

TESTIMONY



Statement of

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before the
Governmental Affairs Committee, U.S. Senate

May 15, 2001

Good morning, Mr. Chairman. I want to thank you and the Members of the Committee for your support and encouragement during my three years as Postmaster General. As you know, I am leaving the Postal Service at the end of this month. I appreciate this opportunity to talk with you about where we are in the Postal Service and about the future.

After more than 200 years of history, Americans recognize postal services as their birthright. Americans count on the postal system as a bridge linking everyone, everywhere – from the most rural community to the inner city – with everyone else and to the national economy. The Postal Service is still what it was originally conceived to be, a universal connection that “binds the nation together” as one.

The logistics of the system providing this unique coverage are enormous. Think about a mailstream successfully delivering 668 million pieces per day, interconnecting 130 million addresses throughout America in all possible

combinations. Our services now have to generate over \$68 billion in revenue in a year to cover costs. This includes the nation's second largest payroll, which supports some eight hundred thousand families in communities all across the country.

These hard-working employees provide excellent service in my opinion. Steady improvement over the last seven years has brought on-time performance numbers for overnight local delivery of First-Class Mail from the low 80s to consistently 93 percent or better. Today even the most congested metropolitan areas regularly surpass what the best performers anywhere were able to achieve when this measurement first started. Our pay for performance initiative for 70,000 postmasters, supervisors, professional and technical employees and managers, deserves much of the credit for driving this and other improvements.

With a lot of help from our customers, management has made progress in driving costs out of the system. Letter mail automation alone provided almost \$3 billion in cost avoidance last year, and a cumulative \$19 billion in cost avoidance since 1987. That makes a huge difference in the postage rates today. In fiscal year 2000, control of resources compared to workload gave us a Total Factor Productivity improvement of 2.5 percent, equivalent to \$1.6 billion in expense reductions. This was our best productivity improvement since 1993.

One way to look at all of this is that the current system has worked remarkably well so far, is deeply rooted, and will be very difficult to change in a fundamental way. But on closer look, fundamental change is precisely what will have to occur, one way or another.

The basic reason is that the whole environment in which postal services are needed and used in our economy is already changing dramatically. Technology is driving the productivity of the economy and revolutionizing the pace at which markets evolve and business must adapt. At a practical level, boundaries between the mail and other services are crumbling. The mailstream is shifting in the direction of lower-margin products. Like other businesses, foreign posts are taking a more global perspective, and are becoming more active participants in the U.S. market.

These changes can bring opportunities for the Postal Service, but only if we are prepared for them. Currently, the 30-year-old model under which we operate is not sufficient for the Postal Service to be the agile player America needs it to be in today's marketplace. If we find ourselves lagging behind what many of our customers require from us to do business, then they will pursue other opportunities. Those who genuinely have no good alternative to the Postal Service will find our services less affordable.

The recent downturn in the economy provides a lesson

in what our industry could look like in a downward spiral. As postal revenues grow soft, costs are relatively less flexible, and our finances suffer. In a technology-driven economy, a carrier delivery service is disproportionately labor-intensive; there is no way around that. At the same time, universal service requires us to expand capacity to serve an ever growing number of routes and customers. A system with fixed responsibilities to serve an expanding population needs to grow volume and revenue in order to keep its prices affordable. We need the opportunity to keep up with our markets or else the cost of universal service will get steeper.

The current ratemaking system can be compared to a crystal ball-gazing exercise, starting a couple of years in advance of the actual event. It should be no surprise that the predictions of even the best experts can sometimes go wrong. Far from anticipating a slowing economy, or the resultant sluggishness in postal revenues, the Postal Rate Commission in its November 13, 2000, recommended decision, stated that:

“Beginning with the economic climate in which the Postal Service operates, the short-term outlook for the national economy does not appear to involve any significant risk of unforeseeable financial harm to the Service.”[\[1\]](#)

The Postal Service’s witnesses, who expressed concern about the future course of the economy, turned out to be closer to the target. But even with the modified rates just approved by the Governors based on that testimony and the remainder of the

record in that case, revenues are still in danger of falling short of costs this year by 2 billion dollars. Another way to put that is, our prices are still quite a bit lower than they would have been – lower than current law would have required them to be – if everyone involved in the last rate case could have had perfect vision.

In a break-even, labor-intensive, universal service model,

what can be done when revenues are falling

short of costs? With service and network requirements still growing, not shrinking, and with an outside

arbitrator imposing the price of labor, some other things like capital

can be cut temporarily, as the Postal Service has done. The

troublesome question is, how long could the Postal Service go on in

this way – resolving revenue shortfalls by increasing rates and

postponing needed investments in assets – without eroding universal

service and the core of its business?

Experience is already showing that the future of posts around the world is not in the old, static, regulated and protected model, but in the commercial sector. Monopolies have less impact when technology and other business forces make nominally protected services more and more vulnerable to potential diversion. For bills and statements, which have

always been at the heart of the postal monopoly, the issue has become not what the law says, but how quickly business can figure out solutions giving customers enough reason to leave the mail system. For now, the good news for postal systems is that resistance is still strong. But the underlying economics say significant diversion will happen. The questions are when and how fast.

Advances in electronic communications do not negate the need for a Postal Service or for universal service. The dot-com experience has demonstrated that the ability to get product to the customer is the key on-line, just as it is for mail order. The digital economy must connect with the traditional one. And the Postal Service is the last mile. Yes, some others provide excellent service. But they do not touch the neighborhoods and rural communities in the way we touch them all.

Fortunately, there is still time to make changes while America's postal services are strong. It will require vision, and will not be easy. The solution, in my opinion, is to put trust in market forces to shape the postal services that will serve America best in this century. This is where the other posts are going, and it is where the United States will need to go as well. Understandably, it is hard for the country to let go to this extent, after the long tradition of defining what we want from the postal system quite tightly, in legislation and through regulation, and while a working Postal Service is still in place.

Some might want to wait until the need for reform becomes more painfully obvious later on, as the public sours on deteriorating service at less affordable prices. But if the economy is forced to learn how to work around postal services in the meantime, instead of working with them, then a well-performing, competitive postal system could be difficult to retrieve. The marketplace is unforgiving of weak or late attempts to provide what the customer needs now.

I believe that America wants and needs a strong, healthy Postal Service that will continue to provide universal, affordable service throughout the nation. The best hope for that outcome is a structural reform updating the system to meet the challenges of the dynamic world in which we live today. The Postal Service will be pleased to assist in this task in any way we can.

Thank you very much, Mr. Chairman. I will be glad to respond to any questions.

[\[1\] Opinion and Recommended Decision, Postal Rate and Fee Changes, 2000](#), Postal Rate Commission Docket No. R2000-1, 70 (November 13, 2000).