APWU CONGRESSIONAL TESTIMONY

American
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Workers
Union,
AFL-CIO

CLIFF GUFFEY
PRESIDENT

Before The

Senate Committee on Homeland Security
and Governmental Affairs

"Solutions to the Crisis Facing the U.S. Postal Service"

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TESTIMONY OF CLIFF GUFFEY

ON BEHALF OF

THE AMERICAN POSTAL WORKERS UNION, AFL-CIO

Good morning Chairman Carper and members of the Committee. I am Cliff Guffey, President of the American Postal Workers Union. Thank you for this opportunity to testify on behalf of the APWU about "Solutions to the Crisis Facing the U.S. Postal Service."

The circumstances confronting the USPS are truly dire, but the demise of the U.S. Postal Service is not inevitable. Congress can cure the illness without killing the patient.

To do this, Congress must end the mandate of the Postal Accountability and Enhancement Act (PAEA) that requires the USPS to pre-fund healthcare benefits for future retirees. This requirement, which ostensibly was implemented to protect taxpayers in the event the USPS "goes under," is instead drowning the agency in a sea of debt.

Congress also must grant the Postal Service flexibility to increase rates. In addition to saddling the Postal Service with a $5.5 billion annual mandate that no other government agency or private company bears, the PAEA prohibits the USPS from raising postage rates above the rate of inflation. This flawed law imposes a major liability on the USPS, but prevents it from raising the revenue it needs to meet the obligation. For those who worry that pricing flexibility would lead to an explosion in costs for mailers, as I explain in greater detail below, even prior to enactment of the PAEA, postage rates remained within the rate of inflation over time.

Congress also must strengthen the provisions of the PAEA that were designed to curb the corporate welfare that "worksharing" discounts have become.

Finally, I want to emphasize two additional points: First, the USPS has already made deep cuts to service; slashing service further will only weaken this great institution, make it less relevant, and less competitive.

Second, Congress must reject privatization of the Postal Service. Privatization is wrong for the Postal Service and wrong for America. According to a recent study by the PEW Center, one in five American adults does not use the Internet. Senior citizens, adults with less than a high school education, and those living in households earning less than $30,000 per year are the least likely adults to have internet access. In addition, 40 percent of American adults – nearly 100 million people – do not have broadband access.

Privatization will leave these customers by the side of the road. It also will result in sharp price increases. An examination of privatized posts in other countries demonstrates this clearly.

So how can Congress meet the needs of those who haven't joined the digital revolution and remain useful for those who have? Legislators must free the Postal Service to develop new products and new sources of revenue.

America needs its Postal Service. Businesses rely on it, customers depend on it. In a still weak economy, the USPS generated $65 billion worth of business in 2012. Private couriers will not serve all of America. They will serve only the markets that seem likely to generate a profit. Privatization would destroy the essence of our nation's mail system, whose mission is to bind the nation together.

A little history is in order.

A major accomplishment of the Postal Reorganization Act of 1970 (the PRA) was that it created a Postal Service that is self-sufficient. Postal operations are funded entirely by postal rates, not by taxpayers. Under the PRA, postal rates were increased as necessary to meet the financial needs of the Postal Service to process an increasing volume of mail and deliver it to an increasing number of delivery points. That system, which Congress changed to a rate-capped system in the 2006 legislation, that PRA system, kept rates at or below the rate of inflation over time. In a service industry, especially one that is a major consumer of fuel,[1] the stability of postal rates was a major achievement of the Postal Reorganization Act of 1970. Exhibit One (1) in my testimony is a line graph showing postage costs at 1972 levels as adjusted for inflation from 1972 through 2012.

Collective bargaining for postal workers also was a success under the Postal Reorganization Act. Because postal compensation costs are sometimes the target of criticism, I want to place the question of postal compensation in its historical context. The last time Congress legislated wage increases for postal workers was in the Postal Reorganization Act of 1970. Those increases took effect in 1971 and 1972. Exhibits Two (2) and Three (3) are graphs that show first the straight-time hourly wage of APWU bargaining unit workers both in current dollars and as adjusted for inflation.

As you will see, our wages, in real terms are roughly the same as they were in mid-1970 since the passage of the Postal Reorganization Act. As you also will see, bargaining unit wages have roughly tracked increases in wages and salaries of private-sector workers since the latter were first measured by the Employment Cost Index in the mid-1970s.

In addition, the Postal Service successfully met the challenge of processing and delivering steadily increasing mail volume and a steadily increasing number of delivery points. Exhibit Four (4) is a graph that shows Postal Service productivity growth rates since 1972, both total factor productivity and labor productivity. As you will see, the Postal Service has increased

[1] The current rate system does not lend itself to fuel surcharges that might be quickly imposed, adjusted, or removed as fuel prices changed. Fuel surcharge on products other than packages would not be practical in any event.

the efficiency of its mail processing network and continues to make progress in that area.

Thus, the 1970 Act was a success. Rates had remained in line with increases in the Consumer Price Index (CPI) generally, real wages had been stable, and productivity steadily increased.

It was in this context that the APWU declined to support the passage of "postal reform" legislation. In our testimony before the Presidential Commission on the Postal Service in 2003, we said:

> "The basic assumptions behind the charge to this Presidential Commission are inaccurate, misleading and based on conventional wisdom that is wrong. The Postal Service has been successful. Its major problems have been the result of its Governors giving in to the mailing industry at the expense of the Postal Service and the American public. Most of the desired changes offer minor benefit and are mostly available to the Postal Service without a change in the law.
>
> "Rather than needing a change in its business model to survive, the Postal Service should be proud of its long-term success and take the advice of that anonymous business sage, "If it ain't broke, don't fix it." The Business Model of the Postal Service is not broken."

In retrospect, even given the significant drop in First Class mail volume, I think our point was correct. In its financial report for the first quarter of fiscal 2013, the Postal Service broke even on its operations. The past few years of operating revenue and current expenses show that if the Postal Service had been able to use its borrowing authority to modernize its operations and develop new products to increase its revenue, it could have been in a reasonably healthy financial position today. Instead, its financial resources have been absorbed by the retiree health benefits funding requirement; the resulting lack of capital and the tight CPI cap placed on rates have made it impossible for them to increase revenues. Not only is the cap limited to CPI, it is imposed for each class of mail separately. This leaves too little flexibility even with reference to CPI. In a time when volume is declining, it may be necessary to increase rates at more than the rate of increase of CPI, depending on price elasticities.

It takes only simple mathematics to know why the 2006 law did not work. Imposing a multi-billion dollar cost on the Postal Service and, at the same time, denying it the power to raise rates to cover its costs was a recipe for financial problems. With all the constraints it has been under, it is remarkable that in FY 2012 the Postal Service had a net loss of $2.4 billion on its operations. This is a big number, but it is one that would have been manageable, and still would be manageable, without the constraints imposed by the 2006 law.

A fundamental requirement of legislation to stabilize the financial condition of the Postal Service is that it must first stop the pre-funding requirement. The Postal Service is an important and strong business with more than $60 billion in annual revenue. This industry and its infrastructure have been built and sustained for more than 40 years by postage paid by the American public. We need to do all we can to preserve and protect the Postal Service for the benefit of the public that depends on it, particularly those in rural and other areas underserved by other means of communication where no commercial, profit-motivated enterprise will provide service.

We appreciate the leadership of Sen. Carper and others on the Committee, in seeking to address the pre-funding issue. We would urge this Committee to renew those efforts to remove the burden of the pre-funding requirement. In the private sector, even the most conservatively managed large companies fund only 30 percent of the estimated present value of their retiree health benefits liability. The Postal Service has now funded approximately 50 percent of its retiree health benefits liability. There is no justification for requiring it to fund a higher percentage. The pre-funding requirement should be stopped now.

Another major topic that must be addressed before the financial problems of the Postal Service can be examined realistically is the Postal Service's funding of its retirement annuity funds. The Postal Service has at times over-funded both CSRS and FERS. Although the amount of the overfunding has been the subject of considerable disagreement, even the lower estimates of the amount of over-funding show that the Postal Service has paid billions of dollars into those funds in excess of its financial obligations. Here again, a comparison to the private sector shows how unfairly the Postal Service is being treated. In the private sector, employers are required to fund 80 percent of their liabilities. The Postal Service has been required to fund more than 100 percent of its retirement annuity liabilities. As with the question of the overly-aggressive pre-funding of retiree health benefits, this overfunding of retirement annuity funds must be addressed before any realistic assessment of the Postal Service financial position can be made.

We recognize the difficulty of correcting these overfunding problems, but the consequence of not correcting them could be the unnecessary loss of important postal services for American communities that still depend heavily on the United States Postal Service even in this digital age.

As mentioned earlier, I also urge the Committee to address an additional issue that is difficult, but necessary – the need for the Postal Service to have the flexibility to adjust its rates as needed. I urge the Committee to correct the problem caused by the unrealistic CPI cap on postal rates. A substantial part of the financial pressure on the Postal Service has been caused by the rate cap. A legislated cap of this sort is completely contrary to businesslike market principles. The Postal Service should be permitted to raise rates to a level that balances the need to provide universal service with the value of postal services to the customers who use them. The Postal

Service should be able to increase rates to cover its costs as it did for 36 years before the passage of the 2006 legislation. This will recognize that it is financially necessary for the Postal Service to raise rates; it will be fair to consumers and to the public because it will permit the Postal Service to charge realistic rates to the businesses that use the service; and it will protect taxpayers from the need to provide subsidies unnecessarily, because the market for postal services is sufficiently strong for the Postal Service to continue to sustain itself.

Postage rates in the United States are low compared to rates in other industrialized countries. Exhibits Five (5) and Six (6) provide comparisons between postage rates in the United States and postage rates in other countries. As you will see, when postal rates are adjusted for monetary exchange rates and comparisons are made, rates in the United States are relatively low. I urge the Committee to review and consider a White Paper prepared by the USPS Office of Inspector General that estimates the impact of rate increases on mail volume and revenue. That analysis suggests that substantial increases in postal rates would result in lower volume but would also protect net income and result in a financially viable Postal Service that could continue to provide universal service. "Implications of Declining Mail Volumes for the Financial Sustainability of the Postal Service," September 29, 2010, Report Number: RARC-WP-10-006.

I also urge Congress and the mailing community to take a close look at postage rates in countries where postal services have been turned over to the private sector. In those countries, rates are much higher than rates in this country, and service is in most cases not as good. The comparisons between our Postal Service and foreign posts show that rates can be somewhat higher without driving customers away. It also shows that we are more efficient and less costly even with the capital constraints imposed on our Postal Service.

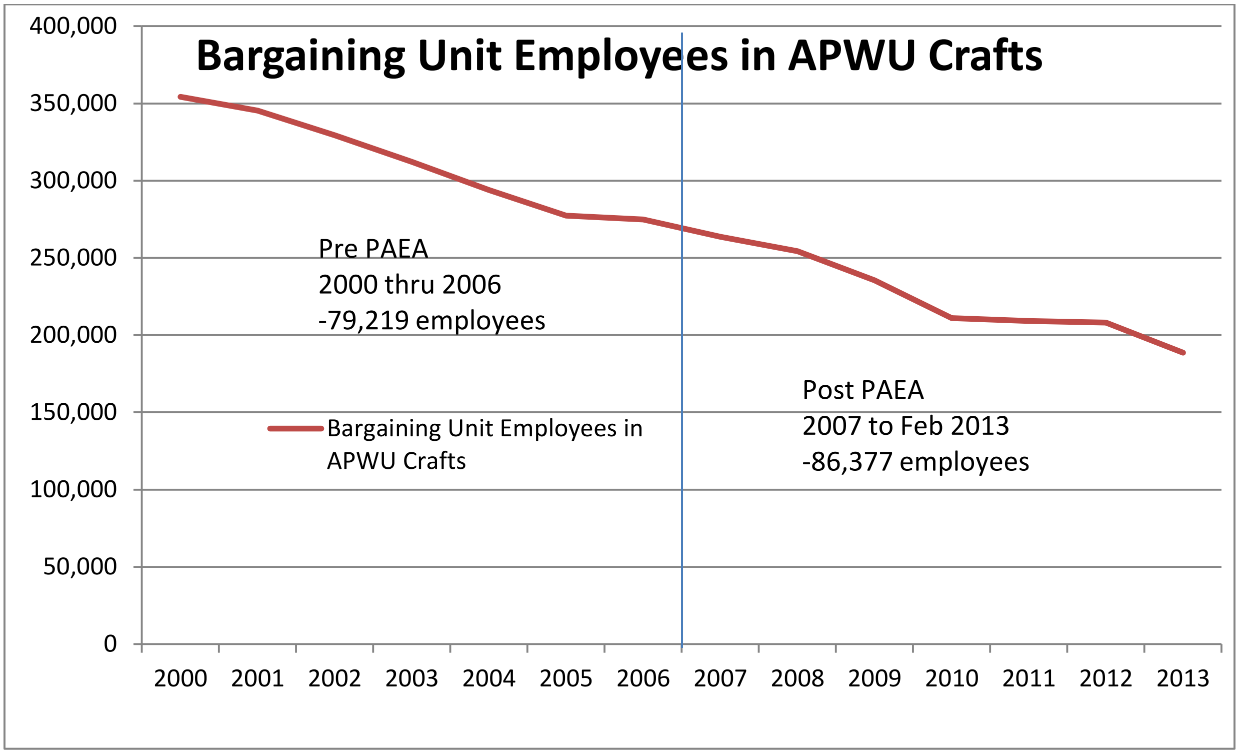
An expressed concern of those who supported pre-funding of retiree health benefits was a need to avoid imposing a financial burden on taxpayers in the event declining mail volume led to a situation in which the Postal Service found itself unable to meet those obligations through current revenues. But the combination of overly-aggressive funding and an unrealistic cap on postal rates has placed such a huge burden on the Postal Service that it threatens to create the very burden on taxpayers that Congress sought to avoid. This is unnecessary because the Postal Service, freed from the unrealistic funding requirement imposed by the 2006 legislation, remains and will remain a viable financial enterprise.

The 2006 legislation also prevents the USPS from developing new products and services. The Postal Service must be able to quickly get into revenue-producing opportunities that make use of its network (buildings, vehicles, workforce) and to branch into new products and services (such as lock boxes, digital products, kiosks that provide internet services to communities that are underserved or where residents cannot afford services that are otherwise available; connectivity and identity-verification services for federal and state governments and perhaps private companies). The Postal Service must be able to move into all these areas without being blocked, slow downed, or otherwise hindered because the product or service is considered "non-postal."

We appreciate the fact that the Senate bill last year recognized the need for progress in this area, and we hope you will move even further in the direction of giving the Postal Service more room to innovate.

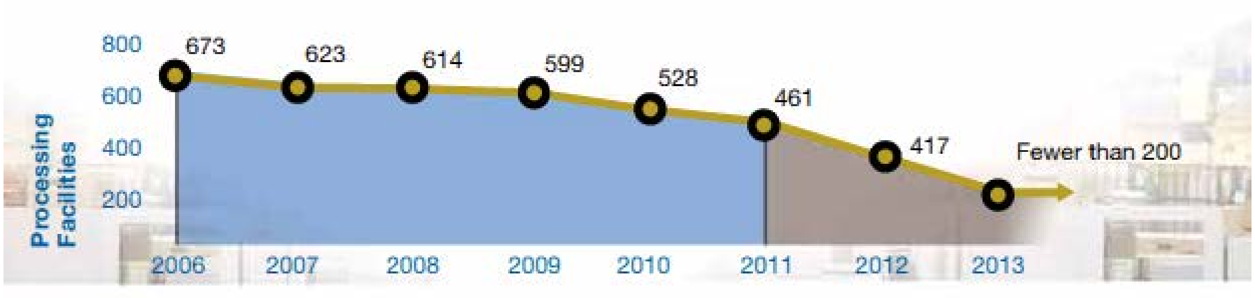
The USPS began an aggressive automation program in the 1990s that lead to dramatic increases in productivity and significant reductions in the size of the workforce – before the PAEA implemented the pre-funding requirement. From 2000 through 2006 (pre -PAEA) the USPS eliminated over 79,000 employees in APWU bargaining units. From 2007 through January

2013, including about 22,500 employees who left employment on January 31, 2013, (post-PAEA), the USPS eliminated about 86,000 positions.



Beginning last year, the Postal Service implemented an aggressive strategy of closing mail processing and retail facilities. This program is continuing.

From USPS FY 2012 Annual Report



In 2012, the USPS closed approximately 50 mail processing facilities, and by the end of 2013 it will have closed approximately 100 more mail processing centers. In FY 2012 it also has closed approximately 290 retail and delivery units while reducing hours.[2] Through January 2013 the USPS reduced hours at about 5,000 retail offices and plans to reduce hours at another 6,000 small retail offices.[3] These closures have disrupted the jobs, lives and families of thousands of postal employees. The closures also have deprived communities of vital services, damaged them economically, and threatened their identity.

Mail processing facility closures have come at a substantial cost in the form of reduced service to the American public. In order to make these closures possible, the Postal Service changed its mail collection practices and mail processing timetables, and slowed down the collection and delivery of First Class mail.

In addition to the reduction in service already caused by network consolidation, the Postal Service has announced that it will end Saturday delivery. It also may feel compelled to implement Phase II of its network consolidation plan, which would have a destructive effect on service.

[2] 2012 Report on Form 10-K, p 16
[3] PMG remarks on February 8, 2013.

If the Postal Service does not obtain relief from its pre-funding requirement and is forced to reduce delivery and make deeper cuts in its mail processing network simply because it cannot pay its bills, the effect will be devastating. USPS products will be degraded, postal customers will begin seeking other means of conducting business, more communities will be damaged economically, and there could be a real risk that the Postal Service would continue to decline due to the devaluation of postal services.

If the Postal Service is required to cut its processing network too deeply, it will not be able to provide efficient parcel delivery service at a reasonable price, and it will lose access to revenue that would help support its other processing and delivery work. While First Class letter mail volume is declining, package volume and revenue is increasing.

This is an area where the Postal Service's universal delivery network provides both an important service to customers and an opportunity for the Postal Service to increase revenue. This point is illustrated by the fact that other package delivery services, including UPS and FedEx, rely on the Postal Service for delivery of some of their products. For example, for the last several years FedEx SmartPost has been growing at more than 17% per year while FedEx ground package volume has been growing less than 7% per year. SmartPost is now 34% of all FedEx ground volume.[4] UPS also uses USPS for some of its products.[5] The Postal Service reaches every mailing address in the United States and its territories and provides economical delivery; so UPS and FedEx find it useful to provide delivery by USPS for their customers looking for low prices and delivery to P.O. boxes.

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[4] Derived from Q2 FY 2013 Statistical Book.

[5] "UPS Mail Innovations works with the U.S. Postal Service, providing the pick-up, processing, and interim transportation of mail, with final delivery being made by domestic and international postal services." http://www.upsmailinnovations.com/support/frequentlyaskedquestions.html

The mail processing and transportation network maintained by the Postal Service is not a financial burden, it is a major asset. My point here is a fundamental economic and business point. The mail processing and transportation networks are a necessary part of the postal industry. The Postal Service mail processing network is extremely efficient. Seen as an economic unit, it implicitly provides a financial benefit to the Postal Service and is an integral part of the Postal Service. If that network were to be dismantled and that work turned over to the private sector, the benefit the Postal Service now obtains by maintaining its own very efficient network would be lost, and its ability to maintain universal service would be undermined.

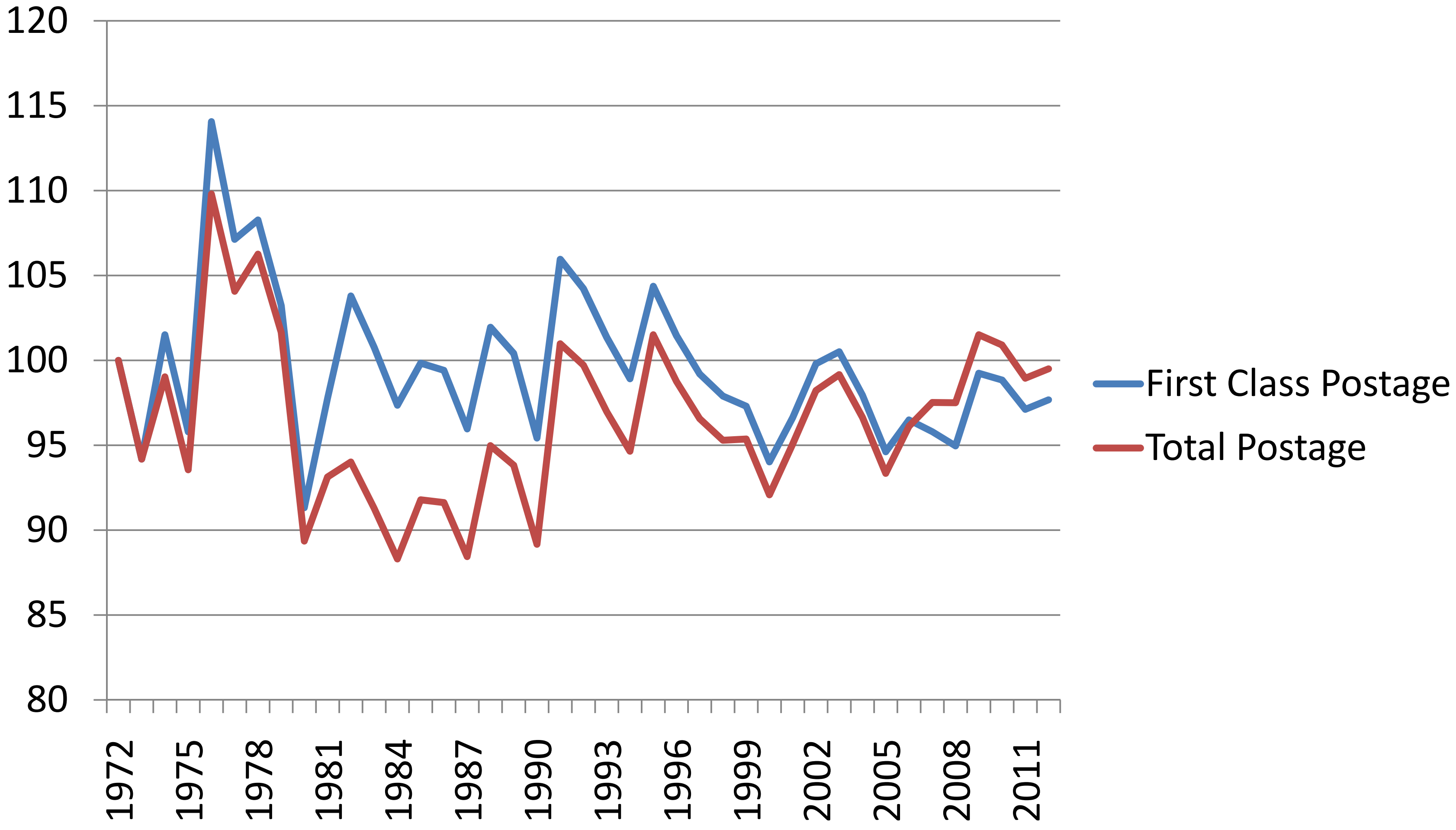
I want to take this opportunity to make sure the Committee is aware of another significant rate issue that requires the attention of the Postal Service and the Postal Regulatory Commission. As the Postal Service Inspector General has repeatedly found, large mailers who take advantage of workshare discounts in their postal rates are in many cases obtaining discounts that exceed the costs avoided by the Postal Service. This is both uneconomical and unlawful. In these difficult times, it is necessary to insist that those who take advantage of discounts comply with the rules and pay their fair share of postage.

The APWU and its members have made substantial sacrifices to help preserve the United States Postal Service. As the Committee is aware, the APWU and the Postal Service signed a new collective bargaining agreement in May 2011 that will save the Postal Service more than $3.5 billion over its 4½-year term. The APWU is working hard with the Postal Service to maintain and improve postal operations because we know that the Postal Service must adapt and change to remain viable.

When the last Congress was considering postal legislation, some postal critics pointed to the fact that labor compensation accounts for approximately 80 percent of postal costs. The argument is made that because UPS and FedEx labor costs are a smaller percentage of their total costs, this shows something about Postal Service efficiency. That is an incorrect and unfair assertion for several reasons. UPS and FedEx own the largest two freight air fleets in the world; both companies invest significant capital to maintain and improve their transportation fleets and IT systems. Because of these large investments, their labor costs appear lower as a percentage of their overall spending. Removing the transportation related costs for FedEx, UPS and USPS gets the percentage of costs attributable to labor much closer. Furthermore, UPS and FedEx rely heavily on the Postal Service to deliver to addresses where it is too costly for them to deliver. UPS and FedEx impose surcharges for residential addresses and additional rural and super rural addresses (some of which are low density inner city areas). UPS and FedEx deliver five days a week or impose a surcharge for a weekend delivery, all of which tends to reduce such labor intensive deliveries.

We thank you for your attention to the problems of the Postal Service. We will help in any way we can. I would be pleased to answer any questions the Committee may have.

In Real Terms (Adjusted for Inflation) Postage Costs are at 1972 Levels (1972=100)



Source: Bureau of Labor Statistics-Producer Price Indexes for Postage Costs and CPI-W

EXHIBIT 1

Straight-time Hourly Wage of the APWU Bargaining Unit in Current Dollars and After Adjustment for Inflation

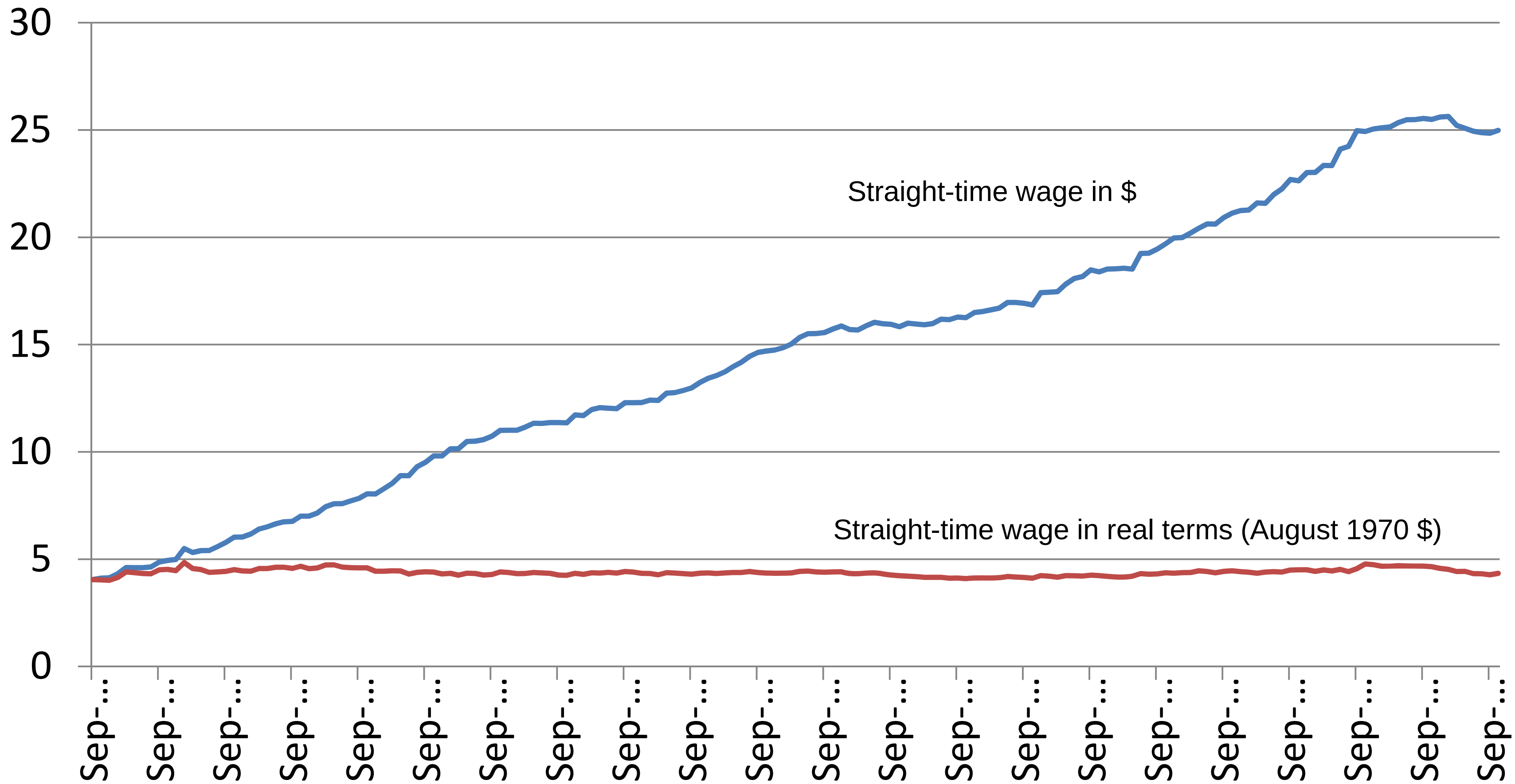
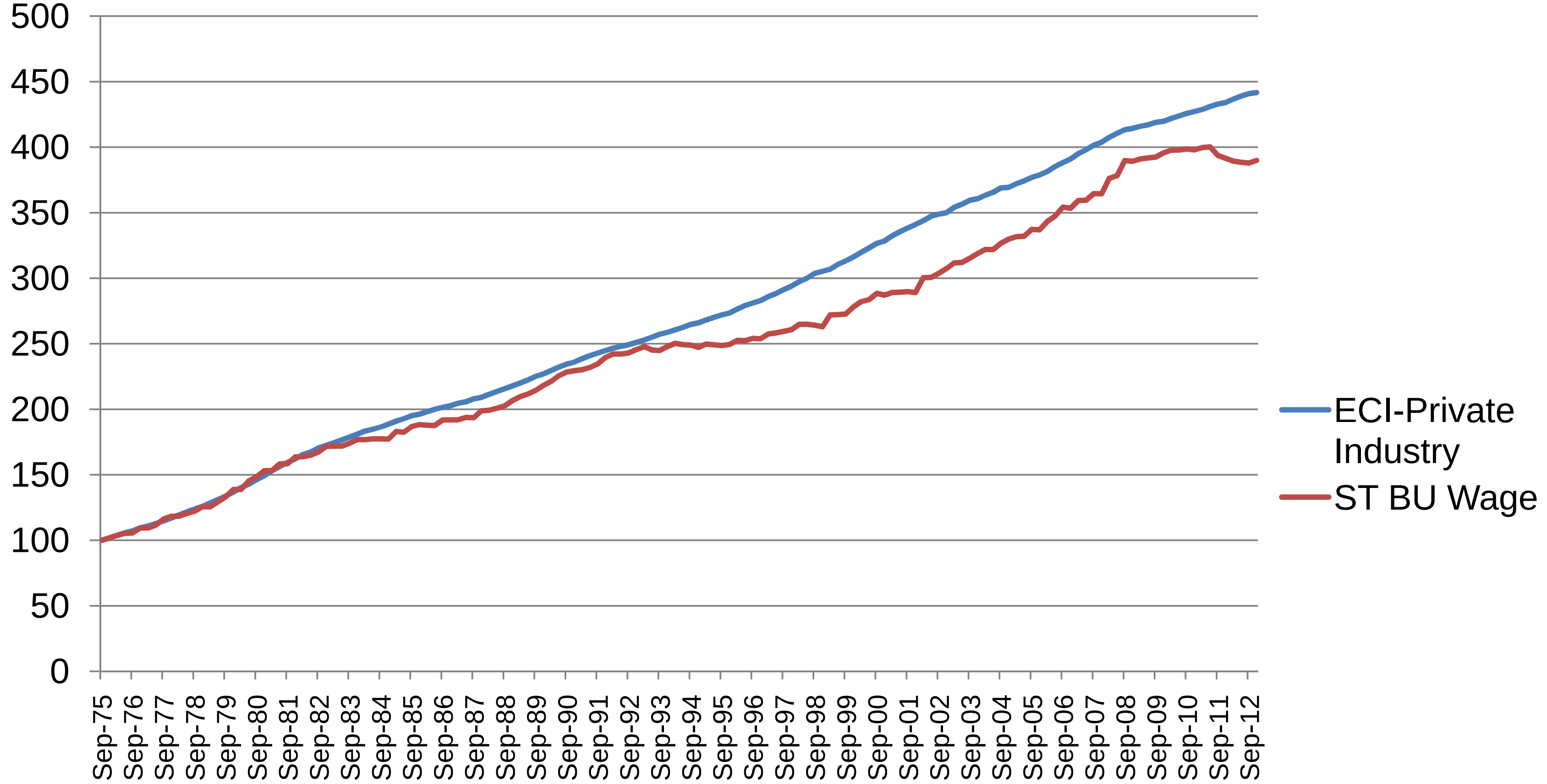


EXHIBIT 2

Increase in the Wages and Salaries of Private Industry Workers Compared to the increase in the Average Straight-time Wage for the APWU Bargaining Unit

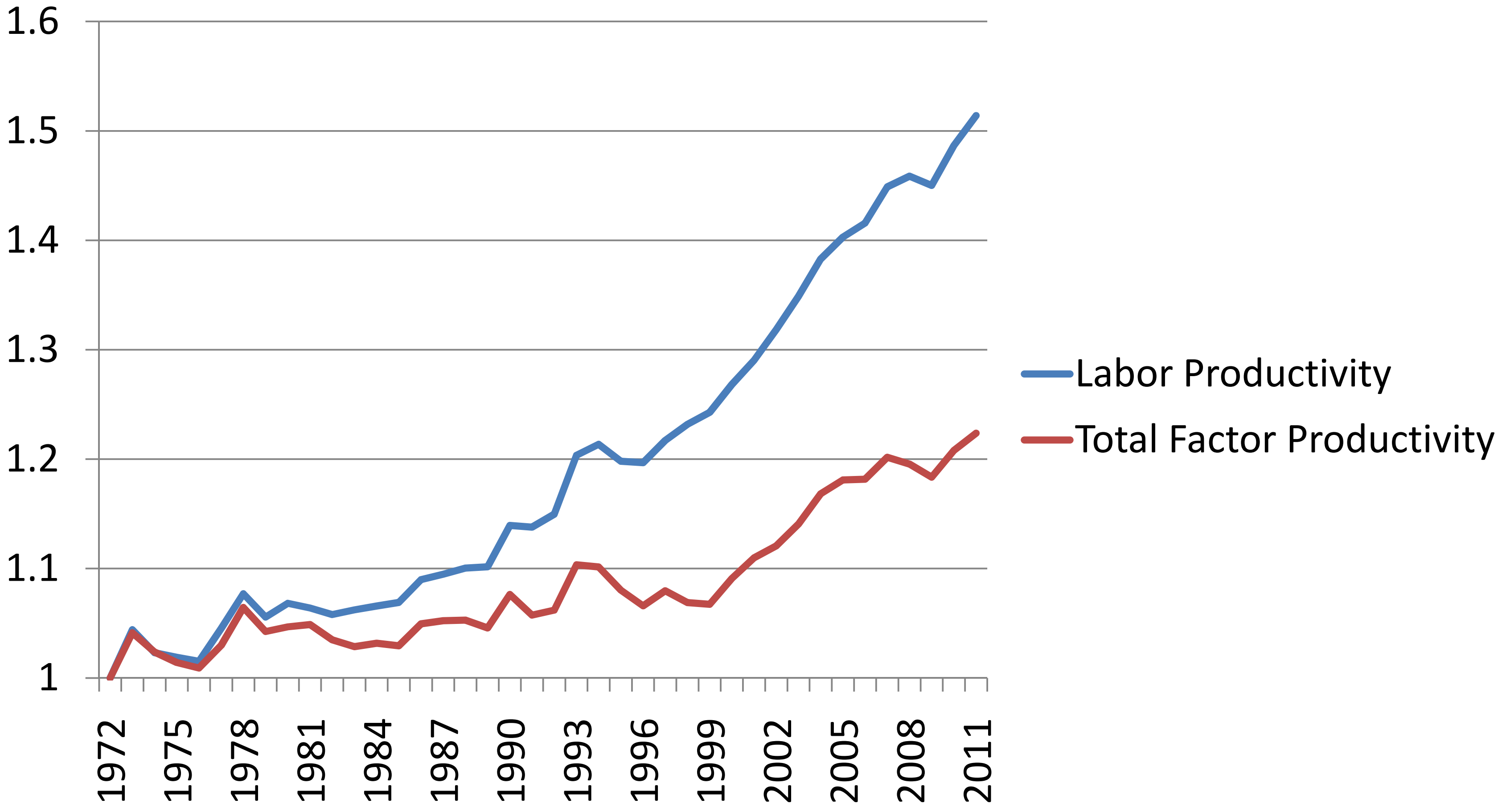
(Sept 1975=100)



Source: Bureau of Labor Statistics, DOL and USPS-National Payroll Hours Summary

EXHIBIT 3

Postal Service Productivity Growth-Total Factor and Labor Productivity FY1972-FY2011 (1972=1.0)



Source: USPS-Total Factor Productivity Tables

EXHIBIT 4

parity price in dollars. Purchasing power parity is the preferred way to compare prices between countries with different currencies.[13]

Table 1
International Comparison of the Price of a First-Class Stamp

Country	Prices in Purchasing Power Parity (U.S. $)	Per Capita Volume as a % of U.S. Per Capita Volume	EBIT Margin 2007*	EBIT Margin 2008*
New Zealand	0.32	33%	5.8%	4.6%
Australia	0.37	32**	na	na
Spain	0.41	20	na	na
US	**0.42**	**100**	**(6.8)**	**(3.7)**
Netherland	0.49	49	5.6	5.7
Luxembourg	0.53	57	na	na
Great Britain	0.54	46	0	0.9
Ireland	0.56	24	na	na
Sweden	0.59	49	6.3	3.6
Belgium	0.59	na	na	na
France	0.60	42	5.9	2.6
Austria	0.62	43	11.5	10.1
Germany	0.64	35	3.1	3.4
Denmark	0.64	40	na	na
Portugal	0.67	16	na	na
Japan	0.69	25	na	na
Italy	0.71	14	0.7	(0.3)
Finland	0.72	57	5.2	4.4
Norway	0.78	53	0.3	(0.4)

Note: The first unit of postage in these countries is 20 grams vs. 28 grams (1 ounce) in the United States.

* Mail operations only. EBIT margin is EBIT (earnings before interest and taxes) divided by revenue.
** Australia 2008 volume
na not available

[13] Exchange rates often vary widely over time. Purchasing power parities, however, remain remarkably constant over time between countries that do not have large inflation rates. For example, they changed by less than 1 cent over 2007, 2008 and 2009 between the United States, Germany and France. The purchasing power parity data used in Table 1 are from the *OECD Statistical Abstracts, Table 4, PPPs and exchange rates.*

EXHIBIT 5

April 17, 2012

Stamp Rates World-Wide

Former Obama administration car czar Ron Bloom, who was retained by a union representing postal workers, says the U.S. Postal Service should raise stamp prices and vigorously pursue new revenue streams to remake the agency. See how the price of a U.S. first-class stamp compares to the equivalent in other countries. **Click the column headers to sort.**

Country	U.S. First-Class Stamp Equivalent
Aruba	$0.48
Australia	$0.55
Austria	$0.75
Belgium	$0.97
Bermuda	$0.34
Brunei Darussalam	$0.15
Canada	$0.57
Cayman Islands	$0.24
Cyprus	$0.46
Czech Republic	$0.58
Denmark	$1.46
Faroe Islands	$0.96
Finland	$1.02
France	$0.82
French Polynesia	$0.82
Germany	$0.75
Gibraltar	$0.47
Great Britain	$0.72
Greece	$0.82
Greenland	$1.00
Guernsey	$0.57
Hong Kong, China	$0.18
Iceland	$0.63
Ireland	$0.75
Isle of Man	$0.58
Israel	$0.42
Italy	$0.82

EXHIBIT 6

Country	U.S. First-Class Stamp Equivalent
Japan	$0.90
Jersey	$0.54
Kuwait	$0.88
Liechtenstein	$1.06
Luxembourg	$0.82
Malta	$0.26
Martinique	$0.72
Monaco	$0.82
Netherlands	$0.63
Netherlands Antilles	$0.61
New Caledonia	$0.87
New Zealand	$0.80
Norfolk Island	$0.30
Norway	$1.25
Portugal	$0.93
Qatar	$0.13
Reunion	$0.72
San Marino	$0.82
Singapore	$0.19
Slovenia	$0.42
Spain	$0.41
South Korea	$0.35
Sweden	$0.92
Switzerland	$0.98
Tristan da Cunha	$0.40
United Arab Emirates	$0.27
United States	$0.45
Vatican	$0.82
Wallis and Futuna Islands	$0.64

Source: Postal Regulatory Commission

EXHIBIT 6