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ADDRESS BY THE COMPTROLLER GENERAL OF THE UNITED STATES,
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AT THE MAXWELL SCHOOL OF CITIZENSHIP AND PUBLIC AFFAIRS
SYRACUSE UNIVERSITY
OCTOBER 26, 1972

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"EXPERIENCE OF THE FEDERAL GOVERNMENT IN
MAINTAINING EQUIVALENCY WITH PRIVATE SECTOR PAY"

INTRODUCTION

This conference could hardly be more timely. The spotlight today is very intense on the matters which this conference is addressing--especially in respect to how to make the public sector more responsive, more productive, and more economical. The signing of the Revenue Sharing Bill last Friday adds a new significance to these matters, since a sizable portion of the funds will undoubtedly be used to employ new personnel and to adjust the compensation of present State and local employees.

Tonight I would like to address an aspect of this subject with which I have been involved and concerned for well over 20 years--namely, how to maintain fair and equitable compensation levels for Federal white-collar employees. During the past year, the national press has frequently expressed concern with the level of Federal compensation. For example:

--A June 1971 article in Newsweek described current pay-setting processes as being "stacked in favor of the bureaucrat" because they were based on samples "taken mainly from large corporations where salaries in general tend to be high." The title of this article was "Civil Service: Poor No More."

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- In August 1971 the Wall Street Journal carried a front-page story headlined "Federal Salaries Rise Faster Than Industry's Worries Administration." The article quotes one observer as saying "Many firms and states are having to raise salaries just to compete with the Federal Government."
- On September 25, 1972, U.S. News and World Report carried a major story which presented data showing that "at all levels of Government wages are climbing faster than in most industries." The story stated that Federal employees in 1971 earned higher wages on the average than any of nine major industrial groups. It reported that average Federal pay had increased over 81 percent since 1961. Average pay in State and local governments was reported to be up almost 74 percent.

These and similar allegations have been a matter of increasing concern to the General Accounting Office (GAO). The seriousness of these allegations is underscored by the fact that the principle of comparability is applied not only to the approximately 1,300,000 General Schedule employees of the Federal Government but also to the foreign service, certain other civilians, and the military services--through adjustments related to adjustments made to the pay for General Schedule employees. This is done through a process known as linkage. In addition, Wage Board (blue-collar) wages have long been based on industry rates. Thus, the comparability principle is now applied to a total of approximately 4,400,000 employees of the Federal service with a current annual payroll of over \$38 billion.

You will note that the principal omission from this list is the Postal Service which has more than 600,000 employees. The Postal Reorganization Act of August 12, 1970, provides for establishing pay rates through collective bargaining using a standard of comparability with the private sector. There is little question, however, that pay raises established under the Federal Salary Reform Acts of 1962 and 1970 play an important part in the rates established by the Board of Directors of the Postal Service.

Federal grant-in-aid and other assistance programs to State and local governments, to universities, and to many other public and private organizations have brought the Federal Government into even closer working relationships with non-Federal organizations. Federal assistance programs to State and local governments alone this year will total more than \$40 billion and now constitute approximately 22 percent of all State and local revenues. Thus, we have a situation where Federal employees literally rub shoulders with a large segment of all employees in the Nation. Obviously, differences in pay-setting methods and different pay rates are sensitive matters and can have far-reaching effects on working relationships and the costs for salaries and wages throughout our entire economy.

Early this year we began a comprehensive review of the way our pay-setting machinery is working. In fact, we have now established a Federal Personnel and Compensation Division, one of whose permanent responsibilities will be conducting reviews of Federal pay and compensation matters for all categories of Federal personnel--military, white-collar, and Wage Board. To assist us in these studies--which will

require 2 or 3 years to complete--we are drawing on the advice of a panel of outside experts who have had long experience in compensation matters both in the private and public sectors.

In the first phase of this work we are examining the process which has been developed to maintain pay comparability with the private sector for white-collar employees. We are particularly interested in learning how Federal jobs are selected for comparison with the private sector, what comparisons are made with non-Federal organizations, and how the resulting data is used in adjusting the Federal salary scales. We hope to finish this first phase in the next few months and then to begin studies of how accurately and realistically comparability is being achieved.

I am not prepared to describe our conclusions and recommendations to you this evening. However, I believe it would be informative to review the progress which has been made since 1960 and then to state some of the issues which must be faced and resolved today, if we are to maintain public confidence in the reliability and integrity of Federal pay practices.

PROGRESS SINCE 1960

It would be difficult to find much in the way of guidelines, either in legislation or in executive branch policy statements, for the determination of overall compensation policy before the Federal Salary Reform Act of 1962. Cost-of-living increases were taken into account to some degree, recruiting difficulties also played a part, and "minimum family budgets" entered into the debates. However, it is probably not an overstatement to say that pay legislation

was largely a bargaining process in which budgetary costs played a large part and political considerations undoubtedly played even a larger part. Somehow pay bills seemed to come along with surprising regularity, in election years, or every 2 years. Lower paid employees--who were the largest in numbers, the best organized, and hardest hit by price inflation--seemed to fare best in this process.

A major turning point in Federal white-collar pay policy stemmed from the controversy surrounding the pay legislation being considered in the Congress in 1960 just before the presidential election. During the course of the consideration of the legislation, the Bureau of the Budget advanced an administration proposal that Federal civilian pay be made comparable to pay in the private sector for similar work. This concept had been under consideration for many months. The argument advanced for the comparability principle was threefold. First, on grounds of equity, the Federal employee should be paid no more or no less than his counterpart in private industry. Second, pay should make it possible for the Federal Government to compete in the employment market on a reasonable basis. Third, pay rates in private industry for approximately 20 years had on the average increased in line with productivity. Productivity measures were not available for other employment groups. This provided a good argument for linking pay for Federal employees to pay in private industry.

Although these arguments were not persuasive at that time, the question of civilian pay policy came into sharp focus when President Eisenhower vetoed the 1960 pay increase bill. In his veto message, the President said:

"Were this measure to become law, the already conspicuous unfairness and discrimination in our antiquated pay system would be greatly intensified. Instead of making progress--by improving the Federal pay structure--we would actually be taking a long step backward***. The bill totally ignores the recognized precept that the only sound basis for setting Federal salaries is reasonable comparability to rates paid for similar work in private industry."

Although the Congress overrode the President's veto, the initiative had been started which led to passage of the 1962 Salary Reform Act, signed by President Kennedy on October 11, 1962.

67 The Salary Reform Act enacted in response to a Presidential message early in the year was approved by the Congress virtually without change. It was hailed by the House Post Office and Civil Service Committee in these words.

"Without question, it is the most comprehensive and far-reaching legislative proposal to improve personnel management to be considered by the Congress in four decades."

69 Presumably, the other reform referred to was the Classification Act of 1923. The Senate Post Office and Civil Service Committee praised the bill in equally glowing terms as:

"*** one of the most far-reaching, comprehensive and complex measures ever reported by the Committee on Post Office and Civil Service. It will have an effect on every user of the mails, the future of the postal service and the welfare of every Federal employee, both at home and abroad."

The Senate Committee Report included a section on requisites of a Federal pay system which could still stand as an excellent basis for further improvements in salary and wage setting in the public sector.

"The functions of a public salary system are to control payroll expenditures, with equity to both the employee and the taxpayer, and to support recruitment and retention of the high quality personnel required to carry out Government programs. To meet its responsibility to the public, the salary system must pay enough to permit competent staffing in order not to endanger the national security nor to degrade public service; but it must not pay more than is necessary for this purpose and to provide equity for the employee. To assure fair treatment for the public employee, the salary system must provide equity among Federal employees and between Federal employees and those in private employment."

Studies of pay trends at that time revealed that, in the 21 years between 1939 and 1960, salaries of white-collar employees had just barely kept pace with changes in the Consumer Price Index. Furthermore, as a result of sporadic increases in the absence of objective standards and data related to pay rates for various work levels, the Federal salary structure had deteriorated and the Government was at a sharp disadvantage in the labor market. In fact, a 1961 survey comparing Federal and private pay reported that the following pay increases were needed to obtain comparability.

General schedule <u>grades</u>	Percent increase needed to <u>achieve comparability</u>
1 to 4	4.1
5 to 7	8.0
9 to 12	14.1
13 to 15	20.9

The 1962 act established the policy that "Federal salary rates shall be comparable with private enterprise salary rates for the same levels of work." It is important to note that the language refers to "private enterprise" not to the private sector rates and to "levels of work" not to occupations.

To implement this new policy, the law required that annual surveys be conducted by the Bureau of Labor Statistics (BLS) and that an annual report be submitted by the President to the Congress with recommendations for such revisions in "salary schedules, salary structures, and compensation policy, as he deems advisable."

As of July 1, 1969, there had been eight annual adjustments under this law, including two special catchup increases, which had brought comparability to full fruition--both overall and by grade. Although there had been a consistent gap of about 10 percent between Federal and public pay, by 1969 the gap had been closed. Also, by granting larger increases in the upper grades than in the lower grades, more equitable internal pay alignment had been restored.

On January 8, 1971, President Nixon signed the Federal Pay Comparability Act of 1970 which assigned full responsibility for pay adjustments to the President. This legislation also reduced the lag between completion of BLS surveys and the enactment of pay adjustments--often as much as 16 months later. Under the new procedures, BLS surveys are commenced at the beginning of a calendar year and adjustment action must be effective by October 1 of the same year, unless the President recommends an alternative plan to the Congress. Additionally, two important groups are established

to provide authoritative review and advice. One, the Federal Employees Pay Council, contains five members representing employee organizations. The other, the Advisory Committee on Federal Pay, is composed of three non-Government experts selected by the President.

In my opinion, these two laws are among the most important statutes on the books dealing with the management of the Federal work force. They have laid a foundation of enlightened policy and executive authority, and they provide the framework for linking military and other civilian pay systems to the same annual survey and adjustment processes. They respond to President Eisenhower's call for the "rule of reason and logic."

WHY THE SUDDEN CONCERN THAT
FEDERAL PAY HAS GOTTEN OUT OF HAND?

In retrospect, we should have anticipated questions of this type, regardless of how perfect the comparability procedures proved to be. Except in the lowest grades--and for blue-collar employees whose rates have long been set on a locality basis--it has been considered normal for public servants to make a financial sacrifice, compared with their counterparts in private enterprise. When it became national policy to remove this inequity in the 1960s, it was inevitable that Government employee compensation would increase more rapidly than private enterprise pay until comparability was achieved. According to Department of Commerce data, Federal civilian compensation increased 81 percent between 1961 and 1971, whereas the average overall private industry (non-farm) increase was about 60 percent.

Another factor accounting for the size of the overall increase in average Federal compensation has been the change in average grade level. In 1962 the average General Schedule grade was 7. Ten years later the average grade was 7.9. We do not know how much of this is due to a valid change in skill requirements and how much to grade escalation (the tendency to inflate grade levels). Both causes are undoubtedly present. Incidentally, each tenth of a grade point increase adds approximately \$160 million to payroll costs.

Automation also has had a marked effect on the skill mix of white-collar employment, both in public and private enterprise, with a natural shift upward. In the Treasury Department, for example, the average grade of personnel in its Fiscal Services increased from 3.4 to 5.4 but, with improvement of skills and automated equipment, the unit cost dropped by 28 percent.

GAO itself illustrates this trend. It is an organization whose work has changed to greater professional content and more complex assignments. With the steady decline in voucher and audit-type activities, GAO's clerical and technical staff has decreased. At the same time, our average grade has steadily increased due to the growing number of professional staff and the higher expertise required as we undertake analyses of the costs and benefits of Federal programs and attempt to assess the management of highly complex research and development and weapons programs.

But these explanations do not answer the question of whether the Federal Government is now leading white-collar

pay in many occupations and communities instead of simply keeping pace with pay trends in the economy--which is the objective of comparability.

This brings me to a review of the analyses which GAO is undertaking to assist the Congress in appraising the trends in Federal pay levels and in determining whether basic changes in methodology and policy should be considered.

SEVEN KEY QUESTIONS MUST BE ANSWERED

We believe that new data is needed to answer the following questions.

1. Is the survey process conducted by BLS a sound and reliable method of gathering comparability data from the private sector?
2. Are a sufficient number of Federal jobs being matched with the private sector, and is the present sample representative?
3. Is a broad enough segment of the private sector being matched to provide sufficiently representative comparisons, and does the standard of comparability with private industry continue to provide the best standard for comparability?
4. Does the present system of establishing "pay line" and fixing differentials between and among grades distort comparability and does it provide an adequate differentiation of levels of responsibility?
5. Should we consider elements of compensation other than salary in the comparability matching?
6. Can comparability be achieved through a single national salary scale for all occupations?
7. What should be the role of performance evaluation versus longevity or seniority in salary advancements above the bottom of the grade? That is, should any employee whose rating is "satisfactory" receive within-grade increases after the passage of the required period of time?

Interestingly, no one of these questions is new. But the fact that they are still unresolved 10 years after the passage of the 1962 act may be significant. Let me comment briefly on each.

First, is the survey process conducted by BLS a sound and reliable method of gathering comparability data from the private sector? This is the easiest of the questions to answer, because we are dealing with a systematic process which can be examined factually and in detail.

Fortunately, our review began at the time the annual BLS salary survey was in process. By arrangement with BLS officials, our auditors were able to observe the training of the data collectors and then to accompany them on their visits to 83 companies in several different cities.

Although our findings are still being analyzed, I can report to you that we have found an efficient and versatile operation which appears to command wide cooperation in the private sector. The annual process requires personal contacts with over 3,000 firms to obtain data on 79 jobs within a 4-month period. Naturally, such a massive undertaking will always offer opportunities for improvement, and we expect to make a number of suggestions of this type.

An illustration of the kind of question which arises is whether personnel specialists from the Civil Service Commission and the operating agencies be directly involved in interviews which identify "job matches" for purposes of reporting on salary or wage increases for similar positions in the Federal service. Without criticizing in any sense

the qualifications of the BLS staff, we have noted that employees who undertake this assignment generally have not had any prior responsibility for personnel management or supervisory operations in agencies which employ personnel in the positions being evaluated.

Second, are a sufficient number of Federal jobs being matched with the private sector, and is the present sample representative?

This is a far more difficult question to answer, and one that raises very fundamental policy issues. The present comparability process, as defined by law, seeks to compare levels of work rather than occupational relationships. The theory is that if we can identify, through annual surveys, the going rate for a number of jobs in the 15 General Schedule levels, we can then depend on the formal job classification process to place each job in its proper grade (based upon duties and relative responsibility and difficulty), regardless of occupation. The process seeks to establish and maintain equitable relationships between positions within each agency while insuring that each of the 15 pay grades is kept in alignment with trends in the private sector. This approach favors the selection of those Federal jobs in each General Schedule grade which can be matched readily, widely, and consistently with private sector jobs. They become "proxies" for all other jobs at the same grade level. Out of the 450 occupations in the Federal sector, only 17 are represented in the sample. When different levels are added, a total of 79 jobs is obtained.

This, of course, reveals another reason for some of the criticism in the national press. Since there can be no precise match for each occupation in each locality, some Federal employees may be paid more and others may be paid less than their counterparts in private enterprise in any given community. For example, in recruiting new college graduates with majors in accounting this year, GAO found that the "big eight" public accounting firms were offering starting salaries between \$1,000 and \$1,500 more than the Federal entrance salary for a college graduate with a bachelor's degree.

Government compensation is designed to be comparable to white-collar jobs in private industry "as a whole." Unless the Civil Service Commission determines that there is a job shortage for particularly scarce jobs, the same pay scale is set for all occupations classified in the same grade, regardless of the pay relationships among these same jobs in private industry. The result is a spread in pay between private industry and the Federal Government which results in beginning pay for professional positions at a standard level in the Government, whereas there may be a considerable variation in the entrance rate for similar positions in private industry.

For example, the private industry rate for an economist with a bachelor's degree may be 5 or 10 percent above that for a librarian, but the beginning Federal pay scale would be the same. The obvious impact of this is that industry-Government competition for graduates is distorted and gives an advantage to one or the other, depending on the differential that may prevail at any given point in time. One question we wish to

pursue is whether the compression into a series of related pay systems for practically every white-collar job has a significant effect upon the competitive relationship between the Government and private industry in recruitment for these positions.

At this time I am not arguing for or against this policy of matching levels rather than occupations, but I am pointing to it as a feature of the present process which requires reevaluation.

I should note that in 1964--just 2 years after the comparability standard was adopted--a panel of outside experts studied this and other aspects of comparability for the Bureau of the Budget and the Civil Service Commission. This panel concluded that the process of matching levels of work with private enterprise was probably acceptable, but the panel urged the use of a broader occupational sample.

We have much additional work to do in this area before arriving at any conclusions or recommendations for change.

Third, is a broad enough segment of the private sector being matched to provide sufficiently representative comparisons, and does the standard of comparability with private industry continue to provide the best standard for comparability? The 1962 law provided for matching "private enterprise" salaries. This permits the inclusion of nonprofit organizations but not State and local governments. Hence, the next question which becomes pertinent in any re-study of the process is whether sufficient coverage of the private sector is being achieved with these and other exclusions. It should be noted that nonprofit organizations have not been included in the sample.

Today the industries covered by the survey employ 7.2 million of the 28.1 million non-Federal, white-collar employees. This is just over 25 percent. The remaining white-collar employment is made up of four categories as follows:

<u>Category</u>	<u>White-collar employees (millions)</u>	<u>Percent of total white-collar employees</u>
State and local	6.3	22.1
Nonprofit	2.6	9.3
Companies below minimum size (note a)	7.2	25.6
Excluded industries	<u>4.9</u>	<u>17.4</u>
Total	21.0	74.4

^aThe minimum size is 250 employees for manufacturing and retail and 100 employees for others.

Perhaps the most challenging question posed by this data relates to the exclusion of State and local government employees. Between 1960 and 1971 white-collar employment in these jurisdictions grew from 2.8 million to 6.2 million-- or 121 percent. Today, white-collar employees at State and local levels outnumber those at the Federal level by more than four to one and they constitute one of the growing segments of our economy. If Federal compensation is inflated, the law of supply and demand will force an increase in State and local rates where Federal employment is significant.

Similar questions, of course, should be raised about the other excluded categories. In our current work we are gauging the feasibility of gathering data on all excluded categories as well as evaluating the desirability of including such data. One of the most significant nonprofit occupations is "health care," which in the Federal sector ranks fourth largest. In the private sector there are over 500,000 employees in similar occupations. Under present procedures these occupations are omitted from the comparability survey.

Fourth, is the present method for drawing the pay line adequate? Does the present system for drawing the pay line-- a line which attempts to distinguish between levels of responsibility--avoid distortion? Do the differentials between the beginning rate of pay and the maximum rate of pay for each level of responsibility distort comparability? Do we have too many grades or not enough to recognize differing levels of responsibility? Can we develop, without additional occupational classifications, a pay line which can be used for all the General Schedule employees? These are issues which we expect to be reviewing as a part of our overall study of employee compensation.

Obviously, there is room for considerable subjectivity in the present arrangement. As you know, the proposed pay lines and comparability schedules are now referred for comment to the labor organizations and to the Federal Employee Pay Council. The pay line is subject, in a sense, to negotiation. Any process which results in a negotiated rate can easily vary from the factual data flowing from the BLS survey.

Fifth, should we consider elements of compensation other than salary in the comparability matching? From the outset of the comparability process in 1962, it was considered that elements of compensation other than straight time earnings would probably tend to balance out and that it would be impractical to obtain and use such data.

During the 1960s, many changes occurred in such compensation-related factors as hours of work, fringe benefits, and promotion practices. One of the most significant compensation elements requiring a new evaluation is the fringe-benefit package.

We know that the values of fringe benefits in the Government and in private industry do change. Fringe benefits were not considered in 1962 because a survey made at that time indicated no significant difference between the value of fringe benefits in private industry and in the Federal Government--both stood at approximately 25 percent. Between 1968 and 1970, however, a significant change took place which now results in the Federal Government fringe benefit being worth 27.8 percent compared with 26.6 percent in private industry. The principal factors in this change were higher expenditures by the Federal Government for paid leave and retirement which are now worth 11.6 percent of Federal employee compensation compared with 8.8 percent in private industry. While the fringe benefits provided for employees in private industry for health programs, insurance programs, unemployment compensation, and bonuses unrelated to production were valued in excess of those provided in the Federal Government, they were still not enough to overcome a rather significant advantage to the Federal employees.

Still another question which has been raised and which is most difficult to evaluate is whether there should be a factor in compensation which recognizes the relatively greater job security and tenure in the Federal Government. It may well be that this issue will be so difficult to evaluate that it will have to be left out of consideration, as it was in 1962. The argument remains, however, and we would like to see it discussed again.

These will prove to be very difficult areas for survey and analysis; hence we are putting them on our future agenda.

Sixth, can comparability be achieved through a single national salary scale for all occupations? This is the most complex and perplexing question of all. The law requires one salary scale applicable nationwide to all white-collar occupations.

This question has two parts. One is whether a single salary scale for all occupations achieves as good or better results than a series of occupational pay scales. The recently completed task force study on job evaluation directed by Mr. Philip Oliver identified six basic systems for job evaluation and compensation. We plan later to evaluate this analysis and its implications for pay-setting purposes. The significance of this question is illustrated by the range of pay found in the private sector for occupations that are surveyed by BLS. Using the grade-5 level as an example, the 1971 survey revealed that the average private enterprise salary for the 10 Federal occupations surveyed was \$9,129. However, the averages ranged by occupation

from \$7,400 for secretaries to \$10,900 for engineers. On the basis of the national average, six occupational groups would be overpaid and four would be underpaid.

The second problem posed by a national salary scale results from the inevitable geographic differences. For example, in the grade-5 range, the lowest locality rate found in 1971 for each of the 10 Federal occupations was far below the national average--by as much as 50 percent. Correspondingly, the highest locality rates were above the national average by 25 to 58 percent. Hence, in some localities all grade 5s would be significantly overpaid at the national average, while in other localities all grade 5s would be significantly underpaid.

Let me hasten to say that these are problems with which we have long struggled and to which there are no simple answers. One of the designers of the present system, Mr. William Lehman, concluded that:

"*** a locality system is utterly infeasible *** Federal white-collar workers are spread throughout virtually all of the more than 3,000 counties in the United States *** the overwhelming obstacle is the sheer magnitude of the task and the multitudinous charges of inequity which would arise ***"

Nevertheless, the question remains as to whether the comparability principle has not been compromised when we underpay Federal employees in areas where the cost of living is higher and the prevailing rates higher in contrast to areas where the cost of living is lower and prevailing rates are lower. This question is a particularly cogent one at

lower salary levels where worker mobility is lower than for the more highly skilled, technical, professional, and managerial positions where national pay rates may be a highly important consideration.

Seventh, is merit or performance adequately factored in making within-grade pay adjustments? Under present procedures, an effort has been made to recognize performance in determining whether an employee is entitled to receive a within-grade increase. These increases, assuming that the employee's work is evaluated as satisfactory, are made at stated time intervals. If his work is rated as unsatisfactory, he can be denied his within-grade increase. However, if he is rated as having outstanding performance, he can be given a "quality increase" which means that he can advance to the next step without waiting for the time-interval requirement.

Does the system really work in a way which adequately recognizes the need to perform in an outstanding manner, and does it provide the incentive for an individual to improve the quality of his output in order to achieve the within-grade increase? Can we draw up measurements and improved methods for evaluating performance; provide for such incentives; and minimize what otherwise becomes, in the opinion of many, a system which recognizes longevity or seniority? We understand that many private companies permit time-interval step increases only up to the midpoint of the grade and require stiff performance standards for

steps within grade above that level. Again, this is a difficult question but, as previously noted, each percentage point increase in grade level adds substantially to the total payroll costs of the Federal Government.

CONCLUSION

In concluding these remarks, I would like to reemphasize my view that the comparability policy which emerged from the acts of 1962 and 1970 represents a major advance over prior methods of establishing pay levels.

Considering the impact of Government programs on our national and local well-being, we each have an important stake in the Government's ability to attract employees who can successfully manage and bring the needed skills to insure that the Government's business is carried out efficiently and effectively. To attract such employees, the Government must be able to compete in the employment market on a fair basis. However, it is vital that we examine the processes by which pay levels are determined, to make certain that Government pay adjustments match and not exceed those in the private sector. Additionally, the fact that pay increases in the private sector have increased more rapidly than productivity in recent years presents a new consideration not present in 1962 where we were attempting to relate Federal pay to the only known measure of productivity which we had at that time, namely, the private sector where productivity and pay had been closely related over a period of many years.

The questions which I have listed in this paper need the careful consideration not only of GAO but also of the

executive branch of the Federal Government and State and local governments. Government programs will continue to expand, and Government payrolls will continue to grow. There must be both official and public confidence that the method by which Government employees are paid is equitable both to the employee and to the taxpayer.

I wish to assure you that we will welcome any expression of your own views and your own experiences on this important matter.

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