Chapter One

INTRODUCTION

Critics of the personnel and compensation systems in the federal civil service charge that these systems are inflexible and hamper the ability of civil service managers to attract, retain, and motivate higher-quality personnel (Kettl, Ingraham, Sanders, and Horner, 1996; Committee on Scientists and Engineers in the Federal Civil Service, 1993; Johnston, 1988). Since managers are limited in their ability to reward better performers, the systems are thought to provide few if any financial incentives for performance. A particular target of this criticism is the common General Schedule (GS) pay table. Step increases, whereby individuals within a pay grade get pay increases based on their longevity, are nearly automatic. Personnel managers are able to reward through faster promotion workers who perform better only if the workers are eligible for promotion and vacancies exist in a higher grade.

Furthermore, the pay table applies to all GS workers, despite the vast array of occupations in which they work and the variety of external market opportunities that may be available to them. Although the GS pay table does vary by geographic location to account for differences in federal and nonfederal pay across areas, it does not vary by occupational area. Critics charge that the one-size-fits-all pay table prevents personnel managers from competing with the private-sector opportunities available to individuals in different occupations, and they conclude that the civil service compensation system is not set up to attract, retain, and motivate higher-quality personnel.\(^1\)

\(^1\)Indeed, such criticisms helped spur the creation in the 1980s and 1990s of several demonstration projects that sought, among other things, to circumvent the GS pay table and provide specific agencies with more flexible personnel and compensation
Despite the apparent rigidity of the GS pay table, managers do have some tools at their disposal to compensate and retain those who perform better or who have better private-sector opportunities. One such tool is job security. The civil service is widely perceived as offering significantly more job security than private-sector employment does. To the extent that higher-quality personnel desire job security, the civil service may be a relatively more attractive option for them. However, job security may also be a perquisite for lower-quality personnel, in which case it may not be a relatively stronger incentive for better employees to enter or stay in the civil service. Furthermore, because of the dramatic declines in the size of the civilian workforce in the Department of Defense (DoD) that resulted from the post–Cold War defense downsizing in the 1990s, job security is less of a perquisite for the workforce as a whole than it was historically.

Another tool for rewarding higher-quality workers is the bonus. Civil service personnel managers have the authority to use hiring, retention, and relocation bonuses to attract and retain civil service employees. A recent study of these payments (U.S. Office of Personnel Management, 1999) found that they have been concentrated in specific occupations (e.g., computer specialties) and in specific areas (e.g., Washington D.C.). Personnel managers who were surveyed in that study indicated that bonuses have been effective overall in retaining personnel in these areas. The study also found that the bonuses or allowances can be quite large, averaging $8,200 in 1998. Nonetheless, bonuses may not be as effective as they could be. Managers who were surveyed indicated that the maximum bonus that could be paid was not high enough, and although the use of such bonuses is growing, less than 1 percent of the civil service employees in the Executive branches of the federal government get them. In addition, while these bonuses might be effective retention tools, whether they are effective in retaining high-quality employees is an open question.

A third tool for force-management flexibility in the civil service is promotion speed. When vacancies are available, managers can promote better performers more rapidly and consequently can provide them with higher lifetime civil service earnings. Since promotion systems. The results of one of these experiments, Pacer Share, is described in Orvis, Hosek, and Mattock (1993).
speed can be varied across and even within occupational areas, it can also be used to circumvent the one-size-fits-all pay table. In addition, insofar as the actions of those in the upper grades in a hierarchical organization have a positive effect on the productivity of those in the lower grades, it is important that higher-quality personnel in the lower grades be identified and promoted to the upper grades faster than lower-quality personnel. However, as discussed later, promotion speed also has some problems as an indicator of quality.

Moreover, promotion speed is effective as a financial incentive only if there are vacancies in the upper grades. The defense drawdown, high-grade constraints, and the aging of the baby boom generation have resulted in a more senior civilian workforce in the DoD and fewer promotion opportunities for junior workers. Consequently, the retention of higher-quality younger civilians in the DoD may have declined in recent years.

Little is known about the variation in promotion speed among GS workers in the civil service—whether higher-quality personnel are promoted faster and are paid more, or whether those who are promoted faster and who are of higher quality stay longer in the civil service. Nor is much known about whether higher-quality personnel have been more likely to stay since the beginning of the DoD drawdown. A recent RAND study (Gibbs, forthcoming) examines the extent to which higher-quality scientists and engineers in the DoD laboratories are promoted and retained but does not consider non-laboratory personnel and personnel in other civil service occupational areas.

The study reported here begins to fill that gap by describing variations in promotion speed, retention, and pay among recent cohorts of DoD civil service personnel; by developing proxy measures of personnel quality; and by using those measures to examine whether higher-quality GS workers are promoted faster and retained longer in the DoD civil service than lower-quality workers are, as well as whether these patterns have changed in recent years.

To conduct this analysis, we constructed an unusual longitudinal database on GS workers in the DoD that tracks through fiscal year 1996 (FY96) the careers of those workers who entered or reentered the DoD civil service between FY82 and FY96. The database uses personnel records maintained by the Defense Manpower Data Cen-
The data include information on entry characteristics and how they vary over each individual’s career, pay levels, promotion events and timing, and the timing of exits from the DoD civil service. By tracking the careers of several cohorts, the database permits a comparison of careers across occupational groups and time periods, including a period covering part of the DoD drawdown.

The report is organized as follows. Chapter Two presents a simple framework for understanding how the quality measures used in this analysis relate to the personnel outcomes. Chapter Three describes the empirical methodology used to analyze whether higher-quality personnel are paid more, whether they experience faster promotion, and whether they stay in the DoD civil service longer than lower-quality personnel. It also provides a brief overview of the database and its construction, describes the measures that are used to indicate personnel quality, and summarizes the advantages and disadvantages of those measures. Chapter Four presents the first set of analytical results and describes the variations in career profiles—promotion, retention, and pay—across occupational areas for the FY88 and FY92 cohorts of personnel. The variation in the profiles provides some indication of the extent to which outcomes differ across occupational area and the extent to which occupational areas may be managed differently. Chapter Five presents the second set of analytical results and provides estimates of whether higher-quality personnel are promoted faster, are paid more, and stay longer. Chapter Six summarizes the findings and discusses potential areas for future research.