

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268

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REPORT ON UNIVERSAL POSTAL SERVICE  
AND THE POSTAL MONOPOLY

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DOCKET No. PI2008-3

INITIAL COMMENTS OF WILLIAM H. YOUNG, PRESIDENT, NATIONAL  
ASSOCIATION OF LETTER CARRIERS, AFL-CIO  
IN RESPONSE TO COMMISSION ORDER NO. 71  
(June 30, 2008)

**I. Introduction**

The National Association of Letter Carriers, AFL-CIO (NALC) on behalf of its 300,000 members hereby submits comments in response to Order No. 71 of Docket No. PI2008-3 published in the *Federal Register* on April 30, 2008 concerning the Postal Regulatory Commission's Report on Universal Postal Service and the Postal Monopoly.

Founded in 1889, NALC is the exclusive collective bargaining representative of 225,000 active city letter carriers employed by the United States Postal Service in every city and town in America. NALC appreciates the opportunity to provide comments and to participate in the Commission's inquiry into universal service and the USPS. Our members are on the street six days a week delivering the full range of postal products and we often provide special services on Sundays and Holidays as well. We are the 'last mile' connection for America's households and businesses. Our work plays a critical role in all of the elements of universal service that are being considered by the Commission.

Our comments will address the specific questions posed by Order No. 71. We begin, however, by noting our reservations about the basic premises with which this work has begun: first, that the European decision to deregulate and privatize the postal sector is an appropriate model for the U.S.; and second, that America should follow the lead of Europe by adopting a more narrow definition of universal service. We believe that there are clear advantages to maintaining a more flexible definition of universal service that can evolve over time.

Our comments will be presented in three parts. First, we will discuss the proper context for this study. Second, we address the discussion topics outlined in the

Notice and Order. And third, we will offer conclusions arising from NALC unique role in the provision of universal delivery services.

### **The Proper Context for this Study**

In the Order establishing this notice and comment proceeding, the Commission states that “a number of countries, mostly in Europe, have begun to reduce or eliminate the postal monopoly, over the past 10 years while at the same time taking care to ensure some minimum level of service to each citizen. It is *against this background* (emphasis added) that the United States Congress mandated the Commission’s report. (Order 71, p. 5) The order also states “one of the Commission’s fundamental tasks in preparing its report will be to define the concept of universal service” (p. 6)

There is a casual inference in this and in other statements by the Commission that the European experience is a predicate to the study called for by Section 702 of the PAEA. For example, in opening the Flagstaff hearing the Chairman states that “it is *in this context* (emphasis added)” of steps taken in Europe to reduce or eliminate the postal monopoly that this proceeding is taking place.

We suggest that it is not appropriate for the Commission to limit its perspective to the European experience, or to accept as a given that an appropriate recommendation to the President and to Congress will be to narrow the definition of universal service that is linked to the monopoly’s estimated protections. First, as is explained below, the Congress and the American public policy process have reached a decision that contrasts sharply with the direction taken by the European Union in the regulation of postal services. Second, even if this were not the case, the European model is not an appropriate one since the jury is still out on the wisdom of Europe’s liberalization of the postal market. Third, in view of the degree of change now underway in America’s postal markets and the extent of change taking place within the Postal Service itself, estimates of the monopoly’s supposed commercial value will be hypothetical at best.

The U.S. has been well-served for decades by a flexible, evolutionary approach to universal service rooted in the deepest traditions of our democracy and changing with developments in technology and market conditions. The model of European deregulation, as it is emerging today, is not the right starting point for an examination of universal service.

### **The European Model is Inappropriate**

Over the past 10-15 years, there have been parallel debates in the United States and Europe over the future of postal services. In 1992, the European Union, acting within the Treaty of Rome’s mandate to create a single European market in all goods and services, made a decision to transition to a completely liberalized postal market. In the U.S., the opposite choice was taken. With the

first version of postal reform introduced in 1994, H.R. 22, Congress decided to retain the U.S. Postal Service as a kind of regulated public utility.

Given these choices, it is not surprising that more emphasis has been given to precisely defining universal service in Europe than in the United States. Indeed, as the Commission notes in its Discussion Memorandum issued to facilitate this proceeding, the PAEA fails to define universal service.

The options to privatize and deregulate postal services were explicitly addressed over the 12 years (1994-2006) when postal reform was before Congress. They were rejected as a model for the United States. Instead, the new law reaffirmed Section 101 of the Postal Reorganization Act, the key statute amended by the PAEA.

The law was not arrived at casually. Section 102 of the PRA was amended to insert a series of definitions that are fundamental and include the definition of a “postal service”. Yet, while the Congress reviewed the law carefully and reformed sections of it that needed to be modernized, Section 101 (a) of Title 39 was left intact. It remains the core postal policy statement of the nation, reflecting the intent of Congress in both 1970 and 2006: “the United States Postal Service shall be operated as a basic and fundamental service provided to the people by the government of the United States authorized by the Constitution, created by act of Congress and supported by the people.”

During the course of the debate a blue ribbon Presidential Commission on the USPS was created in 2003 to produce a report to the President and to Congress. The first words of its final report (“Embracing the Future: Making the Tough Choices to Preserve Universal Service”) are “universal postal service remains vital to the nation and to its economy at the dawn of the 21<sup>st</sup> Century.” While the Commission called for “ambitious modernization” (p. iii), it nevertheless concluded that the Postal Service should “remain a public institution” (p. ix.) and that “an abrupt privatization of the postal service is far too risky and would unnecessarily destabilize universal mail service” (p. ix). These views were embraced in the PAEA in 2006.

### **The European Experience is Unsettled**

While the mandate of recent U.S. experience has been clear, the guidance offered by European experience is less so. The European move to deregulate postal services began more than 15 years ago. Yet very few countries have deregulated yet and the movement to eliminate postal monopolies has been repeatedly deferred.

Initially, complete deregulation was to have been completed by 2002. Then the deadline was extended to 2007 and then 2009 and it has now been set for 2011

for most of the E.U.'s member-countries. (Newer, less developed members of the E.U. will be given until 2013.)

In addition to the delay in implementation across Europe, domestic actions in Germany, the Netherlands and other nations have also delayed full liberalization. In Germany there is now a major controversy about a new minimum wage law for the postal sector, while in other countries debates over standards for access to postal networks have delayed votes for deregulation and limited the speed of liberalization.

Beyond the fact that there has been more rhetoric than reality in the deregulation of postal markets in Europe, the experience of nations where competition has been introduced first has not been promising. Britain's Royal Mail has been cast into turmoil by the repeal of the 350-year old monopoly in the United Kingdom. The emergence of cream-skimming competition has been swift and after decades of profitability, the Royal Mail is now losing money and massive post office closures are planned. Labor strife resulting from these and other cuts has damaged the quality of service and the morale of Royal Mail's work force.

The preliminary report of an independent review led by Richard Hooper now underway in Britain concluded "that there have been no significant benefits from liberalization for smaller businesses and domestic consumers." These smaller businesses and consumers are "paying higher stamp prices" while the "introduction of a pricing methodology based on weight and dimensions make life more difficult." The report noted that many large-volume mailers have seen price cuts. But the benefits to large-volume mailers may be fleeting if the Royal Mail, still the dominant provider of last mile delivery services, collapses. "There is now a substantial threat to the Royal Mail's financial stability and, therefore, the universal service. (See page 6-7 of "*The challenges and opportunities facing U.K. postal services: An initial response to evidence*," May 2008.)

### **An American Approach**

Given the unsettled nature of the "experiment with postal deregulation" in Europe, the PRC should approach the subject of universal service from a domestic point of view: respecting the unique history of the U.S. Postal Service and the framing of any recommendations about the future of the universal service in the United States in the context of, and respecting, the policy debate that led to the enactment of the PAEA. Grafting the European goals onto the implementation of U.S. policy will lead to confusion, will limit the effectiveness of implementing PAEA and will ultimately hurt the USPS.

## II. Comments on Specific Topics

### **Topic No. 1: Scope of Universal Service and the 'Universal Service Obligation'**

The law governing the Postal Service does not precisely define the meaning of universal service. Its meaning may be understood from various strands of evolved practice, legislative mandates and regulatory determinations. The resulting imprecise and open-ended definition of universal service is a strong point, not a weakness in the law. It permits the Postal Service to do what it has always done: evolve and adapt to the changing needs of the nation. And it permits and preserves the ability of citizens, businesses and governments at all levels to call upon the Postal Service to serve new functions that help bind the nation together.

The six components of universal service outlined by the Commission are a good starting point for thinking about universal service, but the Commission should keep in mind that the Postal Service's role in American life goes well beyond these six factors. The Discussion Memorandum mentions a couple of functions (passport processing and the law enforcement duties performed by the Postal Inspection Service) that are illustrative of this expanded role, but there are many, many more which this submission will address in its final section.

The Commission's Memo distinguishes between 'universal service' and the 'universal service obligation,' noting the former is an operational concept while the latter is a legal one. While it is true the Postal Service and a variety of private actors jointly provide universal postal services, both in cooperation (FedEx Smart Post, the new DHL-USPS alliance, etc.) and in competition, only the Postal Service operates with a USO as a legal mandate. The government cannot compel any of the private companies to provide services that are commonly understood to be part of the Postal Service's universal service obligation and the Commission should not narrow the scope of that obligation on the assumption that private actors will automatically fill the void.

On the important matter of the USO, Congress does, and must, act cautiously. Scaling back the Postal Service's USO (or, for that matter, expanding it) should be done very carefully and it should be done on the basis of hard evidence, not soft projections of where one might expect the demand for postal products to be in 3, 5, 10 or 15 years. Our ability to predict the future is extraordinarily limited. In the changing mailing marketplace, recent years have seen many instances of imprecise forecasting. The role of the Postal Service in the American economy and in American life is constantly changing and the composition of the mails is constantly changing as a result. Yes, many financial transactions are migrating from the mail stream to electronic alternatives, but many new uses of the mail are constantly developed as well. Earlier generations could not imagine renting movies through the mail or getting their prescription drugs delivered to their

doorsteps by letter carriers, and few people would have predicted that hundreds of thousands of Americans would earn their living selling products through the mail by using internet auction services. Indeed, in the last case, it's the universal access to the mail that has made services like eBay possible.

The Commission and Congress should, and must, be careful about trying to predict the future and basing major policy changes on predictions.

**Topic No. 2: Historical Development of Universal Service, the USO and Monopoly Laws and Topic No. 3: Universal Service: Geographical Scope**

As part of Section 702 of the PAEA, Congress requested an analysis of the historical development of universal service. NALC would emphasize three points about the historical development of universal postal services.

First, unlike many other crucial government services, postal services are firmly grounded in the nation's founding document, the Constitution of the United States. Article 1, Section 8 grants Congress the power "To establish Post Offices and Post Roads," making postal services a fundamental government function. The Founding Fathers saw these services as essential to our fledgling democracy. Then, as now, postal services provide a crucial channel for the freedom of speech, democratic debate and the free flow of ideas. A universal postal service remains a vital component of American democracy. It not only facilitates political debate through periodicals and enriches electoral competition through campaign literature, but it also provides an important mechanism for election officials to conduct elections as more and more voters cast ballots through the mail.

Second, the Postal Reorganization Act of 1970 reaffirmed the Constitution's conception of the Postal Service as a fundamental service to the people. As Section 101 states: "The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary and business correspondence of the people. It shall provide prompt, reliable and efficient services to patrons in all areas and shall render postal services to all communities." As noted above, the PAEA did not alter Section 101 in any way. Binding the nation together economically, socially and culturally remains the primary objective of the Postal Service.

Third, the historical development of universal service has been a progressive one – over time, services have been expanded to serve an ever larger population and an ever-growing number of communities. This is relevant to Topic No. 3 in this notice. Geographically, the Postal Service now serves virtually every household and business in America. Every day, letter carriers play a crucial role in identifying new homes and businesses in need of postal services. We make contact with new homeowners and new business proprietors and we arrange for

the initiation of delivery services. As a result, every year the Postal Service adds 1.5 to 2.0 million new delivery points to its universal delivery network.

In its study, the Commission should respect the Postal Service's status as a fundamental public service grounded in the Constitution and seek ways to continue the progressive expansion of postal services. Just as American democracy has expanded over the course of history to include an ever greater number of Americans, so too has the availability of postal services.

The Commission should also recognize the fact that universal service would not have developed in the absence of a postal monopoly. There are dozens of countries around the world that do not offer universal postal services. In almost every case, those countries do not have or have not enforced a postal monopoly.

Although the Internet is in the process of altering the demand for postal services – displacing some uses of mail and creating others -- and although the Postal Service's importance to particular industries and sectors has waxed and waned over time, it remains a crucial part of the country's economic infrastructure. Moreover, for tens of millions of Americans without access to the Internet, it remains a vital universal communications service. Even for those with high quality internet connectivity there is still reliance on universal mail services. The PRC's historical review of universal service should reflect these facts.

#### **Topic No. 4: Universal Service: Range of Product Offerings**

In the course of the 12-year debate over postal reform, considerable attention was paid to the proper range of services to be provided by the Postal Service and how these services should be characterized. There was a strong consensus that both market-dominant services such as First-Class Mail, Standard Mail and Publications and Competitive Products such as Express Mail and Package Services should be provided by the Postal Service regardless of their coverage by the postal monopoly.

It would be premature to reopen a debate over the range of services to be provided by the Postal Service. The Postal Service plays a vital role in each of the market segments for which it provides services, even in those in which its share of the market is limited. As the only provider with a USO, it provides a legally guaranteed level of service that ensures an important measure of geographical equity. In the absence of the Postal Service, there is no doubt that businesses and residents in both low-density rural areas, and high-density urban areas where economic development is weak or economic activity is stunted, would lose access to affordable delivery services. This is especially true for competitive products (Express, Priority and parcel services).

The loss of such services would not only exacerbate economic inequality in America, but it would also thwart government efforts to spur economic

development (or redevelopment) in major areas of the country. This would not only harm Americans and business enterprises located in these areas, it would also harm the interests of their counterparts in more prosperous areas. The ability to reach every American and every business every day helps create strong national markets and serves to bind all Americans culturally and politically.

The Commission should resist the temptation to disaggregate or unbundle services, making one type subject to a universal service obligation while excluding others. Postal products are inherently inter-connected. Many mailers rely on more than one type of mail and the different types of mail complement one another. The goal for the Commission and for the Congress should not be to ensure the cheapest mail service for particular segments of the mail stream, it should be to ensure the most efficient and affordable *system* of postal delivery.

After much debate over the past decade, Congress concluded that a limited and regulated monopoly remains the most effective way to reach this goal. The economies of scale and scope present in many postal operations, but especially in final delivery of mail, were central to this conclusion. In contrast to the European Union, which hopes to see a deregulated market in mail services bring down the high price of postal services in Europe, the U.S. Congress decided to retain a public postal service that provides universal service financed by a postal monopoly to preserve America's much more affordable system of mail delivery. (See comments below on Topic 7). It reaffirmed the choice made in 1970 to adopt a public utility model for the Postal Service, one that serves the public interest while operating in a business-like manner.

NALC therefore urges the Commission to recommend not only the continued inclusion of all current products in the Postal Service's universal service obligation but also that all these products be provided to all communities in the country. Moreover, in keeping with the evolutionary history of the Postal Service, the Commission should urge Congress to preserve a flexible definition of universal service to accommodate future demands as they arise.

#### **Topic No. 5: Access to Postal Facilities and Services**

As the representative of the nation's city letter carriers, NALC is uniquely positioned to comment on the issue of delivery services. Our members serve as the essential link between the two groups of "customers" served by the Postal Service – the mailer-customers who pay the postage that finances universal service and the recipient-customers who receive the mail and who choose to use the mail to communicate, to transact business, to pay bills and to learn about the world through publications and periodicals.

Should every American receive home delivery? The answer is, quite simply, yes. The ability to receive mail is now firmly embedded in America as a right of citizenship. But equally important, the ability of every household and every

business to reliably reach every other household and business in a reasonable amount of time in an affordable manner is a unique and valuable service. The Postal Service has built an irreplaceable and powerful network comprised of nearly 150 million delivery points, reachable six days a week. That network strengthens our economy, enriches our democracy and connects our country culturally. The Commission should seek to strengthen that network, not weaken it.

As for changes in the mail box statute, the Commission should tread very lightly. Given the fatally flawed political weaknesses of the alternatives for financing universal services and the realities of high informational transactions costs (see comments on Topic No. 11 below), a postal monopoly is essential to guarantee affordable universal postal services. And the mail box statute is essential for enforcing a postal monopoly. Letter carriers know this better than anybody – as the employees who visit mail boxes every day, the mailbox statute provides a critical tool for ensuring compliance with the private express statutes. By reserving the nation's mail boxes to the Postal Service, both carriers and their customers know when unauthorized deliveries are made. Enforcing the monopoly with the mail box statute prevents destructive cream-skimming competition and ensures that economies of scale in the final delivery of mail are passed on to all mailers, keeping postage rates affordable for all.

#### **Topic No. 6: Universal Service: Frequency of Delivery**

The issue of the frequency of delivery is one that was discussed widely by the President's Commission on the United States Postal Service as well as by participants in the long debate over the PAEA. We acknowledge that NALC has more than an academic interest in this issue: for us, this issue means jobs. Eliminating one delivery day each week would cause 35,000 of our members to lose their jobs.

The fact is six-day delivery is an essential component of the value of universal service. The American people expect it and America's mailers rely on it. Cutting out a delivery day would severely damage tens of thousands of businesses that use targeted mailings to do business. Whether it is the millions of advertisers who wish to time mailings for sales events that might occur any day of the week, the thousands of publishers whose subscribers have varying expectations of when they will receive their periodicals, or dozens of special mail-order prescription drug companies, American business relies on being able to reach every American household six days a week.

We note that the President's Commission recommended the retention of six-day delivery, a recommendation that was embraced by Congress in the PAEA. However, the President's Commission did call on Congress to give the PRC the authority to adjust the frequency of delivery in the future – a recommendation that the Congress rightly rejected.

Any decision on the frequency of delivery is an inherently political one that should be made democratically by the people's representatives in Congress. It raises important issues of fairness and equity for various groups of Americans and would have a variable economic impact on different sectors of the economy. With all due respect to the Commission, the Congress should not hand off this decision to the PRC, a group of unelected regulators, and it certainly should not make such a decision now based on unreliable predictions about future mail volumes.

In any case, it would be premature to alter the frequency of delivery in the US at this time and Congress should make that decision itself -- if and when circumstances dictate it.

### **Topic 7: Rates and Affordability of Service**

It is clear that the Postal Service maintains among the most affordable postage rates in the world. Although the recent decline in the dollar may serve to amplify differences, it is clear that US postage rates are relatively inexpensive by international standards (see table below). This is particularly striking given that the United States has a relatively low population density. Note that U.S. rates are substantially below those countries that have fully liberalized markets – including those of Sweden and Finland which deregulated postal services in the early 1990s.

Postage rate increases between 1972 and 2008 have tracked the general rate of inflation. According to the Bureau of Labor Statistics, postage rates (as measured by the Producer Price Index) increased by 393% during this period, less than the 414% increase in the Consumer Price Index (CPI) over the same period. The USPS also did a better job of holding down its prices compared to other delivery companies: over the past 10 years, postage rates rose 33.1% (including the latest increase in May) while the CPI for Delivery Services increased by 101.1 percent.

Given this record, those who claim that removing the existing monopoly on addressed letters will lead to more affordable services bear a heavy burden of proof. As noted above, the early evidence in Britain is mixed at best and the results from Scandinavia are clear: liberalization does not guarantee affordability. Similarly, ending the policy of maintaining uniform prices for market dominant services (including single piece parcels) should not be taken lightly. The simplicity that results from uniform prices, which minimizes transactions costs, is of special value to mailers.

Both the affordability that comes with a universal service funded by a limited monopoly and the ease of use that comes with uniform pricing should not be abandoned, no matter how alluring the textbook models appear to be.

Whether to retain the PAEA's CPI limit in the future is open issue. On the one hand, the CPI has no inherent meaning as it relates to postal services. It is a statistical artifact – it captures the movement in average prices. Its various components rise and fall for various reasons of supply and demand in specific industries that are very different from the labor-intensive Postal Service. On the other hand, the CPI was an acceptable yardstick for most postal stakeholders and provided useful common ground during the debate over postal reform. Under the PAEA, the price indexing system for market dominant goods will come to an end in eight years. Although it is currently being severely tested by the unprecedented rise in energy costs – which make up a disproportionate share of USPS costs -- it is certainly too early to judge its value at the present time.

### Postage Rates Compared

<b>20 g First-Class Rates for Industrialized Countries</b>					<b>Fully Liberalized Domestic Market?</b>	<b>Density (Pop per km<sup>2</sup>)</b>
	<b>2008 Domestic Rate</b>	<b>Currency</b>	<b>foreign unit in US\$</b>	<b>20 g rate in US\$</b>		
<b>Finland</b>	<b>0.70</b>	Eur	1.58584	\$ 1.11	<b>Yes</b>	16
<b>Italy</b>	<b>0.60</b>	Eur	1.58584	\$ 0.95	<b>No</b>	195
<b>Sweden</b>	<b>5.50</b>	Sek	0.16989	\$ 0.93	<b>Yes</b>	20
<b>Austria</b>	<b>0.55</b>	Eur	1.58584	\$ 0.87	<b>No</b>	99
<b>France</b>	<b>0.55</b>	Eur	1.58584	\$ 0.87	<b>No</b>	111
<b>Germany</b>	<b>0.55</b>	Eur	1.58584	\$ 0.87	<b>Yes</b>	232
<b>New Zealand</b>	<b>1.00</b>	Nzd	0.79224	\$ 0.79	<b>Yes</b>	15
<b>Japan</b>	<b>80</b>	Yen	0.00965	\$ 0.77	<b>No</b>	338
<b>United Kingdom</b>	<b>0.36</b>	Gbp	1.99131	\$ 0.72	<b>Yes</b>	248
<b>Canada</b>	<b>0.52</b>	Cad	0.99481	\$ 0.52	<b>No</b>	3
<b>United States*</b>	<b>0.43</b>	Usd	<b>1</b>	\$ 0.43	<b>No</b>	31
Foreign exchange rates of 5/12/08 Source: Rates: International Affairs Department: USPS Density: United Nations: World Population Prospects 2006						

### **Topic 8: Universal Service: Quality of Service**

Mail security is an essential component of quality service. The assurance that First Class Mail is “sealed against inspection,” gives mailers and recipients the confidence to use the mail to conduct private business, whether it is financial, medical or personal. The Postal Service is the most trusted agency of the Federal Government, according to the Ponemon Institute. This is true for a good reason: both senders and recipients of mail trust their letter carriers and the Postal Service to handle their most private business. They know that the Postal Service and its employees take the sanctity of the mail seriously and that the Postal Inspection Service ensures that there is a mechanism to investigate any breaches to that sanctity. A public agency with a regulated monopoly under the oversight of the Congress provides accountability that would be lost in a deregulated environment.

Another component of quality service relates to the type of delivery provided. While door-to-door service by dedicated career employees is the ideal, NALC understands that curbside delivery and mail room delivery help to ensure delivery efficiency. The proliferation of cluster boxes in newer developments raises issues of equity and security that should be closely monitored. Standards on the number of cluster boxes and the maximum distance receivers of mail must walk to get mail may be needed.

**Topic 9: Methods of Calculating the Cost of Universal Service Obligation and Postal Monopoly and Topic 10: The Implications of the Universal Service Obligation for the Postal and Mailbox Monopolies**

First, it is essential that the Commission not fall into a trap of conducting micro-economic thought experiments at the level of individual routes or facilities and simply rolling up the results nationally to arrive at macro-level conclusion about the cost of universal service.

Calculating what it would cost to recruit the lowest cost provider of delivery services on a specific route in a specific type of neighborhood might lead to the mistaken belief that such micro analysis could be aggregated into an entire delivery network. Comparisons at the delivery route level should not be used to draw the conclusion that the Postal Service (and/or competitors in a liberalized market) could find millions of part-time, temporary workers willing to work for the lowest possible wages without benefits of any kind (health insurance, pensions, sick leave, etc). Realistically, high quality and affordable universal postal services cannot be provided to the whole nation in such a makeshift manner. Massive turnover and recruitment costs, service interruptions from bankruptcies and high transaction costs would destroy the quality of current postal services and undermine universal service.

It will not serve the Congress or the nation to minimize the cost of universal service in this way. Advocates of deregulation often do so and argue that only modest taxpayer subsidies or targeted outsourcing would be needed to ensure

universal service. Yet our own experience in the United States proves that taxpayer subsidies cannot be counted on as a reliable means of subsidizing universal service. Under the Postal Reorganization Act (PRA), the Postal Service is entitled to receive an annual appropriation of \$920 million to help underwrite unprofitable service to certain areas of the country. That amount was repeatedly cut in the 1980s and eventually the Postal Service simply stopped asking for it even though it was authorized under the law.

The important point is that those who advocate the elimination of the monopoly as the primary means for financing universal service bear the burden for proposing a workable alternative. You can have a deregulated postal sector in the U.S., but preserving affordable universal service in such a context is highly unlikely.

Second, given the importance of the Postal Service to the country, the authority to make changes in the postal monopoly and the mailbox statute should remain firmly in the hands of Congress. Outsourcing these decisions to the Postal Service and the Postal Regulatory Commission would be both undemocratic and reckless.

### **Topic 11: Universal Service, the Universal Service Obligation and the Postal Monopoly in Other Countries**

The long debate over the Postal Accountability and Enhancement Act reaffirmed a policy direction that is sharply at odds with the policy direction adopted in Europe. In the U.S., we have used work-sharing pricing and other limited measures to achieve what the European Union is attempting to achieve through its latest postal directive, which aims to fully liberalize postal markets by 2011 or 2013. The results in the U.S. have been impressive: we have maintained a much more affordable system of universal service.

Meanwhile, the steps taken by countries outside of Europe are driven in most cases by unique circumstances not present in the United States. For example, the privatization of Japan Post was largely driven by finance sector concerns stemming from Japan Post's operation of the largest retail bank in the world and its outsized role in Japan's life insurance market. And the failed privatization and deregulation of Argentina's Post Office cannot be separated from that country's economic crisis and the resulting influence of the World Bank and the IMF in its policy development.

Of course, none of this means that the PRC and the Congress should not study the postal policy approaches taken in other countries. It simply means that we should be very careful to acknowledge the unique characteristics of each country's situation – and most particularly, the unique situation in the United States – when attempting to apply international lessons to this country.

One of the notable aspects in the European experience has been the policy consistency over an extended period of time. Deutsche Post, for example, often cites the 20 year vision of transformation as an important factor in guiding its transformation. In the US, the fact that Congress has reaffirmed the fundamental character of the USPS makes it all the more important that the Commission not try and graft the policy direction of the European Union (deregulation) and the regulatory artifacts that have followed from that policy on a fundamentally different kind of US postal model.

### **III. Conclusions**

In this third and final section of our comments, we wish to address the broader issues at stake in any review of the role of the Postal Service in providing universal service to the nation. The Postal Service's role in American life goes well beyond the six components of universal delivery. A full appreciation of this role should be reflected in the PRC's report to Congress.

The Postal Service and its employees are fully aware of the dramatic changes taking place in our industry and that major innovation is underway. In making your recommendations, we would hope that you would note that the implementation of the PAEA is just getting started and that the Postal Service needs time to work with its customers to implement the new provisions of the law – the PRC and the Congress should give the Postal Service the flexibility and space it needs to innovate and to adapt to the new realities of the Internet Age. In short, like a good doctor, Congress and the Commission should “first, do no harm.”

#### **Universal Service: Beyond the six components**

Richard Moses, a letter carrier from Boston Massachusetts, testified to the Commission at its field hearing held in Portsmouth, New Hampshire on June 19, 2008. He did an excellent job in capturing the true meaning of universal service from our point of view as letter carriers. We would like to quote his testimony at length for those who did not hear it:

*Universal service is more than just delivering the mail to every address every day at an affordable price, though that is certainly important. In fact, we are proud to be part of the most efficient and affordable postal service in the world and we know that postal services are like water and electricity and good roads -- they make it possible for businesses to grow and for communities to prosper. But as a letter carrier, I know how important the post office is to residents that make up any community in ways that are less obvious.*

*I'll begin with the Carrier Alert program. Nobody knows what is happening throughout a community like a letter carrier. We deliver to the same homes*

*everyday and we know when something has changed. If the cars haven't moved, if the lawn is overgrown, or especially if the mail is piling up - we know there is reason to be concerned. Through the Carrier Alert program, carriers throughout the country have saved hundreds of lives by keeping an eye out for elderly or disabled citizens who sign up for the program. When carriers notice something out of the ordinary they get help to people who have fallen ill or become immobile.*

*As a steady daily presence on America's streets, carriers are often at the right place at the right time to help their fellow citizens. Whether it's helping victims of traffic accidents, aiding lost children or reporting crimes or house fires, letter carriers have a broad definition of public service. NALC honors many of these carriers at our annual Heroes of the Year ceremony held in Washington, DC. Each year a committee is tasked with reading through hundreds of stories detailing letter carriers' heroic and humanitarian acts while on the job, six are eventually selected and honored by the NALC and the Postal Service. Having more than 200,000 letter carriers on the streets every day is an invaluable way to keep watch on America's neighborhoods and communities.*

*Letter carriers have also agreed to actively participate in the Cities Readiness Initiative or CRI, a federally funded effort to prepare major US cities and metropolitan areas to effectively respond to a large scale bioterrorist event by dispensing antibiotics to entire communities within 48 hours of the decision to do so. The Postal Service and the NALC have agreed to participate in the CRI by working with major cities to develop Postal Plans, under which letter carriers will distribute medicines to all affected homes in the event of an attack.*

*Letter Carriers are also instrumental in the fight against hunger. NALC's annual "Stamp Out Hunger" food drive is conducted in over 10,000 towns and cities throughout America once a year. On Saturday May 10, 2008 carriers hit the streets again and collected a record 73.1 million pounds of food donations in the nation's largest one-day effort to combat hunger. The food was delivered to local food banks, pantries and shelters to help needy families in all 50 states and U.S. jurisdictions.*

*Playing a role in community service programs is an extremely rewarding dynamic of serving as one the nation's letter carriers.*

*I know that lots of businesses rely on the Postal Service for their existence – whether it's the home-based businesses that sell products on eBay or publishers that distribute their books and magazines through the mail. But I hope you will also remember the human element and the down-to-earth role the Postal Service plays in their communities as you conduct your study. Beyond the economic impact, there are many advantages to having letter carriers out delivering mail to their communities six days a week. Protecting the mailbox and the sanctity of the mail, coming to the aid of the customers we serve, and promoting safe neighborhoods are all pieces to the importance of universal service.*

*The Postal Service has a long history of providing its customers with high quality and consistent service. Over the decades, we have worked hard to build confidence and trust. That is something very valuable and worth preserving. I urge this commission to consider all the factors involved both fiscal and social when studying and making recommendations on the Universal Service Obligation.*

In short, the Postal Service is more than the sum of its parts. It has been a constant presence in American life since its founding in the late 18<sup>th</sup> century. Today it lies at the center of a \$900 billion industry that provides millions of jobs. It took hundreds of years to build a truly ubiquitous network. It would be a tragedy to dismantle such a useful and irreplaceable network – a result that would be guaranteed if Congress were to repeal the postal monopoly. Although the Postal Service’s business is changing, the creation of new mail-based services occurs constantly. Earlier we mentioned DVD rentals and mail-order prescription drug services as industries that did not exist 10-15 years ago. We can be sure that still others will be developed in both the private and public sectors.

Preserving the universal delivery network can also serve important government functions. In recent years, for example, Vote by Mail has been growing in popularity. On the West Coast most citizens are now casting their ballots through the mail – saving election officials tens of millions of dollars while boosting democratic participation and turnout dramatically. Not only can voters more easily vote, they can be better citizens by taking the time to carefully read ballot measures and other initiatives in the comfort of their home before voting. In Oregon, all elections are now conducted through the mail and in states across the country the trend toward no-excuse absentee voting is growing sharply. This development would not be possible without the Postal Service, a trusted agency that can assure the sanctity of the mail.

This is just one example of how governments at all levels can use universal postal services to serve important public functions, whether it is to provide important public health information or inform citizens about important public issues. The Commission should not only think about what mail may disappear from the mail stream in the future, it must also preserve a channel for new kinds of mailings in the future.

### **Universal Service: Strengthen the Postal Service Financially and Allow the USPS to Innovate and Evolve to Meet the Needs of the Nation**

Preserving universal postal services requires the strengthening of the Postal Service. That means not just the Congress and the Postal Regulatory Commission, but also postal management and the postal unions. For its part,

NALC has sought to achieve this through its legislative advocacy and through the collective bargaining process.

Legislatively, we believe Congress should seek to bolster the Postal Service financially by addressing a number of crucial issues. As NALC President William H. Young testified on May 8, 2008 before the postal sub-committee of the House of Representatives:

*Congress could [strengthen] the Postal Service's financial stability by taking up a number of matters that did not receive priority attention during the long debate over postal reform legislation. I'd like to mention three of them.*

*First, under the Postal Accountability and Enforcement Act, the Postal Service is required to pre-fund the cost of health benefits for postal retirees—after receiving a down-payment on this cost from the transferred surplus in the postal portion of the Civil Service Retirement Fund. The amount of this surplus was calculated by the Office of Personnel Management's Board of Actuaries. The annual cost of this pre-funding, some Five Billion Dollars per year, is excessive because OPM significantly underestimated the true size of the postal pension surplus. The smaller-than-expected transfer means higher-than-expected annual payments for the Postal Service. Although the law allows for a review of the OPM calculation by the Postal Regulatory Commission, it provides for no remedy. We urge Congress to take decisive action to correct this error in order to save the Postal Service—and the stamp-buying public—hundreds of millions, if not billions of dollars per year.*

*Second, in the PAEA, the Congress correctly transferred from the Postal Service to the United States Treasury the cost of CSRS benefits associated with military service by postal employees before they were hired by the Postal Service. Military costs are rightfully the responsibility of all taxpayers, not rate payers. The same logic applies to the cost of military pension benefits earned by employees under the Federal Employees' Retirement System. We urge this sub-committee to develop legislation to return FERS military pension liabilities to the Treasury.*

*Third, we urge Congress to investigate and reverse the decision by the Department of Health and Human Services to deny the Postal Service the employer subsidies provided by the Medicare Modernization Act. The Postal Service helps underwrite the cost of prescription drug benefits for tens of thousands of Medicare-eligible retirees, but when it applied for the employer subsidies, its application was rejected. HHS did so largely because the Office of Personnel Management decided not to seek the subsidies for the FEHBP as a whole. OPM concluded that using taxpayer funds to support another taxpayer-funded program made little sense. That may be, but the Postal Service is different—it is not funded by taxpayers. We believe the Postal Service is entitled to the Part D subsidies and hope Congress will act to overturn this HHS decision.*

We urge the Commission to recommend these changes to Congress, recognizing that the best way to preserve universal postal services is to ensure the vitality of the USPS.

At the bargaining table, NALC is working with the Postal Service to help it adapt to changing business conditions. Our most recent labor contract includes an agreement to facilitate the introduction of the Flats Sequencing System by creating non-career transitional employee positions, a provision that will reduce carrier jobs in the short run, but strengthen the Postal Service in the long run. It also includes a Memorandum of Understanding to expand Customer Connect, an innovative program to use letter carriers as sales agents for postal products to build postal revenues.

The Postal Service needs time to implement the PAEA and to pursue the kind of innovation and transformation that will keep it viable for decades to come. This means strengthening the Postal Service financially as outlined above and resisting the temptation to precipitously deregulate postal services in the United States.

In short, universal service is a precious asset that is worth preserving. The PRC, the Postal Service, the postal industry and the postal unions should all do their part to ensure its preservation.