

Trilogy Of Woes Demands A Reality Check

Mr. Chairman, Members of the Subcommittee:

I suggest a reality check as you look at the USPS and its future course. For more than a year in his speeches and public statements the following refrain has been heard from the Postmaster General (PMG): “...*We are hamstrung by laws, rules, and red tape...Our problems fall into three areas: people, prices, and products.*”

(8/2/95)

The hundreds of thousands of hard-working postal employees are the heart and sinews of the organization; getting the best from them is the task of managers, the job of the PMG and his subordinates. My knowledge of this area is limited, but I have observed a disjunction between reality and wish in the other two areas of the PMG’s trilogy of woes.

PRICES

“...*We need to free the price-setting process...*” (2/23/95)

“...*Our price-setting process is out of sync with the speed and direction of future business. It takes too long. It costs too much. It’s too inflexible. We can’t offer volume discounts or create contract service arrangements with our domestic customers, steps our competitors can take.*” (8/2/95)

“...We are trying to compete with one hand tied behind our back, in the worst of all worlds - tough private sector competition and burdensome government regulation.” (2/28/96)

All of these statements by the PMG are based, I believe, on the mistaken assumption that the United States Postal Service (USPS) is an organization which should be allowed to operate as if it were a business, like any other business, in a free market. It isn't, and, I believe if it is to so operate, it should be freed of the “burdensome government regulation” of the Private Express and mailbox access statutes. In other words, if it is to have the “*hand tied behind its back*” loosened, it should be freed also from its monopoly base so it can compete as a business in a free market. I don't advocate this, but I think the logic is clear.

As long as the USPS has a monopoly -- and many patrons have no alternative to using its services -- “*freeing the rate-setting process*” can only mean that captive customers are at risk of having their rates increased in order to reduce the rates of customers who have the opportunity to use other means of communication. The continued existence of the Private Express and mail box access statutes, in the interest of fairness and justice, dictates an independent forum, mechanism, or process to allow review and modification of all postal price changes.

Businesses that can offer “*volume discounts or create contract service arrangements*” don't have to worry about shifting the burden of the costs of such to

captive customers: they operate in a free market, their customers have other choices, and they can fail. The USPS can't.

Ordinary businesses must set their prices to recover both direct and overhead costs. USPS often attempts to set prices on service categories it deems competitive so these categories contribute little to overhead, or common costs, while it seeks to recover an ever-increasing percentage of its overhead costs from monopoly categories. Competing businesses have no such opportunity. Advantage, USPS!

The notion that the USPS should be given the freedom to adjust rates without review if those rates do not exceed the rate of inflation is seen by some as a way to provide more flexibility in rate-setting. This is a particularly insidious idea, fraught with potential for abuse of captive mailers. It's conceivable, under a common variant of this proposal, that the First Class stamp could be increased a penny every year for the foreseeable future without any review. A billion dollars a year could be added to postal revenue, each year overhead costs could be reduced for non-First Class mail, and individuals, small and large businesses, and other free-market based competitors, would have no appeal and no recourse.

PRODUCTS

"...We need to free our products of bureaucratic restrictions and make them modern and customer oriented." (2/23/95)

"We spend months revealing proprietary business information, only to have our competitors take our idea and run with it. You can bring

a child into the world faster than we can price a new product and bring it to market.” (3/8/95)

Making the services (a.k.a. products) of the USPS “*more modern and customer oriented*” is a worthy goal, but the problem in achieving it is not “*bureaucratic restrictions*.” The just completed reclassification case which will be implemented in July proves the procedures for changing services can work in a timely manner with safeguards for all affected users. The generally favorable acceptance of the decision testifies to the basic soundness of the process. The frame-work doesn’t need to be changed, it needs to be used by postal managers willing to give time and effort to the details of managing.

Speed in developing new services is also desirable, but the existing procedures aren’t the problem. The problem is that the managers of the USPS cannot get things done more quickly. Take the experimental case delivered today: it was approved by the Board of Governors on May 2, 1995; the Postal Rate Commission received it on December 19, 1995; and, it was returned for action to the USPS on March 13, 1996. Of the ten months since approval by the Board of Governors, seven were mysteriously taken up at USPS. We have taken less than three months to review it, and give interested parties the chance to comment. The USPS, if this relatively simple matter is an indicator, can’t act fast. That’s a management problem, not a “*bureaucratic restrictions*” matter.

As for revealing “*proprietary business information,*” and having a competitor “*take our idea and run with it,*” I’m completely baffled. I don’t know of one service “*idea*” that has been stolen from USPS. On February 2, the project manager for the new products group in the USPS Marketing Department - the person responsible for the identification and pursuit of new business opportunities - could not cite any specific business opportunities that the Postal Service lost because they were unable to take advantage of the opportunities in the last two years.

New products and price changes can be made faster than a human baby, but it requires knowledgeable, agile, and committed postal managers. We’re ready to do our part, as evidenced by the experimental rate case delivered today and MC-95: the omnibus rate case that was concluded in less than nine months and resulted in an additional \$400 million in revenue to postal coffers because of our expeditious action. (That extra revenue allowed the USPS to claim credit for their best year ever for revenue in FY 95.)

BUSINESS AND/OR PUBLIC SERVICE

“...I’m running the Postal Service as a business.” (11/17/95)

“...We face the demands of a private sector company, yet we are hamstrung by federal restrictions that put a stranglehold on our programs.”

(6/28/95)

“...America’s advertising dollar is now almost evenly split among television, newspapers and direct mail. Direct mail is gaining market share. It’s our fastest growing business.” (11/17/95)

The PMG wants to have his cake and eat it; he wants the authority to act as a business in a free market while retaining the monopoly foundation of the USPS and avoiding the hazards of a private business. Many of the largest users of the USPS agree with him; they support his notions of freedom to price and develop new products because they anticipate “volume discounts” and “service contracts.” They are concerned primarily with their costs, not with the fairness of pricing postal services. They want a competitive advantage, and will use the USPS monopoly to gain it.

The crux of the PMG’s attempt to have it both ways is found in his pride in the fact that expenditures for advertising dollars are *“almost evenly split among television, newspapers, and direct mail.”* He exudes that direct mail is *“our fastest growing business.”* He doesn’t say that he has a step up on his competitors, particularly newspapers, because the Private Express and letter box statutes protect him from a truly free market. Newspapers, television networks and stations, telemarketers, and others have no monopolies to rely on. They can fail; the USPS can’t.

The PMG attempts to obfuscate the reality of his situation: ignore the monopoly base and proclaim, “I’m running the Postal Service as a business.” But it’s

like no other business, and, if he is “*hamstrung by federal restrictions,*” he also has many advantages because of the “*restrictions*” he laments.

Rather than pursue quixotic goals of making the USPS something it isn't, and rather than chortling about the demise of Publisher's Express - “*We ran them out of business by improving service and keeping costs low!*” (2/20/96) [and because of the mailbox access statute] - postal managers should concentrate on their core services. They should take a basically sound structure for pricing and developing products, and make it work.

Their success in these areas, and even more in the “people” area that I have not addressed, will determine the future of the USPS.