

**THE HOUSE OF REPRESENTATIVES  
TESTIMONY OF EDWARD J. GLEIMAN  
CHAIRMAN, POSTAL RATE COMMISSION  
BEFORE THE HOUSE COMMITTEE ON POST  
OFFICE AND CIVIL SERVICE,**

**May 24, 1994**

**Thank you Mr. Chairman. It is an honor and a pleasure to be before you and the Committee to provide the annual update of the activities of the Postal Rate Commission. I am the new chairman of the Commission, Ed Gleiman, and accompanying me today are my fellow Commissioners: Mr. W. H. "Trey" LeBlanc III, vice chairman; Mr. George W. Haley, Mr. . Edward Quick, Jr., and Mr. Wayne A. Schley.**

**Following my testimony, Commissioner LeBlanc will also be addressing the Committee with some observations on current Postal Service finances. While Mr. LeBlanc's views are his own, he is the senior Commissioner in terms of service and brings a broad perspective to this subject.**

**However, I speak for all five of us when I say that the Commission's primary commitment is to a strong and viable Postal Service that provides quality service at fair and equitable rates.**

**Today the focus of my remarks will be to respond to the Committee's request to provide an assessment of the Commission's view of the future of the Postal Service. My complete testimony, which I have submitted for the record, contains information about the Rate Commission's recent reorganization, the status of the Joint Task Force on Postal Ratemaking Report, and some remarks about the Bulk Small Parcel Service case. It also contains more information about the procedural issues of the current omnibus rate case, which I have deleted from my oral testimony in the interests of time. This morning I will quickly address the omnibus rate case and then look at the future of the Postal Service.**

**At the moment the Commission's resources are fully occupied with the rate request. The rate increase case was filed in March, and by law the Commission must issue its decision within 10 months. In fact, we are committed to completing our analysis in less than 10 months, if at all possible. This schedule will allow sufficient time, following the Commission's recommendation, for the Governors of the Postal Service to deliberate, give the required public notice and implement new rates at the earliest possible time consistent with the public pronouncements of the Postmaster General that there will be no rate increases until 1995.**

**The *ex parte* rules applicable to the Commission and similar administrative agencies prevent us from discussing the merits or substance of the Postal Service's rate request. But I can report a bit more about where we stand in the process.**

**The unique aspect of the case now before the Commission is that the Postal Service and approximately half of the 60 intervenors have joined to submit a settlement proposal. On May 16 the Commission issued an order which established the procedural mechanisms for considering the settlement proposal, but which did not address the substance of the proposal.**

**While no previous omnibus rate case has been resolved by settlement, the Commission has implemented procedures to enable it to evaluate this proposal in a manner consistent with the statutory requirement that our decisions be based on a public record.**

**On June 27, the due date for intervenors' testimony, any participants wishing to oppose the proposed settlement must file Notices of Opposition that detail material issues in controversy. Subsequent steps concerning the handling of the settlement proposal will depend on the contents of any Notices of Opposition which we receive.**

**This is a complex proceeding, but I look forward to seeing the Commission develop a sound, comprehensive, and timely decision for the Postal Service and the American public.**

**I now will discuss what you specifically asked the Commission to testify on today--the Commission's view about the future of the U.S. Postal Service.**

**The following comments by the new Chairman of the Postal Rate Commission, Edward J. Gleiman, have been excerpted from testimony Mr. Gleiman made before Congress May 24 and a speech he made May 10 to the Direct Marketing Association.**

**Today's conventional wisdom appears to be that the Postal Service is near the precipice and will soon lose substantial volume to many competitive, high-tech forms of communication. Some have gone so far as to tell you that the Postal Service is in a race with technology it is ultimately going to lose. I am not about to suggest that this is an unlikely scenario.**

**There is no doubt about the competition. On the other hand, the telephone was going to kill mail service; radio was going to kill newspapers, and so on.**

**Computers may be just the latest threat. Both the Postal Service and newspapers are still very much with us.**

**Many newspapers are still profitable enterprises, and**



**Postal Service volume overall is at an all-time high.**

**What this shows, I think, is that as communication opportunities grow, old forms may change but they don't necessarily die away.**

**Since 1970 overall First Class volume has grown at an average rate of 2.7 percent annually. Not surprisingly, this rate slowed during the most recent recession. First Class volume growth, as a result, was only 1.5 percent in FY 1993, but thus far in FY 1994 the growth rate is 2.7 percent, right on the 20-year average.**

**When we look more closely at First Class and view its two major constituent parts--single-piece and presort letters, we see that presort volume growth is a very healthy 8 percent for the first two quarters of FY 1994. By contrast, single-piece volume is flat.**

**On the whole, though, First Class, statistically, is weathering the storm. Could it be that modern technology might end up generating more volume? Certainly, those of us with cable TV get one more bill and make one more payment--usually by mail--each month.**

**Now, let us look at Third Class regular volume. Historically, and one can assume even in the near future, Third Class volume has been and will be closely associated with total, nationwide advertising expenditures. In the early eighties, discounts for presorted mail lowered its real cost, resulting in advertising mail's share of total advertising expenditures increasing from under 14 percent to about 17 percent.**

**Advertising mail's share of total advertising expenditures has continued to rise and now stands at about 20 percent.**

**Thus, among the competition for advertising dollars, the Postal Service has done exceedingly well. Provided the Postal Service keeps its costs in line with inflation, volumes should grow in line with the growth of advertising expenditures.**

**For the intermediate term--five to seven years out-- I think the greatest threat to postal volumes is the Postal Service itself. Service must be maintained, and costs must be controlled or all mailers will actively seek cheaper and more reliable alternatives to the mail.**

**The Postal Service has rightly been concerned that alternative delivery of Third Class could have a**

**significant impact on its financial situation, but it now seems that First Class volume is also threatened.**

**In the future, First Class letters may, in the face of electronic funds transfer, electronic banking and bill paying technological advances, be as sensitive to price pressure as Second or Third Classes.**

**A significant diversion of First Class, of course, would have a far greater impact on the Postal Service than would a diversion of Third Class, since First Class currently provides most of the Service's revenue and pays roughly 80 percent of the Postal Service's \$17 billion overhead.**

**The fundamental problem is the common costs of the system, which are about 33 percent of total costs.**

**They are largely comparable to what we call overhead or institutional costs.**

**If volume falls, the Postal Service should be able to shed volume variable costs (roughly what we call attributable costs). The common costs will remain and so unit per piece costs will rise. If costs rise only because common costs must be shared by fewer pieces, that rise should be manageable.**

**Moreover, if there is a decline in volume, the Postal Service may be able to rein in overhead costs, providing further for rate stability.**

**We must remember, though, that ratepayers are only one of the three major groups that have a stake in the Postal Service. The others--postal labor and the government--have other interests.**

**Let's look at their stake in the future.**

**Of paramount concern to postal labor is job security and wage levels. A decline in volume could translate into a loss of jobs.**

**As for the government, the owner of this system, insofar as the Service has debts and future obligations, the Service may not realistically be in a position to honor all of them if it faces large volume declines. The taxpayer may then have to pick up some debt obligations. Thus, the Postal Service's equity and its future obligations should be monitored to ensure that taxpayers are not put at excessive risk.**

**How will the Postal Service evolve?**

**It has been suggested that the Postal Service must pursue new businesses--perhaps participating in electronic communications. Some have suggested that the Postal Service might have to be privatized.**

**Let me suggest that any changes of policy should not be premised on “the conventional wisdom” that traditional mail products are about to become obsolete or that the often-times thankless task of nationwide mail delivery could be better done by a private entity. I would submit that changes of policy should be undertaken only after a careful evaluation of the risks and a consensus as to which course is likely to benefit a majority of the various stakeholders.**

**Let us suppose the Postal Service attempts to become a significant player in electronic communications.**

**Who is put at risk?**

**Who would supply the capital? If working capital is used, the monopoly ratepayer supplies the capital; if debt is used, the government will be the implicit obligator--although mailers will pay the debt service.**

**Let us further suppose the Postal Service is successful in this highly-competitive arena and manages to earn a profit. Who benefits?**

**To affect ratepayers materially, profits must be used to offset postal rates rather than being reinvested in the competitive electronic enterprise.**



**In today's Postal Service, \$1 billion in profit would reduce rates by about 2 percent a year.**

**What about the workforce? Modern electronic communications are not labor intensive, and current postal workers likely would enjoy few job opportunities in the new electronic ventures.**

**And what about the government's interest? The government potentially could benefit if the Service's electronic ventures were successful and provided another source of revenue. Conversely, if unsuccessful, taxpayers could be called upon for a substantial bailout.**

**Aside from these considerations, there are other obstacles to a successful postal diversification.**

**The Postal Service's basic business is regulated, and, I would suggest, its occasional forays into unregulated areas have not proven particularly successful.**

**It is not clear that the Postal Service has the legal authority to purchase existing businesses or to operate non-postal enterprises.**

**And most problematic, U.S. political tradition frowns on government competition with the commercial sector, outside of traditional postal service.**

**To summarize, there may be no real reason for the Postal Service to seek business opportunities much beyond the margins of its traditional business.**

**In essence what is expected of the U.S. Postal Service-- or any postal operation for that matter--is consistent and reliable service at a reasonable price. The Postal Service's greatest challenge, and the focus of its managerial resources, should be directed to achieving that goal, while controlling costs and positioning its product line to best withstand future competition.**

**At the Rate Commission we have no crystal ball. What we do have is a commitment to the future of the Postal Service in America, regardless of what the future might be. In that vein we will continue to work with the Service in pursuing actions which will enable it to serve ever more effectively and efficiently the needs of the American people.**

**Along those lines, shortly after my arrival at the Commission I had occasion to discuss with the Postmaster General and several of the Postal Governors the need to move forward, particularly to revisit some of the recommendations of the Joint Task Force on Postal Ratemaking Report.**

**There has been a subsequent exchange of correspondence which attempts to prioritize the Commission's and the Service's efforts in that arena.**

**As I mentioned at the outset, some additional issues are addressed in the testimony I submitted for the record. I believe you all have copies of the full testimony, and I would be happy to answer questions on anything I have said here this morning or anything addressed in my prepared text. Thank you.**