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STATEMENT OF
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BEFORE THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
SUBCOMMITTEE ON POSTAL OPERATIONS AND SERVICES
SUBCOMMITTEE ON POSTAL PERSONNEL AND MODERNIZATION
HOUSE OF REPRESENTATIVES
ON
THE EFFECTIVENESS OF THE POSTAL
REORGANIZATION ACT OF 1970



Messrs. Chairmen and Members of the Committees:

I appreciate your invitation to present our views on the effectiveness of the Postal Reorganization Act of 1970. It has been nearly 10-1/2 years since reorganization which seems ample time to measure performance under the legislation.

Five years ago the Service's financial problems were so severe that insolvency was a real possibility without short-term financial assistance. At that time concentrating on other aspects of postal operations was difficult.

Today the Postal Service is more financially stable than it was in 1976 from the standpoint of being able to meet current operating expenses without borrowing. The somewhat brighter financial picture of the Postal Service must be attributed

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primarily to increased postage rates and volume, an infusion of appropriated funds, and to improved management of postal operations.

THE POSTAL SERVICE'S FINANCIAL
CONDITION--PAST AND PRESENT

In the first 5 years that followed the Postal Reorganization Act of 1970 the Service saw steadily increasing net losses. Fiscal year 1976 was the worst year for the Service with a \$1.2 billion net loss.

The Postal Service reported some improvements in the net loss column in the 2 years that followed 1976 and reported its first annual gain of \$470 million in fiscal year 1979. The Service again experienced a loss in 1980 of \$306 million and the estimated loss for 1981 will be about \$600 million. Considering that the estimated 1981 net loss is about 3 percent of revenue and the 1976 net loss was about 9 percent, there are signs of improvement.

However, other financial indicators that the Commission on Postal Service used in its 1977 report continue to portray a weak financial picture of the Postal Service since reorganization. When the Postal Service began 10 years ago, it had an equity balance of \$1.686 billion. Even with the infusion of \$1 billion by the Congress during 1976 and 1977 the Service's balance in 1980 fell to a negative equity of \$719 million. Working capital has declined from \$943 million to a deficiency of \$564 million. In 1980 the Service's ratio of current assets to current liabilities was .85.

I mentioned earlier that 5 years ago the Postal Service faced the prospect of insolvency because it did not have the cash to meet its expenses. Today this is not a problem even though the Service operates at a deficit. This is due partly to the fact that some major expense items do not require cash outlays. For example, in fiscal year 1981, workers' compensation expenses totaled about \$600 million of which only about \$174 million was out of pocket. The remaining \$426 million is the non-cash portion and represents the estimated future cash expenditures required for injuries incurred during fiscal year 1981. Recognizing the total estimated cost of claims as an expense of the year to which it relates is a proper accounting practice. It provides a more accurate matching of revenues earned with expenses incurred in order to earn that revenue. But, like depreciation, these expenses do not require an outlay of cash. Of course, somewhere in the future these workers' compensation costs will come due and plant and equipment will have to be replaced.

FACTORS AFFECTING POSTAL SERVICE'S FINANCES

Probably the largest single factor affecting the Postal Service's finances is inflation. The Postal Service has always been a labor-intensive organization. Salaries and benefits account for about 85 percent of total expenses. The impact of the 3 year labor contract expiring in 1981 added about \$5.5 billion to the operating expenses.

With an automatic cost of living allowance provided to craft employees under the new 3-year contract and with today's still high,

although moderating, inflation rate, the Service's expenses are sure to continue to increase. The Service estimates that the new contract will add still another \$5 billion to its operating expenses.

The effect of inflation on the Postal Service is not limited to its labor costs. The cost of goods and services have also increased and the future holds no promises for relief. Gasoline and diesel fuel purchases, for example, amounted to \$60 million in 1979 for about 90 million gallons purchased. In 1981 the Service paid nearly \$100 million for about 84 millions gallons.

The increased labor and other costs must be made up by comparable increases in rates and volume; adjustments in the level of service provided; and/or productivity gains. The Service can no longer look to appropriations as a significant source of funds.

Rates and mail volume

The Postal Service has increased postage rates periodically over its 10-1/2 year existence. Since reorganization, First-Class Mail rates have increased from 8 cents to 10 cents in 1974, to 13 cents in 1975, to 15 cents in 1978, to 18 cents in early 1981 and then to 20 cents on November 1, 1981. Other classes of mail have also seen rate increases.

According to the Postal Service, these increases were necessary in its pursuit of one of the basic objectives of the Reorganization Act--self-sufficiency. But what about the reasonableness of the rates?

In 1976, we testified that use of the mails was one indicator of the reasonableness of rates. In 1975 mail volume dropped by 832 million pieces, seemingly, in part at least, as a result of increased postal rates just prior to the start of that year.

Since 1975, however, the Service has reported steady increases in mail volume. Fiscal year 1981 volume increased to about 110 billion pieces which is nearly 21 billion pieces over the 1975 volumes, despite the substantial increases in rates occurring during this period. Although it is too early to examine the impact of the most recent postal rate increase on volume, the Service expects to have continued volume increases.

Another measure of reasonableness of rates may be the cost of first-class postage in other countries. In 1980 the equivalent rate in many other countries for first-class mail was over 20 cents.

The Postal Service advocates that increases in postage rates should be spaced at 2 or 3 year intervals and it has been fairly successful at doing just this until this year. The Service believes, and we agree, that rate stability encourages steady growth in mail volume which contributes to economic strength and helps assure the lowest possible postal rates over the long term.

Quality of mail service

One primary objective of the Reorganization Act was to provide the Nation with quality mail service. The conflict that has confronted the Postal Service from the beginning is how to maintain financial stability and at the same time provide the Nation with an acceptable level of mail service.

Some critics of the Postal Service say that service has deteriorated to an unacceptable level.

We testified in 1976 that, overall, service was not as good then as it was before the postal reorganization--in terms of timeliness of delivery and in terms of other services provided by the Postal Service.

In 1969 the average time to deliver First-Class Mail was 1.5 days. In 1976 the average was 1.65 days. In 1981 the average is 1.68 but the Postal Service is quick to point out that on the average mail travels further today than it did in 1969--310 miles compared to 258 miles in 1969.

To meet service commitments while containing cost the Postal Service has cut back on business deliveries, mail collections and Saturday window service since reorganization. Today no new residences receive door delivery unless the residence is surrounded by others receiving door delivery. Centralized delivery where mail delivery is made to a cluster of boxes, is on the increase. Curb delivery is being provided where centralized delivery cannot be established.

In 1976, public reaction to centralized service resulted in a congressionally imposed moratorium on providing any new centralized delivery service. This ban was lifted in 1977 after the Commission on Postal Service issued its report but the Service did not begin stressing the installation of centralized service until 1978. This is a good example of how the Service balances the level of services against costs. The Service estimates that

it costs about \$43 per year to provide centralized service each year for each address. Deliveries to the door, on the other hand, costs an average of \$86 per year and curb delivery costs an average of \$69 per year.

In providing an acceptable level of service, the Postal Service relies heavily on its consistency in meeting delivery goals. In 1981 the Service met its 95 percent on time goal for overnight First-Class Mail. It did not meet its goals, however, where mail is committed for delivery in 2 or 3 days. These delivery performances were 86 percent and 87 percent respectively.

These figures do not mean that all geographic areas are served equally well. New York City is one area where the Service is having extreme difficulties. In addition, a recent report we issued to Senator Max Baucus pointed out that First-Class Mail delivery performance from locations outside the State of Montana to some residents of Montana were 5 to 10 percent lower than the average of all First-Class Mail. Other reports we have issued give examples of pockets of below average performance.

Productivity

Gross productivity, as measured by number of pieces of mail per work year, increased by 5.5 percent in 1980. Since Postal Reorganization, gross productivity measured in this manner has increased by 34 percent.

The Postal Service has reported that the most important single factor in the growth of productivity during 1980 was presort programs. Under such programs, mailers, in return for

reduced rates, sort their mail by ZIP Code or carrier route before delivery to a post office.

For future productivity gains the Postal Service will continue to promote the use of presort programs while working to replace its mechanized mail processing system with the automated ZIP + 4 system. The Postal Service expects that the expanded ZIP Code will play a leading role in productivity gains over the next several years.

As you know, congressional concerns about the ZIP + 4 Program has resulted in implementation being delayed until October 1983. As requested by you and other members of the Congress, we are currently reviewing the program.

COMPETITION AND THE PRIVATE
EXPRESS STATUTES

Competition in the transmission of messages and parcels continues to be a threat to the financial stability of the Postal Service. Although the Service enjoys a monopoly over the delivery of letter mail under the Private Express Statutes, I have seen estimates that telephone communications account for 80 percent of the Nation's message transmissions. Newspapers, magazines, radio, and television carry advertisements that could be carried by the Postal Service.

The delivery of small parcels is the most striking example of the impact of competition on postal operations. In 1961, the Postal Service delivered nearly 800 million parcels and the competition (primarily United Parcel Service) delivered only about 100 million parcels. Today the volume statistics are

reversed with the Service delivering less than 200 million and UPS delivering over 1 billion parcels.

The two factors having the most effect on this shift of parcel volume are rates and service. We reported in 1978 that the Service's rates generally are noncompetitive and deliveries are too often untimely and inconsistent. We see little or no improvements in these shortcomings since our 1978 report. We are currently doing follow-up work on this report.

In the future, the Postal Service's First-Class Mail most likely will face competition from electronic mail.

Much has been written lately concerning the technological advances toward the "Office of the Future" and the "Office of the 80s." Terms such as systems integration, interface, and interconnection, fill articles relating to future office automation. Integrating or interconnecting existing equipment, such as the telephone, the office copier, the computer, and the typewriter, expands the capabilities of equipment and personnel alike and leads to an increasingly automated office.

Businesses automate their offices and introduce electronic mail systems for many reasons including (1) improving managerial and clerical staffs' productivity, (2) reducing costs, (3) reducing paper volume, and (4) increasing communication speeds. Both the public and private sectors currently use electronic mail, and estimates indicate that this will increase in the coming years. The big question remains, however, as to the timing and extent of the electronic mail market. The technology

is advancing rapidly and the speed with which it is implemented depends primarily on customer acceptance and usage.

It should be noted that the use of electronic mail is beyond the reach of the Private Express Statutes if no hard copy delivery is involved. Although there has been some discussion about relaxing these statutes, we continue to believe that the essential design of these statutes is sound. The Private Express Statutes make it economically possible for the Postal Service to comply with the congressional mandate to provide a uniform rate for letter mail. Without the protection of these statutes, competitors could establish discrete postal operations in high-volume, low-cost areas, such as urban commercial centers, and undercut the mandated uniform price that the Postal Service charges for nationwide service.

If the Private Express Statutes were repealed or materially relaxed, Congress would have to be prepared to furnish substantial taxpayer funds to provide mail services.

PROBLEM AREAS IDENTIFIED
BY GAO WORK

Our work on postal activities over the past 2 years has disclosed a need for improvements in ratemaking, labor relations, and revenue protection.

Rate Making

In a September 1981 report to Senator Ted Stevens we reported on the time required by the Postal Rate Commission to render decisions on two Postal Service mail classification proposals. For

both cases, the Commission took 15 months to make an initial decision.

Our observations, based on an analysis on the two cases, were that

- the trial-like procedures for ratemaking and classification contribute substantially to the overall length and cost of a case, and
- disputes over the Commission's authority continually arise and the adversary relationship may subtly contribute to the overall length of the proceedings.

We concluded that the congressional expectation that the Commission and the Service would work in harmony in establishing postal rates, fees, and classifications had not been realized.

The need for a more timely rate making process is well illustrated by the most recent rate case. After receiving the Postal Service's proposal, the Commission took 10 months (the maximum time allowed by law) to issue a recommended decision. The Service asked for a 20-cent First-Class rate--the Commission recommended 18 cents.

In March 1981, the Service's Board of Governors exercised their option under the Postal Reorganization Act by allowing the rates recommended by the Commission to take effect under protest and returning the case to the Commission for reconsideration. This action put into effect the 18-cent First-Class rate. Subsequently, the Commission refused to change its recommended decision

after reconsidering the matter twice and in September 1981 the Governors modified the rates recommended by the Commission and increased the First-Class rate to 20 cents effective November 1, 1981. Thus, after 18 months, the rate initially desired by the Service was made effective.

Labor Relations

In response to congressional requests we have recently reported on management/employee relationship problems at individual post offices. We found poor working relationships caused by efforts to reduce operating costs. Generally, the efforts were not handled well by first-line supervisors and resisted by employees and union leaders. For example, our work at the Evansville, Indiana, Post Office, disclosed that improved relationships will require that (1) future changes in management policy need to be implemented with full and careful explanation of what is wanted and expected of workers, and (2) craft employees and unions must take reasonable positions and act in a responsible manner.

Recognizing a need to improve labor relations the Postmaster General, in October 1981, assigned a Senior Assistant Postmaster General responsibility for planning and initiating a process to improve the relations between management and labor. The Postmaster General views this action as a first step in a redirection of postal philosophy, away from the traditional authoritarian style of management and toward an increasing worker involvement in finding solutions to problems of the work place. He said that

he believed the future success of the Postal Service depends in large part upon creating and sustaining a climate of increased communication, mutual trust, and improved understanding.

Revenue Protection

In fiscal year 1980 the Postal Service had operating revenues of over \$17 billion from handling about 106 billion pieces of mail. About 45 percent of the total pieces were paid for at bulk or discounted presort rates and were therefore required to be prepared in a certain way. In total, this mail accounted for over \$5.2 billion or 30 percent of 1980 revenue.

Our recent review of about 430 mailings at various locations disclosed that over 65 percent of the mailings had an error rate of 10 percent or more and should have been rejected or accepted at higher single piece rates. In other words, over 290 mailings were not prepared as required to earn the lower rates. Although we are unable to estimate the overall financial impact of this situation on the Service, the evidence indicates that the effect on revenue and costs could be substantial.

We intend to followup on recent actions taken by the Service to strengthen mail acceptance procedures and issue a report to the Congress.

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In my statement today I have characterized the Postal Service as making progress toward achieving the objectives of the Postal Reorganization Act of 1970. The financial condition has stabilized since 1976 when it took \$1 billion in special, additional,

appropriations to keep the Service solvent, but the agency is not yet out of the woods.

The financial health of the Service remains closely associated with the state of the national economy. Unabated inflation would continue the upward spiral of labor and other costs. A slowdown in the economy would ultimately affect mail volume which, over time, tends to move in almost linear fashion with changes in population, disposable income, and overall economic activity. And all of this assumes no large-scale diversion of volume to other communication modes.

The quality of mail service can always be debated. Given today's volume, even 95 percent performance means that billions of pieces of mail are not making the standards.

In closing, let me venture the opinion that, overall, the Congress' decision to create the Postal Service was well-founded. I can't begin to speculate what the situation would be today if the old Post Office Department was still around, but I suspect that rates and service wouldn't be too different and that the Federal treasury would be tapped to a much greater extent.

That concludes my statement, Messrs. Chairmen. My associates and I will be happy to answer any questions you may have.