

**The Honorable Edward J. Gleiman, Chairman
Postal Rate Commission
Before the
Subcommittee on the Postal Service
Committee on Government Reform and Oversight
U. S. House of Representatives**

March 2, 1995

Mr. Chairman and Members of the Subcommittee

I am Ed Gleiman, Chairman of the Postal Rate Commission. With me today are Vice Chairman "Trey" LeBlanc, and Commissioners George Haley, Edward Quick, and Wayne Schley.

Together the five of us comprise one-tenth of the 50 people who work at the Postal Rate Commission. While we are small, we play a very important role in postal affairs. The Commission was created by a Congress that by 1970 had grown weary of the political brawls involved in setting postal rates. The Commission was charged to ensure equitable, reasonable and sufficient rates and to prevent the unfair exploitation of the monopoly afforded the Postal Service under the Private Express Statutes.

Our primary responsibility, is recommending postal rates. By law, a rate case should be decided in 10 months. I am proud to report that the Commission issued its Recommended Decision in the last case (R94-1), five weeks ahead of the 10-month statutory deadline, enabling a financially strapped Postal Service to implement new rates that much earlier and to realize an additional \$500 million in much-needed revenue. On Tuesday the Postmaster General reported to the Treasury-Postal Appropriation Subcommittee preliminary net income of \$531 million through the first five months of the current fiscal year. Mr. Runyon's good news is due in large part to the Commission's early decision.

We have responsibilities other than rate cases. Among them are mail classification proceedings, which determine the groupings or classes and subclasses to which rates are assigned. We expect the Postal Service shortly to request a substantial overhaul of the mail classification system -- postal officials have been promising to do so for more than a few years now.

Additionally, persons who believe that postal rates or services do not meet the requirements of the Postal Reorganization Act may file complaints with the Commission. Complaints can result in a general rulemaking inquiry as was the case when, in 1992, a number of major mailers petitioned the Commission to investigate why about a quarter of mail processing costs were classified by the Postal Service as "non-productive time." Unfortunately, the Postal Service refused to participate in this inquiry which was initiated on behalf of some of its largest customers and the effort was terminated.

Similarly, the Postal Reorganization Act gives the Commission an advisory responsibility with respect to proposed nationwide or substantially nationwide changes in postal services. If the Postal Service proposes to make such a change it must submit the proposal to the Commission. The most recent advisory effort took place in 1989 and pertained to the Postal Service's lowering of delivery standards -- some previously one day delivery areas became two day delivery areas, two day areas became three day and so on. Senator David Pryor, then chairman of the Senate postal subcommittee, likened this action by the Postal Service to cutting the top off the flagpole when the flag gets stuck part way up, so that people will think the flag is really at the top of the pole. I think we all need to remember that current reports on service -- the good and the bad -- are measured against these new, lower standards.

Another of our responsibilities, is the review of post office closings when we are requested to do so by affected towns-people. Approximately 10 percent of post office closings -- about 250 -- have been appealed. And finally, from time-to-time the Congress requests the Commission to conduct studies of particular subjects. The most recent request resulted in a report on incentives for mailers to use recycled materials. Another recent study of the adequacy of international rates requested by the Senate subcommittee is in limbo because the Postal Service, yet again, refuses to cooperate.

The Ratesetting Process

Only the Postal Service may initiate a rate case -- it decides when and it decides for how much additional revenue.

The law requires that "each class of mail or type of mail service [shall] bear the direct and indirect postal costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable. . ." Much of our time is devoted to analyzing postal operations to assure that we identify those costs which can fairly be said to have been caused by a particular class of mail or type of mail service. About two-thirds of the costs of the Postal Service can be causally related to classes and services. Those costs which cannot be attributed, the remaining one-third, are assigned pursuant to statutory guidance.

The ratesetting process is heavily dependent on information collected and provided by the Postal Service. This information is essential to establish fair rates and classifications for the Postal Service.

Both intervenors and the Commission have become increasingly concerned about the quality and quantity of information presented by the Service. Deficiencies in the R94-1 proceedings ranged from the virtual absence of special studies to reflect changes in operations, to serious overstatement of the costs.

The stakes in an omnibus rate case are enormous, probably involving more money, directly and indirectly, than any other regulatory proceeding, federal, state, or local. And, a rate case is a zero sum game--each subclass must provide enough revenue to cover its attributable costs and make a reasonable contribution to overhead. There is a great deal of money at stake, about \$54 billion, and parties perceive themselves as winners or losers. In this regard, the situation we face, the criticism some level at the Commission, is very much akin to the pressures the Congress faces in its effort to balance the budget.

Criticisms of the Current System

Some have argued that the ratesetting process takes too long ("setting rates takes longer than having a baby!") and is too cumbersome. In a recent speech, the Postmaster General described the process as "trench warfare."

The procedures for developing rate recommendations are designed to maximize meaningful public participation. The Postal Service must provide evidence in support of any request for rate changes. Interested parties may intervene, question the Postal Service, and provide whatever evidence they consider relevant to the Commission's responsibilities. Written discovery of underlying facts is allowed. Evidence is presented under oath and is subject to cross-examination by interested participants. Time is allowed for the Postal Service to present rebuttal testimony, and for both the Postal Service and interested parties to prepare detailed written briefs and oral arguments.

Yes, the process is technical and detailed in a fashion that some could call cumbersome. But, it is open and it affords an opportunity for all parties to protect their interests and their pocketbooks in dealing with a large government monopoly.

We are certainly interested in streamlining and expediting proceedings and in providing the Postal Service with an opportunity to experiment. To this end I have met with the Postmaster General and immediately after our rate decision last November, we invited public comments on improving the process. We also reissued rules giving the Postal Service the authority to expedite changes in Express Mail rates to meet market pressures. These rules, I should note, were previously in effect and, although designed to give the Postal Service flexibility in its most competitive area, went unused for five years. I have also suggested that, as a point of departure for future discussions, postal officials dust off the joint PRC-Postal Governor task force report which was shelved during the 1992 reorganization and downsizing.

Let me note, however, that whatever its warts, the current process does uncover deficiencies in the Postal Service's proposals and result in fairer rates. There were three examples from the last rate case in my prepared text, only one of which I will mention today.

The National Newspaper Association challenged the Postal Service's proposed 34 percent increase for in-county, second-class rates -- rates paid by those relatively small but tremendously important community newspapers. In response to several interrogatories, the Postal Service reexamined its in-county proposal, found an error and revised its proposal. What had been a requested 34 percent increase became a proposed 1 1/2 percent decrease. However, this change and the others mentioned in my prepared statement would not have occurred were it not for the procedural safeguards the ratesetting process provides.

As I mentioned in my prepared statement, even the Postal Service has, perhaps unintentionally, touted changes the Commission made in its most recent recommended rates advising mailers in its January edition of Memo to Mailers to "[T]ake advantage of our varied services by making smart mailing decisions." Each of those "smart mailing decisions" involves a rate recommended by the Commission -- a rate which is lower than what I guess are the "not-so-smart" rates originally proposed by the Postal Service.

The Future

I have tried to describe who we are and what we do. Now, the question is: "Where do we go?"

With respect to cries for wholesale change to provide speed and flexibility, I urge you to remember, under current law these proceedings are designed to ensure fairness and allow all interested parties the opportunity to participate in a meaningful way. We are dealing here with a government - granted monopoly -- a \$54 billion dollar gorilla whose activities if not monitored closely and controlled in a reasonable manner could cause serious economic consequences for friend and foe alike. Private companies could easily be put out of business and private citizens could easily wind up paying much more to mail a letter.

Several corporations spend literally tens of millions of dollars on postage annually, and of course the general public spends billions. It is and will always be important that postal customers have an adequate opportunity to critically review Postal Service proposals in a public forum and present their concerns to an independent decision maker before rates are changed.

As for the Postal Service, it is at a cross road with no sign post. As it did 25 years ago, Congress should provide direction.

A major public policy question needs to be answered, and unless Congress acts I fear that by default it will be answered by Postal Service managers. The question is both simple and complicated. It is this: "What do we want and what can we reasonably expect from our Postal Service?"

The Postal Service's historical mission is the collection, processing, transportation, and delivery of hard copy messages. It has done that fairly well under the protection of the postal monopoly umbrella. But today hard-copy messaging faces growing competition from FAX, E-Mail, and other forms of electronic transfer.

So, do we want the Postal Service to limit its focus to its historical mission -- the reliable, prompt delivery of hard-copy mail? Or, do we want it to attempt to compete in the new technologies and enter fields heretofore foreign to it?

There are a host of issues which must be considered if it is to compete and embark on new ventures. How will its non-monopoly and monopoly activities interrelate? Do we want First-Class monopoly revenues to subsidize entry into new and risky ventures? Can a labor intensive organization operate in an entrepreneurial, capital intensive arena? And, since it takes \$1 billion dollars in profit to reduce the cost of a First-Class stamp by a penny, are new ventures really worth the effort?

I apologize for ending with such weighty questions, but I want to thank you for the opportunity to share these thoughts.

Shortly, we will hunker down in our offices, raise our ex parte walls, and begin hearing the Postal Service's reclassification proposal. But, I want to say publicly what I have said privately to many of you. Please do not hesitate to ask for our assistance as you proceed on your examination of our nation's postal system.