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THE PRESIDENT HAS SEEN.....



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

RECOMMENDED TELEPHONE CALL

HR 7
8/10/75

TO: Jerry Rosow, Chairman of
Advisory Committee on Federal
Pay (914-723-3235)

DATE: As soon as possible

RECOMMENDED BY: Paul O'Neill *O'Neill*

PURPOSE: At yesterday's discussion of Federal pay,
you indicated you would call Mr. Rosow
to tell him you would not be able to
see the Committee this year.

- TALKING POINTS:
1. You have read their report carefully;
it's very sensible and helpful.
 2. You recall meeting you held with them
last year, and their strong suggestion
that we try to improve relationships
with the Federal employee unions:
glad to see their comments this year
that relationships have improved.
(page 2-attached report).
 3. You recall also his concern last year
regarding executive pay: glad we could
get some action on that--recognize
it's only first step (page 4)
 4. You've noted they agree this year with
agent on 8.66% and that they oppose
submission of alternative plan. (page 3)
 5. Problem is that 8.66% will cost \$1.6B
(more than 5%). Lot of money....we
have serious budget problems.
 6. No time to meet with Committee this
year, but will consider its advice
carefully.
 7. Please inform other members and thank
them for help.

Date of submission August 8, 1975

Action _____

ADVISORY COMMITTEE ON FEDERAL PAY

1016 16th Street, N. W.
Washington, D.C. 20036

August 4, 1975

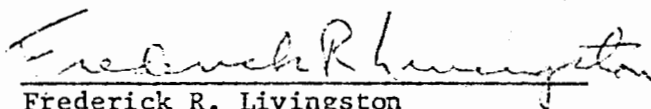
The President
The White House
Washington, D.C. 20500

Dear Mr. President:

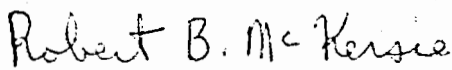
The Advisory Committee on Federal Pay has the honor of submitting to you its fourth annual report. The report incorporates our findings and recommendations with respect to the Fiscal 1976 pay adjustment for 1.4 million Federal civilian employees.

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

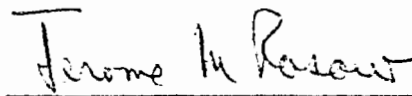
Respectfully submitted,



Frederick R. Livingston
Member



Robert B. McKersie
Member



Jerome M. Rosow
Chairman

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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.

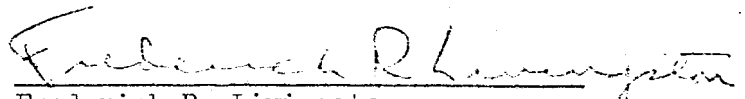
VII. RECOMMENDATIONS

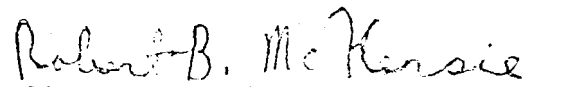
We recommend:

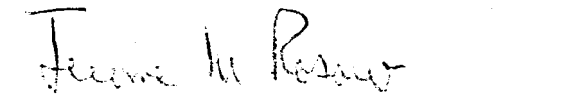
1. An across-the-board 8.66 percent increase in Federal pay scales to go into effect the first pay period in October.
2. The President's Agent and the Federal Employees Pay Council establish and observe a deadline for agreement on technical improvements in the payline well in advance of decisions with 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
Member


Robert B. McKersie
Member


Jerome M. Rosow
Chairman

APPENDIX A

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

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

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

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

Jerry Klepner, NTEU

Other Employee Organizations

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

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

Association of Civilian Techni-
cians, Vincent Paterno,
President

National Association of Federal
Veterinarians,*

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

Dr. Clarence H. Pals,
Executive Vice President

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

National Association of Govern-
ment Employees, Gary Altman,
Director of Research

*Affiliated with the National Federation of Professional
Organizations.

APPENDIX A - Continued

Other Employee Organizations - Continued

National Association of Govern-
ment Engineers,* Dean Fravel

National Federation of Profes-
sional 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.