

FINAL COMMENTS OF THE GREETING CARD ASSOCIATION

The Greeting Card Association (GCA) appreciates the opportunity, as the President's Commission on the United States Postal Service brings its work to a close, to present a brief concluding statement of views. In previous comments, we have advocated

- Preserving universal postal service;
- Refocusing of the Postal Service's business model to place less emphasis on maximizing volumes of bulk mail and more on core public services; and
- Insuring strong, effective regulatory protections for the captive postal customer.

In our final comments, we would like particularly to emphasize the importance of developing a plan for prior review of postal rates that will both protect monopoly customers and eliminate the main complaints against the present system.

Such a plan is necessary because prior review also is necessary.

It has been suggested that the Postal Service should set rates in the first instance, with after-the-fact review available through a complaint process.^a But this system would not protect monopoly customers against economic damage from unjustified rates until a costly complaint proceeding had been completed, by which point the damage might well have been fatal. The obstacles facing even a complainant capable of surviving the process would be formidable.

Proving that a rate violated whatever legal criteria remained part of the system would require access to relevant cost, revenue, and operating data and ability to analyze it – data which

^a This suggestion is sometimes justified by invoking the Postal Service's need for "ability to compete" or by pointing to private-sector, competitive-market price-setting methods. The Service's strictly competitive products, however, amount to a relatively small percentage of its total volume and revenue. The existence of (non-postal) substitutes for some of its much more significant product lines – letter mail in particular – is undeniable; but it is unrealistic to cite this problem to justify doing away with effective rate regulation without considering whether these substitutes pose a threat because of their price, or for other reasons besides. If the latter is the case (as we believe it is), then eviscerating the regulatory system is no remedy.

would remain under the control of the Postal Service except insofar as the regulatory body could compel their disclosure.

A rate complaint may produce beneficial results (i.e., refunds) in the case of a private-sector regulated utility having an equity interest to bear the cost of refunding unjustly collected rates. The Postal Service has no such interest. A challenge to any major set of rates would thus inevitably turn the proceeding into a general rate case, as customers in other classes intervened to fend off compensatory increases for their mail. Any process economies hoped for as a result of moving to an ex post complaint review process would quickly vanish.

Further, it is unclear what legal standards the regulator could apply to a rate initially set by the Service without explicit factual basis and rationale. Such standards exist today in large part because the established requirement of reasoned prior review has created a coherent body of principles and accepted practical rules, which intelligibly flesh out the generalized commands of the Postal Reorganization Act.

Prior review, we would agree, strongly implies that rates must be cost-based. GCA believes they should be. “Cost-based,” however, does not imply a guarantee that the Service will recover through rates every dollar it expends, whether or not wisely or productively. Improved controls on costs – including a strengthened regulatory body with appropriate powers to conduct or require audits and studies as well as to disallow provably improper costs – are certainly needed. Price caps based on exogenous cost indices cannot be relied on to do this job, in part because there is no “residual claimant” to enforce cost discipline. And price caps based on an endogenous index, reflecting costs peculiar to the postal system, would amount to an *explicit* guarantee that every expense, meritorious or not, would be collected from ratepayers.

The weaknesses of the present system of prior review leading to cost-based rates can and should be corrected. The process can be significantly shortened and streamlined. This can be done in large measure by eliminating the anomaly of a quasi-corporate board of directors

empowered to review and modify the decisions of the regulatory body, but also by greatly improving the transparency and availability of Postal Service data. If such transparency is achieved, the setting of fair rates on the basis of accurate and properly-interpreted data, and, in particular, the protection of captive postal customers against abuse of the monopoly, will not require use of the trial-type litigation model now governing postal rate proceedings.

In summary, then, GCA urges the President's Commission to focus on preserving universal service under a more appropriate Postal Service business model, and – especially – to press for a truly effective system of cost-based rates, reviewed before implementation in appropriately streamlined proceedings, and based on broadly available, comprehensive data, so that the monopoly mail user will be adequately protected.