

FEDERAL TIMES
October 6, 2003

**PAY SYSTEM NEEDS OVERHAUL:
MARKET-BASED METHODS WOULD HELP GOVERNMENT COMPETE**

By Fred Mills

By now, the problems with the government's personnel and pay systems are probably familiar to even the most casual observer of federal management issues. The flaws and failings of the systems have been well documented in recent years by a variety of parties from across the public sector, as well as the broader academic and good government communities. The consensus seems clear: the federal personnel management system no longer works, and new ideas and approaches are sorely needed.

There are lots of proposals for personnel reform under discussion – some good, some not so good. The Homeland Security Department is working to design a new, agency-specific system under its special personnel authorities, while the Defense Department continues to pursue congressional approval of its proposed National Security Personnel System. Smaller-scale, incremental changes and fixes to existing Title 5 provisions are also under consideration. But what's striking about these reform proposals, large and small, is that to date none of them has specifically addressed the critical problem of market sensitivity – the government's inability to respond to, and compete with, private-sector pay rates.

Partial fixes – most notably the Office of Personnel Management's special pay rates for hard-to-fill occupations and the locality pay program, as well as more recent provisions such as recruitment bonuses and student-loan repayments – have helped, although many federal agencies have been slow to take full advantage of these newer tools. But just creating more add-ons and work-arounds to an already cumbersome and confusing pay system won't suffice for the long term. What's needed is a fundamental change in the premise on which federal pay is based.

And what is that premise? It starts with the outdated notion that the government is a single employer: that all the various and sundry departments and agencies, with their incredibly diverse, highly specialized and often uniquely challenging missions and responsibilities are simply components of a monolithic whole. These components, in turn, all basically need the same kinds of people and compete in the same labor markets to acquire them. Under that premise, it makes sense to have a single government-wide General Schedule for paying all federal employees, updated and administered by a single central office.

While that approach might have made sense more than 50 years ago when the GS system was established, no one who appreciates the scope and complexity of today's federal establishment can seriously argue for its continuation. Departments and agencies need vastly different kinds of people, with skills that may not even have existed 10 years ago. And because of the increasingly complex and specialized nature of many occupations, particularly those required for the kinds of professional work found in government, federal agencies now find themselves competing for talent in vastly different and dispersed labor markets.

So what would a market-based federal pay system look like? First and foremost, it would consist of multiple pay programs unique to departments and agencies, each tailored to the mission and workforce requirements of the individual organization. At a minimum, these programs would likely feature different pay schedules and rates for specific occupations or categories of jobs, rather than a single pay scale for all employees. Salaries would be based on what it takes for that agency to compete effectively in its relevant labor markets – the places, both geographic and organizational, where the kinds of people needed to meet the mission can be found. And since agency missions, competency requirements and relevant labor markets differ so significantly, so too could salary rates for federal employees eventually become much more varied.

Obviously a change of this magnitude shouldn't be undertaken lightly or in a vacuum. There are lots of unanswered questions and technical challenges to overcome before such a system could become fully operational. But as the rhetoric about a human capital crisis in government becomes reality, it is imperative that we explore these new options.

Fred Mills is a principal consultant with Federal Management Partners, Inc., a human resources management consulting firm based in Alexandria, VA.