

The compensation debate, in the end, is a proxy fight for what role government should play in society, a dispute not likely to be resolved by data and sweet reason alone. To the extent that facts are important in a political controversy, it is useful to know that at least one website, FactCheck.org (www.factcheck.org), offers an unbiased information source. In principle, pay and benefit problems should be resolvable through objective economic analysis. Yet even in this relatively quantitative issue area, relevant facts are hardly conclusive and are subject to interpretation. When interpretations are driven by conviction, and conviction becomes the basis for disagreement, consensus is unlikely. Yet, the application of the Base Realignment and Closure Act of 1990 process—a procedure that has successfully dealt with the politically fraught issue of shutting down military bases in Congressional districts; over 300 have been decommissioned over the years (Neal 2017). Likewise, this approach, one that encourages decisions in the overall common good instead of narrow special interests, could help depoliticize the pay controversy. Similar to the BRAC process, a nonpartisan commission would regularly examine pay issues and make recommendations that must to be accepted or rejected in their entirety by Congress.

Whatever may be decisive in policy change, it should meet these principles, as stated by the U.S. Office of Personnel Management: “transparency, equal pay for equal work, no political influence, and the ability to recruit and retain a well qualified workforce” (O’Keefe, 2011). Put differently, government can act as a model employer—one that offers fair and competitive pay and benefits. That the business sector does not like competing with such an employer does not mean that private and public employees should be pitted against one another in a race to the bottom. Rather, when employees are managed as assets, it makes sense to invest in workforce capabilities and comparing payroll expenses becomes less relevant. Why should government emulate the private sector, which has systematically shifted costs to its workforce and depressed employee wages in the last several decades? In fact, governmental personnel have already carried a disproportionate share of budget cuts in recent years. The goal should be that every working American receives reasonable pay and benefits. Instead, those who still have a living wage and modest pensions in government are being asked to give up what citizens of most advanced nations enjoy as a right. The country would be better served by improving the public service rather than serving it up as a false sacrifice for economic problems (Stier, 2011). Turning now from pay philosophy issues, the next section examines labor market forces (refer back to Exhibit 7.1).

LABOR MARKET FORCES: EXTERNAL COMPETITION

Classical economic theory holds that the *free market* determines salaries based on supply and demand for specific jobs. The obvious, if often overlooked, fact is that pay is not a function of a fanciful, pristine, abstract free market—something that has never existed and never will. Rather, occupations exist in different labor markets, none of which is *free*. Supply and demand are affected by public policy related to levels of spending, focus of expenditures, and types of labor preferred. Another factor altering the labor market is the presence of contracts and laws that give some workers a measure of stability. Finally, private sector financial bubbles and busts certainly play havoc with labor markets.

The overall public labor market may be constituted in different ways depending on organizational needs. Five labor market dimensions, or submarkets, can be identified:

1. Governments use a lot of people who become highly skilled at the functions of government itself and who do specialized white-collar work. This submarket includes those with the appropriate educational background (almost always a bachelor's degree and a master's degree for supervisory positions) who are skilled and experienced. Frequently certification is required for specialized training. Illustrations include frontline caseworkers, procurement specialists, teachers, law clerks, employment experts, accountants, medical technicians, public affairs specialists, and inspectors, as well as the supervisors, managers, and senior directors of those units and divisions.
2. The staff and clerical labor submarket includes administrative support personnel who are responsible for maintaining local finances, processing HR paperwork, and organizing routine unit functions. While positions in this pool do not require a college education, increasingly they are filled with individuals with bachelor's and sometimes even master's degrees.
3. A third category is blue-collar wage labor, consisting of skilled laborers (requiring certifications or apprenticeships) and unskilled workers. It comprises personnel like plumbers, electricians, carpenters, metal workers, painters, mechanics, maintenance staff, drivers, and machinists. When employed by the federal government, these hourly staff are covered by the Federal Wage System, which mandates that pay is set according to local prevailing market rates.
4. Executives are a fourth submarket comprising both highly qualified and experienced executives, such as city and county managers, and those with political connections, policy skills, organizational change expertise, and/or public renown. While it is common to think that this pool is always flush, it becomes quite difficult for U.S. presidents to fill agency positions in the last years of their terms because such individuals are not likely to find short-term temporary caretaker roles desirable (thus, agency careerists generally take interim positions).
5. Professional and high-level craft occupations requiring licensure are the final market type, and in fact may be a series of small submarkets related to high-skill and high-demand jobs in areas like medicine, law, engineering, and finance. For instance, while the average annual pay for federal employees is over \$70,000, the highest-paid agency, the Securities and Exchange Commission, is more than twice that number (for current figures consult www.federalpay.org), a modest sum compared to Wall Street compensation. Public safety positions, in particular law enforcement positions, are sometimes in this category (rather than in the white- and blue-collar classifications that they were a part of in the past) due to the training and education required, citizen demands, and political clout associated with their unions.

There is considerable variation in the actual use and blending of these categories. To illustrate, the state of Indiana has eight pay plans: one for professional, administrative, and technological, plus another for its managers; one for clerical, office machine operators, and technicians, plus another for its managers; one for labor, trades, and crafts, plus another for its managers; one for executives but also including highly paid medical and scientific workers; and one for protective occupations—law enforcement. In practical terms, compensation specialists and the management team negotiating contracts may think of markets as being roughly equivalent to bargaining units (e.g., the state of California has 21 bargaining units, so it considers the labor market as divided into 21 parts).

Pay for these different markets is benchmarked using a variety of tools. Large systems, such as the federal and state governments, normally require workforce analysis for internal purposes. For example, the Texas State Auditor's Office (n.d.) states:

Workforce analysis is a systematic process for identifying the human capital required to meet agency goals and developing the plans and strategies to meet these requirements.

As part of the strategic plan required under Texas Government Code, Section 2056.002, state agencies must conduct a strategic planning staffing analysis and develop a workforce plan. Workforce plans are completed as part of agencies' strategic plans.

The most common approach involves the use of government-supplied employment data sets. The Bureau of Labor Statistics (BLS) provides data on wage averages by sectors, industries, and regions throughout the year. Most states have equivalent agencies that furnish even more localized information, such as California's Employment Development Department. Industry-generated studies also are useful sources of data (professional organizations that conduct these surveys include the National League of Cities, the National Association of Counties, and their statewide counterparts, as well as the National Conference of State Legislatures). Organizations, in addition, do their own salary surveys, or may do them for self-defined benchmark groups. For instance, universities in the same athletic conference or region of the country may routinely survey one another—a process that becomes subject to some degree of circumlocution and collusion. Finally, when a high level of expertise is required, long-term planning for specialized needs is sought, or speed is required, organizations may contract with consulting firms to conduct surveys. The design and implementation of surveys involves significant technical issues (identifying key jobs and relevant organizations, calculating benefits, data collection uncertainties). But even flawed assessments—in the absence of better data—can provide useful information, as long as it is recognized that interpretation of the information “requires a combination of the ‘science’ found in the calculated values and the ‘art’ of using these figures in alignment with an organization's strategy and pay policy” (York & Brown, 2008, p. 123).⁵

Although salaries form the foundation of most employees' perceptions of pay, accurate estimates of external equity cannot focus solely on salary data. Benefits, a trivial *fringe* in most organizations before World War II, now add an average of 41 percent to the payroll and account for some 29 percent of the total personnel compensation package. This increase is attributed largely to tax policy (both employers and employees realize tax advantages from certain types of benefits) and the rising costs of health and retirement programs.⁶ An interesting paradox nevertheless exists: As the value of benefits increases, employee satisfaction can decrease (see Exhibit 7.5, as well as Chapter 8). In fact, to the extent that a selected benefit is unwanted, it is less than a benefit and more of a salary deduction. Furthermore, the utility of benefits in achieving organizational goals is limited because benefits are available to all members, irrespective of employee performance.

Historically, low public salaries have been partially offset by benefits (usually untaxed or tax deferred) because their costs can often be delayed by lawmakers and are thereby less visible to voters than pay increases. These programs are reputed to be superior to those found in the private domain, as public employees are sometimes covered under more types of plans. When governments are compared with other large white-collar employers,

Exhibit 7.5 Unbeneficial Benefits

Organizations have generally decided what benefit coverages were needed and that all their members wanted the same mix of programs. Especially in a diverse workforce, however, individual differences in age, sex, marital status, and number of dependents become manifest.

Rigidity, gaps in coverage, and cost shifting to employees have resulted in discontent with employer benefit programs. Some have one or more of the following elements:

- Standardized packages that require participation whether or not employees need the benefits (duplicate insurance for two employees in the family) or even desire them (inexpensive—and inadequate—group life and disability insurance)
- Considerable omissions in coverage that annoy many participants (e.g., eye and dental care, long-term care policies, legal assistance, child and elder care, domestic partner coverage)
- Cost-containment strategies in health care coverage (to the extent that insurance premiums can wipe out pay raises) and retirement plans (changing from employer-paid *defined-benefit* programs to employer/employee-paid *defined-contribution* programs)

One method of addressing these concerns is to offer flexible or *cafeteria* plans that establish employee accounts or menus equal to the dollar value of benefits. Each person can then choose a combination of appropriate benefits. Administrative barriers may exist in these programs, but they can be overcome (e.g., benefits can be bundled into selected packages to ensure balanced utilization). Such programs can resolve organization-individual conflicts, because employers no longer pay for benefits unwanted by employees—and both can save on taxes. It should be pointed out, however, that

flexible programs make it easier for employers to pass cost increases to employees because the individual decides whether to pay more or take less coverage.

More radical than flexible plans would be to simply give employees the cash and tax value of their benefits, thus abolishing these programs entirely. Employer-sponsored benefit programs, after all, are largely a result of historical accident; with wage and salary controls during World War II, the only way organizations could keep people from seeking better-paying jobs elsewhere was to add benefits that were not covered by wage and salary restrictions. The logic is straightforward: An individual could obtain desired coverage by joining any number of non-employer group programs that offer rates as low as those provided by employers. Should large organizations terminate their programs, vendors would develop even more, perhaps cheaper, options.

However, making everyone responsible for all their own benefits ignores advantages of specialization and expertise; even Wall Street bankers, perhaps especially, are not good at managing investments. Such decisions are far more complex, financially critical, and risky than decisions about most consumer purchases. Even if they were not, having to make the decisions would cause employees to spend time on issues far removed from workplace, remove an attractive way to recruit people, and change the original intent of defined-contribution programs (which were never intended to replace defined-benefit programs, but rather merely to supplement them). While it may be a useful idea to give individuals the cash value and/or some control over selected benefits, employers should retain their responsibility to offer a minimum coverage package for the most important benefits. One way to accomplish this goal, as noted, is the use of cafeteria benefit plans.

however, such disparities all but disappear, especially because corporate executive perquisites (e.g., stock options, personal security, executive coaches, expense accounts, multiple residences, free insurance, no-cost financial and legal counseling, country club memberships, box seats at sporting events, guaranteed bonuses, moving expenses, home repairs, clothing allowances, first-class travel, spouse travel, chauffeur service, personal chefs, company cars, generous severance pay, estate planning, children's education, vacations) are unusual in other sectors.⁷ Indeed, government and nonprofit benefits are often inferior to those in big business, and whatever perceived advantages the public sector has held as a *benefit-rich/salary-poor* employer are being eroded by increasing employee costs and diminishing coverage.

The determination of external equity, in short, should recognize that although conventional free market supply-and-demand theories seem simple, in practice there is no single labor market—there are many. And no sooner has one determined what the market is than it changes. Salary assessment tools are at once problematic and valuable; benefit programs, although hard to quantify and compare, constitute a significant, often controversial, part of compensation.

JOB CONTENT: INTERNAL CONSISTENCY

Pay decisions are made within the framework of the compensation structure. Some form of job evaluation method is used to assess the value of jobs systematically and assign jobs to salary grades, which in turn are given a range of salaries. This procedure defines an internal value hierarchy based on comparisons of jobs by their contribution to organizational objectives. Internal equity, then, rewards jobs of equal value with the same amount and pays jobs of different value according to some set of acceptable factors.

All systems of job evaluation—the most widely used of which is the point factor method (described in Chapter 5)—are premised on the need to identify criteria relative to job value (e.g., responsibility, working conditions, skill); jobs are then ranked in the hierarchy on these criteria. Despite its facade of objectivity (and resulting drawbacks), job evaluation retains a measure of face validity and thus remains the basis of internal equity in most organizations.

The scope of job evaluations varies substantially. When a single job or classification is changed based on differences between it and a job or classification in the outside market, this is called a **market adjustment** (or it may simply be the result of a counteroffer to an employee with another job prospect). When a change is made based on the fact that an incumbent is in a job that is out of alignment with other similar jobs, it is known as an **equity adjustment**. The study of a single classification or perhaps a series of jobs constituting a career ladder for modification is called a **job classification or job series evaluation**. Adjustments can occur when jobs of a similar nature have different classifications (because they are found in different divisions and have minor differences, but one group wants a similar, and higher, level of pay). Finally, when an organization attempts to reassess and recalibrate its entire system of job worth, it undertakes a **comp & class study**. It should be noted that requests for job evaluations do not necessarily result in studies of jobs, any more than the outcome of a job evaluation will necessarily result in a change. As noted in Chapter 5, evaluation also is done on an ad hoc basis for single positions or small systems.

Pay schedules attempt to provide fairness and some degree of predictability. While this leads to complaints about not achieving these goals (e.g., "He gets paid more than I, and I do more and do it better!") or achieving the goals too well ("Workers in Agency X are complacent because of a mechanical pay system")—no matter how flawed they are—pay schemes rationalize and organize how compensation is allocated. Pay plans fall on a spectrum from lockstep (grade-and-step systems) to integrated (pay range systems) to elastic (pay-banding systems).

A lockstep approach uses pay levels or grades. It emphasizes longevity, orderliness, and predictability. Each employee is placed into a job that has a specified grade (e.g., the state of Washington has 73 grades). Most positions that use grades have 13 steps; these are incremental increases that are automatic unless performance is designated as subpar. The full range of steps represents approximately a 31 percent increase of base pay over time. In the case of career ladders (e.g., Financial Analyst 1, 2, and 3), employees can be promoted from one grade to another with management approval and the technical confirmation of human resources that higher-level job requirements are being met (this is a rigorous, rather than pro forma, review). Personnel must compete for similar jobs in other agencies, and for positions not in their classification. Managers have little control in adjusting salary upon hire or as employees move through the steps in grade. They do retain substantial control in career series promotions and considerable control over competitive promotions such as supervisory positions.

Integrated systems try to balance longevity and managerial discretion. The federal government is a good example. The bulk of its 1.5 million employees are a part of the General Schedule, with its 15 grades and 10 steps. An employee is placed in a grade and can move through the 10 steps in set intervals as long as he or she does not have a negative evaluation. The first three steps are a year apart, the next three are two years apart, and the last three are three years apart. The salary range increase represented by the steps is about 30 percent and takes 18 years to achieve without a special *quality step increase* that accelerates the process. There are defined career ladders (usually designated as levels I to IV) that allow regular promotions in grades at lower levels but become increasingly selective at higher grades. Because steps get further and further apart as an employee progresses in a grade, there is pressure to get promotions. Because of managerial discretion in allowing promotions, there is pressure on employees to perform unless they want to see salary stagnation. Thus, while the federal system has a lockstep quality in the early part of a person's career, managerial discretion plays a large role in later advancement.

Elastic pay systems use a small number of pay levels, usually dropping the term *grade* altogether and referring only to pay *ranges*. In this procedure, to make the salary structure flexible, separate job levels are grouped into broad categories of related jobs called pay bands; the bands may have ranges of 40 percent to more than 100 percent, with only minimums and maximums. For example, the state of Virginia has only nine pay bands, with each band having a range just above 100 percent. This can provide managers with considerable discretion in setting pay within these levels by grouping pay ranges and adjusting pay. Some governments use different systems for different agencies. The U.S. Merit Systems Protection Board (2003) offers the following advice to federal agencies considering pay banding:

- *Grouping pay ranges.* In pay banding, [federal] agencies may collapse the 15 General Schedule grades into a smaller number of pay ranges or bands. For example, an agency could establish four bands encompassing the GS 1–5, the GS 6–11, the GS 12–13, and the GS 14–15 levels [. . .] At today's rates, for

instance, the second band [. . .] would allow managers to set pay anywhere from \$28,253 to \$60,405. The number of bands and the way grades are assigned to the bands can be designed to support the organization's mission, values, and culture.

- *Adjusting pay.* Once the pay bands are defined, the agency determines how employees move within and across pay bands. The GS system uses longevity (time-in-grade) and quality step increases [incentive pay] to move an employee within a grade, and merit promotion to move an employee to a higher grade. Pay under the GS system also is increased through general, governmentwide pay increases. In pay banding systems, the amount of a pay increase within a band is based on the employee's skills or competencies, job performance, contributions, or similar measures. Monies earmarked in the GS system for within-grade, general, and quality step increases may become *at risk* incentive pay in a pay banding system[. . .] A high performing employee could move to the top salary of a pay band much more quickly than is possible in the GS system[. . .] These flexibilities allow an agency to manage its workforce by rewarding highly valued behaviors that result in better mission accomplishment. (p. 3)

The technique, then, makes it easier for agencies to adjust salaries and provide managerial discretion but does little to deal with basic pay problems (indeed, when instituted, it is frequently required to be *budget neutral*). Further, at least at the national level, there is no evidence that it is cost-effective to replace the existing classification system (Blair, 2003). Pay banding, in fact, increases payroll costs, reduces promotion opportunities, and can expose agencies to charges of violations of the **Equal Pay Act of 1963** (Exhibit 7.6) if they do not have written plans detailing the method of pay progression within bands. Such problems led one federal agency to abandon its nine-year program. While it offered more horizontal movement and raises, it did not provide career ladders, promotion opportunities, and compensation controls (Rutzick, 2005). Information on employee satisfaction at agencies with these systems (e.g., the Federal Aviation Administration and the Transportation Security Administration) reveals that large numbers of employees have been dissatisfied with their raises (Losey, 2008).

Despite the paucity of concrete successes, movement to pay ranges and pay banding will be important in the future, if only because of the popularity of these systems with policy makers. At this point it seems unlikely that highly elastic systems will come to dominate most jurisdictions in the near term. It is clear, nonetheless, that governments are introducing more managerial discretion, reforming lockstep pay systems (even when they perform well), and

Exhibit 7.6 Job Evaluation and Comparable Worth

It is difficult to get a man to understand something when his salary depends upon his not understanding it.

—Upton Sinclair

Job evaluation systems are designed to build an internal equity hierarchy based on comparisons of jobs; compensation systems assume that in

setting pay, an organization should evaluate the contribution of each position to the organization. It follows, then, that equal pay should be

offered for equal work; indeed, that is mandated by the 1963 Equal Pay Act (which is not always enforced; see AFL-CIO, n.d.). Job evaluation also, however, provides a way to equate jobs different in content but equal in value. Comparable worth, or pay equity, calls for equal pay for jobs of equal value. In concept, comparable worth is gender neutral; in reality, many of its beneficiaries have been women because jobs often held by them pay less than those held by men.

While seemingly objective, job evaluation can be undermined by the selection of factors, the way the factors are defined, and how points are assigned to them (Chapter 5). A compensation system, for example, that pays different guards in a prison at different base rates, groundskeepers at a hospital more than nurses, and county dog pound attendants more than child care workers lacks face validity.

Although the Equal Pay Act and Title VII of the 1964 Civil Rights Act deal with issues of pay equality and sex discrimination, comparable worth claims consistently have been rejected by the courts because existing law does not mandate a job evaluation methodology, is not intended to abrogate market principles, and is relevant only in cases of deliberate discrimination. The U.S. Supreme Court has yet to hear a comparable worth case. The concept nonetheless has been implemented in state and local government through legislation, collective bargaining, and the development of more valid and reliable evaluation factors. Nearly half of the states and more than 1,500 local governments either have statutory pay equity requirements or have changed their job evaluation and salary practices to reflect comparable worth principles.

Because few argue against the desirability of pay equity (more than 100 nations, but not the United States, have ratified the United Nations' International Labour Organization convention on comparable worth), most of the controversy focuses on its feasibility. Supporters maintain that job evaluation tools—when

properly utilized—advance pay equity; opponents argue that these techniques ignore the free market. Advocates counter that markets seldom operate efficiently (e.g., sex and race discrimination); critics say that job evaluation technology is inherently arbitrary. Although the debates of the 1980s have subsided (job security being a higher priority than pay equity in an era of downsizing), many pay equity issues remain unresolved (not the least of which is a legal definition of the term). Indeed, legislation has been proposed in each congressional session since 2001, and by initiatives in state legislatures—where the percentage of women lawmakers is twice as great as it is in Congress. It is unlikely that comparable worth concerns will disappear in the years ahead as wage disparities exist in every state, every sector, and virtually every occupation.

The infamous *wage gap* between men and women has remained largely intact in the overall economy in the past few decades. Women earn approximately 80 cents for every dollar a male employee earns in the general economy, although the wage gap is much smaller in most government settings (U.S. Office of Personnel Management, 2014; see also Lewis, Boyd, & Pathak, 2018). Two explanations—human capital factors (e.g., differential experience, education, job longevity, occupational choice, work-life views) and sex discrimination—contribute to the disparity. Women with the same experience, education, occupation, and union status as men earn 88 percent of the male wage (the public service wage gap is less than it is in business, e.g., the median salary for federal female employees is 93 percent of that for male employees; Tully, 2011).

Some commentators hold that women have different standards for fair pay, expect less than men, choose part-time employment, and often work for government and nonprofit employers that have less ability to pay than do corporations. Susan Pinker (2008), for instance, argues that women limit the time they spend

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at work as well as their efforts to find meaning in it—a phenomenon Jennifer Lawless and Richard Fox (2008) call the “ambition gap.” A related dimension is that women’s “leaning in” (Sandberg, 2013) to negotiate as hard as men for higher pay may be counterproductive. Cultural expectations are powerful, and even women penalize women for doing so; thus, women may be more reticent to bargain than men for good reason (Konnikova, 2014). Although women work fewer hours for less status and money, Pinker (2008) reports—perhaps paradoxically—that women find greater satisfaction in their careers than do men. Indeed, one study found that over a 10-year period, 1,500 companies that had women in executive positions performed better than those without female executives (Neal, 2011). Michele Singletary (2008), summarizing a number of studies, notes that women

sometimes experience a “confidence gap,” and also, despite their desire to learn and earn more, they may be so overwhelmed by short-term priorities (e.g., child and elder care) that they postpone long-term career and financial planning.

The pay gap may be slowly closing, but it is evident that cultural attitudes, even in the face of lawsuits, are difficult to change. In the meantime, (a) pay transparency, (b) better enforcement of existing laws (including sexual harassment), as well as (c) increasing availability of on-site child care, flextime, and paid family leave may help to address gender-based inequities (Giapponi & McEvoy, 2005–2006; see also Labaton, 2014). In addition, as noted above, the pay gap is typically narrower in government than it is in other sectors. For a compilation of data on women in the workforce, with multiple links to original sources, see Heathfield (2016).

integrating features of both longevity and managerially defined merit. This is good news for those that want a wide variety of tools regarding individual considerations, the topic explored in the next section. However, it makes the art of implementation far more complex and difficult to achieve in a world in which political figures can confound managerial plans. No matter what pay system is used, a significant challenge is to ensure that **comparable worth**—notably as it relates to gender disparities—is examined (see Exhibit 7.6).

INDIVIDUAL CONSIDERATIONS: FAIRNESS AND INDIVIDUAL CONTRIBUTIONS

Once job evaluation has established a salary structure and each grade is assigned a range of salaries, attention shifts from external equity with the market and internal equity in the agency to individual equity. That is, job evaluation then needs to determine the pay level of each employee in the range and, by so doing, the base for subsequent pay adjustments. Individual considerations require ensuring that there is fairness between current and future employees, and that the contributions of those personnel in the same job are rewarded proportionately. Six approaches are examined here. Four of them affect base salaries: cost-of-living adjustments (to keep abreast of inflation), longevity pay (to recognize expertise gained), merit pay (to reward excellence), and skill-based pay (to acknowledge new competencies). Two approaches provide temporary raises: bonuses (one-time increases usually based on performance) and differentials (additions for performing special functions or working under exceptional conditions).

While the six categories are distinct, organizations may use several by combining different logics under a single name. For example, they may rely on either longevity or merit increases, but not both. When the speed of longevity can be varied, it is a merit-like consideration; when the merit increases are spread out evenly, it is more about longevity.

Cost-of-Living Pay Adjustments

Cost-of-living adjustments (COLAs) are given annually to maintain external equity since inflation is characteristic of modern economies. They are a way to maintain the compensation system with no developmental dimension. These adjustments are provided to all employees, and simultaneously all salary grade scales are adjusted for new hires. In economic terms, failure to provide a cost-of-living adjustment is the equivalent of a pay reduction. Thus, many in the workforce today are not earning as much, on an inflation-adjusted basis, as they did earlier in their careers.

Exhibit 7.7 provides an example of inflation and cost-of-living adjustments and their effects on federal General Schedule salaries (the Consumer Price Index [CPI] is equated to the inflation rate). Using the 25-year period from 1989 to 2014, the year-to-year inflation rate averaged 2.75 percent. In one exceptional year, 2009, there was a negative inflation rate of -0.3 percent (this has happened only about 10 times in the past 100 years, primarily during the Great Depression). However, inflation rates during the 25-year time frame were as high as 5.4 percent in 1990, 4.8 percent in 1989, and 3.85 percent in 2005. The compounded inflation rate during that period was nearly 100 percent.

In practice, COLAs often lag at least a year behind inflation. While some governments try to keep up with inflation annually, it is typical for policy makers to provide either an adjustment less than inflation or none at all. In the case of the federal government since 1989, no COLAs were budgeted (that is, salary freezes were in place) in 1994, 2011, 2012, and 2013.

The sentiment of both the citizenry and lawmakers has become less supportive of cost-of-living adjustments for a number of reasons. First, there is a public perception that these adjustments are rare in business, and that they should be reduced or eliminated in government. When this is coupled with the view that civil servants should not get merit increases for doing their jobs, it means that the citizenry simply wants salaries to be reduced overall. Second, not only is there support for reducing or skipping COLAs in tight budget years,

Exhibit 7.7 An Example of a Federal Career and the Accompanying Salary Progression

Sarah earned her MPA in 1993 and got a job with the federal government. Like most employees with master's degrees, she started at grade 9, step 1, with a salary of \$27,789. That was enough for her to support a middle class lifestyle. She got step increases each of the next several years, and in 1994, locality pay was introduced at 4.22

percent for her city. In 1996, she received a promotion to grade 11, skipping grade 10 (which is common). She continued in that position for seven years, increasing four steps to a salary of \$54,309. In 2004, she was promoted to grade 12 (having substantial professional, but not supervisory, responsibilities); her salary went

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to \$59,850. With the acceptance of supervisory duties in 2010, Sarah moved to grade 13, progressing through step 6 by 2018. With her locality pay (which was now 20.08 percent), her salary was \$105,950. Her overall pay, in summary, went up because of three promotions, five step increases in the last grade, a substantial

pay differential, and 22 COLAs (three times they were not authorized by Congress). In absolute terms, her salary had increased 3.8 times, but taking into account the cumulative rate of inflation (about 75 percent), the buying power of her salary had doubled over her 25-year career because of her promotions.

Year	Sarah's Grades/Steps in Her Career	Other Increases	Sarah's Salary at the Time	Current Salary of the Position
1993	9: step 1	COLA	\$27,789	\$52,663
1996	11: step 1	COLA; locality pay	\$36,615	\$63,717
2003	11: step 5	COLA; locality pay	\$54,309	\$72,214
2004	12: step 1	COLA; locality pay	\$59,850	\$76,371
2009	12: step 4	COLA; locality pay	\$77,260	\$84,008
2010	13: step 1	COLA; locality pay	\$85,060	\$90,814
2018	13: step 6	COLA; locality pay	\$105,950	\$105,950

but also there has not been much interest in making up the salary inflation losses to keep employees *whole*. Since merit-based pay is politically more palatable, a single pool of funds based primarily on merit may be approved. Suppose a 3.5 percent raise pool is offered, but inflation is 2.75 percent. Merit monies are extremely limited—unless most people get raises less than inflation, relatively few employees can get increases in excess of 3.5 percent.

Longevity Pay

Longevity pay (also known as seniority pay) is furnished on the basis that an employee's value has increased for the organization as a result of experience, training, and professional development (Chapter 8). Such raises recognize that recruitment and training are expensive, institutional knowledge is valuable and difficult to replace, loyalty to the organization is important, and a team ethic with relatively equal raises should not be ignored (e.g., employee competition could focus on moving from one grade to the next).

The most common approach to rewarding longevity is through the use of step increases, which are increases within each grade. As discussed above, the exact amount of steps and amounts of pay are determined in salary schedules. A new employee is expected to start at the first step unless there is special authorization. The minimum time for the step increase is defined across the agency or government; the time between steps can be as short as six months or as long as three years, or it can be set to become longer as an individual progresses through the system.⁸

If an agency uses a lot of grades and fewer steps, there may not be overlap between the top step in one grade and the first step in the higher grade. However, when fewer grades and more steps are used, higher steps in one grade may overlap with the initial steps

in the next grade (employees promoted to a higher grade are placed in the next-highest salary step in the new grade). Step systems are used by most federal agencies, and in many state and county governments, but less so in municipal and special district governments, including education. Most true step systems provide for little management input except for judgments about whether an employee is functioning at an acceptable level, and therefore eligible to receive an increase.

An example is the state of New York, which uses a variety of pay systems, most of which rely heavily on grade-and-step structures. A major category is the professional/scientific/technical pay plan, which has 38 grades and five steps (step increases are expected, unless unfunded in a fiscally stringent year, but career ladder increases require positive approval). The city of Seattle has 350 grades; each has five steps, with the first after six months and the later ones being a year apart. The state of Kansas has 34 grades and 13 steps. The attractiveness of inflation adjustments and longevity pay, in sum, lies in their simplicity, objectivity, predictability, and perceived fairness, as well as their ability to encourage workforce stability.

Nevertheless, many organizations believe that performance should be rewarded and report using some form of pay-for-performance, incentive, or variable pay plan. Such approaches depend on output, personnel, and organizational contingencies (see Exhibit 7.8) and work best in an environment of harmonious labor-management relations characterized by easy-to-understand payouts, high morale, and budgets sufficient to provide rewards. For staff personnel to see a link between pay and performance, their work must be evaluated by objective and/or subjective criteria in which they have confidence. If a fair personnel appraisal system does not exist (Chapter 10), there can be no equitable allocation of rewards. Incentive pay also must be clearly distinguished from regular compensation and cost-of-living adjustments.

In contrast, as Hogler (2004) observes,

Simplistic notions of pay for performance that reject the concept of seniority tend to discount fundamental notions of fairness and loyalty, and managers who condemn seniority as having no value in the modern workplace may overlook the virtues of a neutral, wholly objective standard of distributing awards and the advantages of accumulated training and experience. Indeed, it could be argued that if a manager's subordinates do not improve their performance with length of service, the manager should be terminated. Used properly, seniority offers a means of avoiding arbitrary action and the appearance of favoritism. (pp. 161–162)

“The core fallacy of pay for performance,” as Bob Behn (2004) observes, “is that money is not a great a motivator. [. . .] Most people [. . .] do not choose to work in government to maximize their income” (p. 2). To illustrate the paradoxical interplay of intrinsic and extrinsic motivations, one study of artists revealed that those who accomplished their work more for its sheer pleasure than for rewards were found to be socially recognized as superior. “It is those who are least motivated to pursue extrinsic rewards who eventually receive them” (J. Carney, cited in Pink, 2009, p. 49; also consult Oxenham, 2017). Nonetheless, it is remarkable that pay for performance is seen by some as *inevitable* because its theory is *unquestionable* and its practice is *universal* in business (see, e.g., Risher, 2018a). The most damaging criticism of pay for performance is that it is frequently is not true. It is telling, for example, that legislators, who are frequently enthusiastic about performance pay for civil servants, fail to use it when paying themselves. “In reality,” one union president argued,

"performance-based pay is a cost-containment tool, nothing more" (quoted in Davidson, 2018). As the U.S. Merit Systems Protection Board pointed out, such plans "will not solve such fundamental problems as inadequate funds, inaccurate evaluations, . . . and reluctance to reward employees appropriately" (2006).

Exhibit 7.8 Pay for Performance: Reality or Illusion?

Pay for performance is a wonderful theory . . . Unfortunately, as with most government activities, the details matter.

—Bob Behn

The pay-for-performance idea is so widely accepted that most organizations say they use it and most employees believe that pay should be tied to performance. An analysis of economic, management, and social psychological research by two Harvard University faculty members, however, demonstrates that what is supposed to occur with these plans in theory seldom occurs in reality. The conditions for success for these programs—(1) the output produced, (2) the people who do the work, and (3) the organization where it is done—"are generally not met in the private sector, and even less so in the public sector" (Bohnet & Eaton, 2003, p. 241).

First, pay for performance runs well if (1) an employee has to complete one well-defined task, (2) the output is clearly measurable, and (3) the result can be attributed to one person's efforts. These overlapping and mutually reinforcing factors are difficult to achieve. Most white-collar employees are faced with multitasking problems, hard-to-measure work products, and team-oriented work environments, none of which fit well with individual incentives.

Second, assumptions about human nature and motivation are key to pay-for-performance plans. These programs may be effective if employees work primarily for cash and they care about absolute pay levels. Yet people are interested not only in money but also in job satisfaction and challenge, something not

subject to performance pay. Indeed, most research suggests that humans do not want to believe that they work only for money, a finding that is especially true for public servants. Employees can even be offended when treated as if they can be manipulated by transparent monetary incentives, as payments create the idea that work is all about money, not the work itself.

Furthermore, personnel are less interested in absolute pay than in comparisons relative to some reference point, such as others' salaries, the jurisdiction's budget, or the state of the economy, considerations not germane to pay for performance. In fact, although everyone wants to be a winner, incentive plans usually mean that this is not possible. The result is "the silver medal syndrome, based on a study of Olympic champions, [which] shows that the most disappointed people are those who come in second" (Bohnet & Eaton, 2003, p. 248). A system that guarantees that most will be losers is not a useful motivational tool.

Third, institutional factors affect pay-for-performance programs. They operate best when employees know what to do and whom to serve. Knowledge of an organization's objectives, however, is not a given for the rank and file; the absence of clear goals is a result of multiple or changing leaders with different goals. This problem, known as *multiagency*, is