to that of the needs of the country. Yet, we believe that the advantages of an independent Postal Service are many.

- Prior to reorganization the Postmaster General had
- no control over workload,
  - no control over postal revenues,
  - no control over the pay of employees or conditions of employment,
  - no control over the physical facilities, and
  - limited control over the transportation facilities used.

Which, in the words of the House Appropriations Subcommittee Chairman, adds up to a staggering amount of no control in terms of the duties to be performed. Reorganization dramatically changed that situation.

The challenge before the Congress, it seems to us, is to devise a system that would provide Postal Service management the flexibility to manage yet provide the Congress the ability to insure that the Service is run in the best interests of the country.

We believe that changes in the nature of postal services will come much more rapidly in the future than they have in the past as advanced electronic technology, electronic funds transfers, point-to-point facsimile systems and the like put strains on the traditional way people communicate. Adapting to these changes will require major new investments and the acceptance of some risk. The system the Congress devises to assure itself that the Postal Service is responsive to the public's needs will have to strike a delicate balance between congressional control and the ability of management to meet future challenges.

This concludes my statement, Mr. Chairman. We will be happy to answer any questions you might have.