

Before The
Subcommittee on Federal Workforce, U.S. Postal Service and Labor Policy
House Committee on Oversight and Government Reform

“Postal Infrastructure: How Much Can We Afford?”

Testimony of Cliff Guffey, President
American Postal Workers Union, AFL-CIO

June 15, 2011

Good afternoon Mr. Chairman and members of the Committee. I am Cliff Guffey, President of the American Postal Workers Union, AFL-CIO – the APWU. We appreciate the opportunity to testify in this hearing.

I am here today to address the question of right-sizing the retail and mail processing networks of the Postal Service in response to diminishing mail volume. I will speak to that issue in a few moments; but first I want to respond to the title of this hearing: “Postal Infrastructure: How Much Can We Afford?” A key point to bear in mind is that the “We” in this question is postal customers not taxpayers.

After the passage of the Postal Reorganization Act of 1970, the Postal Service progressively phased out its reliance on federal appropriations. Beginning in the 1980’s, in a series of omnibus budget resolutions aimed at balancing the federal budget, many billions of dollars in costs were shifted from the federal government to postal rate-payers. Today, the Postal Service receives no subsidy from the federal government, only compensation for services rendered.

We consider the question how much postal customers can afford to be a very important question. Consideration of that question should begin with the observation that since the passage of the Postal Reorganization Act of 1970 postal rates have risen at about the pace of inflation. As Exhibit A to my

testimony shows, postal rates today, adjusted for inflation, are about where they were in 1972. As Exhibit B shows, the postage stamp, that is the rate for the first ounce of First Class letter mail, is very low in the United States compared to other industrialized countries. Postage rates for large mailers who take advantage of workshare discounts are even lower and have risen at a rate less than inflation since 1976. See Exhibit C. A recent study by the OIG shows that many posts in developed countries in Europe and Japan have higher prices than in the United States. Their prices are as much as 86 percent higher when expressed in purchasing power parity. The mailing operations of these posts are almost all profitable. Thus, developed economies support these high postal prices.”¹

This is particularly significant in light of the unrealistic and artificial CPI cap that has been placed on postage rate increases by the PAEA legislation enacted in 2006. If the Postal Service is to act in a businesslike manner, as its critics have so often implored it to do, it should be permitted to charge businesslike rates as other national posts are permitted to do. In a recent study, the OIG found that the imposition of the CPI cap by class of mail is particularly unrealistic and confining. If the Postal Service had simply been permitted to apply the CPI rate of increase

¹ Report No. RARC-WP-10-006.

available to it across all its products instead class by class, it could have captured as much as \$2 billion in additional revenue per year since 2009.²

In addition, more needs to be done to correct excessive workshare discounts. The Postal Regulatory Commission and the Inspector General of the Postal Service have found that 30 workshare discounts presently in place exceed the amount that can be justified by Efficient Component Pricing as required by the Postal Accountability and Enhancement Act. The Inspector General found that over half of these excess discounts cannot be justified by any statutory exceptions to the legal requirement that workshare discounts not exceed costs avoided. Correcting these unlawful and inefficient discounts would strengthen the Postal Service's financial outlook and return some mail processing activity to the Postal Service from the less efficient consolidators presently performing that work.

I do not say these things lightly. We see the mailing community as customers and Postal Service supporters, not as adversaries. We know that the suggestion that rates should be permitted to increase more than inflation is not welcome to them, particularly in difficult financial times. We are not presuming to set postage rates; we are saying that, on a rate by rate basis, the Postal Service needs to have the flexibility to increase rates in order to find a way to cover its costs.

² Report No. CRR-AR-10-005, at 3.

This has been and continues to be a time of rapid change in the Postal Service. Between 1999 and 2010 the postal workforce has been reduced by 458.5 million workhours. This is the equivalent of removing 259,500 full-time employees from the employment rolls. People represented by the APWU made up sixty-seven percent (67%) of that total reduction. That is the equivalent of eliminating 174,306 full-time jobs in APWU bargaining units. Postal workers have been directly affected by these changes. Thousands of postal workers have been required to change jobs, including changing the type of job they do, in order to maintain their postal employment. Many employees have been required to uproot their families and move their homes hundreds of miles.

In one sense, it might be said that postal workers have been relatively fortunate. Despite very rapid reductions in postal employment, there has been no need to lay off bargaining unit employees. Normal attrition among bargaining unit employees has reduced the complement of bargaining unit employees as fast as the need for workers has been reduced by facility closures and consolidations and by other steps taken to increase efficiency. This will continue to be the case for the foreseeable future. Approximately 37% of workers in APWU bargaining units will be eligible for retirement by 2014.

We also observe that the Postal Service is presently paying overtime to some employees. The Postal service reduced overall work hours by 77.3 million hours,

or \$1.51 billion in 2010; but still increased the use of overtime by 17.2 percent compared with 2009. The OIG found that the Service paid an additional \$419.5 million in overtime due to lower staffing levels. Understandably the Service is not replacing employees it will not need in a year; but at this moment it needs most of the people it now has. Attrition is a little ahead of the consolidations, automation and productivity programs that will eventually lead to a career workforce of about 400,000 in 2020. The Service cannot reduce the workforce more rapidly without significantly harming service performance.

The APWU has recognized the need for change in response to reductions in mail volume and changes in the mail mix. Our recently-completed collective bargaining agreement makes provision for a substantial increase in the temporary workforce that will provide the Postal Service increased workforce flexibility at lower wage rates without increasing legacy costs. In addition, we negotiated non-traditional full-time work assignments of fewer or more than the standard 40 hours per week. These assignments will change the staffing matrices at postal facilities so we can meet our customers' needs for longer hours without incurring unnecessary overtime costs.

Despite the facility closings and workforce reductions that already have occurred, we recognize that more change is inevitable. This is not to say that anyone can calculate precisely, on an aggregate basis, the amount of mail

processing capacity that could efficiently be eliminated. Many factors must be considered to determine optimum capacity. For example, the Postal Service may have sufficient capacity in plant A to process the mail from plant B, but could not transport and process the mail quickly enough between the plants to meet current delivery standards. In such a case, it would be hard to characterize the capacity at Plant B as unnecessary. The Postal Service has published strategic plans that include information about its current and future mail processing capacity needs. In a time of rapid change in mail processing operations, it is not very meaningful to pick a static number as an “excess” amount of capacity. Evaluation of mail processing capacity and potential efficiencies is an ongoing process.

We will continue to take an active part as participants in the changes that are being made, and as close observers of the decision-making process that leads to change. The APWU has actively resisted the consolidation of mail processing operations where we have reason to question the accuracy of the Postal Service’s projected cost savings and service impacts. In many cases, we have found that cost savings have been over-estimated and that actual potential cost savings cannot justify the adverse service impacts of the changes under consideration.

An example of these problems was recently documented by the OIG in its report on the Area Mail Processing (AMP) study and consolidation of operations from Lima, Ohio to Toledo, Ohio. After the usual AMP study, management

consolidated originating mail processing operations from Lima to Toledo in June 2010 and destinating mail processing operations from Lima to Toledo in December 2010. The OIG found that postal customers in Lima experienced “significant degradations in service ... and management did not project these degradations in the AMP proposal.”³ After these service problems arose, management addressed them in part by transferring employees from Detroit to Toledo and by implementing two additional Lima hub facilities. But at the time of the OIG Report on this AMP the service problems had not been solved.⁴

Analogous points need to be considered concerning the closing or consolidation of retail facilities. The new National Agreement includes innovative provisions that will permit management to provide retail services at lower costs. The Agreement makes provision for the employment of lower-level employees with flexible schedules to make retail facilities more efficient and more responsive to our customers’ needs.

The APWU also has been a vocal critic of the Postal Service’s plans to close or consolidate its retail operations. As we showed in proceedings before the Postal Regulatory Commission (Docket No. N2009-1), these closures adversely affect individual postal customers who are least able to afford alternative services, and small businesses that continue to rely heavily on postal services. In many cases,

³ Report No. EN-AR-11-004, at 2.

⁴ *Id.*, at 2, 4.

postal customers (both individuals and small businesses), community leaders, and elected representatives have strongly opposed post office closures because of the negative impacts they have on affected communities.

We strongly urge postal policy-makers, both inside the Postal Service and elsewhere in government, to think creatively about how the Postal Service should be adapting its retail services to meet society's current needs. Senator Carper has introduced legislation that would permit the Postal Service to partner with other government agencies at the federal, state and local levels to more efficiently deliver government services and to provide sufficient economic justification to maintain a postal presence in rural or economically disadvantaged communities. We strongly support these ideas and observe that the time to pursue them actively is now. It would be tragic to dismantle the postal retail infrastructure and lose an opportunity to maintain it and improve the delivery of government services.

We also observe that these points apply as well to the broader question of the importance of the Postal Service in the digital age. That is a topic that is beyond the scope of this hearing, but we think it is important to keep it in mind. Hard copy communications continue to be an important part of our economy, and the Postal Service will continue to serve that need efficiently. In addition, it can and must expand its services to fill needs emerging because of digital communications. We observe that a February 2011 Report by the OIG includes

suggestions about how the Postal Service can play an important role in the digital economy.⁵

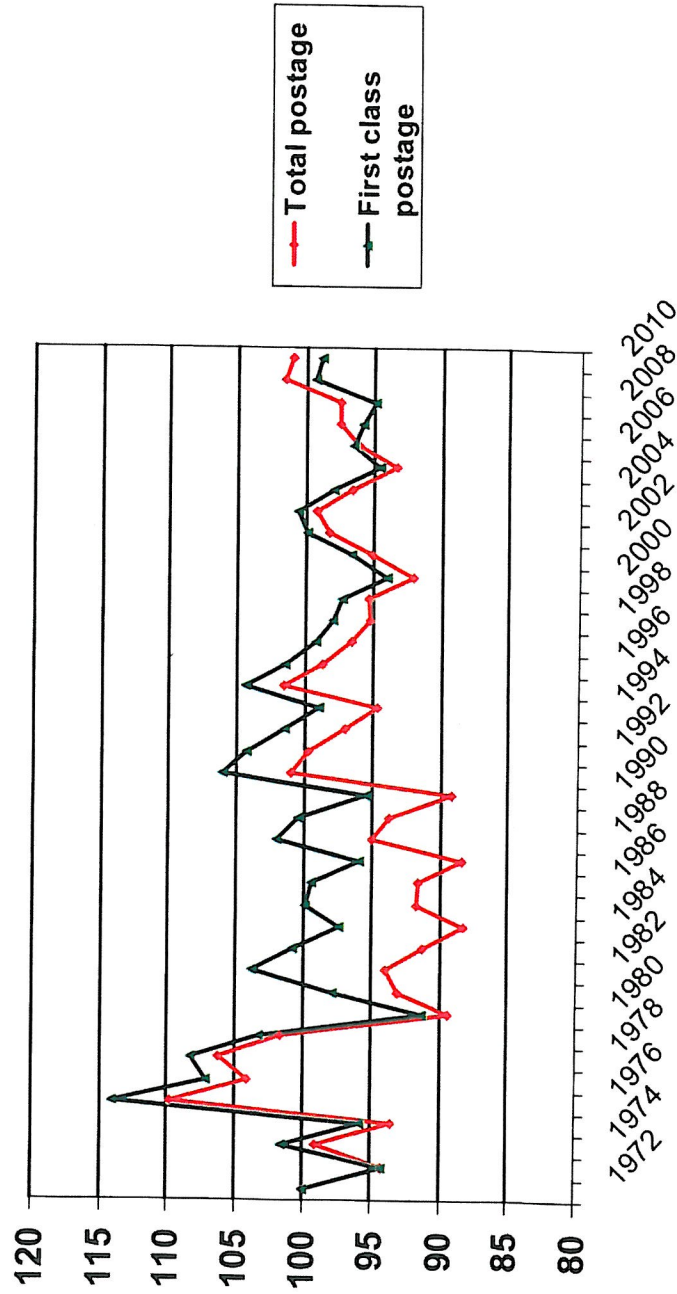
In closing, I want to particularly emphasize the importance of maintaining a postal presence in small communities. The Post Office provides a unique public service that is still a necessity for many people. Being from Oklahoma, which has many small towns and rural post offices, I can tell you from first-hand experience that the Post Office is a focal point of many small communities; it is “where the flag flies;” it is where the government provides support for the community.

In all that we do during this time of change and economic challenge, consideration must be given to the availability of postal services, and other necessary services that may be offered through the post office.

⁵ Report No. RARC-WP-11-002.

EXHIBIT A

In Real Terms (Adjusted for Inflation) Postage Costs are at 1972 Levels
(1972=100)



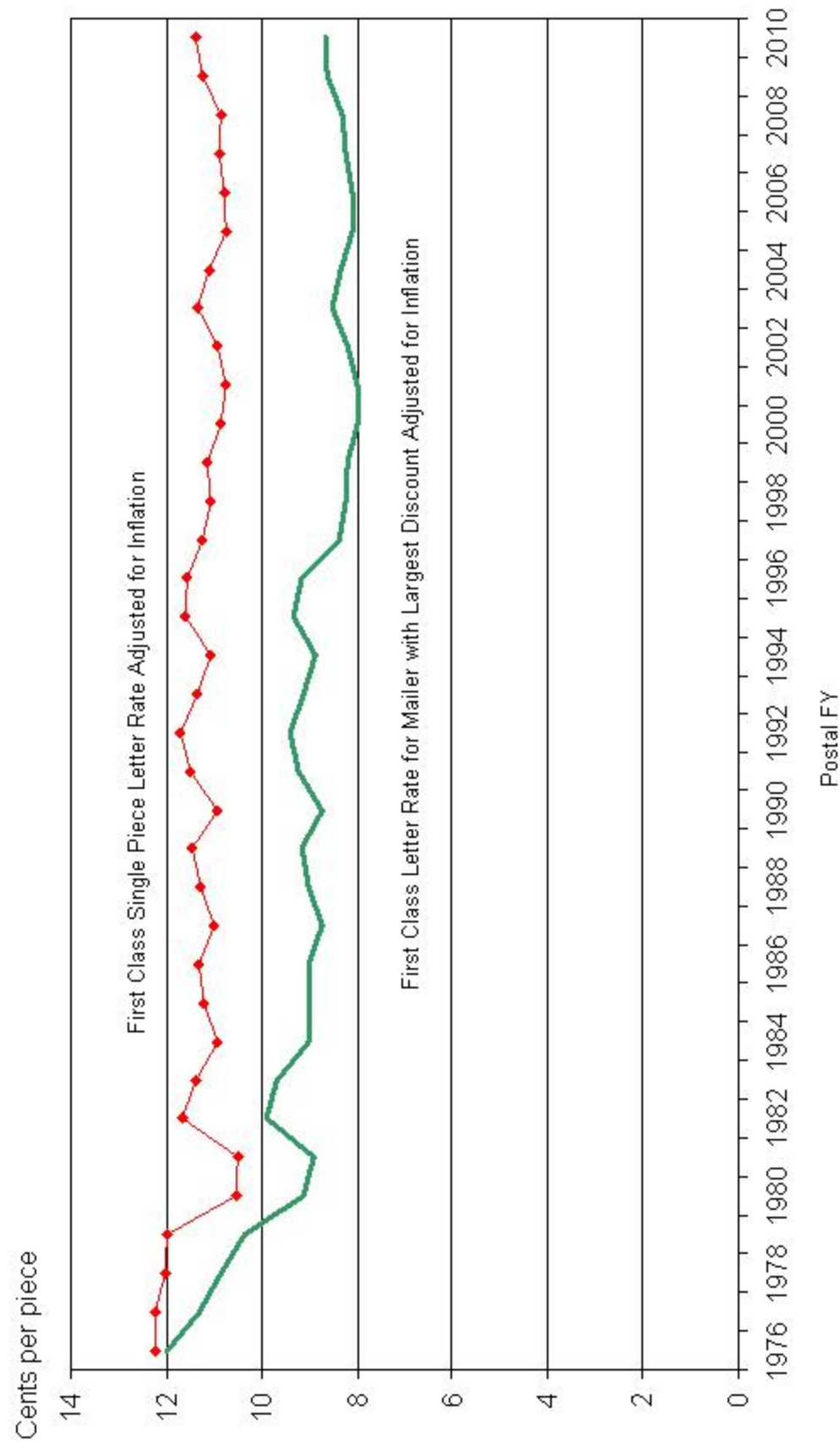
Source: Bureau of Labor Statistics-Producer Price Indexes for USPS and CPI-W

EXHIBIT B

Comparative First Class Letter Mail Rates for Different Countries

Country		Cost in US\$
United States	Up to 1 oz. (28.3 grams)	\$0.44
Canada	Up to 30 grams (1.08 ozs.)	\$0.61
Australia	Up to 250 grams (9 ozs.)	\$0.62
Japan Post	Up to 25 grams (0.9 ozs.)	\$0.71
German Post	Up to 20 grams (0.7 ozs.)	\$0.78
France	Up to 250 grams (9 ozs.)	\$1.07
Royal Mail (UK)	Up to 100 grams (3.5 ozs.)	\$0.74
Source: Various Posts, April 4, 2011 exchange rates		
Cost is for sending a letter to a domestic destination that weighs approximately 1 ounce		

First-Class Single Piece Letter Rate and Rate Paid by Mailer with Largest First-Class Discount in Constant FY 1976 \$



Inflation adjustment was done with CPI-U

Committee on Oversight and Government Reform
Witness Disclosure Requirement – “Truth in Testimony”
Required by House Rule XI, Clause 2(g)(5)

Name: **Cliff Guffey**

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract.

None.

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

I am President of the American Postal Workers Union, AFL-CIO.

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2008, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

None.

I certify that the above information is true and correct.

Signature:

Date: **June 13, 2011**
