

UNITED STATES OF AMERICA
Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 2000)

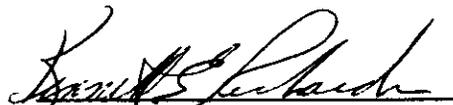
Docket No. R2000-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS
WITNESS: J. EDWARD SMITH (AAP/OCA-T4-1-3)
(June 30, 2000)

The Office of the Consumer Advocate hereby submits the answers of J. Edward Smith to interrogatories of United States Postal Service, dated June 19, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

OFFICE OF THE CONSUMER ADVOCATE



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ANSWERS OF OCA WITNESS J. EDWARD SMITH
TO INTERROGATORIES AAP/OCA-T4-1-3

AAP/OCA-T4-1 On page 40 of your testimony (line 12) you state that "In the *long run*, all of the factors of production are variable." With respect to this statement:

- (a) Please confirm that in the long run, the factors of production that are variable at the Postal Service include all wage levels and all work rules that are in effect under the Postal Service's existing contracts with all labor unions whose members are employed by the USPS. Please explain in detail any answer other than a confirmation.
- (b) Please confirm that in the long run, the factors of production that are variable at the Postal Service include all transportation contracts between the Postal Service and all outside rail, air and trucking firms that now furnish purchased transportation services to the USPS. Please explain in detail any answer other than a confirmation.

RESPONSE TO AAP/OCA-T4-1. (a) Not confirmed. Labor is a factor of production and would be variable in the long run. Work rules are not a factor of production.

(b) Not confirmed. I have not testified on transportation services and am unable to confirm the statement due to a lack of knowledge on the issue(s).

ANSWERS OF OCA WITNESS J. EDWARD SMITH
TO INTERROGATORIES AAP/OCA-T4-1-3

AAP/OCA-T4-2 With respect to the discussion of the economic concept of the long run which is discussed on page 40 of your testimony, please indicate whether you agree or disagree that the "very long run" is a period so long that all of a firm's present contracts will have run out and its present plant and equipment will have been worn out or rendered obsolete and will therefore need replacement. Please identify and explain any area of disagreement with this economic concept.

RESPONSE TO AAP/OCA-T4-2. I disagree. Economics defines the long run and the short run. Neither have any specific reference to time; rather, they define the circumstances under which costs are not fixed. In the case of Postal proceedings, the Postal Service has made references to time periods in the neighborhood of one or several years over which production inputs are not fixed. Accordingly, the long run for segment 3 mail processing costs may be the rate effective time period. Alternatively, such a time period may serve as an approximation of the long run. However, the concept of a "very long run" is not a concept that has been defined in economic theory.

ANSWERS OF OCA WITNESS J. EDWARD SMITH
TO INTERROGATORIES AAP/OCA-T4-1-3

AAP/OCA-T4-3 Please explain fully, on a step-by-step basis, how you recommend the Postal Service should measure its labor costs that are variable over the long run as that term is used on page 40 of your testimony.

RESPONSE TO AAP/OCA-T4-3. In Appendix F, "Analysis of Postal Service Mail Processing Labor Cost Models," in Appendices to Opinion and Recommended Decision, Volume 2, Docket No. R97-1, May 11, 1998, the Commission cited a number of deficiencies in Dr. Bradley's testimony; many of the deficiencies have carried over to Dr. Bozzo's work. These deficiencies and other problems are the subject of my testimony. My recommendations are to correct the problems, with the additional presentation of the underlying economic theory, database verification and/or improvement, the consideration of appropriate variables, and the choice of an appropriate estimation procedure. By correcting the deficiencies mentioned by the Commission, myself, and other witnesses, as appropriate, the Postal Service would be able to measure labor costs that are variable over the long run. Since the design of a study is a major and controlling part of the research effort, the formation of a working group in order to review and comment on issues on a measured and careful basis subject to thoughtful consideration is important.

DECLARATION

I, J. Edward Smith, declare under penalty of perjury that the answers to interrogatories AAP/OCA-T4-1-3 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed June 30, 2000

J. Edward Smith

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



KENNETH E. RICHARDSON

Washington, D.C. 20268-0001
June 30, 2000