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STATEMENT OF

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116327

BEFORE THE

SUBCOMMITTEE ON CIVIL SERVICE, POST OFFICE,
AND GENERAL SERVICES
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

ON

"THE GOVERNMENT BRAIN DRAIN"

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to present the General Accounting Office's views on the "Government Brain Drain" caused by the inadequate salary levels, irregular pay adjustments, and distorted pay interrelationships of top Federal officials. This is one of the most critical but perhaps least understood and appreciated problems facing the Government today.

Because of appropriation act pay restrictions, about 34,000 top Federal officials at seven different levels of responsibility now receive the same salary--$50,112.50. This creates a multitude of recruitment, retention, morale, and other problems. Continuing the $50,112.50 pay cap into October 1981 will extend the pay compression to an eighth level of responsibility--the top steps of GS-14 and equivalent positions in other pay systems. If that

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occurs, about 46,000 Federal executives and senior managers will be receiving the same salary. The situation is absurd.

The Congress must face up to executive pay compression and its related problems. If allowed to continue, executive pay compression and its resulting adverse effects on the recruitment, retention, and morale of Federal executives and senior managers threaten to undermine the Senior Executive Service (SES) and other important reforms the Congress mandated in the Civil Service Reform Act of 1978. Effective management and operation of Government programs may be very critically at stake.

In a series of reports, letters, and testimony since 1974, we have highlighted the adverse effects of denying reasonable salaries to Federal executives. We have advocated an executive pay system that provides competitive salary levels, meaningful pay distinctions to recognize differences in responsibilities and performance, and incentives to encourage valuable, experienced executives to stay in the Government. The Congress has not responded, and a bad situation has gotten worse.

The Congress, in 1980, reduced the maximum number of SES members that could receive performance awards (bonuses) from 50 percent, as authorized by the Civil Service Reform Act, to 25 percent. Subsequently, the Office of Personnel Management (OPM) further limited bonuses to 20 percent of career executives and also limited the size of bonuses that could be awarded. Federal executives were due a 9.1 percent pay increase in October 1980, but appropriation act language prohibited payment of this increase just as the 7.02 percent raise due them in October 1979 was denied. In its December 1980 report, the Commission on Executive, Legislative, and Judicial Salaries recommended substantial increases in executive pay levels. The President, in January 1981, recommended an immediate 16.8 percent catch-up increase in executives' salaries, but the Congress rejected the President's proposal.

In our June 8, 1981, letters to the Chairman of this Subcommittee and to other key congressional leaders, we strongly urged the Congress to (1) discontinue the appropriation restriction on payment of the salary increases which were due top executive and legislative branch officials in fiscal years 1980 and 1981 and (2) allow whatever increase is granted General Schedule employees in October 1981, and in subsequent years, to be paid also to top Federal officials as provided by law.

Subsequently, however, the House Appropriations Committee and a Senate Appropriations Subcommittee have voted to continue the appropriation pay restrictions for fiscal year 1982. The House Appropriations Committee also voted to continue the 25-percent limitation on SES performance awards; the Senate Appropriations Subcommittee voted to limit SES performance awards to only 10 percent of career executives.

Because of these restrictions, the Government is losing its most valuable, experienced career executives at a time when our country can least afford it. The turnover rate among career executives has increased dramatically. Many have resigned citing as factors the continuing pay ceiling, lack of regular pay adjustments, and higher paying non-Federal jobs. Within GAO, for instance, we recently lost to the private sector two of our exceptionally capable young SES members; both felt compelled to leave Government service when offered immediate substantial increases in pay and the potential for even greater monetary rewards in the future.

Experienced executives at the peak of their managerial career are retiring early at alarmingly high rates; 3,137 top executives retired in 1980, compared with only 508 in 1977. The rate of retirement for executives at the pay ceiling increased from 17.6 percent in March 1978 to 67 percent for the 12-month period ended August 31, 1980. Most executives are retiring as soon as they become eligible. Among career executives aged 55 to 59, the rate of retirement during that 12-month period was an astonishing 95 percent. Since October 1979, 20 of GAO's 116 senior executives have retired; today, only four of our executives who are eligible to retire have not done so.

Government-wide, the morale of remaining Federal executives and senior managers is low. Recent surveys of executives' attitudes indicate clearly a growing, widespread dissatisfaction, frustration, and bitterness over continuing pay ceilings; irregular pay adjustments, and limited performance awards. Many career executives perceive the pay freeze and actions to limit the number and size of SES bonuses as a breach of faith; many believe they were misled in having been induced to join the SES by the prospects of pay levels commensurate with their level of responsibility and awards for outstanding performance.

Pay compression also adversely affects the recruitment of senior executives and managers. The Administration and executive agencies, reportedly, are finding it increasingly difficult to attract talented, experienced executives from the private sector, State and local governments, and nonprofit organizations because most of them would have to accept too large a reduction in pay to join the Federal ranks. Within GAO, we find that advertising our vacant executive positions does not attract sufficiently qualified non-Federal applicants.

Pay compression has other adverse effects. For example, it creates incentives and impetus for agencies to use SES rank and performance awards as a secondary compensation system to recognize various factors-- such as job difficulty, degree of responsibility, and salary and service history--which customarily are, and should be, reflected in basic salary levels. Although there are six SES pay levels distinguishing SES jobs in terms of responsibility and difficulty, virtually all SES members now receive the same salary. As long as this continues, there will be a tendency for Federal agencies to use rank and performance awards to compensate for deficiencies in the executive pay-setting and adjustment processes.

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Effective Government does not just happen; it needs good people to run it. Executives and senior managers comprise only a small segment of the Federal work force, but this group is one of the most vital factors for assuring the success of Government programs. To effectively manage Federal programs which affect the life, health, and safety of all Americans, the Government must obtain and retain capable professionals and executives.

Especially in today's environment, experienced executives are needed to offer and properly execute workable solutions to the ever-increasing demand for better services and increased productivity. With continuing inflation, declining productivity, and mounting pressure to further reduce the level of Federal spending, U.S. taxpayers need and deserve the best managerial talent available.

To help enable the Government to meet successfully the enormous challenges it faces in these difficult times, allow the SES to operate as envisioned, and help assure the eventual success of civil service reform, we strongly urge the Congress to discontinue the appropriation restriction on payment of the scheduled salaries of top Federal officials. Allowing top officials to begin receiving the pay adjustments which were due them in October 1979 and October 1980, and will be due them in October 1981, would prevent a bad situation from worsening and provide needed pay increases to senior executives and managers. Since March 1977, the executive pay ceiling has been increased by only 5.5 percent. During that same period, the Consumer Price Index has risen by about 50 percent; Federal white-collar pay rates have been increased by 32 percent; and private sector executive pay has gone up over 30 percent. To correct this inequity, the 1980 Commission on Executive, Legislative, and Judicial Salaries, which was composed of distinguished private citizens, unanimously recommended Federal executive salary increases averaging about 40 percent.

We recognize that the Congress is reluctant to allow an increase in its salaries. Consequently, other top Federal officials have also been denied their required increases, whether or not the same concerns applied equally to them. If, because of these concerns, the Congress wishes to continue withholding the pay increases from itself, we suggest that funds be appropriated to permit the increases required by the Executive Salary Cost-of-Living Adjustment Act of 1975 (Public Law 94-82) to take effect at least in the executive and judicial branches and for nonelected positions in the legislative branch. By following this legislated principle, the Congress can, as a minimum, prevent the salary muddle that has plagued the Government for over a decade from becoming worse every year.

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