

Federal pay scales: how much is too much?

On October 1, Federal white-collar workers received a general pay increase of 5.5 percent. In a separate action, a similar 5.5 percent cap was placed on blue-collar wage increases as well. Were such limitations warranted to balance excessive increases in the past, or do they make the Federal work force a scapegoat in the fight against inflation?

Between 1956 and 1977, average annual earnings in Federal civilian government grew 262 percent in contrast to a growth of 201 percent in annual earnings in all private industries (chart). The annual payroll cost for the Federal civilian work force of 2.8 million is now approximately \$59 billion. Officials report that there are, on average, eleven applicants awaiting every Federal opening. Since 1962, major reforms have been implemented in the Federal pay-setting systems to assure that Federal workers receive pay comparable to that given private-sector workers performing similar work. The question then arises: were the pay increases accompanying these reforms necessary to bring Federal workers to comparability with their private-sector counterparts? Certainly, equity considerations require that Federal workers receive pay similar to what they could have in private employment. At the same time, however, efficiency considerations require that this be achieved at minimum cost to the Government employer. The purpose of this article is to consider whether these twin goals have been achieved. This is not intended to provide an alternative system of pay determination. Instead, it is meant as an independent evaluation of the present system. The approach used here—examination of the pay relationships between comparable Federal and private-sector workers—is entirely different from that used by the agencies charged with the task of setting Federal pay levels. Whereas this article compares pay levels for comparable individuals in the two sectors, the pay-setting agencies compare pay levels for comparable jobs in the two sectors.

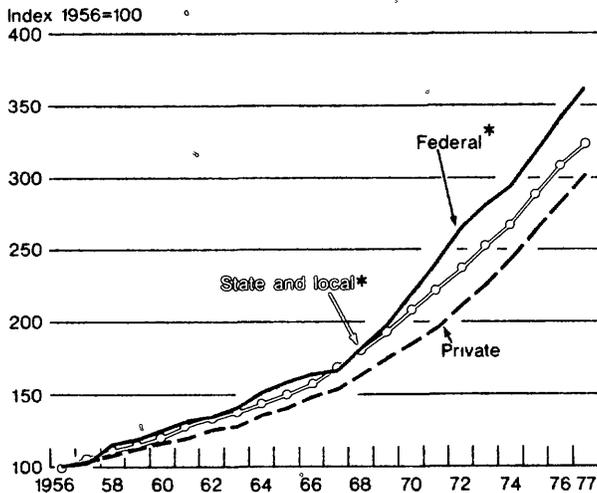
The results reviewed here show that during the period 1960-75 Federal workers, on average, were paid significantly more than their private-sector counterparts.¹ The estimated Federal wage advantage was 15 percent for males and 21 percent for females in 1975. In part, this results from less discrimination in the public than in the private sector. In more general terms, however, this Federal differential appears to reflect the intrinsic nature of Government employment. It is also partially attributable to the problems associated with the pay reforms of the 1960's. These results relate to the bulk of Federal workers. They do not in any way contradict the well-known underpayment of upper level professional and managerial personnel in Government.

Federal pay systems

Federal civilian workers are paid under a number of different pay systems. Some of these are established by individual laws, while others are administratively determined. Although there are more than fifty separate pay systems, they fall into four principal categories. In 1977 (the most recent available data), approximately 56 percent of Federal civilian employees were paid under the General Schedule (GS). This statutory pay system covers most Federal white-collar employees. Approximately 19 percent of Federal workers were covered by the Federal Wage System. The employees covered under this administratively determined schedule generally are blue-collar workers or foremen or supervisors. Approximately 21 percent of Federal workers are covered by the administratively established schedules of the Postal Service in which wages are set through collective bargaining. The ap-

¹ For a full discussion of these results, see Sharon P. Smith, *Equal Pay in the Public Sector: Fact or Fantasy* (Research Report Series No. 122, Industrial Relations Section, Princeton University, Princeton, N.J., 1977).

Average Annual Earnings of Workers by Sector



*Excludes employees of government enterprises, e.g., United States Postal Service, Tennessee Valley Authority, etc.

Source: United States Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*.

proximately 5 percent remaining Federal workers are paid under a variety of plans—both statutory and administratively determined. These include pay plans for the Tennessee Valley Authority (TVA), the Central Intelligence Agency, the Foreign Service, top officials in the executive branch, etc.

Two broad characteristics of pay determination in the Federal Government (as well as in other government entities) distinguish it from the private sector and contribute to a Federal/private pay differential. The first characteristic is that, by the nature of government, there are neither incentives to maximize profits nor market pressures to affect wages. Thus, if the Federal Government pays its workers higher wages than comparable private-sector workers receive, it may obtain higher quality workers and queues may form for Government jobs. However, there is no *strong* force short of taxpayer revolt that will lower Federal wages or even vigorously resist further wage increases.² By contrast, if a competitive private-sector

² The recent passage of Proposition 13 in California suggests that "taxpayer revolt" is not the remote possibility it once appeared to be. Nevertheless, it remains true that reactions of this type are more probable at the lower levels of government, where the association between increases in government workers' salaries and taxes will probably be much more direct in the minds of taxpayers than at the upper levels of government.

employer pays higher than comparable wages, he also may obtain higher quality workers. But, unless the quality differential at least equals the wage differential or the production process is more efficient, he will be at a competitive disadvantage and be unable to continue in business.

The second characteristic distinguishing the wage-determination process in Government is the presence of political considerations. The ultimate decision makers on questions concerning Government pay are elected officials who must consider the impact of their decisions on the votes they anticipate in the next election. Because information on legislative questions is not costless, it is expected that voters will obtain information only on questions of most concern to them. Consequently, since Federal workers are more likely to have and to express an opinion on Federal pay questions than voters and taxpayers who are not Government employees, the Federal employer may be expected to be relatively more responsive to pressure for wage increases than to suggestions for wage restraint. However, political activity among these other tax-paying voters will provide some check on the upward pressure on wages by Government workers.

Comparability principle

Given the existence of so many pay systems for Federal workers, is there one theme that unites all these systems? The pay reforms of the 1960's were an attempt to apply to all Federal workers the principle that Federal workers should receive pay comparable to that given to private-sector workers performing similar work. (Subsequently, this principle has been extended to the pay systems of many states and municipalities.) The comparability principle has been applied to Federal blue-collar workers since 1862 when these wages were required by law to conform "with those of private establishments in the immediate vicinity". However, prior to 1962, there was no provision for the regular adjustment of the wages of Federal white-collar workers to reflect labor-market conditions in the private sector. Indeed, the impetus for these reforms came from the difficulties the Government was experiencing in attracting professional and technical workers at that time.

Application of the comparability principle to Federal pay determination seems appropriate if Government and private-sector employers demand the same time and effort of their employees and provide the same benefits. Although the concept of comparability is simple, its implementation is complicated.

Comparability in practice

The mechanisms for determining comparable pay rates

vary by pay system. GS salaries are set annually on the basis of comparisons with private-sector pay from information in the National Survey of Professional, Administrative, Technical, and Clerical Pay—the PATC survey—conducted by the Bureau of Labor Statistics. Salaries under a number of other schedules (such as the Foreign Service schedules and the salary system for physicians, dentists, and nurses in the Department of Medicine and Surgery of the Veterans Administration) are also linked to the GS.³ Policy requires that Federal pay rates satisfy both internal and external alignment criteria: that is, wages must not only be comparable to those paid for similar jobs in the private sector but must also maintain internal pay differentials in accordance with work and responsibility distinctions.

The results of the pay comparison process are reported to the President by the Civil Service Commission (CSC) and the Office of Management and Budget (OMB), along with the views of the Federal Employees Pay Council. On the basis of these reports, the President's pay agent—consisting of the Director of OMB, the Chairman of the CSC, and the Secretary of Labor—suggests a pay increase to maintain comparability. For fiscal 1979, this recommendation came to 8.4 percent.⁴ However, at the President's recommendation and with the Congress not disapproving, the Federal white-collar general pay increase (which took effect October 1) was held to 5.5 percent as part of the fight against inflation.⁵

Prior to 1970, postal salaries were set by linkage with the GS. Since the establishment of the United States Postal Service in 1970, pay has been set through collective bargaining. Similarly, blue-collar employees

of such Federal agencies as the TVA also have their wages set through collective bargaining.

All the above pay systems are national salary schedules. The Federal Wage System, by contrast, sets Federal blue-collar wages so that wages conform with the average prevailing private-sector wage in the local labor-market area. Area pay levels, like those for the blue-collar workers, would give a more accurate representation of the labor market for most lower level white-collar positions.

The comparability process of pay determination seems, in principle, to be “fair” to both Federal employer and employee. However, on closer examination, it appears that this principle has been insufficient to achieve these goals. There are both conceptual and technical difficulties that seriously undermine this pay process.

Shortcomings of the comparability process

Use of the comparability process to determine Federal wages implicitly acknowledges that the absence of profit considerations in Government eliminates the establishment of a market-clearing wage through competitive conditions. However, it does not necessarily follow that the prevailing private-sector wages reflect the free play of competitive forces. Instead, these wages may show the influence of licensing regulations, discrimination by race or sex, etc. These influences on wage rates will be carried over into the Federal sector through the comparability process.

In addition, it appears that in the application of the comparability principle there has been some confusion of goals. The original aim of this policy was to improve the efficiency of Federal pay determination by equalizing Federal and private-sector wages for similar jobs. However, in certain instances, this goal has been compromised because there has been, in addition, a normative concept of what Federal pay “should be”, regardless of what prevailing private-sector rates are. This tendency may be reinforced by the political nature of the pay process and in particular by the relatively strong political influence of the employee.

A much greater conceptual difficulty with a pay system that equates pay in the Federal and private sectors is that jobs in the broadest sense may not be the same in both sectors—that is, they may differ with respect to job security, working conditions, social status, etc. If the nature of a job is different in the two sectors but tastes remain the same among individuals, then there should be compensating differentials between the sectors. Indeed, the view that there were greater nonpecuniary returns for working in Government had been a past justification for paying lower wages for Government jobs.

³ Salaries of top executives in the Executive Branch (except the President), members of the Congress, and all Federal judges are adjusted in every Presidential election year on the basis of recommendations from the Quadrennial Commission on Executive, Legislative, and Judicial Salaries. Between March 1969 and February 1977, however, there was no general increase made in the Executive Schedule (except for a cost-of-living increase linked to the annual GS increase in 1975). The lowest level in the Executive Schedule sets a ceiling on GS salaries. As a result, salaries in the upper grades of the GS schedule have been compressed.

⁴ This was an average percentage increase in the entire GS (of eighteen grades, with ten steps at each grade), though the specific recommended increase varied by grade, ranging in size from 6.15 percent at GS-1 to 13.27 percent at GS-15.

⁵ This is a uniform increase for the entire GS (except at the upper grades where this increase would raise salaries above the ceiling level). There are two additional sources of pay increases for individual workers: the regular within-grade increase and the quality step-increase. Historically, 98 percent of all GS employees have received regular within-grade increases (the specified time for the increase varies by step from one year of service in steps 1 through 3 to three years of service in steps 7 through 9) while only 2 percent have received, in addition, quality step-increases each year.

Difficulties in effecting comparability

Among the technical shortcomings of the comparability process is the fact that comparisons are based on wages only, even though an increasingly important part of employee compensation consists of fringe benefits.⁶ This approach was justified on the grounds that early studies indicated that the total benefit package was approximately equal in Federal and private sectors. In addition, the difficulties associated with collecting such data were judged to be overwhelming. However, more recent studies have pointed out that benefits (in particular, provisions for leave time and retirement programs) are higher in Federal employment. In addition, the steadiness of hours worked in Federal blue-collar jobs is probably greater than in the private sector since Federal workers are not subject to seasonal layoffs. Thus, if Federal and private-sector wages were equated, Federal workers would still enjoy an advantage in total compensation.

The entire process of comparability is based on a comparison of jobs in the two sectors. Although this approach is often used in private industry, it is a highly complex process, which can result in erroneous wage comparisons unless carefully administered and continuously monitored. For one, job matches must be properly established and then be constantly reassessed. Because matches are not made for every job in a grade level, the correct grade classification of Federal jobs is also of particular importance. This requires job evaluation systems through which jobs are ranked in importance according to their requirements and responsibilities.

The comparability process also requires that the jobs surveyed in the private sector be representative of the pay and employment conditions prevailing there. If the survey oversamples relatively high-paying employers, the resulting Federal pay rates will be excessive. It appears that the present surveys do suffer from these problems. All surveys exclude state and local government workers (this is a statutory requirement) even though, for many jobs, these are the Federal Government's principal competitors. The surveys also exclude nonprofit institutions and certain industries (a number of which are relatively low paying). All establishments below a specified minimum size likewise are not examined. Study of private-sector pay patterns has shown that there is a positive relationship between

size of establishment and pay rate.⁷

The surveys used to set blue-collar wages in local labor-market areas often "import" wages from higher paying labor markets. This occurs because the underlying legislation—commonly referred to as the Monroney Amendment—permits Federal blue-collar wages to be determined on the basis of private-survey results from the nearest wage area most comparable in manpower, employment, population, and industry. This is allowed if there are no comparable private-sector jobs in the local labor-market area in question and if the inclusion of this other area's wages does not result in lower Federal wages. In practice, it has been observed that this procedure may raise the wages of all Federal blue-collar workers in the wage area, not just those for whom there are data problems. The Congressional Budget Office estimated that, as a result of "importing" wages from other areas, wages in 1976 for 17 percent of Federal blue-collar workers were as much as 25 percent higher than local private-sector wages.⁸

Federal pay rates must be maintained at levels sufficient to attract qualified manpower but, at the same time, be compatible with an internal structure. However, problems arise when this internal structure is not consistent with common practice in the private sector. For example, the pay system for Federal blue-collar workers defines a schedule of fifteen grades with five steps at each grade even though very few private-sector employers follow such multiple-step schedules. The wage at step 2 of each grade is set to conform with the average prevailing private-sector wage in the local labor-market area. However, estimates indicate that as of June 1977 nearly 80 percent of Federal blue-collar workers were above step 2. Thus, their pay was 4 to 12 percent above the prevailing private-sector rate average.⁹

Federal/private wage comparisons

What is the relative pay position of Federal workers? With all the problems associated with the job comparison surveys, an independent means of evaluating relative pay positions can provide some light on this question. The method used here is to study the wages of many *individual* Federal and private-sector work-

⁶ This is also true of the comparability process at lower levels of government. An interesting exception is California where comparisons are made of "total equivalent compensation", which includes both salary and benefits. The CSC has developed and is testing a total compensation comparability process before the plan is submitted to the Congress.

⁷ See Richard A. Lester, "Pay Differentials by Size of Establishment", *Industrial Relations*, 7 (October 1967), pages 57-67.

⁸ Congressional Budget Office, *The Costs of Defense Manpower Issues for 1977* (Government Printing Office, January 1977), page 111.

⁹ Furthermore, Federal blue-collar workers are paid a night shift differential (a percentage of their regular wage, increasing with the lateness of the hour worked) which generally exceeds private-sector rates. For example, in 1976 in the Washington, D.C. area, the average Federal differential for the second shift was nearly twice as large as the average private differential.

Table 1

Estimated Gross Federal/Private Pay Differentials

Ratio of mean Federal- to mean private-sector wage

Year	Males	Females
1960:		
Whites	1.13	1.07
Nonwhites	1.30	1.23
1970:		
Whites	1.17	1.32
Nonwhites	1.28	1.35
1973	1.44	1.63
1975	1.39	1.46

Sources: Smith, *Equal Pay in the Public Sector: Fact or Fantasy*, pages 55, 59, 63, and "Government Wage Differentials", *Journal of Urban Economics* 4 (July 1977), page 260.

Table 2

Estimated Net Federal/Private Wage Differentials

Ratio of Federal- to private-sector wage for comparable workers

Year	Males	Females
1960:		
Whites	1.09	1.17
Nonwhites	1.20	1.27
1970:		
Whites	1.04	1.08
Nonwhites	1.15	1.15
1973	1.20	1.38
1975	1.15	1.21

Source: Smith, *Equal Pay in the Public Sector: Fact or Fantasy*, page 68.

ers.¹⁰ Using detailed information on individuals employed in the two sectors and regression analysis, it can be determined whether comparable workers (not jobs) receive the same wage in the two sectors. (The number of individuals examined in this analysis varies according to the data source, ranging from nearly 40,000 to over 130,000.)

An examination of gross Federal/private wage differentials for these individual workers (the ratio of mean Federal to mean private-sector hourly wage rates) indicates that the average Federal wage has been consistently higher than the average private-sector wage (Table 1).¹¹ For example, in 1960, Table 1 shows that the average wage of white male Federal workers was 13 percent higher than the average wage of white male private-sector workers. However, this alone does not necessarily indicate that Federal workers are overpaid. Pay varies among individuals according to differences in qualifications as well as differences in many socio-economic factors. Thus a more highly paid group of workers may simply be more qualified (for example, more highly educated). However, the same qualifica-

tions may pay different returns in different sectors: for example, a high school education may pay a higher return to an individual worker in the Federal than in the private sector. Thus, the key question is to determine what portion of the gross differentials reported in Table 1 is due to differences in the characteristics of Federal and private-sector workers and what portion is due to differences in the returns on these characteristics.

How is the breakdown done? The first step is to estimate for each sector the returns in wages an individual will receive, on average, for his qualifications (years of education and of work experience) and socio-economic characteristics (such as marital status, number of children born, race, Spanish origin, veteran status, union membership, broad occupational category, geographic region of residence, city population-size of residence, health status, part-time status, dual-job-holding status).¹² Prior study has suggested that each of these factors may have an important effect on the wage rate an individual may receive. For example, being of Spanish origin may reduce an individ-

¹⁰ To be complete, this examination should consider nonwage compensation, as well. This would give allowance for comparable workers receiving the same total compensation, but with different mixes of wage and nonwage items. However, because the data used for this analysis do not contain information on benefits, attention is limited to wage differentials.

¹¹ Because of the nature of the data used for this analysis, there is a time lag between the collection of the data, its availability for public use, and its availability for use in this particular analysis. Accordingly, the estimates presented here for 1975 are the most recent available. However, viewed in conjunction with the results for 1960, 1970, and 1973, they provide a consistent picture.

¹² This is done by estimating for each sector a pay structure which is a regression equation of the form $\ln P = XB$ fitted to detailed data on individuals, where $\ln P$ is the natural logarithm of the individual's pay (estimated hourly wages), X is a matrix of explanatory variables, and B is a vector of estimated coefficients. In an equation of this form, each B may be interpreted as the percentage effect of the associated explanatory variable on pay, that is, the return to that characteristic. The data used to estimate this model consist of representative samples of Federal and private-sector workers throughout the nation from the censuses of 1960 and 1970 and from the May Current Population Surveys of 1973 and 1975. For further discussion of this model and these data, see Smith, *Equal Pay in the Public Sector: Fact or Fantasy*, pages 35-49.

ual's anticipated wage rate because of both ethnic discrimination and language difficulties that reduce the worker's productivity.

At the same time, Federal and private-sector workers do differ in these qualifications and characteristics. Therefore, the second step in the analysis is to estimate the wage each group of workers would receive if the rewards for their qualifications were the same in both sectors. In this way, an estimate is made of the wage Federal workers would receive if the rewards for their qualifications were the same as in the private sector. This calculation shows that a part of the difference between the wage of Federal workers and the wage of private-sector workers is attributable to differences in the qualifications and characteristics of the workers in the two sectors. The remaining difference—the net differential that persists between workers of comparable characteristics—provides an estimate of the wage advantage Federal workers have because they work for the Federal Government.¹³ It is true that the measure of the net differential is a residual: it is the portion of the gross differential remaining after accounting for differences in characteristics between workers. Thus some part may be due to characteristics that have not been considered. However, the net differential is primarily considered to be a return attributable to the individual's sector of employment.

Estimated net differentials for 1960, 1970, 1973, and 1975 are presented in Table 2. These estimates can be thought of as snapshots taken at different points during the fifteen-year period between 1960 and 1975. They indicate that Federal workers of either sex have consistently been paid more than private-sector workers of comparable qualifications, as here defined. The estimates range from a low of a 4 percent wage advantage for white males in Federal employment in 1970

to a high of a 38 percent wage advantage for females in Federal employment in 1973.

At every point in time considered, the wage advantage is least for the majority group: white males in 1960 and 1970, males in 1973 and 1975. These results suggest that the impact of both race and sex discrimination on wage rates is less in Federal than in private-sector employment. This may result from the use of open competitive examinations to fill many Federal jobs and from more effective affirmative action programs. Thus, a minority worker in the Federal Government enjoys a wage advantage over a comparable minority worker in the private sector. At the same time, however, it should be emphasized that further study has shown that white males in the Federal Government in 1973 and in 1975 also enjoyed a wage advantage over comparable white males in the private sector. Thus, the Federal net differential is not solely a reflection of relatively less race and sex discrimination in Federal wages.

The decrease observed in the net wage differentials between 1973 and 1975 is probably a consequence of the rapid inflation that occurred during this period.¹⁴ One major group of Federal workers who have been unaffected by inflation in this way consists of Postal Service employees who have had a cost-of-living adjustment (COLA) in their contract since 1973 (see the article beginning on page 16). A separate examination of the Federal/private wage relationship for postal and for Federal nonpostal workers (using the same data sources) indicates that, while the wage advantage for these other Federal workers decreased somewhat between 1973 and 1975, the wage advantage enjoyed by postal workers over comparable private-sector workers remained fairly constant during this period. The observation of a significant wage advantage for postal workers is further confirmed in a recent study by Adie who observed that postal pay rates now exceed general pay levels by 35 percent.¹⁵

Thus, it seems that, on average, Federal workers of either sex have been paid more than comparable workers in the private sector both before and after the implementation of the pay reforms. However, this does not indicate that *each individual* Federal worker is

¹³ This analysis of the gross Federal/private pay differential is done under two alternative assumptions (1) that the estimated private pay structure would apply to all workers, or (2) that the estimated Federal pay structure would apply. Then, under assumption (1), the pay Federal workers would receive is obtained by multiplying the mean values of the explanatory variables for Federal workers by the estimated coefficients for private workers. The difference between this estimated wage variable for Federal workers and the mean of the observed wage variable for private workers is a measure of the wage differential attributable to differences in qualifications between workers in the two sectors. The remainder of the gross differential—the difference between the mean of the observed wage variable and the estimated wage variable for Federal workers—is a measure of the net differential, the wage differential between comparable workers. A similar analysis can be made under assumption (2). The net differentials that are presented in Table 2 represent the midpoints of estimates made under assumptions (1) and (2). It should be noted that these are proportional differentials, since they are antilogarithms of differences between wage variables expressed in logarithms.

¹⁴ This decrease probably reflects the fact that, because of the set timing for increases under most of the Federal pay systems, these schedules respond to inflationary pressures with a lag. As a result of the inflation that occurred subsequent to 1975, the net wage differentials may have decreased further. However, the persistence of long queues awaiting Federal jobs suggests that some positive net wage differential remains.

¹⁵ See Douglas K. Adie, *An Evaluation of Postal Service Wage Rates* (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1977).

overpaid since variation is expected by occupation, region, sex, etc. To understand better these possible variations, the Federal/private wage relationship will be examined at more detailed subdivisions.

Occupational variation in the Federal wage advantage

With the growth of Government employment, there has also been an increase in the diversity of occupations represented. Indeed, in a study of Federal employment,

one researcher found that out of nearly 15,000 occupational titles only one was missing from the Government: stripteaser. A structure of wage differentials by occupation may be observed in both Federal and private-sector employment. An examination of the Federal impact on wage structures in individual occupational categories provides information on whether the Federal wage advantage reported in Table 2 accrues only in certain occupations or exists across oc-

Table 3

Estimated Federal Wage Advantage by Occupational Group, 1975

In percent

Sex	Professionals	Managers	Clerks	Service	Craftsmen	Operatives	Laborers
Males	17	14	12	27	14	15	†
Females	12	36	21	25	*	†	*

* There were an insufficient number of Federal workers in this occupational category to estimate a Federal differential.

† Positive but not significantly different from zero in a statistical sense.

Source: Smith, *Equal Pay in the Public Sector: Fact or Fantasy*, pages 80, 81.

Table 4

Estimated Postal and Other Federal Wage Advantage by SMSA Population Size, 1975*

In percent

Type of Federal employment	Non-SMSA	Standard Metropolitan Statistical Area of				
		Less than 250,000	250,000 to 500,000	500,000 to 1 million	1 million to 3 million	More than 3 million
Males:						
Postal Service	13	†	†	†	12	†
Other Federal	17	11	22	13	22	†
Females:						
Postal Service	53	69	46	42	42	21
Other Federal	22	18	16	17	19	†

* In general, a Standard Metropolitan Statistical Area (SMSA) consists of a county or group of counties that contain at least one city which has a population of 50,000 or more plus the adjacent counties that are metropolitan in character and are economically and socially integrated with the central city. In this analysis, categories are differentiated according to the population size of SMSA in which the individual resides as follows: outside an SMSA, in an SMSA of less than 250,000 residents, in an SMSA of between 250,000 and 500,000 residents, in an SMSA of between 500,000 and 1 million residents, in an SMSA of between 1 million and 3 million residents, or in an SMSA of more than 3 million residents.

† Positive but not significantly different from zero in a statistical sense.

Source: Smith, *Equal Pay in the Public Sector: Fact or Fantasy*, page 100.

cupational categories (Table 3).¹⁶

These estimates indicate that, while there is considerable variation by occupational group, Federal workers in 1975 received at least the same wages as comparable private-sector workers (the occupations with this relationship are male laborers and female operatives) and more often enjoyed a substantial wage advantage. The largest Federal wage advantage for males and the second largest for females are observed in service occupations (27 percent for males, 25 percent for females).

These estimates do not appear to support observations made in other studies of wage disadvantages for upper level professionals and managers. Two factors probably account for this discrepancy. The first is that, since the data used here pertain to *all* professional and managerial workers (undifferentiated by level), there may be an insufficient number of observations at these upper grade levels in the data to observe these disadvantages. The second is that, if pay scales at these levels are too low, they may have influenced the more experienced and qualified Federal jobholders to seek private-sector positions comparable to the high-level Government jobs. Then a Federal wage advantage may still be observed for the upper grade levels if above a certain level of experience individuals shift to the private sector to earn the greatest return to their qualifications. The upper level positions in Government may be filled by less experienced individuals than comparable private-sector positions.

Location and the Federal wage advantage

Wages in the private sector have been observed to show substantial variation across labor-market areas, reflecting the effects of differences in cost of living and in pecuniary and nonpecuniary opportunities. However, while blue-collar Federal wages vary across labor-market areas, white-collar Federal pay is uniform throughout the nation. Accordingly, it is appropriate to consider how location affects the relative wage position of Federal workers.

The estimated wage advantage of postal and other Federal workers over comparable private-sector workers in 1975 did vary greatly according to the population size of the Standard Metropolitan Statistical Area

(SMSA) in which the individual resides (Table 4).¹⁷ However, there is no evidence that either group of Federal workers is paid *less* than private-sector workers of comparable qualifications. With only one exception (nonpostal workers residing in an SMSA with a population of more than 3 million), women working for the Federal Government enjoy a substantial wage advantage over their private-sector counterparts. By contrast, male postal workers in most SMSA sizes and nonpostal workers residing in the largest SMSA size receive approximately the same wages as their private-sector counterparts. Among both males and females, this wage advantage is largest in non-SMSAs. Thus, these results support the view that Federal wages should be set on an area basis for *all* workers to reflect local labor-market conditions, since present national salary schedules lead to wage advantages for Federal workers in certain areas.

Summary and conclusions

The estimates presented here have shown that during the period from 1960 through 1975 Federal workers, on average, received pay that was at least similar and usually superior to that of comparable private-sector workers. The net advantage has usually been greater for women than for men. In part, this reflects the fact that the impact of discrimination on wages is less in the Federal than in the private sector. Although, as expected by the national pay schedules, the estimated Federal wage advantage varied by place of residence, no evidence was found of a *wage disadvantage* for Federal workers. These net differentials are not solely the consequence of the comparability legislation of the 1960's but were present before these reforms were enacted. However, the legislation does appear to have helped reinforce the upward bias already present in Government pay. The net result was Federal wages that may be regarded as "too high", that is, higher than wages paid to comparable private-sector workers and higher than necessary to attract qualified manpower.

As previously indicated the results of this study do not imply that every *individual* employed by the Federal Government is overpaid. There are undoubtedly many individuals in Government service who could command larger compensation in the private sector. This is particularly true among upper level professionals and managers. Indeed, the findings of this study suggest that the Government may have to improve compensa-

¹⁶ These estimates are obtained using a somewhat different equation form than that employed for the estimates reported in Table 2: here a wage structure is estimated for all workers (both public and private sector) in a particular occupational category. By including a variable for Federal employment, an estimate is obtained for the percentage wage advantage a Federal worker enjoys over a comparable private-sector worker.

¹⁷ These estimates are obtained using an equation form similar to that employed for the estimates reported in Table 3: here a wage structure is estimated for all workers in each SMSA and separate variables are included for postal and nonpostal Federal employment.

tion at the upper levels in order to attract and to retain qualified personnel.

In a Government that is distinguished by its checks and balances, it is surprising that the system for pay determination for its workers did not show more checks on the accuracy of wage comparisons or more balances on the relatively greater political power of Government employees in the pay decision process. Unless such checks and balances are strengthened, Federal/private wage differentials will likely persist in the future, as will queues of workers awaiting Federal jobs. Moreover, the interrelationships of Federal- and private-sector pay setting through the comparability process suggest the possibility of spiraling wage increases, as workers in each sector seek to equal or to exceed the wage increases granted in the other sector.

The means to buttress the checks and balances in the pay process are available. The most important of these is to take into account another factor besides

private-sector pay rates—manpower availability. If, for example, the comparability process suggests a pay increase for certain Government jobs, but there already are long queues of qualified individuals awaiting such jobs, the increase is unnecessary to attract the required manpower. This could act as a check to prevent the Government from paying higher wages than are necessary to attract qualified manpower as well as a balance against the relatively greater influence of Federal workers on lawmakers in these pay decisions.

It is in the interest of all that Government be assured of attracting and retaining necessary manpower. However, it is also in everyone's interest that this be done at least cost to the Government. Except for problems in filling upper level managerial and professional positions, the first of these two goals appears to have been achieved throughout most of the Federal Government. Attention should now be directed to the latter goal, as well.

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