A. Yes, there are. If all agencies charged a uniform interest penalty on delinquent debt, an estimated $1.085 billion could be earned over three years. In the past, most agencies did not charge interest penalties on delinquent debt despite a 1979 regulation that required them to do so. Indeed, the Veterans Administration did not even have the systems capability to compute such interest. However, the Debt Collection Act of 1982 puts into law the requirement that agencies compute and assess a penalty fee sufficient to cover the cost of processing and handling delinquent claims.

Another step that could be taken to improve the performance of loan officers is to establish uniform definitions of default throughout the Government and to maintain and report these statistics on a regular basis. When a loan officer's performance is appraised, the amount of loans made that have lapsed into default would be a key element in the appraisal. Because of the greater incentive to make better loans and to collect on loans that are currently delinquent, $626 million in receipts could be accelerated, earning interest of $137 million over three years.

In the Small Business Administration (SBA) alone, the use of collection agencies to recover Federal charged-off loans -- which run at a rate three to four times as high as in the private sector -- could save $118 million over three years. Reducing SBA's maximum loan guarantee to 75% from 90% would save another $72 million over three years.

Virtually all of the loan management problems discussed above were found by PPSS to exist in the Education Department's student loan programs. Student loans outstanding at the end of FY 1983 totaled approximately $30.5 billion, with $3.8 billion, or 12% of this amount in default. The major programs through which student loans are made available are:

[Table on following page]

Student Loan Programs, FY 1983E

		(1) Amount Outstanding Including Defaults	(2) Amount in Default	(3) Approximate Default Rate
		($ Billions)		
(1)	Direct Loans (a)	$ 4.9	$1.6	33%
(2)	Guaranteed Loans (b)	25.6	2.2	9

(a) Primarily the National Direct Student Loan (NDSL) program, through which loans are made by the Federal Government through educational institutions.

(b) Primarily the Guaranteed Student Loan (GSL) program, through which loans are made by private sector lenders, insured by state agencies, and then reinsured for a fee by the Federal Government; and the Federally Insured Student Loan (FISL) program, through which loans are made by private sector lenders and insured for a fee by the Federal Government.

Under GSL and FISL, the Government is liable for all costs that are incurred because of borrower default, death, disability, and bankruptcy. The Government also pays an interest subsidy equal to the differential between the market rate and the stipulated guaranteed loan rate of 9% during the life of the loan, in addition to all interest costs while borrowers are in school.

PPSS found that, of these three major student loan programs, the Guaranteed Student Loan program was the most cost effective. Since all the programs address the same goal -- to provide financial assistance to students seeking post-secondary education -- PPSS concluded that all the education loan programs should be consolidated into GSL.

Q. The default rate for direct loans is over three times greater than for guaranteed loans. What is wrong with the direct student loan program, NDSL?

A. PPSS found that the educational institutions which administer direct loans are poorly equipped to do so; particularly with regard to repayment. At the department level, administration is lacking as well. As an example, no one in the Department of Education could explain a $300 million discrepancy found by PPSS in its loans receivable records.

Q. How much would such a consolidation save?

A. Three-year savings are estimated at $870 million -- enough to pay the average salaries of 15,934 elementary school teachers for three years. Savings would result from administrative cost savings, as well as from improved loan performance.

Q. What recommendations did PPSS make concerning the $3.8 billion in defaulted Education Department loans outstanding?

A. In this area, PPSS recommended that the Education Department:

1. Structure the collection operation as an independent unit with enough influence to deal effectively with other branches of Government. This would help collect $68 million in defaulted student loans from the 46,860 current and retired Federal employees who were identified in 1982 as holding such loans. Further, personnel should be trained periodically in the latest collection techniques.

2. Require parental or other cosigners for all student loans. Such a requirement made independently by a savings and loan bank in the Midwest has resulted in a default rate of less than 1% -- i.e., 90% less than the national average for these loans.

Reducing the default rate on student loans would save the Government $495 million in the first three years.

While not specifically discussed in the preceding, there were twenty-two additional issues that PPSS reviewed in this area which can be categorized under the following recommendations:

- Improve the administration of Federal loan programs, emulating private sector lenders where appropriate. Three-year savings -- $1.500 billion.

- Increase private sector participation in Federal loan programs. Three-year savings -- $667 million.

- Improve debt collection efforts. Three-year savings -- $414 million.

The three-year total of all the recommendations in this section, after elimination of duplication and overlap among issues, is $12.931 billion -- equal to the three-year taxes of 1.9 million median income families.

Research and Development

Research and development (R&D) in the Federal Government is conducted primarily by five agencies which together accounted for 93.2% of the total FY 1983 R&D budget of $44.3 billion. Government laboratories account for 24% of Federally funded R&D, employing over 206,000 personnel in over 700 laboratories.

PPSS noted that agency top management needs to become more actively involved in establishing specific goals for R&D in terms which are clear and, where possible, measurable. The lack of direction in substantive aspects of R&D and the budget process combine to create a system that does not have clear program priorities and that induces costly, abrupt changes.

PPSS made the following recommendations to improve Federal R&D activities: develop clear and measurable R&D goals in Federal agencies; implement multiyear budgeting specifically for R&D activities and significantly reduce the current level of detail required for budgeting R&D programs; make greater use of "centers of excellence," a concept which concentrates research resources in specific areas; reduce the overhead costs of research grants to universities by establishing fixed overhead rates; and establish a centralized data base to provide access to all new, ongoing, and completed Federally-funded R&D.

In FY 1983, the Government spent $22.9 billion in this area, with spending estimated to increase to $111.0 billion by the year 2000 if present policies are continued. Implementing PPSS recommendations would reduce spending to $81.4 billion in 2000, a saving of $29.6 billion or 26.7%.

Total spending for research and development (R&D) in the United States was $77.3 billion in 1982, with the Federal Government accounting for $36.1 billion, or 47%. Five Government agencies -- the Department of Defense (DOD), National Aeronautics and Space Administration (NASA), Department of Energy (DOE), Department of Health and Human Services (HHS), and National Science Foundation (NSF) -- accounted for more than 90% of the $36.1 billion total. The R&D funded by these agencies is conducted by industrial firms (52%), universities (11%), Federally funded research and development centers (9%), and other non-Federal entities (4%), with the remaining 24% performed in-house by 206,000 personnel in more than 700 Government laboratories.

Despite the large scale of Federal research and development activities, clear and measurable goals and priorities have not been established, resulting in overlap and useless expenditures. PPSS has identified savings opportunities and formulated recommendations which could reduce Federal R&D costs by $45.074 billion over three years (before consolidating savings to remove overlap and duplication) primarily by improving managerial planning, evaluation, and control.

Federal R&D programs are intended to achieve three strategic objectives:

- to perform R&D for the Government's own use, i.e., to achieve the mission of the various Federal agencies;
- to provide a strong science and technology base for the nation's educational and development programs; and
- to expedite exploitation of technology beneficial to the economy.

In line with these objectives, Federal R&D strategies should:

- provide a climate for technological innovation that encourages private sector R&D investment, and
- focus R&D on areas with significant potential benefit to the nation, where the private sector is unlikely to invest.

Federal Government performance in R&D has been uneven, as summarized below:

- Strategic Planning -- R&D management suffers from a lack of clearly defined goals. Existing planning activities do not adquately establish priorities for R&D programs, do not eliminate marginal programs, and do not serve as a base for operational management. Successful R&D programs substitute new research for old and discontinue spending on projects unlikely to achieve results.
- R&D Management and the Budget Process -- The budget process is exceedingly cumbersome and time consuming, leading to program instability and associated cost excesses.
- Management of Federal R&D Laboratories -- Some of the "labs" use outdated facilities and equipment, most have serious personnel problems, and there is no formal system for evaluating their performance or their contribution to agency programs. No R&D program can be successful in the short- and long-term without systematic evaluation and re-evaluation. Knowledge

and technology change constantly and so should the programs.

- o Administration of Research Grants to Universities -- An increasing percentage of the money going to universities to conduct research for the Federal Government is used to meet administrative expenses. Efforts to control these costs have resulted in a financial reporting system that adds to the administrative expenses of the universities and has become a major area of contention between the Government and the universities.

- o Research Program Reporting -- Current efforts at reporting ongoing research efforts are incomplete, and the National Technical Information Service, which is responsible for processing data on research activities, does not have the necessary resources to expand reporting. Successful R&D is hard enough to accomplish when there is a sense of direction and when progress is continually monitored. Without specific goals and timely information, the Government's R&D program must overcome major and possibly insurmountable obstacles.

Since time constraints prevented review of all agencies with R&D budgets, PPSS concentrated on three Federal agencies -- the Department of Defense (DOD), the National Aeronautics and Space Administration (NASA), and the Department of Energy (DOE). These three agencies together were budgeted to spend $36.2 billion on R&D in FY 1983, which represented 82% of the $44.3 billion total 1983 Federal R&D budget.

Q. The Office of Science and Technology Policy is responsible for developing an overall Federal R&D plan. Since centralized responsibility exists, why does the Federal Government lack specific R&D objectives?

A. The Office of Science and Technology Policy, established within the Executive Office of the President in 1976, is involved in overall Government R&D. However, that involvement is directed toward formulating policy and does not usually include developing specific R&D objectives for individual programs. The primary focus is on the supply of engineering and scientific manpower to support technological development; cooperation between the basic research efforts of the Government, universities, and industry; and the basic thrusts of overall science and technology efforts.

Q. As noted, PPSS reviewed three agencies which collectively account for 82% of 1983 budgeted R&D spending. How was the FY 1983 R&D budget apportioned among these three agencies?

A. DOD accounted for more than half (56.0%) of the Government funding for R&D, i.e., $24.8 billion. NASA and DOE accounted for 14.9%, or $6.6 billion, and 10.8%, or $4.8 billion, respectively (for a total of $11.4 billion). The remainder of the R&D budget 18.3%, or $8.1 billion, was for the Department of Health and Human Services 9.3%, or $4.1 billion, the National Science Foundation 2.2%, or $1.0 billion, and all other agencies 6.8%, or $3.0 billion.

Q. How is the DOD budget spent?

A. R&D funds for DOD are used to support the modernization of national defense forces through development of new strategic and tactical weapons and support systems. Nearly $25 billion of the total 1983 Federal R&D budget is accounted for by DOD, representing a 19% increase over the $20.8 billion spent in FY 1982. Approximately 46% ($11.4 billion) of defense-related R&D is conducted or sponsored by the Air Force, 26% by the Navy, 19% by the Army, and 9% by other DOD components.

Defense R&D program areas and FY 1983 budget obligations were as follows:

1983 DOD R&D Budget Obligations

		($ Billions)
(1)	Tactical Programs	$ 7.5
(2)	Strategic Programs	6.5
(3)	Technology Base	3.3
(4)	Program Management and Support	2.8
(5)	Intelligence and Communications	2.7
(6)	Advance Technology Development	0.9
(7)	Other Appropriations	0.7
(8)	R&D Facilities	0.4
(9)	Total Obligations	$24.8

The R&D expenditures of DOD, in addition to providing for the defense of the country, have a significant impact on the private sector, e.g., work on very high speed integrated circuits (VHSIC). Similarly, Government-funded R&D for the B-52 bomber was, in large part, responsible for the development of the commercial Boeing 707 airplane.

Strategic Planning

Strategic planning techniques need to be applied more fully to Federal R&D to establish goals, formulate and evaluate programs for achieving those goals, select alternative projects within resource constraints, prepare and document implementation steps, and evaluate results.

Planning in the Federal Government is complicated by the absence of the private sector discipline of the profit motive. In the private sector, despite a strong "bottom-line" orientation, it is difficult to properly control R&D expenses. As a result, a good deal of R&D money is wasted by "giving the benefit of the doubt" to a scientific team. Without such bottom-line discipline in the Federal Government, the control problem is compounded. In conjunction with poorly defined goals and absent economic constraints, the Federal Government cannot adequately establish objectives, priorities and plans.

The Government's problems in the area of strategic planning can be summarized as follows:

- The lack of adequate and clear-cut goals, and inadequate strategies and tactics to achieve those goals, results in R&D programs that are too often funded on the basis of budget considerations rather than national priorities. In the private sector, successful R&D programs are directed toward achieving an objective which when reached or superseded results in the termination or reorientation of the program.

- Agencies establish spending requirements largely on the basis of local rather than overall planning. This results in unnecessary program duplication between laboratories and agencies and tends to continue programs of marginal value which originated in individual R&D facilities.

- Present techniques often do not include implementation plans and scheduled decision points, making it difficult to determine progress and make course corrections.

  Most successful private sector R&D operations are disciplined with performance goals and yardsticks so that funds can be shifted from disappointing programs to ideas that offer greater probability for success. The key is to:

  - closely monitor progress over time,

  - determine the odds of success at each stage (the odds should be improving with time and money expended), and

- stop funding when the odds of success diminish.

o The budget process, external pressure from Congress, frequent changes in policy and leadership, and the lack of strategic focus equate to a short-term perspective in establishing Federal R&D priorities. Year-to-year planning is wasteful, particularly for R&D activities that tend to be long-term, as both time and money are consumed each year in rejustifying decisions from prior years.

PPSS has estimated that implementing a strategic planning process would reduce R&D costs by approximately 10% with three-year savings of $7.300 billion.

PPSS recommended that the Government:

o Develop improved strategic planning concepts and procedures. Each agency should adopt a strategic planning and control process specifically designed to meet its needs.

o Reexamine and, where necessary, redirect priorities to reflect national and agency goals.

o Ensure that new and updated strategic planning forms the basis for subsequent budgeting and operational management.

Q. What are the specific results of the deficiencies in Federal R&D discussed above?

A. There are a number of specific results:

o Many more R&D programs are initiated than can be funded to completion.

o R&D programs are not prioritized, which leads to inefficient use of development funds.

o Agency managers often are not able to terminate programs that do not meet cost and performance targets or that are no longer required to meet the mission and goals of the agency.

o In the absence of formal, top-down guidance on the nation's priorities, Federal R&D programs cannot effectively meet both near- and long-term technological requirements.

Q. What needs to be done to implement a goal-setting process in the Federal Government?

A. To implement a goal-setting process and have it become an integral part of the R&D management structure, PPSS recommended that each agency designate a senior official (at the Assistant Secretary level) to lead the internal effort and to coordinate with other agencies and the Executive Office of the President through the Office of Science and Technology Policy (OSTP). PPSS recommended that OSTP coordinate the goal-setting process and provide the necessary assistance to evaluate the consistency of those goals with National objectives. In the past, efforts to institutionalize strategic planning have focused on the budget process. This has not been very successful.

Q. How long will it take the Federal Government to implement a strategic planning process?

A. Industry experience indicates that implementing effective strategic planning for R&D will take three- to five-years. Agencies need to develop, refine, communicate, gain acceptance for, and achieve proficiency with respect to strategic planning. Top management must persistently emphasize and support the process if there is to be any hope of success; the process of strategic planning is a never-ending discipline that must be maintained and continuously improved upon to produce results.

Q. PPSS indicated that three-year cost savings of $7.300 billion could be achieved as a result of improved strategic planning. Isn't it difficult to quantify savings in this area?

A. It is very difficult to quantify the dollar impact of effective long-range strategic planning. The primary thrust of PPSS recommendations is improved management of the R&D process, focusing on goals and priorities within the context of available resources. This would necessitate R&D planning based on affordability which, in turn, would result in savings by eliminating marginal, duplicative and non-productive research.

Q. What impact does Congressional oversight have on the ability of the Executive Branch to reduce unnecessary R&D expenditures?

A. Congress has a significant impact. Executive Branch agencies can be forced to fund research projects even after demonstrating to Congress that a particular project would have more relevance to the mission of a different agency or that it will produce little value to the taxpayers or the Government. This occurs because of Congressional preoccupation with the interests of individual constituencies rather than broader national interests.

For example, officials of the Department of Health and Human Services (HHS) sought to terminate funding for a

six-year economic research project. The project had first been funded in 1980, and, as of 1983, HHS had spent $667,000 supporting it. HHS officials decided not to request additional funding in 1983. However, Congress ordered HHS to "continue funding for this research effort at an amount necessary to keep the project on schedule, but no less than $400,000." HHS stated that "if every institution that wants a grant can go to the Congress directly to obtain it, a planned, rational program of research will be impossible to organize and maintain."

Strategic planning is the key to efficiency and achieving meaningful results. If, however, planning is subordinated to the needs of parochial interests, waste and inefficiency will result. Many R&D problems would not exist if there were good strategic planning.

The remaining four areas -- R&D Management and the Budget Process, Improved Management of Resources in Federal Research Laboratories, Administraion of Research Grants to Universities, and Research Program Reporting -- are summarized below.

R&D Management and the Budget Process

PPSS recommended the following actions to improve R&D management and the budget process, estimated to result in $3.670 billion in savings over three years:

- Initiate multiyear budgeting specifically for R&D activities.
- Reduce the current level of detail in budgeting for R&D programs.
- Shorten the budget preparation and review cycle.
- Reduce technical staff positions in R&D agencies.

Q. What impact does the lengthy budgeting process have on the effectiveness of R&D programs?

A. The lack of definition and the lead times involved result in changes in direction and scope and consequent cost increases.

In the fall of 1980, project managers began developing their detailed budget submissions for expenditures in FY 1983. Developing detailed funding plans for spending two to three years in the future presents many problems,

particularly for new programs where specific project details are not fully defined. In many cases, the rush to get the project included in the budget prevents the kind of planning that should be done.

Q. Why is the budget process so lengthy?

A. One of the reasons is that the Congressional hearing process places significant burdens on Federal agencies. For example, there are 30 Congressional committees and subcommittees that have jurisdiction over some aspect of DOE. In the 97th Congress alone, DOE presented over 700 witnesses at more than 300 hearings. This problem is not unique to DOE. Defense agencies have appeared before the Interior and House Ways and Means Committees, in addition to numerous appearances before the Armed Services and Appropriations Committees, to discuss their R&D programs. Each of these hearings requires time for preparation of testimony. Further, considerable time is devoted to responding to written requests from Congressional committees.

Management of Federal R&D Laboratories

All Federal R&D literature cites the "over 700 Federal R&D labs" which are an integral part of the Government R&D program. PPSS found that 90% of the operating costs are incurred by the 146 labs with more than 100 employees. The remaining "labs" are small facilities, two-thirds of which have fewer than 25 employees.

Savings of $506 million could be realized over a three-year period in managing Federal R&D laboratories by:

- Establishing responsibility within the Executive Branch for evaluating laboratory performance and exploring for laboratory consolidations.

- Expanded use of "centers of excellence" (concentrating research efforts in a given area and centrally locating the resources to perform that research). This concept recognizes that some critical mass of resources is required to conduct first-rate research programs. Each center has a specific set of goals, concentrating its efforts on specific areas of expertise, thus avoiding non-productive R&D overlap among centers. Many organizations, including NASA, are using this concept. Additional centers of excellence would result in the following benefits:

  - more intensive research on selected, priority technologies;

  - greater purchasing power for sophisticated equipment;

- reduced duplication of work efforts within given technologies; and

- lower administrative and operating costs through better utilization of resources.

o Increased coordination among R&D laboratories to avoid excessive program overlap. DOD is emphasizing joint and cross-service programs to maximize the benefits of R&D investment. An Office of the Assistant for Directed Energy Weapons has been established to coordinate the efforts of the armed services and defense agencies to reduce duplication of effort and enhance productivity.

o Granting directors of Federal R&D laboratories more control over budget appropriations.

o Creating a scientific/technical personnel system at Government-operated laboratories independent of the current Civil Service personnel system through administrative and legislative actions.

o Establishing a set of guidelines which would define what constitutes an R&D laboratory, and reclassifying those facilities which do not meet the guidelines but which are now included in the list of 700 "laboratories."

o Expanding the use of private sector facilities for Government research. PPSS estimates that "contracting out" 5% of the current laboratory in-house budget would result in a 10% savings on such work.

Q. In the same area of discussion, why is it necessary to define what constitutes a Federal Research and Development Laboratory?

A. There are, as noted, over 700 facilities designated Federal R&D laboratories currently in operation. A number of these facilities are small and engaged in what would be more properly described as data gathering or monitoring functions, not basic or applied R&D. The U.S. Geological Survey, for instance, operates an extensive system of field offices to gather and apply data related to its mission. Another example is the VA, which operates 60 "R&D laboratories," each with ten or more personnel primarily engaged in studying problems involving the care of veterans.

These facilities differ sharply from more traditional R&D laboratories. The ten largest private sector laboratories, for instance, each employ a staff of more than 5,000 personnel. Overall, only 388 of the 700 Federal R&D laboratories have a staff of ten or more employees.

Q. What criteria should be used to define a Federal R&D laboratory?

A. Guidelines should be established which include requirements that the facility, as its primary activity, be engaged in basic research, applied research, development or management of R&D. Those organizations which should specifically be excluded from designation as Federal laboratories are those engaged primarily in routine quality control and testing, routine service activities, production, mapping and surveys, and information dissemination. This reclassification would take facilities now included in the category of R&D laboratories and identify them more appropriately as monitoring stations, sampling facilities, medical support facilities, etc. This reclassification would allow greater focus on R&D facilities.

Administration of Research Grants to Universities

An increasing percentage of the money going to universities to conduct research for the Federal Government is used to cover the indirect costs of that research, including departmental administration, general administration, and sponsored project administration. The time devoted to determining the allocation of administrative expenses by senior university administrators as well as senior Government officials is unwarranted.

PPSS recommended setting a negotiated fixed rate for administrative cost (indirect) elements. This would eliminate the burden associated with reporting actual rates. PPSS also recommended that the National Science Foundation, National Institutes of Health, Department of Defense, and other Federal agencies continue examining alternative funding mechanisms and research grant administration procedures to create greater institutional flexibility (in using grants), stability, responsibility, and accountability.

In conjunction with the agencies, OMB should develop a simplified method of institutional reporting. Savings in administrative time could be achieved for both universities and the Government without serious degradation of the information needed for program management.

In total, PPSS estimated that $388 million in savings over three years could be achieved by implementing these recommendations.

Research Program Reporting

A significant number of research projects appear to duplicate each other, and there is a general lack of information sharing among agencies. Further, there is no central data base capable of providing ready access to all unclassified, new, ongoing and completed Federally funded R&D.

PPSS estimated savings of $225 million over three years by:

- Expanding the National Technical Information Service (NTIS) data base (consistent with limitations imposed by national security).

- Requiring contributions to and use of the expanded NTIS data base by Federal agencies and private sector recipients of grants and contracts.

- Including an explicit work statement on proposed and ongoing research projects which would confirm that a search has been made of the NTIS data base and that the study takes into account other work completed and reported.

Q. What is the NTIS, and what is currently included in its data base?

A. The National Technical Information Service (NTIS) is a self-sustaining organization under the auspices of the Department of Commerce.

The NTIS Bibliographic Data Base now serves as the central source for the collection and dissemination of non-classified Government-sponsored R&D and engineering reports submitted on a voluntary basis. The data base currently contains about 800,000 citations dating back to 1964 and is updated biweekly at a rate of about 65,000 new citations per year. However, the NTIS data base does not contain information on newly-established and in-progress Federal R&D projects.

Q. Did PPSS notice any examples of duplicated research effort?

A. Yes. For example, the different military services each undertake development of protective clothing and gear independently of one another. Each conducts separate studies of materials acceptability, reaction, etc. Also, several agencies are conducting parallel research on genetic engineering without cross-consultation. In a third example, a 1982 GAO report pointed out that eleven Federal agencies receive funding to conduct research regarding the National Marine Pollution Program, and that better coordination among the several agencies involved in that area of research is needed.

Other issues that PPSS identified for savings include defense procurement, funding levels for R&D activities, and the managerial structures for R&D programs.

Regarding defense procurement, a centralized, coordinated effort to distribute DOD research data among the services and the 75 DOD laboratories is necessary to provide an increased understanding of emerging weapons technologies. Also, the current administration and review system to reimburse DOD contractors for independent R&D costs is unnecessary. Savings of $1.925 billion over three years could be achieved by implementing PPSS recommendations in this area.

Improved management of R&D activities, such as by budgeting Department of Energy R&D in the National Laboratories on a three-year basis instead of the current annual review, centralizing policy and oversight responsibility for R&D conducted by the Department of Transportation, establishing a National Board to set goals and missions for Federally funded agricultural research, and reorganizing the Agricultural Research Service, could save $1.273 billion over three years.

Reduced, more efficient funding, or eliminating funding entirely, in such areas as National Institutes of Health research grants and contracts, National Laboratories research on nuclear fusion, social research in the Office of Human Development Services, and low-priority programs of State Agricultural Experiment Stations, could save $842 million over three years.

The three-year total of all the recommendations in this section, after elimination of duplication and overlap among issues, is $15.413 billion -- equal to the three-year taxes of 2.3 million median income families.

Wage Setting Laws

Laws that set wages on Federal construction projects have resulted in much higher costs to the Federal Government, as well as inhibiting competition at the local level and promoting the conditions that they were originally enacted to correct. PPSS recommended these laws be repealed.

In FY 1983, the Government spent $37.5 billion in the specific areas covered by PPSS recommendations, with spending estimated to increase to $150.0 billion by the year 2000 if present policies are continued. Implementing PPSS recommendations would reduce spending to $110.2 billion in 2000, a saving of $39.8 billion, or 26.5%.

There are currently three major Federal laws that require Government contractors to pay their workers at least "prevailing" wages and benefits, as determined by the Department of Labor (DOL). While the term "prevailing" is not specifically defined in the laws, it has generally been interpreted to mean wages and benefits being paid for work of a similar nature in the area where the Federal work is to be performed. In many cases, to expedite the wage determination process, the Labor Department uses union-negotiated wage agreements. Union wages and benefits are frequently higher than non-union rates. In areas where union labor represents less than a majority of the local work force, use of union wage rates results in higher labor costs than would otherwise prevail. These laws, the Davis-Bacon Act (1931), the Walsh-Healey Act (1936), and the Service Contract Act (1965), were ostensibly enacted to prevent cutthroat competition among contractors bidding for Federal work. Congress took the position that such competition should not be conducted at the expense of the workers' ability to earn a decent wage. Each law has operated to eliminate wages and benefits as factors in the Federal competitive bidding process.

The following excerpt from the legislative history of the Davis-Bacon Act, the first of the major Federal prevailing wage laws, sums up Congress' primary rationale for giving wage-setting power to the Federal Government, even though it conflicts with the long established Federal practice of awarding contracts on a competitive basis to the lowest bidder:

> Though the officials awarding contracts have faithfully endeavored to persuade contractors to pay local prevailing wage scales, some successful bidders have selfishly imported labor from distant localities

and have exploited this labor at wages far below local rates.

> This practice...has resulted in a very unhealthy situation. Local artisans and mechanics, many of whom are men owning their own homes, and whose standards of living have long been adjusted to local wage scales, cannot hope to compete with this migratory labor....

Similar rationales were applied to support the later passage of the Walsh-Healey and Service Contract Acts, described below.

Ironically, the basic conditions which prompted the passage of these laws -- primarily imported labor undercutting local wage standards -- have virtually disappeared in today's economy. To a large extent, the three wage laws now tend to create the very conditions they were originally enacted to eliminate. Yet they continue to be vigorously enforced, with a substantial detrimental effect on the nation's economic health.

Major features of these Acts are as follows:

Davis-Bacon. Applies to Federally-funded and assisted construction projects exceeding $2,000 in cost. If the $2,000 threshold, which was set in 1935, were adjusted to 1983 dollars, it would be approximately $16,500. Davis-Bacon has been extended by some 58 other Federal laws so that it now covers virtually every construction project even peripherally involved with the Federal Government, for example, those including Federal loan guarantees and insurance programs. Since these latter activities have increased rapidly in recent years, this means that the applicability of Davis-Bacon has similarly increased at a rapid pace. Workers on these projects must receive prevailing wages and benefits, as determined by the Secretary of Labor. The value of affected projects is more than $50 billion annually.

Walsh-Healey. Applies to Federal contracts in excess of $10,000 for the manufacture or furnishing of equipment, supplies, or other materials. The $10,000 threshold, enacted in 1936, equates to over $80,000 in 1983 dollars. A 1964 court decision forced the Labor Department to discontinue prevailing wage determinations, but the Act still sets eight hours as the daily maximum work that may be required before overtime pay is mandatory. Contracts affected by this law are valued at $90 billion annually.

Service Contract Act. Applies to Federal service contracts exceeding $2,500. This threshold, set in 1965, would equal $7,250 in 1983, adjusted for inflation. Employees must receive prevailing wages and benefits, as determined by the Department of Labor. A contractor must match the wages and fringe benefits paid by the previous contractor, even in cases where the service is to be performed in a different

locality. The value of affected contracts is approximately $10 billion annually.

These three labor laws cover Federal projects and contracts totalling in excess of $150 billion annually, and the potential for savings is significant.

Some ways in which these Acts increase costs to the Federal Government include:

- Because it is virtually impossible for DOL to accurately determine what wages and benefits actually prevail in a given area, more often than not, the wage actually set is at or near the highest rate in an area, and frequently it exceeds the true local or market rate. (Davis-Bacon and Service Contract Acts)

- Because of inflexible provisions that overtime be paid after eight hours of work each day, companies that use four ten-hour days or other compressed work week options will not bid for Federal work, thereby minimizing competitive bidding. (Walsh-Healey)

- Provisions that successor contractors must pay wages established under previous wage agreements minimize the possibility that a given service will be performed more cheaply in a lower cost area. (Service Contract Act)

- The laws impose substantial administrative costs on both the Government and affected contractors, amounting to $185 million in 1982. (Davis-Bacon and Service Contract Acts)

PPSS recommended that, since the three Federal prevailing wage laws are no longer necessary or productive, they should be repealed. Federal and state labor standards protection laws passed or extended since the enactment of Davis-Bacon, Walsh-Healey, and the SCA provide adequate worker protection. Savings of $11.650 billion over three years would result if PPSS recommendations to repeal the laws are implemented.

A more detailed description of the Federal prevailing wage laws provides additional weight to the case for their repeal:

The Davis-Bacon Act

This law was enacted in 1931, during a time when new construction spending in the United States had fallen from $10.8 billion in 1929 to $2.9 billion in 1933. The average annual earnings of construction workers during the same period fell from $1,674 to approximately half that level. By 1934, 59% of new construction was publicly financed. The Federal Government clearly

dominated the construction markets, and Congress, reacting to claims of cutthroat competition, refused to make the Government a partner to "wage busting." By 1982, however, new construction spending had risen to $232.0 billion -- with $51.1 billion, or 22%, publicly financed -- and construction workers had become among the highest paid workers in the economy.

Q. Isn't it true that wages of construction workers rose less rapidly during the 1970's than did all private sector wages over the same period? Therefore, isn't Davis-Bacon necessary to protect the wages of construction workers?

A. Construction wages did not rise as rapidly as others during the 1970's, but that is a misleading defense of the Davis-Bacon Act. The following presents average wages for total private industry and construction workers 1970-1980:

Average Hourly Wages

		(1) Total Industry	(2) Construction Workers	(3) Construction as Multiple of all Industry Wages
(1)	1970	$3.23	$5.24	1.62X
(2)	1980	6.66	9.94	1.49
(3)	Average Annual Percent Increase	7.5%	6.6%	0.88X

As shown, the wages of all workers rose by an average 7.5% per year while construction wages rose 6.6% per year, but this difference in growth merely represents an evening out of wage levels among industries. Construction wages are still much higher than other wages. Despite the slower growth, construction wages were still 1.49 times as great as for all workers at the end of the 1970's, and 1.41 times as great as of August 1983. Furthermore, PPSS found that market rates are likely to prevail even in cases where Davis-Bacon wage determinations were lower. In other words, while there is strong evidence to show that Davis-Bacon artificially raises wage rates above local standards, there is no evidence to show that rates drop below the market where Davis-Bacon is not a factor.

Q. What about other justifications of the Davis-Bacon Act, for example, to ensure that local contractors are not excluded from Federal projects?

A. To the contrary, the evidence shows that Davis-Bacon accomplishes just the opposite. For example, a recent study of construction projects found that local contractors are used in only 28% of the projects in which Davis-Bacon applies, versus a 47% participation rate where Davis-Bacon is not involved.

Q. Why is there such a difference?

A. Local contractors tend to be smaller, non-union operations. These contractors do not want to risk good employee relations by paying some employees a higher wage just because they are working on a Federally-funded project. Therefore, these contractors will often not bid on a Federal project to avoid disrupting their regular employees. PPSS found that Davis-Bacon discriminates against smaller contractors and, thus, reduces competition.

Q. How much would the Government save if Congress repealed the Act?

A. PPSS estimated that savings would amount to $4.970 billion over three years. That amount would be enough to build 710 miles of rural highways in the United States.

The Walsh-Healey Act

Like the Davis-Bacon Act, Walsh-Healey was enacted during the Depression to prevent unscrupulous contractors from cutting wages on Government supply contracts. Because of a court decision and passage of other laws which have preempted its provisions, the only remaining practical effect of Walsh-Healey is to require that in any contract for Federal procurement exceeding $10,000 in value, employees must be paid overtime for hours worked in excess of eight hours per day.

Q. What is the practical impact of Walsh-Healey's 8-hour overtime restriction?

A. It prohibits or discourages employers who use increasingly popular compressed workweek schedules from bidding on Federal projects. This minimizes competition among Federal contractors and results in higher costs to the taxpayer.

Q. Isn't the Walsh-Healey 8-hour overtime requirement necessary to prevent employers from imposing "sweatshop" conditions?

A. In 1938, Congress passed the Fair Labor Standards Act. The FLSA sets wage and hour standards and requires employers to pay overtime for any work performed in excess of 40 hours a

week. The FLSA applies to nearly all non-Federal contract workers and provides adequate protection to ensure against sweatshop conditions.

Q. What are some of the advantages of the compressed workweek?

A. Just some of the advantages of compressed workweeks include less traffic congestion, less pollution, less energy consumption, improved employee morale, more leisure time, safer workplaces, more accessibility for working mothers, decreased overtime costs, and reduced absenteeism.

Q. What is the projected three-year savings to the Federal Government if Walsh-Healey is repealed or changed to substitute the FLSA 40-hour a week overtime standard instead of the 8-hour a day restriction?

A. PPSS estimated a three-year savings to the Federal Government of $3.370 billion.

The Service Contract Act

The Service Contract Act, enacted in 1965, requires that contractors and subcontractors furnishing services to the Government under contracts exceeding $2,500 pay their employees prevailing wages and benefits as determined by the Department of Labor. The U.S. General Accounting Office, in a January 1983 Report to Congress, found that inherent problems exist in SCA's administration: SCA wage rates are generally inflationary; DOL cannot make accurate prevailing wage determinations; adequate labor protection to service employees can be provided through the FLSA. PPSS's study of the SCA resulted in similar findings.

Q. What does PPSS recommend?

A. The Service Contract Act should be repealed, which would result in savings to the Federal Government of $3.310 billion over three years.

Regulatory Reforms

Q. Don't recent regulatory changes to the three wage-setting laws take care of their cost raising impacts?

A. No. Although the Labor Department estimates its regulatory changes to the Davis-Bacon and Service Contract Acts could eventually result in a savings of over $700 million annually ($585 million for Davis-Bacon and $124 million for SCA), the revised regulations cannot remedy the inherent

defects of these two laws. Further, because the Walsh-Healey eight-hour overtime restriction is statutory, it cannot be revised by regulatory changes. Finally, a different Administration could easily amend regulatory reforms and thus eliminate cost saving improvements.

Conclusion

Economic conditions have changed drastically since passage of the major Federal prevailing wage laws. Additional comprehensive labor protection legislation has been enacted. Federal contractors must now post performance bonds. The organized labor movement has developed into a major political and economic force. As a result of these developments, prevailing wage legislation is no longer necessary to protect the American worker, and, in fact, is having a negative impact on the economy. Moreover, the major wage laws now ironically actually cause the conditions they were enacted to eliminate. Thus, PPSS strongly recommended that the Davis-Bacon Act, the Walsh-Healey Act, and the Service Contract Act be repealed.

The three-year total of all the recommendations in this section, after elimination of duplication and overlap among issues, is $11.650 billion -- equal to the three-year taxes of 1.8 million median income families.

Insurance Programs

The Federal Government has more than $2 trillion of insurance in force and PPSS determined that reserves are not actuarially funded and are thus inadequate to meet potential future claims. Further, premiums for insurance are not risk-related, and Federal programs duplicate insurance coverage readily available in the private sector.

In FY 1983, the Government spent $6.1 billion in the specific areas covered by PPSS recommendations, with spending estimated to increase to $18.3 billion by the year 2000 if present policies are continued. Implementing PPSS recommendations would reduce spending to $9.0 billion in 2000, a saving of $9.3 billion, or 50.8%.

The Federal Government is by far the nation's largest insurer with $2.1 trillion of insurance in force at fiscal year end 1982, as summarized below:

Federal Insurance in Force
as of September 30, 1982

		(1) $ Trillions	(2) As a % of Total(a)
(1)	Deposit Insurance	$1.6	77.4%
(2)	Business Related Insurance	0.3	14.2
(3)	Other Insurance	0.2	8.4
(4)	Total	$2.1	100.0%

(a) Percents based on unrounded data.

Against this $2.1 trillion potential liability, PPSS found that the Government has accumulated reserves sufficient to cover only 1.0% of potential claims.

The PPSS review of Federal insurance programs addressed the following:

- Is Federal participation in these programs appropriate, or could the private sector provide coverage more efficiently?
- Are Federal risks and costs in the programs being adequately covered by revenues?

In its review of the deposit insurance programs, PPSS found that in the two major programs, Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC), which together account for $1.5 trillion, or 74.6% of all Federal insurance coverage, premiums did not adequately reflect the degree of risk associated with the institutions insured. The current practice of charging uniform premiums to all financial institutions does not provide incentive for the institutions to avoid high-risk or speculative lending.

If variable premiums were adopted, risk would be more carefully weighted, thus reducing potential Federal exposure in the event of bank failure. Further, PPSS recommended that the reserve levels of FDIC, FSLIC, and the National Credit Union Share Insurance Fund be increased to a level that would be comparable to that required of a private insurer.

The principal business-related insurance programs are the Aviation Insurance Revolving Fund, which insures commercial aircraft operating under contract to the Defense Department and the State Department, and Nuclear Risk Protection, which insures nuclear plants against losses resulting from plant accidents up to a maximum of $500 million per plant. Utilities pay $30 per kilowatt of generating capacity for the coverage. Recently, coverage by private sector insurers has been expanded in this area reducing the Government's involvement.

Other Federal insurance includes a wide variety of Government programs providing coverage against natural disaster, crime, etc.

Overall, PPSS recommended that Federal insurance programs be limited to those that are necessary, e.g., socially-desirable coverage unavailable from private sector insurers at acceptable rates. Moreover they should at a minimum operate at break-even levels after provision for the expenses of operating the plans. In addition, premiums should be risk related, i.e., higher risk policies should carry relatively higher premiums. This holds within programs as well as among programs.

Q. Insurance in the private sector is generally profitable to the seller even after prudent provision for future possible losses. In what ways are Federal insurance programs different?

A. Most private sector insurance programs actuarially structure premiums to earn a profit. There are two significant differences between public and private sector insurance programs, both relating to the relatively high risk skew of Government programs. First, the Government is often initiating a new type of insurance which has not been offered in the private sector and, second, it offers insurance for high risk occurrences, such as floods, for which the private sector cannot insure except at prohibitive rates. In order to meet the social objectives of its insurance programs, the Government establishes "affordable" premiums which generally do not cover the actuarial cost of the program.

For example, the National Flood Insurance Program, established in 1968, provides subsidized premium rates at less than full actuarial cost in order to encourage the purchase of flood insurance. The current premium rate is 40¢ per $100 of coverage, which is estimated to be about 80% of the actuarial rate. Moreover, a General Accounting Office review of the program revealed that even at these subsidized rates, an estimated $5 million per year is not collected because of improper procedures used by private sector underwriters contracted to administer the program. These underwriters are not liable for insurance losses which may result from their errors.

Further, the program allows flooded communities to acquire flood insurance after the fact, i.e., after flood damage has occurred. Even applying the most liberal interpretation, this is hardly insurance as the word is defined. While this provision can be used by a community only once, it discourages communities from undertaking appropriate flood plain management, i.e., no programs for loss prevention -- a standard procedure in the private sector. As a result, the flood insurance program has consistently operated at a loss -- $127 million in FY 1983, with a $118 million loss budgeted for FY 1984.

Q. How did PPSS recommend the program be improved?

A. Flood insurance should be limited to those areas that have instituted appropriate flood plain management procedures and the after-the-fact provision should be eliminated. Further, individuals should not receive disaster assistance for insurable items. The Federal Emergency Management Agency (FEMA), which administers the flood insurance program, should upgrade underwriting standards to arrive at proper risk ratings. In addition, FEMA should apply sanctions -- through legal action where appropriate -- against agents who abuse the program. Savings are estimated at $95 million over three years.

While not specifically identified as an "insurance program", PPSS did review the Pension Benefit Guaranty

Corporation (PBGC) which insures the pensions of private sector employees. From its inception in 1974 to 1981, the PBGC ran a cumulative deficit of $200 million, and its liabilities, based on the value of future benefits of terminated private sector pension plans as well as from pending terminations, totaled $1.4 billion in FY 1983. This figure is exclusive of the massive liability of the Government for the benefits of all 29 million private sector employees currently covered by PBGC. PPSS review uncovered significant structural problems.

Q. What specific problems did PPSS find in its review of the Pension Benefit Guaranty Corporation?

A. In view of the continuing deficit that is being run by the PBGC, PPSS concluded that current premium levels are inadequate to fund the program properly and, thus, recommended the annual premium be increased from $2.60 per participant to $6.00.

PPSS also found that the PBGC premiums were not risk related and that existing legislation allows too much opportunity for abuse of the program -- e.g., a large company could spin off a weak subsidiary with a substantial pension liability, which then could terminate the plan and transfer the liability to PBGC.

PPSS recommended a legislative initiative aimed at having the Congress close existing loopholes in the law and that PBGC premiums be adjusted to reflect the relative risk of insured pension plans, i.e., the premium on a 100% funded plan would be about half that of a 50% funded plan. Total savings from these recommendations over three years equal $3.548 billion -- an amount equal to the present value of average lifetime pension benefits for 95,853 private sector employees.

Q. On what other Federal insurance programs did PPSS make recommendations?

A. The Agriculture Department's Federal Crop Insurance Corporation (FCIC) paid out $107 for every $100 of premium received in 1981 -- which was considered a good crop year -- even though the Federal Crop Insurance Act of 1980 stipulates that premiums should be sufficient to cover losses and to establish a reasonable reserve against unforeseen losses. PPSS recommended that premiums be actuarially determined, and, assuming a 10% increase in premiums, estimated that additional revenues of $297 million over three years would be generated -- enough to buy 122 million bushels of corn at 1982 prices.

Two other programs PPSS reviewed were Federal Crime Insurance and Federal Riot Insurance, which were found to be inappropriate for the Federal Government to administer.

For example, 65% of all Federal crime insurance policies were written for coverage in New York. In FY 1981, New York policy holders paid $7.8 million in premiums but received $29.4 million in payments on claims -- 3.8 times the amount of premiums they paid. Again, no risk related premium setting procedures. Assuming a maximum 70% loss ratio to allow for expenses and reserves for future claims, the premiums should have been $42 million -- $34.2 million higher than charged -- equivalent to the annual taxes of 15,419 median income American families. The Federal Riot Insurance program should be discontinued because such insurance is readily available in the private sector. Discontinuing these two programs would save the taxpayers $37 million over three years.

Another area that is not specifically identified by the Government as an insurance program but which overlaps with insurance programs provided by the private sector is mortgage insurance. Currently, there are 15 private insurance companies which offer mortgage insurance. The main difference between these companies and the Government's Federal Housing Authority and Veterans Administration mortgage insurance has been that the Government insured 100% of the mortgage amount, while private mortgage insurance companies insured less than 100%.

An important advantage of mortgage insurance is that it allows a potential home buyer to acquire financing with a minimal downpayment (3%-5%) instead of the customary 20%.

PPSS recommended that Federal mortgage insurance be made available only to those who are ineligible for private mortgage insurance.

Other issues addressed in this area by PPSS, but not specifically discussed in the preceding, primarily relate to the funding levels of insurance programs that continuously run deficits. More business-like administration of these programs would raise revenues and produce savings of a combined $1.338 billion over three years.

The three-year total of all the recommendations in this section, after elimination of duplication and overlap among issues, is $5.591 billion -- equal to the three-year taxes of 840,246 median income families.

D. THE FEDERAL EMPLOYEE: MANAGING THE WORK FORCE

III-D. The Federal Employee: Managing the Work Force

Work force management determines the number of people and the skills necessary to accomplish an organization's objectives, and the actions necessary to obtain, develop, and motivate the work force. Work force requirements, however, have received little attention in Government because budget decisions are usually overriding, there is a lack leadership from the Office of Personnel Management (OPM) and there is insufficient information to develop complete and integrated management systems. As a result, there is a need for human resource planning procedures that would allow for uniform decision making throughout the Federal Government regarding the size, composition, allocation, and development of work force needs.

This problem is pervasive throughout personnel procedures and controls. The Government lacks incentives to improve worker productivity, reduce overtime, eliminate thousands of unnecessary, temporary positions, establish adequate spans of control, reduce the number of managerial positions, and establish adequate training and development programs.

Regarding compensation, the Government is required by law to establish salaries for Federal employees that are comparable to those in the private sector. However, the surveys used to determine private sector wages are flawed, overstating private sector salaries. Further, the two major Federal retirement systems, the Civil Service and Military Retirement Systems, provide benefits that are approximately 3 and 6 times, respectively, as great as those in the private sector. Including retirement benefits, Federal fringe benefit costs (65.3% of payroll) are 28.2% points greater than costs in the private sector (37.1% of payroll).

PPSS recommended that OPM develop an adequate work force planning policy to be used by Federal agencies and that OMB develop and coordinate government-wide programs to improve productivity; that the surveys of private sector salaries be adjusted so they accurately reflect private sector wages; and that retirement, sick leave, and vacation costs be reduced so they are comparable to those in the private sector.

Compensation

In FY 1982, the Federal Government paid $102.8 billion in salaries to its 4.9 million civilian employees and military personnel. It is Federal policy that Government salaries be comparable to those in the private sector. However, as current surveys used to determine private sector wages are not accurate, this policy is not being followed. The structures of the Government's major pay systems "build in" pay increases above those in the private sector, in most cases. Federal executives, however, are underpaid in comparison to executives in the private sector. Military pay scales, while comparable to those in the private sector, are frequently perceived to be inferior because of the complicated pay system.

In FY 1983, the Government spent $22.0 billion in the specific areas covered by PPSS recommendations, with spending estimated to increase to $105.2 billion by the year 2000 if present policies are continued. Implementing PPSS recommendations would reduce spending to $83.1 billion in 2000, a saving of $22.1 billion or 21.0%.

At the end of FY 1982, the Executive Branch employed 4.9 million military personnel and civilian employees, 5.9 times the combined employment of Exxon and General Motors, and approximately the same number as in the top 40 companies of the Fortune 500. Federal direct compensation (salaries paid to employees) for 1982 was $102.8 billion, or more than double the $48.8 billion ten years ago, as follows:

[Table on following page]

Executive Branch
Employment and Compensation

		(1)	(2)	(3)
	Fiscal Year-End Employment (Millions)	1972	1982	1982 as a Multiple of 1972
(1)	Civilian (Incl. USPS)	2.8	2.8	1.00X
(2)	Military	2.3	2.1	0.91
(3)	Total	5.1	4.9	0.96
	Direct Compensation (a) ($ Billions)			
(4)	Civilian (Incl. USPS)	$31.6	$ 65.8	2.08
(5)	Military	17.2	37.0	2.15
(6)	Total	$48.8	$102.8	2.11
	Average Compensation per Employee			
(7)	Civilian	$11,300	$23,500	2.08
(8)	Military	7,500	17,600	2.35
(9)	Total	$ 9,600	$21,000	2.19
	Memo:			
(10)	Consumer Price Index (1967 = 100)	125.3	289.1	2.31

(a) Accrual basis.

Average direct compensation costs have increased from $9,600 in 1972 to $21,000 in 1982, with civilian pay increasing somewhat less rapidly, (10.0)%, and military pay somewhat more rapidly, 1.7%, than inflation.

PPSS reviewed the procedures by which the Federal Government determines civilian and military pay levels and found:

- Federal white-collar salaries (employees in professional, administrative, technical, and clerical positions) are compared annually to salaries in the private sector for similar positions. But the survey used to make these comparisons -- the "comparability" survey -- overstates average private sector wages by an estimated 4%, at a cost of $4.131 billion over three years to the Government.

- The proportion of Federal white-collar workers in middle- and upper-management positions is 2.8X as great in the Federal Government as it is in the private sector.

- Federal blue-collar employees (workers in craft, trade, and manual jobs) receive average salaries that are 8% higher than local private sector rates, costing taxpayers $1.787 billion over three years. About 85% of Federal blue-collar workers earn more than the salaries paid to private sector employees in comparable jobs. For every Federal employee receiving a wage comparable to those in the private sector, 5.7 Federal employees receive wages above those of their private sector counterparts.

- Almost half of the Federal top-level executives are underpaid (by about 50%) in comparison with their private sector counterparts. As a result, the attrition rate among these executives is very high.

- Postal Service employees, who negotiate for their wages, received hourly wages in 1982 that were, on average, $2.31, or 28%, more than the average salaries for their private sector counterparts in manufacturing, wholesale, trucking, and other blue-collar jobs. For the over 600,000 postal employees, this means additional wages of approximately $3.0 billion annually.

- Military pay, although equivalent to private sector wages on average, is perceived by both the public and military personnel to be lower than private sector salaries. Military pay is composed of six different elements: basic pay, allowances, incentives, special pay, separation pay, and the tax advantage resulting from the tax exempt status of allowances. Typically, only basic pay is considered as salary when making comparisons to the private sector.

The overall conclusion that PPSS drew from its review is that compensation practices in the Government need to be extensively revised. Savings of $7.151 billion over three years could be achieved by implementing the following PPSS recommendations:

- Expand the type of positions covered in the comparability survey so that a direct comparison can be made with Federal white-collar positions. In addition, state and local government salaries and wages paid in nonprofit organizations should be included in the survey.

- Expand the survey of private sector blue-collar salaries to include state and local government employees and employees in nonprofit institutions. In addition, change the structure of the blue-collar pay system from a five-step system with parity to the private sector at step two, (steps three, four and five receiving wages higher than those in the private sector), to a three-step system with parity at step two. This would eliminate the current 8% premium received by Federal blue-collar employees.

- Change the distribution of Federal white-collar and blue-collar workers so that the ratio of higher level to

lower level positions more closely reflects that in the private sector.

- o Increase the salary scales for top-level executives and reduce by approximately 50% the number of positions classified as "executive" in the Government.

- o Use the 1984 wage negotiations between the U.S. Postal Service (USPS) and the postal unions to bring USPS salaries closer to comparable private sector salaries.

- o Provide military personnel with earnings statements to show that total military compensation is comparable to salaries in the private sector.

PPSS reviewed the General Schedule (GS) pay system, which covers over 1.4 million civilian white-collar employees, approximately 50% of total Executive Branch civilian personnel. The GS consists of 18 levels or grades, each broadly defined in terms of tasks performed, responsibilities, and qualifications required. Salaries are adjusted annually. As of December 1982, GS salaries ranged from a minimum of $8,676 for GS-1 to a maximum of $63,800 for GS-18.

Q. Are Federal white-collar workers paid salaries comparable to those of their private sector counterparts?

A. The surprising answer is, nobody knows. The Government survey which compares Federal white-collar and private sector positions is not an accurate reflection of private sector wages. The Director of the Office of Personnel Management (OPM), one of the three people responsible for the comparability survey, stated before Congress in 1983 that the survey looks at the wrong jobs and the wrong occupations for the wrong companies in the private sector -- "I can guarantee that the [comparability] survey is not an accurate survey." As the 1982 survey notes on the first page:

> "While the principle of pay comparability is reasonable, its implementation in the existing law is seriously flawed."

In net, there is no definitive answer to the question of the comparability of private and public sector pay rates. However, there is near unanimity of opinion in the position that the inaccuracies and distortions inherent in the comparibility survey render it useless for making this determination.

Q. What specifically is wrong with the white-collar comparability survey?

PPSS noted the following problems:

- o The scope of the survey is extremely narrow. Out of approximately 1.4 million white-collar employees, 334,000, or 23.9%, were in positions directly comparable to the private sector jobs included in the 1982 survey. Only 4 Federal administrative positions were surveyed in 1982, although there are more than 150 different administrative positions in Government, which represent over 25% of the Federal work force.

- o The survey currently includes only 24 occupations, less than 6% of the approximately 425 different occupations in the Federal Government. Additionally, highly skilled (and highly paid) Federal positions (e.g., lawyers, accountants, engineers, chemists, computer operators) represent over half the positions included in the survey -- a serious imbalance.

- o Many private and non-Federal government employees are excluded from the survey: state and local government employees (13.1 million as of 1982), although they account for 13.2% of the civilian workforce; workers in small and medium-size firms, eliminating over 96% of private sector companies; and employees in nonprofit institutions.

Q. Under the present system, proposed average salary increases from the comparability survey have been reduced ("capped") in five of the last six years. Hasn't this left Government employees with the impression that Federal white-collar salaries are not "comparable" with private sector wages?

A. That is precisely the point. If you accept the conclusions of the 1982 survey, Government white-collar workers were, on average, 18.5% behind their counterparts in the private sector. But the survey isn't valid, there's only an impression that average Federal pay lags private sector pay by 18.5%.

Further, 18.5% is the overall pay raise recommended by the survey. Employees in different occupations may be paid more or less than their private sector counterparts, according to the survey. For example, pay for entry-level engineers (GS-5 to GS-9) would have to increase 19.9%-40.7% to achieve comparability, as now defined, with pay in the private sector. On the other hand, pay for accountants in grades 9-12 would have to decrease by 5.8%-13.3% to achieve comparability, as now defined. Paying clerical and professional employees from the same schedule with only 18 grades has contributed to these discrepancies between Federal and private sectors.

Since the increases proposed by the comparability survey have been implemented only once in the past six years, how will PPSS recommendations save the Government money?

A. At some point, the issue of comparability as presented by the survey will have to be addressed. Unless the survey is made credible, pay adjustments will continue to appear arbitrary and unrelated to private sector compensation, leading to worker dissatisfaction, decreased productivity, loss of personnel, etc. If white-collar salaries are actually behind those in the private sector, the Government will lose employees and applicants because of the higher wages offered elsewhere. Since, according to OPM, there are ten qualified applicants for each Federal job, PPSS does not believe that Federal salaries are generally inferior to those in the private sector. However, some entry-level positions and a limited number of executive positions at the highest level of Government pay salaries below those of their private sector counterparts. The savings estimate of $4.131 billion over three years assumes that at some point the comparability survey will once again become the basis for determining Federal pay increases (as in the early- to mid-1970's). When that occurs, PPSS recommended changes to the survey will result in savings.

Q. What have General Schedule increases been in recent years?

A. General Schedule (GS) increases are established by law. Since 1967, the basic salary scale (based on statutory increases in GS salaries) has increased 110.3%. However, statutory changes in Federal salaries alone are not an accurate reflection of actual salary increases. Average salaries increase as Federal employees advance into higher grade levels and as they advance in the 10 steps within 15 of the 18 GS grades. Average salaries have increased 136.8%, or by 24.0% more than the basic scale.

This 24.0% average salary premium primarily results from "grade creep" -- the tendency of average GS grades to increase over time. The average grade of all employees in the GS classification system has increased more than 3 grades since the current system was established in 1949, as shown below:

		Average GS Grade	
(1)	1949	5.25	
(2)	1974	8.03	An increase of 3.23 grades, or 61.5%
(3)	1981	8.48	

At FY 1983 average annual salaries of approximately $15,000 for a GS-5 level employee and $21,000 for a GS-8 level employee, the increase in average grades from 5.25 to 8.48 -- "grade creep" -- would cost approximately $8.4 billion in 1983 for 1.4 million GS employees.

Also, the theoretical 18-year time period required to progress from step 1 to step 10 in the General Schedule is essentially unrealistic. Promotions (primarily to the next higher grade in an occupational sequence) speed up the process. Further, over 98% of those eligible to receive a within-grade step increase in a given year receive the increase.

O. It was previously mentioned that there are too many Federal white-collar workers in high level positions. What are the comparable proportions of high level workers in Federal employment and in the private sector?

A. Only 26% of private sector middle and upper management personnel are employed at a level comparable to GS 11 and above, compared to 72% in the Federal Government -- i.e., a Government concentration 2.8 times as great as that in the private sector.

PPSS conclusions are further supported by a review of the distribution of Federal professional positions in higher grade levels. Shown below is information for selected occupations, comparing the distribution in the Government with that in the private sector.

[Table on following page]

Percent Distribution of Employees

	(1)	(2)	(3)	(4)
			Ranked	
GS Grade Equivalents	Federal Salary Range ($000) (FY 1983)	Percent of Total Employees in High Level Grades: Private Sector	Federal	Federal Distribution as Multiple of Private Sector
(1) Engineers GS 11 - GS 15	$24.5-$63.1	61.4%	91.3%	1.5X
(2) Chemists GS 11 - GS 14	24.5- 53.7	54.4	81.9	1.5
(3) Directors of Personnel GS 13 - GS 14	34.9- 53.7	54.4	81.9	1.5
(4) Accountants GS 11 - GS 13	24.5- 45.4	31.0	71.0	2.3
(5) Attorneys GS 13 - GS 15	34.9- 63.1	41.2	68.8	1.7

As shown for these selected occupations, the proportion of Federal employees in high level (and high salaried) positions is 1.5X-2.3X the proportion in the private sector.

Q. Why has this concentration of Federal employees in high level positions occurred?

A. There are many contributing factors. For example, compensation is generally too low for entry level professional positions. The Government's ability to attract and retain professional employees, therefore, is adversely affected. To compensate for lower starting salaries, managers promote employees quickly, assigning them to higher grade levels (i.e., higher salary levels). With a GS system of only 18 grades and relatively rapid promotion, the opportunities for further advancement can be limited and career employees cluster at the upper grade levels.

Q. What changes did PPSS propose to bring General Schedule white-collar salaries in line with those in the private sector?

PPSS recommended the following:

1. Expand the scope of the survey to include more Federal positions.

2. Include state and local government and nonprofit institution workforce data, and smaller private sector firms, in the survey.

3. Change the distribution of employees in the General Schedule to bring the proportion of higher level (and higher salaried) employees to lower level (and lower salaried) employees more in line with the proportion in the private sector.

4. Increase the number of levels in the General Schedule from the eighteen now in use. Eighteen levels are too few to accommodate the approximately 425 different Federal occupations ranging from clerk to top management and which include professional, administrative, technical, and clerical occupations.

5. Set the pay rates of clerical and technical jobs according to local prevailing rates. Apply area wage scales to non-supervisory positions (mostly GS grades 1-12) that are recruited on a local basis.

Q. What savings would result from these recommendations?

A. Based on discussions with Federal compensation experts, PPSS concluded that expanding and modifying the pay comparability survey along the lines mentioned above would have resulted in a minimum 4% to 5% reduction in the 1982 comparability recommendation (18.5%), resulting in savings of $4.131 billion over three years -- equivalent to the salaries of 69,000 employees earning $20,000 annually for three years.

Another area PPSS analyzed was the Federal Wage System (FWS). FWS employees work in blue-collar positions, including trade, craft, and labor occupations. Pay is estabished to match local prevailing rates; each of approximately 135 local wage areas adjusts pay once a year but at different times.

Typical positions are listed below for some grades in the FWS, together with average salaries for each grade.

[Table on following page]

FWS Pay Plan

	(1) Grade	Typical Positions	(2) Approx. Salary, Dec. 1981
(1)	1	Janitor; Porter	$12,800
(2)	5	Maintenance helper	16,500
(3)	6	Truckdriver, medium truck	17,800
(4)	7	Truckdriver, heavy truck	18,500
(5)	8	Truckdriver, tractor-trailer	19,300
(6)	9	Carpenter; Painter	20,600
(7)	10	Electrician	21,700

Unlike the GS pay plan, FWS does not provide for career progression by advancement to higher grades. A grade 8 employee would not progress to grade 9 or 10 unless he acquired the new skills necessary to enter a different profession. Career progression in the FWS occurs by advancing through the five levels or steps within each grade.

The FWS system includes a five step pay range within each grade, with the second step equal to the average private sector salary. The first, third, fourth, and fifth steps are, respectively, 96%, 104%, 108%, and 112% of the second step (the average private sector salary). The law also provides for advancement to the next higher step (with creditable service and satisfactory performance) as follows:

After 26 weeks at step 1 to step 2
After 78 weeks at step 2 to step 3
After 104 weeks at step 3 to step 4
After 104 weeks at step 4 to step 5.

Therefore, after 6 years at a given position, a Federal employee reaches the maximum level where he is paid 112% of the average private sector wage.

Q. The wage setting process for Federal blue-collar employees sounds straightforward. What problems has PPSS identified?

A. As of FY 1978, over 85% of the workers were in Steps 3, 4, and 5 and thus made more than average private sector workers in comparable positions. 55% of the blue collar workforce were in the Top Step -- Step 5 -- where they made 12% more than average private sector workers.

The Federal Wage System is estimated by PPSS to result in an 8.0% wage premium based on the average FWS pay position at level 4, which is 108% of the comparable private sector average wage rate. This 8.0% wage premium primarily

results from the use of a five-step salary system, with step two at 100% of comparability and steps 3-5, where the majority of FWS employees are graded, at 104%-112% of comparability.

In addition, there are other problems with the FWS comparability process which distort private sector wages:

1. The use of out-of-area wage data when local data are unavailable (Monroney Amendment). This requirement can result in FWS wages in small cities and rural areas being based, in part, on private sector wages in more costly big-city areas. (For example, Macon, Georgia wages are based in part on data from Atlanta.)

2. The exclusion from the survey of state and local government wage data and data from nonprofit institutions.

3. The use of Federal nationwide night-shift differentials which do not provide for differentials on the basis of local prevailing practices. Before enactment of the 1972 FWS legislation, night-shift differentials were determined in accordance with prevailing practices in the local wage area.

Q. How does the Monroney Amendment affect FWS salaries?

A. The use of out-of-area wage data (the Monroney Amendment) establishes pay rates when comparable and/or local area data are unavailable or unsuitable. Usually this means the use of wage data from large urban areas which tend to be higher than local rates. These imported data cannot be used to lower wages, but only to increase them. Further, they raise wages for all employees of a given grade in the wage area. Thus, including the pay of aircraft technicians (Grade 10) whose pay rate is determined in part by out-of-area data, results in a revised (and often higher) pay rate for all employees in Grade 10. Moreover, all grades can be affected by the increase because of the desire to maintain a uniform differential in pay rates among all grades. According to the CBO, in 1979 the Monroney Amendment raised wages in 20 of 135 wage areas, benefitting about 25% of the FWS work force. In the Macon, Georgia area, the Monroney Amendment added approximately 15% to FWS wages.

Q. How do nationwide night shift differentials affect FWS salaries?

A. Night shift differentials add from 7.5% to 10.0% in pay depending on the time of night the employee works. Night shift differentials based on <u>local</u> practices rather than a single national standard are generally used in the private sector. Further, Federal employees are paid overtime when they work in excess of 8 hours a day. This practice varies

from that in the private sector which generally pays overtime based on 40 hour work weeks rather than 8 hour days.

Q. How much could be saved if these deficiencies in the FWS are eliminated?

A. PPSS estimated that redesigning the five-step pay scales to a three-step structure with comparability at step 2, eliminating the Monroney Amendment, eliminating national night-shift differentials, and including state and local Government and nonprofit institutions in the survey would reduce FWS salaries by 6% to 8%. Based on a conservative 6% reduction, savings are estimated at $1.787 billion over a three-year period -- equivalent to the salaries of 30,000 employees at $20,000 annually for three years.

Q. The Monroney Amendment is an example of Congressional involvement in determining how much Federal workers get paid. Are there other examples?

A. Because of differences in the cost-of-living from city to city, wage scales for blue-collar workers can differ. In 1981, blue-collar workers at the McConnell Air Force Base in Wichita, Kansas claimed their pay was lower than that of counterpart workers in comparable cities such as Topeka and Oklahoma City. At the time, the blue-collar wage in Wichita was $7.69 an hour, compared to $8.53 at Topeka and $9.00 at Oklahoma City, 9.8% and 14.6% lower, respectively.

Congress, arguing that the survey used in setting wage scales was in error, exempted those workers from the 4.8% limit on pay raises that affected all other Federal employees. In January 1982, civilian blue-collar workers at the 184th Air National Guard Tactical Fighter Group, based at McConnell, received a 27.8% pay raise to $10.51 an hour. Based on a 40-hour work week, their new salaries were $420.40 a week, $49.28 ahead of comparable salaries in Topeka.

Another compensation area analyzed by PPSS was that for the Federal executive area. The term "executive" generally describes any of the approximately 11,000 positions paid at rates equal to or greater than the minimum $56,945 rate for a GS-16. There are three basic executive categories:

The Executive Schedule covers Cabinet Secretaries, Deputy or Under Secretaries, Assistant Secretaries, Congressmen, Senators, Heads of independent agencies or major National programs, and Board or Commission members (approximately 3,000 members).

The Senior Executive Service (SES) results from the Civil Service Reform Act of 1978. Its creators envisioned it as the elite

management corps of the Government. Currently, there are approximately 6,800 SES members.

The Super Grades (GS-16, 17, 18) primarily cover high-level staff aides, research scientists, administrative law judges, and heads of advisory bodies (approximately 1,000 members).

Salary ranges for the above "executive" categories are shown below:

Executive Pay, December 1982

General Schedule (GS, Super Grades)		Executive Schedule		Senior Executive Service	
		I.	$80,100		
		II.	69,800		
		III.	68,400		
		IV.	67,200	6.	$67,200
				5.	65,500
GS-18	$63,800	V.	63,800	4.	63,800
GS-17	63,800			3.	61,515
GS-16	56,945-63,800			2.	59,230
				1.	56,945

By law, Executive Schedule salaries for levels IV and V set the limit for salaries in the General Schedule and Senior Executive Service.

Q. What's wrong with executive pay in the $55,000 - $80,000 a year range?

A. Top executives in the Government are underpaid in comparison to their private sector counterparts. Executive Schedule employees are responsible for agencies with as many as 150,000 employees and for budgets which may be over $100 billion. Yet, Federal executive salaries are approximately one-half to one-third of those in the private sector for senior management positions. A top private sector financial executive in a Fortune 500 company earns approximately $200,000 annually. Compare this amount to the maximum Executive Level salary of $80,100, which is 40.1% of $200,000.

In addition, increases in Federal executive salaries have lagged both the private sector and even increases granted

Federal retirees. For example, the Comptroller General said in 1981:

> "In our opinion, the executive pay dilemma is one of the most critical but perhaps least understood and appreciated problems facing the Government today. Since March, 1977, (four years) the executive pay ceiling has been increased by only 5.5%. During that same period, retired Federal executives received annuity cost-of-living adjustments totaling 55%; Federal white-collar pay rates have been increased by 38% and private sector executive pay has gone up about 40%."

Further, between October 1969 and October 1979, executives in the Federal Government lost purchasing power according to the GAO:

Executive Pay,
Loss in Purchasing Power

	(1)	(2)	(3)	(4)	(5)
		Salary paid in Oct. 1979		% Salary Paid in 1979 Fav./(Unfav.) vs. 1969	
Grade	Salary Paid in Oct. 1969	Current $	Constant 1969 $	Current $	Constant 1969 $
(1) ES Level I	$60,000	$69,630	$34,475	16.1%	(42.5)%
(2) ES Level V	36,000	50,112	24,811	39.2	(31.1)
(3) GS-16	25,044	47,889	23,711	91.2	(5.3)

As shown, although executive salaries have increased, 1969-1979, in 1969 dollars, executives have lost between (5.3)% and (42.5)% of their purchasing power. This has failed to motivate senior executives to achieve an improved level of operational efficiency and effectiveness -- the incentive to excel is simply not there.

Q. In comparing salaries among Federal executive positions, there doesn't seem to be much of a gap between salary levels.

A. That's quite true. In the SES, going from level 3 to level 6 increases an employee's salary only $5,685, or 9.2%. With taxes taking half or more of that increase, there is no incentive for executives to strive for increased responsibilities, duties, and work. This is how salary or "pay compression" results in lost productivity and lack of incentive. If a promotion brings only a minimal pay increase, very few employees are going to try for that

higher position or, if they do accept a promotion, they will lack the appropriate incentive to perform well.

Furthermore, it is possible to get a promotion and not get an increase in pay. In the General Schedule (for grades 18 and 17, for example) it is possible for a supervisor to make only as much as the person he supervises. Pay compression and pay limits, or "caps", are some of the major reasons executives are leaving Federal service, leading to the Government's "brain-drain".

Q. "Brain-drain" sounds ominous. What does it mean?

A. "Brain-drain" means that the best and brightest employees in the Government are leaving Federal service. The Government is losing its most valuable, experienced career executives. According to a study by the Comptroller General, experienced Federal executives at the peak of their managerial careers are retiring at an alarmingly high rate. For example, 3,137 career executives retired in 1980, compared with only 508 in 1977. The average Federal retirement age in 1981 was 59, compared to 63/64 in the private sector.

Q. What other problems result from pay compression?

A. SES was created in 1978 to improve the efficiency and effectiveness of the Federal Government. Those electing to join this elite cadre agreed to accept reassignments to areas where they were needed and give up some of the security offered other civil servants. In return, these executives became eligible for improved pay-setting procedures and a system of awards (including bonuses) which were based on their performance.

The high expectations with which the SES was established have not materialized. One problem is the difficulty of convincing executives to accept positions of greater responsibility that may involve moving to a different part of the country, and incurring expenses that are generally necessary in such a move, with no increase in salary. Furthermore, many Federal executives are reluctant to accept promotions because the increased responsibilities of the positions are not recognized with higher pay.

Personnel officials at Federal agencies consider low Federal executive salaries and infrequent adjustments as major sources of difficulty in recruiting well-qualified individuals from outside the Government. This is particularly evident in the medical, legal, and scientific fields. Conversely, the generally higher level of compensation in the private sector is an incentive for Government executives to leave public employment for positions in the private sector.

Why have Federal executive salaries been compressed and capped?

A. The salaries of Congressmen and Senators are set at Level II of the Executive Schedule. Thus, any action taken by Congress to raise the rates in the Executive Schedule will result in the pay rates of Congress being increased. This is a political issue. Consequently, there have been long periods of drought between Executive Schedule pay adjustments. Since SES and GS super grade salaries are tied to the Executive Schedule, salary increases in these systems have also been stalled.

Q. What did PPSS recommend?

A. PPSS recommended:

1. Increasing Executive Schedule and SES salary rates by 20% to 30%, thus improving the prospects for recruiting, motivating, and retaining the best executives for top Federal positions;

2. Establishing a 10% to 15% differential between each of the five salary levels of the Executive Schedule;

3. Providing an annual or biannual review of Executive Schedule salaries; and

4. Separating the salary of the Congress from that of the Executive Schedule, and separating the link between SES and Executive Schedule pay.

In addition, as part of an effort to increase Federal productivity by providing incentives to an elite group of executive personnel, the Director of the Office of Personnel Management (OPM) should begin an in-depth study to determine which SES positions have the scope, accountability, and impact to warrant bonus eligibility and the higher salary schedule.

This would result in a relatively small group (1,000-3,500 managers) who would comprise the SES. The current positions deemed nonbonus eligible could be placed in the Super Grades (GS-16, GS-17, and GS-18).

Reducing the SES to 1,000-3,500 members would mean a small group of the best and the brightest employees compensated accordingly. The SES program would identify its participants as unique and distinctive and would represent a desirable goal towards which non-participating employees could aspire. The proposed SES contrasts to the current situation in which those nominated and recommended for membership often decline the opportunity.

The SES bonus program, which currently allows 20% of SES members in an agency to receive awards, should be structured so that bonuses are based on productivity and results. This program would be the counterpart of private sector bonus programs that base rewards upon performance -- an incentive to accept promotions and responsibility with commensurate rewards.

Q. What savings would result from implementing these recommendations?

A. The savings associated with the foregoing recommendations cannot be measured in terms of dollars. As noted earlier, this issue centers on the Federal Government's ability to attract and retain key executive management personnel capable of effective and efficient management. Opportunities for savings are inherent in attracting the best executives into Federal service.

PPSS also analyzed U.S. Postal Service (USPS) compensation. In 1970, USPS, an independent agency in the Executive Branch of the Federal Government, replaced the Post Office Department. As a result, postal workers are part of the postal career service and are exempt from most laws relating to Federal employment. Postal salaries are determined by labor-management negotiations.

Q. Since the wages of Postal employees are determined through management-labor negotiations, it would seem that postal wages should closely reflect private sector rates. How do USPS salaries compare to specific blue-collar salaries in the private sector?

A. USPS wage rates exceed the average salaries of workers in private sector industries by as much as $4 an hour, as shown below:

[Table on following page]

Comparison of Wage Rates and Salaries by Industry Classification
($ per hour and per year)

		(1)	(2)	(3)	(4)
			1982 Private Sector (Below) USPS Average:		
		Wage Rate 1982	Wage Rate Amount	Wage Rate Percent	Salary
(1)	USPS Average Postal Salary	$10.61	-	-	-
	Private Sector				
(2)	Trucking & Warehousing	10.20	$(0.41)	(3.9)%	$ (853)
(3)	Communications	9.92	(0.69)	(6.5)	(1,435)
(4)	All Manufacturing	8.37	(2.24)	(21.1)	(4,659)
(5)	Wholesale Trade	7.93	(2.68)	(25.3)	(5,574)
(6)	Services	6.77	(3.84)	(36.2)	(7,987)
(7)	Finance, Insurance, Real Estate	6.59	(4.02)	(37.8)	(8,362)
(8)	Average, Private Sector Categories Shown Above	8.30	(2.31)	(21.8)	(4,805)

Average private sector wage rates are below those of USPS average postal salaries in every category. On a yearly basis, USPS workers average $4,805 more than workers in private industry.

Q. What can be done to remedy this situation?

A. The current collective bargaining agreements between USPS and its major unions will be renegotiated in 1984. These negotiations represent a major opportunity to reduce costs by emphasizing direct comparisons to the private sector. With over 600,000 employees, savings of even 10¢ an hour will result in lower payroll costs of approximately $125 million annually. Savings of $1.00 an hour can lead to annual cost reductions of over $1.2 billion.

In addition to civilian pay systems and salaries, PPSS also reviewed military pay. PPSS is committed to the proposition that total military compensation should be superior to that offered by the Nation's major employers. Superior salaries will stimulate

recruitment and retention of quality personnel and recognize the need to compensate for potentially higher risk occupations.

As stated previously, military pay is currently composed of six different elements: basic pay, allowances, incentive pay, special pay, separation pay, and the tax advantage (allowances are tax-free). There are at least 32 different categories of pay and allowances, with several different levels of pay possible in most of these categories.

Q. The military is generally perceived as underpaid by the general public and by military personnel. Is this the case?

A. Definitely not. However, the complexity of the military pay system makes direct comparisons to the private sector difficult and creates the illusion that the military is underpaid.

Providing an annual statement to military personnel that includes all elements of their military pay would enhance the visibility of the total military compensation package and would facilitate private sector comparisons.

Q. On the subject of military pay, PPSS made recommendations regarding the bonus program for the Air Guard and Reserve and Civil Service pay to personnel on guard and reserve duty. Savings are estimated at $96 million over three years in these two areas. What problems did PPSS note?

A. PPSS found that the Government is not spending wisely almost $9 million annually on its Air National Guard and Air Force Reserve bonus programs for reenlistment. Bonus amounts are frequently too small to have much impact on reenlistment decisions. Further, the Government is similarly not spending wisely $20 million annually because it pays its civilian employees their full salaries while they are on military reserve active duty. This practice varies from the standard private sector practice of reducing salaries by the amount of reserve compensation.

The inadequacy of the Government's pay determination process for civilian employees, political restraints on executive salaries, and a lack of visibility in military compensation have adversely affected the Government's ability to attract, retain, and fairly compensate Federal employees. PPSS recommendations are intended to both save taxpayer money and improve the management of the Federal workforce.

In addition to the issues discussed above, there are several other issues dealing with compensation, with total three-year savings of $1.203 billion. Included in these issues are the following:

Incentive Pay. By limiting military aviation incentive pay and limiting Selective Reenlistment Bonus program payments to those skill areas where there are retention problems, savings of $887 million over three years are possible.

Foreign Service Personnel Management System. By correcting the skewed, top heavy personnel distribution and improving the personnel management system, three-year savings of $86 million are achievable.

Agricultural Stabilization and Conservation Service (ASCS) County Committee Elections. PPSS recommended that each of the 3,052 agricultural counties be split into 3 districts and that elections be held in each district only once every three years. Further, compensation for community committees should be eliminated. Three-year cost savings of $26 million are anticipated.

The three-year total of all the recommendations in this section, after elimination of duplication and overlap among issues, is $7.151 billion -- equal to the three-year taxes of 1.1 million median income families.