

**Testimony of
Michael L. Wachter
Before the Senate Committee on Governmental Affairs
February 4, 2004**

My name is Michael Wachter and I am currently employed by the University of Pennsylvania as the William B. Johnson Professor of Law and Economics. I also serve as the Co-Director of the Institute of Law and Economics, whose primary purpose is to sponsor research and cross-disciplinary programs in the areas of law, economics, and business in the various schools at Penn. I served as the University's deputy provost from 1995 through 1997 and the University's interim provost in 1998.

I received my undergraduate degree from the School of Industrial and Labor Relations at Cornell University and my advanced degrees in Economics from Harvard University. I have been employed at the University of Pennsylvania since 1969. I have consulted for the Office of Economic Advisors, the Congressional Budget Office, the Board of Governors of the Federal Reserve System and a number of companies in the private sector. I have published extensively in the areas of labor economics, labor law and corporate law and finance.

BACKGROUND

My consulting work and testimony on behalf of the Postal Service has focused on the issue of wages and benefits in the Postal Service and how they

compare to the private sector. I first consulted for the Postal Service in 1981 in an interest arbitration proceeding involving the Postal Service and the Mail Handlers union. Since that time, I have testified in numerous other interest arbitrations. Of particular importance was my testimony in 1984 before the Kerr arbitration panel, which resolved the bargaining impasse between the Postal Service and the APWU and NALC. My most recent appearance in an interest arbitration setting was before the Goldberg panel in 2001 to resolve the dispute between the Postal Service and the APWU. In addition to testifying in postal interest arbitration hearings, my colleagues and I have published numerous articles in academic journals on the subject of postal wage and benefit comparability.

On April 29, 2003, I appeared before the President's Commission on the United States Postal Service. My statement to the Commission dealt mainly with the issue of wage and total compensation comparability of postal workers. I have reviewed the July 2003 Report of the President's Commission, with particular attention to the Commission's workforce recommendations contained in Chapter 6. The Commission has recommended (W-3) that the Postal Service's pension and post-retirement health care plans should be subject to collective bargaining.

Based on my research on postal labor issues, dating back now for 25 years, I believe the Commission's recommendation is both appropriate and necessary. My conclusion is based on several fundamental factors. First there is a sizeable postal compensation premium that violates the basic tenets of the Postal Reorganization Act and makes the Postal Service vulnerable to

competitive pressures. The finding of a postal compensation premium with respect to the private sector has been supported by all postal arbitrators who have addressed this issue since 1984. Second, as a consequence of this finding, the Postal Service and its unions have operated in an environment of “moderate restraint” with respect to wages, resulting in a decline in the postal wage premium. Third, while there has been moderate restraint on postal wage growth, there has been no such moderation with respect to the growth in postal benefits. Finally, in today’s increasingly competitive environment, the Postal Service needs both compensation restraint and flexibility to meet its mandate of providing universal service.

COMPARABILITY

The starting point for my analysis of postage wages and benefits is the Postal Reorganization Act (PRA) which states that the U.S. Postal Service shall “maintain compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector of the economy.” 39 U.S.C. § 1003. This comparability standard is a foundation upon which the Postal Service and its unions can base their negotiations. When necessary, it is also a foundation that an arbitration panel can rely upon to resolve deadlocks.

The PRA mandate for compensation and benefits comparable to the private sector is a logical consequence of the fundamental purpose of the statute: protecting the public interest in the provision of efficient services in certain critical industries. The Postal Service is unusual compared to many regulated firms

since it is highly labor intensive, rather than capital intensive. Currently, nearly 80 percent of postal cost is compensation related. The vast majority of these compensation costs are associated with employees who are represented by the various unions of the Postal Service. This makes labor costs, both wages and benefits, a dominating issue for maintaining a healthy competitive position and protecting the interest of postal consumers. For the Postal Service, controlling costs turns on paying wages and benefits that are comparable to those paid in the private sector.

The Commission's recommendation that benefits be included as part of the collective bargaining process logically follows the statute's goal of comparability with the private sector. In my view, it would be equally appropriate to include benefits as part of the collective bargaining process regardless of whether USPS total compensation was lagging behind or surging ahead of total compensation in the private sector.

My research in this area, however, in conjunction with Drs. James Gillula and Barry Hirsch, has determined that there is a postal compensation premium. As recently as the interest arbitration with the APWU in 2001, I identified a wage premium of 21 percent and a total compensation premium of 34 percent. In other words, unionized postal workers receive 34 percent more in compensation than is received by comparable private sector workers. A significant portion of the postal total compensation premium can be attributed to a sizeable benefits premium and a significant portion of that benefits premium is associated with benefits over which the Postal Service has no control.

COMPETITIVE ENVIRONMENT

The Postal Service finds itself operating in highly competitive product markets. Because the Postal Service is so labor intensive, its ability to remain competitive depends in large measure on controlling its labor costs. This, in turn, can be achieved by adhering to the comparability standard in wages and benefits.

A review of postal product market developments over the years highlights the increasingly competitive environment in which the Postal Service competes. One can observe fundamental shifts in postal volumes during this new century. Total postal volume reached its peak in 2000 with nearly 208 billion pieces. In each of the past three years, however, total mail volume has declined. In 2003 total mail volume was slightly more than 202 billion pieces. It is true that mail volume is affected by the economy and by fluctuations in the business cycle. Although the most recent recession officially ended in November 2001, mail volume recovery has yet to take place. This is particularly troubling in the case of First-Class Mail.

After reaching a peak of about 104 billion pieces in 2001, First-Class Mail volume fell to 99 billion pieces in 2003. The Postal Service expects the volume decline trend to continue in 2004. Clearly, there are competitive market forces in play that are influencing this decline. Most notable is the increasing impact of technological competition on First-Class Mail volumes. This competitive reality for First-Class Mail is taking place at the same time as the Postal Service's delivery network continues to expand. Historically, First-Class Mail growth

helped pay for the increase in the delivery network, the critical foundation upon which universal mail service is based. This is no longer the case.

In addition to the reality of technological competition for First-Class Mail, the Postal Service faces stiff competition for its other products. Although there is anticipated growth in Standard Mail, it should be noted that this is a low-margin product. Healthy growth is no longer expected for Priority Mail and Express Mail. These had been both rapidly growing and high-margin products; however, both now face significant competition. There has been recent growth in the Package Services, but this class of mail operates in highly competitive markets as well. Finally, the Postal Service expects that volumes in both International Mail and Periodical Mail will continue to decline.

For the first 30 years since postal reorganization, the Postal Service was seemingly spared product market erosion. It is clear, however, that the positive mail volume trends observed during the first three decades since postal reorganization are no longer present. This has led to a decline in postal employment. When postal volume is increasing strongly, postal employment grows with it. When postal volume is stagnant, postal employment tends to decline. From a high of nearly 800,000 career employees in 1999, I note that the career complement in 2003 was less than 730,000. The decline in career complement reflects the restrictive competitive conditions confronting the Postal Service in 2004.

The competitive threat to future mail volume growth will place increased stress on the Postal Service's mandate of providing universal mail service. The

assumption that mail volume growth will fund an increasing delivery network is at risk. There are fundamental changes occurring in the USPS product markets that will prevent the Postal Service from relying on sustained volume growth as it did during the first 30 years following reorganization.

The fact that the Postal Service finds its products in increasingly competitive markets means that large wage and benefit premiums will not be sustainable. Therefore, it is imperative that the Postal Service bring its compensation costs more in line with what is paid in the private sector of the economy for comparable levels of work.

THE POSTAL SERVICE WAGE PREMIUM

I have testified extensively in numerous postal interest arbitrations concerning the existence of a postal wage premium. I have also published extensively on this topic in academic journals with my colleagues, Drs. Gillula and Hirsch. We have concluded, as well as have numerous interest arbitrators, that a substantial wage premium exists. As recently as the 2001 proceedings before the APWU interest arbitration panel, this conclusion was reaffirmed.

I base the finding of a wage premium on a detailed analysis of several sources of information. First, the wage component of the total compensation premium is estimated from the Current Population Survey (CPS) of the Bureau of the Census. This survey is the basic household survey of the United States. Using random sampling techniques, the CPS collects a complete set of labor market information on approximately 85,000 full-time, nonagricultural wage and

salary workers annually. The methodology used to estimate the premium, multivariate statistical analysis, is the generally accepted method for estimating wage differentials. In the 2001 APWU interest arbitration, I estimated the wage premium to be 21.2 percent using the above method.¹

Second, beginning in 1995 I expanded the CPS wage comparability analysis to include additional variables from the Dictionary of Occupational Titles (DOT) that measure the skill requirements and working conditions associated with specific occupations. The DOT variables are good complements to the CPS because the data are based on evaluations of the job and the job requirements rather than the individual worker who fills the job, as is true of the CPS. Including DOT skill and working condition variables yields a higher estimate of the wage premium.

Third, in the APWU interest arbitration in 2001 my colleagues and I incorporated the Department of Labor's new Occupational Information Network, known as O*NET. The O*NET is described by the DOL as being a comprehensive database system for collecting, organizing, describing, and disseminating data on job characteristics and worker attributes. Our analysis using O*NET reinforced previous conclusions based on the DOT; namely, that a substantial wage premium exists. And this wage premium exists after accounting for job-specific skills and working conditions.

¹ "Wage and Benefit Comparability of U.S. Postal Service Clerks to the Private Sector," by Wachter, Hirsch, Gillula, October, 2001, p. 2. Arbitration Proceedings, USPS and American Postal Workers Union, AFL-CIO. Based on an annual wage for postal clerk craft employees of \$37,582, the 21.2% wage premium translates into an annual additional cost of \$7,180 per employee.

Finally, I have relied on internal USPS sources of information from three distinct areas to help determine the existence of a postal wage premium. First, the wage premium findings described above were corroborated by Postal Service data that revealed that there is a large increase in salary, a new hire premium, when employees are hired into the Postal Service. The New Hire Survey that is conducted allows us to estimate wage differentials between postal and private sector jobs based on the wage change of workers when they enter the Postal Service. In this way, postal workers are compared to themselves in their prior employment. Based on a sample of postal clerk employees hired during 1999-2000, my colleagues and I found a 31.8 percent new hire wage gain for APWU clerks.²

Second, I have confirmed that the Postal Service finds it easy to hire qualified workers to fill job vacancies. An analysis of postal employment register data shows that there is a large applicant queue that confirms the attractiveness of postal jobs, even in high-wage metropolitan markets.

The third internal data source is the USPS voluntary quit rate. Quit rates across all bargaining units are low, thus further supporting the conclusion that there is a large wage premium. In the 2001 interest arbitration with the APWU, I testified that the FY 2000 quit rate among clerks was only 1.9 quits per hundred workers per year, comprising a 1.2 percent quit rate for full-time employees and a 5.0 percent quit rate for part-time employees.³ In sharp contrast, the annual quit rate in the private sector, for both full-time and part-time workers (it is not

² Ibid., p. 4.

³ Ibid., p. 9.

available separately), was 26.3% in 2001, the first year such data were available.⁴

These various external and internal sources of information, all point in the same direction: there is a significant postal wage premium.

THE POSTAL SERVICE BENEFITS PREMIUM

The Postal Service's benefits are also far in excess of benefits paid in the private sector. I have testified in interest arbitration proceedings on the presence of a sizeable postal benefits premium. This conclusion is based on a comparison of private sector benefits versus postal benefits. As I previously mentioned, I found a 21.2 percent wage premium during the 2001 interest arbitration with the APWU. This wage premium was similar to the one that I estimated during the 1999 interest arbitration with the NALC.⁵

The wage premium cited above does not include benefits. I was able, however, to determine a benefits premium by analyzing private sector benefit figures collected by the Bureau of Labor Statistics (BLS).

Benefits are usefully divided into two categories: paid leave, which is wage related, and nonwage-related benefits associated with pension and insurance benefits. The nonwage benefits include pension and retirement plans, USPS contribution to the Thrift Savings Plan, Social Security, Medicare, Health Benefits, and Life Insurance. To calculate the benefits premium I relied on the

⁴ See U.S. Bureau of Labor Statistics, *Job Openings and Labor Turnover Survey* (JOLTS).

⁵ "Current Evidence on the Comparability of U.S. Postal Service Wages and Benefits to the Private Sector," by Wachter, Hirsch, Gillula, August 4, 1999, p. 1. Arbitration Proceedings, USPS and National Association of Letter Carriers, AFL-CIO.

BLS series “Employer Costs for Employee Compensation (ECEC)” and also obtained the USPS compensation costs in the same ECEC format. I testified during the interest arbitration with the APWU in 2001 on the benefits premium and found this premium to be 65.8 percent. The combination of the benefits premium along with the 21.2 percent wage premium resulted in a total compensation premium of 33.7 percent.⁶

I should note that the benefits premium and the total compensation premium referenced above do not include retiree health benefit costs. Clearly, these postal premiums would be even higher had retiree health benefits been included in our calculations. Since the ECEC private sector data source does not include retiree health benefit expenses, I excluded these benefits from the Postal Service side of the compensation equation. There is ample evidence that the provision of retiree health benefits is declining in the private sector.

By any objective measure, the USPS total compensation premium is far outside the boundaries of the PRA comparability requirement. The fact that not all benefits are subject to collective bargaining contributes, in my opinion, to the size of the significant total compensation premium.

In 2003 Postal Service retirement costs amounted to \$5.9 billion, while costs for health benefits for retirees accounted for an additional \$1.1 billion. Stated another way, \$7 billion of benefits costs are currently not subject to the collective bargaining process. Because of the importance of these benefits the President’s Commission recommended the following:

⁶ Op. Cit., p. 9.

- The Postal Service should be authorized to negotiate Federal Employee Retirement System eligibility requirements and employee contributions;
- The Postal Service should be authorized to negotiate the eligibility and retiree contribution requirements for the post-retirement health care component of the Federal Employee Health Benefit Program, specifically for future Postal Service retirees; and
- The current statutory requirement that “{n}o variation, addition, or substitution with respect to fringe benefits shall result in a program of which on the whole is less favorable to the officers and employees than fringe benefits in effect on {July 1, 1971}” should be repealed.

In my opinion, these Commission recommendations are appropriate.

ARBITRATION RESULTS

My analyses and arguments have been presented at various times in postal interest arbitration proceedings dating back to 1984. Postal interest arbitrators have consistently concluded that a material wage premium does in fact exist. Based on their analysis of the evidence in 1984, the Kerr arbitration panel reviewing APWU and NALC compensation found that “discrepancies in comparability” existed and indicated that their award was intended to reduce the pay discrepancies that had arisen since the PRA by one percentage point per year over the life of the 1984-87 contract. Chairman Kerr characterized this intended rate of closing of the gap as “moderate restraint,” and went on to comment that since the premium “did not develop overnight ... it would be a mistake to try to correct [it] too hastily.” In looking ahead, Chairman Kerr stated that a three-year closing of the premium at one percentage point per year “does

not dispose of the problem. Moderate restraint may also be necessary in future years to approximate the guideline of comparability.”⁷

Since the Kerr Award, the Postal Service has attempted to apply the principle of moderate restraint to its wage increases. To do this, the Postal Service has compared its wage increases to the Employment Cost Index (ECI) for all private sector workers, and has used ECI-1% as a measure for approximating moderate restraint on wages.

The Mittenthal interest arbitration panel, also reviewing APWU and NALC compensation, reached the same wage conclusion in 1991: “Notwithstanding the efforts of the Kerr board to establish a principle of 'moderate wage restraint,' a wage premium still exists. Hence, the need for continued 'moderate restraint' still exists.”⁸

In 1995, after reviewing evidence put before him in the NALC interest arbitration proceedings, Chairman Stark acknowledged the need for continued moderate restraint: “In reaching the conclusions set forth here, I have recognized the need, particularly in light of automatic grade, step, and COLA increases, for wage increases even more modest than those contained in the award of the Mittenthal Board.”⁹

Furthermore, in the Mail Handlers Union interest arbitration proceedings in 1996, Chairman Vaughn concluded: “I am persuaded by the evidence presented

⁷ . Clark Kerr, Chairman, “Opinion and Award,” Arbitration Proceedings, United States Postal Service and National Association of Letter Carriers, AFL-CIO, and American Postal Workers Union, AFL-CIO. December 24, 1984.

⁸ Richard Mittenthal, Chairman, “Opinion and Award,” Arbitration Proceedings, United States Postal Service and NALC and APWU, June 12, 1991, pp. 16, 18.

⁹ Arthur Stark, Chairman, “Opinion of the Chairman,” Interest Arbitration Proceedings, United States Postal Service and NALC, p. 38.

by the Postal Service that its NPMHU-represented employees continue to enjoy a wage premium compared to their counterparts in the private sector”¹⁰

In 2001, the APWU interest arbitration panel chaired by Stephen Goldberg found the existence of a wage premium based on the fact that Postal Service jobs are highly sought after, that applicant queues are long, that there is a substantial new hire premium, that quit rates are extremely low, that postal employees have job security, that employees have an extraordinary benefits package, and that wages have kept pace with inflation. Based on the above, Arbitrator Goldberg stated: “In concluding that there exists a Postal Service wage premium, I join a long list of arbitrators in prior USPS interest arbitrations who have reached the same conclusion.”¹¹

TRACKING THE GROWTH OF POSTAL WAGES AND BENEFITS

A component of my research on postal wages and benefits has been to track the growth rate of postal wages and of postal compensation compared to growth rates found in the private sector. This analysis has relied on the BLS Employment Cost Index (ECI) as a measure of private sector wages and benefits along with payroll data supplied by the Postal Service as a measure of postal wages and total compensation.

When I performed this analysis for the APWU interest arbitration in 2001, I found that for the 16-year period, 1984 through 2000, wages for postal clerks increased at an average annual rate of 2.9 percent, while private sector wages

¹⁰ M. David Vaughn, Chairman, “Decision,” Interest Arbitration Proceedings, United States Postal Service and National Postal Mail Handlers Union, April 24, 1996, p. 7.

¹¹ Stephen B. Goldberg, Chairman, “Supplemental Opinion Dealing with Economic Issues, Interest Arbitration Proceedings, United States Postal Service and APWU, January 11, 2002, p. 9.

as measured by the ECI increased at an average annual rate of 3.6 percent. Thus, since the 1984 Kerr Award identified the existence of “discrepancies from comparability,” the Postal Service achieved a closing of the wage gap with the private sector of 0.7 percent per year. This evidence of some closing of the wage gap is consistent with other tracking analyses I have performed. Accordingly, the collective bargaining process has permitted some moderate restraint of the APWU wage premium.

Our APWU tracking analysis, however, further shows that moderate restraint with respect to wages has had little impact on trends in overall postal compensation relative to the private sector. The reason is quite simple—postal benefits have grown at a rate significantly exceeding benefit growth rates in the private sector. As shown in our report to the APWU interest arbitration panel, when comparative wage and benefits costs are both considered, the Postal Service’s average annual total compensation growth rate (3.6 percent) was about the same as the growth rate experienced in the private sector (3.8 percent). In short, while there has been some degree of moderate restraint on wages, there has not been restraint in the growth of the costs of benefits. As a result, there has been no reduction in the total compensation premium.

The above information covered the APWU bargaining unit and was reflective of data through 2000. I have tracked the growth rates of postal wages and of total postal compensation for the major postal bargaining units through the fourth quarter of 2003 in order to determine if the trends previously observed for the APWU hold true for the combined postal bargaining units.

The patterns observed during the past 20 years with respect to APWU wage growth also apply to the combined major bargaining units. During the past 20 years postal wages have grown at an average annual rate of 3.0 percent. For the private sector as a whole, average annual wages have increased by 3.5 percent per year. Thus, there has been a modest annual closing of the wage gap of 0.5 percent per year. As with the data I presented on APWU wage growth to the APWU interest arbitration panel, there has been moderation of bargaining unit postal wage growth compared to the private sector.

Although there has been some moderation of postal wage growth, there has been no such moderation on the benefits side. During the past 20 years, total USPS compensation costs (3.9%) have grown at virtually the same average annual rate as observed for total compensation growth in the private sector (3.8%) of the economy. The collective bargaining and interest arbitration environments have assisted in the moderation of postal wage increases during the past 20 years. This has not been true for postal benefits.

It should be noted that some postal benefits are already subject to collective bargaining. As an example, the Postal Service and its unions may negotiate for paid leave benefits as well as for the employer/employee shares for health benefit premium costs for current employees. However, over \$7 billion (14 percent of total compensation) of retirement and retiree health benefits expenses are outside the collective bargaining process. The President's Commission would allow the parties to negotiate over these benefits. The lack of flexibility in dealing with these non-wage benefits places the Postal Service at a competitive

disadvantage with other firms in the private sector of the economy. The inability to address these benefits is also at odds with the principles underlying the comparability standard of the PRA.

My experience in observing a moderating postal wage growth during the past 20 years shows that the collective bargaining and interest arbitration process can make positive progress in allowing the Postal Service to conform to its comparability mandate. Based on this result, I recommend that the same collective bargaining and interest arbitration process be used to determine all benefits, including retirement and retiree health benefits.

COUNTER ARGUMENTS

The primary response of the unions in interest arbitration to the econometric evidence finding a wage and total compensation premium, described above, has been to challenge the choice of the group to whom postal workers should be compared. In our work my colleagues and I adopt a comparison group of full-time private sector workers with individual and job characteristics similar to those among postal workers. Bargaining unit postal employees are, thus, compared to both union and nonunion workers, to workers in large and small firms, and to workers in large and small establishments. The implicit and sometimes explicit weighting given each group corresponds to their distribution among the private sector comparison group of workers. This, in our view, is consistent with the statutory provision in the PRA which mandates that comparability broadly be maintained to the “private sector of the economy.”

The principal areas of disagreement with the economists for the unions have centered on specification issues regarding union status, employer size, and race and gender. In other words, while we compare postal employees broadly to the private sector, the unions propose a standard whereby postal wages are compared implicitly to wages for private sector workers who are white male, unionized, and in large firms.

One of the most contentious issues in postal arbitration hearings has been the attempt by the unions to use a “union standard” of comparison versus our use of a mixed union and nonunion private sector standard. The unions have proffered a standard in which the wages of postal workers are compared to unionized private sector workers, treating union status as if it were a transferable skill variable such as schooling. The principal rationale underlying this claim is the assertion that higher union wages in the private sector are entirely capturing otherwise unmeasured worker skills so that the union wage premium is essentially zero. The result of these assumptions is to compare the wages of postal workers only with the wages of unionized workers in the private sector.

These assertions are testable. The size and nature of the union wage advantage have been tested extensively in the academic literature. Evidence from the private sector overwhelmingly rejects the contention that there is no union wage premium for union workers relative to nonunion workers of similar skill. Our evidence from the New Hire Survey and the data from the DOT also reject such a conclusion for Postal Service workers and jobs.

Our methodology does not employ either a union-only standard or a nonunion standard. Instead, we compare postal workers to a mix of union and nonunion workers across all private sector industries, where the mix is calculated using weights based on private sector employment of nonprofessional and nonmanagerial union and nonunion workers. Such a private sector comparison comports closely to the standard of opportunity cost wages and economic efficiency, as well as to the PRA comparability mandate.

There has also been an attempt by the unions to focus their econometric evidence on wages paid by large firms. Our treatment of employer size is similar in principle to our approach to union status, which has the effect of comparing postal workers to private sector workers across all firm and establishment size categories, with an implicit weighting equal to that of the private sector. It is generally recognized in wage-differential studies that if one is going to control for employer size, it is appropriate to control for both firm and establishment size, since they may measure distinct wage determinants and each has an independent effect.¹² All postal employees work for a large firm, and the unions' analysis controls for firm size. However, the establishment size for postal employees is not particularly large, and the unions' analysis does not account for establishment size. When one includes both firm and establishment size measures in the wage regression, the postal premium is little different than when the size measures are excluded.

¹² See, for example, Charles Brown and James Medoff, "The Employer Size-Wage Effect." *Journal of Political Economy* 97 (October 1989): 1027-59, and Kenneth Troske, "Evidence on the Employer Size-Wage Premium from Worker-Establishment Matched Data." *The Review of Economics and Statistics* 81 (February 1999): 15-26.

Some of the unions claim that postal wages ought to be compared only to those of private sector white males. This is based on the contention that lower wages in the private sector for women and minorities results entirely from labor market discrimination and that, absent such discrimination, wages for all workers would rise to the level of white males. Besides ignoring the PRA mandate, the argument is flawed on both theoretical and empirical grounds. The unions' white male standard assumes that wage differentials by gender and race are due *entirely* to labor market discrimination. Numerous studies, however, show that some portion of these wage differentials are due to premarket factors, such as education and experience, which the workers bring to the labor market. Moreover, it assumes that in the absence of discrimination, all private sector wages would rise to the level of white males. However, there is little to suggest that the average wage in the economy would increase by much absent discrimination.

In some cases, the unions have used two or even all three restrictions at once. We have throughout the various interest arbitration proceedings countered the union's various attempts to narrow the standard of comparability by relying on the results of academic theory and evidence.

Some postal unions have suggested that the proper comparability standard should be tied to specific firms, such as United Parcel Service and FedEx. To suggest that two firms should be used to determine wage and benefit comparability for nearly 700,000 postal employees is not sensible. The Postal Reorganization Act does not direct the parties on the comparability issue to look

at only one or two high-wage companies, or only firms in selected high-wage industries. Rather, the PRA compels the parties to “maintain compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector of the economy.”

Postal arbitrators have acknowledged that wage premiums exist for postal bargaining unit employees. The existence of a postal wage premium served as a predicate for the “moderate restraint” findings of the 1984 Kerr interest arbitration award covering the APWU and the NALC. Subsequent postal arbitrators have also found the existence of a postal wage premium. These arbitrators include Richard Mittenthal (APWU/NALC) in 1991, Rolf Valtin (APWU/NALC) in 1993, Arthur Stark (NALC) and Jack Clarke (APWU) in 1995, David Vaughn (Mail Handlers) in 1996, and Stephen Goldberg (APWU) in 2001. To address the comparability issue these arbitrators have provided for the following modifications to the collective bargaining agreements: New lower entry steps, increased ratios of part-time employees, new employee categories, increases to the employee share for health benefits premiums, reductions in the postal night shift differential, delayed cost-of-living (COLA) payments, lump-sum payments in lieu of COLA and general wage increases, and modest general wage increases during the past 20 years.

CONCLUSION

The Kerr panel in the interest arbitration of 1984 recognized the need for moderate restraint in postal compensation growth. Although there has been some moderation of postal wage growth, there has been no such moderation in the growth of postal benefits. This has resulted in the continuation of a sizeable compensation premium. In today's increasingly competitive markets, the Postal Service must insure that its wages and benefits meet the comparability mandate in the Postal Reorganization Act.

Consequently, I believe that the Commission's recommendation that retirement and health benefits for retirees should be part of the collective bargaining process is both appropriate and necessary. The Postal Service and its unions should be able to address all labor cost components, not only wages but also benefits, in future collective bargaining proceedings.