

Federal Employee Compensation: Past Experience and Future Prospects

ROSS A. MARCOU*

Introduction

The outlines of an economically efficient system of compensation administration for the federal government's 2.9 million civilian employees are fairly easy to visualize. Such a system would have as its basis the supply and demand conditions for each of the more than 400 federal occupations and related work levels. Pay would be set for each occupation and work level at the lowest rate consistent with attraction and retention of the required quantity and quality of employees. It would be raised wherever employee shortages or serious quality deterioration was observed, while substantial applicant queues would signal the need for a reduction in real pay levels. Pay for each occupation would reflect the relevant geographic labor market so that, for some occupations, locality differentials would occur. While the demand for federal employees would be relatively inelastic in the short run, in the longer run the capital/labor mix would reflect supply and demand conditions in the factor markets.

In addition to the nature of the job itself, factors influencing prevailing federal pay rates would include employee evaluations of benefits and working conditions which tend to be relatively invariant except in the long run.

Although fixed in the short run, the structure of benefits would reflect employee preferences for individual benefits and for benefits generally as an alternative to pay. Information about federal pay, benefits and working conditions would be widely disseminated so that the expectations of employees and potential applicants would be accurately formed.

In an efficient system there would be minimal "internal alignment" of pay rates among occupations and work levels. Pay rates for each occupation would float freely in response to market forces, although for some occupations the importance of on-the-job training would require provisions for orderly salary progression among levels. To be consistent with an efficient compensation administration system, federal recruitment would be based solely on worker qualifications with no employment preference extended to any individual or group.

Anyone with a passing acquaintance with federal personnel administration can testify that the above hypothetical system bears almost no relationship to the way federal compensation is actually determined. In the federal government, even more than in other large organizations, the role of pay as a means of attracting, retaining and motivating employees at minimum cost is tempered by a heavy overlay of administrative procedures and by long-standing considerations of "equity" to employees. The result of attempts to reconcile the goals of efficiency, equity and administrative feasibility is a complex system

*Labor Economist, U.S. Office of Personnel Management and Federal Executive Fellow, The Brookings Institution. The views expressed in this paper are those of the author, and should not be ascribed to officials or staff of the U. S. Office of Personnel Management or Brookings Institution.

that is viewed by many observers as neither very efficient nor particularly fair to employees.

The first section of this paper describes the main features of the current federal compensation system. The second section analyzes a number of individual policies and procedures in terms of their impact on efficient procurement and the system's perceived fairness. The last section discusses some "reform" proposals intended to improve the efficiency of federal compensation administration. The discussion is confined mainly to the compensation of the 1.4 million federal white-collar employees covered by the General Schedule (GS), although some of the issues are also pertinent to the compensation of other civilian groups and the military.

The Current System

The pay of most federal white-collar workers is mainly determined by two procedures: the placement of jobs within a single pay structure, the General Schedule; and establishment of pay rates for the General Schedule to be "comparable" to private sector pay rates. The first procedure is said to produce "internal alignment" and the second "external alignment" of federal pay rates.

The General Schedule

The General Schedule consists of 18 grades—GS-1 through GS-18—with ten "steps" in each grade except for GS-16, -17 and -18 which have 6, 3, and 1 step respectively.¹

Within a grade employees may progress from one step to another in accordance with a

¹Most jobs in the highest three GS grades are to be placed in a new Senior Executive Service under the Civil Service Reform Act of 1978. As a result, senior level pay is not discussed in this paper. For a discussion of this issue, see the forthcoming volume of proceedings of a conference on executive, legislative and judicial pay held in October 1978 at Brookings Institution.

longevity schedule so long as performance is rated satisfactory. Pay differentials between successive steps in a grade are equal to 3.3 percent of the step 1 rate for the particular grade.

Individual federal jobs are assigned to GS grades through a process of job classification based on specific standards for each grade contained in law. Since the standards provided in law lack precision,² they have been transformed into specific standards for each occupational series in the GS, which are used to evaluate jobs and assign them to proper grades.³ Progressively greater job complexity, responsibility, knowledge and experience are required for successive grades by the standards. Under federal classification standards, jobs in different occupations may be placed at the same grade level without reference to occupational pay differentials observed in the labor market. For example, substantial entry level pay differentials are observed in the private sector between engineering jobs which require an undergraduate engineering degree and personnel management jobs for which any undergraduate degree is typically qualifying. In accordance with GS classification standards, however, both jobs are placed at the same entry level grade—GS-5.⁴ Jobs are also placed within the GS pay structure without regard to their geographic location, so that equally classified

²For example, jobs at GS-13 entail "unusual difficulty and responsibility" and require experience with "marked attainments". Those at GS-14 entail "exceptional difficulty and responsibility" and require experience with "unusual attainments". cf., Section 5104, Title 5, U.S. Code.

³Some evidence of inconsistent and erroneous classification was provided by a recent U.S. Civil Service Commission study which found 11.5 percent of GS jobs classified at too high a grade and 3.3 percent at too low a grade.

⁴Not surprisingly, entry-level engineering jobs are among the hardest to fill in the federal sector, and special measures have been required to enhance the government's competitive position.

jobs in large northern cities and small southern towns receive the same rate of pay.⁵

GS intergrade differentials are set through the procedure for establishing "comparable" pay rates, but are subject to certain constraints imposed on a "payline"-fitting process (see below), causing intergrade differentials to decline in percentage terms between successive grades.

Pay Comparability

The second determinant of the rates of pay for most federal white-collar jobs is a pay administration procedure known as the federal "pay comparability" process. This process, in accordance with the Federal Pay Comparability Act of 1970 and the Federal Salary Reform Act of 1962, provides a procedure for linking the rates of pay in the General Schedule with those provided in private enterprise.

The 1970 Act requires the President to direct such agent as he considers appropriate to prepare and submit to him annually, after considering such views and recommendations as may be submitted [by federal employee representatives] a report that-

(A) compares the rates of pay of the statutory pay systems with the rates of pay for the same levels of work in private enterprise as determined on the basis of appropriate annual surveys conducted by the Bureau of Labor Statistics;

(B) makes recommendations for appropriate adjustments in rates of pay . . .⁶

The procedure operates as follows. The "President's Agent",⁷ in cooperation with BLS, compiles a survey job list of key federal jobs found in significant numbers in the private sector.⁸ Detailed job descriptions are prepared

⁵Geographic pay differentials have in fact been produced in some cases by overgrading of positions in high wage areas, in response to market factors.

⁶Section 5305, Title 5, U.S. Code.

⁷Currently the heads of the Office of Management and Budget, Office of Personnel Management and Department of Labor acting jointly.

⁸The 1978 list contained 78 work levels in 19 occupations.

for the jobs. Each year BLS conducts an establishment survey of rates of pay for these jobs in private enterprise, including most industries and with minimum establishment sizes between 50 and 250 depending on the particular industry.⁹

The data on private pay collected in all geographic areas of the U.S. are aggregated to produce a national average private salary rate for each job in the survey. These jobs are then grouped according to GS grade level and an average salary representing each grade level is obtained through a complicated weighting procedure based on the prevalence of various survey jobs and occupational groups¹⁰ in the federal sector.

Although this procedure produces private sector pay rates considered applicable to each federal grade from GS-1 through GS-15, it is followed by the fitting of a "payline" to smooth the pattern of rates, establish regular intergrade differentials, and provide by interpolation and extrapolation "comparability" rates for grades not represented in the survey (currently GS-10, GS-16, GS-17 and GS-18). According to this methodology comparability is attained when the average salary rate of each GS grade is set equal to the corresponding rate on the payline. Recommendations are formulated by the President's Agent as to the GS pay rates required for comparability based mainly on this analysis. After considering these recommendations and the views of employee representatives and an independent advisory committee, the President either establishes new comparability pay rates or proposes an "alternative plan" under a provision of the law allowing departures from comparability when required by "national

⁹For more information on the survey methodology, see U.S. Department of Labor, Bureau of Labor Statistics, *National Survey of Professional, Administrative, Technical and Clerical Pay, March 1978* (Washington: U.S. Government Printing Office, 1978), Appendix A.

¹⁰Professional, administrative, technical, clerical.

emergency or economic conditions affecting the general welfare." Unless disapproved by a majority vote of either House of Congress, an "alternative plan" goes into effect instead of the rates required for comparability.

Federal Benefits

Unlike federal pay with its elaborate comparability procedures centered in the executive branch, federal benefits are established and modified by individual legislative enactments. For some benefits such as pensions and leave, the law specifies virtually all details of the benefit. In other cases such as health benefits, which are insured by the private insurance industry, the executive branch is given a role in negotiating specific benefit coverages and premiums.

For the most part, federal benefits have been determined with little consideration either of prevailing private practice or the role of a given benefit in an overall federal compensation package. On the other hand, considerations of employee equity have played a large role. As a result, federal benefit practices differ from those in the private sector in a number of major respects.

Evaluating the System

No issue involving the treatment of federal employees has proven more controversial than the government's compensation administration procedures. Particularly since the attainment of "full pay comparability" in 1969, several official reports and studies have concluded that comparability—at least as properly defined—is not produced by the current system's elaborate procedures.¹¹ In

¹¹Some of the recent contributions to this literature are a series of reports by the General Accounting Office beginning in 1973, the findings of the President's Panel on Federal Compensation (1975), a series of Civil Service Commission reports beginning in 1975, and the 1977 report of the Federal Personnel Management Project.

some cases the principle of comparability itself was questioned.

Business and academic observers and federal unions also contributed critical assessments of the system's operation.¹² Despite differences on specifics, most commentators seemed to agree that the system was seriously flawed.

To shed light on these criticisms and on expected Carter Administration proposals for compensation reform, this section analyzes several of the federal compensation system's main features in terms of their efficiency and distributional impacts.

The Comparability Principle

One basic issue underlying the debate on federal compensation policy is the relationship between the results obtained by a comparability policy—matching prevailing private wage rates—and a market-oriented or "competitive" policy—setting wage rates required to attract and retain a workforce of given quality in competition with private employers. Strictly applied, a competitive policy would entail paying the lowest wage at each occupation and work level sustainable by supply and demand conditions, with appropriate attention to turnover and training costs, and the need to provide reasonably smooth patterns of career development. Pay rates could be modified periodically based on experience, perhaps as part of a yearly salary adjustment process. The erosion of real wages by inflation would obviate the need for reductions in nominal wages in cases of oversupply.

A comparability process, on the other hand, looks not at the government's particular

¹²For example, Sharon Smith, *Equal Pay in the Public Sector: Fact or Fantasy*, (Princeton, N.J.: Industrial Relations Section, 1977); Daniel J. B. Mitchell, "Collective Bargaining and Wage Determination in the Public Sector: Is Armageddon Really at Hand?" *Public Personnel Management*, 7(2), Mar/Apr. 1978, pp. 80-95; the views of federal employee unions are contained in the annual reports of the President's Pay Agent.

experience but rather at the results of the pay-setting process in the private sector. The implicit assumption behind comparability is that if the government matches private wages it obtains the same results as the private sector in terms of recruitment, retention and quality. Further, it is viewed as treating employees fairly and competing fairly for labor with private enterprise employers. One theme that has recurred frequently is that comparability is merely a technique for achieving a market-oriented solution. Such a result, however, is subject to two major conditions regarding 1) the equivalence of non-pay factors excluded from a comparability analysis and 2) the nature of non-federal pay setting.

Equivalence of Non-Pay Factors

Pay acts as an equilibrating mechanism in private labor markets in the sense that labor supply at any given wage rate is partially determined by non-pay aspects of the job including benefits and working conditions. The current pay comparability policy is based on an implicit assumption that all non-pay job aspects are also comparable. "Total compensation comparability," by adding major benefits to the comparison, would cover some of these non-pay factors, but would assume that such other factors as working conditions and "psychic income" are comparable. Even assuming that benefit differences are considered, there are significant differences between federal and non-federal working conditions which would be expected to influence labor supply. Among these are differences in promotion and career patterns, work schedules, job security, work environment, opportunity for public service, job prestige, and job location. Differences in some of these factors, such as opportunities for public service and, to some extent, job security, inhere in the nature of the two sectors. Others such as career

patterns may stem from conscious policies and historical factors.

Pay setting in the Private Sector

The second issue relates to the nature of pay setting in U.S. labor markets, namely whether wage rates prevailing in the private sector generally derive from the interaction of supply and demand in such a way that markets are cleared in the short run. The familiar evidence on wage rigidities, unemployment, union impact and government regulation suggests that other institutional factors play significant roles in determining nominal and real wages in many occupations. For example, within many establishments, employers are observed to provide regular wage increases generally in line with inflation even when such actions would not appear justified by market forces.

Under these circumstances, wage rates prevailing for specific occupations would not be expected to balance supply and demand in the short run. If institutional and social forces lead to real wages above the market equilibrium level which are generally rigid in cases of reduced demand, there will be job applicant queues and rents accruing to those employed under the system. In this case a federal comparability process based on the prevailing private wage would be expected to result in different pay levels than a market-oriented wage-setting approach based on the supply and demand conditions for federal jobs.

As an obvious example, if unions succeeded in raising the prevailing wage for an occupation by controlling the supply of labor to private employers, this union-influenced wage would be carried over into the federal sector by a comparability process. A supply and demand oriented pay-setting approach by contrast would establish a wage closer to the non-union wage level, as supply was concentrated in the federal sector. In this sense the

wage in the federal sector might be inversely related to the private wage. The effect would also be cyclical with an expanded supply of federal applicants during economic downturns in response to wage rigidities and unemployment in the private sector. For these reasons, it appears that a policy of comparability produces results differing to some extent from a market-oriented compensation approach. The impact on federal pay of using a comparability basis for pay-setting appears to be positive in most cases as opposed to a market-oriented approach.

Distributional Effects of Comparability

To the extent that institutional factors in private labor markets operate to raise wages above the competitive level, federal employees enjoy rents under comparability in the same manner as private employees. Other distributional effects are the additional cost to taxpayers from such a policy, and the losses to job applicants left in queues who would be willing to bid for openings if allowed. Comparability may be accompanied by some quality improvements, which partially offset the added cost, or at least enhance the government's ability to compete with private employers for high-quality applicants.

Is Comparability Justifiable?

The federal industrial relations system differs in several aspects from those prevailing in much of the private sector. One major difference is the inherently political nature of the compensation-setting process in the federal sector. Since all federal compensation administration has a legislative basis, employee organizations can take their case for or against changes in compensation directly to Congress in the manner of interest groups. The accountability of Congress to the American people enables taxpayer groups also to exert pressure to influence federal compensation.

Although unions are recognized in the federal sector, pay and benefits are conspicuously absent from the list of items on which collective bargaining is permitted. Strikes are prohibited by law. In the case of pay setting, unions are accorded only a "consultative" role in the process, with primary power vested in the executive branch. Since unions have no direct means of enforcing their pay or benefit demands, the process bears little relation to private industrial relations.

The limited power accorded federal unions has been justified as protecting the public from the disruption of vital government service by labor disputes, and not as a means of keeping wages low. In fact, the issue of "fairness" to federal employees has historically been a main theme of federal compensation policy.

A judgement on the desirability of a comparability policy depends, in part, on its role in achieving policy aims other than the strict minimization of outlays on personnel items—a goal which comparability probably would not achieve.

The advantage of a comparability policy is its ability to transfer to the public sector the results of (frequently disruptive) private compensation setting in a manner which balances the public interest and employee interests. Comparability's rationale was expressed by the President in 1962 as follows:

Adoption of the principle of comparability will assure equity for the Federal employee with his equals throughout the national economy—enable the Government to compete fairly with private firms for qualified personnel—and provide at last a logical and factual standard for setting Federal salaries. Reflected in this single standard are such legitimate private enterprise pay considerations as cost of living, standard of living, and productivity, to the same extent that those factors are resolved into the "going rate" over bargaining tables and other salary determining processes in private enterprise throughout the country.¹³

¹³"Salary Increases for Federal Service Employees", H. Doc. 344, 87th Congress, 2nd Session.

The implied tradeoff under comparability is that, in exchange for a drastic limitation of industrial relations rights normally accorded private employees, federal employees are assured that the government as employer will not exploit its dominant position in compensation setting to place federal employees at a disadvantage vis-a-vis their private counterparts. A comparability process also has the "fairness" aspect that it is a consistent, reasonably objective and reproducible process in which subjective judgments are minimized. The avoidance of seemingly biased or arbitrary treatment of federal employees is of course an important argument that full collective bargaining—which has proven costly to the Postal Service and many other governments—is not needed to accord fair treatment to federal employees.

The industrial relations advantages of comparability are obtained only at a cost—the difference between prevailing private rates and pay rates which would result from the operation of market forces in federal recruitment. Although this difference appears to be positive, its magnitude is unknown, and undoubtedly varies considerably by occupation and geographic area. The data on queuing for federal jobs—a reflection of the attractiveness of current compensation—are generally spotty and lack reliable indications of applicant quality or true availability. However, the data that are available show a large number of applicants for each federal job actually filled.¹⁴

While the specific costs and benefits of a comparability policy are difficult to determine, as a practical matter the concept has proven durable and most critics of the system

have called for improvements in implementation rather than an entirely new approach. These critics have argued that, while comparability is a valid concept, it is not being achieved to a satisfactory degree by federal compensation administration procedures. For example, in a recent book Sharon Smith argued that Census data show federal employees earning more than private sector employees with similar characteristics.¹⁵ Others have complained of obvious over- and under-payment of federal employees for specific occupations and in specific geographic regions.¹⁶

Three main areas of federal compensation administration raise serious problems for the achievement of reasonable compensation comparability. These are: 1) the exclusion of employee benefits from comparability comparisons; 2) the classification of jobs in most white-collar occupations within the single General Schedule; 3) the lack of a geographical dimension in federal pay setting.

These problem areas are discussed in turn.

Exclusion of Benefits from the Comparability Process

Over the past several decades benefits as a form of compensation have grown steadily in response to the demands of employees, social forces and tax advantages accorded certain non-pay compensation elements. Data on U.S. benefit costs collected by the U.S. Chamber of Commerce show benefits growing from 18 percent of wages and salaries in 1957, to 23.5 percent in 1967 and 31.5 percent in 1977.¹⁷ Similar benefit growth has

¹⁵Sharon Smith, *Equal Pay in the Public Sector: Fact or Fantasy* (Princeton, N.J.: Industrial Relations Section, 1977)

¹⁶A representative selection of critical comments is contained in: President's Panel on Federal Compensation, *Staff Report*, (Washington, D.C.: U.S. Government Printing Office, 1976)

¹⁷U.S. Chamber of Commerce, *Employee Benefits*, 1977, Table 21

¹⁴For example, according to U.S. Office of Personnel Management records, in FY 1978 there were 22 applications for every selection under the federal professional entry level examination (PACE); 35 applications for every selection at GS-13 to 15; 36 applications for every mid-level selection (grades 9-12); and 10 applications for every selection at non-professional grades 2-4.

occurred in the federal sector, as the government has been a leader in the provision of comprehensive pension coverage, paid time off, and certain other benefits. Federal benefits are established and adjusted by individual legislative enactments of Congress, and regular benefit liberalizations have occurred over time with the active support of federal employee organizations. Historically, federal benefits have been based on a combination of employee and management needs, with little attention paid to the role of individual benefits in the overall federal compensation package.

Although reliable data on private benefits are difficult to obtain, it appears that the exclusion of benefits from the federal comparability process has resulted in higher average total compensation for federal employees than for non-federal counterparts. Estimates calculated by the author using published and unpublished data for large and medium size U.S. corporations show GS employees with an advantage of approximately 6 percent in total compensation per hour worked under the pay comparability policy.¹⁸

Since most benefits are pay related, GS pay would have to be reduced about 6 percent below "comparability" to produce equality in total compensation per hour worked between the sectors. These estimates might differ from estimates based on a private data sample corresponding to that used in GS pay surveys.

¹⁸Data sources included: Bankers Trust Company, *Bankers Trust 1975 Study of Corporate Pension Plans (1975)*; Bureau of Labor Statistics, *Digest of Health and Insurance Plans (1974-76)*, Bureau of National Affairs, *Employee Health and Welfare Benefits (1978)*; Towers, Perrin, Forster and Crosby, *Analysis of Total Compensation in the Non-Federal Sector (1978)*. Benefits covered were pensions, health and life insurance, long-term disability insurance, sick leave, accident and sickness coverage, holidays and vacations. Total compensation per hour worked was obtained as the sum of pay, pensions and insurance divided by scheduled hours minus estimated hours devoted to holidays, vacations and other forms of paid time off.

In particular, since a full sample would contain many smaller organizations not represented in the above analysis, it is likely that the federal total compensation advantage would be greater than 6 percent.

The addition of benefits to the comparability process to obtain "total compensation comparability" entails a number of technical problems in the areas of evaluation methodology and data collection. The U.S. Office of Personnel Management (OPM) has been studying total compensation comparability since 1974 in cooperation with the Bureau of Labor Statistics. OPM now believes that it has developed a satisfactory method for evaluating and comparing benefits based on the application of actuarial and economic models to data on private and federal benefit plan provisions, and the comparison of resulting "standard costs" to determine the degree of comparability.¹⁹

Classification and Occupational Groupings

The manner in which the pay of individual federal jobs is related to that of other federal jobs and jobs in private enterprise is influenced by the classification and pay structure policies in the federal sector.

The principles underlying federal position classification are stated as follows:

(1) in determining the rate of basic pay which an employee will receive—

(A) the principle of equal pay for substantially equal work will be followed;

(B) variations in rates of basic pay paid to different employees will be in proportion to substantial differences in the difficulty, responsibility, and qualification requirements of the work performed and to the

¹⁹for more information on benefit evaluation methods, see Ross A. Marcou, "Comparing Federal and Private Employee Benefits", *Civil Service Journal* 19(2), Oct/Dec. 1978, pp. 14-18.

TABLE 1. March 1978 Survey Pay Rates for Jobs at GS-5 and GS-7

GS-5		GS-7	
Job	Average Private Salary	Job	Average Private Salary
Accountant I	\$12,785	Accountant II	\$15,671
Auditor I	13,243	Auditor II	15,694
Buyer I	12,887	Buyer II	16,195
Chemist I	13,492	Chemist II	16,337
Computer Operator II	10,352	Computer Operator IV	13,737
Drafter II	13,709	Drafter III	16,902
Engineer I	15,928	Engineer II	17,567
Engineering Technician III	14,062	Engineering Technician IV	16,302
Secretary II	10,721	Secretary IV	13,018
		Job Analyst II	14,040

Source: U.S. Department of Labor, Bureau of Labor Statistics, *National Survey of Professional, Administrative, Technical and Clerical Pay, March 1978*, (Washington, D.C.: Government Printing Office, 1978).

contributions of employees to efficiency and economy in the service; and

(2) individual positions will, in accordance with their duties, responsibilities and qualification requirements, be so grouped and identified by classes and grades . . . that the resulting position classification system can be used in all phases of personnel administration.²⁰

Under these provisions, most federal white-collar jobs are classified within the 18-grade structure of the General Schedule. Positions in different occupations are classified at the same GS grade regardless of differences in subject matter if they are "sufficiently equivalent as to—(A) level of difficulty and responsibility; and (B) level of qualification requirements of the work; to warrant their inclusion within one range of rates of basic pay in the General Schedule."²¹

Thus, through its position classification process the federal system suppresses occupational pay differences observed in private enterprise even though a policy of comparability is also in effect.

²⁰Sec. 5102, Title 5, United States Code.

²¹*ibid.*

The impact of this policy is evident in the wide variations in survey pay rates for federal jobs classified at the same grade. For example, in the March 1978 white-collar pay survey, nine jobs classified at GS-5 were surveyed, including one clerical job, three technical jobs and five entry-level professional jobs, as shown in Table 1. Although classified at the same GS level, the survey jobs varied considerably in their private pay rates. The average private rate for engineer I—the highest paid job—exceeded that for computer operator II—the lowest—by over 50 percent. And the lowest paid professional job surveyed—accountant I—had average private pay exceeding that for the computer operator job by over 20 percent.

Yet the private data were combined to produce a single weighted average for GS-5 of \$11,418 (\$15,326 for GS-7, where occupational differentials of up to 35 percent were found). A similar procedure was used for all other grades surveyed between GS-1 and GS-15. While the survey process suppresses the occupational differentials between survey jobs in the calculation of an average private salary corresponding to a given GS grade, it has an unknown effect on the comparability of those

jobs not included in the survey list. They too are considered covered by survey jobs at their "work level."

It is clear from the survey data that the establishment of uniform pay rates for a federal work level regardless of occupation reflects normative judgments rather than private pay-setting practices. These normative judgments are often summarized by the phrase, "equal pay for equal work", with the attendant implication that occupational salary differentials may be unfair and perhaps even discriminatory. A second factor in promoting substantial internal alignment across occupations is practical: the administrative problems of paying each occupation in accordance with its own schedule are formidable. For reasons of administrative feasibility the alternatives to the single GS classification system most often considered would substitute a limited number of groupings combining occupations with major similarities of treatment in the private sector.

The impact of a single General Schedule is to overpay some occupations and underpay others relative to prevailing pay levels in the private sector. In cases where the federal "comparability" rate exceeds the private rate for an occupation, the added cost may be offset to some degree by higher employee quality. In light of veteran's preference, affirmative action and the inherently mechanistic nature of federal selection procedures, however, such quality distinctions may or may not be forthcoming. What seems likely is that some windfall gains will accrue to incumbents of jobs paid above comparability. For occupations paid below comparable private wages, lower quality and, in some cases, supply shortages could be expected to result. For example, engineers at the GS-5 and GS-7 levels have been compensated through special higher pay rates for several years to ameliorate serious shortages of qualified applicants at "comparable" rates.

Geographic Differentials

Geographic pay differentials arise from locational differences in the amount and type of industry, population distributions, unionism, historical influences and other factors. The substantial magnitude of these differentials for "non-exempt" occupations normally viewed as recruited in local labor markets is well established: Table 2, excerpted from the staff report of the President's Panel on Federal Compensation, illustrates the extremes of such variations for selected occupations.²²

Although "exempt" employees are more likely to be recruited in national labor markets for jobs requiring mobility over the career, some regional and locality variations are observed for these groups, particularly at lower levels. Benefits also appear to vary geographically.²³

For occupations subject to significant geographic pay differentials, the use of a single pay schedule in all parts of the U.S. would be expected to produce windfall gains, with some quality improvement, in low pay areas; and reduced quality and shortages in high pay areas, similar to the effects discussed in connection with occupational differentials.

Illustrative Examples

Restriction of comparability to pay alone, use of a single GS schedule for diverse occupations and localities, and application of a pay line in comparability calculations may drive a substantial wedge between "comparable" pay rates for federal jobs and the rates actually required to match prevailing private compensation levels. This may be illustrated by

²²The panel recommended a locality pay system for federal clerical and technical employees.

²³The most recent survey of employee benefits conducted by the U.S. Chamber of Commerce shows benefits varying from 33.2 percent of wages and salaries in the Southeast area to 38.7 percent in the North Central area. (U.S. Chamber of Commerce, p. 14).

TABLE 2. Interarea Pay Differences, 86 Metropolitan Areas, 1974

Job	Private Area Salaries				Federal Salaries	
	Equivalent Federal Grade	Lowest	Highest	Hi/Lo × 100%	Percent of Private salaries in:	
					Lowest Area	Highest Area
Accounting Clerk A	GS-4	\$6,510	\$10,670	163.9	133.2	81.3
File Clerk A	GS-3	5,678	9,110	160.4	129.7	80.8
Senior Steno	GS-4	6,365	9,714	152.6	132.4	86.7
Typist A	GS-3	5,211	9,006	172.5	139.0	80.6
Keypunch Operator A	GS-3	5,512	8,923	161.9	132.1	81.6
Drafter A	GS-7	7,163	13,395	176.0	134.0	67.3

Source: President's Panel on Federal Compensation, *Staff Report* (Washington, D.C.: Government Printing Office, 1976), Table III-1.

considering the treatment of a single job (typist II) in two localities (Detroit and Chattanooga) as part of the comparability determination procedure for the October 1978 GS pay adjustment. In Table 3, line 1 shows the actual prevailing private rates for typist II in the two localities. Line 2 shows the federal pay rates required for total compensation comparability if pay were reduced 6 percent below the prevailing private rate to reflect the federal advantage in benefits.²⁴

Line 3 shows the nationwide private rate for typist II obtained by aggregating the various locality rates. Line 4 is the GS-3 average obtained as a weighted average of nationwide rates for all jobs surveyed at the GS-3 level. Line 5 is the final "comparability" rate for GS-3 obtained by fitting a payline to the averages for all grades surveyed.

In Detroit, the typist II rate of \$10,778 required for total compensation comparability compares with the rate of \$9,311 dictated by pay comparability, an underpayment of

\$1,467 or 14 percent. This is achieved, however, by an increase of \$688 reflecting exclusion of benefits from the comparability process; a reduction of \$2,190 through the use of nationwide pay rates instead of rates appropriate to Detroit; an increase of \$240 because typists are below the GS-3 average; and a reduction of \$205 through the application of a payline to the grade level data, for a net reduction of \$1,467.

By contrast, in Chattanooga the total

TABLE 3. Comparison of Typist II Pay Rates Required for Total Compensation Comparability with Those Dictated by Current Pay Comparability System, March 1978^a

	Detroit	Chattanooga
Prevailing Private Rate	\$11,466	\$8,190
Comparable Federal Rate (considering benefit differences)	10,778	7,699
Nationwide Typist II Rate	9,276	9,276
GS-3 Average Rate	9,516	9,516
GS-3 Payline Rate	9,311	9,311

Sources: Lines 1 & 3: U.S. Department of Labor, Bureau of Labor Statistics. Line 2: author's estimate. Lines 4 & 5: U.S. Office of Personnel Management.

^aChattanooga locality data as of September 1978.

²⁴The results of the nationwide benefits evaluation discussed above are used in this example. If benefits are higher in Detroit and lower in Chattanooga, the distortion of comparability under the current system is greater than shown. Total compensation comparability could also be attained by modifying federal benefit provisions to reflect private practices.

compensation comparability rate is \$7,699 compared with \$9,311 dictated by the pay comparability process. There are increases of \$491 for benefits exclusion; \$1,086 for a single nationwide rate, and \$240 for the lack of an occupational differential; and a reduction of \$205 due to the payline, for a net overpayment of \$1,612, or 21 percent.

As a further distorting factor, the payline rates required for pay comparability did not actually go into effect. In October 1978, President Carter placed a 5.5 percent "cap" on the GS increase as part of his anti-inflation program. The average rate actually paid to GS-3 was \$9,251, which lessened the overpayment of typists in Chattanooga slightly, while worsening their underpayment in Detroit.

Proposals for Compensation Reform

The Carter Administration is expected to propose major legislative reforms of the federal compensation system during 1979. The stage was set for this initiative by the work of the Federal Personnel Management Project (FPMP), a part of the President's Reorganization Project. The FPMP's final staff report,²⁵ issued in December 1977, was based on a critical review of all aspects of federal personnel management, and included numerous recommended system reforms.

In the compensation area, the FPMP largely reaffirmed the findings of the major review of federal compensation—the President's Panel on Federal Compensation—conducted during the Ford Administration in 1975. The FPMP concluded that the "comparability principle" is the basis for federal compensation setting which best reconciles employee interests and administrative feasibility with the goals of efficiency and budgetary restraint. However, the actual operation

of the current pay comparability system was found to be deficient. Specific shortcomings cited included the lack of occupational and geographic differentials and the exclusion of benefits from the comparability process.

The Administration task force recommended the division of the current GS into two new classification and pay systems: a clerical/technical service made up of jobs whose incumbents are generally not exempt from overtime provisions of the Fair Labor Standards Act (FLSA); and a professional/administrative service mainly covering exempt jobs. Provisions would also be made for creating special occupational services for a small number of occupations—such as physicians—whose private compensation experience is so unique that inclusion in one of the major services would seriously distort comparability. The FPMP left open the question of the geographic basis of pay for the new services, and called for a special study to gather more information on the nature of private pay setting for various occupational groups. The study group did recommend the collection and use for the first time of comparability pay data from State and local governments.

Another major recommendation was the replacement of the present pay comparability system with a total compensation comparability system embracing all major compensation elements in the federal and non-federal sectors, and giving the executive branch a major role in adjusting benefits as well as pay.

As of this writing the final shape of the Administration's compensation reform proposal has not been decided. However, it is expected to include the following provisions: a) redefinition of the principle of comparability to cover benefits as well as pay; b) the total of federal pay and benefits to be set equal to the corresponding non-federal total; c) benefits evaluation to be conducted by the U.S.

Office of Personnel Management; d) non-federal benefits data to be collected by the Bureau of Labor Statistics; e) the President to be given authority to adjust certain benefits to maintain comparability, subject to Congressional disapproval; f) State and local government pay and benefits data to be used in the comparability process for the first time.

At this point the proposal's provisions regarding new occupational pay groupings and geographic pay differentials are not completed. It is likely, however, that a geographic dimension will be introduced into the pay of at least some—and possible most—white-collar employees currently paid on a national pay schedule. The Administration proposal should provide a basis for significantly improving the implementation of the comparability principle. The problem will

remain, however, of a system which is basically mechanistic in nature and which is not tied to any objective performance measures.

The success of comparability should be judged by the system's success in attracting and retaining a federal workforce of adequate quality without noticeable symptoms of overpayment or underpayment. Part of the work of federal compensation administration should be to study the system to determine shortages and quality problems, as well as the state of queues for federal jobs and the rate of federal turnover. Experience in any of these areas which is out-of-line with corresponding experience in the private sector would constitute evidence that comparability is not operating properly and signal the need for detailed study and possible corrective measures, either administrative or legislative.

²⁵The President's Reorganization Project, *Personnel Management Project, Volume 2, Final Staff Report* (Washington: GPO, 1977)