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ID 786514

THE WHITE HOUSE

WASHINGTON

1/19 W/Drawn per McI's Office

DATE: 12 JAN 79

FOR ACTION: STU EIZENSTAT — FRANK MOORE (LES FRANCIS) bp

JACK WATSON — ANNE WXLER NC

ALFRED KAHN concur

INFO ONLY: THE VICE PRESIDENT — BOB LIPSHUTZ

JERRY RAFSHOON attached — ALFRED KAHN

SUBJECT: CAMPBELL MCINTYRE MEMO RE FEDERAL CIVILIAN EMPLOYEE COMPENSATION REFROM LEGISLATION

RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052)
BY: 1200 PM TUESDAY 16 JAN 79

ACTION REQUESTED: YOUR COMMENTS

STAFF RESPONSE: ( ) I CONCUR. ( ) NO COMMENT. ( ) HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

✓	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION

FOR ACTION	FYI	
	✓	VICE PRESIDENT
		JORDAN
✓		EIZENSTAT
		KRAFT
	✓	LIPSHUTZ
✓		MOORE
		POWELL
	✓	RAFSHOON
✓	✓	WATSON
✓	✓	WEXLER
		BRZEZINSKI
		MCINTYRE
		SCHULTZE
		ADAMS
		ANDRUS
		BELL
		BERGLAND
		BLUMENTHAL
		BROWN
		CALIFANO
		HARRIS
		KREPS
		MARSHALL
		SCHLESINGER
		STRAUSS
		VANCE

		ARONSON
	✓	BUTLER
		H. CARTER
		CLOUGH
		CRUIKSHANK
		FIRST LADY
		HARDEN
		HERNANDEZ
		HUTCHESON
✓		KAHN
		LINDER
		MARTIN
		MILLER
		MOE
		PETERSON
		PETTIGREW
		PRESS
		SANDERS
		WARREN
		WEDDINGTON
		WISE
		VOORDE

	ADMIN. CONFIDEN.
	CONFIDENTIAL
	SECRET
	EYES ONLY

JAN 10 1979

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Federal Civilian Employee Compensation Reform Legislation

This memorandum requests your approval to propose comprehensive legislation to reform the principal compensation systems covering Federal civilian employees.

Current law requires the Government to pay wages and salaries comparable to those in the private sector. A comparability policy is fair both to workers and to taxpayers, and permits Government to be competitive in attracting the high quality employees, especially professionals, who are vital to successfully implement and operate Government programs. This is a sound principle and one that this Administration supports. However, the way comparability has been implemented is severely criticized by business groups. Some of these criticisms--but not all of them--are valid. In addition, with pay limitations resulting from anti-inflation efforts, we find ourselves falling further and further behind the current comparability standard, and in danger of being forced to abandon it. The abandonment of comparability would be a severe blow to effective pay setting in the Federal sector for both civilian and military because there is no practical alternative except for pay to become again a political "football" which serves the interest of neither employees nor taxpayers.

The alternative plan you submitted this year, plus the alternative plans that will be required in fiscal 1980 and probably 1981, will put employees some 8-10 percent behind the present pay comparability standard. There will be no hope of making up the lag (about $4-6 billion) as long as we retain the current definition of comparability. We anticipate, however, that a disparity of this size might be eliminated, or at least greatly reduced by adoption of the new total compensation comparability standard. In any event, our failure to consider the value of benefits in our comparability determinations has left us extremely vulnerable to criticism.

Consequently, since this Administration is committed to the concept of comparability, it is imperative that its definition be changed as quickly as possible to fit the realities that face us in meeting your economic objectives.

In addition to the deficiencies stemming from the "pay only" comparability concept, many other aspects of the Federal civilian employee compensation systems have been widely criticized as unsound by GAO and CSC reports, by the 1975 President's Panel on Federal Compensation (the Rockefeller Report), and by this Administration's Reorganization Task Force on Personnel Management. The proposed reform legislation is based on recommendations of that task force made up of Federal and private sector compensation experts and headed by a noted authority from the private sector. The legislation is designed to correct the following deficiencies:

- Legislated requirements have introduced serious defects in the blue collar pay setting system. As a result, average blue collar wages are some 8-12 percent higher than the prevailing local rates they are supposed to equal. This means our annual blue collar payroll is about $600 million more than it should be. During the last Congress, we attempted without success to secure reforms. However, we did persuade the Congress to limit blue collar increases in FY 79 to 5.5 percent and this may assist in future efforts to win permanent reform. In any event, the cap provided only a temporary respite; the difference must be made up later--possibly as early as next year.

- We have a single pay schedule for all white collar employees which places many occupations in the same grade level and then averages their counterpart industry salaries to set identical Federal pay for all of them. Obviously, this results in pay rates that are higher than non-Federal sector rates for some occupations, e.g. secretaries, and lower rates for others such as junior professionals.

- Private sector pay for many white collar occupations varies widely from one part of the country to another. Since we pay white collar employees from a single nationwide schedule, in some low wage areas of the country we overpay employees substantially. This leads taxpayers and Congressmen in these areas to feel strongly that Federal employees are generally overpaid. However, in other areas of the country our salaries are not competitive and our workforce reflects it. We often have difficulty in hiring well-qualified professionals and, in high wage cities, many kinds of employees.

- Current law precludes use of State and local government data in our pay surveys even though State and local government employment has grown spectacularly and in many of the same occupations as Federal employment.

- Both blue and white collar employees have generous fringe benefit programs, but they cannot be considered in comparability determinations. This contrasts with the non-Federal sector where pay and benefit changes are considered in unison.

To deal with these deficiencies the proposed comprehensive compensation reform legislation would:

- Reform the blue collar pay setting system primarily by eliminating extra step rates now required by law. These changes would permit Federal averages to be linked directly to the local prevailing industry rates.

- Break up the current General Schedule into two major schedules; one for clerical and technical occupations and another for professional and administrative occupations. It would also give the President authority to establish, combine or abolish smaller special pay schedules designed to meet special needs.

- Permit clerical and technical white collar salaries to be determined by locality rather than nationally.

- Permit inclusion of State and local government data in blue and white collar surveys.

- Reform both the blue and white collar compensation setting processes by expanding the definition of comparability to include benefits and give the President authority to adjust benefits as well as pay to meet the new total compensation comparability standard.

The above provisions request a significant new grant of authority and flexibility for the President over present law. However, the principle of comparability in Federal pay setting remains intact. What the reforms do, essentially, is restructure our pay systems and expand the factors considered and thus improve comparability.

Significant advantages resulting from this legislation would be:

- A more appropriate comparability standard for Federal employees in keeping with your stated support of this principle.

- Real savings in employee compensation costs. These savings which could eventually reach $4-6 billion per year, result mainly from reforming blue collar pay setting, and adopting a total compensation comparability standard.

- Better control over benefit liberalizations because the President would have a significantly broadened role in these determinations.

- A more rational structuring of Federal employee pay systems achieved by grouping occupations with similar compensation-related characteristics into individual schedules.

On the whole, we should get an excellent reception from the general public, as well as a good reception from the Congress since it is likely to be well aware of the growing unfavorable public attitude towards Federal employees' pay and benefits. However, there are some difficulties associated with the legislation. Most notably:

- The House Post Office and Civil Service Committee can be expected to offer opposition similar to that we received in securing enactment of Civil Service Reform.

- Many employees will see the legislation as strongly anti-employee. This might result in lower Federal employee morale, increase Federal employee union militancy and badly damage relationships between our Administration and our employees.

- The bill may stir up opposition from organizations that normally would not concern themselves with pay legislation. To illustrate, the bill splits off the clerical and technical occupations into a separate schedule and they are heavily populated with women and minorities. Organizations that represent women and minorities could view this separate schedule as economically disadvantageous and socially detrimental to their constituents and loudly oppose it.

- Since the implementation costs and savings cannot be completely foreseen, opponents will have a handle for attacking it. With the exception of the blue collar pay setting changes, we do not have as much data on cost and implementation problems as Congress is likely to be looking for, and as we would like to have. However, the legislation provides a development and implementation period--2 years for development and 3 years for implementation; this should be sufficiently long to fully define all aspects of the program. At any rate our justification should rest primarily on the need to fully measure the comparability of our total compensation package, not on whether it will raise or lower salaries or budget costs.

Despite the expected opposition we believe the Administration should move promptly and boldly with its comprehensive compensation reform proposal.

If you agree, we will work with the Department of Labor and will consult with the departments and agencies to arrive at agreement on the exact provisions to be included in the bill. In addition, we will ask Secretary Marshall to expedite the development of needed BLS surveys. We already have consulted with your Advisory Committee on Federal Pay and they are generally supportive of the reform proposals.

We will also work with Secretary Brown, who favors these recommendations, to determine the possibilities for coupling the bill with his military pay reform proposals.

Alan K. Campbell, Director
Office of Personnel Management

James T. McIntyre, Director
Office of Management and Budget

PRESIDENTIAL ACTION

1. Proceed with blue collar reforms

/__/ Approve /__/ Disapprove /__/ Other

2. Proceed with white collar reforms

/__/ Approve /__/ Disapprove /__/ Other

3. For both blue and white collar systems, shift to concept of total compensation comparability, and include benefits and benefit adjustment authority in setting compensation.

/__/ Approve /__/ Disapprove /__/ Other

We will send a memorandum to you shortly to receive additional guidance on questions regarding locality pay.

THE WHITE HOUSE

WASHINGTON

January 15, 1979

MEMORANDUM TO RICK HUTCHESON

FROM: JERRY RAFSHOON

I agree strongly with every aspect of the memo but one. This issue has great potential for public support if we stress the real dollar savings that can result. If we try to explain it in terms of technical procedural improvements we will neither marshall great public support nor get much credit for the action. We don't have to seem to attack federal employees but we do need to show that there are real and tangible benefits.

ID 786514

THE WHITE HOUSE

WASHINGTON

Stu

DATE: 12 JAN 79

FOR ACTION: STU EIZENSTAT — FRANK MOORE (LES FRANCIS)
JACK WATSON — ANNE WXLER
ALFRED KAHN

INFO ONLY: THE VICE PRESIDENT — BOB LIPSHUTZ
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