



**American Postal
Workers Union, AFL-CIO**
William Burrus, President
1300 L Street, NW
Washington, DC 20005
202/842-4250

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COMMITTEE ON GOVERNMENTAL AFFAIRS

Testimony Of
WILLIAM BURRUS, PRESIDENT
AMERICAN POSTAL WORKERS UNION, AFL-CIO

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Congressional Testimony

Good afternoon, Chairman Collins and members of the Committee.

Thank you for the opportunity to testify on behalf of more than 300,000 members of the American Postal Workers Union, AFL-CIO. The APWU is the largest single bargaining unit in the country, and I appreciate the chance to share with you the views of our members on a most important issue: postal reform. Thank you for your continuing interest in this vital subject.

This Committee has an historic opportunity to protect and preserve the United States Postal Service, but we must be careful to ensure that our efforts in fact preserve the Postal Service for the American public. Too often, in this rush for postal reform, special interests have been considered without balancing the broader needs of our nation and its individual citizens.

The mailing industry has driven the debate about "postal reform" as it seeks to shape the Postal Service in a way that will best serve its interests. This is neither surprising nor bad; but it is very important that the Committee distinguish between the public interest in universal mail service at uniform rates, and the interests of major mailers in maximizing their profits.

Postmaster General Jack Potter has called the Postal Service an "American Treasure," and he is undeniably right. For nearly 250 years, the U.S. Postal Service has performed an essential service for the American public. It is not an exaggeration to say that the Postal Service has "bound our nation together."

The stated objective of those who favor postal reform is to offset the impact of technology on mail volume. Whether mail volume increases or

decreases, however, the need for a viable Postal Service will be important to our country. Despite the effects of Internet communications, facsimile machines, and the telephone, the unifying role of the Postal Service is still critical. A study released in 2003 by the Pew Internet and American Life Project concluded that 42 percent of Americans do not use the Internet. Sixty-two percent (62%) of Americans with disabilities do not use the Internet; racial and ethnic minorities, the elderly, and less well-educated Americans are also less likely to use the Internet. If the Postal Service were not available, the deepening divide between the well-off and the not-so-well-off would be much worse. Millions of Americans still rely on the Postal Service because they must. For these Americans, there is no alternative to affordable universal service.

And companies both large and small that are not tied to the mailing industry rely on the Postal Service to conduct business. Their interest in a stable, reliable postal network that provides universal service at uniform rates cannot be overlooked.

At the Committee's request, my testimony will include an analysis of the Presidential Commission's workforce-related recommendations — recommendations which we adamantly oppose. I will also share our views on other important aspects of postal reform. As president of the union, foremost among my concerns are the interests of APWU members. But the long-term health of the Postal Service is also a concern, and we promise to join with those who seek positive change.

Before I discuss the workforce recommendation in the Commission's

Report, I urge that primary attention be focused on the recommendation that the Postal Service be relieved of the military retiree costs, and that the escrow of the CSRS contribution be resolved.

I also want to add a third consideration that is equally important. It is my understanding that the Office of Personnel Management is proposing to shift to the Postal Service \$86 billion in costs that are attributable to previous federal government employment. This would be an enormous burden to the Postal Service, to consumers, and to the mailing industry. Correcting these three problems, and thereby relieving the Postal Service of these large unjustified financial burdens, may be the most important action that Congress could take to preserve and protect the Postal Service.

In addition to the important issues mentioned above, the APWU could support changes that include flexible rate setting; the design and introduction of new products; the freedom to borrow, invest, and retain earnings; and a prohibition against postal discounts that exceed the costs avoided by the Postal Service.

The Commission's Deliberations

In considering the specifics of reform, I want to emphasize that the Commission did not give sufficient consideration to the needs of individual Americans and businesses that are not part of the mailing industry. The hearings and the Commissioners' private meetings were dominated by large mailers.

Naturally, their interests must be considered, but not to the exclusion of all others. The Commission heard from very few representatives of consumers or the public. Only two months before it issued its final report, the Commission heard testimony from former Congressman Bill Clay, who was testifying on behalf of the Consumer Alliance for Postal Services. Mr. Clay, who chaired the House Committee on Post Office and Civil Service for years before his retirement, emphasized that the views of ordinary citizens had not been heard.

As Chairman Clay stated:

“[The Commission] heard from vendors, large mailers, marketers, union representatives, and the Postal Service itself, but the voices of individual Americans who rely on the mail during the course of their daily lives have been missing.”

It is extremely important that Congress look beyond the interests of the large mailers and examine the public interest.

Technological Impact on Hard-Copy Communications

The widespread support for postal “reform” is based on the premise that the Postal Service is a failing institution – one that is at risk of entering a “death spiral.” I believe it is premature to make a final determination on this matter.

We must remember that postal volume continues to recover from the effects of several national events. The first was, of course, the terrorist attacks of 9/11. That was followed by the anthrax attack that took the lives of two postal workers.

The combined effects of the 9/11 and anthrax attacks were superimposed

over the recession that began in early 2001, from which we are only now experiencing a relatively weak and inconsistent recovery. If one were to extract the impact of technological diversion, these events still would have had a serious impact on postal volume.

There are positive signs. The Postal Service recently reported that mail volume during the 2003 holiday mailing season increased sharply over the previous year, resulting in the highest volume period in the history of the Postal Service. Are we to believe that technological impact took a holiday this Christmas season, or are other factors at work?

As you are aware, Congressional action to limit telephone solicitations, and a renewed concern over e-mail spam are having a positive impact on hard-copy advertising, and are expected to lead to increased mail volume. It is simply too early to make definitive projections on the future of hard-copy communications.

While e-mail and the Internet are increasingly used as communication tools, the expansion of technology is not new. The telegraph and the telephone, for example, were equally progressive at the time of their development. So we must be careful not to assume too much about the impact of today's new technologies on hard-copy communications.

Throughout this recent period of technological upheaval, the Postal Service has shown a remarkable capacity to provide excellent service. Despite declining mail volume, total-factor productivity increased 1.8 percent in 2003, while service standards were maintained. The postal workforce has been

reduced, with 11,000 further reductions planned for 2004. These are remarkable achievements, particularly because the Postal Service's mission requires providing universal service to a growing nation.

Productivity increases in mail processing, where the majority of workers we represent are employed, have been a major contributor to this strong performance. Since 1986, the number of mail-processing employees has declined from a peak of more than 220,000 workers to the present workforce of slightly more than 140,000, a reduction of 80,000 workers.

These changes have had a profound effect on the mail-processing workers we represent. But despite the effect, the APWU has never opposed automation, as long as the affected workers are protected and treated fairly – consistent with our Collective Bargaining Agreement.

Rate Setting

Because of these unprecedented productivity increases, there is strong reason to believe that Postal Service revenues could be sufficient to support universal service, *if* rates are properly set. It is critically important that rates be set to reflect the underlying economic realities.

The APWU has been a vocal critic of unfair rate-setting that benefits some very large mailers at the expense of consumers and small businesses. Even more important than the issue of fairness in rate setting, however, is the issue of the ability of the Postal Service to survive.

The Postal Service's own data show that worksharing discounts provided to major mailers exceed the costs avoided by the Postal Service. These excessive discounts cost the Postal Service hundreds of millions of dollars in lost revenue every year. It is not possible to create a business model for a healthy Postal Service if the rate-setting process continues to hemorrhage hundreds of millions of dollars. Put simply, the Postal Service cannot break even if it continues to artificially subsidize major mailers hundreds of millions of dollars every year.

This problem was acknowledged by the Presidential Commission's recommendation that all *future* discounts be limited to the costs avoided. This is simply not good enough. That horse has left the barn and we need to get it back to preserve universal service in the public interest.

Some interested parties, when confronted with the fact that discounts cannot be justified, have responded by calling for "bottom-up pricing." This radical concept, which purports to establish a system whereby mailers pay only for the services they use, would actually relieve the largest mailers of any responsibility for the costs of maintaining a universal system. It would almost certainly result in surcharges for service to rural communities and low-volume post offices.

Such a structure would be tantamount to proposing that public education be funded only by those who have children in school. The proponents of this radical approach – those who profit from the universal service network – are eager to avoid paying for it. A self-interested proposal like this is a natural and

predictable position for any profit-motivated industry to take, but it cannot form a basis for public policy. Ultimately, bottom-up pricing would destroy the Postal Service's financial self-sufficiency and require Congress to make a choice between public subsidies or the abandonment of universal service.

And I wish to make an important point on the subject of future mail volume and the impact on the USPS ability to provide universal service. The current business model is not responsible for the relative contribution level between first-class and standard mail. Even if first-class mail continues to grow, despite the inroads of technology, the question of dividing institutional costs among all classes of mail will remain. At present it takes approximately three new pieces of standard mail to make up for the loss of one piece of first-class mail. This distribution of cost is a political decision that will be unresolved by postal reform. So, even with robust mail growth far into the future, postal rate-setters must revisit the distribution of cost, with or without postal reform.

In sum, the current evidence concerning weakening mail volumes, while reason for concern, does not justify the conclusion that sweeping change is necessary. Elimination of excessive discounts, along with more appropriate pricing in the future, will bolster postal revenues and preserve universal service.

Discussion of Specific Workforce-Related Commission Recommendations

As the Committee requested, I will now state the views of the APWU on the specific workforce-related recommendations of the Commission. I begin with

our conclusion that the workforce-related recommendations are outrageous and totally unacceptable to me and to the workers I represent. And, as I have previously said, on the subject of workforce issues, the Report is fundamentally dishonest.

The Report repeatedly states that the Commission supports the right of postal workers to engage in collective bargaining. Nevertheless, it recommends the establishment of a three-member Postal Regulatory Board, appointed by the President, which would have the authority to set the compensation of postal employees.

It is completely inconsistent, and totally unacceptable, for the Commission to espouse a commitment to collective bargaining while simultaneously recommending that postal compensation be dictated by an appointed board, separate and apart from the collective bargaining process.

Testifying before this Committee on Sept. 17, 2003, Co-Chairman James A. Johnson said that any employee compensation changes would be "prospective," and that current employees would not be impacted. In fact, commission recommendations would authorize the Board to impose a cap on the compensation of new employees *and* to reduce the compensation of current employees, on a timetable to be dictated by the Board.

Another example of the Commission's arrogant disregard for collective bargaining is the recommendation that existing no-layoff protection be prohibited by law. The Commission Report acknowledges that this protection is wholly the product of collective bargaining, but nevertheless recommends that it be

prohibited.

And while the Commission recommends what it calls "Pay-for-Performance," it fails to note that there is nothing in present law that prohibits or inhibits pay for performance: Under current provisions, the Postal Service and unions are free to negotiate for it.

The Commission seems to believe that postal workers are fools. The following disingenuous platitudes appear in the Report:

- "...plans for modernizing the nation's postal network...must effectively utilize the Postal Service's most valuable asset – its employees."
- "Essential to this process is the ability of management and labor to work constructively together to determine the right size of the postal workforce and to ensure appropriate flexibilities in its deployment. This is *the* critical issue when it comes to controlling the future costs and capabilities of the workforce. Far more than individual benefits, the *size* of the workforce determines the *costs* of the workforce."
- "First and foremost, Postal Service management must repair its strained relationship with its employees."

In contrast to these statements, the Commission's specific recommendations are an invitation to open conflict with postal employees. The Report paid lip service to the importance of good labor relations, while making recommendations that would assure labor conflict.

Bargaining Process

The Commission's recommendations to change the collective bargaining process are unwise and would be counterproductive. Current law permits the parties maximum flexibility in their efforts to resolve their differences. Over the years, the parties have negotiated every subject identified by the Commission -- health benefits, flexibility, retirement, no-lay-off protection, wages, a two-tier workforce, and many others. When the parties have disagreed, they have used "last best final offer" (LBFO), fact-finding, mediation, fact-finding-mediation; and, at least once, the parties' mediator became the neutral interest arbitrator. But more importantly, most often we have agreed at the bargaining table and concluded negotiations without outside interference.

The Commission is wrong to say that any one of these methods is the best way of helping the parties reach agreement. Each negotiation session brings its own challenges, and the best way to meet these challenges is to permit the parties to mutually agree to adjust to the conditions at hand, rather than to impose a fixed statutory process. We know how to reach agreement, and the Postal Service and the unions have done so 65 times over the 32-year period of collective bargaining.

We particularly object to several aspects of mediation and arbitration as recommended by the Commission. First, the law should not require that a mediator serve in every instance as an interest arbitrator. If the parties know that will occur, mediation will become the beginning of Interest Arbitration. The

momentum of negotiations – which should be carried into any mediation process – would be lost as the parties change into an adversarial mode before the beginning of mediation.

Second, it is entirely wrong to suggest that the party-appointed arbitrators in the present system be replaced by additional neutral arbitrators. It is a real strength of the present system that party-appointed arbitrators participate as arbitrators in the hearings and in the deliberative process. The result of their participation is that the neutral arbitrator's decision is informed by a much more detailed knowledge of the parties' interests and arguments than would otherwise be possible.

We also object to a rigidly shortened timetable for dispute resolution. On occasion, complicated disputes cannot be resolved within 90 days.

Benefits

The Commission urged Congress to consider removing postal employees from federal retirement and retiree healthcare plans. This would be a diametrical departure from appropriate public policy. We categorically reject the contention that it would be appropriate for postal employees, now or in the future, to be paid fringe benefits that are less than those provided to other federal employees.

In recent years, postal workers have repeatedly stood on the front lines of homeland security; before they are hired they must submit to background checks and fingerprinting, and they are administered a federal oath of office. It would be

an insult to their courage and dedication to suggest they should be afforded something less than federal status.

The same is true of workers' compensation benefits. These minimum benefits are not negotiable, nor should they be. It would be indecent for the Postal Service to seek to impose substandard retirement benefits, retiree health benefits, or workers compensation benefits on postal employees.

The Commission ignored the fact that employer contribution rates for health benefits have repeatedly been made the subject of negotiations and interest arbitration. The present contribution rate for active employees was set in the 1990 National Agreement, by a neutral arbitrator using a "last best final offer" dispute-resolution mechanism. Contrary to the impression given by the Report, health benefits *have* been the subject of negotiations.

In this debate over the cost of health benefits, forgotten is the evidence that rising healthcare costs are due in part to a large number of uninsured or underinsured Americans. This is not a failure of bargaining, but a problem for both workers and employers. This important public policy problem cannot be solved by shifting costs from employers to employees or retirees.

Health benefits, whether for active workers and their families, for people who have been injured on the job, or for retirees and their families, are a very powerful and emotional issue. It would be a callous act to reduce the health benefits of postal workers injured by anthrax; to reduce their Injury Compensation benefits, or to reduce the benefits of the widows of the workers killed by exposure to anthrax.

Postal Compensation Under the PRA

The collective bargaining provisions in existing law have worked well. The bottom line is that they have resulted in labor costs that have tracked the increase in the Consumer Price Index and the Employment Cost Index.

We have always believed that the wages and fringe benefits paid by UPS and FedEx provide an appropriate and useful comparison to postal compensation. These are the largest American companies whose workers perform some of the same tasks that we perform. They are, of course, also direct competitors of the Postal Service. These companies pay their career employees wages and fringe benefits that compare very favorably to the wages and benefits our members receive.

Some postal critics have pointed to the fact that employee compensation as a proportion of total costs is higher for the Postal Service than for UPS and FedEx. This is misleading. A study of comparative company costs shows that the difference is accounted for by the fact that UPS and FedEx each own a fleet of airplanes. Because these companies are more capital intensive, their employee compensation as a proportion of total costs appears to be lower. If the Postal Service were to invest in its own fleet of airplanes (an investment that would likely improve service and cut long-run costs), that investment alone would bring postal compensation costs as a proportion of total costs into line with its competitors.

These comparisons are also affected by the obligation of the Postal Service to provide universal service. Letter Carriers travel their entire route every day; delivering to many addresses with relatively low-volume, low-revenue mail. This is an important service, but it is very labor intensive. Package or expedited delivery companies, on the other hand, travel only to those destinations that they choose and for which they have been paid a premium.

It is my understanding that the Committee intends to hear testimony on postal compensation from Professor Michael Wachter. It is important that the Committee understand that Mr. Wachter is a lawyer-economist who has served as an advocate for the Postal Service in Interest arbitration on postal compensation since 1981. His views are not new. In commenting on his testimony, the Commission concluded:

“...the Commission believes it is inappropriate for itself, Congress or any interested party to settle this debate. Rather, the overriding public interest lies with entrusting this determination to an independent entity...”

What the Commission overlooked is that these arguments have been subjected to scrutiny by independent neutral arbitrators in every postal Interest arbitration, beginning in 1984. And they have not been accepted by those impartial and independent experts.

In addition to the fact that these arguments are wrong, it is important to observe that the Committee will be hearing them out of their appropriate context. In the parties' Interest arbitration hearings, many days are devoted to consideration of the issue of comparability. Comparability cannot be, and should not be, determined by resorting to mathematical models.

When hearing from Mr. Wachter, the Committee should understand what it is getting – a small slice of the partisan advocacy used by the parties. You will not receive the full body of information required to make a fair determination of comparability.

Most notable in this regard is the seminal Interest arbitration award of the late Dr. Clark Kerr. Dr. Kerr was an internationally-renowned labor economist and arbitrator. After carefully considering all the evidence concerning comparability, Dr. Kerr declared that "comparability, like beauty, quite obviously, is in the eye of the beholder." This is as it should be, because dispute resolution through Interest arbitration is an extension of the bargaining process. It is not a computation; it is a substitution for the right to strike.

Conclusion

In conclusion, I want to return to the most urgent needs of the Postal Service. The Service needs to be relieved of the burden of paying for military retirement, at a cost of **\$27 billion**. It also needs to be permitted to make appropriate use of the savings from the re-calculation of its CSRS contributions, estimated at **\$10 billion**. In addition, OPM's effort to shift to the Postal Service federal service retirement costs – estimated to be approximately **\$86 billion** – must be reversed.

This is not process or procedure; this is real money, and any serious effort at reform must begin with relief from these burdens. If the objective is to stabilize

the Postal Service and secure its future, this is where the process must begin.

Thank you again for the opportunity to present this testimony. I would be pleased to answer any questions you may have.