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THE WHITE HOUSE
WASHINGTON

September 28, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JIM LYNN/PAUL O'NEILL
FROM: JIM CONNOR *jet*
SUBJECT: Federal Pay Adjustment

Confirming telephone conversation to Jim Jura of your staff, the President reviewed your memorandum of September 23 on the above subject and approved the following option:

"Pay agent's proposed 4.83% average increase."

Please follow-up with appropriate action.

cc: Dick Cheney

THE WHITE HOUSE
WASHINGTON

September 27, 1976

MR PRESIDENT:

Federal Pay Adjustment

Staffing of the attached memorandum prepared by Paul O'Neill resulted in the following recommendations from the senior staff:

Pay Agent's proposed 4.83% average increase:

Supported by Phil Buchen, Jim Cannon, Max Friedersdorf, Alan Greenspan and Jack Marsh.

Advisory Committee's proposed 5.82% average increase:

Supported by Bob Hartmann with the following comment:
"In an election year, err on the side of generosity to your employees."

Jim Connor



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

SEP 23 1976

ACTION

MEMORANDUM FOR:

THE PRESIDENT

FROM:

Paul O'Neill

SUBJECT:

Federal Pay Adjustment

We need from you a decision on the size of the October pay adjustment for Federal white collar employees and members of the uniformed services. The Advisory Committee on Federal Pay recommended increases averaging 5.82%, while your pay agent (OMB/CSC) proposed increases averaging 4.83%. (The average payroll increases will be slightly higher -- either 6.20% or 5.17% respectively -- because larger comparability increases are provided at the higher grades, resulting in proportionately higher total payroll costs.)

A summary of the major arguments follows.

Pay agent's proposal:

1. The agent determined that the average 4.83% increase is the correct comparability figure. This figure results from application of Bureau of Labor Statistics comparability data and from a number of changes in the procedures for measuring comparability which substantially lower the size of the adjustment.
2. The agent's proposal is less expensive than the Advisory Committee's proposal by almost a half billion dollars.
3. Since even the Advisory Committee agrees on the desirability of these changes, but not on the proposed timing of implementation, it can be argued that your responsibility to the taxpayer compels you to select the agent's proposal.
4. Some of the Committee's arguments for a compromise may have been overtaken by events, since the American Federation of Government Employees (AFGE) convention this week has already taken several militant actions.

Advisory Committee proposal:

1. In view of the impact of the agent's procedural changes which reduce the anticipated Federal pay increase by approximately 5%, the changes should be phased in over a reasonable period as a compromise gesture to the labor unions.
2. While the compromise would cost some \$450 million more than the agent's proposal, annual recurring savings from the revised comparability procedures will amount to some \$2.5 billion. Thus the \$450 million could be regarded simply as a deferral of a portion of the total saving.
3. The AFGE convention is to vote this week on a resolution urging locals to adopt -- unless you decide upon something better than the agent's proposed 4.83% increase -- "work-to-rule" tactics which could create serious problems in a number of agencies. The election of a more militant president is also a possibility.
4. Adoption of the Committee's recommendation could substantially enhance the credibility of the Committee's role in the Federal pay comparability and labor-management relations processes. (No President has yet accepted their advice on pay adjustments when it differed from that of the pay agent.)

Alternative press releases are attached.

Decision:

HR 7 Pay agent's proposed 4.83% average increase.

_____ Advisory Committee's proposed 5.82% average increase.

2 Attachments

FOR IMMEDIATE RELEASE

_____ 1976

Office of the White House Press Secretary

FEDERAL EMPLOYEES PAY

Under the Pay Comparability Act of 1970, an adjustment in Federal white collar pay is required on October 1. In accordance with the procedures prescribed by law, the President has reviewed the reports of his "pay agent" (the Chairman of the Civil Service Commission and the Director of the Office of Management and Budget); the Federal Employees Pay Council (FEPC); and the Advisory Committee on Federal Pay. The President has decided to put into effect the proposal of his pay agent, providing for a pay increase averaging 4.83%. Funds for the increase are provided in the Budget.

The increase will vary with General Schedule grades from 4.24% at GS-2 to 7.92% in the lower step rates of GS-15.

By law, the rates of basic pay and certain allowances for military personnel will also increase by a total of 4.83%.

The pay adjustments for both civilian and military employees will be effective on the first day of the first applicable pay period beginning on or after October 1, 1976. About 1.4 million civilians and about 2 million military people are affected.

General Schedule Rates to Provide
Comparability with 1976 Private Enterprise Pay

	1	2	3	4	5	6	7	8	9	10
GS-1	\$5,810	\$6,004	\$6,198	\$6,392	\$6,586	\$6,780	\$6,974	\$7,168	\$7,362	\$7,556
2	6,572	6,791	7,010	7,229	7,448	7,667	7,886	8,105	8,324	8,543
3	7,408	7,655	7,902	8,149	8,396	8,643	8,890	9,137	9,384	9,631
4	8,316	8,593	8,870	9,147	9,424	9,701	9,978	10,255	10,532	10,809
5	9,303	9,613	9,923	10,233	10,543	10,853	11,163	11,473	11,783	12,093
6	10,370	10,716	11,062	11,408	11,754	12,100	12,446	12,792	13,138	13,484
7	11,523	11,907	12,291	12,675	13,059	13,443	13,827	14,211	14,595	14,979
8	12,763	13,188	13,613	14,038	14,463	14,888	15,313	15,738	16,163	16,588
9	14,097	14,567	15,037	15,507	15,977	16,447	16,917	17,387	17,857	18,327
10	15,524	16,041	16,558	17,075	17,592	18,109	18,626	19,143	19,660	20,177
11	17,056	17,625	18,194	18,763	19,332	19,901	20,470	21,039	21,608	22,177
12	20,442	21,123	21,804	22,485	23,166	23,847	24,528	25,209	25,890	26,571
13	24,308	25,118	25,928	26,738	27,548	28,358	29,168	29,978	30,788	31,598
14	28,725	29,683	30,641	31,599	32,557	33,515	34,473	35,431	36,389	37,347
15	33,789	34,915	36,041	37,167	38,293	39,419	40,545*	41,671*	42,797*	43,923*
16	39,629*	40,950*	42,271*	43,592*	44,913*	46,234*	47,555*	48,876*	50,197*	
17	46,423*	47,970*	49,517*	51,064*	52,611*					
18	54,410*									

The rate of basic pay for employees at these rates would be limited by section 5308 of title 5 of the United States Code to the rate for level V of the Executive Schedule which, under this adjustment, would become \$39,600.

FOR IMMEDIATE RELEASE

_____ 1976

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The President has decided to put into effect the recommendation of the Advisory Committee for a pay increase averaging 5.82%. The increase will vary with General Schedule grades, from 5.04% at grade 2 to 8.72% in the lower step rates of grade 15.

The Advisory Committee's statutory functions include assistance in resolving differences between the Pay Council and the pay agent. The pay agent this year introduced a number of changes in the procedures for measuring comparability which substantially lowered the size of the adjustment. Among these changes is a new weighting process used to bring pay for the great number of Federal employees as closely as is possible into comparability with their private

sector counterparts.

The Advisory Committee members agreed with the pay agent that these changes are needed, but strongly urged that -- in view of the impact of the changes in reducing anticipated Federal pay increases -- the changes should be phased in over a reasonable period. This proposal results in the recommended average payroll increase of 5.82% in which the President has concurred. Annual recurring savings from the revised comparability system will amount to some \$2.5 billion.

By law, the rates of basic pay and certain allowances for military personnel will also increase by a total of 5.82%.

The pay adjustment for both military and civilian employees is effective on the first day of the first applicable pay period beginning on or after October 1, 1976. About 1.4 million civilians and about 2 million military people are affected.

THE GENERAL SCHEDULE

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2	6,613	6,833	7,053	7,273	7,493	7,713	7,933	8,153	8,373	8,593
3	7,462	7,711	7,960	8,209	8,458	8,707	8,956	9,205	9,454	9,703
4	8,383	8,662	8,941	9,220	9,499	9,778	10,057	10,336	10,615	10,894
5	9,386	9,699	10,012	10,325	10,638	10,951	11,264	11,577	11,890	12,203
6	10,468	10,817	11,166	11,515	11,865	12,213	12,562	12,911	13,260	13,609
7	11,639	12,027	12,415	12,803	13,191	13,579	13,967	14,355	14,743	15,131
8	12,896	13,326	13,756	14,186	14,616	15,046	15,476	15,906	16,336	16,766
9	14,248	14,723	15,198	15,673	16,148	16,623	17,098	17,573	18,048	18,523
10	15,693	16,216	16,739	17,262	17,785	18,308	18,831	19,354	19,877	20,400
11	17,243	17,818	18,393	18,968	19,543	20,118	20,693	21,268	21,843	22,418
12	20,662	21,351	22,040	22,729	23,418	24,107	24,796	25,485	26,174	26,863
13	24,554	25,372	26,190	27,008	27,826	28,644	29,462	30,280	31,098	31,916
14	28,983	29,949	30,915	31,881	32,847	33,813	34,779	35,745	36,711	37,677
15	34,038	35,173	36,308	37,443	38,578	39,713	40,848*	41,983*	43,118*	44,253*
16	39,840	41,168*	42,496*	43,824*	45,152*	46,480*	47,303*	49,136*	50,464*	
17	46,554*	48,106*	49,658*	51,210*	52,762*					
18	54,404*									

*The rate of basic pay for employees at these rates would be limited by section 5308 of title 5 of the United States Code to the rate for level V of the Executive Schedule which, under this adjustment, would become \$40,000.

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: September 23, 1976

Time:

FOR ACTION:

cc (for information):

✓ Phil Buchen Bob Hartmann -
Jim Cannon ✓ Alan Greenspan
✓ Max Friedersdorf ✓ Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: Friday, Sept. 24

Time: 12 Noon

SUBJECT:

B Paul O'Neill memorandum 9/23/76 re
Federal Pay Adjustment

ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☐ Draft Remarks

REMARKS:

We would like to have this package ready for the
President on his return.

*Friedersdorf - recommends 4.83% increase
Buchen Day agents proposal
Greenspan - supports OMB
Marsh - 4.83%*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a
delay in submitting the required material, please
telephone the Staff Secretary immediately.

Jim Connor
For the President

THE WHITE HOUSE
WASHINGTON

MEMORANDUM FOR THE

Federal Pay Staffing Package ---

OMB would like about four hours
before decision is released to call the
Unions ---

(per Jim Jura)

9/27/76 10:35 AM

September 27, 1976

MR PRESIDENT:

Federal Pay Adjustment

Staffing of the attached memorandum prepared by Paul O'Neill resulted in the following recommendations from the senior staff:

Pay Agent's proposed 4.83% average increase:

Supported by Phil Buchen, Jim Cannon, Max Friedersdorf, Alan Greenspan and Jack Marsh.

Advisory Committee's proposed 5.82% average increase:

Supported by Bob Hartmann with the following comment:
"In an election year, err on the side of generosity to your employees."

Jim Connor



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

SEP 23 1976

ACTION

MEMORANDUM FOR:

THE PRESIDENT

FROM:

Paul O'Neill

SUBJECT:

Federal Pay Adjustment

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A summary of the major arguments follows.

Pay agent's proposal:

1. The agent determined that the average 4.83% increase is the correct comparability figure. This figure results from application of Bureau of Labor Statistics comparability data and from a number of changes in the procedures for measuring comparability which substantially lower the size of the adjustment.
2. The agent's proposal is less expensive than the Advisory Committee's proposal by almost a half billion dollars.
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Alternative press releases are attached.

Decision:

_____ Pay agent's proposed 4.83% average increase.

_____ Advisory Committee's proposed 5.82% average increase.

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FOR IMMEDIATE RELEASE

_____ 1976

Office of the White House Press Secretary

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1976

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THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: September 23, 1976

Time:

FOR ACTION:

cc (for information):

Phil Buchen

Bob Hartmann

Jim Cannon

Alan Greenspan

Max Friedersdorf

Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date:

Friday, Sept. 24

Time:

12 Noon

SUBJECT:

Paul O'Neill memorandum 9/23/76 re
Federal Pay Adjustment

ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☐ Draft Remarks

REMARKS:

We would like to have this package ready for the
President on his return.

Offer to pay agent's proposal
JP 9/24

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a
delay in submitting the required material, please
telephone the Staff Secretary immediately.

Jim Connor
For the President

9/23/76 - 5:00 pm
n

THE WHITE HOUSE

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• X For Your Comments

_____ Draft Remarks

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Additionally
[Signature]

*In an election year,
be on the side of
generosity to your
employees. RJC*

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Jim Connor
For the President



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

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1. In view of the impact of the agent's procedural changes which reduce the anticipated Federal pay increase by approximately 5%, the changes should be phased in over a reasonable period as a compromise gesture to the labor unions.
2. While the compromise would cost some \$450 million more than the agent's proposal, annual recurring savings from the revised comparability procedures will amount to some \$2.5 billion. Thus the \$450 million could be regarded simply as a deferral of a portion of the total saving.
3. The AFGE convention is to vote this week on a resolution urging locals to adopt -- unless you decide upon something better than the agent's proposed 4.83% increase -- "work-to-rule" tactics which could create serious problems in a number of agencies. The election of a more militant president is also a possibility.
4. Adoption of the Committee's recommendation could substantially enhance the credibility of the Committee's role in the Federal pay comparability and labor-management relations processes. (No President has yet accepted their advice on pay adjustments when it differed from that of the pay agent.)

Alternative press releases are attached.

Decision:

_____ Pay agent's proposed 4.83% average increase.

✓
_____ Advisory Committee's proposed 5.82% average increase.

2 Attachments

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: September 23, 1976

Time:

FOR ACTION:

cc (for information):

Phil Buchen

Bob Hartmann 76 SEP 23 PM 4 49

Jim Cannon

Alan Greenspan

Max Friedersdorf

Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date:

Friday, Sept. 24

Time:

12 Noon

SUBJECT:

Paul O'Neill memorandum 9/23/76 re
Federal Pay Adjustment

ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☐ Draft Remarks

REMARKS:

We would like to have this package ready for the
President on his return.

J Support 4.83% (more planned 9/27)
Jim

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a
delay in submitting the required material, please
telephone the Staff Secretary immediately.

Jim Connor
For the President

0923/76

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: September 23, 1976

Time:

FOR ACTION:

cc (for information):

Phil Buchen Bob Hartmann
Jim Cannon Alan Greenspan
Max Friedersdorf Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: Friday, Sept. 24 Time: 12 Noon

SUBJECT:

Paul O'Neill memorandum 9/23/76 re
Federal Pay Adjustment

ACTION REQUESTED:

_____ For Necessary Action X For Your Recommendations
_____ Prepare Agenda and Brief _____ Draft Reply
• X For Your Comments _____ Draft Remarks

REMARKS:

We would like to have this package ready for the
President on his return.

Recommend 4.83 % increase.
my

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a
delay in submitting the required material, please
telephone the Staff Secretary immediately.

Jim Connor
For the President

IMMEDIATE
PRECEDENCE

UNCLAS
CLASSIFICATION

FOR COMMCENTER USE ONLY

FROM: JAMES CONNOR

TO: DICK CHENEY

INFO:

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PAGES 4

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6:35

August 27, 1976

MEMORANDUM FOR: DICK CHENEY
FROM: JIM CONNOR
SUBJECT: Federal Pay Adjustment

Staffing has been completed on Jim Lynn's memorandum of August 25 regarding Federal Pay Adjustment. These comments are attached.

The President is required to make his decision by Tuesday, August 31. Lynn's memorandum was dexed to you on August 25 and the attachments to his memo sent by courier on that same day.

THE WHITE HOUSE
WASHINGTON

Mr. Marsh:

Trudy Fry called re your comments
on the Pay Increase memo.

I told her you wanted to discuss
with Dick Cheney.

Attached are the comments she
has received thus far and she
would really like to see the
package (after receiving your
comments).



Donna

THE WHITE HOUSE
WASHINGTON

August 27, 1976

MR PRESIDENT:

Federal Pay Adjustment

The following recommendations have been received from the staff on Jim Lynn's memorandum of August 25 regarding Federal Pay Adjustment.

Phil Buchen - "Agree with legal observations set forth at the bottom of page 5 and the top of page 6. Support the recommendations advanced by OMB."

Jim Cannon - Strongly agrees with OMB & CSC.

Max Friedersdorf - Supports Option #5

Bob Hartmann comments - 1) A flat 5% increase, without consideration of the Advisory Committee recommendations, is obviously arbitrary. 2) better to have in hand all suggestions for the best solution, than to act hastily."

Alan Greenspan - Comments are at TAB A.
Supports Option 4.

Jack Marsh - Supports Option #5.

Jim Connor

August 27, 1976

MR PRESIDENT:

Federal Pay Adjustment

The following recommendations have been received from the staff on Jim Lynn's memorandum of August 25 regarding Federal Pay Adjustment.

Phil Buchen - "Agree with legal observations set forth at the bottom of page 5 and the top of page 6. Support the recommendations advanced by OMB."

Jim Cannon - Strongly agrees with OMB & CSC.

Max Friedersdorf - Supports Option #5

Bob Hartmann comments - 1) A flat 5% increase, without consideration of the Advisory Committee recommendations, is obviously arbitrary. 2) better to have in hand all suggestions for the best solution, than to act hastily."

Alan Greenspan - Comments are at TAB A.
Supports Option 4.

Jack Marsh - Supports Option #5.

Jim Connor

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

August 27, 1976

MEMORANDUM FOR DR. JAMES E. CONNOR

FROM: Paul W. MacAvoy *PM*

SUBJECT: Federal Pay Adjustment

This is in response to your request for the Council of Economic Advisers' comments and recommendations regarding the October 1976 Federal pay adjustments.

Recent research by economists has compared the earnings of Federal (non-postal) employees and private sector workers with the same productivity-related characteristics. These studies find that the Federal workers tend to have higher wage rates and annual earnings than comparable private sector workers. Although not definitive, they suggest that undercompensation of Federal workers does not appear to be a problem.

The budget submitted in January 1976, assumed a 5 percent ceiling on wage increases with an estimated average increase of 4.7 percent. If the President proposes an alternative plan, the alternative can be vetoed by a majority vote in either House. The savings from imposing a 5 percent cap rather than the pay agent's plan are estimated to be \$160 million in the first year. Thus, the dollar savings and the likelihood of success from an alternative plan can be expected to be small.

The CEA participated in an advisory role in the recent Federal pay panel. We believe that the current procedures used by the pay agent are more appropriate than the previous method. The pay agent's proposed increase averaging 5.17 percent would result in only a small decline in real earnings for persons who do not receive a step or grade increase.

Therefore, we support Option 4, the pay agent's recommendation that would increase payroll costs by 5.17 percent.



THE WHITE HOUSE

WASHINGTON

August 27, 1976

MR PRESIDENT:

Federal Pay Adjustment

The following recommendations have been received from the staff on Jim Lynn's memorandum of August 25 regarding Federal Pay Adjustment.

Phil Buchen - "Agree with legal observations set forth at the bottom of page 5 and the top of page 6. Support the recommendations advanced by OMB."

Jim Cannon - Strongly agrees with OMB & CSC.

Max Friedersdorf - Supports Option #5

Bob Hartmann comments - 1) A flat 5% increase, without consideration of the Advisory Committee recommendations is obviously arbitrary. 2) better to have in hand all suggestions for the best solution, than to act hastily."

Alan Greenspan - Comments are at TAB A.
Supports Option 4.

Must - option #5

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: August 25, 1976

Time:

FOR ACTION:

cc (for information):

✓ Phil Buchen

Dave Gergen

✓ Jim Cannon

Jack Marsh

✓ Bill Seidman

✓ Max Friedersdorf

✓ Bob Hartmann

✓ Alan Greenspan

FROM THE STAFF SECRETARY

X2299

DUE: Date: Friday, August 27

Time: 10 A.M.

SUBJECT:

James Lynn memo --8/25/76 re
Federal Pay Adjustment

ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☐ Draft Remarks

REMARKS:

The Original of this memorandum has been dexted to the President in Vail because of the fact that a decision should be made by August 31. We have promised the President to have staff recommendations to him shortly.

*Friedersdorf - option #5
Seidman - agree with Lynn
Cannon - see comments
Buchen - agree
Greenspan - see comments*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jim Connor
For the President

IMM
PRECEDENCE

Confidential
CLASSIFICATION

FOR COMMCENTER USE ONLY

FROM: JIM CONNOR
TO: DICK CHERRY
Vail

DEX

DAC 150

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PAGES 23

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THE WHITE HOUSE
WASHINGTON

August 25, 1976

MEMORANDUM FOR THE PRESIDENT

THROUGH: DICK CHENEY
FROM: JIM CONNOR
SUBJECT: Federal Pay Adjustment

The attached memorandum from Jim Lynn indicates that your decision on this subject must be made by next Tuesday, August 31. For this reason we are dexting this memorandum to you for your review.

At the same time we are gathering staff recommendations on this subject and we will forward these to you as soon as possible.

TABS A and B to this memorandum are being forwarded by courier leaving tomorrow morning.



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

August 25, 1976

ACTION

MEMORANDUM FOR THE PRESIDENT

From: James T. Lynn
Subject: Federal Pay Adjustment

I. BACKGROUND

The time is rapidly approaching for your final decision on the Federal pay adjustment which goes into effect this October. If you are not going to present an alternative plan imposing caps or delaying increases, your decision should be made by September 24. If you are going to present such a plan, your decision must be made by next Tuesday, August 31.

Tabs A and B contain two of the three reports which the comparability law requires that you consider before making the decision. Tab A is the comparability decision of your joint pay agent (the Chairman of the Civil Service Commission and the Director of the Office of Management and Budget). Tab B presents the views of the Federal Employees Pay Council (officials of the largest Federal employee unions). You must also consider the views of the members of the outside Advisory Committee on Federal Pay. We expect their report this week. However, they also wish to meet personally with you to express their views.

Law requires that the pay agent's decision be based on pay comparability with the private sector. Tab C displays present pay and the rate increases determined on a comparability basis in the agent's report, both before and after applying the statutory provision which rules out GS pay being above Executive Level V. With the Level V ceiling, the agent's decision this year would increase aggregate payroll costs for General Schedule employees by 5.17%. The increase in the rates of the General Schedule--disregarding the Level V ceiling--would average 4.83%.

The agent's decision includes some fundamental and rather controversial changes in the comparability process. One of these is the use of weighting--weighted averages which give consideration not only to varying salary rates for jobs but also to the relative impact of the differing numbers of employees in these jobs. Another change is application of a new curve which produces a better fit to private enterprise salary data and does a better job of closing the comparability gap. A third is inclusion in the comparability survey of revised definitions for secretary and computer operator occupations.

The Pay Council has strongly opposed the introduction of the changes described above, and the release of the pay agent's decision has resulted in the resignation of three of the five union officials on the Council. The Advisory Committee strongly believes we should make some meaningful compromise, and they probably will recommend that you provide for phasing in the changes, resulting in an average increase of around 6.2%.

The comparability law provides that you will "consider" the reports of the pay agent, the Pay Council, and the Advisory Committee before reaching your decision, and will "adjust the rates of pay of each statutory pay system in accordance with the principles ..." of comparability set forth in the law. This clearly means you could accept any one of the three reports as the basis for your decision. Therefore, you could adopt any one of the first four options below without an alternative plan. If you should decide to cut below the agent's finding (the lowest of those four options), you would have to use an alternative plan (which is Option 5).

The following includes all the major options available, arranged from the most to the least costly. Unless you choose Option 5, an alternative plan, your decision becomes final and is not subject to one-House veto.

II. OPTIONS

1. The two remaining members of the Pay Council are advocating an average increase of 8.2%. However, you cannot logically agree to that unless you conclude that the pay agent is wrong to make the changes involving weighting and curve-fitting--changes endorsed by a variety of statistical experts, by the General Accounting Office, and by the Advisory Committee.

2. The largest of the Federal unions (AFGE) would reluctantly accept weighting and the other changes if there were some sort of phase-in of their impact. They have previously proposed a 6.7% increase. However, they probably would be glad to get almost any sort of compromise.

3. The Advisory Committee is expected to recommend a compromise (around 6.2%) which includes a phase-in of the impact of the recent changes. They are basing this on the precedent set when the introduction of a dual payline computation was recently phased in over a period of three years.

The Advisory Committee will make their own case for this compromise. However, you should be aware in advance of the two basic arguments for their proposal:

a. The agent's changes in methods of determining comparability reduce by some five percentage points the pay adjustment employees might otherwise have expected, with a saving to the government of \$2½ billion. In view of such drastic changes in long-standing procedures and in respect for the opinions of the affected parties, the Committee favors cushioning the impact somewhat. They believe this would produce a more amicable implementation while still securing the savings to the government in the long run.

b. The current Federal pay-setting system is unlike that in the Postal Service or private industry where management can be forced into large wage settlements to avoid strikes, etc. Our present system based on comparability typically produces relatively modest increases and avoids serious labor troubles. The Committee believes that we will eventually be forced toward collective bargaining procedures but should retain the current system for as long as possible by continuing to avoid major controversies and by making some compromise to achieve this.

4. The pay agent believes its scale of increases, averaging 4.83%, is correct on the comparability basis. The increase in cost involved (5.17%) is also very close to the budget estimate and avoids the \$3/4 billion additional cost of the Committee's expected compromise proposal of around 6.2%. While the agent could have made such a compromise, we did not feel it was appropriate for us to do so. Rather, it was concluded that the entire matter, including any compromise which may finally be offered, should be presented to you for decision.

5. You could recommend an alternative plan to the Congress to reduce the increases provided in the agent's report by imposing a 5% cap. This would have to be done by August 31. The budget submitted in January was prepared on the basis that the October increases would be limited to 5%, with all employees receiving at least 3% increases. The budget's estimated average increase was 4.7%. Our position at budget time was that all this was to be subject to your final decision in late summer after a review of the economic and fiscal situation and the reports of the various parties. Under the pay agent's report, no one will receive less than 4.24%, and only GS-12, 13, 14, and 15 employees will receive more than the budget's projected 5% -- 5.45%, 6.12%, 6.94%, and 7.92% respectively.

The "pros" of this option for an alternative plan providing a 5% cap are:

- a. It would be a further demonstration of your determination to hold down Federal expenditures. Assuming the cap is for a full year, the savings would be about \$160 million. In absolute terms, this is a substantial amount.
- b. It would reaffirm your tentative decision reflected in the January budget submission to impose a 5% cap.
- c. GS-12's, 13's, 14's, and 15's, now make \$21,848, \$26,009, \$30,541 and \$35,636, respectively. With a 5% cap, their average increases would range from \$1,092 to \$1,782, instead of from \$1,191 to \$2,822 without the cap. Under the pay agent's report, GS-16's, 17's and 18's would be entitled to increases of 9.06%, 10.36% and 11.83%, respectively, on a comparability basis, but by

reason of the statutory limit tied to Executive Level V, they will receive only 5.05%, 4.76%, and 4.76%, respectively. Therefore, it can be argued that it is not inequitable to restrict increases for the next four lower grades, too.

The "cons" of such an alternative plan are:

a. Given (i) the barrage of criticism the Congress has received for congressional pay linkage, (ii) the Republican Platform plank to unlink, and (iii) an election year, Congress might very well feel forced to rise to the occasion by passing a bill unlinking their own pay (and possible even executive and judicial pay) with or without taking action to reject a 5% cap on General Schedule employees. If they were to do so, a veto would be hard to explain and would contradict the Platform.

b. It is probable that, as a result of the Quadrennial Commission review procedures this fall and winter, there will be a very substantial increase, effective early next year, in executive level, judicial and congressional pay. Without the cap on General Schedule employees provided by an alternative plan, such an increase for executive levels would raise the Level V ceiling that has "compressed" pay for GS-16's, 17's and 18's below comparability levels. It seems equitable that this be permitted if executive pay is so raised. If an alternative plan is to be presented now, this problem could be dealt with in only one of two ways: (1) by stipulating now that the cap would be imposed only for the period up to the time of the Quadrennial review increases, if any (which would result in very little savings--about \$67 million) or (2) by Quadrennial review action by you this Winter which defers, in whole or in part, increases that come out of such procedure until October 1977. The latter approach would save money by delaying the quadrennial increases and the increases for the GS-16's, 17's and 18's but would surely hurt executive and General Schedule management recruitment in the early part of 1977. If you don't submit an alternative plan now, this set of problems need not be addressed now.

c. The Department of Justice has joined in the lawsuit contesting the constitutionality of the one-house veto provision in the new election laws. The statute permitting alternative pay plans has a similar provision, and presentation of an alternative plan at

this particular time might bring a lawsuit by the unions or others contesting the constitutionality of the alternative plan procedure. It would be extremely difficult to differentiate between the two cases. Our legal advisors believe it would be inconsistent to defend the constitutionality of the one-house veto in the alternative plan case, and they also argue that, if we were unsuccessful, the President's alternative plan authority (and the 5% cap) would probably be struck down along with the one-house veto.

d. The savings from last year's 5% cap was approximately \$1.6 billion. A 5% cap this year would save only about \$160 million, and even less than that if the cap were lifted early next year at the time of the anticipated Quadrennial increases. Thus, a cap this year would be considerably more difficult to justify.

e. The fact that GS-16's and above are held down by the Executive Level V limitation shouldn't be used against the GS-12's through 15's. Even if the latter get full comparability, they still would make less than the higher GS levels.

f. Under the statute, the President has alternative plan authority only under "national emergency or economic conditions affecting the general welfare" criteria. In view of the relatively small savings involved when viewed from the perspective of a budget approaching \$400 billion, there would be a risk of a judicial ruling that you exceeded your authority. Such an opinion might reduce the President's authority for the future by a narrow interpretation. In any event, use of an alternative plan under this year's circumstances would add still more impetus to the effort to get Congress to repeal or modify the President's alternative plan authority.

III. RECOMMENDATION

As indicated above, under the law you should consider the views of the Advisory Committee before you select any option. Therefore, you should not decide the matter until we have their written report in your hands (later this week). Although only their report is necessary for your decision, the Committee has asked

for a meeting with you. Last year you handled the matter by a telephone conversation with their Chairman, Mr. Rosow. This might satisfy them again this year, but in view of the strong reaction of the Pay Council this year (and the ensuing resignations) and the Committee's view that you should decide on increases above those provided by the pay agent's report, Chairman Hampton and I recommend strongly that you meet personally with the Committee, albeit briefly, before making your decision. If you are not inclined toward Option 5, an alternative plan, this meeting could be held any time in the next two or three weeks. If you are inclined toward an alternative plan, however, the meeting would have to be scheduled on or before the date your plan would have to go to Congress, August 31--next Tuesday.

Chairman Hampton and I recommend against Option 5 and do recommend Option 4. If you are inclined toward Option 5, we would much appreciate meeting with you before final decision.

IV. DECISIONS

1. Rule out Option 5, the alternative plan
(Hampton and Lynn recommend that you agree).

Agree _____ Disagree _____

2. Meet with Advisory Committee
(Hampton and Lynn recommend that you agree).

Agree _____ Disagree _____

Will handle by telephone call _____

3. Meet with Hampton, Lynn and other advisors before final decision (recommended by Hampton and Lynn only if you are inclined toward Option 5, the alternative plan).

Set up meeting _____

No meeting necessary _____

Comparability Decision of Your Joint Pay Agent

(To be forwarded by airplane)

Views of the Federal Employees Pay Council

(To be forwarded by airplane)

PAY AGENT'S REPORT

<u>GENERAL SCHEDULE</u> <u>GRADE</u>	<u>CURRENT</u> <u>STEP 1</u> <u>RATES</u>	<u>PROPOSED STEP 1</u> <u>RATES</u>	<u>PROPOSED PERCENT</u> <u>INCREASE</u>
1	\$ 5,559	\$ 5,810	4.51%
2	6,296	6,572	4.39
3	7,102	7,408	4.30
4	7,976	8,316	4.25
5	8,925	9,303	4.24
6	9,946	10,370	4.27
7	11,046	11,523	4.33
8	12,222	12,763	4.42
9	13,482	14,097	4.55
10	14,824	15,524	4.72
11	16,255	17,056	4.93
12	19,386	20,442	5.45
13	22,906	24,308	6.12
14	26,861	28,725	6.94
15	31,309	33,789	7.92
16	36,338	39,600* (39,629)	5.05 (9.06)
17	37,800* (42,066)	39,600* (46,423)	4.76 (10.36)
18	37,800* (48,654)	39,600* (54,410)	4.76 (11.83)

* Rates or proposed increases actually paid because of Executive level ceiling of \$37,800. Rates or proposed increases in parentheses would be paid if no ceiling existed.

Advance (unsigned) copy of the
Report of the Advisory Committee on Federal Pay

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 out 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			
Hypotehtical <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.

August 25, 1976

MEMORANDUM FOR THE PRESIDENT

THROUGH: DICK CHENEY
FROM: JIM CONNOR
SUBJECT: Federal Pay Adjustment

The attached memorandum from Jim Lynn indicates that your decision on this subject must be made by next Tuesday, August 31. For this reason we are dexing this memorandum to you for your review.

At the same time we are gathering staff recommendations on this subject and we will forward these to you as soon as possible.

TABS A and B to this memorandum are being forwarded by courier leaving tomorrow morning.

August 25, 1976

MR PRESIDENT:

Federal Pay Adjustment

Jim Lynn's memorandum on the above subject was dexted to you today for review. As promised attached are Tabs A and B mentioned in Jim Lynn's memorandum.

Staffing comments are being gathered and will be forwarded.


Jim Connor

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

August 27, 1976

MEMORANDUM FOR DR. JAMES E. CONNOR

FROM: Paul W. MacAvoy 

SUBJECT: Federal Pay Adjustment

This is in response to your request for the Council of Economic Advisers' comments and recommendations regarding the October 1976 Federal pay adjustments.

Recent research by economists has compared the earnings of Federal (non-postal) employees and private sector workers with the same productivity-related characteristics. These studies find that the Federal workers tend to have higher wage rates and annual earnings than comparable private sector workers. Although not definitive, they suggest that undercompensation of Federal workers does not appear to be a problem.

The budget submitted in January 1976, assumed a 5 percent ceiling on wage increases with an estimated average increase of 4.7 percent. If the President proposes an alternative plan, the alternative can be vetoed by a majority vote in either House. The savings from imposing a 5 percent cap rather than the pay agent's plan are estimated to be \$160 million in the first year. Thus, the dollar savings and the likelihood of success from an alternative plan can be expected to be small.

The CEA participated in an advisory role in the recent Federal pay panel. We believe that the current procedures used by the pay agent are more appropriate than the previous method. The pay agent's proposed increase averaging 5.17 percent would result in only a small decline in real earnings for persons who do not receive a step or grade increase.

Therefore, we support Option 4, the pay agent's recommendation that would increase payroll costs by 5.17 percent.



Date: August 25, 1976

Time:

FOR ACTION:

cc (for information):

Phil Buchen

Dave Gergen

Jim Cannon

Jack Marsh

Bill Seidman

Max Friedersdorf

Bob Hartmann

Alan Greenspan

FROM THE STAFF SECRETARY

DUE: Date: Friday, August 27

Time: 10 A.M.

SUBJECT:

James Lynn memo --8/25/76 re
Federal Pay Adjustment

ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☐ Draft Remarks

REMARKS:

this memorandum has been dexted to
the President in Vail because of the fact that a decision
should be made by August 31. We have promised the
President to have staff recommendations to him shortly.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a
delay in submitting the required material, please
telephone the Staff Secretary immediately.


Jim Connor
For the President

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

August 27, 1976

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FROM: Paul W. MacAvoy 

SUBJECT: Federal Pay Adjustment

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The CEA participated in an advisory role in the recent Federal pay panel. We believe that the current procedures used by the pay agent are more appropriate than the previous method. The pay agent's proposed increase averaging 5.17 percent would result in only a small decline in real earnings for persons who do not receive a step or grade increase.

Therefore, we support Option 4, the pay agent's recommendation that would increase payroll costs by 5.17 percent.



THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: August 25, 1976

Time:

FOR ACTION:

cc (for information):

Phil Buchen

Dave Gergen

Jim Cannon

Jack Marsh

Bill Seidman

Max Friedersdorf

Bob Hartmann

Alan Greenspan

FROM THE STAFF SECRETARY

DUE: Date: Friday, August 27

Time: 10 A.M.

SUBJECT:

James Lynn memo --8/25/76 re
Federal Pay Adjustment

ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☐ Draft Remarks

REMARKS:

Original of this memorandum has been dexted to the President in Vail because of the fact that a decision should be made by August 31. We have promised the President to have staff recommendations to him shortly.

Agree with legal observations set forth at the bottom of page 5 and the top of page 6. Support the recommendations advanced by OMB.

ES Schmultz
Edward Schmultz 8/27/76

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

Jim Connor
For the President



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

August 25, 1976

ACTION

MEMORANDUM FOR THE PRESIDENT

From: James T. Lynn
Subject: Federal Pay Adjustment

I. BACKGROUND

The time is rapidly approaching for your final decision on the Federal pay adjustment which goes into effect this October. If you are not going to present an alternative plan imposing caps or delaying increases, your decision should be made by September 24. If you are going to present such a plan, your decision must be made by next Tuesday, August 31.

Tabs A and B contain two of the three reports which the comparability law requires that you consider before making the decision. Tab A is the comparability decision of your joint pay agent (the Chairman of the Civil Service Commission and the Director of the Office of Management and Budget). Tab B presents the views of the Federal Employees Pay Council (officials of the largest Federal employee unions). You must also consider the views of the members of the outside Advisory Committee on Federal Pay. We expect their report this week. However, they also wish to meet personally with you to express their views.

Law requires that the pay agent's decision be based on pay comparability with the private sector. Tab C displays present pay and the rate increases determined on a comparability basis in the agent's report, both before and after applying the statutory provision which rules out GS pay being above Executive Level V. With the Level V ceiling, the agent's decision this year would increase aggregate payroll costs for General Schedule employees by 5.17%. The increase in the rates of the General Schedule--disregarding the Level V ceiling--would average 4.83%.

The agent's decision includes some fundamental and rather controversial changes in the comparability process. One of these is the use of weighting--weighted averages which give consideration not only to varying salary rates for jobs but also to the relative impact of the differing numbers of employees in these jobs. Another change is application of a new curve which produces a better fit to private enterprise salary data and does a better job of closing the comparability gap. A third is inclusion in the comparability survey of revised definitions for secretary and computer operator occupations.

The Pay Council has strongly opposed the introduction of the changes described above, and the release of the pay agent's decision has resulted in the resignation of three of the five union officials on the Council. The Advisory Committee strongly believes we should make some meaningful compromise, and they probably will recommend that you provide for phasing in the changes, resulting in an average increase of around 6.2%.

The comparability law provides that you will "consider" the reports of the pay agent, the Pay Council, and the Advisory Committee before reaching your decision, and will "adjust the rates of pay of each statutory pay system in accordance with the principles ..." of comparability set forth in the law. This clearly means you could accept any one of the three reports as the basis for your decision. Therefore, you could adopt any one of the first four options below without an alternative plan. If you should decide to cut below the agent's finding (the lowest of those four options), you would have to use an alternative plan (which is Option 5).

The following includes all the major options available, arranged from the most to the least costly. Unless you choose Option 5, an alternative plan, your decision becomes final and is not subject to one-House veto.

II. OPTIONS

1. The two remaining members of the Pay Council are advocating an average increase of 8.2%. However, you cannot logically agree to that unless you conclude that the pay agent is wrong to make the changes involving weighting and curve-fitting--changes endorsed by a variety of statistical experts, by the General Accounting Office, and by the Advisory Committee.

2. The largest of the Federal unions (AFGE) would reluctantly accept weighting and the other changes if there were some sort of phase-in of their impact. They have previously proposed a 6.7% increase. However, they probably would be glad to get almost any sort of compromise.

3. The Advisory Committee is expected to recommend a compromise (around 6.2%) which includes a phase-in of the impact of the recent changes. They are basing this on the precedent set when the introduction of a dual payline computation was recently phased in over a period of three years.

The Advisory Committee will make their own case for this compromise. However, you should be aware in advance of the two basic arguments for their proposal:

a. The agent's changes in methods of determining comparability reduce by some five percentage points the pay adjustment employees might otherwise have expected, with a saving to the government of \$2½ billion. In view of such drastic changes in long-standing procedures and in respect for the opinions of the affected parties, the Committee favors cushioning the impact somewhat. They believe this would produce a more amicable implementation while still securing the savings to the government in the long run.

b. The current Federal pay-setting system is unlike that in the Postal Service or private industry where management can be forced into large wage settlements to avoid strikes, etc. Our present system based on comparability typically produces relatively modest increases and avoids serious labor troubles. The Committee believes that we will eventually be forced toward collective bargaining procedures but should retain the current system for as long as possible by continuing to avoid major controversies and by making some compromise to achieve this.

4. The pay agent believes its scale of increases, averaging 4.83%, is correct on the comparability basis. The increase in cost involved (5.17%) is also very close to the budget estimate and avoids the \$3/4 billion additional cost of the Committee's expected compromise proposal of around 6.2%. While the agent could have made such a compromise, we did not feel it was appropriate for us to do so. Rather, it was concluded that the entire matter, including any compromise which may finally be offered, should be presented to you for decision.

5. You could recommend an alternative plan to the Congress to reduce the increases provided in the agent's report by imposing a 5% cap. This would have to be done by August 31. The budget submitted in January was prepared on the basis that the October increases would be limited to 5%, with all employees receiving at least 3% increases. The budget's estimated average increase was 4.7%. Our position at budget time was that all this was to be subject to your final decision in late summer after a review of the economic and fiscal situation and the reports of the various parties. Under the pay agent's report, no one will receive less than 4.24%, and only GS-12, 13, 14, and 15 employees will receive more than the budget's projected 5% -- 5.45%, 6.12%, 6.94%, and 7.92% respectively.

The "pros" of this option for an alternative plan providing a 5% cap are:

a. It would be a further demonstration of your determination to hold down Federal expenditures. Assuming the cap is for a full year, the savings would be about \$160 million. In absolute terms, this is a substantial amount.

b. It would reaffirm your tentative decision reflected in the January budget submission to impose a 5% cap.

c. GS-12's, 13's, 14's, and 15's, now make \$21,848, \$26,009, \$30,541 and \$35,636, respectively. With a 5% cap, their average increases would range from \$1,092 to \$1,782, instead of from \$1,191 to \$2,822 without the cap. Under the pay agent's report, GS-16's, 17's and 18's would be entitled to increases of 9.06%, 10.36% and 11.83%, respectively, on a comparability basis, but by

reason of the statutory limit tied to Executive Level V, they will receive only 5.05%, 4.76%, and 4.76%, respectively. Therefore, it can be argued that it is not inequitable to restrict increases for the next four lower grades, too.

The "cons" of such an alternative plan are:

a. Given (i) the barrage of criticism the Congress has received for congressional pay linkage, (ii) the Republican Platform plank to unlink, and (iii) an election year, Congress might very well feel forced to rise to the occasion by passing a bill unlinking their own pay (and possible even executive and judicial pay) with or without taking action to reject a 5% cap on General Schedule employees. If they were to do so, a veto would be hard to explain and would contradict the Platform.

b. It is probable that, as a result of the Quadrennial Commission review procedures this fall and winter, there will be a very substantial increase, effective early next year, in executive level, judicial and congressional pay. Without the cap on General Schedule employees provided by an alternative plan, such an increase for executive levels would raise the Level V ceiling that has "compressed" pay for GS-16's, 17's and 18's below comparability levels. It seems equitable that this be permitted if executive pay is so raised. If an alternative plan is to be presented now, this problem could be dealt with in only one of two ways: (1) by stipulating now that the cap would be imposed only for the period up to the time of the Quadrennial review increases, if any (which would result in very little savings--about \$67 million) or (2) by Quadrennial review action by you this Winter which defers, in whole or in part, increases that come out of such procedure until October 1977. The latter approach would save money by delaying the quadrennial increases and the increases for the GS-16's, 17's and 18's but would surely hurt executive and General Schedule management recruitment in the early part of 1977. If you don't submit an alternative plan now, this set of problems need not be addressed now.

c. The Department of Justice has joined in the lawsuit contesting the constitutionality of the one-house veto provision in the new election laws. The statute permitting alternative pay plans has a similar provision, and presentation of an alternative plan at

this particular time might bring a lawsuit by the unions or others contesting the constitutionality of the alternative plan procedure. It would be extremely difficult to differentiate between the two cases. Our legal advisors believe it would be inconsistent to defend the constitutionality of the one-house veto in the alternative plan case, and they also argue that, if we were unsuccessful, the President's alternative plan authority (and the 5% cap) would probably be struck down along with the one-house veto.

d. The savings from last year's 5% cap was approximately \$1.6 billion. A 5% cap this year would save only about \$160 million, and even less than that if the cap were lifted early next year at the time of the anticipated Quadrennial increases. Thus, a cap this year would be considerably more difficult to justify.

e. The fact that GS-16's and above are held down by the Executive Level V limitation shouldn't be used against the GS-12's through 15's. Even if the latter get full comparability, they still would make less than the higher GS levels.

f. Under the statute, the President has alternative plan authority only under "national emergency or economic conditions affecting the general welfare" criteria. In view of the relatively small savings involved when viewed from the perspective of a budget approaching \$400 billion, there would be a risk of a judicial ruling that you exceeded your authority. Such an opinion might reduce the President's authority for the future by a narrow interpretation. In any event, use of an alternative plan under this year's circumstances would add still more impetus to the effort to get Congress to repeal or modify the President's alternative plan authority.

III. RECOMMENDATION

As indicated above, under the law you should consider the views of the Advisory Committee before you select any option. Therefore, you should not decide the matter until we have their written report in your hands (later this week). Although only their report is necessary for your decision, the Committee has asked

for a meeting with you. Last year you handled the matter by a telephone conversation with their Chairman, Mr. Rosow. This might satisfy them again this year, but in view of the strong reaction of the Pay Council this year (and the ensuing resignations) and the Committee's view that you should decide on increases above those provided by the pay agent's report, Chairman Hampton and I recommend strongly that you meet personally with the Committee, albeit briefly, before making your decision. If you are not inclined toward Option 5, an alternative plan, this meeting could be held any time in the next two or three weeks. If you are inclined toward an alternative plan, however, the meeting would have to be scheduled on or before the date your plan would have to go to Congress, August 31--next Tuesday.

Chairman Hampton and I recommend against Option 5 and do recommend Option 4. If you are inclined toward Option 5, we would much appreciate meeting with you before final decision.

IV. DECISIONS

1. Rule out Option 5, the alternative plan
(Hampton and Lynn recommend that you agree).

Agree _____ Disagree _____

2. Meet with Advisory Committee
(Hampton and Lynn recommend that you agree).

Agree _____ Disagree _____

Will handle by telephone call _____

3. Meet with Hampton, Lynn and other advisors before final decision (recommended by Hampton and Lynn only if you are inclined toward Option 5, the alternative plan).

Set up meeting _____

No meeting necessary _____

TAB A

Comparability Decision of Your Joint Pay Agent

(To be forwarded by airplane)

Views of the Federal Employees Pay Council

(To be forwarded by airplane)

PAY AGENT'S REPORT

<u>GENERAL SCHEDULE</u> <u>GRADE</u>	<u>CURRENT</u> <u>STEP 1</u> <u>RATES</u>	<u>PROPOSED STEP 1</u> <u>RATES</u>	<u>PROPOSED PERCENT</u> <u>INCREASE</u>
1	\$ 5,559	\$ 5,810	4.51%
2	6,296	6,572	4.39
3	7,102	7,408	4.30
4	7,976	8,316	4.25
5	8,925	9,303	4.24
6	9,946	10,370	4.27
7	11,046	11,523	4.33
8	12,222	12,763	4.42
9	13,482	14,097	4.55
10	14,824	15,524	4.72
11	16,255	17,056	4.93
12	19,386	20,442	5.45
13	22,906	24,308	6.12
14	26,861	28,725	6.94
15	31,309	33,789	7.92
16	36,338	39,600* (39,629)	5.05 (9.06)
17	37,800* (42,066)	39,600* (46,423)	4.76 (10.36)
18	37,800* (48,654)	39,600* (54,410)	4.76 (11.83)

*. Rates or proposed increases actually paid because of Executive level ceiling of \$37,800. Rates or proposed increases in parentheses would be paid if no ceiling existed.

Advance (unsigned) copy of the
Report of the Advisory Committee on Federal Pay

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

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			
Hypotehtical <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.

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: August 25, 1976

Time:

FOR ACTION:

cc (for information):

Phil Buchen

Dave Gergen

Jim Cannon

Jack Marsh

Max Friedersdorf

Bob Hartmann

Bill SeidmanAlan Greenspan

FROM THE STAFF SECRETARY

DUE: Date: Friday, August 27

Time: 10 A.M.

SUBJECT:

James Lynn memo --8/25/76 re
Federal Pay Adjustment

ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☐ Draft Remarks

REMARKS:

this memorandum has been dexted to
the President in Vail because of the fact that a decision
should be made by August 31. We have promised the
President to have staff recommendations to him shortly.

AGREE WITH LYNN

LWS

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a
delay in submitting the required material, please
telephone the Staff Secretary immediately.

Jim Connor
For the President

Date: August 25, 1976

Time:

FOR ACTION:

cc (for information):

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8.26

Decisions:

- #1 - Strongly agree with ONB + CSC*
#2 - Agree it seems wise
#3 - Agree with ONB & CSC

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Jim
Jim Connor
For the President

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Date: August 25, 1976

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Federal Pay Adjustment

ACTION REQUESTED:

- | | |
|---|--|
| <input type="checkbox"/> For Necessary Action | <input checked="" type="checkbox"/> For Your Recommendations |
| <input type="checkbox"/> Prepare Agenda and Brief | <input type="checkbox"/> Draft Reply |
| <input checked="" type="checkbox"/> For Your Comments | <input type="checkbox"/> Draft Remarks |

REMARKS:

TV. this memorandum has been dexted to the President in Vail because of the fact that a decision should be made by August 31. We have promised the President to have staff recommendations to him shortly.

- 1) a flat 5% increase, without consideration of the Advisory Committee recommendations, is obviously arbitrary.
- 2) better to have in hand all suggestions for the best solution, than to act

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

hastily
Jim Connor
For the President

— talk
w/Cheney
THE WHITE HOUSE
WASHINGTON —

724
Paper
A/M

THE WHITE HOUSE
WASHINGTON

Recommend
against option
5 and agree w/
proposed meeting
w/ Advisory Committee.

THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: August 25, 1976

Time:

Dec: 8/27
AUG 25 1976 10:00

FOR ACTION:

cc (for information):

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