# National Association of Letter Carriers

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May 16, 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
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Washington, D.C. 20005

Dear Mr. Johnson and Mr. Pearce:

Thank you for giving me a second opportunity to testify before The President's Commission on the U. S. Postal Service on behalf of the National Association of Letter Carriers.

It is clear that you and your fellow Commissioners are taking your mandate to consider the future of the U. S. Postal Service very seriously. Candidly, I have been very impressed with the knowledge you have accumulated in such a short period of time, which has been reflected in the questions you and your colleagues have posed to me and to other witnesses. You are clearly doing everything you can to solicit and analyze as much information as possible in preparation for your recommendations, which could well determine the future viability of the Postal Service.

After returning from the Chicago hearing, I recalled a paper which I believe could be helpful to your efforts. The paper, which I have enclosed, is entitled "U.S. Postal Service Collective Bargaining: Is the Grass Greener on the Other Side of Interest Arbitration?" It was written by NALC Research Director James Sauber and was presented at the Tenth Conference on Postal and Delivery Economics held in Postdam, Germany in June 2002. This annual international conference is sponsored by the Rutgers University Center for Research in Regulated Industries and attracts academics, postal regulators, industry professionals and government officials from all over the world. The paper was among those selected for publication and is included in the volume Postal and Delivery Services: Delivering on Competition, edited by Michael Crew and Paul Kleindorfer and published in 2002 by Kluwer Academic Publishers.

The paper provides a brief history of postal collective bargaining and shows how all the major postal stakeholders – rate-paying customers, federal taxpayers, postal managers and postal employees – have benefitted from the use of interest arbitration. To be more specific, it demonstrates that since the parties first resorted to interest arbitration in 1978, real postage rates (adjusted for inflation) have declined even as taxpayer subsidies were phased out and postal employees shared modestly in the efficiency gains achieved by the Postal Service.

I ask that you share the paper with your colleagues on the Commission.

If the National Association of Letter Carriers can be of further assistance, please do not hesitate to contact me. I wish you the best in your deliberations.

Sincerely,

William H. Young

William H. Young
President

att.

Chapter 13

# U.S. Postal Service Collective Bargaining

*Is the Grass Greener on the Other Side of Interest Arbitration?*

James W. Sauber
*National Association of Letter Carriers*

## 1. INTRODUCTION

There is widespread agreement about the need to reform and modernize the statute governing the U.S. Postal Service (USPS) if the USPS is to remain viable in the twenty-first century. The ongoing revolution in information technology is fundamentally altering the mix of mail delivered by the USPS. While demand for the delivery of hard copy communications (letter mail) is weakening and is expected to fall, the demand for the delivery of physical goods (parcels) and products sold via e-commerce is rising. The current statute, the Postal Reorganization Act of 1970 (PRA) makes it difficult for the USPS to adapt to these fundamental changes.

In the United States there is little consensus, however, about the precise nature of the reforms needed to preserve the viability of the USPS. One of the most contentious areas of debate revolves around proposed changes to the system of postal collective bargaining. The USPS Board of Governors has called for fundamental reform of the postal labor relations system while postal unions have staunchly defended it. In the middle, many mailers have expressed doubts about the status quo, yet fear the potential instability and service disruptions that reform might bring.

Under the PRA, postal labor relations are generally governed by the main private sector labor law, the National Labor Relations Act (NLRA). However, the PRA prohibits the kind of "self-help" strategies traditionally employed in the private sector by negotiating parties to achieve their bargaining goals. Thus, postal unions may not strike and postal management



*M.A. Crew and P.R. Kleindorfer (eds.), Postal and Delivery Services: Delivering on Competition, 243-262.* @ *2002 Kluwer Academic Publishers.*

may not "lockout" postal employees in order to resolve a bargaining impasse. Instead, the PRA provides for binding *interest arbitration* to overcome a stalemate at collective bargaining.[1]

Critics of interest arbitration make a number of arguments against it. Some of these, such as the alleged lack of accountability of third party arbitrators to the bargaining partners or to outside stakeholders (consumers, taxpayers, shareholders, etc.), are directed at interest arbitration in general. Others, such as the contention that interest arbitration has permitted labor costs to rise excessively, are directed at postal interest arbitration in particular. The USPS Board of Governors has embraced many of these arguments. In a letter dated May 15, 2001 to Rep. Dan Burton, Chairman of the House Committee on Government Reform, Board of Governors Chairman Robert Rider stated:

> For an organization as labor-intensive as the Postal Service, reform will be deficient and ineffective unless it also addresses the shortcomings of the current labor and employment process. In our view, the system fails the public interest when it delegates the most vital decisions about wages and working conditions to an outside arbitrator having no accountability for the future of postal services for the people of the United States.

The Board has called on Congress to shift the regulation of postal labor relations from the NLRA to the Railway Labor Act (RLA) – effectively giving postal workers the right to strike and postal management the right to lock workers out. The RLA covers airline and railway workers and provides for extended mediation and statutory cooling off periods before the parties can resort to strikes or lockouts. Although the law also allows for interest arbitration under the auspices of the National Mediation Board, its use has been limited in practice since it is not mandatory under the law.

The relative merits of applying the two laws to postal employees, and the wisdom of permitting strikes by employees who provide a vital public service with significant consequences for the U.S. economy, are complex issues that must be addressed. But the threshold issue of whether interest arbitration has failed to serve the interests of various postal stakeholders, as the Board of Governors contends, deserves attention first.

This paper provides an overview of the current system of collective bargaining in the Postal Service and addresses the main conceptual

[1] *Interest* arbitration, which is used to resolve disputes over the "interests" of collective bargaining parties with regard to the content of a labor contract, is distinct from *rights* arbitration used to resolve disputes over the interpretation or implementation of a labor contract.



criticisms directed at interest arbitration before focusing considerable attention on the issue of labor costs and postal inflation.

## 2. BACKGROUND ON POSTAL LABOR RELATIONS

The USPS maintains collective bargaining agreements with four major unions, each of which has the exclusive right to represent specific groups of workers. The American Postal Workers Union (APWU) represents approximately 340,000 employees, made up of retail and mail distribution clerks as well maintenance and motor vehicle personnel. The National Association of Letter Carriers represents 238,000 letter carriers who deliver mail in small towns, big cities and suburban areas. The National Rural Letter Carriers Association (NRLCA) represents approximately 100,000 letter carriers who primarily serve rural areas. And the National Postal Mail Handlers Union (NPMHU) represents some 60,000 workers who work in large mail processing facilities.

Although the postal unions had long histories in the Post Office Department (POD) prior to postal reorganization, their role in negotiating wages dates to the creation of the U.S. Postal Service in 1971. In March of 1970, a rank-and-file-led strike by postal employees across the country helped galvanize final passage of the Postal Reorganization Act (PRA) of 1970 – a bill to restructure the Post Office Department that had stalled on Capitol Hill. At the time the POD was heavily subsidized by taxpayers – with appropriations covering nearly a quarter of costs in FY1971 -- and postal operations were highly politicized as a result of patronage and direct Congressional involvement in the setting of postal wages and postage rates. The strike erupted after years of frustration over low pay and poor working conditions, facts acknowledged by both the President and the Congress at the time. (House Report 91-1004 (1970), 9).

The main goals of the PRA were to (1) improve the efficiency and quality of postal services; (2) remove politics from postal operations by eliminating patronage and establishing a non-legislative means to set postage rates; and (3) improve postal employee compensation. In order to achieve these goals, the PRA: (1) Transformed the POD from a cabinet-level department into the U.S. Postal Service, an independent agency with a mandate to financially break-even over-time; (2) Established the Postal Rate Commission to set postage rates at levels sufficient to cover all USPS expenses and to fairly allocate costs among the various classes of mail; and (3) Increased postal employee pay through legislated wage increases and mandated collective bargaining by granting postal employees coverage under the National Labor Relations Act (NLRA).

Through coverage by the NLRA, postal employees were granted the same collective bargaining rights enjoyed by most private sector workers. However, in view of the vital public service function served by the USPS and the negative impact on the U.S. economy that would result from work stoppages, the PRA prohibited strikes by postal employees and lockouts by postal managers. As an alternative to these tactics, the PRA established a system of mediation, fact-finding and binding interest arbitration to resolve any collective bargaining impasse.

The unions negotiate directly with postal management to set wages and to establish working conditions. Most fringe benefits, like pensions and health insurance, are jointly paid for by the USPS and its employees but are provided through programs for all federal government employees, not just postal employees. The nature and cost of these benefits are therefore largely set by Congress, not by the collective bargaining process.

The Postal Service and its unions are free to amend their collective bargaining agreements at any time, but typically most changes are made during a 90-day bargaining period at the end of each contract period. Contracts may last any length of time, but typically cover two to four years.

If the parties reach mutual agreement, the contract is printed and distributed to each member of the union along with ratification ballots through the mail. If members vote to ratify the agreement, the contract goes into effect. If they vote to reject the agreement, the parties must return to negotiations, enter into mediation with the assistance of the Federal Mediation and Reconciliation Service (FMCS) or resolve the terms of the contract through binding interest arbitration.

## 2.1 Interest arbitration

The PRA authorizes a tripartite form of binding arbitration. A panel of three arbitrators is appointed -- one by the union, one by postal management and a neutral chairman of the panel either by mutual consent of the parties or by the FMCS. The panel holds hearings in which the union and management present witnesses, testimony and evidence in support of their positions on wages, benefits, work rules, etc. The hearings are somewhat judicial in nature --- a court reporter is employed to prepare a transcript, expert witnesses are questioned and cross-examined and rebuttal witnesses may be called.

At the end of the hearings, which may go on for several weeks over a period of two to three months, the three arbitrators go into executive session to discuss their findings and issue a ruling or an "award" which sets out the terms and conditions of the new contract. Typically, the parties negotiate voluntary agreements on as many issues as possible and the neutral chairman rules on the items in dispute. In reality, a lot of negotiation is conducted in the executive session, with the neutral chairman serving as an empowered mediator who is responsible for making final decisions.



The award produced through interest arbitration is not subject to ratification by the union's members and it is final and binding on the parties - - that is, it cannot be appealed to an outside court or any other body.

## 2.2 Bargaining history

There have been 11 "rounds" of collective bargaining since postal reorganization. Although the four postal unions bargained together in various combinations through a joint bargaining committee (JBC) during much of the 1970s before gradually splitting up to conduct separate negotiations in the 1980s and 1990s, these rounds effectively generated 44 separate settlements. The 12 settlements achieved in the first three rounds of bargaining (in 1971, 1973 and 1975) were all negotiated voluntarily. Since the 1978 round, however, 17 of 32 settlements have required interest arbitration to resolve. In the case of the two largest unions, APWU and NALC, which have tended to set the pattern for the smaller unions, no fewer than eight of the past 12 settlements had to be resolved through arbitration. In the recently concluded 11th round of bargaining, two of the four unions (APWU and NRLCA) achieved contracts through interest arbitration while the other two (NALC and the NPMHU) negotiated their agreements. (See Table 1 for a summary.)

# 3. THE PROBLEMS WITH INTEREST ARBITRATION

Outside the Postal Service, interest arbitration is relatively rare. It is most often employed in essential public services such as fire protection and police services. As a conceptual matter, there are a number of shortcomings and perceived weaknesses that may limit the appeal of interest arbitration. This section discusses these weaknesses in the context of postal bargaining.

First, interest arbitration denies basic economic rights to the parties engaged in collective bargaining. For workers, the right to withhold one's services in order to affect the terms and conditions of one's employment is fundamental and the right to strike is central to the ability of a union to effectively represent its members. For employers, the right to manage an enterprise is weakened without the power to lock out workers in order to ultimately control labor costs. Of course, these rights are sacrificed to serve a greater good. In the case of postal services, the greater good is the stability of the national economy resulting from the elimination of disruptions in postal services. This is particularly important in the U.S., in contrast to other countries, since the USPS is a key component of the nation's financial payments system, with tens of billions of payments made through the mail.

**Table 1: Postal Collective Bargaining History, 1971 – 2001 ***

| Settlements by Major Union | | | |
|---|---|---|---|
| **American Postal Workers Union** | **National Association of Letter Carriers** | **National Rural Letter Carriers Association** | **National Postal Mail Handlers Union** |
| 1971-1973, negotiated settlement ( JBC) | 1971-1973, negotiated settlement (JBC) | 1971-1973, negotiated settlement (JBC) | 1971-1973, negotiated settlement (JBC) |
| 1973-1975, negotiated settlement (JBC) | 1973-1975, negotiated settlement (JBC) | 1973-1975, negotiated settlement (JBC) | 1973-1975, negotiated settlement (JBC) |
| 1975-1978, negotiated settlement (JBC) | 1975-1978, negotiated settlement (JBC) | 1975-1978, negotiated settlement (JBC) | 1975-1978, negotiated settlement (JBC) |
| 1978-198/1, partially arbitrated contract, Healy Award (JBC) | 1978-1981, partially arbitrated contract, Healy Award (JBC) | 1978-1981, negotiated settlement, separate from JBC | 1978-1981, partially arbitrated contract, Healy Award (JBC) |
| 1981-1984, negotiated settlement (JBC) | 1981-1984, negotiated settlement (JBC) | 1981-1984, negotiated settlement | 1981-1984, arbitrated contract, Goodman Award, separate from JBC |
| 1984-1987, arbitrated contract, Kerr Award (JBC) | 1984-1987, arbitrated contract, Kerr Award (JBC) | 1984-1988, arbitrated contract, Volz Award | 1984-1987, arbitrated contract, Zack Award |
| 1987-1990, negotiated settlement (JBC) | 1987-1990, negotiated settlement (JBC) | 1988-1990, negotiated settlement | 1987-1990, negotiated settlement |
| 1990-1994, arbitrated contract, Mittenthal and Valtin Awards (JBC) | 1990-1994, arbitrated contract, Mittenthal and Valtin Awards (JBC) | 1990-1993, negotiated settlement, | 1990-1993, partially arbitrated contract, Horvitz Award, extended to 1994 |
| 1994-1998, arbitrated contract, Clarke Award | 1994-1998, arbitrated contract, Stark Award | 1994-1995, negotiated extension of the 1990-1993 settlement | 1994-1998, arbitrated contract, Vaughn Award |
| 1998-2000, negotiated settlement | 1998-2001, arbitrated contract, Fleischli Award | 1995-1999, negotiated settlement, extended to 2000 | 1998-2000, negotiated settlement |
| Latest Round: | | | |
| 2000-2003, arbitrated settlement, Goldberg Award | 2001-2006, negotiated settlement | 2000-2004, arbitrated contract, Wells Award | 2000-2004, negotiated settlement |

* In many rounds of bargaining, two or more unions formed a Joint Bargaining Committee (JBC) to negotiate with the Postal Service. Settlements negotiated by a JBC are so noted.

The absence of strikes in the postal industry over the past three decades has certainly averted significant damage to the U.S. economy.



A second generic criticism of interest arbitration is that it provides poor incentives for good faith bargaining between negotiating parties. In the absence of the possibility of a strike or a lockout, the argument goes, neither party has an incentive to compromise. It is often contended that postal unions have "nothing to lose" by going to arbitration and that a risk-averse management can play it safe by letting an interest arbitration panel make the hard decisions.

Of all the criticisms lodged against postal interest arbitration by the Board of Governors and other critics, the poor incentive argument is perhaps the strongest. The trend toward greater reliance on binding arbitration is clearly evident in Table 1. But a closer look at postal bargaining history reveals fundamental differences that emerged in the early 1980s over the definition of pay comparability (discussed in section 4.4 below) explains this trend more than any inherent flaw in interest arbitration. Moreover, the notion that postal unions (or postal management for that matter) have "nothing to lose" by going to interest arbitration is refuted by recent history. It is widely agreed that the rural carriers union (NRLCA) suffered a major defeat in the 2002 Wells Award as new route evaluation standards adopted in that award significantly cut rural carrier pay – in many cases by several thousands of dollars per year. The same might be said of postal management with the regard to the NALC's 1999 Fleischli Award, which resulted in a pay upgrade for city letter carriers.

One frequently proposed solution to the incentive problem is to amend the PRA's interest arbitration procedures to require the use of final-last-best-offer (FLBO) or "baseball-style" arbitration. While this might drive the parties closer together and improve the chances of negotiated settlements, it would also mitigate against fundamental change even when it is most needed. Most arbitrators are reluctant to make drastic changes to a labor agreement negotiated over many rounds of bargaining. Final offers proposing modest change are generally looked upon more favorably than radical ones. Besides, the parties are free to voluntarily adopt "baseball-style" arbitration under current law. Indeed, causal observers are surprised to learn that the Fleischli Award is an example of such a FLBO process.

A third perceived weakness of interest arbitration is the alleged lack of accountability of third party arbitrators. It is argued that that neutral arbitrators are granted too much power to get involved in micromanaging operations and labor relations in ways best left to the parties who possess greater knowledge of the business. Such arbitrators, it is argued, are not accountable to outside stakeholders such as shareholders, taxpayers or consumers.

In the U.S. postal setting, the accountability weakness of interest arbitration is said to underlie the supposed failure of interest arbitration to control labor costs and, indirectly, postal price inflation. As the next section on labor costs and postage rates will show, the factual case for this argument is weak. Beyond that, the accountability problem is mitigated in the postal sector by its tripartite nature. The presence of arbitrators appointed by the parties on a panel chaired by a neutral chairman ensures against a rogue arbitrator. At its best, tripartite arbitration permits a neutral chairman to serve as an empowered mediator – helping the advocate arbitrators reach mutual agreement on most provisions and intervening only when necessary to bridge final differences.

The history of postal interest arbitration bears this out. By and large, neutral arbitrators have acted responsibly, urging the parties to reach agreement of most matters and restricting themselves to limited issues – typically matters of wage compensation. In the rare instances these arbitrators have ventured into operational issues – most notably workforce structure in the 1991 Mittenthal proceeding and rural route evaluation standards in the 2001 Wells proceedings – they have not invented contract provisions out of whole cloth. They have restricted themselves to proposals offered by the parties themselves and have relied on well-tested evidence provided by the parties, including enormous amounts of evidence about the impact of these proposals on postal rate payers.

Though the parties have not always liked the results of interest arbitration, it has provided a reasonably efficient means for resolving impasses at the bargaining table without threatening disruptions in service. Examining the historical impact of interest arbitration on labor costs and postal prices, subjects to which we now turn, provide the ultimate proof of this contention.

# 4. THE HISTORICAL RECORD ON POSTAL LABOR COSTS AND POSTAL PRICES

There are at least three ways to analyze postal labor cost trends. One can examine the share of total USPS costs accounted for by labor. One can compare the rates of growth in postal wages to those of inflation and postal productivity. And one can compare postal wages and growth trends to similar data for private sector workers.

## 4.1 Labor share of USPS costs

In Postal Fiscal Year (PFY) 2001, the Postal Service's payroll costs totaled $46.2 billion, representing 68.4 percent of total USPS costs. This amount, of which roughly 80 percent was for craft employees and 20 percent for managerial staff, includes the cost of wages, premium pay (overtime, etc.), paid leave and fringe benefits for all active employees. If we add in the cost of certain benefits for retired postal employees (i.e., health insurance and pension cost-of-living adjustments), interest payments on deferred retirement costs and compensation for injured workers, the Postal Service total labor costs stood at $53.0 billion in PFY 2001, or 78.4 percent of total costs.



How does this current percentage (78.4%) compare to the labor share of costs historically? If critics of interest arbitration were to be believed, one would expect labor's share of total postal costs to have risen dramatically over the past two decades along with the trend toward arbitrated settlements. In fact, the reverse is true.

Table 2 presents data for selected years that roughly correspond to the first year of each round of bargaining. As Table 2 indicates, the labor share of total USPS costs has steadily declined since the mid-1970s, with the steepest decline after 1984 when the era of interest arbitration began in earnest with the rendering of the Kerr Award. In the final year of the Post Office Department, labor costs comprised 84.9 percent of total costs. Labor's share peaked at 86.1 percent of total costs in PFY 1976, but has declined by 7.5 percentage points since then. Over the entire period of postal reorganization, the labor share has fallen by 6.5 points.

It should be noted that the 6.5 percentage points decline since 1971 is certainly an underestimate. This is because the old Post Office Department was not required to cover the cost of pension and health benefits of retired postal employees or pre-fund the cost of future retirement benefits for active employees, as the USPS must today. Nor did the POD pay all the costs of workers compensation costs for injured workers. If those costs were included, the labor share in 1971 would have been greater than 84.9 percent.

Many observers would argue that the labor share of total USPS costs is still too high.[2] Even if they are correct, the "blame" for it cannot be attributed to postal collective bargaining or to the frequent resort to interest

2 The labor share of costs in private sector companies that compete with the USPS is often reported to range between 50 and 60 percent. Although UPS and FedEx workers perform similar work as postal employees, the nature of the private companies' product offerings and operations differ significantly from the Postal Service. Delivering letter mail – the core activity of the USPS – is much more labor intensive than delivering packages, freight and express mail – the core activities of the private companies. The Postal Service's around-the-clock mail processing operations require a large complement of full-time staffers – while private companies like FedEx and UPS can rely on part-time staffers to sort packages that arrive over brief peak-load periods of time. And the USPS serves a far more extensive delivery network than the private companies do: The Postal Service serves 136 million delivery points per day, six days a week; UPS makes approximately 6.7 million deliveries per day while FedEx makes considerably fewer than half that number. (Source: Colography Group).

arbitration. As Table 2 also indicates, those costs directly subject to collective bargaining – salaries and wages – have actually declined as a share of total USPS costs much more rapidly than the share accounted for by total labor costs. The wage share of total USPS costs fell from 76.1 percent in PFY 1972 to 56.1 percent in PFY 2001.

**Table 2: Labor Costs as a Percent of Total U.S. Postal Service Costs**
**Selected Fiscal Years, 1971 – 2001**

| Year | Benefits | Wages | Total Labor Costs |
|---|---|---|---|
| 1971 | 8.8% | 76.1% | 84.9% |
| 1973 | 8.8% | 76.3% | 85.1% |
| 1975 | 11.9% | 73.5% | 85.9% |
| 1978 | 14.3% | 71.2% | 85.5% |
| 1981 | 12.9% | 70.9% | 83.9% |
| 1984 | 12.8% | 71.0% | 83.8% |
| 1987 | 15.8% | 67.4% | 83.2% |
| 1990 | 19.6% | 64.0% | 83.6% |
| 1994 | 20.5% | 60.6% | 81.1% |
| 1998 | 21.0% | 58.3% | 79.2% |
| 2001 | 22.3% | 56.1% | 78.4% |
| **Percentage Point Change, 1971-2001** | **+13.5%** | **-20.0%** | **-6.5%** |

**Source: USPS Annual Reports, 1971-2001.**

The rising cost of benefits – which are largely set by government-wide programs established by Congress -- explains why overall labor costs have not fallen as dramatically as the wage cost share. The benefit share of total USPS costs rose from 8.8 percent in 1971 to 22.3 percent in 2001. This trend has been driven by the economy-wide rise in the cost of health insurance and decisions by Congress to shift certain retirement expenses for retired postal employees from the Treasury to the USPS.[3] Interest arbitration cannot be tagged with the responsibility for this trend.[4]

[3] The Omnibus Reconciliation Acts of 1985, 1987, 1990 and 1993 shifted the cost of postal annuitant COLAs and postal retiree health insurance from the Treasury to the Postal Service.

[4] The formula for sharing the cost of health insurance provided under the FEHBP program between the USPS and its unionized employees is subject to negotiation. The Postal Service's share was actually reduced the only time an arbitrator has ruled on the issue. (See the 1993 Valtin Award.)



## 4.2 Hourly labor costs and wages vs. inflation and productivity

The Postal Service's total labor costs are of course a function of postal employee pay and benefits and the hours required to process and deliver the nation's mail. Thus, over time the growth in compensation rates and postal productivity determine these costs. In this section we look at hourly compensation and wage rate trends as well as postal productivity.

Table 3 compares the broadest measure of hourly labor costs for postal employees to postal productivity growth. In the first column, the Postal Service's total labor bill – including all wages, overtime and other premium pay, paid leave, benefits and expenses associated with retired postal employees – is divided by the number of postal employee work hours for each year since the Postal Service was created in PFY 1972. The resulting data shows that USPS labor costs rose from $6.38 per hour in 1972 to $30.23 per hour in 2000. Adjusted for inflation (using the Consumer Price Index), we find that hourly labor costs rose 17.1 percent in real terms over this period of time.[5]

The increase in real hourly labor costs was more than offset by growth in postal labor productivity. As indicated by the Bureau of Labor Statistics' (BLS) data presented in Table 3, USPS labor productivity (output per hour) increased by nearly 36 percent over the 1972-2000 period. In practical terms, this increase in labor productivity means that the USPS is able to deliver 140 percent more mail today than it did in 1972 and to serve 70 percent more addresses each day with just 20-25 percent more workers. It has also permitted a significant reduction in the real cost of mailing letters by helping the USPS absorb the elimination of all direct and indirect taxpayer subsidies.

Although labor productivity is the appropriate measure of productivity in any discussion of labor costs, it is noted here that the Postal Service also publishes a measure of Total Factor Productivity. TFP is a measure of organizational efficiency (output per combined unit of labor, capital and materials) that is similar to the Multi-factor Productivity (MFP) measure published for broad segments of the U.S. economy by the BLS. USPS TFP increased 11 percent between fiscal years 1972 and 2000, somewhat less than the 19 percent increase in MFP for the non-farm economy over roughly the same period. (USPS TFP increased a further 1.3 percent in fiscal 2001.

[5] Note that this hourly labor costs overstate the value of pay and benefits received by actively employed postal employees since the cost of COLAs and health benefits for retired postal employees is included in the figures. Excluding such annuitant costs reduces the increase in real hourly compensation costs from 17.1 percent to 13.4 percent over the period covering 1972-2000.

but MFP data for 2001 has not yet been released.) However, given that private sector MFP growth has been driven by dramatic gains in the manufacturing sector and that the BLS finds it difficult to detect any positive MFP growth in a large number of service industries, the Postal Service's TFP performance stands up pretty well in private sector comparisons.

**Table 3: USPS Hourly Labor Costs and Labor Productivity, PFY 1972 – 2000**
**USPS Total Labor Expenses Per Total Work Hour**

| Fiscal Year | Postal Labor Costs per Hour | Real Postal Labor Cost per Hour ($1972) | Index of Real Labor Costs (1972 =100) | BLS Postal Labor Productivity (1972 =100) |
|---|---|---|---|---|
| 1972 | $6.38 | $6.38 | 100.0 | 100.0 |
| 1973 | $6.79 | $6.53 | 102.3 | 106.0 |
| 1975 | $8.56 | $6.80 | 106.6 | 103.0 |
| 1978 | $11.30 | $7.29 | 114.2 | 111.2 |
| 1981 | $14.31 | $6.63 | 103.8 | 114.8 |
| 1984 | $16.47 | $6.66 | 104.4 | 117.3 |
| 1987 | $18.20 | $6.77 | 106.1 | 119.6 |
| 1990 | $22.30 | $7.26 | 113.8 | 124.4 |
| 1994 | $26.22 | $7.50 | 117.6 | 127.5 |
| 1998 | $27.91 | $7.26 | 113.8 | 131.2 |
| 2000 | $30.23 | $7.47 | 117.1 | 135.9 |
| Pct. Inc. 1972 – 2000 | 374% | 17.1% | 17.1% | 35.9% |

Sources: Hourly labor cost data from the Postal Rate Commission. Total labor costs include wages, benefits, premium pay and paid leave for active employees and USPS contributions to annuitant health and pension benefits. Compensation figures adjusted for inflation by the Consumer Price Index (CPI-W) as published by the Bureau of Labor Statistics. USPS labor productivity figures published by the Bureau of Labor Statistics.

The labor cost figures that are presented in Table 3 include the cost of benefits for all postal employees, active and retired. Since Congress largely sets benefits, their expense may be excluded to better assess the labor costs subject to USPS control.

Table 4 presents salary-only data for all postal employees since postal reorganization. The hourly earnings data cover both managerial and craft employees and include regular wages, premium pay such as overtime and holiday pay as well as paid leave. The table shows that average hourly



earnings rose from $5.72 per work hour in PFY 1972 to $21.38 per work hour in PFY 2000. Adjusted for inflation (using the CPI), average hourly earnings rose between 1972 and 1978, but have steadily fallen since. In PFY 2000, real earnings per work hour were 7.7 percent less than they were in PFY 1972 and 13.0 percent less than they were in PFY 1978.

In order to directly analyze the impact of collective bargaining on postal wages, we further limit the data to bargaining unit employees and focus on the pay that is directly negotiated: straight-time pay. Table 5 presents data on the straight-time wages of craft employees who are represented by the four postal unions. It shows that the trend in straight-time pay follows the same pattern observed for average hourly earnings: the gains made in the early 1970s have been reversed over time. In PFY 2001, the average base pay of bargaining unit employees was 3.4 percent less than it was in PFY 1972 and 8.7 percent below the 1978 peak level.

**Table 4: USPS Hourly Earnings, PFY 1972 – 2000**
**USPS Salary and Wage Costs Per Active Employee Work Hour**

| Fiscal Year | Total USPS Hourly Earnings | Total USPS Real Hourly Earnings ($1972) | Index of Real Hourly Earnings (1972 = 100) |
|---|---|---|---|
| 1972 | $5.72 | $5.72 | 100.0 |
| 1973 | $6.08 | $5.84 | 102.1 |
| 1975 | $7.32 | $5.82 | 101.7 |
| 1978 | $9.41 | $6.07 | 106.0 |
| 1981 | $12.11 | $5.61 | 97.9 |
| 1984 | $13.95 | $5.64 | 98.6 |
| 1987 | $14.75 | $5.49 | 95.9 |
| 1990 | $17.08 | $5.56 | 97.1 |
| 1994 | $19.61 | $5.61 | 98.0 |
| 1998 | $20.53 | $5.34 | 93.3 |
| 2000 | $21.38 | $5.28 | 92.3 |
| Pct. Inc. 1972 – 2000 | 274% | -7.7% | -7.7% |
| Pct. Inc. 1978 – 2000 | 227% | -13.0% | -13.0% |

Source: USPS payroll records. Hourly earnings included premium pay (overtime, holiday, Sunday). Hourly rates adjusted for inflation by the Consumer Price Index (CPI-W) as published by the Bureau of Labor Statistics.

Tables 3 – 5 demonstrate that critics of postal interest arbitration are misguided about its impact on postal wages. Wages have not increased excessively as a result of the PRA's impasse procedures. The first interest arbitration was held in 1978 and resulted in the Healy Interest Arbitration

Award (named after the chairman of the arbitration panel, James Healy). Since then, eight of the next 14 negotiations for the two largest postal unions ended in arbitration. It is precisely during this period (1978 to the present) that real earnings and real base wages have declined.

**Table 5: USPS Average Bargaining Unit Straight-Time Hourly Wage**
***Fiscal Years 1972 – 2001***

| | **USPS Bargaining Unit Wages** | | | |
|---|---|---|---|---|
| PFY | Straight time pay | Index (1972=100) | CPI-W (1972=100) | USPS Real Wages (1972=100) |
| 1972 | $4.65 | 100.0 | 100.0 | 100.0 |
| 1973 | $4.91 | 105.7 | 104.0 | 101.6 |
| 1975 | $5.96 | 128.2 | 125.9 | 101.9 |
| 1978 | $7.63 | 164.2 | 155.1 | 105.8 |
| 1981 | $9.83 | 211.5 | 216.1 | 97.9 |
| 1984 | $11.26 | 242.4 | 247.4 | 98.0 |
| 1987 | $12.28 | 264.3 | 268.9 | 98.3 |
| 1990 | $14.13 | 304.1 | 307.2 | 99.0 |
| 1994 | $15.86 | 341.4 | 349.6 | 97.7 |
| 1998 | $16.87 | 363.2 | 384.5 | 94.5 |
| 2001 | $18.60 | 400.4 | 414.4 | 96.6 |
| **Pct Inc, 1972-2001** | | 300% | 314% | -3.4% |
| **Pct Inc, 1978-2001** | | 144% | 167% | -8.8% |

Sources: USPS Payroll Hours Summary Reports and Bureau of Labor Statistics.

## 4.3 Postal vs. private sector wage trends

A final way of evaluating long-term trends in postal wages is to compare them to wage trends for private sector workers. Doing so reveals that postal pay has increased at a much slower pace than private sector pay over the years in which postal pay has been largely determined through interest arbitration.



The Employment Cost Index (ECI) is the Bureau of Labor Statistics' principal measure of private sector wage inflation. The ECI for Wages and Salaries (covering regular pay, but not premium pay such as overtime, etc.) has been published since September 1975. Table 6 compares postal wage growth to growth in the ECI.

**Table 6: Postal Wages vs. Employment Cost Index for Salaries and Wages**
**September Data for Selected Years**

| Sept. Year | Hourly Postal Rate | Postal Index 9/75=100 | ECI – All Private 9/75=100 | ECI - Private Union 9/75=100 |
|---|---|---|---|---|
| 1975 | $6.42 | 100.0 | 100.0 | 100.0 |
| 1978 | $7.82 | 121.8 | 124.0 | 125.9 |
| 1981 | $10.05 | 156.5 | 159.3 | 166.2 |
| 1984 | $11.30 | 175.9 | 186.2 | 194.1 |
| 1987 | $12.35 | 192.2 | 207.8 | 209.0 |
| 1990 | $14.54 | 226.4 | 234.2 | 228.5 |
| 1994 | $15.92 | 247.9 | 264.7 | 260.1 |
| 1998 | $17.03 | 265.2 | 303.6 | 290.4 |
| 2001 | $18.69 | 291.1 | 335.3 | 315.1 |
| **Percent Increase, 1975-2001** | **191%** | **191%** | **235%** | **215%** |

Sources: USPS payroll reports and Bureau of Labor Statistics.

Table 6 shows that bargaining unit postal wages have increased considerably less than private sector wages (overall and for unionized workers) since 1975. Private sector wages rose 235 percent overall and 215 percent for union workers while postal wages increased just 191 percent between September 1975 and September 2001. Postal wages increased 15.2 percent less than private sector wages over this nearly 26-year period. Almost all of the slowdown in postal wage growth relative to private sector wage growth came after 1978 -- the first year the parties resorted to interest arbitration to settle their contracts.

The change in postal wages relative to the ECI, like the data on real wages presented earlier, strongly undermines the argument that postal interest arbitration has permitted postal wages to increase excessively.

## 4.4 A note on comparability

The wage data presented thus far has focused on wage trends -- that is, on relative *rates of change*. Neither the real wage trend data nor the ECI data addresses the *level of postal pay* and how it compares to the pay for comparable jobs in the private sector. The issues surrounding comparability are extremely complicated and are treated comprehensively elsewhere, but a brief comment is offered here as well. (See Belman and Voos (1997).)

The wage data underlying the ECI sheds some light on the issue of comparability. This data is published in annual series called Employer Costs for Employee Compensation (ECEC). It is amassed in March of each year via the survey used to collect data for the Employment Cost Index. The ECEC data can be broken down in any number of ways to roughly approximate the workers in the private sector that are most comparable to postal employees. For example, nearly all postal employees are full-time workers, most are union members and a large percentage of them work in large establishments (city post offices). Table 7 outlines the ECEC wage data by these various categories.

**Table 7: BLS Employer Wage Costs, March 2002**

| | Hourly Rate | Percent of Avg USPS Wage |
|---|---|---|
| Private sector workers | $15.80 | 84.0% |
| Full-time | $17.61 | 93.6% |
| Union | $19.33 | 102.8% |
| Large establishments (500 workers) | $20.79 | 110.5% |
| Average USPS Wage | $18.81 | 100.0% |

Source: Bureau of Labor Statistics and USPS payroll records.

Table 7 shows that while overall private sector workers earn about 16 percent less than postal employees, the gap narrows (and even disappears) if one compares postal pay to different subgroups of private workers that are arguably more comparable to postal employees. The key word here is "arguably." Indeed, the postal unions and postal management have been arguing about the proper definition of comparability for years. That disagreement is the primary reason the parties have resorted to interest arbitration so frequently over the past two decades.



Table 7 hints at the nature of this disagreement. In fact, the parties employ much more detailed, yet contradictory, definitions of comparability. In a nutshell, the postal unions define comparability in terms of the pay of workers employed by other national delivery companies (i.e., UPS and Federal Express) and give significant weight to the pay of workers employed by large firms. The Postal Service, on the other hand, employs a wage regression approach that compares postal wages to the wages paid to all private sector workers and focuses on workers with similar human capital endowments and broadly defined job characteristics.

Over the past several rounds of bargaining, postal management has argued that regression analysis shows that postal employee pay is on average 20 percent more than that of "comparable" private sector workers (30 percent if benefits are included). The unions countered that the apparent wage premium reflects the well-known firm-size wage effect (Brown and Medoff (1989)) and point to better or comparable wages paid by the large, national courier companies.

At various times, postal management or the union(s) have prevailed to a greater or lesser extent before different arbitrators on the issue of comparability, but the parties simply do not agree about the proper way to define comparability. So while it is clear that postal wages have declined relative to private sector wages in general over much of the past two decades, agreement on the issue comparability will remain a challenge for the foreseeable future.

## 4.5 Postal price inflation

The evidence on postal wages does not support the critics of postal interest arbitration. The ultimate proof of this can be found in postal price data. If interest arbitration permitted wages to rise excessively, you would expect to see evidence of excessive postal inflation. But data on postal prices demonstrates this is not the case. Despite the extraordinary circumstances of 2001-2002, when recession, protracted rate commission litigation and terrorist attacks on the U.S. led to three rate hikes in just 18 months, overall postal inflation has remained largely in check over time.

Table 8 presents BLS data on postal inflation – the Postage component of the Consumer Price Index (CPI) and the USPS component of the Producer Price Index (PPI). The former measures the cost of postal services from the point of view or ordinary citizens while the latter measures the cost of postage from the point of view of mailers, taking into account bulk rates and work sharing discounts.

**Table 8: Postage vs. Overall Price Inflation (Indices, 1972 =100)**
**Selected Years, 1972 - 2002**

| Year | CPI-Postage | PPI –USPS | CPI-All Items | CPI-Services * |
|---|---|---|---|---|
| 1972 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1973 | 100.0 | 100.0 | 106.2 | 104.3 |
| 1975 | 119.8 | 120.2 | 128.7 | 123.9 |
| 1978 | 166.6 | 165.6 | 156.0 | 155.7 |
| 1981 | 206.0 | 202.2 | 217.5 | 225.7 |
| 1984 | 230.4 | 216.7 | 248.6 | 261.0 |
| 1987 | 253.9 | 236.3 | 271.8 | 305.3 |
| 1990 | 288.2 | 273.2 | 312.7 | 355.2 |
| 1994 | 334.8 | 327.3 | 354.5 | 416.4 |
| 1998 | 369.4 | 361.5 | 390.0 | 472.8 |
| 2001 | 395.2 | 391.8 | 423.7 | 518.9 |
| *2002 estimate** | *418.9* | *434.3* | *429.2* | *539.1* |
| Pct Inc, 1972-2001 | 295.2% | 291.8% | 323.7% | 418.9% |
| Pct Diff, vs. CPI-All Items | -6.7% | -7.5% | | |
| Pct Diff, vs. CPI-Services | -23.0% | -24.5% | | |

Source: Bureau of Labor Statistics.
* CPI-Services excludes energy services.
* Estimates of postal indices assume no further increase in 2002; estimates of CPI indices based on inflation rates of first half of 2002.

Table 8 shows that the CPI-Postage and PPI-USPS indices have closely tracked and generally lagged general inflation (the CPI for All Items) since 1972. But it is perhaps more appropriate to compare postal inflation to price increases observed for other services. Service industries are characteristically more labor-intensive and have historically produced a slower rate of productivity growth than other industries. Not surprisingly, service sector prices have increased much faster over the past three decades than prices in general. In the context of service price inflation, postal



inflation has been especially modest. The BLS data indicates that postage rates have risen nearly 25 percent less than service prices in general.

Given the elimination of taxpayer subsidies to the USPS, which used to cover 20-25 percent of postal costs before postal reorganization, it is clear that the real cost of mailing letters in the U.S. (to ratepayers and taxpayers combined) has fallen dramatically over the past three decades. This record and the evidence presented above on postal compensation trends demonstrate that mailers and postal workers have shared in the benefits of postal productivity growth. Interest arbitration deserves some credit for helping achieve this equitable result.

## 5. CONCLUSION

The postal unions strongly support the system of interest arbitration, even if they do not always agree with the results. There is a broad consensus among them that the system permits a fair hearing of views – including those of postal customers whom the Postal Service sometimes call on to testify – and gives each side a chance to prevail on the merits of their case. *Ceteris paribus*, the postal unions would surely support the right of postal employees to strike – a right that would be provided under the Railway Labor Act. But the unions know that any postal strike would quickly draw the intervention of Congress or the President to prevent severe damage to the U.S. economy. In this context, the unions strongly support interest arbitration as a fair alternative to the right to strike.

It is difficult to see how coverage under the Railway Labor Act (RLA) would improve the Postal Service's prospects in the future. It would replace a relatively efficient means of professionally resolving impasses with the slower more politically charged system of dispute resolution provided by the RLA – a system that allows disruptive strikes and/or the intervention by the President and the Congress. It would be foolish to assume that such intervention would automatically serve the interests of either mailers or employees. And while the RLA may or may not restrain postal wage inflation, it would almost certainly sour labor relations if impasse procedures were allowed to go on months and even years as they often have in the airline and railway industries. Poor labor relations could damage employee morale and ultimately undermine the quality of postal services.

No system is perfect and interest arbitration certainly has its flaws. But the system has worked well in resolving fundamental disputes professionally with little or no disruption to the public. There is no evidence that frequent use of interest arbitration has harmed the quality of service and the absence of strikes or other disruptions has benefited the U.S. economy enormously.

Finally, as this paper has shown, interest arbitration has treated other postal stakeholders – ratepayers and taxpayers – fairly.

The future of the Postal Service is not threatened by the existing system of postal collective bargaining. What does threaten it are a diverse set of forces, including technological change, new commercial competition and growing long-term retirement liabilities in the face of a declining demand for letter mail delivery. A well-paid and productive workforce -- made possible through good labor relations and professional collective bargaining -- and postal reform that gives the USPS the commercial freedom it needs to survive are the essential keys to meeting these threats.

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