



Prepared Statement

of

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before the

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and the District of Columbia  
Committee on Oversight and Government Reform  
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Chairman Davis, Ranking Member Marchant, and Members of the Committee: thank you for inviting my colleagues and me today. And thank you for holding this hearing. We at the Postal Service are constantly on the lookout for ways to improve. This is no less true of the Board of Governors as with management, led by Postmaster General Potter, and other employees. And, I'm sure this is also true of Chairman Blair and his colleagues over at the Postal Regulatory Commission (PRC).

The Board of Governors appreciates very much this opportunity to present our views – which this statement summarizes (though individual Governors may take exception to a statement or emphasis here and there). We also want to make sure that in the future we have more communication between the USPS and Congress. The Postal Service is facing significant challenges and opportunities – especially in implementing the new law – and we believe extensive, cordial relationships between us and Congress are vital to our understanding your concerns and to your need to oversee and understand our operations.

What we wish to convey to you today is that while over the short run we have had considerable success, over the longer run we must all work together if this enterprise is to survive to provide the kinds of services at reasonable prices the American people have come to expect. By "all" we mean postal employees, customers, the PRC, and even Members of Congress. As Benjamin Franklin said at the signing of the Declaration of Independence, "We must all hang together, or assuredly we will all hang separately."

We've made steady progress in our Strategic Transformation Plan. Our objective is no less than a substantial reorientation of Postal operations -- to increase revenue, to reduce costs, to increase quality and satisfaction among our customers, and to empower each of our employees to contribute to the success of these efforts. Over the past several years, successes under the plan have allowed us to reduce the number of full-time employees by approximately 100,000, overcome substantial increases in fuel costs, and pay off all our debt. As a great testament to the Postmaster General and his team, we've increased total factor productivity for seven straight years.

That said, we are increasingly concerned about the outlook for the longer run, and the reason for our concern is this: the century-old "social compact" that has characterized the Postal Service is breaking down. That is, the Postal Service is given a monopoly on letter mail, and with the profits from the monopoly it provides universal service; until recently, anytime a shortfall seemed imminent and unavoidable, the Postal Service could rely on increasing the price on letter mail to cover the loss.

That doesn't work anymore. The monopoly return on letter mail is disappearing. In economists' terms, the demand curve for letter mail is shifting to the left and becoming increasingly elastic. Why? Because of electronic communications, primarily, but also because of other substitutes such as express mail. We live in a different mail world than existed 20, or even 10 years ago. We live in a competitive environment -- not just the 10 percent of our business the new law identifies as "competitive," but the so-called market-dominant portion as well.

This is a very positive development for most American consumers. It means they are taking advantage of a myriad of emerging modes of communication. It also means increasing pressure on the Postal Service to be competitive and customer-oriented. We've certainly got to do our part. Let me give you two personal examples of the kinds of things we should and should not be doing.

A year or so ago I was in Los Angeles, on business, and dropped by one of the USPS retail stores downtown. I asked for, and purchased, five-hundred-dollars'-

worth of Reagan stamps. Before I could leave, the Postmaster came out, personally thanked me for my purchase, and said that if there were anything else I needed just let her know. Now, that's being customer-friendly.

On the other hand, a couple of months ago my spouse completed a personal mailing one evening while we were in town at our apartment in DC, and I brought the cardboard-box-full down to the concierge the next morning. Here were several hundred letters, all affixed with stamps and all in order. That afternoon, the concierge told me the letter carrier, who drives a Postal truck, had given him a very hard time about all this "extra mail" and that if he ever had such a volume of mail again he'd have to call for a special pickup. Now, that's not being customer-friendly.

I don't mean to pick on letter carriers and praise Postmasters. It could easily have been the other way around. The point is, none of us can afford to be indifferent to our customers, as if we are the only game in town. We have to be responsive to what our customers want and need, because if we don't we won't be around for very long.

We also have to be better at listening to our customers to ascertain their needs. Further, we must anticipate those needs by offering services they will endorse and on which they will come to rely. In particular, we must look for innovations that will constitute "win-wins" for both consumers and the Postal Service. The "Forever Stamp," initially championed by PRC Commissioner Ruth Goldway, is an example: it alleviates the necessity of individual mailers' having to come up with extra stamps in case of a rate increase, and it helps the Postal Service by avoiding the costs of printing and selling those extra stamps – and also, we get the use of the money until the stamps are redeemed. There are other examples: automated postal centers, "Click N Ship," and a user-friendly website all redound to the benefit of the Postal Service and its customers.

Opportunities for "win-wins" extend to the rate structure as well. As you know, in the recent rate case we proposed, and the PRC recommended, tariffs that give incentives to customers to tender mail in ways that we find easier to process, saving mailers money and lowering USPS costs. We believe the compensation guidance contained in the new legislation also qualifies as a "win-win." We are now developing guidelines to put that new authority to work flexibly and effectively – to make sure we attract and/or retain the best personnel for essential management positions. And, we will work with the Postmaster General to make sure these guidelines are implemented fully.

To improve service, we need better metrics on performance. As George Mason University President Alan Merten says, "What gets measured gets better."

This is a matter the Government Accountability Office has brought to our attention. We are excited about the development of "intelligent mail," with its new bar code, which identifies the sender, the place the mail is "dropped," the kind of service, et cetera. This will allow "real time" tracking of mail and enable performance reports helpful to us as well as our customers.

If we are to survive in the long run, we must give even more attention to costs. We're very high on our new flats processing machines. Like our letter processing machines, they promise significant savings and increases in performance (both reduced delivery time and reduced error rate).

Speaking of costs, we should note that the new postal law adds significantly to our cost base. As you know, we recently restated our FY 2007 forecast to conform with the new law's mandates. Relief from the \$3.3 billion planned escrow payment and the reduction of \$1.5 billion in CSRS payments fail to offset fully the \$5.4 billion we must place with the newly-created Postal Service Retiree Health Benefits Fund. The result is a \$600 million shortfall. We also note that complying with the letter, not just the spirit, of the Sarbanes-Oxley law will add considerable costs that will have to be covered by Postal customers. As you know, private firms have experienced significant cost increases complying with the law, and our hybrid status presents additional challenges. There are other costs that may be attributed to the new law, although we do not have a rack-up of these to offer at this time.

One matter on which we should comment is the structure of rates in relation to the structure of costs. As you know, the new postal act gives the Department of Treasury a significant role in determining Postal costs attributable to various services. One reason for this initiative is widespread dissatisfaction with the Postal Service's attributing only 56 percent of its costs, with the rest allocated to "overhead." One might expect the participation of Treasury and others in the cost allocation process to lead to an increase in the proportion of the Postal Service's costs that are attributable. If so, then that likely will dictate a change in the structure of rates. As you may know, even under the new rates accepted by the Board of Governors, some rates on some classes of mail just barely cover their attributable costs, whereas on other classes the coverage exceeds 200 percent.

It's not enough just to cover attributable costs. Let me give you a personal example. When I was an undergraduate at the University of Georgia, one summer I worked as a clerk at a local hardware store. After being there for a couple of weeks, the store manager asked me, "Do you know about 'BACKSMITHE'?" I didn't, so he told me that the wholesale price of an item was coded on the price sticker – "B" for 1, "A" for 2, and so forth. He then authorized me to negotiate on larger items down to the wholesale price. I thought that was pretty neat, but then it occurred to me that if

we sold every item for the wholesale price, there would not be anything left over to pay the store's electrical bill, the telephone bill – and my (meager) salary! We can't sell Postal Services at wholesale rates either.

Going forward, it is absolutely essential that the PRC set ground rules that are reasonable and allow the Postal Service the flexibility it needs to respond to changing conditions – on both the price side and the cost side. We need to be able to respond to emerging marketing opportunities – to consumer needs and potential needs. We also need to be able to change the structure of our rates in response to changes in the structure of costs. Let me give you an example. Suppose – just as a hypothetical -- the new flats processing equipment lowers the attributable costs of this type of mail significantly. In that event, we would expect to lower rates on this type of mail. We would need the flexibility to do so.

A major reason we believe this is important – and one reason we had misgivings about the new legislation – is that process matters. Some 20 years ago I learned from Commerce Committee Chairman John Dingell that procedure is critical to outcomes. Chairman Dingell told me: "If you give me the choice of writing the goals of a bill and writing the procedures, I'll choose procedures and beat you every time!" Just how the PRC crafts the "rules of the game" under the new law will determine, to a considerable degree, what kind of Postal Service we see decades from now.

Finally, let us address some ways in which we believe you, Members of Congress, can be of assistance. Presently, by most accounts, USPS career craft employees enjoy a significant wage premium, owing to the unusual statutory arrangement for resolving differences between labor and management. We have been told that the prospect of any relief on this score is nil. Indeed, during the negotiations leading up to the new law, this matter was considered a "sacred cow." Thus, the ways we have of addressing labor costs – which constitute some 80 percent of our total costs – and remaining competitive on the wage front are limited.

As described above, we are working very hard on productivity and are achieving significant success. We have also contracted out some small portion of our work. Now, the National Association of Letter Carriers (NALC) is refusing to settle because we won't commit to no further contracting out. Since 1973, our agreements with the NALC have recognized the Postal Service's right to contract out, although the the USPS is required to consider cost, efficiency, public interest et cetera before doing so. Currently, only 2.5 percent of deliveries are contracted out, and there are no plans to contract out routes currently served by NALC members. But to say never more– to tie our hands and put us in a box -- is not an acceptable alternative; nor should it be prohibited legislatively. Not only does contracting out,

where necessary, lower our costs, the prospect of contracting out moderates demands for wage increases. Now, we have received word that spokesmen for the NALC have boasted that they will attain their goal through legislation. We sincerely urge you to reject such an initiative.

We also ask for your indulgence in our efforts to streamline our logistics network – one important source of productivity improvements. Area Mail Processing (AMP) centers, consolidations, and other reforms in our network not only lower costs but increase the quality of our services. Reflex opposition to such changes impedes progress, increases costs to Postal customers, and makes it difficult for us to offer superior services at reasonable prices:

The U.S. Postal Service is one of the largest business enterprises in the world, ranking 57th in annual sales in 2006 according to Fortune magazine; in the U.S., we rank 20<sup>th</sup>, again according to Fortune. We deliver 44 percent of the world's mail and provide pickup and delivery service to 146 million addresses every day of the week except Sunday. We are the most trusted government agency according to a recent Ponemon Institute poll, and are among the top 25 most respected companies in America, according to Forbes magazine. This is a tribute to the 700 thousand USPS employees and, in particular, the leadership of our distinguished Postmaster General, Jack Potter.

We are proud of our record and want to make it even better.



Thank you, Mr. Chairman, Mr. Ranking Member, and Members of the Committee. That completes my statement. I shall be happy to address any questions you might have