

Before The
SPECIAL PANEL ON POSTAL REFORM
HOUSE COMMITTEE ON GOVERNMENT REFORM

Testimony Of
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Good afternoon, Mr. Chairman and members of the Special Panel. Thank you for providing me this opportunity to testify on behalf of more than 300,000 members of the American Postal Workers Union. The APWU is the largest single bargaining unit in the country, and we appreciate your foresight in addressing the structural weaknesses of the Postal Reorganization Act as applied to conditions in the present and beyond.

This hearing is called to review the current state of postal services, and to consider legislative changes to ensure its viability far into the future. Over the past three years, mail volume has declined, and there is concern over the future of first-class mail. The generally accepted view is that the expanded use of technology has been and will be at the expense of hard-copy communications. Our union shares the concerns of the mailing community, but we caution against drawing firm conclusions based upon the experience of the past three years.

Whether mail volume increases or decreases, the need for a viable Postal Service will be important to our country. Despite the effects of Internet communications, facsimile machines, and the telephone, the unifying role of the Postal Service is still critical.

A study released in 2003 by the Pew Internet and American Life Project concluded that 42 percent of Americans do not use the Internet. Sixty-two percent (62%) of Americans with disabilities do not use the Internet; racial and ethnic minorities, the elderly, and less well-educated Americans are also less likely to use the Internet. If the Postal Service were not available, the deepening divide between the well-off and the not-so-well-off would be much worse. Millions of Americans still rely on the Postal

Service, because they must. For these Americans, there is no alternative to affordable universal service.

And companies both large and small that are not tied to the mailing industry rely on the Postal Service to conduct business. Their interest in a stable, reliable postal network that provides universal service at uniform rates cannot be overlooked.

We must be assured that postal services continue to be available, no matter the outcome of the possible shift in communications. Therefore, the American Postal Workers Union supports changes to the Postal Reorganization Act that will strengthen the Postal Service. Before discussing those changes further, however, I want to pause to observe that we do not share the view that there is necessarily a major crisis in this industry.

While others are absolutely certain of the future, I offer a note of caution. At this time, the facts simply do not support a conclusion that the Postal Service is in a death spiral.

We must remember that postal volume was affected by several national events. The first was, of course, the terrorist attacks of 9/11. That was followed by the anthrax attack that took the lives of two postal workers.

The combined effects of the 9/11 and anthrax attacks were superimposed over the recession that began in early 2001, and 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 still would have had a serious impact on postal volume.

There are positive signs. The Postal Service recently reported that mail volume during the 2003 holiday mailing season increased sharply over the previous year, resulting in the highest volume period in the history of the Postal Service. Are we to believe that technological impact took a holiday this Christmas season, or are other factors at work?

As you are aware, Congressional action to limit telephone solicitations, along with a renewed concern over e-mail spam are having a positive impact on hard-copy advertising, and are expected to lead to increased mail volume. It is simply too early to make definitive projections on the future of hard-copy communications.

While e-mail and the Internet are increasingly used as communication tools, the expansion of technology is not new. The telegraph and the telephone, for example, were equally progressive at the time of their development. So we must be careful not to assume too much about the impact of today's new technologies on hard-copy communications.

And I wish to make an important point on the subject of future mail volume and the impact on the USPS ability to provide universal service. The current business model is not responsible for the relative contribution level of first-class compared to standard mail. Even if first-class mail continues to grow, despite the inroads of technology, the question of dividing institutional costs among all classes of mail will remain. At present, it takes approximately three new pieces of standard mail to make up for the loss of one piece of first-class mail. This distribution of cost is a political decision that will be unresolved by postal reform. So, even with robust mail growth far

into the future, postal rate setters must revisit the distribution of cost, with or without postal reform.

In your invitation to testify today, you asked that I pay particular attention to the five principles outlined by the Administration, which expressed its general support for the recommendations of the President's Commission.

Clearly, there is a consensus that the U.S. Postal Service performs a vital public service, and that it must be preserved and maintained. Beyond that, however, it is difficult to tell from the five principles what, specifically, the Administration supports. The American Postal Workers Union also supports the broad principles stated by the Administration; but the Devil, as they say, is in the details.

We have some very strongly-held views about how the principles supported by the Administration must be carried out, and we are aware that others believe that these same principles justify changes which we adamantly oppose.

The first principle stated by the Administration is that we should:

Implement Best Practices. *Ensure that the Postal Service's governing body is equipped to meet the responsibilities and objectives of an enterprise of its size and scope.*

We find little to disagree with in the direction to implement best practices in managing and operating the Postal Service. Many private and public entities have adopted practices that should be considered by the Postal Service, while taking into account the unique role of this government entity and its role in binding the nation together.

The relevant question is, What are the best practices that should be adopted to preserve and protect the Postal Service?

Some who propose what they call “best practices” have advocated regressive labor policies that would roll back the clock to 1970. The Report of the Presidential Commission on the Postal Service includes a number of such recommendations, which we adamantly oppose.

The Report repeatedly states that the Commission supports the right of postal workers to engage in collective bargaining. Nevertheless, it recommends the establishment of a three-member Postal Regulatory Board, appointed by the President, which would have the authority to set the compensation of postal employees.

It is completely inconsistent, and totally unacceptable, for the Commission to espouse a commitment to collective bargaining while simultaneously recommending that postal compensation be dictated by an appointed board, separate and apart from the collective bargaining process.

The Commission seems to believe that postal workers are fools. The following disingenuous platitudes appear in the Commission’s Report:

“...plans for modernizing the nation’s postal network...must effectively utilize the Postal Service’s most valuable asset – its employees.”

“Essential to this process is the ability of management and labor to work constructively together to determine the right size of the postal workforce and to ensure appropriate flexibilities in its deployment. This is *the* critical issue when it comes to controlling the future costs and capabilities of the workforce. Far more than individual benefits, the *size* of the workforce determines the *costs* of the workforce.”

“First and foremost, Postal Service management must repair its strained relationship with its employees.”

In contrast to these statements, the Commission's specific recommendations are an invitation to open conflict with postal employees. The Report paid lip service to the importance of good labor relations, while making recommendations that would ensure labor conflict.

The Commission's recommendations to change the collective bargaining process are unwise and would be counterproductive. Current law permits the parties maximum flexibility in their efforts to resolve their differences. The system has stood the test of time. It has resulted in labor costs that have tracked the increase in the Consumer Price Index and the Employment Cost Index since 1984. Those who criticize this record are, in effect, asking postal workers to take a cut in real wages. Needless to say, that is unacceptable.

The Commission also urged Congress to consider removing postal employees from federal retirement and retiree healthcare plans. This would be a diametrical departure from appropriate public policy. We categorically reject the contention that it would be appropriate for postal employees, now or in the future, to be paid fringe benefits that are less than those provided to other federal employees.

In recent years, postal workers have repeatedly stood on the front lines of homeland security; when hired they must submit to background checks and fingerprinting, and they are administered a federal oath of office. It would be an insult to their courage and dedication to suggest they should be afforded something less than federal status.

The same is true of workers' compensation benefits. These minimum benefits

are not negotiable, nor should they be. It would be indecent for the Postal Service to seek to impose substandard retirement benefits, retiree health benefits, or workers compensation benefits on postal employees.

In this debate over the cost of health benefits, forgotten is the fact that rising healthcare costs are due in part to a large number of uninsured or underinsured Americans. This is not a failure of bargaining, but an important public policy problem that cannot be solved by shifting costs from employers to employees or retirees.

Health benefits, whether for active workers and their families, for people who have been injured on the job, or for retirees and their families, are a very powerful and emotional issue. It would be a callous act to reduce the health benefits of postal workers injured by anthrax; to reduce their injury compensation benefits, or to reduce the benefits of the widows of the workers killed by exposure to anthrax.

The Administration also has endorsed the principle of:

Transparency. *Insure that important factual information on the Postal Service's product costs and performance is accurately measured and made available to the public in a timely manner.*

In a democracy, government agencies have a fundamental obligation to function with the consent of the governed, which can only be achieved through the public sharing of information. However, transparency cannot be used to place the Postal Service at a competitive disadvantage. Postal competitors must not be permitted to use transparency as a means of competing unfairly or unduly influencing decisions that are central to a healthy and effective Postal Service.

We are aware that UPS and other postal competitors claim an ability to attribute

or allocate virtually all of their costs, whereas the Postal Service does not do this. We, too, have an interest in this issue, because we believe that accurate cost attribution would further demonstrate that worksharing discounts are too large. On the other hand, there are significant differences between the Postal Service and its competitors, the most important being the commitment to universal service. Those who advocate “bottom-up” pricing of postal services may seek to use further cost allocation to support their efforts to cut their own postal rates. Our concern is that transparency must be used in the public interest, which is to say in the interest of strengthening the Postal Service.

The third principle endorsed by the Administration is:

Flexibility. *Ensure that the Postal Service’s governing body and management have the authority to reduce costs, set rates and adjust key aspects of its business in order to meet its obligations to customers in a dynamic marketplace.*

We believe that barriers that prevent the Postal Service from adjusting to the marketplace should be reviewed and adjusted accordingly. To permit the Postal Service to grow in the future, we support: flexible rate-setting; giving postal management the authority to design and introduce new products; and giving management the freedom to borrow, invest, and retain earnings.

In the area of workforce flexibility, however, we urge Congress to be extremely careful about imposing its judgment on postal management and the unions. While all of the labor unions and management associations have negotiated contractual terms governing the movement of employees, there are no contractual prohibitions on the

expeditious movement of employees between assignments to accomplish the primary task of processing mail expeditiously. These procedures have been hammered out by the parties over the past 100 years. In recent years, these provisions have not been the subject of recommendations for change. Who is in a better position to determine the appropriate balance between management flexibility and the needs of workers than the parties themselves?

The fourth principle endorsed by the Administration is:

Accountability, *Ensure that a Postal Service operating with greater flexibility has appropriate independent oversight to protect consumer welfare and universal mail service.*

No one will quarrel with the suggestion that there should be appropriate independent oversight over the Postal Service. We expect there will be many disagreements, however, about what type of oversight is appropriate. We have serious reservations about the creation of any Postal Regulatory Board with broader powers than the present Postal Rate Commission. In our view, the Board of Governors of the Postal Service should be strengthened and made more effective in its management oversight, and the Consumer Advocate should be afforded appropriate independence.

If rate-setting is made more flexible, as we think it must be, certainly there must be an appropriate watchdog agency where interested parties can take complaints about alleged abuse or violations of law.

Employees are and have always been held accountable for their actions. The Postal Service disciplines employees at a higher rate than most other employers. The

American Postal Workers Union vigorously defends the rights of employees, and when action is taken against an employee that does not meet the “just cause” standard, we apply all of our resources to their defense.

Employees and the union expect rules to be reasonable and just, administered consistently and fairly.

Similar standards of accountability are not applied to managerial decisions, however, and too often employees witness the most serious abusers being rewarded. Over a five-year period, I have asked the Postal Service to look into specific examples of abusive employment practices, but they have failed to do so. This is an area where accountability of management needs to be strengthened.

The fifth principle endorsed by the Administration is:

Self-Financing. *Ensure that a Postal Service operating with greater flexibility is financially self-sufficient, covering all its obligations.*

For the past 33 years, the Postal Service has been a powerful financial engine that has more than sustained itself through times of enormous growth and change. During the 1980s and early 1990s, Congress imposed billions of dollars of costs on the Postal Service that had no relation to its operations. The Postal Service withstood those challenges and prospered.

We understand that the U.S. Office of Personnel Management (OPM) is now seeking to impose an \$86 billion liability on the Postal Service for retirement benefits for postal workers with federal service credits. Speaking frankly, it seems to us that this action is inconsistent with the Administration’s statement of broad support for postal reform.

The same could be said of seeking to shift the cost of military retirees, or forcing the Postal Service to “escrow” the funds it has overpaid to the CSRS fund. Using the Postal Service as a cash cow to help reduce the federal deficit is a luxury the American people can no longer afford. The Postal Service is still a very strong, viable institution, but it has its own problems and it should not be asked to shoulder the financial burdens of the federal government. Nor should postal rate-payers assume costs that should be paid by the taxpayer.

Worksharing Discounts

This brings me to what we consider a most important point for the Congress to understand about Postal Service financial self-sufficiency. The Postal Service is currently giving away hundreds of millions of dollars every year in form of excessive worksharing discounts.

Earlier, I spoke about Postal Service “best practices.” We think a critical best practice that should be adopted is the proper pricing of postal products to ensure financial stability.

The Postal Service’s own data show that discounts provided to major mailers exceed the costs avoided by the Postal Service. These excessive discounts cost the Postal Service hundreds of millions of dollars in lost revenue every year. It is not possible to create a business model for a healthy Postal Service far into the future if the rate-setting process continues to hemorrhage hundreds of millions of dollars. Put simply, you cannot break even if you continue to give away hundreds of millions of

dollars in revenue each and every year.

There are a number of discounts that should be reduced to bring them into line with costs avoided. These include:

- First-Class non-automation pre-sort discounts;
- Standard A three/five-digit pre-sort discounts;
- Standard A automation discounts; and,
- First-Class automation discounts.

This problem was tacitly acknowledged by the Presidential Commission in its recommendation that all *future* discounts be limited to the costs avoided. This is simply not good enough. That horse has left the barn and we need to get it back to preserve universal service in the public interest.

Some interested parties, when confronted with the fact that discounts cannot be justified, have responded by calling for “bottom-up pricing.” This radical concept, which purports to establish a system whereby mailers pay only for the services they use, would actually relieve the largest mailers of any responsibility for the costs of maintaining a universal system. It would almost certainly result in surcharges for service to rural communities and low-volume post offices.

Such a structure would be tantamount to proposing that public education be funded only by those who have children in school. The proponents of this radical approach – those who profit from the universal service network – are eager to avoid paying for it. A self-interested proposal like this is a natural and predictable position for any profit-motivated industry to take, but it cannot form a basis for public policy.

Ultimately, bottom-up pricing would destroy the Postal Service's financial self-sufficiency and require Congress to make a choice between public subsidies or the abandonment of universal service.

Conclusion

In conclusion, the American Postal Workers Union supports the broad principles of the Administration, but we reserve our position on the details. We also wish to emphasize the importance of addressing the most immediate concerns. For long-term financial solvency, the Postal Service must be relieved of the burden of paying for military retirement, and must be permitted to make appropriate use of the savings from the re-calculation of its CSRS contributions. In addition, OPM's effort to shift federal service retirement costs to the Postal Service must be addressed. This adds up to \$27 billion for military retirees, \$10 billion for the escrow account, and \$86 billion in the federal service retirement costs. In applying the principles supported by the Administration, we trust that these issues will receive favorable consideration. If the objective is to stabilize the Postal Service and secure its future, this is where the process must begin.

Thank you, again, for the opportunity to present testimony today. I would be pleased to answer any questions you may have.