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REVISION OF MAJOR FEDERAL STATUTORY SALARY SYSTEMS

GOVERNMENT
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PART 2



HEARINGS BEFORE THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE HOUSE OF REPRESENTATIVES EIGHTY-SEVENTH CONGRESS

SECOND SESSION

ON

BILLS TO REVISE MAJOR STATUTORY SALARY SYSTEMS
OF THE FEDERAL GOVERNMENT, AND FOR
OTHER PURPOSES

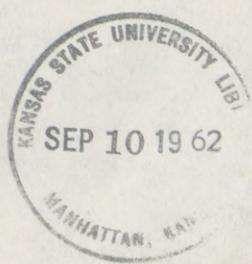
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REVISION OF MAJOR FEDERAL
STATUTORY SALARY SYSTEMS
PART 2

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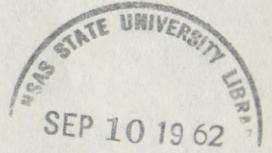
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REVISION OF MAJOR FEDERAL STATUTORY SALARY SYSTEMS

TUESDAY, JULY 10, 1962

HOUSE OF REPRESENTATIVES,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 215, House Office Building, Hon. Tom Murray (chairman) presiding.

The CHAIRMAN. The committee will be in order.

We are meeting this morning to hear Postmaster General Day and other postal officials to get further testimony on H.R. 10480 in accordance with the request of the members that the Postmaster General return.

Mr. Postmaster General, you may proceed.

STATEMENT OF HON. J. EDWARD DAY, POSTMASTER GENERAL

Mr. DAY. Thank you, Mr. Chairman. I have with me this morning Mr. Frederick C. Belen, Assistant Postmaster General for Operations, and Mr. Richard J. Murphy, Assistant Postmaster General for Personnel. I also have Dr. Herbert Block, Director of our Bureau of Personnel, Mrs. Anne P. Flory, of our Bureau of Personnel, and my special assistant, Mr. Bernard J. Beary.

If I may, Mr. Chairman, I would like to go through briefly a three-page statement before questions, merely to summarize our observations of what has happened during the testimony in the last 2 months.

The CHAIRMAN. That will be entirely satisfactory.

Mr. DAY. Mr. Chairman and members of the House Post Office and Civil Service Committee, last May 9 I presented to this committee our thoughts on the pay adjustments which we believed to be appropriate for the postal field service. Those adjustments are contained in H.R. 10480.

Since May 9, 1962, this committee has listened to presentations for and against H.R. 10480. For the most part, and except for administration witnesses, those who opposed the bill complained about the inadequacy of the pay increase for the lower levels, or about the mechanics for the implementations of the proposals. All witnesses agreed on one thing—there is a need for an increase. What this committee will have to decide is how much of an increase is justified and defensible. We think we have provided this committee with a yardstick for making that decision—it is the findings of the BLS based on their detailed survey of rates prevailing throughout the country for various levels of skill.

If H.R. 10480 is enacted, employees will have these assurances:

(a) That pay for their levels of skill are generally in accordance with rates prevailing nationally.

(b) That the need for pay adjustments in the future will be regularized by legally mandated annual reviews and recommendations to Congress.

The proposed pay increase will permit the pay of employees to be "caught up"; the annual reviews will assure that their pay "stays up." I believe we can all properly hold that before the second and third phases of this pay adjustment program are underway, annual reviews will have been made and implemented.

On the size of the increase, as was pointed out in our earlier testimony in terms of dollars, the increase for different salary levels may not be as large as in past years, for in past years those sizable increases in dollars were part of a belated attempt to catch up with a fast-moving inflated dollar. Since the value of the dollar has become more stable in recent years, the increases proposed by H.R. 10480 in terms of the real purchasing power of the extra money is about the highest increase postal employees have ever had.

Apart from the fact that H.R. 10480 provides a systematic means for pay setting, it also contains some needed reforms in the pay for various classes of personnel:

(a) For the fourth-class postmasters it provides as the base the national minimum pay rate of \$1.25 per hour as specified in the Fair Labor Standards Act. We cannot demand one set of standards from industry and another for ourselves.

(b) For rural carriers we have developed a new pay system which will set their pay to at long last meet the universally accepted criteria of "equal pay for equal work." I believe the detailed report you received from the Comptroller General in which he urged corrective legislation is ample evidence of the need for action along the lines contained in H.R. 10480.

(c) For postal clerks and letter carriers we are proposing an improved stature as regards their pay relationship with other Federal employees. Less than 20 years ago the clerks and carriers equated, paywise, just above level 3 of the Classification Act: \$1,700 for clerks and carriers starting pay as compared to \$1,620 for the current equivalent of GS-3. We are now proposing to equate them at GS-5 to start, and the top steps of PFS-4 will reach all but the last two steps of GS-6.

(d) For higher level employees the adjustments of H.R. 10480 will surely be viewed as long, deferred reform. Employees in the lower levels are sorely in need of an increase. This is even truer for the employees in higher levels since past increases have not always been proportionate to the levels of their positions. In our earlier testimony we indicated that whereas the cost of living since 1939 has risen about 115 percent, pay for clerks and carriers has gone up about 156 percent, and pay for upper level employees has tapered off to the point where the top postmaster is only 38 percent of the pay rate of 1939. Once we get over this hurdle and eliminate the pay compression between levels, future adjustments may not be so disparate.

I urge you gentlemen and ladies of this committee not to minimize the pay problem of employees just because, in a sense, they have be-

come captives of the service. Regardless of what pay legislation is passed most present higher level employees will remain for they have too much interest in the service to want to leave. But in the long run, when good people see the gloomy prospect for adequate pay in the upper levels of the Federal service as compared to what industry is paying, they will not seek the Federal service as a place for their full career. The Federal service will become a way stop for good people on the way up, and only the mediocre will remain to fill the top jobs.

On the mechanics of implementing H.R. 10480 the complaints have centered about the conversion formula as it affected supervisory personnel, the affective date and phasing of the adjustments, and proposals on the use of step rates over the years. The rationale for the proposals on implementation has been explained in our earlier testimony. To my knowledge testimony before this committee has not been offered which defeats that rationale. Instead presentations have been offered urging short-range adjustments without regard to the long-range career features of our proposals or without regard to the budgetary impact the short-range view will have.

Mr. Chairman, I want to say that we are all very much indebted to the staff of your committee for their cooperation and their working with us on this complicated subject, in exchanging figures and cost estimates, particularly to the experienced Mr. Charles Johnson and also the greatly experienced Mr. George Moore. We are very grateful to them for their help.

Thank you.

The CHAIRMAN. Thank you, Mr. Postmaster General.

Mr. MORRISON?

Mr. MORRISON. First of all, I want to commend the Postmaster General for the time that he has been in as Postmaster General for the many new innovations which he has put into effect in the post office system.

I think that as a result of many of the programs which he has initiated, and which have been put into effect by his very able staff, he has done much to increase the efficiency and betterment of the entire Post Office Department.

I have talked to employees of the Post Office Department from all over the United States at different times, and they have all stated to me that the morale in their particular post offices and localities has certainly been improved, and that they believe the efficiency of their particular post offices is at a higher degree than it has been in many years.

I noticed a press release in the last day or two, where several millions of dollars were turned back by the Post Office Department which was not used, based on the fact that the appropriations, even though they were whittled down at the time the committee approved them and when Congress passed them, due to these, you might say, efficient programs and different economy moves which have been made by the Post Office Department, these several millions of dollars were returned as not necessary to the needs of the Post Office Department because of the many economies put into effect. I think as far as the Post Office Department is concerned that certainly merits commendation.

This is due to the efforts of the Postmaster General, as well as the entire organization.

I certainly want at this time to commend the Postmaster General and his very efficient staff for the many things they have done for the betterment of the Post Office Department.

The CHAIRMAN. Are there questions to be propounded to the Postmaster General and his staff by members of the committee?

Mr. GROSS. I have some questions, Mr. Chairman.

Mr. Postmaster General, you still support the so-called administration pay reform bill?

Mr. DAY. Yes, sir.

Mr. GROSS. As it has been presented to this committee?

Mr. DAY. Yes, sir.

Mr. GROSS. There are no changes you can suggest?

Mr. DAY. Yes, I support the bill, Mr. Gross. I think there are some areas where the committee will want to give consideration to possible modifications of details, but as far as the program of a 3-year phasing, of the effective dates, of the reformation of the method of pay for rural letter carriers, all of the basic aspects of the bill, I do not think I can justify any changes on the basis of the testimony that I have read from the presentations in the last 2 months.

Mr. GROSS. What is your understanding of the estimate of the cost of this bill at the end of the 3-year period?

Mr. DAY. The total cost to the Government is estimated at \$1 billion, of which \$267 million would be the cost to the Post Office over the full 3-year period.

Mr. GROSS. We in the House are confronted, or we will be tomorrow, with a vote on the foreign aid bill, an amount close to \$5 billion. We are running a deficit this year, or we did have a deficit in the past fiscal year, of \$6 to \$7 billion, as I understand it, and we hear that the administration is proposing a reduction in taxes.

Have you any suggestions as to how we can assume this additional burden of a billion dollars for the pay raise?

Mr. DAY. I think the considerations you mentioned, Mr. Gross, are part of what is involved in our very strong feeling that the effective date of the bill should be January 1, 1963, and that it should be phased over 3 years.

As far as the tax reduction which is being proposed from various sources is concerned, that is proposed as a means of stimulating economic activity with the thought that increased business buoyancy produces more taxes in the long run than a business community which is operating at less than capacity, so I think that is the economic feature of that type of proposal. I am sure Mr. Bell will be glad to go into that when he appears before this committee.

I think that the Federal employees are entitled to achieve comparability with employees in private industry and that they should not, as a matter of peacetime policy, be held down on the basis of pressures for spending in other areas.

Mr. GROSS. If the need for a pay increase is apparent at present, how can you support a stretchout over a 3-year period?

Mr. DAY. I think it relates to the budgetary considerations of which you speak. The increase is phased over 3 years in order to minimize the budgetary impact in any one year.

Mr. GROSS. How about the impact upon the employee?

Mr. DAY. If there were a very large disparity between the situation of the employees and movements in the cost of living during the period since the last pay increase, I would say that it would change the thinking as to phasing it over 3 years; but since there has been a very small change in the Consumer Price Index since 1960, I think that this 3-year phasing is entirely justified and desirable.

Mr. GROSS. The administration does not seem to be very much worried about the budgetary impact of \$5 billion, between \$4 and \$5 billion, for the foreign giveaway program. It is difficult for me to understand why the budgetary impact is given so much emphasis in the matter of a pay increase, particularly for postal employees in the lower brackets.

Mr. DAY. It is quite common, Mr. Gross, as I am sure you know, in labor negotiations in private industry, and contracts entered into in private industry, to have the increases phased over a period of years. That is true of many large industries now where they have 3- and 4-year contracts, where they go up in steps over a period of years, and it is a frequent practice, and I think it is a pattern which we are well advised to follow in the Federal Government.

Mr. GROSS. This pay increase is for the purpose of keeping up with the cost of living as well as an incentive for people to go into the postal service and remain in the postal service. Is that correct?

Mr. DAY. That is correct. It is not directly related to the cost of living. It is related to the Bureau of Labor Statistics reports on comparable positions in private industry and the movement of pay levels in private industry reflects not only changes in the cost of living—it reflects increases in productivity and other factors which bring about increased pay in private industry.

Mr. GROSS. But you are concerned about employees remaining in the service of the Post Office Department.

Mr. DAY. Yes, sir.

Mr. GROSS. Did you elevate a Negro in level 4, or try to elevate a Negro in level 4, to assistant postmaster in the city of Washington, D.C.?

Mr. DAY. No, sir; he was not in level 4.

Mr. GROSS. What is the story?

Mr. DAY. He was in level 11. Mr. Waddy, who is the assistant postmaster in Washington, was level 11. He was a longtime supervisor in the post office and he has become the assistant postmaster, which is level 16, PFS-16.

Mr. GROSS. How many had seniority above Mr. Waddy in the Washington Post Office?

Mr. DAY. There were a number of supervisors in the Washington City post office who had seniority over Mr. Waddy, but there were two factors there:

One, a number of those people with seniority had only a short period of service left before they would retire, and it was doubtful advantage of putting a person in that position who was not going to stay in it very long.

Mr. GROSS. Is it not true there were some 20 with greater seniority?

Mr. DAY. I will have to furnish that figure. That sounds high to me.

Mr. GROSS. But he was jumped over all of the others with seniority.

Let me ask you what I think is the pertinent question—why?

Mr. DAY. I think that one important factor is that in the 175 years of the history of the postal service there has been a marked lag in recognizing Negroes in supervisory positions. We cannot expect to catch up in a few years for all that has happened in 175 years, but I think we have to try to make a start.

Mr. GROSS. And you think that this is good use of the merit system, to take a man who has far less seniority and put him into one of the top positions in the Post Office?

Mr. DAY. I do, indeed, Mr. Gross, because to begin with seniority is only one factor in promotions in the postal service, and we have many instances over the years where people have been put in the top supervisory positions in large post offices where they were not the ones which had the greatest amount of seniority.

Mr. Waddy was a very highly qualified man. He was not somebody who was brought from a position where he had not had extensive supervisory experience. All of the factors involved justified his recognition in that position, and I certainly think it would be most unfortunate if the Post Office ever got into a position where we had to automatically follow seniority as the only test for promotions.

Mr. GROSS. I agree with you with regard to race, creed, and color. I cannot agree with you at all in the method used in this particular instance.

One other question. How much of a contribution does the Post Office Department make in support of the Equal Job Opportunities Commission, or whatever it is called? That may not be the exact title. Do you happen to know?

Mr. DAY. \$30,000 annually.

Mr. GROSS. And other departments and agencies of Government make an equal or more substantial contribution; is that correct?

Mr. DAY. I don't have the figures on what the other departments give, but they do share in that program. I would only be guessing—

Mr. GROSS. Have you ever run a line of sight identification or had a nose count of any minority group within the Post Office Department as was done in the various branches of the service in the Department of Defense?

Mr. DAY. Yes; that has been done and that has been widely publicized.

Mr. GROSS. What was the cost of that? Have you any idea?

Mr. DAY. I think that that was nothing which could be separated out as an allocated cost because it was done only incidental to other duties of the people in the Post Office.

Mr. GROSS. If this information is valuable, if this information is needed, can you give me any indication as to why it is not on the application forms of people who are entering the service of the Post Office Department?

Mr. DAY. Yes. I think it has been quite general over the years, Mr. Gross, that members of minority groups object to being asked such questions individually on their applications, but I think in any large organization it is suitable for the top management to know, other than on the basis of guesswork and assumptions, what the representation is of various minority groups.

Mr. GROSS. I ask you these questions because I think they are pertinent to service in the Post Office Department. They are pertinent to morale in the Post Office Department. I have taken too much time, but one final question.

Is the individual who caused all the stir in Savannah, Ga., still employed by the Post Office Department and in the job that he held?

Mr. DAY. Yes, sir.

Mr. GROSS. When you were highly critical of his operation?

Mr. DAY. Yes, sir; he is still employed. He is still a letter carrier in Savannah.

Mr. CORBETT. I will have some more serious questions to ask later but simply on this discussion of minority groups—would the gentleman care to comment on this recent attempt to make women mailmen?

Mr. DAY. The general policy, Mr. Corbett, is that there should be equal opportunity for women in positions which they are able to perform. Obviously, we have a substantial number of positions in the Post Office which you cannot expect a woman to perform, such as lugging heavy mail sacks around within truck terminals, and things of that kind, so that we will apply that policy on the basis of realistic considerations as to whether women will be able to do the job.

I understand there have not been any applicants over at the local post office as yet, and I think the men will continue to dominate that line of work.

Mr. GROSS. One final observation, Mr. Chairman, and a slight correction to my colleague from Pennsylvania. It is not my understanding that women are a minority group.

Mr. CORBETT. That is exactly why I brought it up. I thought the ranks of the majority should be considered.

Mr. JOHANSEN. In connection with one answer which you gave to the gentleman from Iowa: You said you felt it was valuable to the Department to have information, or top-level management to have information, with regard to the various minority groups of the type secured by this nose count.

What other minority groups have you been soliciting such information about?

Mr. DAY. We have gotten it on the Orientals. We have a considerable number of Orientals in the western post offices particularly.

We have gotten it on all of the Spanish-American group which is quite prominent and numerous in the post offices in the Southwest. It has not been confined to Negroes.

The CHAIRMAN. Are there any other questions?

Mr. HENDERSON. Mr. Day, as I understand it, the bill is based on comparability with industry, but if there were comparable jobs to the postal service in the Government would that not be a better basis for comparability than with industry which is on the outside?

Mr. DAY. I think that going back a bit there is not an effort to compare a particular postal job with a particular job outside. There is an effort to compare levels of jobs, both in the GS level and the PFS level with types of jobs on the outside, and as I pointed out in my statement, the PFS-4 people only 20 years ago were compared with GS-3.

Now they are being compared with GS-5 and actually their steps go up to include all but the last two steps of GS-6.

When we look at the types of jobs which are included in GS-5, which is, for example, the entrance level for college people in the Federal Government, and which includes many specialized types of jobs in the classified service, I would say that the linkage is a very fair one from the standpoint of the postal employees.

Mr. HENDERSON. As I understand the term "linkage," is is comparison of one job in Government with another Government job. I am disturbed about the rural carrier section of the bill where the allowance of 10 cents a mile is used, as you compare that to allowances for travel of other Government employees, which is 12 cents a mile.

Mr. DAY. There are two things on that, Congressman. One, while Congress did allow 12 cents a mile as a top, a large number of agencies, including the Post Office, do not pay 12 cents a mile for people traveling generally, people other than the rural carriers.

There is a great variation among the Federal agencies as to what they pay, but a large number of them do not go to 12 cents.

There is another very important factor, and that is that rural carriers' cars are used for many thousands of miles per year, and that has an important bearing on the suitability of a per mile allowance, because if you are being allowed for traveling only a small number of miles per year, you have to have some factor in there to take care of your initial cost, your acquisition cost, your insurance, and those things. The larger number of miles traveled per year the more those factors are diluted, and the more you get to a straight out-of-pocket cost for operating the vehicle.

We think that on the basis of our studies and our surveys among rural carriers that this mileage allowance is very fair.

Mr. HENDERSON. You think you have a problem with their morale, explaining to them the difference between 10 cents and 12 cents?

Mr. DAY. I don't think so because they can easily find out what is actually being paid in the Post Office for mileage, and we are not paying 12 cents to our other employees.

Mr. HENDERSON. Are you paying above 10 cents in any instance in the Department?

Mr. DAY. No; we are not.

Mr. DULSKI. Mr. Day, on May 9, Mr. Murphy made a comparison of a PFS-4 with a GS-5.

I notice in this report you are comparing a PFS-3 with a GS-5. Is that correct?

Mr. DAY. No; that was only an historical reference that I made this morning, Mr. Dulski. I was saying that 20 years ago the PFS-4 was very close in his pay level to the then current version of a GS-3. The PFS-4 then was comparable to the GS-3 then.

Now in this linkage program the PFS-4 is treated on a parallel basis with the GS-5, and not only is he linked at GS-5, but as I mentioned the steps go up to include all but the last two steps of GS-6.

Mr. DULSKI. Mr. Macy, Chairman of the Civil Service Commission, made his recommendations to the Post Office Department, and according to Mr. Murphy's statement, says the process was reached by selecting points of skill level identified with linkages and the use of PFS-4. Did you follow that all the way through?

Mr. DAY. No. There are three points of linkage in the program. The first one links the PFS-4 with the GS-5.

The next one links the PFS-11 with the GS-11.

The third one links the very top level—

Mr. DULSKI. Twenty.

Mr. DAY. Twenty, with GS-17.

Mr. DULSKI. Thank you.

Mr. HENDERSON. That is all I have.

Mr. CORBETT. After noting that your testimony, quite properly, applied almost exclusively to the postal employees, and we might as well face the fact that things are coming up and there is no use not talking about matters sure to arise, I have been informed there will be one amendment offered to this bill which would strike out all but the postal employees, which would mean dollarwise a savings of approximately \$753 million out of \$1 billion, and to put off consideration of a general pay raise until we have a better understanding of what will happen in the economy.

We recognize that on the one hand there is a postal rate bill going through which from some people's point of view will leave the Post Office without a deficit, even with this raise adopted.

On the other hand, we may possibly cut taxes before the year is over.

I do not want to put the gentleman on the spot, but if he would care to comment on that possibility I definitely know that that amendment will be advanced by one of the members of this committee, and it will be a very serious matter.

Mr. DAY. I think that would be a very unfortunate decision if that amendment should proceed, Mr. Corbett, because I think that the comparability information indicates that all of the employees are entitled to an increase, and I think it is also of great value to get this comparability on the books as applicable to all employees so that it can start working.

Not only will there be these annual adjustments under the three phase program, but there will be a continuation during these 3 years of the reporting of the BLS figures, and if they indicate that there should be still further increases, even during the 3 years, those will be recommended to be considered by the Congress for additional increases.

I think it would be most damaging to the comparability program and to this effort to tie to the BLS figures if we didn't have all of the employees starting out on this program at the same time, so I would hope that such an amendment would not be favorably considered.

Mr. CORBETT. I appreciate the gentleman's statement on that. Of course, there would be nothing against this in a period of uncertainty, from adopting comparability in principle. We adopted a postal policy in 1958 and the present Postmaster General is the first one that has paid much attention to it some years later.

Here we are in a period where the Federal payroll seems to be increasing very rapidly. There are those who have some doubts about whether or not we will have to devalue our dollar. We know there will be a deficit. We expect some tax cut possibly.

Here we are, after adopting a principle of comparability, setting out on a program of raising all these salaries, and it leaves the members of this committee pretty badly confused.

Mr. DAY. I made the statement earlier that I do not think that as a matter of philosophy that Federal employees should be deprived of justified increases on the basis of demands for other areas of speeding, because I think that it is very important to keep the Federal service attractive to the qualified people, and that we should recognize that for all types of employees and not just postal employees.

You mentioned that the Federal payroll is going up. Actually, in relation to the population, the trends in Federal employment are just the other way around.

In 1946, 19 people out of every 1,000 in the population were employees of the Federal Government.

In 1954 that was down to 15. Now it is down to 13.

Mr. CORBETT. Perhaps population is trying to establish comparability with the Federal payroll.

Mr. DAY. It may be. In all of the increase, for example, the total increase in number of Federal employees between the end of fiscal year 1954 and the end of fiscal year 1961, is accounted for by an increase in the number of carriers and the number of clerks in the Post Office. That is easily accounted for by the enormous growth in mail volume we have had during that period.

Mr. CORBETT. It is easily accounted for in the Post Office. There is no question about that. You have gotten a tremendous increase in volume, and I think one of the ways of justify an increase to postal employees is that productivity can be shown to have increased quite considerably in the Post Office.

But when we get into this other area we will have to face that attack, and, as the gentleman knows, I have generally been quite favorable, coming from a high-wage area, and there is no difficulty in my voting for pay increases.

However, this question is going to come up, and that is why I wanted an answer from a gentleman like yourself. We are here in a period where the administration tells us on the one hand they want this stretched out over a 3-year period partly because they do not know what will happen, they will leave the possibility of increases open each year, and here we face in the committee and on the floor the question of whether we should not leave the whole issue regarding the classified service and let it go over until we have a more stable situation. That is a question we will have to face.

That is all, Mr. Chairman.

The CHAIRMAN. Have you any comment to make on that?

Mr. DAY. I think, Mr. Corbett, that you are familiar with the long period of study which has gone into the preparation of this program, and the deriving of the statistics and the justifications for the increase not only for the postal employees but for all groups of employees.

I think it would be unfortunate if the lengthy and very careful consideration of this subject by this committee and by the committee in the Senate should all be put over and started over again as far as classified employees are concerned, because I think that it is a well thought out program which has been adequately justified.

Mr. GROSS. When you say "study" are you thinking in terms of the so-called Randall report?

Mr. DAY. The Randall report is one of the aspects, Mr. Gross. The preparation of all of the complex details as to linkage, conversion,

and as to the applicability of this program have been worked on by staff people in the Government over a period of 2 or 3 years.

Mr. GROSS. Mr. Randall insists that a pay raise can be paid out of increased productivity. Do you agree with that?

Mr. DAY. The BLS figures which are used as a basis for determining comparability include a productivity factor in them, but for many of the parts of the Federal Government I would not be in a position to say whether you can have a complete parallel on productivity increase. We do have a substantial one in the Post Office.

We have a substantial improvement in productivity.

Mr. GROSS. Can you pay an increase in the Post Office Department out of increased productivity?

Mr. DAY. I don't think we can pay anything in the Post Office Department except out of the moneys that are appropriated to us.

Mr. JOHANSEN. I would like to come back to the Randall statement in a moment, General, but before that I wonder if it would not be helpful to the committee to have for the record the correlation of the so-called postal deficit, or postal gap, the corrective which the rate bill, if enacted, will bring, and then what this program will do to it.

What is the present deficit annually in the operation?

Mr. DAY. The gross deficit, not including the allowance for public service, is about \$850 million.

The CHAIRMAN. Is that the past fiscal year or the present fiscal year?

Mr. DAY. For the fiscal year just ended.

The public service figure which we are using and which is called for by the rate bill which has passed the House is just a little under \$250 million, so that would bring the gross deficit down to \$600 million.

The bill which passed the House, the rate bill which passed the House, would produce \$690 million after it became fully effective.

There is a two-step increase on second class so that you get under that bill \$25 million of the increase delayed for 1 year, but in toto it would produce \$690 million.

We are also expecting to get increases in parcel post rates under the requirements of the law which states we must keep that operation within 4 percent of a break-even basis.

We expect to get about \$124 million from that source.

The CHAIRMAN. Do you have that pending before the Interstate and Foreign Commerce Commission for that increase?

Mr. DAY. Yes.

Mr. GROSS. Are you still charging into the accounts of the Post Office Department some \$85 million which you are presently losing on fourth-class mail?

Mr. DAY. We started out our petition a year ago, Mr. Gross, with \$85 million, but because of the fact that the loss in parcel post is snowballing, so to speak, it is now a \$124-million-a-year deficit.

Mr. GROSS. That is charged into the deficit of the Post Office operation; is that correct?

Mr. DAY. Yes, sir.

Mr. JOHANSEN. As I understand the arithmetic of this situation, on the basis of the House bill, without any new pay increases, there would be a surplus of approximately \$90 million, so that at the end

of the 3-year program of these pay raises there would be something in the neighborhood of a \$157 million deficit, or gap. Would that be reasonably accurate? Applying the \$90 million surplusage to the \$267 million figure which you offer.

Mr. DAY. Yes. That is approximately the same as the figure which I have on that. The figure I have on that is that for the fiscal year 1964, if the rate bill which has passed the House became law and if we got the parcel post increase which we are requesting, we would have approximately \$81 million left over and we would have in that year a \$168 million impact from the pay increases which are included in the pay reform bill.

The ultimate impact of the pay reform bill is \$267 million. So we would end up in 1965 and 1966 with approximately \$100 million a year short of completely breaking even after public service.

Mr. JOHANSEN. That is after absorbing the overage for the 2 years in between.

Mr. CORBETT. Does it not also fail to include the possibility of the \$124 million increase in parcel post, which would be another \$372 million?

Mr. DAY. I have the parcel post increase in my figures, Mr. Corbett.

Mr. CORBETT. The net result is that so far as the Post Office is concerned, if everything remains relatively constant, the rate bill will eliminate the deficit and take care of the proposed raise. The rate bill when fully operative would take care of the proposed pay raise and still leave the Post Office Department in the black. Is that not correct?

Mr. DAY. It would leave it in the black for fiscal year 1964 if the bill which has passed the House went through the Senate and became law. It would give us a slight surplus during fiscal year 1964 amounting, according to my figures, to \$23 million.

Mr. CORBETT. It would be approximately even.

Mr. DAY. Approximately even. That certainly is as close as you can get it.

Mr. GROSS. Then how about Mr. Brawley's 300 million savings that he is going to accomplish?

Mr. DAY. Mr. Brawley reflected there the hope of all of us that that type of saving can be achieved in the long term. I think we are making progress toward that type of goal. It is not something which can be done in the short period of time that we are talking about deriving these figures here, because 75 percent of our total budget is for personnel, and even though we are making great improvements in efficiency and productivity, nonetheless we are extending city carrier service to about 1 million new families a year, rural carrier service to a large number of families, and city service to a large number of businesses. Fortunately, mail delivery cannot be done by robot, so we have to keep adding people and we cannot expect to have that large a figure of saving in the short term. I think the programs which are underway will lead to a very substantial saving in the years ahead.

Mr. JOHANSEN. General, there has been some comment in the press to the effect that an overall pay increase, whether that outlined in the administration program or in the Morrison bills or whatever it may be, is justified at this time on the premise that it will be a stimulus to the economy. What is your reaction to that philosophy?

Mr. DAY. I think the bill is justified entirely on its own feet because of the comparability principle and the fact that there is no reason why, in the long term, Federal employees should not be paid on a comparable basis with comparable positions in private industry. I think it is justified on that basis.

Mr. JOHANSEN. What about the argument of those who urge that there be a bit more of an increase because of the stimulus that it will have on the economy? Do you reject that argument?

Mr. DAY. I think that gets into economic policy of the administration, which might better be covered by Mr. Bell when he appears before the committee. My personal view is that we should justify pay adjustments for Federal employees on the basis of what they deserve, and not on the basis of some type of extraneous economic factors.

Mr. JOHANSEN. I am happy to hear the gentleman say that. I will check that philosophy with the Budget Director when he appears.

Now a third question. There was a reference earlier to Mr. Randall. I would like to read you a statement made by Mr. Randall in a report entitled "A Businessman Looks at Government Pay," in which says:

I am firmly convinced that higher Federal salaries would attract a level of competence that would so improve Government operations that there would be no out-of-pocket cost at all.

What is your view as to that statement?

Mr. DAY. I think that statement, Mr. Johansen, related to the people in the top policymaking and decisionmaking positions. I feel that an important justification for higher pay for the people at the higher level is that you cannot expect, as a regular proposition, to get people with imagination and creativeness and new ideas as to how to save money and how to do things better and differently, unless you are bringing into the Federal service the very top talent in our country. People who may end up in top positions simply on the basis of having been around for a long time are often those who prefer the status quo on every element of the operation. I think we have been very fortunate in our Department to have the benefit of the imagination and the informed ideamaking of Mr. Belen, as an example.

Mr. JOHANSEN. The gentleman is being unfair, because he knows I cannot possibly disagree with that statement.

Mr. DAY. I think Mr. Randall's statement referred to people coming in at the higher level who can provide new ideas and new leadership on how to do things better. I think every type of large organization, whether it is public or private, is struggling to get that kind of talent. It is hard to get.

Mr. JOHANSEN. I am not charging the Postmaster General with accountability for what Mr. Randall said, but on the face of it he seems to say that the total cost of this pay increase can so be absorbed, and I think that is as unrealistic and preposterous a statement as I have seen. Of course, the top leadership can bring improvements, but even with respect to the \$300 million saving in the Post Office Department that is going to be realized someday, I cannot see any justification for creating the impression that the cost of this pay raise is not going to show up in total cost to the Government as a very substantial plus.

Mr. CUNNINGHAM. You were discussing the postal rate bill. Do you support the bill as it passed the House?

Mr. DAY. Yes, I do, Mr. Cunningham. I testified in the Senate that I thought the full 1-cent increase in the bulk rate minimum as it actually came out of the House was too steep to put on in one step.

Mr. CUNNINGHAM. Outside of that, do you recommend any changes in the bill?

Mr. DAY. Nothing in the rate features. I would recommend some modifications in the portion of the bill relating to propaganda mail.

Mr. CUNNINGHAM. I just want to comment that, in my opinion, section 12 cannot be modified to accomplish the objective of the House of Representatives, and it will be difficult, in my opinion, to get a rate bill, which I believe it is probably your desire to have, because I do not think we ought to charge higher postage rates for everybody but the Communists. I hope you will not press for any modification, because this part of the bill was quite carefully drawn, and I would not want to see something called a modification turn out to be something that would be meaningless. That is what I would be fearful of.

Mr. DAY. I can state we certainly do not like to carry any Communist propaganda in the mail. As you no doubt know, we have posted in all of our 45,000 postal locations, bulletins warning people about the fact that material they receive through the mail may contain Communist propaganda, and telling them that they can mark it "Refused" and return it to the post office. I think some of the points on which we may want to suggest modifications in that part of the bill having to do with the breadth of its application. I have followed your comments on this subject, and I know that you feel the bill does not apply to sealed letters. I think we want to be sure that is made absolutely clear in the law.

I think there also should be provision, at the minimum, for people such as educational institutions and scientific institutions who want to receive this material, because they consider it useful to them in connection with their studies, that they should be able to receive it.

Mr. CUNNINGHAM. I insist this will not preclude them from getting it. I have legal counsel who assures me this is true. I know there are people who need this material, and in my opinion and in the opinion of my attorneys, this does not preclude their getting it.

The thing I talked about being meaningless is such things as the posters. I do not think they do much of anything. Anybody knows they can mark it "Refused" or throw it in the wastebasket, but you still will have the expense involved in even the poster operation. In fiscal 1961, you had a loss on international mail of \$17.8 million. Since then you have adjusted the rates, but nevertheless we are talking about a postal deficit. It seems to me this is one area where we can cut down some of the expenses that it is not necessary for you to assume.

Mr. DAY. As I believe you know, as a result of our adjustments in the international rates, we did have the international mail operation on a break-even basis by the end of 1962.

Mr. CUNNINGHAM. That will be a temporary proposition, I presume, as other costs of transportation go up—the cost of foreign mail going from New York to Galveston or some other place. As your costs go up that will be thrown out of kilter and we will be going back into a loss category, I am sure.

Mr. JOHANSEN. I have just one other question, General.

Am I to gather from your testimony you feel that we should legislate in the matter of the pay raises in a sort of vacuum in the sense that we are to be oblivious to such environmental factors as an \$8 billion increase in the debt ceiling, a \$7 billion deficit in fiscal 1962, the prospects of a deficit this year, the agitation for a reduction in taxes, and the overall fiscal and economic situation that we face?

Mr. DAY. In many years, starting with the end of World War II, and since, substantial pay increases have been given to Federal employees. One of the was given in 1945. At that time the Federal debt was 64 percent of the total debt of all kinds in the country. Now it is down to 30 percent of the total debt of all kinds in the country.

Mr. JOHANSEN. Does that not mean the debt of other kinds has gone up?

Mr. DAY. It does.

Mr. JOHANSEN. It certainly does not mean that the Federal debt has gone down.

Mr. DAY. No; but the Federal debt has gone up 6 percent during that period from the end of 1945 up until the present time, and the gross national product has gone up many times over that. The gross national product has increased 147 percent during that time. So, if the Federal debt and its relation to the capacity of the economy is a factor which should stand in the way of justified pay increases, I would say that it was a much more serious problem there right at the end of and in the period following World War II than it is at the present time.

Mr. JOHANSEN. Of course, there seems to be a newly developed art—I do not know whether it comes out of Harvard or where—which by certain relativities prove it is not bad to have more and more Federal employees, and it is not bad to have more and more aggregate national debt. Some of us still think that the problem is not one of those academic relationships, but the problem is one of a \$308 billion national debt and a problem of \$9.3 billion in interest every year.

I just raise the question, if we are to take the premise—and I have in the past—that justifiable pay increases should not be denied because of other factors, is it not incumbent, since it is the same administration that is advocating the pay increases, for that administration to do something about some of the other spending proposals that keep pyramiding this national debt?

Mr. DAY. As far as the postal operations are concerned, all of us are intensely interested in economy and in improving efficiency. I do think, while there may be arguments using theories of relativity in considering the Federal debt, in any type of organization the economic capacity of the organization is something that should be taken into account in determining the dangers that may be involved in the debt that it has.

Mr. JOHANSEN. I seem to recall that the distinguished Postmaster General made the very specific argument against one program, namely, the medical care program, that we just could not afford it. Is there not such a thing as not being able to afford some of the spending that we are doing?

Mr. DAY. I am sure there is. I am sure there are many programs that would be highly desirable for the benefit of the public that can-

not be taken on at the local, State, or National level because of the competition for the available dollars and because of what we can expect to commit ourselves to. I think there is no doubt about that.

Mr. JOHANSEN. I agree with the gentleman completely, but I am not just sure what the programs are that we cannot afford which are being proposed. That is all.

Mr. WALLHAUSER. I think the subject of economics has been pretty well covered on both sides of the table, but as a matter of simple arithmetic, I am not so much impressed by the percentages you used in giving lower classification employees an increase as opposed to those in the higher brackets. In other words, I think you say somewhere in today's statement that the clerks and postal workers have received a 156 percent increase whereas certain others have had only 38 percent. Just using simple arithmetic, a person at \$1,800, if given a 156 percent increase, then receives \$4,608, whereas if a man at \$10,000 is given 38 percent, he then receives \$13,800. The differential is even greater in dollars than it was before. So I do not believe that is a very valid argument for not giving those in the lower classification an increase if we would conform with the words you used, which are that they should not be deprived of justified increases.

In my opinion, the administration bill is doing just that, for the reason that, in effect, the administration bill says these employees, based on comparability, linkage, and every other measure that you can use, should have raises now, but we are going to give it to them 3 years from now. This in effect is not giving the employees a raise, but is actually depriving them of justified increases. You do not agree with that concept?

Mr. DAY. No, Mr. Wallhauser. As I mentioned, it is a common practice in private compensation arrangements to have them worked out over a period of years in steps. As I mentioned earlier, if there had been a very marked loss of purchasing power of the dollar since the 1960 pay increase and we were faced with an urgent situation here of trying to catch up with a very appreciable loss, then I would think the pattern which has been followed in the past, of lump-sum increases, could well be justified; but I think here we are trying to achieve long-term comparability, and I think it is appropriate for that reason.

Mr. WALLHAUSER. But the survey apparently did not take into consideration that the employees in the lower classifications have secondary jobs in many areas in the country, or their wives have to work in order for them to live on a scale comparable with those in private industry. These factors, in my opinion, have not been taken into consideration in this arithmetical survey which was made.

It seems to me that you, as Postmaster General heading this great Department, should be very anxious to have your employees brought up to the comparable limit now, and not 3 years from now. This is the part I just cannot seem to understand in your presentation.

Mr. DAY. I think they are going to have increases that are not only coming along in accordance with the three phases but, as I mentioned, they may have other increases if current comparability data coming in during these 3 years indicate they should have it.

Mr. WALLHAUSER. I hope you underscore the word "may."

Mr. DAY. It all depends. I do not mean "may" in the sense they will not be recommended if indicated. I mean they may be indicated. If the trends in private industry are such that there are increases in the comparable jobs which are used by the Bureau of Labor Statistics and those are reflected in the reports which we get from that agency, then the administration will recommend further increases on top of those which are in this three-phase program.

As far as wives of employees working, that is something that is not confined to postal employees, by any means. As a matter of fact, in nearly half of the families in the country there are two or more members of the family who are wage earners. One-third of all married women all through our country hold jobs. That is something that is very common today. We know in many cases it is because of financial pressures and need for additional family income.

In some cases it is on the basis of preference and various things. Even in families in the higher income brackets, the \$7,000 to \$10,000 range, half of the working wives bring home a third or more of the family paycheck. So this working wife situation is not something that is confined to Federal employees.

Mr. WALLHAUSER. No, but I daresay the percentage is much higher among Federal employees than in private industry if an accurate survey could be made.

Leaving that point for the moment, it seems to me the concern of this administration should have been, first, to take care of those employees presently employed without adding 100,000 new employees. If the adjustment in pay had been made of those now in employment, it seems to me it would have been a much fairer way to approach the idea of general pay raises.

Mr. Chairman, I will not belabor the point. I would like to emphasize that the Postmaster General has graciously and, I think, correctly given a lot of the credit to the major productivity increase of the postal employees for the nearly \$30 million that he saved. I congratulate him for that.

The CHAIRMAN. Any further questions of the Postmaster General?

Mr. BARRY. Mr. Postmaster General, I want to commend you for the painstaking research which has gone into the study which has been made and your recommendations to the Congress. I would like to ask you if this is not a part of the bipartisan effort which was begun through a study in the Eisenhower administration in 1960, prior to the time we gave a 7-percent increase generally for the Federal service. Is this true?

Mr. DAY. Yes. The studies go back prior to the change in administration. This is a program, as I mentioned, which has been going on for several years, and I think Mr. Staats can give the details of just what the timing was on that.

Mr. BARRY. The percentages which you have indicated for the upper grades have not been at all commensurate with the percentages in the lower grades. In general, would you believe that these higher salary grades would be caught up not by having them get as much as the lower grades have gotten, but they would be caught up in general through the proposal you now make? Is that correct?

Mr. DAY. No; they will not nearly be caught up, Mr. Barry. For example, the postmaster in the largest post office in the world, in

New York City, is getting only 38 percent more than the postmaster of New York City was getting in 1939. While this program calls for substantial increases in that level, which is PFS-19, he will still be one of the lower paid top public officials in that area, and certainly low paid in comparison with people in other lines of work who have the responsibility for managing an operation that includes 40,000 employees.

Mr. BARRY. I could not agree with you more about the getting out of step of the salaries of certain of our people, especially in areas of high concentrations of population. I have introduced legislation in Congress for 4 years—it has been before this committee and I think it has come up before your Department—which would put the post office employees to a certain extent on the basis of the cost of living area in which they live, determined not so much on the exact cost of living but based upon the number of people in the area. In other words, rate all your post offices in accordance with the number of persons that they serve, and then fix your rates accordingly. It is almost an axiomatic rule that the higher the concentration of living in a given area, the greater the cost of living. This is true mainly because of land costs, causing rents to be higher, and the greater haul for bringing in foodstuffs and clothing, merchandising costs, and so on.

We have established wage boards throughout the Nation for other classifications of personnel besides the post office. Would you at any point give consideration to relieving the problem you have brought up now, speaking of the postmaster of New York, by some consideration toward such a solution of the basic problem?

Mr. DAY. Mr. Barry, section 104 of the bill does contain a provision which would give authorization for area adjustments in pay if the pay for a given occupation in a given area in private industry were so substantially above the statutory pay schedules as to make it difficult to recruit and retain people. That is part of the bill. I think it would be used with great caution, because that is a difficult type of discretionary authority to administer. We would seek to confine it just to those cases where we were having difficulty in recruiting qualified people.

Mr. CORBETT. Will the gentleman yield at this point?

This could be tremendously significant. Does this section, in your mind, set a precedent for the eventual utilization of the wage boards for fixing of salaries of classified and postal workers as we now do for blue collar workers?

Mr. DAY. No. The salaries, the steps, and the various features of the program would be in the legislation. We would be limited, under the discretionary authority in section 104, to staying within the salary range that was specified in the law. We could allow additional steps, but we would have to stay within that range. I do not see this as moving toward wage boards.

Mr. CORBETT. In cities where living costs were high, you could adjust salaries upward, could you not, under the terms of that provision? Would that apply all the way from the postmaster down to the mail handler?

Mr. DAY. First, it would not be purely on the basis of its being an area where living costs are high. It would be an area where we were having difficulty in recruiting and retaining qualified people for

the position. We have situations where the going rate in private industry in a given city is quite high relative to what it is in other major cities, and yet we do not have difficulty in recruiting qualified people for the post office, mainly because of the stability and security of our positions. Detroit is a good example of that.

Mr. CORBETT. I must not intrude on the gentleman's time any further, but I just want to emphasize this section could be highly important.

Mr. DAY. I think it is.

Mr. BARRY. I would like to say, Mr. Postmaster General, that I have put in my bill again this year, and there are certain objections to it. I am not certain that your Department has objected. In the last administration, the bill was opposed by the Bureau of the Budget, and later over the holidays, in President Eisenhower's last holiday in the White House, I had occasion to tell him about this, which I said I thought was a businessman's approach to solving the problem of Federal employees' salaries. He said, "That is what I have always been for." I said, "Your own Bureau of the Budget refused it."

I just want to ask if there is not still a built-in bureaucracy around the executive branch so when you have ideas which maybe the Executive would be for, if we are not beaten down before we get off the ground.

Mr. DAY. I think I will have to take the fifth on that, Mr. Barry.

Mr. OLSEN. Mr. Postmaster General, I understand you are favoring the administration bill, but some of us think that the remedy of pay adjustments should be applied now because they are acknowledged as being needed. I wonder what your comment is as to the effective date for pay increases as July 1 this year.

Mr. DAY. I think on the effective date of July 1, we get into a new problem, which is that we would have to have a supplemental appropriation in order to pay higher salaries, and we cannot even get a regular appropriation. But I think a January 1 effective date is justified, and the phasing over the 3 years, as I have stated, I think is highly desirable. I think it is the key to getting installed this program of comparability and this relation to the BLS figures, rather than just periodic lump sum increases. I think it is highly desirable to get that pattern established, and I think the phasing is part of it.

Mr. OLSEN. Is it not your position that the recommended increases are needed now?

Mr. DAY. I have already mentioned, Congressman, that the increases are indicated by the Bureau of Labor Statistics figures, but they are not of such a large percentage amount that they indicate we have an urgent necessity to try to catch up with a great loss of purchasing power since the last pay increase went into effect in 1960. I think the amount of them justifies this program of phasing them over 3 years.

Mr. OLSEN. Is it a budget consideration you are giving to the phasing over 3 years, or is it the need of the employees?

Mr. DAY. It is two considerations, in my opinion. One of them is a budgetary consideration, and the other one is that I think the 3-year phasing is an essential part of getting this pattern established where we are relying upon the Bureau of Labor Statistics figures and comparability with private industry rather than just periodic lump-sum

amounts. I think if we had a lump-sum amount, even though it was justified as being tied to these Bureau of Labor Statistics figures, it would only increase the possibility of further lump sum, single-shot approaches rather than a steady pattern of tying it to the BLS figures. I think it is desirable for that reason.

Mr. OLSEN. Do you not think we can have these studies and have some increases based upon the studies, if indicated, just as well after the July 1 adjustment?

Mr. DAY. I am afraid they would not be taken too seriously unless we can get this pattern established.

Mr. OLSEN. You think, then, we have to be operating in some kind of urgency all the time in order to have increases?

Mr. DAY. In the period since World War II, we have had lump-sum increases because of the very marked amount of inflation that was taking place and the fact that even substantial lump-sum increases in some cases did not quite catch up with changes in the cost of living. We are not in that kind of period now.

Mr. OLSEN. Has the administration a very violent objection to an effective date this year?

Mr. DAY. I do not like to be violent about anything, but I would say I would feel very strongly it is desirable to stick with the effective dates which are proposed in the bill.

Mr. DANIELS. With reference to the question directed to you by Mr. Olsen, no doubt when this committee meets we may endeavor to compromise our different points of view. Would you give us the benefit of your views with respect to a compromise on the period of time over which these pay increases would take place as well as the amount?

Mr. DAY. I would hope any compromise that takes place would not include a change in the timing and the effective date. I think that is a very important part of the bill. I know there are various points of view, and naturally the committee will want to consider various proposals that come to them for compromise, but this is one that I hope very much will not be changed.

Mr. DANIELS. When you refer to the time, do you mean the 3-year period of time?

Mr. DAY. I refer to the January 1, 1963, starting date and the 3-year phasing; yes, sir.

Mr. DANIELS. Under the criteria established by the administration bill, could it not be worked out over a shorter period of time rather than the 3-year period of time?

Mr. DAY. Mathematically and mechanically, you can come out with all kinds of alternatives, but I am just repeating my hope that that will not be part of what might be changed in the course of a compromise arrangement.

Mr. DANIELS. Thank you.

Mr. BARRY. Mr. Postmaster General, I noticed recently that the National Security Council had a meeting. I wondered if the Cabinet has been meeting recently.

Mr. DAY. We had a gathering a week ago last night, but I think the last official meeting was on June 11.

Mr. BARRY. In order to make representative government work, it is a happy thought for us occasionally to believe that an idea that we might express to a Cabinet member could be brought up and dis-

cussed where the President hears about it firsthand and where the Director of the Bureau of the Budget and other bureaus are represented, so it receives an airing. I think the public would feel much happier if we had Cabinet meetings for the benefit of the whole structure of government in order to prevent the kind of thing I mentioned a little earlier, which took place in the last administration, where an idea that I had brought up with the Postmaster General never got anyplace, and the President did not know anything about it. I do not mean the idea was that valuable, but at least it was an idea that he had also had. I would highly commend this, for whatever influence you have, because it would give us a feeling sometimes of being able to have ideas that do reach the topside without our having to use the press and to have the President read it in the press.

Mr. JOHANSEN. I just want to commend the gentleman, not only for the sentiments just expressed, but for the basic idea, which is one I have supported for 8 years on this committee.

The CHAIRMAN. Are there any other questions?

Mrs. ST. GEORGE. Mr. Postmaster General, I note in your statement you mention the cost-of-living index and compare it with the wage rates since 1939. Of course, in that instance it is very favorable. On the other hand, I think at the present time people in the lower brackets are barely keeping on an even keel with the cost-of-living index. Would you have any objection to including in the bill an amendment to include the escalator clause, which is something I have long believed in and which I think would simplify your work and would be fairer to the employees, especially those in the lower brackets?

Mr. DAY. I think the escalator principle is included in the bill because of the fact that the pay in various occupations in private industry which are looked to by the Bureau of Labor Statistics include in their trends keeping up with changes in the cost of living. I think that having those figures referred to the Congress for action is preferable rather than attempting to have any type of automatic escalation provision which would not be under the control of the Congress.

Mrs. ST. GEORGE. I am afraid I cannot agree with you there because, having worked here for a number of years, I realize that we move very slowly, and we do not always grind very, very fine. I think an escalator clause which would be left up to whenever Congress acted on it would defeat the whole object of it. I think it has to be automatic or it is more or less useless.

Mr. DAY. Most escalator provisions in labor contracts in private industry go in both directions. I think it would be quite a responsibility for the executive branch to take on, to apply an escalation provision which might bring about a reduction in Federal pay.

Mrs. ST. GEORGE. That is not very likely to happen in the near future, from what we have been able to see.

General, another thing. You talk a great deal about comparability in this bill. I think it is a very laudable desire. I admit the people in the higher echelons are not paid sufficiently, but surely you do not believe for one minute that people in the Government can be paid as they are in private industry. I think it would be highly undesirable. Therefore, you never can have a comparison anyway in the higher brackets. If I may be personal, you yourself certainly are not being

paid what you would be paid in private industry, and that holds all throughout the Government. I do not think people can go into Government with the idea of receiving top salaries. If they do, they must be very foolish or have never worked in private industry.

Mr. DAY. I agree with you completely on that. I do not think people in the highest positions can expect to be paid the same salaries that some private industries would pay them, but I do think that people who have management or technical responsibilities comparable to those of the postmasters that I mentioned—I do not think the postmaster of New York City or the postmaster of Chicago should be among the lowest paid top public officials in their communities.

We know what the pay scales are in the State government in New York, in the city government in New York, in the various levels of government in California. They are considerably higher for people with commensurate responsibility than our postmasters and other top officials are receiving. But I agree that the very top people certainly cannot expect to catch up with Bethlehem Steel.

Mrs. ST. GEORGE. I do not want to quibble about it, but I think the word "comparable" is not quite correct in this instance, because people who give up their lives to Government service are not going into Government service with the idea of reaching the brackets they could reach in private industry.

Mr. JOHANSEN. Would the gentlewoman yield for one question?

Do I understand the administration bill and program to call in effect for annual review?

Mr. DAY. Yes, sir.

Mr. JOHANSEN. Does that in effect, therefore, mean annual pay legislation?

Mr. DAY. If the Bureau of Labor Statistics comparability figures indicate that private industry pay has moved ahead of the levels of the Federal jobs, then there would be a recommendation as often as annually to the Congress for further increases. That is why I feel if we are to get into that type of annual pattern, it is very important to establish their principle of phasing and of doing it over a period of time and considering it as part of an automatic program.

Mr. BARRY. Does this work in reverse? To the extent there may be a slump in the cost of living, according to figures furnished by the Bureau of Labor Statistics, would salaries come in for readjustment downward?

Mr. DAY. No; it does not. Of course, if there were a very marked drop in private industry pay levels, which seems unlikely, I think then, independently of this program, the Congress would want to consider, as they did back in the thirties, whether there should be some adjustments. But this program does not include that.

Mrs. ST. GEORGE. I do not want to say any more, Mr. Chairman, except of course this is really not an escalator clause. It does not work both ways. It is not written in. It will be subject to the action of Congress. I do not think it is particularly valuable.

Thank you, Mr. Postmaster General.

The CHAIRMAN. Further questions?

Mr. ROUSSELOT. Mr. Postmaster General, I have been interested in your statements in the past where you discussed the unique nature of the post office service and how it is hard to find comparable jobs in

other Government service. In view of the testimony which you have given our committee many times, I am at a loss to understand why you, as the head of the Post Office Department, do not see, on the basis of this unique service and the fact that it is conducted on a more day-to-day basis than other Government services in that it is a service which has to go through, why we should consider pay increases for postal employees separate from pay increases for other Federal employees. What is the pressure? I am sure Mr. Macy is not pressuring you to consider postal employees with other Government employees. What is the pressure to lump them all in one bill? Why can we not consider them separately?

Mr. DAY. I think in our Department it is true we are performing a unique service, but nonetheless we are a part of the total Federal Government operation, and we are performing a public service just like the other Federal agencies. It seems to me, rather than being in competition with them on matters of treatment of our employees, we should work together with the total Federal Government in order to try to bring about adjustments.

Mr. ROUSSELOT. Yes, but in all of your testimony—and I have gone through it in the past several weeks to make sure I heard you correctly—you have talked about the unique service and that it is difficult to bring employees from other Government services into your Department because of the unique and different type of operation; that you really have a production system, whereas other Government activity does not have the necessity of getting the mail or a product out every day as you do.

I do not see why you should not fight for separate consideration. As a former postal employee myself, I would like to see the postal pay increase considered separately. I have worked in both services.

Mr. BARRY. I think history will show when that has happened, at the very tail end the whole Federal Government pay structure, by amendment, is put on and everyone gets the increase that the postal workers have demonstrated they need.

Mr. ROUSSELOT. This is the objection I have. I think quite seriously—maybe I am wrong—that the other Federal employees tend to ride the popularity that the general public feels for postal service employees, which I think should be considered separate from other Government employees. That is just my own personal feeling. As the head of this agency, I wondered if you did not have some feeling in this direction.

Mr. DAY. It is unique, but I do not think that leads to—

Mr. ROUSSELOT. Then you would not have objection in that regard to our committee considering the two separately?

Mr. DAY. I know your committee is going to consider a great many things which I am not going to be in a position to say one way or the other about, but I do not think the fact that we are a different type of service leads to the conclusion that we should fight with or compete with other groups of employees or other agencies.

Mr. ROUSSELOT. Why not? You represent them.

Mr. DAY. Because my primary responsibility and the primary responsibility of all of us in the Post Office Department is to the total Government.

Mr. ROUSSELOT. It is not to the Bureau of the Budget or somebody else.

Mr. DAY. An additional factor is that we do have many types of positions in the Post Office which are almost exactly comparable to positions in other agencies. We have large numbers of truck drivers, janitors, and people in administrative and accounting positions which are closely comparable to those in other agencies. I think this linkage principle is important, recognizing that people doing equal work should receive equal pay, regardless of which part of the Federal Government they are working in.

Mr. ROUSSELOT. Yes; but your whole argument in trying to get people to stay in the service and for increases in postal rates was that these people cannot easily go into other Government service, and in order to give them incentive to stay on, they must have adequate pay increases; that their service was unique in comparison to other types of work in Government. I think it is a mistake to allow your unique service to be thrown in with other Government services. This is my feeling.

Mr. GROSS. And particularly so when we deal with a rate bill as a means of pay for the postal service as a whole. It is difficult for me to understand why you insist that we should not break the postal workers out of any pay bill.

Mr. DAY. I think the rate bill would be entirely justified at this time even if the Bureau of Labor Statistics figures or cost-of-living figures or any other type of test failed to show a justification for a pay increase. I think the rate increase would nonetheless be highly necessary and desirable.

Mr. GROSS. There is a wedding of the two in the minds of Members of Congress and the people of the country. They are tied together. You would concede that.

Let me ask you this question, if I may, Mr. Postmaster General. How do you compare the job of a postal worker with a Foreign Service officer or the head of the Peace Corps mission in Malaya getting \$16,000 or \$17,000 a year? How do you equate and compare them?

Mr. DAY. The levels have been worked out for many years past in both the postal field service and in the general schedule, and the assignment of given responsibilities to those levels is done on the basis of a job evaluation which long predates this program we are talking about here.

Mr. GROSS. But there is no similarity in the work which they do. I just cannot understand the comparability or the equality.

Mr. DAY. That same diversity exists as among other Federal agencies, leaving the Post Office out of it entirely. The type of work that is done by civilian employees in the Treasury Department is often entirely different from what might be done by employees in the Department of Justice.

Mr. GROSS. You find some similarity of work. You have accountants, you have attorneys, and so on, in the Post Office Department. You have a good many people for whom you can find counterparts in the Treasury Department or almost any other agency of the Government, but you do not find this same comparability in the State Department, the Peace Corps, and some of these other agencies. We do not always handle the pay of the Foreign Service in this committee. It has been creeping in.

Mr. ROUSSELOT. I think if some of the people of our State Department had to go door to door like the mailmen every day, we might have a better State Department.

Mr. GROSS. I agree with that.

Mr. JOHANSEN. Will the gentleman yield for just one comment?

The packaging of this whole thing together means, among other things, that in order to vote for a justified pay raise for letter carriers, I have to vote for a pay raise for all of the echelons of the Peace Corps. Is that not the fact?

Mr. DAY. The total program includes all of the employees of the Federal Government other than the wage board employees and the Presidential appointees.

Mr. JOHANSEN. That is my whole point.

Mr. ROUSSELOT. This is the point I was trying to make, Mr. Day: I know you have brought some new ideas to the postal service, as have your new executives around you. I think it is a mistake to try to force yourself, by your own testimony, into the same consideration with other Federal employees. I am not objecting to an increase for other Federal employees. I have great sympathy for them. I really feel there is a difference in service, by your own testimony. I cannot understand your allowing yourself to be thrown in with the others.

There is one other point, and then I will discontinue. I notice in your testimony a great deal of your comparative figures start with 1939. May I make a suggestion that you might carry back to the Cabinet again. I notice a tendency on the part of this administration to start all comparisons of increases in debt with 1945. If you would start the increases in debt with 1939, also, you would find that there has been a tremendous increase. I think this is part of the Harvard juggling act again to try to make things look more favorable, that we have not had much increase in debt in the Federal Government since 1945 as compared with consumer debt. You remember the consumer was not able to buy things during the war. I hope you will carry this observation back to the Cabinet, since we cannot seem to get through to the Cabinet all the time.

Mr. DAY. All right, sir. I will do so.

The CHAIRMAN. Further questions?

Mr. GROSS. Just one additional question or two.

Mr. Day, what would be your reaction to raising mail handlers from grade 3 to grade 4?

Mr. DAY. I think that is a separate problem which is covered by the bill as such. It is a matter of job evaluation. I think the studies on that are going on continuously. The latest report I have on it is that our people who work in job evaluation feel that is a fair level for those people to be in.

Mr. GROSS. Grade 3?

Mr. DAY. Yes.

The CHAIRMAN. Anything further?

If not, thank you very much.

Have you anything to add, Mr. Belen?

Mr. BELEN. Mr. Chairman, I would like to express my personal appreciation for your introducing H.R. 10480, and I know that goes from the President right on down through the representatives of the executive branch, and for giving a forum in which comparability can be presented.

I would like to comment, too, with respect to Mr. Barry's statement about previous studies, that probably the first one was initiated by you and your staff, and you will find the things they developed and the comparability discussions that obtained in the last pay raise hearing before this committee have been considered and are in that bill.

The CHAIRMAN. Thank you very much.

Thank you, gentlemen. This concludes the session this morning. The committee will meet tomorrow morning at 10 o'clock to hear Hon. David E. Bell, Director of the Bureau of the Budget, and Hon. John W. Macy, Jr., Chairman, U.S. Civil Service Commission.

The committee will stand adjourned until 10 o'clock tomorrow morning.

(Whereupon, the committee adjourned at 12 noon, to reconvene Wednesday, July 11, 1962, at 10 a.m.)

REVISION OF MAJOR FEDERAL STATUTORY SALARY SYSTEMS

WEDNESDAY, JULY 11, 1962

HOUSE OF REPRESENTATIVES,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 215, House Office Building, Hon. Tom Murray (chairman) presiding.

The CHAIRMAN. The committee will be in order. The hearings will be resumed on the Federal employee pay legislation.

STATEMENT OF HON. DAVID E. BELL, DIRECTOR, BUREAU OF THE BUDGET, ACCOMPANIED BY SPENCER PLATT, ASSISTANT CHIEF, OFFICE OF MANAGEMENT AND ORGANIZATION, AND DAVID H. McAFEE, MANAGEMENT ANALYST

The CHAIRMAN. We are very glad this morning to greet the Director of the Bureau of the Budget. We appreciate his coming here. We know how busy he is and we shall hear from him first.

Mr. BELL. Thank you very much, Mr. Chairman.

For the record, I have with me Mr. Spencer Platt, Assistant Chief, Office of Management and Organization.

The CHAIRMAN. Mr. Platt has been before us many times, and we are glad to see him.

Mr. BELL. And Mr. David H. McAfee, of the same staff, whom I think you also know, sir.

I am very pleased to have this opportunity to appear before this committee in support of the President's salary reform plan, which proposes one of the most significant advances in Federal employee legislation since the civil service system was created.

The CHAIRMAN. This is your first appearance before the committee, is it not?

Mr. BELL. It is, Mr. Chairman. Mr. Staats has been here a couple of times.

The CHAIRMAN. He has been here several times before.

Mr. BELL. That is correct. I am very pleased to have this opportunity.

The CHAIRMAN. Mr. Staats is Mr. Robert F. Rich's son-in-law, is that not correct?

Mr. BELL. That is correct. Margaret Staats was Margaret Rich. I have known them both for 20 years, I am pleased to say. We are old friends.

The plan which the President has recommended for this committee's consideration is set forth in H.R. 10480, and in the two committee prints, "Statement of Purpose and Justification" and "Summary Analysis of the President's Proposal for Reform of Statutory Salary Systems." The plan has been discussed fully before this committee by representatives of the executive branch and I have no wish to repeat information already presented. With the committee's permission, I should like very briefly to emphasize certain key points concerning the President's plan, and then I shall be at the committee's disposal for any questions you may wish to raise.

First let me say a word about the basic nature of the President's proposal. Its most important element is that it offers an objective and measurable standard for determining the appropriate pay rate for each level of work in the Federal service. The proposed standard is that Federal salaries should be maintained at the national average of private enterprise salary rates for the same levels of work. This is a definite, fair, and measurable standard. Establishing Federal salaries in accord with this standard will assure equity for the Federal employee with his equals throughout the national economy, will give reasonable assurance that Government agencies can recruit and retain competent staff, and will assure taxpayers that Federal salaries are neither excessive nor substandard.

In the absence of a definite standard for establishing Federal salaries, the consideration of pay legislation by the President and by the committees of the Congress in past years has been an extremely difficult task. Various proposed criteria have been cited, such as salaries of a variety of specially selected non-Federal jobs, the frequency of salary increases in past years for selected non-Federal groups, increases in average earnings in selected industries, statistics about standard or average family budgets, and many others. None of these proposed criteria in fact offers an objective or practical basis for constructing a salary schedule for any Federal pay system.

In place of the confusion and uncertainty which has been present in the past, the President now proposes that the Government adopt a definite and continuing standard for determining Federal pay; namely, the national private enterprise average salary for the same work level. Using this clear-cut standard, the propriety of particular pay adjustment actions will be plain both to taxpayers who want their taxes spent wisely and to employees who want their pay determined equitably. Using this clear-cut standard, both the President and the Congress can act quickly and surely on pay questions.

The President's plan uses sound methods and valid data for comparing Federal salary rates with national average private enterprise rates for the same work levels. The Bureau of Labor Statistics annually conducts a special survey for this purpose. This is the National Survey of Professional, Administrative, Technical, and Clerical Pay, reported in the fall of each year.

As the committee knows, the end result of the Bureau of Labor Statistics survey is a report of private industry salary rates paid for a sample of Federal occupations at carefully defined Federal work levels. It would be unnecessary and impracticable to collect salary information from private industry for every occupation in the Federal service. There are over 500 different white-collar occupations in the Federal work force.

Moreover, a number of Federal occupations—such as mail clerks and carriers—are unique to the Government and have no counterparts in private industry. What the BLS does is to collect private enterprise salary information for a sample of occupations that occur frequently in Federal employment and in private employment, and that are representative of the various levels or grades of work found in the Federal service. The BLS data for the representative Federal occupations give ample information for determining the proper salary rate for Federal work levels. And the position evaluation techniques which are used to rank jobs under all Federal statutory systems, permit the allocation of all Federal jobs to the proper grade or pay level.

Thus the system proposed by the President provides a reliable, accurate, and fair system for comparing Federal salary rates with national average private enterprise rates for the same work levels.

Moreover, the President's plan provides a system for keeping Federal salaries continually adjusted and up to date in relation to private salaries. This is done by requiring the President, after obtaining employee organization views, to report annually to the Congress a comparison of Federal salaries with the latest BLS report on private enterprise salaries, with the objective of maintaining comparability with private industry.

Adoption of this feature will be to the advantage of everyone. It will assure Federal employees that pay adjustments will be made promptly and equitably. Because annual adjustments will require much smaller increases in payroll expenditures, the impact on the budget will be minimized. Because the amount of adjustment will be based on clearly defined standards, the time required for congressional review will be far less than under the present procedures. Since the BLS survey data will be available in the fall of each year, it will be feasible for the President's annual report to be made to the Congress early in each session.

The President's plan provides for this annual review to be initiated at once. The salary schedules for 1963, 1964, and 1965 contained in H.R. 10480 are based on the latest BLS report, which covers the salaries paid in private enterprise in 1960-61. This is still the latest available information on private industry rates. As information from each subsequent annual BLS survey becomes available, any needed adjustments in these tentative schedules will be recommended.

Summing up, I would stress three major features of the President's proposal: First, it provides the clear-cut standard of comparability with private salaries to guide the President and the Congress in making adjustments in Federal pay scales; second, it rests on a reliable and valid system for comparing Federal and private salaries; and third, it includes a method for annually revising Federal pay scales and keeping them continually up to date. These are elements which the President regards as fundamental to any acceptable Federal pay reform bill.

May I add a few words about the importance of Federal pay reform to the efficiency of management of the executive branch? Paying fair salaries is fundamental not only to employee morale, but also to the Government's ability to attract and hold the first-class scientists, technicians, and administrators whom we must have if the Government is to be managed efficiently.

At the present time, as I am sure this committee is well aware, the most serious problem arises with respect to jobs at the upper end of the Federal pay scale. Increases in Federal pay generally have been concentrated at the lower end of the pay scale, with the result that jobs at the upper end of the scale have fallen behind the pay of comparable jobs in private life. This has resulted in a continually greater incentive for the ablest young men and women in Government, as they rise up the career ladder, to leave Government and accept the much larger salaries they can earn in private life. And it has resulted in continually greater difficulty in attracting first-class men and women from private life to the top management jobs in the Government.

While the problem of staffing our career service is most serious in the top grades, it is present at every level of the Federal structure. You cannot have efficient government without first-class employees. And you cannot have first-class employees unless you pay them reasonable salaries.

I believe very strongly—this administration believes very strongly—in holding the level of Government employment to the minimum necessary to get the job done. Moreover, we believe that it is possible to achieve continually greater efficiency per man in virtually every kind of governmental work. This committee is aware of the steady increases in productivity per man that have been achieved in the Post Office. Similar increases have been achieved in many other cases, and we are seeking through the budget process to make sure that every Government agency bears down hard on this problem.

The most important element in keeping employment to a minimum is capable management at each level of supervision in an agency. If you agree, therefore, that efficiency in the Government needs to be raised, and employment held down, I am sure you will agree that Federal salary scales need reform to permit Government to attract and hold first-class personnel.

In closing, may I add simply that I do not regard these matters of Federal salaries and governmental efficiency as partisan matters. I am sure the committee is aware that the President's proposal grows out of staff work which was begun in the previous administration. Before he submitted his proposal, the President sought the advice of a distinguished bipartisan advisory group headed by Mr. Clarence Randall. Good government is a bipartisan objective, and at the present time salary reform is essential to good government.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Bell.

Any questions? Mr. Davis.

Mr. DAVIS. Yes. I should like to say I appreciate very much having the views of Mr. Bell.

I wish to ask you a question about one of the provisions of this bill, the one which provides for annual review. I have introduced House bill H.R. 10908, which also provides for a committee to make an annual review and a report to the President, and then the President to submit to the Congress, on or before March 1 of each year, a report summarizing the findings of that committee, and also his recommendations for such adjustments as are necessary. Are you familiar with that bill?

Mr. BELL. In a general way I am, Judge; yes, sir.

Mr. DAVIS. The bill provides for a committee to consist of not more than seven members, who shall be designated in this way: One representative of the Bureau of the Budget, one representative of the Civil Service Commission, one or more representatives of employee organizations, one or more representatives of the public, and such other members as the President may deem advisable.

I would like your comment and views with reference to that committee, the method of appointing it, its method of reporting, and so forth.

Mr. BELL. First, Judge Davis, we are, of course, in full agreement as to the desirability of the President's submitting to the Congress an annual report on pay adjustments which may be needed. If none is needed, then the report would say so. If some are needed, then the recommendations would be made for the Congress to act each year.

It seems to us, and I gather it does to you, also, a very sensible improvement in the present pattern of considering pay legislation, to have an annual process for adjustment. With respect to the basic principle, there is no difference whatever.

We do have some uncertainty whether the use of a committee of the kind you have suggested in that bill is the most convenient and effective manner by which to provide to the President and to the Congress the best information to be used in performing the annual pay review system.

The suggestion that the President has made for the consideration of the committee and the Congress is that he be required under the legislation to consult the representatives of employees and to have prepared annually the kind of comparative data which would permit the comparability standard to be looked at each year, and then to submit his recommendations to the Congress. It would obviously be necessary for the President to ask for the judgment and views of all groups that might be interested—the employee groups among them.

I think the problem, so far as the President is concerned, of working through the kind of committee you suggest is whether we regard the pay review problem essentially as one of comparing a specific standard with the facts as they appear on the basis of the annual BLS survey, or whether it should be regarded in some sense as a collegial process of working out some kind of proposed agreement as to what the pay scales ought to be.

Mr. DAVIS. There is nothing in this bill for working out an agreement. It simply provides for the appointment of a committee on Federal pay, fixes the maximum number of members, and states who they should be. I believe there is great latitude in the hands of the Executive. Then it provides specifically for the report to be submitted by a specific date so the matter can be properly considered and placed before the Congress in ample time to take whatever action may be necessary, if any.

Mr. BELL. That is right. With the bulk of this idea, sir, we have no difference whatever. We are not sure that the establishment of a specially designated, rather formal committee is better than simply telling the President that he should consult with the various groups.

Mr. DAVIS. I think this bill would get it out of the vague, undefined

area which leaves the responsibility on nobody particularly and gets it where the responsibility would be definitely placed. The bill also fixes some definite times and methods by which this matter would be considered.

Mr. BELL. With that we agree, sir.

Mr. DAVIS. Do you see any objection to this?

Mr. BELL. No, I do not, Judge Davis.

The CHAIRMAN. Are there further questions?

Mr. CORBETT. In the normal course of events, a fairly sizable number of individuals come to us or write to us asking us to help them find job opportunities with the Federal Government. Outside of the rather new fields where scientists and technologists are needed or in the clerical and stenographic level, it seems that, no matter what agency we contact, they tell us there are no vacancies or that vacancies come up very slowly, so they do not even consider the applicant's qualifications, but merely say no jobs are available.

All through the testimony for this bill there has been the intriguing notion that the recruitment and retention of civil service employees will be greatly improved if we raise the salaries. The simple question is, Where do I send these people for jobs?

Mr. BELL. There are offices in each agency, and there is a central service, of course, in the Civil Service Commission. Mr. McAfee tells me the annual turnover in the Federal service is about 15 percent.

Mr. CORBETT. Is this not down in the clerical and stenographic level mostly?

Mr. BELL. The turnover, I believe, takes place at every level to some extent. I think you are quite correct that the larger percentages of turnover are at the lower and medium grades; yes, sir.

Mr. CORBETT. I received a letter yesterday from a man who had been working at GS-13 or GS-14, and the job had been terminated. He was applying in another field. We got the mutual reply that they had no vacancies and did not expect any. Where would I tell him to go find a job in the Federal service?

Mr. BELL. The normal practice, sir, is that each agency maintains its own personnel office, which has the job of recruiting people. The Civil Service Commission, as I indicated, maintains a kind of central referral system, particularly in jobs at the higher level, so people with skills from one part of the Government who may be released or are looking for other opportunities, can be referred to other places.

Mr. CORBETT. When we follow all the normal procedures and we do not even get an interview, what do we tell the fellow to do then? In other words, what I am trying to find out is, where is there any evidence that dropouts are important in number anywhere along the line, except in the two categories I mentioned, clerical and stenographic and science and technology? In those two fields we recognize there is a considerable number of dropouts.

Over some opposition from my right, there has been an increase in the number of supergrades for scientists and technologists. I am just questioning whether or not it is true that we need a salary raise for this purpose. I am not talking about its desirability, but I am wondering where any department is having any trouble recruiting or retaining.

Mr. BELL. I understand there have appeared before you, sir, a considerable number of representatives of the Federal agencies—Defense Department, Federal Aviation Agency, Space Agency, Commerce Department, and various other agencies. As I understand, one of the points made by each of them in turn was that they have indeed been having difficulty in retaining and recruiting personnel for the important management jobs, not only in the scientific and technical fields, but also what might be described as more general management jobs or other kinds of specialists. I happen to have seen evidence in recent months, for instance, related to economists. You would not think, perhaps, offhand that it is hard to find good economists, but I can assure you that in Government service we have had great difficulty in bringing in the first-class economists who are needed in various places, not in large numbers but in significant numbers, to be associated with various important programs.

Am I responsive to your point, Mr. Corbett? Is this what you are getting at?

Mr. CORBETT. I recognize these people so testified and you are quoting them accurately, but they did not show a need. They made the generalized statement that we need better salaries in order to recruit and retain.

I cannot find any evidence to support the general statement. If the evidence exists, we ought to have it. I am finding individuals who want Government jobs and who cannot get them.

Mr. BELL. The fact that there are isolated cases may be indicative of a lot of different things. It depends upon the qualifications of the individual in question, the particular nature of the job he wants, the nature of the opening, and so on.

Mr. CORBETT. Over the whole Government establishment, somebody ought to be able to tell us they are having trouble recruiting.

Mr. BELL. As I understand it, each of these persons said that before this committee. I can say it for my agency. We have been having difficulty in recruiting.

Mr. CORBETT. That is what I am trying to find out. Do you feel you are understaffed, considering the number of spots you have available?

Mr. BELL. We have had several important openings for the last several months, and we have had great difficulty in filling them. Some of them are still open. The economist happens to be the illustration which is at the top of my mind, because I was looking at the situation only yesterday. The same thing is true in the field of management and organization. It is very difficult for the Government to attract and to retain first-class management analysts. The private consulting firms—for example, McKinsey & Co., Booz, Allen, & Hamilton, and so on—all provide a very challenging alternative opportunity for the ablest of the young Government management analysts as they rise up the career ladder, and we lose a great many of them whom we would not lose were the salary conditions somewhat more comparable.

As you are aware, sir, the higher level salaries in the President's proposal are by no means intended fully to equal the salary, say, in the best of the private corporations, but the feeling has been that the salaries at the upper level should be more nearly comparable than

they have been in recent years, and that would indeed have the effect which you are asking about, of permitting us——

Mr. CORBETT. We have been listening to testimony on this bill for a long time, and it seems to me the heart and the basis of the administration's proposal is the fact that by improving comparability we ease up the problem of recruitment, and refention becomes easier. Since that is the heart of the argument, I think we should have been overwhelmed with statistics rather than generalized statements.

Mr. BELL. I think, sir, there are two elements to the administration's case. One is that at every level of the Federal service it is fair, equitable, proper, and desirable that salaries be paid which are comparable with those in private industry.

Mr. CORBETT. On desirability, I yield. Certainly it is desirable. Now the question comes whether it is necessary.

Mr. BELL. Are we suffering because we do not have it?

Mr. CORBETT. That is correct. Here we are in a period of deficits, in a period of perhaps devaluation of the dollar, and with an increase in the debt ceiling. Maybe the important thing now is necessity, not desirability. If we were a surplus nation financially, there would be no argument. The question is, If this is necessary, all right, we can go out to the public which complains about it and explain our position. If we cannot show necessity, editorially we will be clobbered.

Mr. BELL. The evidence which has persuaded me, Mr. Corbett, is the continual reports to me by every agency of Government. We talk with them, as you know, on an organized basis at least twice each year, when we go through a regular series of meetings. On each of those occasions we consult with them about their management problems as well as the strictly budget problems that they have. In every case, every responsible official of every agency has felt in his own agency this difficulty. I can report to you about it in the case of my own agency. I find this very compelling evidence. I have jobs which are open today which are important to the conduct of the Government's business which I have had difficulty in filling because of the salary levels.

I am not quite sure what we could do that would give you the kind of evidence that you want.

Mr. CORBETT. You could notify us of the spots that are vacant, and then we could assume the reason. That is what we did not get from these departments. Do you recall any indication, Mr. Gross, where they showed a definite shortage?

Mr. GROSS. No, I do not recall any specific instance.

If the gentleman will yield, what kind of appeal did you put out to recruit economists in your Bureau?

Mr. BELL. I think we have used everything we could think of. First of all, of course, we went to the civil service register. Secondly, all the people who work on economic issues in the Budget Bureau have a wide acquaintance among economists in universities, businesses, and banks. We have people who attend the annual meeting of the American Economic Association which, as you probably know, is a traditional center for recruitment by universities, banks, and businesses.

Mr. GROSS. Do you require a certain economic philosophy as a condition of hiring economists?

Mr. BELL. No, indeed. We require a certain competence. The man we came closest to hiring works for a bank. We were unable to attract him.

Mr. GROSS. You spoke of these organizations that drain off some of your people, did you not?

Mr. BELL. Yes, sir.

Mr. GROSS. Most if not all of them have Government contracts, consulting contracts?

Mr. BELL. They have some, but their principal work is with private business. The bulk of the work of these firms, such as McKinsey & Co. and Booz, Allen & Hamilton, is with private business. They also do a substantial amount of work with Government agencies.

Mr. GROSS. A very substantial amount for the Federal Government.

Mr. BELL. I think the great bulk of their work is with private business.

Mr. GROSS. You do not expect to compete with these contracts, do you, in the payment of salaries?

Mr. BELL. As you perhaps know, Mr. Gross, on the question of salaries paid under Government contracts, notably in the research and development field, we recently made a report to the President which was made public, which has been the subject of hearings before the House Government Operations Committee, and in that report we suggested that where competitive conditions did not satisfactorily achieve a presumption that salary scales would be comparable with private enterprise rates, the Government should insist, in cost reimbursement type contracts, that no more than comparable salaries be paid under Federal contracts with private institutions for research and development work. That recommendation is in the process of being put into effect.

Mr. GROSS. If the gentleman will yield for one further observation, I hope that this will not be studied to death, that the administration will do something about it. We have had this subject before our Subcommittee on Manpower Utilization for a good many years, and I would hope that the Bureau of the Budget and all other interested administration officials would quit studying it and do something about it.

Mr. BELL. This is our intention, Mr. Gross.

Mr. CORBETT. No further questions.

The CHAIRMAN. Further questions?

Mr. GROSS. Yes, I have some questions on my own, Mr. Chairman.

In May of this year, I had a report from the Department of Commerce stating that in 1961 the debt of the agencies of the Federal Government was \$330 billion. Is that approximately correct?

Mr. BELL. \$330 billion is not a figure that sticks in my mind, Mr. Gross. The public debt as we normally think of it—you are talking about the Federal debt?

Mr. GROSS. I am talking about the Federal debt, department and agencies Federal debt of 1961.

Mr. BELL. I suppose that is correct. The figure is not in my head. As I say, the figure that I carry around in my head is the figure of the public debt subject to the debt ceiling, which at the present time is \$295 billion, I think.

Mr. GROSS. What was the deficit, as of midnight, June 30, this year, for the past fiscal year?

Mr. BELL. We do not have the final figures, Mr. Gross, but it was about \$7 billion.

Mr. GROSS. About \$7 billion.

Mr. BELL. Yes, sir.

Mr. GROSS. What do you estimate the deficit for the current fiscal year will be, or do you have an estimate?

Mr. BELL. We have not changed the estimate which the President submitted with his budget in January. As you know, at that time, based on the assumptions that he then made concerning congressional action and the course of the economy, he anticipated that there would be a small surplus in the administrative budget for the fiscal year 1963. Since that time—

Mr. GROSS. Who made this estimate?

Mr. BELL. The President, in the President's budget message.

Since that time, the Congress has had before it the various bills on the appropriations side, none of which have been enacted as yet. The Congress has had before it the tax bill which would make substantial changes in the revenue laws if enacted, but it has not been enacted as yet. The Congress has before it the postal rate bill, this pay bill, the farm bill, and other pieces of legislation which, if enacted, would make substantial differences to the expenditures of the Government during fiscal 1963.

Mr. GROSS. The medicare bill would make a change, too, would it not?

Mr. BELL. No, sir, the medicare bill would affect only the trust accounts. It would not affect the administrative budget.

So, in all these ways there are actions pending in the Congress which will affect expenditures substantially, one way or another. Until those actions are completed, it is obviously only a guess as to what may come out.

On the revenue side, the most significant effect on Federal revenues will of course be the course of the economy during the present year. Thus far, the economy has not moved as strongly as the President had hoped and anticipated when he submitted his budget. It has moved upward strongly from the recession of something over a year ago, but it has not moved upward as strongly as the President had anticipated.

If the trends of the first two quarters were continued through this calendar year, I am sure that revenues would fall somewhat short of the figures which the President anticipated last January. On the other hand, the economic outlook is still relatively unclear. The changes from the January outlook that would be warranted, which, for instance, have been estimated by the economists who advise the New York banks, are significant but are not extremely large. In consequence, the administration up to the present time has not made any formal revision in the revenue estimates that it made in January.

Furthermore, as I indicated earlier, there is a tax bill pending now in the Senate, which has passed the House, which would have some considerable effect on revenues in fiscal 1963.

For these reasons, Mr. Gross, the President has not made any formal revision in his January estimates for the budget for 1963.

Mr. GROSS. Do you recommend a tax reduction?

Mr. BELL. The President's position was restated, I think, in last week's press conference, namely, that he does expect to propose a combined tax reduction-tax reform bill next spring. He is not at the present time prepared to recommend a tax cut in the remaining part of this session. However, if economic conditions change significantly, he will of course be prepared to see whether he wants to make a change in his plans for recommending tax cuts only next year.

Mr. GROSS. Is the President's recommendation or position, whatever you choose to call it, also your position?

Mr. BELL. Yes, sir.

Mr. GROSS. Regardless of whether we are confronted with a deficit in this current fiscal year, whether it is obvious that we will be confronted with a deficit, you would still be for tax reduction if the President wanted a tax reduction?

Mr. BELL. The President obviously, sir, would not make a recommendation for a tax reduction without considering the effects of that on the budget. Presumably, he would make a recommendation for a tax reduction only if he were persuaded that economic conditions were likely to be quite unsatisfactory, possibly with a plateau or even a downturn at the beginning of next year. Under those circumstances, if that were the economic outlook, then a deficit in the Federal budget would be inevitable and unavoidable, and the effect of a tax cut, if it were proposed and adopted and had the effects that it would be intended to have under those hypothetical circumstances, the effect of a tax cut would be to stimulate the general economy. Under those circumstances the Federal revenues for fiscal 1963, certainly for fiscal 1964, would be higher if a tax cut were adopted than if it were not, and therefore the deficit might well be smaller with a tax reduction than if none were adopted.

The CHAIRMAN. How much tax cut?

Mr. BELL. You understand these are all suppositions, because the President has made no such recommendation, but this explains why it might well be consistent and sensible and proper to recommend a tax reduction, even though the outlook were for some deficit without it.

Excuse me, Mr. Chairman. You asked how much tax reduction?

The CHAIRMAN. Yes.

Mr. BELL. As I indicated, the President has made no recommendation as yet. I have seen only private speculation on this. The most frequent figures I have seen in the newspapers are in the neighborhood of \$5 billion.

Mr. GROSS. There is nothing hypothetical in your mind about the ultimate cost of this bill as being a minimum of a billion dollars, is there?

Mr. BELL. That is correct, about a billion dollars. That is right.

Mr. GROSS. Where do you propose to get the money to pay it?

Mr. BELL. I shall answer that, if I may, in two responses.

First of all, as the economy grows each year, the revenues from the existing tax structure will grow. On the average, if our economy moves upward at the rate at which it has been moving upward over the last 10 or 15 years, which is a 2½ percent rate of growth a year, you would expect to have several billions of dollars of additional tax revenue coming in each year from the growth of the economy.

Mr. GROSS. That will not mean very much if we continue to spend as we have or increase spending as we have, will it?

Mr. BELL. Thus far, since the war, the increase in spending has not exceeded the increase in revenue stemming from the growth of the economy. The proportion of the Federal expenditures to the gross national product has stayed virtually level for the last 15 years. The effect I am indicating is shown exactly in those figures. Consequently, if the economy grows, there would be no problem of finding additional funds to pay for this pay increase.

I think the more basic point that I would like to state in response to your question, Mr. Gross, is that it seems to me what is involved here is the principle of what we ought to pay to Federal employees. It seems to me we ought to pay them a reasonable and equitable scale of salaries. We have suggested here a principle which we think represents such a standard, achieving the payment of reasonable and equitable salaries. If paying Federal employees reasonable wages meant that we were going to put a burden on Federal expenditures which we did not want to pay, then it would seem to me that the proper action for us to take would not be to hold down the salary rates, but to reduce the programs of Government to fit within whatever we thought was appropriate to budget in the Federal expenditure program.

Mr. GROSS. You do not believe unbalanced budgets and deficits are a good thing, do you?

Mr. BELL. No, sir; not in themselves.

Mr. GROSS. You do not share the philosophy of some people that deficit spending is good for the country?

Mr. BELL. Mr. Gross, I think sometimes deficits are a necessary evil. Sometimes it is better to accept a deficit than to take the actions which might achieve a balance.

Mr. GROSS. I just wondered about your philosophy, Mr. Bell, whether you share the opinion on the part of some people, I regret to say in top places in Government, that deficit spending is good for the country.

Mr. BELL. I have not heard anybody in the top echelon of this administration say that, Mr. Gross. What they have said, what I have said, what the President has said, what Secretary Dillon has said, is that in some circumstances, under some conditions, deficits are unavoidable and should be accepted and may even have some beneficial effects.

Mr. GROSS. You are well aware of the fact that the Congress is being asked to pass a postal rate bill, and one of the reasons is in order to pay increased salaries for postal employees. Why should not the raise to all other Federal workers be accompanied with a tax increase to pay for it?

Mr. BELL. As I understood it, Mr. Gross, the administration's case was not to link the rate bill and the pay bill. Instead, our position has been that—

Mr. GROSS. It does not make any difference whether you tie them together or not, this is the argument that is used. It is a mechanical proposition whether the two bills come in together or not.

Mr. BELL. I am not making a point about linking the bills, sir. I am making a point about linking the principles. It is our position, as I understand it, that we should pay people who work for the post office, as we should pay other Federal employees, at a reasonable and

equitable scale of salary. Whatever we did about the postal deficit, this would be true.

It is also our position—but it is an independent point—that, as the Congress said in the Postal Rate Act of 1958, the Post Office should be so managed, its rates should be so set, that the service the people want from the Post Office they pay for through rates, apart from the so-called public service expenditures. These two positions, it seems to me, are both sensible, and we have recommended both to the Congress, but it is a different thing, I believe, than saying we want more postal revenue in order to pay higher postal salaries.

Mr. CORBETT. Will the gentleman yield at that point.

I just want the record to show and the gentleman to know that since I have been on this committee, since January 1945, without exception when the postal employees have been in here for an increase in their compensation, the matter of the postal deficit has been thrown in our and their faces repeatedly, to the point that one year it was required that the bills be put together on the floor of the House. Another year, one had to follow the other in exact order. So, we have had that proposition, and it has been the argument of some of us on this side of the table that the salary and proper compensation of an individual postal employee should not be dependent upon the deficit, but upon what is the right salary. We have always been confronted with the other. That was the hurdle. That hurdle has not existed regarding the Federal classified workers.

So, the question which comes to us right now, and it will come harder, is: In the face of deficits, how in the world can we justify an increased salary without some corresponding increase in revenue?

Let us grant that all of us want to pass this bill, this is where we ought to have some direction and some advice from the administration as to how this can be justified. We just have not gotten it.

Mr. BELL. Mr. Corbett, so far as what may have been the position of previous administrations, of course I am not here representing them. I am here representing this administration. Our position, as I have indicated, is that the scale of salaries for Federal workers generally, including postal workers, should be established on the basis of what is a reasonable standard of equity and fairness and efficiency. We have suggested that it is necessary, in order to carry out the Congress own policy with respect to the postal system paying for itself, a policy with which we are in thorough accord, that a postal rate increase is desirable at the present time.

The CHAIRMAN. You know the House has already passed a pretty good postal rate bill.

Mr. BELL. Yes, sir.

The CHAIRMAN. It is now pending in the other body.

Mr. BELL. That is right. As you know, we are delighted that that took place.

So far as the Federal employees generally are concerned, I think my basic answer is the same as the one I indicated to Mr. Gross a few minutes ago. The question of what we should pay Federal employees is essentially a different question from the one of whether and under what circumstances and in which years we ought to run a surplus or a deficit in the Federal budget.

Mr. CORBETT. But the administration must know, when we are confronted with demands for foreign aid, demands for a farm program, demands for all these increases in the budget along the line, and then we are asked to stamp our approval on a pay raise, that people tend to look at us and wonder if we are entirely sane. We need to have some bolstering. If the administration wants this program, it must equip us with persuasive reasons for it.

Mr. BELL. Mr. Corbett, as you will recall, the farm bill which the President recommended would have reduced expenditures, not increased them.

Mr. CORBETT. I think we had better not get into that.

Mr. GROSS. I hope we do not get into that, because we could spend the rest of the day on it.

Mr. BELL. I recognize the weight of what you are saying, and I think the response I would make is that we entirely agree that it is appropriate and necessary to plan the Nation's finances on a sound basis. We, as a nation, must be willing to pay for what we want the Federal Government to do. There are two or three areas in which there is considerable difference of view at the present time over what is and what is not sound fiscal policy for the Federal Government. One of them is the point Mr. Gross was referring to a few minutes ago. Is it wise and proper to aim for a balance in the administrative budget each year? This administration does not regard that as the appropriate objective, and the public record is perfectly clear on that point.

Mr. JOHANSEN. Would you state what you regard as the appropriate period within which a balanced budget is to be achieved?

Mr. BELL. We have consistently held, and stated publicly, that it is desirable to balance the Federal budget over the period of the business cycle. The immediate problem with which we are confronted now is the same one that the previous administration confronted in 1958 and 1959; namely, that the business cycle has not acted in these recent years the way it did in the early fifties and the late forties. We have not had any years of high employment and full use of national capacity since about 1955, 1956, or 1957. In these recent years we have not had full cycles. The question of what is the correct, wise, and proper budget policy in years when the economy does not return all the way to full employment is precisely the point which all of us are worrying about right now.

The President's position, as exemplified in the January budget, was that assuming the economy was going to return to full employment, it was plainly desirable to plan for a balanced budget, and he did so, but the circumstances that are requiring everyone now to consider whether there should be any change in policy—the President has not recommended any change in policy as yet, but the circumstances which require him and everybody else to consider whether there should be a change in policy—is that we may not be, the course of the economy during the present years suggests we may not be, returning to full employment conditions.

If that is the case, the revenues anticipated will not arise, we will not have a balanced budget. But the key problem is that we will not have the full use of the Nation's personal and plant capacity, and what should be done, if anything, to adapt the budget to those circumstances is the problem all of us face.

Mr. GROSS. Why this talk about reducing taxes with this uncertainty, then? Why propagandize the country and lead them to expect something which in my opinion would be a fool's errand, to reduce taxes with this tremendous uncertainty, or even suggesting a reduction in taxes? Why propagandize this sort of thing?

Mr. BELL. What the President has said, Mr. Gross, is that next year it would be desirable to have a combined tax reduction and tax reform, which would mean some net reduction in tax receipts, but if the economy moves forward as he hoped it would be possible to do that and still balance the budget.

The question being debated in the press, and which the chamber of commerce recently made a recommendation about, and various Members of Congress have made recommendations, is whether there should be a tax cut this summer and fall.

The people who advocate this accept the fact it would give us a budget deficit temporarily. They argue that it is desirable because it will stimulate the economy and lead us toward higher employment and fuller use of our capacity.

I agree it is a point on which there is a difference in judgment but that is the nature of the argument.

Mr. CORBETT. Is there any place along the line where the other side of the coin has been looked at—I cannot recall any—where the administration said, "All right, we have a deficit. Certain of these expenditures should be curtailed."

Instead of that we have been getting message after message on the floor to increase spending. I am again telling the gentleman that people who are writing to us, people writing for publications, are wondering how in the world we can justify this. Here we have talk of a tax cut. There is no talk of an expenditure cut.

Mr. BELL. There have been, Mr. Corbett—and your point is certainly sound, I accept it, and I would respond that there have been—numerous expenditure reductions under this administration.

Mr. McNamara, the Secretary of Defense, on Sunday put out a relatively long and quite detailed statement indicating the many ways in which efficiency is being achieved in the Department of Defense.

Mr. CORBETT. Was that not pretty much a forecast of what was possible?

Mr. BELL. No, sir; the headlines rather implied he was talking about future events, but if you read the story, the release—I would be glad to have a copy sent to you if you like—you will find many of the savings he was talking about have already been achieved.

Mr. CORBETT. The total expenditure for our Defense Establishment certainly is higher than it was last year or the year before.

Mr. BELL. That is right. We have added to the strength and structure of the defense forces.

Mr. CORBETT. Overall we are still spending more.

Mr. BELL. We are spending more but we are also spending more efficiently.

Mr. CORBETT. This does not help the taxpayer.

Mr. BELL. Certainly it does. If we were not increasing efficiency, and we wanted to have 16 divisions and so many Polaris submarines, we would be paying more for them.

Mr. CORBETT. Granted that that is all right, to the individual taxpayer looking at our budget, looking at our deficit, looking at his tax bill, he thinks that we are spending more money. How can we tell him he doesn't know what is right?

Mr. BELL. He is not paying more taxes. Tax rates have not changed. The expenditures—

Mr. CORBETT. Yes, they have. The social security tax has gone up; the excise taxes that were to be removed, some of them have gone up; taxes on gasoline and oil have gone up; taxes on tires have gone up.

Mr. BELL. As you know, the gasoline taxes were put into a trust fund some years ago and are not involved in the administrative budget.

Mr. GROSS. It would have had to come out of the Federal Treasury and directly out of general funds if they had not been in a trust fund.

Mr. BELL. That is right. It is quite correct that the gasoline taxes have risen. It is also correct that social security taxes have risen. These are very small parts of most people's tax burdens.

Nevertheless, the major point I keep coming back to is that the volume of expenditure in the Federal budget reflects the decisions as to what it is that the President and the Congress want to be done through Government.

Do we want a larger defense force or do we not want a larger defense force? Do we want a rapid and full-scale space program or do we not?

Those decisions are passed on each year by the Congress. They are the basic determinants.

In addition to that it is also the responsibility of the executive branch to try to carry out what the Congress has determined should be done, and to carry that out with the maximum efficiency. We have been working on that point.

I cited Secretary McNamara's statements. You yourselves yesterday, I understand, were talking with Postmaster General Day about the same point.

He has been able, as the previous Postmaster General was able, to handle a larger volume of mail with a less than proportionate increase in staff. That is an increase in efficiency.

We are all highly conscious of our responsibility to achieve and increase efficiency every year.

Mr. JOHANSEN. How does an increase in efficiency affect the budget and the deficit picture if net total Federal expenditures are still higher?

Mr. BELL. It affects it, sir, because if the increase in efficiency had not taken place, and the decision had been to undertake the tasks which were reflected in the budget, then the deficit would have been that much larger.

Mr. JOHANSEN. But the deficit is still out of balance.

Mr. BELL. The budget is out of balance.

Mr. JOHANSEN. The deficit still exists, still grows.

Mr. BELL. Well, the deficit for the last fiscal year which ended 2 weeks ago was about \$7 billion. The President's anticipation for 1963 had been for a small surplus.

Even if the economy moves less favorably than the President anticipated, I would think it rather unlikely, barring tax cuts, that the

deficit for fiscal 1963 would be as large as the one in 1962. I think even Senator Byrd, in the figures he has used, has suggested that he thought a smaller deficit was likely for 1963 than the one we have just finished.

Mr. JOHANSEN. Since the gentleman has mentioned Senator Byrd I will quote his words. He said:

The deficit will not be less than \$5 billion at the very lowest. It may be much more.

Mr. BELL. For 1963?

Mr. JOHANSEN. Yes, sir.

Mr. BELL. The deficit in the year just ended was \$7 billion or thereabouts.

Mr. JOHANSEN. There is a margin of only \$2 billion for the "much more" to exceed the \$7 billion deficit.

Mr. BELL. As you can imagine, I do not wish to endorse Senator Byrd's prediction.

Mr. JOHANSEN. Let me say apropos of that that I endorse unqualifiedly Senator Byrd's statement regarding the gentleman. The only question is whether the gentleman's replacement would result in a replacement of this philosophy. I have nothing against the gentleman personally. I would like to see either a conversion of his philosophy or the replacement of the philosophy.

The CHAIRMAN. I don't understand you.

Mr. GROSS. That is what Senator Byrd said.

Mr. JOHANSEN. The gentleman knows what Senator Byrd said.

The CHAIRMAN. I am talking about Mr. Bell. I thought you were referring to him. Are you referring to Mr. Bell or Senator Byrd?

Mr. JOHANSEN. I refer to Senator Byrd's statement regarding Mr. Bell. I think the objective ought to be the replacement of a philosophy which creates planned deficits.

Mr. BELL. Mr. Johansen, leaving aside any personal element in this, I think there is quite a substantial consensus in the United States today as to the desirability of accepting Federal deficits in circumstances of recession. That was the point of view of Prof. Arthur Burns who was the Chairman of the Council of Economic Advisers under Eisenhower. It is the view of the present Chairman of the Council of Economic Advisers, Mr. Heller. There is no difference between them on that point.

I take it that you would feel neither of them is qualified to hold the job they have.

Mr. JOHANSEN. No, I feel simply that the philosophy is wrong regardless of which administration sponsors it.

Mr. BELL. This view also is held by the Committee for Economic Development, the businessmen's group, which includes very distinguished businessmen, as you know, Mr. Yntema, vice president of the Ford Motor Co., was their spokesman when they appeared before the Joint Economic Committee in February of this year, and there are many other leading businessmen who are members of that group.

Mr. JOHANSEN. I wonder if the gentleman can give me or supply for the record the total amount over the past 10 years which has been paid in interest on the national debt?



Mr. BELL. Yes, sir, I would be glad to do that. I cannot give it offhand. I suppose it would be somewhere between \$70 and \$80 billion.

(The information requested follows:)

The total of Federal expenditures for interest on the public debt over the past 10 fiscal years is \$75,699 million, including an amount of \$9,075 million for 1962, which at this time is subject to possible adjustment when the final 1962 information is released.

Mr. CORBETT. You quoted these individuals as favoring deficits.

Mr. BELL. Under certain circumstances, Mr. Corbett.

Mr. CORBETT. Yes. I am wondering if the gentleman knows what would be the opinion of foreigners who have legitimate claims against our gold reserve. Does he think they believe that the American deficits are good things?

Mr. BELL. We have checked this point very carefully on numerous occasions, with the financial officials of foreign governments and with the central bankers of foreign countries and with the private bankers of foreign countries, and their economic advisers.

They are quite accustomed to deficits in the European countries. They handle their budget accounts in a different way than we do. They handle them more as corporations do, with a distinction between current accounts and capital accounts, so that the typical budget of England, France, or Germany, if put into the form we use, would show a deficit.

They have had more deficits in their governmental budgets in recent years than we have.

The only point I make is that they are accustomed to considering whether or not a deficit is desirable in a particular year depending on the economic circumstances of the year and what they expect to happen later.

Mr. CORBETT. This is reassuring if it is true. Your contention is, then, that deficits in our budget would have no adverse effect on our gold reserves?

Mr. BELL. It depends, Mr. Corbett, entirely on when the deficit occurred and how big it was.

The whole burden of what I have been suggesting is that it is not a sufficient guide to policy to say that deficits are always wrong in all circumstances, but instead to decide, depending on the circumstances in a year, whether any deficit is wise, and, if so, how big it should be.

Under many circumstances I would argue very strongly that a deficit would be totally bad policy. In a period of time in which there were inflationary pressures and dangers I would argue strongly the Federal budget should be planned and operated at a substantial surplus in order to reduce inflationary pressures on the economy.

Mr. CORBETT. I have another question. Do you fear that a continuation of these deficits, the run on the gold reserves, and the like, might lead to devaluation of our dollar?

If you do not care to answer it I can understand.

Mr. BELL. We are extremely conscious of the balance-of-payments position that the country has been in for the past several years. One of the first messages that this President sent to the Congress expressed his concern about it, his intention to take action, and a series of measures were recommended to Congress and a series of actions were started within the administration.

As a result of the strong action we have taken, the deficit in the balance of payments, which had been running over \$3 billion a year in 1958, 1959, and 1960 calendar years, was cut last year to under \$2.5 billion, and in the present year we hope it will be even better.

This is not enough. It is our belief that we should so move as to bring the balance of payments into equilibrium. This is the policy of the administration, and it is being followed very vigorously.

Under those circumstances, of course, we expect we will be under decreasing pressure from the balance-of-payments side rather than increasing pressure.

Of course, if we are successful in this, the question of devaluation is a very remote one.

The President has said frequently that he does not intend to get into a position where devaluation would be necessary.

This is a matter on which we feel most strongly. Certainly I do not think we feel less strongly than you gentlemen do on the importance of bringing the balance of payments of the United States into equilibrium.

Mr. GROSS. The foreign bankers may be accustomed to deficits in the U.S. Treasury but I do not think the French are accustomed to the United States buying \$50 million worth of French francs to defend the position of the dollar in the international money market because this was the first time we bought \$50 million worth of francs, a few weeks ago, the first time in nearly a quarter of a century, so they cannot be very well accustomed to our buying French francs to defend the position of the dollar.

More recently we bought \$50 million worth of Swiss francs.

Mr. BELL. That is right.

Mr. GROSS. So far as I am concerned this is not a very healthy situation, but we will not go into that.

I just want to point out, in my opinion, this is not the accustomed operation.

Mr. BELL. It has not been customary for the United States to do it. It has been customary for other countries.

The question, of course, is not whether it has been customary but whether it is now a desirable thing to do. I agree with the gentlemen it is pretty far afield from this morning's discussion.

Mr. GROSS. It all fits into the picture of ability to pay.

Mr. BELL. That is right.

Mr. GROSS. One other question—you have heard of the Randall report on the salary business?

Mr. BELL. The special—

Mr. GROSS. Clarence Randall's report.

Mr. BELL. Yes.

Mr. GROSS. Let me insert my own observations since you mentioned the previous administration several times in your discourse here this morning.

I didn't agree with many things the previous administration did, either, or their attitude toward deficits, debts, and so on, and so forth. I am one of those who happened to speak my piece when they were in power in Government, so I have no hesitancy now.

Getting back to the Randall report, Mr. Randall said:

I am firmly convinced that higher Federal salaries would attract a level of competence that would so improve Government operations that there would be no out-of-pocket cost at all.

Do you agree with that, Mr. Bell?

Mr. BELL. It has been my understanding, sir, that in that paper what Mr. Randall was talking about was principally the higher levels of management in Government.

Certainly I would agree that bringing in better competence in top levels of Government can be expected to result in higher efficiency and savings in expenditures.

As you know, of course, the costs of the increases to the persons at the high end of the salary scale are relatively very small. The budgetary increase for all the supergrades, I think, at the end of the third year would be something like only \$9 million out of this billion dollar total, and I assume that is what Mr. Randall was talking about, and, therefore, it is quite likely to occur.

Mr. GROSS. I am making no assumption at all he was talking about higher salaries because he didn't say higher salaries; that is, the high bracket salaries in Government.

This was a very generalized statement. Admittedly I quoted only one sentence, but I find nothing here in which he says that this is his attitude only toward higher bracket salaries in the Federal Government.

You know, there is quite a contradiction here in what we are doing. We are building plush office buildings down here in Washington, including one for the House of Representatives, but downtown there are all kinds of buildings, air-conditioned, supposed to provide more efficiency. We are doing all of these things, plus hundreds of millions of dollars spent on automation which is supposed to increase efficiency in the Federal Government, and we understand the necessity for increases in the Post Office Department regarding clerks and carriers, those who carry on the field services of the Post Office Department.

However, aside from that, we will have put on so far in the Kennedy administration, as I recall the figure, around 80,000 employees, and it is predicted this will go to 130,000 to 140,000 by the end of the next fiscal year.

Where is this efficiency, where is this return in increased productivity with all of the expenditures going on to increase this so-called efficiency in other ways?

Mr. BELL. Many of the employees to which you refer, the increase in employment, are in the Post Office, some thousands of that increase.

Mr. GROSS. Let us leave that Department out and take other branches of the Federal service.

Mr. BELL. There are something like 25,000 to 30,000 in the Defense Department. This is the case we spoke of a while ago.

This the President felt and recommended to the Congress, and Congress agrees, that a substantially larger defense program should be undertaken, and it is being undertaken. That means more work will be done.

I indicated Secretary McNamara's firm intention to do that work, a larger volume of work, at a higher efficiency, but the net effect over

the short run has been to increase the number of persons on the payroll. That is correct.

Mr. GROSS. One further observation and then I am through—this business of saying Congress approves these things, and Congress does approve many of them, but let me say to you, Mr. Bell, that there is an awful lot of arm-jerking and pressure tactics being used around here to get some of these programs through from the executive branch of Government which cause spending to go up and up and up.

Mr. JOHANSEN. I have just two or three questions. I will tell you very frankly I am trying to understand your philosophy. I am trying to understand the philosophy of Senator Byrd, and they are obviously opposing philosophies.

Can you tell me offhand in the years since the end of World War II how many years we have had deficits, where we ended with deficits?

Mr. BELL. There have been 17 years in all. During that period there have been about six surpluses, I believe. That would leave roughly 11. I am sorry I don't have the precise figures with me.

Mr. JOHANSEN. Assuming those figures, is it your conclusion that the 11 years of deficits were under the philosophy which you expressed justified, desirable, and in the public interest?

Mr. BELL. No, sir, I do not. I do not think the philosophy which I have suggested has been applied fully in every instance.

For one thing, these ideas have been growing, their acceptance has been growing, people have been understanding them better, so that right after the war you may recall there was a great deal of uncertainty as to what the proper fiscal policy was.

The initial feeling of many economists and many Members of Congress was that we would probably be facing a postwar recession and fiscal policies should be aimed at that. This was erroneous. We faced inflation instead.

Looking back, I would personally be quite persuaded that the surpluses which were run in the budget—there were more surpluses than deficits in Mr. Truman's immediate postwar years—but looking back those surpluses were not large enough and there were not enough of them. We should have been running in those years a substantially bigger net surplus in the Federal budget in order to reduce the inflationary pressures which were very serious at that time.

Mr. JOHANSEN. What about reducing the national debt?

Mr. BELL. It would have resulted in the ability to reduce the national debt even more than Mr. Truman was able to reduce the national debt during his term.

Mr. JOHANSEN. Do I understand, however, with respect to the fiscal year just ended, that you say "A smaller deficit would have been undesirable"?

Mr. BELL. In the fiscal year just ended?

Mr. JOHANSEN. Yes.

Mr. BELL. Yes, sir, that is correct. The judgment as to how big the deficit ought to be in a year of recession and of emerging from recession, such as we have had, is one where judgments can differ.

In the last previous similar year in the Eisenhower administration the deficit was some \$12 billion, as you will perhaps recall.

I think looking back that was probably too large, and I think the Eisenhower Secretary of the Treasury and Budget Director at that time, and President Eisenhower himself, perhaps, might agree that was a larger deficit than should have been run in that period of recession.

We tried, and have succeeded, in running a smaller one in this particular period of recession. The economy has moved quite well, as you know, all through calendar 1961, and on into the first half of this year conditions improved rapidly, although the economic circumstances during the latter part of this spring and at the present time are somewhat more doubtful.

We are not clear as to what the best judgment is as to the outlook from here on.

However, up to now the combination of elements which has contributed to the substantially rapid rate of recovery from last year's recession, the revival of business investment, the Federal deficit, the increase in consumer spending, all of these have worked very effectively together to restore employment and increase the use of industrial capacity quite effectively.

Therefore, I would think, looking back, that it would be an appropriate judgment that the size of the deficit was not too bad.

Mr. JOHANSEN. I understand there is a prevalent philosophy that there is a need for some shift from what has been called spending in the private sector to spending in the public sector.

Mr. BELL. There are some economists who hold this, sir, but that is not my view and it is not the view of the present administration. Those economists, I should say, are relatively, so far as I am aware, in the minority among economists, and certainly this is not part of the philosophy of this administration.

Mr. JOHANSEN. Insofar as there is a shift from spending in the private to the public sector, does that not inevitably contribute to Federal deficits on two counts—first of all, because it involves more Federal spending; secondly, because it decreases the spending in that segment of the economy which is the source of the tax revenues which pays for the public sector's spending?

Mr. BELL. I do not want to sound as though I am defending the point of view that there should be a shift from the private to the public sector because I do not defend it. I do not agree with it.

But those who do argue that way, Mr. Johansen, would answer you, I believe, that the shift could be supported by additional revenues taken from the private sector.

I repeat, I am not trying to support that point of view. I am just saying that is what they would say.

Mr. JOHANSEN. I understand that. As a matter of fact, is not what is transpiring actually a shift from private sector spending to public sector spending? I cite as an example the statement, which I believe to be accurate, that of the \$3½ billion increase in Federal spending proposed for the current fiscal year, \$2 billion, or 58 percent, is for non-military functions.

Mr. BELL. I don't know where that figure comes from.

Mr. JOHANSEN. From Senator Byrd.

Mr. BELL. It doesn't sound correct to me. I haven't my budget documents with me.

But, anyway, I don't think the conclusion is correct. As I have indicated, since the war there has been a trend toward large absolute spending, that is in absolute numbers, larger dollar figures. The Federal budget has risen in absolute terms but not in relative terms.

The Federal Budget today is running at something under 16 percent, Federal expenditures in comparison to the gross national output of goods and services being about 15 point something percent of the gross national product.

Back in 1946 or 1947 it was about the same. It rose a little bit during the Korean war, up to around 20 percent.

Then in 1953 and 1954 it fell. Since 1955 it has been virtually stationary. There has been no shift from private to public spending so far as the Federal Government is concerned.

I don't think this is the case with respect to the States and the localities. I believe there has been some increase in the proportion of national resources which are used by the States and localities, but—

Mr. JOHANSEN. Again adding to the aggregate Government costs which the private economy must support.

Mr. BELL. Yes, sir; that is correct.

Mr. JOHANSEN. On the premise that the taxpayer is indivisible.

Mr. BELL. I think that is an accurate conclusion.

Mr. JOHANSEN. I have one final statement: Is there any relevancy any more—and I should say as a background to this question that we are constantly confronted with new programs, proposed new programs, involving new and additional spending—is there any relevancy in your judgment to the old-fashioned, quaint McKinleyish question "Can we afford it?"

Mr. BELL. Yes, sir.

Mr. JOHANSEN. If so, when does that relevancy occur?

Mr. BELL. We in the Budget Bureau apply that question daily, and most notably in the months of effort we put into the review of each agency's proposed spending plans and before making a recommendation to the President as to what he should transmit to the Congress.

I think that is the question all of us should ask. We try to ask it. I am sure the Appropriations Committees of the Congress try to ask it.

A conspicuous case in which it was answered last year both by the executive branch and by the Congress, and where a big effect on the budget resulted, was in the case of the space program. Can we afford to send people out into space, to orbit the earth, to do more and more complicated things and eventually to go to the moon.

It was clear at the time that the recommendation was made and it was so stated, that there was a total bill on the order of \$20 to \$40 billion which was attached to that decision.

You may recall the President came up here to the Congress and spoke to them personally and said this was a major choice which the country needed to face, and he personally thought we should do it. He invited Congress' attention to the same question.

Congress decided we should do it, and we are now doing it. We are midway into it. The space budget is jumping by \$1 or \$2 billion every year, and it will continue to do so for another year or two before it levels off.

The question was whether we can afford it. The answer given by the President and the Congress was that "Yes, we could."

I think that was correct, incidentally. I am quite prepared to defend that point of view.

Nevertheless, I am giving it as an illustration of exactly why your question is highly relevant.

Mr. JOHANSEN. My whole point is this: There are a great many things desirable.

Mr. BELL. Right.

Mr. JOHANSEN. There are some things absolutely and desperately necessary.

Mr. BELL. Right.

Mr. JOHANSEN. And we are told frequently about some of these desirable things. When a thing is good, of course, we can afford it.

My point is this: When I raise the question of whether we can afford it, it goes not to the question of desirability but it goes to the question of the laws of economics and the simple laws of arithmetic which I do not think we have completely repealed.

Mr. BELL. I entirely agree with you.

Mr. JOHANSEN. So the decision of what is good and desirable does not necessarily coincide with the decision that we can afford it.

Mr. BELL. I entirely agree. I make that speech myself several dozen times a year. I repeat in all seriousness, we try to apply exactly this principle. You and I might very well differ on the result in any particular case.

Mr. JOHANSEN. I am intensely curious to know how many billions of proposed spending the previous or this administration or the previous or this Congress have turned down on the grounds that we couldn't afford it.

Mr. BELL. In the course of preparing the budget which the President submitted in January of this year we recommended reductions on the order of several billion dollars from the original figures which the agencies submitted.

This is not unusual. I believe it happens every year and has happened every year under previous budget directors, and I am sure it will in the future. I am not trying to sound as though I take personal credit for this. This is the way the system works and should work. This is the reason the Budget Bureau exists, to try to distinguish the merely desirable from the necessary.

I repeat, you and I might differ on any given case but we do not differ on the criterion to be applied.

The U.S. Government should be doing only what is necessary to be done and not what is merely desirable, and what is necessary to be done we should be prepared to recommend the revenues over a period of time which will pay for it.

Mr. JOHANSEN. My thinking is antiquated and goes back to 1932 when Franklin Roosevelt said that a government in an emergency, like a family, can spend more than it takes in for a time, but a government, like a family which persists in spending more than it takes in, is headed, like the family, for the poorhouse.

The CHAIRMAN. Thank you very much.

Mr. WALLHAUSER. Can we come back from the field of general economics to H.R. 10480 for a moment? Has there been any discussion at high level ranks about any adverse action by the administration if this committee or the Congress did not accept H.R. 10480?

Mr. BELL. I am not sure I understand the point of your question.

Mr. WALLHAUSER. Has there been any talk of a veto by the Executive?

Mr. BELL. I guess all I can say, Mr. Wallhauser, is that Presidents typically do not indicate ahead of time, at least publicly, what they will accept or not accept.

Mr. WALLHAUSER. What would your recommendation be since your Department had so much to do with the administration bill?

Mr. BELL. We have tried to indicate, in fact I tried to indicate in this statement, that the principle of comparability, the principle of basing Federal salary adjustments on a rational, realistic, accurate, measurable standard we regard as a most important element of the recommendations that are before you.

We believe, with Judge Davis, there ought to be a system of annual review for Federal pay scales.

We regard the bill as being highly desirable in that it accomplishes a tremendous rationalization and improvement in the internal relationships among the grades and the system of within-grade promotions, and all that sort of thing, so it is a major reform measure.

The President was prepared to recommend it because it was a major reform measure.

I would myself, for whatever weight it would be, in terms of my recommendations to him I would be most concerned about any bill which departed substantially from the reform content of this proposal.

This is not to say—you know, the President having been up here, and a Member of the Congress in both bodies, certainly would not put himself in the position of saying "My recommendations are it and I will not accept a change, a dotted 'i', or a crossed 't' differently."

There are many points where judgment was exercised and had to be exercised in getting up this bill. The committee's judgment might very well be something different. However, the basic principles of reform which we believe are reflected in this legislation I would personally feel are very important, and so far as I made a recommendation to the President, would be quite influential.

Mr. WALLHAUSER. You still have a basis of reform, changed amounts, changed percentages, and so on. Is that so?

Mr. BELL. Yes.

Mr. WALLHAUSER. Without going into specifics, I believe in the Post Office recommendations there are certain employees who actually would earn less than they are now earning.

Mr. BELL. I understand there is a provision about the longevities.

Mr. WALLHAUSER. This would not appear to be a very fair arrangement, would it?

Mr. BELL. I would not think that was one of the more important elements of the recommendation, no.

The CHAIRMAN. Anything further?

Mr. OLSEN. Mr. Bell, this determination to provide for increases in three different years, was that directed by this question of whether or not we can afford a whole increase this year?

Mr. BELL. In large part it was, Mr. Olsen. It was the feeling that the budgetary position would be preferable if the increase came about in three stages, three phases, rather than all at once.

Mr. OLSEN. So that the need for a pay increase is being influenced by some budgetary considerations?

Mr. BELL. Yes, sir, in that respect it certainly is.

Mr. OLSEN. However, the Bureau of the Budget and the administration do agree that the Congress should have something to say about the answer to the question—Can we afford it?

Mr. BELL. Of course.

Mr. OLSEN. So if Congress decided to have other effective dates they are entitled to that opinion, aren't they?

Mr. BELL. Certainly.

Mr. OLSEN. Thank you very much.

The CHAIRMAN. Anything further?

Mr. ADDABBO. Do you think the Government can afford the loss of employees because of low salaries in low levels and upper levels?

Mr. BELL. If I understand your question, Mr. Addabbo, we would feel very strongly that it is inefficient to pay substandard salaries. It leads to inefficiency for the Government to be in a position in which many people who have started out in the Government service, have had years of experience, are approaching the levels of responsibility which would make the best use of their training, and in which they could exercise first-class supervision and guidance to Government programs—that people like that under present circumstances face strong incentives to leave Government. This is certainly a contribution to inefficiency rather than to efficiency.

Mr. ADDABBO. And that refers to lower salaries?

Mr. BELL. The same point would apply to any level of salary.

Mr. ADDABBO. Can you give me a figure in dollars and cents, or percentage, of the return that would come back to the Government in taxes if these increases under both bills were enacted?

Mr. BELL. I suppose that the simplest answer to that would be to apply the average rate of tax return from any increment in private income, which the Treasury calculates somewhere in the neighborhood of 20 percent, if I am not mistaken. So one would assume offhand, as a first approximation, that of any increase in private income some 20 percent would be coming into the Government, the Federal Government.

Mr. ADDABBO. So if the increase amounted to approximately a billion dollars, about \$200 million would come back in revenues?

Mr. BELL. Something like that. As you recognize, that is a rough approximation.

Mr. ADDABBO. And the postal rate increase will give the Government about another \$600 million to meet practically the entire increase of \$1 billion.

Mr. BELL. That is certainly correct so far as arithmetic goes, yes, sir.

The CHAIRMAN. Other questions?

Thank you very much, Mr. Bell.

Mr. DERWINSKI. Mr. Bell, a year or so ago we had the postal rate bill before us. Mr. Roosa, who is the Under Secretary of the Treasury, testified before the committee.

Mr. BELL. Bob Roosa, yes, sir.

Mr. DERWINSKI. He stated his responsibility was for the revenue side of the budget. Your responsibility was for expenditure side of the budget.

In the statement you submitted to us this morning I see no figures whatsoever as to your latest estimate as to the cost of the administration pay bill.

Mr. BELL. I believe those figures have been in the record from the beginning of your hearings, Mr. Derwinski.

Mr. DERWINSKI. I realize that. Is there any change in the estimated cost in view of increases in productivity or reductions in work force, or anything of that nature?

Mr. BELL. I don't think there are any changes.

Mr. DERWINSKI. The figures you submitted to us are still correct?

Mr. BELL. About \$1 billion over the 3 years.

Mr. DERWINSKI. In your statement, Mr. Bell, you state—

I believe very strongly in holding the level of Government employment to the minimum necessary to get the job done.

You continue and point out that you believe it is possible to achieve a greater efficiency per man in Government work.

Then you cite the Post Office as an example.

Mr. BELL. That is right.

Mr. DERWINSKI. Is it proper to infer from your statement that by citing the Post Office affirmatively that you are criticizing other Departments of Government for not utilizing manpower properly or as efficiently?

Mr. BELL. Not at all. I cite that as in illustration which would be familiar to this committee of the principle which applies throughout Government.

I can give you several other illustrations offhand if you would like me to. The Department of the Treasury, for example, where the Division of Disbursements employed 1,900 people in fiscal year 1960, and issued 282 million checks. In 1962 it employed nearly 300 fewer people and issued some 34 million more checks. This is the kind of increase in efficiency we are talking about.

In the Department of Agriculture the Agricultural Stabilization and Conservation Service has cut requirements by some thousands of man-years in the last few years, sufficiently so that in the 1963 budget where they ask for 4,000 man-years, if they were performing at the efficiency rates they had in 1952 they would have required 10,000 employees. This is an illustration of productivity increases.

In the Veterans' Administration, handling veterans' insurance policies, the number of employees has declined from 1958 through 1961 from 4,400 to 3,500. This is a reduction in staff of 19 percent during a period in which the insurance policies in force declined only 4 percent.

In the Department of Commerce you are perhaps familiar with the very impressive story of how the 1960 census was handled in comparison to the 1950 census. It was a much bigger census but it was handled 18 months quicker and with a smaller staff.

If you compare the two periods 10 years apart the total employment in the Census Bureau has gone down by about 10 percent, even though the work they are doing is substantially larger. This is the result of automatic data processing to a very large extent.

These are illustrations which could be repeated and enlarged upon.

We have instituted the standard which we expect to apply in reviewing each agency's budget that they should be able to show us

increases in efficiency every year in every agency. They have to justify the exceptions if they claim for some reason or other that it is not possible to achieve this kind of increase in efficiency, and there are some instances in which that is probably correct.

In our judgment they should be relatively few and far between. This is what we expect to see in every agency as we look at their budget.

Mr. DERWINSKI. Then it is your view that it is necessary to take all practical steps to increase work or efficiency?

Mr. BELL. Yes, sir.

Mr. DERWINSKI. Would this run contrary to the objections of some employee groups who might charge you with speedup procedures or things of that nature?

Mr. BELL. I think by and large the managers, people responsible for running Government operations, have learned in recent years, as have most people in private business—not all but most—that when you want to institute a program of increasing efficiency the first thing you need to do is to make sure the people who work in the place understand what it is, why you propose to do it, how it will work, what the effect will be on them, and that they participate in deciding how it will be carried out and the rate of speed.

Frequently the program of work improvement, efficiency improvement, can be and should be worked out jointly between the management of the place and representatives of the workers.

Under those circumstances I would not think we should assume that in the normal case there would be opposition from representatives of the workers.

Mr. DERWINSKI. In your prepared testimony you state:

If we agree efficiency in Government needs to be raised and employment held down, I am sure you will agree that the Federal salary scales need reform to permit Government to attract and hold first-class personnel.

I don't want to misinterpret your language there, but are you implying that the personnel we are now attracting and holding are not first class?

Mr. BELL. We are attracting and holding many first-class people who are prepared to come into Government at some financial sacrifices because they want to work in Government. I expect that will continue to be the case and would continue to be the case if our salaries were much worse than they are now.

This does not seem to me, however, to be a good reason for paying substandard wages, and I think it is quite clear, and as you can tell from the earlier colloquy, I have seen cases in my own agency, and I have had constant discussions with other officials of the executive branch, which indicate that we are in fact not getting quite a few first-class people we could get were our salary scales better.

Mr. DERWINSKI. It seems there is one glaring deficiency in the administration's proposal; that is, you do not take into account the tremendous fluctuations in cost of living across the country.

As a matter of fact, in a district such as the one I represent, in suburban Chicago, the postmasterships sometimes go begging. In contrast a postmastership in Rhubarb Valley, Ga., is a plum.

The point is that obviously the scale is identical in Georgia as it is in Cook County, Ill., New York City, or Los Angeles, Calif. Ob-

viously from the standpoint of the individual the position is much more attractive in one location than in another.

As I see it, you have nothing to meet that problem.

Mr. BELL. This is a problem which I am sure this committee has been faced with on numerous occasions over the years.

The present pay systems which we are proposing to reform do not include differentials for different geographical locations. We are making no change in that situation.

The reasons we make no change I think are well known to this committee. It is extremely difficult, recognizing there are cost-of-living differences, to draw the lines which would be necessary to establish the system which would permit you to equitably and accurately reflect differences in cost of living in a pay structure.

Over the years the executive branch and the Congress have felt that the better way to handle this problem was to have a single pay scale nationwide.

There are some special features which allow for exceptional hardship cases, if I am not mistaken.

The CHAIRMAN. Section 104 of this bill would help that situation. Are you familiar with section 104, page 2 of the bill?

Mr. BELL. Yes, sir. That would permit exceptions under special circumstances.

The CHAIRMAN. That is right.

Mr. BELL. This would not, of course, provide for differences downward in exceptionally low cost-of-living areas.

Mr. OLSEN. Are you familiar with the fact that 75 to 80 percent of the employees are resident in cities of more than 100,000?

Mr. BELL. Certainly.

Mr. OLSEN. So that the cost of living is pretty standard for 75 to 80 percent of the employees.

Mr. BELL. That is right. After all, the differences in the United States are becoming smaller rather than larger as the years go by—as Rhubarb Valley, Ga., is becoming part of the Atlanta metropolitan area, for example.

Mr. OLSEN. That is right.

The CHAIRMAN. Anything further?

Thank you very much. We appreciate your testimony.

Mr. Macy, we regret we could not reach you today.

Can you be here tomorrow morning?

Mr. MACY. I shall be pleased at any time you designate, Mr. Chairman.

The CHAIRMAN. At this time, without objection, I will insert in the record a letter from Jerome B. Wiesner, Office of Science and Technology and another from Warren Olney III, Director, Administrative Office of the U.S. Courts; also a letter from Mr. John J. Murphy, president of the National Customs Service Association.

(The letters follow:)

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF SCIENCE AND TECHNOLOGY,
Washington, July 10, 1962.

Hon. TOM MURRAY,
Chairman, Committee on Post Office and Civil Service,
House of Representatives, Washington, D.C.

DEAR MR. MURRAY: I am writing with respect to the President's salary reform proposal before your committee to urge the most careful consideration to the beneficial effects its enactment would have in reducing quality manpower losses and

recruitment difficulties that have become critical in our scientific and technological programs.

My responsibilities to the President entail close attention to the effectiveness and productivity of Government laboratories and to the overall quality of the Federal research and development establishment. I am acutely aware of the steady losses from the cadre of top quality scientists and engineers engaged in research and administration.

The Civil Service Commission survey of industrial salaries comparable to the Public Law 313 range of \$12,500 to \$19,000 showed typical levels of compensation outside the Government ranging from \$20,000 to \$45,000. This large difference in compensation has undoubtedly influenced in a major way decisions to leave Government laboratories. Your committee is already aware of many case histories of such occurrences. This Office, with its day-to-day involvement with a great variety of research and development programs, affords another vantage point from which to assess their effect.

The Federal Council for Science and Technology has provided a basis for judging the seriousness of the losses. Its findings, summarized in "The Competition for Quality," are based upon some 800 resignations and new hires in a number of Government laboratories during fiscal year 1961. Of the senior scientists at the level of GS-13 and above, whom their colleagues regarded as outstandingly creative, almost 2½ times as many left the Government service as entered it. Of the scientists and engineers who resigned from Federal Government positions at GS-13 and above in the period 1958-60, 21 percent had the Ph. D. degree, compared to only 10.5 percent of those hired or promoted.

The disparity of salaries between Government and industry also affects recruitment. Only one-quarter of the scientists and engineers entering Government service upon receiving the bachelor's degree in 1961 graduated in the top quarter of their classes. In 1956 the comparable figure was 35 percent of those hired. In 1951 it was 70 percent. This trend bodes ill for the future quality of our research establishment. While the quality hiring program under section 803 of the Classification Act and more liberal GS-7 eligibility were intended to help remedy this situation, they are insufficient in promoting the desire to enter Government service. Of the 4,415 scientists, engineers, and mathematicians who competed and became eligible for appointment at GS-7 in 1960, only 2,389, or 54 percent, accepted employment. In order to alleviate these recruitment difficulties it is necessary to have a system of compensation which offers adequate promise of future advancement to the best science and engineering graduates.

I am convinced that the disparity in pay for Government scientists and engineers, particularly in the higher salary levels, threatens the continuing quality of the management and performance of Government research. The recent Bureau of the Budget study of R. & D. contracting with private institutions emphasized that with the rapidly expanding Federal support of research and development, almost 80 percent of which is conducted through non-Federal institutions, it is essential that the management and control of such programs be firmly in the hands of full-time Government officials. The study concluded that the public interest requires the Government to have exceptionally strong and able executives qualified to make policy decisions on types of work to be undertaken. Clearly, in dealing with programs of this magnitude the return to the public from topflight management direction and control far outweighs the added cost of the salary proposals.

An increase in salary of Government scientists and engineers should not result in an inflation of wages for comparable personnel in private industry. Revision of agency contract policies respecting salaries in accordance with the suggestions contained in the Bureau of the Budget study should offset this possibility. Further, the salaries proposed for senior scientists and engineers in Government are not fully comparable to those of private industry but, when considered in relation to the attractions of public service, should be sufficient in most cases to counterbalance private offers at higher salaries.

In conclusion, I urge the committee to consider the problem of salaries in the Federal service for scientists and engineers in the context of the competitive situation which has been intensified by increased Federal support of research and development, having in mind the great importance of the programs which they administer and carry out.

Sincerely yours,

JEROME B. WIESNER.

ADMINISTRATIVE OFFICE OF THE U.S. COURTS,
Washington, D.C. July 10, 1962.

HON. TOM MURRAY,
Chairman, Post Office and Civil Service Committee,
House of Representatives, Washington, D.C.

DEAR MR. MURRAY: The Judicial Conference of the United States at its meeting in March 1962 directed the Administrative Office of the U.S. Courts to take appropriate steps to ask that officers and employees in the judicial branch of the Government be included in any general salary adjustment legislation which may be passed by the Congress this session. It is not the intention of the Conference that the officers and employees of the judiciary be afforded special treatment in the area of salary adjustments, but that, if appropriate, the language in section 116 of Public Law 86-568, effective July 1, 1960, be included in the proposed legislation so that they may receive salary adjustments comparable to those afforded other officers and employees of the Federal Government.

If the above-cited section of the Federal Employees Salary Increase Act of 1960 appears not to be in accordance with proposals under consideration by your committee, please let us know and we shall be glad to be of assistance in drafting a part which will apply to the salaries of the officers and employees of the judiciary.

We shall also, of course, be glad to provide any service or assistance which your committee might desire in considering the application of any such act to the judiciary.

Sincerely yours,

WARREN OLNEY, III, *Director.*

NATIONAL CUSTOMS SERVICE ASSOCIATION,
July 13, 1962.

HON. TOM MURRAY,
Chairman, Committee on Post Office and Civil Service,
Old House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: The National Customs Service Association is an organization comprised of employees of the customs service at all levels. Our membership is spread from the continental United States to Alaska, Hawaii, Puerto Rico, and the Virgin Islands. We also have members in foreign countries where there are customs employees.

The subject of pay has always been a problem for us as it has been for other Federal employees. It is our experience that despite the action of Congress in revising pay levels, we continue to lag behind the cost-of-living and in many instances the pay of our members falls below that of their counterparts in industry.

We support most vigorously the President's pay reform plan and the concept of equal pay for equal work. Comparability with salaries paid in industry is a greatly to be desired goal. If the idea of comparability is a sound one—and we believe it is—it would be only fair and equitable to bring about comparability now rather than later. If the case for comparability is sound, there seems no valid reason to delay action.

We believe also that the effective dates should be on a 6-month rather than a 12-month base. That is to say, that the effective dates of the adjustments would be July 1, 1962, January 1, 1963, and July 1, 1963. This would make the reform program fully effective in half the proposed time.

With respect to the so-called supergrades of 16, 17, and 18, we believe that they should be made a part of the general schedule system. We do not think that there is need for a numerical limitation on supergrades. If the level of work importance and responsibility is such that it belongs in a supergrade, it should, in all fairness, be placed there under the criteria justifying the allocation of any grade. It seems basically unfair to preclude allocation to a grade simply because of numerical limitation. It is the work that justifies the grade. If this is not possible, then comparability does not mean anything.

In our service we have seen the creation of the supergrade barrier act against the best interests of many deserving individuals. It often presents an obstacle that cannot be overcome and thwarts the ambitions of subordinates. For example, we may have an employee who is doing excellent work and whose duties and responsibilities have increased to the point where a higher grade is warranted. If the grade to which he must rise is in the present supergrade

category, he is effectively prevented from receiving his proper remuneration simply because of the numerical limitation on grades at the super level. It is unreasonable that such a condition should continue and we urge this honorable committee to consider taking amendatory action.

Finally, as many of our members are at the lower GS level, we respectfully suggest that consideration be given to increasing the amount of raise proposed for employees in the low-pay brackets. It would be most unfair to limit them to the amounts proposed while other employees would be given substantially higher amounts.

I appreciate the opportunity to make our views known and know that the members of this honorable committee understand thoroughly the pay problem of Federal employees. We know that the future of this legislation is in good hands.

With many thanks for your kindness and consideration, I am,

Sincerely yours,

JOHN J. MURPHY, *President.*

The CHAIRMAN. We shall now adjourn until 10 o'clock tomorrow morning.

(Whereupon the committee adjourned, to reconvene at 10 a.m., Thursday, July 12, 1962.)

REVISION OF MAJOR FEDERAL STATUTORY SALARY SYSTEMS

THURSDAY, JULY 12, 1962

HOUSE OF REPRESENTATIVES,
COMMITTEE OF POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 215, House Office Building, Hon. Tom Murray (chairman) presiding.

The CHAIRMAN. The committee will come to order.

We have had the pleasure of hearing from Mr. John W. Macy, Jr., Chairman of the Civil Service Commission.

He and certain members of his staff are again present and ready to answer questions by members of the committee.

If you gentlemen will come forward.

STATEMENT OF HON. JOHN W. MACY, JR., CHAIRMAN, CIVIL SERVICE COMMISSION, ACCOMPANIED BY HAROLD LEICH, CHIEF, PROGRAM PLANNING DIVISION, ROBERT S. HARE, CHIEF, PAY SYSTEMS SECTION, ROBERT F. MILKEY, PAY SYSTEMS SPECIALIST

Mr. MACY. Thank you, Mr. Chairman.

The CHAIRMAN. Have you any further observations to make?

Mr. MACY. If I may, Mr. Chairman, I have a brief statement that I would like to offer which I think will provide a summing up of the position I am taking.

The CHAIRMAN. Very well.

Mr. MACY. For the record, I have with me Mr. Harold Leich, Mr. Robert Milkey, and Mr. Robert Hare, all members of the Commission, Bureau of Programs and Standards, working in the compensation field.

Mr. Chairman and members of the committee, I appreciate the opportunity you have afforded me to appear before you once again in the course of your consideration of H.R. 10480, introduced by Chairman Murray, on Federal salary reform and other Federal pay legislation. Since I presented my testimony on May 3, your committee has generously arranged time to hear the views of department and agency heads, employee leaders, and interested private citizens on this critically important legislative issue. It is not my purpose to repeat in any detail earlier testimony but to sum up briefly the principal benefits to the Federal service offered in H.R. 10480 and to respond to questions you may wish to direct to me.

All witnesses who have testified have agreed on the importance of adequate Federal salaries in the attraction and retention of able and dedicated employees in the Federal service and the necessity for changes in the existing salary situation. In the view of the Commission, the President's salary reform proposal, as embodied in H.R. 10480, represents the most effective and appropriate means for achieving these objectives. This proposal would fundamentally revise and improve Federal salary systems. Such revision and improvement are urgently needed if Federal programs are to be staffed and performed at the level of capability expected by the Congress, the President, and the American people. This is significant, long-term improvement that is proposed and not an immediate, short-term pay increase.

The proposal contains two basic principles to be applicable in determining salary rates for 1,600,000 positions and employees in the four salary systems of the Government.

First, comparability, where Federal salaries are made comparable with private enterprise salaries for the same levels of work.

Second, internal alinement, where equal pay for equal work is maintained and pay distinctions are established in keeping with work and performance distinctions.

The first principle can now be met through a factual and objective method. The authoritative Bureau of Labor statistics annual reports of national salary levels in private enterprise are available in setting and adjusting salary schedules. Through annual review of these reports it will be possible for the President to present annual recommendations based on changes in comparability.

The second principle is met through the establishment of an improved salary structure with regularized intervals between grades and appropriate within-grade ranges.

In the interest of maintaining a high quality career service the proposal includes authorization for greater flexibility in applying the salary system. It would create a better method for advancing salary rates to meet competition in shortage occupations. It would permit use of above minimum salaries to attract highly qualified personnel. And, it would make possible merit increases in recognition of better performance.

The proposal has special importance in setting standard policies applicable to all Federal statutory salary systems. Such standard policies, which have not existed in the past, are called for in fairness to employees to assure equal treatment for all and to avoid more liberal treatment for some groups in contrast to others. It is called for in fairness to the taxpayers because unnecessarily liberal policies for certain systems would result in unnecessarily high salary cost. It is called for to provide an objective basis needed in all systems for determining the timing and amount of adjustments.

It is now possible to bring all four systems into proper relationship. The Classification Act comparability schedule is based directly on BLS findings and the comparability principle is extended to other systems by linking salaries at a few key levels with the Classification Act. The points of linkage were determined on the basis of evaluation of duties, responsibilities, and qualification requirements while taking account of other factors such as opportunity for advancement and career patterns.

Both the standard policies and interrelationships would be seriously disrupted if any one system were separated out from the others and given special or immediate pay treatment.

The application of the comparability principle using the currently available BLS survey calls for significant adjustment of existing rates. Virtually all rates would be increased. These increases are much greater at top levels than at lower levels in order to achieve more equitable relationships among Federal salaries and to bring Federal schedules more in line with prevailing levels in the private economy. Once this "catch up" process is completed it can be expected that future increases will be more evenly distributed at all levels.

The lower level positions have received pay increases of sufficient size in the past to make their rates much closer to what is paid in salaries for similar work in private enterprise. After World War II four successive pay adjustment actions provided much higher percentage increases at the lowest rates than at the top rates and this relationship has been preserved in recent years through across-the-board percentage increases.

Those responsible for the accomplishment of Federal programs of all kinds have indicated the need for this reform. It was their forceful view that without improved salary systems they would be severely handicapped in meeting program goals set by Congress and the President. Some have pointed to the increased use of the contract method as a result of past inadequate managerial and scientific salaries. As additional evidence of this need, I am furnishing copies of the Federal Council for Science and Technology publication, "Competition for Quality," prepared by a panel of science administrators, headed by Dr. Allen Astin.

I would like to say, also, in response to questions raised of Mr. Bell by Mr. Corbett yesterday we have prepared a summary document which is before you and which includes the specific indications of difficulty in recruitment and loss of personnel in a variety of middle and upper level positions.

It was our thought that this document might be helpful to the committee in pulling together testimony that was given at various times indicating the specific difficulties experienced by the departments and agencies.

H.R. 10480 contains three pay schedules for each system. These constitute the phased pattern for placing the new rates into effect at three dates—January 1, 1963, January 1, 1964, and January 1, 1965. As has been explained this pattern was designed to reduce the impact of the total cost of \$1,058 million on the budget. It should be emphasized that BLS reports for intervening years prior to 1965 will be considered in the annual review prescribed in the bill. This review may lead to recommendation for additional increases before the schedules in the bill are fully effective. These schedules will provide a guaranteed minimum increase for Federal employees on the designated dates.

Many witnesses have presented to your committee data of various types intended to support larger increases for certain groups. But in my reading of the record I am unable to find an alternative policy, system and method for setting salaries that could be substituted for the policy, system and method set forth in the President's proposal

and in H.R. 10480. A long-term improvement is needed in the salary program of the Federal Government. Further pay increases authorized without standard or policy will not meet that need. There is an opportunity in this bill to take a long-needed and now achievable step in the direction of a continuing pay system which will be equitable to employees, Federal agencies and the general public. The fundamentals of this proposal are essential to Federal salary systems which will enable the Government to recruit, develop, and retain the top talent needed in its career service in the days ahead. Your favorable consideration of this bill will contribute to the long-term improvement of the Federal service which plays such a vital role in our national security, welfare and progress.

Thank you, Mr. Chairman, for your courtesy in permitting this further testimony and for introducing this important bill. I will be pleased to respond to any questions that you and your fellow members may wish to ask.

The CHAIRMAN. Are there questions of Chairman Macy?

Mr. CORBETT. Mr. Macy, I am very happy that you went to the trouble of gathering together some of the statistics and facts showing difficulty of recruitment and retention. I have had an opportunity to skim through that report. I recognize you did not have much time to put it together.

In the furtherance of your case, am I not correct in believing that almost all of these examples apply to specialists—economists, doctors, scientists, pilots, and things of that sort?

Mr. MACY. They apply to a variety of professional groups, but they also apply to administrative and managerial posts as well.

Mr. CORBETT. Here is where a problem arises. In this connection with competition with private industry, obviously the Government never will be quite able to meet the problem if industry makes it more attractive.

But in the body of Government employees do you or do you not find that you have a pretty steady input of fairly capable people; I am thinking of manning all of these departments and agencies, and what-not, with people who do not require any special skill and ability over and above average?

Mr. MACY. It is difficult to generalize on any organization as vast and as diversified as the Federal service.

Mr. CORBETT. I even had difficulty framing the question.

Mr. MACY. One of the reasons in support of legislation of this kind is that to an increasing extent a larger proportion of the Federal service must be drawn from those who have had professional or specialized training. This is because of the emerging technological needs in so many of the Federal programs.

I would say we would have to analyze individual occupations and locations to give you an answer, because we find that labor market conditions vary from place to place. We find that our ability to secure talent in certain professions is difficult, and in others not so difficult.

It seems to me that an important element involved here is this need to recognize quality, and if the Federal Government is not reasonably competitive, it will mean that the Government will not be able to compete at all effectively for the more able people that are in the labor market.

Mr. CORBETT. I think I can ask the question better now. Are we being asked to raise the salaries for 100 percent of our employees because we have problems dealing with 20 percent of the slots?

Mr. MACY. I would come back to the discussion which took place yesterday. It seems to me that basically as a matter of policy it makes good sense for the Federal Government to say that it is matching the salary levels that are competitive across the country on a national average.

I think that as far as the necessity is concerned, and there was this distinction made yesterday between desirability and necessity, I think that the necessity is a growing one, and that it is particularly strong at the point where the Government needs particularly high skills, where there is competition.

I would feel that the combination of desirability and necessity is important in considering pay proposals at this time.

Mr. CORBETT. That is all, Mr. Chairman.

The CHAIRMAN. Other questions?

Mr. UDALL. Mr. Macy, one problem about the administration bill, one feature of the bill has bothered me. On page 42 of the bill, in the section dealing with the postal field service, those employees in PFS-1 through PFS-5 are given credit for their longevity in the conversion process, but in PFS-6 through PFS-18 is not given credit.

I was impressed with the testimony of the representative of the National Association of Postal Supervisors in this connection. It seemed to me there was a real inequity here. I wondered whether your Department would be opposed to giving some consideration to the longevity status of these higher PFS employees.

Mr. MACY. I was impressed with their testimony, too, Mr. Udall. Let me say that we would be willing and interested in reviewing that particular portion of the bill to see if that seemingly inequitable situation could be corrected, and it is my impression that the Postmaster General would be in accord with that, also.

Mr. UDALL. I am happy to hear this. It was my intention to offer an amendment at this point in the bill. I am glad to have your response.

Mr. MACY. If we may be helpful to you in working on that we would be glad to do so.

Mr. UDALL. Thank you.

Mr. GROSS. In your statement, Mr. Macy, you say that—

In order to achieve more equitable relationships among Federal salaries.

Is it not true that if the administration's so-called pay reform bill is approved that you would have two new supergrades, 19 and 20, and that the top step in 20 would go to \$28,000 a year?

Mr. MACY. There is only one step in grade 20, but it would be \$28,000.

Mr. GROSS. It would be \$28,000 a year. Would that not immediately create an inequity between Cabinet members and top level in the supergrade?

Mr. MACY. The executive pay positions, the Cabinet level and sub-Cabinet and administrator positions, are not included in this proposal on the grounds that these positions should be considered in relationship to salaries for Members of Congress.

As the President indicated in his message back on February 20, it is his view that both top executive salaries and congressional salaries were currently inadequate, and he offered to cooperate with the Congress in working out a proposal for those groups; so far as equity and proper relationship between the top jobs and the four systems proposed here, your conclusion is correct. We are not dealing with that relationship in this bill.

Mr. GROSS. You would have an immediate inequity, would you not?

Mr. MACY. We would have an inequity at the top level; that is correct.

Mr. GROSS. You just do not cure the inequity in this legislation.

Mr. MACY. No; it would be necessary to move to a consideration of executive pay and congressional pay, which I believe we should do.

Mr. GROSS. Would it be a matter of 3 or 4 days, a week or 3 weeks before we had an executive pay bill before the next session of Congress if we by some mischance approved this reform bill?

Mr. MACY. I am not in a position to forecast time. I have been in the Government long enough not to speculate on how long it takes to get things done.

Mr. GROSS. I would not take very long for the Secretaries and the Assistant Secretaries and the Deputy Secretaries and the Under Secretaries to come flocking in for a pay increase. This just would not work, \$28,000 for Classification Act employees and \$25,000 for the members of the Cabinet.

Mr. MACY. I do not believe that would be the case because the view of the President has been that these salary levels should be considered in conjunction with Members of Congress, and in his message he indicates that in any event such increases should not be effective prior to 1965.

In the intervening period there would be the inequity that you identify.

Mr. CORBETT. Off the record.

(Discussion held off the record.)

Mr. GROSS. Mr. Macy, in your statement you say:

It would make possible merit increases in recognition of better performance.

You were here the other day when I asked Mr. Day about the situation in the Washington post office. There is a direct relationship, and you mention it here, that the pay bill is to provide for, as you say, and I agree with you, merit increases in recognition of better performance.

How do you attain better performance? Are you aware of the situation in the Washington office?

Mr. MACY. Yes.

Mr. GROSS. Does it have your approval that this individual in level 11 was suddenly jumped over 20 other supervisors with good records?

Mr. MACY. I felt the Postmaster General gave a very good explanation of the manner in which the promotion system works in the Post Office Department, and seniority is one of a number of factors considered in making these decisions.

Let me say with reference to the particular sentence that you identify in my statement, what I am referring to there are the advances within a grade in contrast to a promotion from one grade to another.

At the present time only seniority applies in the upward movement from step to step within a grade, and under this proposal it would be possible, where there has been an identifiable demonstration of better performance, for the department head to advance the individual a step beyond what would normally be authorized just for seniority.

Mr. GROSS. So this sort of thing, this jumping a man some five levels—

Mr. MACY. Five levels, that is right.

Mr. GROSS. Jumping him 5 levels over 20 other qualified employees has your approval?

Mr. MACY. I believe this is a practice which is followed in the Post Office Department in selecting supervisory personnel. Judgments are made under their merit promotion program which takes into account a variety of factors, and decisions are made based on the best available person in the competition to fill the vacancy which has existed at the higher level.

Mr. GROSS. There was vigorous protest on the part of the postal supervisors organization, was there not?

Mr. MACY. There are protests on some other promotions, too. There will not be unanimity of agreement on every decision. There is no question about that.

Mr. GROSS. Let me ask you, then, about this Executive Order 10988, dated January 17, 1962, I believe, which according to some of the reports I read in the newspapers was supposed to be the Magna Carta for the employees and employee organizations in the Federal Government.

Tell us what has happened under this Executive order which was supposed to do so much for the employees and their organizations.

Mr. MACY. The Executive order to which you refer, 10988, establishes a system of recognition for Federal employee groups and unions and their relationship with Federal management. It established a series of levels of recognition which would provide the means for continuing relationship between the agency head and these unions. It is in the area where there has been relationship in a number of different forms in the past and systematizes it, establishes a series of guidelines for these relationships.

Mr. GROSS. What other than giving a nonveteran the right of appeal, if I am stating this correctly, other than that, what is the meaning of this Executive order? What has been accomplished under it?

Mr. MACY. The objective is to establish improved cooperation between agency management and employee groups through various forms of recognition in order to bring about cooperation, greater productivity, between the groups and various portions of the government.

The system is one which permits a degree of discretion because of the variety of Federal operations and the varying forms of the union relationship in those agencies and departments.

If you would like specifics let me indicate. First of all, the order recognizes that the public interest is paramount in the relationship between Government management and employees. It recognizes the fact that unions do not have the right to strike. They do not have the right to a closed shop or a union shop.

It gives recognition to the necessity for these relationships to be compatible with the Civil Service Act and the merit system.

It recognizes that the Congress establishes certain fundamental conditions of work, such as salary and fringe benefits.

Against that backdrop it then says that there should be the right of every employee to join or refrain from joining an employee organization.

If an organization has membership in a particular department, it may have first informal recognition, and informal recognition means that there shall be communication between the management and that group.

If the organization shows 10 percent membership in a particular unit within the Federal Government, that organization, if it is accorded formal recognition, may then be consulted on matters of interest to the employees relating to conditions of work.

The third phase is that of exclusive recognition which calls for an opportunity for the two parties to negotiation on conditions of employment which are within the discretion of the agency management.

These are the basic provisions of the Executive order. The objective is to systematize the relationships which have grown up over a period of about 75 years since the start of Government unions and to hopefully achieve cordial relationships which will result in improved Government operations.

Mr. GROSS. What has been accomplished under it, anything?

Mr. MACY. It is still in its formative stages, Mr. Gross. The departments are putting their own regulations under this Executive order into effect as of July 1. In the Post Office Department, for example, they have been conducting an election to determine what the membership preferences are of postal employees among a number of different organizations, and the Department then will move to recognize in one of these three forms the organizations depending upon their membership.

In many instances this will initially be a confirmation under the order of the relationships which have existed within departments and agencies.

For example, the Department of the Interior has had since 1948 a policy of negotiation with unions on matters of wage board rates and other working conditions. Under this order presumably that particular pattern will not be changed. It is part of this Government-wide program.

Mr. GROSS. With regard to this situation in the Washington Post Office, evidently this Executive order had no—

Mr. MACY. It had no bearing.

Mr. GROSS. It could have had a bearing on it. Apparently the supervisors' organization protested and all protests were overridden. It seems to me to be outlandish, but apparently it didn't apply in this case at all.

Mr. MACY. The supervisors' complaint was taken to the Postmaster General. The decision was reviewed and sustained.

Mr. GROSS. It seems to me this is an order emphasizing, aside from section 14, what the employees and the organizations of employees cannot do rather than what they can do.

Mr. MACY. Subject of negotiation between the two groups if exclusive recognition is achieved. Of course, the status of supervisory employees is another factor which has to be considered under the

Executive order, but I do not feel that the particular case you cite is one which would be resolved one way or another by the Executive order itself.

It will be possible under the Executive order to negotiate grievance procedures where a union has exclusive recognition for employees in a particular unit. These are all in the process of development at the present time.

Mr. GROSS. The evidence is perfectly clear that if this so-called magna carta has any meaning at all it certainly did not apply in this case.

Let me ask you this question: Are you going to approve or stand by and see this sort of thing develop with respect to religion and various other factors in addition to color and race?

Mr. MACY. No, only factors of ability and merit are compared in competing for positions.

Mr. GROSS. Let us lay it right out on the table, Mr. Macy. You know and I know that this man was made assistant postmaster and jumped five levels in order to get a Negro as assistant postmaster in the city of Washington, D.C.

Mr. MACY. But this man was qualified, and that was not the sole criteria used in making the judgment.

Mr. GROSS. I am not opposed to Negroes holding jobs in Government. I want that made completely clear, but I do not like this business of jumping people over others who have more seniority, who have good records, who are perfectly qualified, and this has taken place not only in Washington, D.C., but elsewhere over the country.

I think that you, as Chairman of the Civil Service Commission, have a deep and a great responsibility in this business to see that civil service laws and regulations are adhered to.

Mr. MACY. I do, indeed. I believe it is important that all decisions relating to Federal personnel be made on the basis of competition where ability and merit are recognized. If there are instances that you are aware of where you feel that has been violated—

Mr. GROSS. I will tell you one now. There were 20 others with more seniority than this man, with good records—

Mr. MACY. But that is based only on seniority.

Mr. GROSS. They were passed over.

Mr. MACY. That is based only on seniority.

Mr. GROSS. No, based on qualifications for the job as well.

Mr. MACY. But the final judgment after comparing all of these qualifications is the judgment of the supervisor. In this case the action was reviewed by the head of the Department, the Postmaster General.

Mr. GROSS. I believe you will find you have a case in Boston, Mass., along similar lines. There are others over the country.

If I can be provided with information I am going to pass every one of them on to you from here on out.

Mr. MACY. I shall be interested in receiving them.

Mr. GROSS. I will say again I am not opposed to Negroes, American Indians, whatever they may be, holding jobs, no matter where. Did that business in Savannah, Ga., also have your approval; the retention in the postal service of a carrier whose conduct made him unfit for the postal service?

Mr. MACY. That case did not come to the Commission on appeal, Mr. GROSS. It was handled by the Postmaster General under his authority.

Mr. GROSS. That is all at this time, Mr. Chairman.

The CHAIRMAN. Other questions?

Mr. WALLHAUSER. Mr. Macy, there are three fundamental requirements in the pay reform bill, as I see it. One is comparability; the second is a reliable and valid system for comparability; the third is the method for annual review.

The method for annual review has been stressed many times, and Mr. Bell said it will assure Federal employees that pay adjustments will be made promptly and equitably. As I read the bill there is no such assurance. Perhaps you can correct me on this or give me your interpretation.

It seems to me that the Executive, under the bill, may, but is not directed in any way to do anything, which to me seems to be putting more power into the hands of the Executive and taking it out of the legislative.

Mr. MACY. You refer to section 103?

Mr. WALLHAUSER. Yes.

Mr. MACY. The language that the President—

shall direct such agency or agencies, as he deems appropriate to prepare and submit to him annually a report which compares the rates of salary—

and so on?

Mr. WALLHAUSER. Yes.

Mr. MACY. You feel the submission of the report is too discretionary?

Mr. WALLHAUSER. Not the submission of the report. The report is definite. It must be submitted, I believe. From there on it is discretionary, the action is discretionary.

Mr. MACY. But the implementation of the report and the recommendations would be up to the Congress in each instance.

Mr. WALLHAUSER. Up to the Congress or up to the Executive?

Mr. MACY. No, it would be up to the Congress. The President would report annually to the Congress as indicated in line 5, page 3.

Mr. WALLHAUSER. Where are you now?

Mr. MACY. Page 3 of the bill, starting on line 5(2) which is a continuation of what the President shall do.

He shall report annually to the Congress this comparison of Federal and private enterprise salary rates; and (b) such recommendations for revision or statutory schedule structures and compensation policy as he deems advisable.

Mr. WALLHAUSER. "As he deems advisable." Those are the key words.

Mr. MACY. If I may ask a question. Your view would be that this is too discretionary?

Mr. WALLHAUSER. That is my view, yes.

Mr. MACY. In other words, this would not constitute a commitment to present to Congress the facts relating to the need for revision?

Mr. WALLHAUSER. Not necessarily. "As he deems advisable." I think those words are very clear.

Mr. MACY. My view would be that the Congress, in considering these facts, would wish to have the recommendation of the Executive.

Mr. WALLHAUSER. We might wish to have them, but will we get them? That is the question.

I am not questioning the present Executive in any way. I want that clearly understood.

Mr. MACY. I think you and I are in accord on this. If the language can be improved to assure that all of the facts pertaining to comparability come before the Congress annually—

Mr. WALLHAUSER. That is correct.

Mr. MACY. I believe this is the desire we both have.

Mr. WALLHAUSER. That is my desire, yes.

Mr. MACY. So if there is other language which would appear to be more definitive on this—

Mr. WALLHAUSER. I think if you strike out "as he deems advisable" it might require that he do it. You or somebody on the staff can review that.

Mr. MACY. Really that only modifies recommendations. However, if the striking of that makes it—

Mr. WALLHAUSER. I have not given it enough consideration to know what language to use, but I think legislative counsel or somebody could come up with an answer to this question which has been bothering me.

One of the greatest things emphasized in this pay reform bill is that it will have annual review and will adjust salaries.

Mr. MACY. That is correct.

Mr. WALLHAUSER. Based on comparability. This seems to me to be a very, very loosely drawn loophole which could be utilized by any agency in not recommending to the President—I would not blame the Executive because he would not know all of the agency problems—it seems to me it gives a great deal of authority to the Executive and also gives him or his agencies an opportunity not to fulfill their obligations if they chose not to do so.

Mr. UDALL. If the gentleman will yield.

Is the gentleman from New Jersey objecting, as I understand it—under the law as written some agency reviews every year the changes in cost of living and determines what changes in the salary structure would be necessary to keep up our comparability principle.

Mr. WALLHAUSER. Not cost of living.

Mr. MACY. That is right.

Mr. WALLHAUSER. There is nothing about cost of living here. I wish there were.

Mr. MACY. The changes in the comparable salaries as a result of the BLS survey.

Mr. UDALL. I understand that, and I used the wrong term. The bill as now written simply requires that the President can look at the changes in comparability and decide to recommend bringing them up to par or not bringing them up to par. You want to make this mandatory so that he must recommend new rates that will keep comparability between private enterprise and Government.

Mr. WALLHAUSER. That is my point.

Of course, the gentlewoman from New York has many times made the point, and I agree that the cost of living, on an escalator basis, should have been included in this bill. I subscribe to that, too.

Mrs. ST. GEORGE. I will offer that bill again as an amendment to this bill when it comes up.

Mr. UDALL. There is one other related problem here that I wanted to explore. Section 103 requires that the President direct such agency or agencies, as he deems appropriate, to make these studies.

I would assume your agency probably would have a rather prominent place in these studies and annual deliberations.

Our colleague from Georgia, Judge Davis, has a bill, H.R. 10908, which provides for the establishment of a special committee on Federal pay consisting of a representative from the Budget Bureau, a representative from your organization, one or more representatives of employee organizations, one or more public members, and such other members as the President designates.

I have been rather impressed by the suggestion of the gentleman from Georgia, his concrete suggestion, as against the rather vague provision in the administration bill which lets the President designate any department or agency he sees fit.

Would the Civil Service Commission be strongly opposed to considering Judge Davis' pay committee rather than the rather vague machinery provided in the administration proposal?

Mr. MACY. We would have no objection to the bill which Judge Davis introduced providing this. Our preference would be to leave the choice to the President so he would have some discretion as to what agency he wished to use.

We would have no objection to incorporation of that language.

Mr. UDALL. I thank the gentleman for yielding.

Mr. WALLHAUSER. Judge Davis' bill is much stricter about what the Executive must do after it has been reported to him than the language of the bill which is before us.

Mr. MACY. That is correct.

Mr. WALLHAUSER. Perhaps in executive session we can agree on some compromise. I don't know whether Judge Davis' amendment will prevail or not.

Mr. MACY. I know Judge Davis has interrogated both Mr. Bell and me about this. I think our view is that we would prefer to give the discretion which is indicated in the first clause there but that we have no objection.

Mr. WALLHAUSER. Would you agree with corrective language which would make it more mandatory than the present bill is regarding the view and report to the Congress?

Mr. MACY. Yes.

Mr. WALLHAUSER. Thank you.

Mr. MACY. May I respond to your point on the cost of living?

Mr. WALLHAUSER. I yield to the gentleman from New York.

Mr. MACY. Mrs. St. George's view on this I respect a great deal and I would respond by saying that we have given a great deal of thought to the possible inclusion of a standard relating to the Consumer Price Index.

Our belief is that the differences in cost vary rather substantially from place to place within the country and use of the Consumer Price Index for the setting of salaries would not necessarily be reflective of the market situation that we have to deal with in competing for skills for Federal employment. Where the cost of living is reflected in the establishment of rates it would then appear in the comparability schedule that would show up as a result of the BLS survey.

Mr. ST. GEORGE. Mr. Macy, I would agree with you on that contention if your salaries were based on the same thing. There is a great difference in the cost of living as we all know in many parts of the country, but you would not base your salary scale on that in the Federal Government. You give everyone in the Postal Department who does a certain job a certain wage and for that reason I think he should also have the same benefit of an escalator clause on the cost of living. Now, if you change his salary rate you would still bring the cost of living into proper perspective. So I do not think that that argument holds.

Mr. MACY. In a number of circumstances you have a situation where the cost of living may not actually have increased very much but where the level of competitive salaries in the private segment have gone up considerably more. This is actually the condition that we find at the present time in comparing the cost of living increases with the survey results from the salary collection and analysis conducted by BLS.

Mrs. ST. GEORGE. I do not quite agree with you because that is not the thing reflected in the escalator clauses in a great many of the labor contracts, which have worked extremely well, incidentally, and that is one reason why I do not see why it cannot be put into the Federal Government. I think it would be fairer to the employees.

I agree with you that possibly there should be a differential right through on localities. I quite admit that a letter carrier in New York City is not nearly as well paid as a letter carrier in Delaware County but nevertheless that is the way the thing is set up at the present time. And unless we are going to change that I do not think that you can change the cost of living escalator clause.

Mr. MACY. My research would indicate that most of the unions and the companies that had escalator clauses are quite dissatisfied with them and that there has not been a significant increase in the number of escalator clauses that have been negotiated in recent years.

Mrs. ST. GEORGE. That may be your opinion. I do not quite agree with it. I haven't found it to be that way. I made diligent inquiries for many years. I started this about 12 years ago. It is nothing new.

Mr. MACY. I recall discussing it with you several years ago.

Mrs. ST. GEORGE. I have worked on it ever since.

Mr. ROUSSELOT. Will the gentlewoman yield?

Mrs. ST. GEORGE. I yield.

Mr. ROUSSELOT. Did you say you have indications that escalator clauses are no longer acceptable?

Mr. MACY. There is an indication there has been an abandonment of escalation clauses in a number of contracts and no significant increase in use of them in recent years.

Mr. ROUSSELOT. These were reports from unions?

Mr. MACY. These are reports that appear in the Monthly Labor Review and other Government publications.

Mr. ROUSSELOT. I would like to see those.

Mr. MACY. I would be happy to provide them.

Mr. ROUSSELOT. Thank you.

The CHAIRMAN. Are there any further questions?

Mr. HENDERSON.

Mr. HENDERSON. Mr. Macy, would you refer to page 32 of the exhibit furnished the committee?

Mr. MACY. Yes, sir.

Mr. HENDERSON. I don't know how familiar you are with this, but since you have presented it I have read here that those in group A who reported less than 5 percent of their bachelor of science and engineering graduates accept Federal employment. Group B is the category in which the Federal Government was able to employ 5 percent or more of similar B.S. graduates.

Then on page 33 it says—

* * * it appears that, while the Federal Government is obtaining a proportionate share of top-ranking students on an overall basis, very few are from universities represented by group A.

Is that not just a conclusion from what they said over on page 32? Do you understand the group here was made as a result of the survey, or was there a grouping prior to the survey?

Mr. MACY. May I refer this to Mr. Leich who worked with the Astin panel on this, to answer the question.

Mr. LEICH. I did not work on this actual survey itself. This was made in the Office of Science and Technology, but they did attempt to have two groups of universities and I believe their test in the first grouping was what was referred to here.

Mr. HENDERSON. It says—

Information as to the placement of recent graduates was requested from the following institutions.

Then it shows group A and then group B.

I wondered how this grouping was made.

Reading the next sentence it says—

Universities in group A are those that reported less than 5 percent of their bachelor of science and engineering graduates accepting Federal employment.

I concluded from that they made their grouping after surveying all of these universities into group A and group B.

Mr. LEICH. I believe they did.

Mr. HENDERSON. On the next page they say—

Judging from the selected university samples and the Civil Service Commission survey it appears that while the Federal Government is obtaining a proportionate share of top-ranking students on an overall basis very few are from universities represented by group A.

That is a conclusion that was obvious from the grouping itself. Now, what are they trying to say? Is there a distinction between group A and group B as to the quality of student or the quality of the university?

Mr. MACY. Mr. Henderson, I believe what they were endeavoring to do was to get an analysis, or really an evaluation of the various engineering and scientific training institutions and to determine what the percentage of hiring was from each.

Mr. HENDERSON. This was what I would like to know. I thought that, too. Are they saying in group A that those institutions are of a higher group by quality, by reputation, than group B?

As I read on, they arrive at the grouping by the percentage that went into the Federal Government.

Mr. MACY. We are apparently unable to be responsive on this. May I check with the authors of the report and provide an explanation for the record?

Mr. HENDERSON. Yes; and I might provide a further comment since I am not able through my own experience to appraise all of the institutions, but as between Duke University and North Carolina State, in my home State, if I were going to look for scientists, chemists, and engineers, with bachelor of science degrees, I would go to North Carolina State which is in that business principally, and they do not have doctors and lawyers and bachelors of art, as they do at Duke University.

I would like to know, because I doubt that these studies are trying to say one group of universities is a higher group because they do not send people into the Federal Government.

Thank you, Mr. Chairman.

Mr. MACY. Very good. We will get you a better answer on that. (The information requested follows:)

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., July 17, 1962.

HON. TOM MURRAY,
Chairman, Committee on Post Office and Civil Service,
House of Representatives.

DEAR MR. CHAIRMAN: During the hearing on H.R. 10480 before your committee on July 12, Congressman Henderson asked for an explanation of some information about recruiting college graduates which is given on pages 32 and 33 of "The Competition for Quality," a report of the Federal Council for Science and Technology dated January 1962. In response to his request, I am glad to submit the following statement:

In assessing the competition for quality graduates in recruitment by Government and industry, the Panel of the Federal Council requested information on bachelor's degree hires from 20 widely distributed and representative colleges and universities. An analysis of reports from these 20 universities placed them in 2 distinct groups: those from which the Federal Government hired fewer than 5 percent of graduates (called group A) and those from which it hired more than 5 percent (called group B). The panel reported this finding without attempting to classify the universities on a basis of quality. The statement on page 33 that very few students with high class standing came from the universities in group A does not just repeat the basis of this statistical separation. It means that Government hires from that group ranked lower among their classmates than did those hired from the universities in group B, as well as representing a smaller proportion of graduates.

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

Mr. GROSS. Mr. Macy, I have not had an opportunity to go into this booklet or whatever it is that you have supplied the committee, but can you tell me whether, in this comparison of salaries paid in the Federal Government and in private industry, fringe benefits are taken into consideration?

In reading this book entitled "A Businessman Looks at Government Pay," by Clarence B. Randall, I can find nothing where comparisons are made to indicate that fringe benefits in private employment are taken into consideration.

Mr. MACY. The answer is clear, Mr. Gross. This is just a comparison of base salaries and does not include fringe benefits on the Government or industry side.

When comparisons are made with industry, and we are dealing with higher level positions it is very difficult to ascertain just what is the extent of the fringe benefits.

Mr. GROSS. Thank you, sir.

Mr. BROYHILL. I think I stated before, Mr. Macy, that I wholeheartedly support the basic objectives of the program. I disagree with certain relatively minor aspects of it such as the effective date and a few others.

I recognized, and I think all of us do, that in any pay reform proposal there are certain difficulties in correcting inequities which have been permitted to occur over a period of years. We have to raise some segments higher than others, and that is where there is a difficulty politically.

Mr. MACY. That is correct.

Mr. BROYHILL. However, I am wondering here if we could keep the administration schedule intact—I am talking about the classified employees right now; I think the postal employees pose even a greater problem but if we keep the administration schedules intact and provide a minimum 7½-percent increase—now I do not have the schedule right before me translated into percentages but I think it would provide a little larger increase in grades 1, 2, 3, and possibly 5.

I am wondering, if that were done by the committee, would it throw your schedule too far out of kilter?

Mr. MACY. In other words, your query would be if you were to set a minimum increase of 7½ percent, what would this do to the schedule?

Mr. BROYHILL. I am not asking you the question as to whether or not the President would veto it. I think that would put you in a spot but I would like to get you to say if you could that that would still be an improvement over the present situation.

Mr. MACY. It would be very difficult for us to see that we were achieving the principle of comparability. This would be so if we were to agree to congressional authorization of 7½ percent in grades 1 through 3, where this proposal, at the end of the third phase of January 1, 1965, calls for an increase of 3.4 percent at grade 1, 3.1 percent at grade 2, and 2.9 percent at grade 3.

Now the reason these increases are so small is that the salaries at these levels, based on this comparison are already in a very favorable competitive situation.

Mr. BROYHILL. I think that is correct, Mr. Macy, and again at the risk of being repetitious I recognize in order to correct the inequities of the past we are going to have to raise some groups a higher percentage over others, but I do not think we can ignore the political facts of life and that is have Congress pass an increase that may amount to several thousand dollars for the grades 15, 16, and 17, granting it should be raised, and not recognize the economic problems of the grades 1, 2, 3, even though they do compare favorably in free enterprise. I think somewhere in that area there would have to be a compromise. I do not think you feel that the Congress would pass any program 100 percent as recommended by the executive branch. I think it is in one of these compromises where political aspects will have to be recognized and the desire on the part of Congress expressed—because over a period of years they have caused this problem by raising the lower grades the same amount as the higher grades. You have the same political thing in a way that is going to prevent the Congress from correcting that all at one time. So I am suggesting a gradual correction in having a minimum 7½-percent increase, which

will only affect about 4 or 5 of the lower grades, but will keep the schedule intact insofar as the upper grades are concerned.

Mr. MACY. Of course it would tend to destroy the alinement we are trying to achieve here, too.

Mr. BROYHILL. Your competition with outside industry in the lower grades?

Mr. MACY. Yes.

Mr. BROYHILL. But it would still be an improvement in the present schedule, would it not?

Mr. MACY. It would be an improvement over the present schedule. It would mean an increase in each of the first 5 grades but considerably more increase at the first 3 grades, where at the present time we are already ahead.

Mr. BROYHILL. It would still give you what you desire in grade 6 and above, in the sense of competing with the outside industry.

Mr. MACY. If that were left as proposed it would meet the standards we are recommending there.

Mr. BROYHILL. And it would still be an improvement over the existing—

Mr. MACY. It would be a very marked improvement.

Mr. UDALL. The point the gentleman makes interests me and I am not sure I understand it. Is the gentleman still dealing with a phase program where we have 2 or 3 phases—let me give a couple of rather elementary examples so that I can see whether I understand the gentleman or if I do not understand him.

If we are raising one employee 7½ percent total over the 3 phases at the end of the 3 phases he will have 7½ percent. Employee No. 2 at the end of 3 phases will have 10 percent and employee No. 3 at the end of 3 phases will be up 15 percent. Is what the gentleman proposes that we give all of them 7½ percent now in phase 1 and that we go ahead with phase 2 and 3 so that the—

Mr. BROYHILL. I wasn't referring to the phases at all, because I did state I disagreed with the effective date of these increases, but I wasn't questioning Mr. Macy in that regard; but if and when the raises are made effective, we would keep the administration schedule intact with the exception of grades 1, 2, 3, and 5, and make that a minimum of 7½ percent because in the President's proposal there is a different breakdown on up through grade 5. Up above, the increases are greater than 7½ percent.

I was trying to get Mr. Macy to say, and I believe in his statement he did say, it would be an improvement over the present schedule.

Mr. MACY. Yes. You are, in effect, saying you would support the schedule from 6 up, but that you feel, for a variety of reasons, there needs to be a greater increase in the first five grades.

Mr. BROYHILL. Yes. And not that they are not already competitive with the outside industry, but frankly they have a little more difficult time getting along economically and I think it would be the desire on the part of the Congress to sweeten the pot a little bit for them.

Mr. MACY. It would mean in grades 1, 2, and 3 that you would be very substantially paying the people in those positions more than those who are performing like work across the country.

Mr. BROYHILL. Actually, grades 1, 2, and 3 would be the only three groups in which we would be changing the schedules to any appre-

cialable degree, and I think grade 3 is the only level that has a large number of employees in it—or grade 2, is it?

Mr. MACY. Three has a large population.

The CHAIRMAN. How many in grades 1 and 2?

Mr. MACY. Grade 1 has 2,133; grade 2, 35,233; grade 3, 156,621. So you are dealing with a not inconsiderable number. I mean this is close to 200,000 out of the 1 million under the Classification Act.

I believe Mr. Staats provided a cost estimate as to what would result from this.

Mr. BROYHILL. Mr. Macy, I think it would be extremely difficult—this is my own personal opinion—to get a pay reform bill through the Congress—which is a pay raise bill in the minds of many—where one group, even though they already compare favorably with outside industry, receives an increase amounting to 3.1 and then raising other groups 19 or 20 percent, amounting to several thousand dollars, even though it is necessary we do that. It is necessary we raise these higher levels a higher percentage and a greater dollar amount. But my suggestion is that we do not correct all of the evils that have been compounded over a period of years in one fell swoop. I think it is going to be politically difficult to do it.

Mr. MACY. I think there is another political factor here which needs to be an anticipated. If this is done and you at the same time adopt the principle of comparability, it means that the higher rates for 1, 2, and 3 that are authorized will have to stay for quite a period of time because they will tend to be so far ahead of what is likely to show up as comparability. I think this is a factor that needs to be considered as well.

Mr. BROYHILL. But if nothing was done on pay this year, you would still have a relationship between the grade 1 and the grade 5 which would be the same as you would have if you had a minimum 7½-percent increase. Do I make myself clear? We are not improving the comparability situation between 1 and 5, that would make this bill a minimum of 7½ percent. We are not making it any worse, but we are improving the situation in grade 6 and above.

Mr. MACY. What we are trying to do in the structure is establish a reasonable relationship between the grades. Under what you propose, you would raise the bottom so that you would reduce the differences that have been developed in this proposal between these lower grades and the grades—

Mr. BROYHILL. And admittedly we would be making it more favorable or more competitive with free enterprise. There is no question about that.

Mr. MACY. But if you adopt title I as a matter of future policy it would mean that in the subsequent annual reviews, the figures that you would probably get would show that you are already paying at those levels substantially more than the going rate.

Mr. BROYHILL. That is correct.

One more question, Mr. Macy. One of the reasons stated for this proposal was to attract and hold the best qualified employees. I think there are other deficiencies in our Federal employee structure that could be improved. One is a little better, a little more reasonable, employment security. Do you feel we could make some improvement in that regard? Protection against reduction in force, for example?

Mr. MACY. I hear views on both sides. I hear views that one of the problems in the Federal service is too great tenure. This is a restrictive factor.

My own view would be that we have a reasonably balanced system at the present time between tenure under a career system, and the necessity for occasionally having reductions in force in order to meet changing programs. I recall the discussions we had in 1954 and 1955 when substantial reductions were made. At that time a number of career people were substantially affected because of a shrinkage of work they performed. We believe that the existing machinery for separated career employees is functioning with sufficient effectiveness so that in the great majority of cases there are opportunities for referral to fill vacancies that occur in the regular course of Government operations. Because of the size of the Government, and the fact that we have a 15- or 16-percent turnover each year, means that we are hiring all the time.

Mr. BROYHILL. I make this statement, Mr. Macy, that I have noted a decided improvement in the replacement program over a period of years. And I am not suggesting that anyone be guaranteed a Federal job for life regardless of the performance or efficiency. I think we should have the authority to fire any employee who is not efficient or who is not competent. I am not suggesting that type of employment security, but there are examples like the creation of the new Agency for International Development, one of Mr. Gross' favorite agencies.

Mr. MACY. Mr. Gross and I have had a good deal of discussion on that.

Mr. BROYHILL. They abandoned ICA, knocked employees out of work, and started hiring from scratch in the new agency. I think it was the fault of Congress, that they pretty much permitted that in their legislation, but I think there can be improvement in the coordination between agencies that way, abandoning one and creating another, doing essentially the same type of job, and utilizing the skills and experience of those people; but many of those people had tenure and years of service, they were competent people, but through no fault of their own, through administrative or legislative action, they were out of work.

I feel there could be some improvement in that regard.

Mr. MACY. Had there not been the legislative sanction of that practice in that agency, those people would have gone through the regular system that refers separated career employees to the Commission where an effort is made to match them with vacancies that occur around the Government. We are doing this now for that particular group on a special arrangement.

Mr. BROYHILL. Were former ICA employees replaced?

Mr. MACY. There are still a number who have not found jobs, but to an appreciable extent we have been able to assist them in finding vacancies where they can be used and so their career service will not be unduly interrupted. My feeling is I would not advocate additional legislative requirements to extend tenure and to add employment security. I would feel that we have an obligation in the Commission to work with the agencies to make sure that well-qualified career people who are separated through reduction in force and through no fault of their own have an opportunity to continue their career.

We have been working on this particularly in the area where automation is occurring. We had an instance of this up in Philadelphia. Mrs. Granahan is familiar with it. Where the Veterans' Administration has been shifting their insurance records to machines. This has meant that a number of people performing clerical work were surplus. All of the agencies in Philadelphia got together with the Civil Service Commission and the bulk of those people have been placed, filling vacancies that have occurred through turnover in the other agencies.

This is the type of interagency cooperation that we would like to see as a model in continuing the careers of those who are not able to continue in their particular agency.

Mr. GROSS. Will the gentleman yield?

Mr. BROYHILL. Yes. In fact I am through.

Mr. GROSS. The operation in Philadelphia is quite different from the operation that was carried out last year in the transition from ICA to AID. I am sure Mr. Macy will agree with that. In that case Congress, in the dead of night and in the rush to adjourn, got back one of these famous conference reports containing a delegation of power to the executive branch of Government to throw out these employees if they so desired. They were given 60 days to do it. The further history is that AID officials procrastinated and then suddenly came to the point where they saw they had to do that in a couple of days and used the meat ax approach. This was a very bad thing but it grows out of the business of Congress delegating its power to the executive branch of Government. We do it every day around here.

Mr. MACY. Mr. Gross, neither Mr. Hamilton nor I would recommend that Congress enact a provision such as that again.

Mr. GROSS. I know it, and I appreciate your position on this thing, and I am sure you were unaware of what was going on, just as I would say only a handful of Members of Congress, those who served on the conference committee knew—and even one ranking member of the conference committee said he didn't know this provision went into the bill; that he walked out of the room for a few minutes in the conference meeting and discovered later that it had been put into the bill.

Mr. BROYHILL. Will the gentleman yield?

Mr. GROSS. I will be glad to yield.

Mr. BROYHILL. That action was actually an invasion of the jurisdiction of this committee.

Mr. GROSS. Of course.

Mr. MACY, I would like to ask you a question about fringe benefits: Is it true or untrue that the fringe benefits given by the Federal Government are substantially better on the average than those in private employment?

Mr. MACY. Mr. Gross, we had a limited survey conducted on that by the Bureau of Labor Statistics and we found that from the sample of industry that they were able to take, that at the present time industry fringe benefits and Government fringe benefits in total are about the same as far as percentage of payroll is concerned. The Government tends to be more favorable in the amount of vacation leave, whereas in some of the other areas such as insurance and health benefits the industry seems to be more favorable. But this was so small a sample, that we felt we need to have additional research on this before

we can answer this conclusively. But it satisfied us that at least at this point the level seems to be roughly the same on fringe benefits.

Mr. GROSS. But you are coming up with further information?

Mr. MACY. We are exploring this further through the Bureau of Labor Statistics.

Mr. WALLHAUSER. If you could forget or we would forget budget area requirements which are not your primary concern as I understand it, would you believe that the justified increases that we all think are implied in the bill should be given now rather than in three phases?

Mr. MACY. I believe the primary reason for the three phases is a budgetary reason.

Mr. WALLHAUSER. Hasn't the economic discussion we have been through in the last few days pretty well established the fact that the present administration feels—and its governmental economists feel—that at certain times deficits are good or healthy, or not unhealthy, and might not this be one of the times when persons in Government could be recognized and be given an increase when the increase is needed and justified?

Mr. MACY. The answer to that question is beyond my jurisdiction. I believe that the program of salary reform proposed by the bill establishes changes in the schedule, in the policy and in the method that are highly desirable.

I would hope we could move to them as rapidly as it is financially desirable.

Mr. WALLHAUSER. In other words, the only reason that you can see for not doing it in one step would be the budget requirements?

Mr. MACY. That is correct.

The CHAIRMAN. Are there other questions by any member of the committee?

If not, thank you very much, Mr. Macy.

So far as I know this concludes the hearings on the Federal employee pay legislation.

The committee will be in executive session Tuesday at 10 a.m. for further consideration of bills to provide for adjustment of salaries of postal and other Federal employees.

The committee stands adjourned.

(Whereupon, at 11:45 a.m., Thursday, July 12, 1962, the committee adjourned.)



