

Before the  
Postal Regulatory Commission  
Washington, DC 20268-0001

Report to Congress and the President :  
on Universal Postal Service and the : Docket No. PI2009-1  
Postal Monopoly :

## INITIAL COMMENTS OF THE GREETING CARD ASSOCIATION

### I. INTRODUCTION

The Greeting Card Association (GCA) submits these Comments pursuant to the Commission's Order No. 152 (December 19, 2008). GCA participated extensively in the docket leading to the issuance of the Commission's *Report on Universal Service and the Postal Monopoly* ("Report"), through a GCA witness testifying at the St. Paul, MN, field hearing, and through initial and reply comments.<sup>1</sup>

The Commission's *Report on Universal Service and the Postal Monopoly* ("Report") will surely be a foundational study in planning the future of the Nation's postal system. It analyzes and discusses the topics assigned by § 702(b) of the Postal Accountability and Enhancement Act of 2006 (PAEA), with exemplary clearness and from a realistic perspective. The Commission took care to seek and collect, and (more important) to use information and perspectives from the public.

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<sup>1</sup> *Statement of George White, President and C.O.O., Up With Paper, L.L.C., on Behalf of the Greeting Card Association*, presented, along with its Appendix, at the PRC field hearing in St. Paul, MN, June 5, 2008; *Comments of the Greeting Card Association* in Docket PI2008-3 (June 30, 2008) (GCA Comments); *Reply Comments of the Greeting Card Association* (August 1, 2008) (GCA Reply Comments).

In section II of these Comments, we review and comment on the Commission's main conclusions – nearly all of which we believe are correct. Section III examines the inherent limitations of the Report – for the most part, direct results of the terms in which Congress set out the Commission's task in § 702(b) – and offers suggestions on how it can best be used by policymakers. In Section IV we address some issues of emphasis or methodology arising in the Report itself or, in some cases, in the Appendices contributed by the George Mason University (GMU) research team. Finally, the Appendix contains observations on some issues regarding the Household Survey reported in Appendix G to the Report.

## II. THE PRINCIPAL CONCLUSIONS OF THE REPORT

The Commission wisely did not recommend any substantial near-term changes in universal service, the letter monopoly, or the mailbox rule. This correct conclusion is qualified, as no doubt it must be, by recognition that changes might be needed in the future. Here again, however, the Commission offered sound advice on how any such changes should be developed: by balancing all the aspects of universal service, and by addressing issues through fully-debated general legislation rather than appropriations riders.

Another welcome conclusion is perhaps implicit in the entire report, rather than specifically announced: that universal service should be the responsibility of the Postal Service, not of a hypothetical combination of government and private carriers.<sup>2</sup> This basic premise not only comports with the apparent assumptions of § 702, but also means that the Report provides a practical foundation for any changes that might be found necessary in the future.

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<sup>2</sup> See GCA Comments, pp. 2-3.

GCA also agrees that geographic ubiquity is “paramount”<sup>3</sup> in the structure of universal service. The other six elements of universal service identified by the Commission are comparably indispensable, however. In that connection, GCA strongly endorses the Commission’s inclusion of postal products in the definition of “access.”<sup>4</sup>

Section 702(b)(2)(A) of PAEA requires the Commission to estimate the cost of universal service. First, we believe the Commission chose the correct basic method for this exercise. Examining the effect of a change in universal service<sup>5</sup> on the Postal Service’s profitability has the great practical merit of starting from the existing state of affairs – which, as the Commission concluded, is one generally satisfactory to users of the mail. As the Commission observes, the net avoided cost method “implicitly assume[s] that all products, product groups, or mail paths that do not cover their costs would be discontinued by the postal operator if there were no USO.”<sup>6</sup> That method, accordingly, takes no account of the likely public expectation that a postal system – whether or not subject to a USO – will provide certain types of service and do so, so far as feasible, ubiquitously.

The Commission made another laudably realistic choice when it concluded – its contractor’s conclusion notwithstanding – that five delivery days per week was the minimum practicable for a system subject to a USO but free to choose its delivery frequency.<sup>7</sup>

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<sup>3</sup> Report, p. 4.

<sup>4</sup> Id., p. 19. Indeed, more detailed analysis of how customer-focused and user-friendly postal products contribute to universal access would have been welcome.

<sup>5</sup> Or in the letter or mailbox monopolies, under § 702(b)(2)(B).

<sup>6</sup> Report, p. 104.

<sup>7</sup> Id., pp. 123-125. Appendix G, Section 3, concludes that this postal operator would choose a three-day schedule.

At pp. 128 et seq., the Commission provides a salutary warning that models designed to estimate cost changes at the margin, for relatively small increments of volume, are not likely to work for the very large changes implied by a change in universal service. Cost elasticities that are essentially linear over small changes may be much less well-behaved over large ones. Large alterations in service patterns also imply restructuring of delivery routes and, perhaps, upstream facilities as well – neither of which is reflected in a marginal-estimation model.

This is a valuable insight, not least because it demonstrates the importance of a *preliminary* understanding of the volume changes – perhaps very large – that a reduction in universal service would probably cause.

Finally, one of the great virtues of the Report, in GCA's view, is that neither the Commission nor its GMU research team set out to change the world. The Report and Appendices are responsive not only to the words of the statute but to the (very practical) nature of the task facing the legislators and policymakers who will be relying on the Commission's work.

### III. USING THE REPORT: STRENGTHS AND LIMITATIONS

Section 702(b) of PAEA gave the Commission both a list of relatively precise instructions and a far from generous time schedule for completion of the Report. While the Commission successfully fulfilled both mandates, and added for good measure an instructive survey of the experience of foreign posts, the limitations of the task imposed by § 702(b) remain a fact. They imply that policymakers must take some precautions in using the Report and will need to examine some of the problems from perspectives not, or not fully, developed in the Report and Appendices. This section of GCA's Comments will outline some of these precautions and recommended additional perspectives. We stress that these

observations are not criticisms of the Report, but comments on how policymakers can use it profitably, and avoid misusing it.

## A. PUBLIC BENEFITS

The Commission's statutory assignment did not call for a description – much less a quantification – of the benefits to the Nation<sup>8</sup> of universal service as now understood, or of the letter monopoly or the mailbox rule. A careful reader can gain a *general* understanding of the benefits of universal service from the Commission's discussion of its seven aspects, and the discussions of the letter monopoly and the mailbox rule point to at least some benefits which they confer.

Nonetheless, it is fair to say that the Report, as Congress expected and required, presents far more, and more specific, information on the costs of these policies than on their benefits. The cost of present-day universal service is calculated in a generally well-thought-out manner, in Chapter 4 and Appendix F. The same is true for the “value” to the Postal Service of the letter monopoly and the mailbox rule.<sup>9</sup> As presented in the Report, both sets of estimates concentrate on the cost (or value) of the policy concerned to the Postal Service, considered as an enterprise. The costs are not compared with the public benefits to which they contribute.

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<sup>8</sup> We use “benefits” in a sense broader than the “societal benefits” discussed at pp. 172 et seq. of the Report. The latter tend to be of a nonpostal character (services to other government agencies, law enforcement activities, etc.). “Benefits” as we use the term here would include these, but also the value (often non-economic) of easy and affordable universal communication to the public at large – to recipients at least as much as to senders. The values encapsulated in the “educational, cultural, scientific, and informational value to the recipient” criterion (former 39 U.S.C. § 3622(b)(8), now § 3622(c)(11)) represent, but do not necessarily exhaust, this concept of “benefits.”

<sup>9</sup> It might be possible, alternatively, to think of these “values” as (social) “costs,” if one focused on comparing the present postal system with a hypothetical system, assumed to be totally market-based, in which they did not exist. The Commission's approach, starting from the postal system we have today, naturally implies thinking of them as positive values.

This (perhaps obvious) point seems worth making because of the natural tendency of readers to take the quantified results of a complex study as more reliable<sup>10</sup> or more important than those presented only in general, non-quantitative terms. Even if it is true that “everything that exists, exists in quantity,” it does not follow that something not quantified within the four corners of the Report does not exist. The risk, however, is that policymakers to whom postal affairs are relatively unfamiliar may come to view the cost estimates as the main or even the only significant teaching of the Report.

## B. THE PROFITABILITY METHOD

As noted earlier, GCA believes that the Commission made the right choice in selecting profitability change rather than net avoided cost as the standard for measuring the cost of the universal service obligation. In a broader context, however, the profitability method carries some risks of creating a misleading emphasis.

While PAEA, unlike the 1970 Act, allows the Postal Service to accumulate retained earnings,<sup>11</sup> it remains true that the Service’s profitability is not the most important fact about it, nor the reason for its existence. Improving (or restoring) its profitability, therefore, is not a sufficient reason, by itself, for reducing service below the levels needed and expected by the public. First, there are other appropriate ways of providing a financial boost, at least in the context of other measures being taken in the present economic emergency. At the least, H.R. 22, introduced on January 6, 2009, would benefit the Service’s bottom line without budgetary consequences, by allowing payment of current OPM premiums from the escrow-related trust fund rather than current income.

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<sup>10</sup> In this connection, policymakers need to bear in mind how many of the important findings presented in the Appendices rest on assumptions (about mailer behavior in the face of changed services, for example) rather than empirical data. The Report frequently acknowledges this fact (e.g., pp. 121, 122, 125, 127-129, 143, 149-150).

<sup>11</sup> 39 U.S.C. § 3622(b)(5); cf. former 39 U.S.C. § 3621.

Equally important is the possibility that Postal Service profitability could be improved by allowing postal management a free hand in streamlining its upstream network to reflect present-day methods and mail volumes. The point has been convincingly made, both in Appendix F and in the Postal Service's contributions to the study<sup>12</sup>, that processing and transportation are already largely competitive markets. Presortation, pre-barcoding, and drop shipping are recognized in postal prices. The main obstacle to full realization of the benefits of this effectively liberalized market lies in political constraints on realignment of upstream facilities. Streamlining the processing network was recently, and rightly, emphasized as "urgently needed" in Government Accountability Office testimony before the Senate oversight committee.<sup>13</sup>

We hope that policymakers reviewing the Report will bear in mind – or be reminded – that degradation of service is not the only effective source of cost savings, and certainly not the most desirable.

### C. NEGATIVE EXTERNALITIES

Reductions in universal service, even if they do produce meaningful (and lasting) cost savings, also impose costs on mail users and recipients. Not all of these costs are reflected in the estimates of mail volume declines developed by the GMU researchers and reflected in the Report.

An estimate of how much volume will disappear if delivery is reduced from six days to five or three does not, in principle, measure all the effects of that same reduction on recipients. Some of these negative externalities are identi-

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<sup>12</sup> Appendix F, Section 4, p. 4; U.S. Postal Service, *Report on Universal Postal Service and the Postal Monopoly* (October 2008), pp. 65-66.

<sup>13</sup> "Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs," testimony of GAO's Physical Infrastructure Director Phillip Herr, before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, January 28, 2009 (GAO-09-332T), pp. 9-10.

fied, but not quantified, in the Report. For example, the Commission acknowledges that relaxation of the mailbox rule could cause security breaches and identity theft that would “prove costly to patrons.”<sup>14</sup>

Other potentially costly external effects are not discussed. Suppose, for instance, that in a regime with no Saturday delivery, an advertiser found that the mail simply could not meet its needs, and thus had to shift to an *inferior* alternative medium. There would, predictably, be not one effect but two: (i) mail volume would decline, but at the same time (ii) the advertiser’s sales would suffer because of the relative ineffectiveness of the substitute medium it was driven to use. The Report seeks to estimate the first type of effect<sup>15</sup>, but not the second.

Not all these deleterious effects are measurable by economic techniques. GCA discussed the importance of non-economic values (especially to mail recipients) in our Reply Comments in the previous docket.<sup>16</sup> They include not only the “ECIS” value of material mailed from ultimately commercial motives (periodicals or books, for example) but also the social and affective value of family communications, greeting cards, and invitations. The Report, in other words, provides clearly identified and at least plausibly quantified information on some effects of reducing universal service or changing the letter monopoly or mailbox rule, but little or no description of others. Policymakers will thus need to attend to other sources of information and insight if they are to gain the full, undistorted benefit of the Commission’s pioneering work.

#### D. A PRACTICAL EXAMPLE

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<sup>14</sup> Report, p. 189.

<sup>15</sup> See Report, pp. 124-127, and corresponding discussion in Appendix F, Section 3, pp. 15-16. As the Commission recognizes, there is “little empirical support for, and therefore great uncertainty surrounding” such estimates. Report, p. 126.

<sup>16</sup> GCA Reply Comments, pp. 22-23.

A single example of the concerns expressed above may help make them clearer. We focus on the treatment of the mailbox rule<sup>17</sup>, which we also discussed in our initial comments in Docket PI2008-3.<sup>18</sup>

The Commission does not, at this point, recommend changing the mailbox rule – a conclusion with which, of course, GCA fully agrees. Arguments pro and con are presented at pp. 189-190 of the Report. In favor of the rule are (i) the risk that mailbox clutter and the difficulty of distinguishing outgoing mail from material delivered by other carriers will interfere with delivery, (ii) greater electronic diversion caused by clutter or security problems, (iii) greater difficulty in investigating and prosecuting mail-related crimes, and (iv) security and identity-theft costs imposed on patrons. Against it: (i) the rule “counter-intuitive[ly]” removes control of the mailbox from the postal patron who owns it, (ii) it extends the letter monopoly to other mail types, and (iii) it confers a competitive advantage vis-à-vis other package and express carriers.

We discuss these arguments further in Part IV. Our point here is that not all of the effects of changing the mailbox rule have been presented with the same degree of precision; some are quantified and some are no more than identified. For example, in arriving at a quantified value for the mailbox rule (considered in isolation from the letter monopoly), the Commission points out that the GMU researchers did not include a (downward) productivity adjustment for mailbox clutter, while the IBM analysts contributing to the Postal Service’s report did. The IBM estimates<sup>19</sup> rest on higher-order estimates of how many Postal Service

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<sup>17</sup> GCA prefers the term “mailbox rule” to “mailbox monopoly,” generally used in the Report, because it recognizes the possibility that 18 U.S.C. § 1725 is at least as much a regulatory requirement as a statutory monopoly.

<sup>18</sup> GCA Comments, pp. 18-20.

<sup>19</sup> One such estimate is of a 15 percent carrier productivity loss on “skimmed” routes and 5 percent on those not “skimmed”; IBM also included a “high entry” scenario featuring a greater productivity reduction. The Commission criticizes this estimate because the plausibility of the underlying assumptions is inadequately justified. Report, p. 151, fn. 94. The Commission’s discussion (id., p. 152) of the importance of determining whether privately-delivered pieces are new volume or diverted from the Postal Service is clearly valuable – but it remains true that we do not have a

routes would be “skimmed” by private operators. The Commission, for a variety of reasons, preferred the GMU estimate of the value of the mailbox rule. GMU’s Appendix F, Section 4, states categorically that

. . . There might be some cost associated with USPS delivery personnel finding the mail that patrons have deposited in their own mail box for pickup. However, many routes would have no competition and those that did would have this issue only once a week or less frequently. This might increase the Postal Service’s delivery cost somewhat, but at present there is no reliable way of estimating any increase [in] cost.<sup>[20]</sup>

Here, then, we have a potentially large increase in Postal Service costs, affecting all mail users, which seemingly cannot be estimated with adequate reliability. It seems plain that such a cost, if known, would have to be counted in determining the value of the mailbox rule.

The “clutter effect” was at least considered in the quantitative phase of the Commission’s work (as well as by the Postal Service’s contractor). Potential security and identity-theft losses to postal patrons are only identified, with no attempt to estimate their magnitude. That these losses fall directly on postal patrons rather than on the Service does not, we believe, make them irrelevant. Quite apart from the general public interest in “prompt, *reliable*, and efficient services”<sup>21</sup>, the negative effect on mail volumes and Postal Service profitability of a widespread perception that the mailbox is no longer “safe” is clearly germane to the Commission’s effort.

We offer this example not to criticize the Report but to call attention to the risk that, when one aspect of a problem has been quantified, users of the Report may focus on it to the exclusion of countervailing factors which have not been.

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usable estimate of what relaxing the mailbox rule would cost the Postal Service in productivity terms.

<sup>20</sup> Appendix F, Section 4, p. 20 (fn. omitted).

<sup>21</sup> 39 U.S.C. § 101(a) (*italics added*).

#### IV. SOME ISSUES OF EMPHASIS OR METHODOLOGY

In this section, GCA discusses some features of the Report and Appendices as to which we believe further analysis or a different emphasis would be useful.

##### A. EMPHASIS ON NEEDS AND REACTIONS OF LARGE-VOLUME MAILERS

At some points, the Report urges that the reaction of large mailers to potential changes in the USO should be studied.<sup>22</sup> GCA of course agrees that this should be done; our concerns are that (i) the needs and reactions of low-volume (household or small business) mailers are also relevant to the definition of universal service, and (ii) that large- and small-volume customers' uses of the mail are interdependent to a degree not acknowledged in the Report.

Personal correspondence – one of the archetypal ways that household mailers use the postal system – amounted to about 5.6 billion pieces in FY 2007.<sup>23</sup> If it were a subclass, it would be slightly larger than Priority Mail and more than twice as large as either Periodicals or all of Package Services taken together.<sup>24</sup> Bill payments by households accounted for another 10.2 billion piec-

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<sup>22</sup> For instance, in the Executive Summary (p. 2), the Commission notes that

. . . Information on the probable reaction of large-volume mailers to potential service reductions was not available while this report was under preparation. The Commission believes that this key information should inform any decisions on service levels, the Commission suggests Congress urge the Postal Service to develop it immediately.

The same idea is presented as one of the Report's three main recommendations (pp. 6, 192). It appears again at pp. 121 and 125, where the Report analyzes the volume-loss aspect of the GMU team's estimate of the profitability impact of the USO.

<sup>23</sup> U.S. Postal Service, *The Household Diary Study, Mail Use and Attitudes, FY 2007*, Table 3.10.

<sup>24</sup> U.S. Postal Service, *Revenue, Pieces, and Weight by Classes of Mail and Special Services for Fiscal Year 2007* (RPW Summary Report).

es.<sup>25</sup> This is a not insubstantial volume of mail, and it is as dependent on patterns, and quality, of universal service as are the bulk mailings sent by large-volume users.

The decision whether to pay a bill by mail or on-line is made by the recipient. When it involves converting an entire recurring transaction – presentment as well as payment – to e-media, the feedback effect on large mailers' volumes is evident. Thus the information the Commission correctly says is needed in order to decide intelligently on service levels depends very significantly on the reaction to service changes of *small* mail users, including households, as well as that of bulk mailers.

The Household Survey conducted by the GMU researchers<sup>26</sup> did not ask respondents if a reduction in days of service per week (or any other substantial change in current patterns) would motivate them to transfer either personal or transactional mail to electronic media. Questions 37 et seq. explore the degree of inconvenience expected from a one-day delay in delivery of various mail types; later questions seek to identify the monetary tradeoff for households between current service levels and postage. The survey, unfortunately, stops short of the question to which the Commission needs an answer: "If mail were delivered only three [or five] days a week, would you switch to paying more of your bills on-line?" The potential for such a shift is certainly present; Appendix G shows that while about 85 percent of households pay bills by mail, only about 46 percent now use the Internet to do so.<sup>27</sup> Of those that did not, many gave reasons – including not knowing how to pay bills on-line – other than distrust of on-line finan-

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<sup>25</sup> *Household Diary Study, FY 2007*, Table 4.1. Households received about 18.8 billion bills FY 2007. Ibid.

<sup>26</sup> Appendix G to the Report.

<sup>27</sup> Id., QQ 24, 28.

cial transactions.<sup>28</sup> These non-users (and perhaps also many of those citing security concerns) could well shift to the Internet if they found mail service inadequate.

GCA would recommend that any effort to ascertain mailers' reactions to service reductions, in terms of the volume they would send, include a household survey component directed to both personal correspondence and household transactional mail.

## B. THE REPORT'S TREATMENT OF THE MAILBOX RULE

In Comments in Docket PI2008-3, GCA stressed the importance to the general public of maintaining exclusive Postal Service access to the mailbox. We of course endorse the Commission's conclusion that the mailbox rule should not be changed. Some aspects of the Report's discussion of the rule, however, seem to deserve comment.

The Commission recommends that, if Congress were to decide that the USO should not extend to competitive products (specifically, expedited delivery products), then

. . . Congress may wish to consider whether the mailbox rule should continue. If the Postal Service will not offer expedited service of any kind, its basis for enjoying sole access to the mailbox is eroded. [<sup>29</sup>]

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<sup>28</sup> Id., Q 25. About half the non-users said they did not "trust online banking," while about 13 percent stated that they did not know how to handle bills on-line. It is also significant that only a very small fraction of the non-users cited lack of an Internet connection as a reason for not paying bills on-line. About 73 percent of the respondent households had connections (Q18).

<sup>29</sup> Report, p. 200. We are uncertain whether, as the premise for its suggestion, the Commission envisions nationwide abandonment of Postal Service expedited products or simply a refusal to provide them universally. If the latter, does the Commission contemplate repeal or modification of the mailbox rule *nationwide*, or only in those areas not receiving USPS expedited service? The Commission's premise seems not to support doing away completely with the mailbox rule (i.e., also in areas where USPS does provide expedited service), but the Report does not discuss how the distinction could be managed in practice.

This suggestion seems to give no weight to the problems of mailbox clutter and mail security. These problems would not disappear with respect to ordinary letters, periodicals, and other non-expedited products even if the Postal Service no longer maintained expedited services.

At pp. 189-190, the Report summarizes theoretical arguments pro and con the existing mailbox rule. Having ourselves made some of the “pro” arguments, we have no difficulty in accepting the Commission’s statement of this side of the case. Some of the “con” arguments seem less satisfactory.

The Commission states that taking control of the mailbox, which the consumer “typically pay[s] for and own[s]” is “counter-intuitive.” Considering first the case where the mail recipient does actually own the mailbox, that fact does not necessarily rule out exclusive access by the Postal Service. Regulatory constraints on private property are a frequent and well accepted part of our law. Privately-owned vehicles are subject to state safety, visibility, and insurance regulations. Even private “pseudo-governments,” such as homeowners’ associations or condominium boards, enact similar restrictions on individually-owned properties (including, no doubt, mailboxes).<sup>30</sup>

Moreover, the “intuition” on which the “ownership implies control” argument rests is false for millions of households. In a multi-unit residential building, the mailbox is owned not by the mail-receiving consumer but by the landlord or condominium association. According to the Census Bureau/HUD *American Housing Survey* for 2007, 32.0 million (25 percent) of the approximately 128.2 million housing units in the United States are in buildings of two or more units, and 21.5 million in buildings of five or more.<sup>31</sup>

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<sup>30</sup> This view is strongly, and relevantly, supported by *Rockville Reminder, Inc. v. U.S. Postal Service*, 480 F.2d 4 (2d Cir., 1973), where indeed the regulation the court sustained affected not the mailbox proper but a hook attached to it by a private delivery carrier.

<sup>31</sup> See Table 1A-1 (the Survey is available at [www.census.gov](http://www.census.gov)).

Finally, the Commission's preferred option in the event the mailbox rule is abandoned is for a regulator – not the owner of the mailbox – to determine which non-Postal-Service carriers may access it. As the Commission recognizes, this view is inconsistent with the control-of-private-property argument against the rule.<sup>32</sup>

The Commission's second argument against the rule is that it extends the letter monopoly to other types of mail. We take this to be an empirical argument, resting on the view that without mailbox access private carriers of non-letter material cannot as a *practical matter* compete with the Service. This may be true, or true of some carriers or products but not others, but the Report does not point to evidence that would allow that assessment to be made.

The third argument – that the mailbox rule gives the Postal Service a competitive advantage over other express and parcel carriers – is probably correct. How large the advantage may be is uncertain. In addition, some weight should be given to the widespread (and apparently mutually beneficial) pattern whereby a private carrier consolidates parcels and enters them at a postal facility (e.g., as Parcel Select) for last-mile delivery by the Service. Any estimate of the practical importance of the Postal Service's theoretical competitive advantage would need to consider how far such private carriers actually have a business interest in directly accessing recipients' mailboxes.

### C. THE CURRENT ECONOMIC CRISIS

After describing the generally high level of support for current universal service patterns revealed in its outreach efforts, the Commission seemingly qualifies this conclusion:

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<sup>32</sup> Report, p. 190.

. . . However, since this evidence was developed, the recent financial contraction has increased the financial uncertainty facing the Postal Service. *This financial uncertainty may render much of the public feedback garnered months ago less germane.* Congress should evaluate the expressed needs of the public in light of these new financial circumstances.<sup>33]</sup>

Without minimizing the importance of the economic slowdown, GCA believes that the “expressed needs of the public” are as “germane” today as when they were described to the Commission. We would not disagree that the Postal Service’s (financial) ability to meet them all may be compromised, especially if the downturn is protracted. But that, we suggest, is a different question from whether the public input of several months ago should still be thought relevant.

#### D. LOSS-MAKING MARKET DOMINANT PRODUCTS

The Report proposes to treat as part of the cost of the USO the negative contribution of market-dominant products whose prices cannot be raised to breakeven level (because of the price cap, considered as an element of the USO). The Commission assumes that the USO also prevents the Postal Service from cutting the cost of these products by reducing their quality of service and from discontinuing them.<sup>34</sup>

The problem presented by these products – in FY 2007, Periodicals, Single-Piece Parcel Post, and Media/Library Mail; in FY 2008, these, plus Standard Flats and Non-Flat Machinables and Parcels – seems more complex than the Commission’s recommendation allows for. Product-specific losses may be caused not just by costs rising faster than the price cap, but also by declining volumes. A product may, with severe declines in volume, fail to recover all its

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<sup>33</sup> Id., pp. 155-156 (italics added).

<sup>34</sup> Report, p. 134. Appendix F, Section 3, at p. 23, takes the view that current law “might be interpreted” to permit all three of these remedies, but does not elaborate.

product-specific costs even though, given constant or rising volumes, it could continue to do so.<sup>35</sup> If the volume decline is caused by temporary economic conditions, it would be possible for the product's contribution to fluctuate between negative and positive, as volume fell and recovered. When it is negative, the Commission apparently would treat the loss as part of the cost of the USO. Yet it would be odd for the definition of that cost to vary from year to year as products lost and then recovered their profitability, which would be implied as long as the losses were associated with specific products.<sup>36</sup>

It may be worthwhile to consider whether the negative contribution of a loss-making market dominant product should be counted as a USO cost component *only* if (i) the product records losses even when its volume is healthy, or (ii) there is no reasonable prospect of its returning to profitability with an improvement in general economic conditions.

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<sup>35</sup> This is presumably likeliest when the product has (i) substantial non-variable costs, (ii) a thin margin over cost even with healthy volumes, or (iii) both.

<sup>36</sup> This problem might be avoided by stipulating that the *aggregate* of losses on *any* market dominant products would count as USO costs, without regard to the identity of the product(s) or their previous (or potential future) positive profitability. That "lump sum" approach, however, would tend to obscure the flexibility in the definition of universal service *with respect to a particular product*, which we understand the Commission to suggest at p. 19 of the Report.

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## APPENDIX

### SOME ISSUES OF DETAIL CONCERNING THE HOUSEHOLD SURVEY

The Household Survey conducted by the George Mason University Center for Social Science Research and reported in Appendix G produced much useful information, but omitted a few important inquiries. Answers to them should be part of the informational basis for any consideration of changes in universal service.

1. Access to postal services was, appropriately, a major focus of the household questionnaire. Unfortunately, it concentrated on access to postal *facilities*, neglecting a second important aspect of access: postal products that are easy to use and respond to household mail users' real-world needs.<sup>1</sup> GCA raised this issue in Docket PI2008-3<sup>2</sup>, giving the Forever Stamp as a prime example of access-facilitating product design. Answers to such questions as "Does your household use the Forever Stamp?" or "Would it help your household if all the stamps you commonly use were good even after a rate change?" would usefully round out the information already collected on use of and attitudes toward Postal Service retail facilities.

2. Another area unexplored by the Household Survey but potentially of great importance is whether, and how, householders' habits with respect to retrieving delivered mail would change if delivery frequency were reduced.

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<sup>1</sup> Appendix G, Q6 through Q17.

<sup>2</sup> Comments of the Greeting Card Association, pp. 17-18.

Suppose, for example, that a change to five- or three-day delivery drove large volumes of transactional mail (both business-to-household and household-to-business) to electronic media. Would householders – no longer anticipating much incoming transactional mail – visit their mailboxes less often? Would this effect be reinforced if (as is likely) households *also* came to expect that most incoming mail would be advertising? If so, what would be the effect on advertising mailers – particularly those sending time-value material such as weekly insert ads or cards announcing short-duration sales? The combination of fewer delivery days and a less attentive audience could drive some advertisers now relying on the mails to turn to other media. The direct volume effects of reduced delivery frequency were described and estimated in Appendix F.<sup>3</sup> This indirect effect needs to be similarly explored.

3. Some points of detail regarding the formulation of questions in the Household Survey are also worth mentioning.

Question 44 reads:

Suppose you could choose to have the mail delivered only three days per week and pay the same postage rates as today, or keep six-day delivery but have to pay more postage. Which would you choose?

About half the respondents chose three-day delivery. But would the result have been the same if the six-day option had included a more definite tradeoff than “more postage?” Respondents opting for three-day delivery could have interpreted that phrase as meaning one cent, ten cents, or some even larger increment per piece. A somewhat more definite question could have been designed without much difficulty. Single-piece First Class Letters account for 16.5 percent

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<sup>3</sup> Appendix F, Section 3, pp. 15 et seq. The estimates largely rest on assumptions; the authors acknowledge uncertainty as to the actual volume effects. *Id.*, p. 16.

of all mail.<sup>4</sup> For example, assuming (i) the cost of six-day delivery is \$5.2 billion, as estimated in Appendix F, Section 3, and (ii) that this cost is spread evenly over all mail, the portion assignable to single-piece First Class Letters is \$0.858 billion, or roughly 2.6 cents per piece.<sup>5</sup> On this assumption, phrasing the option as “keep six-day delivery but have to pay about three cents more postage for a letter” might have elicited different preferences (or, at least, fewer “Don’t knows”).

Question 55 reads:

Do you think that the mail service in the country would improve or get worse if the law was changed to allow other companies to compete with the Postal Service in the delivery of mail?

To an observer studying the survey as a whole, the most evident interpretation of this question is that it asks for attitudes regarding repeal or revision of the Private Express Statutes. A series of later questions (Q61 et seq., and especially Q64) covers issues surrounding the Postal Service’s exclusive access to the mailbox. To a respondent, however, it may not have been clear whether the question concerned the letter monopoly, the mailbox rule, or the two in combination. If respondents interpreted it as referring to a Postal Service monopoly of delivery (without regard to the mailbox rule), then the phrase “compete with the Postal Service in the delivery of *mail*” (rather than “of letters”) may have conveyed a wrong impression of the scope of the monopoly.

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<sup>4</sup> FY 2008 statistics, from the Postal Service’s *Public Cost and Revenue Analysis*, filed in Docket ACR2008.

<sup>5</sup> \$0.858 billion ÷ 33.510 billion pieces = \$0.0256.