

BEFORE THE INTEREST ARBITRATION PANEL

In the Matter of:

UNITED STATES POSTAL SERVICE

Employer

-and-

AMERICAN POSTAL WORKERS UNION, AFL-CIO

Union

2000 National Agreement

STEPHEN B. GOLDBERG, Neutral Chair  
CARIN A. CLAUSS, APWU Member  
ROBERT A. DUFEK, USPS Member

**SUPPLEMENTAL OPINION DEALING WITH  
ECONOMIC ISSUES**

On December 18, 2001, the Panel issued its Award in this matter. In the interest of issuing that Award as promptly as possible, the Panel did not, at that time, prepare an opinion explaining its reasoning on economic issues. This Supplemental Opinion is intended to repair that omission. While all members of the Panel joined in the Award, this Opinion is that of the Neutral Chair.<sup>1</sup>

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<sup>1</sup>The Neutral Chair would be remiss if he did not express in this Opinion his gratitude to panel members Carin Clauss and Robert Dufek for the manner in which they carried out their functions. Each of them assisted the Neutral Chair to fully understand the concerns of the party that appointed him/her, and each vigorously advocated those concerns. At the same time, each of them, when asked by the Neutral Chair to do so, helped the Neutral Chair on many issues to find solutions that, while not providing either party with everything it sought, nonetheless satisfied the core concerns of each. To the extent that the Panel's Award does so (as well as satisfying the commands of the Postal Reorganization Act), much of the credit must go to Ms. Clauss and Mr. Dufek.

## **I. Comparability**

### **A. Contentions of the Parties**

The Postal Reorganization Act of 1970, which establishes collective bargaining as the means by which wages and benefits are to be established for postal workers, also provides guidelines for determining those wages and benefits. It states:

It shall be the policy of the Postal Service to maintain compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector of the economy. 39 U.S.C. 1003(a).

As an employer, the Postal Service shall achieve and maintain compensation for its officers and employees comparable to the rates and types of compensation paid in the private sector of the economy of the United States. 39 U.S. C. 101 (c).

A central argument of the Postal Service in these proceedings was that postal employees in general, and APWU-represented employees in particular, receive compensation and benefits greater than those paid in the private sector for comparable work, a difference characterized by the Postal Service as a “wage premium”.

In support of the existence of a Postal Service wage premium, the Postal Service relied upon a series of regression analyses performed by Dr. Michael Wachter and his colleagues. Using data from the Current Population Survey, the Dictionary of Occupational Titles, and the Occupational Information Network, Dr. Wachter concluded that postal clerks are paid between 21.2% and 35.7% more than employees who have similar “human

capital” characteristics (age, education, occupational category, region of residence, city size, and job tenure), and who are doing comparable work in the private sector. Dr. Wachter also concluded that across all mail processing and clerk crafts, the wage premium was 33.9%.

In addition to regression analyses, the Postal Service relied upon a job analysis study performed by Hay Management Consultants. Hay studied 31 high-incumbency APWU jobs in all crafts, compared the rates of pay for those jobs with pay rates for comparable private sector jobs, and concluded that the average wage premium across the APWU bargaining unit is 26.5%. Only the higher-level technical positions were found to be at or near comparability.

The Postal Service also presented evidence (the New Hire Survey) showing that newly-hired postal clerks received a starting wage that averaged 31.8% more than the wage they received in their last job, an increase substantially above the 4% wage increase received by the average private sector job-changer. (The average wage increase for all Postal Service new hires was 28.4%, also substantially higher than the private sector 4%.)

Additionally, the Postal Service introduced evidence that the APWU full-time employee quit rate averaged slightly less than 1% per year from 1991-2000. While the Bureau of Labor Statistics does not maintain current quit rate data, in 1981, the last year such data were collected, the quit rate for employees in manufacturing was over 15%, while the quit rate for full-time Postal Service employees was 1.5%. The Postal Service also introduced evidence showing that there are large applicant queues for Postal Service positions, even when unemployment is low. In July 2001, the number of applicants for clerk positions was in excess of 400,000.

Finally, the Postal Service introduced testimony concerning the rapid growth in worksharing, particularly destination entry mail, which bypasses the entire USPS sort and distribution function. The USPS contended that private sector mail logistics and sortation companies had lower labor costs which allowed them to perform the sort and distribution function more cheaply and efficiently than the USPS.

APWU attacked the results of the Wachter regression analyses primarily on the ground that they failed to control for relevant variables - race, gender, union status, and firm size - and that if these controls are added, the so-called “wage premium” disappears. APWU argued that the seeming differences between the wages of postal workers and persons doing similar work in the private sector are due in part to the fact that private sector employers continue to practice wage discrimination against minority and female employees, while the Postal Service does not. According to APWU, if Postal Service wages are pegged to private sector wages, without taking account of the discrimination in the private sector, the Postal Service will be profiting by private sector discrimination. Similarly, APWU argued that a comparison which does not take account of the fact that most private sector workers are not represented by unions, while Postal Service workers are union-represented, and union representation is accompanied by both higher wages and greater productivity, gives the Postal Service the advantages that flow from the union representation of its employees without requiring it to pay for those advantages in the form of higher wages.

APWU also attacked the Hay job analysis on the grounds that (1) the Hay group did not consider whether the private sector jobs it studied were unionized, and (2) APWU was not allowed to examine the Hay analysis of private sector jobs (asserted by Hay to be proprietary

information). As for Postal Service data on quit rates and the new hire premium, APWU stated:

- USPS quit rates are low because the size and geographic scope of USPS permits employees to transfer rather than quit. Furthermore, the quit rate data relied on by USPS are suspect because they omit transitional employees, while private sector data on quit rates do not exclude non-career workers, provided they are working full time.
- The new hire premium data are similarly suspect because they omit transitional employees, whose initial pay is less than that received by other newly hired employees, and because they deal only with clerks, omitting maintenance and motor vehicle personnel. Furthermore, every postal clerk is hired as a part time flexible, and a substantial wage premium is necessary to induce a full time worker to take a part time position with no fixed schedule.

Finally, APWU argued that the growth of worksharing and destination entry mail was a function of overly generous discounts to mailers awarded by the Postal Rate Commission, which provided too great an incentive to the use of private sort and logistics companies.

According to APWU, the best means of determining the wages paid in the private sector for work comparable to that performed by APWU-represented employees is by examining the wages paid in nine major industries, as the Postal Service did from 1977 to 1985. APWU focused particularly on the wages paid by United Parcel Service and Federal Express, two Postal Service competitors of comparable scope and size. Wage data submitted by APWU for UPS show that the top rates paid automotive

mechanics, tractor trailer drivers, motor vehicle operators, window clerks, and distribution clerks are higher at UPS than at the Postal Service, and that the top rate is reached sooner, an average of 2 years at UPS and 9.7 years at the Postal Service. FedEx top rates are higher for automotive mechanics and tractor trailer drivers, and lower for motor vehicle operators, window clerks, and distribution clerks. FedEx employees, too, reach the top rate sooner than Postal Service employees, an average of 5.5 years at FedEx, compared to 9.7 years at the Postal Service.

APWU also focused on the wages paid to letter carriers. It pointed out that letter carriers are in pay level 6, and clerks are in pay level 5, yet, according to APWU, clerks perform work of comparable difficulty, and should receive the same wages. In support of its position, APWU quoted extensively from the testimony of Postal Service witnesses in the 1999 NALC interest arbitration before arbitrator George Fleischli. In those proceedings, as APWU points out, several Postal Service witnesses testified that the skill, effort, and responsibility required of clerks was equivalent to, or greater than, the skill, effort, and responsibility of letter carriers, hence that carriers should receive no higher pay than clerks. The Postal Service also argued that clerks and carriers had been at the same pay level for many years, and that it would be destructive of the relationship between clerks and carriers, as well as disruptive to collective bargaining at the Postal Service, if this long-standing parity was disturbed.

APWU recognized that Arbitrator Fleischli rejected the Postal Service arguments, awarding the carriers an upgrade to pay level 6, and breaking parity with the clerks. Nonetheless, APWU took the position that, having argued before arbitrator Fleischli that clerks and carriers work is comparable, and that disturbing parity would be harmful, the Postal Service can hardly adopt a different position in this proceeding. Thus, at very least, APWU is entitled to

wage increases large enough to catch up to the NALC bargaining unit, and so re-establish parity between clerks and carriers.

APWU also argued that to the extent the Fleischli award rested upon the impact of automation on the letter carriers as a justification for an upgrade, automation has had a greater impact on clerks than on carriers. Additionally, APWU clerk productivity gains have been great. Accordingly, an upgrade for clerks, equaling that awarded carriers, is amply warranted.

The Postal Service responded to each of the APWU arguments. First, it argued that the private sector comparison should be to comparable levels of work in the entire private sector, not limited by industry, firm size, or union status. According to the Postal Service, fewer than 10% of private sector employees are represented by unions, and it would pervert the intention of the Postal Reorganization Act for the Postal Service or this Interest Arbitration Panel to exclude 90% of private sector employees when making the wage comparisons called for by the Postal Reorganization Act.

The Postal Service response to the FedEx/UPS wage comparison was that UPS and FedEx pay some full-time employees at higher rates than their Postal Service counterparts, but each of those employers has more than 50% part-time employees. Those part time employees are paid far less than full-time employees, and far less than comparable Postal Service employees. Accordingly, the average wage across the UPS and FedEx employee groups is substantially below the average wage across the APWU bargaining unit for employees doing comparable work.

The Postal Service response to the APWU parity argument was that the Postal Reform Act does not require parity among the employees represented by the different

unions with which the Postal Service bargains. Indeed, the emergence of wage differentials between these employees is due to the unions themselves, and results from the different bargaining positions and priorities each union has advanced in negotiations with the Postal Service.

Finally, the Postal Service argued that neither automation nor APWU productivity gains support parity for APWU clerks. According to the Postal Service evidence, the major impact of automation on the clerks occurred long ago, and rather than making their work more difficult, made it simpler. The Postal Service also introduced evidence showing that there is no relationship between productivity growth in a particular firm (whether labor productivity or total factor productivity) and wage growth. It also introduced evidence to the effect that productivity gains in mail processing are a result of the billions of dollars spent by the Postal Service on automated equipment, and that in non-automated areas, APWU productivity has decreased.

## **B. Analysis**

Initially, I reject the APWU argument that the Panel should consider the wages paid to carriers in determining the appropriate wages for clerks. While internal comparability may be relevant to minimize workplace tensions, the Postal Reorganization Act requires that the Panel focus on external comparability - wages and benefits paid in the private sector - not on internal comparability or internal equity. I also reject the related argument that parity between clerks and carriers must be reestablished as a matter of past practice or of avoiding collective bargaining disruptions. Inasmuch as each of the four postal unions negotiates separately with the Postal Service, contractual differences are inevitable unless the unions and the Postal Service agree that parity should be maintained. No such agreement exists, and the panel will not impose

parity for its own sake. The wages of clerks will be determined on the basis of private sector comparability, not on the basis of parity with letter carriers.

The evidence relating to private sector comparability is both voluminous and contradictory. As the parties' contentions (Part A) make clear, for each argument raised by one party, there is a counter-argument from the other party; for each data analysis, there is a counter-analysis. The parties are represented by highly competent counsel, and have engaged in interest arbitration many times before the present proceeding. Each interest arbitration bears a marked similarity to the previous arbitrations, as the parties typically present many of the same witnesses, and make many of the same arguments. (The Postal Service, because it deals with other unions in addition to APWU, has engaged in more interest arbitrations than has APWU, but APWU is intimately familiar with every detail of the interest arbitrations between the Postal Service and its other unions.) Having heard each other's witnesses and arguments many times, the parties have refined both their arguments and counter-arguments to the point that this Panel would need to devote weeks of study and analysis to pierce to the core of all the parties' arguments and data analyses.

When all is said and done, however, what stands out clearly, divorced from all the competing multivariate regression analyses and job content analyses, is that Postal Service jobs are highly sought after, and once obtained, are held onto. Applicant queues are long, and the quit rate is all but non-existent.<sup>2</sup> Nor is this surprising or counter-intuitive. Employees represented by APWU have total job security, an extraordinary benefit package<sup>3</sup>, and wages that have fully kept up with inflation.<sup>4</sup>

These data, which show how much Postal Service jobs are valued, both by those who want them and by those who

have them, provide powerful support for the Postal Service argument that the Postal Service provides a wage and benefit package to APWU represented employees that is better than that available for comparable work in the private sector. Further support of a very straightforward nature for this conclusion is provided by the New Hire Survey, which showed that newly-hired Postal Service employees receive an average 2.8% pay increase from their prior jobs, and postal clerks receive an average 31.8% increase, both of which are substantially greater than the average 4% increase received by private sector job changers. <sup>5</sup> For all these reasons, I conclude that APWU-represented employees do in general receive a wage premium, though I hesitate to quantify that premium with anything like the exact figures suggested by the various Postal Service multivariate regression and job content analyses.

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<sup>2</sup> APWU suggests that the postal clerk quit rate data are flawed because (1) the size and geographic scope of the Postal Service is such that employees can transfer rather than quit, holding down the quit rate without regard to Postal Service wages and benefits; (2) the data do not include Transitional Employees, and are thus not comparable to the private sector quit rate data, which include all full time employees. While point (1) is theoretically sound, there was no record evidence concerning the number of APWU-represented employees who actually do transfer. There was evidence that of the approximately 31,000 part-time flexible employees who were in the bargaining unit on the effective date of the 1998 contract, only 112 requested transfers from small to large offices, as they were entitled to do under the Memorandum of Understanding Regarding PTF Reassignment Opportunities. This suggests that transfer opportunities may not be so heavily used by Postal Service employees as to have a significant effect in keeping the quit rate down. As for point (2), Transitional Employees make up less than 5% (approximately 15,000/340,000) of the APWU bargaining unit. Hence, their inclusion would be unlikely to have a substantial effect on the overall APWU quit rate. Furthermore, the only private sector

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. See Awards of Clark Kerr (discrepancies in comparability exist)(1984); Richard Mittenthal (a wage premium still exists)(1991); Arthur Stark (need for wage increases even more modest than those awarded by Mittenthal)(1995); David Vaughn (NPMHU represented employees continue to enjoy a wage premium compared to their counterparts in the private sector)(1996).

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comparison in the evidence introduced by the Postal Service was for 1981, when the private sector manufacturing quit rate was above 15%, the Postal Service quit rate was 1.5%, and the Transitional Employee category did not exist. Finally, even without a private sector comparison, a 1% quit rate shows that APWU bargaining unit employees hardly ever leave their jobs voluntarily, clear evidence that those are good jobs. The lengthy applicant queues, concerning which APWU is silent, are equally clear evidence of this fact.

<sup>3</sup> These include retirement plans indexed to the CPI for the lives of the survivors; early retirement at age 55 with no actuarial reduction in benefits; retiree health care (70% paid by USPS); health insurance (85% paid by USPS); life insurance (100% paid by USPS); annual leave up to 26 days per year, with up to 55 days carryover; 13 days of sick leave per year; sick leave for dependent care; and 10 holidays per year.

<sup>4</sup> While APWU introduced evidence that the average wage in the APWU bargaining unit had not kept pace with changes in the Consumer Price Index (CPI-W) or the Employment Cost Index (ECI) since 1984, that is a result of the introduction of new entry steps in the Kerr and Mittenthal awards, and the awarding of the Transitional Employee classification in the Mittenthal award.