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5 The Maturation of Federal Employees as an Interest Group

5.1 Introduction

The legislative histories of major laws affecting the civil service system show that an active role in shaping them was played by early federal employee unions. The evidence offered in this chapter reveals that federal employee groups were able to utilize these earlier institutional changes to expand their influence and direct the subsequent course of the civil service system. Indeed, as an interest group, federal workers have done rather well. Even though federal workers do not have the right to strike, most of the evidence indicates that the compensation of federal employees generally exceeds the amount that they would earn either in the private sector or elsewhere in the public sector.

Federal unions have achieved this favorable outcome, at least in part, because they have been granted direct input into the design of the very institutions that determine their members' compensation. By law, federal wages must be comparable with those in the private sector. Yet federal employee unions have been able to influence the design of the surveys used to judge whether government salaries are equal to those in the private sector in ways that are favorable to federal workers. The influence that federal unions have had on salary legislation is also evident in the structure of salaries within the civil service. In lobbying for statutory wage increases, there has been considerable emphasis by the unions on an egalitarian pay schedule and on rewarding seniority within the bureaucracy. Through their efforts, federal unions have been able to secure a relatively high average wage, but there is considerable wage compression at upper-level positions. In addition, federal employees have extensive employment protection, and seniority, rather than merit, largely determines both individual salaries and employment security.

There are a number of reasons for the apparent emphasis by federal employee unions on an egalitarian pay schedule and seniority. In general, these

have been goals of all labor unions (see Freeman and Medoff 1984). Trade unions have long pursued a policy of a "standard rate" of pay, partly because unions are political entities and must therefore remain responsive to the demands of the majority of their members. Indeed, a major determinant of the demand for union membership has been a desire to reduce perceived inequalities in compensation (see Farber and Saks 1980). Equalizing wages among workers contributes to solidarity in union establishments, without which "it is difficult to see how a union would be able to maintain its organizational strength" (Freeman and Medoff 1984, 80). Consistent with the notion that group solidarity is important for lowering the costs of collective action is union insistence on a wage rate, or range of rates, that is associated with particular jobs rather than with individuals. By deemphasizing the merits of individuals, unions seek to achieve a more cohesive organization.

Unions appear to have been successful in implementing egalitarian wage plans. A narrower range of wage dispersion is seen in the unionized, relative to the nonunionized, sectors of the U.S. economy (see Freeman 1980). Because unionized establishments have been induced to place less weight on the merits of individual workers, more weight is placed on other factors, such as seniority, for deciding promotion or job retention. While job protection based on seniority is also evident in nonunion establishments, the degree of seniority protection tends to be much greater for unionized ones (Freeman and Medoff 1984, 122–35).

More specifically for federal unions, the emphasis on egalitarian pay schedules helps promote solidarity among rank-and-file workers, who are members of different unions. Membership is spread across a number of unions, such as the American Federation of Government Employees (AFGE), the National Federation of Federal Employees (NFFE), the National Federation of Post Office Clerks, and the National Letter Carriers Association, and membership comes from clerical and lower-level management employees.¹ Individuals occupying more senior professional positions tend to belong to professional organizations, such as the American Bar Association, the American Federation of Technical Engineers, the American Optometric Association, and the National Society of Professional Engineers. In lobbying for salary legislation, and in commenting on the proposals of the president's pay agent, federal unions naturally have been more concerned about raising the salaries of their members than about raising the salaries of those employees in higher positions who are more likely to be members of professional groups.² Egalitarian objectives have helped solidify the different unions, at times to the disadvantage of higher-level federal employees.

The purpose of this chapter is to describe the structure of the federal pay system and to show how federal unions have influenced its design. Of course, unions have not received all that they have wanted. Nevertheless, their record, beginning with such early benefits legislation as the eight-hour day as well as with the classification and salary legislation examined in this chapter, indicates

remarkable lobbying success. These findings bear directly on current debates over the direction of causality between rules (legislation and executive orders) and the growth of union influence. At issue is whether recent policy changes spurred the growth of federal unions, giving them greater bargaining power, or whether union political influence initiated the policy changes that brought further union growth and performance.³ Federal unions and other employee groups grew out of the establishment of the merit system, which lowered the costs and raised the returns to membership. Federal unions then became active in securing favorable public policies regarding salaries, workplace benefits, and recognition.

We return to this issue in the conclusion to the chapter. In the chapter summary, we also consider some alternative explanations for the federal pay structure. We argue that, although the existing distribution of federal pay is inconsistent both with current notions of incentive wage structures and with merit principles, it is consistent with the common objectives of most labor unions.

5.2 Federal Pay Structures and Union Influence

5.2.1 Pay Structures

Federal civilian employees are currently covered by a number of different pay plans. The majority of these employees (see table 5.1) are under the General Schedule (GS) pay plan, which consists of eighteen grades.⁴ This system is intended primarily for white-collar employees, and, in 1989, the General Schedule included approximately 53 percent of the federal civilian labor force. At least in principle, the grades are designed to reflect increasing degrees of difficulty and responsibility. Within grades GS-1–GS-15, there are ten scheduled steps for advancement within each grade. The General Schedule is a national pay system, and, until recently, it made no allowance for regional differences in the cost of living or local wage standards.⁵ In addition, there is the Senior Executive Service, created by the 1978 Civil Service Reform Act (92 Stat. 1111), which covers a limited number of top officials who were previously

Table 5.1 Civilian Employees in the Executive Branch of the Federal Government by Pay Group, 1949–89 (full-time employees)

Year	General Schedule	Federal Wage System	Postal	Other System
1949	829,683	501,533	361,389	71,684
1969	1,273,695	592,218	654,477	119,145
1989	1,493,696	374,443	826,726	147,969

Sources and notes: U.S. Office of Personnel Management (1989). For 1949, employees classified under the Classification Act of 1923 are listed as General Schedule. The number of U.S. Postal Service employees in 1989 is from U.S. Post Office Department, *Annual Report of the Postmaster General, Fiscal Year 1989*.

in grades GS-16–GS-18 as well as other top managerial and policy positions that do not require Senate confirmation. Special pay plans also exist for members of the Foreign Service and certain occupations, such as physicians. The Federal Wage System (FWS) covers blue-collar employees—essentially trade, craft, and other labor occupations. Under the FWS, blue-collar workers are paid according to the prevailing rate for certain occupations in a designated geographic area. The other major pay system is that of postal workers. On 1 July 1971, the old post office ceased operating as a department of the federal government and began operating as the U.S. Postal Service, a public corporation.⁶ In contrast to most GS and FWS employees, the wages and benefits of postal service workers are now set by collective bargaining.

The Classification Act of 4 March 1923 (42 Stat. 1488) established the basis for the current white-collar pay system of uniform position classification, promotions, and salaries.⁷ Prior to the enactment of the 1923 law, departments were given lump-sum appropriations, and there were no rules that explicitly called for equal pay for equal work. Some salary rates were set by statute, and others were not. Hence, department heads had considerable authority in determining an employee's wage, and federal unions lobbied for legislation to reduce this discretion. The relative salary position of federal employees had been declining in the early twentieth century, and private-sector wage increases during World War I added to the sense within federal unions that they were losing ground. Lobbying efforts were mounted to raise the federal salary level and to change the federal salary structure. At the behest of the National Federation of Federal Employees (NFFE), one of the largest federal unions at that time, a commission was appointed to consider the establishment of a standardized pay plan that would set salary on the basis of the characteristics of the position, not of the individual holding the job (Nesbitt 1976, 62–66). There was considerable resistance to such a plan by members of Congress and bureau heads, who argued that determining pay was a prime management function, not the duty of a commission (U.S. House of Representatives 1920, 54).

Not only did the NFFE have to confront continuing opposition to pay increases and job standardization from such notables as Senator Reed Smoot, chair of the Appropriations Committee, and the Bureau of Efficiency, but the organization also ran into problems with federal workers who were skilled craftsmen. Congress had recognized the prevailing-rate principle for skilled workers in 1861, and this group of workers had little need for consistent position classification and salaries, especially since it might undermine wages earned in particular areas (Nesbitt 1976, 399). Although the NFFE and other federal unions finally prevailed in their efforts to obtain passage of the Classification Act of 1923, authorizing comparable pay for comparable work at the federal offices covered by the law, skilled employees were exempted from its provisions. These exemptions were maintained in the Classification Act of 1949 (63 Stat. 954), which formally extended the provisions of the 1923 law to the field service outside Washington, D.C. The distinction remains through

the General Schedule with its national pay plan and the Federal Wage System with its prevailing-wage practices.

The Classification Act of 1923 applied immediately to only about 50,000 employees in the District of Columbia and was only slowly implemented for field service employees. One of the major decisions that had to be made in expanding the classification and pay system beyond the Washington, D.C., area was whether to allow geographic wage differentials (Feldman 1931, 41). With different position definitions and salaries between offices in Washington, D.C., and jobs in the field, the system became increasingly difficult to manage after 1923. Congress, however, was not willing to give up the micro management of federal wages until 1949. The dramatic expansion in federal employment between 1933 and 1940—the number of federal employees grew by 73 percent—and the creation of New Deal agencies in the 1930s raised the costs to Congress of managing federal salaries and provided the catalyst for the extension of position classification to the rest of the field services (U.S. Department of Commerce 1975, 1102). The Ramspeck Act of 1940, which extended the merit service to New Deal agencies, followed by the Hoover Commission report on personnel management practices, ultimately led to the passage of the Classification Act of 1949.⁸ The law authorized the president to expand the functions of the Civil Service Commission and to develop a comprehensive national pay plan for GS workers.

Federal employee unions, such as the NFFE and the AFGE, were active supporters of the Classification Act of 1949, and they testified in favor of the bill during congressional hearings (U.S. Senate 1949). By extending the provisions of the Classification Act of 1923 to all merit employees, the 1949 law provided for uniform job classifications and salaries nationwide. As federal unions achieved their objective of “equal pay for equal work,” supervisor discretion in individual salaries and promotions was reduced.⁹ As we discuss later, Congress also supported the maintenance of uniform position classification and salary structures within the General Schedule because it offered a means to better monitor the personnel system.

5.2.2 Union Membership

The influence of federal unions in obtaining favorable public policies is illustrated by President Kennedy’s 1962 Executive Order 10988. During the close 1960 presidential campaign, postal and other federal unions obtained a pledge from John Kennedy that, if elected, he would back collective-bargaining arrangements between federal workers and their agencies and departments (Nesbitt 1976, 19; Stern 1988, 55, 56). The support of federal workers and organized labor in general was essential for Kennedy’s election. After Kennedy took office, organized labor continued the pressure. In September 1961, Andrew Biemiller, director of legislation for the AFL-CIO, urged the president to issue an executive order recognizing the right of federal employees to join labor unions and to engage in collective bargaining (see *New York*

Times, 14 September 1961, 14). In response to his earlier commitment, President Kennedy established a cabinet-level task force to explore federal employee-management relations, and, after receiving its recommendations, he announced in December 1961 that he would issue an executive order to give unions an enhanced status to help shape federal personnel policy (see *New York Times*, 5 December 1961, 27).

Executive Order 10988, issued in January 1962, established a labor-management program for federal executive branch employees. The order contained provisions for the formal recognition of unions, an official status previously denied in the federal service. Although the Lloyd-LaFollette Act of 1912 allowed federal employees to join unions without penalty of dismissal, it did not formally recognize labor units as bargaining units. With the 1962 executive order, federal unions were placed in a better position to represent their members' grievances over such issues as transfers, promotions, discharge, safety, and health. The order provided for a limited range of collective bargaining through the establishment of exclusive bargaining units to negotiate with agency and department heads, but it did not allow collective bargaining over wages.¹⁰ Collective bargaining remained largely restricted to semiautonomous agencies such as the Tennessee Valley Authority. Moreover, the executive order reaffirmed the long-standing opposition by the federal government to strikes by federal workers.¹¹ Despite these provisions against collective bargaining over wages and the prohibition of strikes, Executive Order 10988 appears to have provided enough new benefits from union membership to contribute to the growth of federal unions after 1962 (table 5.2).

Table 5.2 describes union membership and employees in exclusive bargaining units for the executive branch and Post Office Department from 1958 through 1985 and shows the increase in membership following Executive Order 10988. Federal unions include formal organizations, such as the American Federation of Government Employees and, for the postal service, the American Postal Workers Union. There is a distinction between union membership and union representation in federal units. In some cases, nonmembers are included in union bargaining, with the result that the number of employees represented by the union exceeds union membership. In addition to formal unions, there can be other bargaining organizations that engage in collective bargaining. The table indicates that many executive branch employees in bargaining units are not union members. The percentage of union membership in the executive branch has declined since the peak in 1972, but membership in a bargaining unit has remained relatively stable. By law, collective bargaining cannot address salary or benefits issues, which are set by statute and executive order; hence, unions and other bargaining organizations must lobby Congress and the president for favorable actions regarding pay. Alternatively, membership in postal unions has remained more stable and includes a larger proportion of postal employment. Most bargaining units appear to be postal unions.¹²

Union membership among nonpostal employees has been greater for blue-

Table 5.2 Federal Employees' Membership in Unions and Bargaining Units

Year	Executive Branch			Post Office		
	Total Employment (thousands)	Union Membership (%)	Bargaining Units (%)	Total Employment (thousands)	Union Membership (%)	Bargain Units (%)
1958	1,817	6.3	N.A.	538	73.1	N.A.
1960	1,808	6.2	N.A.	563	76.0	N.A.
1962	1,896	9.6	N.A.	588	76.0	N.A.
1964	1,884	12.2	12.2	585	84.8	85.3
1966	2,051	14.0	21.2	675	78.8	91.6
1968	2,289	16.8	34.9	731	86.1	84.7
1970	2,158	22.4	42.4	726	82.5	86.2
1972	2,073	26.4	52.2	697	88.4	86.8
1974	2,140	25.9	53.4	707	83.9	85.8
1976	2,126	20.7	56.0	676	94.9	85.7
1978	2,117	22.4	58.0	656	88.3	87.8
1980	2,109	21.2	59.3	660	88.4	88.8
1981	2,093	21.8	59.0	663	88.0	91.4
1983	2,120	20.9	58.2	663	87.1	92.2
1985	2,148	N.A.	57.9	717	N.A.	89.9

Source: Burton and Thomason (1988, 29).

Note: N.A. = not available.

collar (FWS) workers than for white-collar (GS) employees. This, in part, may be attributed to the manner in which wages have been determined in the federal sector. The principle of a prevailing rate of pay has long been the basis for determining wages for FWS employees, and local wage boards have existed to determine going rates in particular localities.¹³ Although prior to Executive Order 10988 in 1962 there were no formal provisions for labor representation on local wage boards, federal unions representing FWS employees had been influential in board decisions. Further, since 1962, unions have been able to achieve even greater participation in the rate-fixing process because they are granted direct input into the design of wage-survey procedures. Formal representation allowed them to express their views with more force. As a consequence, in the 1960s, the Civil Service Commission was directed to develop a new federal wage system. The result was a major victory for those federal unions representing blue-collar employees. The new system not only maintained the basic concept of an "area prevailing wage" but also included automatic in-grade pay increases, based on longevity, that allowed federal wages to exceed private ones.¹⁴ Despite claims that wage determination was strictly a management decision, through their unions FWS workers appear to have obtained considerable say in the outcome. Additionally, because decisions are made at the local level, individual FWS workers have had a stronger incentive

to contribute to union activities than have GS workers, whose wages are determined by a national pay plan.

Another problem for widespread GS employee union membership is the large number of white-collar workers in the federal government. In 1983, for example, 444 different occupation codes were used to classify white-collar workers (U.S. Office of Personnel Management, *Federal Civilian Work Force Statistics: Monthly Release* [July 1984]). Many of those employees belonged to professional groups, such as the Society of Professional Engineers, which have historically opposed union membership. As Murray Nesbitt notes, "Thus, the unions which seek inclusive membership outside the Postal Service are faced with a dual problem of the skilled craft workers on the one hand and the professional, management, and supervisory employees on the other" (1976, 80). This dichotomy has resulted in the larger federal unions representing mainly the crafts, skilled and unskilled labor, postal workers, and clerical workers, while many professionals have abstained from union membership.¹⁵

Even so, federal unions and employee groups have achieved uncommon success in obtaining supportive legislation from Congress and executive orders from the president for GS employees. Before examining the actions of federal unions regarding pay, it is important briefly to address how well-organized postal unions have assisted other federal unions and employee groups in obtaining favorable salary legislation. As described in chapter 4, not only were postal unions, such as the National Association of Letter Carriers and the National Association of Post Office Clerks, the first federal labor organizations to form, but they were successful in obtaining early benefits, such as the eight-hour day. They also achieved relatively higher salaries before workers elsewhere in the federal government. As a result, postal unions became trendsetters that helped establish salary and benefit precedents for their colleagues in other parts of the federal government.

James Stern (1988, 55) notes that postal unions have long been among the most experienced and effective congressional lobbyists. As early as President Roosevelt's 1906 gag order, postal unions played a central role in labor-management negotiations in the federal government. Their lobbying of Congress to counter the gag order helped bring about the passage of the Lloyd-LaFollette Act (37 Stat. 539), protecting the rights of federal workers to organize to promote their own interests. Additionally, Richard Fenno describes the actions of postal employee unions in pressuring Congress for salary increases and how those efforts benefited other federal workers: "It is acknowledged by all participants that the postal workers 'carry the ball' and that all other federal employees 'ride on their backs' in getting pay raises" (1973, 247).¹⁶ Because of the emphasis on equality of pay in the federal government, once postal workers obtained higher salaries, fairness issues were raised by other federal unions in calling on Congress to enact salary adjustment legislation. For example, in congressional hearings on federal salary legislation in 1970, representatives of

the AFGE claimed that reforms were needed to give “classified and other statutory pay systems employees equal treatment with postal employees” (U.S. House of Representatives 1970, 91–92).

The role of federal unions and employee groups in influencing pay levels and the process by which they are determined is illustrated by the legislative histories of the Federal Salary Reform Act of 1962 (76 Stat. 841), the 1970 Federal Pay Comparability Act (84 Stat. 1946), and the Federal Employees Pay Comparability Act of 1990 (104 Stat. 1427). These are the key statutes that require that the wages of GS employees be comparable with those paid in the private sector. The laws outline how the private-sector comparisons are to be made, how they are to be translated into recommendations by the president to the Congress for statutory pay increases, and how federal unions and employee groups are to be involved in the process.¹⁷ Not surprisingly, federal unions and employee groups have been active in lobbying for legislation that provides for significant union input into the survey and wage-increase process.

The 1962 Federal Salary Reform Act instituted annual private-sector surveys by the Bureau of Labor Statistics (BLS) for pay comparability. These surveys, known as the professional, administrative, technical, and clerical (PATC) surveys, became the basis for annual pay adjustments. Survey design included such matters as what industries to include, the minimum size of establishments in the survey, and what occupations to survey. In principle, the surveys were to provide information on private-sector earnings by occupation to the president’s pay agent. The president could either accept the recommendations of the pay agent or propose a lower alternative to Congress by citing a national emergency or an economic condition affecting the general welfare. Although federal unions and employee groups, including the AFGE, the American Federation of Technical Engineers, and the National Association of Letter Carriers, testified in favor of the law, they soon became dissatisfied with the way in which it was implemented (U.S. Senate 1962). In testimony before Congress in 1970, representatives of the AFGE claimed that the president had failed to carry out the provisions of the Federal Salary Reform Act of 1962 and that comparability with the private sector had not been reached (U.S. House of Representatives 1970, 82–92). Accordingly, the AFGE and other unions lobbied for new legislation.

In 1970, two bills were under consideration for amending the 1962 Federal Salary Reform Act, H.R. 18403 and H.R. 18603. H.R. 18403 was introduced by Representative Morris Udall, who said that the AFGE has “been after me for many months to take actions on some kind of pay-setting reform legislation this year” (U.S. House of Representatives 1970, 81). The bill gave federal unions a more direct role in the salary comparability process by authorizing an Advisory Commission on Federal Pay of five members, of which one member was to come from the employee organization with the largest number of members in the General Schedule (in this case, the AFGE) and one from another organization of federal employees. The president was to appoint the other three

members from among employees within the government. The advisory commission was to analyze the annual pay comparability survey conducted by the BLS and to recommend pay rates to the president. As such, it essentially took over the role of the president's pay agent (U.S. House of Representatives 1970, 6–8, 47–80). The president was to transmit the commission's report to Congress along with his recommendations for pay increases. The report was to be considered by the Congress in determining whether to accept or reject the president's recommendation.

H.R. 18603 was the administration bill, and it competed with the legislation favored by federal employee unions. The bill authorized a smaller committee with a less direct and more purely advisory role in the process of determining pay comparability. The bill called on the pay agent to consult with an Advisory Committee on Federal Salaries of three federal employees appointed by the president. There was no specific requirement that federal unions or employee groups be represented. The pay agent would then prepare a report comparing the rates of pay fixed by the agent, using surveys by the BLS, and those recommended by the advisory committee. The president would note any differences in submitting pay recommendations to the Congress (U.S. House of Representatives 1970, 40–45).

During congressional hearings in July 1970 on the competing bills, there were written statements and testimony from forty-two people, of whom thirty-seven were from federal unions or organizations of federal employees. Representatives of the AFGE asserted that the administration bill left management too much power over pay issues and made no specific provision for employee representation on the advisory committee. Representatives of the NFFE and the National Association of Government Employees (NAGE) also called for more direct involvement in the pay process (U.S. House of Representatives 1970, 111–23). Only smaller unions and associations, such as the National Association of Internal Revenue Employees, favored the administration bill—in order to avoid domination by the AFGE (U.S. House of Representatives 1970, 163).

Although the unions did not get H.R. 18403 passed, they did get modifications in the administration bill to increase their involvement in the salary determination process. The 1970 Federal Pay Comparability Act kept the pay agent but directed the agent to make recommendations based on input on survey design and interpretation of the results from two other bodies: an Advisory Committee on Federal Pay of three members appointed by the president and a Federal Employees Pay Council of five members, not employees of the government, but representatives of employee organizations from the three federal pay systems.¹⁸ Up to three members could come from one organization, such as the AFGE. This committee was similar to that described in the Udall bill, and it was to consider the adequacy of the BLS survey, the process of pay comparability, and the proposed salary adjustments and give comments to the president. Its recommendations would also be considered by the Congress in reviewing

the president's proposal. As such, the unions and employee groups achieved a committee with more independence and a greater role in the salary comparability process than was proscribed in the original administration bill.

Despite the changes authorized in the 1970 bill, dissatisfaction among federal unions and employee groups with the pay comparability process continued. Since its inception, the Federal Employees Pay Council was at odds with the recommendations of the pay agent and, in particular, with the final actions taken by the president. The view held by most members of the council was that the federal government had not honored its commitment to pay comparable wages. During 1986 congressional hearings to review the Federal Pay Comparability Act of 1970, there were complaints by both the advisory committee members and by members of the Federal Employees Pay Council that the president had not gone along with their recommendations (U.S. House of Representatives 1986, 3, 7, 13). It was noted that for eight years the president had proposed alternative pay rates to those recommended by the various advisory committees. Representatives of the AFGE and the NFFE, who were former members of the Federal Employees Pay Council, complained that the problem was in giving the president too much latitude in setting pay (U.S. House of Representatives 1986, 39–56). The Federal Employees Pay Council disbanded in protest in 1975.¹⁹

The continuing conflict over salary issues and efforts by federal unions to obtain greater influence over them brought a new round of legislation in 1990 with the Federal Employees Pay Comparability Act. In congressional hearings on the legislation, the president of the AFGE supported a particular version of the bill that would allow for annual salary adjustments based on an employment cost index (ECI) and that importantly replaced the president's pay agent with a thirteen-member body, the Federal Salary Council. The proposed Federal Salary Council was to be made up as follows: six seats to be held by labor representatives; three seats to be held by officials from the Office of Personnel Management, the Office of Management and Budget, and the Department of Labor, respectively; and four seats to be named by the president.²⁰ Not only were labor groups to receive a prominent position on the new pay council, but it was to have a more definitive role in implementing a new pay system. The president's discretion to defer recommended salary adjustments was to be restricted (U.S. House of Representatives 1990, 187).

The actual language of the 1990 Federal Employees Pay Comparability Act again did not give the employee groups all that they wanted, but they did achieve annual pay adjustments based on changes in the ECI, due in part to local conditions, and a majority of the membership on a new Federal Salary Council. The council was to have nine members—three impartial, six from employee organizations (with up to three from any one union or employee group). Unlike the 1970 law, the new legislation authorized only one advisory committee with a clearer mandate. The president's pay agent was retained but

was to provide information to the council and to solicit its views and include them in the report to the president.

The record clearly documents the active role that federal unions played in shaping the federal compensation system. The unions have not been able to obtain a closed-shop designation, the explicit right to bargain over wages, or the right to strike, but they have been able to influence the legislation through which salary comparability is implemented. Although wage studies by economists examined in the next section, as well as time-series data, indicate a substantial wage advantage for most federal employees, relative to similar private-sector workers, the PATC surveys (designed with considerable union input), by contrast, suggest relatively lower wages for federal workers. Indeed, if one accepts the PATC survey results, federal salaries have fallen substantially behind those in the private sector, with the gap between the pay agent's recommendations and actual salary increases widening over time.²¹ In 1979, for example, the president's pay agent reported, "After comparing Federal and private enterprise pay rates and considering the recommendations of employee organizations and unions, we have determined that the adjustment required would be a graduated increase ranging from a low of 8.80 percent at GS-6 to 15.43 percent at GS-15, and an indicated 23.64 percent at GS-18. The overall average percentage increase would be 10.41 percent" (President's Pay Agent 1980, 3). The actual increase that became effective on 1 October 1979 was an across-the-board salary adjustment equal to 7.0 percent.

There are reasons for questioning whether the PATC surveys really look at "comparable" situations in assessing private-sector wages. The surveys have been criticized for their geographic bias, emphasis on large private employers, and failure to include state and local employees when determining comparable wages.²² Because smaller private establishments tend to pay lower salaries and are more likely to be located outside high-salary metropolitan areas, federal employee unions have been steadfastly against the inclusion of small establishments in the PATC surveys.²³ As we show in the next section, most federal workers tend to be paid more than state and local employees, a fact that explains why federal unions oppose having those workers included in the wage comparability surveys. Although with the passage of the Federal Employees Pay Comparability Act of 1990 Congress sought to correct some of these problems, the PATC surveys remain the primary basis for determining wage comparability with the private sector.

The decision in enacting the 1990 salary law to continue using the PATC surveys is, in itself, a reflection of the power of federal unions. In contrast to the survey results, standard human capital earnings regressions paint a very different picture, one that indicates that federal workers (except those in the most senior positions) are paid more than their private-sector counterparts. Yet this standard approach is not the official method for inferring the existence of a wage differential. Moreover, both the PATC surveys and human capital earn-

ings regressions indicate considerable wage compression in the federal sector. Federal unions, like unions in the private sector, widely support egalitarian wage objectives.²⁴

5.3 The Success of Federal Employees as an Interest Group

5.3.1 Relative Federal Salaries

In chapter 4, we argued that, with the gradual demise of patronage, congressional interest in maintaining comparatively high federal employee salaries in order to extract political assessments would diminish and, hence, that salaries would fall. The available evidence supports this prediction, with relative salaries declining from the 1880s through approximately 1920. After that time, however, following intense lobbying by unions, federal salaries began to rise relative to the private sector. National income and product account (NIPA) data (computer files, update 1991) reveal that the ratio of annual average salaries of federal civilian employees to private-sector workers was 1.36 in 1929, the first year these data were available. The relative advantage of federal salaries over those in the private sector has been maintained ever since, although there has been fluctuation in the size of the premium obtained by federal employees.

Figure 5.1 outlines the relative wage advantage between 1949 and 1990 of federal employees over both those in the private sector and state and local government employees. During the 1950s, the ratio of federal to private-sector wages remained fairly constant, but it grew in the 1960s and 1970s, a time when union representation in the federal sector was expanding. Over the period 1949–90, the ratio of federal to private-sector pay has averaged 1.31. For comparison, the ratio of federal to state and local government pay has averaged 1.35.

The data indicate that federal employees have done well compared to both groups in the postwar period. The NIPA data, however, do not control for job skills, education, or other factors that may account for higher relative federal pay. A more widely accepted procedure for comparing earnings across different groups of workers is to estimate a regression of the form

$$W_{ij} = X_{ij}\beta_j + \varepsilon_{ij},$$

where W is the wage rate for individual i in sector j , usually measured in logarithmic terms, so that the estimated coefficients measure approximately the percentage effect on wages due to changes in the right-hand-side variables. In the equation, X is a vector of measured characteristics of the individual worker, such as years of schooling, sex, race, location, and experience. The vector of regression coefficients, β , reflects the return or effect on wages due to a change in the corresponding element of the X vector for a member of group j .

Although there are a number of variants, comparisons between sectors can be obtained using the vector of estimated coefficients β_j and the characteristics

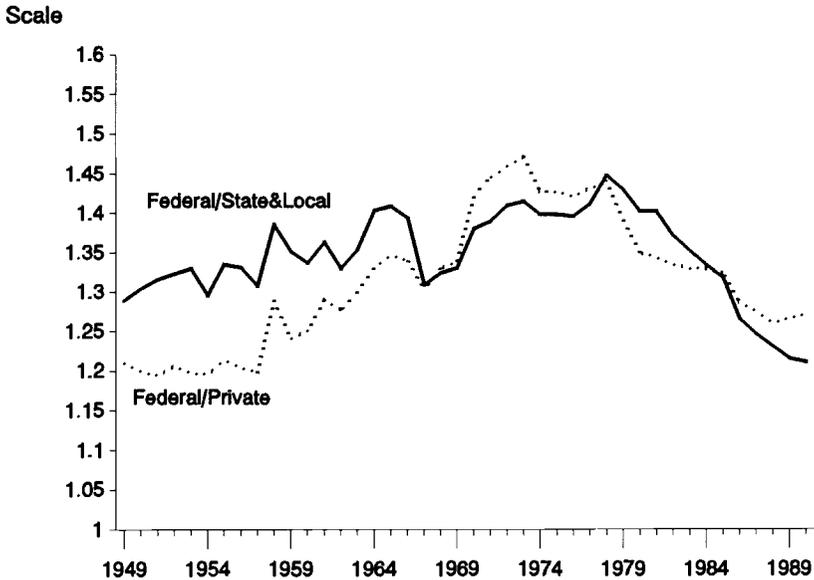


Fig. 5.1 Relative federal wage advantage, 1949–90.

Source: National income and product accounts.

of a representative individual employed in some other sector, k . This procedure yields a prediction of what that same individual would earn if employed in sector j . Subtracting this predicted value from the earnings estimate obtained using the representative worker's own vector of coefficients, β_k , provides a measure of the wage differential between sectors. Despite the potential problems with the use of relative federal wage ratios computed from NIPA data, controlling for a host of socioeconomic characteristics does not alter the picture of a relative federal wage advantage shown in figure 5.1. Without exception, studies that have used Current Population Survey (CPS) data and standard human capital earnings regressions reveal that most federal workers enjoy relatively higher wages than either their private- or their public-sector counterparts.²⁵

One of the first comprehensive studies on relative federal sector pay that attempted to control for variations in the attributes of workers was that of Sharon Smith (1977). Her estimates were obtained using public use samples of the census for the years 1960 and 1970 and CPS data files for 1973 and 1975. Smith estimated the basic human capital earnings equations described above, with either individual hourly wage rates or annual earnings as the dependent variable. The controlling variables included measures of years of experience, education, race, sex, marital status, location, and major occupation. Her results indicated not only that federal wages were above those for comparable workers in the private sector but also that there was considerable variation

in the size of the differential across groups.²⁶ In particular, the differential was greater for women, certain racial minorities, and federal employees stationed in rural areas. Her estimates for 1960, for example, indicated that the relative wage advantage was 8 percent for males and 13 percent for females (Smith 1977, 68).²⁷ According to Smith, the regional wage differentials reflected the use of a national pay scale for GS employees. The federal wage differential was lower in the Northeast and higher in the South. This is just the opposite of the pattern for private-sector wages, which have tended to be low in the South and high in the Northeast (Smith 1977, 91). Consistent with the NIPA data shown in figure 5.1, Smith (p. 63) also found that the wage differential between state and local workers and private-sector workers was, on average, close to zero in 1975.²⁸

In addition to other studies, similar to Smith's, that have used CPS data and human capital earnings regressions, researchers have compared quit rates and job queues in the public and private sector. Unless the federal wage advantage reflects compensation for some negative, nonpecuniary condition associated with employment or location, quit rates should be lower and queues higher in the federal sector. This prediction is supported by the available research. Evidence from a variety of studies strongly indicates that quit rates are substantially lower in the federal sector.²⁹ Complementary evidence was presented by Alan Krueger (1988a, 1988b), who looked at application rates for federal and private-sector jobs. While Krueger cautioned that the comparisons may not reflect similar occupations, the data that he presented suggest that federal job openings attract more applicants than do positions in the private sector.³⁰ Thus, with the exception of the PATC surveys, which are influenced by federal unions and employee groups, the available evidence indicates that federal workers enjoy a relative wage advantage over workers elsewhere in the economy.

The NIPA data in figure 5.1 indicate that the federal wage advantage declined in the late 1970s. Although this decline may be a mere aberration in the general pattern of federal wages since the early 1920s, the effect on different groups of federal workers is revealing. Recent work by Larry Katz and Alan Krueger (1991, 1992) using CPS data and standard wage regressions, summarized in table 5.3, indicates that the relative decline in the federal wage since the late 1970s has been borne mostly by more highly educated employees.³¹ In comparison, the pattern of wages in the private sector over the last decade has moved in the opposite direction. In the private sector, less-educated male workers have fared poorly, while more highly educated women have experienced significant increases in their real wages. A national federal pay structure that largely protects rank-and-file workers from the negative effects of changing patterns of pay in the private sector is, of course, consistent with the objectives of federal unions.

In recent years, increased attention has been focused on a so-called human resource crisis in the federal government that appears to be remedied only by increasing federal salaries (see, e.g., Hudson Institute 1988; Lane and Wolf

Table 5.3 Federal/Private Percentage Wage Differentials, by Sex, Education, and Year

	Male		Female	
	High School	College	High School	College
1960	8	...	13	...
1973/75	8	13	32	49
1979	2	7	22	16
1983	8	12	26	27
1988	5	1	25	21
1991	11	1	30	16

Source and notes: The reported differentials are log points. The 1960 figures are from Smith (1977, 68) and reflect the use of federal weights (sample mean values) to compare workers with the same characteristics. The mean educational level for federal workers in 1960 was twelve years for both males and females. The mean years of experience was approximately twenty-four years for both sexes (Smith 1977, 162–63). The source for all other years is Katz and Krueger (1992, table 1). Katz and Krueger report the expected wage for workers with the following characteristics: white, full-time employee, resident of an SMSA (standard metropolitan statistical area) with twenty-five years of experience.

Table 5.4 Gini Coefficients for Pay Distribution in the Federal Government

Year	Gini Coefficient	Year	Gini Coefficient
1928	.208	1969	.203
1949	.185	1979	.232
1960	.171	1989	.236

Sources and notes: The procedures for computing the Gini coefficients are described in Miller (1960). Data on federal pay distributions for 1928 are from Feldman (1931, app. D, p. 265). The source for all other years is Office of Personnel Management (1989).

1990; Levitan and Noden 1983; and Volcker 1988). There is little question that pay for top-level government executives is depressed and that higher-level positions are sometimes difficult to fill. But wage compression in the federal sector is hardly a new issue. Throughout much of the post-World War II period, either special pay ceilings or salary caps have been in effect for top-level GS positions (see Hartman 1980). While these ceilings are adjusted from time to time, maintaining a lid on the salaries of top officials has contributed to a federal pay structure that is far more egalitarian than that found for the U.S. labor force as a whole.

Table 5.4 presents Lorenz-Gini coefficients for the federal workforce for selected years starting in 1928. The Gini coefficient must lie between one and zero, with a value of zero implying no income inequality. In 1979, the Gini coefficient for the federal sector was .23. The private-sector coefficient for 1979 was approximately double that value, .45.³² Although the Gini coeffi-

cients for the federal sector do not exhibit much variation between 1928 and 1989, there is some hint of an actual decrease in equality over time. Recent estimates for the entire U.S. labor market also indicate a decline in equality in the 1980s (see Levy and Murnane 1992). Nevertheless, the low Gini coefficients for the federal sector appear to be due mainly to an increase in the proportion of federal workers in higher GS level professional and managerial positions rather than to a managed response to changes in private-sector pay.³³ When compared to figures for the U.S. labor force as a whole, those presented in table 5.4 are not only consistent with the argument that the federal pay structure exhibits considerable compression but also indicate that this condition is not a new one. Federal employee unions have long sought to implement egalitarian pay systems.

In addition to relatively higher wages, federal workers also have health and retirement benefits that are considered superior to those provided in the private sector.³⁴ Figure 5.2 presents NIPA data on the ratio of total compensation of federal employees to that of private-sector and state and local employees. Including nonwage compensation increases slightly the federal relative advantage computed over the entire period 1949–90 shown in figure 5.1. It also negates much of the decline in the federal/private wage ratio exhibited since the late 1970s. Hence, taking the NIPA data with the numerous human capital earnings studies that control for a myriad of socioeconomic variables, the pic-

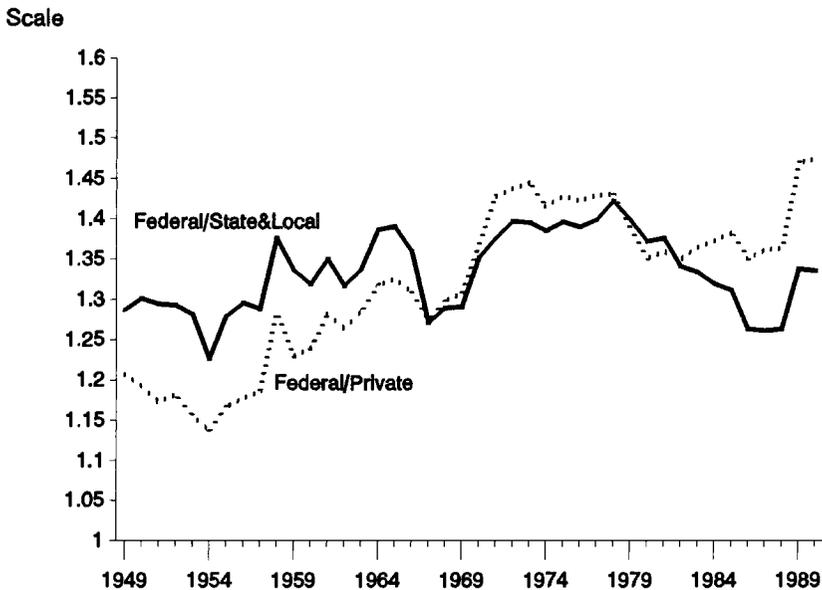


Fig. 5.2 Relative federal total compensation advantage, 1949–90.

Source: National income and product accounts.

ture that emerges is one of a federal labor force that is relatively well off. Contributing to that outcome is the influence that federal unions have had over the design and implementation of civil service rules governing promotions.

5.3.2 Promotion and the Returns to Tenure

The General Schedule provides GS grades that are linked to specific positions through the position classification process and uniform procedures for promotions. Subject to the approval of the Office of Personnel Management, supervisors in each agency define positions with regard to responsibilities and qualification requirements, and they coordinate with agency classifiers to select the appropriate occupation code and range of GS levels for positions. This process defines the immediate job ladder for each employee. Importantly, within grades GS-1–GS-15 there have historically been ten steps with pay increases of 3 percent each, thus providing a 30 percent salary range within each grade. A central responsibility for supervisors is the evaluation of subordinate performance. Typically, a five-point scale has been used, whereby 1 is unsatisfactory, 2 is minimally satisfactory, 3 is fully satisfactory, 4 exceeds fully satisfactory, and 5 is outstanding.³⁵ According to civil service rules, these ratings are to be used in managing and motivating subordinates for within-grade step salary increases and for promotion to higher GS grades. In practice, however, within-grade step salary increases have been largely automatic.

Under civil service rules there are significant costs and few benefits to supervisors who issue poor evaluations. The current rules require extensive documentation of poor performance, and the burden of proof lies with the supervisor. The supervisor must notify the subordinate ninety days in advance of his plan to assign a low rating to allow time for the subordinate to improve his performance and to develop a program of remedial training. Adverse ratings are subject to review by senior officials, and the employee can appeal through personnel channels within the agency and then to the Merit System Protection Board. Since the signing of Executive Order 10988, an employee within a unit represented by one of the federal unions may also use the union's negotiated grievance procedures. The unions have been aggressive in promoting the use of their grievance procedures and in their defense of employees (Nesbitt 1976, 235–67). Moreover, the unions and various employee groups have repeatedly lobbied Congress to reduce the discretionary authority of supervisors with regard to promotions and have fought attempts to use in-step promotions for performance incentives.

For example, with the Federal Salary Reform Act and the Postal Employees Salary Adjustment Act of 1962 (76 Stat. 850), the Congress added performance criteria for awarding within-grade step increases.³⁶ Under the law, the step increases would be granted after time requirements were met and after the employee's supervisor verified that the work was of an acceptable level of competence. This clause was designed to give supervisors discretion in awarding salary increases in an effort to improve the productivity of GS workers.

The provision for supervisory discretion, however, brought opposition from federal unions and related groups. During hearings before the House and Senate Post Office and Civil Service Committees, these groups sought to have the provision calling for an acceptable level of competence repealed. Among those testifying before the committees, only the Civil Service Commission and the Bureau of the Budget called for retention of a performance criteria. The director of the Civil Service Commission argued that under the 1962 law the step salary increase “was largely a matter for determination by those who have supervisory responsibility, that the increase was not an automatic right, and that it could and would be withheld if the performance was not up to standard.” In opposition, the president of the AFGE emphasized to the committee members the political significance of federal white-collar employees: “There are 1.7 million persons looking to you, Mr. Chairman and members of this committee, to protect their interests.” He went on, “We in the AFGE believe this provision should be repealed outright” (U.S. Senate 1965, 26, 129, 132). The members of the House and Senate committees appeared responsive to union demands. Although the performance criterion was not repealed, additional notification requirements were added.

There have been repeated efforts to tie in-step increases to performance, and, each time, federal unions have opposed the change. In 1975, the President’s Panel on Federal Compensation noted that “most private employers and Federal agency managers who responded to the Federal Register notice on this issue favored changing the emphasis on within-grade advancement from longevity to merit. Federal employee unions expressed skepticism about management’s ability to make necessary judgments about individual performance in a fair and objective manner, and favored retention of the present system” (U.S. Senate 1976, 467). The unwillingness on the part of the Congress clearly to mandate the use of merit performance ratings has not been lost on federal supervisors.

The documentation requirements and appeals processes raise the costs to supervisors who rate the performance of subordinates critically. Moreover, the reward system for supervisors does not appear to offer incentives that are sufficiently strong to overcome these costs. Although the Civil Service Reform Act of 1978 called for the use of merit-pay incentives for supervisors, the rewards have not been very high. In 1985, for example, the average award was around 2 percent, with a few individuals receiving as much as 10 percent.³⁷ While advancement to higher managerial positions or to the Senior Executive Service depends on the supervisor’s performance, wage compression reduces the incentive to compete for those positions, especially via the costly route of negative subordinate evaluations. The costs and incentives facing supervisors appear to have contributed to the practice of granting high performance ratings within the federal civil service.

As the U.S. Classification Task Force noted, “Withholding an increase is difficult and requires extraordinary effort on the part of the supervisor to docu-

ment. The path of least resistance is to grant the increase, and this is the path almost every supervisor chooses to follow" (1981, 87). The same point was made during hearings on the Civil Service Reform Act of 1978: "The prospect of successfully dealing with the appeals process, to ensure that the person is not returned to the rolls, causes managers to go through a long process of preparation that can take months or longer. Often the manager's conclusion is that the task is too formidable and he abandons the effort. At the least, the process is excessively delayed and far more time of the managers must be devoted to the process than is justified" (United States Code 1978, 2762). In fiscal year 1986, over 98 percent of all GS-1-GS-12 employees received a fully satisfactory (3) rating or better. Only 1 percent were rated unsatisfactory (1).³⁸ This pattern of ratings appears to reflect a long-standing practice. The U.S. Classification Task Force (1981, 87) reported that typically less than 1 percent of those eligible are denied step salary increases. The effect of this policy is that subordinates who receive a fully satisfactory or higher rating are assured of receiving within-grade step salary increases.

Accordingly, step salary increases are virtually assured as soon as time requirements are fulfilled.³⁹ Similarly, promotion within the job ladder requires minimum time within a grade. There are over 400 occupation codes within the General Schedule, and each has a range of GS levels that can allow for job ladder promotions. Promotion criteria are outlined in chapter 335 of the *Federal Personnel Manual* (U.S. Office of Personnel Management 1984), and time in grade is an important criterion. Hence, for the typical federal employee, service time seems to be the primary factor for advancement. The earnings profiles for federal workers provide strong support for this argument.

To examine earnings profiles of federal employees, we utilized the following human capital earnings regression:

$$\ln W_i = \beta_0 + \beta_1 E_i + \beta_2 E_i^2 + \beta_3 T_i + \beta_4 T_i^2 + \beta_5 E_i T_i + X_i d + \varepsilon_i$$

Here, $\ln W_i$ is the log of the annual salary for individual i , E is total years of potential work experience (age minus years of schooling minus 6), T is tenure (time) with the current employer, ET is an interaction term, and X_i is a vector of socioeconomic variables. Squared terms are included to account for the usual concavity of earnings profiles. This particular specification was chosen because it allows for the growth in earnings to be decomposed into two parts, experience and tenure.

Estimates of the parameters for the above equation for federal workers were obtained using a random sample of GS employees provided by the Office of Personnel Management. The estimation results are presented in detail in appendix C.⁴⁰ The results show that both the total experience and the tenure variables are statistically significant at better than the 1 percent level, and they exhibit the usual concave earnings profile.⁴¹ Additionally, the coefficient on the interaction term, although small, is negative. This would seem to suggest that

experience and tenure are not complements in the federal sector. Nevertheless, the earnings profile shows wages steadily increasing with job tenure.

Consider, for example, an individual with twenty years of tenure and no previous experience. Here, $E = T = 20$. Given the estimated coefficients, wages for this worker would increase 63 percent over the twenty-year period.⁴² But, decomposing the total growth in earnings by subtracting the contribution of experience, the growth in earnings attributable solely to job tenure is 55 percent. Thus, tenure matters a great deal in the federal sector, and it appears to matter more than it does in the private sector.

While all the studies mentioned in the previous section that use CPS data to compare private and federal wages include a variable to account for total experience, none include a variable to account for tenure.⁴³ There are, however, other wage-regression studies of the private sector where the researchers have included job tenure as an explanatory variable. Masanori Hashimoto and John Raisian (1985), for example, provide estimates using the same specification as described above for private-sector employees in large firms, the size group that federal unions argue is the group that should be used for salary comparison purposes. As are the results reported in appendix C for federal workers, the estimates provided by Hashimoto and Raisian are statistically significant and exhibit a concave earnings profile.⁴⁴ Given their estimated coefficients, the earnings profile that emerges shows wages rising 103 percent over a twenty-year period. This is much higher than the increase for a federal worker over the same period of time and is consistent with our argument that there is wage compression in the federal sector. If wages are compressed in the federal sector relative to those in the private sector, we should expect the earnings profile for federal workers to be flatter. But there is more to the story. When the total growth in earnings is decomposed into its two parts, the percentage growth in earnings due to tenure in the private sector is only 36 percent. In addition, in Hashimoto and Raisian's regressions, the coefficient on the interaction term between experience and tenure, ET , is positive, suggesting that experience matters more in the private sector.

In addition to the study by Hashimoto and Raisian, who consider only male workers, there are a number of other studies that use CPS data and include job tenure in the regressions. Elaine Sorensen (1989) offers separate estimates for both males and females in nonmanufacturing jobs. Her results indicate that twenty years of job tenure will increase earnings by 43 percent for males and 48 percent for females.⁴⁵ Again, these returns are less than the 55 percent return found for federal workers.⁴⁶ These results suggest that tenure is more important for explaining earnings growth in the federal than in the private sector. Moreover, the returns to tenure in the private sector are often interpreted as reflecting investments in specific human capital.⁴⁷ In contrast, the arguments presented in this section suggest that the high returns to tenure in the federal government have much more to do with union influence on civil service rules and pay structures.

5.3.3 Removal Protection

Early in the development of the civil service system, both the president and the Congress found it necessary to grant federal workers protection from removals that were politically motivated. Contemporary protections against removals, however, appear to go well beyond what is required by federal politicians to reduce costly competition over the control of merit-system employees. Currently, individuals enter the federal labor force for a probationary period of one to two years. During that time, supervisors have much greater discretion in dismissing a subordinate for poor performance than they do once tenure has been granted. The extensive protection offered by the civil service system to tenured white-collar employees is demonstrated by the application of federal reduction-in-force (RIF) procedures. RIFs are the most drastic form of position reduction in the federal government. They can result in involuntary separations and the downgrading of employees to lower-ranked positions. Nevertheless, the procedural requirements are so designed to protect seniority that the permanent effect of RIFs on all but nontenured employees is limited.

RIF regulations, as defined in chapter 351 of the *Federal Personnel Manual* (U.S. Office of Personnel Management 1984), call for employees in the targeted positions to compete for remaining jobs. Besides tenure status, retention is based on seniority, veteran's status, and performance ratings, with seniority the most important factor. The emphasis on seniority once again reflects the ability of unions to prevail over traditional merit concepts, which emphasize performance ratings (Nesbitt 1976, 231). Under these criteria, temporary employees are the most vulnerable. Once a RIF extends to permanent employees, they can be transferred to positions in the agency not subject to RIFs, or they can bump lower-ranked employees. Any employee who is downgraded, however, retains his GS rank and salary for up to two years. Beyond that, salaries are adjusted until the downgraded employee's salary is commensurate with his or her new position. However, the adjustment period can be long since RIF procedures allow the individual to receive half of all authorized government salary increases until salaries are equalized.

In recent years, there has been much attention focused on the RIFs authorized by the Reagan administration (see, e.g., Levitan and Noden 1983). Between 1981 and 1983, over forty-two agencies were involved in reductions in force. Despite this, the numbers of workers who were affected involuntarily was small, demonstrating the limited effect that RIFs can have on permanent employees. Ninety percent of the workforce reduction was through voluntary attrition and early retirement that was costly to the government.⁴⁸ In 1981, only 2,629 personnel lost their jobs through RIFs, a figure that represents only 0.4 percent of total 1981 separations and only 0.09 percent of the average total civilian workforce for the year.⁴⁹ Further, a U.S. General Accounting Office (1985, 35–37) study of RIFs showed that, of the employees who were downgraded, many were quickly promoted. Of the 2,055 employees affected by the

RIFs, 744 were downgraded to lower GS level positions. In less than two years, however, nearly half were promoted to their pre-RIF positions.

5.3.4 A National Pay Plan

Since federal unions lack the right to bargain directly over wages, they must influence salaries in more indirect ways. One objective has been the adoption of a national pay plan for white-collar workers, an arrangement long opposed by federal managers and the President's Panel on Federal Compensation (U.S. Senate 1976, 466). Although national pay policies make civil service pay inflexible with respect to local conditions, these same inflexibilities and the problems they cause have been used by federal unions to justify across-the-board wage increases.

Recall that researchers, such as Smith (1977) and Katz and Krueger (1992), have found that the federal wage advantage varies across regions and is inversely related to local private-sector wages. They attribute this result to the existence of a national pay plan. Although GS salaries are not completely rigid, the wage regression results presented in appendix C indicate little regional variation in pay.⁵⁰ Federal GS salaries are somewhat lower in the Mountain and Southern states, reflecting private-sector pay patterns, but the difference is only around 2 percent. The coefficient on the Washington, D.C., dummy variable, however, reflects a rather larger differential, around 11 percent. Since Washington, D.C., is the "home office" and the final stage in the promotion process, this coefficient, in part, reflects competitive promotions for top management positions.⁵¹ No doubt, there are localities, such as New York City and Washington, D.C., where the federal wage advantage for many occupations is smaller or may not exist. Hence, if pay comparability were the objective, salaries should be lowered in most localities and, perhaps, increased in a few. Historically, however, federal unions have opposed moving away from the national pay plan concept because wage compression and difficulties in hiring for certain special occupations can serve union objectives.

Having federal managers point out difficulties in hiring and retaining personnel in critical areas has induced prominent individuals, such as Paul Volcker (1988), to proclaim a "crisis" in public service. Wage compression and the inability to keep senior technicians and administrators have been used in congressional hearings as reasons to justify the enactment of new salary legislation.⁵² For example, during hearings on the 1962 Federal Salary Reform Act, a representative of the Civil Service Commission emphasized salary compression as evidence of the need to reform and raise federal salaries. He stated that, owing to salary increases that focused on lower-level positions, the ratio of salaries between the lowest and the highest grades dropped from 8.8 in 1939 to 5.8 in 1962. The associated relative fall in senior-position salaries led to the loss of key upper-level personnel, a condition supported by representative testimonials given by individuals who allegedly left the federal government for more lucrative private-sector employment. Even so, union representatives

called for across-the-board pay increases to raise wages for everyone (U.S. Senate 1962, 64–89). Congress responded to the calls for salary increases with an across-the-board raise, coupled with special advances for lower-level GS employees.

Wage compression has a long history in the federal government, but being able to illustrate problems in hiring has its benefits for federal unions. In contrast to blue-collar positions in the federal government, where occupations are few and relatively well defined, the General Schedule contains over 400 different occupation codes, some of which have no close counterpart in the private sector. The unions have argued that an adequate response to the problems of nonalignment between federal and market-determined wages for specific senior positions would require special adjustments within the system of position classification, opening the door to favoritism. The simple alternative that they have supported is to increase salaries across the board. In fact, between 1945 and the present, pay increases for GS workers have typically been across-the-board percentage increases.⁵³ This practice elevates all salaries, but the problem of wage compression remains. Wage compression seems to be a valuable tool for obtaining new wage increases.

Recent efforts to add flexibility to the federal pay structure again illustrate the influence of federal unions and professional organizations. The Federal Employees Pay Comparability Act of 1990 allows for increased pay flexibility by permitting region-specific wage differentials. However, federal wages can be adjusted only upward, not downward, assuring that these reforms are not likely to reduce the relative federal wage advantage for the typical worker.

5.4 Summary

At the end of chapter 3, we observed that one of the consequences of the creation of the classified (merit) service was that it encouraged federal employees to organize as an interest group with an important stake in the development of the civil service system. In chapter 4, we detailed the formation of early federal employee unions and their success in obtaining workplace benefits ahead of their private-sector counterparts as well as favorable salary increases. In this chapter, we have seen the process continue. Federal employee unions and related groups have become an integral part of the salary determination process, consulting on the design of comparability surveys and on the pay recommendations made to the president. Through their efforts they have achieved civil service rules that provide for unusual protections against involuntary removals, high returns to seniority (rather than merit), an egalitarian pay structure, and a salary-determination process that provides comparatively higher salaries than those for their counterparts in the private or other public sectors. These conditions are not new but have been in place for some time. Indeed, the federal wage advantage and tenure guarantees have existed since the 1920s.

Our emphasis on the role of federal unions and professional groups in influ-

encing the development of the civil service system provides insight into the debate over the effect of public policy on the growth of unions. As outlined by John Burton and Terry Thomason (1988, 17–27) and Richard Freeman (1986, 45–48), there is a question of which came first, union strength or public policy promoting unions, such as Executive Order 10988? Freeman stresses the growth in public-sector unionism following 1962 as evidence of the importance of favorable public policies. For the federal government, however, the record seems clear that federal unions (especially postal unions) were active prior to the enactment of the Lloyd-LaFollette Act of 1912, that federal unions were extremely successful in obtaining favorable benefits and salary legislation prior to World War I and during the 1920s, and that Executive Order 10988 was itself a reflection of the political strength of federal employee unions. Union membership grew after 1962, and federal unions obtained critical roles in the salary comparability process. Nevertheless, this was a continuation of the longer-term process of institution development, where federal employee unions and groups have played a key and, perhaps, dominant role.

We argue that comparatively high salaries and returns to tenure for federal workers reflect the effectiveness of federal unions and professional groups as lobbyists. These attributes of the civil service system, however, may not have been due solely to the efforts of federal employees. It has, for example, been argued that the design of the federal wage structure instead reflects an attempt on the part of legislators to reduce shirking by providing federal workers with appropriate incentives.⁵⁴ Certainly, wage-incentive policies are prevalent in the private sector, and it is possible that they could be of even more value in the federal government. Although the federal pay structure does contain some incentives, closer inspection reveals major elements that are inconsistent with usual notions of incentive wages.

Consider, for example, Edward Lazear's (1981) point that, when it is costly to monitor the performance of workers, the firm may benefit by allowing wages to grow with tenure, even if productivity does not. In this case, earnings profiles increase with time because delaying payment until late in a worker's career reduces incentives to shirk. The worker is paid less than his or her marginal product initially and more later on, depending on a specified level of performance. If shirking is detected and results in dismissal, the worker will suffer a greater decline in the present value of future earnings than if payment had been tied to the value of marginal product in each time period. The steeper the earnings profile, the larger the penalty associated with shirking. Presumably, those firms faced with relatively higher costs of monitoring or where the costs of shirking are especially high will elect to have a steeper earnings profile.

The incentive to monitor workers can, of course, differ between the federal and the private sectors. As we have stressed, the federal government lacks a well-defined principal in charge of classified personnel. While the president is the most likely to be held accountable for the actions of federal employees, no federal politician occupies a position fully comparable to that of the residual

claimant in the firm. As with other types of externalities problems, those affected have an incentive to develop contractual arrangements to help solve the problem. Rather than relying on their colleagues to monitor worker's performance, it is conceivable that federal politicians would be inclined to use payment schemes such as a steeper earnings profile to reduce shirking and to improve productivity.

Nevertheless, although federal politicians may desire these wage-incentive policies, the civil service system lacks the required structure. Except in cases of malfeasance, it is very costly to dismiss a federal employee, thus negating the use of a steep earnings profile as a device to reduce shirking. Moreover, except for the very top positions, promotions are routine through most job ladders. Even for top-level positions, it is not apparent how the federal wage structure alone would induce much in the way of greater effort. There is considerable wage compression, making it difficult to envision the federal pay structure as a good example of a "rank-order tournament" (see Lazear and Rosen 1981).

There remains, however, the problem of malfeasance and the use of higher salaries to prevent it. It may be that the typical clerical worker in the federal government is capable of causing more harm through maleficent behavior than is a private-sector worker. Even if that were true, it would seem that the relatively high retirement benefits that federal workers can expect, if they do not violate the law, would provide an adequate incentive device without also having to offer relatively higher salaries. Moreover, the dominant weight placed on service time in the determination of pay for all rank-and-file employees, regardless of whether their position presents a significant danger from maleficent behavior, works against an "efficiency-wage" explanation for the high level of federal salaries.

Perhaps, as Lazear has later suggested, pay compression can be efficient. If harmony is important, then equality of pay can be a means for achieving it. But Lazear's (1989) argument also implies that, if wage compression is a reaction to having a hawkish group of workers, the average wage in those firms will be lower. The wage regression evidence presented in this chapter, however indicates that the average federal wage is above that in the private or other public sectors.

Accordingly, we conclude that the observed structure of civil service rules and the associated salary and benefits received by federal employees are not principally the result of efforts by politicians to improve efficiency in the delivery of government services. Although efficiency concerns were an early motivating device for the president and the Congress to begin the process of civil service reform, the dominant factor since perhaps the turn of the century is the active participation of federal unions and professional groups in the design of the institution in their behalf. In the next chapter, we address the nagging question of why federal workers have been so successful, especially compared to their counterparts at the state and local level.

Notes

1. For a discussion of federal unions and their membership, see Stern (1988). For the claim that at least half the members of the AFGE were wage board and low General Schedule employees, see Donoian (1967, 139).

2. As we describe later in the chapter, federal unions have taken a very active role in lobbying for salary legislation and in obtaining a position to influence the annual Bureau of Labor Statistics wage survey and the recommendations for salary increases made by the president's pay agent. Although professional associations are not passive, they are much less in evidence at congressional hearings, becoming more active periodically, lobbying for upper-end salary increases only after salary compression has been a factor for some time. For example, compare the list of groups providing testimony in U.S. House of Representatives (1970) for the Federal Salary Comparability Act of 1970 (84 Stat. 1946) and those in U.S. Senate (1962) for the 1962 Federal Salary Reform Act (76 Stat. 841, 1465). In the latter case, professional groups were especially concerned about the cumulative effects of wage compression and turned out in comparatively large numbers.

3. For a summary, see Burton and Thomason (1988, 17–27).

4. Annual data on employment levels and salaries of GS employees are available from U.S. Office of Personnel Management (1989).

5. This was changed under the Federal Pay Comparability Act of 1990 (104 Stat. 1427).

6. Authorization for this change came from the Postal Reorganization Act, 12 August 1970 (84 Stat. 719). For a historical analysis of the post office's change from a federal department to a government enterprise, see Adie (1977).

7. For a description of the circumstances leading to the adoption of position classification, see Feldman (1931, 17–22).

8. The report of the Hoover Commission in 1949 was instrumental in promoting the notion that position classification was essential for managing the federal bureaucracy.

9. Kappel Commission (1968, 1:121, 4:7, 65). Levitan and Noden (1983, 104) note that the AFGE was at one time especially determined to maintain a national pay plan for white-collar workers. Their position has softened in recent years as granting geographic wage differentials appears to be an effective way to increase general wages.

10. For discussions of the provisions of Executive Order 10988, see Howlett (1984) and Case (1986).

11. Federal law since the Lloyd-LaFollette Act has ruled out strikes. Section 305 of the Taft-Hartley Act of 1947 reads, "Any individual employed by the United States or any such agency who strikes shall be discharged immediately" (61 Stat. 136). While the federal government has at times wavered in its application of this provision, allowing certain types of work stoppages to occur, the firing of striking air traffic controllers by President Reagan illustrates the potential force of this law. For discussion, see Nesbitt (1976, 361–98) and Levitan and Noden (1983, 100–103).

12. For discussion of union membership and the distinctions among union membership, representation, and bargaining units, see Burton and Thomason (1988, 2–4, 30–31) and Levitan and Noden (1983, 4–9, 14–20).

13. For a discussion of how these boards functioned and the governance of federal wages in general, see Nesbitt (1976, 399–434).

14. Levitan and Noden (1983, 71) note that the new system for determining FWS wages has probably biased federal wages upward.

15. Levitan and Noden report that dues-paying membership in the AFGE, the largest of the federal unions, "is composed of clerical workers (45 percent), with blue collar workers accounting for 40 percent and professional for 15 percent" (1983, 20).

16. Even the Kappel Commission (1968, 1:25) noted that postal employee unions had been able to obtain salary levels higher than those in the general economy.

17. With the existence of geographic wage differences in the private sector, a federal wage set nationally is a contradiction in terms.

18. Under the Federal Pay Comparability Act of 1970, the size of the pay council was limited to five representatives. In 1975, e.g., the members of the Federal Employees Pay Council were the president of the National Treasury Employees Union, both the president and executive vice president of the AFGE, the president of the NFFE, and an economist from the Department of Research of the AFL-CIO (U.S. Senate 1976, 225). The Federal Pay Comparability Act of 1990 established a Federal Salary Council of nine members, six of whom are to be representatives of employee organizations that represent a substantial number of GS employees.

19. In 1978, e.g., all five members of the pay council resigned their positions. While that action attracted considerable attention, these former members continued to use the pay agent's annual report as a forum for expressing their displeasure at legislated pay increases. See President's Pay Agent (1980). See also the statement by Paul Volcker (U.S. House of Representatives 1989, 8).

20. The ECI was to consider private-sector wages and other locality-based comparability adjustments (U.S. House of Representatives 1990, 170–76).

21. U.S. Department of Labor (1981) provides a summary of the recommendations of the president's pay agent and actual increases for the 1970s. To achieve comparability in 1971, the pay agent recommended an increase of 6.5 percent. The actual increase was 5.5 percent. Throughout the 1970s, actual increases were below those recommended, and, by 1980, the pay agent was recommending an increase of 13.5 percent. The actual increase was 4.8 percent that year.

22. See, e.g., Smith (1977). A somewhat different point of view, one that attempts to rationalize the PATC surveys, is offered by Levitan and Noden (1983). See also Hartman (1983).

23. The existence of wage differentials based on firm size is well known in the literature on labor economics. Controlling for various employee characteristics, Katz and Krueger (1991) report differentials that range from approximately 8 to 25 percent higher in large firms.

24. See Freeman (1980). In 1975, federal unions opposed differential pay increases because, they claimed, such pay schemes are "inequitable" (U.S. Senate 1976, p. 237).

25. For a comprehensive survey of the studies completed prior to the mid-1980s, see Ehrenberg and Schwarz (1986).

26. Smith (1977) uses coefficients obtained via OLS estimation to calculate the wage differentials. More recent studies by Venti (1987) and Gyourko and Tracy (1988) show that correcting for the potential problem of selection bias does not alter the basic conclusion that there is a positive federal wage advantage.

27. The relative wage advantage figures were derived using federal weights to compare workers with the same characteristics. While women employed by the federal government have a relative wage advantage over their private-sector counterparts, within the federal government they earn less than males with similar education and experience (see app. C). The coefficient on Female is $-.096$, suggesting earnings that are 10 percent lower than those for male counterparts.

28. While most of the wage-regression studies referred to in the text seldom distinguish between union and nonunion workers, the available evidence indicates that federal workers continue to earn a wage premium even when the comparison made is to unionized private-sector workers. For example, Wachter and Perloff (1992, 29) report a wage premium for postal workers compared to private-sector workers of 21.3 percent. Comparing postal workers with private-sector unionized workers lowers the wage pre-

mium to 10.8 percent. Gyourko and Tracy (1988) find a wage differential of 14 percent in favor of unionized workers in the private sector, but they also find that federal workers enjoy a wage premium of 18 percent compared to all private-sector workers.

29. See Adie (1977), Long (1982), and Borjas (1982). Ippolito (1987) argues that low quit rates in the federal sector are due to the relatively higher pensions that federal workers can expect to receive if they remain on the job until retirement age. Federal workers do have excellent retirement benefits, and quit rates are undoubtedly affected by the fact that these benefits are lost if the worker quits before the specified retirement age. But Ippolito's argument that, "if the government wants the quit rate to be as high as the private sector, it can do this by raising the cash wage and lowering the pension amount" (p. 298) ignores the evidence provided by Smith (1977) and others using CPS data that federal wages exceed those in the private sector.

30. Given that there are queues for certain federal jobs, competition for these positions involves a cost that could lower the implied wage advantage (Bronars and Lott 1989).

31. Like Katz and Krueger, Freeman (1987) and Moulton (1990) use CPS data, but with different controlling variables. They also report finding a decline in the federal wage advantage.

32. The Gini coefficient for the entire U.S. labor force is based on various estimates reported by Levy and Murnane (1992, table 2, pt. 1). The figure refers to annual wages and salaries for all persons, sixteen years and older, with positive wage and salary incomes.

33. When the GS system was established in 1949, the average GS grade was 5.25. By 1989, the average had risen to 8.69 (U.S. Office of Personnel Management 1989).

34. For a comparison of retirement benefits, see Ippolito (1987). Using a 1980 survey conducted by the Office of Personnel Management, Levitan and Noden (1983, 83) suggest that expenditures on health benefits per employee are lower in the federal than in the private sector. Even if correct, this ignores the fact that large employers tend to receive substantial discounts on their health programs. Moreover, federal workers are in a better position to tailor their choice of health plans to their own specific circumstances.

35. See U.S. Merit System Protection Board (1987). The procedures that supervisors are to follow in evaluating subordinates are described in U.S. Office of Personnel Management (1984, chap. 430).

36. These two laws dealing with federal salary issues were part of a package of federal labor legislation.

37. The figures on the distribution of merit pay were supplied by the Office of Personnel Management.

38. Data on rating distributions for white-collar workers were provided by the Systems and Analysis Branch of the Office of Personnel Management.

39. There are also automatic step increases for FWS workers (see Levitan and Noden 1983, 73).

40. A more detailed analysis of these regression results is contained in Johnson and Libecap (1989a).

41. Given our large data set (16,616), the significance of a coefficient is not the main criterion. What matters is the size of the coefficients and the resulting earnings profile.

42. An estimate of the total percentage growth in earnings can be derived by setting E and T to predetermined values and substituting into $100[\exp(\beta_1 E + \beta_2 E^2 + \beta_3 T + \beta_4 T^2 + \beta_5 ET) - 1]$.

43. Venti (1987), e.g., used 1982 CPS data to compare federal and private-sector pay. He included years of potential experience and experience squared in his regressions,

but no measure of tenure. His results reveal little difference in the earnings profiles of private-sector and federal workers.

44. Hashimoto and Raisian (1985, 730) report the following results (the total number of observations was 3,750):

Variable	Coefficient	<i>t</i> -statistic
<i>E</i>	.0372	16.4
<i>E</i> ²	-.0007	-13.0
<i>T</i>	.0121	4.3
<i>T</i> ²	-.0003	-3.6
<i>ET</i>	.0003	2.3

45. For the estimated coefficients on the tenure variables, see Sorensen (1989, 68, app. D). Her finding that the returns to tenure in the private sector are somewhat higher for females than for males is consistent with other studies (see, e.g., Goldin 1990; and Hersch and Reagan 1993).

46. Since our estimation of the returns to tenure includes both males and females, it could be biased upward compared to an overall measure for the private sector if there were a greater proportion of females in the federal workforce. While it is correct that the proportion of females in state and local employment, including education, is higher than it is in the private sector, the proportion of females in the GS workforce in 1985, and in our sample data set, was .46. That figure is equivalent to the proportion of females employed in the private-sector workforce (see U.S. Department of Commerce 1991). Moreover, there is evidence that promotion probabilities in the federal government are very similar for men and women (Lewis 1986).

47. Because of the potential for bias when using cross-sectional data and OLS estimation procedures, there has been considerable debate over whether previous empirical results actually reflected a return to job tenure. Using longitudinal data on the private sector, Topel (1991) provides compelling evidence that job tenure does matter, lending support to the view that there are investments in specific human capital.

48. The effect of these RIFs is discussed in U.S. General Accounting Office (1985).

49. U.S. General Accounting Office (1985, 2) lists total number of employees involuntarily separated through RIFs. The 1981 figure was divided by the total federal separations and the average civilian workforce for that year, as provided in U.S. Office of Personnel Management, *Federal Civilian Work Force Statistics, Monthly Release* (December 1981, table 16).

50. Supervisors have exhibited a willingness to engage in discretionary actions to hire and retain individuals with desired skills (Johnson and Libecap, 1989b).

51. Johnson and Libecap (1989b) provide additional results suggesting that federal supervisors have also increased the salaries of clerical workers in the Washington, D.C., area. In part, this is due to difficulties experienced in hiring qualified workers in that area.

52. For a discussion of the problems in hiring scientists and engineers, see Campbell and Dix (1990).

53. For a chronology of federal pay legislation, see U.S. Office of Personnel Management (1989, table 19).

54. The notion that the federal employment contract mainly reflects an attempt by the Congress to reduce agency problems through performance incentives is advanced by Horn (1988).