

**United States of America
Postal Regulatory Commission
Washington, D.C. 20268-001**

Regulations Establishing System
Of Ratemaking

Docket No. RM 2007-01
Orders Nos. 26 and 27

Comments of Free Press and *The Nation*

Ben Scott
Free Press
501 Third Street NW, Suite 875
Washington, DC 20001
(202) 265-1490

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Table of Contents

Comments of Free Press and <i>The Nation</i>	1
I. Reversing Public Interest Postal Policy.....	3
II. Impact in the Marketplace of Ideas	6
III. Restoring Public Interest Postal Policy	8

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Free Press and *The Nation* submit these comments on the Commission's Proposed Regulations Establishing a System of Ratemaking. We have not been frequent interveners in these matters outside of trade associations, but the constituencies we represent—small circulation magazines with high editorial content and their readerships across the political spectrum—have a newfound and urgent interest in this proceeding as a result of the most recent rate case. Free Press represents over 350,000 citizens committed to promoting public policies that create a more democratic media system. Many are the readers of independent, small circulation political magazines. *The Nation* is an exemplar of the American tradition of political periodicals and has worked with a coalition of similar magazines from across the political spectrum on postal rate-making issues in recent months.

We share a belief that the postal system in this country has a long-standing commitment to supporting the wide distribution of thought and culture throughout the country. Indeed, postal rate-setting has long been a tool used by the US government to promote a diverse periodical class that forms the cornerstone of the marketplace of ideas—the forum for our democracy. Historically, the postal system has been about more than rationalizing prices and costs, it has been about sustaining the values held by the American people that are embodied in a free press that cultivates new ideas and fosters a robust political debate.

In this respect, we strongly reject the notion that the Commission should take a “light-handed” approach to the pursuit of these values. On the contrary, we argue that a central organizing principle of American postal policy has long been ensuring that periodicals of thought and culture are widely distributed and affordable rates. Print periodicals continue to be the seedbed of investigative journalism and critical analysis of the great issues of our day. This is not the time for postal policy to abandon its democratic mission by reversing this tradition. This sub-class of periodicals should be considered very carefully and rate-setting should reflect its unique character and contribution to the nation. We propose here that the Commission should reincorporate these values into its proceeding. We offer here a short summary of what occurred in the most recent rate case by way of demonstrating why the Commission should inject historical, democratic values back into its current work.

Overview

In March, the Postal Regulatory Commission (PRC) voted to implement higher rates across the postal system.¹ This decision ushered in a new pricing structure for magazines that marked a very serious departure from previous policy. The new rates—based on a proposal submitted by Time Warner—redistribute periodical subsidies and have the effect of transferring the burden of postal costs for the class from magazines with large circulation and heavy advertising onto smaller publications with heavy editorial content. Small magazines—particularly journals of political opinion—are now experiencing crippling rate increases. These

¹ *Decision of the Governors of the United States Postal Service on the Opinion and Recommended Decision of the Postal Regulatory Commission on Changes in Postal Rates and Fees*, United States Postal Service, Docket No. R2006-1 (16). March 19, 2007.

changes are forcing many publications to make significant cuts in their operations or face the prospect of going out of business.²

The rate hikes represent much more than a threat to the financial viability of small periodicals—though this in itself is a serious crisis. The rate hikes represent the reversal of 200 years of postal policy that have supported a vibrant marketplace of ideas. From the early Republic, the US government has always used postal policy to foster the distribution of a broad diversity of political opinion. Political magazines are the cornerstone of public debate—a seed bed for media coverage of politics in newspapers, radio, television, and the Internet. The free press in this country was built on the foundation of postal policies that encouraged small publications and dissident ideas to sprout and flourish. These policies prioritize public service and democratic values.

The sudden transfer of postal costs from large magazines to small ones undermines this history of democratic postal policy. The PRC may not have intended to subject the small publishers to rate shock, or to undo the long-standing government support for political speech. In fact, the PRC has consistently rejected exactly this type of restructuring in the past and the data in the record was insufficient to project real-world outcomes of the rate increases in the marketplace. But the effect of the Commission’s decision threatens to undermine a critical part of the American marketplace of ideas.

II. Reversing Public Interest Postal Policy

The pressure to shift the burden of postage costs from high circulation, high advertising content magazines to small circulation, low advertising content magazines is not new. Over the

² Teresa Stack and Jack Fowler. “Magazines feeling postal pinch.” *The Los Angeles Times* (cited May 28, 2007).

years, large publishers have asked the PRC to adopt a variety of different mechanisms to move costs to the small periodicals and redistribute the subsidies that the class as a whole has long received. What is new in 2007 is the PRC's decision to adopt one of these ideas.

Over a decade ago, Time Warner supported a proposal recommending a similar outcome, and it was rejected by the Commission. In 1995, the proposal was to split the periodical class into two segments and reallocate rates, effectively eliminating the historic policy of cross-subsidization of low-volume periodicals by high-volume periodicals.³ The Commission declined to take this action, noting that it would have increased the rates for publications with a high level of editorial content; "a departure from long-standing public policy."⁴

In 2005, Time Warner, along with Conde Nast Publications and several other large magazine publishers were making the same argument they made in 1995. Under this proposal, small and medium size publications would again have faced enormous postal rate hikes. In the complaint case Time Warner filed, large publishers claimed that the Commission should eliminate the unzoned Editorial Piece Charge (EPC), which keeps mailing costs to different regions of the country the same for magazines with high editorial content. Time Warner's plan would have not only resulted in the elimination of the unzoned EPC in favor of zoned charges, it would have also included container charges and a flat editorial discount, regardless of the amount of editorial content printed in the magazine. These changes would have effectively put hundreds of small and mid-size magazines in jeopardy with huge cost increases.

Available from <http://www.latimes.com/news/opinion/commentary/la-oe-stack28may28.1.5422536.story>.

³ *Decision of the Governors of the United States Postal Service on the Recommended Decisions of the Postal Rate Commission on Courtesy Mail and bulk Parcel Post*, Postal Rate Commission, Docket No. MC95-1 (1996).

⁴ *Notice of the United States Postal Service of the Decisions of the Governors*, Postal Rate Commission, Postal Rate Commission, Docket No. MC95-1 (14). March 5, 1996.

The Commission rejected Time Warner's proposal. It defended the EPC, arguing that its purpose was to "bind the Nation together through the personal, educational, literary, and business correspondence of the people."⁵ The flat EPC ensured that the USPS fulfilled its historic obligation to disseminate the widest array of information possible to the public. The PRC found that the Time Warner proposal, on the whole, would have disproportionately benefited a "few publications with reduced rates at the expense of the vast majority of publications, those with circulations below 15,000."⁶

In its 2005 decision, the PRC argued: "maintaining diversity within the Periodicals subclass is in the public interest and consistent with the policy of binding the nation together. Diversity among Periodicals promotes debate and a well-informed citizenry, attributes of a vibrant and robust democracy."⁷ The Commission refused to adopt a policy that would hit magazines with low circulations and heavy editorial content the hardest. While the decision acknowledged that there are potential cost-saving benefits from zoning editorial content (and huge cost benefits to larger publishers), that was not enough to overturn democratic postal policy at the expense of thousands of publications and their readers.

Less than two years later, the PRC reversed itself. In the rate case decided in 2007, Time Warner submitted a complex proposal with rates based on a new combination of costs associated with pieces and pounds, but also a set of charges and discounts for varying uses of bundles, sacks, and pallets. Rates would be largely determined by the ability of publishers to take advantage of discounts awarded for shipping efficiencies available mainly to large periodicals.

⁵ *Order Addressing Complaint of Time Warner Et Al., Postal Regulatory Commission, Postal Rate Commission, Docket No. C2004-1 (Appendix B 12).* October 21, 2005.

⁶ *Order Addressing Complaint of Time Warner Et Al., Postal Rate Commission, Docket No. C2004-1 (Appendix B 18).* October 21, 2005.

The result of the Time Warner proposal dramatically increases rates for small periodicals (by as much as 20-30%) in order to blunt the increase for the large publishers. By contrast, the USPS also submitted a proposal in the same rate case, but its rate structure featured a much smaller increase which would have affected periodicals of all sizes more or less equally.⁸

The PRC voted to accept a modified version of the Time Warner plan, and its decision was ratified by the Postal Board of Governors. The Commission appears to have abandoned its earlier policy rationale that rejected Time Warner's proposals in 1995 and 2005. The long historical precedent of keeping rates low for small magazines with high editorial content by cross-subsidization from high volume periodicals was reversed. McGraw-Hill Companies estimated the new rates will raise the cost of postage at least 20 percent for 5,700 publications and at least 30 percent for hundreds more.⁹ Large magazine publishers such as Time Warner might even receive rate reductions under the new rate structure.

III. Impact in the Marketplace of Ideas

The new rates went into effect on July 15, 2007. Hundreds of magazines from across the political spectrum are facing a crisis. Many of these are among the best known journals of political opinion in the country including *The Nation* and *Mother Jones* on the left and *The Weekly Standard* and *The National Review* on the right. The hundreds of thousands of dollars in additional postage costs threaten the viability of these periodicals.

While many of these magazines have websites, subscriptions and print ads are still their primary sources of revenue. Without this income, many periodicals would be forced to close

⁷ Order Addressing Complaint of Time Warner Et Al., Postal Rate Commission, Docket No. C2004-1 (Appendix B 19). October 21, 2005.

⁸ *Decision of the Governors of the United States Postal Service on the Opinion and Recommended Decision of the Postal Regulatory Commission on Changes in Postal Rates and Fees*, United States Postal Service, Docket No. R2006-1 (14-15). March 19, 2007.

⁹ Stack, op. cit.

both their print and on-line operations. Moreover, much of the information found on-line depends on original content from the print magazines. If political magazines make massive cuts to their operations, the Internet, cable television, and blogging will all suffer because they rely on the news and analysis of these magazines for their content.

The PRC decision to raise postal rates for smaller publications will force many to make difficult decisions. Faced with higher costs, many publishers will have to decrease the number of pages per issue, the number of issues printed per year, cut staff positions, or pass the costs onto consumers by raising subscription rates. The history of rate increases is not encouraging. When rate increases went into effect during the 1970s, hundreds of publications were unable to cope and folded.¹⁰

The PRC argues that its decision simply encourages smaller publishers to take advantage of mailing efficiencies—such as co-mailing—and achieve discounts that will soften the blow of rate increases. The promotion of more co-mailing is clearly one of the desired intentions of the PRC decision. But the economic incentives to co-mail have long existed.

Many small publishers have been unable to co-mail their publications because of the economic realities of the industry. Short run printers that work with low-circulation periodicals do not have the advantages of pre-sorting and collating that large publishers have. To achieve the efficiency of co-mailing, smaller magazines must wait around the printing house for other magazines to print and be packaged together. By the time this is achieved, the readership receives magazines whose content is dated and less valuable. Also, the specialized equipment necessary to co-mail is usually very expensive, leaving only a handful of printers who can afford

¹⁰ “National Observer, RIP,” *The National Review*, 22 July 1977, p. 819.

the equipment and offer co-mailing as an option.¹¹ Even if smaller periodicals successfully find a co-mailing printer in a time-table that works for them, they do not realize the full amount of the discount. They pay a substantial portion to the printer. Consequently, the opportunities for smaller magazines to get discounts from changes in shipping practices are unrealistic and do not blunt the impact of the rate shock.

IV. Restoring Public Interest Postal Policy

The crisis triggered by the rate case among the publishers and readers of American political magazines can scarcely be overstated. These periodicals are not engines of profit. Most struggle to break even each year. They are focused not on making money, but on the contribution their magazines make to enriching American political culture. A diverse coalition of periodicals, including *The Nation*, *The Progressive*, *The Columbia Journalism Review*, *The National Review* and *World*, has formed to challenge these rate increases. They recognize the historic role that postal policy has played in ensuring a diversity of opinion and have joined together to ask for rate relief.

Large periodical publishers have been attempting to change postal rates for two decades in order to shift higher mailing costs onto small periodicals. Up to this point, the PRC has rejected these efforts and sustained low rates for journals of political opinion that foster democratic debate. The new rates will force many publishers to decrease the number of pages of editorial content, make cuts in newsrooms, and even reduce the number of issues published per year—or face extinction. With massive cuts in newsrooms across the nation in recent years, these political magazines are even more vital for the dissemination of ideas and political dialogue.

¹¹ *Complaint of Time Warner Inc. Et Al. Concerning Periodical Rates. Direct Prepared Testimony of Nick Cavnar*

Postal rate increases for periodicals are contrary to what the Founding Fathers intended when they formed this nation, and it runs counter to the PRC's own history of public interest policy up until 2007. With this latest rate increases, the Commission may have effectively priced ideas out of the market, making the free press appreciably less free.

We strongly encourage the Commission to take these factors into consideration in this proceeding. A return to public interest postal policy that supports the long-standing values of democratic speech would be welcomed by the magazines and their readerships. As the Commission considers its new ratemaking system, we submit that these values should play an important role.

Respectfully Submitted,

Ben Scott
Free Press
501 Third Street NW, Suite 875
Washington, DC 20001
(202) 265-1490

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