The Rising Profits of Public Service

by Taylor Branch

There have been 10 federal salary increases since the fall of 1962, and they have been the prime ingredients in doubling the U.S. payroll from about $25 billion to more than $50 billion in nine years. Since mid-1969 alone, the basic annual cost of the 4.3 million white-collar employees and servicemen has risen by about $6.2 billion. Over the same period of time, the annual welfare costs of the United States have increased only $1.7 billion—a comparatively trifling figure, but one which has the nation almost howling with pain and which President Nixon has called "a monstrous consuming outrage" for the taxpayer and the poor. Most of the welfare increase has resulted from the addition of three million souls to the rolls, while the basic white-collar/military salary group—which excludes federal blue-collar workers and mailmen—has actually declined. And there is a further distinction between the costs of welfare and federal salaries: this $6.2 billion in federal pay raises has generated an increase of about $15 billion in the unfunded liability of the military and civil service retirement systems, a debt to the retired public servants of the future about which the public itself and much of the Congress is largely ignorant.

Your interest may be drawn to these matters by more than your coarse material instincts as a taxpayer or a government employee. You may, for example, be interested in national priorities or inflation. Inflation may indeed flow from the basic salary process, which now produces almost automatic annual increases for one worker out of every 19 in the United States. Or you may be interested in fairness—in the fact that a grade 5 secretary's salary has risen only $2,800 since 1962, while a grade 13 (the captains or majors of the civil service) salary has increased about $8,100, and the grade 18 (the highest in the civil service) salary has doubled from $18,000 to $36,000.

On January 8, 1971, when he signed the Federal Pay Comparability Act of 1970, President Nixon assumed almost exclusive control over salary policy. Two of his employees, the Director of the Office of Management and Budget (OMB) and the Chairman of the Civil Service Commission, take the figures from a survey of salaries in private industry and make obscure but controversial adjustments to produce

Taylor Branch is a managing editor of The Washington Monthly.

a new pay schedule which will keep federal pay comparable with private enterprise. Their recommendation becomes effective automatically each year without congressional involvement, except in the unlikely event that the President should disagree with them and propose an alternative. This centralization of control, along with the prospect of perpetual pay increases, is the culmination of continuing changes in the pay structure which began with the Salary Reform Act of 1962.

Pay Goes to the Moon

When the Kennedy Administration came to power in 1961, it was pledged to get the country moving again. Government was no longer to play the docile referee role of the Eisenhower years, but Washington would have to be a prime mover and problem solver. Business seemed to have lost the juices required for independent growth, and the problems of the nation were so intertwined that central direction seemed mandatory. To restructure government for a new, permanent role of activism, the image of the government worker needed a transformation—a pay hike for the idealists among the new frontiersmen was required to grant them the sense of self-respect that makes sacrifice worthwhile.

The dilemma of the Kennedy Administration rose from the President's 1962 Economic Report, which set "guideposts for noninflationary wage and price behavior"—built upon the assumption that inflation would occur if a worker received a pay raise greater than his increase in productivity. Having said that, the Administration ran into the embarrassing fact that there is no way to measure productivity in government, leading to the economist's assumption that productivity increases in the public sector are always zero. Government workers produce decisions, rules, programs, and an occasional inspiration, but nothing whose market value can be systematically measured. And if their productivity increase is zero, then the President's own guideposts would condemn their wage increases as inflationary.

The task of the Administration was not so much to convince people that federal employees were poorly paid. The problem was to get rid of the idea that all government pay increases are inherently inflationary. Comparability was the key idea. The Administration proposed that the U.S. government *assume* that government productivity rises as rapidly as productivity in the private sector, and therefore that government pay increases equal to the growth in national productivity would not be inflationary. From there it was a relatively short jump to the position that government salaries should be equal to employee counterparts in private business: if the productivity is the same, then the pay should be the same.

Administration witnesses went before congressional committees to argue for the President's bill establishing comparability as the official government pay policy. John Macy, Chairman of the Civil Service Commission, hammered home the idea that legislators would no longer have to eyeball each jobholder and summon the courage to declare how much they thought that jobholder was worth to the taxpayer. With comparability, there would be a standard, numbers, something for the harried politician to lean on.

There was another reason to "take politics out of government pay"—namely that the political bargaining over government salaries had always given an advantage to the lower ranks of public employees. The clerks and postal workers and the secretaries had more political clout than the administrators at pay time simply because there were many more votes among them and they were better organized. So they had succeeded in getting a lot of flat dollar increases through Congress—like $330 across-the-board in 1948 and $140 in 1949—rather than proportionally higher increases for the managerial ranks. It was almost like socialism, everybody getting the same. But the Administration's bill would redress such "wage compression" with comparability because the Bureau of Labor Statistics survey showed that managers in business were far better paid than policy operatives and bureaucratic professionals in the government. Elmer Staats, then Deputy Budget Director, estimated that the bulk of the cost in reaching comparability would result from upgrading the middle-level managers in grades 11 through 15 (whose 1962 salaries ranged from an average of $8,340 in grade 11 to $14,275 in grade 15, while current figures are $13,878 and $26,675 respectively).

Despite all the attractiveness of the comparability idea and the wisdom of stimulating a slack 1962 economy, the President's pay bill needed an additional boost to get past a Congress which was still clamoring for a balanced budget and remembering the good old days when you could joke about paying the bureaucrats in used erasers. The Administration added a new argument: that a salary increase would not cost money, it would actually save many dollars by attracting the kind of top-flight managers who could chop fat out of administration and get the job done cheaper. To this difficult calculation was added a message with zip and truth and a little sexiness to it: that the crusades, purposes, and problems of the nation would henceforth focus on the government. Thus it was proclaimed that the Administration needed to attract the cream of the crop to public service, as all eyes turned toward the Administration's efforts to catch up in the missile race, establish the Peace Corps, halt nuclear testing in the atmosphere, and beat the Russians to the moon. Testifying for his boss, then Secretary of Labor Arthur Goldberg, Daniel P. Moynihan instructed the House as to its duty:

> I would like respectfully to suggest that it is our conviction that if you are interested in reducing the labor cost of the Federal Government for the services it performs to the public, it is essential to pay adequate salaries to get the quality of personnel that will do that for you. If you want to reach the moon in this decade, as the President has said, we will have to get the men to do that.

The pay increase may not have saved much money, but the moon argument helped, as it was in the spirit of the times. The Salary Reform Act of 1962 passed in October and went into effect just before the Cuban missile crisis.

Funding the Crisis Managers

Although the new law magnified the importance of the comparability surveys and made the increases that followed from them seem far more legitimate, pay raises still required boosts in the 1960s. Administration spokesmen emphasized that top-level increases were essential—with help from people like James Reston, who discussed the problem in *The New York Times* on March 15, 1964:

> Part of the difficulty is that Congress has refused to raise the pay of one group of public servants unless it can raise them all. It draws no distinction between a secretary who wrestles with letters and an Under Secretary who wrestles with De Gaulle. . . .
>
> So long as Congress refuses to distinguish between a postman and a scientist and between the shortage of brains and the surplus of bodies in Washington, the problem is insoluble, but there is a way to reconcile sanity with solvency.

And as Congress became better acquainted with the political wisdom of increasing the salaries of employee union members each election year, the upgrading of federal pay continued—until President Nixon achieved full comparability by ordering a 9.1 per cent increase effective July 1, 1969.

Then the 1970 postal strike generated a six per cent increase for all federal employees, and most Washington observers detected the end of an era. There had been nine pay increases since the 1962 comparability legislation, which erased much of the civil servant's economic deprivation. In his *Washington Post* column for government employees, Mike Causey wrote that "the financially sacrificing federal executive, long considered a dedicated but underpaid soul, isn't doing so badly these days." He predicted that pay increases would be much harder to come by in the 1970s because of rapidly diminishing public sentiment for the plight of civil servants, and because the powerful mailmen had departed from the employee consortium into their own salary system under the postal reorganization plan.

It thus came as something of a surprise when Senator Gale McGee, Chairman of the Senate Post Office and Civil Service Committee, brought a new pay bill to the floor of the Senate on December 30, 1970, in one of those evening sessions as the 91st Congress struggled to end itself.

Senator McGee's bill, which passed the Senate that night and was guided through the House by Congressman Morris Udall on New Year's Eve, boiled down to a transferral of power over pay matters to the President. Congress would have no authority at all unless the President managed to disagree with his "agent" (a team composed of the Director of the Office of Management and Budget (OMB) and the Chairman of the Civil Service Commission, both appointed by the President) and to recommend an alternative to comparability. Even then, Congress would have only two options: accept the President's alternative, or reject it. But in the latter case the OMB-Civil Service Commission pay schedule would automatically take effect. So Congress, when involved at all, could only choose between two plans, both of which emanated from the White House.

A week later, the President signed the McGee-Udall bill and ordered the first pay increase under his new authority, the six per cent comparability adjustment that began with the numbers collected by the Bureau of Labor Statistics. He will order a similar raise on January 1, 1972, and thereafter the changes will go into effect each October 1. The first October adjustment, in 1972, is expected to have some relevance to the election that year.

It is clear that the new law will result in substantial new pay increases for federal employees each year, although they will probably not be as large as the 20 per cent raise in salaries which President Nixon has ordered since July, 1969, in the eighth, ninth, and tenth increases based on the 1962 Salary Reform Act. What you think of comparability probably depends on whether you work for the government or think it possible you may work for the government some day. Or you may just think that comparability sounds like an equitable way to proceed, which it does. In any case, opinions on the subject may be affected by some information about what comparability means, which also provides insight into how much leeway the President and his agent have to play with the numbers and maximize their options.

The Pyramid of Distinction

The key to comparability is, of course, the Bureau of Labor Statistics survey, and the key to the survey is what goes into it. This is determined by a committee of officials at the Office of Management and Budget and the Civil Service Commission, which has reduced the scope of the survey to about 1.7 million white-collar employees—out of the nearly 23 million who work outside the federal government. This is accomplished by various restrictions, such as the exclusion of small businesses, but the real controversy centers upon the process of job-matching—in which the committee links various government jobs with their 1.7 million counterparts. The unions charge that the committee stuffs lower-than-average-paying positions into the survey selections at the bottom grade levels, where union membership is concentrated.

Although there is less controversy,

the figures at the high levels are also suspect. Take grade 15 (salary range $24,251-$31,523), for example, where pay is determined by comparing three jobs—grade 15 attorneys, chemists, and engineers—with the 5,000 or so private industry counterparts in the survey. The BLS obtains a figure for each of the three jobs, calculates a numerical average, and out comes the salary level for all grade 15 employees in the government—only about one fourth of whom are attorneys, chemists, and engineers.

Some details shake faith in the grade 15 numbers—such as the fact that the survey excludes lawyers practicing on their own and includes only salaried attorneys, who populate large corporations. The chemists and engineers are problems because about 50 to 60 per cent of them work under contract to the government, according to an unpublished study for the Council of Economic Advisers. This causes acute worry when one realizes that contract salaries for the government are notoriously "flexible," meaning high.

Of course, those are only the adjustments of what goes *into* the BLS survey. When the numbers come out, there is room for further flexibility. They then go to the OMB-CSC committee for revision according to the second requirement of the comparability law—that "pay distinctions be maintained in keeping with work and performance distinctions." This process, called constructing a payline, is full of delicacies which are usually appreciated only by those who make or lose money by them.

The committee's calculations—involving the relative amounts of distinction contained in an enormous variety of jobs, education levels, performances, and the like—are designed to be understood only by the professional in personnel management.

This is the heart of comparability. A personnel manager is not terribly concerned about output, efficiency, or specific job function—he sees the world in terms of *levels*, as an orderly pattern of grids and niches leading up to the top in accordance with increasing distinction. Each level is defined primarily by the population in the levels immediately above and below. In actual personnel management, there is a second, though far less important, rule: jobs at the bottom levels are characterized by constant repetition, concrete tasks, and simplicity (therefore boredom), while those at the upper levels become increasingly sporadic in production, vague, and complex.

There are a couple of special properties to the personnel approach. First, there must be enough employees in any establishment to figure out everybody's relative level—so that all the people in the middle have others above and below them, to whom they are related by the chain of command. "When you have a job with only one person or so, say an engineer in a small company, it's more difficult," says Alan Paisner, one of about 100 BLS data collectors who start comparability rolling every year. "It's tough to classify his level because there's no pattern of who reports to him. But firms like that have less impact statistically than the big aerospace firms." So there must be a sizable organization, which is why most survey data is collected from industry's personnel and salary administrators.

Another special property is that the comparability system cannot handle people who perform more than one function. You must be specialized so that you can be classified so that you can be assigned a level. People who do a little of everything—sweep the floor, pay the bills, make decisions, write *and* type letters—mess things up because they operate on more than one level. They are discarded by the survey.

One special benefit of the level-making system is the increasing vagueness of the job descriptions at the higher levels. Since government grade levels are determined by a description of the job on paper, a skillful person can write a description of his duties in such distinctive, sweeping language that he will be promoted solely for that ingenuity, which of course ought to be worth something. Moreover, he can do this without lying and without any danger of being found out—because both his description and his actual job are so thoroughly nestled in the realm of vagueness that no one can possibly detect a discrepancy between the two.

Congress as Loan Shark

The handful of economists who know anything about federal salary systems generally feel that the current government salaries are higher than true comparability would warrant, at every grade. They criticize the process for not taking civil service job protection into account. "A window cleaner on the ground will not get the same pay as a window cleaner on a skyscraper even though they are doing the same thing," observed one economist, scientifically. "The way comparability is now administered, by ignoring the added security produced by tenure in the government you are paying them both the same."

The strongest economic objection to government salary calculations is that they ignore the benefits of the military and civil service retirement plans. Over half of private businesses have no retirement plans for their employees, who must get by on Social Security. Since Social Security is a far less generous plan, this factor alone gives the government an advantage. But there is a far greater difference. Government retirement benefits are based on the highest salaries of an employee's career (final salary in the military, an average of the highest three in the civil service), while contributions to the system—one half paid by the government—are designed to provide only for retirement on the current salary base. Every government pay increase, therefore, involves a retirement "gift" to the employees, who will live out their old age on a higher pension than they were contributing to before the increase.

Everyone is for comfortable pensions, of course, but the other side of the employee "gift" is a hidden public debt of enormous proportions. The civil service retirement fund now has about $65 billion less invested than it needs to be able to pay the obligations which the public owes to the retired employees of the future. Each year, that liability grows by the amount of the interest the $65 billion would have earned if the fund were balanced. The deficit was $43 billion in 1966. In addition to the loss of interest each year, the liability grows by $2.55 for each dollar of a pay increase. The most recent increase thus added about $2.55 billion to the deficit in the civil service fund. The military system is even worse off, with an unfunded liability about twice the $65 billion figure.

Without a new financing procedure, "the retirement fund would have been bankrupt by 1980," calculates Andrew Ruddock, chief of the Civil Service Commission's Retirement Division. So Congress finally passed a law authorizing the Secretary of the Treasury to transfer, "from the general revenues of the United States," whatever funds are necessary to pay the interest on the unfunded liability and thereby keep the deficit from growing. Treasury will make its first such payment this next summer—estimated at $236 million, or 10 per cent of the required interest—and will work up to a full stabilizing payment by 1980. All these funds are separate from the budget, requiring no appropriations.

Congress also made a rather shaky provision for the liability flowing from the annual comparability adjustment. Now the law says that each pay increase bill shall "deem to authorize" annual appropriations to pay for the increased retirement liability over the following 30 years. The 1971 payment, the first one under the new law, is estimated to be $157 million. It will stay constant for 30 years. Next year's increase will require its own payment, and so on—so that there could be as many as 30 payments made in a single year.

Even if you think that government retirement should be a lot better than the average private plan, you have trouble supporting the way it has been handled. Essentially, officeholders have found it profitable to vote for pay increases which obligate the country to pay off the "gift" portion of millions of pensions about 30 years from now. The employees and their unions know the value of the pension, and how it grows with salary levels. So the irresponsible and/or ignorant Congressman can dispense a gift to government workers, pick up the political benefits now, and pass the cost on to some future Congress. The huge liability which has been thus fashioned since World War II is not yet like the national debt. It is a debt to people in the future, who will expect their monthly checks.

All these things make no sense to economists. But they can be silenced by attributing a national security benefit to the system somewhere, and they have dismally meager influence on pay matters anyway. Besides, economists only analyze whether or not a system provides *true* comparability. They are not much help in deciding what to think of the idea in the first place.

Reflections of Profit

Now that comparability has been achieved and promises to be maintained with yearly raises, perhaps time should be taken to ponder exactly what the cardinal principle of government pay means. It means that the United States accepts the salaries paid to workers by private businesses as a fair wage—and that the government will pay its employees no less, and no more. Comparability means that the nation, as well as the acquiescent employees, endorses the distribution of wealth between management and labor in private industry and pledges to reflect it.

From this angle, the 10-year stream of union testimony in favor of comparability as an equitable standard of compensation seems more than a little strange. Why would a son of labor join hands with high-ranking personnel types—who were themselves spouting Restonisms about the insufficient distinctiveness afforded executive pay—and troop up to Congress sounding as if business had found the key to fair labor policy within the government? John Griner, the American Federation of Government Employees president, finds the question easy: "We have come a long way, and that last bill was a step toward the eventual collective bargaining of federal wages." Spokesmen in Congressman Udall's office agree. It was tactical, a step. And you can bet that the employee unions will move to squeeze every drop of pay for the tedium of those jobs at the lower levels, where no other joy but money abides. That would mean bargaining, but of course the whole economy seems to be bargained. That, in turn, would mean votes and power, and it might lead to another "wage compression" like the one that had the senior bureaucrats lathered up about 10 years ago.

The union strategy makes sense, at least. But the professional has a problem. Comparability robs public service of that sacrificial overtone, since it decrees that the public servant shall make as much, on average, as he would in an organization devoted only to cold profits. The professional has always felt a slight glow of moral superiority over the more avaricious hustlers out in the jungle. Now the federal employee achieves comparability and becomes a profit-monger like everyone on the outside. No more, no less, just average. So comparability turns the slight moral edge sour.

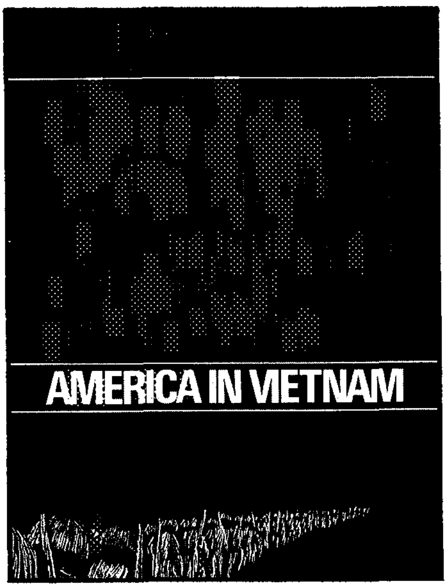
Things are actually worse than this. Consider the young man who came to Washington in 1966 to make a difference in the vital issues of poverty, hunger, and sickness—feeling scorn toward the profit-seeking world for having tolerated these things. He worked hard and did well, managing to move up from a grade 7 to a grade 13 job, where bright young people have a lot more to say about programs. What if you were that young person and you realized that your programs were not going to really help any poor, hungry, or sick people that much? What if you also realized that your salary had more than doubled in four years, that you were now making $17,761 a year, plus full fringe benefits, and the world's most amazing retirement program? What if you knew that you would receive an annual comparability increase, even though you were merely continuing to become faithfully tired every day? What if you suddenly realized that your pay increase was not only taking funds which might otherwise be given to poor people but that it was helping to create an inflation that sizzled those same poor people most mercilessly of all—and that if the poor child in your program did make it, he would have to figure out some way to pay your pension?

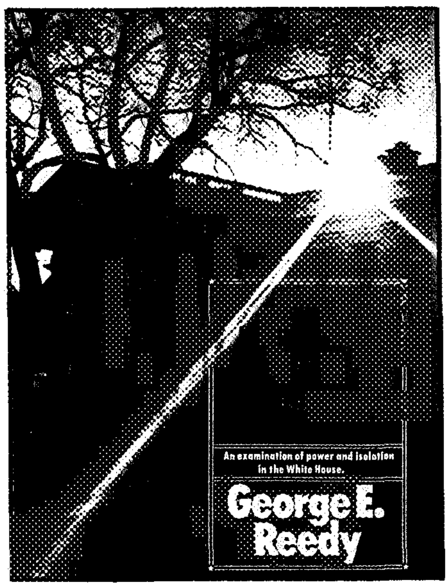
These thoughts would be unsettling. You might even conclude, with Pogo, that "we have met the enemy and they are us." You might decide that the personnel people are right, as usual, that there are no real distinctions between government and industry or between different jobs. Only between levels. Whether you are grinding out profits or carrying the torch for the poor is of little consequence. What counts is your level, which determines your distinction and your pay.

If you saw these things early enough—when you could afford to consider them personally—you would think about them. You might try to change some of the little things or even take on some of the big ones. If all else failed, you might have to desert your level—which means leaving any organization large enough to have levels—and step out where people are not suitable for the Bureau of Labor Statistics survey. ■

Annual Political Book Award

The Washington Monthly wishes to recognize the best of those books that explore the processes and values of the institutions that govern America, the books that share our purpose of identifying where the system breaks down, why it breaks down, and what can be done to make it work.





The award for 1970 goes to *The Lost Crusade* by Chester L. Cooper and *The Twilight of the Presidency* by George E. Reedy

Judges:
Townsend Hoopes   Mary McGrory
Murray Kempton   James C. Thomson, Jr.

Comments on the Cooper and Reedy books appear on pages 59 and 34, respectively.