



POSTAL RATE COMMISSION

Washington, DC 20268-0001

Office of the Chairman

October 12, 2005

The Honorable John M. McHugh
U.S. House of Representatives
2333 Rayburn House Office Building
Washington, DC 20515-3223

Dear Congressman McHugh:

Thank you for requesting the Commission's evaluation of the concerns raised by the Postal Service Board of Governors with pending postal reform legislation. The Commission is proud to have been an active participant in efforts to develop legislation that will foster a more efficient and effective national postal system. We were surprised to learn that the Board of Governors, longtime apparent supporters of the comprehensive reforms developed in your Committee and embodied in H.R. 22, have now expressed serious reservations and request massive changes that would drastically alter the carefully balanced responsibilities of our two agencies.

As you requested, our comments will focus on the Governors' statements most directly related to the PRC's role under H.R. 22 and S. 662 of providing transparency, accountability and oversight to balance the increased flexibility given the Postal Service. If you would like comments on additional topics raised by the Governors, we will be happy to provide them.

The Postal Reform Act of 1970 established the Postal Service at a time when both houses of Congress had full committees devoted to Post Office and Civil Service issues that carried out continuing, detailed oversight of the Postal Service. As Congressional attention has had to be increasingly diverted to other pressing national issues, the need for modernizing the model under which the Postal Service operates has become apparent. H.R. 22 would improve that model by increasing both the flexibility of the Postal Service to quickly and effectively respond to business circumstances, and the ability of the independent regulatory Commission to assure meaningful transparency and accountability of the Postal Service.

The Governors identify as their primary concern "the issue of governance". (Letter at 2.) They then express the view that the Board's role should be to oversee the business of the Postal Service. In fact, H.R. 22 and its counterpart S. 862 give the Governors both the responsibility and the authority to manage the Postal Service effectively.

What really appears to concern the Governors is that after implementation of their decisions that determine the scope and quality of the postal services actually received by the American public, the independent PRC will be authorized to consider complaints that the results of Postal Service actions conflict with the policies established by Congress. The Governors apparently think (Letter at 3) that it will seriously undermine management authority if the Postal Service may have to adjust some practice that leads to a result that is contrary to public policy.

Any such fears are totally unfounded. The legislation does not require the Postal Service to obtain PRC permission to modernize its network, as the Governors suggest. (Letter at 3; see, H.R. 22, sec. 709(c).) There is nothing in the language or legislative history of these bills that support suggestions that the PRC should or would interfere in the day-to-day management of the Postal Service.

Current law requires the PRC to consider rate and service complaints; however, the PRC properly has established rules to limit itself to issues of substantially nationwide impact. There is no expectation that new legislation would require deviation from this policy. Furthermore, before any remedial action can be ordered in response to a complaint brought under the new legislation there must be administrative proceedings, and the Postal Service may obtain judicial review of any adverse ruling.

This Commission does not believe that a government monopoly with the essential responsibilities and vast economic power of the Postal Service should function largely free from continuing independent oversight. Management does not need to be totally insulated from effective critical review in order to operate effectively. To the contrary, independent informed oversight is an essential aspect of assuring that a government entity provides a satisfactory level of service to the public. Moreover, the Commission does not believe that the limited regulatory oversight provided by H.R. 22 would in any way inhibit the Postal Service from providing efficient and effective universal postal services to the Nation.

The Board of Governors contends that to exercise its responsibilities, it "must have authority over capital investments, purchasing, accounting, cost attribution, compensation, and the setting of goals." (Letter at 3.) Managers of a private business normally have largely unfettered authority in these areas, but even there owners and stockholders will often have substantial input into determining goals, capital commitments, and executive compensation. Similarly, various government authorities may have involvement in accounting and cost attribution, especially if the business is publicly traded. The key distinctions are that the Postal Service is not a private enterprise, and the Governors are not entrepreneurs who have invested their personal fortune, but rather civil servants appointed to provide citizens with essential services.

Decisions on capital commitments and purchasing by an entity with the economic scope of the Postal Service can have significant and potentially deleterious impacts on the national economy. Thus, it is proper for governmental bodies responsible for the health of the economy to have input into such decisions.

The goals of the nation's postal service are not pure business decisions for a board of directors. The needs of the Nation, and of various categories of mail users are also important. So long as the postal service is considered to be a basic and fundamental service provided to the people by their government, an open public forum should be available to provide citizen-customers with meaningful input on the scope and quality of monopoly services.

Similarly, cost attribution and accounting for a government monopoly must be overseen by independent, responsible entities to assure that cross-subsidization and predation do not exist. If the Postal Service is given the authority to decide what costs (if any) are caused by its various postal products, neither mailers nor competitors will be able to have confidence that prohibitions on cross-subsidization and predation are meaningful.

Finally, the Commission must respectfully disagree with the Governors' view that the Postal Service should be able to exceed the CPI rate cap whenever it appears "reasonable and necessary" to do so. (Letter at 3.) The primary goal of postal reform legislation is to foster significantly more efficient and effective postal operations than have existed under current law. As the Governors relate, (Letter at 1) the Postal Service has shown itself fully capable of operating within the CPI standard. Postal stakeholders have supported reform largely because a strict rate cap will assure that management continues to make the hard decisions necessary to achieve continuing efficiencies.

The Commission recognizes that successfully managing the Postal Service is an extremely challenging task, and that responding to public complaints can easily be viewed as a distraction. Nonetheless, we continue to believe that when managers of a government monopoly are granted broad authority, it is necessary that the public have an avenue that allows effective pursuit of complaints relating to the exercise of that authority.

Sincerely,



George Omas