

Edward J. Gleiman

Speech
before the

Envelope Manufacturers Association

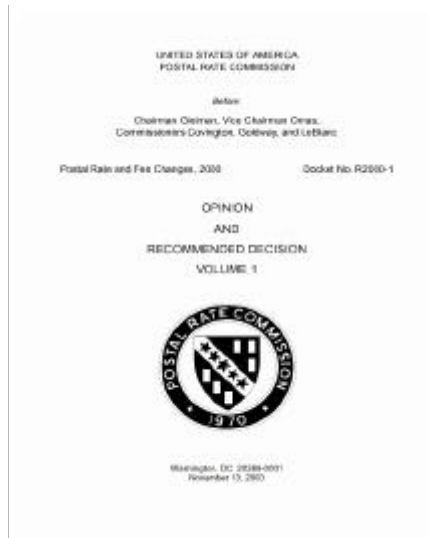
Williamsburg, VA

October 29, 2000

Good morning ladies and gentlemen.

The law provides that the Postal Service may, from time to time, request that the Postal Rate Commission recommend "rates and fees [that] shall provide sufficient revenues so that total estimated income ...to the Postal Service will equal as nearly as practicable total estimated costs of [operating] the Postal Service."

On January 12th the Postal Service submitted such a request seeking an additional \$3.7 million dollars in revenue to be generated by an overall average rate increase of approximately 6.4 percent. After lengthy deliberations, during which the Commission held 40 days of hearings to consider 178 pieces of testimony presented by 122 witnesses representing 77 participants, including the Postal Service, the Commission has concluded that the---- Wait a minute, I think I picked up the wrong presentation on my way out of the office yesterday.



Let me try again.

Good morning ladies and gentlemen.

When Maynard invited me to visit with you, I plumb forgot that the Commission would be in the final throes of the R2000-1 rate case in late October. So, while it would certainly be a pleasure to be here under normal circumstances, I want to extend a special thanks to you for having me here today. If for no other reason, it has provided an excuse to escape for a day the pressure--cooker atmosphere associated with putting the finishing touches on a major rate case decision.

Good Lord willing and the creek don't rise, or perhaps I should say if the computers don't crash, we hope to have that decision out on Monday, November 13th.

Maynard suggested that I talk about the future-- about postal reform, its impact on the Commission and other changes the postal community may be facing. Before I whip out my somewhat cloudy crystal ball, I thought you might be interested in a brief outline of the process currently associated with postal rate making. And, as I talk about the process, I will attempt to debunk a few myths and set the record straight on what you may have heard at previous get togethers. I will also talk about an issue that I believe has greater potential to impact the future well-being of the Postal Service and the postal community than the much discussed diversion of transactional mail to electronic bill paying.

Prior to 1970, postage rates were set by the Congress. Rates, generally, did not cover the costs of providing service, so Congress appropriated tax dollars to make up the difference. The Postal Reorganization Act of 1970 changed all that. It replaced the Post Office Department with a new United States Postal Service and charged it with operating in a more business-like fashion. Congress would no longer set postal rates, but it wanted to ensure that the public had an opportunity to be heard before the Postal Service changed rates or services. Therefore, it simultaneously established a separate, independent Postal Rate Commission to provide an open process in which the public could participate in the development of postage rates.

Myth Number One: Contrary to what you may have heard or read, although the PRC was not among the 1968 recommendations of the Kappel Commission---appointed by the President to study the future of the Post Office

Department---neither did it spring forth like a phoenix from the ashes in some secret conference between House and Senate legislators. Permit me, if you will, to correct the record. The key elements were there the entire time. I read from the conference report on the 1970 Act at page 84—

The House bill contained...a Postal Rate Board as an independent agency not part of the Postal Service. The Senate amendment contained...an independent Postal Rate Commission within the Postal Service. The conference substitute adopts the House provision (for a freestanding entity)...changing the name to the (Senate proposed) Postal Rate Commission...

POSTAL REORGANIZATION

AUGUST 3, 1970.—Ordered to be printed

Mr. DULSKI, from the committee of conference,
submitted the following

CONFERENCE REPORT

[To accompany H.R. 17070]

Postal Rate Commission

The House bill contained a provision establishing a Postal Rate Board as an independent agency not part of the Postal Service. The Senate amendment contained a provision establishing an independent Postal Rate Commission within the Postal Service. The conference substitute adopts the House provision with amendments changing the name to Postal Rate Commission, requiring that the expenses of the Commission be paid from the Postal Service Fund, and permitting the Governors, by unanimous written decision, to modify the total amount of the Commission's budget.

Perhaps there is a lesson or two here for those who yearn for a new Kappel-type presidential commission as some sort of panacea to make

recommendations to mold the future of the Postal Service. Commissions study and recommend, the President proposes and the Congress disposes---as it sees fit!

Congress intended that mailers should be able to use the Postal Rate Commission's proceedings to assure that some mailers were not cross-subsidizing other mailers and to assure that postage rates reflected the costs actually incurred to provide service. Further, by requiring the Service to justify rate and service changes, Congress hoped to provide a check on inefficiency.

Each of you probably has your own point of view on how well the system works to keep the Postal Service lean and efficient. But I hope you would agree that if mailers participate, and if the Postal Service is subject to public scrutiny, the result is likely to be better than if proposals go entirely unreviewed. A case in point can be found in the last omnibus rate case, the R97-1 case.

- Mailer participation in developing the public evidentiary record was responsible in part for enabling the Commission to shave some \$750 million---almost one third---off of the Service's request for additional revenue. As a result, almost everyone received a smaller rate increase than would have otherwise been the case.
- Another example: periodicals mailers, stung by sharply rising costs associated with the processing of their mail, insisted that postal officials join them in an effort aimed at finding answers and ferreting

out inefficient practices. In the absence of the industry pressure occasioned by the filing of that rate case, joint industry-Postal Service efforts such as this might not be undertaken. And, perhaps more important, and while the jury is still out--until November 13th--periodicals and other flats mailers might not have been as well positioned to address costing issues in the current rate case.

The Commission will not issue its decision on any Postal Service request without providing an opportunity for an on-the-record hearing to all mailers, other interested parties such as suppliers, and even competitors.

During this phase of a case, the Commission's computers are constantly running; crunching everyone's numbers through specially designed programs.



After all parties have been heard, the Commission evaluates the evidence.

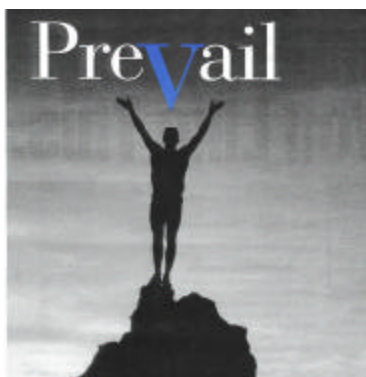


Gosh, I never realized until this morning the striking resemblance between Rodin's Thinker and yours truly.

The next phase of the decision making process has us praying---a lot!



Then, the Commission issues a written decision based on the public evidentiary record. The decision evaluates each point raised by every party and provides a recommended decision to the Governors of the Postal Service.



After the decision is issued we get back to all our other responsibilities, back to our daily routine.



Now these omnibus rate cases, which consist of tens of thousands of pages of evidence and touch all of the thousands of postal rates and fees, are extraordinarily complex, with dozens of participants and scores of witnesses. I mentioned the numbers for the R2000-1 case earlier on. This brings me to-

Myth Number Two: Rate cases take too long! Given the complexity of the subject matter, the amount of money involved---more than \$65 billion and still climbing---and the need to provide due process to the many intervenors---there are 78 parties currently participating in R2000-1---10 months is---as one

intervenor told us on the record---a rocket shot compared to most rate-type proceedings. Moreover, when the Commission does attempt to shave some time off of the 10 months provided in the law, representatives of mailers both large and small object. Mailers want as much time as possible to examine the reams of data the Postal Service provides in support of its proposals. With their money at stake, Mailers prefer that things be done right rather than fast! By the way, the original 1970 law contained no time limit on rate cases. The 10-month limit was added after one of the early cases, overseen by an administrative law judge, recruited from another agency, seemed to go on forever.

Some think that we ought to go back in time, ought to get rid of the Commission and replace it with not one but three administrative law judges to be borrowed from some other government agency. Bad idea! But don't take my word for it. Shakespeare wanted me to remind those who prefer a return to Admin Law Judges that "What's past is prologue." And, Santayana asked me to add that "Those who cannot remember the past are condemned to repeat it."

I mentioned that the Commission also has other responsibilities which impact the postal community. These include: 1) approving both changes in existing services and the establishment of new services---those are known as classification cases; 2) adjudicating complaints from anyone who believes the Postal Service is not providing rates or services as required by law; 3) issuing advisory opinions when the Postal Service proposes a substantially nationwide

change in the nature of its services; and, 4) our mostly recently assigned task, providing Congress with annual reports about the costs and revenues of international mail.

Finally, the Commission is given 120 days to consider appeals from those who contend the Postal Service has proposed closing their local post office without following the safeguard procedures Congress wrote into law.

This brings me to ***Myth Number Three***: The Postal Service cannot close a post office without first obtaining the approval of the Postal Rate Commission, which supposedly takes four years.

The facts are that the PRC gets involved in only appeals of closings and then for only 120 days. That's four months. Not four years! You can't get four years out of the equation even if you use Washington fuzzy math!

And how many closings have been appealed? According to a 1997 GAO report only 296 of 2,614 closings were appealed over a 20-year period. I make that to be about 11 percent. And, what was the disposition of those appeals, you ask? USPS affirmed in 170 cases; 31 cases dismissed; and only 58 remanded on grounds that the USPS had not complied with the procedural requirements of the law. Number of times the Commission took more than 120 days to rule on an appeal, Zero! Number of cases in which the USPS was told by the Postal Rate

Commission that it could not under any circumstances close a post office,
ZERO!

One More Myth: This one actually has an element of truth to it. The Rate Commission is an anomaly---the only government agency that regulates another government agency. Actually, there are lots of government agencies that regulate one aspect or another of other agencies. The criticism is accurate, though, if one adds the qualifier “whose sole purpose” is to regulate another agency. But then, the regulated government agency---the U.S. Postal Service---is, itself, an anomaly. Let me explain.

Generally speaking, ordinary government agencies don't charge for their services. They provide what economists call public goods. Businesses, on the other hand, ordinarily charge a fee for the goods and services they provide. These are viewed as private goods. The Postal Service increasingly provides what many consider to be private goods or services and it charges the public. As the Postal Service moves more and more into commercial, competitive activities only tangentially related to its traditional, core business the extent of its character as a government agency becomes even more clouded.

Now, back to the future---and postal reform!

Many years ago, when I was just starting my government career, one of my mentors gave me some advice, in the way of a quote purportedly from one Petronius Arbiter in 210 B.C.

**WE TRIED HARD... BUT IT SEEMED THAT
EVERY TIME WE WERE BEGINNING TO FORM
INTO TEAMS WE WERE REORGANIZED.....I
WAS TO LEARN IN LIFE THAT WE TEND TO
MEET ANY NEW SITUATION BY
REORGANIZING AND A WONDERFUL METHOD
IT CAN BE FOR CREATING THE ILLUSION OF
PROGRESS WHILE PRODUCING
confusion,
inefficiency,
and demoralization.**

PETRONIUS ARBITER 210 B.C.

Actually, I'm not opposed to change---to postal reform. During my time at the Commission, we've made quite a few changes. We've issued rules to encourage experimentation by the Postal Service and established procedures for expedited treatment of non-controversial cases. We've established a website on which we post overnight every document filed with the Commission, and we've created a search engine that enables everyone to word search these documents.

Want to find out how many times and in what context the aspect ratio of envelopes was mentioned in the current rate case? How about in each and every case all the way back to 1971? Try our website!

Change is not the problem. The problem is---my concern is--- that much of what has been on the table in the way of postal reform over the past several years is tantamount to an uncontrolled and uncontrollable experiment. Maybe it is my training in the sciences coming to the fore, or maybe it's my belief that the Postal Service is too important to our economy and too intertwined in our everyday lives and livelihood to leave too much to chance.

Let me make clear at this point that I have a great deal of admiration for Representative John McHugh and his staff. In the almost 17 years I spent on Capitol Hill I cannot remember more than a handful of instances in which a member invested more of him or herself in an issue. And, although I took issue with a number of provisions in his bill, I consider it unfortunate, that the Chairman has run out of time in his search for the "Holy Grail" of postal reform. It is unclear who, if anyone, will take up the challenge in the 107th Congress.

In the event that someone does take up the McHugh gauntlet and seeks your support, I think it is important that you, that mailers not just blindly endorse a bill simply because its title includes the phrase "postal reform."

Why do I offer this admonition? Because, when it comes to legislation---as is the case in so many other areas the devil is in the details.

As you all probably know by now, one of the premises of H.R. 22 is rate or price cap regulation. For a given type of mail, rates could be adjusted annually up or down around a cap---basically an inflation measure---plus or minus 2 percent. Mailers embraced this proposal! They would know the boundaries of annual changes and could negotiate directly with the Postal Service for more favorable rates within those perimeters.

Let's assume, for the sake of discussion, that we were faced with a situation akin to what was placed on the table by the Postal Service in the current rate case for periodicals and other flat-type mail. Initially, the Service reported cost increases on the order of 14 percent or so---increases that far exceed, are double or triple, the rate of inflation. Even with the maximum increase permitted under the McHugh bill rates for this type of mail would still be below cost.

But a basic tenet of H.R 22 requires that rates must cover costs.

Yet another section of the bill directs the new Postal Regulatory Commission to order that "...unlawful rates be adjusted to lawful levels..."

Which rates would be lawful in this scenario? The capped rates that do not cover cost or the rates that exceed the cap but cover costs? What's a Postal Regulatory Commissioner to do? More to the point, what's a mailer really likely to experience in the way of rate increases?

By the way, it's not altogether clear that this price cap regime would achieve one of its other principle objectives, that is, to put downward pressure on future cost increases. Why? Because the bill has an "exigencies" escape clause and another provision that prohibits the PRC from taking any action that might impact labor negotiations. No, I'm not suggesting that the last provision I mentioned be drop from any future bill. I do think, however, that some consideration should be given to a statutory revenue cap as one means of adding a bit of starch to the spine cost containment. Without an effective cost containment program---and I have yet to see one---the Postal Service, reformed or not, cannot be what mailers want. It cannot be a low cost, efficient provider of service.

These examples are just a couple of the problems in the reform bill that many in the community wanted to put on a fast track through Congress.

Everyone talks about how it has been 30 years since the Postal Reorganization Act was enacted; that the postal landscape is very different; that now is time to change the law. Again, I am not opposed to legislative reform, but, if we are going to put our money on legislative reform, we had better get it right, because once that next major postal bill---a reform bill---is enacted, it may be another 30 more years before we get a shot at fixing things again.

And, what would legislative reform mean for the PRC? If something akin to H.R.22 were enacted, the Commission would be neither strengthened nor weakened. It would be different! It would be relegated largely to after the fact audits as opposed to its current pre-approved role. And, it would grow to perhaps three or four times its current complement of 55 bodies.

Now, while we are figuring out what should be done in the way of legislative change, we---the postal community, the Postal Service and the Postal Rate Commission---should not just sit back and wait. There is much to explore; much that can be done within the confines of current law. We need to push the edges of the envelope---all them!

The EMA is already working on a number of forward-thinking projects. As one of the world's slowest and worst typists---I guess they call it keyboarding now---I

especially like the idea of envelopes carrying information I can scan into my computer to connect with a vendor's website or with an information source.

Let me throw out a few of my ideas for change that are not conditioned on congressional action:

- NSAs, or negotiated service agreements, have been a hot topic in the legislative equation. NSAs are, for all intents and purposes, not very different from narrowly drawn classification proposals; a number of which the Commission has received and approved over the past few years. If the Service has any such proposals on the drawing board, it ought to send them over. If mailers have ideas, they ought to submit them. If someone thinks we need to modify our regulations to encourage niche classification cases, let us know. NSAs are doable under current law! Why wait for legislation, if we can act now to drive costs out of the system and lower rates for qualified mailers?
- -Just before the R97 case was filed, when many in the community were concerned about the size of the Service's request, I suggested that a case calling for rates to be phased--in over time might help avoid the rate shock that comes with large, double digit increases. This was not an entirely new idea. It was a take--off on a joint USPS-PRC task force recommendation in the early '90s for a four-year rate cycle with a mid-cycle adjustment. These

proposals reflected the purported desire of mailers for smaller and, implicitly, more frequent rate increases. We now seem to be in a two-year rate case cycle. Mailers are, however, understandably concerned over the cost of litigating these more frequent cases. But by phasing in rates, they may be able to have their cake and eat it, too-- smaller periodic increases and fewer cases to litigate. It is time, I believe, to dust off the task force recommendation and/or to give some serious thought to the phased rate approach.

- -I mentioned our website a bit earlier. We've been told that getting documents posted overnight and providing a search engine has resulted in substantial savings to intervenors and the Postal Service. The Commission can and should do more in this area. With a little cooperation from the community, I think we can implement electronic filing and service of documents.

I've already made several suggestions in the package services area:

- When I spoke to the Parcel Shippers Association in June of last year I suggested that, given the Service's economies of scale in delivery, alliances

with other transportation or delivery firms to carry their parcels the last mile made sense---and would make dollars for the Postal Service. This is happening already.

- I've also suggested that the Service explore making low weight Parcel Post a wholesale, only, product and pushing low weight over-the-counter retail parcels into Priority Mail. The price differential between Priority Mail and single piece parcels is very small. For just a couple of cents more, an individual can send a package Priority, and, if the individual purchases delivery confirmation, it becomes actually less expensive to use the faster Priority Mail service! Faster service at a lower price means satisfied customers!

Speaking of delivery confirmation, it is currently available for Priority and Parcel Post. The USPS has proposed extending this service to Standard mail. My thought here: Why stop with Standard? There are roughly a quarter billion pieces of First--Class mail for which individuals purchase the more expensive Certified Mail option. Delivery of a Certified Mail piece is more costly to the Postal Service than handling a delivery confirmation piece. Certified mail requires the carrier to make a special trip to the door. If the carrier is already equipped with a scanner for delivery confirmation purposes, the Service has an opportunity to avoid the time---and time is money---that it takes the carrier to

make that special trip to the door. Delivery confirmation provide more information quicker at less cost to both the Postal Service and the customer!

As an old vaudevillian might say, "I've got a million of 'em"---Well, maybe not that many, but it is, I think, time to move on. I do want to assure you, though, that while I have been talking trees, I have not lost sight of the forest.

Last October there was a congressional hearing at which the General Accounting Office presented unverified Postal Service estimates of the impact of the diversion of First--Class mail---bills and payments---to new technologies. The lead on the story was USPS volume to decline with a loss of \$17 billion in revenue. At 33 cents a pop, I make that to be just short of 50 billion pieces of mail. And, the price of a stamp, according to the story, it would increase by 17 cents!

That is a pretty bleak picture! However, at the risk of being labeled a troglodyte, may I suggest that if you scratch the surface of that picture you might find that a few rays of sunshine still remain for hard copy mail. While I have no doubt there will be diversion, my uneducated guess is that the glide path will be longer and the incline not so steep. Many believe that there will be gains to offset losses in transactional mail volume. For instance, Bob Wientzen of DMA reported just a couple of weeks ago that high tech ventures are generating new volumes of hard

copy mail as what he called "pure play Web companies" launch catalogues and direct mail campaigns to drive traffic to their Web sites. Maynard expressed similar views in a news article this past summer. Moreover, unless the Postal Service is incapable of shedding volume variable costs or waits until 2008 before adjusting First--Class rates, the price of a stamp does not have to go up by 17 cents. Unless, it waits until 2008 to shore up its base, volume declines

May not be so severe. What if I'm wrong? What if the worst case scenario does come to pass?

As I recall from the numbers in that July 20th *Atlanta Journal-Constitution* article, there goes much of that 8 percent of envelopes that currently carry bills and payments. That is not a pleasant prospect, but it is a heck of a lot better than the prospect of losing a big chunk of the remaining 92 percent of your business because an overreaching law restricts the sharing of personal information and results in direct marketing volumes going south.

Personal privacy, one's right to control the use of his or her personal information, is a hot issue. It is a hard one to be against. And, it is a dangerous one to ignore, either as an individual or as a business person.

Elements of the postal or mailing community or whatever you might call it have been engaged in the privacy issue at both the federal and state levels. More often than not, those involved have been the businesses that would feel directly

the impact of restrictions on the collection and sharing of person data---the list companies, the direct marketers. Think about this: if the direct marketers and list companies are forced to cut back because of data restrictions, won't that impact the manufacture of goods that are marketed? Might it result in printers printing fewer catalogues? Won't it impact the envelope manufactures? And, could it not result in a decline in Postal Service volumes across--the--board?

Those members of the greater mailer-postal community who have not been paying attention to the privacy issue must do so. They must join with others in a broad-based coalition that ignores differences they may have on traditional postal issues. If there is less information and less prospecting, there will be fewer sales. Fewer sales means fewer parcels to deliver, whether by white trucks with an eagle or big, brown trucks. The community needs, as a whole, I believe, to be proactive in pursuing of a rational, nation-wide approach that addresses both the concerns, the rights of individuals and the needs of the business community.

I cut my teeth on information policy and personal privacy issues about 25 years ago, as project manager at the then Department of Health, Education and Welfare I worked directly on implementation of the federal records Privacy Act of 1974 and the 1974 school records access law. I support the cornerstone concept of these laws, known as fair information practices. And, I submit that

the federal privacy law, governs the collection and use of personal data by federal agencies and which provides agencies a modicum of flexibility, is a reasonable point of departure for future discussions of either industry self-regulation or legislation.

I had best stop at this point, since I've taken more time and spouted off more than I should have. But let me leave you with a thought to keep in mind, in the event you are asked to evaluate my presentation.

This fellow is flying a hot air balloon and suddenly realizes he is lost. He cuts back on the hot air, descends and yells to a man he spots on the ground.

"Excuse me, can you tell me where I am?"

"Sure," the man yells back, "you're in a hot air balloon about 30 feet above this field."

"The balloonist yells back, "You must work in information technology."

"I do," replies the man, "but how did you know?"

"Well," shouts the balloonist, "everything you told me was technically correct, but it's of no use to anyone."

The man on the ground thinks for a moment and yells back, "You must work in management."

"Why, yes, I do," replies the balloonist proudly, "but how did you know?"

"Well," says the man on the ground, "you don't know where you are or where you are going, but you expect me to be able to help. You're in the same position you were in before we met, but now it's my fault!"

Thank you for having me here this morning.