

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 2001

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Docket No. R2001-1

COMMENTS OF THE COUNCIL FOR CITIZENS AGAINST GOVERNMENT
WASTE (CCAGW) ON THE MOTION OF THE OFFICE OF THE CONSUMER
ADVOCATE (OCA) TO REQUEST THAT THE COMMISSION INSTITUTE A
PROCEEDING TO CONSIDER THE POSTAL/NONPOSTAL CHARACTER OF
SPECIFIED SERVICES AND THE ESTABLISHMENT OF RULES TO REQUIRE A
FULL ACCOUNTING OF THE COSTS AND REVENUES OF NONPOSTAL
SERVICES

(January 30, 2003)

On behalf of CCAGW's one million members and supporters nationwide, we offer our support for the Office of Consumer Advocate's (OCA) request to institute a proceeding to obtain an encyclopedic record of all the United States Postal Service's (USPS) "non-postal" services and a full accounting of the costs and revenues associated with those services. We concur with the OCA that the Postal Reorganization Act of 1970 does give the Postal Rate Commission the authority to subject these products and services to prior review and, if appropriate, set their rates. We urge the Postal Rate Commission (PRC) to initiate the requested proceeding.

The USPS is facing serious, long-term financial difficulties. A full litany of the publicly available documentation that underscores that point is certainly well known to the commission. The USPS has recognized this and proffered its own Transformation Plan to address the agency's ongoing financial challenges. But the U.S. General Accounting Office (GAO) has placed the Plan on its High-Risk List this year, saying "In the nearly 2 years since we designated the Service's transformation efforts and long-term outlook as a high-risk area, it has experienced financial difficulties and struggled to fulfill its mission of providing high-quality universal service while remaining self-supporting. These financial difficulties are not just a cyclical phenomenon—mail volumes have stagnated or declined in an increasingly competitive environment. The Service has developed a transformation plan, which it can use to make progress on specific actions under its existing authority. The Service's ability to control costs and improve productivity is key to improving its financial situation."

In addition, President Bush has established a commission to study the USPS' operations and make recommendations for postal reform in late July, 2003. The outcome of the presidential commission's work is still months away, and the exact nature of the reforms it will present is still uncertain. It is advisable, perhaps even critical, in light of the multiple reform efforts currently underway, to increase oversight of the USPS' activities and enhance transparency of the business and management operations of the agency. A PRC proceeding, even one aimed narrowly at determining the exact nature of "postal" versus "non-postal" activities, would make it easier for the Presidential Commission and, eventually, Congress to craft substantive, meaningful legislative reform of the postal service.

Hundreds of millions of postal ratepayers have a legitimate interest in getting an accurate read on the USPS' true bottom line. They have been subjected to three rates increases over an 18-month period, often with minimal public explanation of why. Users of first-class mail have been paying an ever-increasing percentage of the USPS institutional overhead. It is not unreasonable for these captive ratepayers to ask whether they are unwittingly underwriting the losses associated with the USPS' failed competitive ventures into such e-commerce activities as selling USPS-branded clothing, phone cards, providing electronic bill payment services, and sending electronic greeting cards. The OCA, on behalf of all users of the mail, understands that this proceeding, if approved, will require the USPS to engage in a rigorous cost-benefit analysis and supply credible, defensible financial data to the commission. Since the USPS is a \$68 billion agency with a monopoly over first-class mail delivery and is exempt from the discipline of the free market, this process would serve to bring a modicum of fiscal discipline and meticulous accounting to an area of postal business activity which has been permitted to operate without any oversight at all.

Over the years, the USPS has increasingly been permitted to unilaterally determine which of its products are “jurisdictional” and which are “non-jurisdictional,” thereby shielding many new products and services from any meaningful scrutiny, during the development, implementation, or post-mortem stages. The OCA makes a very persuasive argument that it is inappropriate for the USPS to unilaterally make determinations on whether a product or service is “jurisdictional” or “non-jurisdictional.” CCAGW believes that the OCA’s interpretation of the statute is correct and that the PRC is fully authorized, both in the language and the intent of the Postal Reorganization Act of 1970, to receive, in advance of implementation and the commitment of resources, a full explanation of the rationale for the initiative, the projected costs and revenues anticipated, and a complete business plan. In addition to having the authority to review any future commercial ventures the USPS may be considering, the PRC should also be permitted to review current and ongoing commercial activities and recommend termination of those activities, if appropriate.

In the long run, CCAGW believes that the USPS should be forced to eliminate funding for most, if not all, its commercial initiatives. Since it appears that many of these ventures are duplicative of existing products and services in the private sector, and money-losers for the USPS as well, this limitation will have the salutary effect of redirecting the USPS’ valuable (and increasingly scarce) resources back into its core mission of delivering hard-copy mail.

Since the 1980s, the USPS has increased its forays into developing extra-postal products and services. Both the GAO and the OCA have tried to get a handle on the size and scope of the USPS’ e-commerce activities. This has been difficult because the USPS has continuously modified its criteria for the categorization of its e-commerce products and services. The GAO in November of 1998 identified 19 products that the USPS had started, several of which had been discontinued. In a December 2001 report, the GAO documented 8 product lines, but only because the USPS had decided that “they no longer considered” several of the services (including the Postal Store, which sells USPS-branded clothing on the web) e-commerce initiatives. The OCA, in its petition, identified 16 products and services that appear to qualify as e-commerce initiatives.

The agency has committed an as yet indeterminate amount of startup money to develop, launch, and market an array of commercial services and products, ranging from USPS retail merchandise, such as hats and t-shirts, to electronic bill presentment and payment services (eBillPay). In several cases, the USPS determined that the ventures were no longer viable and quietly pulled the financial plug on them. However, it is unclear exactly how much money has been lost because the USPS has yet to make public a full and accurate list of its current commercial activities. In a 1999 report, the GAO was able to document \$84.7 million in losses related to 19 postal e-commerce products over a three-year period. That figure is almost certainly on the low side. All of the planning for these commercial business ideas is routinely done without the oversight of any regulatory body and without any public explanation of the cost projections, actual costs, revenue projections, actual revenues, and profits or losses associated with these ventures.

Members of Congress have asked the GAO to delve more deeply into the losses associated with “non-jurisdictional” areas of postal commerce because they are concerned that the continued and significant losses incurred in these non-jurisdictional activities are being cross-subsidized by revenue from first-class mail. Not only do mailers and taxpayers deserve to be fully apprised of how much money the USPS has spent to develop these initiatives and how much it has lost, whether or not cross-subsidization is occurring is critically important to any future postal reform efforts.

The GAO has repeatedly warned Congress that the USPS’ accounting procedures for commercial activities were incomplete, inconsistent, and deficient. According to the GAO, the USPS is unable to properly define which of its activities are e-commerce and which of them are more aptly described as e-government initiatives. The USPS’ data is simply unreliable when it comes to quantifying how much of the ratepayers’ money has been spent, how much revenue (if any) these endeavors have brought in, or fully account for the losses incurred. This is another salient reason why approving the OCA’s motion to institute a proceeding is essential. Based upon the GAO’s 1999 findings of \$84.7 million in losses, the true losses for these dead-end business ventures could really be in the hundreds of millions of dollars.

The OCA's attempt to clarify the actual lines of jurisdiction and strengthen the PRC's regulatory authority is long overdue. At the time of enactment of the Postal Reorganization Act of 1970, Congress made it clear that the term "non-postal services" referred specifically to costs associated with delivering mail for other government agencies. In the ensuing years, the USPS has essentially been permitted to redefine the term "non-postal" to create a fictional two-tiered regulatory structure, where "postal" products are subject to the PRC's rate-making authority, while an ever-growing list of "non-postal" products and services (defined exclusively by postal officials) are not. This paradigm has become a way to shield postal management and its activities from financial transparency and strict accountability, and may be allowing significant cross-subsidization.

Even a cursory glance at the list of services the USPS has been underwriting shows that, in virtually each case, the service or product is already furnished to consumers by private entrepreneurs, companies who have taken serious financial risks to establish their niche with consumers. The USPS' entrance into these well-served markets is highly questionable. Postal officials apparently view the internet and e-commerce as both the cause of their stagnating mail volume as well as a vehicle for generating new revenues, if only they can gain a foothold in the market. It is not objectionable for the USPS to implement e-government solutions to streamline its mail operations and become more consumer-friendly (allowing customers to input a change of address on-line, for example). However, it is patently inappropriate for the USPS to be dabbling in e-commerce ventures.

In what is popularly being referred to as a post-Enron business environment, accounting transparency and adherence to credible business practices are enjoying a resurgence. In this climate, the case for postal reform is ripening. That process cannot be successful without an accurate picture of how the USPS manages its business and an independent review of its accounting. The OCA, in its role as "a vigorous, responsive, and effective advocate for reasonable and equitable treatment of the general public in proceedings before the Postal Rate Commission (PRC)," is addressing issues that require clarification and amplification.

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