AFGE

Congressional Testimony

TESTIMONY BY

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ARE FEDERAL WORKERS UNDERPAID?

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Mr. Chairman and Members of the Subcommittee: My name is John Gage and I am National President of the American Federation of Government Employees, AFL-CIO (AFGE), which represents more than 600,000 federal employees throughout the country. Our testimony on the issue of federal wages and salaries will attempt to clarify the truth about federal pay since the newspapers and conservative think tanks have produced what feels like an avalanche of untruths and misinformation on the subject.

Introduction

Under the Federal Employees Pay Comparability Act (FEPCA), white collar federal employees who are paid under the General Schedule are supposed to receive salaries that are 95 percent of "market comparability." This bipartisan law, enacted in 1990, established the principle that federal pay should be governed by labor markets, and that salaries should be set at levels just five percent less than the standards set in the private sector. FEPCA required that the government produce a measure of market comparability on a regional basis, and provide annual adjustments that simultaneously closed any measured gaps and made certain that no gap become larger.

Market comparability was to be accomplished by providing federal employees with annual pay adjustments that had two components: one locality-based gap-closing adjustment, and one nationwide across-the-board adjustment. The locality adjustments are based on measures of pay gaps that use Bureau of Labor Statistics (BLS) data from surveys that compare salaries in the federal government and those in the private sector and state and local government on a job-by-job basis. The nationwide adjustments are based on BLS's Employment Cost Index (ECI), a broad measure of changes in private sector wages and salaries from across all industries and regions (the FEPCA formula is ECI – 0.5 percent).

Had FEPCA's schedule for closing the pay gaps been followed, comparability would have been achieved in 2002. But in each year since 1995, Congress and successive presidents have found reason to reduce the size of both the locality and ECI-based adjustments dictated by the law, variously citing economic emergency and deficit-cutting as rationales. In spite of the repeated use of alternatives to FEPCA's gap-closing schedule, there has been strong, consistent and broad bipartisan support for the goal of paying federal salaries that are comparable to those paid by private firms and state and local governments that employ people for the same kinds of jobs. AFGE strongly supports the principle of pay comparability that uses job-by-job salary comparisons for all federal pay systems.

The Two-Year Freeze

Federal employees remain baffled by the idea that a two-year freeze on the wages and salaries of federal employees became our nation's response to the collapse of the housing bubble, the financial crisis caused by this collapse, the bailout of large banks, insurance companies, and Wall Street firms; and the fact that health care costs will continue to soar in spite of the passage of health care reform. A political consensus seemed to form in late 2010 around the idea that because so many working class people were suffering as a result of the corrupt practices of banks and Wall Street firms, federal employees should suffer as well, and a two-year federal pay freeze was enacted at the close of the 111th Congress.

Nobel Laureate Paul Krugman referred to the freeze as "cynical deficit reduction theater" that was "a literally cheap trick that only sounds impressive." He also confirmed that "federal salaries are, on average, somewhat less than those of private sector workers with equivalent qualifications." But none of these facts seemed to matter to supporters of the freeze. We know that they were, at least to some degree, responding to a well-orchestrated campaign by USA Today, the Heritage Foundation, and the Koch-funded Cato Institute that used a combination of sophistry and outright untruths to make a case that federal employees are overpaid relative to their private sector counterparts.

> *Facts are stubborn things; and whatever may be our wishes, our inclinations, the dictates of our passions, they cannot alter the state of facts and evidence.*
>
> John Adams, in defense of the British soldiers on trial for the Boston Massacre, December 4, 1770

In spite of the misinformation campaign and the pay freeze, AFGE urges the members of this Subcommittee to rely upon "the state of facts and evidence" regarding federal pay. And the facts are that even prior to the freeze, federal wages and salaries were lower than the wages and salaries in the private sector and state and local government, when compared on a job-by-job basis both nationally and regionally.

The Federal Salary Council (FSC), a statutory body responsible for examining objective data that compares what private sector and state and local government employers pay for the jobs federal employees perform to what the federal government pays, has found consistently that federal employees are underpaid. The amounts of underpayment vary by locality, but the advantage in all places goes to the private sector.

The Campaign Against the Truth on Federal Pay

Since the summer of 2010, *USA Today* has placed numerous articles on its front page that twist the facts surrounding federal pay to pretend that federal employees are overcompensated. The articles have compared gross averages in the private sector to

average salaries of the current federal workforce, manufactured data on the dollar value of private sector fringe benefits and compared it to distorted data on the cost of federal benefits, and sensationalized the fact that a growing number of federal salaries have exceeded $100,000 per year. The *Washington Post* helped to promote the myth of overpayment in October 2010 by commissioning a poll that asked Americans whether they believed that federal employees were underpaid or overpaid, implicitly giving support to the notion that such issues are a matter of opinion rather than fact. The results of the poll reflected only how well the *USA Today* misinformation campaign had worked.

To bolster the false impression of federal employee overcompensation even more, the Heritage Foundation's James Sherk published a deeply flawed econometric study (http://www.heritage.org/research/reports/2010/07/comparing-pay-in-the-federal-government-and-the-private-sector) with a headline-grabbing claim that the government "overtaxes all Americans" by providing federal employee pay and benefits "on the order of 30 percent to 40 percent above similarly skilled private sector workers." Sherk claimed that federal salaries are "22 percent above private sector workers." In an odd coincidence, Sherk's numbers are the mirror opposite of the calculations performed by the economists and pay experts from the Bureau of Labor Statistics (BLS) and the Office of Personnel Management (OPM), whose data for the same year showed federal pay lagging behind the private sector by 22 percent.

Why did Sherk and OPM/BLS come up with opposite numbers? The simple answer is that the Sherk study has highly politicized assumptions, and is based on data that are entirely inappropriate for use in salary comparisons. The BLS and OPM results derive from objective calculations and high quality data from the BLS's National Compensation Survey (NCS), a survey designed specifically for use by private and public employers to gauge salary rates and differences by occupation and location. Sherk used Current Population Survey (CPS) data from interviews with random individuals who were asked how much they made, how much their employer spent on their benefits, and what their occupation was.

Another source of data used by purveyors of the myth of the overpaid federal employee is the Bureau of Economic Analysis (BEA), part of the Commerce Department. The BEA itself warns the public not to use its data for comparing federal and non-federal salaries, noting on its website that "federal compensation estimates include sizable payments for unfunded liabilities that distort comparisons with private-sector compensation. For 2006, for example, the value of these payments for unfunded liability were $28.6 billion or 10.7 percent of total federal civilian compensation" (http://www.bea.gov/faq/index.cfm?faq_id=320&start=0&cat_id=0). Further, both these data and Sherk's are "bounded" at the top and bottom and exclude private salaries lower than $21,544 and higher than $190,119. Thus, even though salary and bonuses

for those working in Wall Street securities and financial industries routinely run into the millions, the BEA dataset artificially caps salaries at under $200,000.

The Federal Salary Council Approach

The Federal Salary Council uses BLS data gathered by trained data collectors who visit businesses and government agencies and record detailed information about the job duties assigned to workers at each salary level and at each location. The dataset used by Sherk asks individuals to identify their occupations by broad industrial categories; e.g., a lawyer would have an occupation called "legal services" as would many others with jobs in that industry. In contrast, the BLS data records, for example, a salary for a "senior attorney with at least ten years of experience in administrative law and litigation in the area of securities law." The legal profession includes a broad range of salaries, with the majority of lawyers earning modest salaries for providing routine services such as title searches, real estate closings, preparation of simple wills, and representation in small claims court. While many attorneys employed by the government perform similarly routine functions, many more are responsible for complex litigation and regulatory oversight. The data in the National Compensation Survey capture these differences and apply them to the calculation of the gap between federal and private sector pay exactly according to their weight in the overall distribution of federal jobs.

Sherk's data also treats all colleges and degrees as equal. If a *summa cum laude* graduate of Harvard who majored in physics is paid more than someone who graduated at the bottom of his class at an unaccredited No-Name university, then his data says that the Harvard graduate is "overpaid." No differentiation for the field in which one earned a degree is made, no differentiation for the quality of the institution is made. Self-reported data from surveys that only ask "do you have a four-year degree" or "how many years of schooling do you have" are fine for revealing broad observations about how many people in a state have had post-secondary education, and what their age, race, and gender is, but it is virtually worthless for salary comparison and highly inappropriate for salary-setting.

Another difference that explains the opposite results of Sherk and the BLS and OPM is methodological. Sherk uses the "human capital" approach, comparing the pay of individuals on the basis of personal attributes such as age, industry, geographical location, gender, race, ethnicity, educational attainment, occupation and tenure. One appalling result of Sherk's approach is that he interprets the fact that the federal government is less likely to discriminate against women and minorities in terms of pay as an instance of the government "overpaying" relative to the private sector.

In contrast to Sherk, the BLS and OPM use a method that matches federal jobs with jobs in the private sector that are similar not only in terms of occupation but also that

match levels of responsibility, and levels of expertise required. The personal attributes of the job holder are not included in the calculation, only job description, duties, and responsibilities. In this careful analysis, which focuses on the jobs of the actual federal workforce, the universal and consistent finding is that federal employees are underpaid relative to their counterparts in both the private sector and state and local government.

While the human capital approach is a valid way to reveal patterns of discrimination against individuals, it is not appropriate for pay-setting. Unfortunately, it has proven to be extremely valuable for scoring cheap political points.

Just ten months prior to announcing the freeze, President Obama's budget explained why the comparisons being hyped in the media and conservative think tanks were misleading. He noted that "since 1989 federal and private sector raises have never diverged by more than one percentage point…and the adjustments have offset each other so that the average difference has been only one tenth of one percentage point" over ten years. He went on to describe the profound differences between the federal and private sector workforces, noting that "about 20 percent of federal workers have a master's degree, professional degree, or doctorate versus only 12 percent in the private sector. A full 51 percent of federal employees have at least a college degree compared to 35 percent in the private sector." (See the President's FY 2011 Budget, Chapter 10 "Improving the Federal Workforce" p.99-101).

The gratuitous nature of the freeze was revealed in President Obama's "belt tightening" justification. He did not pretend to believe the lie that federal employees are overpaid relative to those performing the same type of work in the private sector. He also did not pretend to believe that the $2 billion savings in 2011, or the $5 billion savings in 2012 would make a dent in the deficit. And again in his FY 2012 Budget Proposal, President Obama included a lengthy explanation of why the federal workforce as a whole, with its preponderance of workers with advanced degrees in fields that command high salaries in the private sector, has higher average pay than the private sector as a whole. And again, he did not try to claim that freezing pay was anything more than symbolic. In fact, using the macroeconomic model developed by Obama administration economists Christina Romer and Jared Bernstein to measure the impact of the stimulus, the Center for Economic and Policy Research estimates that the federal pay freeze will reduce GDP by 0.007 percent in 2011 and by 0.018 percent in 2012, "implying drops in private sector employment in these years of 7,000 and 18,000 jobs respectively." http://www.cepr.net/index.php/blogs/beat-the-press/president-obama-proposes-reducing-private-sector-employment-by-7000-in-2011-and-18000-in-2012. Clearly, the pay freeze's only justification was political.

AFGE urges Congress to end the pay freeze so that the government can once again begin to make progress in eliminating the pay gap between federal and non-federal

salaries, and help the federal government recruit and retain the high quality workforce necessary to carry out its crucial missions.

Conclusion

The federal pay system played no role in the creation of the economic crisis that required massive government spending to resolve. Federal employees did not cause the housing bubble either to inflate or to burst. Federal employees did not engage in speculative investments in derivatives of mortgage securities. Federal employees did not mislead investors, did not outsource jobs to China or Mexico, and did not destroy the financial system. The pay freeze was a cynical ploy to appease those who oppose the missions of almost every executive branch agency and program. Federal employees deserve better than the role of pawn in the war against government.