CHAPTER I

INTRODUCTION

Pay and benefits for the government's 2 million civilian employees will total about \$110 billion in 1995.[1] Salaries paid to employees account for about \$90 billion of that amount, representing about 6 percent of all federal expenditures.

Pay continues to be a target for reduction as part of efforts to limit federal spending and reduce federal budget deficits (see Box 1). For 1994 and 1995, the government limited pay raises authorized under the Federal Employees Pay Comparability Act of 1990. FEPCA provides for annual pay raises that would eventually move salaries for most federal white-collar workers toward comparability with nonfederal rates that prevail in different localities. The first of those comparability pay raises occurred in 1994.

The reforms introduced by FEPCA have not escaped criticism. Much of the criticism, moreover, is a continuation of that directed at the national system that preceded FEPCA. Critics often cite problems with pay-setting practices in government to support further reductions in federal pay. This paper examines three common concerns about how the government determines and applies pay raises. The analysis suggests that some concerns may be overstated and that others lend themselves to solutions other than limiting pay. Even in the absence of problems with FEPCA, however, federal pay would probably not escape consideration in the government's continuing struggle with budget deficits. Accordingly, this paper also describes the budgetary and other consequences of further limiting federal pay raises.

FEDERAL EMPLOYMENT AND PAYROLL

The federal payroll, which includes wages and salaries, nearly tripled between 1975 and 1994, rising from \$30 billion to \$86 billion (see Table 1). The average salary during the period rose from \$13,700 to \$39,400. That increase reflects not only the pay raises granted to federal employees but also the shifts in the occupational mix of the workforce.

1. Unless otherwise indicated, this analysis covers civilian employees only--that is, employees outside the uniformed military services. The analysis also excludes employees of the U.S. Postal Service, who numbered about 800,000 in 1994. Postal employees are covered by a pay system that is separate from that of other civilian employees and funded by revenue from the sale of stamps rather than federal taxes.

By contrast, employment in government has remained fairly stable. After increasing by 4 percent between 1975 and 1985, the federal workforce then declined by the same amount, returning in 1994 to about the level of almost two decades earlier (see Table 1). Recent reductions at the Department of Defense (DoD) are largely responsible for the decline since 1985. Overall, the relative stability in federal employment reflects the efforts of successive Administrations to improve the efficiency of government operations and reduce the size and scope of federal activities.

The federal system represents a large and highly complex undertaking. The 2 million government workers account for about 2 percent of all workers in the United States. Federal employees work in 850 different occupations, more than 100 different agencies direct their efforts, and dozens of pay plans govern their wages and salaries.

Within this complexity, however, are several defining characteristics. Just three federal agencies, for example, employ about 6 of every 10 federal civilian workers and account for 56 percent of the federal payroll--the Department of Defense, the Department of Veterans Affairs, and the Department of the Treasury (see Table 2). Although its workforce has declined in recent years, DoD remains the largest federal agency, employing about 4 of every 10 federal civilian workers and accounting for about 37 percent of the federal payroll.

BOX 1.
RECENT PROPOSALS BY THE PRESIDENT
TO CONTROL FEDERAL PERSONNEL COSTS

President Clinton has targeted federal personnel costs for reduction in each of his budgets. The President's proposals have sought to curtail the growth in payroll and other personnel expenses through cuts in federal employment and limits on federal pay raises.

In his 1996 budget, the President proposes limiting pay raises to 2.4 percent. Although the Administration does not allocate this amount between the two annual raises authorized for federal civilian employees under the Federal Employees Pay Comparability Act of 1990 (FEPCA), the level of the proposed raise is well below the combined increase that would occur under the act. If implemented, this cap on pay raises would continue what has become an annual event. The government limited raises under FEPCA in both 1994 and 1995.

The President's budget also proposes to continue reductions in federal employment mandated by the Federal Workforce Restructuring Act of 1994. Limits in the act would reduce federal employment to 1.88 million through 1999. Those reductions build upon others authorized in earlier Presidential memorandums. According to estimates in the President's budget, federal employment through 1995 will have fallen by 121,000 below the 1993 level of 2.14 million.

In addition, the federal workforce is largely white-collar (see Table 3). About 8 of every 10 employees in the executive branch hold jobs in white-collar occupations such as secretary, engineer, and accountant. Those workers accounted for about 88 percent of the federal payroll in 1994. A table of salary rates, referred to as the General Schedule, governs the pay of most of those workers. Blue-collar workers, in jobs such as plumber and electrician, make up about 15 percent of federal employment and account for about 12 percent of the federal payroll. DoD employs most federal blue-collar workers (80 percent of the government total).

EMPLOYMENT AND PAYROLL COVERED BY THE GENERAL SCHEDULE

The General Schedule (GS) is the government's primary pay plan, covering 76 percent of the workforce. This pay plan was the main focus of reform under FEPCA. Employees covered by the General Schedule hold white-collar jobs that range from clerical positions to highly trained professional positions. The government bases pay for those workers on comparisons with salaries in the private sector and in state and local governments. The payroll for full-time GS employees totaled $57 billion for 1994. (See Appendix A for a description of the government's other major white-collar pay systems.)

TABLE 1. FEDERAL CIVILIAN EMPLOYMENT AND PAYROLL, 1975-1994

				Percentage Change		
	1975	1985	1994	1975-1985	1985-1994	1975-1994
Employment (Thousands of workers)	2,173.3	2,267.5	2,179.2	4	-4	a
Payroll (Billions of dollars)	29.8	60.8	85.9	104	41	188
Average Salary (Dollars)[b]	13,700	26,800	39,400	96	47	188

SOURCE: Congressional Budget Office using data provided by the Office of Personnel Management.

NOTE: Data cover all three branches of government and all work schedules. Employment figures represent averages of monthly totals.

a. Less than one-half of one percent.

b. Growth reflects pay raises and shifts in the occupational mix of the workforce.

The General Schedule Workforce

The General Schedule workforce is highly educated and highly skilled. About 80 percent hold jobs in occupations designated professional, administrative, or technical (see Table 4). Among the larger job categories in those occupational groups are engineering and engineering support, nurse and medical technician, and computer specialist. About 17 percent of all GS workers hold clerical jobs.

As the problems with which government is asked to deal have become larger and more complex, the portion of the workforce in higher-skilled occupations has grown (see Table 4). In 1980, about 48 percent of the GS workforce held jobs in professional and administrative occupations. By 1993, the share in such jobs had increased to 55 percent. The workforce has also become more highly educated. In 1980, 35 percent of the GS workforce had earned a bachelor's or higher degree. For 1993, the figure stood at 46 percent. The trend toward a more educated federal workforce has surpassed the trend for the United States as a whole; in 1993, only 27 percent of the U.S. civilian labor force had four years of college or more, up from 22 percent in 1980.

TABLE 2. FEDERAL CIVILIAN EMPLOYMENT AND PAYROLL BY AGENCY, 1994

	Employment		Payroll	
	Thousands of Workers	Percentage of Total	Billions of Dollars	Percentage of Total
Legislative Branch	36.9	2	1.6	2
Judicial Branch	27.9	1	1.3	1
Executive Branch				
Department of Defense	900.3	41	32.1	37
Department of Veterans Affairs	264.2	12	9.1	11
Department of the Treasury	159.7	7	6.5	8
Other agencies	790.2	36	35.4	41
Subtotal	2,114.4	97	83.0	97
Total	2,179.2	100	85.9	100

SOURCE: Congressional Budget Office using data provided by the Office of Personnel Management.

NOTE: Data cover all three branches of government and all work schedules. Employment figures represent averages of monthly totals.

What Is the General Schedule?

The General Schedule, according to which the government pays the employees described above, consists of 15 pay grades. Each grade has a salary range divided into 10 salary steps. The federal government assigns jobs to a grade on the basis of the duties and responsibilities involved. Under this system, lesser-skilled jobs are in the lower grades and higher-skilled jobs in the upper grades. Most mail and file clerks, for example, are at GS grades 3, 4, and 5; most aerospace engineers are at GS grades 12, 13, and 14. The practice of assigning pay levels on the basis of a job's duties and responsibilities contrasts with the practice in other white-collar federal pay plans of determining pay levels based primarily on individual accomplishments (see Appendix A).

Progress up the 10 salary steps at each grade depends largely on length of time spent in a grade. Employees generally progress to GS steps 2, 3, and 4 after one year of satisfactory service, to the next three steps after two years of satisfactory service,

TABLE 3. FEDERAL CIVILIAN EMPLOYMENT AND PAYROLL BY PAY PLAN, 1994

	Employment		Payroll	
	Thousands of Workers	Percentage of Total	Billions of Dollars	Percentage of Total
Blue-Collar	287.8	15	9.0	12
White-Collar				
Executive pay	8.2	a	0.9	1
Foreign Service	13.5	1	0.8	1
Doctors and nurses at Veterans Affairs	42.2	2	2.2	3
General Schedule	1,474.6	76	56.6	76
Other white-collar	114.1	6	5.3	7
Subtotal	1,652.7	85	65.9	88
Total	1,940.5	100	74.8	100

SOURCE: Congressional Budget Office using data provided by the Office of Personnel Management.

NOTE: Data cover employees in the executive branch and those on full-time work schedules. Employment figures are totals as of March 1994.

a. Less than one-half of one percent.

and to steps 8, 9, and 10 after three years. (Agencies may grant accelerated advances for outstanding performance.) Step increases generally boost pay by about 3 percent. Promotions move employees from grade to grade.

Under the Federal Employees Pay Comparability Act of 1990, pay at any given grade will vary from area to area depending on how federal and nonfederal rates compare. The base salaries--that is, the salaries before any locality pay is factored in--range from $12,141 for a GS grade 1, step 1, to $88,326 for a GS grade 15, step 10 (see Table 5). With locality adjustments, the top salary of the General Schedule may reach as high as $95,860. Other special pay supplements designed to help the government recruit and retain workers push the figure even higher. Grade 10 is roughly the median GS grade.

Growth of the General Schedule Payroll

Between 1985 and 1994, the GS payroll grew by more than 50 percent. About 60 percent of that growth reflected pay raises granted to most GS workers. Those raises

TABLE 4. OCCUPATIONAL DISTRIBUTION AND EDUCATIONAL ATTAINMENT OF GENERAL SCHEDULE WORKERS, SEPTEMBER 1980 AND SEPTEMBER 1993

Occupational Group	Percentage of General Schedule Workforce 1980	Percentage of General Schedule Workforce 1993	Percentage of General Schedule Workforce with Bachelor's or Higher Degree 1980	Percentage of General Schedule Workforce with Bachelor's or Higher Degree 1993
Professional	22	28	86	87
Administrative	26	27	44	60
Technical	22	25	13	14
Clerical	28	17	5	7
Other	3	3	7	11
All Occupations	100	100	35	46

SOURCE: Congressional Budget Office using data provided by the Office of Personnel Management.

NOTE: Data cover employees in the executive branch and those on full-time work schedules.

totaled more than 30 percent, which was less than the increase in both private-sector salaries and inflation for the same period. Federal GS employment, which grew by about 2 percent, contributed to only about 4 percent of the growth in payroll over the 1985-1994 period. Shifts in the distribution of jobs toward higher grades, primarily reflecting the greater share of workers employed in professional, administrative, and other higher-skilled jobs, contributed another 20 percent to the growth in pay. The average grade during the period increased from 8.4 to 9.3.

Most of the remaining growth reflects a rise in the average step of the workforce, the proliferation of special pay rates, and the implementation of geographic differentials in pay. Special rates are salaries higher than those in the General

TABLE 5. PAY AND EMPLOYMENT OF THE GENERAL SCHEDULE WORKFORCE

Grade	Salary Range (Dollars)[a]	Percentage of General Schedule Workforce[b]
1	12,141 to 15,183	c
2	13,650 to 17,174	c
3	14,895 to 19,368	2
4	16,721 to 21,734	7
5	18,707 to 24,323	11
6	20,852 to 27,107	7
7	23,171 to 30,119	10
8	25,662 to 33,357	3
9	28,345 to 36,850	10
10	31,215 to 40,584	1
11	34,295 to 44,582	14
12	41,104 to 53,434	16
13	48,878 to 63,539	11
14	57,760 to 75,085	6
15	67,941 to 88,326	3
All Grades	12,141 to 88,326	100

SOURCE: Congressional Budget Office using data provided by the Office of Personnel Management.

a. Salaries are those that became effective in January 1995. They are base rates that do not reflect locality pay differentials or other supplements to pay designed to boost the government's efforts to recruit and retain employees.

b. Data cover full-time executive branch workers as of March 1994.

c. Less than 1 percent.

Schedule that are intended to help the government to recruit and retain employees for certain jobs in certain areas. The Office of Personnel Management sets them based on requests from agencies. The number of employees receiving special rates rose from 47,000 in 1985 to about 189,000 in 1994. Geographic differentials, authorized by FEPCA, are supplements to General Schedule salaries primarily for employees in New York and Los Angeles. Those differentials were intended as a temporary measure to help agencies to recruit and retain employees while the government phased in comparability. Employees receiving either special rates or geographic differentials will not receive locality pay adjustments (see discussion below) until such adjustments push GS salaries over the rates those employees currently receive.

PAY RAISES UNDER THE GENERAL SCHEDULE

As just described, general increases in salaries contributed significantly to the growth of the total GS payroll. (A general increase refers to one that affects the pay of most workers. Employee pay may also rise because of promotions or increases in step, but those are not general increases for purposes of this discussion.) Under FEPCA, the government may make two such increases in the salaries of the General Schedule every January. The basic principle that federal employees should receive salaries comparable with those paid outside the federal government for the same work guides both increases. The first increase helps to keep federal salaries abreast of most changes in private-sector wages and salaries as measured by the employment cost index (ECI). The second raises federal salaries, in nine annual installments, to roughly the level of nonfederal salaries for comparable work. In other words, the adjustment based on the ECI helps to keep federal salaries from falling any farther behind, and the second adjustment helps them, over a period of years, to catch up. The government thus far has a spotty record in granting the full raises authorized by FEPCA. Raises it has granted to date under the act have increased salaries for most employees by an average of about 7 percent.

Adjustments Based on the ECI

Under FEPCA, when the government adjusts federal salaries to reflect changes in the ECI, it grants the same percentage to all eligible employees, regardless of location. The increase granted, according to the formula set out in law, equals the percentage increase in the ECI over a 12-month period minus one-half of one percentage point. The 12-month reference period occurs long before the raise takes effect, ending in September--15 months before the date of the pay raise. For example, the raise scheduled for January 1996 is based on changes in the ECI from the third quarter of 1993 through the third quarter of 1994.

The government canceled the first ECI-based raise scheduled for January 1994. Had it granted the raise, federal salaries would have risen by 2.2 percent. For 1995, the government granted a raise of 2.0 percent rather than the full 2.6 percent allowed by FEPCA. The full raise scheduled for 1996 would, if granted, raise federal salaries by 2.4 percent.

Locality Pay Increases

In contrast to adjustments based on the ECI, pay raises designed to help federal salaries catch up to nonfederal salaries vary from area to area. Generally, the size of an adjustment in an area depends on the size of the gap between the average federal and nonfederal salaries in that area. (The term pay gap, as used here, refers to the percentage by which federal salaries would have to rise to meet the level of their nonfederal counterparts.)

Under FEPCA, locality adjustments occur only in areas where nonfederal salaries exceed federal salaries by more than 5 percent. Such pay disparities, however, are not remedied all at once. The law establishes a schedule of minimum pay raises designed to close a specific portion of the pay gap each year and from which the President may deviate only under specific circumstances.[2] Those minimum raises would reduce any pay gap in an area to 5 percent over nine years.

For 1994, the schedule of minimum raises set out in FEPCA required the government to grant locality raises designed to close 20 percent of the targeted pay gap. (The targeted pay gap is the percentage increase in federal pay that would bring it to within 5 percent of nonfederal pay.) The locality raises for the 28 pay localities established by the government for 1994 averaged 3.95 percent, based on pay gaps that ranged from 21 percent to 39 percent.

For 1995, FEPCA calls for closing an additional 10 percent of the targeted pay gap so that, together with the 1994 adjustment, the government would have reduced differences in pay by 30 percent. (Adjustments in subsequent years would also close 10 percent of the pay gap.) Legislation enacted late last year (the Treasury, Postal Service, and General Government Appropriations Act of 1995), however, imposed a cap on the 1995 adjustment by restricting the amount that the government could spend on locality raises for the year to the equivalent of 0.6 percent of the civilian, executive branch payroll. Under that formula, adjustments through January 1995 would close about 24 percent of the pay gap.

---

2. In the future, the President may set a locality adjustment at a level below the minimum set in law when a national emergency occurs or serious economic conditions exist. Nothing in the law prevents the President from granting bigger raises.

TABLE 6. GENERAL SCHEDULE EMPLOYMENT AND PAY GAPS, WITH 1995 LOCALITY PAY RAISES AND MINIMUM AND MAXIMUM SALARIES

Location	General Schedule Employment (Percent)[a]	Pay Gap (Percent)	1995 Locality Pay Raise (Percent)[b]	Salary (Dollars)[c]	
				Minimum	Maximum
Atlanta	1.8	25.82	0.77	12,707	92,442
Boston	1.7	36.14	1.42	12,987	94,482
Chicago	1.9	35.92	1.50	12,981	94,438
Cincinnati	0.5	28.81	1.07	12,788	93,034
Cleveland	0.8	23.92	0.86	12,655	92,062
Columbus	0.7	28.67	2.14	12,784	93,007
Dallas	1.3	30.26	1.38	12,827	93,316
Dayton	1.2	28.18	1.37	12,771	92,910
Denver	1.7	30.68	1.16	12,839	93,405
Detroit	1.0	34.43	1.67	12,941	94,147
Houston	0.9	43.13	1.89	13,177	95,860
Huntsville	1.0	24.60	0.28	12,674	92,204
Indianapolis	0.8	25.44	0.87	12,697	92,371
Kansas City	1.3	22.74	0.65	12,623	91,833
Los Angeles	3.3	38.03	1.61	13,038	94,853
Miami	0.7	29.07	2.23	12,795	93,087
New York	4.3	37.63	1.45	13,027	94,774
Philadelphia	2.6	32.96	1.24	12,901	93,855
Portland	0.7	26.06	1.57	12,713	92,486
Richmond	0.6	22.87	0.88	12,627	91,859
Sacramento	0.8	28.56	1.52	12,781	92,981
St. Louis	1.5	24.14	1.15	12,661	92,106
San Diego	1.3	32.42	2.18	12,886	93,749
San Francisco	2.4	41.38	1.85	13,129	95,516
Seattle	1.7	31.09	1.85	12,850	93,484
Washington, D.C.	21.1	29.50	1.20	12,806	93,166
Rest of United States	42.2	21.73	0.63	12,595	91,629
Total United States	100	27.53	1.05	12,655	95,860

SOURCE: Congressional Budget Office using data provided by the Office of Personnel Management.

a. These data show employment in each locality as a percentage of total General Schedule employment excluding workers in Alaska and Hawaii and others not eligible for locality raises.

b. These raises are the capped levels granted under spending limits adopted in 1994.

c. Minimum salaries are for grade 1, step 1, of the General Schedule. Maximum salaries are for grade 15, step 10. Those salaries reflect locality adjustments and raises based on the employment cost index, but not special rates or interim geographic differentials. In New York and Los Angeles, interim geographic differentials push the maximum rate to about $95,400.

The average locality raise for the 27 pay localities established for 1995 amounted to about 1 percent, based on pay gaps averaging 27.5 percent (see Table 6). Adjustments ranged from 0.3 percent to 2.2 percent. The average increase under FEPCA for 1996 is 3.37 percent.[3]

3. The pay increases reported here differ slightly from those presented by the Federal Salary Council. The council, which prepares recommendations for pay increases among other things, reports percentage-point increases in pay. The figures used by the Congressional Budget Office are percentage increases in pay.