

Final Comments

to

President's Commission on the United States Postal Service

by

Coalition for Postal Worksharing

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Executive Summary

For reasons explained herein, the Commission is urged to endorse worksharing and private sector competition by:

- i. Requiring the Postal Service to charge separate rates for workshared services that are sufficient to cover the cost of providing those services; and
- ii. Subjecting the Postal Service to the laws that govern competition in the private sector.

Introduction

As the President's Commission is well aware, worksharing discounts apply to a number of postal services — *e.g.*, sortation and transportation to destination facilities. A substantial portion of the mail stream, especially “bulk” mail, but also single-piece mail tendered to independent presort bureaus, now qualifies for at least one worksharing discount. As a result of the introduction of worksharing discounts, a dynamic private sector competes successfully with the Postal Service to provide intermediate mail services more efficiently.

That the increased competition engendered by worksharing discounts has provided many benefits, both to the Postal Service and mailers, is beyond dispute.

Without worksharing, for example, the Postal Service would have required a few hundred thousand additional employees in order to handle the

mail. In helping to restrain the level of employment below what it otherwise would have been, worksharing has benefitted the Postal Service by reducing both the payroll and the unfunded liability for health care benefits by many billions of dollars.

The cost reductions resulting from private sector competition also have reduced significantly the cost of mail and saved mailers billions of dollars. That benefit to mailers, in turn, has helped preserve mail volume, thereby giving added support to the delivery network.

The Postal Service's delivery network requires an infrastructure that is capable of processing and transporting mail to destinating facilities with reasonable efficiency. Worksharing assumes that the Postal Service should not have a monopoly over these intermediary steps. Since the first presort discounts were implemented in 1976, innovative private firms operating in a competitive market have demonstrated that the private sector is capable of providing much (if not all) of that infrastructure. Moreover, worksharing provides an ample demonstration that the Postal Service has no unique advantages to offer mailers in these areas. Yet the Postal Service has been resistant to implement certain types of worksharing, and has offered "discounts" for workshared mail that, in general, are woefully inadequate. This forces the revenue from the Postal Service's delivery function to subsidize its processing and transportation costs.

For the above-stated reasons, the Coalition for Postal Worksharing asks the Commission, in its final report, expressly to endorse worksharing as a matter of sound postal policy. Further, and consistent with this stance, the Commission should recommend that, with respect to workshared activities, the Postal Service be compelled to compete with the private sector on a level playing field. The remainder of this comment offers concrete proposals to achieve these objectives.

1. Mandate That Workshared Services Cover Their Attributable Cost

The Postal Reorganization Act, 39 U.S.C. §3627(b)(3), requires that each class and subclass of mail cover its attributable cost. This provision prevents cross-subsidies *between* classes of mail, some of which are subject to the statutory monopoly, and some of which have always been open to competition. In so doing, it prevents the Postal Service from abusing and exploiting its monopoly on First-Class Mail and protects private end-to-end competitors, such as UPS and FedEx, from unfair competition.

What the framers of the Postal Reorganization Act did not foresee was the growth of competition for intermediate workshared services. Consequently, the Act does not prohibit cross-subsidies *within* a class of mail. Thus, it is perfectly legal for the Postal Service to use its monopoly to overcharge for delivery and then use the excess revenues to subsidize the workshared services

which it provides. And it does exactly this. Mail that bypasses all or most of the postal network pays excessive rates for delivery.

At the same time, the incremental fees which the Postal Service charges for its workshared services are not compensatory; *i.e.*, the additional revenues generated by those incremental fees fail to cover the attributable cost of those services. The loss incurred on account of the non-compensatory rates for workshared services is cross-subsidized by the excess revenues from fees charged for delivery. Although such subsidies technically do not violate the letter of the Postal Reorganization Act, they clearly violate its spirit, for the Act intended to prevent the Postal Service from competing unfairly with independent firms.

Further, the ability to charge non-compensatory fees for its workshared services gives the Postal Service the power to subject competitors to a vertical price squeeze. All it need do is manipulate the rate for delivery upward, while holding other rates constant. Below-cost pricing of competitive services and vertical price squeezes, when undertaken by vertically integrated utilities, common carriers, or other private firms, have been condemned by antitrust regulators and federal courts.

Sound public policy would mandate a level playing field for the Postal Service and all independent competitors. In order to accomplish that end, the Commission is urged to recommend:

- (i) that for those mail processing and transportation activities which compete with the private sector, the Postal Service be required to charge separate identifiable rates for those services; and, further
- (ii) that the revenues derived from those rates cover the attributable costs of the services provided.

Requiring that the fees charged for workshared services cover their cost would help prevent abuse of the monopoly and give independent firms an equal opportunity to compete on the basis of cost and efficiency.

2. Subject the Postal Service to the Laws That Govern Competition in the Private Sector

From time to time the subject of privatizing the Postal Service has been discussed as a policy option. The Coalition for Postal Worksharing takes no stand on the issue of privatization. We note, however, that should the Postal Service ever become privatized, at that time it almost surely would be subject to enforcement actions or private causes of action under the nation's antitrust laws and other statutory limitations that are imposed on private firms.

It should not be necessary to privatize the Postal Service in order to subject it to the various competition laws administered by the U.S. Department of Justice and the Federal Trade Commission. The Postal Service has no need to continue enjoying complete exemption from such laws. Making the Postal

Service subject to the existing body of law that governs competition in the private sector would help prevent any abuse of its monopoly and dominant market position, as discussed above. It also would help prepare the Postal Service for privatization, should that become a desirable option in the future.