



National Association of Letter Carriers

William H. Young
President

100 Indiana Ave., NW
Washington, DC
20001-2144
202.393.4695
www.nalc.org

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Executive Vice President

Gary H. Mullins
Vice President

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May 29, 2003

Mr. James A. Johnson and Mr. Harry J. Pearce
Co-Chairs
President's Commission on the U. S. Postal Service
1120 Vermont Avenue, NW
Suite 971
Washington, D.C. 20005

Dear Mr. Johnson and Mr. Pearce:

At your field hearing in Chicago, Dr. Michael Wachter, who has served as a management-side witness in a variety of interest arbitration proceedings in the past, presented testimony to the Commission on the issue of postal pay comparability. Unfortunately, the Commission heard only one side of the debate about the issue. A few days before the hearing, Executive Director Dennis Shea graciously offered NALC the opportunity to make our consultant, Dr. James Medoff of Harvard University, available for the hearing. Dr. Medoff could not attend the April 29 hearing so Mr. Shea agreed to accept a written reply to Dr. Wachter's statement instead. Dr. Medoff's reply statement is attached.

In addition to encouraging you to share Dr. Medoff's statement with the full Commission, I wish to make a couple of additional points.

First, NALC defines pay comparability for city carriers in terms of the pay of delivery personnel employed by other national delivery companies – i.e., Federal Express and United Parcel Service. In February 2002, the most recent month for which we have comparable data, city carriers earned a starting wage of \$15.85 per hour and were paid a maximum rate of \$20.98 per hour after 12 ½ years on the job. This level of pay falls in the range of pay available to FedEx couriers and UPS drivers. Although FedEx maintains seven different pay ranges across the country, couriers working in medium to large metropolitan areas start at a low of \$14.49 per hour and reach top pay of \$21.58 per hour after four to five years. UPS drivers earned an average starting wage of \$16.21 per hour and reached an average top rate of \$23.17 per hour after two years. It should be noted these figures represent base pay; FedEx maintains an even higher pay range for the San Francisco area and local agreements between the Teamsters Union and UPS provide for even higher wages in certain regions of the country.

Second, as I stated in response to a question in Chicago, no arbitration panel looking at the issue of the comparability of city carrier pay to private sector pay (as distinct from overall postal employee pay) has ever concluded that a city carrier wage premium exists. Neither the Stark panel (1995) nor the Fleischli panel (1999) ruled that city carrier pay violated the comparability standard. Indeed, NALC provided extensive evidence and expert testimony from Dr. Medoff and other academic witnesses to rebut Dr. Wachter's opinion.



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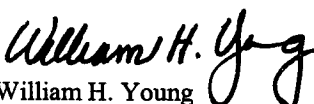
Although neutral arbitrator Stark did award "wage increases even more modest than those contained in the award of the Mittenal Board," he did not justify the increases as necessary to achieve "continued moderate restraint" as Dr. Wachter implied in his Chicago testimony (p. 13). To the contrary, the Award indicates that Stark was responding to his perception of the poor state of USPS finances at that time. ("Clearly the economic problems facing the Service, its employees, and its customers, are significant." p. 39)

This Commission would commit a grave error if it were to misinterpret the meaning of the recent Goldberg and Wells Awards (which covered other bargaining units) or even the decade-old Kerr and Mittenal Awards (which covered the NALC as part of a Joint Bargaining Committee with the APWU). While these awards concluded that a wage premium existed, they never adopted a precise estimate of the size of the premium. Certainly, none have adopted Dr. Wachter's estimate of a 21 percent wage premium.

Thus, Dr. Wachter has no basis to argue that the policy of "moderate restraint" failed because annual postal pay increases did not sufficiently fall short of annual increases in the Employment Cost Index for private sector workers over the past two decades (see p. 15). Similarly, the argument that a postal wage premium is costing the USPS \$9 billion annually, a claim included in the PRC's testimony to you (see p. 2 of Robert Cohen's testimony of February 20, 2003) that is based entirely on Dr. Wachter's one-sided advocacy work, is seriously misleading. Both claims assume that an arbitration panel has formally accepted Wachter's precise estimate of the postal wage premium. That has never happened. The unions' witnesses, while rejecting Dr. Wachter's definition of comparability, have at a minimum demonstrated clearly that Dr. Wachter's model grossly overstates the postal wage differential.

Finally, I believe it is important for this Commission to keep the issue of postal pay in proper context. The average postal salary (for bargaining unit employees) now stands at \$41,680 annually, which in real terms (adjusted for inflation) is slightly less than the average that existed when the USPS was created in 1971. The typical postal employee making this salary is very likely a veteran who is in his or her mid-forties with 11 or 12 years of experience on the job. He or she is most likely married and has one or two children. He or she works hard and provides a valuable service to the public and to the American business community. For this, he or she earns a middle-class standard of living. That is as it should be, and the Commission would badly damage postal labor relations if it were to conclude otherwise.

Sincerely,


William H. Young
President

Enclosure

Statement of James L. Medoff

to the

**President's Commission
On the United States Postal Service**

HARVARD UNIVERSITY

JAMES L. MEDOFF
Meyer Kestnbaum
Professor of Labor and Industry

LITTAUER CENTER 115
CAMBRIDGE, MASSACHUSETTS 02138
TEL.: (617) 495-4209
FAX: (617) 495-9180

I am the Meyer Kestnbaum Professor at Labor and Industry at Harvard University, where I have been employed since 1976. At the request of the National Association of Letter Carriers (NALC) I have prepared this response to the statement of Michael Wachter to the President's Commission on the United States Postal Service on April 29, 2003.

I have published numerous academic papers and several books relating to the topic of wage differentials that exist between different workers in the U.S. economy. I have also served as a consultant to numerous private sector companies on related issues, as well as for governmental and quasi-governmental agencies including the Congressional Budget Office and the Board of Governors of the Federal Reserve System. I served as a consultant to NALC in connection with the arbitration hearing before the Fleischli panel in 1999.

I disagree strongly with Dr. Wachter's overall conclusion about postal wage comparability, and I take issue with many of the points he raises in its support. Most saliently, I take issue with the definition of "comparable levels of work" that underlies the whole of Dr. Wachter's statement. The phrase is of course subject to interpretation, but Dr. Wachter seems to take it for granted that all workers in the private sector that are "identical in age, years of service, education, occupational category, region of residence, and city size" can be assumed to work at "comparable levels" as required by the statutory standard. The validity of this interpretation is certainly not self-evident, and I do not believe that any labor economist who considers the issue with any depth can regard it as an appropriate interpretation.

Dr. Wachter also mis-characterizes the postal unions' definition of comparability. Certainly NALC does not "propose a standard whereby postal wages are compared implicitly to wages for private sector workers who are white male, unionized, and in large firms." (See p. 10 in Wachter's statement.) The union has long rejected Wachter's approach to comparability, which equates "comparable levels of work" with a comparison to private sector workers with "similar individual and job characteristics." Such a comparison misses what we know matters in the labor market and what must be included in any definition of "comparable levels of work" – working conditions, industry structure and firm characteristics. Thus, NALC reasonably compares its members pay to that of delivery workers employed by other national delivery companies – namely, UPS and Federal Express. I would note that both firms employ women and minorities and one of the firms is not unionized (FedEx).

With respect to his own implicit standard of comparability, Dr. Wachter starts with a misleading claim. He states that multivariate regression is "the generally accepted method for estimating wage differentials." While I agree that multivariate regression is a widely accepted statistical technique by which labor economists can estimate wage differentials, it is rarely if ever used by individual firms to set pay rates for specific occupations.

It must be noted that the validity and meaning of the results of any particular regression analysis are critically dependent on the underlying economic theory and whether it has been appropriately

applied. Dr. Wachter's statement does not effectively address this issue. In fact, he has misapplied the relevant theory by choosing an arbitrary set of variables that omit certain critical ones. I take particular issue with his treatment of relevant factors such as industry, union status and firm size.

Although Dr. Wachter initially accounts for industry differentials, when he calculates the overall postal premium he averages out these industrial differences and then applies the economy-wide result to the Postal Service with no theoretical justification. In this way, large, low-wage and clearly unrelated industry groupings such as retail sales and banking are considered along with obviously relevant industries such as the so-called TCU industries – transportation, communications and public utilities.

Dr. Wachter attempts to defend his failure to control for union status, but here again his arguments are misleading. According to Dr. Wachter, the principal rationale for including such a control would be "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." Certainly I have never made such an assertion, and to my knowledge this is not a position held by other economists who have worked with the postal unions. My research on the subject (discussed in my book What Do Unions Do? with Richard Freeman) recognizes that other factors beyond worker skills are operative in making unionized firms more productive. In particular, unions give workers a "voice" – a safe way of expressing their needs without leaving the firm. This leads to a more stable and productive work environment, increasing tenure and reducing training costs associated with the high quit-rates common in non-union firms. Workers from unionized firms are significantly less likely to quit even than equally compensated workers from nonunion firms. The low Postal Service quit rate that Dr. Wachter cites (in another context) is, among other things, an indication of the postal unions' effectiveness in giving their members a voice.

Another controversial issue is firm size. My research (discussed in my article "The Employer Size Wage Effect" published in the October 1989 issue of the *Journal of Political Economy* and in my book Employers Large and Small, both co-authored with Charles Brown) indicates that firm size is a critical determinant of labor market outcomes. Over time and regardless of industry or country, I have found that large firms pay significantly higher wages to seemingly similar workers – typically on the order of 20-25 percent more – than do smaller firms.

Dr. Wachter argues that the firm size variable is largely irrelevant in the case of the Postal Service because, while the firm size is large, the average establishment size in the USPS is not. This argument might be valid if his regressions could be done with accurate measures of both firm size and establishment size. Dr. Wachter's regression is based entirely on data from the Current Population Survey (CPS) compiled by the Census Bureau. The data from the CPS lumps all firms with more than 1,000 workers together into one category. This means that including the establishment size variable leads to highly misleading results in the case of the Postal Service. The USPS is an "extremely large" firm, but because of the relatively small size of its establishments, Dr. Wachter's analysis will effectively consider it comparable to firms that are not even "large".

In short, Dr. Wachter's conception of "comparable levels of work" is deeply flawed and his model of the labor market is misleading and incomplete. I have never personally or professionally found his claims of a postal wage premium convincing. The NALC's approach to comparability, which focuses on similar workers performing similar functions in national delivery firms that compete with the Postal Service is much more compelling. I urge the Commission to rely on the common sense exhibited by the union's approach and to treat Dr. Wachter's testimony with an appropriate level of skepticism.