The original documents are located in Box 50, folder "1975/08/07 - Federal Pay Raise Meeting" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

August 6, 1975

MEETING ON FEDERAL PAY RAISE
August 7, 1975
4:00 p.m.
The Oval Office
(30 minutes)

FROM: JAMES T. LYNN

I. PURPOSE

To discuss federal pay adjustment options.

II. BACKGROUND PARTICIPANTS AND PRESS PLAN

A. Background: Under the Federal Pay comparability Act of 1970, you have broad discretion in submitting to Congress an alternative plan to the regular October 1 comparability increase because of "national emergency or economic conditions affecting the general welfare."

B. Participants: Donald H. Rumsfeld, John O. Marsh, James M. Cannon, James T. Lynn, Paul H. O'Neill, Robert E. Hampton.

C. Press Plan: No Press.

III. AGENDA

A. Discussion of Available Options

An options paper is attached.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES T. LYNN

SUBJECT: Federal Pay Raise

I. Background

Under the Federal Pay Comparability Act of 1970, Civil Service Commission Chairman Hampton and I, as your designated pay agent, are sending you a report advising that an 8.66% salary increase is appropriate to bring Federal pay rates to comparability with private enterprise. Your Advisory Committee on Federal Pay is also submitting its independent views. It supports the agent's recommendation this year.

The Act authorizes the President to propose an alternative plan if appropriate because of "national emergency or economic conditions" and transmit the plan to Congress before September 1. Either House may disapprove the plan, in which case the comparability recommendation takes effect October 1 for Federal white-collar workers, and members of the uniformed services. (See Tab A for listing of previous recommendations and Congressional action).

As a result of recent enactment of the comparability pay increase for officials covered by executive, legislative, and judicial schedules, Presidential and Congressional action will result in pay increases for Members of Congress, judges and departments and agency heads as well.

II. Options

A. Implement an 8.66% pay increase.

PRO - This amount is the minimum necessary to maintain comparability for Federal employees with their private enterprise counterparts in accordance with the standards provided by current law. While high, it merely reflects the inflation that has occurred in the past year.

- Current Federal pay rates were based on the survey of private enterprise rates in effect during the period of wage controls which terminated in March 1974. A limitation on the October adjustment, which would control rates until October 1976, would extend controls on Federal salaries 2½ years beyond the end of controls for industry.

- About 1.2 million other Federal employees covered by the Postal Service and the Federal wage-board pay systems are receiving increases averaging over 9%. Federal annuitants and social security recipients are receiving full cost of living adjustments despite attempts to limit increases to 5%.

- Full comparability increases have been implemented since 1970 despite repeated attempts to hold the line on Federal pay by delaying the effective dates. Inaction on the 5% pay cap legislation suggests there is Congressional support for the full comparability increase on October 1 again this year.

- Implementation of the full comparability increase would greatly enhance the Federal labor relations program. For the first time this year, employee organizations feel they have had the meaningful role they believe Congress intended in the Federal pay setting process. The submission of an alternative plan would exacerbate the feeling that white-collar and military employees are being unfairly treated under existing laws.

- Establishment of the Rockefeller pay panel reflects the need to look at the comparability standard again. Support for the panel's findings from Congress, employees and Federal unions would be enhanced by continued Presidential support of current pay procedures.

<u>CON</u> - The arguments against the comparability increase, which are more fully developed as arguments for Option B, can be summarized as follows:

- Costs for an 8.66% increase would be $1.6B more than the 5% on which the FY 1976 budget allowance was based.

- The increase could be a source of inflationary pressure into the future.

- Implementation would be inconsistent with public statements and veto actions on Federal spending.

B. Propose an alternative plan reducing the increase to 5%.

PRO - Recent Congressional debate on the increase in executive, legislative, and judicial salaries and press coverage on the October pay increase anticipate a 5% proposal. With the Congressional increase tied to the October 1 adjustment--so that there is now a "conflict of interest" situation -- Members may find it difficult to oppose the more modest increase.

- A 5% pay increase is consistent with your January 13 statement to "...insist on a 5% limit on any Federal pay increase in 1975..." and with the 5% pay cap legislation subsequently transmitted.

- An 8.66% adjustment would increase the deficit, which already exceeded the $60B level in August, by $1.6B. The FY 1976 budget allowance was based on 5%.

- The limitation is consistent with economic goals and with the general policy of holding down increases in Federal spending in fiscal year 1976.

- A sizeable pay increase for the largest and most visible block of Federal employees--about 1.3 million civilian and 2.1 million military--following the even more liberal increases recently negotiated by the Postal Service might weaken the ability of private employers to hold the line in pay negotiations. It could be a source of inflationary pressure well into the future.

CON - The arguments against this option, which are more fully developed as pros for Option A, are summarized as follows:

- A limitation on pay increases for only one segment of the country's workforce is inequitable.

- Months of negotiations with the Federal Employees Pay Council will look like a charade and could intensify their efforts to gain bargaining rights.

C. Combine a program of employment reductions with a proposed alternative plan reducing the increase to some percentage between 5% and 8.66%.

PRO - The additional costs of a percentage increase higher than 5% would be offset by the savings in an employment reduction.

- A somewhat larger increase for Federal employees might demonstrate greater concern for equity to Federal employees and gain, therefore, additional support in Congress for an alternative plan.

- A 6% to 6.5% limitation would still demonstrate the Government's leadership in reducing inflationary pressure.

CON - A compromise approach does not have the clear-cut advantages of the other options, but carries some of the disadvantages of both.

- The cushion needed to stay within 1976 employment targets which have been set is gone. Under an employment reduction program, not only would all requests for increases be disallowed, but personnel ceilings would have to be further reduced. While personnel ceilings do constrain growth of employment, they tend to create inefficiencies in the management of organizations which has led GAO and others to vigorously criticize the ceiling program.

- There is no specific justification for a 6 or 6.5% increase. It appears to be an arbitrary number.

Note:

Although an announcement of employment cuts could be made simultaneously with the alternative plan proposal, this is not desirable unless it could be determined within the next three weeks from what base and in which agencies the cuts would be made. A general announcement of employment reductions has little credibility without such specificity. Therefore, the announcement should be made after the pay procedures have been completed.

Recommendation: That you authorize informal discussions with key members of the Congressional leadership, aimed at reaching agreement on an increase between the extremes of full comparability, 8.66% and 5%.

Attachments

Tab A - Chronology of Pay Adjustments
Tab B - Report of Federal Advisory Committee on Federal Pay

TAB A

Chronology of Pay Adjustments and Use of Alternative Plans Under the Federal Pay Comparability Act

Fiscal year 1971

- Pay Comparability Act called for adjustment in January 1971
- adjustment made at scheduled time

Fiscal year 1972

- Pay Comparability Act called for adjustment in January 1972
- President submitted alternative plan to delay until July 1972, and Congress did not disapprove
- Congress then passed Economic Stabilization Act Amendments, reinstating January 1972 adjustment date
- adjustment made at originally scheduled January 1972 date

Fiscal year 1973

- Pay Comparability Act called for adjustment in October 1972
- President delayed until January 1973 (without using alternative plan procedure)
- Court ordered retroactive change
- adjustment retroactively changed to originally scheduled October 1972 date

Fiscal year 1974

- Pay Comparability Act called for adjustment in October 1973
- President submitted alternative plan proposing delay until December 1973
- Senate disapproved alternative plan
- adjustment made at originally scheduled October 1973 date

Fiscal year 1975

- Pay Comparability Act called for adjustment in October 1974
- President submitted alternative plan proposing delay until January 1975
- Senate disapproved alternative plan
- adjustment made at originally scheduled October 1974 date

ADVISORY COMMITTEE ON FEDERAL PAY
1016 16th Street, N. W.
Washington, D.C. 20036

August 4, 1975

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

The Advisory Committee on Federal Pay has the honor of submitting to you its fourth annual report. The report incorporates our findings and recommendations with respect to the Fiscal 1976 pay adjustment for 1.4 million Federal civilian employees.

The Committee hopes that our recommendations will prove useful to you in arriving at your final decision.

Respectfully submitted,

Frederick R Livingston

Frederick R. Livingston
Member

Robert B. McKersie

Robert B. McKersie
Member

Jerome M Rosow

Jerome M. Rosow
Chairman

REPORT ON THE FISCAL 1976 PAY INCREASE UNDER

THE FEDERAL STATUTORY PAY SYSTEMS

Annual Report of the

Advisory Committee on Federal Pay

August 4, 1975

CONTENTS

I. INTRODUCTION

Recommendations of the Advisory Committee on Federal Pay regarding the Fiscal 1976 salary adjustment for approximately 1.4 million government employees covered by the Federal Pay Comparability Act of 1970 are contained in this, the fourth annual report of the Committee. More than 2 million members of the Armed Services and (for the first time this year, as a result of legislation just enacted) Federal executives, judges, and members of Congress receive the same percentage increase in pay as the General Schedule, Veterans' Administration, and Foreign Service employees covered by the comparability legislation.

II. THIS YEAR'S INCREASE AND THE PAYLINE

The Advisory Committee endorses the uniform increase of 8.66 percent in General Schedule pay scales, agreed to by the President's Agent and the Federal Employees Pay Council, to go into effect the first pay period in October 1975. This endorsement stems from the Committee's belief that, in the absence of overwhelming reasons, it should not recommend reversal or modification of an agreement.

The principles of comparability with private industry pay and maintenance of pay differences in conformity with work differences are theoretically served best by the line of best fit proposed by the staff of the President's Agent. This line would provide for salary increases ranging from 8.1 percent in Grade 1 to 9.9 percent in the theoretical Grade 18 rate. The highest increase that would actually be put into effect would be 9.5 percent (in the lower steps of Grade 15). 1/

The Committee was not persuaded by the arguments of the Pay Council that the data support a uniform percentage increase or larger increases at the lower grades. Indeed the professional organizations made a compelling argument for a non-uniform system of increases. As noted above, our endorsement of the uniform increases is predicated primarily upon the fact that the principal parties agreed on this approach. The Committee decision was also influenced by its belief that failure to follow the line of best fit this year would not set a precedent. The Committee sincerely hopes that revised techniques (changes in the type of payline, in curve-fitting techniques, and in weighting methods) will be agreed to before next year's pay decision must be made, so that the line of best fit resulting from these new approaches can be used.

1/ The maximum actual dollar loss caused by the choice of a uniform percentage increase is $275 at Step 4 of Grade 15. The greatest gain to any employee resulting from the uniform line is $39 a year for Step 10 of Grade 1.

Plans of the parties to begin serious discussions of payline issues in the fall and thus to separate discussion of technical issues from the decision as to the current pay change are to be commended. As we pointed out last year, "A major reason for the acrimonious discussions between the Pay Agent and the Pay Council is the effort to reach decisions with respect to the amount of each annual pay increase simultaneously with decisions about technical issues of comparability. . . . Decisions on technical issues should not be reached under the gun of an annual pay deadline. Efforts to do so make the parties suspicious that decisions are not made on professional grounds but are intended to influence the size of the annual adjustment." We urge the Pay Council and the Pay Agent to set and observe a deadline for resolving these issues well in advance of next year's pay discussions.

Now that the 3-year transition to the dual payline has been completed, we would hope that the issue would be considered as settled. The Committee stated in last year's report, "We continue to believe that the dual payline is preferable to the previous pay-fixing practice since it compares actual Federal pay to actual private pay. We are convinced that the new payline method is stable and not subject to manipulation." Experience this year has reinforced our belief in the validity of the dual payline approach.

III. RELATIONS BETWEEN THE PRESIDENT'S AGENT AND THE EMPLOYEE REPRESENTATIVES

We are pleased to note that relations between the President's Agent and the Federal Employees Pay Council have apparently improved during the past year. At the time of last year's report this Committee was deeply concerned at the continued deterioration of the relationship. Special credit should go to the President's Agent for initiating steps to improve this relationship.

This year has also seen an improvement in communications between the Pay Agent and representatives of employee organizations that are not members of the Federal Employees Pay Council. The Pay Agent held two meetings with these groups and has pledged to increase discussions with them during the coming year.

While recognizing that the Pay Comparability Act does not give these organizations the same role in the pay-setting process as members of the Pay Council, the Committee believes that the substantial difference in views between these organizations and members of the Pay Council warrants giving them greater opportunity for meaningful consultation. The pay comparability legislation requires the President's Agent to "give thorough consideration to the views and recommendations of employee organizations not represented on the Federal Employees Pay Council."

IV. THE FUTURE OF LABOR RELATIONS

Aside from the areas of conflict on technical issues, the most significant aspect affecting the relationship between the Agent and the Federal employee organizations stems from the fact that each year since the enactment of the comparability statute the President has not followed the normal procedures envisioned by that statute. Either he has attempted to delay the Federal pay increase on the grounds of his economic stabilization authority or has proposed an alternative plan. As a result, each comparability adjustment has gone into effect only because these departures from normal procedure have been set aside by Congress or the courts.

In last year's report the Advisory Committee stated that, "The . . . efforts to invoke an alternative plan attempted to enlarge executive power under the /comparability/ statute, which states that an alternative plan can be invoked only 'because of national emergency or economic conditions affecting the general welfare . . .' While the Advisory Committee is aware of the economic considerations, the statute calls for Federal employee pay to be comparable with similar occupations in the private sector. It is imperative that an alternative plan be invoked only under extraordinary circumstances as an exception rather than the rule." Constant resort to emergency procedures makes the whole process envisioned by the statute meaningless and the BLS survey of private industry pay a futile exercise.

The unions expressed real concern lest the President propose an alternative plan this year which would either reduce the amount or delay the effective date of the Federal pay increase. Discussions of the Advisory Committee with Federal employee representatives took place the very day the 1975 Postal pay settlement was announced. Union leaders were very upset by the further widening of the gap between Postal and Federal white-collar pay that this settlement presaged. Since the time when Postal employees achieved collective bargaining rights, increases have been 25 percent greater than those provided by the comparability legislation. Failure to implement the 8.66 percent adjustment will widen this gap, which has already seriously undermined the confidence of Federal unions in the present system.

Labor relations is a very fragile entity. In the judgment of this Committee, if an alternative plan is again proposed it is inevitable that more pressure will build up to scrap the present statute. The Federal unions will petition Congress to substitute some form of collective bargaining more akin to that prevailing in the private sector. This pressure will mount and eventually become irresistible.

V. TIME LAG

Plans to discuss ways to reduce the time between the BLS survey of pay in private industry and the effective date of the Federal pay increase indicate that the present 6-month lag between the survey and the

Federal increase can be reduced. This is a promising development, since the delay is a serious compromise with comparability. The BLS, the Pay Agent, and the Pay Council are to be complimented on speeding up their roles in this year's pay-setting process to permit the Advisory Committee to submit its report to the President at an earlier date than in previous years.

VI. COMPRESSION AND EXECUTIVE PAY

The problem of compression of the General Schedule pay structure resulting from failure to give Federal executives, judges, and legislators any salary increase since 1969 has become progressively more serious since the Advisory Committee commented on it in its first report in 1972. That report was prepared before the problem of inflation of wages and living costs became acute. In the period during which the executive pay ceiling has remained static, the Consumer Price Index has risen almost 50 percent and pay scales of the General Schedule rank-and-file supervised by these executives have advanced steadily. 2/

The entire principle of maintaining pay distinctions in keeping with work and performance distinctions, required by the Pay Comparability Act of 1970, has been seriously compromised by the ceiling. It is becoming inaccurate to describe Federal pay as part of a dynamic system.

Congressional action on July 30, 1975 to amend the Executive Pay Act has created a link to the Comparability Pay Act. This takes one critical step to break the freeze which has had such adverse effects by compressing the pay structure of the General Schedule. Unfortunately, it is only a partial measure, since compression will still remain after the October pay increase of 8.66 percent. The new statutory salary ceiling will be $39,100. Therefore, all salaries specified in the new General Schedule as needed to provide comparability with 1975 private enterprise pay in excess of $39,100 remain as theoretical "asterisk" rates; they cannot be paid because they exceed the ceiling. Five levels of responsibility will continue to be compensated at one fixed rate. In other words, the serious lag created over the past 6 years in pay scales of the highest grades of the General Schedule will not be corrected.

2/ General Schedule pay increases put into effect from late 1969 to the present have totaled 37 percent. If the increase that went into effect in July 1969 as the final stage of a catch-up with the private sector is included, pay increases for the General Schedule rank-and-file have totaled over 50 percent between early 1969 and 1975.

VII. RECOMMENDATIONS

We recommend:

1. An across-the-board 8.66 percent increase in Federal pay scales to go into effect the first pay period in October.

2. The President's Agent and the Federal Employees Pay Council establish and observe a deadline for agreement on technical improvements in the payline well in advance of decisions with respect to next year's pay increase.

3. The President's Agent involve employee organizations that are not members of the Federal Employees Pay Council in the pay-setting process sooner and to a greater degree than during the past year.

4. Efforts now under way to reduce the time lag between the survey of pay in private industry and the effective date of the Federal pay increase be completed and implemented as soon as possible.

The Committee is available to meet with you at your convenience to discuss these recommendations.

Respectfully submitted,

Frederick R. Livingston

Frederick R. Livingston
Member

Robert B. McKersie

Robert B. McKersie
Member

Jerome M. Rosow

Jerome M. Rosow
Chairman

APPENDIX A

Organizations Discussing the President's Agent's Report With the Advisory Committee on Federal Pay

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President's Pay Agent

Office of Management and Budget

Edward F. Preston
Leonard Peeler

Civil Service Commission

Raymond Jacobson
Arch Ramsey
Richard Hall
James Woodruff
Frederick Hohlweg
William Kennard

Federal Employees Pay Council

Richard Galleher, Chairman, AFL-CIO

Clyde M. Webber, President, AFGE (also attending, Stephen Koczak, George R. Boss)

Dr. Nathan Wolkomir, President, NFFE (also attending, James M. Peirce)

Jerry Klepner, NTEU

Other Employee Organizations

Air Traffic Control Association, Inc.,* Gabriel A. Hartl, Executive Director

Association of Civilian Technicians, Vincent Paterno, President

Association of Senior Engineers Of the Naval Ship Systems Command,* John Buck

Association of Government Accountants, Chris Peratino, President (also attending, Nathan Cutler, Donald Scantlebury, John Lordan)

The Federal Professional Association, Maurice Ronayne, President (also attending, Dr. Edwin Becker, Dr. Ewan Clague, Lionel Murphy)

National Association of Federal Veterinarians,* Dr. Clarence H. Pals, Executive Vice President

National Association of Government Employees, Gary Altman, Director of Research

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*Affiliated with the National Federation of Professional Organizations.

APPENDIX A - Continued

Other Employee Organizations - Continued

National Association of Government Engineers,* Dean Fravel

National Federation of Professional Organizations, James D. Hill, Executive Director

Organization of Professional Employees of the U.S. Department of Agriculture,* Richard G. Ford, President, George E. Bradley, Executive Director

*Affiliated with the National Federation of Professional Organizations.