BEFORE EMERGENCY BOARD No. 243

Between

The Railroads Represented
By The National Carriers’ Conference Committee

And Their Employees
Represented By
American Train Dispatchers Association,
International Association of Machinists and Aerospace Workers,
International Brotherhood of Electrical Workers,
Transportation Communications International Union,
Transport Workers Union,
And
The Rail Labor Bargaining Coalition.

National Mediation Board Case Nos. A-13569; A-13570;
A-13572; A-13573; A-13574; A-13575; A-13592

CARRIERS’ SUBMISSION No. 4:

WAGES

October 10, 2011
TABLE OF CONTENTS

INTRODUCTION ............................................................................................................ 1
ARGUMENT .................................................................................................................... 2
   I.  Current Wages for Coalition Employees Exceed Labor Market Norms ...................................................... 2
   II. Historic Wage Growth For Coalition Employees is Above Average........ 8
       A. Coalition Employees Have Historically Enjoyed Robust Wage Growth................................................................. 8
       B. Coalition Employees’ Wage Growth Has Outpaced Inflation Over the Last Decade.............................................. 10
       C. Wage Increases Have Consistently Been Implemented Without Regard to the Financial Performance of the Carriers ...................................................................................................... 11
   III. The Carriers’ Proposal Will Significantly Increase Annual Wages Over the Term of the Agreement......................... 14
       A. The Carriers’ Proposal Provide Substantial Real Wage Growth.............................................................................. 14
       B. The Carriers’ Proposal Would Further Expand the Wage Premiums Enjoyed by Coalition Union Employees........ 16
       C. The Carriers’ Proposal Provides for Much Higher GWIs than Comparable Recent Collectively Bargained Agreements .... 17
   IV. The Coalitions’ Proposal Would Result in Windfall Wage Increases, With Significant Adverse Consequences for the Carriers ...................................................................................................... 20
CONCLUSION ............................................................................................................... 22
INTRODUCTION

In this submission, we focus on the general wage component of the parties’ competing proposals. The Coalitions are seeking general wage increases (“GWIs”) of 19 percent (20.5 percent compounded) over a five-year term. In contrast, the Carriers’ proposal for GWIs is 17 percent (18.2 percent compounded) (including a 3 percent GWI on January 1, 2015) over six years – or 14 percent over five years (14.8 percent compounded) – which is patterned on the newly ratified agreement with the United Transportation Union (“UTU”).

No legitimate justification has been offered by the Coalitions to support wage increases that exceed the UTU pattern. The employees represented by the Coalitions (“Coalition Employees”) already receive wages that are far more generous than the broader labor market dictates. They therefore enjoy significant wage premiums compared to similarly situated employees in other industries. These wage premiums make railroad jobs highly desirable, as shown by the intense competition for railroad jobs in the labor market. Further, the Coalitions’ wage proposal would inflate the already above-market wages paid to Coalition Employees without any corresponding benefit to the Carriers in terms of attracting applicants, retaining existing workers, or enhancing labor productivity.

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1 As noted in Submission No. 1 (Summary of Position), the Carriers’ wage proposal covers a full six years. The Carriers are, however, willing to drop the 2015 three percent increase and provide GWIs of 14 percent over the five-year 2010–2014 period. Thus, when making direct comparisons to the Coalitions’ five-year proposal, we ordinarily refer in this Submission to the Carriers’ proposal as a five-year, 14 percent offer.

2 See Carriers’ Ex. 5 (Report of Dr. Topel) at 11.
The Carriers’ proposal provides wage growth that significantly outpaces inflation, resulting in real wage growth that will substantially raise the standard of living for Coalition Employees. Likewise, wage growth under the Carriers’ proposal is expected to outpace the wage growth enjoyed by similarly-skilled workers in other industries. Thus, the existing wage premiums enjoyed by Coalition Employees will continue to grow under the Carriers’ proposal. Given that the Carriers’ proposal will maintain—and even improve—the comparative wage position of Coalition Employees in the labor market, there is no legitimate reason for awarding the substantially higher wage increases sought by the Coalition Unions. Finally, as we demonstrate below, the Carriers’ proposed GWIs vastly exceed recent collectively bargained agreements in every segment of the economy.

**ARGUMENT**

I. **CURRENT WAGES FOR COALITION EMPLOYEES EXCEED LABOR MARKET NORMS.**

By any objective measurement, the employees at issue in this proceeding already earn above-market wages in comparison to employees with similar skills and education in other industries. Indeed, the hourly wage rates paid to Coalition Employees significantly exceed labor market norms. Coalition Employees currently receive, on average, hourly wages of $26.66 per hour. **Figure 1** below\(^3\) illustrates the current average hourly wages paid to the employees in each bargaining unit represented by the Coalition Unions in this proceeding:

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\(^3\) All graphs and tables in this Submission are based on data supplied in the Carriers’ expert reports, including the Reports of Dr. Evans (Carriers’ Ex. 6) and Dr. Fay (Carriers’ Ex. 4).
These wages are significantly higher than wage rates of employees in other industries. According to the most recent survey data released by the U.S. Bureau of Labor Statistics ("BLS"), the average hourly wage earnings of U.S. workers in the private sector (excluding management and professional employees) is $19.52 per hour.\footnote{BLS, \textit{The Employment Situation—September 2011}, at Table B-8 (Oct. 7, 2011), available at http://www.bls.gov/newsrelease/pdf/empsit.pdf (App. A-62) The wage data contained in the BLS report is based upon the Current Employment Statistics survey compiled by BLS. These statistics are updated quarterly. These data points are current as of September 2011 but may be subject to adjustment or revision.} Thus, the wage advantage of Coalition Union employees is about 37% above the norm.

In the BLS’s Employer Cost for Employee Compensation ("ECEC") report, wage data is provided by industry sector. The most comparable industry sector in the ECEC
Based upon this dataset, Coalition Employees currently enjoy a wage premium of 53.7% over other transportation and material moving workers.6 Moreover, as Figure 2 below illustrates, the wage premium over these workers has increased over the past five years:

A more detailed view from the perspective of occupational classification further substantiates the significant wage premiums enjoyed by Coalition Employees. In its Occupational Employment Statistics (“OES”) report, the BLS analyzes wages and compensation based upon occupational classifications and work skills.7 On average, rail

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5 Indeed, the “Transportation and Material Moving” industry includes the NAICS industry code for rail transportation (482). Thus, these industry wage figures are inflated by the inclusion of the above-market wages earned by Coalition Employees.

6 See also Carriers’ Ex. 6 (Report of Dr. Evans) at 17.

employees represented by the RLBC Coalition enjoyed a premium of $20,191 in 2010. This premium represented $1.12 billion in labor costs to the Carriers during that year. The average equivalent job wage premium for employees represented by unions in the TCU Coalition was $11,615 in 2010, representing $330 million in labor costs paid by the Carriers.

Further, the average wage premium compared to jobs requiring similar human capital for employees represented by the RLBC Coalition was $24,243 in 2010. This premium equates to $1.34 billion in labor costs. For employees represented by unions in the TCU Coalition, the premium amounted to $16,148 per employee, totaling $458 million in annual labor costs.

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Figure 3: Wage Premium by Union and Coalition

This figure shows the wage premiums for different unions and coalitions. The blue bars represent the wage premium for equivalent jobs, while the red bars represent the wage premium for jobs requiring similar human capital. The source of the data is OES and Carrier Data.

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See Carriers’ Ex. 4 (Report of Dr. Fay) at 5. “Human capital” is defined as the skill set that makes a particular employee qualified for a job. Dr. Fay’s analysis essentially determines for which other jobs Coalition Employees are qualified.
These results are consistent with wage statistics published by the U.S. Bureau of the Census ("Census Bureau") in its Current Population Survey ("CPS") report, a joint effort between the BLS and the Census Bureau, which provides information on occupation, education, and other demographics concerning individuals in the work force. When Coalition Employees are compared to employees performing similar jobs in other industries under the CPS, the average Coalition Employee currently enjoys a 48 percent hourly wage premium and a 37 percent annual wage premium.

CPS data also shows that the magnitude of the wage premiums enjoyed by Coalition Employees increases if the educational characteristics of these workers are factored into the equation. The majority of Coalition Employees have only a high school education. A lack of higher education typically has a negative effect on compensation. For example, in 2008, college graduates earned an average of $22,000 per year more than workers with high school degrees, and up to two-thirds more over a

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9 The CPS gathers information on persons aged 15 and older from approximately 60,000 households in order to be able to analyze the U.S. labor force. The households are interviewed once a month for four months and then interviewed again one year later for the same four months.

10 See Carriers’ Ex. 6 (Report of Dr. Evans) at 11.

11 According to a CPS study, 94.5 percent of railroad employees do not have a college degree. Carriers’ Ex. 6 (Report of Dr. Evans) at 26; see also Federal Railroad Administration, An Examination of Employee Recruitment and Retention in the U.S. Railroad Industry, at 43 (Aug. 2007) (App. A-69).

12 Census Bureau, Education and Synthetic Work-Life Earnings Estimates, at 13 (Sept. 2011) (App. A-72) ("[T]here is a clear and well-defined relationship between education and earnings, and this relationship perseveres, even after considering a collection of other personal and geographic characteristics.").
lifetime. But the lack of an advanced degree has not depressed the earnings of Coalition Employees. In fact, they are currently paid $10.53 more per hour and $28,306 more per year than similarly educated workers in comparable occupations. Accounting for education, the wage premiums enjoyed by Coalition Employees are 65 percent on an hourly basis, and 72 percent on an annual basis.

Figure 4: Education Comparisons

<table>
<thead>
<tr>
<th></th>
<th>Coalition Employees’ Average Hourly Wage</th>
<th>Similar Education Average Hourly Wage</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hourly</td>
<td>$16.13</td>
<td>$15.60</td>
<td>$0.53</td>
</tr>
<tr>
<td>Annual</td>
<td>$39,530</td>
<td>$47,230</td>
<td>$7,700</td>
</tr>
</tbody>
</table>


14 See Carriers’ Ex. 6 (Report of Dr. Evans) at 27. To reach this determination, CPS data sets were used to determine the average hourly and annual wage by education level and to calculate weighted average hourly and yearly wages where the weights were equal to the percent of the sample of Coalition Employees with a given level of education. Those weighted averages were then compared to the average employee’s hourly and yearly wage.
II. **HISTORIC WAGE GROWTH FOR COALITION EMPLOYEES IS ABOVE AVERAGE.**

The substantial wage premiums enjoyed by Coalition Employees are not a recent phenomenon. Instead, the wage disparities have existed for many years, and have actually increased over time. Perhaps the best methodology for evaluating the improvement in standard of living for an employee is to measure “real wage” growth over time, defined as the difference between actual wage growth and the rate of inflation.\(^{15}\) As we now show, the rate of real wage growth for Coalition Employees compares favorably to other groups over the last 10 years. This substantial growth in real earnings demonstrates that Coalition Employees’ standard of living has improved over the last decade relative to their peers. The Coalitions’ arguments to the contrary are simply not supported by the available statistical evidence.

A. **Coalition Employees Have Historically Enjoyed Robust Wage Growth.**

In bargaining, the Coalitions and their experts have argued that wage growth for Coalition Employees has lagged behind wage growth in other industries. This argument is specious for two reasons. First, the wage scale of Coalition Employees is higher than the wage scale of between 71% and 98% of other industries.\(^{16}\) The Coalitions compare only growth in wages, not the actual wage rates or annual earnings. By focusing on the percentage change rather than the actual wages paid by the Carriers in comparison to employers in other industries, the Coalitions attempt to divert attention from the fact that

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\(^{16}\) Carriers’ Ex. 6 (Report of Dr. Evans) at 22.
their members have always enjoyed significant wage premiums over similarly situated workers in other industries.

Second, the Coalitions’ statistical evidence supporting their arguments does not stand up to scrutiny. For example, as illustrated in Figure 5 below, based upon BLS statistics from 2001 to 2010, the wages of Coalition Employees have grown over the past 10 years at a rate that exceeded wage growth in, for example, freight trucking (17.7 percent), the manufacturing sector (26.1 percent), construction (29 percent), and water transportation (21 percent). Thus, there is no valid argument that wages of Coalition Employees have lagged behind those of employees with similar skills in the comparable industry sectors.

![Figure 5: Wage Growth Since 2001](source)

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17 Carriers’ Ex. 6 (Report of Dr. Evans) at 29.
B. Coalition Employees’ Wage Growth Has Outpaced Inflation Over the Last Decade.

The growth in the wages paid to Coalition Employees has consistently exceeded growth in consumer prices, resulting in significant real wage growth for these employees. Growth in real wages is not an economic imperative. Indeed, there is no reason to expect that workers in every industry will receive wage increases that keep pace with the cost of living. Indeed, according to the BLS, real earnings of U.S. private sector workers declined by almost 2 percent between August 2010 and August 2011.18 This is because wages are not determined by inflation but by supply and demand in the labor market.19

Nevertheless, as illustrated by Figure 6 below, the wages of Coalition Employees have increased by 30.5 percent over the last ten years. At the same time, the Consumer Price Index for all Urban Consumers (“CPI-U”), the measure of the increase in the cost of living as a result of inflation over the last ten years, increased by only 23.1 percent.20 As such, Coalition Employees enjoyed real wage growth of 7.4 percent, representing a substantial improvement to their standard of living.

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19 See Carriers’ Ex. 3 (Report of Dr. Murphy) at 17; see also Jared Bernstein and Lawrence Mishul, Economy’s Gains Fail to Reach Most Workers’ Paychecks at 9 (Econ. Policy Institute, Sept. 3, 2007) (App. A-71) (“Economists recognize a strong relationship between employers’ demand for workers and real wage trends. When the job market is tight (i.e., when job seekers closely match the number of available jobs), wage pressure tends to be greater than when job salaries outnumber available jobs.”).
20 See Carriers’ Ex. 6 (Report of Dr. Evans) at 31.
C. **Wage Increases Have Consistently Been Implemented Without Regard to the Financial Performance of the Carriers.**

The wages paid to Coalition Employees have increased annually, over time, pursuant to prior collectively bargained settlements. As evidenced by Figure 7 below, the straight-time rates of the average Coalition Employee have significantly and steadily increased every year since 1985. Further, these wage increases have consistently been implemented without regard to the financial performance of the Carriers. The revenues generated by the Carriers have fluctuated significantly during this time period. However, as the graph below demonstrates, the wages earned by Coalition Employees were not subject to the same level of volatility year-over-year. Instead, wages steadily increased over the past 25 years, frequently outpacing revenue growth generated by the Carriers.
Similarly, the wage increases have been implemented without regard to annual variations in revenue per ton-mile.21 Figure 8 below illustrates that even as revenue per ton-mile has languished and even decreased, wages have remained on a steady upward trend.

21 In bargaining, the Coalitions also cited declines in Unit Labor Costs and Labor Costs as a percentage of revenue in an effort to demonstrate that the wages of Coalition employees have been eroded. Both of these metrics are tied to revenue generation by the Carriers and further demonstrate the lack of any correlation between wages and revenues. Increases in revenue per ton-mile, by definition, depress Unit Labor Costs and labor costs as a percentage of revenues (unless costs are increasing faster than revenue growth). Neither metric establishes that labor should be entitled to any share in revenue gains achieved by the Carriers. Carriers’ Ex. 3 (Report of Dr. Murphy) at 16–23.
Finally, wage increases paid to Coalition Employees have not correlated with the net operating income earned by the Carriers in any given year. While net income levels have fluctuated up and down, wages earned by Coalition Employees have continued to increase year after year.
The Coalitions point to recent financial results reported by the Carriers to support their wage demands. However, the Coalitions are unwilling to accept any downside risk in the event that the fortunes of the Carriers change in the future. Indeed, the Coalitions do not argue that wages should be reduced based upon the significant decline in net income in 2009. Accordingly, increases in the Carriers’ net income do not establish that wages should be increased.  

III. THE CARRIERS’ PROPOSAL WILL SIGNIFICANTLY INCREASE ANNUAL WAGES OVER THE TERM OF THE AGREEMENT.

As noted in the Carriers’ Submission No. 1 (Summary of Position), the Carriers’ proposals patterned on the recently-ratified UTU collective bargaining agreement provide for a series of annual general wage increases through 2015, including a lump sum payment to account for retroactive GWIs effective July 1, 2010, and July 1, 2011. Including the lump sum payment for retroactive wage increases, the Carriers’ proposal will increase wages 18.2 percent (compounded) over the years 2010–2015. These wage improvements will provide substantial real wage growth and will further expand the wage premiums enjoyed by Coalition Employees.

A. The Carriers’ Proposal Provide Substantial Real Wage Growth.

As noted above, the Carriers’ proposal provides for compounded wage growth of 18.2 percent over the years 2010–2015. Over that same time period the Congressional

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22 See, e.g., Carriers’ Ex. 3 (Report of Dr. Murphy) at 16–23.
23 See Carriers’ Ex. 1 (UTU Agreement) at 1–3.
Budget Office ("CBO") projects a Consumer Price Index ("CPI") increase of only 9.1 percent.\textsuperscript{24} Given the difference between potential wage growth and projected CPI increases, the Carriers’ proposal will yield real wage growth of about 9.1 percent over those years.\textsuperscript{25} When added to the wage growth earned by Coalition Employees since 2001, the total becomes 14.4 percent real wage growth over 15 years.

This 9.1 percent real wage growth represents a significantly improved standard of living for Coalition Employees. The Coalitions cannot persuasively argue that a wage proposal that improves employee purchasing power by nearly 10 percent is somehow unfair to their members. Further, given that the U.S. government is currently revising its

\textsuperscript{24} Congressional Budget Office, \textit{The Budget and Economic Outlook: An Update, Table B-1}, at 72 (Aug. 2011) (App. A-67). This table presents projections for the CPI-U.

\textsuperscript{25} \textit{See} Carriers’ Ex. 6 (Report of Dr. Evans) at 34.
estimates for economic growth downward, the actual improvement in real wage growth may be understated.\textsuperscript{26}

**B. The Carriers’ Proposal Would Further Expand the Wage Premiums Enjoyed by Coalition Union Employees.**

Significantly, the wage growth contemplated by the Carriers’ proposal would maintain the current preferred wage position of Coalition Employees. Based on projected wage growth in the economy at large (using the Employment Cost Index), wage premiums enjoyed by Coalition Employees will increase from the 2010 level of 53.8 percent to 57.5 percent under the Carriers’ proposal, as shown in Figure 11 below:\textsuperscript{27}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure11.png}
\caption{Hourly Wage Premium Trend (2010-2015)}
\end{figure}

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|c|c|c|}
\hline
\hline
Average Transportation and Material Moving & $17.34 & $17.34 & $17.67 & $18.16 & $18.71 & $19.32 & $20.02 \\
\hline
\end{tabular}
\caption{Hourly Wage Premium Trend (2010-2015)}
\end{table}

\textit{Source: ECI and Carrier Data}

\textsuperscript{26} See, e.g., Federal Reserve, \textit{Summary of Commentary on Current Economic Conditions by Federal Reserve District}, at 1 (Sept. 7, 2011) (App. A-70) (“Wage pressures were generally minimal outside of some upward movement for skilled positions.”).

Thus, the wage increases contemplated by the Carriers’ proposal not only provide Coalition Employees with real wage growth but also expand the wage premiums currently enjoyed by these workers. Under such circumstances, the Carriers’ proposal provide more than fair – even generous – wage improvements. This is particularly true given the overall downward trend in compensation growth resulting from persistent high unemployment levels in the broader U.S. labor market.28

C. The Carriers’ Proposal Provides for Much Higher GWIs than Comparable Recent Collectively Bargained Agreements.

The wage increases in the Carriers’ proposal appear even more generous in the context of recent collectively bargained settlements. Both 2010 and 2011 to date were difficult years for employees engaged in collective bargaining due to the lingering effects of the 2009 recession and persistently high unemployment levels. In 2010, average first-year wage increases in agreements negotiated were a mere 1.8 percent. These agreements tended to be back-loaded, with average second year wage increases of 2.1 percent, and average third-year wage increases of 2.3 percent.29

The available data for 2011 reflects an even greater disparity with the Carriers’ proposed wages. An analysis of collective bargaining data compiled by BNA through

28 K. Fee and M. Schweitzer, Unemployment, Labor Costs, and Recessions: Implications for the Inflation Outlook (Federal Reserve Bank of Cleveland, Sept. 7, 2011) (App. A-46) (“We find that wage and labor cost growth has declined markedly following recent recessions. It has again declined sharply in the most recent recession. We also find that compensation typically remains subdued during the initial phases of recent recoveries. This is again the case in the current recovery . . .”).

October 6, 2011, revealed that, for collectively bargained settlements to date in 2011, the average first-year wage increase was only 1.3 percent. The average second-year wage increase was 1.7 percent, and the average third-year increase was 2.2 percent. Finally, an astronomical 51 percent of workers covered by 2011 contract settlements received no wage increase at all.30

As illustrated in Figure 12 below, the Carriers’ proposed wage increases easily outpace these numbers:

![Figure 12: Average GWI Over First Three Years](image)

Attached to Carriers’ Submission No. 1 (Summary of Position) is a summary of a comprehensive survey of collective bargaining settlements since 2010. To say that the Carriers’ proposal to the Coalitions compare favorably to these recent agreements is an understatement. In contrast to the Carriers’ proposal, which provides for yearly

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compounded GWIs of 3.04 percent, the 104 surveyed agreements (covering over 638,947 American workers) reflect an average annual compounded GWI of only 2.00 percent, with a weighted average of 1.82 percent. When the survey is narrowed to include only those agreements negotiated in the transportation industry, the 19 agreements (covering over 69,790 American workers) yield an average yearly compounded GWI of a mere 1.70 percent, with a weighted average of 2.01 percent. Again, the wage improvements offered by the Carriers far exceed these benchmarks.

In sum, the Carriers’ proposal is more than fair under prevailing economic conditions, in which many workers are facing minimal wage increases and, in many cases, even wage concessions.
IV. THE COALITIONS’ PROPOSAL WOULD RESULT IN WINDFALL WAGE INCREASES, WITH SIGNIFICANT ADVERSE CONSEQUENCES FOR THE CARRIERS.

Although the Carriers have offered GWIs exceeding 18 percent compounded over the years 2010–2015, the Coalitions are demanding even higher wage increases. Specifically, in their proposal, the Coalitions seek GWIs of 19 percent (20.5 percent compounded) over the term of the new agreements (4.0% retroactive to 1-1-10, 3.5% retroactive to 1-1-11, 4.0% effective 1-1-12, 3.5% effective 1-1-13, and 4.0% effective 1-1-14). Moreover, the value of these proposed GWIs is magnified because the Coalitions’ proposal accelerates the effective dates of these GWIs from the mid-year (July 1) effective dates under the prior agreements to the beginning of each calendar year. As a result, the difference between the Coalitions’ wage proposal and that offered by the Carriers, when measured in dollars that must be paid by the Carriers, is enormous.

With 84,267 employees at issue, these differences amount to additional wage costs of about $1.23 billion over a five-year period, assuming that current headcounts remain constant.31 However, given that the Carriers have announced plans to hire additional workers,32 the actual difference between the proposals could be even higher. To put this differential in perspective, the additional wages sought by the Coalitions would pay the annual wages of 23,009 additional employees at the wage levels proposed by the Carriers.

31 The 84,267 employee total includes all Carrier employees represented by the Coalitions. Some Coalition Employees (including some employees in the BLET bargaining units) may be covered by local agreements that establish different wage rates.

Figure 14: Five Year Wage Cost Differential

Total Wage Cost Difference = $1.23 Billion
CONCLUSION

The Carriers’ proposed wage increases are fair and should be recommended. Wages are the single largest labor cost item paid by the Carriers. Moreover, given the large number of employees covered by the collective bargaining agreements at issue in this proceeding, even small adjustments in wage rates have substantial financial consequences for the Carriers. Coalition Employees are currently among the most highly paid employees in the U.S. labor market. The Carriers have offered generous wage proposals that will perpetuate – and even enlarge – the wage premiums currently enjoyed by these employees. Accordingly, these proposals represent a fair wage settlement that balances the competing interests of management, labor, and the general public.

The Coalition Unions have articulated no legitimate justification for wages in excess of those proposed by the Carriers. The Coalitions’ arguments for even higher wages are premised upon emotional appeals for a bigger piece of the financial pie generated by the Carriers. However, contrary to the Coalitions’ self-serving claims, the short-term financial performance of the industry does not justify extraordinary wage increases. All relevant facts and statistics prove that Coalition Employees are objectively well-compensated, and that even higher wages will yield no discernible improvement in recruiting, retention, or productivity of Coalition Employees. Moreover, the Coalitions’ claims that wages have lagged behind wage growth in the overall U.S. labor market are not supported by available wage statistics. Indeed, the already high wages of Coalition Employees have kept pace with – or even exceeded – wage growth among their peers in other industries.
Especially given the UTU pattern, there is no basis for recommending higher wages for the employees at issue here. Indeed, to recommend more lucrative wages for Coalition Employees would undermine future collective bargaining in the railroad industry, and unfairly disadvantage employees in the UTU and Yardmasters bargaining units whose labor representatives reached voluntary settlements with the Carriers. Both economics and sound policy dictate that the Coalitions’ proposal for higher wage increases must be rejected.

Respectfully submitted,

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