

**BEFORE THE
PRESIDENT'S COMMISSION
ON THE UNITED STATES POSTAL SERVICE**

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INTRODUCTION

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 for 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 by the University of Pennsylvania since 1969. I have consulted for the Council of Economic Advisors, the Congressional Budget Office, the Board of Governors of the Federal Reserve System, and a number of private sector firms. I have published extensively in the areas of law and economics, and in particular, labor economics.

I have consulted for the Postal Service since 1981 and have testified before numerous interest arbitration panels since that time. Most recently, I testified in October 2001 before the Goldberg Arbitration panel held to resolve the bargaining impasse between the Postal Service and the APWU. 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.

WAGE COMPARABILITY

The comparability work I have undertaken is guided by 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.”¹

I have examined the issue of postal wage and benefit comparability in a number of ways. My starting point is an analysis of data obtained from the Current Population Survey (CPS) of the Bureau of the Census. This data enables us to compare postal workers with similar private sector workers. The methodology used to make this comparison -- multivariate regression analysis -- is the generally accepted method for estimating wage differentials. To explain the meaning of the wage comparison, a nontechnical illustration of the premium is useful. Suppose workers who were otherwise identical in age, years of education, occupational category, region of residence, and city size found jobs in different industries in the U.S. economy. What would those individuals in the various private sector industries be paid compared to the postal worker? That is the question that is being answered by the regression analysis of the CPS data. In the most recent arbitration proceeding before arbitrator Goldberg, we found that the postal wage premium was 21.2 percent.

¹ Postal Reorganization Act, 39.U.S.C. Section 1003.

The next stage of our comparability work extends the CPS wage analysis to include additional variables in our regression from the Department of Labor's Dictionary of Occupational Titles (DOT). The DOT is a reference manual and data source, conducted and published by the Department of Labor. It provides a broad range of information on the content and characteristics of detailed occupations based on assessments by job evaluators. Information provided in the DOT describes the skill requirements and content of jobs or the working conditions and the physical demands of jobs. The DOT variables are good complements to our CPS wage analysis 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 wage analysis.

The DOT skill and working conditions variables are grouped into categories measuring the following skills and working conditions: training variables, worker function scales, aptitude factors, physical demands, and environmental conditions. Including DOT skill and working condition variables in our analysis yields a higher estimate of the postal wage premium. As compared to the 21.2% wage premium estimated by the CPS wage analysis, the wage premium for postal craft workers was calculated to be 33.9 percent when DOT variables were added.

I have also analyzed postal wages by using the Department of Labor's new Occupational Information Network, known as O*NET. The O*NET database is produced by the Department of Labor's Employment and Training

Administration group. The O*NET database or data dictionary was created within the past several years by job analysts based in part on detailed job analyses, many of which are conducted as part of the DOT. In developing the O*NET database, the Department of Labor is expanding the DOT concept into a more comprehensive set of job descriptions. 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. The O*NET database contains 259 highly detailed, distinct job descriptors. They fall into a wide range of categories ranging from abilities that influence the acquisition and application of knowledge in problem solving to psychomotor, physical, and sensory abilities to social, technical, and complex problem-solving skills.

The first step in our O*NET analysis was to focus our attention on the job descriptors that are pay related. To do this we matched the O*NET database of job descriptors with the CPS database on wages of individuals by occupation. In order to determine the descriptors that were most pay related we performed a correlation analysis. The next step in this analysis was to see how the Department of Labor ranked the postal occupations in each of the job descriptors. In doing this we excluded professional and managerial occupations.

The final step in this analysis was to analyze the implications of the O*NET database for our wage premium analysis. The results are clear from our use of the O*NET data. Among the many job attributes that characterize high paying jobs, postal employees typically are ranked very low (in the bottom third of

all nonmanagerial and nonprofessional workers). For example, when compared to administrative support and clerical occupations, which on average pay substantially less than postal jobs, postal employees tend to be ranked lower along most of those descriptors associated with high pay. Compared to those occupations with pay similar to that of postal employees, the postal job is ranked as having lower values in virtually all of the O*NET job characteristics most associated with higher pay.

The O*NET results are highly supportive of the results we obtained using the CPS/DOT data sources. The O*NET results show that the postal job is rated low in the job descriptors most associated with pay. The O*NET analysis supports the CPS-DOT results, which indicate that when job traits are included in the analysis, the postal wage premium actually increases. As measured in the CPS-DOT and O*NET analyses, job skills in postal jobs are below the average in jobs held by private sector workers. Our use of the O*NET results fully supports the existence of a postal wage premium.

Another relevant method for analyzing postal wages is to examine the wages earned by newly hired postal employees upon first entering the Postal Service. Such an approach is referred to as a "longitudinal" analysis, in that it compares wages for an individual over time. Such longitudinal analysis is well accepted as a means of analyzing wage differentials.

Based on a large sample of postal employees hired during a particular time frame, the starting salary of postal new hires age 25 and over was

compared with their previous full-time salaries in the private sector. In the most recent new-hire survey that was conducted, the wage gain for newly hired craft employees was 29.1 percent. Across the economy, the average real wage change among workers age 30 to 45 switching jobs during 1996-2000 (a period of low unemployment) was only 4.5 percent.

From the various methods of analysis above, we concluded that a significant postal wage premium exists. If this conclusion is correct, two implications follow. First, postal workers should have relatively low quit rates. All other factors being the same, dissatisfied workers quit their jobs. Second, the Postal Service should find it easy to hire qualified workers to fill job vacancies. In addition, if both of these factors can be shown, then the converse is also true. Unusually low quit rates and long employment queues imply the existence of a compensation premium.

In fact, during the long time of my work with the Postal Service, quit rates have consistently been amazingly low across all crafts. Among bargaining unit employee groups, full-time quit rates have generally been between 1.0 and 1.5 quits per hundred workers per year. Postal Service quit rates have even been low during periods of strong economic growth. Low postal quit rate data presented during the Goldberg hearings were particularly striking given the strength of the labor markets from which the Postal Service was hiring workers at that time. The quit rate among all private sector workers in 2002, as reported by the BLS Job Openings and Labor Turnover Survey (JOLTS), was 23.3 percent.

Employment register data also attest to the extraordinary attractiveness of postal jobs. Postal jobs are filled off employment registers at local postal districts. Register data in the Postal Service consistently shows large applicant queues. The size of the applicant queue has been limited primarily by whether the local employment register was open to general applications from the public. This further confirms the attractiveness of postal jobs. Even in the highest wage labor markets, postal compensation is sufficiently high to attract large numbers of qualified workers. As does the evidence on quit rates, information on postal applicant queues confirms our conclusion that the postal compensation premium is large and that postal employment is extremely attractive to workers as compared to private sector alternatives.

These methods of analysis, utilizing the Current Population Survey, the Dictionary of Occupational Titles, the O*NET, the New Hire Survey, low quit rates, and large applicant queues, have formed the basis for my conclusions concerning the postal wage premium.

TOTAL COMPENSATION COMPARABILITY

In addition to an analysis of wage comparability, the Postal Reorganization Act also requires a comparison with regard to benefits. To make this comparison I rely on data obtained from the Bureau of Labor Statistics as published in the Employer Costs for Employee Compensation. This analysis is based on a comparison of private sector benefits as estimated by the BLS data with postal benefits calculated on a comparable basis. In performing this

analysis, I include the cost of retirement and insurance programs (such as health insurance), as well as paid leave. I have performed this benefits analysis since the interest arbitration before Arbitrator Mittenthal in 1991. The analysis has always reflected a benefits premium that was far in excess of the wage premium.

By combining the benefits premium with the wage premium, a total compensation premium can be estimated. In the most recent interest proceedings before Arbitrator Goldberg, the total compensation premium was found to be 34.2 percent.

COUNTER ARGUMENTS

The primary response of the unions in interest arbitration to the econometric evidence 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 sometime explicit weighting given each group corresponds to their distribution among the private sector comparison group of workers.

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.

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.

Finally, some of the unions claim that postal wages ought to be compared only to those or 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 countered the union's various attempts to narrow the standard of comparability by relying on the results of academic theory and evidence.

ARBITRATION RESULTS

All of these 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 exists. Based on their analysis of the evidence in 1984, the Kerr arbitration panel 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.”²

Since the Kerr Award, the Postal Service has attempted to moderate its wage increases by 1% per year compared to the private sector. 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 goal.

The Mittenthal interest arbitration panel reached the same 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.”³

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

². 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.

³. Richard Mittenthal, Chairman, “Opinion and Award,” Arbitration Proceedings, United States Postal Service and NALC, AFL-CIO, and APWU, AFL-CIO, June 12, 1991, pp. 16,18.

wage increases even more modest than those contained in the award of the Mittenthal Board.”⁴

Furthermore, in the Mail Handlers Union interest arbitration proceedings in 1996, Chairman Vaughn concluded: “I am persuaded by the evidence presented by the Postal Service that its NPMHU-represented employees continue to enjoy a wage premium compared to their counterparts in the private sector”⁵

In 2001, the Goldberg interest arbitration panel further 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.”⁶ Accordingly, while interest arbitrators have not resolved all of the debates regarding proper econometric analyses, and have not rendered conclusions with regard to the specific size of a postal wage and benefit premium, these arbitrators have consistently concluded that a postal wage and benefit premium existed.

⁴. Arthur Stark, Chairman, “Opinion of the Chairman,” Interest Arbitration Proceedings, United States Postal Service and NALC, AFL-CIO, Aug. 19, 1995, p. 38.

⁵. M. David Vaughn, Chairman, “Decision,” Interest Arbitration Proceedings, United States Postal Service and National Postal Mail Handlers Union, April 24, 1996, p. 7.

TRACKING THE GROWTH OF WAGES AND BENEFITS

Another piece of information that I have presented to interest arbitration panels over the years has been based on tracking how postal wages and benefits have grown compared to wage and benefit growth in the private sector. In so doing, we have utilized the BLS Employment Cost Index (ECI) as a measure of private sector wages and payroll data provided by the Postal Service as a measure of postal wages and total compensation.

When I performed this analysis for the Goldberg arbitration, I found that for the period 1984 through 2000, postal wages increased at an average annual rate of 3.0 percent, while private sector wages as measured by the ECI increased at an annual rate of 3.6 percent. Thus, since the 1984 Kerr Award the Postal Service has achieved a closing of the wage gap with the private sector of 0.6 percent per year. This evidence of some closing of the wage gap is consistent with other tracking analyses I have performed. Part of this closing of the wage gap between postal and private sector workers as measured by the private sector ECI is due to large wage increases received by private sector professionals and managers over this period. When professional and managerial occupations are removed from the private industry ECI, the amount of closing of the wage gap shrinks to 0.4 percent per year.

Our tracking analysis, however, further shows that moderate restraint with respect to wages has had little impact on trends in overall postal compensation

⁶ Stephen B. Goldberg, Chairman, "Supplemental Opinion Dealing with Economic Issues" Interest

relative to the private sector. The reason is that postal benefits have grown at a rate significantly exceeding benefit cost growth in the private sector. As shown in our report to the Goldberg Arbitration Panel, when comparative wage and benefit costs are both considered, Postal Service average annual total compensation growth was about the same as that experienced by the private sector.

In short, while there has been some degree of moderate wage restraint, there has not been restraint in the growth of the cost of benefits. As a result, there has been virtually no reduction in the total compensation premium.

CONCLUSION

In conclusion, the issues related to postal wages and benefits have been debated and litigated over a long period of time. I believe that the evidence that I have presented, along with that of other postal witnesses, has demonstrated the existence of a wage and benefit premium. Interest arbitrators have issued awards intended to moderately restrain the growth of postal wages. The evidence suggests that while there has been some closing of the wage gap, growth in benefits costs as compared to the private sector has offset any closing on the wage side.