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STATEMENT OF ELMER B. STAATS
COMPTROLLER GENERAL OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS
COMMITTEE ON POST OFFICE AND CIVIL SERVICE

ON

FEDERAL EXECUTIVE PAY

Madam Chair and Members of the Subcommittee:

I am pleased to be here to discuss the General Accounting Office's views on the Federal executive pay problem. Having served as Comptroller General for over 14 years, I have come to recognize that executive pay compression is one of the most important issues facing the Government today.

Although executives and other top managers comprise only a small segment of the Federal work force, this group is one of the most vital factors for ensuring the successful performance of Government programs. It is virtually impossible to address national priorities and Government costs without recognizing the responsibilities and the effect of this relatively small group of individuals.

A recent Brookings Institution study states that the determination of Federal executive pay describes the kind of government Americans want and the relationship of government officials to the citizens they serve.

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It is imperative that the Federal Government attract and retain highly talented, capable, and dedicated individuals for its top positions. The Government must therefore have a pay system which, while accounting for the nonmonetary benefits of public service, can be competitive in the market for top-quality executives and can reward its executives for higher levels of responsibility and performance.

As you know, pay compression for Federal executives has steadily worsened. Pay adjustments that were to be provided to members of the Executive, Judicial, and Legislative Schedules have continuously been limited, reduced, or completely denied. As a result, Members of Congress, Federal judges, and top Federal executives have suffered large losses in purchasing power. This has resulted in severe recruitment and retention problems for some agencies, and, because of the Executive Level's link with the General Schedule, it has also resulted in compressed pay in grades 16 through 18, as well as the top three steps of grade 15. Compression also affects the Senior Executive Service; 90 percent of these members receive the same pay. Thus, individuals at different levels of responsibility make the same salary. This provides little incentive for Federal executives to accept promotions with added responsibility but no increase in pay. Many Federal executives have chosen to retire rather than continue working at frozen pay levels. This problem is compounded by the generous cost-of-living adjustments to retirement annuities which increase the incentive to retire.[7]

Last October, top officials' pay was increased by 5.5 percent (their first raise since March 1977) while other Federal employees received 7-percent raises. On the other hand, Federal retirees received two increases totaling 10.8 percent in 1979 and received a 6-percent increase on March 1, 1980. Thus, it is not hard for an employee whose pay has been adjusted infrequently and in smaller amounts than others to realize that he or she is better off retiring as soon as eligible and receiving the cost-of-living increases that are granted to Federal retirees every 6 months.

About 180 Federal executives chose optional retirement during the last 6 months of 1979. However, the number of retirements rose drastically during the first 3 months of 1980 to about 320.

The executive pay situation continues to look bleak for fiscal year 1981. The President has already announced his intentions to freeze executive pay this October. The Office of Personnel Management has informally estimated that 30,934 individuals will be affected by an October 1980 pay freeze. In addition, there is a proposal in Congress to prohibit the October 1980 pay adjustment for Federal executives and to limit bonus payments to 25 percent of SES positions.

CONGRESSIONAL-EXECUTIVE PAY LINK

A major factor in the executive pay problem is the informal link between congressional and Executive Level II salaries. This link has adversely affected top executives' pay when the Congress has held its own pay down. This, in turn, limits the Level V ceiling on General Schedule pay, thus compromising legislative mandates for pay comparability and pay distinctions.

We recognize that some of the executive pay problem results from the present economic conditions and high inflation. However, other countries who are experiencing high inflation have been able to maintain separate pay adjustments for their legislators and top civil servants. England, for example, only this month approved a 12.6 percent average increase for its top civil servants as well as a 9.6 percent increase for its members of Parliament. England has a Top Salaries Review Board which meets every 2 years to recommend new pay rates for top level civil servants, top military members, the judiciary, and members of Parliament. In 1975 some members of Parliament requested the Top Salaries Review Board to link their pay adjustments to those of top civil servants. The Review Board rejected this request because it believed the job of a member of Parliament was unique and could not be compared with any other job and that it could result in holding down civil service pay adjustments. The Review Board also pointed out that difficulties over increases in members' pay would be reduced if pay reviews were carried out regularly and more frequently.

Canada and West Germany also have separate pay adjustments for members of Parliament and top civil servants because the jobs have different responsibilities and thus require different adjustments.

We believe there are few parallels between the career patterns, career expectations, and responsibilities of congressmen and Level II executives. Therefore, we see no compelling need to continue the link between their salaries and recommend that the Congress discontinue this practice.

We also believe that small regular adjustments are more acceptable to the public than large jumps every 4 years. We recommend that Congress allow the annual adjustments to take effect for executives.

SENIOR EXECUTIVE SERVICE COULD BE ADVERSELY AFFECTED

The Senior Executive Service, or SES, was created to provide a compensation system designed to attract and retain highly competent executives and also to insure that compensation, retention, and tenure are measured on the basis of individual and organization performance. However, even before SES had a chance to operate, it was severely limited by actions of Congress.

First, although the President established six pay rates for SES, ranging from $47,889 to $56,500, limitations on fiscal year 1980 appropriations resulted in 90 percent of SES members receiving the same salary--$50,112. Therefore, there is a big difference between the rates established by the President and those actually paid.

The lack of meaningful salary differentials in SES results in

--most SES members getting the same salary despite major differences in resonsibility and authority and

--promotions or demotions from one SES level to another having little impact, especially financially

Lack of salary differentials could also lead to the use of performance awards to recognize higher levels of responsibility rather than top performance.

Second, recent action in the Congress to limit the total compensation, including performance awards, of SES could be disastrous, not only for SES but for the credibility and success of the entire civil service reform legislation.

On July 2, 1980, the Congress included language in the Fiscal Year 1980 Supplemental Appropriations Act which allows aggregate pay for SES executives up to the level authorized by the Reform Act, but limits bonus payments to 25 percent, rather than 50 percent, of SES positions. This was a substantial improvement over a prior proposal which would have limited the aggregate pay of SES to $52,750 for fiscal year 1980.

However, a House proposal still remains to prohibit the October 1980 pay adjustment and to limit bonus payments to 25 percent of SES positions in fiscal year 1981.

Limiting performance awards for SES members could nullify the success agencies have already had in encouraging Federal executives to join SES. Over 98 percent of those eligible have elected to join. A limitation will seriously affect the morale of these employees and can stifle the incentive for greater excellence which the Congress was striving to stimulate through the Reform Act's pay-for-performance provisions. Since nearly all Federal executives receive the same salary because of pay compression, few, if any, incentives exist for them to seek positions of greater authority and responsibility. SES would at least give the most deserving and productive executives the opportunity to receive lump sum performance awards in recognition of their individual and organizational contributions.

More importantly, a major limitation on SES compensation could be interpreted as a breach of faith by many executives who have elected to join SES. Early returns from a GAO questionnaire to senior executives indicate a large number of them have strong concerns about proposals to limit performance awards and continue the executive pay freeze. Many said they had been misled and that, if these proposals are adopted, both SES and the Civil Service Reform are a "sham."

In order for the SES to be successful and to improve morale and productivity, it must be allowed to operate as intended. Therefore, I urge the Congress to allow SES bonus and rank provisions to take effect in fiscal year 1981.

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In summary, I would like to say that I have long been concerned over inadequate salary levels, irregular pay adjustments, and distorted pay relationships for top Federal executives. I have continually pushed for an executive pay system which would make it easier for the Government to attract and retain top caliber managers, to use their abilities productively, and to pay them according to their contribution.

I am concerned about the loss of our top executives to both retirement and private industry. However, the unrealistically low salary levels of our executives, combined with generous cost-of-living adjustments available to Federal retirees, leaves many Federal executives little choice, since the benefits are higher if they retire immediately. This would not occur if we gave our executives adequate salaries.

I believe that the returns we could receive from executive pay raises would far outweigh the costs. For example, a 6.2 percent increase for top executives would amount to about a $68 million increase in the Federal budget, or about one hundredth of a percent of the estimated $600 billion Federal budget for fiscal year 1981.

We must keep in mind that it is these executives who are responsible for administering this budget, and for managing the programs authorized by the Congress for the benefit of the American public; the potential returns we can all receive from their improved performances are overwhelming.

This concludes my statement, Madam Chair. My colleagues and I will be pleased to answer any questions.