

IMPLEMENTATION OF LOCALITY-BASED COM-
PARABILITY PAYMENTS UNDER AN ALTERNATIVE
PLAN FOR 2001

COMMUNICATION

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

HIS REPORT ON THE IMPLEMENTATION OF AN ALTERNATIVE
PLAN FOR FEDERAL EMPLOYEE LOCALITY-BASED COM-
PARABILITY PAYMENTS (LOCALITY PAY) FOR 2001, PURSUANT
TO 5 U.S.C. 5305(a)(3)



DECEMBER 4, 2000.—Referred to the Committee on Government Reform
and ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE

THE WHITE HOUSE,
Washington, November 30, 2000.

Hon. J. DENNIS HASTERT,
Speaker of the House of Representatives,
Washington, DC.

DEAR MR. SPEAKER: I am transmitting an alternative plan for Federal employee locality-based comparability payments (locality pay) for 2001.

Federal employees are the key to effective Government performance. During the last 8 years, the number of Federal employees has declined while their responsibilities have stayed the same or increased. Nonetheless, recent surveys show the American public believes it is now getting better quality and more responsible service from our Federal employees. We need to provide them fair and equitable compensation to recognize their important role, and to enable the Federal Government to continue to attract and retain a high-quality workforce.

Under title 5, United States Code, most Federal civilian employees would receive a two-part pay raise in January 2001: (1) a 2.7 percent base salary raise linked to the part of the Employment Cost Index (ECI) that deals with changes in the wages and salaries of private industry workers; and (2) a locality pay raise, based on the Bureau of Labor Statistics' salary surveys of non-Federal employers in local pay areas, that would cost about 12.3 percent of payroll. Thus, on a cost-of-payroll basis, the total Federal employee pay increase for most employees would be about 15 percent in 2001.

For each part of the two-part pay increase, title 5 gives me the authority to implement an alternative pay adjustment plan if I view the pay adjustment that would otherwise take effect as inappropriate because of "national emergency or serious economic conditions affecting the general welfare." Over the past three decades, Presidents have used this or similar authority for most annual Federal pay raises.

In evaluating "an economic condition affecting the general welfare," the law directs me to consider such economic measures as the Index of Leading Economics Indicators, the Gross National Product, the unemployment rate, the budget deficit, the Consumer Price Index, the Producer Price Index, the Employment Cost Index, and the Implicit Price Deflator for Personal Consumption Expenditures.

Earlier this year, I decided that I would implement—effective in January 2001—the full 2.7 percent base salary adjustment. As a result, it was not necessary to transmit an alternative pay plan by the legal deadline (August 31) for that portion of the pay raise.

In assessing the appropriate locality pay adjustment for 2001, I reviewed the indicators cited above along with other major eco-

conomic indicators. As noted above, the full locality pay increases, when combined with the 2.7 percent base salary increase, would produce a total Federal civilian payroll increase of about 15 percent for most employees. In fiscal year (FY) 2001 alone, this increase would add \$9.8 billion above the cost of the 3.7 percent increase I proposed in the fiscal 2001 Budget.

A 15 percent increase in Federal pay would mark a fundamental change of our successful policy of fiscal discipline, and would invite serious economic risks—in terms of the workings of the Nation's labor markets; inflation; the costs of maintaining Federal programs; and the impact of the Federal budget on the economy as a whole.

First, an across-the-board 15 percent increase in Federal pay scales would be disruptive to labor markets across the country. This increase would be three to four times the recent average annual changes in private-sector compensation, built into the base of the pay structure not just for 2001, but for subsequent years as well. With job markets already tight and private firms reporting great difficulties in attracting and retaining skilled employees, this increase in Federal salaries could pull prospective job seekers away from private employment opportunities.

Second, in the face of such a large Federal pay increase, private firms would almost certainly react by increasing their own wage offers. Thus, beyond the labor-market disruption of such a Federal pay increase, there would follow a serious risk of inflation; and that risk would far exceed the direct effects of the Federal pay raise taken in isolation. Pay rates economy-wide have already enticed a record percentage of the adult population into the labor force and paid employment. There are few unemployed or underemployed workers available for hire; if private firms need additional labor, they must raise their wage offers to attract workers from other firms. Such bidding wars for labor—which constitutes roughly two-thirds of business costs in this economy—have been at or near the core of all inflationary outbursts in our recent history. To date, intense competitive pressures have prevented private firms from allowing their wage offers to step out of line with productivity gains, and inflationary pressures have remained contained. However, a shock arising outside of the competitive labor market itself—such as an administratively determined Federal pay increase—could convince private business managers that they must increase their offers beyond the current norms. In the past to reverse accelerating inflation, the Nation paid an enormous toll through policies designed to slow the economy and reduce the pressure on prices. In numerous instances, the result was recession and sharp increases in unemployment. With labor markets as tight as they are we should not undertake a policy likely to shock the labor market.

Third, Federal program managers are already under considerable pressure to meet their budgets, while still providing quality service to the taxpayers. Increasing the Federal employment costs at such an extraordinary rate would render those budgets inadequate to provide the planned level of services. Appropriations for the coming fiscal year have already been legislated for much of the Federal Government, and all sides hope that spending bills for the remaining agencies will pass in the very near future. In particular, agen-

cies that have the greatest responsibility for person-to-person service—the Social Security Administration, the Internal Revenue Service, and the Veterans Affairs healthcare programs, to name just three—could not be expected to bear double-digit pay increases without the most thorough review and adjustment of their budgets.

Finally, despite the current budget surpluses, the Federal Government continues to face substantial budgetary challenges.

When my Administration took office in January 1993, we faced the largest budget deficit in the Nation's history—over \$290 billion in fiscal year (FY) 1992. By the projections of the Office of Management and Budget (OMB), the Congressional Budget Office (CBO), and every other authority, the deficit would only get bigger. Furthermore, under both of these projections, the public debt, and the interest burden from that debt, were expected to be in a vicious upward cycle.

While we have pulled the budget back from this crisis, and in fact we have enjoyed the first budget surpluses since 1969, adverse budgetary forces are just a few years away. The Social Security system will come under increasing pressure with the impending retirement of the large baby-boom generation. In addition, the aging of the population will increase costs for Medicare and Medicaid. If we become complacent because of the current budget surplus and increase spending now, the surplus could well be gone even before the baby-boom generation retires. My Administration has put these budgetary challenges front and center. A 15 percent Federal pay increase, built into the Government's cost base for all succeeding years, would be a dangerous step away from budget discipline. The budgetary restraint that produced the current budget surpluses must be maintained if we are to keep the budget sound into the retirement years of the baby boom generation.

Therefore, I have determined that the total civilian raise of 3.7 percent that I proposed in my 2001 Budget remains appropriate. This raise matches the 3.7 percent basic pay increase that I proposed for military members in my 2001 Budget, and that was enacted in the FY 2001 Defense Authorization Act. Given the 2.7 percent base salary increase, the total increase of 3.7 percent allows an amount equal to 1.0 percent of payroll for increases in locality payments.

Accordingly, I have determined that:

Under the authority of section 5304a of title 5, United States Code, locality-based comparability payments in the amounts set forth on the attached table shall become effective on the first day of the first applicable pay period beginning on or after January 1, 2001. When compared with the payments currently in effect, these comparability payments will increase the General Schedule payroll by about 1.0 percent.

Finally, the law requires that I include in this report an assessment of how my decisions will affect the Government's ability to recruit and retain well-qualified employees. I do not believe this will have any material impact on the quality of our workforce. If the needs arise, the Government can use many pay tools—such as recruitment bonuses, retention allowances, and special salary rates—

to maintain the high-quality workforce that serves our Nation so very well.

Sincerely,

WILLIAM J. CLINTON.

Locality-Based Comparability Payments Under Alternative Plan

[In percent]

	<i>Comparability Payment Effective January 2001</i>
Pay Locality: ¹	
Atlanta MSA	8.66
Boston CMSA	12.13
Chicago CMSA	13.00
Cincinnati CMSA	10.76
Cleveland CMSA	9.17
Columbus MSA	9.61
Dallas CMSA	9.71
Dayton MSA	8.60
Denver CMSA	11.90
Detroit CMSA	13.14
Hartford MSA	12.65
Houston CMSA	16.66
Huntsville MSA	8.12
Indianapolis MSA	7.89
Kansas City MSA	8.32
Los Angeles CMSA	14.37
Miami CMSA	11.09
Milwaukee CMSA	8.91
Minneapolis MSA	10.30
New York CMSA	13.62
Orlando MSA	7.71
Philadelphia CMSA	10.80
Pittsburgh MSA	8.54
Portland CMSA	10.32
Richmond MSA	8.60
Sacramento CMSA	10.73
St. Louis MSA	8.00
San Diego MSA	11.31
San Francisco CMSA	16.98
Seattle CMSA	10.45
Washington CMSA	10.23
Rest of United States	7.68

¹ Pay localities as defined in 5 CFR 531.603.

NOTE.—MSA means Metropolitan Statistical Area and CMSA means Consolidated Metropolitan Statistical Area, both as defined by the Office of Management and Budget (OMB) in OMB Bulletin 99-04, June 30, 1999.