CONGRESSIONAL TESTIMONY

STATEMENT BY

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BEFORE

THE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

ON

FEDERAL EMPLOYEE COMPENSATION: CONGRESSIONAL BUDGET OFFICE REPORT COMPARING THE COMPENSATION OF FEDERAL AND PRIVATE-SECTOR EMPLOYEES

May 18, 2017

Introduction

Mr. Chairman and Members of the Committee: My name is Jacqueline Simon and I am the Policy Director of the American Federation of Government Employees, AFL-CIO (AFGE). Thank you for the opportunity to testify today. AFGE is proud to represent almost 700,000 federal and District of Columbia employees who work hard every day on behalf of the American people. Along with AFGE's National President J. David Cox, I represent AFGE on the Federal Salary Council, a statutory advisory body that makes recommendations to the President's Pay Agent on how best to implement the locality pay system created by the Federal Pay Comparability Act (FEPCA).

Federal Pay

FEPCA governs the federal government's largest pay system for salaried workers and is often referred to by is basic pay scale, the General Schedule (GS). The law provides for annual salary adjustments tied to market rates in the private sector and state and local government. Congress and the President almost always alter the adjustments provided for under the law. GS pay levels are also affected by many administrative decisions involving the boundaries that define local pay areas and how market comparability is calculated.

Federal wages and salaries continue to lag those in the private sector and state and local government. Although federal pay adjustments are, by law, supposed to reflect changes in the cost of labor rather than the cost of living, it is important to note how much the purchasing power of federal pay has declined as federal employees have become an all-purpose ATM for budget austerity. Since 2010, the inflation-adjusted value of federal wages and salaries has fallen by 6.5 percent, leaving all federal employees with lower purchasing power from their salaries than they had just five years ago. The first step in reversing the substantial decline in living standards should be to restore the purchasing power of federal wages and salaries by providing for substantial real, inflation-adjusted, increases that make progress in closing the pay gap as measured by Bureau of Labor Statistics data.

Federal employees, more than any other group of Americans, have borne the brunt of budget austerity that followed the Great Recession and have so far been forced to suffer $189 billion in compensation cuts as a result. We have learned recently that the President's budget, which will be released next week, continues to punish federal employees with proposals to impose massive reductions in federal retirement benefits. AFGE has been told that the President's budget will propose the following: a shift from calculating annuities based on the highest 3 years' continuous salary to the highest 5 years' salary, no cost of living adjustments (COLAs) for FERS participants and just 0.25% COLAs for CSRS participants, a reduction in the rate of return to the Thrift Savings Plan's G Fund to reflect all outstanding government debt, and requiring FERS employees to contribute anywhere from 7 to 9 percent of salary to the defined benefit plan, depending upon the date of hire. These proposed cuts are unwarranted. They cannot be justified by budget necessities or by reference to private sector practice. They have but one purpose, to immiserate the federal workforce and fund tax cuts for wealthy individuals and corporations.

Pay Adjustments for the General Schedule: The Market Comparability Standard

Under the Federal Employees Pay Comparability Act (FEPCA), 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 the market, and salaries set at levels just five percent less than those in the private sector and state and local government.

FEPCA requires that the government produce a measure of market comparability on a regional basis, and provide annual adjustments that simultaneously close any measured gaps and make certain that no existing gap becomes larger. This was to be accomplished by providing federal employees with annual pay adjustments that had two components: one nationwide adjustment, and one locality-based gap-closing adjustment. The nationwide adjustments are based on the Bureau of Labor Statistics (BLS) 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). The locality adjustments are based on measures of pay gaps that use Bureau of Labor Statistics (BLS) data from surveys that compare, on a job-by-job basis, salaries in the federal government and those in the private sector and state and local government. But FEPCA has loopholes, allowing alternatives in times of "economic emergency" which, according to three successive administrations (1995-2016) is apparently a permanent condition in the United States.

The relevant nationwide measure for January 2018 is the 12-month period ending September 30, 2015, during which time the ECI rose by 2.4%. The law governing the General Schedule pay system calls for an annual across-the-board adjustment to base salaries equal to the ECI measure minus 0.5 percentage points. Thus, the January 2018 ECI adjustment should be 1.9%.

Locality adjustments are meant to close gaps between federal and non-federal pay on a regional basis. The Federal Salary Council, the advisory body established in law to make recommendations to the President's Pay Agent on locality pay, uses a weighted average of the locality pay gaps, based on a BLS model using data from both the National Compensation Survey (NCS) and the Occupational Employment Statistics (OES) to measure the average disparity between federal and non-federal salaries for the jobs federal employees perform. As of March 2015, the overall remaining pay gap was 34.92%, based on the BLS model.

Had the schedule for closing the pay gaps put forth in FEPCA been followed, comparability would have been realized 15 years ago in 2002. But in each year since 1995, Congress and successive presidents have found reason to reduce or freeze the size of both the nationwide (ECI-based) and locality adjustments dictated by the law, variously citing economic emergency and deficit-cutting as rationales. The most recent data from BLS show the 2015 average remaining pay gap is 34.92%, compared to 35.18% for 2015 (the relevant year for the January

2016 adjustments). In spite of the repeated use of alternatives to the terms of FEPCA, 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, this hearing notwithstanding.

The Federal Salary Council's Recommendations

In addition to measuring regional pay gaps and calculating the annual nationwide (ECI-based) adjustments under FEPCA, the Federal Salary Council makes recommendations regarding data, and changes to the boundaries of existing pay localities and the establishment of new localities. These changes reflect new data from the decennial census and focus on changes in commuting patterns and rates, the most important criteria in defining a local labor market. In each of the past five years, the Federal Salary Council has recommended some or all of the following:

- Drop from the criteria for establishment or maintenance of a GS locality any reference to the number of GS employees, since concentration of GS employment does not define a local labor market or indicate economic linkage among counties in a commuting area.
- Restore full funding for the BLS National Compensation Survey (NCS), particularly the wage survey portion that was specifically designed to match private sector and state and local government jobs to federal jobs.
- Use all commuting pattern data collected under the American Community Survey in determining areas for inclusion in locality pay areas.
- Use new criteria for evaluating counties adjacent to Core Based Statistical Areas (CBSAs) (7.5% employment interchange) and adjacent single counties (20%).
- Use micropolitan areas if they are part of any Combined Statistical Area, whether or not a Metropolitan Statistical Area was included, and recognize multi-county micropolitan areas for locality pay.

The President's Pay Agent has not implemented these recommendations. AFGE urges adoption of all of these Council recommendations, as they will improve the market sensitivity of the pay system, and align the boundaries of pay localities with contemporary commuting patterns. In addition, responding positively to the recommendations of the Federal Salary Council would demonstrate respect for the law governing federal pay, a law intended to de-politicize federal pay setting.

Comparing what private sector and state and local government employers pay for the jobs federal employees perform to what the federal government pays, the Federal Salary Council has found consistently that federal employees are underpaid. The Federal Prevailing Rate Advisory Committee (FPRAC), which performs a similar function for the blue collar FWS system, finds the same result. The amounts of underpayment vary by locality and other factors, but the advantage in all places goes to the private sector.

Distorting the Truth on Federal Pay

In the past several years, propagandists have published "studies" that twist the facts surrounding federal pay to pretend that federal employees are overcompensated. The propaganda compares gross averages in the private sector to average salaries of the current federal workforce, uses manufactured data on the dollar value of private sector fringe benefits and distorts data on the cost of federal benefits, and sensationalizes the fact that a growing number of federal salaries have exceeded $100,000 per year.

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." Heritage claimed that federal salaries are "22 percent above private sector workers." In an odd coincidence, Heritage'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 do Heritage and OPM/BLS come up with opposite numbers? The simple answer is that the Heritage 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. Heritage 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 example, in 2006 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). The "unfunded liabilities" refer to liabilities of the now-closed Civil Service Retirement System (CSRS), not the current Federal Employees Retirement System (FERS). Further, both these data and Heritage'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.

CBO's Updated Study of Federal vs. Private Sector Pay Compensation

The Congressional Budget Office updated its 2012 study last month. Its extremely misleading title "Comparing the Compensation of Federal and Private Sector Employees 2011 to 2015" does not tell us whether federal salaries are too high or too low. It answers the highly peculiar question: If the current federal workforce were replaced with a new one with the same demographic profile as the current one, and the new one were paid average private sector rates for this group's demographic profile, how much would it cost? How much would it save?

From this question came an answer that was a foregone conclusion. If taken one at a time and categorized by race, gender, education, and other "demographic traits," of course some of them will appear "overpaid" compared to private sector averages. Why? Because the private sector wage data show large variations by "demographic trait" and for the most part, federal pay systems avoid this kind of discrimination.

The CBO study used what's called a "human capital model;" basically a "capital asset pricing model" that applies the logic of finance to human beings. Wages, salaries, and benefits are the "price" and the worker is the "asset." The "asset" has attributes upon which the market places a value, either negative or positive. In such a model, being white, male, and/or highly educated are positive sources of value, while the absence of these attributes means a relatively lower value.

When CBO assessed the accuracy of the "capital asset pricing" of the conglomeration of human capital known as the federal workforce, it was clear that they would find the price too high. This is because, on average, the private sector pays men more than women, whites more than blacks, old more than young, and higher rates in big cities than in rural areas.

But the federal government does not reproduce all of these differentials, because in its pay systems, demographic traits are irrelevant. Federal pay is an attribute of the job, not of the demographic traits of the individual holding the job. As a result, men and women with the same federal job are paid roughly the same amount. The demographic traits that comprise a human capital model's independent variables are completely irrelevant to the salary and benefit package the federal government applies to any given federal job.

Had CBO used the proper method for making the comparison, the one used by the Federal Salary Council, its conclusions would have lined up with the Council's findings, that federal employees are underpaid whether they are top professionals like doctors or lawyers, technical experts like engineers and scientists, health care providers like VA nursing assistants and dieticians, or administrative workers who handle claims for Social Security or Veterans' benefits.

The Federal Salary Council is required by law to measure the gap between federal salaries and salaries in the private sector as well as state and local government, together referred to as the "non-federal sector." On average, the Council's method finds the nationwide gap between federal and non-federal pay remains about 35 percent in favor of the non-federal sector, but varies by locality. This is largely because the job comparison methodology used by the Council requires finding comparable positions before making pay comparisons, and many jobs found in the federal government are uniquely governmental. Useful pay comparability measures require data from job matches. The Federal Salary Council/BLS/OPM approach actually matches jobs and level of work.

The CBO study is flawed not only because it relies so heavily on "demographic traits", but also because it uses broad occupational categories and industrial categories as proxies for job matches. And that error compounds the noxious comparison by race, gender, and age. Indeed, the headlines describing the findings of the CBO study emphasized pay differences by education, and the most attention was given to the claim that the federal government allegedly overpays those whose highest level of education is a high school diploma. But consider some of the numerous federal jobs that have similar educational requirements, and are in similar broad industrial categories as those in the private sector, but which do not have nearly the same level of responsibility, or day to day duties or risks.

- A federal Correctional Officer might be compared with someone who works in the broadly defined, private sector "security services industry": But a "mall cop" does not perform the same function as an officer guarding convicted felons/dangerous inmates in our federal prisons. Same industry, same education, different job.
- A VA Nursing Assistant caring for a wounded warrior suffering a Traumatic Brain Injury might be compared with someone who works in a doctor's office, calling prescriptions into pharmacies. Same industry, same education, different job.
- An electrician working at an Army Depot who builds and repairs sophisticated electronic weaponry might be compared with an electrician running wires at a construction site. Same industry, same education, different job.

Shockingly, the CBO report suggests that the Federal Salary Council job-to-job comparisons might be inaccurate because of alleged "title inflation" in the federal workforce. CBO references an unpublished 2002 essay by Melissa Famulari, then associated in some way with the University of Texas, in which she speculated private sector workers had greater education and experience than federal employees who held the same jobs. She concludes from this that, assuming pay is a function of education and experience, federal employees are overpaid rather than underpaid. Again, the notion that pay is a function of education and experience rather than job duties is wrong. Elementary school teachers and computer programmers both require Bachelors's Degrees. According to BLS, the median (not average) salary for an elementary school teacher in 2016 was $52,620; the median (not average) salary for a computer programmer was $79, 840. Using the human capital model, the computer programmers are overpaid or elementary school teachers are underpaid, depending on your preference, because both jobs require just a Bachelor's Degree.

Benefits Comparisons

The new CBO study is actually substantially worse than the earlier study when it comes to the comparison of benefits. CBO qualifies its own findings by acknowledging that their comparisons failed to account for the enormous reduction in compensation that recent hires suffered as a result of higher mandatory retirement system contributions and low starting salaries. They noted that this group's small size would have a "only a minor effect on average compensation for all federal employees." But that barely begins to address the shortcomings in their cost-of-benefit calculations.

Not only are their data shaky, as they acknowledge, but their human capital methodology is also spectacularly inappropriate for assessing health and retirement benefits. The federal government provides health insurance and retirement benefits to all its employees on the same terms – regardless of pay, pay system, education, race, occupation, or tenure. And a huge part of the alleged benefits gap the CBO calculated derives from the employer cost for the defined benefit pension. As is well known, many of America's largest and most profitable corporations (such as Wal-Mart) do not provide defined benefit pensions at all. It was inappropriate for CBO to include data from such corporations, as they are not the standard to which the government should be compared. If CBO had restricted its comparison to federal and private sector workers performing similar jobs (e.g. aerospace engineers at NASA compared to aerospace engineers at Boeing), given their human capital methodology, they would have found a much smaller gap since both employers provide comprehensive benefits.

The BLS publishes findings from the National Compensation Survey under the heading of Employer Costs for Employee Compensation. The NCS is the dataset that the federal government uses for pay adjustments. Both the across-the-board Employment Cost Index (ECI) based increase and locality increases are based, in part, on NCS data. Although BLS publishes employer costs for retirement and savings programs for employees as a percentage of total compensation costs (4% as of December 2016, on average, including all employers that pay zero), BLS also includes more expansive data on employers' actual costs, and covers differences by occupation, industry, sector (private vs. state and local government), full-time vs. part-time, establishment size, census region, and union vs. non-union.
BLS warns: "Compensation cost levels in state and local government should not be directly compared with levels in private industry. Differences between these sectors stem from factors such as variation in work activities and occupational structures. Manufacturing and sales, for example, make up a large part of private industry work activities but are rare in state and local government. Professional and administrative support occupations (including teachers) account for two-thirds of the state and local government workforce, compared with one-half of private industry." https://www.bls.gov/news.release/ecec.toc.htm

But even that warning doesn't explain the large difference between the federal government's cost of providing retirement benefits to the costs faced by private and most other public employers. The federal government finances its employees' retirement benefits by setting aside funds in the Civil Service Retirement and Disability Fund (CSRDF). All agencies' and employees' contributions are attributed to the CSRDF, and the assets of the CSRDF are invested exclusively in United States Treasury bonds. These bonds are "budget authority" and thus can be redeemed to pay earned annuities to federal retirees. The rate of return on the assets in the CSRDF is a combination of the interest rates of Treasury Bonds held by the fund.

Historically, the rate of return on U.S Treasury bonds has been lower than the rate of return on private equities. Private sector and some state and local governments are free to invest the assets of their pension plans in a mix of private and public equities. Because the federal government is prohibited by law from investing the CSRDF's assets in any form of equity other than Treasury bonds, it costs more to produce each dollar of retirement benefit. This is true on an absolute and relative level. The federal government must spend more for each employee's benefit, regardless of the employee's salary, education, race, age, or occupation; the federal government must spend more for each employee's benefit regardless of retirement system.

The human capital approach taken by CBO is also completely irrelevant to the federal government's benefit structure. Although there is variation in the terms of employment among agencies, with the most significant variations based on whether the agency is funded by appropriations or other means, for the most part, whether an employee receives coverage or access to a non-salary benefit does not depend on occupation, education, race, gender, or length of service. Almost all career federal employees are covered by the Federal Employees Retirement System, the Federal Employees Health Benefits Program, the same formula for paid leave, the same formulas for life insurance, shift differentials, and overtime, and have access to the same advantaged savings under the TSP. Eligibility for performance, retention, relocation, and recruitment bonuses vary considerably. But because the federal government acts as a single employer for most of its workforce, it does not provide superior retirement or health benefits to those with professional degrees as compared with those whose highest educational attainment is a high school diploma. Like President Trump, the federal government "loves the poorly educated."

The CBO study on federal pay does a great disservice to those who seek objective analysis on questions related to federal pay and benefits. Except for a brief footnote buried in the middle of the report, the study neglected the work of the Federal Salary Council, which provides an accurate measure of difference between federal and non-federal pay using BLS data and adjusting for the specific characteristics of federal jobs, including the level of work required by the jobs federal employees actually perform. The demographic traits of the federal workforce are irrelevant to the adequacy of their pay, and irrelevant to any measure of pay comparability. And the notion of varying the provision of non-wage, non-salary compensation to federal employees based on occupation and education should be unthinkable.

Just because private sector employers, on average, appear in the CBO study to discriminate in the provision on non-cash compensation does not mean the federal government should follow suit.

One Bright Spot for Federal Pay and a Threat to Extinguish It

In April 2014, the Office of Personnel Management (OPM) published a report entitled "Governmentwide Strategy on Advancing Pay Equality in the Federal Government." It is the most informative, objective, and important examination of the federal pay system published by any entity in several years and deserves close attention, especially in light of the fanfare given over to the many extremely poorly-performed "studies" of federal pay from conservative think tanks. The OPM report was prepared in response to the President's request for a gender pay-equity analysis of federal pay systems that paid close attention to the General Schedule's classification system and its transparency. The President also asked for recommendations for administrative or legislative action that would promote "best practices" that were found to minimize inequities.

Although the report focused on just one outcome of the federal pay system – its success in advancing gender pay equity – the study provides important insight into the General Schedule system's strengths as a whole. Any pay and job classification system must be judged on attributes such as internal and external equity, as well as transparency and effectiveness. External equity refers to whether a pay system meets market standards. We know that the General Schedule fails the external equity test, but not because of any kind of systemic flaw but rather because successive Congress' and administrations have not funded it even before the pay freezes. We have the annual reports of the Federal Salary Council since 1995 to prove that.

But this OPM report on one aspect of internal equity, gender equity, is extremely telling. It compares data on federal employment over the past two decades and finds great progress on the part of women in ascending to higher-graded positions. But the most important finding was that there is no significant gender pay differences by grade level among GS workers. That is, at each pay grade, there was no real difference between the salaries paid to women and men doing the same jobs. This is a great virtue of the federal pay system.

The study showed that, depending on methodology used, from 76 to 93 percent of the observed pay gap between federally employed men and women is attributable to women being concentrated in lower-graded occupations. Indeed, the only real observed inequities arose where managerial discretion operates, such as in the awarding of quality step increases, promotions, and starting salaries. While women are more frequent recipients of promotions and quality step increases, managers have exercised discretion in providing higher starting salaries to men. But even starting salaries were mostly equivalent; it was in just four occupational categories that male starting salaries exceeded those provided to women by more than ten percent. Among members of the non-General Schedule Senior Executive Service, women's salaries were 99.2 percent of men's, a remarkable achievement.

These findings constitute a ringing endorsement of the current pay system, a system that assigns salaries to the position, not the individual. In the jargon of pay-setting, the General Schedule is oriented more toward a "rank-in-position" rather than a "rank-in-person." And that orientation is the secret to having a pay system that avoids discrimination.

The Threat to Revive the Discredited NSPS: Performance Pay and Force of the Future

The federal government's disastrous experience with the National Security Personnel System (NSPS) in the Department of Defense during the George W. Bush administration is a cautionary tale on the dangers of abandoning an objective "rank-in-position" system like the General Schedule for federal agencies. From 2006 to 2009, 225,000 civilian workers in DoD were subject to a system that based salaries and annual salary adjustments on supervisors' assessments of employee performance. NSPS also granted managers tremendous "flexibility" on classification of jobs, hiring, assignments, promotion, tenure, and "performance management." The system's only additional funding relative to the General Schedule payroll base was for outside consultants who had a large role in designing, implementing, and training DoD managers in their new system.

It was not surprising that even in its brief three-year reign, NSPS damaged the federal government's excellent record of internal equity on race and gender. Data on salaries, performance ratings, and bonuses showed marked advantages to being white and male, and working in close geographic proximity to the Pentagon. Those in the Office of the Secretary of Defense, the Defense Finance and Accounting Service and Tricare were found to be higher performers, on average, than civilian employees in the Departments of the Army, Navy or Air Force.

NSPS was a system conceived in a highly politicized context. The Department of Homeland Security (DHS) had been established two years earlier, in 2002, and its secretary was granted broad personnel authorities, construed by the agency to include the right to unilaterally abrogate provisions of collective bargaining agreements and replace them with agency directives. The rationale for DHS' grant of authority to create a new pay and personnel system was the war on terror and the administration's belief that union rights and national security were mutually exclusive. So in 2003, Defense Secretary Rumsfeld used the same rationale to seek personnel authorities similar to those granted to the Secretary of the Department of Homeland Security.

Now, the Defense Department is contemplating NSPS 2.0 under the title "Force of the Future." Early drafts of the Force of the Future proposals for civilians included the notion of moving virtually all DoD civilians from Title 5 to Title 10. This was the original plan for NSPS. Title 10 governs the Department's uniformed personnel, but includes a few provisions for civilians in intelligence and Defense universities. A move from Title 5 to Title 10 would eliminate most civil service protections, and give the hiring authority complete discretion to set and adjust pay. AFGE strongly opposes any and all efforts to restore NSPS, whether under the guise of Force of the Future or by any other means. Its flaws were well-documented and there is certainty that a revival would reproduce all the discriminatory effects of its earlier incarnation.

The Department of Homeland Security's personnel system, named MaxHR, never really got off the ground, thanks to a lawsuit that successfully argued that its undermining of collective bargaining rights violated the law. But NSPS did move forward in part because its focus was not on eliminating the union per se, but rather on creating a pay system that allowed managers to reward themselves and their cronies, and punish others. NSPS could only have continued if Congress had been indifferent to its discriminatory outcomes. Fortunately, when faced with data that showed NSPS gave systemic advantages to white employees and other relatively powerful groups at the direct expense of other DoD civilians, and that the venerated Merit System Principles had been undermined, Congress voted to repeal the system in 2009.

But the architects of NSPS never give up on the dream of a subjective pay system for the federal government, one in which managers can decide each employee's salary and whether and by how much that salary will be adjusted each year. Prior to the recent Force of the Future proposal, the contractor Booz Allen Hamilton ($5.41 billion in revenue in FY 2016, 98 percent of which is from the federal government) endowed the publication of a report under the imprimatur of the Partnership for Public Service.

The report trod the well-worn path of those seeking lucrative contracts to revamp the federal personnel system. It employs many of the hackneyed tropes that have become all too familiar among the enemies of fair pay for federal employees: the General Schedule is "stuck in the past," "broken," "rigid," and "fragmented." It conveniently neglects to acknowledge the fact that numerous flexibilities and modernizations have been enacted over the past few decades. In the 1990's, the General Schedule went from having one nationwide annual cost-of-living adjustment to a city-by-city, labor market-by-labor market cost-of-labor salary adjustment system. Special rates were authorized as well. In the 2000's, Congress passed legislation that introduced broad new hiring authorities, managerial flexibilities in salary-setting, and a program for substantial bonuses for recruitment, relocation, and retention. Congress enacted legislation to allow student-loan repayment, new personnel system demonstration projects, and phased retirement. The list of new flexibilities is long, and in many cases, these new authorities have improved the General Schedule. In any case, the list stands as a refutation of the myth that the General Schedule is a relic, untouched by modernity or that Congress has failed to address needed changes in the civil service system for decades on end.

Up until now, however, Congress has been careful not to go so far as to undermine the Merit System. Unlike a private firm, the federal government is spending the public's money in ways that are meant to promote the public interest. NSPS was an object lesson in what happens when the Booz Allen Hamilton plan is implemented in a federal agency. Despite good intentions, Merit System Principles are undermined, particularly the principles that promise "equal pay for work of substantially equal value," and that "employees be protected against arbitrary action, personal favoritism, or coercion for partisan political purposes." Veterans Preference in hiring, retention and promotions is also inevitably undermined. These are the lessons of NSPS.

To make its plan sound less "scary," Booz Allen Hamilton assumes dramatic increases in funding for federal pay so that no one would be any worse off than they would be with the protections of the General Schedule. As naïve and unrealistic as this assumption is, it is also based on a profound misunderstanding of the Merit System Principles. It is not enough to ensure that no one would be worse off. It remains wrong to distribute the system's hoped-for additional monies in a way that favors some demographic groups over others on the flimsy grounds of a manager's subjective assessment of performance. In the public sector, there is too much risk of political favoritism, and too much risk that unconscious bias will result in greater rewards for those with good connections or the preferred gender or skin color. And the General Schedule's pay and classification system, as the most recent OPM report amply demonstrates, bests the private sector and any other type of split, "rank-in-person" system on equity time and again.

AFGE does not suggest that either the Partnership or the architects of Force of the Future advocate discrimination in pay. They likely have good intentions. But we also know that the road to hell is paved with good intentions, and federal employees have no desire to revisit the hell of NSPS. To be clear: Force of the Future and/or the Booz Allen Hamilton blueprint are not just cut from the same cloth as NSPS, they are NSPS redux.

While NSPS and its would-be successors fail the internal equity test, there is no question that when it comes to external equity, Congress and the Clinton, Bush, and Obama administrations have all failed to perform their role. It is preposterous to blame the current system for failing to produce external equity. External equity is a funding issue, and the General Schedule cannot fund itself. It relies on budget authority and appropriations. To pretend that Congress would magically provide billions more each year to fund a new civil service system identical to one it repealed in 2009 on the grounds that it was discriminatory is folly.

The cost of living has risen 10 percent from 2010 to the present. So even before the salary reductions for new employees of 2.3 percent and 3.6 percent, the purchasing power of federal salaries had declined by 4.6 percent. The degree to which they lag the market varies by city, but the nationwide average is 34.92 percent according to the most recent estimates from OPM, using data from BLS. And that number includes current locality payments which were frozen for five long years. https://www.opm.gov/policy-data-oversight/pay-leave/pay-systems/general-schedule/pay-agent-reports/2015report.pdf

Inequality, the Decline of the American Middle Class, and Wages and Salaries of Federal Employees

The decline in living standards for America's middle class and the ongoing misery of the poor have been much in the news recently. Even as the rate of unemployment has dropped, wages continue to stagnate as do household incomes. On one side are those who deny the numbers, attribute changes in the distribution of income and wealth to changes in educational attainment or willingness to exert effort. On another side are those who recognize that the decline of unions, the rise of outsourcing and global free trade agreements, and the deregulation of the 1990's and other factors are better explanations. Median incomes for middle class American families, adjusted for inflation, are lower than they were in the 1970's and the very rich have benefited so disproportionately from economic growth over the decades that America is now more unequal than it was in the 1920's. Both middle incomes and the incomes of the poor are now higher in several European countries and Canada than they are in the U.S. After adjusting for inflation, median per capita income in the U.S. has not improved at all since 2000.

Federal employees are typical middle class Americans. They work hard and have historically received modest, but fair pay from their employer. It has been recognized that the nation benefited from having an apolitical civil service governed by the merit system principles. The pay and benefits that derived from those principles were supposed to be adequate to recruit and retain a high-quality workforce, capable of carrying out important public sector functions, from law enforcement to guaranteeing care for wounded warriors to protecting public health.

The government would not be a bottom-of-the-barrel employer, paying the lowest possible wages and forgoing health care and retirement benefits, like so many of today's most profitable corporations. Likewise, the government would not be a place where anybody went to get rich at taxpayer's expense (that role is assumed by government contractors like Booz Allen Hamilton). The government as an employer would be a model when it came to ideals of internal equity and non-discrimination, promoting both fairness and seeking employees devoted to the public interest. And on pay and benefits, it would aim at "comparability," defined in the pay law as no less than 95 percent of what private and state and local government pays on a locality basis.

We recognize the politics behind the pressure to constantly reduce federal spending. We understand the vast power of those who would protect the low tax rates of the wealthy at any cost Regardless of one's position on austerity and sequestration, both Force of the Future's pay proposals and the Booz Allen Hamilton plan deserve strong opposition because they introduce subjectivity and politicization into federal pay, undermine veterans' preference and violate the merit system principles. These plans are also objectionable because they would reallocate salary dollars away from the lower grades toward the top, increasing inequality and decreasing opportunity for advancement. Even if the direct attacks on federal employees' pensions were to stop and funding for salaries were enhanced, it would be important to reject Force of the Future and the Booz Allen Hamilton approach, because they quite explicitly advocate greater inequality between the top and the bottom of the federal pay scale.

The elitism of Force of the Future and the Booz Allen Hamilton plan is striking. They ignore the federal government's hourly workforce altogether. Apparently blue collar workers are so bereft of the qualities DoD and contractors want to reward in their pay schemes that they are not worth notice. The implied segmentation of the General Schedule or salaried workforce is also highly elitist. Employees in the lower grades, like hourly workers, are excluded entirely, again because, presumably, trying to measure their contribution to excellence would be a pointless exercise. But excluding the lowest paid federal workers is only one part of the inequality enhancement exercise that Force of the Future and Booz Allen Hamilton propose for DoD and the rest of government. Like their NSPS forbearer, the plans would divide the workforce by occupational category, reserving the highest raises for the highest earners. Those in the midlevel occupations would stagnate or decline, while their betters would be provided with both higher salary increases and a larger pool of funds from which to draw performance-based adjustments.

Force of the Future and its government-wide twin from Booz Allen Hamilton should also be opposed because they both would undo the tremendous achievement of the current system with respect to eliminating discrimination in pay. AFGE urges Congress to treat the findings of the OPM study on pay equity as important accomplishments worth protecting. We should be celebrating this success, not considering replacing the system that produced it. And that celebration must include full funding, so that federal employees can restore their status in the middle class.

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 Heritage 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 some 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 applies 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.

Another difference that explains the opposite results of Heritage and the BLS and OPM is methodological. Heritage 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 Heritage's approach is the interpretation of the fact that the federal government is less likely to discriminate against women and minorities in terms of pay than the private sector: It is viewed as evidence that the government "overpays" relative to the private sector, rather than the other way around.

In contrast to Heritage, 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 proved to be extremely valuable for scoring cheap political points, as the pay freeze and subsequent budget deals' cuts to federal retirement attest.

Conclusion

On paper, the General Schedule pay system is a model of market sensitivity and budget prudence that upholds the government's merit system principles and guards against discrimination. It has extensive flexibility that allows recognition for exceptional performance and special rates for jobs that are hard-to-fill. But what's on paper and what occurs in practice have become two very separate things.

The CBO's updated report makes no useful contribution to the discussion on federal pay and benefits. Its implications are horrid. If the government were to compensate its employees so that its costs reflected average private sector costs by demographics, it would reproduce all the inequities that we deplore in the private sector. Compensation for women and racial minorities would decline immensely. Regardless of the relative complexity, difficulty, and responsibilities of different jobs, what would matter would simply be the educational attainment of the person doing the job. A bachelor's degree from Trump University would merit the same "rate of return" as a bachelor's degree from Harvard.

The federal government should be proud of its pay system. Few in the private sector can match its fairness and internal equity. Its principle of market comparability and its authority for managers to reward high performance and punish poor performance are more than adequate. All that's missing is funding. The government should never adopt any kind of pay system that allows discrimination on the basis of demographics. Market comparability, adherence to the merit system principles of equal pay for substantially equal work and fairness must continue to be the principles on which federal pay is based.