

**PREPARED TESTIMONY
OF
COMMISSIONER WILLIAM H. LEBLANC III
POSTAL RATE COMMISSION
BEFORE THE
HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE**

March 13, 1996

1 Mr. Chairman, Members of the Committee:

2 I appreciate the opportunity to provide these remarks for the
3 record.

4 This is not an ordinary oversight hearing. The consensus is that
5 sometime this session legislation may be introduced to make changes to
6 title 39 which governs the operation of the United States Postal Service
7 and the Postal Rate Commission. Some changes may be needed and I
8 will suggest several relating to the rate setting process that you may not
9 have considered. Before I do so, I would like to make a general
10 statement regarding the United States mails.

11 Twenty five years ago, after lengthy deliberation, the Congress
12 passed the Postal Reorganization Act. The purpose of that legislation
13 was to rescue the Post Office from the chaos of the late sixties, to ensure
14 that the American people had universal mail service that reflected the
15 costs of various classes of mail, and to put the new Postal Service on a
16 business-like basis.

1 If one were to believe the cries of despair from some members of
2 the postal community, one would think that the Postal Service is on the
3 brink of disaster. It is not. Since 1990, total volume for all classes of
4 mail has increased 11.8 percent. The attached chart shows increases by
5 class.

6 Like all organizations as large and complex as the Postal Service,
7 change is necessary, but most of this change can be accomplished under
8 the current statute.

9 Despite what is said about the Postal Service today, few pieces of
10 legislation have been more successful in achieving their objectives than
11 has been the Postal Reorganization Act. Today, the United States has a
12 most sophisticated mail system which achieves the goals of dependable,
13 universal mail delivery at exceptionally reasonable rates. Recently, there
14 has been a comparison of the Postal Service with the mail services of
15 other countries. It has been interesting. Though I have some doubts
16 about how useful these comparisons are to your concerns. It is a bit like
17 comparing a chihuahua with a great dane. These foreign services are
18 truly boutique postal services in contrast to the U.S. Postal Service. For
19 the most part, they are no more efficient in providing their services than
20 is the U.S. Postal Service. The U.S. Postal Service has by far the highest
21 productivity of any Postal Service in the industrialized world.

1 We have come to this happy state of affairs over the past two
2 decades because of the constant interaction between the mailing
3 community, the Postal Service and the Postal Rate Commission
4 operating under a process established by the Congress. In 1970, no one
5 would have known what the Postal Service would look like today. I
6 suspect most who crafted this legislation would be pleased at what has
7 resulted.

8 I hope that you would keep this in mind during your deliberations.
9 I would also remind you of Senator Stevens' remarks at the conclusion of
10 the recent hearings on foreign postal services. Senator Stevens noted
11 that he was not inclined to fix that which was not broken.

12 I do have several suggestions for change in the area of postal rate
13 making.

14 First, I would urge that the Prior Years' Losses (PYL) component
15 of the Postal Service's revenue requirement be phased out. Unexpected
16 losses should be provided for through the contingency account. PYL has
17 been used as a slush fund and permits and contributes to poor financial
18 management.

19 Second, I believe that the Postal Rate Commission should have
20 final authority on rate and classification matters. The Postal Governors,
21 with no independent and neutral staff to assist them, are not well

1 equipped for deliberating on the recommendations of the Rate
2 Commission, and are not well served by postal management in those
3 deliberations. Under the present system, postal management gets “two
4 bites of the apple” in presenting its views on rate and classification
5 matters: once in litigating its case before the Commission, then again in
6 briefing the Governors prior to their decision. In my opinion, this is a
7 flawed and biased process. In addition, it only serves to delay the final
8 implementation of rate and mail classification changes. Final decision
9 authority for the Commission will improve the process and allow changes
10 to be made more expeditiously. If the Postal Service or intervenors
11 disagree with Commission decisions, they may then resort to the courts
12 as they can today. This is the common practice in other regulated
13 elements of the economy.

14 Lastly, I have serious concerns about our understanding of Postal
15 Service costs, and these concerns go well beyond any that relate to the
16 overall costing systems. We are told regularly that the postal markets
17 are becoming more and more competitive. As this occurs, as it has in
18 other industries, knowledge concerning costs becomes more and more
19 important. Yet there are key areas where the cost information we have
20 is somewhere between limited and nonexistent. For example, in the
21 recent classification case the Postal Service was unable to quantify the

1 costs associated with processing small parcels as opposed to processing
2 less expensive flat-shaped pieces. Similarly, we know very little about
3 the extent to which the per-piece cost of processing large mailings might
4 be lower than the cost of medium or small mailings.

5 Doing good studies along these lines takes time and effort. Doing
6 without them, however, will be even more costly. It will handicap the
7 Postal Service competitively and will prevent it from encouraging broad
8 usage of many of the capabilities it has. There needs to be a way to get
9 these studies done. We simply cannot depend on the unsupported data.

10 To address such complex issues outside the adversarial context of a
11 rate case, I suggest that the Congress establish a small joint studies and
12 analysis group comprised of staff elements from the Postal Service and
13 the Postal Rate Commission to study this and other questions as
14 determined by the Postal Service, the Postal Governors, and the Postal
15 Rate Commission.

16 I say again that you should remember in your considerations that
17 you are dealing with a healthy and most remarkable Postal System. If
18 you do nothing, it could remain that way.

19 Thank you.