

**STATEMENT OF  
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BEFORE THE  
SUBCOMMITTEE ON INTERNATIONAL AFFAIRS,  
PROLIFERATION AND FEDERAL SERVICES  
OF THE  
COMMITTEE ON GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE  
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Good morning, Mr. Chairman and members of the Subcommittee.

I welcome the opportunity to speak with you today about the transformation of the United States Postal Service. It was only one year ago that the Committee on Governmental Affairs conducted a hearing to review the condition and prospects of the Postal Service in a radically changed competitive, technological and economic environment.

Describing the condition of the Postal Service at that hearing, Chairman Fred Thompson said, “The ox is in the ditch – big time!” His sentiments were echoed by the Comptroller General of the United States, David Walker, who placed the Postal Service’s transformation efforts and long-term outlook on the GAO’s “high-risk” list because of our significant financial, human capital and structural challenges.

In the year since that hearing, the Postal Service’s long-term financial outlook has grown even more cloudy. The 2002 economic downturn hit us hard – and continues to hurt us. On the heels of the recession came 9/11, then the anthrax bioterrorism attack. By the end of fiscal year 2002, we expect mail volume to be down by six billion pieces, the most significant decline in more than 70 years. It will contribute to a projected net loss in the range of \$1.5 billion this year – for a third consecutive year of net losses.

As the Comptroller General said, “The Service’s ability to provide universal postal service as we know it today will be increasingly threatened unless changes are made, both within current law and to the legal and regulatory framework that governs the Service.” It’s clear the business model set up in 1970 by the Postal Reorganization Act was devised for another time. This model needs to be addressed – the sooner, the better.

Despite the impact of the recession and the terrorist attacks, we have taken steps to reduce costs and to manage the business more aggressively than ever before. By the end of this year, we will have reduced the number of career employees by 20,000. We will do that through attrition. We will also have reduced workhours by over 60 million compared to last year. And we are postponing other program expenditures and delaying capital investments.

Even with these short-term actions, we recognize the critical need for a long-term approach to the issues the Postal Service is facing. This was the consensus following last year’s hearing and it resulted in the Postal Service’s creation of a comprehensive Transformation Plan. We delivered that Plan to Congress one month ago.

We believe the Plan offers the flexibility to give the Postal Service the long-term tools it needs to carry out its universal service mandate. That mandate represents a public policy decision that defines the role of the Postal Service. If that is to remain the role of the Postal Service in the future, we need your help and the help of the entire Congress and the Administration to achieve it.

To date, your help has been significant. I appreciate the leadership and support of this Committee through the months of effort that culminated in our thorough and far-reaching Transformation Plan. Your willingness to conduct this hearing so quickly following the Plan’s completion demonstrates your commitment to the future of America’s mail service.

It is also appropriate at this time to recognize the contributions of so many throughout the entire postal community in developing and completing the Plan we are discussing today.

The Governors of the Postal Service made it clear that the Transformation Plan was their foremost priority. Recognizing the importance of the Plan, they created an environment that encouraged management to take fresh and creative approaches to a wide range of issues that must be addressed to protect our continued ability to provide affordable, universal mail service for all Americans.

Our work in preparing the Plan also involved extensive dialog with all members of the mailing community. This included some of largest mailers in the nation, households and families, and virtually every type of mailer in between. It included organizations and associations that represent the breadth and diversity of the mailing industry. It included our suppliers and vendors. It included our employees and the unions and management associations that represent them. And finally, it included members of Congress and the Administration. We appreciate the time and efforts of everyone who has contributed to the Plan.

We believed it was vitally important that a Plan which set out a future direction for our national postal system included input from everyone with an interest in this vital sector of the nation's infrastructure. To an unprecedented extent, it has brought together an incredibly wide spectrum of needs and visions into a single document. Not surprisingly, continued viability of America's postal system was the common concern of virtually everyone who helped us to prepare the Plan.

It is important to understand that a significant segment of the nation's economy is dependent on a strong and healthy Postal Service. In addition to 750,000 career postal employees, the paychecks of more than eight million Americans are dependent, in whole or in part, on the mail. The mail, and the businesses and services that support it, contribute \$900 billion to the economy. In total, this represents eight percent of our gross domestic product.

But the mail represents so much more than a line on an economic graph. The mail represents the commitment of our employees to the ideal that regardless of who you are, rich or poor; whether you live in the largest city or the smallest village; from the remote Alaskan bush to the most distant Hawaiian island; every American has a fundamental right to send and receive mail.

It is in this spirit that I am here today to talk about the Transformation of the Postal Service. Through its more than 225-year history of serving this great nation, the Postal Service has been a valuable national asset. We firmly believe that it can – and will – be an asset for many decades to come. But significant change is necessary for that to occur.

Certainly, change has been a part of the Postal Service's journey through history. We have changed just as America has changed – from the time when mail was carried by horse and rider, to now, when billions of letters routinely travel by air.

We've moved from an era when every piece of mail was handled and processed manually, to a time when letters might go untouched by human hands until they are delivered by a letter carrier – thanks to automation, thanks to our ability to change.

However, as Comptroller General Walker said at that hearing one year ago, the Postal Service's ability to change to the extent required is limited. It is limited by the Postal Reorganization Act, the 1970 legislation that created the modern Postal Service from the heavily subsidized Post Office Department.

The need for transformation is, perhaps, greater today than it was on that July day in 1971 when the new United States Postal Service delivered its first piece of mail. The business model, which was expected to support the new organization into the future, needs modernization today – before we reach a point of no return. That model assumed that continually rising mail volume would result in similarly rising revenue that would support modernization of our national processing system and continuing expansion of the delivery network.

We are now at a point in our history when it is time for another phase in postal evolution. Our 32-year-old operating

charter no longer allows us the ability to quickly or effectively adapt in a communications marketplace that could not be imagined more than a generation ago.

The Transformation Plan we presented to Congress last month is about our need to change. It is a blueprint for modernizing every aspect of the way we do business. But the Plan is not about change or modernization for their own sake. It is about the changes required if our public policy continues to be binding the nation together through universal mail service.

The Postal Service is doing everything it can, today and in the near term, to do that. For the longer term, however, we require your help to protect this vital link between individuals, families, and friends, and this key driver of commerce. Our Transformation Plan addresses each of these needs.

We are completing our third year of increased productivity. We have ambitious plans to save an additional \$5 billion between now and 2006. This must be done. And we will do it.

There is more we can and must do in the near term. Some of these activities involve tackling the self-imposed restraints that have often prevented us from being as efficient and effective as we can be. To this end, I have lifted the moratorium on closing post offices that management put in place four years ago.

Let me be as clear as I can be on this issue, because it has lent itself to misinterpretation. This does not mean that there will be wholesale post office closings. But it does mean that we will restart the process to close those offices that have been “suspended” or effectively closed, in some cases for more than a decade. In most of those places, we have provided alternative services, often improving customer access to postal products and services.

These alternative services can include extension of rural carrier service from another office, highway contract route delivery, contract stations or the establishment of community post offices. Where carrier service is extended, customers can conduct many postal transactions through their mailbox.

This is consistent with our business strategy, outlined in the Transformation Plan, of providing more convenient access to our system. We want it to be as easy as possible for American people and businesses to use our services – whether through the Internet, through traditional postal retail outlets, or through other retail networks. It is our goal to make postal products – and access to our network – available to our customers when and where they need them – not just where we are located. In too many cases, the network of post offices, developed over many years, over serve some areas and under-serve others.

We have agreed to begin an internal review of our retail network with our postmaster groups and the American Postal Workers Union. We will expand the group to include other stakeholders in the near future.

We will also evaluate our existing processing network. With our automated environment and changes in our mail mix, we no longer need some of the 400 processing centers we have nationwide. There are opportunities for consolidations and, with them, cost savings. At the same time, we can optimize our processing network and improve efficiency within processing facilities. Ultimately, this should mean better service for our nation.

In adjusting our network, it is not our intention to reduce delivery to less than six days per week. We do recognize, however, that without needed long-term legislative change, our ability to provide six-day delivery service could be threatened.

We are also going to become even more aggressive in pursuing the benefits our size can bring to our purchasing decisions. We have already leveraged our buying ability to lower our costs for office supplies, telecommunications, equipment and fuel. There are additional opportunities for savings that we intend to pursue.

We will improve our dispute resolution processes and find a way to reduce the \$300 million we spend annually on labor-management disagreements. I am excited with the progress that has been made in recent years regarding grievances with

our major unions. We will build on this success to look at the entire collective bargaining process. I am grateful that our unions have agreed to sit collectively with management to review opportunities to improve the collective bargaining process. And, by addressing these issues, we can bring improved focus to serving our customers better.

We are also working to modernize the rate process to the extent possible within the existing regulatory framework. George Omas, Chairman of the Postal Rate Commission, showed us that change is possible in this area. Under his leadership, the parties in the recent rate case came together to reach a negotiated settlement and avoided protracted and costly litigation. This was a significant breakthrough and one that I believe signals a new era of cooperation for all parties.

Building upon this historic breakthrough, Chairman Omas and I have agreed to conduct a joint summit of all the stakeholders on May 28 – from large direct marketers, to publishers of small magazines, to individual consumers – to share with us what they believe our industry needs to advance and modernize ratemaking. It is our goal to define the limits of change possible regarding the rates process under the current legislation. And, on the subject of rates, I am committed to maintaining the rates that we will implement on June 30 until at least calendar year 2004.

Industry leaders indicated they recognize the need for Transformation and they pledge to continue this work with us. I was gratified by the level of industry support I encountered two weeks ago at the National Postal Forum in San Diego.

We will continue to refine our systems and processes to improve efficiency, reduce costs, and protect the record levels of service and customer satisfaction we have achieved. We will continue our development of a performance-based culture, one in which compensation and performance are linked. We will continue to use technology to add value to the mail, both by making our system more transparent and expanding the use of automation to all mail streams.

As we work to optimize our network, we are sharing best practices and setting uniform standards throughout the country. If our customers told me one thing at the recent Postal Forum, it was their desire for uniformity in all of their dealings with the Postal Service – from mail entry, to postage payment, to delivery, regardless of which geographic area of the country they are in.

We will also continue to protect our employees and the American people by protecting the safety – and sanctity – of the mail. In this regard, I want to take this opportunity to express my gratitude to this Committee for its support and assistance in obtaining the \$500 million homeland security appropriation so necessary to our efforts this fiscal year.

I also want to commend the efforts of the Postal Inspection Service, the Federal Bureau of Investigation, the Bureau of Alcohol, Tobacco and Firearms and the many local law-enforcement agencies who worked together in the successful investigation of the recent pipe bombs incidents. We appreciate the cooperation of our customers and the dedication of our employees during this trying period.

These initiatives represent just a few of the many opportunities available to the Postal Service within the existing legislative and regulatory framework. Despite all of these efforts, however, we will – sooner rather than later – run into the limits of what is possible. If we do not act to move beyond these limits, it is the people and businesses of our nation who will ultimately be affected.

Right now, for instance, we are locked into a pricing system that provides limited flexibility.

Under the current legislation, we do not control our own wages. Too often in our history of collective bargaining, those decisions have been left to a third party to decide.

We do not have the flexibility to grow our business to the extent necessary or to develop new revenue streams. Whenever we attempt to improve, redesign, or introduce products, a host of special interest groups line up to take their best shot to stop us. In the end, the public is not served.

We can make breakthroughs on these issues. But we cannot do it alone. We need the help of our policy makers to legislate postal reforms. If consensus cannot be reached on the right business model for the Postal Service, then we will have allowed a vital, national asset to fail and be wasted.

The nation stands to lose a fundamental government service that we all take for granted: universal mail delivery. That is what our 750,000 employees provide to every American home and business, six days a week.

We agree with the General Accounting Office and with you that we cannot let that happen. We must transform.

After months of gaining input from stakeholders the Postal Service has identified three business models for discussion.

The first model we considered was a privatized mail service.

A privatized Postal Service would be shareholder owned. As such, it would focus on profit. Financial, service and operational decisions would be made within that context. The results might be delivery standards and prices dictated by where a person lives or where a business is located. Metropolitan areas where volume is greater could receive better or cheaper service than a rural community. And, like any privately-owned business, it could thrive or fail.

The people we reached out to in creating our Transformation Plan told us, overwhelmingly, that there was no support for privatizing the nation's mail service. People speak of a digital divide; we do not need a delivery divide.

The American people told us they strongly support the present definition of universal service at affordable rates. People have come to rely on uniformly priced letters for national delivery.

The second alternative model explored in our Transformation Plan is the restructuring of the Postal Service as a traditional government agency. A sizable portion of our operating revenues would come from appropriated funds rather than from income produced by providing a wide range of services.

We believe this option comes with an unacceptable price. In this case, the solution to decreasing mail volume and rising rates would be direct subsidies, tax dollars; in effect, putting the Postal Service back on the federal budget.

That would take us back to the model of the 1960s when the Post Office Department was dependent on taxpayers to underwrite the cost of universal service. Remember, no taxpayer dollars go to fund our normal operations. They are funded from the sale of stamps and our other products.

Imagine, if you will, the Postal Service going through an annual appropriations process and asking Congress to fund 25 percent of its operating budget. That would amount to \$15 billion in Fiscal Year 2003 terms.

During the 1960s, the old Post Office Department received up to 25 percent of its Operating revenues from taxpayers. That meant that when the Postal Service was created in 1971, the price of an eight-cent postage stamp was actually ten cents. The first eight cents of the stamp price was paid for at the post office counter. The remaining two cents was paid for on April 15.

You'll recall that service in the 1960s had declined due to an inability to make capital investments to modernize processing facilities and grow our infrastructure as mail volume grew. In addition, our employees' wages were depressed.

It wasn't good for America then, and it wouldn't be good for America today.

Frankly, that's where we are heading if we are unsuccessful in providing the Postal Service the flexibility it needs to operate successfully in today's environment.

We provided a third alternative in the Plan, a Commercial Government Enterprise. It is the model we believe would put the Postal Service on a more businesslike footing, while keeping it dedicated to its mission of universal service.

It is a model that is markedly different from what we have today. For example, instead of breaking even, our financial

goal would be to generate “reasonable returns.” Earnings would finance capital projects; we would not have to resort to increasing debt for this purpose. Retained earnings would enable us to finance operations through difficult economic times, rather than having to always resort to increasing postage rates.

In addition, this model would allow us to utilize our vast retail and delivery assets to develop new revenue streams. Our 38,000 retail offices and our national door-to-door delivery networks could be made available to private enterprise as a joint-profit-making venture.

As a commercialized government enterprise, we could introduce flexible pricing. Prices for postal products would still be subject to regulatory review. But we would have the flexibility to adjust prices based on market demand.

Next, as a labor intensive organization, with 75 percent of our operating expenses going to labor, this business model would allow us to explore a more progressive way to make collective bargaining work for all parties.

Finally, this model would give us the needed flexibility to increase access and convenience for our customers. Management would have the flexibility to close a number of non-performing retail outlets. And we would be able to invest in new facilities and services and enter into alliances and ventures with related, private-sector companies, after due diligence was completed.

Essentially, this “commercialized Postal Service” would provide the management tools that are available to private-sector businesses as we work to improve service to our customers, manage costs more efficiently and leverage our assets to generate new revenue opportunities.

Ultimately, this model would permit us to make maximum use of our assets and enable the nation to share in the benefits of our scope – every home, every business, every day, and in every retail outlet. At the same time, it would protect our ability to serve every home, every business every day – at a broader range of outlets than ever before.

Every American and every policy maker needs to be involved in these discussions. The future of affordable, universal mail service depends on it.

We pledge to do our part. We pledge to continue our strong performance focus. We pledge to make changes that are possible within the framework of the existing legislation and work with the Administration and Congress to bring about legislative reform to achieve this transformation.

We recognize the efforts of both the Senate and the House of Representatives in advancing the debate on postal reform. We acknowledge and appreciate the thoughtful and far-reaching efforts of many Members to reach consensus on various reform vehicles. We believe that these efforts should include serious consideration of the structural models in the Transformation Plan. I offer my assistance and that of the entire Postal Service to that end.

We cannot afford to let this opportunity pass us by. We cannot afford to risk the legacy of more than 200 years of universal service. The decisions we make today will affect the future of America’s mail system for generations to come. If this national asset is to be protected and preserved, then action is needed.

In the difficult months since September 11, it has become clear to all of us that the world has changed. For the United States Postal Service, the anthrax attacks, one month later, were a stark confirmation that we cannot do business as usual anymore. That realization is firmly rooted in us now as never before.

I am convinced that this plan for transformation is a key step in moving past our limitations, as we work to define and embrace sorely needed changes. With courage and conviction, we can continue to connect our people, our neighborhoods, our communities – indeed, the whole nation – as no one else can, just as we have for more than two centuries.

I appreciate the opportunity to share my thoughts with you today and I look forward to continuing this important conversation with you. In particular, I look forward to working with this Committee to explore how we can provide the American people with a continued, strong postal system.