

**The National Council of Social Security Management Associations, Inc.**  
**GREYSTONE GROUP WASHINGTON REPORT**  
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On Wednesday, June 13, 2012, the Coalition for Effective Change (CEC) held a breakfast panel discussion to examine the debate on federal employee pay versus private sector pay. The event brought together three experts who are at the forefront of the debate on federal pay; an issue which continues to be hotly contested on Capitol Hill and elsewhere.

**The panel included:**

**Andrew Biggs**, Resident Scholar at the American Enterprise Institute and author of the paper, "Comparing Federal and Private Sector Compensation"

**Rex Facer**, Member of the President's Federal Salary Council and Associate Professor of Public Finance and Management at the Marriot School of Management at Brigham Young University

**Joseph Kile**, Assistant Director for Microeconomic Studies, Congressional Budget Office

The panelists were asked to discuss several aspects of the current federal pay system, with the key topic of the discussion being whether the current system fairly compensates federal employees and/or if it overpays or underpays federal employees compared to their private sector counterparts.

The panel was also asked to discuss any ideas they may have for reforming the federal pay system, including thoughts on what type of pay system should be put into place if the government were to design a new system from scratch.

As background, all three members of the panel have contributed significantly to reports and/or papers comparing or evaluating federal pay. In June 2011, Mr. Biggs jointly released a paper titled, "Comparing Federal and Private Sector Compensation," which found that employees in the public sector received 14 percent above what the private sector employees receive, in salary alone, not including benefits. In his paper, Mr. Biggs used the human capital approach to look at specific human and job characteristics, as well as the demand for jobs with the supply of applicants, as a metric for his paper.

Mr. Facer, as part of the President's Salary Council was part of the Council's latest yearly release of recommendations on federal pay, which found that federal employees are underpaid compared to private sector employees, by about 26 percent. The Salary Council uses a job matching comparison to create their recommendations.

Lastly, Joseph Kile, was part of a report released in January of this year, by the Congressional Budget Office (CBO), titled, "Comparing the Compensation of Federal and Private-Sector Employees," that found federal employees were overpaid by about two percent, as compared to their private sector counterparts. The CBO study found that the figure jumped to about 16 percent when researchers factored in total compensation, including benefits. The CBO study used the human capital model to

evaluate the question, which factored for education, as a metric, among other things.

The discussion was moderated by John Palguta, Vice President for Policy and Research at the Partnership for Public Service. Mr. Palguta began the discussion by noting that when looking at federal pay, it is extremely important to closely examine which data sets are being evaluated and used, how they are being evaluated, and why. This will greatly determine any answer that is found.

Of note in the discussion was the fact that Mr. Palguta's opening comments were reinforced by the experts on the panel, at varying levels, in that the disagreement in their findings in some part comes from the different methodologies used to formulate their conclusions. The main area of disagreement between the panelists seemed to be which model is the best approach to use in evaluating private versus public sector employee pay.

For example, the Federal Salary Council, which panelist Rex Facer is a member of, based the conclusion in their recently released yearly recommendations, on a straight job-to-job comparison, which looks at public and private sector salaries for similar positions. The Federal Salary Council is only directed to look at direct compensation, which is salary and wages. Mr. Facer added that private sector job comparisons are also evaluated in this way.

Mr. Biggs noted in the discussion that the job-to-job method is useful in determining whether agencies are paying employees appropriate salaries, but argued that the Council's method is too narrow. Mr. Biggs added that economists tend to use the human capital approach, as it factors in additional criteria such as education and work experience, which the job-to-job comparison does not do. The human capital approach uses personal characteristics; the job-to-job method uses job characteristics. As a note, Mr. Biggs used the human capital model in his joint paper, released in June of 2011, on federal and private sector pay comparison. The human capital model was also used by the Congressional Budget Office in their January report.

Throughout the panel discussion, it was clear whatever conclusions are reached, in any given paper or report, the question being asked must be taken into consideration and examined very closely. Additionally, the specific question asked, is where most of the variation exists between the findings of Mr. Biggs, the Congressional Budget Office, and the Federal Salary Council. The Federal Salary Council, argued Mr. Biggs, was looking to find if federal employees are being paid fairly, whereas CBO and his own paper were comparing private and public sector pay. One metric specifically mentioned as contributing to the variation in the findings was the inclusion/consideration of education.

Also of interest, Mr. Kile noted that there are some fundamental differences between the workers in the private sector and those in the public sector. First, he stated, federal workers tend on average to be better educated. Also, on average, Mr. Kile added the federal sector worker tends to be older and have more work experience than the private sector worker. Mr. Kile also noted the federal sector has a greater percent of individuals in technical positions. Thus, this all tends to skew pay comparison evaluation. Mr. Kile indicated there really is no short answer or defined number signifying if people in the private sector earn more or less than individuals in the public sector.

There was also a brief discussion on the difference in benefits between public and private sector

employees. Mr. Biggs noted in general, federal employees received less generous health benefits than their private sector counterparts, but receive significantly better retirement benefits.

The panelists also discussed possible changes that could be made to the current federal pay system. They did note that the papers they produced on private versus public sector pay were not meant to generate recommendations on pay system changes, but simply to answer the question of pay between the sectors.

Mr. Facer pointed out that the current General Schedule (GS) system is fundamentally not much different than the compensation structures in many current private sector companies and organizations. Consequently, there do not need to be radical changes made to the system.

One of the possible changes mentioned by Mr. Facer is a regular revisiting of public sector work classifications. Noting there is currently some grade creep, somewhere in the neighborhood of one-third or one-fourth and the government should regularly re-examine its employees' grade levels to make certain their pay level matches their responsibilities. Additionally, Facer noted that it may no longer make sense to give all federal employees the same base pay raise each year.

Mr. Biggs, who is a former Social Security Administration employee, noted that he supports a pay-for-performance system for the federal government. He believes that people should be compensated for their productivity.

Also of note, Ron Sanders, a former Associate Director at the Office of Personnel Management, who is now with Booz Allen Hamilton, was in the audience and mentioned that Booz Allen and the Partnership for Public Service, as well as other experts, have begun work on a blueprint for civil service modernization. Mr. Sanders noted they hope to have the blueprint ready for either President Obama's second term, or the Romney administration.

In closing, this panel made it clear that more discussion is needed on the debate over private versus public sector pay. Additionally, there are no hard and fast numbers or percentages out there to either quantify or qualify which sector is paid more, or that will help to successfully reform either the federal pay system or the civil service system as a whole.

If you are interested in watching video of the breakfast panel discussion, you can do so by clicking on the following links:

Part 1 of the panel discussion (52:33): <http://vimeo.com/43989031>

Part 2 of the panel discussion (52:32): <http://vimeo.com/43989032>

Part 3 of the panel discussion (13:09): <http://vimeo.com/43989033>

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