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# Modernizing the Federal Government

## Paying for Performance

Silvia Montoya, John D. Graham

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## Summary

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Pay for performance is a promising concept aimed at fostering productivity in the workplace. The anticipated impact comes from helping departments and agencies clarify their missions and goals, attract and retain quality employees, reward performance, and respond rapidly to changes in agency missions and priorities. Both theoretical and empirical evidence, much from the private sector, have shown that pay for performance faces a number of challenges: the cost of monitoring employee performance, the design of a useful appraisal system, the difficulty of linking appraisal systems to pay, and the unintended consequences of pay based on partial metrics of output. Transferring this concept from the private to the public sector is not easy because performance is often difficult to measure and civil servants may be less motivated by pay than private-sector employees.

Over the last three decades, the U.S. federal government pay structure has not been working in the desired way, despite the introduction of a merit-based pay component. Key problems include the difficulties associated with changing the seniority-based civil servant culture; the leniency bias in agencies' appraisal systems; the lack of rewards and consequences for outstanding and substandard performance, respectively; and the dearth of tools to address poor performance effectively. Valuable knowledge has been gained from demonstration projects in the U.S. Department of Defense, and more experience is accumulating with the implementation of alternative human resources systems in an increasing number of departments and agencies.

Proposals to change the General Schedule salary structure range from minor changes in the implementation of the General Schedule system (e.g., more training of managers) and more substantial modifications of compensation to more performance-based pay schemes. More recently, opposition to pay for performance has been growing and, thus, its future in the federal government is jeopardized. In our view, Congress should not prohibit or scale back pay for performance until the current experience is carefully evaluated. Moreover, the next administration should move to establish a pay system that will penalize those whose job performance is poor and reward those whose performance is outstanding; facilitate dialogue with employees and unions; and extend and evaluate pilot tests of new human resources systems.