

**STATEMENT OF
CHAIRMAN EDWARD J. GLEIMAN
DIRECT MARKETING ASSOCIATION
GOVERNMENT AFFAIRS CONFERENCE
(MAY 13, 1998)**

Good morning ladies and gentlemen. It's pleasure to be here this morning at the DMA Government Affairs Conference---Again!

As Peg pointed out, I have come full circle in the past four years---from DMA keynoter on my maiden speech as Chairman of the PRC to "gate crasher" last year and back to being a featured guest.

I'm not quite sure what this means or what it portends for the future, but I do want to thank you for having me back.

I also want to thank---is any one here today who is connected in any way to Publishers Clearing House? I want to thank Publishers Clearing House---and you should too, if you are generally pleased with the Commission's decision.

Let me explain. Publishers Clearing House, aware that DMA had decided not to mount quite the effort in this rate case that it did in past cases, came up with a novel approach to ensuring that the Presiding Officer---that's me--- would not forget DMA's interests.

Along about mid-October of last year, I was surprised, as I riffled the day's mail while heading up the driveway, to find a letter from the "Prize Notification Division"---now this was, as it turned out, not one of those ordinary letters telling me I MIGHT be a winner---if only I would return the enclosed order form. No, this was a genuine "GUARANTEED WINNER NOTIFICATION CARD"---See, here it is.

Well, Super Bowl Sunday came and went---but there was no knock on my front door--no prize delivery van---no big check.

Let me tell you, when I went back to work on Monday, you advertising mail folks were in a heap of trouble!

But then, with better than perfect timing, just as reply briefs were filed and we began our deliberations, it arrived; the letter of congratulations---see---and my prize. The ad mail community was redeemed--thanks to Dorothy Addeo at Publishers Clearing House!

Suddenly, Postal Service proposals for 1.8 and 3.0 percent increases for Standard A regular and ECR, respectively, melted away---down to 1.2 and 2.2 percent on average.

Just think for a moment, how much lower those recommended rates might have gone, if I had received my check on Super Bowl Sunday and had not had to wait until April for my genuine 18kt, made in Korea, gold toned necklace.

Given the tendency here in Washington to appoint a special prosecutor at the mere drop of a hat, I think I had better stop at this point and make it clear that I am just humoring you and that I did show this prize to our ethics officers, who assured me that given its value, I did not have to "return to sender."

But actually, you should know that some benefit was derived from DMA's participation in the case. If DMA witness Buc was working on a percentage basis, the mailing community owes him big time---he was responsible for \$100 million of the \$745 million we cut from the Postal Service's revenue requirement!

What I would like to do, now, is talk a little about our recommendations, place them in the context of the Service's finances, and then move on to one of my favorite topics--- legislative reform.

You all know the law---it 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 the total estimated income...to the Postal Service will equal as nearly as practicable total estimated costs of the Postal Service." The so-called "break even requirement."

Last July, the Postal Service filed what was purported to be such a request, seeking increased rates and fees to provide an additional \$2.4 billion, annually. Without this additional revenue made possible by a rate hike that the Service originally scheduled for June, 1998 ---less than one month from now---the Postal Service claimed that it would hemorrhage red ink in fiscal year 1998 to the tune of \$1.4 billion.

This request was filed, as you know, against the financial backdrop of an almost \$1.8 billion surplus in 1995 and an approximately \$1.5 billion surplus in 1996. And, the surplus for 1997, projected at slightly more than \$600 million at the time the Service filed this rate increase request, turned out a couple of months later to be double that amount---\$1.2 billion.

And what about all that talk of red ink for this year? Well, at accounting period 7---the 7/13ths mark---the Service has rolled up a net operating surplus of more than \$1.3 billion. Preliminary indications are that the surplus may have grown to \$1.4 billion in AP8. So, the Service has several hundred million more dollars in its coffers now than it had at the same point last year!

The Commission believes that the Postal Service is unlikely, in the absence of either the economy going into a free fall, a spending binge or some very creative accounting, to incur any of the \$1.4 billion loss it projected for FY1998. On this information, alone, we believe the Service may have seriously misestimated its need for a rate hike.

Moreover, the Postal Service supported its rate hike request with projections of costs and revenues based

on 1996 data. This data does not accurately reflect the impact on current postal operations of classification changes implemented during the last quarter of 1996. And, in addition, inflation (and therefore costs) turned out to be lower than projected in the Service's request.

So, you might ask, "what were we doing issuing a decision this past Monday recommending a rate hike?"

We did so, because the Governors and senior postal officials left us little choice!

In February the Commission had proposed that the Postal Service provide more recent and representative 1997 data to allow the development of fairer and more equitable cost-based postal rates. This would have entailed delaying our decision by several months.

In a response we believe reflects a preference for form over substance, the Governors rejected our proposal and reminded us of the Commission's obligation to complete rate case reviews in ten months.

When coupled with the more recent comments of senior postal officials urging immediate implementation---in June or July--- of new rates, we felt somewhat compelled to move ahead out of concern that the Board of Governors might be convinced to exercise its authority to hike rates temporarily---which they can do in the absence of a PRC recommendation in 10 months.

As I mentioned the other day, while we do not believe, given its strong financial situation, that the Service needs to raise rates to "break even" in fiscal year 1998, we did not feel we could simply reject the Service's request. We concluded, however, that we could recognize and account for "known and certain" changes that had occurred since the request was filed; and, this we did!

This adjustment to the revenue requirement corrects Postal Service overestimates of the impact of inflation on its costs; it corrects for computational errors and the failure to reflect fully the savings from cost reduction programs---the DMA/Buc reduction ; and, it recognizes the impact of recent operating surpluses on the recovery of prior years' losses.

We all know that the decision is now in the hands of the Governors. However, as I said on Monday, my colleagues and I see no reason why any increases should be put into effect before January of 1999, at the earliest! This is especially so, given the Service's current finances, the strength of the economy and the revenue effects of the upswing in mail volume that traditionally begins in late summer.

From what I have read in the trade press, the business mailing community is in generally agreement with the Commission regarding a delay in implementing new rates.

I'm going to leave the particulars of our decision to the very able Bob Cohen, director of our technical staff, who will be here later this morning.

By the way, it was Bob who, when we were chatting the other day, characterized our recommended

decision and the situation, generally, as akin to the Postal Service now having a "shelf registration."

This got me thinking about legislative proposals that would give the Postal Service increased flexibility to adjust rates, as it sees fit, annually---within certain price cap limits. This is something, I understand, DMA supports. And, if you think about it, this proposal, it bears a striking resemblance to the situation the Governors are facing with the rate case. We've given them the rates, or caps---if you will---and they get to decide when to put them into effect.

Why the comparison---what's the big deal?

Well, I have always believed that when someone wants more authority, they have to show that they will behave responsibly---that you can trust them. And, I think we have an interesting test case; one that might help give us a sense of how the Postal Service might behave under postal reform legislation.

I want to be clear here: I am NOT opposed to postal reform legislation. However, anyone who has heard me speak during the years since postal officials opened what I consider to be a potential Pandora's box, knows that I have serious reservations about how things will shake out in the legislative arena. Over the years, I've used statements ranging from "Gumpisms"---such as, "legislation is like a box of chocolates; you never know what you're going to get," to my favorite Mencken quote---"for every problem there is a solution which is simple, neat, plausible AND wrong" to explain why I am concerned.

Having said this, let me leave you with a question: If the Postal Service ignores your requests---in this instance---to delay raising your postal rates, at the same time it is rolling up huge surpluses, will it have acted in a responsive and responsible manner such that you will be comfortable with how it might exercise any new found authority gained through legislative reform?

Finally, on the lighter side, for those of you who like to file away factoids, please note that today is a very important day in postal history. On this very day in 1918, one Walter Bowes submitted his "mailing system proposal" to PMG Albert Burluson---who promptly rejected it! Four years later to the day, the British post office approved the use of what by then had become the Pitney-Bowes postage meter.

Thank you---once again, for having me---once again, at your conference. I'll be happy to try to answer questions, should you have any.