EBAP/84/137

June 28, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Staff Association Committee - 1984 Compensation Review

There is attached a paper prepared by the Staff Association Committee concerning the 1984 staff compensation review. The Staff Association Committee has requested that this paper be circulated for the information of the Executive Directors prior to the Executive Board meeting scheduled for Monday, July 2, 1984.

Att: (1)

Other Distribution:
Department Heads

International Monetary Fund
Staff Association

1984 Compensation Review

Prepared by the Staff Association Committee

June 28, 1984

Since 1979 the Fund has made a major effort at considerable expense to devise a mechanism for the adjustment of staff salaries that would be equitable to all involved. This mechanism is in conformity with decisions taken by the Executive Board when considering the Kafka Report on Staff Compensation Issues and was reaffirmed in the discussion of the 1980 Compensation Review. Under the agreed procedure, Fund compensation is set with a premium of 10 percent above a combined U.S. market with equal weights for the public and private sectors, with U.S. civil service salaries adjusted for deviations from their comparators due to domestic policy considerations. The 1984 Survey was substantially improved by expanding the number of comparator institutions and jobs for F-M staff. However, SAC believes that most of the private sector firms in the Washington area used as comparators for the A-E staff are not appropriate. They are not international in character and do not recognize the higher levels of personal relations and skills necessary to work effectively within an organization hiring people of many nationalities. The apparent willingness of the Fund to base its A-E salary reviews on lower quality comparators, as well as the results of that process, have lowered the morale of A-E staff and raised doubts about their prospects for the future. SAC strongly urges that, in the next major salary review, we look beyond the Washington area to find more suitable comparators for A-E core staff. SAC would also advocate improved comparators for noncore staff. Despite this concern, the Staff Association Committee (SAC) regards the present salary determination process as a vast improvement over the bitter, divisive, and increasingly politicized salary adjustments in the late 1970s.

Management's Recommendations

We are disturbed by the Managing Director's recommendation of the lowest possible salary adjustment for all F-J staff that could be related to the latest Hay survey. We are perplexed as to why Management is surprised to discover the "extent to which we seem to have lost competitiveness for our core group of economists, particularly at the middle and upper ranges." Both the volume of work and the difficulty and complexity of the issues confronting the Managing Director and the staff have increased greatly since the last major salary survey, while the increase in the number of staff has been minimal. Management does recognize that "the Fund has been called upon to play a more central role on the international financial scene over the past few years with the unavoidable consequence that Fund jobs have been enhanced accordingly. The job evaluation method employed in the survey lends itself to capturing such changes in job content." After recognizing that the Fund "in 1982 and 1983 granted salary adjustments that were at the lower end of the spectrum indicated by the findings of our mini-surveys," Management proceeds to recommend the lowest possible increase for F-J staff, an increase which is more than 18 percentage points below the result that would have applied if the same procedures were followed as in the 1980 survey, when the salary adjustment was based solely on the core staff and the PATC adjustment. While the SAC indicated a willingness not to press for this favorable result, we are disturbed that Management has decided to make a recommendation which completely ignores the PATC adjustment for F-J staff and which is significantly less favorable relative to the survey results than what was proposed by the Bank's Management (see Chart 1). We honestly believe that there should be some concrete recognition of the increased magnitude and difficulty of the task the staff has performed.

<u>The Environment of the 1984 Survey</u>

The Staff Association Committee does indeed understand why the Fund may wish to exercise restraint on this occasion and, given the current career streams exercise, it is prepared to accept some movement away from the reliance on the core-sector staff for the F-J salary adjustment, which was the basis of the 1980 adjustment. However, SAC believes there is no reason to also do away with the PATC adjustment for F-J staff and that all of the arguments which supported the use of the PATC in the 1980 major salary review remain valid. The large and growing disparity between compensation in the public and private sectors in the United States is a reflection of the policy followed in the United States vis-a-vis civil service salaries. This policy has resulted in the movement of these salaries deviating sharply from the trend in the rest of the U.S. market, including those companies chosen as comparators for setting civil service compensation through the annual National Survey of Professional Administrative, Technical and Clerical Pay (PATC Survey). In the upper salary levels, the U.S. private sector now pays an average of 40 percent more than the U.S. civil service. The only equitable alternative to applying the PATC adjustment would be to use the relationship between the salary levels in the public and private sectors in Germany and France to calculate an adjustment for the U.S. public sector. This alternative was examined in the Managing Director's recommendation to the Executive Board relating to the 1980 Staff Compensation Review. At that time, the alternative measure would have resulted in a 4 percent adjustment to salary levels while the PATC data resulted in a 3 percent adjustment. The 1984 Staff Compensation Review indicates that this alternative measure would result in a 5.6 percent adjustment (see Table 1), compared to the PATC adjustment of about 6 percent.

While we recognize the harsh economic conditions prevailing in many member countries, we do not consider this a justification for keeping our salaries far out of line with our comparators, since it is these conditions that have resulted in greatly increasing our workloads and our worth. It is critical that the Fund seek to retain its best qualified staff, and, if anything, the quality of the staff needs to be enhanced further in order to improve our programs and our advice. The fact that the Fund is preaching restraint in many countries is not a very sensible justification for distorting the process by which the Fund determines the appropriate compensation for its staff. Nor would the fact that the Fund is preaching a more expansionary policy in some countries be a justification for distorting the process in the other direction.

Similarly, the level of benefits does not provide a legitimate basis for providing a minimal adjustment of the salary for F-J staff. There are serious conceptual problems in comparing the benefits provided by various organizations. The data provided by the Hay Associates can only indicate that Fund benefits are broadly in line with those available in France, Germany, and the United States, if account is taken of the fact that paid leave largely reflects expatriate considerations. This is especially so if account is also taken of the recent and forthcoming actions to reduce the value of Fund medical and pension benefits.

Comparison with the World Bank

While we feel that the results of the Hay Survey have been presented in a fair and clear manner that facilitates consideration by the Executive Board, we are disturbed by the manner in which parallelism with the Bank is referred to on page 12 of the Managing Director's recommendations, which we find somewhat disingenuous. While it is mentioned that the survey findings indicated that the Bank is less out of line with its comparators than the Fund, it was not indicated that the difference between the Fund and the Bank was significant. But most important of all, we understand that the Bank Management recommendation of a 5 percent salary increase for staff in the equivalent of our Ranges F-J was based on the use of PATC adjusted data. If the Executive Board wishes to attach importance to parallelism with the Bank, which SAC has never advocated, it should require parallel salary determination procedures and, thus consistent treatment relative to the results of the salary surveys for the respective organizations. The whole logic of the Hay salary survey process is that there should be the application of similar procedures, which is most likely to yield different results. Irrespective of whether the comparison between the Bank's J-N staff and the Fund's F-J staff is made on the basis of average direct compensation or midpoints, the core staff or all staff in this range, the data indicate that the Fund salaries in this range should be about 7 percent higher than Bank salaries. Indeed this is a measure of the extent to which the Fund staff have been harmed by efforts over the years to maintain parallelism with the Bank.

SAC Recommendations

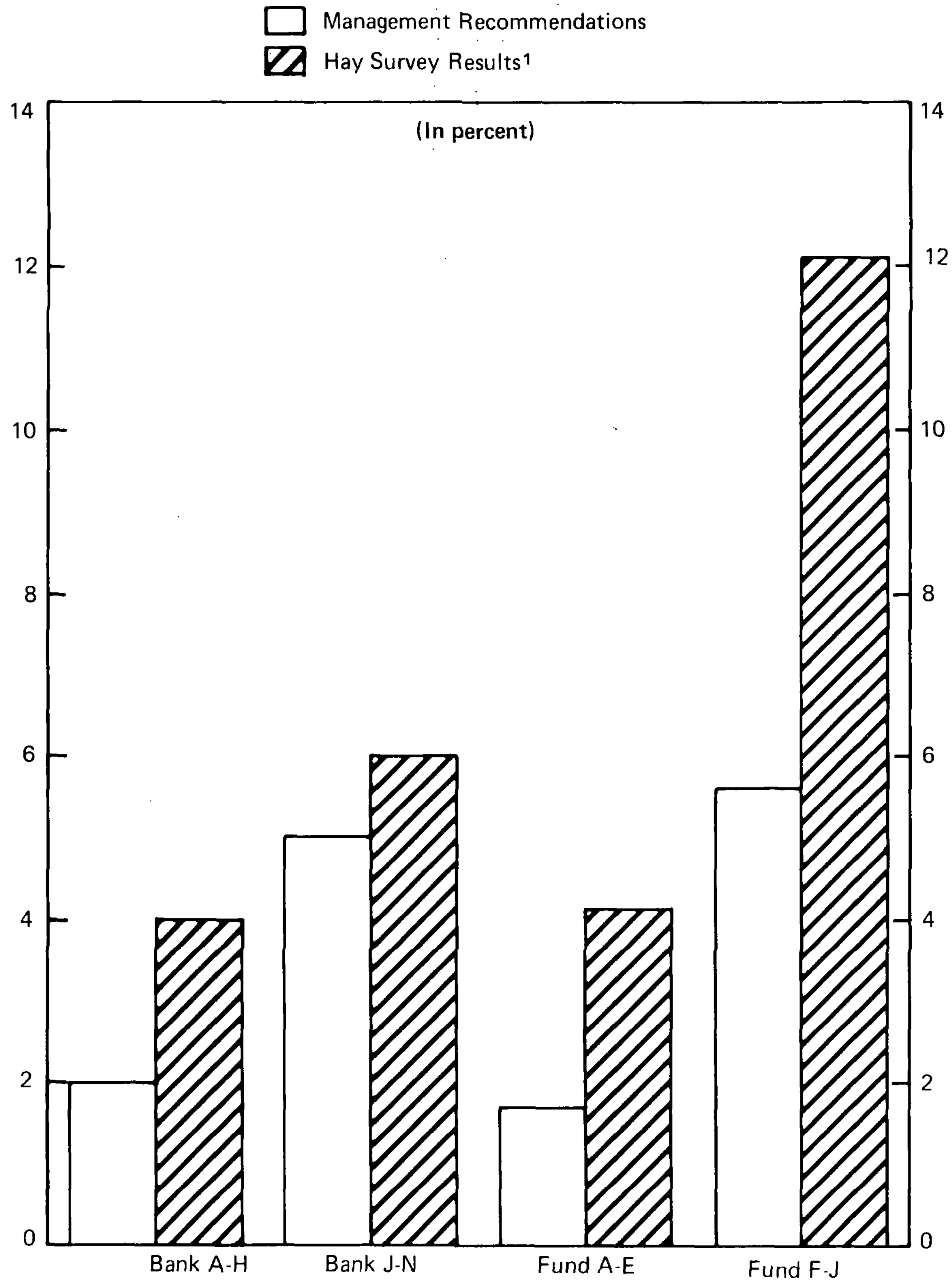
The paper presented by Management bases its analysis on average salaries for F-M staff and on salary structure midpoints for A-E staff. This difference is consistent with the methodology used in the 1980 Review and reflects comparator pay practices. The average salary data for F-M comparators is adjusted downward for the 2.4 percent average merit increase in the Fund. This adjustment is correct in a survey based on salary levels, since the increase in the average F-M salary on May 1 will reflect both the merit and the general increase. Such an adjustment is not, however, correct for the A-E salary comparisons, which are based on midpoints of salary structures, since merit increases have no effect on the salary structure and midpoints. The methodologically correct approach would base the recommended increase on a direct comparison of midpoints, without an adjustment for merit. This approach would indicate that an increase of 4.1 percent in A-E salaries is required, not 1.7 percent. Furthermore, we cannot agree that no PATC adjustment is made for the F-M staff. This represents a major departure from the methodology agreed in principle by the Executive Board and a clear case of discrimination against the Fund staff vis-a-vis the Bank staff. We feel strongly that the PATC adjustment should be applied not just to all Bank staff and all Fund A-E staff, but to Fund F-J staff as well.

The minimum acceptable recommendation that would preserve the credibility of the salary review system and provide some recognition of the major increase in the volume and difficulty of the work of the Fund staff in recent years would be a 4.1 percent increase for A-E staff and a 12.1 percent increase for F-M staff. However, in the interest of maintaining staff harmony and unity, and considering the very substantial disparities among the various groups of staff revealed by the comparator survey, as well as the pending career streams exercise, the SAC would support a single across-the-board increase for all staff equivalent to an average of the two separate rates of increase.

Attachments

ATTACHMENT

comparison of bank and fund management salary recommendations



[1] For Bank A-H core and Fund A-E core, midpoint with PATC correction.
For Bank J-N and Fund F-J, core plus non-core, direct compensation with PATC correction.

Table 1. Ratios of Public to Private Sector Salaries - Average Net Direct Compensation, F-J

Rates of public to private sector salaries (F-J)

U.S.	(weighted average)	75.3
	(simple average)	76.2
Germany	(simple average) PPP	80.8
	(simple average) NER	80.8
France	(simple average) PPP	89.5
	(simple average) NER	89.5

The average ratio for Germany and France is 85.2, which is 11.2 percent higher than the simple average for the United States. Since the public sector has a weight of one-half, the adjustment to the salary survey result would be 5.6 percent.