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U.S. POSTAL SERVICE: WHAT CAN BE DONE TO ENSURE ITS FUTURE VIABILITY?

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

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U.S. POSTAL SERVICE: WHAT CAN BE DONE TO ENSURE ITS FUTURE VIABILITY?

WEDNESDAY, SEPTEMBER 17, 2003

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10 o'clock a.m., in room SD–342, Dirksen Senate Office Building, Hon. Susan M. Collins, Chairman of the Committee, presiding.

Present: Senators Collins, Fitzgerald, Akaka, Durbin, Carper, Dayton, Lautenberg, and Pryor.

OPENING STATEMENT OF CHAIRMAN COLLINS

Chairman COLLINS. The Committee will come to order.

This past December, President Bush announced the creation of a bipartisan Commission charged with identifying the operational, structural, and financial challenges facing the U.S. Postal Service. The President charged this Commission with examining all significant aspects of the Postal Service with the goal of recommending legislative and administrative reforms to ensure its long-term viability.

Harry Pearce, the chairman of Hughes Electronics Corporation, and James Johnson, the vice chairman of Perseus, LLC, were appointed by the President to serve as the Commission's co-chairmen. I very much welcome Mr. Johnson here today, and I regret to announce that due to illness, Mr. Pearce is unable to join us here today as planned. He was an invaluable participant in the development of the Commission's final report, and I sincerely regret that illness prevents him from joining us today. I wish him, and I know that Mr. Johnson joins me in wishing him a speedy recovery.

Mr. Johnson, I want to begin this morning by thanking you for your tremendous effort in putting together a highly comprehensive report on an extremely complex issue. In a limited amount of time, you and Mr. Pearce conducted seven public hearings across the country and heard from countless witnesses.

On July 31, the Commission released its final report, making 35 legislative and administrative recommendations for the reform of the Postal Service. You and the eight other members of the Commission committed yourselves fully to a daunting task, and I want to congratulate you on your fine work.

As I read through the Commission's report, I was struck by what I considered to be the Commission's wakeup call to Congress, your statement that "An incremental approach to Postal Service reform will yield too little too late given the enterprise's bleak fiscal out-

look, the depth of the current debt and unfunded obligations, the downward trend in First-Class mail volumes, and the limited potential of its Legacy Postal Network that was built for a bygone era."

That is a very strong statement and one that challenges both the Postal Service and Congress to embrace far-reaching reforms.

To the relief of many, myself included, the Commission did not recommend privatization of the Postal Service. Instead, the Commission worked toward finding a way for the Postal Service to do, as Mr. Johnson described it to me, "an overwhelmingly better job under the same general structure."

The Commission's recommendations are designed to help the 225-year-old Postal Service remain viable through at least the next two decades.

The financial and operational problems confronting the Postal Service are serious indeed. At present, the Postal Service is paying down $6.5 billion in debt to the U.S. Treasury, and its long-term liabilities are enormous, to the tune of nearly $6 billion for workers' compensation claims, $5 billion for retirement costs, and perhaps as much as $45 billion to cover retiree health care costs.

In an unexpected turn of events last year, the Office of Personnel Management discovered that if postal payments into the Civil Service Retirement System fund were to continue on the basis required under existing law, the Postal Service would overfund its estimated liability by approximately $71 billion over a period of 60 years. To correct this overfunding problem, Senator Carper and I introduced bipartisan legislation in February. It was enacted and signed into law this past April, and thus, the result is that the Postal Service has been able to delay its next rate increase until 2006 and has been able to pay down more aggressively the billions of dollars in debt owed to the U.S. Treasury.

Despite this reprieve, however, many challenges remain. It is important to understand the impact of the Postal Service on our economy. The Postal Service itself employs more than 750,000 career employees. Less well-known is the fact that it is also the linchpin of a $900 billion mailing industry that employs 9 million Americans in fields as diverse as direct mailing, printing, catalog production, and paper manufacturing.

The health of the Postal Service is essential to the vitality and the economic viability of thousands of companies and the millions of Americans that they employ. One of the greatest challenges for the Postal Service is the decrease in mail volume as business communications, bills and payments move more and more to the internet. The Postal Service has faced declining volumes of First-Class mail for the past 4 years. This is highly significant given that First-Class mail accounts for 48 percent of total mail volume, and the revenue it generates pays for more than two-thirds of the Postal Service's institutional costs.

The Postal Service also faces the difficult task of trying to cut costs from its nationwide infrastructure and transportation network. These costs are difficult to reduce. Even though mail volumes may be decreasing, carriers must still deliver 6 days a week to more than 139 million addresses even if they are delivering fewer letters.

Despite much discussion about reforming the Postal Service and previous attempts by some of our colleagues in the House of Representatives to do so, the diverse views of what shape postal reform should take, if any, have only led to stalemates in the past. To take a fresh look at these issues, last July, I introduced a bill to establish a Presidential Postal Commission charged with examining the problems the Postal Service faces and developing specific recommendations and legislative proposals that Congress and the Postal Service could implement.

You can imagine my pleasure that the President moved ahead with just such a Commission, and today we are hearing the results of those efforts. In many ways, the work of the Commission builds upon work already started by the Postal Service. At the request of the Senate, Postmaster General Jack Potter delivered to Congress in April of last year a comprehensive Transformation Plan designed to ensure the continuation of affordable universal service and to prepare the organization for the challenges of change in a dynamic marketplace.

The Postal Service has determined what changes could be made within existing constraints that would result in improved operations, performance and finances. The Transformation Plan has been widely recognized as a good first step, but that is exactly what it is—a first step. Without legislation, many of the necessary reforms highlighted in the Commission's report simply will not happen.

In closing, I would like to say that as a Senator representing a large rural State, I greatly appreciate the Commission's strong endorsement of the basic features of universal service—affordable rates, frequent delivery, and convenient community access to retail postal services.

It is important to me that my constituents, whether they are living in the far reaches of Northern Maine or out on an island or in our many rural small towns, have the same access to the Postal Service as the people of our large cities. If the Postal Service were to no longer provide universal service and deliver mail to every customer, the affordable communications link upon which many Americans rely would be jeopardized. Most commercial enterprises would find it uneconomical if not impossible to deliver mail and packages to rural Americans at the rates that the Postal Service has been offering.

The preservation of universal service and many more issues must be examined in depth if we are to save and strengthen this vital service upon which so many Americans rely for communication and for their jobs. The Postal Service has reached a critical juncture. It is time for a thorough evaluation of the Service's operations and requirements. It is time for action.

This will be the first in a series of hearings that the Committee will hold to examine these important issues.

Again, I want to commend the Commission for preparing this important report. We look forward to hearing your testimony, Mr. Johnson, and discussing with you the rationale behind some of the recommendations and what you recommend as the next steps in the effort to reform and preserve the Postal Service.

Senator Lautenberg.

OPENING STATEMENT OF SENATOR LAUTENBERG

Senator LAUTENBERG. Thank you, Madam Chairman, and welcome, Jim Johnson.

I have known Mr. Johnson for a long time, and when I see him, I am not sure whether he is representing the cultural concerns of the community, the banking concerns of the community, or, in old days, the political concerns, but I think he has put those aside for better pursuits. We always know that where Jim Johnson lends a hand, things usually come out very well. I will have to reserve a little judgment until I have a chance to study the proposal a little bit longer, but I am certainly glad to see you here, Jim.

Postal reform is an incredibly important national issue, and most Americans do not spend a lot of time thinking about it until the mail is not there in the time frame that they expect, or there is a request or suggestion that maybe Saturday mail be eliminated or curtailment of service in any way, because although it is costly and at times cumbersome, the fact is we love it, and we like what the Postal Service represents.

There are a couple of things that have to be of concern as we look at reform. One is to be able to guarantee that the basic service is available and at the same time, that the staff, the loyal employees of the Postal Service, have their rights protected. If change is to be made, they have to be consulted, and we have to respect their views and ideas. It does not mean that we are going to agree with every one of them, but certainly we want to hear what they have to say.

The importance of the U.S. Postal Service to our national economy cannot be overstated. An example is that a 2-year delay in postal rate increases has the potential to save publication companies like AOL-Time Warner—I guess it is now just Time Warner—approximately $200 million in mailing costs. Last year alone, the U.S. Postal Service delivered more than 200 billion pieces of mail. So the important role that the Postal Service plays in our economy and the contribution of its 843,000 dedicated employees, as I said earlier, cannot be overlooked or taken for granted.

Having said that, this is indeed a time of great change for the Postal Service. Things that are not directly related to the performance of the Postal Service's duties, but are rather technology changes, have had a vast impact. As the President's Commission has observed, traditional mail streams will likely continue to migrate to cheaper, internet-based alternatives. And given the existing regulatory structure, the Postal Service debt is likely to increase every year, making it tougher for the Postal Service to achieve its fundamental mission of universal service.

I support the Commission's recommendation to make the rate-setting process less cumbersome and more efficient, but I want to take a second look at the Commission's labor reform proposals—at one of them. As a former businessman, I understand the need to make the work force as lean and efficient as possible, but restricting employees' collective bargaining rights, privatizing jobs, and increasing executive compensation, will not solve all of the Postal Service's organizational and workplace problems nor improve employee morale or efficiency. And I would hope that I could be found to improve the process, the collective bargaining process but, as I

said in my opening comment, encouraging the views and the ideas of the people who are on the front line performing; they have the best knowledge bank of all.

So I look forward, Madam Chairman, to hearing from Mr. Johnson and to try to resolve in whatever way we can some of the tension that exists there but at the same time to make certain that the people in this country know that the Postal Service is going to be there to provide them with the service they need.

Chairman COLLINS. Thank you, Senator Lautenberg.

Senator Durbin.

OPENING STATEMENT OF SENATOR DURBIN

Senator DURBIN. Thank you very much, Madam Chairman, and thank you for this hearing.

Jim Johnson, thank you for your public service. You continue to add to our country with everything that you have volunteered to step forward to do, and this is no exception.

I, for one, believe that we should start this hearing keeping two things in mind which I think your Commission began with. First, our commitment to universal mail service. It distinguishes the United States as a Nation, and I think it is something that we need to preserve and work hard to make certain that in the 21st Century, it meets modern standards.

I was encouraged by your recognition of what the Internet and email have done to mail volume and what they are likely to do in the future. I think that addressing that head-on is honest and is an indispensable part of a realistic evaluation of the future of the Postal Service, and I thank you for that.

Second, I want to commend my colleagues and the good work of our fellow Senator, George Voinovich of Ohio, who has since he has come to this Committee really focused on an element that is essential to quality service in the Federal Government. He has focused on the people of the Federal Government. Beyond the obvious box charts and good thoughts that we might have about organization and structure, in the final analysis, the success of every agency of the Federal Government, from our great military to the men and women who serve in so many different agencies, depends on their skills and their morale and their commitment to excellence. And I think that as we talk about the future of the Postal Service, we should never discount that. So long as we have excellent men and women serving our country in the Postal Service, I think we have the greatest potential to develop it into the 21st Century in a fashion that is essential.

I want to echo what Senator Lautenberg has said. Many of the workers of the Postal Service look at this report with a lot of concern as to whether or not it is going to recognize them as individuals, is going to give them the kind of dignity that they deserve in the workplace. And I hope that we can find the right balance. We have to say to them that as a team approach, we need to find better ways to reach excellence in performance, and we need to do it recognizing your worth as an individual and your importance to a team effort.

I think we also have to say to those who are critics of the Postal Service—and there are many out there, from late night talk shows

to people on Capitol Hill—that if they can find another place in the world where, for 37 cents, you can get a letter delivered 2,000 miles away within a few days, please tell me where that is. I just do not think that is something we should ever take for granted, and I hope that becomes the bottom line of our conversation here.

Thank you very much.

Chairman COLLINS. Senator Dayton.

OPENING STATEMENT OF SENATOR DAYTON

Senator DAYTON. I think that is true everywhere in America except for the mail that comes to the Capitol.

Senator DURBIN. That is true.

Senator DAYTON. Madam Chairman, I want to commend you for taking on this subject. After grappling with the Department of Defense, I am glad you picked something simple like the Postal Service. Most people would not take on both of those in a lifetime much less in the same year. So thank you very much for your leadership on these and other issues.

One reason I am in the U.S. Senate from Minnesota is because Mr. Johnson decided to stay in Washington rather than go back and run for political office in his home State of Minnesota. Anybody with a name that ends in "-son" in Minnesota has a natural advantage of about a quarter million votes. But he found opportunities to make even more distinguished service and contributions to our country in Washington. He is a proud native son of Minnesota, and we are proud to have him as a native son, and I look forward to his remarks.

Chairman COLLINS. Thank you.

I am now pleased to introduce our witness who clearly is well-known to those on the Democratic side of the aisle on this Committee—James Johnson, who is vice chairman of Perseus, a merchant banking and private equity firm here in Washington.

He is well-known not only for his political work but for his 10 years at Fannie Mae, having served as vice chairman, chairman, and CEO and as chairman of the Executive Committee. Prior to joining Fannie Mae, Mr. Johnson served as president of Public Strategies, a Washington-based consulting firm which advised corporations on strategic issues. He has also served as an executive assistant to former Vice President Walter Mondale, another Minnesota connection, and is the recipient of numerous awards and degrees.

Again, we are very pleased to have you here today, and I want to thank you on behalf of all my colleagues for your very diligent and impressive work in producing this comprehensive report.

We look forward to hearing from you. Take as much time as you need for your statement.

TESTIMONY OF JAMES A. JOHNSON,[1] CO-CHAIR, PRESIDENTIAL COMMISSION ON THE U.S. POSTAL SERVICE, AND VICE CHAIRMAN, PERSEUS, LLC

Mr. JOHNSON. Thank you very much, Madam Chairman.

[1] The prepared statement of Mr. Johnson appears in the Appendix on page 42.

I want to compliment you for the extraordinary intelligence and discipline with which you have approached this issue. You have become a real leader in this area, and I have no doubt that by virtue of you chairing this Committee, the end result of these recommendations and the reform effort will be substantially better.

To my friends, colleagues, long-time associates, thank you so much for your opening remarks. I am delighted that each of you are here, and I understand and embrace the spirit of your opening remarks. I would like to address many of those concerns as directly as possible.

What I am going to do is not read back through the testimony which we presented but rather just highlight a few of the recommendations, Madam Chairman, that we think are most significant and also try to give a little background to our thinking as a Commission.

I should say that the Commission staff did an excellent job. Dennis Shea is here this morning and other members of the staff are also here. They did a wonderful job. I also think that the eight other members of the Commission deserve a real public thank you. These are people who gave hundreds and hundreds of hours. All of us came to this very complex challenge with no real background in postal issues. A lot of us had substantial background in large organizations, in corporate issues of various kinds and thinking through logistics businesses or service businesses, but we were new to this issue. I think all of the people sitting behind me in this room certainly knew more when I began and probably know more today. But we did make a very substantial, honest effort to take a look at these complex issues and offer you our best thoughts.

We do not consider ourselves to have the last word or the final word on any of these issues. We have a perspective which is informed by our role in the business world largely, some small business, some large business, some in the public policy world, so we welcome the dialogue. We were not writing legislation; we were writing perspective, and the perspectives that we gave are an honest effort by all of us to keep the focus on reform, keep the focus on a better Postal Service, and to keep appropriate focus on everyone who contributes to that. I am very grateful to you for leading this effort in the Senate.

Let me just give a little bit of context at the beginning. As you and your colleagues have pointed out, this is tricky business. What we have here is a very large enterprise which is designed to break even, to deliver hundreds of billions of pieces of mail, to not have excessive costs to the ratepayers, to have universal service, and above all to not be a threat ultimately to the taxpayer.

We are trying to balance a lot of things at once and do it in a very complex organization.

The very first conclusion that the Commission came to is that the work of the Congress more than 30 years ago was very good work. In fact, this basic construct was a very sound basic construct and we should not be looking at radical privatization alternatives, we should not be looking at ways of subsidizing this in tax dollars. But we should find a way if we possibly can to make the most efficient, most effective postal system that could stand on its own two feet, that could break even over time, that could manage its responsibil-

ities and its obligations along with the rate-setting process so that it would have adequate revenues, adequate growth, more than adequate service, and in the end be an institution that all Americans can respect and value.

As part of our effort, we did an opinion survey. Peter Hart from *The Wall Street Journal* and Linda Duval led the effort, one traditionally on the Republican side, one traditionally on the Democratic side. What we found is that the Postal Service is among the very most respected institutions in America. This is not a broken institution. This is a strong and respected institution. And it is very important that everybody keep in mind that Americans all over this country very highly value the services they receive and have great respect for the people who deliver those services.

That was the broad context in which we began. We felt that as part of the future prospects, one of the things that we should focus on is making those services of the postal system even more easily available. We have a number of recommendations about how to extend the service, how to extend through retail outlets, more accessibility, how to get more service within easy reach of more people on a regular basis. And you will see in the report that that is a big part of our thinking.

We were also concerned about organizational effectiveness in terms of the focus of the organization. So many organizations that have failed in America in the last 20 years—Senator Lautenberg certainly knows about this from his corporate background—have failed because they have not kept the focus on their core mission; they have gotten involved in things that were not things they knew how to do.

Therefore one of the core recommendations here is stick to your knitting. Do what you are supposed to be doing. Do not be looking for other ways of expanding into businesses where you do not have expertise, where you do not have a clear preparation and a clear background.

The second recommendation in the mission and governance area—and this is also something that Members of the Committee I think will relate to very strongly—is that we all felt that there should be the best of corporate governance put in place. As part of that best of corporate governance, our strong belief was that we should now take advantage of the benchmarking that is going on among large organizations and put in place the characteristics of the most effective boards of directors in America today. We reached out to the Conference Board and to a lot of academic institutions, a lot of other institutions that are focusing on governance in a corporate setting, and made a set of recommendations for a new board of directors for the Postal Service, which we think are a sound set of recommendations.

We were also very much aware of the fact that there are many public mission responsibilities for the Postal Service. It is supposed to operate in a businesslike manner, but it is not supposed to be a business that operates without the public sector and public mission very much in mind.

We tried to craft a new regulatory approach with the postal regulator, with some broad authority for review but also very broad instructions not to be involved in trying to micromanage this large

enterprise. Whether we got this exactly right or not, once again, is part of the dialogue of the next several months and longer.

We said if there are major changes in universal service, really major, that should be a subject reviewed by the postal regulator. We said if there were extensions of monopoly activities, that should be reviewed by the postal regulator.

We recommended setting up a new rate mechanism, trying to figure out a way to have a much speedier, much more efficient, but also fair rate-setting mechanism so that you wouldn't have this extended 18-month process which is currently part of the Postal Rate Commission structure. That is something that is going to require a lot of work to get it right. We think we have made some very useful suggestions, and as you think about legislation, obviously, you will have to decide whether or not we have gotten most of the dimensions right or not.

We were also focused very strongly on the overall effectiveness of the postal system—the delivery system, the processing system—so that the enormous strides that have been made in corporate America in the last 20 years could be put in place within the context of the business efficiency and logistics requirements of the postal system. Many businesses in America today are operating dramatically more efficiently than before, with better technology, more modern organization, better assessment of the performance characteristics of all of the elements.

Today, gentlemen, Madam Chairman, there are 446 postal facilities for processing, distribution, and bulk mail. We had a very substantial dialogue with the Postmaster General, Mr. Potter, and others about what would be the right sizing of the system—how many facilities there should be; how they should be integrated into a comprehensive network as opposed to facilities that were built at different times with different methodologies, with different characteristics, with different efficiencies. We came up with an idea which is not original—and I know that Senator Carper and others have expressed a lot of interest in this. After a lot of study of what happened with the Base Closing Commission we have created something that we chose to call the Postal Network Optimization Commission. This Commission would take recommendations from the Postmaster General, have an obligation to talk about them very broadly with all concerned parties, including the communities that would be affected, and come back with a proposal for a network modernization which we believe, the Postmaster General believes, virtually everybody who testified before our Commission believes, would yield a smaller number of facilities. I do not want in any way to try to say that is not the implication of this Commission. This is a Commission which says in its formation that we believe there are more facilities than are required for efficient performance, and we believe that some of them should be redesigned, many of them should be reconnected with each other in a smarter, more effective way, and that some of them should be closed.

I think we have provided a mechanism for an enormous amount of public input; we have provided a mechanism for congressional review; we have provided a mechanism for the Postal Service to take the lead, and I think that is a promising recommendation.

We also spent a lot of time talking about the enormous real estate assets of the Postal Service. There are, as you know, 38,000 postal facilities—not all of them look like what you expect when you see a photo. Some of them are contract facilities; not all of them are large, not all of them have conceivable alternative uses. But we felt that with that enormous real estate holding, $15 billion in book value, very substantially more than that in all likelihood in market value, that we should be looking for ways to limit the overall cost of the leasing, the overall cost of the real estate owned, look for an active management of those real estate assets, so that as we are pressed to keep rates as low as we can and as we are pressed to keep this as a viable enterprise, we do not have substantial assets which are being underutilized.

We also placed an emphasis on a lot of cost-saving mechanisms through work-sharing discounts, through outsourcing of postal function. Let me stop for just a moment on the outsourcing concept. This is something which I know has become extraordinarily controversial, something that people have talked about at great length.

The Commission discussed this at great length, and today there are already between $10 and $20 billion of cooperative efforts between the private sector and the Postal Service. This is probably the leader—it is the leader, I am sure—of all public entities in terms of joint public-private partnership and cooperation and the intertwining of what is being provided by the government and by the private sector.

We reviewed this. Some on the Commission were extremely aggressive about the potential of this. In the end, I and a couple of other Commission members said let us be absolutely clear here, and what guides us through all of this activity is best execution. We do not have an ideological preference of some kind here that we are putting on the table. What we are saying is that at every step of the way, best execution is the measure. If the best execution is a public execution through the postal employees who are in place today, then that is absolutely what should be done. If the best execution happens to be through a contracting mechanism where we can lower the cost and get greater efficiency and reliability, then we go in that direction. But this is not intended to be a wholesale reorientation. This is intended, as so many of our other recommendations, to be focused primarily on best execution. What would the best practices in corporate America tell us today about the lowest-cost, most efficient, most reliable execution for all of these functions that we are talking about?

We also talked frankly about ways of enhancing the value of the Postal Service as it is designed today. As Senator Lautenberg pointed out, this is a huge enterprise and, as you pointed out in your opening remarks, $900 billion of activity in the United States economy. This Postal Service is a very valuable national asset and we should be thinking about how not only can we make it run efficiently as it might be threatened by electronic activities, but within the core of its mission. We should be thinking about ways in which it can be even more economically important, where it can be even more socially important, where it can interconnect our people even more effectively.

We also had a growth orientation to this service function as well as making sure that we were always focused on best execution.

In the financial areas the Commission more than anything else, embraced transparency. We believe that everything about this public enterprise should be transparent. We also had a dialogue with the SEC to talk about the best standards of transparency, reporting and visibility of financial reality that flows through their processes.

We think the Postal Service should report quarterly the way major companies in America report quarterly to the SEC, meeting the highest standard of transparency.

We also believe as we change this rate-setting mechanism, if we do, that we should be very much focused on an ongoing transparency about the allocation of costs within the Postal Service, that the form, content, and timing requirements of mail products and services should be clear for all to see how the Postal Service views this, how they allocate the costs. We all felt that the cost allocation in the present formulas was inadequate. We had some testimony on that point saying that it should go up to a dramatically higher level than it is today. Not all of us were of the view that that was possible, but higher than today in terms of the allocation of costs of the various products and services.

Let me now talk about the more controversial piece of what the nine commissioners came to consensus on having to do with the work force—and I want to be very frank here and obviously will take whatever questions anybody has.

We believe, the Postmaster General believes, and a number of other people believe that there are probably more employees today in the Postal Service as a whole than are required in the most efficient organization that could be put together. Many of the employees are eligible for retirement within a short time frame. Our belief is that one of the core responsibilities of the newly-constituted board of directors is to have a comprehensive human resources plan, not unlike any other major corporation in America. As you look at the work to be done, as you look at the challenges that you face, we believe that the board of directors should have a point of view about the optimum size of the work force, and with the retirements that are already expected, we believe that this can be done in the context of attrition. But we do not believe, with 76 percent of the overall expenses of the Postal Service, that this is something that should be ignored. It will be difficult. I believe the consultation that Senator Lautenberg talked about and I know others feel strongly about is essential to this. It cannot be done without full cooperation between management and the unionized labor force of the postal system. In the end, others may have a different point of view. But we nine citizens, in looking at this, came to believe that with the best technology, the best execution, the best rationalization, the best consideration of what was state of the art in terms of processing, distribution and all the other bulk challenges of the Postal Service, that with proper investment in technology, with proper orientation to capital investment over time, the postal work force would shrink. So we put that on the table. We do not know how much, we do not know over what period of time, but we believe that with that being 76 percent of the cost that you cannot

do a credible report without saying that this is a core responsibility to right-size the work force. So we said it.

Let me make another point—and this too is very controversial—on pay-for-performance. We had endless conversations within the Commission about what was the nature of financial incentive that should be part of a structure that is seeking to get to the highest level of performance. And we came up with a number of ideas. We had a lot of help from outside consultants. Let me just start with the bottom line, and that is that the Commission members unanimously believe that an appropriate, disclosed, broad-based reward for superior performance should be part of the incentive structure for the Postal Service.

Many of the unionized representatives, or representatives of the unionized workers, did not think that was the right way to proceed. We listened to them in a variety of different contexts, publicly and privately. There is no doubt that there are issues in this area. We had an outside consultant talk to us about major companies with unionized work forces that did have pay-for-performance systems that they believed worked well. But this is not cookie-cutter business. This is something that would have to be shaped very carefully. We would have to make sure that none of those dimensions of favoritism and disruption of the work force that the labor representatives talked about came into play. But as a matter of conviction, all of the nine members of the Commission said we believe over time that we will have higher performance if we tie performance to superior work contribution. It is controversial, but it is something that we attacked and thought about.

The next thing in the work force area is something that really flows directly from Capitol Hill, and this is something we also spent an enormous amount of time on, and that is pay comparability. When the Act was passed more than 30 years ago, it became the law of the land that there should be comparability between the people in the postal work force and people in comparable jobs in the private sector. That was principally motivated at the time because there was a feeling that there was inadequate compensation in the Postal Service, that they were not in fact meeting the standard of comparability to the private sector.

We heard a great deal of testimony from people now saying that in their opinion, there was a premium on compensation in the Postal Service to comparable jobs in the private sector. We never came to a conclusion on that. The Commission does not have a point of view on that. There are individual members of the Commission who have a point of view, but one of the things that we worked through was not to have an opinion on pay comparability but to say this is the law of the land, this is what the Congress has so clearly stated, and we should recommend a mechanism to review whether or not in fact the law is being complied with.

Now, obviously, at any time you want to change the law with the cooperation of your people in the House, you can change that law any way you want. We didn't know how to have a comprehensive report without addressing the issue of comparability. What we said was that there should be a thorough examination of this, that there should be a review of the most appropriate comparisons, and then there should be mechanisms put in place to assure that if it were

not comparable, that with new employees hired, there should be a requirement that it be comparable. Once again, very controversial and something that no doubt you will discuss at great length.

One of the things to keep in mind about all of the things that we said in the work force area is that none of the things that we recommended should be retrospective; nothing should affect current retirees, nothing should affect current bargaining agreements. These are things that should be considered for the future as opposed to affecting current employees.

The final recommendation that I know you have talked about at great length already has to do with whether or not the Postal Service should have responsibility for military pension costs. We came down saying no, that this is an unusual burden and should not be a burden of the Postal Service. Lifting those pension costs obviously will have major economic implications and positive implications toward the Postal Service.

So the core of our message, plain and simple—and I am sorry if I have gone on too long—plain and simple is that this is a fabulous national asset. The current structure and approach is the right structure and approach. We believe that there is no immediate crisis, but we believe that Congress needs to address many of these challenges that have been on the table this morning and have been on the table many times before. If we do not address the challenges now of having the most efficient, effective possible Postal Service, there will be a time when we will either have dramatic, and I think destructive, rate increases to keep the requirement of breaking even, the potential for a bailout, or dramatic reductions in service. We do not want any one of those three things. What we are trying to do with our recommendations is to push ahead by saying let us embrace universal service in the fullest sense of that definition, let us get it right as a large organization in terms of best execution, and then let us get the most we can possibly get out of this model so that we have the potential for the next 10 to 20 years of taking what is already a very effective institution, make it even better, and stabilize it within the context of its core definition.

That is what we were trying to do. I have tried to give you a little background behind how we thought about a variety of these things. I am fully aware that not everyone will agree on all these topics, but I and all the other members of the Commission very much welcome the dialogue and are completely open to discussing our thinking on any one of these topics.

Chairman COLLINS. Thank you very much, Mr. Johnson, for an excellent statement. Your written statement will be entered in the record along with any other materials that you wish to provide, but that overview was terrific, and I thank you.

Senator CARPER. Madam Chairman.

Chairman COLLINS. Yes, Senator Carper.

Senator CARPER. Could I ask a point of personal privilege? We have been dealing with a natural disaster, a flooding problem, up in northern Delaware, and I have been engaged on that this morning and arrived too late to give an opening statement. Rather than give one, I would just ask for 2 minutes just to make a brief statement if I could.

Chairman COLLINS. Certainly.

Senator Carper has been very active on postal issues. We teamed up earlier this year on the postal bill that I mentioned in my opening statement.

I am pleased to yield to you for some comments.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. And I am pleased to be on your team.

Chairman COLLINS. Just stay there. [Laughter.]

Senator CARPER. You can always look for me on your right flank.

I love to tell this story, and I will be very quick. In my first year or so in the Senate, I was preparing to offer an amendment on the energy bill, something that was important at the time and is still an important issue. And Senator Collins was good enough to join me as a sponsor of the amendment, and we offered it. A lot of people thought we would lose, but we ended up winning by a lot, despite the opposition of the Chairman of the Committee and the Ranking Member.

When it was all over, I went over to Senator Collins on the Senate floor, and I said, "You know, I have not been here for that long, but this is the first time I have ever won a fight on a major amendment." And she looked at me and smiled and said, "I have never lost." And I said, "I am going to stick with you, sister." And I have.

My hope is that we will be able to work closely together with our colleagues across the aisle here.

Thirty-two years ago, another junior Senator, a fellow named Ted Stevens from Alaska, decided to get involved in postal issues, and he did, in a remarkably effective way, and laid the foundation for an organization which endured not only for the rest of the 20th Century but into the 21st Century. In 1971, I do not know what the rest of you were doing, but I was in my second tour in Southeast Asia, and I remember reading something about it in *Time* or *Newsweek* magazines at the time. Thinking back to 1971, unlike our troops today who are deployed in Afghanistan, Kuwait, and other places, we did not have the ability to email our families, and frankly, we did not have the opportunity to talk to them much on the phone. We had a MARS system where you could actually talk a little bit on the phone—it was sort of like a Hamm radio operator—you could talk to them a little bit and say "Over," and then they would talk back to you. But we did not have the ability to go into a tent or a facility and talk to our families then.

We wrote a lot of letters. We got a lot of them back. They were all handwritten.

We did not have direct deposit then.

If you think about the way that our lives were in 1971 and the way we work today with direct deposit, email, and can call anybody with a cellphone almost around the world at any time, the world has changed dramatically, and our postal system needs to change and evolve as well.

I am really pleased that the Commission—and I want to thank you and Harry Pearce for your leadership—and for all in the room and a lot of people who are not here who have contributed to your deliberations, to come with a very thoughtful set of recommendations. Now, obviously, we are not going to agree on all of them, and in particular I just want to make sure that in the end, we follow

the golden rule with respect to the way we treat not just our customers but the folks who work at the Postal Service, that we treat them as we want to be treated.

But I am pleased that you have said that universal service is important and we want to continue it. I am delighted that we are not going to try to privatize this operation. I am pleased with the importance and the premium that you have placed on employees as well.

I will just conclude with this. Every now and then, Presidents send budgets to the Hill, and they are deemed "dead on arrival." We see other proposals from Presidents, Democrat and Republican, and from other entities, they come to us and they are described as "dead on arrival."

I think that the recommendations that you have sent to us are "alive on arrival," and we very much look forward to working with you and improving some of them, accepting others, and going forward. I think this country will be better for it, and I think those who work for the Postal Service and their customers will be better for it.

I thank you for the opportunity to make that comment.

[The prepared opening statement of Senator Carper follows:]

PREPARED OPENING STATEMENT OF SENATOR CARPER

Thank you, Madam Chairman. I'd like to begin by thanking Mr. Johnson and his colleagues for their willingness to serve on the President's postal commission. Postal reform is a difficult issue. It is also a vitally important issue for every American who depends on the Postal Service everyday. Their willingness to listen to all sides of the debate and to attemt to craft a set of balanced reform recommendations is admired and appreciated.

By all accounts, the Postal Service has been a success. It receives virtually no taxpayer support and the service its hundreds of thousands of employees provide to every American nearly every day is second to none. More than 30 eyars after its birth, the Postal Service now delivers to more than 140 million addresses each day and is the anchor of a $900 billion mailing industry.

As the commission's final report recognizes, however, the Postal Service is clearly in need of modernization. When it started out in 1971, nobody had access to fax machines, cell phones or pagers and nobody imagined that we would ever see innovations like e-mail and electronic bill pay. After decades of success, electronic diversion of mail volume, coupled with economic recession and terrorism, have made for some rough going at the Postal Service in recent years.

The Postal Service's financial situation has improved in recent months. They will have $4 billion surplus in the current fiscal eyar. They could be debt-free by the middle of next year. However, I don't think volume is yet where we'd like it to be. In addition, the Postal Service continues to add nearly two million new delivery points each year, creating the need for new routes, more letter carriers and new or expanded postal facilities.

As more and more customers turn to electronic forms of communciation, letter carriers will likely begin to bring fewer and fewer pieces of mail to each address they serve. The rate increases that will be needed to maintain the Postal Service's current infrastructure, to finance retirement obligations to its current employees, and to pay for new letter carriers and new facilities will only further erode mail volume. The Postal Service has been trying to improve on its own. They are making progress, but there is only so much they can do.

That is where Congress must step in. Even if the economy recovers soon and the Postal Service begins to see volume and revenues improve, I believe we will still need to make some fundamental changes in order to make the Postal Service as successful in the 21st Century as it has been for the past 30 years.

That is where Congress must step in. Even if the economy recovers soon and the Postal Service begins to see volume and revenues improve, I believe we will still need to make some fundamental changes in order to make the Postal Service as successful in the 21st Century as it has been for the past thirty years.

S. 1285, which I introduced early this past summer, aims to modernize the Postal Service without rolling back service. It instead explicitly preserves the requirement that the Postal Service "bind the Nation together through the mail" and serve all parts of the country—urban, suburban and rural. It also preserves the Postal Service's monopoly over the mailbox and maintains the prohibition on closing post offices in some rural and inner city communities that often operate at a deficit.

S. 1285 also forces the Postal Service to concentrate solely on what it does best—processing and delivering the mail—and provides them with much-needed pricing flexibility that they can use to encourage increased mail volume. It does this while making the ratemaking process less time-consuming, less administratively burdensome and more predictable.

S. 1285 also attempts to strengthen service standards for most Postal Service products as a way to make the mail more valuable for customers. The bill requires the Postal Rate Commission, re-named the Postal Regulatory Commission, to develop standards for the Postal Service's Market Dominant products, a category made up mostly of those products included in the postal monopoly.

Finally, S. 1285 makes the new Postal Regulatory Commission the strong regulatory body needed to ensure that the Postal Service is serving the public interest and competing fairly with private sector mailers. Commissioners would be better qualified and would be armed with new authority, such as subpoena power, that can be used to demand information from postal management. Commissioners would also be empowered to punish the Postal Service for failing to abide by rate and service regulations or for using revenue from their monopoly products to subsidize those products that are also offered by private sector mailers.

S. 1285 is based in large part on legislation introduced last year in the House by Congressmen John McHugh. While his bill enjoyed the support of much of the mailing community and most Postal Service employees and was endorsed by the Postal Service's Board of Governors, it failed in the Government Reform Committee. For any piece of postal reform legislation to be signed into law during the 108th Congress, it will probably need to enjoy near-unanimous support among mailers and postal employees and have strong support in Congress and at the White House. The president's postal commission was created, in part, to help build the consensus that we will need to get something done. For the most part, I believe they've done an excellent job.

Like my bill, the commission's report calls for the preservation of universal service and the Postal Service's monopoly over the mailbox. The commission also recommends, like I do, turning the Postal Service's Board of Governors into a stronger, more independent body that would be better able to manage a business the size of the Postal Service. Both my bill and the commission's report would also give the Postal Service significant pricing flexibility and turn the Postal Rate Commission into a stronger regulatory body. They would also streamline the Postal Service's physical infrastructure and encourage them to adopt new technology that would improve productivity and add value to their products.

I am a little concerned, however, with three items addressed in the commission's report. First, there is the call for after-the-fact review of rates. I fear this could allow potentially damaging rate changes to go into effect without being studied properly and without giving the public an opportunity to comment. The commission's recommendations would allow rates set by the Postal Service to later be adjusted by the regulatory body if a third party challenges them. By the time the regulators get an opportunity to act, however, mailers could have already suffered significant financial damage. To avoid this, I believe we should ensure that the regulators are given enough time before rates changes go into effect to study them and, if necessary, stop them from happening.

Second, I am also concerned about the way in which the commission's recommendations address facility closings. The commission rightly, I believe, acknowledges the need for the Postal Service to rationalize its network of post offices and processing centers. While I make similar recommendations in S. 1285, my bill ensures that the facility closing process is part of a larger overall plan to strengthen service standards and give Americans better access to postal services than they have today.

While the Postal Service should certainly study the need to close some existing facilities, it is important that they do so in an orderly, accountable way that promotes public confidence and does not in any way hinder their ability to carry out their mandate to serve all Americans. If done haphazardly, facility closings could hurt service in some communities, especially rural and inner-city areas.

Finally, there are the recommended changes to collective bargaining and employee pay. I won't dwell on the details of those recommendations but I will say that we should think carefully before tinkering with a system that I believe has worked well

for both the Postal Service and its union employees. Since the Postal Service's financial difficulties worsened, postal unions have agreed to contract renewals with modest, reasonable pay increases without going into arbitration. While labor does make up a significant percentage of the Postal Service's costs, the Postal Service performs labor-intensive work. Reducing employee pay and benefits will not change this.

In closing, I believe it is important to emphasize that postal reform should be about preserving and improving the important service that the Postal Service provides. As I've said in the past, we should give the Postal Service the ability to operate more like a business. We should also recognize, however, that the Postal Service is not a business. Whatever new flexibility we give the Postal Service to price its products or manage its property and workforce, we should ensure that their top goal is to continue serving the public.

Chairman COLLINS. Thank you. I want to give the other Members who arrived after opening statements were done the opportunity to make very brief comments if they would like to.

Senator Pryor, I think you were next.

Senator PRYOR. No, thank you.

Chairman COLLINS. Senator Akaka, if you would like to make any brief opening statement, feel free to.

OPENING STATEMENT OF SENATOR AKAKA

Senator AKAKA. Madam Chairman, I thank you for asking. I would like to ask that my opening statement be included in the record.

Chairman COLLINS. Without objection.

[The opening prepared statement of Senator Akaka follows:]

PREPARED OPENING STATEMENT OF SENATOR AKAKA

Madam Chairman, thank you for holding this hearing today. Your attention underscores this Committee's longstanding dedication to the men and women of the U.S. Postal Service and our commitment to all who rely on the U.S. Mail.

It is timely that we focus on the Postal Service during these difficult economic times. The Postal Service is a core element of the American economic engine. The Postal Service and mail-related businesses account for nearly $900 billion in job-producing economic activity. Mail generates well over $700 billion in direct sales. The value of goods transported by the parcel delivery industry, which includes the Postal Service, equals 12 and one third percent of all goods transported in the United States.

Two years ago, the leadership of this Committee asked the Postal Service for a comprehensive transformation plan to address short- and long-term operational and financial goals. The Postal Service presented its Transformation Plan to the Senate at a hearing that I chaired in May 2003.

My concern then, as it was in December when the President appointed a commission to review the Postal Service, was how do we ensure the continuation of the Postal Service's core mission—universal service—at an affordable price.

I believe the Commission, within a compressed time frame, tackled that question. They grappled with the challenges facing the Postal Service and made significant recommendations.

I was especially pleased that the Commission rejected privatizing the Postal Service. To those who say a privately-run mail service is the only road to financial stability, I am concerned that it would be a one-way street to unequal mail service throughout the nation.

Despite the technological advances that have transformed our lives, I believe a government-owned and government-run mail service remains key to the nation's economic and social well being. My state of Hawaii is dependent on affordable and timely delivery of goods and services, many of which come through the U.S. Mail. Mail is particularly important for Hawaii's small businesses as means of sustaining old customers and nurturing new ones.

Although no organization, including the Postal Service, should be frozen in time, effective reform is dependent on the support of and acceptance by its employees. Whether we are transforming the Department of Defense or the Postal Service, labor unions and management must work together for the transformation to succeed.

I do not support proposals that would eliminate protections and rights currently enjoyed by postal workers. As Federal employees and annuitants, postal workers are entitled to certain statutory benefits, including access to the Federal Employee Health Benefit program and the government's 401(k)-type retirement plan. As a strong advocate of employee rights, I will review carefully any proposal to shift postal workers and retirees from existing government-wide benefits and protections.

Postal employees have much to lose if the financial, managerial, and operational challenges facing the Postal Service are not addressed. Yet, not all the problems facing the Postal Service are labor-related. The Postal Service's future may be more dependent on how well and how effectively it manages its employees, capital assets, purchased transportation services, and consumables such as fuel.

Like other segments of the transportation industry, the Postal Service operates within a quickly changing marketplace. Competition is fierce, and rapidly changing economic conditions and rising fuel and energy costs can affect the Postal Service's ability to remain financially viable. The Commission's recommendations that the Postal Service have pricing and management flexibility will allow the Postal Service to adapt to this rapidly without the need to penalize its workers. I thank Mr. Johnson and his fellow commissioners for their effort.

And Madam Chairman, I thank you again for convening this hearing. The collection and delivery of mail is a basic and fundamental public service. I look forward to hearing from our distinguished witness.

Chairman COLLINS. Senator Fitzgerald, if you have any opening comments.

OPENING STATEMENT OF SENATOR FITZGERALD

Senator FITZGERALD. I would just ask to include my opening statement in the record, too, Madam Chairman. Thank you for having this hearing, and Mr. Johnson, thank you very much for your service. We appreciate it and appreciate the fine recommendations of the Commission.

We will see what we can do. We operate in a political world, so we cannot quite be as efficient, I am afraid, as the business world, but we can try around here. Thank you very much.

[The prepared statement of Senator Fitzgerald follows:]

PREPARED OPENING STATEMENT OF SENATOR FITZGERALD

Good morning. I'm pleased to join my colleagues in welcoming our witness today, Mr. James Johnson, co-chair of the President's Postal Commission. Mr. Johnson has played an important leadership role in a much-needed effort to preserve and modernize one of the nation's vital institutions. I also would like to thank Chairman Collins for holding this hearing and applaud her leadership over many years on postal issues.

The U.S. Postal Service (USPS) is a unique institution that has provided an invaluable service since its inception. The Postal Service has over 830,000 employees nationwide, over 43,000 of whom are in my home state of Illinois. The Postal Service also operates 2,079 postal facilities in my state.

The Postal Service now faces the challenges of increased competition, however, and a regulatory structure that does not meet today's needs. As a $67 billion enterprise, the Postal Service is the nation's second largest employer and the 11th largest by revenue. The services provided by this multi-billion dollar enterprise are being displaced through market competition and greater use of electronic forms of communication. Relatively new means of communication such as email, threaten the financial health and long-term viability of the Postal Service. As fewer and fewer people mail letters, postal volume is stagnant or shrinking.

Due to the Postal Service's debt and the decline in its traditional revenue sources, the General Accounting Office placed the transformational efforts and long-term outlook of the Postal Service on its "high risk" list in 2001. As the Commission notes in its report, even if the Postal Service were not in financial jeopardy, the inefficiency of its operations causes billions of dollars in unnecessary costs that should be eliminated.

Strong financial management and good governance have long been interests of mine. I believe that good business practices, strong financial accounting, and inde-

pendent oversight are important to the overall success of any institution, and these are key areas to address in the transformational process at the U.S. Postal Service.

To transform the Postal Service the Commission has undertaken a comprehensive review of the Postal Service's operations. I was especially pleased to read the recommendations to use the "best practices" of the nation's leading businesses to transform the Postal Service organization and improve its efficiency. The Commission report emphasizes several aspects of current Postal Service operations that would not be required of a business. This is important to take note of, as these responsibilities are inconsistent with the Postal Service's charter as an independently financed federal entity. It is partly due to these requirements that the Postal Service is struggling to maintain its operations.

I look forward to hearing from our witness today regarding how Congress can help the Postal Service function more like a business and less like a bureaucracy. Additionally, I hope to hear about the proposed oversight and regulatory structure of the Postal Service, the opportunities to enhance financial transparency, and the management of its monopoly powers.

Thank you, Chairman Collins.

Chairman COLLINS. Mr. Johnson, we are now going to turn to questions, and we will do rounds of 6 minutes each, back and forth.

Your report makes extensive recommendations, both administrative and legislative, on a large variety of issues, and it really is a comprehensive look at the problems of the Postal Service. If Congress were to do nothing—if we failed to enact the legislative reforms that you have recommended, or at least some of the legislative reforms—how long would the Postal Service, as we know it, be able to continue to operate? Would it be sustainable in the long term if we just throw up our hands and say these issues are too difficult?

Mr. JOHNSON. Let me try to answer that as honestly as I can. The Postal Service is in dramatically better shape today than it was a year ago for two important reasons. The first reason is the bill that you and Senator Carper shepherded through on the recognition of the overpayment of retirement benefits and now the reversing of that overpayment, which is giving the Postal Service an opportunity to pay down debt and to have other opportunities to do much needed investment. Frankly, that has changed the dynamic of urgency to some degree.

The second thing that has changed the dynamic of urgency is the skill of the Postmaster General and the leadership of the Postal Service. Their Transformation Plan, their efforts to put best practices in place, are bearing substantial dividends. They are moving forward on a wide variety of fronts, and I tried in every one of our nine public meetings to compliment them. I do not want to fail to do that today because I think excellence in Federal service should be recognized systematically, and I think many of the things that they are doing are very impressive.

The short-term, medium-term, next 3-years answer is that things are better than they were. In terms of the longer term, we focus a great deal of energy on the diversion question, the electronic challenge, elements of inefficiency, and the cost structure. I have no doubt that in the somewhat longer time horizon, every one of the challenges that was apparent a year or two ago will be back front and center. As I said earlier, I do not think anyone wants this to be taxpayer-subsidized. No one wants to boost rates to the point where mailers do not want to mail and where they cut their volumes or boost them again and again to the point where you have a downward spiral of activity and revenue. My belief is that we do

not have a long time to get it straight and to take our best effort for the long term, but it is not a fire. The full consideration by your Committee, the full consideration by your companion committee on the House side, the full engagement of the President and the administration, the further engagement of the Postmaster General—this is an ideal time, it seems to me, where we can see the sort of contours of a bad future if we do not act, but we have time to get it right. As long as we can maintain forward momentum for reform, true engagement, and honest dialogue, I would be very hopeful. And thanks to the work that you all have done, I am more hopeful now than I was a few months ago.

Chairman COLLINS. You mentioned in your statement the recommendation that the Postal Service should stick to its core business. Over the past few years, the Postal Service has offered a variety of non-postal products and services which actually lost money. In addition, I heard from a lot of gift shop owners and printers in Maine who are very unhappy about having what they saw as unfair subsidized competition from the Postal Service.

There are a couple of examples of failed ventures in the non-core area such as Net Post Mailing Online, the on-line payment services, which resulted in fiscal year 2002 losses of $10.6 million and $1.15 million respectively.

You have recommended that the Postal Service focus on its core business. Could you define that further for us and what exactly you mean by that?

Mr. JOHNSON. Once again, we spent a lot of time on this subject. We were informed by so many corporate disasters of people who had done essentially the same thing, that is, gotten involved in businesses that they were not prepared to run well because they did not have adequate background and expertise. So all of us—and this was all nine—had the strong view that there should be a restraint on non-postal services and new businesses which were not related to the core.

The way we defined the core business was "acceptance, collection, sorting, transportation and delivery of letters, newspapers, magazines, advertising mail and parcels." That is pretty restrictive, and people came along and asked, isn't it true that people get passport photos done in post offices? Are you against that? And we said no; that is an incidental public service which we think is completely appropriate and not a risky business venture.

What we were really trying to do here was to get at the risky business venture concept as opposed to small auxiliary services that in some way might be provided.

I have the feeling once again that the current management of the Postal Service understands this point. I do not think they like being overly constrained, and they probably find our definition a little bit restrictive. But my own view is that the Postal Service as it is defined here is huge, and that is in fact the public function that is needed. There are many private sector providers who can provide a lot of other services, and I see no reason to be taking things where there are adequate public sector providers and replacing them with public sector activities.

This is a long and complicated discussion in regard to all kinds of different government suppliers, whether they be defense contrac-

tors or communications companies. It is an endless discussion about where these boundaries should be.

Once again, I think our work should be viewed primarily as directional, and that is "No" on risk business ventures, "Yes" on core business ventures, where exactly you define that. We have given the regulators some power to say that if there are things that are challenged to the regulator on the basis that this is something that would not be possible without cross-subsidy. For example, we have given a lot of latitude for the regulator to come in. I know this is a concern of many in the mailing community, and that is that things in the end get distorted through various kinds of cross-subsidy, and that before the Postal Rate Commission, that is an ongoing, huge topic.

We have tried to give a framework without defining it down to the last detail, but certainly we come from where you come from.

Chairman COLLINS. Thank you.

I am going to call on my colleagues in the order that they arrived, and I believe, Senator Dayton, you were next.

Senator DAYTON. Thank you, Madam Chairman.

Mr. Johnson, if we define the mission of the Postal Service as universal service 6 days a week, and if the volume of mail, particularly First-Class, is now diminishing, and if that is going to be the structural change that is going to persist for a while, then, realistically, how does this business model ever work other than just to try to compress the revenues, and even if you try to get efficiencies, aren't we just trying to extend this further and further when it is essentially not a revenue-balancing possibility?

Mr. JOHNSON. A very interesting question, and once again something we spent a lot of time on. We had the feeling that if we were guided by best execution throughout, very substantial savings could be achieved and therefore, with lower revenues, there still could be a break-even result. That was very much on our minds.

We also talked extensively with the Postmaster General about standards of service, and one of the concepts that he talked about—and he will obviously be before you at some point, and he can correct the record if I am wrong—but part of the point he made to us was that there were reasonably small changes in standard of service which would yield quite large economic benefit. All 6-day delivery is not created equal; all extensions of service are not created equal—and with more flexibility in management, he could find some ways, in his opinion, of very modestly, very reasonably, cutting back on some of those service standards and getting big dollar results.

We do not know the future of the internet; we do not know the future particularly of the bill payment mechanism. The bill presentment and bill payment are really the biggest pieces of this whole internet point, and if we could see the future on that—and we employed some consultants who took us out 20 years and longer in terms of looking at the dynamics of how that might work. In my own view—I had a good friend and colleague who was at Citigroup for 27 years, I hired him, and when he came to work at Fannie Mae, I said, "Tell me about the checkless society," and he said, "I am now in the 30th year of a prediction of a checkless society, and

every one of those 30 years, there have been more checks than the year before."

I do not know quite how this internet usage, bill payment, bill presentment works out over time, and obviously, that is a very big piece of this dynamic because in terms of, if you will, the profitable business of the post office, a lot of that comes in the bill-paying, First-Class dynamic. I think if things are simply stable, if you are not getting new efficiencies, if you are not getting better execution, if you are not riding a little slower curve on some of these matters, you can certainly run to the point where you will run out of efficiencies and cost control, and you will have service requirements which will simply give you an imbalance. We think that, if everything is done right, that can be many years from now. But if we are sitting here 15 or 20 years from now, you could get to a point where the electronic diversion and alternative executions were such that you not only had a smaller post office, but you had one at that point where you did not feel you had additional capacity to raise rates, because you were simply diverting into other mechanisms by further rate increases, where you had expenses which were really down to a minimum, and that you had a mismatch.

I think we are probably a couple of decades away from there, and for government work, that is not bad.

Senator DAYTON. It is as good as it gets.

You recommend what you call a transformation of the nine-member board of governors to what you call a corporate-style, 12-member board of directors which does not require Senate confirmation—and I am sure that was just an omission in the report—but how does this corporate-style board of directors distinguish itself from this current nine-member board of governors. And then—I will make it a two-part question—you also set up this three-member Postal Regulatory Board with greater authority for accountability and public oversight of the Postal Service. What is the interface, then, between this Regulatory Board and the board of directors?

Mr. JOHNSON. Let me start at the back end of your question. The reason that we put the Postal Regulatory Board in place is that we believe that there are major public policy implications of how the Postal Service goes about its business. We provided for Senate confirmation of that Postal Regulatory Board because we believe that is the core for setting the boundaries and expectations of this activity.

In terms of the corporate-style board of directors, the qualifications which we would like to see in this new board would involve people who had run similarly-sized enterprises, who had deep experience in logistics businesses, people who had been involved with companies with very large work forces. Our feeling was that this was primarily a business-like function as opposed to a public policy-like function. While it is hard to find the exact contours of what is confirmable and what is not confirmable, it seemed to us that a reasonable separation between the sort of entre here on public policy issues should be Senate-confirmed, and that which was more a strictly business background kind of best execution did not seem like a confirmation item.

Just a few examples—if you look at Sallie Mae, Fannie Mae, Freddie Mac, Federal Home Loan Bank Board, those being busi-

ness functions, none of those is confirmed. There are Presidential appointments there which are simply Presidential appointments, and they go to work on what is essentially a business financial entity with essentially a business financial function for the board. Now, in all of those entities, there are some public policy dynamics, obviously—whether or not you do the work you should be doing for housing and for student loans—so it is not pure. But it seemed to us that confirmation should be focused on the people who are setting the public policy ground rules, and that the people performing business-type functions should probably not be infirmed—but once again, you all will decide in the end whether that makes any sense or not.

Senator DAYTON. My time has expired.

Thank you, Madam Chairman. Thank you for your report.

Chairman COLLINS. Thank you. Senator Fitzgerald.

Senator FITZGERALD. Thank you, Madam Chairman.

Mr. Johnson, I was wondering what your thoughts were with respect to rural post office service. One of the big issues I have heard about repeatedly in the State of Illinois is that we have a lot of smaller Down State communities, and occasionally, the Postal Service recommends closing a facility. Of course, everybody in the community is up-in-arms, and it often makes it difficult for me as a Senator to figure out what to do. Obviously, the community does not want to lose its post office, but we know at the same time that there are some post offices that are not efficient to keep.

I was wondering if you could explain to the Committee your Commission's findings with respect to underutilized facilities and what the Postal Service should do with those.

Mr. JOHNSON. This was also a much-discussed topic, and let me give you our perspective. Our feeling is that any postal facility that is required to fulfill the universal service obligation should stay open. So, pure and simple, if this is part of getting the job done either on the retail side or on the distribution side, and if there are not reasonable alternatives, it should stay open—that universal service comes first.

Now, if you have a facility where you have three more post offices in a very small area there will be circumstances where there will be post offices or postal contract services which it will be very hard to argue are essential to providing universal service either in terms of retail or other postal functions.

What we have said in that regard is that we do not like the sort of yes-or-no dynamic of open or closed. There should be a very broad opportunity for the Postal Service to work with the community to either add Federal or other functions to that facility which would make it more economically viable, to cooperate with State and local government in keeping it open. For example, they might put a part of city hall or some other dimension of public service in that building. We even went so far as to say if there was not a market for that postal facility, the Postal Service should have the option of giving it to the community even if the Postal Service owned it, giving it to a nonprofit organization——

Senator FITZGERALD. Do they have that option now?

Mr. JOHNSON. No, I do not believe so. Since I am relatively new to all of this, I can be corrected at any time, but I do not believe that is an option under current law.

Our hope was that if there are facilities that really are not economic that you do not just have a yes-or-no for the community to be a winner or a loser, and that in fact there would be multiple ways for the community, even including giving them the facility, that they could put it to good use for public functions or for public services. We tried to be as broadly responsive as we could to the social function that small post offices play.

We have 38,000 post offices today. I think it is safe to say that every single "expert" we spoke to thought that was far more than what was required to get the job done. It is a hot potato. But we tried to think through systematically how we might make this a little more viable. I do not know whether we have succeeded or not.

Senator FITZGERALD. I am not sure if the Postal Service is in any way organized as a corporation.

Mr. JOHNSON. It is.

Senator FITZGERALD. It is a separate corporation, and it has a——

Mr. JOHNSON. It is a separate, independent governmental entity. It is not a Delaware corporation. It is not subject to——

Senator FITZGERALD. But it has a Federal Government charter like a Fannie Mae or a Freddie Mac, although it would be quite different?

Mr. JOHNSON. It has a Federal Government—it is an independent agency within the Federal Government.

Senator FITZGERALD. I see in the book that you put out, you have a brief statement of the liabilities of the postal agency, but I cannot find in here a statement of the assets of the agency. When an agency is not organized as a corporation, it gets very hard to figure it out and compare it, say, to the other corporations that you attempt to compare it to in terms of revenue and in terms of employees.

I am wondering if it would not make sense to actually incorporate it and have it go through some of the disciplines that corporations do, even though it would obviously be owned or have some special status as a government-chartered corporation.

Mr. JOHNSON. It is interesting that you should ask that question. We talked about that, and we to some extent had the advice of outside experts on that point. The conclusion that we came to is that by something that looked more like a traditional chartering, we would pick up problems of various kinds, including the capacity to be sued for various things and other things that are not currently a problem for the Postal Service.

We tried to get at the financial transparency issues in other ways, through the SEC filings that we recommend and so on. Dick Strasser, the chief financial officer of the Postal Service, happens to be sitting right behind me this morning, and I am sure he can shed substantially greater light at the appropriate time on how to think about the assets.

Senator FITZGERALD. I just noticed that in your report, in order to come up with some of these viabilities, you are deriving some of them from, like, a letter that the CBO wrote to Jim Nussle. It does

not look like they are written down or accounted for in certain places.

Let me ask you one final question. I know my time is up.

Chairman COLLINS. I am going to try to hold to the time, so if you could wrap up; thank you.

Senator FITZGERALD. Just a final question. Were there other liabilities besides this military pension liability that somehow was foisted onto the Postal Service that administrations over the years have tried to hide or bury in the Postal Service?

Mr. JOHNSON. There are major liability areas, but I am not aware of those being suddenly or externally introduced.

Senator FITZGERALD. Thank you.

Chairman COLLINS. Senator Durbin.

Senator DURBIN. Thank you, Madam Chairman, and thank you, Mr. Johnson and all those who took part in this postal reform effort.

I think there are two elements that are essential if this is going to be successful. The first is selling postal reform proposals to Congress and the White House, and second is selling it to the men and women of the Postal Service so that it finally is implemented in a successful fashion.

I read portions of your report with great interest, and let me point out one that you noted in your statement. "The Postal Service employs approximately 843,000 people, making it the second-largest work force in the United States. Its jobs are highly-coveted. As of July 2001, the Postal Service had a backlog of some 400,000 job applicants and virtually no turnover."

Then I turn to another section, and I read that "In 2002, 184,329 grievances were filed by members of the Postal Service before the major union reached a second-step appeal; and 106,834 were pending arbitration."

"Clearly, something is wrong when a unionized work force of 746,000 employees generates more than 184,000 second-step grievances in 1 year. By comparison with a work force of 102,000 employees, American Airlines launched a major alternative dispute resolution initiative when its backlog of employee complaints reached a mere 800."

I want to try to explore this for a moment with you. Those seem to be two very contradictory statements. The most coveted job to the point where 400,000 people are waiting to get an opportunity to work there, and of the people who are there, grievances are being filed on behalf of about one out of four employees every year. It suggests to me that there is a lure to the job but a dissatisfaction once they have arrived with management and the relationship between labor and management.

Do you feel that we need to look at this more seriously at the outset before we can hope to implement successfully any postal reform where a commission or the management is going to suggest to a work force which apparently has its differences with the management has any chance of success?

Mr. JOHNSON. Yes is the answer to your question. I believe that the grievances are far too high. Now, there are some alternative dispute mechanisms which I think should be more broadly applied. The letter carriers have made some very substantial progress on

some experimental programs that they have to reduce grievances and deal with them more expeditiously.

It was absolutely clear to the Commission that this gave every evidence of an inadequate level of trust between labor and management, that the grievances were unbelievably high, and that it was something that had to be very seriously addressed. I must say, just to give you a little editorial comment, there was no feeling that this was primarily a labor problem. There was a feeling that this is an indication of a very substantial shortfall on management's part as well as an indication of a strong willingness to confront the terms of the contract and that, for everybody's better interest, there should be a better way.

Senator DURBIN. So how will this management team, which is having substantial difficulty with the current law, regulation, and procedure of the U.S. Postal Service, lead this team into the era of reform, suggesting some substantial and sometimes painful changes in the workplace? How can this same management team which apparently has such a contentious relationship be expected to be successful?

Mr. JOHNSON. A good question once again, and this is also a subjective reply. Having spent dozens and dozens of hours now with the management team—I must say, dozens of hours as well with the labor leaders who represent the major employee units—my feeling is that Jack Potter and the other people on his team have a lot better orientation and attitude than they do record. That gives me some hope. It does not make me foolishly optimistic, but I think we have a great deal of work here to do on everybody's part. I think you are absolutely right to be focused on this. The grievances are dramatically too high. There needs to be an earlier resolution, a quicker resolution. And in terms of whether or not this management can provide that leadership, I see every evidence that they can, but the record at this point is nothing to be proud of.

Senator DURBIN. I do not have enough time to get into this next area, but I would like you to consider and perhaps get back to me informally or formally—if we are looking for a different work force for the Postal Service in the 21st Century, in the next 15 or 20 years, to respond to technology and challenges to the Postal Service, how can you reconcile the need for this type of new Federal employee in the work force with your suggestions of compromising or reducing health and retirement benefits for new hires?

It strikes me that United Airlines and others have learned in the midst of bankruptcy that you just have to be careful that you do not compromise your ability to retain and attract the very best personnel because somebody out there is going to offer them a better arrangements.

Mr. JOHNSON. I think it is an area of great concern. In every company that I am involved in, we are constantly preoccupied with whether or not our best people are going to be stolen.

In the Washington area, when I was CEO of Fannie Mae in the 1990's, there was a war underway between IBM, Marriott, Fannie Mae, and a few other companies for the best talent in the technology area. What you raise is a very real point. That is part of the reason why we made another controversial recommendation, and that is that we should not have the same ceiling we have today

on total compensation. The Postmaster General and other key leaders should have more flexibility, or the board should have more flexibility, in terms of paying them competitive market rates.

I think the Congress has kind of a fundamental choice here. What we were dealing with was what we viewed as a black-letter law on comparability. We tried to add things to the collective bargaining dynamic within the context of our reading of that law.

Now, if this is going to be even more nimble in the future to the Postal Service overall, maybe the Congress needs to look at some provisions for flexibility. We were dealing with the fact that we had witness after witness after witness who said it is not comparable; people in the Postal Service are being paid more. We never bought into that. We said we hear what you are saying, but we do not have the capacity to determine whether or not it is comparable.

What we recommended was a mechanism to work on this comparability issue through the Postal Regulatory Board.

From my point of view, if I were running a comparable company, as I was at Fannie Mae, a comparably large company, without flexibility in terms of attracting and retaining my most valuable employees, I would have been unreasonably hamstrung, and we could never have been the company we were if we were hamstrung in that way.

But we viewed it essentially as a precondition of our work, the very clear statement in the early 1970's statute saying that comparability was the law of the land. If that should not be the way it is looked at, then Congress should address that.

Senator DURBIN. Thank you. Thank you, Madam Chairman.

Chairman COLLINS. Senator Pryor.

OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. Thank you, Madam Chairman.

I would like to ask you about some trends at the post office and the Postal Service generally in this country—and I may be mistaken, but as I understand it, there has been a drop in First-Class mail, and some people think that possibly email, the internet, etc., maybe the economy have something to do with that, and as I understand it, your parcel business remains strong.

So I would just like to hear the trends that you see at the post office and what we are dealing with here and where you think we are going.

Mr. JOHNSON. Thank you, Senator.

The short answer is we do not know where we are going, and that is what makes many of us feel so uncertain. We have had this economic downturn, and we now have a consensus of economists saying it is over and that third-quarter growth will be 5 percent or thereabouts, that we are on our way to a substantial recovery.

We have had this interaction between the rise of the internet, the rise of the internet bill-paying dynamic which I was talking about just a minute ago, and the downturn in the economy. Typically in the past, if the economy is growing, mail volumes have grown. So if you look now at the next 12 months—and I do not know how fast you will be dealing with this legislation or possible legislation—but we are going to learn a lot in the next 12 months in terms of disentangling the electronics from the economy. If we

do in fact have the recovery which most economists now predict, and we do not see volume growth, and we have more and more incentives being provided—and this is a very big reality—where credit card companies, public utilities and others are incenting——

Senator PRYOR. Your mass mailers.

Mr. JOHNSON. Well, no, this is even a little different than the mass mailing thing—in many cases, they have very large numbers that they are mailing—but if you are paying a bill to a telephone company today or to a public utility or to American Express, with the cost savings that flow from your being an internet bill-payer, they are prepared to give you a gift certificate of $100 or $200 or a variety of other incentives to move you from somebody who uses the U.S. mails to somebody who does not. This is a very big commercial reality.

We also do not know at this point—to use an economist's term—where the indifference points are in the American consumer's mind. There are lots of people who still say . . . One of the most significant credit card companies came to see me not long after I had been named co-chair of this Commission. They said that now, up to 32 percent of their bills were being paid on line, and they were getting nowhere on people being willing to receive their bills on line. Then they went through the economics of how much money they would save if they could get them to receive their bills on line, and it became clear that they could give hundreds of dollars to each person with a reasonable perspective about how long that account was going to last, and still be better-off if they could convert them to an on line customer.

We have a lot of unknowns, a lot of variables, a lot of question marks. My expectation is at least to answer the primary question mark and that is, what is the effect of slow economic growth versus robust economic growth? I hope we have a chance to observe in the next year.

Senator PRYOR. I do, too. You may not know where we are going in the future, but what about right now? What are the trends right now? Are all of your lines of service lines that they have been in the past?

Mr. JOHNSON. No. The real point here is First-Class mail.

Senator PRYOR. First-Class mail.

Mr. JOHNSON. Yes. There are many other dimensions here that are growing or staying relatively flat, and the First-Class mail, of course, is where the highest postal rates are, where the support for the overhead of the institution flows from, and that is really where the focal point should be in terms of the threat to the basic balance of revenues and costs.

Senator PRYOR. If you do not know where you are going—and it is hard to know with all the variables out there, and like you said, we will know a lot in the next 12 months—should we, the Congress, go into sort of a holding pattern for the next 12 months and let you sort this out before we restructure and transform and change things at the Postal Service?

Mr. JOHNSON. Well, over the next 12 months, I am not going to be sorting out much of anything having to do with the mail. I think that there are many areas in our recommendations which have an orientation to best practice, best execution, better organization, bet-

ter functioning, growth, marketing, cooperation with the private sector, where nothing needs to wait, where a reform agenda could be pursued starting today.

I think there are other dimensions where the size of the challenge may evolve, but we tried to look at a very broad range of possible futures, and even within that broad range of possible futures, we came to the view that this was the right structure. Starting with universal service, structured as it is today, with the balance of revenues and costs, that we could achieve in a couple of decades in all likelihood, unless there were some radical change, of stability in this model.

Therefore, you may get more or less political support. For example, on the question of whether or not the Postal Service should have to pick up this $25 to $30 billion of armed services pension obligation, because if you get a mismatch sooner rather than later, it may be even more apparent that it is a burden that should not be put on the Postal Service because it will rock the ship. But in my view over the long term, much of the reform agenda, not just from our work but from the work of people on this Committee, the Chairman most notably, work in the House, much of this agenda of change, flexibility, transparency, is an agenda that is ready to go. So I would certainly not be in the camp of saying wait if you do not have to.

Senator PRYOR. Thank you. Thank you, Madam Chairman.

Chairman COLLINS. Senator Carper.

Senator CARPER. Thanks, Madam Chairman.

I think I said this before, but I want to say it again to you and to Harry Pearce and the others who served on this Commission—and I know you have day jobs as well—but thank you very much for finding the time in your lives to invest as heavily as you have. And you have a very small staff. I do not know if any of them are with you here today—one or two of them look like I have seen them before.

Mr. JOHNSON. Yes.

Senator CARPER. I just want to express to them and others who work with them our thanks; for a relatively few people, they did a lot, and I think they have done a good job.

I mentioned earlier that I spent some time in the Navy back in the sixties and seventies on active duty, and for a long time after that, actually, in the reserves. I remember being in the military a long time ago, and people used to talk about government work. They would do a job, not very well, and they would say: "That is good enough for Government work." You have probably heard that before. I never liked that, and people learned never to say that around me.

When you are doing government's work, you are doing the people's work, and I think that demands our very best effort.

Later, I was elected to State Treasurer, and at about the same time, Jimmy Carter was elected President, and he had a guy named Bert Lance, who used to work for me, as his budget director for a while. Bert Lance used to like to say, "If it ain't broke, don't fix it." I do not know if it originated with him, but he was the first person I ever heard say that. I used to say that myself. I stopped saying that, though.

And eventually, when I was Governor of Delaware, we would never say, "If it ain't broke, don't fix it"—we would say, "If it isn't perfect, make it better." And I think we will all agree that our Postal Service is not perfect, and it can be made better.

I wish we had a futurist here. I am glad that you are here, and I am delighted that you served on this panel. But I wish we had a futurist here who could talk—and this is sort of following up on Senator Pryor's question—and tell us what is the future, what is the Postal Service going to look like 10 years from now, 20 years from now, 30 years from now. Back when Ted Stevens was a young Senator, I do not know if they had a vision of what the Postal Service was going to look like in 30 or 32 years.

We were talking here about email and trying to get people to use electronic checking and that kind of thing. We do a biweekly mail report in my office—I always say that the things you measure are the things you do best—to actually measure how we are doing on the mail, how many letters we receive on what subjects, how long our turnaround time is. I hold everybody on my staff accountable, including myself.

It is interesting that when we did our mail report for this week and the last few weeks—do you know what we learned—we learned I think for the first time that if you look at the folks who are emailing us versus the folks who are writing us versus the folks who are calling us by phone, we now get more communications by email than either of the other two put together. That was not the case even 2½ years ago when I came here, so obviously, things are changing.

But take just a moment, and realizing that none of us has the ability to see the future clearly, but what do you think 10 or 20 years from now our Postal Service should look like, just in general terms?

Mr. JOHNSON. The first thing that I would say is that many American corporations have found dimensions of productivity increase far beyond what they ever imagined. If you read the Six Sigma literature coming from General Electric, a lot of operational efficiency literature, if you look at the integration of networks, if you look at the imaging now that is routine in major American companies, and if you now look at Alan Greenspan's discussion on an ongoing basis of productivity increases, I think we are going to see—and I have great respect for public functions as well—I think we are going to see a postal system which is dramatically streamlined from what it is today. I find that very encouraging because all dimensions of being able to do more and better for less need to be pursued in the public sector, or you develop the kind of cynicism that you are talking about, about how it is not the best way to do things.

I keep getting reminded of the Social Security Administration and some other dimensions of government who constantly are winning awards for the lowest cost, the best execution, doing things better than the private sector in many of their functions. I do not necessarily see it as more private. A number of my colleagues on the Commission do, and I think that should be an ongoing dialogue about what is private and what is public.

But I would be thrilled if we were able to take all of those dimensions of logistical, technology, and imaging investment and organize those in the context of being a government entity and staffed by people who are staffing it today.

I think this will make it better integrated, much more efficient from a process and logistics point of view, and I would guess even within the context of the narrow function that we describe, finding lots of new businesses as they go along. I think people want to be connected, and I think they want to be connected in tangible physical ways. And yes, you can print an email, and yes, you can take things off your screen, and maybe I am just so old that I have not gotten it yet, but when somebody sends me a thank you note, if it comes on email, I say fine, and it goes into my wastebasket reasonably quickly. But if somebody takes the time to write me, with some thought, and I have it tangibly in front of me, it makes a big difference to me. Now, as I said, maybe that is generational.

Likewise, I happen to be somebody who still works from pink slips on my telephone messages, because until I throw away the pink slip, it is still in front of me, and I cannot ignore it on a list, and I cannot ignore it on a memo. I have the slip, and I know that if I have not thrown it away myself, I have not dealt with the issue.

I think there is a tactile, touching, feeling dimension to a lot of us that some of the discussion about how we are all going to become email people and computer screen people and video-cellphone people ignores—yes, we probably will. But as I move around and try to get my work done, I have all those tangible assets. In the end, if it is important, if it is personal, if it is complicated, I really like to see it and feel it and touch it, so I tend to be a little bit on the kind of slow revolution side. I am a little bit on the side of the person who is not surprised that there are more checks every year. But I would not bet on it. I would not bet a lot of money that that is the way it is going to roll out. But I think Americans have shown a lot of flexibility—and this goes back to Senator Fitzgerald's question. I come from rural America—I grew up in a town of 3,000 people; my father was the acting postmaster in our town of 3,000 people—and I know a little bit about that rural dynamic. But they are changing, too, and I think as long as you have a service orientation from top to bottom in the Postal Service, we will probably be doing a lot of things in different ways.

Now, if you do not have a service orientation, and you do not have a public mission orientation, you are going to leave people behind, and you are going to make bad decisions; but if you have the best of technology and that sort of public service, service orientation, this could look very different, but I think it could be even more of an asset for our country than it is today.

Senator CARPER. Madam Chairman, my time has expired. If I could just conclude, not with a question but with a comment—there is a whole range of issues that I wish we had time to explore. I do not know if any of my colleagues have had a chance to visit a new post office in their States in recent months or weeks. I was down in Seaford, Delaware during the August recess. If you go to the beaches in Delaware—Rehobeth or Dewey or Bethany or any of those places—from Washington, you pass very close to Seaford,

Delaware, which is where the first nylon plant in the world was built by the DuPont Company about 50 years ago.

They recently sold off their post office which was right in downtown Seaford, and it is now a museum. It is really exciting what they have done with it. But they built a new post office not far from there, and it is a post office that is really more attuned to the 21st Century in their ability to process mail, but also in their ability to act as a retail operation and be customer-friendly and so forth.

So I would just invite my colleagues, if you have a chance when you are out, touring around your State, to take a look at what the Postal Service is doing to give us a little bit of a window into the future, which I think would suggest that maybe the best days of the Postal Service are not entirely behind us.

Thank you, Madam Chairman.

Chairman COLLINS. Thank you, Senator. Senator Akaka.

Senator AKAKA. Thank you very much, Madam Chairman.

Mr. Johnson, about 2 years ago, this Committee asked the Postal Service for a comprehensive transformation plan, which would address the short- and long-term operational and financial goals of the Postal Service, including providing universal service at an affordable price.

I should tell you that I believe the Commission, within a compressed time frame, tackled that question. You grappled with the challenges facing the Postal Service and made significant recommendations.

You touched on the Commission's recommendation that would task the Postal Regulatory Board with the responsibility of determining pay and benefit comparability. The Commission also recommends clarifying the term "comparability" by redefining current laws and applying any clarification prospectively. Were there other alternatives discussed on the comparability issue, and were there concerns that two different pay and benefit systems could have a chilling effect on employee morale?

Mr. JOHNSON. Yes, there were. There were very substantial discussions of both of those concerns, and we could not think of a better way to proceed than what we recommended.

As I said earlier, comparability is the law of the land. Partial comparability we did not believe was congressional intent. We believed that it was all compensation. This can always be reinterpreted by the Congress, but we felt that it meant all compensation.

We were highly sensitive about doing anything that would seem to abrogate existing arrangements, existing contracts, existing retirees, so we thought the only possible entry point was for new employees. We also felt that if you did not honestly address it—and I am not prejudging the comparability issue; friends of mine in the labor movement have said to me, convincingly or very strongly, that if you look at the correct, honest comparability measures, you will not find a premium, and obviously, that is the kind of data that the regulator would be legally required to very carefully evaluate.

We did not think that this was a fabulous, easy, non-disruptive way of thinking about it, because just as we considered everything

else, entering with new employees comprehensively seemed to us to be the best alternative. So that is where we ended up.

Senator AKAKA. Thank you for your response, Mr. Johnson.

You mentioned transparency. The lack of financial transparency within the Postal Service has long troubled me, so I was interested in the Commission's recommendation that the Postal Service voluntarily comply with the Securities and Exchange Commission's reporting standards. My question to you is why should this be voluntary, and what incentive would there be for the Postal Service to comply?

Mr. JOHNSON. I think the incentive to comply would be to end a long simmering discussion. As you said, you have had a long concern about whether or not they were reporting adequately, comprehensively, to a standard that should be expected of such a large, complex financial enterprise.

The SEC standard is America's standard today; it is the gold standard in terms of transparency for large financial enterprises, so therefore, it kind of ends the issue.

Ultimately, there might be a way of making it a little less voluntary. On the other hand, these are very complex issues—and I happen to know that my former company, Fannie Mae, has committed to meeting all of the SEC standards in all of their reporting. It took them 9 months of very detailed negotiations for a company that reports a lot more like a standard company than the Postal Service does to get all the agreements and standards and arrangements all in place, and it was a very complicated effort.

It did not seem to us to be an easy thing to mandate given that level of complexity. Now, maybe we should have been more aggressive in terms of saying that over a transition period of a couple of years or some reasonable period of time, the SEC should be asked to declare that they are in compliance. That could be a somewhat more aggressive approach, and if the Committee likes this idea at all, maybe the Committee should move in that direction. We were just a little lighter, even though we all thought it was a good standard.

Senator AKAKA. Madam Chairman, my time has expired. May I ask a follow-up to that?

Chairman COLLINS. Certainly.

Senator AKAKA. You recommend, Mr. Johnson, that the Postal Regulatory Board develop reporting requirements and impose sanctions to enforce its reporting requirements. What sanctions are envisioned by the Commission?

Mr. JOHNSON. Well, there is a sanction that would involve simply requiring the Postal Service to stop a function. For example, if they thought that there was cross-subsidy involved, they would have the authority to say there is cross-subsidy and you may not do this any further. If they found a rate-setting noncompliance, they could force compliance with the rate-setting standards which the Regulatory Board had put in place.

We contemplated the Postal Regulatory Board having subpoena power so that if there was a shortfall of information or a shortfall of candor, the Regulatory Board would have the legal capacity to subpoena records, to subpoena testimony.

I think we have given this regulator some teeth, some would argue too many teeth, and it ultimately, obviously, has to be shaped by this Committee. But our idea was that on the areas where they were supposed to assume responsibility, they had a lot of authority.

Senator AKAKA. Thank you very much for your responses, Mr. Johnson. Thank you, Madam Chairman.

Chairman COLLINS. Thank you, Senator.

Mr. Johnson, I have so many more questions I want to ask you, but in view of the hour, I am only going to ask you a few of them.

First, all of us are sensitive to making sure that the postal work force is fairly compensated, well-treated, and that morale is high, and that is why there is sensitivity, I think, to some of the recommendations that were made. But to help give us a better understanding, I want to ask you just a few questions in that area.

I believe you said that 76 percent of the overall expenses of the Postal Service are personnel. I realize the Postal Service is truly unique and that it is not comparable to Federal Express or United Parcel Service in its mission, but do you have any idea what the comparable percentage of personal cost is for FedEx or UPS?

Mr. JOHNSON. The answer is I do not have enough of an idea to give you an answer. It is quite dramatically less. But Dennis Shea, who is still working with the Commission for a couple more weeks, and I will get back to you.

Chairman COLLINS. Thank you. That would be helpful.

Second, it is my understanding from your report that a substantial number of postal employees will be eligible for retirement within the next 7 years, and I think if there is going to be a need for downsizing, all of us would hope that we could do this through retirements or other natural attrition rather than making the very painful choice of laying people off. Could you give us some idea of how many postal employees will be eligible for retirement by the year 2010?

Mr. JOHNSON. The number that we used in the report which we got from the Postal Service was 47 percent between now and 2010. I assume that is a generally accurate number.

We also had an interesting session one night with the Postmaster General—and I would urge you to explore these topics with him as well. We discussed that there are quite a large number of temporary employees in the Postal Service, there are quite a large number of special arrangements of different kinds within the Postal Service, and if you are thinking about the counted employees in that 835,000, if that is the correct number for today, and the 47 percent, there is also a lot of latitude in terms of building greater efficiencies and lowering costs that can be pursued outside of that core of professional employees.

We were convinced that with the scale of attrition, there would be very substantial latitude in terms of having a smaller work force without doing the kinds of things that you and the other Members of the Committee I am sure would not want to be doing.

Chairman COLLINS. I have great respect for the fine men and women who serve for the Postal Service—I know you do as well——

Mr. JOHNSON. So do we.

Chairman COLLINS. [continuing] And we will certainly work closely with them and with the Postal Service and with the Commission as we pursue these recommendations.

The pay-for-performance issue is one that interests me because I have been involved in a lot of the civil service reform issues, and I know it was unanimously agreed on by the Commission. It is a principle that I support.

Would you agree that if you go to a pay-for-performance system, however, it is absolutely key that you have a lot of training in how it should be used to ensure that there is a fair system in place with standards for employee appraisal and involvement of the employees in coming up with the system?

Mr. JOHNSON. I would certainly strongly agree. We tried to make that very clear in the report. We also had some data that was provided for us by Watson Wyatt, the human resources consulting firm. They do an employer bargaining objectives survey each year of establishments with collective bargaining agreements. Let me just give you a couple of numbers. They found a prevalence of incentive and variable pay plans—these are in unionized work forces. They found that 16 percent of employers utilize group incentive plans, 10 percent utilize gain-sharing plans, 9 percent utilize individual incentive plans, and 7 percent utilize profit-sharing plans. The survey also found that these percentages are approximately 50 percent higher for manufacturing and processing concerns.

We also went back to Watson Wyatt just in the last few days and said there has been a lot of skepticism about whether or not these incentive arrangements work in unionized work forces, whether they can be done on a fair basis, and asked them for some examples of companies that had these kinds of pay-for-performance incentive plans in place. Dennis can provide you with a list of companies where they are in place if there is a desire on your part or your staff's to see whether there are some of these that, in fact, are following the guidelines that we talked about, that you just talked about, and are working out well.

Chairman COLLINS. That would be very helpful.

Mr. JOHNSON. We do not expect anybody to accept anything on faith. Obviously, the Committee would want to examine very carefully places where this is being tried and see whether or not it meets the Committee standards in terms of its effectiveness.

[The information follows.]

INCENTIVE PLANS FOR COLLECTIVELY BARGAINED EMPLOYEES

As a follow-up to the September 17th hearing, I wanted to let you know that Commission consultant Watson Wyatt has informed me that they believe the following companies have incentive plans for their represented employees:

Boeing
United Parcel Service
Ford Motor Co.
Delphi Corp.
DaimierChrysler
Nucor Corporation

Chairman COLLINS. The Commission noted in its report that the Postal Service has excess capacity in its mail processing function. I remember being struck by the fact that the Brentwood facility could be closed for I think it was 18 months in the wake of the an-

thrax contamination and yet did not seem to have a notable impact on this area's ability to process and receive mail.

Did the Commission look at that example and others in reaching its determination, and did you come up with any percentage, or did you attempt to quantify the excess capacity?

Mr. JOHNSON. The answer unfortunately is no and no. We did not look at Brentwood in any real detail. We did not attempt to quantify with any precision. We asked a lot of people what their view was of how much excess capacity and inefficiency there was in the current system of processing and distribution. And we had a lot of general characterizations saying "a lot", "a tremendous amount", "a lot of work can be done", "many, many facilities can be closed." We pressed the Postmaster General one night on how many he thought could be done over a 3-year period—it was an off-the-record discussion so I will not give you his answer, but it was not a trivial number.

So once again, our work here was really directional. We ask the post office to come in with its very best judgment about how it can have the most efficient, optimum network, and then deal with it—take it to the President, bring it to this Committee and the comparable committee in the House, and vote it up or down.

The feeling on the Commission after having visited a lot of different facilities, but by no means being experts, was that there was a large number of facilities that were duplicative.

Chairman COLLINS. Finally, I realize that the Commission's report has to be considered as a whole, but are there any particular recommendations that you think are absolutely imperative and want to highlight for the Committee today—you presented an overview, but if you were prioritizing the recommendations.

Mr. JOHNSON. Perhaps the next time we talk.

Chairman COLLINS. OK.

Mr. JOHNSON. I would be happy to try to think that through in the right way.

Chairman COLLINS. That would be fine.

Mr. JOHNSON. Thank you.

Chairman COLLINS. Again, I want to thank you very much for your hard work and for appearing before us today at our initial hearing to look at the Commission's report.

I promise to send you a handwritten thank you note through the United States mail. You will not get a curt email thank you from me. It will have a 37-cent stamp on it—I will not even frank it. [Laughter.]

Today's hearing is the first in a series. Our next hearing, which will probably be in early November, but we will announce the time shortly, will feature the Postal Service and the General Accounting Office.

We also look forward to continuing these hearings next year and hearing from those more directly affected—the postal union representatives, the mailing community representatives. We want to get a wide variety of views, and we will indeed be soliciting those opinions even after we have adjourned for this session.

I want to thank you, Mr. Johnson, for being our lead-off witness. You did a superb job in presenting the Commission's report, and I want to join all of my colleagues in thanking not only you, but

Mr. Pearce and all the members of the Commission and its staff for your diligent work. I really think you did a superb job.

Probably no one will agree with every single recommendation that you have made, but all of us are grateful for the very thorough look and examination that you did. I think it is a well-balanced, well-done report, and I salute you for it.

We are going to keep the record open for 15 days following this hearing for the submission of additional statements and questions.

I want to thank everybody for being here today. I think the attendance shows that there are many people who recognize how critical this report is to ensuring the future viability of the Postal Service, an organization, an institution, that has served our country so well for more than 200 years.

This hearing is now adjourned.

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

APPENDIX

PREPARED OPENING STATEMENT OF SENATOR COLEMAN

Thank you Chairman Collins for holding this hearing. I know of your long involvement in this issue and look forward to helping you craft legislation to help the Postal Service prepare for the future.

I think there is broad agreement on the challenges faced by the Postal Service. Every year the addition of 1.7 new addresses increases its operating costs. At the same time, competitive and technological changes have reduced both its volume and operating margins. E-mail and e-banking will continue to pose a growing challenge to First Class mail. While it is true that e-commerce is likely to increase the number of packages going to consumers, the Postal Service already faces strong competition in these markets.

The Commission's report details all of this. It also details over $90 billion in unfunded future liabilities facing the Postal Service. By far the largest part of these liabilities is the health care costs promised to current future retirees. Unfortunately, the report does not detail how the Postal Service will generate sufficient revenues to pay these liabilities. There is a real danger that significantly raising postal rates will only increase the competitive threat.

In the last decade the nation's leading private companies have implemented revolutionary changes in their logistics operations. Common changes include a significant reduction in the number of warehouses, automation, outsourcing of major activities, installation of inventory management systems often at enormous cost and difficulty, and better metrics. The Postal Service has begun to implement some of these changes but institutional resistance and statutory restrictions have slowed its progress. If the Postal Service were to undergo a revolution equivalent to that in the private sector, I believe it would look like a much different organization.

The question is how do we get from here to there. I believe that if we act soon, we can ensure that changes are well thought out and we can find the resources to be fair to all the stakeholders. Given the challenges facing the Post Office, all parties are going to have to accept some portion of the costs of transformation. But I hope that we can still meet the priorities of each group. In contrast, significant delay only increases that chance that reforms will be imposed upon us in an atmosphere of panic at a time when we lack the ability to ensure fairness. Like the steel industry a couple of decades ago, the need for change is clear. Now we need the will to address these challenges in an honest and fair manner.

PREPARED OPENING STATEMENT OF SENATOR LIEBERMAN

Thank you, Madam Chairman, for convening this hearing on the recommendations of the President's Commission on the U.S. Postal Service. The Commission was established in December 2002 and was charged with identifying the severe financial and managerial challenges facing the Postal Service, examining potential solutions, and recommending legislative and administrative steps to ensure the long-term viability of the Postal Service.

On July 31, the Commission issued its report, which contains 35 recommendations to reform the Postal Service on a wide range of topics. I commend the Commissioners for their efforts to understand and analyze the many challenges the Postal Service faces, and I believe they have made a number of valuable recommendations. For example, I have long been an advocate for greater financial disclosure by the Postal Service, to provide the American people a full accounting of its fiscal health, and I am pleased that the Commission has also seen the need for such increased financial transparency.

But before I say more about this and other recommendations that I support, I must first express my profound disappointment about parts of the Commission's re-

port that seem based on the mistaken belief that the problems of Postal Service can be solved by capping and cutting the pay and benefits of its workers. It is hard to think of any institution with a greater impact on virtually every American than the Postal Service, and its effective functioning depends on the continued loyal service and hard work of its employees. I believe that Commission recommendations which would undermine collective bargaining, threaten employees' economic security, and add to morale problems in the workplace, are misconceived and counterproductive. Such suggestions send the wrong message at the wrong time to postal workers: just when their good will and hard work are most needed to improve the Postal Service's status, these proposals convey the message that postal workers are part of the problem instead of the solution.

For example, although wages at the Postal Service are now established by negotiation between management and employee representatives under a system of collective-bargaining, the Commission proposes to empower a new presidentially-appointed Postal Regulatory Board to determine what it believes are comparable compensation levels in the private sector and then to forbid collective bargaining agreements to exceed those caps. Collective bargaining, where management and labor are supposed to meet and bargain on a level field, would become a sham if a presidentially-appointed political board suppresses wages by capping or even lowering the compensation levels that can be agreed to.

Another troubling recommendation is the Commission's proposal to empower managers at the Postal Service to bargain away the pension and post-retirement health-care benefits of workers. These benefits, which are now established in statute, are based on longstanding congressional initiatives and commitments, keeping Postal Service employees under the same health and retirement benefits as federal civil service employees. Breaking these commitments and subjecting pension and retiree health-care rights to negotiation is an unwarranted step that could well result in reduced benefits and hardship to postal workers.

I urge my colleagues on this Committee and in the full Senate to recognize the importance of maintaining our commitment to a professional and fairly compensated postal workforce, and to oppose these and other proposals that try to fix the Postal Service's problems on the backs of a workforce that delivers for each and every one of us every day.

Despite my deep opposition to some of the Commission's workforce recommendations, I believe other aspects of its report are worthy of commendation. For example, as I mentioned earlier, I have long supported efforts to improve the transparency of the Postal Service's financial reporting. In the last Congress, I joined with other members of this Committee to successfully urge the Postal Service to provide more and better financial information on its website, but these improvements were only a beginning. Greater openness is an important first step toward fiscal health and accountability, and I support the Commission's recommendation that the Postal Service's financial reporting be enhanced. Whether this reporting should take the form of SEC-like requirements, as the Commission recommends, is a question that needs further study, but it is clear to me that the public and the mailing community, as well as the Postal Service itself, will benefit from this additional disclosure.

I also agree with the Commission that we need to set qualifications ensuring a breadth of experience and skills on the Postal Board of Governors, and that this Board should operate in many ways like successful corporate boards now do. However, I am not convinced that allowing the Board members to select their own successors, as proposed by the Commission, is the right choice for a governmental entity like the Postal Service that must still be answerable to Congress and the public.

Another worthwhile recommendation of the Commission urges the Postal Service to review its entire management structure to reduce unnecessary layers of management and to realign and modernize its organization. This review would help the Postal Service to optimize communications and efficiency throughout the organization and to effectively plan for the future.

Finally, the Commission wisely reaffirmed certain basic principles fundamental to the future of the Postal Service, such as the concept of universal service and preserving the postal monopoly on First Class letter mail. However, I believe the suggested role of a new Postal Regulatory Board in "refining" these concepts requires additional review.

Madam Chairman, I know there are many difficult decisions and discussions ahead as we consider these recommendations. This hearing is a good first step. I hope future hearings will allow us to hear from those most affected by the Commission's recommendations.

PREPARED OPENING STATEMENT OF SENATOR STEVENS

I commend James Johnson and Harry Pearce for your efforts which created the final report of the President's Commission on the U.S. Postal Service. Each of you took on a great responsibility when you agreed to study the Postal Service and provide recommendations to improve it. I was particularly pleased to read that the Commission pledged its commitment to preserve universal mail service throughout the United States.

My State of Alaska does not have access to the infrastructure found in the lower 48. For many Alaskans the mail service is a lifeline. Each day the Postal Service delivers two million pieces of mail to Alaskan homes and businesses, including vital products that would not otherwise be available in bush Alaska. My thanks to the Commission for specifically recognizing Alaska's unique needs and dependence on universal service. As the Commission's report notes, the near daily appearance of the Postal Service at virtually every home and business is essential to American commerce and society.

I am also pleased the Commission has recognized the Postal Service should remain a public entity.

Although I believe reform of the Postal Service is necessary, it is my belief that some aspects of the existing Postal Service should be preserved.

Again, I commend the two co-chairs of the President's Commission on the Postal Service for their efforts and I look forward to the opportunity to further discuss the recommendations made in their report.

Statement of James A. Johnson
Co-Chair, President's Commission on the United States Postal Service

Before the Governmental Affairs Committee
United States Senate
September 17, 2003

Chairman Collins, Ranking Member Lieberman, and Members of the Committee:

Thank you for this opportunity to report to you on the findings of the President's Commission on the United States Postal Service. It was a privilege to have been asked by President Bush to examine the challenges currently facing the Postal Service and to craft a vision for its future. My experience as Co-Chair of the Commission has left me with an even deeper appreciation for the vital role this institution plays in American life.

A number of positive developments have occurred this year that might lead the casual observer to believe that Postal Service reform is unnecessary. The Postal Service expects to end the current fiscal year with net income of more than $4 billion, in large part because of recent legislation reducing its annual pension contribution. The Postal Service's outstanding debt to the Department of the Treasury has decreased from more than $11 billion in 2002 to approximately $7.3 billion today, and will decrease even further next year. Since the release of the Transformation Plan in April 2002, the Postal Service, under the able leadership of Postmaster General Jack Potter, has reduced its workforce by more than 40,000 career positions and expects to deliver $2.5 billion in annual cost savings by September 30.

While good news is always welcome, it should not blind us to the fundamental reality that the Postal Service is an institution that today is in significant jeopardy. We are now witnessing what appears to be a long-term decline in First-Class mail volumes as more and more Americans avail themselves of cheaper alternatives such as e-mail. While it is impossible to predict the future, the Commission believes that Internet use will continue to divert large portions of the mail stream to the electronic format. This prospect calls into question whether the Postal Service can continue to provide universal mail service on a self-financing and break-even basis. To compensate for this situation (if appropriate action is not taken), the Postal Service could be forced to raise rates dramatically, cut back service, or look to the taxpayers for a substantial bailout. We believe each of these situations is avoidable.

In our final report, the Commission outlines a series of recommendations that are designed both to stabilize the Postal Service's financial outlook and ensure that it has a bright future. While there is something in our report for everyone to like -- and no doubt dislike -- the public should understand that the Commission's recommendations are crafted with one overriding objective in mind: to preserve universal mail service, which we consider to be an indispensable dimension of national well-being.

An Open, Fair and Transparent Process

Before I discuss some of the specific recommendations contained in the report, let me take a moment to describe the process that helped produce them. From the outset, we were committed to ensuring that we conducted the Commission's business in an open,

fair, and highly transparent manner. The Commission held nine public meetings -- here in Washington and in Chicago, Austin, Texas and Los Angeles -- and heard from more than 70 invited witnesses from all segments of the postal community. Representatives of the major postal unions, the mailing community, consumer groups, and of course, the Postal Service itself all had an opportunity to express their views directly to us. At four of our meetings, members of the public were also invited to share their views.

On three separate occasions, the Commission solicited public comments and received more than 340 written responses, which were then posted on the Commission's website. We are grateful to everyone who took the time to prepare these comments for our consideration. The Commission's report has been substantially enriched by the broad public participation in our work.

In addition, the Commission sponsored a national opinion survey to assess the public's attitudes towards the Postal Service. We are pleased to report that the American people hold the Postal Service in very high regard, as nearly 4 out of 5 of those surveyed indicated they had a positive view of the institution.

Postal Service Should Remain a Public Institution

By a margin of 67% to 24%, those who participated in our survey rejected the idea of privatizing the Postal Service. I mention this fact because the Commission considered privatization as a reform option and also explicitly rejected it.

The Postal Service handles more than 200 billion pieces of mail each year. It delivers over 40% of the world's mail. We concluded that it is highly unlikely that the private sector, acting alone, could provide the *universal* and *affordable* mail services we have come to expect from the Postal Service itself. In addition, privatization would likely involve a decade or more of wrenching organizational changes that could undercut the stability and continuity that are the hallmark of public postal service. The Commission concluded that the Postal Service should remain as an independent entity within the executive branch of the Federal government with a unique charter to operate as a self-sustaining commercial enterprise.

The Postal Service Should Focus on Its Core Value: Universal Mail Service

Once the Commission reached this conclusion, we turned to the question of appropriately defining the Postal Service's mission. Much to our surprise, important concepts such as the Postal Service's universal service obligation and the postal monopoly (which helps finance universal service) were broadly understood but lacked the type of clear definition in the law that one would expect.

While the Postal Service in recent years has explored revenue opportunities in areas far removed from what most Americans consider "postal services," the Commission recommends that the Postal Service be restricted to products and services directly related to the delivery of letters, newspapers, magazines, advertising mail, and parcels. More broadly, the Commission recommends that the mission of the Postal Service be "to provide high-quality, essential postal services to all persons and communities by the most

cost-effective and efficient means possible at affordable and, where appropriate, uniform rates." This definition focuses the organization on universal service. It makes cost-effectiveness an explicit obligation. It asserts that affordable rates should not come at the expense of service, and it opens the door to greater involvement of the private sector in the delivery of the nation's mail.

The Commission also strongly endorses the basic features of universal mail service—affordable rates, six-day delivery, and convenient access to retail postal services. In making this endorsement, we opted for an approach that would allow some flexibility in defining the contours of the universal service obligation over time. This flexibility can be achieved by authorizing a new independent regulator -- whom we have called the Postal Regulatory Board -- to review the universal service obligation on a periodic basis as the nation's reliance on its mail system continues to evolve.

The Commission also recommends retaining and clarifying the postal monopoly using straightforward language that reflects the monopoly as the nation relies on it today. Specifically, the Commission proposes that the boundary lines of the monopoly be clearly and narrowly drawn by weight and price in a way that is similar to definitions contained in reform legislation recently considered in Congress. While the Commission believes the postal monopoly remains essential to the Postal Service's ability to fulfill its universal service obligation, we recognize that circumstances may change over time. As a result, we recommend authorizing the Postal Regulatory Board to review the scope of

the monopoly on a periodic basis to see whether it can be narrowed without sacrificing universal access to essential postal services.

The Postal Service Should be Guided by Best Business Practices

Few Americans today, I suspect, appreciate the sheer size and reach of the Postal Service. If the Postal Service were a private endeavor, it would rank eleventh on the Fortune 500 list of the largest corporations in America based on revenue. It is the second largest employer of Americans today. Given its importance to the country and its businesslike mandate, the Postal Service should have the best leadership available as well as an unwavering commitment to "best execution" in every aspect of its operations.

The Commission spent a great deal of time drafting a blueprint for a governance structure that applies the best business practices of the private sector to the public-sector mission of delivering the nation's mail. Our report contains very detailed recommendations on this subject. The principles that guided us are as follows: First, Postal Service managers should have more latitude in their management of the day-to-day operations of the institution while the Board should focus on "big-ticket" items such as cost reduction, protection of the taxpayers, and of course, management accountability. Second, each member of the Postal Service's Board should have significant financial and business experience, including experience running corporate enterprises and other large organizations. Third, appointment to the Board should be de-politicized to the extent consistent with Constitutional requirements.

With these principles in mind, the Commission recommends replacing the current Board of Governors with a new 12-member board of directors consisting of three members appointed by the President, the Postmaster General, and eight independent directors initially selected by the three Presidentially-appointed Directors with the concurrence of the Secretary of the Treasury. Thereafter, the eight independent Directors would be selected by the full Board of Directors with the concurrence of the Secretary of the Treasury. In addition to urging the adoption of specific qualifications for Board membership, the Commission also recommends that the terms of Board members be staggered, that each term be limited to three years, and that Board members be subject to mandatory retirement at age 70. All these requirements are similar to those embraced by the most respected private-sector corporations.

Consistent with a private-sector financial disclosure regime, the Commission also recommends that the Postal Service voluntarily comply with applicable Securities and Exchange Commission reporting requirements.

The Postal Service Requires Broader, Constructive Oversight

The Commission strongly believes that the Postal Service must be given more freedom to act like a business in all aspects of its operations. With greater flexibility, however, comes the need for enhanced oversight to ensure that the Postal Service fulfills its duties appropriately and continues to meet the evolving postal needs of the country.

Toward this end, the Commission recommends transforming the Postal Rate Commission into a new Postal Regulatory Board, an institution to which I have referred earlier in my testimony. Rather than focusing almost solely on rate-setting and mail classifications like the current PRC, the new Postal Regulatory Board would be tasked with broad public-policy oversight. As envisioned by the Commission, this new Board would ensure the transparency of the Postal Service's finances, guard against the cross-subsidization of the Postal Service's competitive products (such as parcels and express mail), periodically review the scope of the postal monopoly, oversee the scope of the Postal Service's universal service obligation, review changes to service standards that may have a substantial and negative national impact, and ensure that the Postal Service compensates its employees at a level comparable to the private sector.

Once established, the Postal Regulatory Board should move quickly to improve the current rate-setting process. With rate changes taking as long as 18 months to implement, it is clear that this process presents an impossible challenge to an institution charged with operating in a businesslike manner. No business in America could succeed under these conditions.

As an alternative, the Commission proposes the establishment of a rate-ceiling mechanism that would allow prices for non-competitive products (such as First-Class Mail and Standard Mail) to be adjusted upward within strict limits, subject only to an after-the-fact review by the Postal Regulatory Board. Specifically, the Commission proposes setting the ceilings below inflation, thereby restricting revenue growth to

motivate the Postal Service to pursue a far higher standard of efficiency. Rates for competitive products would not be regulated other than to protect against cross subsidies.

How to appropriately construct a rate-ceiling methodology is a responsibility that the Commission places squarely on the collective shoulders of the Postal Regulatory Board. Our report, however, contains some specific suggestions on how a successful rate-ceiling system could work in the context of the Postal Service's public mission. We also note that the CSRS pension legislation passed earlier this year strongly discourages the Postal Service from raising rates before 2006, providing sufficient time for the Postal Regulatory Board to devise a workable rate-ceiling methodology.

Rightsizing the Network: Processing and Distribution Facilities

Crucial to the transformation of the Postal Service into a modern, 21st century institution is the rightsizing of the postal network. During the course of its history, the Postal Service has grown on an incremental basis in response to increasing mail volumes and the evolving postal needs of the American consumer. This growth has occurred with little consideration for creating a network that is both efficient and fully integrated.

To its credit, the Postal Service recognizes this reality and has initiated its own comprehensive network rationalization effort. We commend the Postal Service for this undertaking and urge this Committee and Congress to recognize that the future of universal mail service rests in no small measure on the ability of the Postal Service to "get it right," to fashion a new, flexible, and efficient postal network for the 21st century.

With that said, the Commission also recognizes that the Postal Service employs hundreds of thousands of Americans across the country. Understandably, concerns arise when plans to consolidate or close unneeded facilities are discussed. To address these concerns appropriately, the Commission believes the Postal Service -- with Congress' help -- should embrace a widely respected process that was put in place to manage the realignment and closure of military bases in the 1990s. More specifically, we suggest the creation of a Postal Network Optimization Commission, modeled after the Defense Base Closure and Realignment Commission, that not only makes recommendations relating to the consolidation of the mail processing infrastructure but also ensures that the legitimate concerns of all interested parties are heard. We commend Senator Carper for including a similar proposal in his own postal reform legislation.

In addition to the consolidation of "back-end" facilities, the Postal Service must undertake the "end-to-end" standardization of the entire postal network. Standardization can help reduce the uneven nature of many postal processes that create wide variances in productivity levels among plants and cause billions of dollars in unnecessary costs. Building a common facility footprint is also essential to attaining a higher degree of efficiency.

Rightsizing the Network: Post Offices

While the Postal Service *contracts* its processing and distribution network, it must dramatically *expand* access to postal products and services beyond the traditional post office. Like other service companies operating in competitive environments, the Postal

Service must bring its products and services to the consumers directly—at home, at work, and where they shop. Specifically, the Postal Service should aggressively explore new partnerships with grocery stores, pharmacies, banks, convenience stores, and small businesses to sell stamps and other postal products at their facilities and to place automated postal centers in convenient locations. To speed these efforts, the Commission believes that the Postal Service should set clear annual targets for moving a greater percentage of postal transactions out of the post office to less expensive and more accessible retail outlets and should make achieving these targets a management priority.

Today, the Postal Service maintains a large network of thousands of post offices. As you well know, the post office is often an important community landmark, and when there is even talk about a post office closing, community opposition can become intense. In the Commission's view, a "low-activity" post office that continues to be necessary for the fulfillment of the Postal Service's universal service obligation should not be closed, *even if it operates at a substantial economic loss*. The overriding priority should be the provision of universal service. However, in circumstances where universal service is protected, perhaps as a result of enhanced access to postal products through other venues, the Postal Service should have the flexibility to dispose of a "low-activity" post office with appropriate community involvement.

Leveraging the Private Sector

One of the principal themes of our report is that the private sector should become more involved in the delivery of the nation's mail. Most Americans are unaware of the

extent to which private companies already play key roles throughout the postal network—handling, for example, virtually all long-haul air transport and performing certain processing, distribution, and shipping functions.

In addition, the Postal Service is a global pioneer in the field of worksharing. Worksharing is an attractive concept both for the Postal Service and for mailers since it enables the Postal Service to employ fewer people, reduce expenses, and pass savings on to ratepayers. Where additional worksharing partnerships advance service and reduce costs, the Postal Service should embrace them.

There are many other areas where the adoption of innovative private-sector strategies could deliver significant savings. For example, in 2002, the Postal Service spent nearly $12.4 billion purchasing everything from supplies and equipment to transportation and fuel. It owes ratepayers one of the most efficient and sophisticated procurements efforts in the country today. In addition, the Postal Service must more actively manage its vast real estate portfolio, which has a current book value of approximately $15 billion and a market value which is likely to be substantially higher. Clearly, there are opportunities here for the Postal Service to strengthen its long-term financial position and pass along substantial cost savings to the American people.

Building a 21st Century Workforce

Few of the reforms outlined in our report are possible without the support of the Postal Service's most important asset: its workforce.

The Postal Service employs approximately 843,000 people. Its jobs are highly coveted and there is virtually no workforce turnover. Contributing to the Postal Service's ability to recruit and retain employees is their special status within the Federal government. Postal workers have the right to bargain collectively. The Postal Service is also required by statute to compensate employees at a level comparable to the private sector, and postal employees enjoy an attractive benefits package.

The Commission strongly supports the right of postal workers to bargain collectively and to be compensated at a level comparable to that of the private sector. For an institution tasked with operating like a business, both of these tools are essential to maintaining a world-class workforce capable of delivering the modern Postal Service envisioned by our report. Critical to this effort, however, is the determination of the right size of the postal workforce and to ensure appropriate flexibilities in its deployment.

Far more than individual benefits, the size of the Postal Service workforce determines the costs of the workforce. Getting the "right size" workforce is the critical issue when it comes to controlling labor costs. Fortunately, there is a significant attrition opportunity ahead, with some 47% of current career employees eligible for regular retirement by 2010. The Postal Service must take full advantage of this attrition opportunity and exercise maximum discipline in its new hiring practices.

Beyond the size of the workforce, the ability to deploy workers in the most efficient manner possible and to create a culture of excellence is essential. Achieving a more positive and productive climate will require a number of steps.

First, the existing collective bargaining and mandatory arbitration process should be reformed to create additional incentives for the parties to reach negotiated settlements on a timely basis. Not only does the current process often result in lengthy proceedings -- the last three contract negotiations took between 13 and 17 months to conclude -- the Postal Service also lags behind the private sector in its ability to negotiate contract settlements without resorting to arbitration. To address these concerns, the Commission proposes a three-stage "mediation-arbitration" approach that encourages both parties to work together toward reasonable and timely resolutions.

Second, management and the employee unions must have a more constructive collective bargaining mechanism to align expenses and revenues. This includes being able to negotiate not only wages but benefits as well. As a first step, the Commission recommends authorizing the Postal Service to negotiate eligibility requirements and employee contributions under FERS, as well as the eligibility and retiree contribution requirements for the post-retirement health care component of FEHBP, specifically for *future* Postal Service retirees. In addition, the Commission proposes authorizing the new Postal Regulatory Board to develop an impartial mechanism for ensuring that total compensation for Postal Service employees is comparable to the private sector.

Third, Postal Service management must repair its strained relationship with its employees, as evidenced by the incredibly high number of grievances filed. Fortunately, new procedures adopted by the Postal Service and the National Association of Letter Carriers have produced very positive results, reducing the backlog of pending grievances and increasing the number of grievances resolved locally. The Postal Service should continue to work diligently with its other employee unions to institute similar reforms.

Fourth, the Postal Service must build an incentive-based culture that encourages excellence by developing a pay-for-performance program that rewards *all* employees for contributing to the institution's success.

Information Technology Can Deliver the Future of Mail Today

As the Postal Service develops a 21st century workforce, it must strive to integrate modern technologies in all of its operations. The same technologies that threaten its core business also present the Postal Service with substantial opportunity to add value to the nation's mail and deliver it more efficiently.

While the Commission commends the Postal Service's technology-related work to date, we urge a more ambitious and strategic focus in the future. Efforts and ideas need to be unified into one coherent, integrated strategy capable of delivering both near-term gains in productivity and efficiency while providing flexibility to adapt to an ever-changing technological environment. More specifically, by applying the sophistication of the electronic world to the physical mail, the Postal Service should expand its existing

"Intelligent Mail" capability and make it available to all customers. An expanded Intelligent Mail program will provide valuable mail-tracking services and should lead to substantial savings through sophisticated, real-time logistics management.

The technology needed to make this vision a reality will require significant investment. But the Commission is confident that the resulting efficiencies and revenue gains, as well as service improvements, will deliver substantial returns to the Postal Service and its customers. The future success of the Postal Service lies not in resisting technological change, but in embracing it.

Conclusion

Having devoted nearly eight months to studying the extent of the Postal Service's financial dilemma and the trends shaping its future, I urge Congress to act swiftly in support of its modernization. While the challenges facing the Postal Service today are substantial, so are the opportunities to enhance both the value of the mail and the institution that delivers it. If Congress embraces an ambitious modernization, the Commission is confident that the Postal Service can continue its 225-year tradition of innovation and adaptation and remain a valued enterprise to the nation it exists to serve.

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Response to Questions from Senator Susan Collins
Co-Chair James A. Johnson
President's Commission on the United States Postal Service

"U.S. Postal Service: What Can be Done to Ensure Its Future Viability?"

September 17, 2003

1. **The Commission recommended that the Postal Service continue its investment for processing "flats" (large envelopes) and letters, while at the same time recommending that the Service provide additional worksharing discounts. How can these seemingly contradictory goals be reconciled?**

   Response: The Commission does not see these goals as contradictory. For a business as large as the Postal Service, the Commission believes that reducing costs through technology and business improvements and reducing costs through expanded worksharing arrangements are viable and complementary. Balancing these two mechanisms will take careful planning, and maintaining the balance in a dynamic marketplace will require the constant attention of the Postal Service's senior management.

2. **Your proposal would allow written complaints to be filed with the PRB if a party felt that a rate for a non-competitive product was not within its rate ceiling, or that the rate for a competitive product or service is covering the cost of another competitive product or service. Is a 60-day time limit for after-the-fact review of complaints sufficient to ensure due process?**

   How would you view indemnification for injured mailers by an action of the USPS when in some cases there could be hundreds if not thousands of mailers who have been hurt?

   Are there practical issues that may hinder changing nation-wide rates in the event a complaint is found valid? How can these issues be addressed?

   Response: The Commission believes that a 60-day time period is sufficient to ensure due process as long as the Commission's recommendations to improve financial transparency are adopted as well. The Commission has recommended that the public have access to a constant flow of information relevant to rate setting. In particular, the Commission has suggested that the Postal Service should:

- **voluntarily comply with Securities and Exchange Commission reporting requirements;**
- **report periodically on the allocation of costs among all products and services in accordance with form, content and timing requirements determined by the Postal Regulatory Board; and**
- **submit to the Postal Regulatory Board an annual detailed report on its financial viability, providing both significant financial insights as well as adequate explanation of related trends, and that this report be made available to the public.**

The Commission has also recommended that the Postal Regulatory Board be given subpoena power. Based on the information available to the Commission, it appears that much of the 10-18 months currently needed for rate cases is spent verifying facts regarding how costs have been allocated and the methodology employed in doing so. In the Commission's view, providing the Postal Regulatory Board with subpoena power and requiring the Postal Service to report periodically on the allocation of costs among products should mitigate the need for lengthy hearings.

The additional issues you raise – the indemnification of injured parties and the appropriate remedial steps that need to be taken if a complaint is found valid – are issues that Congress needs to weigh carefully if it endorses the Commission's general "rate ceiling" approach. We believe that the benefits of our approach--the simplicity and timeliness of rate setting, the greater predictability of price changes, and the built-in incentive to reduce costs--far outweigh any practical concerns that may be raised with the approach. Furthermore, the *initial* rate-setting procedure, if conducted carefully, and the 60-day time limit on challenges should limit the number of valid complaints and minimize their negative impact.

4. **The Commission has made several recommendations in the area of human capital. Among them are the requirements that the Postal Regulatory Board (PRB) determine pay comparability with the private sector, institute pay for performance systems throughout the organization, and remove the executive salary cap.**

   Why is the PRB the appropriate body to determine pay comparability? What alternatives, if any, were considered?

What guidance should the PRB use to determine pay comparability?

Response: The Commission received extensive testimony on the amount of time devoted to resolving the issue of pay comparability during each contract negotiation and arbitration. This issue is, obviously, one of the most contentious issues addressed during the collective bargaining process. The Commission itself received extensive amounts of information on this issue, including testimony supporting the existence of a compensation premium and its acknowledgement by a number of respected neutral arbitrators. On the other hand, the Commission also received information disputing the existence of a compensation premium. Because of the importance of this issue to all parties, the Commission concluded that neither it nor any other party with a vested interest should be allowed to make such an important determination. Instead, we concluded that the Postal Regulatory Board, an independent party with an overriding duty to protect the public interest, was best suited to settle the debate once and for all.

As noted in our report, the ultimate limits on collective bargaining in the private-sector context are the employees' right to strike and the employer's right to lock out striking workers. The other limitation is the understanding of all parties that the employer is constrained by its ability to pay the wages requested by labor with both sides knowing that everyone loses if the employer is forced into bankruptcy. In the Postal Service context, none of these limitations apply: employees are prohibited from striking, the Postal Service is not allowed to lockout its employees, and both sides understand that the Postal service can raise rates to cover expenses.

The Commission thought about simply clarifying the factors to be considered by arbitrators by requiring them to consider, among other factors, the Postal Service's ability to pay, and leaving the determination of whether a compensation premium exists with the arbitrators. However, the Commission ultimately concluded that the collective bargaining process, when the applied to the Postal Service, lacks the ability to reduce a pay premium if it is determined to exist.

The Postal Regulatory Board should compare compensation for its officers and employees to "the total rates and types of compensation" paid in the private sector of the economy. This comparison should include an examination of an employee's total

compensation package, including wages, holidays, leave, insurance, pensions, medical and hospital benefits, the continuity and stability of employment, and all other benefits received. The PRB should also look to the appropriate sectors of the private-sector workforce to calculate comparable compensation. Factors to be considered by the PRB should include the economic history of the employer, present financial health and ability to pay, as well as anticipated future growth, productivity, and total labor costs.

5. **Could you elaborate on the Commission's recommendation that the Postal Service review its management structure to eliminate redundant positions and unnecessary layers? Are there specific areas that you believe should be addressed?**

   Response: The Commission concluded that the Postal Service's management structure is generally sound. However, there is always room for improvement in an organization as large and complex as the Postal Service. While the Commission did not identify specific managerial levels that the Postal Service should remove from its ranks, we did conclude that the Postal Service's network rationalization effort, already underway, and the anticipated retirement of large numbers of management employees within the next several years provides a unique opportunity for the Postal Service to re-examine its management structure with an eye toward greater streamlining.

6. **Currently, rural and city letter carriers are paid under different systems. Under performance-based compensation, should these employees be paid under the same system or could it work under different systems?**

   Response: Given that rural and city letter carriers are represented by different unions and their wages are set using a collective-bargaining mechanism, the Postal Service would not have the ability unilaterally to impose an identical performance–based compensation system on employees represented by these unions. The attributes of such a system would have to be negotiated separately.

   The Commission did note that employees represented by the National Rural Letter Carriers Association today enjoy a very effective non-monetary incentive—an evaluated route process in which rural carriers are compensated for a completing a set route no matter how quickly and efficiently they get the job done. This approach benefits both parties. It limits overtime costs to the

Postal Service (the root cause of many carrier-related grievances) and rewards productive workers, compensating them equally for performing their route in five hours as they would have been compensated for eight hours of work.

7. **The Commission has recommended that the Postal Service explore advanced information technologies, such as "intelligent mail" options. How does the intelligent mail fit into an integrated postal system? What would be the expected savings further costs, for both the Postal service and the mailers, of a fully functional intelligent mail system?**

   Response: Intelligent Mail is an intrinsic part of an integrated postal system. Neither can exist without the other. During the short period of the Commission's existence, however, we had neither the resources nor the time to undertake a quantitative cost-benefit analysis of the Intelligent Mail option. However, judging from the experience of other delivery services, the Commission concluded that the long-term savings that likely would result from a fully functional Intelligent Mail system would outweigh the required investment. In fact, in a consumer survey conducted on behalf of the Commission, the "number one" priority of Postal Service consumers is the enhanced mail tracking capability that Intelligent Mail would provide.

8. **How should the Postal Service get mailers involved in the development of intelligent mail options at the earliest possible time?**

   Response: The Postal Service has the beginning of an intelligent mail system called CONFIRM in place now. It uses a special barcode called PLANET CODE to electronically track First-Class Mail, Standard Mail, and Periodicals letter-size and flat-size items. The Postal Service has therefore thought through the concept of Intelligent Mail rather carefully and has begun its implementation. However, the current system is designed for the large-scale mailer and is too expensive for the small-scale user. The next stage—making Intelligent Mail available to the individual and small business—will require time, effort, and expense to put in place as well as the active participation of the Postal Service consumer.

9. **The Commission recommended that the Postal Service develop and produce "personalized" stamps and make them available through appropriate sources, beginning with the Postal Service website. Such stamps are already available in Canada and the**

United Kingdom. Did the Commission look into the manner in which these countries handled revenue assurance, appropriateness of images, and the potential for counterfeiting? Do you envision the Postal Service as being the arbiter of what images would be allowed to appear on a stamp?

Response: The Commission did examine existing Postal Service regulations governing the nonmailability of otherwise mailable matter that "has on its wrapper or envelope any indecent, lewd, lascivious, or obscene writing or printing." Although cognizant of the difficulties associated with enforcing these regulations, it was our view that the Postal Service could develop regulations, consistent with constitutional requirements, that would govern the appropriateness of images used in personalized stamps.

While the Commission was aware that "personalized stamps" were available to some extent in other jurisdictions, we did not specifically examine how Canada and the United Kingdom handled issues such as revenue assurance, appropriateness of images, and counterfeiting. If the Postal Service were to develop and market "personalized" stamps, as the Commission suggests, it would certainly be worthwhile to first examine the Canadian and U.K. experiences.

10. The Commission's report is remarkable for covering numerous complex issues in such a short amount of time. Are there areas or issues that you believe require further development?

Response: You're right: We had a short amount of time to complete our assignment. The Commission's report, therefore, was not intended to answer every specific question relating to postal policy. We put forth broad principles that are fleshed out with some specificity, but again we did not seek to provide answers to every possible question that could be raised.

With that said, it became quickly apparent to the Commission that the Postal Service needs to have a more detailed understanding of the value of its existing real estate portfolio. For this reason, we recommended that the Postal Service acquire an independent appraisal of the market value of its major real estates holdings. Further analysis of the Postal Service's real estate holdings, whose book value has been estimated at approximately $15 billion, should be conducted if the Postal Service is to make informed decisions of where to place facilities and whether to build or lease.

11. What type of advisory groups would you recommend to help Congress and the Postal Service further develop key transformation plans and strategies?

Response: As you know, the Commission recommended that a Postal Network Optimization Commission, modeled in part after the Defense Base Closure and Realignment Commission, should be created to make recommendations relating to the consolidation and rationalization of the mail processing and distribution infrastructure. The Commission also suggested that the Mail Technology Strategy Council should play an enhanced role in studying, evaluating, and recommending to the Postmaster General technologies that could be used to upgrade the mail system.

12. What do you consider to be the Commission's most important recommendations?

Response: It is difficult to rank the Commission's recommendations in order of importance. We intended our recommendations to be considered as a unified whole. Several themes, however, are apparent throughout the Commission's report: a) if the Postal Service is to remain a self-financing entity that continues to provide universal mail services at affordable rates, it must aggressively pursue every opportunity for cost reduction, b) the Postal Service must be committed to "best execution" in every aspect of its operations, c) the Postal Service must have greater flexibility to manage its day-to-day business without undue interference; d) greater day-to-day management flexibility must be accompanied by enhanced public-policy oversight; and e) the Postal Service must look to increase revenues by aggressively exploring ways to make the mail piece and the mail delivery system more valuable to consumers.

Response to Questions from Senator Tom Carper
Co-Chair James A. Johnson
President's Commission on the United States Postal Service

1. In your report, you recommend giving the new Postal Regulatory Board the authority to make changes to the definition of universal service and the scope of the postal monopoly. What kind of changes do you foresee being made in future years?

   Response: The Commission strongly endorses the basic features of universal mail service—affordable rates, six-day delivery, and convenient access to retail postal services. As you correctly point out, in making this endorsement, the Commission opted for an approach that would allow some flexibility in defining the contours of the universal service obligation over time. In the near term, the Commission hopes and expects to see an exponential growth in the number of retail outlets outside the traditional post office that would provide a wide array of postal services to consumers throughout the country. Postal Service leaders have also indicated that the rising popularity and sophistication of e-mail correspondence may ultimately lead to a reduction in the demand for mail service and may allow for the relaxation of the six-day delivery requirement. If that time does arrive, the Commission believes that the Postal Service should have the flexibility to adapt with the changing postal needs of the nation.

   With respect to the postal monopoly, the Commission explicitly states in its report that continuation of the monopoly, at least in the near-term, remains important to the Postal Service's ability to provide universal service. Nevertheless, we see strong evidence that the practical impact of the postal monopoly is diminishing in the United States. Today, a vibrant U.S. private-sector postal industry is extending its reach and service capabilities. Even the Postal Service itself is appropriately facilitating more private-sector involvement—for example, by offering discounts to high-volume mailers that do the processing and transportation of their own mail.

   As the private sector becomes even more involved in the provision of a wider array of postal services, the Commission envisions the Postal Regulatory Board narrowing the scope of the postal monopoly so long as these steps can be taken without sacrificing universal service at affordable rates. It is important to remember that the weight and price limits for the postal monopoly that are proposed by the Commission in its report are significantly more protective of the Postal Service than the weight and price limits currently adopted in the European Union.

2. In your report, you recommend giving the new postal regulatory body after-the-fact review of rate changes made by the Postal Service. While you do call for a cap on rates, there will be concern expressed that this arrangement could allow the Postal Service to institute rate changes for monopoly products that could cause

mailers significant financial damage. Do you think it would be appropriate to give the regulators a certain period of time to examine, and possibly alter, rate changes before they go into effect?

Response: The Commission considered a broad range of alternative rate-setting mechanisms, including "before-the-fact" review of rate changes. Ultimately, we concluded that "after-the-fact" review of rate changes, coupled with a ceiling on rates for non-competitive products, struck the right balance between giving Postal Service managers greater flexibility to manage their business and protecting the ratepayers from unfair or unreasonable rate increases. The Commission specifically suggests setting rate ceilings at a level *below* inflation, thereby restricting revenue growth to motivate the Postal Service to pursue a far higher standard of efficiency. This requirement will obviously help protect mailers from excessive rate increases.

3. In your report, you suggest that the new rate system go into effect after the completion of one final rate case under the old rules. Since the outcome of this rate case will serve as the baseline for all future rate changes under the new system, how can you ensure that the process is not bogged down with the usual disagreements? What steps should Congress, the Postal Service and the regulators need to take to ensure that the case goes more smoothly than other rate cases have gone in the past?

   Response: You are absolutely correct in highlighting the importance of the initial or baseline rate case. As stated in our report, the Commission envisions that the process for the initial rate case would be similar to the current rate-setting process but with one significant difference: It would be limited to the establishment of rates and rate ceilings for *non-competitive* products and services. The Postal Regulatory Board would not determine prices for *competitive* products; it would only ensure that the initial prices set by the Postal Service are not being cross subsidized by revenues generated by non-competitive products. In the Commission's view, the true benefits of the new process would become apparent only after this initial rate case has been completed.

   To ensure that the initial rate case is "not bogged down with the usual disagreements," Congress may want to consider imposing tighter deadlines for resolving outstanding issues and limiting the participation of interested parties to written submissions. However, in light of the importance of the initial rate-setting case to the incentive-based rate-setting process the Commission has outlined in its report, it is vital that all interested parties are confident that the initial case was handled in a fair and impartial manner. The Commission also strongly believes that greater transparency of the Postal Service's financial situation will help mitigate the need in the initial rate case for lengthy proceedings focused on the Postal Service's cost allocations and cost-allocation methodology.

4. The Commission's report, like legislation I have introduced, calls for the creation of a process whereby the Postal Service can "rationalize" its network of processing facilities by closing those that are no longer needed. In your view, how many of the Postal Service's existing processing centers can be responsibly closed? Are the facilities you believe can be closed located in certain parts of the country? Are there parts of the country that need new processing facilities? How much do you think the Postal Service would really save by closing processing facilities?

   Response: In the limited time available to us, the Commission did not seek to answer these specific questions. We assume that many of these questions will be answered by the Postal Service's own network rationalization initiative, which is now striving to create a sound analytical basis for redesigning the postal network. We also expect that our proposed Postal Network Optimization Commission ("P-NOC") would consider these important questions in its public-hearing process and as it formulates its own recommendations for the President. The bottom line is that the proper configuration of a 21st century postal network is at the heart of a successful transformation of the Postal Service.

5. When studying whether a processing center should be closed, what factors should be considered? Should dollars and cents be the only factor?

   Response: The overriding factor should be whether the particular processing facility at issue is necessary for the Postal Service's continued ability to fulfill its universal service obligation. In this context, economic cost is one of a number of different considerations.

6. Current law lays out a series of steps that the Postal Service must take before closing a post office. These are aimed in part at ensuring that the affected community is given notice and enough time to have their views heard. How much input do you think communities and employees should have during the plant closing process you call for in your report?

   Response: Affected communities and employees should have significant input. In fact, our report explicitly states that the P-NOC should be required to conduct open meetings on the Postal Service's consolidation and closure recommendations that would allow it to receive testimony from those who would be affected, including postal employees and customers, as well as community and government leaders. We also suggest that one member of the P-NOC should be selected by unions representing Postal Service bargaining-unit employees.

7. You set ambitious goals for improvements in the Postal Service technology. With no sign yet that mail volume is picking up, how can the Postal Service raise the revenue necessary to meet those goals?

Response: If adopted, the Commission's recommendations to allow the Postal Service to retain earnings and to repeal the sub-limits on annual borrowing for capital and operating needs should provide some flexibility for the Postal Service to make technology investments. In addition, the Postal Service has a $15 billion line of credit with the Department of the Treasury. As of July 31, the Postal Service had outstanding debt of approximately $7.275 billion and can borrow an additional $7.725 before reaching its statutory borrowing cap.

However, before the Postal Service begins to make large capital investments, it needs to develop an overall strategy for the future. Attention should be given to lasting infrastructure and personnel investments. It makes little sense, for example, to invest in expensive machinery that will soon be outdated.

To assist Postal Service managers in making informed decisions about appropriate technology investments, the Commission recommends that the role of the existing Mail Technology Strategy Council be expanded and that it report directly to the Postmaster General. As explained in our report, the Council should include postal engineers, scientists, employees and major mailers and should meet on a regular basis. It should have the power to monitor technologies for their effects on the mail system and for their return on investment. The Council should produce an annual report assessing advances in technology. Most importantly, it should be the key advisory body for establishing a coherent Postal Service technology strategy.

8. In your view, can the Postal Service make up for the mail volume it is losing to electronic diversion? How much will the technology and other innovations you recommend in your report help?

Response: The Commission strongly believes that an expanded Intelligent Mail system, with real-time tracking capabilities, has great potential to make the physical mail more attractive as a communications vehicle for potential customers of all sizes. Enhancing the value of the mail in this way can help offset the loss of volume through electronic diversion and potentially increase Postal Service revenues.

Response to Questions from Senator Ted Stevens
Co-Chair James A. Johnson
President's Commission on the United States Postal Service

1. After scanning through the list of responsibilities the Commission has granted to the Postal Regulatory Board, may I ask what was your intent in proposing to create such a powerful Postal Regulatory Board? Why should so much power be vested in three individuals?

   Response: The Postal Service is a government-created monopolist. While the Commission strongly believes that the Postal Service must be given more flexibility to manage its day-to-day operations without undue outside interference, we also concluded that enhanced public-policy oversight extending beyond the Postal Rate Commission's narrow focus on rate setting and mail classifications must accompany this new flexibility. For example, the Commission was surprised to learn that the Postal Service today effectively defines the scope of its own monopoly. Given the Postal Service's status as both a monopoly and a competitor, we quickly concluded that administrative authority over the monopoly should reside outside the institution. Other authorities we propose to give to the Postal Regulatory Board ("PRB)--protecting against cross subsidization of competitive products and ensuring that the Postal Service does not stray outside its core mission--are consistent with the PRB's legitimate role of ensuring that the Postal Service's monopoly power is not abused.

   The Commission concluded that a three-member PRB would be more effective in making decisions within the deadlines suggested in the Commission's report. The quality of the PRB's decision-making would, of course, depend in large part on the qualifications and skills possessed by the PRB's three members. It is critical that the members of the PRB have backgrounds relevant to the regulation of large, complex business entities and that they be selected solely on the basis of demonstrated expertise and professional standing.

   While the responsibilities we have proposed to vest in the PRB are substantial, we do not envision the PRB interfering with the day-to-day operations of the Postal Service. If the Postal Service is to operate in a more businesslike manner, Postal Service managers must have the flexibility to run postal operations without undue outside interference.

2. In light of the new proposed responsibilities and change of power within the governing structure of the Postal Service, how do you envision the interaction between the board of directors, postal management and the Postal Regulatory Board?

Response: In short, we envision the Postal Service management running the day-to-day operations of the institution, the new Board of Directors holding Postal Service officers accountable for performance, and the PRB ensuring that the Postal Service fulfills its public-interest responsibilities appropriately and continues to meet the evolving postal needs of the country.

3. Do you believe positions on the Postal Regulatory Board or the Board of Governors should be geographically oriented?

   Response: The Commission did not consider making geography a criterion for membership on either the new Board of Directors or the PRB. Whether positions on the Board of Directors or the PRB should be geographically oriented is a subject that Congress should consider in the context of postal reform legislation.

   With respect to the new Board of Directors, the Commission believes that the Postal Service and its customers would greatly benefit from a Board that consists of members with the talent and skills necessary to transform the institution into a world-class service business. For this reason, we have proposed a new structure and scope of responsibilities for the Board of Directors that are modeled after the most successful corporate boards in America. Our report specifically recommends the following selection criteria for Board membership: unquestioned integrity, expertise relating to Board activities (corporate governance, corporate finance, performance management, audit and accounting), and experience specifically relevant to the Postal Service (management of a labor-intensive business, automated processing and distribution systems, vehicle fleet management, network integration and facility consolidation, real estate management, and technology applications).

   Our suggested criterion for membership on the PRB is that members should be chosen solely on the basis of their technical qualifications and professional experience. In light of the PRB's substantial responsibilities, it is vital that its members possess the core technical proficiencies needed discharge these responsibilities in an effective manner.

4. Other than price fixing, how do your recommendations enhance postal management's flexibility in operating the Postal Service?

   Response: In addition to our rate-setting proposals, the Commission made the following recommendations designed to give the Postal Service greater flexibility to manage its operations:

- Repeal of the sub-limits currently placed on annual borrowing for capital and operating needs within the existing $3 billion annual limit on borrowing;

- Allow the Postal Service to retain earnings subject to limits established by the PRB;

- Allow the Postal Service to enter into negotiated service agreements for non-competitive products based on general criteria established by the PRB without prior regulatory review;

- Allow the Postal Service to take advantage of corporate best practices, particularly in the area of procurement reform and asset management; and

- Return responsibility for the funding of Civil Service Retirement System pension benefits relating to the military service of Postal Service retirees to the Department of the Treasury.

In addition, the Commission's proposal to establish a Postal Network Optimization Commission ("P-NOC") is designed to help the Postal Service rationalize its processing and distribution network while ensuring that all affected parties are given the opportunity to participate in the decision-making process.

5. If all of your recommendations are adopted, what role do you envision Congress will play within the new Postal Service?

   Response: Congress will continue to play an important oversight role with respect to the Postal Service. After all, the Commission has recommended that the Postal Service continue to function as an independent establishment within the executive branch of the federal government with a unique mandate to operate as a self-sustaining commercial enterprise. We fully expect that Congress would continue appropriately to monitor whether the Postal Service is fulfilling its mission of providing universal mail service at affordable rates.

   As you point out, the Commission proposes to vest a substantial set of oversight responsibilities with the new PRB. As is the case with the members of the current Postal Rate Commission, the Commission envisions Senate "advice and consent" review of those nominated for a seat on the PRB. The Commission also recommends substantial

Congressional involvement in the network realignment effort. Under our proposal, the Congressional leadership would recommend individuals to serve on the Postal Network Optimization Commission, the Senate would review and approve the nominations of those who have been asked to serve, and Congress would review the recommendations of the P-NOC before they go into effect.

6. Since the Postal Service was reorganized in 1970, Congress, the Postal Rate Commission, the Board of Governors, and Postal Service management have worked well together to provide universal service at affordable rates. The changes recommended in your report are somewhat drastic and would shift the current power structure of the Postal Service dramatically. Do you recommend any transition from the current Board of Governors and Postal Rate Commission?

   Response: Although the Commission did not directly address this issue in its report, requiring a brief transition period from the current structure to the new Board of Directors and Postal Regulatory Board is entirely reasonable.

7. I agree with the Commission's analysis that the Postal Service must revise its business model in order to compete in today's markets. If the Postal Service adopts new technologies and increasingly partners itself with the private sector in order to fulfill its universal service obligations, do you believe this suggestion moves the Postal Service to the brink of privatization and could possibly jeopardize universal service at affordable prices?

   Response: The Commission's recommendations were crafted with one overriding objective in mind: to preserve universal mail service, which we consider to be an important dimension of national well being. In recent years, the greater involvement of the private sector in the mail delivery system (e.g., through worksharing arrangements and through the provision of long-haul air transportation) has enhanced the ability of the Postal Service to meet its public-service mission. We see the greater involvement of the private sector in the mail delivery system as helping to guarantee universal service not as jeopardizing it.

   As you know, the Commission explicitly rejected privatization as a reform option. We concluded that it is highly unlikely that the private sector, acting alone, could provide the *universal* mail services we have come to expect from the Postal Service. For the Postal Service itself, privatization would likely involve a decade or more of wrenching organizational changes that could undercut the stability and continuity that are the hallmark of public postal service.

Therefore, the Commission concluded that the preferred strategy is a more *evolutionary* approach, under which the Postal Service is maintained as a public entity, but refocused and reorganized to enhance its efficiency and adaptability in the face of an uncertain, and ultimately more competitive, future. We see no contradiction between our support for an even more collaborative relationship between the Postal Service and the private sector and our strongly-held view that the Postal Service should remain a public institution.

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