

Before the  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Report to Congress and the President on  
Universal Postal Service and the Postal Monopoly

Docket No. PI2009-1

PUBLIC REPRESENTATIVE REPLY COMMENTS  
ON USO COSTS FOR PERIODICALS  
March 19, 2009

In comments filed February 17, 2009, Valpak argues that financial losses incurred to provide Periodicals service are not costs of the Universal Service Obligation (“USO”).<sup>1</sup> The Reply Comments of the Public Representative address the policy implications of Valpak’s arguments. The ultimate implication is that the Postal Service should behave like a private firm without a legal monopoly and without a USO or, perhaps, like a nonprofit coop whose members consist of financially successful mass mailers.

According to Valpak, “the logical outcome *dictated* by PAEA” is that “deficit publications that have been perpetually subsidized” should “fail.”<sup>2</sup> If this is indeed an “outcome dictated by PAEA,” then the PAEA needs fixing. Valpak’s argument has not materialized out of a vacuum. It is the logical result of extending the efficient component pricing rule (“ECPR”) to individual customers or pieces of mail.<sup>3</sup> As Valpak

---

<sup>1</sup> “Valpak Direct Marketing Systems, Inc. and Valpak Dealers’ Association, Inc. Initial Comments Regarding the Commission’s Report on Universal Postal Service and the Postal Monopoly,” February 17, 2009 (“Valpak Comments”).

<sup>2</sup> *Id.* at 5-6 (emphasis added).

<sup>3</sup> The efficient component pricing rule states that discounts for workshared mail should equal Postal Service costs avoided as a result of such worksharing. *E.g.*, ACR2007 at 97.

states, “It will be essential that future rate increases focus on cost recognition dramatically, and reflect much higher passthroughs . . . .”<sup>4</sup> The effect of “much higher passthroughs” in the Periodicals class is already known. Those passthroughs have been increasing since Docket No. R2006-1, as a result of deaveraging (through creation of more discount categories in) the Periodicals class.<sup>5</sup>

A primary function of a government-operated (or -regulated) and -protected monopoly is to collect profits from some customers and subsidize others. The subsidized customers presumably confer some sort of public benefit on the “overcharged” customers or on the nation as a whole. At least, that would be the economic rationale for such an arrangement.

The object of the postal system, [jurist C.C.] Nott explained in 1874, was the “impartial and general dissemination of intelligence”—a task that was best performed by the government. The postal system at present, Nott explained, worked extremely well: it “gives every man an amount of service at an almost fabulously economic rate of cost.” In his view, this could be explained by its legal status as a monopoly. “Monopoly enables it to act for all without acting against any”: its “object” was “not the acquisition of wealth, but the public good.”<sup>6</sup>

The Public Representative would conjecture that the two most important social or public benefits provided by the Postal Service are nationwide provision of similar service at similar rates and nationwide distribution of small-circulation journals of science, art, literature, or opinion. The likely truth of this conjecture can be judged by trying to imagine the social benefits of a Postal Service that did neither. Such a Postal Service would not serve money-losing customers. More specifically, it would evaluate each

---

<sup>4</sup> Valpak Comments at 6. “Passthrough” is the percentage of avoided cost reflected in a discount. The ECPR states that passthroughs should equal 100 percent.

<sup>5</sup> See Order No. 191, March 16, 2009, at 36.

<sup>6</sup> Postal Regulatory Commission, “Report on Universal Postal Service and the Postal Monopoly,” December 19, 2008, App. D at 61 (citation omitted).

individual customer for profitability. Such a Postal Service would take no note of any external social costs or benefits

Why should a national government sponsor and protect (from competition) “a successful, profitable organization”? Why should a national government sponsor and protect a “profitable organization” that delivers 25-cents-off coupons for a local supermarket when the same coupons can be clipped from a privately delivered newspaper or downloaded from a computer? Why should a national government sponsor and protect a “profitable organization” that delivers mass media that duplicates cable TV and the internet? Why should a national government sponsor and protect a “profitable organization” that delivers a swimsuit edition for less than a “green” merchandise catalog? Finally (and soon to be considered), why should a national government sponsor and protect a “profitable organization” that delivers only to densely populated, high-income areas?<sup>7</sup>

The Public Representative urges caution in future application of the ECPR, lest rationales for the existence of the postal monopoly be unintentionally eroded.

Respectfully submitted,

Emmett Rand Costich  
Public Representative

901 New York Avenue, N.W.  
Washington, D.C. 20268-0001  
(202) 789-6833; Fax (202) 789-6891  
e-mail: costicher@prc.gov

---

<sup>7</sup> Such would be the result of dropship discounts for First-Class Mail. Further deaveraging in First Class will drive up rates for mail to remote or low-income areas, further engendering resentment of our financially viable Postal Service.