United States Senate
Committee on Governmental Affairs

Supplemental Statement of Commissioner Ruth Y. Goldway
Postal Rate Commission

May 15, 2001

While I fully support the analysis and several recommendations put forward today by Acting Chairman George Omas on behalf of the Postal Rate Commission, regarding the rate setting process and the ability of the Postal Service to project trends in revenues and expenses, I would like to offer my perspective on the reforms necessary to assure an efficient and self-supporting national postal service.

As I have written previously, I believe that only sweeping legislative reform, that demonopolizes the letter mailing system and privatizes the USPS, provides the necessary solutions. During the recent postal reform debate, such wholesale reform has proven to be untenable because of conflicting entrenched interests. However, I believe there are several achievable adjustments Congress can adopt that would allow the USPS to function more like a private corporation and better serve the public.

1. I believe the Postal Service should be encouraged to work with private sector companies to extend the drop shipment of prepared mail deeper into its sortation and transportation network. The private sector has a proven track record of capturing cost savings through automation. The Postal Service record here, especially in flats, media mail and parcels, is poor. Strategically, the USPS's competitive advantage lies in its last-mile delivery connections to every household in the U.S. network. Congress should facilitate the process by which the USPS can reduce the number of BMCs, SCFs and DDUs. Unfortunately, by reacting to individual constituent complaints, members of Congress sometimes pressure the USPS to keep as many facilities and jobs as possible in each district. USPS should be required to develop and implement a 5-year downsizing

plan in this phase of its operations and be given assurances of congressional non-intervention. Because the USPS lacks the discipline of the marketplace, the Congress must motivate it to capture the savings from investments in automation and reduce institutional overhead.

2. The management bonus pay system should be tied exclusively to the size of the yearly operating surplus, and distributed to employees only if a surplus materializes. The current EVA bonus system measures too many factors unrelated to the marketplace and irrationally guarantees rewards in advance of demonstrated bottom-line performance.

3. The Postal Service boasts that it has attained "record service achievements," but average delivery times for First-Class mail overall have been getting longer for years. Under the Service's ODIS measurement system[1] average delivery times were 1.68 days in FY 1981, 1.83 in FY 1991, and 1.93 for the most recent four quarters.

The Postal Service should be required to develop service standards for all mail classes, measure that performance, and make such data public. The Commission can then better do the job it is charged with, evaluating "the value of the mail service actually provided each class or type of mail service . . .."[2] The Postal Service should not be allowed to improve its bottom line by imposing additional costs on mailers through inferior service. To quote Alfred Kahn, "buyers can be exploited just as effectively by giving them poor or unsafe service as by charging them excessive prices." "Price really has no meaning except in terms of an assumed quality of service . . .." "Price regulation alone is economically meaningless."[3]

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[1] The ODIS system has been criticized for imprecision and that is correct; it probably understates delivery times. But is has been used for many years, so biases should be consistent, which means one can have some confidence in relative ODIS data.
[2] 39 U.S.C. §3622(b)(2).

4. The USPS exemption from the truth-in-advertising laws embedded in the Federal Trade Commission Act should be removed.[4] Truthful information is a powerful source of marketplace competition. I have been publicly critical of past Postal Service advertising for its pricey Priority Mail product. First-class mail can be far cheaper, and often faster. Further, evidence uncovered during our last rate case showed the Postal Service often did not handle certified mail the way it advertises. Truth-in-advertising accountability would require USPS management to be more responsive to the public's need for accurate information and behave more like a private corporation.

5. Congress should further direct that the Service rethink its retail operations. If the Service can get stamps into the hands of consumers more cheaply by using electronic stamps on the net, contract offices or grocery stores, it should be allowed to sell the stamps at a discount to support such transactions.

Ultimately, we may need fewer traditional post offices. I realize this is a difficult political issue. Dollars and cents cannot measure all the value we get from post offices. And historic buildings owned by the Service must be preserved. But if the Service is correct that many post offices are big money losers, then efficiencies in operations need to be developed. Perhaps an unprofitable post office could add a retail Starbucks counter or a branch bank office. Perhaps post offices could be located at city halls in smaller communities, or in frequently visited retail stores such as supermarkets. Perhaps the real estate management and acquisitions operations of the Postal Service should be privatized or contracted out so that cash from the increased value of long-held properties could be generated or lease revenues maximized.

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[3] Alfred E. Kahn, The Economics of Regulation: Principles and Institutions, Vol. 1, p. 21.
[4] The FTC has no jurisdiction over not-for-profit corporations. 15 U.S.C. §44.

The long-term strategic value of the USPS retail network and its community support functions need a thorough analysis separate and apart from the frantic search for quick-fix savings. The Congress could require such a report from the USPS or create its own commission to review this complex issue.

During my years of service as a Postal Rate Commissioner, I have not been shy to criticize the USPS, and I frequently expressed concerns about its ability to project revenue and manage expenses during the public hearings in our most recent rate case. Yet, in its defense, private sector companies have made projections that are way off base and often lose money in experimental start-up operations. The difference is that the management in private sector companies is held accountable.

As long as the Congress maintains the USPS's current ownership and management configuration, the additional oversight suggested by Acting Chairman Omas as well as those recommendations I put forward here will be necessary.

Thank you for your careful consideration of these comments.