

TESTIMONY OF

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BEFORE THE

SPECIAL PANEL ON POSTAL REFORM
AND OVERSIGHT
OF THE
HOUSE GOVERNMENT REFORM COMMITTEE

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Good afternoon, and thank you, Chairman McHugh, and members of the Committee, for this opportunity to testify. My name is John Hegarty, and I am National President of the National Postal Mail Handlers Union (NPMHU), which serves as the exclusive bargaining representative for approximately 57,000 mail handlers employed by the U.S. Postal Service.

The NPMHU appreciates this opportunity to remain an active participant in the process of postal reform. The recently-released White House principles provide us with additional proof of just how far the Committee has come in the past eight years of wrestling with postal reform. I would like to congratulate you, Chairman McHugh, and Representatives Danny Davis, Henry Waxman, and Tom Davis, and others who have provided leadership on this issue.

The NPMHU also appreciates the swiftness of your reaction to the CSRS funding problem and the financial strain caused by the deadly anthrax attacks. Similar financial issues remain, however, and Congressional resolution of both the escrow issue and the military service issue are of immediate and paramount importance to the financial future of the Postal Service. Conversely, not releasing the postal escrow account or forcing the Postal Service to pick up more than \$27 billion in military costs that no other Federal agency or department has to pay certainly will result in a severe crisis to the Postal Service and, ultimately, a hike in the cost of postage to all ratepayers, including not only major mailers but also the average American consumer. We are prepared to do whatever it takes to get both of these matters resolved swiftly.

As noted, the White House provided broad guidelines in terms of postal reform. At bottom, the release of these principles show that the White House has considerable confidence in the expertise and legislative initiative of your Committee and that of your Senate counterparts. Although the NPMHU has taken no formal position on some of the White House principles, such as greater transparency in finances, we do believe that the Postal Service needs the tools to be more competitive. Those tools include price flexibility and a ratemaking structure that, as the White House indicated, is more similar to generally accepted business models. For example, we are experiencing yet another spike in fuel costs and, once again, the Postal Service is not structurally set up to respond quickly to the problem. It is difficult to run in a businesslike fashion when common business practices are not an available option.

Although I do not claim to be an expert in business models, I do have considerable expertise in the area that the President's Commission called workforce issues. I started my postal career as a mail handler in 1984, and I have served as a Union and mail handler representative for much of the past twenty years.

The major concerns of the NPMHU revolve around the workforce recommendations that found their way into the Commission's report, and specifically many of the recommendations directly related to collective bargaining. Although these issues were not specifically addressed in the White House principles, I truly believe that the term "best practices" can be applied to Postal Service labor relations. In general, our collective bargaining process is

seen by others as a model of flexibility and labor peace. Moreover, I believe that, in recent years, labor-management relations in the Postal Service have evolved. All parties have been working on these matters diligently, and our efforts have resulted in some dramatic progress, as I will discuss shortly.

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Mail handlers are an essential part of the mail processing and distribution network utilized by the Postal Service to move more than 200 billion pieces of mail each year. We work in all of the nation's large postal plants, where mail handlers are responsible for loading and unloading trucks, transporting mail within the facility (both manually and with powered industrial equipment), preparing the mail for distribution and delivery, operating a host of machinery and automated equipment, and sorting and containerizing mail for subsequent delivery. Our members generally are the first and the last employees to handle the mail as it comes to, goes through, and leaves most postal plants.

The majority of mail handlers are employed in large postal installations, including several hundred Processing & Distribution Centers, Bulk Mail Centers, Air Mail Centers, and Priority Mail Processing Centers. The largest of these installations, most often measured as those which utilize 200 or more bargaining unit employees, currently employ more than 90% of the mail handlers represented by the NPMHU, and close to 80% of mail handlers work in installations that have 500 or more postal employees.

Although mail handlers are located throughout the United States, they are not spread evenly across all geographic areas. For example, more than

40% of all mail handlers are employed in seven of the largest Consolidated Metropolitan Statistical Areas that are tracked by the Census Bureau—i.e., New York, Chicago, Washington-Baltimore, Los Angeles, San Francisco, Philadelphia, and Boston. And thousands of other mail handlers are working in or near other large cities, including Buffalo, Cincinnati, Cleveland, Dallas, Denver, Detroit, Hartford, Houston, Indianapolis, Milwaukee, Pittsburgh, Providence, Richmond, St. Louis, Minneapolis-St. Paul, Phoenix, Seattle, and Springfield, Massachusetts. The vast majority of mail handlers, therefore, work in the nation's twenty-five largest metropolitan areas, where the cost of living is generally higher than average.

Virtually all newly-hired mail handlers are employed in part-time flexible positions, with no fixed schedule, and no guaranteed work beyond two or four hours (depending on the size of the facility) per two-week pay period. For this position, the current starting pay – as of November 2003 – is \$13.92 per hour (or only \$13.38 if the position is full-time). Even assuming that such a recently-hired mail handler is assigned work for 40 hours per week, at that hourly rate a new mail handler would earn base annual wages equal to only \$28,953 per year (calculated as \$13.92 per hour for 2,080 hours). Assuming that the mail handler continues to work for the Postal Service, after several years of part-time employment, the employee generally (although not always) would be converted to a full-time regular position with fixed days and hours. This fixed schedule usually includes work at night between the hours of 6:00 pm and 6:00 am (over half of all mail handler hours fall within this time frame) and often includes work on weekends. After thirteen years of working for the

Postal Service, the wage scale currently in effect provides for a mail handler hourly wage of \$20.12 per hour. This base wage remains the same, subject to future negotiated increases, for the remainder of the mail handler's career, such that a mail handler who has dedicated 30 years or more of his or her life to the Postal Service also currently earns that same amount -- \$20.12 per hour or \$41,849 per year.

We believe the current wage system is fair, but it certainly is not an extravagant amount to pay for a workforce dedicated to the Postal Service and the American public. We dare say that no one complaining about the level of postal wages—nor one of their hired lawyers, paralegals, or even secretaries – earns less than this amount after thirty years of dedicated service. Nor is an entry wage of less than \$14.00 per hour for a part-time job without guaranteed hours unreasonably high. To the contrary, the NPMHU submits that the Postal Service easily could justify the payment of higher wages to its career employees.

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The NPMHU counts itself as a strong supporter of legislative change that would grant the Postal Service additional flexibility in pricing, borrowing, and the design of postal products.

We recognize that the Postal Service must change with the times. But it must do so in a way that preserves the core mission of the Postal Service. Congress has the chance to provide the Postal Service with additional flexibility in the setting of prices, the freedom to design or introduce new postal products, and the ability to borrow and invest with fewer constraints, and taken together

such reforms can help the Postal Service survive – if not thrive – well into the 21st Century. To do so, legislative change must ensure that the Postal Service is allowed to establish postal rates that remain affordable, both to the major business mailers and the average American consumer. At the same time, those rates also must be sufficient to protect and support the infrastructure that universal service requires, and to provide postal employees with a decent and fair standard of living. Although much work remains to be done, the NPMHU plans to remain a part of the upcoming legislative process necessary to enact these statutory changes. There is a sense of optimism that appropriate reform of the Postal Reorganization Act could ensure a successful Postal Service for decades into the future.

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The NPMHU strongly endorses the current process for collective bargaining under the Postal Reorganization Act, including initial face-to-face negotiations, followed by possible mediation or other dispute resolution procedures agreed to by the parties, and culminating, if necessary, in binding interest arbitration before an independent and neutral, but jointly selected, arbitrator.

The current National Agreement between the NPMHU and the Postal Service covers the period from November 2000 through November 2006. Although it originally was scheduled to terminate later this year, the NPMHU recently reached an agreement with the Postal Service on a two-year extension to the contract that was overwhelmingly ratified by our members. There is every reason to believe, moreover, that the positive bargaining relationship

between the NPMHU and postal management will remain relatively stable into the foreseeable future.

Nor is labor peace a recent phenomenon. Since the PRA was enacted in 1970, the NPMHU and the Postal Service have engaged in thirteen rounds of full collective bargaining, eight of which (including the last three, in 1998, 2000, and 2003) have resulted in voluntary agreements that were endorsed by postal management and ratified by the union membership. The other five were resolved through arbitration, with the results willingly accepted by both parties. Moreover, on at least three of the five occasions when the parties reached impasse and resolved their negotiations dispute through arbitration, the parties actually settled most open issues, and arbitrated only one or two issues that could not be resolved without an arbitrator's decision. Even when arbitration does occur, there are no guarantees. Arbitration in the 1984 round of bargaining created a lower entry rate for new mail handlers, and arbitration in the 1990 round produced three years without any general wage increases for mail handlers. Because both parties accept the process, however, even these clear management victories were implemented peacefully.

The key advantage of the current bargaining process is its flexibility. Under the current statute, the parties to any bargaining dispute are allowed to devise their own procedural system for resolving their dispute. Thus, under the PRA, factfinding followed by arbitration is the default position, but the parties in prior years have used factfinding, mediation, arbitration, and multiple combinations of these processes to resolve their disputes. If the procedural changes recommended by the Presidential Commission were

adopted, however, this flexibility would be eliminated, and instead the parties would be constrained by rigid procedural rules that, in the NPMHU's view, would not improve the bargaining process one iota.

In contrast to the current flexibility, for example, the Commission stated that the "core ingredient" of its revised procedure for bargaining is to use a mandatory, mediation-arbitration or "med-arb" approach to resolve bargaining impasses. Under a med-arb approach, the factfinding phase now set forth in the Postal Reorganization Act would be eliminated and replaced with a mandatory mediation phase of thirty days, and if the mediation were unsuccessful, the appointed mediator would become one of the final arbitrators. The NPMHU, however, believes that requiring this med-arb approach would be counterproductive to the successful resolution of many bargaining disputes. (It bears noting, of course, that the flexibility now part and parcel of the PRA permits the use of med-arb, and it has been utilized in prior rounds of bargaining when the parties deemed it advisable.) Simply put, it would corrupt any attempts at mediation, by destroying the usual confidentiality of the mediation process, and making it impossible for either party actually to share its priorities with the appointed mediator. To quote a noted expert, "parties to a combined mediation-arbitration procedure are often reluctant to retreat from extreme positions or to reveal how they prioritize their interests. [This] reduces [the] likelihood of bringing about agreement. It also reduces the likelihood that the arbitrator will have an accurate view of the parties' priorities."

Also part of the Presidential Commission's recommendation is a proposal that would replace the parties' current practice – which uses a three-member arbitration panel, in which each party chooses one arbitrator and then the parties jointly select one neutral arbitrator – with three professional arbitrators. In our view, this change would have extremely negative consequences for the arbitration process, as it would completely remove the parties' respective representatives and their unique expertise from the arbitral decision-making process. It makes it much more likely that the eventual arbitration decision will be contrary to the desires of either or both parties. It also severely reduces the likelihood that the parties might be able to mediate and settle (or narrow) their dispute during the arbitration process.

The Commission also has recommended that, after the arbitration decision is issued, the parties have ten days to review the decision and possibly bargain changes agreeable to both union and management. This proposal would be completely unnecessary if the current process allowing for each party to have a representative involved in the arbitration decision-making were maintained. It also poses problems for most unions, such as the NPMHU, that require membership ratification after any bargained agreement.

The Commission also has recommended that the binding interest arbitration be required to use the “last best final offer” model, in which each party is required to submit a total package of proposals, and the arbitration panel is required to choose one or the other package, and cannot compromise between the two. In theory, this would place extraordinary pressure on both sides to produce reasonable, workable compromises that incorporate the

interests and priorities of both parties. Sometimes this model of arbitration would be helpful, but other rounds of bargaining would not be helped by requiring last best final offers. The current statutory model allows for last best final offer, and in fact it has been used in certain rounds of bargaining. But making such a system mandatory, through legislative change, would not be helpful, as it would remove the flexibility from the current system, which specifically allows the parties to use the last best final offer or any other process that they mutually believe would help to resolve the bargaining dispute.

At bottom, no one involved in the bargaining process, including the Postal Service itself, has ever offered a convincing reason for amending the current statutory language into a set of locked-in, inflexible procedures that are certain to displease one or both parties at some point in the future. The current provisions, which grant flexibility to the parties to determine, in each round of bargaining, what procedures should be followed to best settle their dispute, should be maintained. An unjustified change in the statutory language is not reform; it simply is an unjustified change.

I understand that the history of bargaining that I have described is not noteworthy of news coverage. It certainly would be more exciting if postal employees were covered by the National Labor Relations Act, like UPS employees, so that they could strike at each impasse in negotiations, or if postal employees were covered by the Railway Labor Act, like airline or railroad employees, so that Congress could be asked to intervene in labor disputes. Frankly, I believe the nation is better off with bargaining and binding interest

arbitration under the PRA than with those other models. Remember, when UPS suffered a total shutdown for several weeks in 1997, it was the Postal Service and its employees who willingly took on the monumental task of processing and delivering millions of additional packages during that UPS strike to ensure that the American economy was not damaged. I assure you that UPS could not substitute for the Postal Service if postal employees ever were to engage in a work stoppage.

My description of postal collective bargaining also has the advantage of being true and accurate. To be sure, the actual facts and history of postal collective bargaining contradict the rhetoric that often emanates from so-called postal commentators and critics. Remember, none of those commentators ever has sat at the negotiating table or otherwise engaged in collective bargaining in the Postal Service. Their real complaint – if they even had a complaint – is with the results of collective bargaining, not with the process.

Our current contract or National Agreement provides mail handlers with semi-annual cost-of-living adjustments (COLAs) that guarantee small wage improvements approximating 60% of the increase in the Consumer Price Index. The existence of this COLA provision means that employees receive relatively small general wage increases. In the aggregate, wage increases in the Postal Service are non-inflationary. Since enactment of the PRA in 1970, postal wage increases have been less than the rate of inflation measured by the Consumer Price Index, and less than salary improvements granted by the federal government or by large employers in the private sector. For example, as of next month, when the next COLA payment is calculated, postal employees this year

will receive a wage increase of less than 2.5%, whereas federal employees are expected to receive 4.1%, and private-sector bargaining agreements are now averaging above 3%.

Many also ask about the relationship of wages to productivity. During the past three decades, the productivity of mail handlers and other postal employees has increased dramatically, including notable increases in productivity during the past year. The Postal Service today processes and delivers more than 200 billion pieces of mail using approximately 725,000 employees. Not too many years ago, approximately the same number of employees was used to process and deliver one-half as much mail. Through a combination of automation, improved mail flow, and other means, today's mail handlers and other postal employees are more productive than ever before. Indeed, the Postal Service recently reported that 2004 will mark a record fifth straight year of positive productivity growth.

There was consistent testimony before the Presidential Commission – from postal management, from the NPMHU and other postal unions, and even from a panel of highly-respected, neutral arbitrators – that the current collective bargaining process is working well. For thirty-three years, the parties have successfully used the current statutory process and avoided the labor strife and economic warfare that often characterizes private-sector labor-management relations. Arbitrators and participants all agree that the process has improved dramatically over the years, and may be a model for other labor-management negotiations. There is, in short, no reason whatsoever to amend the statutory provisions governing collective bargaining, or to otherwise adopt

provisions that would allow outside entities to interfere in the bargaining process.

The NPMHU also strongly opposes calls for increased privatization that might be aimed at mail handlers or other postal employees. Privatization as a means of eliminating hundreds of thousands of career postal employees is more a political ploy than a practical solution. Even more pernicious, however, can be proposals to privatize smaller parts of the Postal Service through increasing the subcontracting of traditional postal work to private contractors. If countenanced, such subcontracting could mean that the Postal Service would lose the services of dedicated career employees at precisely the wrong time in our nation's history. Not only do postal employees have a special understanding about how to process mail efficiently and effectively, but in recent years they have been especially adept at dealing with issues related to mail security, and working to protect the American public against anthrax attacks, mail bombs, or other hazardous materials or similar threats of terrorism that might, and sometimes actually do, find their way into the U.S. mail. The American public and Congress finally have recognized that only federal civil servants, and not low-paid and untrained subcontracted employees, are capable of protecting our nation's airports and border crossings. The nation needs similar homeland security for its mail. As with airport security, a dedicated workforce of professional postal employees is the best defense against those who would use the mail to harm our national security.

It bears noting, moreover, that many examples of recent subcontracting by the Postal Service have been colossal failures. Approximately five years ago,

for example, the Postal Service decided to contract with Emery Worldwide Airlines to process Priority Mail at a network of ten mail facilities along the Eastern seaboard. Today, the work at those facilities finally has been returned to mail handlers and other career employees, but not before the Postal Service suffered losses in the hundreds of millions of dollars. At a recent meeting of the USPS Board of Governors, one Governor said publicly that the Emery subcontract was one of the worst decisions that the BOG ever had made.

A similar story can be told about outsourcing of the Mail Transportation and Equipment Centers, or MTECs. Several years ago, about 400 mail handlers were displaced from these facilities, in favor of private-sector employees working for contractors who passed their costs on to the Postal Service. The Office of Inspector General has audited these contracts, and has concluded, once again, that the Postal Service has wasted tens of millions of dollars in the inefficient use of these contractors, and that the same work, if kept inside the Postal Service, would have been performed more cheaply. Congress should not follow the Presidential Commission's suggestion to encourage similar errors with additional subcontracting.

The Presidential Commission also has proposed that the PRA be changed to require the postal unions and the Postal Service to bargain over health insurance, pensions, and other benefit programs. In fact, the current employee-contribution rates for health insurance already are bargained, and the health benefits themselves – established through the Federal Employees Health Benefit Act – are universally acknowledged to be well maintained and well negotiated by the Office of Personnel Management. The NPMHU happens

to be the sponsor of one of the largest federal health plans, and I can assure you that if the Postal Service ever were to withdraw from the federal employees health system, chaos would be the result. As for pension benefits, with the passage last year of the CSRS-fix legislation, all pension benefits for postal employees are now fully funded. The Commission's recommendation on bargaining benefits, therefore, is clearly aimed at guaranteed health insurance for postal retirees. The NPMHU sees absolutely no reason why promises of lifetime health insurance to postal employees should be subject to collective bargaining, especially when the federal government provides these benefits to federal employees through legislation, and many other large employers provide similar benefits. In any event, recent proposals from postal management would allow the Postal Service to ensure funding of these retiree health costs by using the escrow account now available because of pension overfunding. That is an appropriate use for those funds, and should be part of any postal reform.

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Finally, I would be remiss if I did not address the Presidential Commission's attempt to analyze labor-management relations by looking at the number of pending grievances. For many years, the parties – both during collective bargaining and while contracts have been in effect – have worked strenuously to adjust the grievance process to ensure more timely and less costly dispute resolution. Most notably, a few years ago the NPMHU and the Postal Service agreed to produce a Contract Interpretation Manual or CIM that would set forth the parties' joint interpretation on literally thousands of

contract issues, and I am extremely pleased to report that, last year, the CIM was finally published. This 300-page manual, as promised, is a compendium of the parties' joint understanding on the meaning of their contract. Between July and October 2003, we jointly trained more than one thousand union and management representatives, from virtually every large postal installation that employs mail handlers, on how to use the CIM to resolve disputes without the need to file a grievance or proceed to arbitration. Early results are extremely encouraging, as the parties' local representatives work diligently to settle their pending disputes and to prevent future disagreements. This is just one model for how the parties are able to resolve their own problems, without legislative interference.

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Finally, let me emphatically state the NPMHU's support for the positions recently stated by Postmaster General Potter with regard to the two financial issues that remain from last year's Civil Service Retirement System legislation. First, the NPMHU urges Congress to shift from the Postal Service, back to the Treasury Department, the retirement liability costs of postal employees whose military service occurred before they became postal employees. Continuing to impose this obligation on the Postal Service would transfer payment of more than \$27 billion from American taxpayers to postal ratepayers, and we see no justification for such a transfer. Second, the Postal Service should be freed of the financial constraints included in the CSRS legislation, which requires the Postal Service to put CSRS savings beginning in fiscal year 2006 into escrow pending congressional review. This requirement, if allowed to continue, would

negate the benefits that the CSRS legislation made possible, and would unjustifiably impose higher than necessary rate increases on the Postal Service and its customers. As the representative of employees who desire a strong and successful Postal Service, the NPMHU sees no justification for continuing this escrow arrangement.

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Thank you for allowing me to testify. I would be glad to answer any questions you may have.