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MEETING WITH THE
ADVISORY COMMITTEE ON FEDERAL PAY

Tuesday, September 14, 1976

12:00 P. M.

THE PRESIDENT HAS SEEN



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

SEP 12 1976

MEETING WITH THE ADVISORY COMMITTEE ON FEDERAL PAY

Tuesday, September 14, 1976

12:00 p.m. (30 minutes)

The Oval Office

From: James F. Lynn

I. PURPOSE

To discuss the recommendations which the Federal Pay Comparability Act requires this Committee to submit to you, and which you are required to consider before reaching a decision on the October Federal pay adjustment.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

- A. Background: The Advisory Committee consists of three distinguished non-government labor relations experts, whose role is to give you independent advice as to the size of the annual comparability pay raise. In 1974, the Committee met with you and you talked with the Chairman by phone prior to your 1975 decision.

This year, your pay agent has recommended an average increase of 4.83%. The Advisory Committee feels strongly that the impact of the pay agent's changes in methodology should be phased in and wants the opportunity to present its views personally to you. Their reasons are explained on pages 4-6 of their attached draft report.

There is no need to give them a decision during this meeting, of course, unless you wish to. They won't really expect you to decide on the spot.

- B. Participants: Members of the Advisory Committee on Federal Pay (Jerome Rosow, Chairman; Frederick Livingston; and Robert McKersie), plus James Lynn and Robert Hampton; Ed Preston, Assistant Director of OMB; Frederick Kistler, Div. of Bureau of Policy & Standards, CSC.
- C. Press Plan: David Hume Kennerly photo only.

III. TALKING POINTS

- A. First of all, I want to assure you that I have reviewed your draft report and am keenly aware of the need to consider the state of our relationships with the Federal employee unions.
- B. I'd like to compliment the Committee on your continuing efforts to improve these relationships.
- C. I intend to carefully consider your views on the 1976 pay adjustment. I certainly was influenced by your draft in deciding not to submit an alternative plan this year.
- D. I believe I understand your points about the desirability of phasing in the impact of the agent's changes. But I also understand that this would cost an additional $\$ \frac{1}{2}$ billion. How do you think we can reconcile or balance those competing considerations?

CONFIDENTIAL DRAFT

REPORT ON THE FISCAL 1977 PAY INCREASE UNDER
THE FEDERAL STATUTORY PAY SYSTEMS

Annual Report of the
Advisory Committee on Federal Pay
August 25, 1976

CONFIDENTIAL DRAFT

I. INTRODUCTION

Recommendations of the Advisory Committee on Federal Pay regarding the Fiscal 1977 salary adjustment for approximately 1.4 million government employees covered by the Federal Pay Comparability Act of 1970 are contained in this, the fifth annual report of the Committee. About 2 million members of the Armed Forces as well as Federal executives, judges, and members of Congress receive the same increase in pay as the General Schedule, Bureau of Medicine and Surgery of the Veterans' Administration, and Foreign Service employees covered by the comparability legislation.

II. THE OUTLOOK FOR THE PAY DETERMINATION PROCESS

During the past year the Advisory Committee was given additional responsibilities. However, the Agent's proposal regarding this year's pay increase has dealt a serious blow to the prospects for one of these new functions--namely, improving relations between the Government and Federal employee organizations. Even more serious, the proposal has jeopardized the entire process of Federal white-collar pay setting and led the AFL-CIO members of the Federal Employees Pay Council to resign.

Recommendations of the President's Panel on Federal Compensation

The President's Panel on Federal Compensation in its report issued in December 1975 recommended that the Advisory Committee assume mediation and economic monitoring functions in addition to its statutory responsibility of making recommendations to the President on the annual increase in Federal white-collar pay. These new tasks were described in the Panel's report as follows:

"The Panel recommends that the President's Agent, the Federal Employees Pay Council, and the Advisory Committee on Federal Pay meet jointly on a regular basis throughout the year to discuss and resolve the issues involved in the pay-setting process, with a view toward formulating a common recommendation to the President on the pay adjustment required to achieve comparability."

"The Panel recommends that the Advisory Committee on Federal Pay be assigned the responsibility for an ongoing review of the way in which the Federal compensation system derives from, and is dependent upon, the forces at work in the private sector marketplace, with the specific charges of considering the impact of both Federal and private sector pay on the national economy and making periodic reports to the President on changes which should be proposed in Federal compensation policies and practices."

The Committee is now adding a small staff to perform the economic monitoring function.

Efforts to Improve Relations

In pursuance of the objective of a common recommendation on the annual pay adjustment, members of the Advisory Committee have attended meetings of the Pay Agent and the Pay Council with increased frequency. In addition, in order to improve chances for unified agreement and to improve understanding between the Agent and the Pay Council, the Committee enlisted an experienced mediator, who has met frequently with the Agent and the Council.

It was our belief until the past few days that these discussions had resulted in better understanding on the part of the Advisory Committee of the problems faced by each group and in somewhat improved communications between the Agent and the Council. Experience suggested that continuation of these activities could lead to a more positive attitude and a better understanding between the parties during the coming year.

Our early optimism as to the long-term usefulness of this effort has, however, been dashed by the Agent's proposal regarding this year's pay increase and the Agent's insensitivity to the long-term labor relations implications of its proposal. The delays that the Agent made in 1975 as concessions to the Pay Council do not, in our view, justify the Pay Agent's present obdurate attitude. Its insistence on making the entire transition to a revised system of pay determination in a single year has placed the entire process of pay determination envisaged by the Federal Pay Comparability Act of 1970 in jeopardy.

Other Employee Organizations

While this discussion has concentrated on relations with the Federal Employees Pay Council, we also hope that the Pay Agent, with the support of the Federal Employees Pay Council, will provide employee organizations not on the Pay Council adequate opportunity to become informed on the Federal pay-setting process. In the Committee's view, ability of these organizations to comment knowledgeably and effectively on Pay Agent proposals has been seriously handicapped by the limited briefing which they have received on technical changes.

Privacy

Discussions between the parties have continued to be conducted in private. It is our experience that such privacy is essential to permit

flexibility and avoid too early hardening of positions. Confidentiality is the very essence of mediation and indeed of any discussion of labor issues. The mediator must be free to probe the true position of each of the parties, test out possible areas of compromise, and, as a result of such private discussions, determine a potential basis for agreement.

Discussion of labor issues in public is the very antithesis of this process and is self defeating. Public discussion inevitably results in posturing and adoption of extreme positions directed at political constituents. Normally, neither side is prepared to indicate possible concessions in public, lest they be misconstrued by either the opposing side or their own constituents.

III. THIS YEAR'S PAY INCREASE--THE RULES OF THE GAME

The Advisory Committee endorses the necessity for changing the measurement of comparability as proposed by the President's Agent. It endorses "PATCO" weighting of the key jobs studied in the private sector to get grade averages, weighting to draw a payline, and use of the "SGH" formula to develop a payline of best fit. The issue of including secretaries and computer operators as key jobs in measuring private sector pay is settled unless there is a court decision to the contrary. 1/

The Committee is convinced, however, that the Agent's proposal to introduce the entire effect of the changes this year is most unwise from the standpoint of long-term public interest. It strongly urges that, in view of the severe impact of these changes on Federal pay and the fact that the revised measurement system is by no means perfect, the changes should be phased in over a reasonable period.

1/ In 1975, the Agent deferred inclusion of secretaries and computer operators in measuring private sector pay and made a good faith effort to obtain an impartial review of the adequacy of the descriptions of these occupations. This review was prevented by a Justice Department ruling that the Agent did not have authority to delegate the resolution of this point. In February 1975, the Pay Agent and the Pay Council agreed to submit the question of descriptions of these occupations to the Advisory Committee for binding arbitration. The Justice Department ruling stated that the Committee could not undertake this function and furthermore stated that the Pay Agent did not have authority to request or accept binding arbitration. A court suit filed by the Pay Council alleging that the Pay Agent had violated the agreement to seek review is still pending. The Pay Council has accepted inclusion of these occupations in comparability measurement unless the court ruling is favorable to the Pay Council position.

The Committee agrees with the Agent that the revised measurement system will result in a closer approximation to comparability between private sector pay and Federal pay than the methods used in past years. While it recognizes that the system is imperfect and subject to improvement and that there is need, for example, for improvements in the survey of private industry pay scales--notably the addition of occupations in some grades--it believes that the revised procedures proposed by the Agent will reduce the distortions resulting from the present limited occupational coverage of the BLS survey. 2/

There has been an adequate period for discussion of the proposed changes between the Agent and the Pay Council; the Agent delayed changes at the time of the October 1975 pay increase in order to allow for more extended deliberations..

Need for Phasing in Changes

Despite our belief that the revised methods of measurement of comparability should be put into effect, we urge strongly that the transition to the resultant pay scales be phased in. There are most compelling reasons for proposing this phase-in approach:

1. Full introduction of the measurement changes in the same year that secretaries and computer operators are added to the private sector pay survey will cut the potential 1976 Federal pay increase by more than half. Specifically (a) the addition of computer operators and reintroduction of secretaries to the private sector pay survey will reduce this year's Federal pay increase by more than 2 percentage points--from 10.5 to 8.25 percent, (b) the new weighting and payline techniques will cut the increase another 3 percentage points--to a 5.17 percent increase in average payroll costs and a 4.83 percent average increase in pay scales.
2. This is too great a reduction below that called for by continuation of the previous rules of the game to be put into effect all at once, given the fact that there is still need for improvement in the technical underpinnings of the revised measurement system. While the revised system of measurement is a distinct improvement over the method that has been used in recent years, there is general agreement that the BLS survey of pay in private industry that is used to measure the private sector counterpart of grade averages is in need of

2/ Our statistical adviser has carefully studied the proposed changes and endorses them as sound in principle, though in need of further occupational buttressing to derive grade averages.

substantial strengthening. It is impossible to predict whether addition of jobs to this survey would significantly change the grade averages and, if so, whether the resulting averages would be lower or higher than those computed with present occupational coverage. However, the need for further improvements and their possible impact on measurement of comparability raises serious questions as to whether the new measurement is so precise as to sanction introducing it all at once. The Agent's reference to being "compelled by the precision which these reforms bring to the process" is an exaggeration of its accuracy.

3. The precision of the measurement is further weakened by the 6-month lag between the date of the private sector pay data and the effective date of the Federal pay increase. This means that in a year in which private sector pay is rising by 7 or 8 percent the data on private sector pay used for comparability purposes may be as much as 3.5 to 4 percent too low by the time Federal pay scales are increased. While a method of compensating for this lag has not been developed, the lag is certainly adequate justification for our recommendation to phase in the revised system.
4. There is precedent for phasing in the changes. When the dual payline was introduced in 1973, the President's Agent followed the Advisory Committee's recommendation to spread the effect of the change in methods over a period of years. In that case, the Pay Agent adopted a 3-year transition. That precedent should be followed here. However, the application should vary as set forth in our recommendation (page 9).
5. Time is needed to prepare and distribute a clear explanation of the pay-setting system to Federal employees. The system of determining Federal pay is complex and difficult to understand. A complicated system creates employee suspicion, especially when it is changed drastically and with relative frequency. Much of the complexity results from the dual requirements of the pay comparability legislation that "there shall be equal pay for substantially equal work" and that "Federal pay rates be comparable with private enterprise rates for the same levels of work." Whatever its cause or justification, however, the complicated system and changes in it do require time for employee orientation.
6. Suspicion has been increased by the frequency of changes in the measurement system. The players need to know the rules by which they are playing.

7. The pay rates which employees are now told are too high were determined by a system developed unilaterally by the Agent, not through collective bargaining. It is hard to conceive any establishments in the private sector, about which our Committee has considerable knowledge, implementing such major changes in compensation practices all at once.
8. A further source of confusion is the sudden change from uniform to varying percent increases, which works to the disadvantage of the lower graded employees. Even though this change is justified, it has not been made clear to employees in the lower grades that their pay had been out of line with the private sector.
9. The shift to the revised weighting and payline system will save the government more than \$1.4 billion each year in perpetuity. Combined with the addition of secretaries and computer operators to the annual salary survey, the total saving will be almost \$2.5 billion a year. Therefore, deferral of about \$450 million of this saving for one year is a reasonable investment in the continued acceptability of the comparability system and effective labor-management relations. This would be true even if some of the Pay Council members had not resigned. Their resignation simply made it clear that the alternative is the collapse of the entire system.

Uniform Increases Versus Comparability

While disagreeing with the failure to phase in the changes, the Advisory Committee agrees with the proposal to put into effect increases varying with pay grades, as comparability requires. In its 1975 report it advised against uniform increases as a matter of principle. It accepted uniform increases last year primarily because the "principal parties agreed on this approach." The Committee also stated that its decision was "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."

A policy of uniform percent increases would contradict the basic objective of weighting—to improve comparability. Consequently, the two are aspects of the same process. Therefore, to adopt weighting and to propose a uniform percentage increase would be a contradiction in objectives.

Actually, the variation in percentage increases among grades called for this year is not due to the revised methods of measuring comparability. Rather, it is a result of past substitution of uniform percent increases for those called for by the comparability principles in previous years. The cumulative effect of substituting uniform increases for increases dictated by the line of best fit over the past 5 years has compounded a distortion from true comparability as defined in the statute (Section 5301(a)(3)), which reads as follows:

"Federal pay rates be comparable with private enterprise pay rates for the same levels of work."

This past failure to provide increases varying by grade has been inequitable to workers in some grades and has impaired the government's ability to attract and retain the most competent employees in critical positions. It also leads to public criticisms of Federal pay in the lower pay grades in which Federal scales often exceed those in private industry. This past practice aggravates the geographic inequities that result from payment of white-collar employees on a national scale and is a major factor in the widespread misconception that Federal pay is generally too high.

Correction for the imbalance among grades that has accumulated will result in increases that vary substantially from grade to grade during the transition period. Once, however, this correction is made, the annual increases dictated by future adherence to comparability should not vary greatly among grades since normally increases vary relatively little in percentage terms in a single year for people at different pay grades.

IV. QUADRENNIAL COMMISSION ON EXECUTIVE,
LEGISLATIVE, AND JUDICIAL SALARIES

In this year of a national election it is imperative that the new administration, regardless of party, be able to attract and retain the most competent personnel essential for effective governmental administration. In order to achieve this objective, our Nation must have a rational and realistic executive, legislative, and judicial salary program. There has been no basic adjustment in these salary levels since 1969. The 5-percent adjustment made in 1975 was clearly insufficient in light of the increase in the Consumer Price Index over that period of approximately 50 percent. Over the same period private sector pay advanced more than 50 percent, thus opening a wide gap between Federal and private sector executive pay. Although it is recognized that salaries for top executives and judges will never be equal to those in the private sector, at the moment no semblance of comparability exists at these levels. As a result, some of the Nation's most competent key personnel have departed from government and it is has been difficult to attract competent replacements.

Thus, the appointment of the Quadrennial Commission on Executive, Legislative, and Judicial Salaries is welcomed. It is more imperative than ever that prompt action be taken by the President and the Congress to take appropriate and prompt action to effectuate the forthcoming recommendations of this Commission as set forth in our recommendations.

V. RECOMMENDATIONS

1. All of the transition to the revised system of measuring comparability should not go into effect in a single year. Rather, we recommend that the revised system of weighting and payline fitting should be introduced now but its effects be phased in. Since the Pay Agent already has deferred implementation of the change for one year, it is appropriate to make two-thirds of the transition to weighting and new curve fitting this year and the remaining one-third next year. (The full impact of reintroduction of the job of secretary and introduction of computer operators would go into effect immediately so that more than two-thirds of the effect of all the changes would be introduced this year.)

This would result in an average payroll increase of approximately 6.2 percent. Considering the fact that the recurring annual saving from the revised system will amount to at least \$1.4 billion, and the combined annual saving from this change plus adding secretaries and computer operators will amount to \$2.5 billion, the single time deferral of roughly \$450 million of this saving resulting from phasing would be a sound investment to save the current system of pay determination.

2. To achieve comparability, the increase should vary with grades. With two thirds of the transition made immediately, the increases would vary from 5.04 in Grade 2 to 8.72 percent in the steps of GS-15 below the ceiling.
3. Improvements in the key job sample in the annual BLS survey should be expedited. Apart from these, future changes in methodology should be separated from consideration of the annual pay increase and should occur infrequently.
4. The Agent should promptly prepare and distribute to all affected personnel a clear explanation of the new pay system.
5. The Committee repeats its earlier recommendation that legislation be enacted to separate the determination of congressional pay from that of judges, executives, and other employees.
6. We urge the President and the Congress to act expeditiously on the forthcoming recommendations of the Quadrennial Commission on Executive, Legislative, and Judicial Salaries.

October 1976 Pay Increase Under Various Proposals

| Grade | System used from 1973 to 1975 | Pay Agent's proposal <u>1/</u> | Advisory Committee's proposal <u>2/</u> |
|--------------------------------|-------------------------------------|-----------------------------------|-----------------------------------------------|
| Average payroll increase ----- | 8.25 | 5.17 | 6.20 |
| | | <u>Scale increases</u> | |
| GS-1 ----- | 6.14 | 4.51 | 5.05 |
| GS-2 ----- | 6.35 | 4.39 | 5.04 |
| GS-3 ----- | 6.57 | 4.30 | 5.06 |
| GS-4 ----- | 6.79 | 4.25 | 5.10 |
| GS-5 ----- | 7.01 | 4.24 | 5.16 |
| GS-6 ----- | 7.23 | 4.27 | 5.26 |
| GS-7 ----- | 7.46 | 4.33 | 5.37 |
| GS-8 ----- | 7.68 | 4.42 | 5.51 |
| GS-9 ----- | 7.92 | 4.55 | 5.67 |
| GS-10 ----- | 8.15 | 4.72 | 5.86 |
| GS-11 ----- | 8.38 | 4.93 | 6.08 |
| GS-12 ----- | 8.85 | 5.45 | 6.58 |
| GS-13 ----- | 9.33 | 6.12 | 7.19 |
| GS-14 ----- | 9.82 | 6.94 | 7.90 |
| GS-15 | | | |
| Up through Step 6 ----- | 10.31 | 7.92 | 8.72 |
| Step 7 and above ----- | 7.81 | 4.83 | 5.82 |
| GS-16 | | | |
| Hypothetical <u>3/</u> ----- | 10.80 | 9.06 | 9.64 |
| Actual ----- | 7.81 | 4.83 | 5.82 |
| GS-17 | | | |
| Hypothetical <u>3/</u> ----- | 11.30 | 10.36 | 10.67 |
| Actual ----- | 7.81 | 4.83 | 5.82 |
| GS-18 | | | |
| Hypothetical <u>3/</u> ----- | 11.80 | 11.83 | 11.83 |
| Actual ----- | 7.81 | 4.83 | 5.82 |

1/ Immediate full implementation of "PATCO" weights to compute both grade averages and "SGH" payline.

2/ Two-step transition to PATCO weights, SGH payline, with two-thirds effective in 1976.

3/ Hypothetical at this time because of legislated pay ceiling.

NOTE: All proposals assume inclusion of secretaries and computer operators in measuring private sector pay.