

**STATEMENT OF
POSTMASTER GENERAL/CEO
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SUBCOMMITTEE ON FEDERAL WORKFORCE, POSTAL SERVICE,
AND THE DISTRICT OF COLUMBIA
OF THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES
WASHINGTON, DC**

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Good afternoon, Mr. Chairman and members of the Subcommittee. I am pleased to be with you this afternoon to discuss one of the most difficult challenges faced by the Postal Service today – the need to balance rising costs within a rate structure defined by a price cap. By law, we are required to keep price adjustments at or below the rate of inflation for market-dominant products, over 90 percent of our revenue base.

In an ideal world, this would mean that our costs would not exceed the rate of inflation. Unfortunately, our costs are not governed by this same standard and many have been rising faster than the consumer price index.

Work-hour costs for our career employees have been growing at a rate above inflation. At the same time, First-Class Mail volume, which represents 50 percent of our revenue base, is declining. The number of addresses we serve is increasing by almost two million new households and businesses each year. This means that, on average – even with the recent rate change – we are delivering fewer pieces of mail to each address and average revenue per delivery is decreasing.

This is not a formula for long-term success. The challenge is to close the gap between prices and costs while maintaining quality service. The question is, “How do you do that?” As I see it, management can proceed along any of three paths.

First, we can continue to operate as we’ve been operating for more than three decades. After all, that brought us a level of success that no one could have imagined when the modern Postal Service was created in 1970. Service rose to record heights. We achieved our statutory “break even” mandate. And we reached unprecedented levels of efficiency.

The problem with this approach is that the ground rules have changed. To proceed along the path of business-as-usual would be inconsistent with our obligations under the Postal Accountability and Enhancement Act of 2006. With the statutory rate cap imposed by the Act, we no longer have the option of adjusting rates to balance costs, and we are experiencing competition in all product categories, including First-Class Mail. We have to do more, much more, if we are to keep our costs in check, with overall growth no higher than the rate of inflation. Prudent exercise of our fiduciary responsibility demands that we intensify our focus on the business imperative of driving costs out the system. We cannot afford to do any less.

A second path to closing the gap between rates and costs would be the absolute expansion of cost-reduction strategies such as the outsourcing of work now performed by Postal Service employees – whenever and wherever possible. This would certainly be effective when viewed from a pure cost-management perspective. But business success is not solely a factor of reducing costs. It is also a reflection of the entire organization working cooperatively to meet the needs of its customers. Proceeding along this path, while potentially reducing significant direct costs, could come with the intangible – but just as significant – costs, of undermining this primary goal.

That is why I prefer a third path – working directly with our unions to confront the critical issues we are facing as an organization, such as improving service to meet the changing needs of our customers in the marketplace, as well as the need to increase revenue and reduce costs. By doing this, we can develop the solutions that can help us overcome them.

The tentative collective-bargaining agreement we reached with the National Association of Letter Carriers last week does this. It keeps the most important focus where it must be – on our customers – by helping us to improve service and operational efficiency. It provides our employees with a fair wage. And it commits both parties to growing the business. This is more important than ever, as we operate in a competitive environment in which customers vote with their feet, no longer bound by a monopoly that is meaningless in today's wired world.

We were successful in reaching negotiated agreements along similar principles with each of our major unions in this year's round of bargaining. This is a reflection of the value of cooperative labor-management relations. We do not expect that we can agree on every issue, every time, but we have demonstrated our ability to overcome our differences, confront our shared challenges, and negotiate working agreements that benefit the Postal Service, our employees, and the people we serve.

The Postal Service occupies an unusual position within the federal government. It is required to be operated “. . . as a basic and fundamental service provided to the people by the Government.” Yet, unlike most other agencies, the cost of providing our service is not borne by taxpayer-funded Congressional appropriations. Rather, is paid for by its customers through the purchase of postal products and services.

Since the modern Postal Service assumed operations from the heavily-subsidized Post Office Department in 1971, it has been required to operate like a business. With the enactment of the Postal Accountability and Enhancement Act of 2006, this requirement has been underlined significantly, since we must now operate within the restraints of a price cap – although there are no offsetting restraints on our cost drivers.

To overcome this considerable limitation, the Postal Service must redouble its efforts to reduce costs and increase productivity and efficiency. But if we are to do that, it is necessary that management retain the flexibility to explore and implement cost-reduction initiatives that support the fulfillment of our mission of providing high-quality, affordable, universal mail service. In doing this, we are also protecting the interests of all postal stakeholders, including our employees, by offering the attraction of minimal rate adjustments, so as to maximize mail volume in a hyper-competitive communications and delivery marketplace.

This means we must continue to change. We must question our assumptions about what we do and how we do it. We must be open to new ways of doing business. We cannot assume that what worked in the past will work today – or tomorrow. And we must consider our expectations about the Postal Service within the context of today's financial reality.

Over the past several years, we have been very successful in managing costs. But that very success – which has eliminated the low-hanging fruit – requires us to reach even higher and to look at our operations more intensely to build on this success. As we work to take this to the next level, my approach is to look at every event as an opportunity to lower costs. By an “event,” I mean a situation that requires us to make a decision to continue doing what we've been doing or to make a change. Events can take many different forms.

For example, when a lease expires for a postal facility, we have to take a hard look at our needs going forward. Do we need as much space as the old lease provided? As we deploy new equipment that can sort larger mail pieces into delivery sequences at our larger processing facilities, we might need less space for carriers to sort mail at their local delivery offices. If that's the case, we should negotiate for less space, for a more favorable rate per square foot, or try to lease a smaller facility.

When a highway mail transportation contract comes up for renewal, we need to take a realistic look at our transportation needs. Are we paying for vehicle capacity beyond our actual requirements – space we haven't fully used and aren't likely to use in the future? Are we paying the contractor to haul a half empty truck from one Post Office to another? In the simplest terms, are we paying for more space than we have mail? If we are, we have to use the opportunity to change the contract specifications and match mail volume with truck size.

And we have to continue to examine new deliveries as well, since this function is one of our largest cost drivers. Unlike many mail processing, support, and retail functions, delivery itself cannot be automated. With delivery-point growth approaching two million new homes and businesses each year, it makes good business sense to examine the available options when preparing to serve new delivery areas, beyond simple "fill-ins" in existing delivery areas. It could mean that some new deliveries would be served by more economical contract services. But it is worth emphasizing that the overwhelming majority of new delivery continues to be assigned to Postal Service carriers and that contract service represents less than two percent of the nation's deliveries.

As you know, expansion of contract delivery services has become the subject of a great deal of discussion over the last several months. This is one of the reasons we are here today. I am hopeful that the information I can provide today will assist in your understanding of this matter.

Through testimony at previous hearings and through correspondence, I have stated the views of the Postal Service in support of contract delivery services as a valuable tool in helping us to provide quality service to our customers while helping us to manage costs. They are worth repeating.

Contract delivery would affect only a portion of new deliveries, not existing delivery already provided by Postal Service carriers. Contract delivery expansion would not result in the layoff of any letter carriers. Contractors and Postal Service employees are governed by the same legal and administrative standards regarding the sanctity and security of the mail entrusted to them. There is no appreciable difference between the care exercised by Postal Service employees and delivery contractors in this respect. The independent Ponemon Institute has named the Postal Service the "most trusted" government agency for the last three years and, for 2007, among the ten "most trusted" of all organizations. This is a judgment of the organization as a whole – reflecting the combined accomplishment of all groups, working together.

From my perspective, looking beyond the specific subject of contract delivery, there is a bigger issue at stake. That is the ability of the parties, the Postal Service and its unions, to resolve their differences through the collective-bargaining process. One of the most important accomplishments of the Postal Reorganization Act of 1970 was the extension of full collective-bargaining rights to the postal unions. Over the course of more than three decades, these have served our employees, our unions, and the Postal Service well. And in serving the Postal Service well, they have served our customers well.

As difficult as negotiations may sometimes be, the process is designed to produce consensus, maintain stability, and protect uninterrupted mail service for our nation. Because the Postal Service is a public service, federal law forbids our employees from striking. This principle also takes the form of a provision in our collective-bargaining agreements.

In its wisdom, however, Congress recognized that bargaining impasses can occur and understood that there must be a mechanism to resolve seemingly insoluble disputes that, in other situations, might result in work stoppages. That method, enshrined in the Postal Reorganization Act of 1970 and continued through the provisions of the Postal Accountability and Enhancement Act of 2006, calls for fact finding and mandatory arbitration if the parties reach impasse.

The current round of bargaining between the Postal Service and the National Association of Letter Carriers (NALC) was lengthy, difficult and, at one point, seemed headed for arbitration. Yet, as intractable as some of the issues appeared, we continued discussions at the highest levels of both organizations and, as I have noted, arrived at a tentative agreement just last week – without the need for arbitration. Among its other terms, the new agreement contains specific provisions addressing the issue of delivery outsourcing.

I have always been a strong believer in the value of the collective-bargaining process. No one understands the issues we face better than Postal Service people – management and our unions. No one understands our shared challenges better than we do. No one understands the opportunities better than we do. Our future is the future of the organization. There is no one in a better position than we are to build the agreements that will help us face that future together – successfully. And, as we have seen, the process can – and does – work.

Of course, we are not unmindful that many others have taken an interest in the subject of contract delivery. While there are different thoughts as to the relative advantages of one form of delivery compared to another, I am extremely encouraged by the level of interest. It represents widespread agreement that the mail and, in particular, mail delivery service, continues to offer unique value to our customers, their communities, and the American economy.

Having participated closely in the collective-bargaining process over the last decade, I am no longer be surprised at its amazing flexibility. Even when the issues it is asked to take on can seem larger than the ability of the parties to resolve them, the process itself often brings out the very best in its participants. I have seen this time and time again. And I remain impressed that such a simple process, when approached in good faith, allows the parties to see beyond their individual and immediate interests and act for the greater good. Because in doing that, all parties – including those we serve – are the winners.

I appreciate the opportunity to share the Postal Service's views on this important subject. I would be pleased to respond to any questions you may have.

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