

CATO INSTITUTE BOOK FORUM

MAIL @ THE MILLENNIUM:

WILL THE POSTAL SERVICE GO PRIVATE?

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Featuring:

Robert Reisner, U.S. Postal Service;

Rick Merritt, PostalWatch;

Ruth Y. Goldway, Postal Rate Commission; and

Bernard Ungar, General Accounting Office

The Cato Institute

F.A. Hayek Auditorium

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P R O C E E D I N G S

MR. HUDGINS: Good afternoon. I am Edward Hudgins, the Cato Institute's Director of Regulatory Studies.

Welcome to our F.A. Hayek Auditorium on the occasion of the publication of "Mail @ the Millennium: Will the Postal Service Go Private?" It was based on a Cato Postal Service conference. It was edited with an introduction by yours truly. It has contributions from Postmaster General William Henderson; from Fed-Ex Chairman Fred Smith; from Pitney Bowes CEO, Mike Critelli; and a number of other outstanding commentators, many of whom are here with us today in the audience. And I will recognize a number of you as I go along. I see a couple of you in the back there.

Now, this book comes out at a particularly crucial time in the history of the Postal Service. As decisionmakers debate the great issues of the day, I maintain that economic forces currently off their radar screens are quietly, inexorably pushing the U.S. Postal Service toward privatization. No, your friendly letter carrier will not disappear, but those lines at the post office might, as the last great Federal Government monopoly is forced to earn the patronage of its customers.

Now, we all know, of course, that the Postal Service faces competition from local messengers on bikes, from Federal Express jets, as well as from faxes, e-mails, and the Internet, that have reduced the need to put a stamp on an envelope to transfer documents from here to there.

By the way, a good discussion of the telecommunications revolution and its effects on the Postal Service is found in this book in Tom Duesterberg's chapter. Tom, are you here today?

(No response.)

MR. HUDGINS: I don't see him, but he is supposed to be in the audience somewhere.

But further, over the next decade, more and more people will pay bills electronically rather than by mail. That will mean less of the "check is in the mail" excuse, but also much less revenue for the U.S. Postal Service. And I believe this is a reality that the Postal Service cannot avoid.

Further, the Postal Service wants to get into new businesses, to offer business services and e-commerce services to obtain new revenue. It is even discussing strategic alliances with traditional rivals such as Federal Express and Mail Boxes, Etc. It has actually got an ongoing deal with Mail Boxes, Etc. And these are the sort of plans that one would expect from any good entrepreneur.

But, there is a problem. As Mike Skyler points out in his chapter, the U.S. Postal Service does have a tendency to expand its authority beyond its monopoly services. As Jim Lucier points out in his chapter, he points out that the moves into e-commerce pose serious dangers in cyberspace, and constitute unfair competition. After all, the U.S. Postal Service pays no taxes. It can borrow from the U.S. Treasury. Wouldn't we all like that? And it is exempt from most regulations under which other private businesses operate.

Further, it is exempt from any of the constraints to which other government agencies are subject. And perhaps worst of all, the Postal Service has regulatory authority that it can, and unfortunately sometimes, maybe often, does use against its competitors.

Now, this situation suggests an inevitable clash between private companies offering innovative e-commerce services and the Postal Service, with its privileges and powers. But while its advantages might harm competitors, they do not help the Postal Service overcome some of its inherent structural problems.

Dick Froelke, in his chapter, discusses some of the serious problems with the U.S. Postal Service's regulatory regime. And Rick Geddes, who I know is not here today, in his chapter, examines some of the inherent problems of trying to run a government enterprise that does not have shareholders like a

traditional private company, who would actually profit from any efficiency gains from the company. And the discussion in Gene Del Polito's chapter, which reviews the problems that mass mailers face, confirms some of these efficiency problems.

So, where are these economic forces pushing the Postal Service? As Jim Campbell discusses in his chapter, other countries in fact see the handwriting on the wall. Of course, most notably, Germany's Deutsche Post has been reorganized as a joint stock company under private management. This month it is going to make an initial public offering of 25 percent of its shares. Eventually, it hopes to sell off the entire Deutsche Post, and its monopoly powers will be repealed.

It seems that all of these forces are pushing the U.S. Postal Service inevitably towards privatization. Now, this is not something that the Postal Service nor consumers, I believe, should fear. Robert Cohen, in his chapter, discusses some of the efficiency consequences of competition. And by the way, Tom Leonard hosted a panel for us in the last conference. And in our last book before this one, called "The Last Monopoly," Tom also talks about some of the efficiency gains from a private postal service.

I believe that a private U.S. Postal Service, even shorn of its special privileges, will gain increased flexibility that will allow it to operate more efficiently, to offer more

integrated services, and to respond quickly to changes in market demand. Thus, it seems to me, the question is not whether the Postal Service will be privatized, but when it will be privatized and how we will go about privatizing it. And in the book there are a number of discussions about some of the plans to privatize the Postal Service or at least move it in that direction.

So, you can see, if you pick up and read the book, you will get everything you want to know about the current situation.

Now, that is our discussion here today from our panelists, the future of the Postal Service. By the way, we have a substitute speaker. Bob Krause called me a couple of days ago and, in a very weak voice, explained that he had lost his voice, probably from talking about these issues too much. But we are fortunate to have with us today Robert Reisner, who has been the Vice President for Strategic Planning at the U.S. Postal Service since 1996. And in that job he reports directly to the Postmaster General, Mr. Henderson. He has been responsible for developing five-year strategic plans; that was published at the beginning of this month.

Mr. Reisner was recruited to join the Postal Service by Mr. Henderson who is, of course, now Postmaster General. And he deals a lot with e-commerce, and we are especially interested to hear what is going to happen in the future with e-commerce, so without further ado, Mr. Reisner.

(Applause.)

ROBERT REISNER,
U.S. POSTAL SERVICE

MR. REISNER: Thank you very much. Ed, I appreciate the opportunity to be here. We exchanged the comment that many of us here in this room today had been here a couple of years ago as we talked about postal reform. I remember at the end of that day, particularly, Fred Smith, the Chairman of Fed-Ex, giving a talk about the express messaging business and about the brand and the category of service that he really personally created in the last 20 years with express messaging.

But there was one thing that Fred ended with that I think is a great place to begin with as we start this conversation, because while there wasn't much that I would have disagreed with that had to do with the forces of change and the economics that had created the express messaging business, at the very end, in talking about postal reform, Fred said that being here at Cato is a great honor and that here at Cato you have a opportunity to talk about public policy issues, like liberty, he said. But this was a business issue, and a business issue that needed to be settled out.

And I think that is really a place for us to start, because it is this combination of market forces, which I think properly is the way to begin the conversation about the future of the Postal Service, about customers and the choices that customers have today that they may not have even had three to four years ago, and also the public policy considerations that led the Nation to create the Postal Service 30 years ago.

I will start with the market forces and the situation that we face today, the most important theme of which is this theme of customers having choices that they have not had in the past. It really puts the whole character of this monopoly service that we have a fiduciary responsibility for in a different light when it is possible to look category by category and see the way in which technology is challenging many aspects of the institution.

Now, that doesn't say that there isn't a need for mail, that the mail volume, even kind of given the most rapid diversion that you can project, isn't an enormous mail volume and a large responsibility in the future, but what it does throw into question, as we look at each class of mail, is whether the economic model on which this traditional Postal Service has been created is one that can be sustained in its current form. If we take first-class mail, which I think is the best example and the easiest one to talk about in this context, although advertising

mail and aspects of parcel delivery fall into the same category, first-class mail is technologically challenged by technologies that are there today.

Now, the business case that has been put forward to consumers by the billers, who are ready to offer electronic bill paying in lots of different forms, may not yet be an attractive model that has attracted consumers, and the market forces may still be only moving 3 to 7 percent of the consumer base. But there is a possibility that that could move from 3 percent to 20 percent in an extremely rapid period of time. And there are many postal experts here in this audience that know better than I do even the difficulties that the Postal Service would have if that transition took place and took place extremely rapidly. That is the character that the challenge that our traditional postal model faces.

Now, the interesting thing, I think, about this conversation and about being here at this time is that the challenge that we face is not in fact different from challenges that are being faced by airlines, by travel agencies, by the media, by newspapers, and industry throughout the economy. The new economy is challenging traditional business models in new ways.

Both presidential candidates have talked about their vision for e-government and the way in which you can imagine

government agencies being transformed in the next five years. And I think the kinds of issues that we are here to talk about today, about the future of the Postal Service, are really only just great illustrations of a very broad national set of issues that revolve around traditional national institutions that have been created to serve both public and economic purposes and are now being fundamentally challenged by new technology and the new economy.

Now, the speed at which that happens and the speed with which this confrontation takes place is going to have a lot to do with new business models and entrepreneurs like Fred Smith and others, by customers in the way in which they ask for services, and economic forces that throw these things into question. But what that rapid movement toward this technology-driven future that Ed referred to and that raises the questions that are raised today causes us to think about is, what should be our mission as a Postal Service in the 21st century?

Now, as the management team that has the fiduciary responsibility for thinking about this institution and protecting its value, there is an answer. Because there is a law which casts a very broad mission, which is to bind the Nation together through the correspondence of the people.

Now, I would ask, in the context of e-commerce services and other offerings, whether the whole definition of

correspondence isn't being changed. But we can leave that up to our customers that we are seeking to serve to help us define that. And I think that as we look at new businesses, controversial alliances with one-time customers, new opportunities to do new alliances, ways to create new services, it is important to respect the fact that this very broad definition of public policy responsibility, of binding the Nation together, of providing universal service, is something that rests on this broad economic base.

One final comment and then I look forward to having an opportunity to interact with some of the members of our panel here today. As we think about the future, maybe pause for a minute and think about the technology possibilities of that future in which we have a very broad base of people using mail. The people of Oregon are voting today using the mail, and they are getting far higher participation rates in Oregon than takes place in many other parts of the country.

This is the idea that even the most technologically sophisticated, the most information-oriented people in the country and throughout the world are still figuring out where they want things printed, how they want to pay bills, when they want to use paper, when they want to use electronics, how catalogs should work, these are all issues that are out there in the future for resolution by the marketplace and for our

customers. And creating a Postal Service that has the flexibility and the capacity to deliver universal service in a marketplace that is changing rapidly is, I think, part of our responsibility.

Today the Postal Service is worth a great deal. Maybe it is \$100 billion, maybe it is more than that, if you tried to put market value on the Postal Service. It is absolutely clear that if we don't allow it to change in the way in which John McHugh, in this debate for the last five years over postal reform, tried to create change and tried to create rules that will accommodate flexibility, that that valuation that we have a responsibility for is not going to be the same in the future.

Now, that doesn't disrespect the issues of competitiveness and respect for the marketplace that are being raised as we seek new ways to find flexibility. But as the next speaker once wrote in a dissent that she wrote on an opinion affecting us, it is important to be thinking about competition, not individual competitors, as we think about this new marketplace. And we look forward to the engagement that this definition is going to lead us to.

Thank you very much, Ed.

(Applause.)

MR. HUDGINS: Thanks a lot.

By the way, I agree very much that we are really seeing a basic change in how we communicate, and it really is in play. I call your attention to Michael Critelli's piece in our volume. He is the CEO of Pitney Bowes. And he did a very good speech, discussing the whole change in messaging and how in fact we try to mix phones, e-mails, pieces of paper that communicate to us, et cetera. And it, indeed, still is in play, which is, I think, one of the reasons why we have to move to a more flexible system as quickly as possible.

Our second speaker, Ruth Goldway, was appointed as a Commissioner to the Postal Rate Commission by President Clinton in April, 1998. Before that, from 1994 to 1997, she traveled with her husband to Finland, where he was the U.S. Ambassador to Finland.

Before that she served as a Manager of Public Affairs at Getty Trust. She has also served as Director of Public Affairs at California State University, L.A. And one of the things that has brought her to our attention recently is, in the Washington Post, I believe it was in January, she had a very good opinion piece on the future of the Postal Service, where she suggested that, well, privatization, it is going to come, folks.

So, next we will hear from Ruth Goldway from the Postal Rate Commission on what she sees as the future of the Postal Service.

Ruth.

(Applause.)

RUTH Y. GOLDWAY,
POSTAL RATE COMMISSION

MS. GOLDWAY: Thank you for the opportunity to explore this issue further. I suspect we will have an opportunity to do that again in the coming administration, the new administration, whichever side ultimately wins.

I guess what I would like to begin with is to point out that I come to this issue and this interest in reforming the Postal Service from perhaps a different point of view than others on the panel. I am not somebody who philosophically feels that government should be smaller than it is or someone who is suspect of government's role in operating in the private sector necessarily. That is certainly not my opinion. I am not somebody who represents a competitor of the Postal Service and is anxious to see the Postal Service reduced in some way because of that. Nor am I a representative of the Postal Service and protecting of its institutional existence, its very existence.

I come to it from the point of view of somebody who is actively supporting a robust government function and somebody who believes that the public's regulatory ability to participate in

economic decisions of the society is a rightful thing to do. So I view this from a public policy point of view. And I kind of take the view: Is this communications network that now exists throughout the United States, the current United States Postal Service, a necessity? Is this something that our public really needs, and does our society really need this?

And before I wrote the article, we had a snowstorm in early December. And Washington, as it is in these snowstorms, was shut down and I was at home in my house and I didn't get the mail delivered. But I did have my television and I did have my telephone and I certainly didn't feel isolated from my community. And it was quite clear that whatever we thought of in terms of the necessity of the Postal Service to bond the Nation together is very different now from what it was when the Postal Service was initiated or even the first half of the century.

But, is it still necessary? I think you can make the argument, and I felt I could even if I didn't need it that day, that the Postal Service is sort of the last resort of communications; witness the strike at UPS, or when we have emergencies. It is the basic, most low-cost kind of communications system. You know, you have to spend \$30 or \$40 a month to have e-mail. Even if each individual piece is free, you have a basic operating cost that you don't have with the mails.

I think Bob is right in pointing out the interesting relationship between the mails and possible voting patterns. I just got my absentee ballot in the mail today. I couldn't do that without the Postal Service. I think that is a very important part to remember in maintaining the Postal Service.

We have put a lot of money into this Postal Service, you and I as citizens of the United States, over the last 200 years, with our tax money, until 1970, and with our monopoly rent since then. We have been building up buildings, buying trucks, training employees. We have investment that we don't want to just walk away from. And we also have 800,000 people out there on the streets who really rely on a good job and as an opportunity to move up in the social system in a way we don't provide really anywhere else in our society.

So there are a lot of reasons to keep a Postal Service functioning, and I don't think we should walk away from that. But the very reason for wanting to do that means you have to have an institution that continues to function in the future. And we clearly are at risk of losing that institution at the scope and scale to which we are accustomed unless we make changes. I think we all agree that change is absolutely necessary, given the revolution in electronic communication.

So I want to see a Postal Service that can change. And I think, under the current system of this government ownership and regulatory scheme, it is really impossible for it to change.

The notion of privatizing the Postal Service for me does two basic things. First, it provides an opportunity for the public to recapture some of our investment. Bob was talking about that \$100 billion. That is a figure that we looked at in estimating what UPS's market share was when it went public, what the Deutsche Post is estimating its market share is going to be; \$100 billion is a very conservative estimate for what the Postal Service ought to make. \$100 billion will rebuild every school in America. It's a lot of money if we want to use it properly for other things that we need to do.

But it is not just the cash we get. We also should consider this transformation in the sense that we make an institution that works better for us in the future, that brings in tax revenue and that provides better service, and that functions under a regulatory scheme so that the standards and the basic services that we still think are necessary will continue.

In my article, I proposed that we arrange a privatization scheme that allowed 10 percent of the shares to be owned by employees. That is a way of recognizing some of the investment that employees have made in building up the institution and giving them an interest in seeing that a

privatized or a reformed Postal Service is more efficient than it currently is.

And I proposed having a regulatory body overseeing the new Postal Service, one that would ensure that perhaps favorable rates were maintained for magazines or for publications and communications that we think have a particular social nature, the kinds of values that we look at when we currently regulate, one that might guarantee that there is still a single rate for single-piece letters if that is what we determine.

We do have a regulatory scheme in place in the United States, in the rest of our government, to oversee the communications sector, and I propose that the Federal Communications Commission might be the regulatory agency. Not that I don't have my own institutional knee-jerk reaction to say that the Postal Rate Commission might not be expanded to be a stronger regulator, but I don't see that as absolutely necessary. It is certainly possible that you could put a privatized Postal Service under the scheme of the private companies that are now regulated by the Federal Communications Commission.

I think, from the consumer point of view that I emphasize, the privatized Postal Service would in fact be more responsive to certain public policy concerns that I have than the current Postal Service. I am very concerned about the fact that the standards of mail that the Postal Service provides are uneven

and not necessarily advertised properly, that complaints about service are not easily handled. Customers virtually have no recourse if the mail isn't delivered, if it is mishandled, if there is a loss from some process of the Postal Service. They claim sovereign immunity. They claim exemption from the antitrust and truth-in-advertising laws that regulate private companies in the United States.

In the course of the rate case that we have been hearing, we have heard some series of complaints about service with regard to lack of service with a product such as Express Mail, which is a competitive product. So I think there are areas where, if a reformed Postal Service was a regulated private entity, we would actually get better public policy than we have now.

And that also has implications for any future with e-mail, as well. I think, while I certainly would hope that the Postal Service would be able, in a reformed environment, to engage in many more activities involving and integrating electronic communications and computer logistical tracking, et cetera, I think it would be unsettling for a government agency to be solely responsible for communications between individuals when they also can claim sovereign immunity from any kind of responsibilities. So I think that a private model would provide us with some more protection, in fact, than we currently have.

How do we get there? Well, when I wrote my piece eight or nine months ago, I was still newer to the Postal Service than I am now, and I hadn't gone through the rate case I have gone through. I am a little bit less hopeful that real reform is possible than I might have been before.

We have the experience of H.R. 22 under our belt now, and it is quite clear that there are people on opposite ends of the political spectrum working very hard together to stop reform. And it is going to be difficult to see that reform proceeds.

But I do think the opportunity for some sort of presidential commission that gets everyone together seriously talking, in a new administration in the next year or two, would provide us the opportunity to have some baseline. Because I suspect it is going to take a shock to the system before we all agree to act. But if we have that baseline in play through a commission, we are more likely to get some serious reform in the next two or three years than we might otherwise. That is what I hope all of you today will help us to work towards in the coming years.

Thank you.

(Applause.)

MR. HUDGINS: Thanks a lot.

By the way, the issue you raised about who and how to regulate privatized postal services was just the issue that Mr.

Henderson spoke to and wrote about in this book. So if you want a further discussion, you can take a look at his vision on that issue.

And, by the way, it actually does raise another issue that I like to bring up all the time. The more the communications and information revolution homogenizes communication, the more difficult are going to be the regulatory challenges. After all, it used to be that communications, you could have books and newspapers that you could publish privately, but, at least for the books and for letters, you had to send them through a government monopoly; that is, the mail. You had telephones that were basically a public utility, regulated as such. And you had broadcasting, which was basically airwaves owned by the government and essentially licensed out to TV stations.

Now, of course, all of those distinctions have broken down, where you can publish online, you can have phone conversations online, you can get a newspaper online and then physically print it out in your office or home, et cetera. And what that suggests is that the regulatory apparatus, where we have a separate FCC, we have separate postal rate commissions, we have other agencies, is really being challenged. And, frankly, I doubt that they are up to the challenge. And that is why I am looking for market ways rather than government ways of

regulating. That is a broader issue, but I think our current discussion does touch on that.

Our next speaker is Bernie Ungar, who is responsible for overseeing the GAO's studies of the U.S. Postal Service as well as other government agencies. Bernie has held a number of positions at GAO for the last 30 years. He is a CPA graduate from Ohio State and the Kennedy School Senior Executive Fellows Program.

What I know about him is that I kind of live for good GAO studies, which probably says something about me. But especially when I get a GAO study that looks at expected revenues for the U.S. Postal Service or that looks at the issue of where the Postal Service gets its authority to do certain things or whatever, I actually like to read GAO stuff. So, therefore, I am a fan of Bernie Ungar's work.

Bernie testifies before Congress, I gather, quite frequently, since I have seen him there a lot, on his findings. So he is going to share some of them with us today and give us his perspective on the future of the Postal Service.

Bernie.

(Applause.)

BERNARD UNGAR,
GENERAL ACCOUNTING OFFICE

MR. UNGAR: Thank you, Ed. It is certainly a pleasure to be here and to participate in this panel discussion.

The first thing I wanted to mention, the most important part of my bio that I didn't give to Ed was that I have the very good fortune at GAO of being able to work with a very small, but excellent team of people, Ken and Theresa, who are here, and a few other folks, who have monitored and followed the Postal Service for a number of years, so it really makes my job a lot easier. So I certainly appreciate that.

I was also thinking about Ruth's statement. I was trying to forget about that snowstorm a couple of years ago. But I couldn't believe that we did get mail over here in Alexandria. I couldn't believe it happened. I should have sent a letter to the Postmaster General. But we certainly never expected it.

What I would like to do just briefly, as Ed had mentioned, is summarize for you just a few of the points that we have made over the last two years in sort of briefing Congress on how we see or where we see the Postal Service now and the challenges it sees over the next many years, many of which have been identified by Bob and Ruth and others, and also some work

that we recently completed on electronic commerce, which Ed had mentioned.

Basically, our bottom line is something like this: Over the last five years, up at least until 1999 anyway, through 1999, the Postal Service was looking pretty good. Its financial picture looked better than it had in many of the years since 1970. Delivery performance in at least certain areas was pretty good in terms of overnight. And surprisingly, I know, to a lot of people, when the folks that do the customer satisfaction surveys not only in the private sector but in government said "how do government agencies do?" the Postal Service did pretty well. So things weren't looking too badly and the Postal Service was certainly making strides.

However, most recently, unfortunately, things haven't looked quite as rosy. Mail volumes, for a number of reasons, and revenue have grown less than expected. Costs have increased more than expected. There haven't been, to our knowledge, great diminution in service at this point, but that may be on the horizon given the situation. The Postal Service is now engaged in some very, I am sure, sensitive and important negotiations with the unions, and I don't believe that they are out for less money at this point. So that certainly is going to have an impact.

One thing that was somewhat surprising to us and I am sure to a lot of folks is that over the last year, actually since February, the Postal Service's situation seems to look a little bit bleaker than even we had suggested or we had reported a year ago before the Postal Subcommittee. We went from a situation where expected revenues for 2001 were plus \$500 million to now they are, at least the last we heard, it was closer to a negative \$500 million. So that is a billion-dollar difference in a year. And that is something that I think the Postal Service is really going to have to deal with. It is quite surprising to us, particularly now that that is expected, when we have the first year of a rate increase, we suspect, of some sort, whatever size that might be.

And actually, the Postal Service seems to only have two ways it can go to deal with this in a bottom line sense. How it gets there, there are lots of different ways. One is it can grow revenue. That is pretty difficult for the Postal Service to do, I think. It is quite controversial. Basically, it can introduce new products and services as one option. How it does that, though, is very tricky. It is a real public policy question. Both Bob and Ruth have mentioned that.

Basically, what kind of flexibility should the Postal Service have? What kind of constraints? What kind of rules? It really gets down to on whose field is this game going to be

played? What rules and who is going to umpire? I don't know what the answer to those questions are, but they certainly need to be addressed.

Obviously, one source of revenue that the Postal Service has seen for itself is e-commerce. That is part of a larger umbrella that the Postal Service sort of describes as e-business, which involves basically the use of technology to enhance postal products and services. It includes internal uses of technology as well as enhancements to existing products and services.

We started our review of e-commerce activities at the Postal Service around the January-February-March time frame, earlier this year. At that point in time, the Postal Service was actually, although it had been in e-commerce for a number of years, many years as a matter of fact, it was going through a process of kind of sorting through organizationally and programmatically what it was doing, how is it structured, how was it organized and what kind of game plan does it want to have. And during the period of our review the Postal Service was actually in the process of setting up a new structure to deal with e-commerce, coming up with goals and strategies and a review and approval process. So we were looking at a moving target, if you will.

During the course of that review, we found some things that were somewhat distressing to us and I am sure even more distressing to the Postal Service. Basically, there were three major concerns that we identified. I think this is important in the context of if the Postal Service is looking to raising revenue as a means to deal with the challenges that it faces, it doesn't look too rosy, at least at this point in time, as a revenue generator.

Number one, it was very difficult for us to really get a handle on what are the e-commerce activities of the Postal Service. The Postal Service has a definition, but it wasn't really applying that definition. It identified seven initiatives eventually, but that started out with a much higher number during the course of our review. And it was just very, very difficult for us to discern this. So we really couldn't even tell the Congress with a great deal of reliability, Here is how many e-commerce initiatives the Postal Service has or has planned and, sort of, what they are.

For example, in terms of the Postal Service, stamp sales online was listed as an e-commerce service, but eBay sales of stamps wasn't. So it was kind of tough to figure out what is and what isn't.

Secondly, the Postal Service has established a process, in fact it had two processes, for approving new products and

services. One was set up specifically for e-commerce. And what we had identified was that none of the five products or services that the Postal Service had implemented, basically, had followed its processes fully or had documented that it had. And there was some question about whether it had followed the process or not, but it was hard for us to tell.

Lastly, in terms of problem areas, and most distressing to me as a CPA and to many of the postal stakeholders, is the issue of, is the Postal Service making any money or not on its e-commerce initiatives? And we really couldn't tell. I think the most distressing issue to us -- and we talked to Bob a lot about performance data and the strategic plan and the annual report that the Postal Service puts out -- but in this particular case, the data were so bad, we basically gave up. We were going to put a revenue/expense statement in our report, but we had so little confidence in the data in terms of the revenues and expenses for these e-commerce initiatives that we just felt very uncomfortable doing that, and we ended up not doing it.

So we certainly have raised all these issues with the Postal Service. To its credit, Mr. Nolan and the other folks certainly have been very understanding. They recognize that they are kind of in a transitional phase and they have been certainly very willing to listen to us and even begin to implement some actions to address these issues. But they are certainly very

important issues from not only the Postal Service's standpoint, but for the stakeholders, as well.

Lastly, in terms of e-commerce, the last issue that we addressed was an issue that I know Bob and Ruth raised in terms of what playing field and what rules does the Postal Service play by. And there it is quite clear that there are a whole slew of legal issues that accompany the Postal Service's ventures into new products and services, including e-commerce. And the Postal Service believes that it is not subject to many of these antitrust rules, for one. It is subject to some, but that is something that really needs to be sorted out.

Lastly, I would like to point out, in terms of challenges -- and I talked about the revenue side and e-commerce for example -- on the cost side, we don't think the Postal Service has an easy row to hoe either there. It is quite clear that it is going to have to do something with its costs. It is going to have a tough row to hoe on revenues. It is going to have to fight the competition and folks who believe that the Postal Service shouldn't go that way.

But on costs it has a little bit more control, and productivity, but it really hasn't made a lot of progress and it hasn't made as much progress as it expects. So we really think that this is something that the Congress and the stakeholders

really need to hold the Postal Service accountable for: How is it going to do that? How well is it going to do that?

Secondly, as was mentioned, the Postal Service has 900,000 employees. As we understand it, it's the second largest employer in the country. As I mentioned, employees usually don't want wages to go down, so the Postal Service is certainly going to have a challenge there, not only in wage increases, but in workmen's compensation, retirement, and a whole slew of other human capital issues.

Lastly, as I mentioned, overall, not only for e-commerce, but we think, quite importantly, that the Postal Service is going to have to do a better job in the future of reporting credible information, both in terms of its delivery performance, operational performance and financially.

That is where I would like to end. Thank you.

(Applause.)

MR. HUDGINS: Thanks a lot.

By the way, in terms of the issues of labor productivity, or let's say the labor regime, again, I will call your attention to Dick Froelke's piece in our book on exactly that issue. By the way, in terms of cost accounting, again, this seems to me to call attention to the problem of having a government run an operated agency delivering services. If it were a private company, you would have a pretty good idea of how

much the company was worth. You would have to justify the revenue flows. You would have to justify the investments, whether it is in e-commerce or what have you. And I think this is a fundamental problem that the Postal Service finds itself in because of its status.

Our final speaker is Rick Merritt. Rick said I should give a very short introduction to him so that he could kind of talk on and on. That is not exactly how he described it.

Rick is the Executive Director of PostalWatch, which looks at and investigates issues concerning the Postal Service. He is also the author of a Cato Institute briefing paper on the U.S. Postal Service war against private mailboxes and privacy rights that came out last year. You can get copies of it out there.

So, without further ado, Rick Merritt.

(Applause.)

RICK MERRITT,

POSTALWATCH

MR. MERRITT: Thank you, Ed. And thanks to the Cato Institute for inviting me to participate today. And thanks to my fellow panelists for taking the time out of their schedules to add to this valuable dialogue.

I approach this issue from probably a completely different aspect than most people in this room. I come out of it as being a small businessman for 20-some years who happened to be affected by some postal regulations, negatively, I might add. And I discovered that, as Commissioner Goldway points out, that there is no recourse if you are a customer and you are offended by the Postal Service. Then I embarked on this thing called PostalWatch.

At any rate, few will disagree that there needs to be some substantial changes made if the Postal Service is going to flourish and survive during the next millennium. The debate obviously is what is it going to look like when the process is through and how do we make that transition from the Postal Service of today to the Postal Service of tomorrow.

In the formation of the Postal Service in 1970, Congress instituted language in the legislation that said it was supposed to operate like a business-like organization and be self-sustaining. The Postal Service has taken that language in the 1970 Postal Modernization Act and used that language to basically, of recent time, justify entering into a myriad of private sector, non-postal areas of competition.

It is highly unlikely that the framers of the 1970 Postal Modernization Act envisioned a day when the Postal Service would be actually competing with private ventures out in the open

marketplace and also a day when their core mission may actually be facing some level of obsolescence.

[End Side A. Begin Side B.]

MR. MERRITT: But when the legislators of the day created the Postal Service in 1970, they granted the Postal Service considerable both operational and regulatory flexibility. The Postal Service has taken that language and construed it to mean that it has the authority to compete in all of these areas.

One of the problems is that this logic is somewhat flawed if the Postal Service is merely doing this to prevent downsizing to meet the need for its core mission from the private sector perspectives. If allowing a government agency to compete in private markets in order to prevent downsizing the organization was such a great idea, why don't we let the military compete with private security and armored car firms to prevent post-Cold War downsizing? I mean, this is obviously an issue to question.

Additionally, as recent events have demonstrated, every time the Postal Service enters one of these markets and creates one of these new private markets, it is going to face a firestorm of criticism from both the media and Capitol Hill as each newfound competitor gets their ox gored, so to speak. Absent any action by Congress, it is unrealistic to believe that these newfound competitors won't seek relief and damages in the courts.

Now, there is one upside to the structure that we currently have and the expansionism that we currently have, and that is that it will probably create a lot of work for lawyers and lobbyists here in Washington. But given the Postal Service recent adventures into e-commerce and its strategic alliances, it seems that the Postal Service will continue to stretch its authority and scope of operations until either the Congress or the courts stop it.

Interestingly enough, it is unlikely that the courts will find or hold that the Postal Service's exemption to the antitrust laws are extendable to non-postal activities, as in a 1979 Justice Department opinion relative to postal rulemaking. After citing several court cases it stated, "Recent court decisions have made it clear that in general only activities commanded by government as sovereign may enjoy some immunity from the antitrust laws." And I doubt very seriously that e-commerce and bill paying is going to be commanded as sovereign by the government. I could be wrong.

Consequently, the Postal Service could be facing a tidal wave of litigation concerning their new business ventures and strategic alliances. And should the plaintiffs prevail and be awarded damages, who is going to pay?

I think it was Bernie, at the Senate hearings a few months ago, who pointed out -- and there was a little bit of

debate about who is going to get the bill for all this stuff -- and it is going to be the ratepayers, because there is no one else to get the bill.

As the Postal Service attempts to compete in non-postal markets it cannot help but abuse its monopoly power and regulatory authority. The Postal Service really lacks the efficient, competitive work force, much less the culture of enterprise that is necessary to compete in free, open and, let me underscore, "fair" markets. Lacking these key ingredients, the Postal Service will continue to leverage the assets that it does possess in its attempts to compete.

And Ed touched on several of the advantages and things that the Postal Service enjoys over private competitors. There are a couple that Ed didn't mention. They have a last-mile delivering infrastructure that is paid for and subsidized by the ratepayers, exclusive access to every single mailbox in America, exemption from taxes, immunity from parking violations and vehicle State registration.

One thing that I think is very critical at this juncture is that they have a brand name subsidized by some \$250 million of ratepayer-subsidized money paid on advertising every year. They control and license for a fee a comprehensive database of information on every address in the country -- a new source of contention here. And international parcels are exempt

from U.S. Customs inspection and the associated red tape and delay. They enjoy a statutory price fix created by the Express Mail statutes that require their competitors to charge twice whatever they charge for express deliveries.

The Postal Service doesn't need to go out into private markets and compete for capital. They enjoy unlimited access to funds from the Treasury Department. And probably something that is going to be a big asset here as things go on is that their legal defense for lawsuits is handled by the U.S. Attorney's Office, as well.

But, most importantly, and the area in which I personally have the most experience, is the Postal Service enjoys vast regulatory authority. Back in 1970 Congress didn't want to encumber the new Postal Service with a lot of regulatory constraints, so they wrote language into the Modernization Act that construed to exempt the Postal Service from the Administrative Procedures Act and all the derivative acts thereof, as well as some limited exemption from the antitrust laws.

This regulatory authority, along with the exemption from the Administrative Procedures Act, is something that is almost too tempting to use in a competitive field where you have the ability to use that authority over competitors. An example, as some of you know, is one that PostalWatch has been involved

with for quite some time, which is the issue relative to private mail and parcel centers, a controversy over regulations passed now over 18 months ago. This industry, mostly small businesses like Mail Boxes, Etc., began emerging in the early 1980's and offer post office box rentals and packaging services. The industry grew to now what is about 10,000 mail and parcel centers, servicing 2 million Americans, mostly small business people. They are truly a competitor to the Postal Service.

In 1993, the Postal Service attempted to compete with them in their core business, which is packaging and bubble wrap and all that good stuff for shipments. The industry complained that the Postal Service was charging sub-market rates, and ultimately the Postal Rate Commission agreed. However, the Postal Service refused to stop operations of pack and send until they were threatened with legal action.

Then, by the fiscal year ending September 1997, the annual growth rate of the agency's post office box revenues had fallen to a meager 1.3 percent, down from 8.7 percent only two years earlier. And in November of 1997, the five-year strategic plan called the mail and parcel industry substantial competition. Then in August 1977, claiming -- and unsubstantiated -- I am sure I am going to face some heat for that -- a need to safeguard the securities of the mail, the Postal Service proposed the infamous commercial mail receiving agency regulations.

These regulations required 2 million American small business people to change their address and subject themselves to an intrusive re-registration and identification process. And it is a punitive burden estimated to approach \$1 billion that was foisted on small business. The only apparent reason for this is that these small businesses do business with people who compete with the Postal Service.

During the official comment period, the Postal Service got 8,000 comments opposing the regulations and only 10 in favor. The 10 in favor came from organizations with close ties to the Postal Service. They were actively solicited by postal management employees.

In what appears to be a successful attempt to co-opt the major source of opposition, the Postal Service then entered into a pilot program, "strategic alliance," with Mail Boxes, Etc. Corporation, in September of 1998. As a franchiser of over 3,000 mail and parcel centers, Mail Boxes, Etc., represents 30 percent-plus of the market and is surely the dominant player. And then, despite all the overwhelming opposition from the earlier comment period, the now infamous regulations were implemented in March of 1999, in the Federal Register, where the posting quoted comments that they had received in the 1997 comment period where people had complained that compliance with

the regulations will put CMRA's out of business. They were summarily dismissed as erroneous.

At any rate, numerous congressional offices requested that the Postal Service produce evidence indicating a compelling need for these regulations and studies as to the competitive effects and also the economic effects of the regulations. When the Postal Service was asked during House Small Business Subcommittee meetings in October of 1999 if they had these reports and studies, they replied in the negative, citing their exemption from the Administrative Procedures Act, because those kinds of reports are required by all other Federal agencies except ones exempt from the Administrative Procedure Act.

At any rate, this controversy continues to rage on today, and may only find resolution in a Federal courthouse. The question is: If the Federal courts were to rule in favor of the private mailbox facilities and the people who rent them, who is going to pay for this billion-dollar fiasco? Because we do know that the Postal Service, according to Title 39 of the U.S. Code, is supposedly able to be sued in its own name.

When e-commerce companies, staffed with efficient workers, motivated by stock options, capitalized by hundreds of millions of dollars from public offerings, are falling like flies and filing bankruptcy, how can we really expect the Postal

Service can succeed in a highly competitive marketplace without abusing its powers?

In the final analysis, the Postal Service should not thrash wildly in search of revenues like a wounded animal in the china shop of free enterprise. It should not gamble billions of ratepayer dollars attempting to capitalize on the revenue source du jour. At the end of the day, a hybrid, quasi-governmental agency disrupting private markets, with ill-fated attempts at competing, is an unsustainable paradigm.

Congress really only has two viable choices. It can either rein in the recent diversifications of the Postal Service, refocus its efforts towards executing its core mission and allow it to contract in size as demand for services diminish, or totally privatize the Postal Service through a public offering; and, finally, revisit, "what universal service really means in the new millennium."

Thank you.

(Applause.)

MR. HUDGINS: Thanks a lot.

By the way, if you want to get a little bit of a flavor of the original intent, you can read Murray Comarow's piece, who, of course, is the Executive Director of the Commission that reorganized the Postal Service back in 1970.

Again, on the issue of dangers of the Postal Service expanding into new areas with its regulatory authority, I call to your attention Jim Lucier's piece in this book on dangers in cyberspace -- I think Jim has arrived; he is in the back there -- which also raises some privacy issues, as well. I will also add one other interesting thing about the dilemma of having a government monopoly involved in private sector activities. And that is advertising. And a lot of people will question me. Reporters will call and say: How come the Postal Service is advertising at the Olympics? It is not like we can go somewhere else for our first-class and third-class mail deliveries.

But the most interesting thing, I think, recently is that the Postal Service has co-sponsored a Showtime series, called "The Inspectors" about postal inspectors, in which postal inspectors in fact have acted as advisors. One of them has actually starred in an episode. There was an episode, I think it was number two, where the postal inspectors -- and Lou Gossett is one of the stars of the show, by the way -- walks into a private mailbox company -- and you basically see the guy behind the desk looks like kind of a sleazy character running a whorehouse or something -- and they start asking him about who is the person who has rented out a certain box number. And the guy says, "I know my rights. I don't have to tell you anything."

What is interesting is that the plot exactly parallels the debate on Capitol Hill and in other quarters about whether or not people who use private mailboxes have to turn over personal information. So I think you have a potential conflict there.

Before we turn to questions, by the way, I didn't bring this up with Mr. Henderson when he was here last because I was trying to be a gentleman, which, of course, we want to have gentlemanly conversations, but when we mailed out the notice for the conference a year or so ago -- this is what the notice looks like, by the way -- I think it was a journalist sent me back something that she had gotten in the mail. It is this little bag here.

When the post office messes up some mail, they will put it in a little bag and say, "Sorry, we messed up the mail. Here it is." And it is an invitation to the event on postal privatization. So I am not sure whether that was intentional, whether some irate postal worker kind of looked at it and saw what it was. Well, there are the results. But I will put it down as an innocent mistake. Every company makes those mistakes.

I think we will open up to questions. But, first, do any of the panelists have anything, a quick one-minute injection, about what any of the other panelists have said or should we go straight to questions? Anyone?

MR. REISNER: I was so worried that we had nothing to talk about until we got to the end there. The one theme that I did want to touch on that I think is illustrated by things that my colleagues have said here is that when I talked about the flexibility to respond to the customers' voice -- and I think Ruth added a number of other things -- and then, secondly, sustaining the public policy values, and I used universal service as the core value; I think Ruth added some other things that are also worthy aspects of the public responsibilities of the Postal Service -- the issue as you get to privatization -- and I think that I probably should have been even clearer about this -- for us, is often in the details.

Because it is important to recognize that this customer voice -- and you can imagine in a policy argument saying that a lot of the apparent issues that are being raised by some of the other panelists would be clarified if it was just all a level playing field and private sector competition -- it's "yeah, but." It is that we want to look at the details of how that might work. Because it really is how you balance these two responsibilities.

Some of the things that were said here today, you know, one person's consumer protection is another person's privacy invasion. And none of us should underestimate how complicated this is going to get in the next decade as all Federal agencies become service providers of electronic services.

MR. HUDGINS: All right, let's get questions from the audience. Someone will come around with a microphone. Please identify yourself so the speakers will know who you are talking to.

MR. WILNER: I am Frank Wilner with the Journal of Commerce and Railway Age Magazine. I have a question for both Mr. Reisner and Ms. Goldway.

During the postal rate hearings an executive of the Postal Service testified under oath that the U.S. Postal Service is not large enough to negotiate volume discounts for transportation of the mail with the railroads. I am curious as to, one, do each of you agree with that statement? And if you don't, are you going to pursue in the rate hearings the question of transportation costs for the Postal Service and what is being done to reduce them?

MS. GOLDWAY: I am afraid my answer is very simple in that I cannot comment on the question at hand because the case is still in front of us.

MR. HUDGINS: We will know shortly.

Did you have something?

MR. REISNER: No. I would be glad to take your card. We pursue negotiating transportation agreements and the best deals we can get for our customers wherever we can. But I am not

an expert on the particular nuance that you are talking about. But I would be glad to put you in touch with the right person.

MR. HUDGINS: How about right over here?

MR. ROBINSON: I am Allen Robinson, Direct Communications Group.

I have a question for Bob about the report in the Federal Times about the reduction in first-class mail by about 4 and a half percent. This is a two-part question. How far below budget revenue forecasts was that? Actually, I guess it has three parts. Two, how far below what was presented to the Commission is that? And, three, why? Why is it declining right now?

MR. REISNER: Why is first-class mail declining right now? There are a number of reasons that our customers talk to us about. To say that I've got all of the answers, boy, I don't know. One of the factors was that there were a lot of efficiency improvements and opportunities to do things like change the way you send multiple letters to the same household, where you have two sides of the mail piece that can now be combined.

There were lots of software improvements that backed up behind the Y2K investments on the part of many customers. Our customers had to be sure that they were safe last year. So, as it was the case for us and I am sure a lot of people here, basically there weren't any software investments in new

efficiency improvements for a six-month period. There was a moratorium there. So when that began to be unleashed, we began to see and customers talked about the effect. Our new deputy, John Nolan, comes from one of our big customers who similarly had new opportunities for programs that were being implemented.

Secondly, document transfer today is clearly beginning to pick up in terms of e-mail document transfer. So there are ways in which diversion is taking place that might not have even taken place a few years ago as more and more people use their e-mail volume for more and more purposes and it becomes a more dependable service.

With respect to e-bill pay, it is growing, but not as quickly as it could grow. So there are a number of different economic factors here that are pushing down our first-class mail volume. That is a matter of some considerable concern.

As to the exact difference between that and our forecast that might have been in the filings, I am not sure. But Bernie Ungar, just a minute ago, pointed out that our forecasts were more optimistic than this last year has shown they should have been.

MR. HUDGINS: Why don't we go to the woman right here?

MS. CARUTHERS: I am Chrystal Caruthers, with UPI.

I think my question is kind of basic. I don't understand something. The post office is not supposed to make a

profit, right? At least that is my understanding. It is supposed to break even. So if first-class mail is declining, then there shouldn't be, I am thinking, a cost in order to cover that decline. Your costs should go down because there is a decline in your services that is needed. So, then, why is there an effort to recoup or to find new ways to compete with private enterprise if your mission isn't to report to shareholders and actually have a return on the investment?

MR. REISNER: I am glad to make a comment. I think my fellow panelists also are going to have views on this, as well. To me the issue is not to create new services in order to create revenue in order to keep the institution stable. That wasn't the framework with which I started, and I am glad to get an opportunity to hit that right on.

The issue here is, how do you serve changing customer needs in an evolving marketplace? The idea that we are going to have to cut costs in order to match revenues or possibly find new ways to grow revenues by offering flexibility and new product introductions is what we are all about here.

I agree with you. I mean the issue is not trying to fill a hole in order to keep the institution stable. The world is changing. The economy is changing. And it is really our responsibility to change with it.

MR. HUDGINS: Bernie, I assume you have something to say about that.

MR. UNGAR: Yes. It's good you asked that question because I had anticipated it. This was an issue that came up during our last testimony before the House Postal Service Subcommittee. I think the basic answer to your question, if I understand it correctly -- and you can't see this chart, but this was a chart we used during our hearing -- I am looking at the circles. I think that the bottom line is that first-class mail volume and revenue constitute a substantial proportion of revenue and mail volume, and even a higher proportion in terms of its net contribution to overhead. It is basically 51 percent of the volume, 58 percent of the revenue. But first-class mail contributes 67 percent to the overhead.

So if you have a decline in first-class mail volume and revenue, somebody is going to have to make up that loss to the contribution to the overhead since it is probably not going to be able to be reduced immediately. And that is going to have to come from the other classes of mail or rate increases in first-class mail.

MS. GOLDWAY: I know we are all concerned about the future of the Postal Service, but I think we ought to step back a bit and take a look at this last year and its final results. With about a \$65 billion revenue, the Postal Service ended the

year with what it said was about \$100 million or \$150 million less than it took in. That is the tiniest fraction of a percent of its overall operations.

In fact, it seems to have been able to adjust to shifts in its revenue stream, so that even though it had less revenue than it might have projected, it also had more savings, and it was flexible enough to end the year; \$100 million in the context of the Postal Service operation is a blink of the eye. So I really think we shouldn't be that concerned about this last year except to the extent to which it may or may not indicate trends in the future.

I think the dilemma that I have, as somebody who wants an efficient service to continue in one form or another, at one size or another, is that the current regulatory framework requires that the Postal Service come in and ask for rates that cover costs. The whole reason for being, the whole system of operation of the Postal Service in the last 30 years, has been to say, "Our costs go up, therefore we will ask for more money. Our costs go up, therefore, we will ask for more money."

And it has not been as receptive to the changes in the market, the kind of flexibility that it might have, experiments in prices, to see whether if they did lower prices they might actually increase revenue and demand in one product or another. They can't do this under the current regulatory scheme. So it's

not just a matter of whether the Postal Service management wants to maintain its size as such; it's the regulatory scheme, the conceptual structure under which it has been operating for the last 30 years that forces certain habits and patterns and decisions.

MR. HUDGINS: Do you want to add something real quickly here?

MR. REISNER: Yes. I think the question partially is a matter of scalability. The Postal Service doesn't appear to be too scalable of an organization. I think, in those same Senate hearings I had mentioned earlier, Bernie, isn't there something like 15 or 18 cents of institutional costs in every first-class stamp? Isn't that it? It is something like that. So the Postal Service, I think, has a hard time scaling when its revenues shrink, not to mention that it is not in the bureaucratic nature of any bureaucracies to downsize.

MR. HUDGINS: Let me go to the back since we haven't gotten anyone from there. And try to keep them a little bit short because we're getting close on time here.

QUESTION: I was going to ask you where you go to find out what is going on in global postal reform. But I won't ask that question.

MR. HUDGINS: You go to Jim Campbell.

MR. HUDGINS: I'm not going to ask that question.

I wanted to ask Bob and Ruth and whoever else may want to comment, practically speaking, assuming that Ruth is right and the best fate of the Postal Service over the long term is privatization and then living by the same rules as everybody else, how long -- and you all have lived through H.R. 22; you know what is going on in other countries in terms of how they have modernized -- how long would it take, realistically, thinking about the political process, if we all agreed today that we need to move towards privatization, how long would it take to get from here to there? What would you foresee?

MR. REISNER: I feel like I'm being asked by somebody who would know the answer to this question.

(Laughter.)

MR. HUDGINS: Jim Campbell does know the answer.

MR. REISNER: And far better than I would. It's not going to be quick if it happens in our near-term future. It is going to be tough to get there. Which is why, without disagreeing with virtually anything Ruth said about the reasons for it, the possible opportunities, where I start on this thing is, what are the principles that we are trying to achieve? And if the principles are to reflect the marketplace and the voice of the customer in operations more effectively and at the same time sustain -- and let's just use universal service as the surrogate for a whole galaxy of public policy values -- then I think the

issue is not really one of ownership per se; it is an issue of, what are the details of reform?

And reform is urgently needed. Even that, I don't think, is necessarily going to come quickly. I don't know whether you disagree on the timing, Ruth.

MS. GOLDWAY: Well, there are many times when I wish we had a parliamentary system. It would make reform a lot faster. We don't have that, and it means things go slowly.

On the other hand, if you look at the reforms that the Federal Communications Commission enacted in the mid-nineties, that really were revolutionary in terms of restructuring the communications industry, and it didn't take all that long as long as there were interested parties advocating those changes.

I think, in reality now, there is no really significant interest group, political interest group, in the country advocating serious reform. We are all talking about it. But until those people, the Postal Service itself, the unions, UPS, Fed-Ex, the various big players, actually put their efforts behind serious reform, it won't happen, short of some kind of catastrophe. And that is certainly possible, too. Who knows what could change with the communications industry?

I lived in Finland for three and a half years. There is not one piece of paper that goes through the system when it comes to banking. People come here and they don't know what a

check is. If that kind of radical change happens very, very quickly, then you are going to have to have some very quick government fix.

MR. HUDGINS: Let's go back here real quick.

QUESTION: I have two quick questions. The first one is for Mr. Ungar. I would like you, if you could, to tell me what the employment levels for the U.S. Postal Service have been over the last five years. And I will quickly ask my second one and then, as they do on the radio shows, I will hang up and listen. I would like to ask the U.S. Postal Service representative how much this Showtime extravaganza is going to cost them, if anything?

MR. UNGAR: On the first question, I don't have the exact numbers with me, but my recollection is, depending upon if you are counting total employment meaning career and temporary, between 800,000 and 900,000, in that ballpark.

QUESTION: (Off microphone).

MR. REISNER: It has, as I recall. I just don't have the exact numbers.

MR. REISNER: The interesting number that I don't have is whether it has gone up in proportion to growing mail volume. That would be an interesting number.

MS. GOLDWAY: Labor productivity did go up this year, but it hadn't before that very much. Isn't that right, Bob?

MR. REISNER: That is true. So, therefore, you would think that it is probably just tracking mail volume as opposed to -- cumulative, over the five years, I think productivity has improved. So I think it is probably tracking or just doing a little bit better than mail volume. Some of our customers may have a better handle on whether employment went up faster.

I am looking at my colleagues. We don't think that we have invested in the Showtime show. We have certainly invested in cooperating with the show.

MR. HUDGINS: What I had understood was that advertising and promotion, as well as the cooperation, was what they were going to do. I don't have an actual accounting.

Does someone else want a very quick last question? I am going to have to take Gabriel real question. Gabriel, can you do a real quick question?

MR. ROTH: I haven't read the book, but I am not clear, why privatize the post office? Why not just take away its monopoly powers?

MR. HUDGINS: Anybody?

I say do it.

MS. GOLDWAY: I think in Europe they do a lot of corporatizing. They don't privatize. They just corporatize their posts so that they can operate as corporations within the system.

I think that that would be politically harder in America. The notion of a publicly owned company actually competing in the private sector would be harder to accept in the long run than privatizing the company. As somebody who is sort of a third-way Democrat, I wouldn't mind it at all. I know it works in Europe, but I am not sure it would work here.

MR. HUDGINS: Bernie?

MR. UNGAR: Just quickly, I am not quite sure what privatization means. I know there are a lot of different government corporations around, and some of them are more like private; others are more like government. It's hard for me to believe that Congress would give up all its control over the Postal Service in the long run.

MS. GOLDWAY: But if it is regulated.

MR. UNGAR: Yes, that is true. Go ahead.

MR. HUDGINS: Rick?

MR. MERRITT: From my perspective, if you are going to take the monopoly away, you need to take away the regulatory authority. Because if you diminish their revenues over here, they are going to step up their efforts to try and replace those revenues in other areas. And then, if they can use their regulatory authority -- so I think taking away their monopoly and regulatory authority also might end up being actually more painful than a quick privatization.

And touching on what Mr. Reisner said, there is an asset there. And it is worth between \$75 billion and \$150 billion, probably at least, if you take UPS is trading at about 2.3 times sales revenues and it is number nine in the Fortune 500, with AT&T and Phillip Morris trading at about 1 to 1.1 times revenues. So it is somewhere between \$65 billion and \$150 billion-plus. And with 40,000 retail locations, it's probably the largest retailer in the world. So it has some assets. And if you take their monopoly away, you run the risk of not capitalizing the assets or taking advantage of the assets as much as you possibly could.

MR. HUDGINS: Did you want to add something very quickly?

MR. REISNER: Just a final quick comment. In the whole debate over reform, it was the opening statements to a lot of those hearings, when John McHugh talked about the mission of the Postal Service and why have a Postal Service, that was the place that the engagement took place, over what is the role, what we are trying to achieve here. And I think that is really, to us, where you go in answer to the question about monopoly powers, ownership, and any of these issues, it is really how do we achieve the public purposes and serve the customers that we seek to serve. I think that issue of purpose is really the next big challenge.

MR. HUDGINS: I know that there are still some more questions, so I would like to invite all of you to stay around for a luncheon that we are going to have upstairs. Meanwhile, I urge you to buy a copy of the book out front.

I want to thank all of the authors who contributed chapters to this book. I think this is going to have a good, long shelf life and it is going to help to drive the debate in the future. If you could help me thank our panel, we will adjourn.

(Applause.)

(Whereupon, the Book Forum was concluded.)