



The Honorable Edward J. Gleiman

MailCom

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As I was preparing for my presentation today at the MailCom2000 conference, the insightful words uttered by Admiral James Stockdale at the outset of the 1992 Vice Presidential debate crossed my mind.

“Who am I and what am I doing here?”

Then, after a quick glance at the conference program, it came to me. Coach Parcells had been invited to speak about matters postal, and I had been invited to hold forth on my career in professional football and to provide some inspirational guidance.

Think about how thrilling it was for me, a kid who grew up in Baltimore, Maryland, to spend five years on a Baltimore Colts' roster; and, during the glory years of 1958 through 1962, at that! Now, I bet you are scratching your heads. Gleiman played for the Colts?

I know I played for the Colts because, well, my grandmother always bragged about her grandson who played for the Colts. And, you all know that grandmothers don't lie about the exploits of their grandchildren. Why, she even had a photograph of me in my Colt uniform to show to skeptics. If only I had that photo with me, today, the picture would be clear. The uniform, you would see, and the roster I was on, was that of the Baltimore Colts' marching band. But, those were the glory years--- as the title of the book by William Gildea says When the Colts Owned Baltimore. What a thrill it was when we struck up the Colts' fight song as Unitas, Marchetti, Donavan, Parker, Berry and the rest of the guys charged out of the locker room through the corridor formed by the band.

Now, for a short and somewhat football-related inspirational or motivational message: As you go through life, always remember to forward fumble!

So here I go. Following my own advice!

Actually, I encountered some difficulty in preparing for today because there are so many topics to discuss---so many issues to choose from. Most troublesome, however, was finding the time to put fingertips to keyboard, especially while spending the better part of the last four weeks presiding over the Commission's hearings on evidence presented by 40-some Postal Service experts in support of its R2000-1 rate proposals.

Most of you know that we, the Commission, are the folks who recommend rate increases. However, many of you may not be familiar with the “why” and “how”, of the rate making process. First, I would like to take a couple of minutes to

talk about the Commission and the mechanics of rate making. Along the way I may debunk a few myths and address a criticism or two from past MailCom conferences or from articles that occasionally appear in Mail: The Journal of Communications. Second, I will share some of my thoughts about several of the options being discussed for the future of the Postal Service. And, finally, I'll talk about the current rate case, if I can think of a way---between now and the time I get to the last page of my prepared remarks---to do so without getting myself in a heap of trouble.

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 charged with operating in a more business-like fashion. Congress would no longer set postal rates, but it wanted to make sure that all interested segments of the public would have an opportunity to be heard before the Postal Service changed its 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 recommendations of the Kappel Commission, 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...

Perhaps there is a lesson or two here for those who yearn for a new Kappel-type commission to make recommendations on the future of the Postal Service. For the sophisticates, perhaps the past is prologue. For the rest of us, a slightly modified Gumpism will suffice: Legislation is like a box of chocolates. You just never know what you're going to get!

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, it will be more careful than if its decisions go entirely unreviewed. A case in point can be found in an outgrowth of 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.
- Perhaps more important in the long-term, 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 public scrutiny of USPS costs occasioned by the filing of rate cases, joint industry-Postal Service efforts such as this might not be undertaken.

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 competitors and suppliers, and an officer of the Commission appointed to represent the interests of the general public, the PRC's Office of the Consumer Advocate.

At these hearings the Postal Service must support its request with testimony from expert witnesses, who must explain why the request is consistent with a set of public policies enumerated in the law. These witnesses are required to respond to written and oral questioning from anyone choosing to participate.

Participants also have the opportunity to present their own testimony to explain their reaction to the Service's proposals. After all parties have been heard, the Commission will issue a written decision based on the public evidentiary record. The decision will evaluate each point raised by every party and provide a recommended decision to the Governors of the Postal Service.

Omnibus rate cases, which consist of thousands of pages of evidence and touch all of the thousands of postal rates and fees, are extraordinarily complex, with scores of witnesses---the count is up to 43 for just the Postal Service in the case currently before us.

Myth Number Two: Rate cases take too long. Given the complexity of the subject matter, the amount of money involved---more than sixty billion dollars 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. They 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, they 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.

In addition to major rate cases, 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 can not 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!

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 58 remanded on the grounds that the USPS had not complied with the procedural requirements of the law. 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 which 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 now shift my focus from the past and present to the future.

Long before former PMG Marvin Runyon complained that the Postal Service was losing market share in five of its six markets and had little control over the three P's--- people, prices, and products---postal reform was a much discussed topic. Although reform discussions as far back as the late 1970s were driven in part by concerns over the impact of new technologies, observers today are even more concerned about the future of the Postal Service because of the emergence of the Internet. The Internet presents the Postal Service with obvious challenges, as well as opportunities. However, the one constant over the years in discussions of the need for reform has been costs, roughly 80 percent of which are labor based.

The options for postal reform that one hears discussed today essentially boil down to: 1) retaining the status quo---more or less; 2) increasing flexibility and providing opportunities for commercialization, while containing costs; and, 3) privatization. There appears to be no consensus in this country for which course is best. Some are advocating a presidential commission to figure out what reforms are needed and to help build the consensus necessary to pass legislation.

These observers point to the highly successful Kappel Commission in the 1960s that led to the Postal Reorganization Act of 1970. They believe that this approach will work again. Leaving aside the notable lack of results from the Congressional Commission on Postal Service in 1976, I submit that the Postal Service's problems are so much more complex today than they were in the 1960s, that one should not expect similar results. The problems of the 1960s were easy to solve in comparison to the ones we confront today.

In the 1960s the Postal Service was run like the cabinet department it was. Political appointees were in charge, and since they were replaced with every new administration, there was little planning for the future. Appropriations from Congress reflected overall national budgetary priorities, so a business-like capital program could not be put in place. Because rate increases were unpopular, Congress raised rates as infrequently as possible, and the Postal Service ran chronic deficits. Labor relations were subordinate to the Federal Government's labor relations, which was satisfactory to neither the Postal Service nor its unions.

The conclusion reached after examining this set of problems was at the time fairly radical, but rather straightforward: Recognize that the Postal Service is not an ordinary government agency.

Generally speaking, ordinary government agencies don't charge for their services. They provide what economists call public goods. Businesses, however, ordinarily charge for their products and services. They provide private goods. The Post Office provided private goods and, appropriately, charged for each piece of mail put into its system.

The Kappel Commission's solution: Recommend changes that would create a more business-like setting in which this government entity could operate.

Today, congressional actions still affect postal operations, albeit not in the same manner, nor to the same degree. Now though, while we may argue about the timing and degree, we all know the Internet will have a significant impact on the Postal Service. Billions of pieces of First Class mail containing bills and payments could be lost to electronic presentation and payment. Advertising mail might also be diverted.

In many respects, this possibility, alone, presents a more complex prospect than was faced by the Kappel Commission. It's not just a matter of simply recommending the streamlining of a large government bureaucracy and delegation by Congress of authority it had heretofore exercised. Postal reform in the 1960s and 70s involved improving the Postal Service without much consequence for the private sector. Reform today is about postal survival and what impact the Service will have on the private sector, with the impact on the private sector taking precedence in many instances over how best to position the Postal Service for survival in the future.

Numerous stakeholders---including customers, complementary businesses, labor, suppliers, competitors and elected officials---can be expected to feel strongly about the impact potential postal reform might have on them.

Even if a study commission could develop a clear vision of how the Postal Service should be transformed, advocates of such a commission should be reminded that, in the final analysis it is Congress and the President who decide on what reforms to adopt. Congress and the President need not and may not stick to the script prepared by a study commission. Veterans of the Kappel Commission know this lesson all too well!

But, it is impossible to imagine a report by a presidential commission on postal reform today that would not meet strong opposition from some of the stakeholders mentioned above. That common denominators are difficult to attain when attempting to solve complex problems is readily apparent from the reaction to H.R. 22, the outstanding effort of Representative John McHugh, Chairman of the House Postal Service Subcommittee.

The Chairman's bill is, of necessity, complicated---in part because of the subject matter and the ills and future problems it attempts to address and in part because of the very nature of the legislative process, which requires compromise.

A much-improved recent draft amendment to the bill reported out of subcommittee last year drops the lightning rod provision establishing a private law corporation. As best I can tell, it also drops the restriction on the Service's involvement in new, non-postal activities. Whether with these and other changes Mr. McHugh has found the "Holy Grail" of postal reform legislation remains to be seen.

If he has not, the postal community may wish to urge Chairman McHugh to seek---and the House leadership to grant---a waiver of what many now consider to be an ill-conceived House rule that requires committee and subcommittee chairmen to relinquish their positions after six years. This assumes, of course, that those currently in power retain control of the House.

Although we have our disagreements, I would much prefer he (and we) be permitted to continue the search, rather than have the system simply mandate the write off of Mr. McHugh's extraordinary investment.

It is interesting that during the years he has studied postal issues, Chairman McHugh has not become a vocal advocate of privatization.

One of my favorite quotes---it's appropriate for so many situations and it is the one that comes to mind when I hear folks talk about privatization as THE pancea---is the H.L. Mencken line: For every problem there is a solution that is simple, neat, plausible and---WRONG!

I've heard the argument that postal administrations in the industrialized world are privatizing, so why not us? But the premise is not quite true. Actually only one, the Dutch post, has been privatized. The Germans are, of course, planning to go that route in the Fall. Most others, though, have simply reduced the scope of their monopoly and/or commercialized.

The Postal Service is no stranger to the commercialization arena, having tried its hand with new offerings in a limited way on a number of occasions. Most of the horses it chose didn't win, place or show. And, they're dead. So, I won't beat them. If interested, you can find their track record in a 1998 GAO report entitled Development and Inventory of New Products.

By the way, did you know that the Postal Service can relax its legal monopoly? It did so in the late 1970s when it established the so-called urgent letter-double the postage rule which permitted private carriers to enter the overnight delivery arena. Several years later, however, it rejected a request from an advertising mail trade group to allow ad mail out from under the monopoly, and in subsequent years it resisted even a study of its double the postage rule. Just a couple of years ago, PMG Runyon, the man who yearned for the flexibility to compete with others, complained at a hearing on HR 3717---the precursor to HR

22---that modifying that rule would put billions in Postal Service revenue at risk to competitors.

Further, not all types of mailed material are even covered by the Service's legal monopoly. My assumption is that mailers who may deliver by other means use the Postal Service because with its economies of scale (every place, every day) and scope (the range of services) it is the best deal for them. I've been told that monopolies are inherently inefficient. In theory, a privatized Postal Service would become more efficient. However, my suspicion is that the Service's economies could suffer, and it could become even less efficient under privatization. In a recent hearing room exchange with USPS rate case witness Peter Bernstein, Vice President of RCF Economic and Financial Consulting, Inc., he acknowledged that the Service's existing scope and scale economies could be reduced under privatization. If so, these "best deals" could become a little less good. Given a choice, mailers whose deal becomes less good may not stay in the system, potentially leading to even greater diseconomies for the Service. Who might be effected? Will they and others have a choice?

I had a conversation just last week with an advocate of privatization who had also expressed concern that the Postal Service did not do enough to ensure that individuals and small business mailers shared the benefits of automation-related savings. I asked whether a privatized Postal Service might do even less for these mailers and how much it might cost to mail a letter? The answers: It probably would do less, and 40 cents! So much for the prospect of everybody being a winner under privatization!

On the question of choice---whether mailers might abandon the Postal Service in favor of a less expensive carrier--- have you heard of the mailbox rule?

You must buy it. And, you must install it. But, for all intents and purposes, the Postal Service owns that mailbox out in front of your house! If anyone else puts anything else in that mailbox, they must pay the Postal Service for the privilege of doing so! It does not matter whether it is a magazine publisher or the local boy scout troop.

Does the public want open access to mailboxes? Can you have real competition without some loosening of the reigns? What do those advocates of privatization have in mind for mailbox access?

By now you have probably decided that, while I played in the marching band, I am not the head of the "cheerleaders for change" squad. Well, you're correct. That doesn't mean, however, that I'm opposed to change. I just think that when you deal with something as important to everyday communication and commerce as the Postal Service, it's a real good idea to check on all those devils hidden away in the details.

Perhaps a comment or two on what so far has been the largest privatization of a government agency since the sale of Conrail would help you understand my concerns:

- From a recent U.S. News and World article: "...federal officials who oversaw privatization never fully grasped the fact that USEC (that's the US Enrichment Corp.) had to choose between making money and protecting national security." In our case the choice would be money vs. universal service.
- From a Washington Post article even more telling comments from the CEO of the Enrichment Corporation: "The whole concept was to allow us to act as a private enterprise in a very competitive environment. The problem, he said, is that the environment turned out to be even more competitive than anticipated." His "view is that problems could be fixed----if it weren't limited by the privatization act..." Is there anyone who believes that a privatized postal environment won't be extremely competitive or who thinks that privatization would come without legislated obligations?

Let's change if we must, but the more radical the proposed change, the more important it is to run the traps—run the numbers. If we don't, we are all the more likely to suffer the law of unintended consequences.

Inasmuch as I began today talking about football, let me finish up this portion of my talk with something more in season.

While we try to figure out what we want from and what we want our Postal Service to be, we ought to think about going for singles rather than home runs. My experience in implementing changes at the Rate Commission tells me singles are alot easier to hit; every four singles equal at least one home run, and, when all is said and done, you're still at bat with the bases loaded.

Let me turn, now, to the current rate case.

My comments on this subject are, by necessity, going to be brief. I am sure you can appreciate that I must avoid saying anything that might be construed as pre-judging issues before the Commission.

One issue that I believe I can discuss---it is already a matter on the public record in our proceedings---is the baseline data provided by the Postal Service in support of its rate increase proposal filed in January of this year. The Service based its proposal on Fiscal Year 1998 data; data that was almost a year and a half old at the time the case was filed. At the time the Service made its request for new, higher rates, it had available and had actual incorporated snippets of the more recent F Year 99 data.

Intervenors in the case recommended that we ask the Service to provide a complete set of the more recent data. We asked and they provided! Now, we are faced with the question of whether to update the Service's filing to reflect the 1999 data.

Generally, using the most recent available data is desirable in that it minimizes the timeframe over which we must project future cost changes. Updating is, however, a complicated task and, to the extent that all costs do not move in lock step, it may produce different winners and losers. We have asked intervenors for their comments on whether and, if so, how to update the underlying rate case data.

Another topic that has found its way into our hearings on the Service's rate increase request, which has also been in the news of late, is "eBillPay". It came up in the context examining the effect on postal volumes and revenues of the electronic diversion of transactional mail. We were told that "eBillPay" would cannibalize the hard copy mail stream next year to the tune of about 25 million dollars or roughly 75 million pieces. I use the term cannibalize here because the Service will supposedly derive some nourishment, some revenue from "eBillPay", whereas it gets nothing when hard copy mail is diverted for electronic payment through other Internet portals.

Press reports lead me to believe that the Commission will soon be reviewing a complaint about "eBillPay". So, I am reluctant say any more about the nature or economics of this offering. I would, however, like to speculate on how the Postal Service may fare when wrapped in the slightly shredded mantel of a trusted third party. What I am talking about, here, are the many uses the Postal Service plans for the personal and financial information it will collect in connection with its "eBill Pay" operation.

Personal privacy and the uses to which business put data they collect from individuals is, as I'm sure you know, a hot topic. More and more individuals are checking out those privacy policy statements before signing up for a service. I sure do! And, imagine my surprise when I found that the Postal Service will be much freer with data it collects on individuals than most other Internet bill paying portals. Even its "eBillPay" partner, Checkfree, seems to have a more restrictive policy for the use of personal and financial data. From the standpoint of privacy, the Postal Service may have put itself behind the proverbial eight ball in the competition for electronic billing customers.

Finally, for those of you who may be wondering, the answer is the French horn!