

# **Remarks of The Honorable Edward J. Gleiman**

## **Chairman**

### **Postal Rate Commission**

**October 29, 1997**

### **Central Arkansas Postal**

### **Customer Council**

When I was contacted by Bonnie Eldridge and Bob Gillen, your co-chairs, about visiting with you today, I was both pleased and surprised.

I was pleased to have an opportunity to renew old acquaintances with both people and places that are important to me. Christmas 1997 will mark eleven years since I received a phone call from a fellow by the name of Don (or as some people know him) Sonny Harrell from Camden. "Could I come by and talk with Senator David Pryor from Arkansas?", he wanted to know. Seems the Senator was going to be heading up the Senate subcommittee that dealt with all kinds of federal government programs and he might need some help. At the time, I knew almost nothing about Arkansas and just a little about David Pryor.

I did recall that he was the fellow who, some years earlier while serving in the House of Representatives, had gone under cover as an orderly to expose the then poor quality of care in nursing homes. And wasn't he the guy who attacked wasteful spending, after overhearing a couple of contractors with whom he was sharing a taxi talking about how they were going to pad their bills to government agencies? Sounded like it might be interesting!

I went to that meeting. Got the job. And, spent the next seven years learning--about both government and life--at the side of a genuinely nice human being. Along the way I learned a little bit about Arkansas and learned to appreciate the State that produces the likes of a David Pryor and so many other bright, caring Arkansas natives with whom I have had the pleasure of working.

During this period, I was also able to acquire a collection of "Toad Suck Daze" t-shirts which, when worn at east coast beaches, draw a great deal of attention from inquiring minds.

Now, what about my surprise at getting this invitation? Maybe I can best explain by telling a story.

This is a story about a farmer who stepped outside on a chilly fall morning and saw a little bird on the ground that had fallen from a nearby tree.

The bird was almost lifeless, but the farmer picked up that little bird and the bird started to respond to the warmth of his hands.

"I've got chores. Now what am I going to do with this little critter?", he thought. He decide to put the bird in his coat pocket; it got warmer and started to chirp.

He walked a couple of steps and noticed a big, fresh cow dropping, and he thought, "Now that's full of energy and warmth--just what the bird needs!"

He formed a nest with the heel of his boot, placed the bird in it and headed for his pickup truck. Looking back, he noticed the bird was chirping away. The farmer felt good about what he had done.

About an hour later the bird was totally energized by the warmth of its little nest--chirping, wings flapping and all. Then, along came this old coyote that frequented the area. The coyote went one circle around, plucked up that bird, and ate it.

There are supposed to be three lessons that we can learn from this story:

First---it isn't always your enemies who get you into it!

Second---it's not always your friends that get you out of it!

Third and most important---when you're in it up to your neck,  
keep your mouth shut!!

As you are about to find out, I have not learned lesson number three. My chirping and flapping has drawn more than a few coyotes back in Washington, DC. So far though, I've been able to escape that little bird's fate.

Now, before I get into real trouble, a few words about the Postal Rate Commission.

The Commission consists of five, presidentially-appointed Commissioners supported by a full-time staff of about 45---primarily economists, statisticians, cost accountants and, of course, lawyers.

At the risk of causing his family great embarrassment---and I say this because my own father tells me his friends, who know where I work, shun him every time the price of a stamp increases---let me mention that one of our key senior staff, Bud Ferguson, hails from Batesville and is a graduate of the University of Arkansas and its business school. (My plan is to leave the Commission before he does,

because I simply could not get along without him!)

Not only is the Commission very small by Washington standards, but it is also a somewhat unique institution; probably the closest analogy would be a public utility regulator at the state level, although the Commission regulates only one entity---the Postal Service.

When the Postal Service decides that it needs more money to pay its bills, it files a rate case. The Commission then has up to ten months to hold public hearings, develop an evidentiary record, and issue a decision. Before I came to the Commission, I thought ten months was an awfully long time. Experience has taught me otherwise.

When you are dealing with a 60-billion-dollar annual revenue requirement---

When you need to ensure that the rate for each type of mail covers its costs and makes a reasonable contribution to the overhead expenses of the Postal Service---

When you must understand and weigh all the other specific requirements of the law---

When you must listen to and consider the views of 75 to 100 intervenors---intervenors ranging from major trade associates to large individual companies to an occasional private citizen, each of whom wants the rates it pays to be lower and the other guys' rates to be higher---

Then, ten months is not an overly long period of time. It's not much more time than your average state public utility commission takes to pass on rate proposals involving far less money and fewer competing interests.

So, when you hear folks being critical of us, please keep in mind that, when it comes to the Rate Commission, the postal community is like a settin' of baby chicks. The littlest one gets pecked the most!

Since its creation in 1971, the Commission has handled nine omnibus postal rate cases and numerous other regulatory matters. A tenth rate case was filed July 10 and is now pending. In this most recent case the Postal Service proposes to increase the price of the First-Class stamp by a penny to 33 cents. Other rates would increase by an average of 4.5 percent---with some proposed changes ranging anywhere from 30 to 200 percent. We also have before us a request from the Postal Service that asks us to approve rates for a new package-wrapping service.

In addition to the cases pending before the Commission, there is much else going on in the postal arena. There has been a flurry of activity on Capitol Hill---bills introduced and hearings. Just last week a bill was introduced in the Senate which would permit the Postal Service to borrow from and invest in the private markets---including the right to buy up private companies involved in postal-related activities.

On the House side, the Chairman of the House Postal Service Subcommittee, Congressman John McHugh, has introduced a far-reaching postal reform bill, and after hours and hours of hearings, he is in the process of revising his bill to address concerns and criticisms. Organizations representing various mailing interests have put forward their ideas, and I understand at least one Postal Service competitor has given Congress a proposal to revise the postal playing field.

So far, though, there has been no specific legislative action. With the Congress about to adjourn, it seems certain nothing legislative will happen this year.

This may be for the best. Personally, I happen to think the existing postal ratesetting process works pretty well. Just look at the facts, particularly postal growth during the last 25 years, not only in mail volume, but in the many businesses that rely on and support the Postal Service. It seems to me that "something has gone terribly right!"

Moreover, on paper at least, the Postal Service appears to be doing well, both financially and operationally. It had record "profits" of \$1.8 billion in fiscal year 1995, followed by profits of about \$1.6 billion in 1996. After originally predicting profits of "only" \$55 million for the fiscal year just ended, it now appears the Postal Service will have a total profit of \$1.2 BILLION.

Postal Service press releases also announce that service is at record-high levels, and mail volume grew more than expected over the summer months---even when one discounts the effects of the UPS strike. Nevertheless, the Postmaster General bemoans the fact that the Service is losing market share in five of its six product lines.

So, despite its success, the Postal Service continues to search for new products and new endeavors, ostensibly to improve its bottom line. Nothing seems too trivial (sales of postal mugs, T-shirts and other trinkets) or too complicated ("electronic postmarks" for e-mail and cyberspace transactions) to deter the Postal Service marketing department from forging ahead into new ventures.

And, more and more often, we see the Postal Service entering markets already served by private sector enterprises.

So, today I want to discuss with you this question---what should be the future role of the Postal Service?

At the outset let me say that, perhaps surprisingly, the law which established the Postal Service as an independent Government establishment appears to place no limits on what commercial activity it may pursue. There are services it must, by law, provide---for example, it is required to provide one class of mail with "a uniform [rate] throughout the United States, its territories, and possessions." But the law is generally silent as to what it cannot do. Arguably, it could start selling bread and milk in competition

with local convenience stores.

It hasn't proposed that, but at times it comes close. Prepaid phone cards, greeting cards, and the like are already available in post offices, and there was talk not too long ago of putting coke machines in the lobbies.

I have been troubled by the notion that the Postal Service must enter new, unrelated markets and strive to capture market share from private enterprises. Maybe I am old-fashioned, but I think the Postal Service is here to provide a government sponsored (as opposed to government subsidized) *service*, and that service is delivering hard copy messages and parcels. Generally speaking, new postal products are okay, but I think the nation would be better served if Headquarters' management would spend more time improving existing services and increasing operating efficiency and less time looking for ways to compete with businesses, large and small.

The preoccupation with growth by a government agency---not only must volume increase, but so too must market share---has, in my opinion, taken on a particularly troubling character.

For example, one senior postal official told a group of postal employees that, "Unless I screw it up, the Postal Service, by the year 2000 will be the advertising medium of choice." He went on to say that "if we can make it two days (Priority mail, that is) we could drive everybody out of business." Last year the Postmaster General bragged in congressional testimony that the Postal Service had put a competitive, hard-copy delivery company, Publishers Express, out of business. Just last month, the manager of the Service's "Postmark America" store in Minnesota's Mall of America said the store will gross \$2 million this year in sales of clothing, stuffed animals, and the like. That's \$2 million that wasn't spent in other privately-owned stores in that mall.

All this brings to Mind Dog Patch and the sarcasm of a song from L'il Abner. How does it go? "What's good for General Bullmoose is good for the USA!"

Well, perhaps!!

The Postal Service marketing department is also looking at some rather major new endeavors. The electronic postmark I mentioned a few minutes ago is one. NetPost is another. So is Remitco, where the Postal Service, in essence, has entered into a joint venture to process credit card payments.

What about these?

When I testified before Congressman McHugh's Subcommittee in March, 1995, I posed some questions which still are relevant today:

... do we want the Postal Service  
to limit its focus to its historical  
mission---the delivery of hard-copy

mail? Do we want it to become a lean, mean collection, processing, and delivery machine which probably means little growth and perhaps eventual downsizing? Or, do we want it to compete with the new technology and enter fields heretofore foreign to it? If it pursues new, competitive markets, will it be more or less likely to perform successfully? ... Can a labor intensive organization operate in an entrepreneurial, capital intensive arena? And, since it takes \$1 billion in profit to reduce the cost of a First-Class stamp by a penny, are new ventures really worth the effort?

Is there a need for the Postal Service to compete in new markets? Should it be looking for new markets? If the private sector is providing a product or service, should a Government-supported entity be permitted, or even encouraged, to enter that market to grow and prosper?

Testimony given to Congressman McHugh's subcommittee last September argued forcefully that the Postal Service should mind its own business:

... if private companies can now do some jobs better than the Postal Service, why not let them do so without government interference? Government participation in a competitive market is *always* disruptive. A government "corporation"---which does not need to make a profit, does not answer to shareholders, loads its fixed costs on a legal monopoly, and cannot go out of business---behaves so differently from private competitors that it distorts the entire market. All things being equal, the only good reason for government enterprise is to provide necessary services that would otherwise be

unavailable from private companies.  
Yet, by definition, the Postal Service  
will not be providing unique public  
services if it is participating in  
competitive markets.

Of course, this view comes from Frederick W. Smith, the Chairman of Federal Express Corporation---hardly a disinterested observer.

Mr. Smith and others also argue that if the Postal Service is permitted to compete, the "playing field should be level." As a Government-supported entity, the Postal Service enjoys advantages that are artificial, and unfair, in the competitive area. Its monopoly power is the most important, but others flow from its status as an entity of the United States Government.

Competitors have told Congress that a level playing field is an absolute prerequisite if the Postal Service is to be "commercialized," as the Postmaster General and his managers are urging. The Postmaster General, on the other hand, while he says the Postal Service is prepared to compete, has expressed concern over any "leveling," stating that Congressman McHugh's proposal to relax (not eliminate) the postal monopoly "would put more than \$4 billion of our current business at risk." McHugh's retort, as best I call recall, was something to the effect that "risk is what competition is all about." Were he from Arkansas, and not New York, McHugh might have told the PMG that "that dog won't hunt."

If the Postal Service is going to play in the private sector, in addition to a level field, there are certain other ground rules which I think should apply.

First, any new product or service eventually must be "profitable." By this I mean that the revenues from that product or service must be sufficient to cover costs and make a contribution to the overhead costs of the Postal Service.

Second, the "profit" from any new product or service must be significant enough to reduce the overhead cost burden now borne by the core monopoly services--- First-Class Mail and Standard Class (business) addressed mail. If a new product or service turns a relatively small profit, is it really worth the effort? I suggest it is not.

Consider phone cards and money orders to Mexico, two recent Postal Service initiatives. If they turn a profit of \$15 million, they would appear to be successful. But if you compare that \$15 million with the Postal Service's overall overhead requirement of \$20 billion, you must question whether these initiatives justify the diversion of management time and attention. Psychic gratification of Postal Service managers, e.g., being on the "cutting edge" or "running with the big dogs," does not justify forays into private sector markets. A significant benefit to the Service's core monopoly services must be shown.

A third and final ground rule: the Postal Service should consider expanding in areas where it has a

comparative advantage and where it is particularly well suited to provide the service in question. This involves several considerations. First, does the Postal Service have productive capabilities that would allow it to produce the new service particularly effectively? Second, is this a service which needs, for some reason, to be produced by a large federal entity? Third, would the new service be particularly convenient or beneficial to customers of the Postal Service?

At this point, I think I must disabuse you of any notion you may now have that I don't like the Postal Service. Quite the contrary. I have both a deep appreciation for the importance of that institution to our daily lives and the utmost respect for the women and men who deliver almost 600 million pieces of mail to 100 million addresses six days a week. When I think about all the combinations and permutations of senders and receivers of the volumes of mail, I am utterly amazed by the system. In my mind, the postal system is right up there with telephones, TVs and computers. I don't know how they work, they just do!

I want to leave you with one final thought as we charge off into the future. It's from a little sign my late grandfather, the superintendent of the business district post office in Baltimore, Maryland, had over his desk:

Man is a fool.

When it's hot, he wants it cool.

When it's cool, he wants it hot.

Always wanting what is not!

Thank you for permitting me to visit with you all today.