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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Notice of Price Adjustment	)))	Docket No. R2009-2

**VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
COMMENTS ON THE UNITED STATES POSTAL SERVICE
NOTICE OF MARKET-DOMINANT PRICE ADJUSTMENT**
(March 2, 2009)

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Background

On February 10, 2009, the "United States Postal Service Notice of Market-Dominant Price Adjustment" was filed. On February 12, 2009, the Commission issued Order No. 180, "Notice and Order on Planned Rate Adjustments and Classification Changes for Market Dominant Postal Products," requesting comments on the Postal Service's Notice, and established the deadline for comments as March 2, 2009. Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc. (hereinafter "Valpak") hereby submit these joint comments in response to the Commission's Notice.

The Postal Accountability and Enhancement Act ("PAEA") requires the Postal Service to submit to the Commission the following notice prior to implementation of any adjustment in rates of market-dominant products:

> (C) not later than 45 days before the implementation of any adjustment in rates under this section, including adjustments made under subsection (c)(10) —
>
> > (i) require the Postal Service to provide public notice of the adjustment;

> (ii) provide an opportunity for review by the Postal Regulatory Commission;
> (iii) provide for the Postal Regulatory Commission to notify the Postal Service of any noncompliance of the adjustment with the limitation under subparagraph (A); and
> (iv) require the Postal Service to respond to the notice provided under clause (iii) and describe the actions to be taken to comply with limitation under subparagraph (A);
> .... [39 U.S.C. § 3622(d)(1)(C).]

Commission Order No. 180 references its rule 3010.13(b) and asks that comments "focus primarily" on compliance with the **price cap** and **workshare limitations**. Order No. 180, p. 7. However, the Commission's rules state that its determination of compliance with the price cap and preferred price requirements is only "at a minimum." 39 C.F.R. § 3010.13(c). Although the rules provide that a determination of compliance with other aspects of 39 U.S.C. chapter 36 are "provisional and subject to subsequent review" (39 C.F.R. § 3010.13(j)), the Commission does have the authority to consider whether any noncompliance exists with **any other aspect** of the chapter 36. Therefore, certain of these comments relate to the Commission's responsibility in reviewing rates with respect to PAEA generally.

I. The Postal Service's Price Adjustments for Saturation Mail Move Toward Higher Profitability and Economic Efficiency.

For many years, **coverage** on saturation mail has been among the highest of any subclass, consistently over 200 percent. At the same time, saturation mail has had a consistently high own-price **elasticity of demand**. (The most recent elasticity estimate for saturation mail, submitted January 16, 2009, was -0.911.[1]) Under these circumstances, the Postal Service can preserve, and perhaps generate more of, this highly-profitable volume by restraining price increases on it, which it wisely has done in this year's price adjustment.

In its May 11, 2009 pricing adjustments for saturation products, the Postal Service repeats what it did in Docket No. R2008-1.[2] By keeping price increases on saturation products below the cap, it moves toward more **cost-based rates** as well as recognizing **demand considerations,** while increasing prices of certain other Standard Mail products above the cap.

Valpak's Initial Comments in the Commission's FY 2008 Annual Compliance Review, as well as many other prior filings,[3] discussed reasons why coverages for saturation products historically have been too high. These comments demonstrate why PAEA (particularly 39 U.S.C. sections 3622(b)(1), (b)(5), (b)(8), (c)(1), (c)(3), (c)(4), (c)(7), and (c)(8)), when viewed as a whole, gives considerable weight to the **profitability** and **economic efficiency** of postal prices. These objectives and factors urge **moderation** of price increases on products with **high coverages and high elasticity**, and imposition of **greater than average** price

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1 *See* cover letter from R. Andrew German of the Postal Service to Hon. Steven W. Williams of the Postal Regulatory Commission, regarding FY 2008 Demand Analysis Materials for Market Dominant Products, and attachments, filed January 16, 2009.

2 *See* United States Postal Service Notice of Market-Dominant Price Adjustments (Feb. 11, 2008), pp. 16-17.

3 *See, e.g.,* Docket No. ACR2008, Valpak Initial Comments (Jan. 30, 2009), pp. 43-58; Docket No. R2008-1, Valpak Comments (Mar. 3, 2008), pp. 3-5; Docket No. ACR2007, Valpak Initial Comments (Jan. 30, 2008), p. 40; Docket No. R2006-1, Direct Testimony of Robert W. Mitchell (VP-T-1), pp. 34-42.

increases on products with **low coverage and low elasticity**. This is generally what the Postal Service has done with respect to Standard Mail in its May 11, 2009 pricing notification.

In a perfect world, one would expect that products with **high elasticity** would have coverages lower than products with **low elasticity**. Within Standard Mail this means that coverages for **Standard Regular** products would exceed those for **Standard ECR** products — particularly saturation and high density mail. This logic, based on principles of profitability and economic efficiency, would require large changes in Standard Regular and Standard ECR pricing — changes that certainly cannot come overnight. The degree to which current postal rates[4] vary from principles of profitability and economic deficiency is illustrated by comparing (i) the Postal Service's January 16, 2009, elasticity analysis for commercial components of Standard Regular and Standard ECR, with (ii) coverages in FY 2008:

Subclass/Product	Own Price Elasticity	FY 2008 Coverage[5]
Standard Regular	-0.31	
Letters		192.7
Flats		94.2
Parcels and NFMs		79.6
Standard ECR	-0.91	
HD/Sat. Letters		229.1
HD/Sat. Flats & Parcels		255.6
Carrier Route Letters, Flats & Parcels		150.5

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[4] As this is only the second price adjustment under PAEA, it is fair to say that much of the Postal Service's price schedule has been inherited from rates adopted under the Postal Reorganization Act of 1970 ("PRA"), and adjustments can be expected to be gradual. Within Standard Mail, the direction in which the Postal Service is heading may be considered to be more important than the speed at which it is progressing.

[5] *See* Docket No. ACR2008, USPS-FY08-1, Public Cost and Revenue Analysis (PCRA) Report (Dec. 29, 2008).

Clearly, the high elasticity of Standard ECR Mail has not been reflected in lower coverages for the high density/saturation products. Counter-intuitively, within Standard Mail the highest coverages are imposed on products with the highest elasticities. Even after tempering price increases on saturation mail products for a second year under PAEA, it is clear that many more years of such price adjustments will be required before some type of coverage parity is achieved within Standard Mail. Nevertheless, the Postal Service presumably has done what it believed it could, and the May 11, 2009 pricing adjustments unquestionably will make rates for saturation products move in the direction indicated by PAEA.

II. The Postal Service's Saturation Mail Volume Incentive Has Merit.

In an innovative effort to expand the volume of highly profitable saturation mail, the Postal Service is implementing a rate incentive that offers every qualifying saturation mailer a discount for volume that represents year-over-year growth. For those saturation mailers that do not increase their volume under this new initiative, the incentive will cost the Postal Service nothing, as the discount is applicable only to increased volume over the preceding year.

A. Nature of the Initiative

The Postal Service's Notice of Market-Dominant Price Adjustment filed February 10, 2009, stated its intent to implement incentive discounts to increase saturation mail volume:

> The Postal Service has developed a new incentive, targeted at encouraging new Saturation mail volumes. This incentive will reduce the prices for **new Saturation letters** mailed during the defined period by **3.7 cents** (2.2 cents for nonprofit Saturation letters), and the prices for **new Saturation flats** mailed during the defined period by **4.0 cents** (2.4 cents for nonprofit Saturation flats). Specific standards for this incentive, including the

> definition of the time period in which volume growth is to be measured, are included in the upcoming changes in the Domestic Mail Manual posted on *Postal Explorer*. [Postal Service Notice, p. 16 (emphasis added).]

Those "specific standards" were made official on February 23, 2009, when the Postal Service's final rule was published in the *Federal Register*, New Pricing Eligibility, Intelligent Mail, and Move Update Standards for Domestic Mailing Services and Shipping Services, 74 *Fed. Reg*. 8,009.[6]

Initially, the saturation mail volume incentive will run for one year, beginning May 11, 2009, and is available to saturation letters and flats. Participating mailers must demonstrate an increase in mailing volume over the prior year (May 11, 2008 to May 10, 2009). The increased volume is based on either (i) "an overall increase in the mailer's total saturation mailing volume," or (ii) "an increase in the volume of saturation mailpieces destinating in ZIP Codes within a specific sectional center facility (SCF) (or group of SCFs) identified by the mailer." Among other requirements, mailers must demonstrate saturation volume for 2007 and 2008 calendar years, and mailers applying for a credit based on volume within a specific SCF must demonstrate volume to ZIP Codes within that SCF for calendar years 2007 and 2008. Mailers also must demonstrate a minimum of six saturation mailings in calendar year 2008.

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[6] The Domestic Mail Manual sections will be 243.1.9 for saturation letters and 343.1.7 for saturation flats. The Postal Service published these standards as a "final rule," without soliciting comments via a *Federal Register* notice on this proposal as it has often done in the past.

B. Evaluating the Initiative

In adopting any new program, it is important to give thought at the outset to: (a) what the program is attempting to achieve, and (b) the criteria by which its success should be evaluated.

First, success may not be immediately apparent, as the initiative is for one year only, with the Postal Service's notice offering only the possibility that it may be extended. The first year's results of this program could be less than optimal, through no fault of the program. The February 23, 2009 notice for implementation on May 11, 2009, provided about 80 days formal notice. Many mailers, however, operate on a calendar year basis, and 2009 mailing plans for many of them already have been determined. For example, at this point, Valpak does not know whether it will be able to participate in this program.

Second, the real payoff to the Postal Service will come if its increased volume turns out to be sustainable in subsequent years, when the full rate must be paid. Whether new volume attracted this year will prove to be sustainable is an important criterion by which to measure success of the program, but that will not be known until well into the second year.

Third, to evaluate this program properly, it is important that reporting ensure transparency. Accordingly, Valpak would urge that the Postal Service report on utilization of the program as part of its FY 2009 Annual Compliance Report. The *Federal Register* notice provides that discounts for participating mailers will be credited via the Centralized Account Payment System ("CAPS") at the end of the program year, *i.e.,* after May 10, 2010. This means that no discount reimbursements would be paid during FY 2009, hence those payments normally would not be reported by the Postal Service until the Annual Compliance Review for

FY 2010.[7] However, waiting until FY 2010 would not provide any information for review of the program until after it were renewed (if that occurs) and were operational for an additional year. Therefore, even if participants received no payout during FY 2009, certain information (including, at a minimum, the number of participating saturation letter mailers and saturation flats mailers, information the Postal Service will have, as the deadline to sign up for the program was established to be June 10, 2009) should be disclosed no later than next year's Annual Compliance Report.

C. General Observations

The saturation mail volume incentive reflects a creative, flexible approach to rate setting and appears to be a good example of the type of entrepreneurial innovation that PAEA was intended to foster. It almost surely will result in some additional volume; exactly how much remains to be seen. Importantly, from the very outset, the Postal Service will make money on every piece of additional volume, since the **unit contribution** on saturation letters and flats amounts to 7.4 and 9.7 cents, respectively, while the corresponding **discounts** are being set at 3.7 and 4.0 cents.[8]

For years, Valpak has expressed its preference for niche classifications available to all mailers over negotiated service agreements, which are restricted only to one (or at best a few)

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[7] Similarly, the Postal Service provided no information on the Bank of America Corporation negotiated service agreement ("NSA") in its Annual Compliance Report for FY 2008 on the theory that no payouts were made during FY 2009. *See* Docket No. ACR2008, United States Postal Service FY 2008 Annual Compliance Report (Dec. 29, 2008), p. 48; and Commission Information Request No. 5 (Feb. 27, 2009), Q. 7.

[8] Docket No. ACR2008, USPS-FY08-1, Public Cost and Revenue Analysis (PCRA) Report (Dec. 29, 2008), tab Cost 1.

mailers.[9] The Postal Service's saturation mail volume incentive initiative is open to any saturation mailer that meets certain broad requirements, and therefore could be likened to a niche classification. Such an approach is far superior to a series of NSAs, because (i) it treats every qualified saturation mailer as "similarly situated;" (ii) it is available to every saturation mailer simultaneously; and (iii) in these two important respects, it maintains a level playing field among saturation mailers.

III. The Commission's Response to the Pending Docket Will Help Determine Its Role in Postal Service Pricing.

This docket is the first of its type under PAEA in what is not considered a transitional docket.[10] Although the regulatory scheme under PAEA is still evolving, certain changes from rate review under the Postal Reorganization Act of 1970 appear to be clear:

a. Substantial *ex ante* review of prices is reduced, replaced by a comprehensive *ex post* compliance review;

b. The Postal Service is to be allowed a degree of pricing latitude, consistent with statutory objectives, factors, a cap, and workshare constraints;

c. If these new steps result in rates that are viewed as misaligned with PAEA-mandated pricing considerations, affected mailers or other interested parties may file complaints with the Commission; and

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[9] *See, e.g.,* Docket No. MC2002-2, Valpak Initial Brief (Apr. 3, 2003), pp. 31-32; Docket No. MC2007-1, Valpak Initial Brief (Aug. 2, 2007), pp. 13-16; Docket No. ACR2008, Valpak Initial Comments (Jan. 30, 2009), p. 43.

[10] Docket No. R2008-1 was "the first review of Postal Service price adjustments for market dominant products under the Postal Accountability and Enhancement Act." Order No. 66 (Mar. 17, 2008), p. 1. Furthermore, both of the first annual compliance reviews (Dockets No. ACR2007 and ACR2008) involved rates set under PRA. The rulemaking to establish rules governing annual reporting is still pending in Docket No. RM2008-4.

d. If a complaint proceeding does not achieve correction viewed as satisfactory, mailers or other interested parties have the option of seeking judicial review.

In addition to timing issues, discussed in Section IV *infra*, many important issues remain unresolved for both annual compliance reviews and market dominant price adjustment reviews:

a. Except for the price cap calculation, and attention to certain constraints relating to matters of worksharing, **do any bounds exist** on the Postal Service's new freedom to propose and implement rates? If so, how are these bounds to be documented and recognized?

b. When the Postal Service proposes and implements new prices, **to what degree must it explain** how the new prices conform to PAEA? For example, can it state a rate and then simply allude to having considered a wide range of factors and/or to being concerned about some markets more than others? Or, need it explain what factors are in that range, how consideration of them leads to the rates proposed, why it is appropriate to be more concerned about some industries than others, and how this process is consistent with the guidance in PAEA?

c. If, in the context of an annual compliance review, or a price adjustment docket, or a complaint case, the Commission finds that Postal Service prices have not, or do not, conform to PAEA, what **meaningful remedial action** is the Commission empowered, or even obligated, to take?

In the instant pricing docket, as well as the pending FY 2008 Annual Compliance Review, the Commission will be able to define its own role and determine whether it will exercise meaningful review of Postal Service pricing under PAEA.

IV. Timing of Pricing Changes Should Not Be Allowed to Frustrate the Annual Compliance Review.

A. Timing Issues

On February 11, 2008, the Postal Service proposed its first rate adjustments under PAEA for market dominant products reviewed in Docket No. R2008-1. In Order No. 66, 35 days later, the Commission approved those adjustments, and they were implemented on May 12, 2008. Fiscal Year 2008 ended September 30, 2008, and on December 29, 2008, the Postal Service filed its Annual Compliance Report for FY 2008, focusing attention on its May 12, 2008 prices. The Annual Compliance Review was denominated Docket No. ACR2008 and is now pending.

In the instant docket, the Postal Service proposed on February 10, 2009 a second set of price adjustments for market dominant products, to be implemented May 11, 2009. As a result, the Commission's two most important pricing dockets of the year are now running concurrently. The Commission's Annual Compliance Report pertaining to rates implemented on May 12, 2008 is not yet complete, and, based on last year's schedule, will not be completed until about March 27, 2009. Yet the rates in that Compliance Review, which are still being examined, are the **base** on which rates in the instant docket build. Neither mailers nor the Postal Service have had the benefit of the Commission's review of current rates, which form that base. This timing problem raises the question of whether the Commission's review under PAEA, in Docket Nos. ACR2008 and R2009-2, will have any effect.

- If the Commission believes that its scope of review in the instant **price adjustment docket** is merely the price cap and passthroughs for workshare discounts, should it simply overlook other violations of PAEA in the noticed pricing adjustments? If so, when and where should the Commission address such violations and undertake remedial action?

- If the Commission's **Annual Compliance Review** finds that some May 12, 2008 prices violated other portions of PAEA, should it determine not to implement remedial changes on the theory that the Postal Service has already recommended pricing adjustments, and the only issue of current relevance is whether the new May 11, 2009 prices pass muster?

In Docket No. ACR2008, thus far, the Commission has issued four **Commission Information Requests**, each with multiple questions. A technical conference was held by the Commission on January 26, 2009. Eleven parties, including the Public Representative, filed **initial comments** regarding the Compliance Review, and 16 parties filed **reply comments**. A number of important issues have been raised, to which the Commission undoubtedly will give serious consideration. But it is on March 2, at least three weeks prior to Commission completion of its Compliance Review, that parties have their only opportunity to file comments in the instant pricing docket.

It may well be true that the Postal Service, having been given latitude in establishing the effective date of its pricing changes, can pick any date it wants, even if the result is that the Commission's Annual Compliance Determination of prior rates is outdated, in a certain sense, even before it is even issued. However, if the Commission is to have a meaningful role in reviewing pricing for compliance with PAEA, it must determine that it will use at least one, and possibly both, of its two PAEA-imposed reviews to take any necessary remedial action.

Otherwise, the can will be kicked down the road continually until a mailer, believing itself so aggrieved that it must incur the expense of filing a complaint, presents an issue of PAEA compliance squarely to the Commission.

B. Standard Regular Flats

The effect of the timing issue discussed in Section IV. A., *supra*, is illustrated by Standard Regular Flats. In Docket No. R2006-1, the Commission decided to increase the cost coverage of Standard Regular Mail relative to what the Postal Service proposed and, based on demonstrated cost differences, recommended a larger rate increase for flats than for letters. Docket No. R2006-1, *Op. & Rec. Dec.* (Feb. 26, 2007), p. 218.[11] Pointing to effects on catalog mailers, the Governors of the Postal Service asked the Commission to reconsider its recommended rates for flats. Based on further record, the Commission said that "[w]hile rate shock is an important factor to consider, it should not be elevated to a level where it is viewed as grounds to significantly downplay or ignore the other factors of the Postal Reorganization Act." Docket No. R2006-1, *Second Op. & Rec. Dec. on Recon.* (May 25, 2007), ¶ 2035, p. 22. The Commission also said that it "does not find that there is enough support in the record to adjust flats rates at the expense of letter rates." *Id.*, ¶ 2032. However, the Commission did offer some temporary rate relief, which the Governors rejected.

Costs underlying the Commission's Docket No. R2006-1 recommendations were estimations for FY 2008, projected in a roll-forward process from an FY 2005 base year. By

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[11] Valpak estimated the price increase for flats to be 23.2 percent (*see* Docket No. ACR2008, Valpak Reply Comments (Feb. 13, 2009), p. 5), a level certainly not unheard of in the history of postal pricing.

the time the Postal Service developed the rates it proposed on February 11, 2008, however, **actual** costs for FY 2007 had been filed in the Compliance Report for that year, and were thus available. Valpak estimated these costs to show a **coverag**e for Standard Regular **flats of 103.02 percent** and for **letters of 216.48 percent**. *See* Docket No. ACR2007, Valpak Initial Comments (Jan. 30, 2008), p. 45. Despite these coverages, the Postal Service proposed a **price increase** for **flats of 0.86 percent** and for **letters of 3.39 percent**. The explanation given was that "[t]he price changes for the Letters and Flats products reflect the Postal Service's decision to moderate the increases for catalogs and other flats mailers due to the large price increases they experienced last year (Factor 3 [the 'effects' factor])." United States Postal Service Notice of Market-Dominant Price Adjustment (Feb. 11, 2008), p. 15. No other considerations were discussed. These Postal Service pricing choices raise important questions:

- First, they were made **despite the Commission's admonition** that effects on mailers "should not be elevated to a level where it is viewed as grounds to significantly downplay or ignore the other factors…." Docket No. R2006-1, *Second Op. & Rec. Dec. on Recon.* (May 25, 2007), ¶ 2035, p. 22.

- Second, they were justified based upon **past** price increases, not **current** increases.

- Third, the Postal Service used the "effect of rate increases" (39 U.S.C. § 3622(c)(3)) to support a rate increase that was significantly **below average**. (Normally, one would reason that consideration of effects might bring an above-average increase down closer to the average, but not below it.)

Actual costs for FY 2008 have now become available in the Postal Service's FY 2008 Annual Compliance Report. They show a cost coverage for **flats of 94.16 percent** and for **letters of 192.67 percent**. Public Cost and Revenue Analysis (PCRA) Report (Dec. 29, 2008), USPS-FY08-1, tab 2 of FY08PublicCRA.xls. The prices that yield these coverages are under review in the on-going Compliance Review. Although Valpak does not use Standard Mail Regular letters or flats, the principles of pricing letter and flat products being decided here also could implicate Standard ECR Mail in the future, and the problem of pricing Standard Regular flats continues in the present.

1. Docket No. ACR2008

The subject of Standard flat and letter pricing is now pending in Docket No. ACR2008.

1. Valpak demonstrated that Standard **flats are below cost**, that this outcome is inconsistent with a range of factors in PAEA that point to the importance of efficiency in rates (with which the Commission has agreed), and no provision of PAEA supports steps to lower rates for flats at the expense of letters. *See generally* Docket No. ACR2008, Valpak Initial Comments (Jan. 30, 2009), pp. 43-52.

2. The American Catalog Mailers Association filed Initial Comments saying that it desired low rates, but did not cite any PAEA authority for such low rates. Docket No. ACR2008, American Catalog Mailers Association Initial Comments (Jan. 30, 2009), p. 2. Valpak replied to the Catalog Mailers. Docket No. ACR2008, Valpak Reply Comments (Feb. 13, 2009), pp. 1-8.

3. The Public Representative's Reply Comments explained in considerable detail that a focus on the profitability and efficiency of the rates is important, and that current rates are substantially out of line. Docket No. ACR2008, Public Representative Reply Comments (Feb. 17, 2009), pp. 1-17, and appendix.

4. Postal Service Reply Comments stated that "Valpak seems to believe that the PAEA requires that paramount consideration be given to cost coverages, and elasticities, in designing prices" and that "Valpak's Comments evince no recognition that the PAEA was intended, as the Commission has previously noted, to give the Postal Service considerable **flexibility in setting prices** (subject to some specific standards, such as with respect to the price cap, and the setting of workshare discounts).... As the Postal Service has stated many times in the past, it takes **many factors** into account when pricing; cost coverage is but one consideration." Docket No. ACR2008, Postal Service Reply Comments (Feb. 13, 2009), pp. 28-29 (emphasis added).

Over the years, the Postal Service has many times offered strong assurances that it considers "many factors" when it develops rates. The question is whether there is to be increased transparency and accountability in pricing, as required by PAEA[12], or whether the assertion of "flexibility in setting prices" erects a wall behind which pricing decisions are made. It is submitted that it would be reasonable for the Commission to require the Postal Service to identify the factors it considered, to explain if and how they relate to the requirements of PAEA, and to describe how these factors lead the Postal Service to its noticed rates. No known support exists for the proposition that PAEA allows a government monopoly to make pricing decisions which could impose millions of dollars of extra postage on individual mailers without any transparency and accountability.

If the Postal Service were to take the position that 39 U.S.C. section 3622 authorizes the Commission to override Postal Service decisions only if it violated the cap or workshare restrictions, the Postal Service would be free to consider or disregard, in its unreviewable discretion, the various PAEA statutory pricing objectives and factors (including the **requirement** that each class cover its costs in section (c)(2)). The Postal Service came close to taking this position when it stated: "Under the new structure, the Postal Service is afforded much more flexibility, and the policy directives in the PAEA are not as explicit or restrictive." Docket No. ACR2008, Postal Service Reply Comments (Feb. 13, 2009), p. 29. In the face of

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[12] *See, e.g.*, discussion of PAEA's requirement for increased transparency, Docket No. RM2007-1, Comments of Valpak on Order No. 26 (Sept. 24, 2007), pp. 7-12; Valpak Reply Comments on Order No. 26 (Oct. 9, 2007), pp. 3-5; Docket No. RM2008-4, Valpak Initial Comments (Oct. 16, 2008), p. 2; Docket No. ACR2008, Valpak/NAPM Answer to Postal Service Motion (Dec. 19, 2008), p. 3; Docket No. ACR2008, Valpak Reply Comments, p. 14.

this assertion, the Commission must decide whether Congress put the objectives and factors into PAEA as mere suggestions to the Postal Service, or whether the Commission has a responsibility to oversee pricing choices by this government monopoly when they violate various pricing provisions of PAEA, and the Commission's prior pricing guidance, especially when they are unexplained.

2. Docket No. R2009-2

Before the Commission has completed its evaluation of current prices, the Postal Service has built upon them and proposed prices under review here in Docket No. R2009-2. Specifically, it proposes a price increase for Standard Regular **letters of 3.829 percent** and for Standard Regular **flats of 2.306 percent**. Docket No. R2009-2, Postal Service Notice (Feb. 10, 2009), p. 14. The Postal Service provides no discussion whatever on rates for letters, but on rates for flats, it offers one paragraph:

> The price change for the Flats product is lower than the price cap: 2.306 percent. This continues **efforts to moderate the increases for catalog mailers**, whose volume fell considerably in FY 2008. Catalog mailers use this product, as well as the Carrier Route product. Volume decline is due, in part, to the especially difficult economic challenges facing this industry: lower consumer spending attributable to the recession, combined with the aftermath of the 2007 price increase. Although FY 2008 data shows that Standard Mail Flats had a cost coverage below 100 percent, the Postal Service is mitigating the price increase to maintain the viability of the catalog industry (Factor 3). [Docket No. R2009-2, Postal Service Notice (Feb. 10, 2009), p. 15, footnotes and parentheses omitted (emphasis added).]

Once again, the factor requiring consideration of "effects" of rate increases is being used to support a below-average increase, not to support an above-average increase that would, applying normal ratesetting principles, have been much higher. But issues of importance go far beyond this. In times of financial turmoil and decreases in consumer demand that are understood to be broad-based and pervasive, the Postal Service cites to "economic challenges facing" catalogers. It also refers to large increases that occurred two years ago, and **does not mention** a relatively small increase received one year ago. Then, it states that its purpose is to "maintain the viability of the catalog industry."

Aside from "Factor 3" and an acknowledgment that flats are below cost, the Postal Service does not acknowledge any of the history reviewed above, nor does it mention any other policies of PAEA. It provides no analysis of the causes of the volume decline in flats since mid-2007, although Valpak provided several observations on this issue in its Initial Comments in the on-going compliance review. *See* Docket No. ACR2008, Valpak Initial Comments (Jan. 30, 2009), p. 52. It provides no analysis or perspective on the question of whether catalogers are in more distress than other retailers. *See* Docket No. ACR2008, Valpak Reply Comments (Feb. 13, 2009), p. 7. And, despite the current massive efforts by the federal government to engage in deficit spending to stimulate consumers and firms, it provides no justification for the Postal Service choosing to become engaged in such efforts as well.[13]

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[13] Standard Regular Mail consists of **47.1 billion letters** and **10.0 billion flats**. Because of this ratio, a small (unjustified) increase in letter rates applied to many letters can generate a great deal of revenue. For example, a 1-cent increase in the rate for letters amounts to additional revenue of $470 million which could be used to reduce rates artificially for favored flats mailers. A profit-making firm in the private sector would not be subject to political pressures, simply would maximize the profit on each product, and would not be tempted by such opportunities to reward certain industries. The existence of such opportunities makes it all the more important for prices to be based transparently on statutory standards and Commission-articulated principles, subject to review by the Commission for compliance with those standards.

For these reasons, the Postal Service's proposal for Standard Regular letter and flat pricing appears to be both inadequately justified and inconsistent with the requirements of PAEA.

V. Classes of Mail which Fail to Cover Their Attributable Costs Require Special Attention from the Commission.

One key factor for the market dominant ratemaking system under PAEA is "the **requirement** that each class of mail … bear the direct and indirect postal costs **attributable** to each class … through reliably identified causal relationships plus that portion of all other costs of the Postal Service **reasonably assignable** to such class or type." 39 U.S.C. § 3622(c)(2) (emphasis added).

In the present docket, the Postal Service's discussion of the Periodicals class begins by acknowledging that Periodicals is **not in compliance** with section 3622(c)(2) (using the mildest possible language), but then fails to provide any "in-depth discussion," offering only scant mention of the expected outcome of the rate adjustments announced for May 11, 2009:

> The Periodicals class have been challenged in terms of cost coverage. It is the **only** mail class that **did not cover its attributable costs** in FY 2008 (Factor 2, Objective 8). The Postal Service is cognizant of the special situation of Periodicals in terms of … its failure to cover costs. The new prices are designed **to balance the effect on individual publications,** while taking advantage of the new price structure to create relationships that will improve the efficiency of the Periodicals product.
>
> The initial price change under the PAEA … [was designed] … **to minimize the possibility that any group of publications would incur major price changes**. This price package refines price relationships to encourage efficiency and containerization, **while limiting the price increases for individual publications**. The actual price paid by a given

> publication is the combination of many price elements, so **care has been taken** to adjust the individual price elements in a manner that **limits the resulting postage increases.** [Docket No. R2009-2, Postal Service Notice (Feb. 10, 2009), p. 19 (emphasis added).]

By way of further explanation, the Postal Service states that:

> For this price increase, the Postal Service uses the flexibility of the container-bundle-piece price structure **to limit the extent to which price increases for individual publications differ from the average.** At the same time, incentives for efficient preparation are strengthened by reflecting a higher percentage of costs in prices that had minimal impact on publications that were likely to experience above-average increases. For example, the **percentage of costs reflected in prices was increased for pallets but not for sacks.** [*Id.*, pp. 40-41, emphasis added (footnote omitted).]

Valpak's Initial Comments in Docket No. ACR2008 set out the view that the Postal Service has a duty to explain fully any apparent non-compliance with PAEA:

> To the extent that compliance determination under PAEA is solely intended to be an after-the-fact exercise, … **when non-compliance is found to have occurred, a more in-depth discussion is warranted**. *See generally* Docket No. RM2008-4, Valpak Initial Comments (Oct. 16, 2008), pp. 15-20, and Valpak Reply Comments (Nov. 14, 2008), pp. 11-12. [Valpak Initial Comments (Jan. 30, 2009), p. 21, fn. 16 (emphasis added).]

If costs increase in line with the Consumer Price Index ("CPI"), the Postal Service's brief narrative neither demonstrates nor explains why this year's price adjustment reasonably might be expected to achieve any meaningful increase in Periodicals coverage. When a class of mail **complies with** 39 U.S.C. section 3622(c)(2), an abbreviated presentation under rule 3010.13(b) ascertaining that (i) price changes are within the cap, and (ii) all workshare discounts are in accord with the statute, may be sufficient and in keeping with the light-handed regulation said by many to be envisioned by PAEA. However, the Postal Service explanation should do more when a **class** of mail is **not in compliance with the requirement in** section 3622(c)(2), and especially when the Postal Service is in a precarious financial state, in part as a result of that noncompliance.

The price adjustment for Periodicals should not be deemed compliant until the Postal Service demonstrates that its adjustment will help to increase coverage of the Periodicals class materially, thereby lessening the strain on Postal Service finances. The Postal Service makes no such demonstration. It makes no effort to raise rates for Periodicals above the cap in a conventional pricing increase (as it could, as Valpak understands PAEA[14]) in order to comply with 39 U.S.C. section 3622(c)(2). It makes no effort to raise rates for Periodicals by filing an exigent rate case for Periodicals, if such a case were required to achieve this result. Indeed, the Postal Service seeks to justify its prices designed to temper rates on the same high-cost publications which are the source of the Periodicals class being underwater, as:

- balancing the effect on individual publications,
- minimizing the possibility that any group of publications would incur major price changes,
- limiting the price increases for individual publications, and
- at least impliedly, limiting the extent to which prices increase for individual publications differ from the average. [*See* Postal Service Notice (Feb. 10, 2009), p. 19.]

Such references fail to demonstrate that price increases will fall less severely on high-contribution periodicals, as they need to do; *see* section VII, *infra*. In the absence of any such

[14] *See, e.g.,* Docket No. ACR2008, Valpak Reply Comments (Feb. 13, 2009), pp. 20-23.

demonstration, one could anticipate that this year's price adjustment will be singularly ineffective at increasing Periodicals' coverage.

The Postal Service's adjustment of price incentives does not demonstrate that substantial cost reductions are in the offing. Actually, the passthrough of costs and **prices** for **pallets** (by far the **most efficient** method for handling periodicals) has been **increased**, while the passthrough of costs and prices for **sacks** (probably the most expensive and **least efficient** method of handling periodicals) has been deliberately **restrained.** From an economic perspective, such price signals appear counter-intuitive. On the basis of the brief explanation provided, it is difficult to perceive how these changed incentives will "encourage efficiency and containerization." *Id.*, p. 19.

VI. The Educational, Cultural, Scientific, and Informational ("ECSI") Value of the Periodicals Class Does Not Support Below-Cost Pricing.

Like the provision in the Postal Reorganization Act of 1970 (former 39 U.S.C. § 3622(b)(8)), PAEA provides for consideration of the "**educational, cultural, scientific, and informational value** to the recipient of mail matter," (39 U.S.C. § 3622(c)(11) (emphasis added)), also known as "**ECSI value**."

Lately, some Periodicals mailers have claimed that the "historical importance of periodicals" calls for what they describe as a "diversity of 'cost coverages" in order to maintain "diversity of opinion and content within the class." *See*, *e.g.*, Docket No. ACR2008, Reply Comments of The Nation Company, L.P. and the Magazines of Politics, Policy, and Current Events Coalition (Feb. 13, 2009), p. 1. This statement appears to argue that **profit-**

making periodicals should subsidize (intra-class) other **below-cost periodicals**, which the Postal Service and the Commission have the liberty to authorize. However, the statement about the "historical importance of periodicals" could be invoking the ECSI value of Periodicals — but that factor is relevant to the coverage burden to be placed on Periodicals, once they have paid their way. ECSI value does not support requiring other classes to subsidize Periodicals (including those which are owned and published by for-profit corporations[15]) as a class.

Subsection (c)(2) **requires** mail classes to pay their own way as a threshold issue. Once prices meet this (i) "direct and indirect postal costs attributable" requirement, then consideration turns to the requirement of (ii) contribution (*i.e.*, the amount of "reasonably assignable" revenue **above costs** that goes towards institutional costs). Only this second issue (in allocating "reasonably assignable" costs) can consider ECSI value. The high ECSI value for Periodicals can justify a relatively lower contribution than other classes. However, high ECSI value for Periodicals never can justify below-cost pricing for all Periodicals, requiring Periodicals to be subsidized by other classes of mail. Nothing in PAEA authorizes the Postal

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[15] Of the organizations listed as members of Magazines of Politics, Policy, and Current Events Coalition ("MPPACE"), it **appears** that the following are owned by **for-profit** companies: *The American Conservative* (http://www.amconmag.com/aboutus.html); *Human Events* (http://www.regnery.com/eagle.html); *National Review* (https://store.nationalreview.com/donate/); *The Nation* (http://www.thenation.com/; https://salsa.wiredforchange.com/o/1555/t/2923/shop/custom.jsp?donate_page_ KEY=197); *The New Republic* (http://www.tnr.com/about/index.html); *New York Review of Books* (http://www.nybooks.com/about/); and *The Weekly Standard* (http://www.weeklystandard.com/tws/AboutUs/default.asp). (It is difficult to know for certain whether these publications are for-profit as some for-profit publications solicit contributions without clearly disclosing in the context of the solicitation whether they are for-profit or nonprofit.)

Service or the Commission to favor one class by doling out subsidies to that class at the expense of other classes.[16]

VII. When Coverage for a Class of Mail Is Less than 100 Percent, the Postal Service Needs to Demonstrate that Demand Effects Associated with the Rate Adjustment Will Result in, or Substantially Move Towards, Compliance with PAEA.

In FY 2008, the Postal Service handled about 8.6 billion periodicals. Some covered their attributable cost, while others did not. Conceptually, the situation of Periodicals (as well as other classes) can be illustrated graphically, as shown here in Figure 1. In this figure, each of the 8.6 billion periodicals is assumed to be arrayed according to its unit contribution, in descending order. To the far left is the copy (or copies) with the highest contribution, and the copy (or copies) with the most negative contribution is to the far right, at point N, where N = 8.6 billion.[17]

In Figure 1, every copy of every periodical that makes a positive per-piece contribution is included in Part A, to the left of X, the breakeven point. Similarly, every copy on which the

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[16] ECSI value has never been considered by the Commission or the Postal Service as justification to permit subsidization of Periodicals by other classes. For example, in the last omnibus rate case before the PAEA ratemaking system became operative (Docket No. R2006-1), the Commission analyzed proposed rates against all criteria of former section 3622 and said "The **rates exceed attributable costs** by a small margin, and thus are consistent with **the requirement that rates cover costs**." Docket No. R2006-1, *Op. & Rec. Dec.* (Feb. 26, 2007), p. 352. (This statement was based on proposed rates and estimated volumes and revenues.). Consideration of ECSI value on cost coverage occurred only **after** the Commission determination that the rates could be expected to cover the direct and indirect costs of the class.

[17] For ease of exposition, the situation is shown as a straight line. By construction, it declines monotonically.

Postal Service loses money is included in Part B. Area A represents contribution to Postal Service profitability, and area B subtracts from Postal Service profitability. With coverage of the entire class at only 84 percent, it should be clear that (i) losses, depicted by area B, currently exceed profits, depicted by area A, and (ii) coverage is improved whenever area A increases, area B decreases, or both. In years past, when coverage of Periodicals equaled or exceeded 100 percent, area A exceeded area B.

Periodicals in area B are those that, by definition, fail to cover their cost, hence they are the beneficiaries of cross-subsidies incorporated in the rate design. For instance, within Periodicals, the rate for editorial matter traditionally has been set deliberately below average cost, with support for editorial matter provided by revenues from advertising rates (which deliberately are set above average cost).[18] Thus, periodicals in area B of Figure 1 could be expected to have a far lower percentage of advertising than periodicals in area A. Clearly, if Periodicals were to experience a substantial diminution in the amount of print advertising, the editorial rate as a percent of average cost would have to be increased significantly or else the deficit in Periodicals would widen substantially, with a corresponding further diminution in coverage. That is, unless the percentage of advertising matter in the Periodicals class can

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[18] In addition to the subsidy to editorial matter (from advertising), other cross-subsidies designed into the rate structure are (i) low passthroughs on rate elements for bundles and sacks (and pallets, to a lesser extent), which benefit those publishers whose mail costs the most to handle, and (ii) zoned rates that do not reflect the full cost of transportation, which benefit publications that have a nationwide circulation but are entered at a single location, *i.e.*, are not dropshipped to destinating facilities. Publications in area B likely would be beneficiaries of all of these subsidies.

continue at or above its current level, the subsidy to editorial matter could become unsustainable.

Still referring to Figure 1, when costs increase in line with the CPI, the "profitability" line shifts down, thereby diminishing profits in area A and increasing losses in area B. Conversely, an **across-the-board** percentage price increase, without any change in costs, would shift the "profitability" line upward, rather uniformly, thereby increasing profits in area A and diminishing losses in area B. An upward shift from an across-the-board price increase equal to the CPI cap, offset by a downward shift from cost increases also equal to CPI, can be expected to have a relatively **neutral impact on coverage**.[19]

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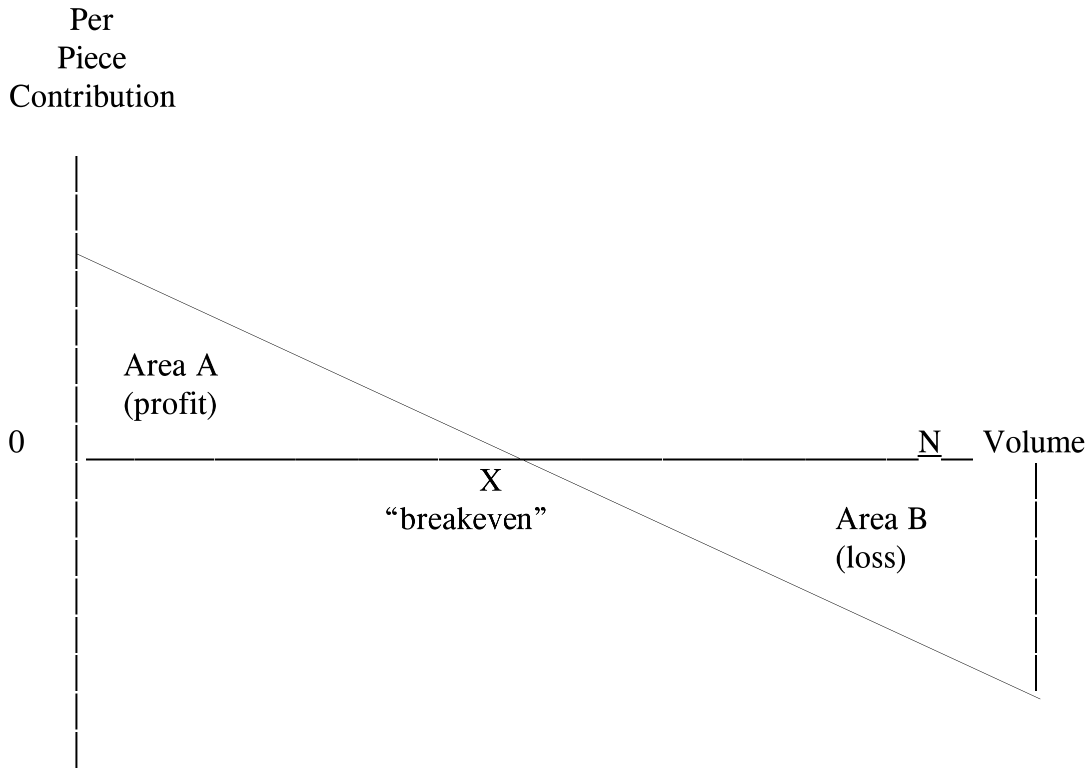
[19] The rate increase in Docket No. R2008-1 was more or less across-the-board, and coverage in 2008 did not differ markedly from coverage in 2007.

Figure 1

Periodicals Arrayed According to Unit Contribution to Postal Service Overhead



In order for a CPI rate adjustment to improve coverage substantially over the span of 12 months, something rather different than a nearly uniform change in rates is required. This could be achieved by having the rate design for Periodicals give further recognition to costs in ways designed to reduce the amount of cross-subsidization. The one thing fairly predictable from a price increase is the effect on demand. Incentives to reduce costs can be helpful, but the result from changed incentives is difficult to predict.[20] Primary reliance on demand effects, coupled with stronger incentives to reduce costs, is the most important and reliable way for price adjustments to affect coverage.

Time Warner Inc. argues at length that one way to improve coverage of the Periodicals class would be via strenuous efforts to reduce the cost of handling periodicals.[21] Towards this end, Time Warner makes a specific recommendation,[22] the practicality of which Valpak is in no position to judge. Further, citing the Postal Service submission in Docket No. ACR2008, Time Warner refers to the "joint PRC/USPS review" of Periodicals, still underway, as also holding out hope for future operational improvements, including cost reductions.

Cost reductions would be a highly desirable way to improve coverage of the Periodicals class. However, speculation about possible cost reductions should not be used to justify failure to adjust rates in this docket in ways designed to increase coverage. In prior cases, extending back many years, the possibility of cost reductions for Periodicals has been speculated about on a regular, recurring basis.[23] In retrospect, such repeated speculation seems to have been based far more on wishful thinking than on reality. The result, of course, is that over the past 12

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[20] Some Periodicals mailers have protested for years that they can do nothing further to reduce the Postal Service's cost of handling their mail.

[21] Docket No. ACR2008, Reply Comments of Time Warner Inc. on ACR2008 in Response to Order No. 161 (Feb. 13, 2009), pp. 5-6. If operational changes were to decrease costs, the "profitability" line also would shift upward, with similar effect.

[22] *See id.*, pp. 7-12, discussing deferral for periodicals that fail to arrive timely at Postal Service facilities in lieu of costly manual handling.

[23] The roll-forwards to the test year in traditional rate cases under the PRA lent themselves to such speculation, termed "cost reductions" or "CRs."

years reliance on such speculation has led to the coverage of Periodicals not only failing to improve, but actually getting worse.[24] The Commission must decide if it believes that it has the statutory authority to bet the future of the Postal Service on speculation about possible future cost reductions.

Concrete measures that might constrain costs and improve operational efficiency, along with any additional studies, as discussed by Time Warner, are all important. This docket, however, concerns a review of rates, not the desirability or feasibility of various operational changes. If improvements in operational efficiency can speed the time when 100 percent coverage is achieved, and further price adjustments designed to increase coverage are no longer necessary, so much the better. Operational changes are best left to the Postal Service, however, as they have no role to play in this price adjustment review.

At a minimum, annual rate adjustments for Periodicals under PAEA need to be designed to assure that coverage will increase steadily, each year, until it reaches 100 percent.[25] In this docket, the Commission should be convinced that the Postal Service's price adjustment for Periodicals will improve coverage substantially by increasing revenues more than costs, thereby moving Periodicals towards compliance with section 3622(c)(2). If the

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[24] *See* Docket No. ACR2008, Valpak Initial Comments (Jan. 30, 2009), p. 16, Table 2.

[25] Valpak has noted previously that, regardless of how rates are adjusted in May 2009, Periodicals rates in effect throughout this fiscal year almost assuredly again will fail to comply with section 3622(c)(2). Docket No. ACR2008, Valpak Initial Comments (Jan. 30, 2009), pp. 20-21. Failure of this year's rate adjustment to achieve at least a material improvement in coverage may constitute a remediable act of non-compliance under section 3653, or a justified basis for a complaint under section 3622.

Commission fails reasonably to assure both itself and mailers that the new rates in fact will improve coverage, and coverage continues to decline, then next year any such outcome may well be viewed as either a statutory or regulatory failure.[26]

This year's price adjustment cannot be considered an across-the-board adjustment. The price element for 5-digit bundles on 5-digit containers **increased** 1,650 percent. The price element for mixed ADC bundles on mixed ADC containers **decreased** 25.24 percent. Other prices were adjusted up and down quite a bit, though not so dramatically. The question becomes: Is the Postal Service's price adjustment likely to make matters worse or better? The most recent estimate of own-price elasticity for Regular Rate Periodicals is -0.260.[27] Assuming that this elasticity applies equally to periodicals in areas A and B of Figure 1, the effect of any price increase, by itself, would reduce demand in each area. What the Postal Service needs to demonstrate is that the demand effects from its price adjustment will fall less severely on profitable periodicals in area A, and more heavily on loss-incurring periodicals in area B. The Postal Service's brief discussion provides no explanation or insight, nor does it persuade that coverage of Periodicals will be improved as a result of the pending price adjustment.

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[26] *See generally* Docket No. ACR2008, Initial Comments of the Public Representative (Jan. 30, 2009).

[27] Docket No. ACR2008, Public Representative Reply Comments (Feb. 17, 2009), p. 6, Table 1.

VIII. Failure to Increase Coverage in the Periodicals Class and Eliminate the Deficit Can Adversely Affect All Other Mailers.

As the Commission has noted, the Postal Service is faced with mounting, troublesome deficits. The Commission's *Report on Universal Postal Service and the Postal Monopoly* (Dec. 19, 2008) ("USO Report") states:

> At the time of this report, the Postal Service's declining revenues, coupled with the Consumer Price Index (CPI) price cap on products that generate approximately 90 percent of its revenues, **may put the Postal Service's financial viability in peril.** [USO Report, p. 166 (emphasis added).]

And,

> In the immediate future, volumes and revenues will likely drop further, and **the financial strain on the Postal Service will continue to increase.** [*Id.*, p. 170 (emphasis added).]

Finally, it says that comments and testimony by parties with an interest in preserving one or more aspects of the Universal Service Obligation ("USO"),

> must be viewed in light of the Postal Service's **precarious financial state.** [*Id.*, p. 171 (emphasis added).]

Consequences from continued large deficits in the Periodicals class easily could affect the mailing public in more than one way.

- One obvious possibility, for instance, is that all mailers could be required to make up for prior shortfalls in an "omnibus" exigent rate case.[28]

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[28] PAEA clearly permits filing of an exigent rate case applicable to all classes. *See* 39 U.S.C. § 3622(d)(1)(E). Although what constitutes an exigent circumstance has not been defined, one might consider that reaching the debt limit, running out of money, and having to close down operations clearly would constitute an exigent circumstance. PAEA certainly also permits an exigent rate case for a single class of mail where revenues continually fail to cover attributable costs, jeopardizing the Postal Service, based on what the Commission calls its

- Second, mailers (and recipients) could see a reduction in delivery service.
- Yet a third possibility, discussed (but not recommended) in the Commission's USO Report, would be seeking Congressional authority to permit closure of many small post offices, and conversion of others to contract agencies.

Each of the preceding represents a possible **tradeoff** with the Periodicals deficit.

In light of the various means available to offset a continuing deficit in (and subsidy to) the Periodicals class, the Commission, in its regulatory oversight capacity, needs to assure all mailers that, even if the cost of handling periodicals continues to increase in step with the CPI — *i.e.*, at the same rate as the cap — successive rate adjustments under PAEA nevertheless will result in increasing coverage for the Periodicals class until it reaches 100 percent.

When every class of mail at least pays its attributable cost, achieving financial breakeven under the rate cap will be difficult, even under the best of circumstances. When a major class of mail such as Periodicals runs continuing deficits amounting to hundreds of millions of dollars, achieving financial breakeven may be impossible. The financial health of the entire Postal Service thus is underpinned by the **requirement** of section 3622(c)(2) that each class of mail at least pay its attributable costs, while some classes must pay much more than that.

Table 1 demonstrates that all mail volume is being adversely affected by price increases, recession, *etc*. It also shows that recent volume declines are much steeper for those classes that are covering their costs than for Periodicals, which does not cover its costs.

"precarious financial state." USO Report, p. 171.

(Indeed, Periodicals was the only class with a product — In-County — showing an increase in volume.) Viewed at a class level, while all volume is decreasing, the **subsidized Periodicals class** is doing relatively better than the classes being required to do the subsidizing.

Table 1
Market Dominant Products
Cost Coverage and Volume Change

Class	FY 2008 Cost Coverage (ACR2008)	Volume Change, FY 2008 over FY 2007	Volume Change, Q1, FY 2009 over Q1, FY 2008
First-Class Mail	200.71%	-4.8%	-7.2%
Standard Mail	156.41%	-4.3%	-11.0%
Periodicals	**83.99%**	**-2.2%**	**-3.5%**
Package Services	100.75%	-7.5%	-8.4%
Shipping Services	N/A	-3.4%	-10.5%

Sources: FY 2008 ACR CRA; FY 2008 RPW Summary; FY 2009, Quarter 1 RPW Summary.

Some have argued that requiring Periodicals to cover its costs will drive many publications out of the mail, analogous to "amputation" rather than administration of "antibiotics." *See*, *e.g.*, Docket No. ACR2008, Reply Comments of American Business Media (Feb. 13, 2009), p. 3. Interestingly, ABM's comments acknowledge the presence of serious infection within the Postal Service, but nevertheless want to preserve the subsidy received by its members' publications for as long as possible. However, in confronting the infection that even ABM is forced to recognize, it is reasonable for the Commission to try to protect other mailers and the Postal Service. *See* Docket No. ACR2008, Public Representative Initial Comments (Jan. 30, 2009), pp. 13-19, and Valpak Initial Comments (Jan. 30, 2009), pp. 12-24. Since recent tempered price increases of the sort sought by ABM do not harm

Periodicals volume as much as the other classes, it appears clear that, although the infection is in Periodicals, the pain is being felt by the other products and by the Postal Service.[29]

Respectfully submitted,

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[29] It is not impossible to see that continued large deficits in Periodicals, in conjunction with deficits from other sources, eventually could push the Postal Service toward the long-feared death spiral. The effect of the Periodicals deficit becomes increasingly pronounced as volume in the more profitable classes diminishes rapidly relative to the volume of Periodicals.