

**UNITED STATES POSTAL SERVICE
REFORM: CONVERSATIONS WITH
CUSTOMERS: HEARINGS, ONE HUNDRED
FOURTH CONGRESS, SECOND SESSION,
MARCH 14 AND 18, 1996**

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**UNITED STATES POSTAL SERVICE REFORM:
CONVERSATIONS WITH CUSTOMERS**

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United States Postal Service Reform...

HEARINGS

BEFORE THE
SUBCOMMITTEE ON POST OFFICE AND
CIVIL SERVICE

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

MARCH 14 AND 18, 1996

Printed for the use of the Committee on Governmental Affairs



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UNITED STATES POSTAL SERVICE REFORM: CONVERSATIONS WITH CUSTOMERS

THURSDAY, MARCH 14, 1996

U.S. SENATE,
SUBCOMMITTEE ON THE POST OFFICE AND CIVIL SERVICE,
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 9:30 a.m., in room 342, Dirksen Senate Office Building, Hon. Ted Stevens, Chairman of the Committee, presiding.

Present: Senators Stevens, Smith, and Dorgan.

OPENING STATEMENT OF SENATOR STEVENS

Chairman STEVENS. Good morning. Thank you very much for coming, gentlemen.

This morning we are convening the first of 2 days of hearings which my staff has called USPS Reform—Conversations with Customers.

The second part of our hearing will be held on Monday of next week at 2 o'clock in the afternoon. You all know how important the Postal Service is to the citizens of our country.

The 1970 act clearly and succinctly states that the basic function of the Postal Service is to provide postal services to bind the Nation together.

The communications network of the mail system is very important to all of us. In rural areas it is vital. In my State the Postal Service is literally a lifeline for most of our people. We depend upon the Postal Service for the basic necessities of life.

On July 1 of this year the U.S. Postal Service will celebrate its 25th anniversary, and we believe it is time for us to consider the future of the Postal Service and to work together to decide what tools it needs to continue well on into the next century.

Today and Monday we will hear from you who are the Postal Service customers, those people who really are very much involved in the mailing system.

We have asked that you describe how you envision the Postal Service of the future and the steps that can be taken this year by Congress to modernize that process.

I'm going to put the balance of my statement in the record today, because I do want to move along.

[The prepared statement of Chairman Stevens follows:]

Chairman STEVENS. I want to apologize now for the fact that I'm going to be called away for about 20 minutes during part of this

hearing to appear before another committee, and another Member of the Committee will be here.

We do hope that other Members of the Committee will come by and participate in this hearing. And I do appreciate the willingness of all of you to contribute to this process.

We have three panels of witnesses this morning, and I would like to ask that you put the complete text of your prepared remarks into our hearing record. We will put them all in there. Because of the number of witnesses, it would be helpful to maintain a 10-minute concept in the comments you make here this morning.

Our first panel consists of representatives of the Advertising Mail Marketing Association and the Direct Marketing Association. Both AMMA and DMA represent mailers who for the most part use what will be called the standard class of mail.

Testifying for AMMA is Ian Volner, the general counsel. Representing DMA are Jonah Gitlitz, the president, and he is accompanied by Mr. Baer of Reader's Digest, and Mr. McCormick from L.L.Bean.

Mr. McCORMICK. That's correct.

Chairman STEVENS. We appreciate your coming and being willing to participate. Before we attempt to change the Postal Reform Act I think it is a very important thing for us to understand what you all feel about how the Postal Service should be reconfigured to meet your needs for the future.

Mr. Volner.

**TESTIMONY OF IAN VOLNER, GENERAL COUNSEL,
ADVERTISING MAIL MARKETING ASSOCIATION**

Mr. VOLNER. My name is Ian Volner. I am general counsel to the Advertising Mail Marketing Association, and on behalf of all of our members we appreciate this opportunity to share with you our vision of what the Postal Service can become and the kind of changes practical, pragmatic, and relatively modest changes that needed to be made in order to accomplish that.

The basic theme of our view of the Postal Service is that the Postal Reorganization Act was a remarkable statute when it was passed. And it has endured quite well for 25 years. It was a good statute for its time, but times have changed.

Let us take a very brief look at what has changed. The Postal Service is, as you have said, first and foremost an information delivery system. In the past 25 years, alternative information delivery systems have sprung up all around it.

I'm not going to take you through all of the gory details of what has happened in the world around the Postal Service. We have set that forth in our statement.

But there is another element to this change in the world. The state of regulation of the alternative information delivery systems in this country has changed profoundly in the past 25 years. The Postal Service's state of regulation has not.

As a result of the 1996 Telecommunications Act there has been substantial relaxation of regulation of the electronic alternatives to the Postal Service. As a result of changes that Congress has made, UPS, FedEx, and other direct competitors of the Postal Service are now completely unregulated.

This relaxation of regulation—and I stress it is relaxation, not complete deregulation—has made these alternatives to the Postal Service flexible, market-driven and efficient.

We believe, it is our vision of the near future, that the Postal Service can become flexible, efficient, cost-effective and market-driven. The question is how to get there.

And I'm reminded of a story that Tony Frank told us once early on in his tenure. He was complaining somewhat indignantly that a Federal Government agency had assigned all of its overnight delivery mail to a competitor. He said they were not wrong to do that, their price is lower than mine. He said, "I can meet their price but it would take me a minimum of 10 months to get there." And quite understandably, the government agency didn't want to wait.

That is one area where change can be made, in the area of rate making and reclassification.

The other area, and the two are intertwined, is we need to do something to make more effective the Postal Service's dealings with labor, which represents something in the order of 80 percent of total costs.

Rate making can be made more flexible without sacrificing any of the important values that we have all agreed are necessary to bind the Nation together. I have had the misfortune of trying all of the rate cases that have ever been tried in the past 25 years, and a few of the non-rate cases that have been tried.

And it comes not just from my members, it comes from me. We have got to do something about the way rates are made. There are certain core values that we have to protect. We have to prevent predatory pricing. We have to prevent unfair cross-subsidies, except in the case of new services and incremental changes where there should be some time for the Postal Service to operate at a loss in order to start up a new service.

We have to protect universal service. That's important to your State, it is important to all mailers. And service has to be available to all users at reasonable costs.

But within those constraints, there is no reason that the Postal Service should be subjected to the kind of regulatory regime that it now undergoes.

It should be given, if not complete freedom, then a great deal more freedom than it has now to set rates, establish new services, to market tests.

We have listed all of the approaches that we believe can be quickly and easily accomplished in our prepared statement. There are two that I want to particularly emphasize because they are either mischaracterized or misunderstood by those who are opposed to any kind of change in the system.

We talk in our testimony about benchmark rate making. Essentially, benchmark rate making has been used in the telecommunications industry for almost a decade now. It has been entirely successful. It applies in monopoly markets, which the Postal Service will have, and it applies in competitive markets.

It does not mean that the Postal Service would be allowed to price below costs. What it does mean is if the Postal Service succeeds in controlling costs such that its aggregate costs do not exceed a benchmark, CPI, or some other determined benchmark, it