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STATEMENT OF
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COMPTROLLER GENERAL OF THE UNITED STATES

BEFORE THE

QUADRENNIAL PAY COMMISSION TASK FORCE
OF THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE
UNITED STATES HOUSE OF REPRESENTATIVES

ON

[RECOMMENDATIONS OF THE COMMISSION ON
EXECUTIVE, LEGISLATIVE, AND JUDICIAL SALARIES]

Mr. Chairman:

I am pleased to present my views on the recommendations of the Commission on Executive, Legislative, and Judicial Salaries.

Having served as the Comptroller General for 15 years, I have come to recognize that one of the most serious problems facing the Government today is the inadequate salary levels for top Federal officials and their depressing effect on the pay rates for the entire Federal management structure. I recognize that we are facing difficult economic times and that we will all be making financial sacrifices. I also recognize that Members of the Congress may be hesitant to support salary increases because of these circumstances. We must

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remember, however, that top Federal officials, including Members of Congress, have been making financial sacrifices for many years. In my opinion, the pay situation for top Federal officials has reached a crisis.

I strongly endorse the Commission's recommendations. At the same time, I recognize that the extent to which these salaries should be increased is a matter for the Congress to decide. In my opinion, however, the case for meaningful adjustments has clearly been made by the Commission and others and the need is compelling.

I want to commend the Commission for their extraordinary effort. Despite operating under very restricted timeframes, the Commission was able to gain an indepth understanding of this very serious problem and to provide thoughtful recommendations. In addition to its salary recommendations, the Commission also made other recommendations to improve the pay situation. It recommended

--permitting the automatic pay adjustment, required by the Executive Salary Cost-of-Living Adjustment Act to take effect,

--enacting legislation to permit reimbursement for relocation costs incurred by newly elected Members of Congress, newly appointed officials in Executive Levels I through V, and judges,

--granting a special expense allowance of up to $10,000 a year for all Members of Congress to cover actual costs related both to the need to maintain dual residences and to cover expenses of representing their constituents,

--the President appoint a Special Commission on Federal Employee Compensation for a 2 year period to conduct studies and make recommendations for resolving the many problems inherent in the current complex total compensation system for Federal employees, and

--enacting legislation to modify the quadrennial review process to provide for a biennial Commission on Executive, Legislative, and Judicial Salaries.

I urge the Congress to give careful and favorable consideration to these recommendations. In this regard, it should be pointed out that the Commission consisted of highly respected, bipartisan individuals from outside the Federal Government.

Over the years, pay raises that were to be provided to Members of Congress, Federal judges, and top Federal executives through the pay adjustment mechanism established by law have routinely been reduced or completely denied. As a result, these officials have suffered large losses in purchasing power--Level II executives and Members of Congress have lost 40 percent since 1969. This has resulted in severe retention problems, and because of the Executive Schedule's link with the General Schedule, it has also resulted in compressed pay rates for employees in GS-16 through GS-18, as well as the top six steps of GS-15. Compression also affects the Senior Executive Service; nearly all of its members receive the same pay. Consequently, little incentive exists for Federal executives to seek positions of greater authority and responsibility.

Personnel officials at Federal agencies cite low salaries and infrequent adjustments as a major source of their difficulties in recruiting individuals from outside the Government for high-level jobs. Despite extensive advertising, agencies often get few qualified applicants. Many prospective applicants show little interest in job offers because they are already making more money than the Government can pay. The greater the skill and responsibilities of a position, the more difficult it is to fill. Sometimes these positions must be filled from within an agency by individuals who lack the desired level of expertise. However, many Federal executives are reluctant to accept promotions because the increased responsibilities of the position are not recognized with higher pay. Payless promotions are now the norm because pay compression results in employees at five or more levels of responsibility making the same salary.

Many Federal executives have chosen to retire rather than to continue working at frozen pay levels. The incentive to retire is intensified by the regular cost-of-living adjustments that retirees receive. In October 1979, top officials' pay was increased by 5.5 percent--their only raise since March 1977. During the same period other Federal employees have received pay increases totaling 31.8 percent including 7 percent in 1979 and 9.1 percent last October. Federal retirees received increases totaling 42.1 percent during the same period including 11.1 percent in 1979 and 14.2 percent in 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.

Among the executives who retired between January 1971 and July 1980, 4,700 now receive annuities that are more than their final salaries and 3,900 now receive annuities that are higher than the salary ceiling that existed when they retired. There are also over 100 whose annuities now exceed the current salary ceiling of $50,112.50.

Responses to an Office of Personnel Management (OPM) questionnaire by executives who left the Government between October 1978 and July 1979, highlight the severity of the pay problem. Over half the respondents cited their concern about continued pay ceilings and lack of regular adjustments as an important reason for their leaving. About 31 percent said the thing they liked least about working for the Government was the financial sacrifices they were forced to make. About 25 percent said they left for higher paying jobs. A subsequent OPM survey of executives who resigned in fiscal year 1980 disclosed that 66 percent of them left for higher paying jobs.

We have included as an appendix a sampling of officials in private organizations, State and local governments, labor unions, and quasi-Federal organizations whose salaries exceed those of top officials in the Government.

In July 1979, the Congress created the Senior Executive Service to attract and retain highly competent executives and also to insure that compensation, retention, and tenure are measured on the basis of individual and organizational performance. However, even before SES had a chance to operate, its compensation system was severely limited.

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--$50,112.50. The 9.1-percent pay raise for the General Schedule in October 1980 raised the lowest SES pay rate to $52,247, while the ceiling remained at $50,112.50 so that now virtually all SES members are paid the same rate despite major differences in their responsibilities.

Second, after only a few agencies granted SES bonuses, the Congress reduced the number of career positions that could receive bonuses from 50 percent, as authorized by the Civil Service Reform Act, to 25 percent. OPM further reduced this number to 20 percent.

These limitations are seriously affecting the morale of SES members and could stifle the incentive for greater excellence which the Congress was striving to stimulate. Many executives who have joined SES have interpreted the limitations on SES compensation as a breach of faith. Returns from a GAO questionnaire to senior executives indicate a large number of them have strong concerns about the limitation on both performance awards and pay. Many said they had been misled and that, if these limitations continue, both SES and civil service reform would be a "sham."

A major factor causing pay compression is the informal link between congressional, Executive Level II, and Court of Appeals judges' salaries, even though there are few parallels between the career patterns, career expectations, and responsibilities of Members of Congress, judges, and executives. This link has adversely affected top executives' and judicial pay when the Congress has been unwilling to increase its own pay. This in turn limits the Executive Level V ceiling on General Schedule pay, thus, compromising legislative mandates for pay comparability and pay distinctions.

We also believe that regular adjustments are more acceptable to the public than large jumps every 4 years and, therefore, have recommended, as did the Commission on Executive, Legislative, and Judicial Salaries, that the Congress allow annual adjustments to take effect as the law provides.

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In summary, I would like to say that we have long been concerned over inadequate salary levels, irregular pay adjustments, and distorted pay relationships for top Federal officials. I have continually pushed for a pay system which would allow the Government to attract and retain top caliber managers, to use their abilities productively, and to pay them according to their contributions.

I am concerned about the loss of top executives to both retirement and private industry. The unrealistically low salary levels, combined with cost-of-living adjustments available to Federal retirees, leave many Federal executives little choice, since in the long run the benefits will be higher if they retire as soon as eligible.

Executives and other top managers comprise only a small segment of the Federal work force, yet this group is one of the most vital factors for insuring the success of Government programs and has been required to make great sacrifices. It is virtually impossible to address national priorities and Government costs without recognizing the responsibilities and the effect of these individuals. They are responsible for administering the 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.

I emphatically support the Commission's recommendations and urge the Congress to take positive action to provide more adequate salaries for top Government officials.

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

Results of Recent Executive Compensation Studies

Private Industry

--For 1,052 top officials in 396 of the largest U.S. companies, pay in 1979 ranged from $51,618 to $1,522,500 with the median at $301,000. For board chairmen in this group, the median was $399,301 (U.S. News & World Report, 6/6/80).

--The median total compensation in 1979 for the three highest paid positions in manufacturing companies surveyed were $275,000, $178,000, and $142,000, respectively; for commercial banking, $122,000, $80,000, and $69,000. (The Conference Board, 1980)

--The average salary and bonus paid in 1979 to chief executive officers in 801 surveyed companies was $351,900. (Forbes, 6/9/80)

--Salary in 1979 for a typical chief executive officer in a general industry company having sales of $100 million was $130,000; in commercial banks with $960 million in assets, $135,000; and in banks with $2.6 billion in assets, $250,000. (Sibson & Company, Nation's Business, 11/80)

State and Local Governments/Public Education

--A total of 3,179 positions in these areas received $55,000 a year or more in 1980. They include

--19 Governors
--943 State administrators
--54 City or County chief executives
--295 City or County administrators
--1,188 educators and administrators
--56 in public corporations, and
--624 judiciary.

(OPM study, 1980)

Labor Organizations

--The average salary for the presidents of 33 top labor unions in 1979 was $75,489; six of these received $100,000 or more. If allowances and expenses are included, the average increases to $95,606. (Business Week, 5/12/80)

Foundations

--Salaries in 1978 for presidents of 33 foundations, most with assets of $100 million or more, averaged $81,676. Vice presidents' salaries average $54,188. (GAO survey, 1979)

Quasi-Governmental

--1981 salary levels for presidents of the Federal Home Loan Banks ranged from $86,250 to $118,680. Salaries for ranking vice presidents, $55,000 to $85,000; for other senior officials, $40,000 to $68,000.

Federal Government

--The Secretaries of Labor, Education, Treasury, and Health and Human Services receive $69,630.

--The Chairman of the National Labor Relations Board, an Executive Level III, receives $55,387.50 while the Assistant Secretary for Labor Management Relations in the Department of Labor, an Executive Level IV, received $52,750.

--The Chairman of the Federal Home Loan Bank Board, a Federal agency, is an Executive Level III and receives $55,387.50.