

(Version actually given)

Speech to NAPUS
August 23, 1994
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It is always a delight to visit with my friends at NAPUS. I rather regard today as my six-month performance review, since it was just six months ago that I last met with NAPUS at its Leadership Conference in Washington, and today marks my six-month anniversary as Chairman of the Postal Rate Commission.* It's been an exciting, challenging, and informative six months. I plan to share with you today some of my over-all impressions.

If I were asked to summarize what I've learned, I would pick one word--*Service*. Since I arrived at the PRC, hardly a day has passed without the "service" of the Postal Service being subject to attack from the daily media, Congress,* and the public. While the Postal Service makes forays into competing on the electronic highway and looking at new ventures [delivering packages in Florida as part of a Time-Warner cable TV experiment or the PMG's idea to have letter carriers read utility meters in New England], at times it seems to have forgotten that it first, foremost, and always, it must deliver the mail.

The bombardment of criticism about service encompasses all parts of the Postal Service family--you, postmasters; us, the Rate Commission; and, of course, postal management and labor. What is particularly worrisome about the current status of postal "service" is not the criticism--**BUT**, the failure of service at such a critical time in postal history.

Since the Private Express statutes, enacted about 150 years ago, the Postal Service has never faced serious competition in First Class. But, with the onslaught of electronic data communications, the First Class monopoly is threatened. The very mail that supports 70 percent of the Postal Service's overhead or institutional costs is the same mail that is most likely to move to electronic transmission. **Consequently**, if postal "**Service**" continues as is, or deteriorates further, one can anticipate hastened movement of "mailable" information to the electronic superhighway, and the movement will probably be permanent. For example: Mortgage payments--it won't take very many late fees because of slow mail delivery before an individual *authorizes direct transfer from his or her checking account*.*

*Refer to my defense before House Post Office and Civil Service

*Recent letter in Bulletin

*[Mention of postal employee faxes to Time magazine]

Against this backdrop, what is the role of the Postal Rate Commission? What is the role of postmasters? What "service" can we provide to help make the word "service" meaningful in the Postal Service's future?

First, the role of the Rate Commission. Since the Postal Reorganization Act of 1970, critics have viewed the Rate Commission as an annoying, buzzing knat--or worse. Despite our tiny budget, which we have cut two years running and small staff---less than 55 people, including five Commissioners--the Rate Commission can, and has it seems, made major waves--in the view of some, tidalwaves! The decision last year not to approve the Postal Service's requests in the Bulk Small Parcel Service case and the decision in the last major rate case, when the Commission refused to grant the requested 30 cent First Class stamp, are cases in point.

Quite naturally, not everyone was pleased. The March, 1994 edition of *Postal Record*, called the ratemaking process "...the Postal Service's most critical financial handicap." According to the article, "It's like fighting with one hand tied behind your back." In a similar vein the May 19, 1994 edition of the Advertising Mail Marketing Association Bulletin quoted AMMA's Postal Policy Committee Chairman as saying: "...the Rate Commission has made it all but impossible for the Postal Service to focus fruitfully its time, energy, money, and other resources on a restructuring of its products and service." And according to the AMMA Board Chairman, "It's time for Congress to examine the legislative and regulatory underpinnings of this system and give it a major overhaul."

Are these criticisms just? Are they well-informed? Is the rate-making process the Postal Service's "greatest financial handicap?" After six months at the Rate Commission, I can categorically say "no" to all of the above. Indeed, the "service" that the Rate Commission has performed since its creation in 1970 and the "service" that it must continue to perform is that of an independent evaluator whose job it is to carry out the mandates laid down by Congress in 1970 in the Reorganization Act.

The Rate Commission does not function in a vacuum. It has not invented "break-even" standards or "attributable costs" or prohibitions on "cross-class subsidization," despite what some might have you believe. The standards against which the Rate Commission applies in its rate-setting decisions are set forth in specific statutory language and in related case law, including a

the Postal Service, would have fallen; **and**, all of you would have been on the **hot-seat** when small newspapers throughout the nation **editorialized** about their huge increase in rates.

The review and analysis of the myriad of issues, such as business reply mail and in-county rates, takes time. The Postal Service is fully aware that **IT** decides when to propose new rates and that **IT'S** decision triggers a legally-mandated 10-month Commission review period.

I used to think that 10-months was an awfully long time for a rate case. However, having been half-way through what some characterize as a relative simple rate-case, and I am now of a different mind.

Let me review the time element of the current case: Postmaster General Runyon was determined to break the traditional three-year rate cycle and not raise rates for four years.

As a result, the Service didn't file a rate case until this past March. At that time, both Mr. Runyon and the Chairman of the Board of Governors, Mr. Winters, promised that rates would not be raised before 1995. In point of fact, given the review period set forth in the law, the rates could not be raised before 1995. Moreover, if the Commission were to take the full 10-months afforded by the Postal Reorganization Act, it is quite likely that rates would-could not be increased until mid-February. **However**, because the Postal Service is in need of additional revenue and because each month new rates are not in effect costs the Postal Service 400 million dollars, I decided that the Commission should establish an accelerated review process and, make it possible for the Service to raise rates at the earliest possible moment,--consistent with the Postmaster General's commitment of no rate increase in the current calendar year.

Rates are usually raised on a Sunday--following review by the Governors of the Commission's recommendation and a required public notice. If we--the Commission--meet our target, rates could be adjusted on Sunday January First--rather than in mid-February. This earlier date means 600 million dollars of sorely needed additional revenue for the USPS.

Between now and our target date for a recommended decision, the Commission will hold two more rounds of hearings--we have already had two sets of hearings--this time to receive oral arguments and rebuttal testimony from the Postal Service and the sixty plus parties who have intervened in the current case. We will be examining all of their views and the evidence they provide, against the policy factors contained in the law, to help us develop a fair recommendation.

Supreme Court decision. Unfortunately for the “privatization” folks, these statutory standards mesh the public service role of the Postal Service with its business role.

For example, the law specifically requires the Rate Commission to assess the “value of the mail service *...to both the sender and the recipient.*” Likewise, the Rate Commission must look at the “educational, cultural, scientific, and informational value...of mail matter” when setting rates. Again, these are public policy considerations, not business considerations.

I think it important to remember, while the Postal Service is supposed to act like a business, it is not a genuine, private sector business.

It is a service, which Congress and the public hopes will run as efficiently as possible.

When Congress divested itself of rate setting responsibility in 1970, it created the Rate Commission to provide a forum that 1) focuses public debate about postal costs; 2) requires detailed documentation in support of or opposition to economic and public policy arguments; and 3) provides a timely analysis of data used to set rates. I submit, that in performing the functions, the Commission has helped, NOT hurt, the Postal Service.

For example, in the present case, proposed rates for both in-county newspapers and certain business reply mail were exceptions to the Service’s proposed 10.3 percent across-the-board increase, and both were challenged early in the Commission’s review process. The Commission received intervenor inquiries and provided a quasi-judicial setting for the review of the Postal Service’s proposed rates. Mistakes and errors in Postal Service methodologies associated with these proposals were found. As a result, the Postal Service’s original proposals for both in-county newspapers and BRM rates have already been changed by the Postal Service. This would never have happened without the Rate Commission! Without the Commission’s review process, the parties affected adversely would simply have been out of luck.

I would add at this point that, had the Commission allowed itself to be bullied into immediately approving the Postal Service’s case as originally filed, we might have avoided the previously mentioned ire of one business mailers group. However, once business reply mail fee would have increased by 300 percent and rates for in-county news papers would have gone up 34.1 percent. And, the use of business reply mail, which as I understand it is a money-maker for

We are not supposed to apply some esoteric or theoretical model--we are to apply sound judgment in recognition that circumstances change, and that the Postal Service must be able to change, too.

The Commission encourages parties in cases to attempt to settle their differences, and reduce adversarial litigation. Of course, it isn't easy to reach a result that satisfies everyone, and the Commission can accept a proposed settlement even when not everyone agrees with the outcome. BUT the Commission still has a positive obligation to assure that any rates it recommends conform with the law.

In the case before us now, some parties like the Postal Service's proposal, and they joined with the Service to suggest that we accept those rates as a settlement. But other parties have strenuously objected. As I mentioned previously, the Postal Service has already amended its proposal twice because of issues raised by mailers.

I can't tell you what the Commission will decide. However, we can not permit ratemaking to be reduced to a popularity contest decided by which faction makes the most noise or signs up the most parties. Neither can we accede to the pressure of threats in some industry newsletters. But, I can tell you that we will evaluate the merits of everyone's arguments.

[Mentioned problems with their interest in 35 cent stamp]

Now, what about you postmasters? You know, my first involvement with postmasters goes way back to those I met while at my grandfathers knee--he was superintendent of Merchants Station in Baltimore, Maryland; and to those postmasters I met while carrying mail during Christmas season while in college. My first involvement with NAPUS was when I staffed the postmasters appeals rights bill for Senator Pryor in 1987 (and had the pleasure of working with Ted Vallerie and that Ed Bowley fellow from some other group). **However**, the area where your job most often crosses mine **now**, is in the Commission's review of post office closings and consolidations. A constituent of my former boss once told me that "post offices are like a settin' of baby chicks; the smallest ones get pecked the most!" Most of these closings involve small,

rural post offices, and under 39 U.S.C. section 404(b) the Commission sees only cases that are appealed--a mere handful of the closings and consolidations that take place each year.

These appeals we get, however, provide an interesting microcosm of postmasters and their "service." After reviewing small post offices closings, one can easily conclude that if the "service" provided by postmasters in small rural offices were duplicated nationwide, the current Postal "service" crisis would be non-existent.

A 1980 publication of the Rate Commission titled "At the Crossroads: An Inquiry into Rural Post Offices and the Communities They Serve," documents this. [Hold up Copy] According to the author, Richard J. Margolis, postmasters come early and work late, often open post offices on weekends, hold house keys for residents on vacation, forward mail to various destinations where patrons are traveling, deliver personal notes among friends, give directions to strangers, collect stamps for philatelic patrons, provide government employment, tax, and other forms, and deliver mail to and check on sick community members. Need anyone question why residents are upset when threatened with the loss of their post office and postmaster?

But again, it becomes a service versus economics balancing act, and economics must be considered. Margolis concluded from his research that not all communities are viable and that there are instances where it makes both economic and social sense to close small post offices. I'm not sure the Postal Service has adequately determined which is which, but it appears to be trying.

[To maximize citizens' opportunities to retain their rural post offices, the Commission has argued for the last decade that the 404(b) requirements for notice, opportunity to comment and written findings based on a record, plus the 404(b) appeal rights to appeal to the Commission, apply when the service decides to close either community post offices or independent post offices. The Commission takes this position not only as a matter of law, but also out of concern that consolidation with the offer of a CPO is simply a rest stop on the road to a closing; one intended to mollify townspeople and, at the same time, limit their option to appeal. The Postal Service disagrees.]

Congress, however, may resolve the debate this session by enacting the Commission's view into law.

The Postal Service, meanwhile, is also finding more value in many old post offices. For example, the Service has surveyed all postal facilities over 50 years of age and concluded that of the 2,000 postal buildings reviewed, approximately 85 percent are eligible for or have already been listed on the National Register of Historic Places. While status as an historic building does not guarantee survival as a post office, such designation may help.

And interestingly, the Postal Service has markedly reduced post office closings during the last few decades. According to Postal Service statistics, in the 1950s 6,180 post offices were closed or consolidated; in the 1960s, 3,780; in the 1970s, 1,600; in the 1980s 1,500, and in the first five years of the 1990s, 644, or, about 150 a year. Of these, between 8 and 13 percent are appealed to the Rate Commission.

The decline in the number of post office closings, however, reflects more than a recognition of the social and architectural value of rural post offices. It also, to the surprise of demographers and economists, reflects changing population patterns. Americans are returning to the country.

To date this reverse migration has not appeared on official U.S. Bureau of the Census figures. Annual demographic statistics, however, show that two-thirds of rural counties have gained population since 1990. A staffer at the Population Reference Bureau has called this the "biggest unnoticed trend in the country."

Experts conclude that people are returning to rural America to escape crime, obtain more affordable housing, enjoy more open space, and attend smaller and better schools. Many of those settling in rural areas are retirees with independent income, small entrepreneurs, and users of information technology who can conduct their jobs from remote locations.

If the return-to-country movement continues, rural post offices will again be in vogue. It is ironic that one key factor in this trend--using the information highway--is the cutting edge of electronic communication, which itself threatens the entire future of First Class mail and the Postal Service.

How serious is that threat? It could be very real. Testimony this spring before the House Post Office and Civil Service Committee on the future of the Postal Service detailed the inroads electronic communication is making to the Service, and the more pessimistic witnesses even

sounded the death knell of the Postal Service within the next 20 years. Banking, shopping, bill paying, personal communications--it's all going to be electronic--so they say!

Personally, my own experience is that the vaunted "information superhighway" is more of a dirt road with ruts. I, for one, find dealing with cyberspace closer to cranking a Model-T and reading wooden road signs through eisenglass windows, than cruising on a superhighway in a Cadillac. But I know, and you know, that the Model-T did evolve, and I have no doubt that the future of some aspects of communication is in electronic data transfer.

But that doesn't mean the end of the Postal Service! Volume today is at historic highs! First Class is not showing much growth, but it isn't losing either! The mail is there! And, I expect mail will always be there--IF the Postal Service meets it's obligation to deliver it in a timely manner (AND at a reasonable price). The Postal Service simply can not do less--And, it cannot blame service problems on unanticipated increases in volume (and expect volumes to continue to grow.)

This fall the Commission expects the Postal Service to file a major reclassification case. Early reports suggest that the request will include changes in the names of classes. First Class, for instance, becomes "Preferred." Somehow I hope the Service stays with "First Class," a trademarked term, whose meaning is so widely understood to equate with "superior," "top of the line," "the best,". "The best"! That's the delivery service the Postal Service offers and still provides, **in most cases**. It's the type of service postmasters strive for and it's what the Postal Rate Commission hopes, for its sister institution.

Thank you for the opportunity to speak to you today. I look forward to seeing some of you in Washington next February.