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POSTAL REGULATORY COMMISSION

Report on Universal Postal Service
and the Postal Monopoly Docket No. PI2008-3

STATEMENT OF GEORGE WHITE,
PRESIDENT AND C.O.O., UP WITH PAPER, L.L.C.,
ON BEHALF OF THE GREETING CARD ASSOCIATION

June 5, 2008

The Greeting Card Association (GCA) appreciates being invited to participate in the Commission's field hearing on what the statute calls "universal postal service and the postal monopoly." Because GCA is the only trade association representing the interests of household mail users – specifically, the interests of these "citizen mailers" as senders as well as recipients of mail – we believe we can provide the Commission a unique perspective on the issues before it.

Of course, we represent greeting card publishers as well. GCA has 280 member companies. There are about 3,000 publishers in the greeting card industry, which – like greeting cards themselves – exist and are effective in many different shapes and sizes. Seven billion greeting cards are sold every year, and of these 60 percent are mailed; we estimate an annual mailed volume of 4.6 billion, representing at least $1.9 billion in revenue for the Postal Service.[1] GCA's ultimate constituency, therefore, comprises most of the more than 100 million households in our Nation, and GCA members' products help these households to communicate thoughts and wishes to one another. They, and we, are dependent

on effective, affordable, easily usable postal services that are truly universal in every important sense of the word.

In this Statement, we will first suggest two general principles that should govern the definition of "universal service." We next focus on three of the parameters the Commission has identified: geographic scope, which GCA believes is the most important, access, and affordability. In connection with the last-named characteristic, we discuss the need to let the Postal Service maintain its operating efficiency, free of artificial constraints. Finally, we take up the problem of maintaining true universal service in the face of flat or declining mail volume, and identify what we believe are the Postal Service's inherent strengths – in the hope that, by building on those strengths, the challenge can be met successfully.

Starting point for a definition of "universal service." As the Commission recognizes, one of its fundamental tasks is to "define the concept of 'universal postal service'".[2] GCA suggests that this definitional exercise start from the Postal Service's status as "a basic and fundamental service provided to the people by the Government of the United States[.]" That phrase comes from the first sentence of the Postal Reorganization Act of 1970, but the status of mail delivery as a fundamental Federal government service dates back to the early years of our Republic, and it is still the law under the Postal Accountability and Enhancement Act of 2006 ("PAEA").[3] Because it is such a fundamental service, the U.S. Postal Service must be a means of communication *for* the people – not just a way of delivering things *to* the people. Later in my statement I will suggest some ways in which this basic mission can be enhanced and facilitated. For now, I would suggest that if the final definition pays insufficient attention to the needs of ordinary citizens as senders, and recipients, of their own mail, it will be inadequate.

In somewhat the same way, GCA believes that the task of defining "universal postal service" must focus on the U.S. Postal Service as the provider.

Under Topic 1.1 of Appendix A to Order No. 71, the Commission states that its potential working definition of universal service leaves it open "whether private operators may be considered to provide a portion of the universal service." The statute I just quoted, however, emphasizes not just that postal service is *for the people* but also that it is provided *by the Government.* A system in which every citizen is served by the U.S. Postal Service is one thing. A hypothetical arrangement in which some citizens send and receive mail via the Postal Service while others are served by private carriers is a quite different one. For example, as Order No. 71 rightly recognizes[4], there is a close connection between the notion of a universal service *obligation* and that of universal service itself. But it is far from clear how Congress, the Postal Service, or the Commission could even define such a universal service obligation, if the obligation is not to rest on an entity already controlled by the Federal government. We recognize, of course, that some U.S. Postal Service products compete with the offerings of private firms; PAEA sharply marks them off from First Class Mail and other monopoly products. That fact may affect the details of the universal service to be required of the U.S. Postal Service, but it does not mean that the Nation's public postal system can be less than universal in itself.

Bottom line: GCA believes that the responsibility for universal service should rest on the Postal Service alone, regardless of how many public-private partnerships may help to make it a reality. Thus, when we say that "universal service" should be provided by the Postal Service, that is not to imply that the resources of the private sector should not be employed. If the private sector can do the job at less cost, it clearly should do so – just as today, FedEx is the largest single private-sector supplier to the Postal Service.[5]

Geographic scope. The Commission has identified a number of parameters of universal service, but at this stage has not ranked them in order of importance. GCA believes that the most vital of them is geographic scope (Topic 3 in

Appendix A to Order No. 71). In general, the working definition advanced in Topic 1.1 of Appendix A covers most of the necessary points:

> . . . Universal service provides [postal] services throughout the United States, serving all areas and all communities, especially rural areas, and as nearly as practicable the entire population of the United States and also providing service to or from military personnel abroad.

Assuming the Commission bases its further inquiries on this definition, we would suggest a few interpretative refinements to it.

First, the "services" provided throughout the Nation should themselves be substantially uniform in character. The Postal Service is, for example, required to "provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities."[6] Section 101(b) of the postal code makes clear that "rural areas, communities, and small towns where post offices are not self-sustaining" are to receive "a maximum degree of effective and regular postal services." Similarly, the prices of these services should be uniform: if the rate for a product is unzoned, it should continue to be the same from every point to every other within the United States, and zoned rates should reflect length of haul but not point of origin or destination. GCA suggests that service would not be "universal" in the required sense if, for example, higher rates or surcharges were applied for delivery in (or collection from) higher-cost areas.

Economic arguments abound to the effect that, if competitive entry is permitted and the cross-subsidies (for example, between low-cost urban and high-cost rural areas) inherent in uniform pricing disappear, universal service can be maintained by other means, such as a tax feeding a universal service fund. The empirical record from telecommunications deregulation suggests that this may not be so. We discuss the crisis in the telecommunications USO fund, and its potential implications for postal service, in Part II of the Appendix to this Statement.

The Commission suggests that the entire national population be served "as nearly as practicable." We recognize that there may have to be variations in the level or frequency of service in exceptionally difficult locations. Such variations should – as the Commission's phraseology suggests – be driven by operational necessity. They should not be designed into the system ex ante, and, in particular, they should not be the result of an antecedent judgment that normal service to point X or point Y is "too expensive." Nor should it be assumed that some areas can be left out altogether because there are, or are thought to be, "electronic alternatives." We should bear in mind that more than 27 percent of America's households have no access to the Internet.

Ubiquity of the Postal Service is one of its greatest strengths as both a service enterprise and a National institution. It is, after all, a network enterprise. It is a well-known proposition in the economics of network enterprises that the value of the network is a function of the number of nodes it reaches, universal connection being the maximization of this value. A major reason is what economists call "externalities." Adding customers to a network brings added value to the network, for which the new customers pay. However, the new customers also add to the value of the network for existing customers by making new connections available to them – for which they do not pay. That added network value, beyond what the new customers pay, is the externality. Adding delivery points to the postal network is often viewed as a cost burden by postal management, but from the perspective of network economics, more delivery point nodes add value to the postal communications network. And in principle, fewer delivery points would reduce the value of the network to consumers and producers alike.

However, there is an important caveat to the value-of-the-network proposition: it assumes the network is efficiently aligned in how it connects all the nodes.[7] The main import of this caveat is that it invalidates most of the mathematical economic literature supporting competitive entry into postal services. Two key assumptions underlying this literature are that (1) current network

alignment is efficient, and (2) private entry would be more efficient than the incumbent. Neither of these assumptions holds true in today's economic environment for postal services. First, the Postal Service's current network alignment is not efficient – indeed, the Service continually expends much thought and effort in trying to improve its efficiency. But because of existing, structural inefficiencies, private entry itself may be considerably less than efficient, so that allowing competitive entry becomes a serious public policy issue. Second, the benefits contemplated from entry may be substantially less, or even disappear entirely, when paired against an efficient network alignment by the incumbent Postal Service. We discuss this issue further below, in connection with measuring the cost of universal service. Thus, while competitive entry can stimulate innovation and growth, entry can also create serious and unintended problems for universal service, as the case of telecommunications indicates at present. It must be recognized, therefore, that competitive entry into a poorly aligned communications network breeds adoption of less-than-best-practice services, and that an efficiently aligned communications network may produce far less, or no, extra value from competitive entry in the face of lower rates from efficiency-enhancing network realignment.

Relatedly, overlapping networks can complement each other's value (and not simply be competing substitutes), and complementarity can enhance the value of the network quite apart from its intrinsic value considered alone and separately. In Part I of the Appendix, we describe examples – actual and potential – of how postal service and the Internet can complement one another to create additional value for consumers and providers. And these valuable effects are, themselves, largely dependent on universal postal service.

The Postal Service's own communications network in the United States today reaches over 31,000,000 households that the Internet does not.[8] Availability of broadband in rural areas can be an issue, but the high fixed monthly charge of more than $53 regardless of usage for broadband access is a barrier to

use that is not present with the postal communications network.[9] It may be thought that the telephone system is universal too. But, as a result of the advent of cellular networks and e-mail, the telephone industry has had trouble maintaining its USO fund since the Telecommunications Act of 1996.[10] The Postal Service's true universal service coverage and low user cost, if not its speed, is the envy of all other communications networks in the country and a goal to which they aspire. The cost of purchasing and installing a mail-box is likely no more than $50 including a wooden support post at the curb, less than half that if attached to the residence, whereas the cost of purchasing a personal computer and installing software that enables e-mail communications is still several hundred dollars.

This is by no means the only strictly economic reason to maintain the Postal Service's universal service communication network intact as a single, regulated governmental organization. Perhaps the most important one is to recognize that universal service *itself* can be and has been a stimulus to economic innovation and growth.[11] Proponents of competitive entry into communications networks, including postal services, often cite innovation as one of the main benefits. Using the example of telecommunications deregulation in the U.S. market, starting with the breakup of the Bell system and AT&T in the later 1970s and continuing through the Telecommunications Act of 1996, they argue that such innovation can benefit rural areas and low-income consumers by more than any accompanying disruption to the universal service obligation that such entry causes.

What these arguments overlook is that universal service, and a universal service obligation, can *also* act as a stimulus to innovation and economic growth that enhances welfare in rural areas, among the poor, and generally. Stanford University communications professor François Bar acknowledges the traditional argument that "[a]t any given time, the value of access to a network grows directly with the number of users connected to the network."[12] Beyond this, how-

ever, Bar argues that there is a new economic rationale supporting universal service in the age of information: universal service can maximize the innovation process and the contributions it makes to growth, because of the growing importance of user-producer feedback loops in the information age. She calls this network effect from innovation "dynamic externalities," in contradistinction to the traditional externality argument, outlined above, surrounding the benefit of networks.

The innovation rationale for universal service and a universal service obligation is supported by a formal economic study of 21 OECD countries over 20 years, which showed that the level of telecommunications investment that maximizes long-run economic growth and development is close to universal service levels.[13] Ironically, globalization makes having truly national markets for a country's own knowledge-based goods and services – that is, markets of the kind universal service fosters – increasingly important to compete internationally.

Ubiquitous postal service was an important – indeed, probably the most important – factor in the historic development of today's universal postal system. The history of universal postal service in America shows clearly that, after the first decades, wide geographic scope displaced profitability as a determinant of expansion:

> . . . Congress sporadically worried about unproductive routes, especially when deficits became chronic after the War of 1812. Postal laws would direct the postmaster general to report unproductive routes to Congress and sometimes gave the department leeway to discontinue revenue-losing services, but the laws still protected essential operations. For instance, the 1814 postal law decreed that the "Courthouse of any county" in a state or territory deserved service even if it meant continuing an unproductive route. Thus, through most of the nineteenth century, new towns clamored for service and Congress obliged with a policy that effectively transferred revenues earned in the Northeast to underwrite routes in the rest of the nation.[14]

The reasons why universality was considered paramount may have varied over time; one historian observes that "postal laws enacted after the adoption of the Constitution promoted the long-distance circulation of public information and, half a century later, the cheap-postage campaign extended postal benefits to social correspondence."[15] But as postal services developed and became more numerous, the demand for universal coverage and the policies responsive to it remained essentially constant. They were preserved in the 1970 Postal Reorganization Act, and the language expressing them there has been transplanted essentially without change into the present postal code.

There was a similar progression toward uniformity of prices. Starting from the original five-zone system for letter rates, Congress had, by the middle of the 1800s, provided a flat rate for letters moving up to 3,000 miles.[16] And in both the 1970 Act and PAEA there is a guarantee of a letter class with rates that "shall be uniform throughout the United States, its territories, and possessions."[17] Of course, for package services and similar situations, long-haul rates appropriately reflect the greater cost involved. But where communication of personal thoughts or public information is the primary focus, the historic development of the postal system has been toward ubiquitous service at essentially uniform prices.

This is not at all surprising. Universal service obligations (USO), across industries as well as countries, tend to be dominated by social and political considerations. Economic arguments considered in isolation from other factors play a role, but not the definitive ones in determining USOs or changes thereto.[18] The reasons for this are twofold. First, regardless of industry or country or period, the issue usually entails provisions of service to rural areas and/or to the poor. Second, beyond obligations, universal service in the provision of many goods and services at any stage of economic development has more to do with "consumption norms" for the society at that stage.

The notion that there are basic goods and services that no citizen should be without is at least as old a concept as Adam Smith's The Wealth of Nations (1776). Which goods and services are part of a country's "consumption norms" does change over time, but has grown in value over the course of development. In some sense in a market economy, it is the goal of almost every new industry or service sector to extend consumption of its product to all citizens; that is simply the profit motive. Consider Henry Ford and the mass-produced automobile. Ford was not motivated by universal service obligations. Yet, in the United States today, having at least one automobile has been part of the consumption norm for a long time.

Universal postal service is part of the "consumption norms" in virtually every developed country of the world, and in many less developed countries as well. It has been so for well over a century, quite apart and distinct from any universal service obligation associated with postal services.[19] Examining the postal USO is a relatively recent phenomenon that derives from its traditional status as a service provided by government, parts of which the private sector would now like to enter. Competitive entry and the postal USO is an important question, but perhaps the more fundamental issue associated with entry is the retention of postal services as part of the consumption norms for all U. S. citizens.

Former FCC Chairman Reed Hundt and Stanford economist Gregory Rosston have made the astute observation that the social benefits of universal service can be quantified, and should be included alongside quantifiable economic benefits and costs when examining the issue of universal service.[20] While their argument pertains directly to the telecommunications network industry, it is equally valid for examining the postal USO and any contemplated changes to it. It might be debated whether there is any minimum number of citizens in need of an essential service that would be necessary to trigger the public interest responsibility of the government to provide it. But plainly, when 31 million out of 114 million households lack Internet access and thus are dependent upon the

Postal Service, any such threshold has been far exceeded. While Internet usage may be increasingly prevalent, it is obviously far from ubiquitous. Furthermore, those least likely to have Internet access, the poor and the elderly, are those to whom the government has the greatest social obligation. This fact must be considered in conjunction with any purely economic analysis of universal service

Access to the postal system – for recipients and senders. A universal postal system must, of course, be accessible as well as theoretically ubiquitous. The Commission recognized this requirement in framing Topic 5 in Order No. 71. The discussion under that Topic in the Commission's Appendix A identifies most of the relevant issues; we have a few suggested additions.

First, we urge the Commission to recognize that access to the postal system can be enhanced not just by adequate provision of retail facilities and collection boxes – vital as these are – but also by making Postal Service products easier to use and, especially, easier to enter into the mailstream. Making it possible for a consumer to enter more mail, and more kinds of mail, without visiting a postal facility improves his or her access to the system without imposing additional costs on the Postal Service. The most prominent example of such user-friendly design is, of course, the Forever Stamp, which has facilitated the flow of mail immediately following a postal rate increase while also greatly reducing costly window transactions. This type of transparency and simplicity is beneficial to the Postal Service and its consumers. We believe there are other opportunities of the same kind, and that they should be exploited. In addition, when rates are simple and predictable, and easily identified with particular types of mailpiece, the Postal Service can be more confident that alternative retail channels will handle postage transactions correctly. Product and rate simplification, and design of products that really meet consumers' needs, are one important way to insure that the Postal Service remains a medium for citizens' communications with each other as well as a delivery system for firms with which they do business.

Equally important is ready access to the system at the receiving end – that is, the customer's mailbox.

Importance of the mailbox rule to consumers. Among the more important issues the Commission must deal with in this Docket is the mailbox rule – what Order No. 71 calls the "mailbox monopoly." The term "monopoly" seems to me to overemphasize the economic aspect of the rule, at the expense of the very real benefits it confers on citizen users of the mails.

This rule of exclusive access means, to the ordinary citizen, that only the government agency that is most trusted in matters of privacy and security[21] can place anything in – or remove anything from – the mailbox. The security of the mailbox would be substantially compromised without the mailbox rule, and the Postal Service's solid "brand equity" would predictably suffer. When we recognize that a large part of the problem facing the Commission is defining universal service in a time of shrinking mail volumes, the importance of this established relationship of what we call "mailbox trust" becomes evident.

Of course there are operational considerations as well. Unrestricted access to the customer's mailbox could result in overloading it, interfering with the Postal Service carrier's ability to make deliveries and to pick up mail left for collection. Depending on how unrestricted non-Postal Service access would be, a wide spectrum of private carriers could access locked receptacles in multi-unit residential building lobbies, and perhaps even Postal Service cluster box units. Conversion of remunerative advertising mail to unaddressed circulars, eligible to be placed in mailboxes by a private carrier, could deprive the Postal Service of much-needed revenue, at the same time that its delivery operations become more difficult and expensive.

Even if there were advantages for postal customers in admitting other carriers to the mailbox, they would in all likelihood be very unevenly bestowed. Thinly-settled and hard-to-reach areas – and, so far as advertising is concerned, perhaps also lower-income neighborhoods – would not attract private carriers. It seems difficult to reconcile this result with a ruling principle of universality.

In short, GCA cannot see how change to the mailbox rule would – as the Commission put it – "enhance the ability of mailers to reach mail recipients or . . . broaden the range of services available to mail recipients."[22] Gutting the mailbox rule would, more likely, make the mails more costly, less secure, and less attractive to customers.

An affordable universal service. Topic 7 in the Commission's list – postal prices and, more generally, the affordability of postal service – is also of vital importance. From the consumer's standpoint, moderate prices and price simplification are both effective ways to keep mail in the system – which in turn will make the feasibility of truly universal service less problematic. Household-origin mail is overwhelmingly single-piece First Class, which contributes almost 18 cents per piece to institutional costs.[23] In recent years the Commission and the Postal Service have recorded impressive achievements in keeping the price of single-piece First Class within bounds and, more recently, in making the service easier to use. GCA has been working with the Postal Service's pricing experts to simplify still further the mailing of personal correspondence, and we look forward to continuing to do so.

Just as business mailers do, consumers look at the overall user cost of sending mail, albeit less "scientifically." The Service perceives its biggest single problem is how to cover its fixed costs when volume is stagnant or falling while the delivery network is continuing to grow. In this situation, high-contribution greeting card volume should be encouraged to grow.

The Commission has no doubt often heard impassioned arguments that rates must be kept down, but has heard few suggestions on how to do it. One major policy issue, whose connection with universal service is profound rather than superficially obvious, is whether the Postal Service will be allowed to make its system as productively efficient as it is capable of being. Today, this means, first of all, freedom to align its upstream facilities so that they are both effective and fully utilized.

The role of system streamlining in the maintenance of universal service. In an earlier section, we discussed the fact that inefficiencies now built into the Postal Service's network invalidate mathematically-derived, efficiency-oriented arguments for competitive entry into postal service. But there is nothing inevitable about those inefficiencies; indeed, one may wonder if the universal service obligation and competitive entry would be front burner issues if the Postal Service could finish its own version of network realignment with fewer obstacles than have appeared to date. Potential entrants looking at today's economic opportunities might well see fewer, or none, if the predicted economies of scale and scope from efficient network alignment were the data from which they evaluated the profitability, or lack of it, from entry.

This issue bears directly on questions before the Commission in this docket. We believe that in seeking to define universal service the Commission should strive to avoid the fallacy of, first, taking as given the legislative and other constraints on the Postal Service's ability to streamline its network, and then arguing that some important aspect of universal service must be curtailed because "we can't afford it."

It should be possible, instead, to estimate the total cost of a Postal Service system that is ideally configured for purposes of handling today's mail mix and volume. That cost figure would at least be highly relevant, and might indeed be the best single starting point, in estimating the cost of universal service. Thus

what we are saying here relates not just to postal prices but also to the questions the Commission poses under Topic 9 of Order No. 71 (measuring the cost of universal service).

It has been suggested, for example, that the cost of universal service is the cost of all those services that the private market would not supply.[24] Without necessarily accepting that definition as valid, I would merely point out that it requires a major assumption: a private market prepared to provide all the postal services that would be remunerative for hypothetical private vendors to offer. When we postulate a competitive market of that kind, we assume as a matter of course that the firms in it are efficient. But there is no good reason why the other side of the equation – the cost of supply by the Postal Service of all other products – should not also be based on a technically efficient system. If we do not also make that assumption, we are comparing apples and oranges.

Moreover, if we started the exercise by assuming a "real world" Postal Service, with costs inflated by legislative constraints or needlessly rigid work rules, then the model would produce some distinctly odd results. It could, for instance, imply allocatively inefficient supply of some products by private providers (assumed to be technically efficient) with costs higher than those of an equally efficient Postal Service – but lower than those of the assumed efficiency-constrained Postal Service. Even if we posited, for argument's sake, a fixed menu of services to be provided by the private sector, the result would be an unduly high estimate of the cost of universal service (since by definition the products or service components that will be furnished by the Postal Service will be produced at inflated cost levels).

This discussion may seem theoretical, but it has a practical side too. For example, if geographic scope (or, probably, service quality) were to be curtailed on supposed cost grounds, one likely result would be loss of yet more high-contribution volume. As the Commission knows, just about every subset of First-

Class Letter mail is subject to diversion to electronic media: electronic bill presentment and payment and electronic banking are making inroads in the transactional sector, and e-mail is doing the same with respect to personal correspondence. If Postal Service efficiency is being constrained on job preservation grounds, the constraints themselves would then lead to fewer opportunities, not more.

Preserving universal service in the face of declining volume. Thus the elephant in the corner of the room may in fact be this question: How is universal service – defined, as we have suggested, to include at least geographic ubiquity on essentially uniform terms, ready access, and affordable prices, as well as high service quality – to be preserved in a time when volumes are flat or falling and the delivery network, with associated fixed costs, continues to expand?

Our overarching proposal, which has many potential ramifications, is that the Postal Service can best survive by trading on its strengths.

These strengths seem to us to be:

- Ubiquity: the Postal Service is still *the* universal communications medium;
- Simplicity in use;
- Low connection cost; and
- Range of products handled.

Speed, on the other hand, is *not* a prime strength of the Postal Service, at least where transmission of "pure information" is concerned, as with bills, statements, and other transactional messages.

We discussed the value of ubiquity earlier, pointing out that the Service is a classic network enterprise whose value depends on the number of nodes it connects. We should remember that some 31 million U.S. households have *no* Internet connection.[25]

An often overlooked advantage, however, is that the Postal Service is extremely easy to use (and, thanks to recent consumer-oriented initiatives, is getting easier still). Some new techniques must be learned even to use the simplest e-mail program. On-line transactions require still more new skills. Maintaining computer and browser security requires yet more, and the challenges presented by increasingly ingenious hackers and cyber-criminals promise to complicate this process still further in the future. Mailing a letter today is no harder – and in some respects is easier – than it was before home computers and the Internet existed. And mailing a letter with personal data, or a remittance, inside is just as secure as it was 30 years ago. This is perhaps one reason for the high level of trust accorded the Postal Service, year after year, by opinion research respondents. It is not too much to say that the security of the postal system is one of the things that make it easy to use, if we think of "easy" as including "worry-free." We may also observe that, should voting by mail become a more widespread feature of state election law[26], the Postal Service's deservedly high reputation for security and privacy protection will make it even more valuable to our citizens.

Similarly, "connecting" to the Postal Service to receive mail is inexpensive. A new homeowner on a curbline route may have to invest in a mailbox and a post to mount it; others are likely to find their mail receptacles already in place and ready to use. Even a fairly basic desktop computer still costs several hundred dollars. So if e-mail and on-line transactions make up a substantial fraction of the uses it is put to, it is a high-investment means of communicating.

On the "send" side the story is much the same. Sending messages by the Postal Service entails paying only for the service one uses. This is even more

true since the Forever Stamp, which eliminates losses on the "obsolete" letter stamps that used to wind up in the back of a desk drawer. For e-media, besides the investment in computer, peripherals, and software which I have mentioned, the consumer must obtain access to the Internet. The average monthly cost of broadband service in October 2007 was $53.06.[27] And those costs recur whether the system is used heavily, sparingly, or not at all.

Conclusion. To sum up:

Universal service, provided by the U.S. Postal Service, is a fundamental component of what Americans rightly take to be their essential standard of living. Defining universal service and the universal service obligation must start from that premise.

This means both that the Postal Service must be a communication system *among* citizens as well as a delivery system *to* citizens, and that, whatever use it makes of private-sector resources to do its job optimally, the Postal Service must be ultimately responsible for providing universal service.

Of the elements of universal service, geographic coverage – what we have called "ubiquity" – is the most basic. Not only is postal service among the fundamental consumption norms for Americans (as it is for citizens of any developed country); it also makes economic sense for the Postal Service, as a classic network enterprise, to connect as many nodes as possible. Competitive entry in a network industry does not always work in the way that statical allocative efficiency analyses might suggest, as the telephone industry is today discovering. Universal postal service can itself stimulate innovation and growth in complementary media: ordering and returning a DVD from a movie supplier requires both Internet and postal connections.

Access to the postal system is also vital. For the citizen mailer, this means not just an adequate array of retail and mail collection points, but also products and rates that are simple to understand and use. The Postal Service has already made an excellent start in this latter direction, and we look forward to cooperating with it in finding new ways to make the mail an easier and more appealing way to communicate. But access also means that the customer's mailbox should be dedicated to his or her interactions with the Postal Service. Security and privacy – for which the Postal Service deservedly enjoys a high reputation – the necessities of postal operations, and the need to maintain advertising mail revenues in a time of financial challenges all counsel strongly against tampering with the mailbox rule.

The Commission also rightly identified affordable rates as a key element of universal service. But if postal prices are to remain affordable, the Service must be free to manage, and realign, its network efficiently. Today it faces legislative restrictions which affect no other carrier, and which, ultimately, will probably drive away volume that might have been kept had efficient realignment been permitted. In particular, GCA urges that the Commission not make the mistake of estimating the cost of universal service by comparing a hypothetical competitive situation – which assumes efficient providers – with the efficiency-constrained Postal Service we have today.

The overriding problem, indeed, seems to be how to maintain universal service in the face of stagnant or falling mail volume. The best course, we believe, is for the Postal Service to trade on its strengths. It is ubiquitous; it is simple to use; it offers a very low cost to connect; and it provides a large range of mail products. Emphasizing these strengths will not only help preserve and increase volume but also create opportunities for complementarity between the Postal Service and other media – especially the Internet. Universal service, and the universal service obligation, should be analyzed and defined so as to make all this a reality.

[1]GCA statistics; www.greetingcard.org. Ultimate source of the 4.6 billion/year mailed volume is USPS Household Diary Study for FY 2006.

[2] PRC Order No. 71, p. 6.

[3] 39 USC § 101(a).

[4] Order No. 71, p. 6. Appendix A, pp. 7, 8 ff.

[5] *Business Mailers Review,* February 25, 2008, p. 7 (2007 rank). FedEx has held this rank for six years; its 2007 billings to the Postal Service were almost $1.7 billion.

[6] 39 USC § 101(a).

[7] See, e.g., Lawrence J. White, *U.S. Public Policy Toward Network Industries,* AEI-Brookings Joint Center for Regulatory Studies, 1999, pp. 3-14.

[8] FY 2006 Household Diary Study, p. 14, Table 2.8.

[9] OECD, Broadband Prices, October 2007.

[10] Allen S. Hammond, IV, "Universal Service: Problems, Solutions and Responsive Policies", *Federal Communications Law Journal,* March 2005, 57, 2.

[11] See, for example, François Bar and Annemarie Munk Riis, "Tapping User-Driven Innovation: A New Rationale for Universal Service", *The Information Society,* 2000, 16: 99-108. The emphasis on innovation as a more important driver of economic growth than statical neoclassical arguments such as entry and curtailment of cross subsidies goes back at least as far as Joseph Schumpeter.

[12] Bar and Riis, op. cit., p. 104. The authors note that the key articles establishing this point in the network economics literature are: Rohlfs, J., "A Theory of Interdependent Demand for a Communications Service," *Bell Journal of Economics,* 5 (1): 16-37(1974); Katz, M., and Shapiro, C., "Network Externalities, Competition and Compatibility," *American Economic Review,* 75(3): 424-440 (1985); and Economides, N., "The Economics of Networks,: *International Journal of Industrial Organization,* 14 (6): 673-699 (1996).

[13] Lars-Hendrik Roller and Leonard Waverman, "Telecommunications Infrastructure and Economic Development: A Simultaneous Approach," *American Economic Review,* September 2001, 91, 4.

[14] Richard B. Kielbowicz, *Universal Postal Service: A Policy History, 1790-1970* (PRC, 2002), p. 19 (fns. omitted).

[15] Kielbowicz, op. cit., p. 9, quoting Richard R. John, "Theodore N. Vail and the Civic Origins of Universal Service," *Business and Economic History,* v. 28 (Winter 1999), pp. 71 ff.

[16] Kielbowicz, op. cit., p. 22.

[17] Former 39 USC § 3623(d), now recodified as 39 USC § 404(c).

[18] Mark Young, "The Future of Universal Service. Does it Have One*?" International Journal of Law and Information Technology,* Vol. 13, no. 2, 2005, page 203. Also, see Gerald W. Brock, reviewing Crandall and Waverman, *Journal of Economic Literature,* December, 2001, pp. 1265 – 1267.

[19] Paschal Preston and Roderick Flynn, "Rethinking Universal Service: Citizenship, Consumption Norms, and the Telephone", *The Information Society,* 2000, 16: 91-98.

[20] Reed Hundt and Gregory Rosston, "Communications Policy for 2006 and Beyond", *Federal Communications Law Journal,* January 2006, 58, 1, pages 27-31.

[21] "Ponemon Institute Announces 2008 Privacy Trust Rankings of U.S. Government Agencies," Ponemon Institute press release, April 7, 2008; *Business Mailers Review,* April 21, 2008, p. 7.

[22] Order No. 71, p. 15.

[23] USPS Cost and Revenue Analysis Report (PRC Version), FY 2007.

[24] Panzar's definition. See Robert Cohen, Matthew Robinson, John Waller, and Spyros Xenakis, "The Cost of Universal Service in the U.S. and its Impact on Competition," published in Proceedings of Wissenschaftliches Institut für Infrastruktur und Kommunikationsdienste, 7th Koenigswinter Seminar, Nov. 17-19, 2002, p. [1], available at www.prc.gov.

[25] 2006 Household Diary Study, n. 8, above.

[26] At least two states – Oregon and Washington – have moved entirely or largely to postal voting.

[27] OECD data (n. 9, above).