



The Association of Business Media Companies

**STATEMENT OF GORDON T. HUGHES II
ON BEHALF OF AMERICAN BUSINESS MEDIA
TO THE HOUSE GOVERNMENT REFORM COMMITTEE
FEBRUARY 11, 2004**

This statement is submitted on behalf of American Business Media, which is enthusiastic about the prospects for postal reform, mostly because we believe that the fine work of the Presidential Commission on the United States Postal Service has produced a blueprint for reform that, with relatively minor modifications, can be endorsed by the great majority of mailers. Translation of that report into viable legislation will not be easy, and it will not be possible unless all concerned are willing to reconsider and compromise certain of their previous positions. As I will show, American Business Media is willing to move from one of its most strongly-held beliefs. If others will do the same, postal reform can become a reality.

American Business Media was founded in 1906 and is the industry association for business-to-business information providers. Its members produce magazines, trade shows, CD-ROMS, web sites and other products that enhance their primary mission: to disseminate information that is vital to American industry. Its 222 member companies publish more than 1,200 periodicals, maintain roughly 1,350 websites and reach nearly ninety million professionals. Some of its member publications, such as *Advertising Age*, *Industry Week*, *PC Magazine* and *Variety*, are well known, while others are typically known only within the professions and industries they serve. American Business Media has been an active participant in postal affairs for decades, having been a leading proponent of the 1968 Presidential Commission and the 1970 legislation that created the Postal Service; an active participant in every rate case before the Postal Rate Commission; and fully engaged in the discussions and hearings that led to “Embracing the Future,” the report of the most recent President’s Commission on the United States Postal Service.

The average circulation of the American Business Media-member publications is about 55,000, and, typically, that circulation is dispersed nationally. As a result, we are entirely dependent upon the Postal Service for effective and efficient delivery. Although periodicals are not covered by the Private Express Statutes, the failure of past experiments with alternate delivery of magazines has re-confirmed the *de facto* Postal Service monopoly over magazine delivery.

Our dependence upon the Postal Service for delivery, combined with rapidly escalating postal rates (because of even more rapidly escalating costs experienced by the Postal Service), has strengthened our resolve in seeking postal reform. We believe that the report of the President’s Commission is a truly remarkable document, given the scope of the Commission’s assignment and the limited time that it was given within which to complete it. Postal reform **must** be as broad and comprehensive as that report, or else we will experience a true crisis. **To extract only the non-controversial recommendations as a basis for alleged reform might provide temporary rate relief to a select few but will doom the Postal Service to the dire results predicted by the Commission.** For this reason, it is essential that all concerned—including the Postal Service, the postal unions, and even Congress itself—reconsider their previous views and be willing to compromise them in order to achieve the consensus that it will take to pass effective postal reform.

American Business Media does not exempt itself from this requirement. In prior testimony before various Congressional committees, as well as in its comments to and testimony before the President's Commission, American Business Media addressed many issues but stressed two major themes: (1) the Postal Service must be given the means, as well as the incentive, to control its costs, including the costs associated with the size of its plant and workforce and compensation of its employees, and (2) prior review of rate increases by an independent regulatory commission (such as the Postal Rate Commission) is necessary to protect captive postal customers.

Although the President's Commission agreed wholeheartedly with the first of these themes, it found that a CPI-based price cap is an adequate substitute for prior rate review. American Business Media continues to believe that the enhanced rate flexibility that the Commission has recommended places some captive customers in jeopardy, especially if the price caps apply only to broad classes of mailers. We recognize that this is a minority view, even among mailers. American Business Media is therefore prepared to accept an approach to postal reform that gives the Postal Service substantially greater rate flexibility as **long as the Postal Service is also provided with the ability to control the costs associated with its plant and workforce.**

To be clear, this is a package deal. A Postal Service with the ability to set rates virtually free from regulation, but encumbered by political and practical restraints on its ability to reduce costs as volumes decrease, would represent the worst of two worlds for small publishers and many others. No price cap, especially a cap applied to a government agency providing an essential service, can control prices if costs escalate above an artificial cap (unless, of course, service is reduced to levels that have the same practical effect as debilitating price increases). Therefore, in what we hope is not an overly optimistic leap of faith, American Business Media is willing to accept the risks associated with rate setting absent prior review if that "flexibility" is accompanied by equivalent flexibility for the Postal Service to control the nature of its physical plant and the size and compensation of its workforce. Stated simply, **rate flexibility with costs under control presents a far smaller—albeit still serious--threat than rate flexibility with rapidly increasing costs.**

Costs

The issue of cost control, especially labor and facility cost control, appears to have been the most controversial issue tackled by the President's Commission and has been the third rail of recent congressional postal reform efforts. Labor costs remain at about 80% of total postal costs, but no bill produced since the latest round of reform efforts began has addressed either labor complement or wage rates. American Business Media recognizes that Postmaster General Potter has done a remarkable job given these circumstances, but the task will become increasingly difficult if, as expected, mail volumes begin to decrease.

As difficult as these issues are to resolve, given the position of the postal unions and the likely reluctance of many in Congress permit facility closing and consolidation, it must be recognized that postal finances cannot be improved unless and until the Postal Service's physical plant is efficiently sized and located and its workforce is appropriate for the tasks at hand. Avoiding these issues in a time of declining volume will produce far more serious consequences than their avoidance in the past, when volume growth was sufficient to mask at least some of the inefficiencies in the present system. All interested parties must understand that **decreasing volumes--combined with increasing worksharing by mailers and automation in mail processing-- without a reduction in workforce and physical plant will produce unit cost increases that, translated into rate increases, will lead to a death spiral.**

Among the specific recommendations of the Commission report that American Business Media asks be incorporated into postal reform legislation are: insulation of the Postal Service from Congressional involvement in decisions related to closing, consolidating and moving facilities, a determination of whether postal wages and benefits exceed comparable private-sector levels, inclusion of all pay and benefits in the collective bargaining process, and changes to the workers' compensation system now applicable to postal workers.

Regulation and Rate Setting

As I previously stated, American Business Media is now willing to accept a great deal more rate setting flexibility in the hands of the Postal Service, but the flexibility to charge the rates of its own choosing with only after-the-fact review must be coupled with the ability to control rates by restraining costs. The imposition of a CPI-constrained price cap without providing the means for attaining compliance through cost control will result in either severe service reductions or rates that pierce the "cap."

While willing to accept the elimination of prior review by a regulatory commission (called the Postal Regulatory Board by the President's Commission), American Business Media is unwilling to abandon the notion of a strong regulator to counter-balance the legal and *de facto* monopolies of the Postal Service. The President's Commission and (at least) most mailers have contended appropriately that the breadth of the regulator's authority should be broadened even while the depth of its involvement in rate setting is reduced.

Although, given our reluctant acceptance of post-enactment rate review, American Business Media generally agrees with the Commission's proposition, we submit that the Presidential Commission's vague description of a new rate-setting regime leaves too much to the imagination. The report evidences a struggle to develop a comprehensive, even if simple, rate setting system that advances its goals while freeing the Postal Service from the burdens and delays of the present system.

That struggle should not have been unexpected, since the same problem has plagued the various and far more detailed versions of postal reform legislation. Most of these legislative attempts, like the work of the President's Commission, showed that neither a blue ribbon commission nor Congress is the appropriate forum for developing the details of a postal rate setting system. Rather, as provided for in H.R. 4970, introduced in June, 2002 with bipartisan support, Congress should establish the basic framework and leave to the Postal Regulatory Board the task of developing and implementing that new approach.

There are limits, of course, to the level of delegation that is appropriate. Congress should not give the Regulatory Board a blank slate, but should provide guidelines that set the boundaries of its jurisdiction. In this regard, American Business Media submits that the Regulatory Board should be given broader authority than is suggested in the Report.

As contemplated by that Report (see page 61), the Postal Service would announce rate changes and at the same time announce whether the increases are in excess of the established price ceilings (which of course demonstrates that the "ceilings" are ceilings in name only). If the rates are not in excess of the ceilings, the Regulatory Board is authorized—but only if a complaint is filed—to examine the rates on an extremely expedited basis and order an adjustment only if it finds that the rates are in fact in excess of the ceilings or if the rate of a competitive product or service is being "cross-subsidized." If the Postal Service concedes at the time of the announcement that the rates proposed pierce the "ceiling," the Board would conduct an expedited advance review, but it is not clear what standards, if any, beyond the bar on cross-subsidization would be applied.

Here lies the biggest weakness in the Report's discussion of rate setting—there are no standards (other than to prohibit cross-subsidization). Thus, even though American Business Media is pleased that the President's Commission recommends (Report, page 67) that the **existing preferences for periodicals (and non-profit mail) be maintained, the Commission has not provided any means for assuring that this request is honored.** If, for example, under the scenario envisioned in the report, a new Postal Service management driven more by its profit motives than its public service mission decides that periodicals should pay the same rates as catalogs and that non-profit organizations should be given no rate breaks, it could simply do away with the existing preferences. This action would not result in cross-subsidization of a competitive product, and it would not (or might not) result in the piercing of a rate ceiling. It appears from the system proposed in the report that the Postal Regulatory Board would be without authority to require rate adjustments. The same conclusion would apply even if the elimination of the existing rate preferences resulted in rates that pierce the "ceilings."

The remedy is straightforward. As Congress did in the Postal Reorganization Act of 1970, it should impose appropriate rate standards on the Postal Service and empower the Postal Regulatory Board to enforce them. The present law *requires* that rates take into account, among other non-cost factors, the "educational, cultural, scientific and informational value" of mail matter. 39 U.S.C. § 3622(b)(9). The law requires that the Postal Rate Commission consider "the effect of rate increases upon the general public [and] business mail users." 39 U.S.C. § 3622(b)(4). More fundamentally, the Postal Reorganization Act provides in its statement of policy that "the costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people" (39 U.S.C. § 101(a)), and that rates shall be "fair and equitable" (39 U.S.C. § 101(d)) and "reasonable and equitable." 39 U.S.C. § 3621.

Notions of impact, fairness and equity are absent from the Report, but they should not be absent in postal reform legislation. Operation of the Postal Service in a more business-like manner does not require that its rates be set, as a business would, to maximize profit. Rather, the Postal Service always has been and should remain a public service that, as stated in the Postal Reorganization Act (39 U.S.C. § 101(a)), has "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." That mission should not be lost. Rather, it should continue to be imposed upon the Postal Service, and it should be enforced by a Postal Regulatory Board.