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**Setting The Record Straight
on Postal Reform**

**Submitted to Senate Homeland Security
and Government Affairs Committee**

By

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April 14, 2005

Congressional Testimony

I appreciate this opportunity to submit testimony on behalf of the more than 300,000 members of the American Postal Workers Union, AFL-CIO (APWU). The subject of reforming the United States Postal Service is extremely important to the American public and to postal employees. APWU has been engaged in the deliberations from the beginning of this debate, and we thank the Committee and the Presidential Commission for including our voice.

Having previously explored the many facets of postal reform and expressed our views on policy issues, this testimony is offered to set the factual record straight: The sky is not falling, and new technology does not threaten the viability of the United States Postal Service.

Two generally accepted assumptions have served as the foundation for the debate on postal reform and as justification for significant change to the Postal Service's structure. First, that electronic communication has and will replace hard-copy communication, and, second, that the addition of 1.8 million new addresses annually poses an insurmountable problem for the Postal Service. These assertions have gone largely unchallenged, but they are both false.

The General Accountability Office (GAO) has asserted that the business model established by the Postal Reorganization Act of 1971 is no longer sustainable, and that substantial change is absolutely necessary, due to the advent of electronic communications. At prior hearings, the Comptroller General of the GAO cited statistics intended to support this claim, and embellished them with anecdotes about cell phone and e-mail use as examples of how technology will affect First Class Mail. However, neither the statistics nor the anecdotes support GAO's claim that change is needed.

Does the expansion of e-mail and electronic bill payment mean that a decline in hard-copy communication is inevitable? Not at all.

The communication habits of a single individual may or may not reflect the behavior of a generation; but while people communicate with each other and with business more often and in new ways, there is no evidence that increased cell phone or e-mail communication will lead to a decline in mail volume. In fact, mail volume is increasing.

The second most often cited evidence of the imminent demise of the Postal Service is the revelation that, through its universal service obligation, the Postal Service adds 1.8 million new addresses annually – the equivalent of an additional delivery commitment as large as a major city.

The addition of these new customers is presented as a negative; but any other business would welcome similar growth. General Motors would be thrilled by a projected growth of 1.8 million new customers each year. Yet in the debate over postal reform, the implication is that each of the new delivery points generates more costs than revenue. I have yet to see specific evidence to support this conclusion, but the idea contradicts the basic concept of capital expansion.

The statistics that are available indicate that delivery-point growth has been a plus. Over a 31-year period, delivery-point growth averaged 1.78 percent per year, while mail volume growth averaged 2.78 percent per year. From FY 1971 through FY 2000, mail pieces per possible delivery grew from 1,074 per year to 1,529. Even after the 9/11 atrocity, the anthrax attacks, and a lingering recession, the number of mail pieces per possible delivery declined only to 1,454 in FY 2002. With the recent growth in mail volume, there is every reason to think that growth in mail volume and growth in delivery points will continue on their historical track.

If the new addresses represent a move up the socio-economic scale, they will become a target for new or enhanced advertising. The residents will be inundated with new catalogues and credit card solicitations, and they will be offered a wide array of new services. They will engage in substantial new commerce – by mail.

To share an anecdote of my own: my family has all the technological bells and whistles available, but I receive more mail in one month than my father received over his entire lifetime.

The assumption that the use of technology will come at the expense of hard copy has been studied extensively by Fouad H. Nadr, the Managing Director of the Adrenale Corporation, which specializes in postal market, business, and technology trends. He concludes, in Background Paper No. 3, February 24, 2005, Version 2, that:

“The PwC (Price Waterhouse Coopers.2000) scenario, in turn was presented to the government in support of USPS positions for pending reform legislation before Congress. The PwC forecast relied on the assumption that new electronic delivery channels for bills, statements and payments would significantly erode First Class Mail volume.....

“Clearly, the pessimistic PwC predictions have not come to pass. PwC estimated that by 2003, 17 billion pieces of First Class Mail would be cannibalized by electronic media, bringing the volume down to less than 93 billion. Instead, the actual volume in 2003 exceeded 99 billion First Class pieces..... Yet these predictions

continue to be overstated in the U.S. based on information supplied by data analysts.

“Volume ‘diversion’ has considerably more to do with factors such as the loss of business customers to competitors, the reductions in business mailings to changing business practices, or the use of lower-priced products due to rationalizations following price increases....

“As a prominent postal executive has said, blaming the change on substitution is too easy; the economy has much to do with mail volumes, especially mail used as an advertising medium..... Some observers are notably more optimistic about mail, claiming that, *in the modern age, the more one communicates electronically the more likely one is to use physical mail.*” [Emphasis added.]

“We have found little evidence that the national postal operators (NPOs) feel confident that their models can properly treat effects that are not yet well-understood, such as market liberalization, traditional and electronic competition, share-shifts among classes of mail, and customer rationalization when faced with price increases.”

Nadr further concludes that:

“Studies show that businesses across almost all industries have considerably increased the presort proportion of their First Class Mail sent to households, particularly since the year 2000. Presort pieces per household have actually been increasing at the rate of 5% per year in 2000-2003.”

The Postal Service’s addiction to excessive “worksharing” discounts encourages this trend; undermines the institution’s financial underpinnings, and cannot be justified by increased volume. One of the oldest sales tricks is the saying, “I’m selling my product at a small loss, but I’ll make it up in volume.” Regrettably, in the case of the Postal Service, this is not a phony “line,” it is policy – bad policy. The Postal Service's draft Cost and Revenue analysis for 2004 shows that postal “per piece” costs for mail processing are continuing to decline, but discounts for avoiding these increasingly efficient mail processing operations are not declining.

Excessive discounts sap the Postal Service of needed revenue and require individual citizens and small businesses to subsidize corporate business mailers.

Contrary to the hopes of many, postal reform will not cure the common cold and, in fact, it may do more harm than good. Flexible rates, transparency, new categories of competitive and non-competitive products, and bonus authority are all positive objectives; but the benefits of these changes would be negated by the continued imposition of military service retirement liability and restrictions on the Postal Service's access to the CSRS escrow account.

From the outset of this legislative process, the APWU expressed the view that the USPS was fundamentally sound, and that the reductions in volume and the increased debt in the aftermath of 9/11 and anthrax would be overcome with a stable economy. Current USPS statistics support that analysis. The sky has not fallen and the future is bright.

The Postal Service is Economically Viable at This Time

When I testified before this Committee in February 2004, I said the following:

“The widespread support for postal ‘reform’ is based on the premise that the Postal Service is a failing institution – one that is at risk of entering a ‘death spiral.’ I believe it is premature to make a final determination on this matter. We must remember that postal volume continues to recover from the effects of several events – the terrorist attacks of 9/11, followed by the anthrax attack that took the lives of two postal workers.

“These two events were superimposed over the recession that began in early 2001, from which we are only now experiencing a relatively weak and inconsistent recovery. If one were to extract the impact of technological diversion, these events standing alone would have had a serious impact on postal volume.”

My point is that after the effects of 9/11, anthrax and recession are taken into account, who can say with any certainty what the effects of technological change have been?

As Richard Strasser, Chief Financial Officer of the USPS, recently reported to the Board of Governors:

- Total volume is expected to reach an all-time high in FY2005;
- Standard Mail will reach a new milestone, and is expected to grow nearly 10 percent this fiscal year;
- Priority Mail has grown after several years of decline;
- So far this year First-Class Mail volume is increasing for the first time in three years, and it is higher than USPS projections;
- Work hours have been reduced by 728 million over the past five years;
- Surpluses experienced in FY2003 and FY2004 total over \$6 billion;
- Postal debt has declined virtually to zero; and
- There has been no rate increase for four years, and that streak can be extended through a fifth year if the military retirement obligation and escrow issues are correctly resolved.

These are not the statistics of a business model in need of major change.

The two principal obstacles facing the Postal Service are the military retirement liability and restrictions on access to the CSRS escrow account. Beyond solving these urgent problems, Congress must be careful not to tamper with a major success story. The postal business model is in much better condition than that of the federal government, which will incur the highest trade and fiscal debt in the history of civilization.

For the Postal Service, modest change – not a radical restructuring – is appropriate. Congress must do everything in its power to ensure that the change is positive, and benefits all of America’s citizens.

The Proposed Legislation Threatens To Create Additional Problems

Increased rate flexibility would be beneficial to the Postal Service and the mailers. However, a rate cap that does not allow for unanticipated circumstances could cause serious harm and deny the USPS the flexibility needed in a dynamic environment.

A rate cap that prevents the USPS from “banking” savings when increases are below the cap would guarantee insufficient revenue over time, and ultimately would require cuts in service.

Placing single-piece parcel post in the competitive category of mail would destroy the Postal Service's capacity to provide this service, driving it from the market.

Granting an appointed Postal Regulatory Commission (PRC) unprecedented authority would relegate the Board of Governors and the Postmaster General to implementers of policy designed by others.

Imposing a waiting period for worker compensation eligibility is unfair and inhumane – especially in light of the risks postal workers continue to face as they process and deliver America's mail.

Final Decision

Your final decision on these issues will have a lasting impact on the mail service for every American.

This is the last public hearing before you convene in committee to consider this legislation. I close with the physicians' admonition: "First, do no harm."

Thank you for the opportunity to voice the concerns of postal workers.