

**Testimony of Rebecca Jewett  
On behalf of Norm Thompson Outfitters, Inc.  
Before the Committee on Government Reform,  
United States House of Representatives**

February 11, 2004

Chairman Davis, Representative Waxman, Task Force Chairman McHugh and Representative Davis, and members of the Task Force, I am Rebecca Jewett, and I thank you for inviting me to testify before you today on the importance of a viable U.S. Postal Service. Since I received your invitation to testify, I became Vice Chairman of Norm Thompson Outfitters, Inc.

Norm Thompson is a leading catalog direct marketing company founded in Portland, Oregon in 1949. Fifty years ago we were selling hand-tied fishing flies to discerning fishermen. Today, we are more apt to be found selling handknit sweaters to our discerning customers. Nevertheless, now as then, Norm Thompson depends on the U.S. Postal Service as its primary marketing channel to reach current and prospective customers. Without the mail, there would be no Norm Thompson, Inc. The Postal Service is our biggest and our most important vendor – we spend more money with the Postal Service than with any other single vendor we use.

It is this reliance on or, if you will, partnership with the Postal Service and my concern over its future and ultimately its impact on Norm Thompson, our 600 full time associates and 2000 seasonal employees and the many others in our supply chain that brings me here today. Postal reform is not just about the U.S. Postal Service. It is about jobs and the economy throughout our Nation.

Fourteen months ago--on December 11, 2002--that President Bush issued an Executive Order establishing the President's Commission on the United States Postal Service. The Commission was directed to look at the state of affairs and was charged with the responsibility of articulating a vision for the future of the Postal Service.

The Commission found that the most significant obstacle to the Service's survival is its "legacy business model and structure counterproductive to the Postal Service's ability to perform its most vital function: ensuring the universal availability of reliable, affordable postal services."

To those of us who have followed the plight of the Postal Service, that the Commission would reach this conclusion is no surprise. We are, after all, dealing with an entity whose foundation is a 34 year-old business and regulatory model, which provides neither the flexibility nor the incentives needed to ensure its own viability and, in turn, the growth potential for a very significant segment of the U.S. economy. It is an important statement, nevertheless, because it comes from nine fresh sets of eyes--from individuals with considerable business experience but who in their professional capacity are not postal stakeholders.

Given my own business experience, I simply cannot imagine being restricted to operating in the same way as did my predecessors of some thirty years. Moreover, in my capacity as Chairman of the Board of Directors of the 4700-member Direct Marketing Association, I can say with some degree of confidence that my fellow business executives agree completely with the Commission's assessment.

Your invitation to appear today asked that we speak to the five guiding principles the White House outlined in its call for comprehensive postal reform. The five principles--application of best practices, transparency, flexibility, accountability and self-financing--were distilled from the thirty-five recommendations contained in the Commission's final report. These recommendations, roughly half of which could theoretically be implemented within the confines of existing law, present a road map that builds—and wisely, I might add-- on the past efforts of this Committee and the Postal Service's Transformation Plan.

While one might quibble over the details of a particular Commission recommendation or wording of a White House principle, their collective thrust makes good sense.

Although I will direct much of my testimony to the importance of the need for flexibility, this is not meant to diminish the importance of the others principles. One need only consider the extent to which the Postal Service's revenue base could be eroded by a rapidly changing communications landscape to appreciate the importance of consideration being given of each and every principle and recommendation in developing a new business model for the Postal Service.

Clearly, little, if any, of what has transpired in the last decade alone could possibly have been foreseen by the architects of the Postal Reorganization Act of 1970. Moreover, it is unlikely that they envisioned a time when the realities of a declining volume base, characterized as “sobering and credible” by the President's Commission, would be required to support an ever-growing delivery network--a situation which is economically unsustainable.

When he testified before the Senate Government Affairs Committee last fall, Jim Johnson, Vice-Chair of the President's Commission, was asked for an assessment of how long he thought we could go with the current system before reaching the crisis stage. His response, I thought, was very insightful.

He offered that the Postal Service's financial situation is somewhat better today than it was two years ago due largely to (1) action by the Congress to correct the formula for funding the retirement of postal employees and (2) the successes of the Postmaster General and his management team in containing costs and increasing efficiency. I would be remiss at this point if I did not recognize and express my appreciation for what you—the Congress--have done and for the efforts of the PMG. But as Mr. Johnson noted, the reality and the challenges of two years ago are still with us; that we have not a long time to get it straight (but have time to get it right).

If we do not move ahead expeditiously with significant modernization, the choices outlined by the commission will be dramatic service rollbacks, rate increases of an unprecedented scale, or falling further into debt, ultimately requiring a taxpayer bailout. Each of these three options is equally unacceptable for Norm Thompson, for me as a taxpayer and for a system that today supports a segment of our economy that accounts for approximately 9 percent of GDP — some \$900 billion — and supports the employment on the order of 9 million Americans. Consequently, while the challenges are substantial, the opportunities for improvement are abundant and, therefore, comprehensive reforms should begin now, in advance of an impending crisis that would be unnecessarily costly and would limit available options for the future.

As you move forward in crafting postal reform legislation, I urge to consider that reforms must be couched in a dynamic context with the recognition that managers need the flexibility both to meet the ever-changing demands of the marketplace and to manage their infrastructure and their workforce.

## **I. FLEXIBILITY TO SET RATES**

While the existing rate setting scheme may have been tolerable in an early era, the length of time, complexity and cost involved in litigating rate cases now results in diminishing returns for both the Postal Service and its customers. The Postal Service, as does any business, needs pricing flexibility to meet the demands of the market.

In addition to reasonable degree of flexibility to adjust rates, generally, the new business model for the Postal Service should authorize customized service and rate agreements (also known as negotiated service agreements) that offer an economical benefit to the overall system as well as to the parties to any such agreement. Other players in the marketplace have this ability and use it.

But just as the Postal Service needs flexibility, so do mailers need a semblance of predictability. Thus, separate and apart from the manner in which specific rates are developed, the magnitude and timing of rate changes are critical considerations in terms ensuring overall economic efficiency.

Those of us in the direct mail catalog business—and we are not alone in this regard—are having increasing difficulty accommodating rate increases that far exceed the general rate of inflation; in our case, averaging on the order of 22% over the past 5 years while the rate of inflation for the period was in the 14% range. We have reached the point where, in many cases, the cost of mailing a catalog equals or may even exceed the cost of producing that catalog. This situation is counterproductive for the mailer and the Postal Service.

Recognizing that there may be exigent circumstances, I believe that any pricing flexibility granted the Postal Service must be tempered with a degree of systematic discipline. As a general principle, rate adjustments should, as nearly as is practicable,

mirror the lesser of the rate of inflation as measured by the CPI or the actual cost of providing services and should occur no more frequently than once a year. Moreover, as an incentive to hold down rates, postal management should be able to avoid lengthy before-the-fact rate regulation IF and ONLY IF rates are held BELOW inflation.

## **II. FLEXIBILITY TO ADJUST THE NETWORK OF FACILITIES**

The Postal Service's 25-year experiment with worksharing in the transportation and processing of mail provides ample evidence of wide-ranging benefits to itself, all users of the system and the economy, generally. Unbundling the various elements of the process, has promoted economic efficiency. According to the General Accounting Office, nearly three quarters of all domestic mail is workshared enabling the Postal Service to realize billions of dollars in savings. The continued unbundling of all functions upstream from the ultimate delivery of the mail should be a paramount objective for the "new" Postal Service in order to optimize efficiency and constrain costs.

Implicit in capturing the full economic benefit of unbundling is that the Service be vested with adequate authority to right-size its upstream "legacy" infrastructure. The Service cannot survive if there are constraints placed upon its ability to establish and constantly adjust an effective and economical processing, transportation and delivery network. In this regard, a mechanism that insulates network changes from the political process, while at the same time accommodating the need for postal management to make ongoing adjustments, would appear to be in order.

## **III. WORKFORCE FLEXIBILITY**

Increased worksharing and rightsizing of its network will mean a smaller internal workforce. However, network changes need not precipitate draconian changes for the dedicated Postal Service workforce. With nearly one half of career employees eligible for retirement by decade's end, this presents an opportunity to couple network changes and workforce attrition.

Management and employee groups should use the bargaining and consultation processes explore the liberalization of work rules as a means of mitigating the impact of network realignment. Requiring the Postal Service to develop a comprehensive human resources plan would seem to be in order as a precursor to this effort.

Modest adjustments to the current collective bargaining process, such as requiring mediation and restricting arbitration awards to be prospective, only, may also be in order. I would envision these changes resulting in a greater range of options and incentives for both management and employees, without significantly diminishing the rights of employees. And, while I support fair and full collective bargaining, an addition to existing the law should require arbitrators to give weight to the changing nature of the communications landscape, and the importance of achieving productivity gains as a means of ensuring the viability of the postal system.

#### **IV. UNIVERSAL SERVICE**

With some limited exceptions, the U.S. Postal Service delivers to everyone, everywhere six days a week. Providing this universal service its distinguishing hallmark. I support its continuation. Service to the American public and their businesses should not be a victim of any type of postal reform. As an aside, universal service should include parcel delivery. Package services are and always have been a core service offering of the Postal Service. At Norm Thompson we use the Postal Service to deliver a significant proportion of our products to customers, and we need that service. In addition, we know that Postal Service parcel delivery represents competition, which holds down parcel delivery costs for all.

However, as the Presidential Commission noted while universal service and the postal monopoly--as currently perceived--are vital to the Nation and its economy, this may not always be the case. The Commission suggested that a review of this status over time would be appropriate, necessary and possible, without sacrificing affordable access to essential services. I agree with this idea in principle. Having so stated, I believe Congress must retain some degree of authority over this matter, which is clearly of policy in nature.

#### **V. SELF-FINANCING**

On the matter of self-financing, I take no issue with the Administration's position that the Postal Service be self sufficient, covering all of its obligations. I, however, question whether certain obligations should be assigned to the Postal Service.

For example, while almost all of the Presidential Commission's recommendations address the necessity of updating the antiquated laws governing the Postal Service, one recommendation proposes a change to the Postal Civil Service Retirement System (CSRS) Funding Reform Act (Public Law 108-18) enacted just last year.

The Act, which adjusted the Postal Service's annual contribution to fully fund its remaining CSRS liability, also imposed a new and unique burden requiring the Service to fund CSRS benefits earned by its employees while serving in the military. The Commission concluded that the \$27 billion associated with this obligation--much of which predates even the 1970 postal law--should be borne by taxpayers, not ratepayers, as is the case for all other federal government entities. I concur fully with this recommendation. Paying for the military and all its subsequent obligations is, in part, my responsibility as a taxpayer not as a mailer. Moreover, the \$27 billion obligation includes a \$17 billion return to the Treasury for payments already made. At least, mailers should not be responsible to reimburse the government for past payments to retirees.

Another aspect of the 2003 CSRS law requires the Postal Service to build into future rate cases amounts no longer required to fully fund employee retirement and to place those funds in an escrow account pending Congressional approval of a disbursement plan. It would be more than just unfortunate if the billions of dollars at issue were extracted from the economy only to become a pawn in the arcane intricacies of the government budget. Congress must act to eliminate the escrow requirement this session to avoid adding to the next postal rate increase. Mailers should not be charged based upon the old over-funding CSRS formula—the current escrow law would force that sad occurrence.

## **SUMMARY**

In closing, I want to endorse the Commission’s conclusion that “[T]he American people deserve the most capable and efficient Postal Service modern techniques and ‘best execution’ strategies can make possible....” Moreover, I agree with the Commission’s view that “an incremental approach to Postal Service reform will yield too little too late....” Therefore, I urge you to adopt a comprehensive approach to postal reform, including appropriate changes to the retirement the legislation to further ensure the Service’s financial stability.