

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

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Docket No. R97-1

**THE DIRECT MARKETING ASSOCIATION, INC.'S FIRST SET OF
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS
DIRECTED TO USPS WITNESS PANZAR (DMA/USPS-T11-1-2)**

Pursuant to Sections 25 and 26 of the Commission's Rules of Practice, the Direct Marketing Association, Inc. hereby submits the attached first set of interrogatories and requests for production of documents to USPS witness Panzar (DMA/USPS-T11-1-2). If the designated witness is unable to respond to this interrogatory, we request a response by some other qualified witness.

Respectfully submitted,



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September 10, 1997

WITNESS PANZAR (USPS-T-11)

DMA/USPS-T11-1. Please refer to pages 3 and 4 of your direct testimony where you describe an operating plan as "a set of reasonably stable practices and procedures which the Postal Service uses in order to serve the mail volume it receives. Under this interpretation, the Postal Service's accounting data represents the costs of implementing the operating plan under various levels of mail volumes."

- (a) Does your definition of operating plan require that the practices and procedures be economically efficient? Please explain fully.
- (b) Please refer to your article, William J. Baumol, John C. Panzar & Robert D. Willig, "Contestable Markets: An Uprising in the Theory of Industry Structure: Reply," American Economic Review, June 1983, at 494, in which you state that "... increased ease of entry and exit improves the welfare performance of firms and industries." Please describe the ease of entry in the markets for the carriage of first-class and Standard A mail. From a theoretical perspective, would an increase in the ease of entry and exit in a contestable market provide an increased incentive to a producer to minimize costs as compared to a regulated monopolist? Please explain fully.
- (c) From a theoretical perspective, does a producer who sells some products in markets with a monopoly and some in markets that are competitive have an incentive to produce more efficiently in those markets which are competitive? Please explain fully.
- (d) Does the empirical evidence in general support the theory provided in response to subparts (b) and (c) above? Please explain fully and provide references to discussions of such empirical evidence.
- (e) Please refer to your article, John C. Panzar, "Regulation, Deregulation, and Economic Efficiency: The Case of the CAB," American Economic Review, May 1980, at 313, in which you state that "[r]ecent history would seem to indicate a clear triumph of economic efficiency over the 'dead hand' of regulation. While I would be among the last to suggest that deregulation was a mistake, I argue that the issues are more complicated than is commonly thought; since, if anything, recent results in regulatory theory suggest that regulation by enlightened, but not omniscient, regulators could in principle achieve greater efficiency than deregulation." Please explain how an enlightened regulator would increase the efficiency of the Postal Service. In doing so, please address the fact that "... governments and regulated firms are notoriously inept at limiting the wage demand of their employees." John C. Panzar, "Is Postal Service A Natural Monopoly", in Competition and Innovation in Postal Services (Michael Crew & Paul Kleindorfer, eds., 1991).

DMA/USPS-T11-2. In recent decisions, the Postal Rate Commission has attributed the cost of single subclass stops in Cost Segment 7. See R90-1 RD on Remand at 26 - 56 (Sept. 27, 1994); R94-1 RD at III-28-46 (Nov. 30, 1994); R94-1 Further RD at 7 - 40 (June 7, 1995).

- (a) Do you consider these costs to be incremental rather than marginal? Please explain your reasoning fully.
- (b) Please refer to your testimony at p. 28, lines 7-8. Should these single-subclass-stop costs be part of the "basis for the mark-ups required to satisfy the break-even requirement"? Please explain fully.
- (c) Please confirm that the Postal Service's prior practice of attributing incremental costs (including specific fixed and volume variable costs) is contrary to your direct testimony in this filing that mark-ups should be based on marginal costs (equivalent to volume variable costs).

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 Rule 12 (section 3001.12) of the Postal Rate Commission's Rules of Practice and Procedure and Rule 3 of the Commission's Special Rules of Practice in this proceeding.


Michael D. Bergman

September 10, 1997