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M. Camdessus, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
F. Cassell	
	Zhang A.
	C. S. Warner
J. de Groote	
	L. B. Monyake
	R. J. Lombardo
L. Filardo	
R. Filosa	
	A. M. Othman
	S. Rouai, Temporary
G. Grosche	B. Goos
	E. Kiriwat
	L. E. N. Fernando
A. Kafka	L. M. Piantini
	J. Hospedales, Temporary
M. Massé	A. R. Ismael, Temporary
	I. A. Al-Assaf
J. Ovi	M. Fogelholm
H. Ploix	D. Marcel
G. A. Posthumus	G. P. J. Hogeweg
C. R. Rye	
K. Yamazaki	

J. W. Lang, Jr., Acting Secretary
M. J. Primorac, Assistant

Also Present

IBRD: J. H. Landriault, Joint Bank/Fund Committee of Executive Directors on Staff Compensation; R. E. Myers, Office of U. S. Executive Director. Staff Association Committee: M. Allen, H. Ayeb, G. O. Berre, K. B. Dillon, P. S. Heller, L. B. Livingstone, R. K. Rennhack, R. H. van Til. Administration Department: G. F. Rea, Director; D. A. Anderson, T. Cole, D. S. Cutler, A. D. Goltz, P. D. Swain, L. A. Wolfe. Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director. Legal Department: W. E. Holder, Deputy General Counsel; J. S. Powers. Research Department: J. A. Frenkel, Economic Counsellor and Director. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: N. Adachi, M. B. Chatah, W. N. Engert, P. O. Montórfano, P. D. Péroz, B. A. Sarr, A. Vasudevan, R. Wenzel. Assistants to Executive Directors: S. Appetiti, G. Bindley-Taylor, B. A. Christiansen, E. C. Demaestri, S. K. Fayyad, C. L. Haynes, M. Hepp, J. Heywood, A. Iljas, C. Y. Legg, V. K. Malhotra, N. Morshed, J. K. Orleans-Lindsay, W. K. Parmena, A. Rieffel, C. Schioppa, J.-P. Schoder, Shao Z., M. J. Shaffrey.

1. STAFF COMPENSATION - JCC REPORT - PRINCIPAL ELEMENTS OF PROPOSED COMPENSATION SYSTEM AND SALARY STRUCTURE

The Executive Directors considered a staff paper on the principal elements of the proposed new compensation system and salary structure (EBAP/89/85, 3/30/89; and Sup. 1, 4/3/89). They also had before them a paper prepared by the Staff Association Committee (SAC) on the same subject (EBAP/89/91, 4/5/89; and Sup. 1, 4/5/89).

The Vice-Chairman of the Staff Association Committee made the following statement:

Thank you for giving us the opportunity to address you today. We are aware that this discussion is a preliminary one and that you will be returning to the question of the salary scale and the proposed salary system later on this month. We are also aware that time has been short for Executive Directors to read the Administration Department's paper, given the busy schedule of the last week, and it also has been short for us to prepare a considered response. Nevertheless, we have circulated a paper which we trust is brief and will be of use to you.

The Staff Association held an open meeting yesterday which was attended by a high proportion of the staff, who expressed considerable worry about the way discussions on staff compensation might be developing. Staff members are apprehensive; they feel the acceleration of inflation; they know that their salaries have become uncompetitive; they are aware of the Fund's recruitment problems; they feel this in their own work since it adds to their already heavy work loads. They are particularly concerned that staff compensation is being dealt with as a political issue rather than the technical issue that it should be. All the staff would like to bring this long drawn out process to as rapid a conclusion as possible, and we are sure that you share this objective.

The proposed salary scale represents an attempt to work within the constraints laid down by the Joint Compensation Committee, the Fund's Executive Board, and the World Bank. The real questions before the Board today are whether this salary scale will allow the Fund to recruit the staff it needs, keep the staff it has, and keep performing at a high level of efficiency, and whether the salary scale is fair and just. Unfortunately, we have doubts about this, which we describe more fully in the paper that has been circulated (EBAP/89/91, 4/5/89).

Our main problems with the proposed salary scale are the following: first, the U.S. pay line generated in the staff paper would not allow the Fund to become competitive again on the U.S. market, let alone overseas markets, and the paper admits as much. Second, the correction for the international competitiveness of A9-B2 salaries leaves A9 to A11 salaries without a sufficient margin to allow the Fund to attract European recruits or to compensate existing expatriate staff members. Third, we believe a uniform expatriation margin of 15 percent should be built into the scale, not the 12 percent being proposed. Fourth, we are not satisfied with the way in which extrapolation for grades A1-A8 has been performed, and we expect the Fund will continue to have difficulty with recruitment at these levels. Finally, we object strongly to the cut in the salary scale for the lowest paid staff.

The question in the minds of staff members is of course how their salaries will be adjusted on May 1, 1989, or retroactively to that date. We are aware that no decision is being proposed to the Board at this time. We are, however, very concerned that the Board may already have taken a decision to move to a comparatio of 100, that is, to bring average salaries in line with average levels of the chosen market, without all the consequences having been thought through. In our view, the appropriate comparatio for the organization needs to reflect its personnel structure, history, and objectives. The increase in payroll that should be budgeted should allow the attainment, possibly in stages, of an appropriately adjusted comparatio. The adjustment should also be sufficient to compensate for anomalies in the salary structure, like the fact that new recruits with no work experience will be brought in at pay levels higher than experienced staff members, and should be at least sufficient to protect satisfactorily performing staff from arbitrary cuts in their real incomes. If the system of adjustment being proposed in the Bank were followed in the Fund without appropriate modification, we fear that many staff would in fact receive cuts in real income, which is justified neither by market developments nor by any relaxation of the organization's demand on its staff.

I would like to turn now to the differences between the salary results in the Fund and in the Bank. These flow automatically from certain recommendations made by the JCC, whose implications were perhaps not fully appreciated at the time. The staff of the Fund is not against receiving a different salary increase from the Bank. We are not wedded to the concept of parallelism. The SAC never complained in the past when salary surveys repeatedly showed the need for higher increases in the Fund than in the Bank, although it did not escape our notice that in the event the Bank increase was always brought up to the level of the Fund's increase. We object, however, to what may be being proposed this time around because it is foolish and unfair.

In the past, it was always recognized that the Fund and the Bank recruited staffs from different markets, and that surveys of these markets could show different results. Now a recommendation has been made to use the same markets for the two staffs and to have a common salary scale. Such a decision will inevitably result in one of the two organizations being behind its true market, and in this case it is the Fund. If the survey of the correct market and jobs were done, we are confident that it would indicate the need for a similar increase to that being suggested for the Bank. In fact, Hay Associates have probably collected data that, despite their limitations, could be used to determine this.

The second reason that a differential increase is unfair is that, as a result of recent history, the structures of the Fund and Bank staff are not the same. The job grading exercise was conducted in such a way as to give much greater downgrading in the Fund than in the Bank; following the reorganization of the Bank, a large number of staff at the top of their ranges retired from the Bank on generous golden handshakes; the Bank has expanded more rapidly than the Fund over recent years; and promotion prospects have been greater in the Bank. Since career advancement has been faster in the Bank than in the Fund, staff members there tend to find themselves lower in their grades than do their counterparts in the Fund staff. Now, because the Fund staff has been treated more harshly in the past, we face the possibility that we will be given a lower salary increase. It is hard to explain the justice of this decision to the staff.

Finally, I should like to close with a few personal remarks. Among the members and alternates of this year's SAC are six division chiefs, four economists, and four very experienced secretaries. Most of us have been on the Fund staff for ten years or more, and are dedicated to the ideals and purposes of the organization. We are also bearing the brunt of the operational work, and are sacrificing our families' time in order to work on staff issues because we believe these are vital to the organization and its member countries. Many staff members ask us why we bother, since, they say, the Board has already made up its mind on these issues. We do not believe this. We would, however, like to deliver a message from the trenches, as it were. The staff is feeling hard pressed. It expects to be dealt with justly and sympathetically by the Board. We hope and trust that you will take the views of those affected into account in your deliberations.

The Director of Administration noted that the Board had not had very long to consider the paper before it, which laid out proposals under a number of headings. The paper analyzed the survey results; described the pay line that would be derived at the 75th percentile from the combined

U.S. market, which was used for the purposes of the survey; and concluded that at certain key levels that pay line would not enable the Fund to compete in the U.S. market. That pay line was then compared with a pay line derived at the 75th percentile of French and German salaries, which led to the conclusion that the unadjusted U.S.-based pay line would also not be competitive with French and German salaries. The U.S. pay line offered no expatriate margin at all, and indeed at certain key recruitment levels the results would actually be below salaries in France and Germany. The staff paper then formulated a proposal for a pay line that, in a sense, straddled the U.S. pay line at the top professional grades and the European pay line at the lower grades, and had an overall margin over European salaries of about 12 percent.

The paper then turned to the subject of support staff salaries, the Director indicated, and outlined a proposal based on two principles: first, that the appropriate way to construct a salary structure for the support staff was by extrapolation from the professional staff's pay line so as to produce a unified salary structure with equal progression from grade to grade; and second, that when the outcome of that process was compared with market survey results, there was a reasonable relationship between that pay line and that of the local private sector market.

The paper also dealt with the senior staff salaries, which the JCC proposed should be arrived at by interpolation between the B2 level, which would be market oriented, and the Managing Director's salary, the Director continued. The paper did not cover the salary of the Deputy Managing Director or Counsellors, which were matters on which the Managing Director would wish to consult with the Board separately.

As the SAC Vice-Chairman had pointed out in his statement, there was also the important issue of the actual results of applying that structure in terms of a salary increase for the staff, the Director said. He, together with other staff members, would be providing further information on that later in the meeting. Finally, there was the important question of relativities with the World Bank, in terms of both the structure and, in particular, differences in the proposed range spreads, and the difference between the two proposed salary increases.

Assuming that the Board approved the salary structure proposed by management, the staff could issue a paper before the next Board meeting on staff compensation; the paper would contain a proposal for a salary adjustment and broad principles for the allocation of the resources among staff members at different levels.

Mr. Cassell asked whether the staff could provide an indication of what the proposals on the pension plan would be, since pensions and compensation were directly linked.

The Director of Administration said that the staff had assumed that the first step would be a decision on salaries, after which--in the next two or three months--a decision would be taken on pensions, with other benefits being studied toward the end of the calendar year. It was difficult to accelerate work on pensions since there were a number of elements that were still under intense discussion, and also because pensions were linked with the salaries on which those pensions were based. Broadly speaking, he did not envisage a change in two of the three basic elements of the pension scheme. Presently, a full service pension from the Fund was arrived at after 35 years of service and provided a maximum of 70 percent of salary for the last three years before retirement. The staff was proposing to retain the limit of 70 percent of preretirement income, but it was reviewing proposals for changes to the period of service that would entitle staff to that 70 percent maximum. In addition, the staff would be proposing some changes in the formula under which, for pension calculation purposes, net salaries were grossed up and converted into notional taxable salaries. That particular change would lead to a lower grossing up formula than the one that was being applied at the present time.

Mr. Grosche made the following statement:

> As I mentioned in my statement to the Board on December 9, 1988, our first priority at this time should be to establish for the long term an improved method of determining compensation levels against the comparator market. Now that the results of the U.S. and French/German test market surveys have been received, we may concentrate on the staff paper before us, which deals with the cash compensation element of the proposed new system. Specifically, we are being asked to approve a new salary structure on which would be based individual pay adjustments to become effective on May 1, 1989.
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> My first impression in the short time that I have had to review the paper before us is that in many respects management's proposals are generally within the bounds of the guidelines contained in the JCC report and as further refined as a result of discussions in the two Executive Boards. In a few respects, I detect some additional refinements that will need to be addressed.
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> I would like to offer a few observations on those issues that I consider the most salient, namely, the relationship to the market, support staff salaries, and international competitiveness. First, on the relationship to the market, I note that the managements have based their proposal on a 75th percentile relationship with the French and German comparator markets and the private sector of the U.S. market, as recommended by the JCC. I also note a suggested departure from the 75th percentile of the U.S. public sector in favor of the average plus 10 percent formula. In this connection, I have been informed that Hay Associates found that the relatively small data sample from the Federal Reserve Board was outweighed by the U.S. civil service data by more than 300 to 1. When these data were subjected to

the percentile analysis and weighted at 40 percent, they produced distorting effects on the total data base for the U.S. public sector. In view of this problem, I would suggest that the methodology for the public sector be reviewed, as indeed I am told has been recommended by Hay Associates in their report to the Bank and the Fund. In the current circumstances I would feel that the average plus 10 percent formula might serve as a usable intermediate solution. The solution would not appear to be inconsistent with the intention of the JCC as reflected in paragraphs 4.7, 4.10, and 4.27 of the Report, where it had been stated that the percentile relationship that the Committee selected should preserve the pitch that this average plus ten formula had established in relation to previous comparator markets.

Second, on support staff salaries, I note that management has chosen to follow one of the options suggested by the JCC in paragraph 4.28b of its report, namely, the midpoints of the salary ranges for the staff in grades A1 to A8 would be based on a downward extrapolation from the midpoints of the salary ranges for Grades A9 to B2. I also note that the resulting pay line for support staff grades happens to pass slightly under the 90th percentile of the Washington private sector at level A5. Although the 90th percentile would appear high at first glance, the JCC Report does indicate in paragraph 4.27 that a percentile higher than the 75th might need to be established in order to preserve a similar structural relationship with the market for support staff positions, as has been established by the average plus ten percent formula for the professional staff public sector relationship. Also, another of the options put forward by the Committee in paragraph 4.28a of its report would have resulted in a percentile close to the 90th of the combined Washington market.

But aside from the percentile criterion, it is my view that the extrapolation approach on its own merits would better reflect the international composition and mix of skills of the Fund-Bank support staff. One should not attach too much importance to the percentile relationship. In addition, I think that the extrapolation approach would ensure a better measure of internal relativities while at the same time permitting a smooth transition in pay from the lower levels of the professional staff group to the upper levels of the support staff group.

On the third point, I would like to address briefly international competitiveness. Because of the many uncertainties connected with international competitiveness--for example, what would be the implications of a continued hardening of the U.S. dollar--the JCC was extremely careful in formulating its proposals contained in paragraph 5.7 and 5.8 of its report. It was the Committee's intention to retain for the Executive Boards a high degree of judgmental discretion in the context of annual salary reviews. The predetermined formula and the degree of automaticity being proposed by the management is not the type of mechanism that was embraced by our Committee. I believe that the JCC's guidelines afford the managements much flexibility for making specific proposals that would meet the needs of the two institutions without having to resort to fixed formulas. As I now see the situation, the fact that the 10 percent margin suggested by the JCC has been eroded--by more than 9 percent as I understand it--and that some recruitment difficulties clearly are being experienced in both organizations, indicates a need for some degree of adjustment to ensure future international competitiveness.

The question to be answered by Board members is whether the evidence being submitted by the management justifies the increase in salary structure that would result by establishing a margin of 12 percent above the French/German market, as opposed to a more moderate increase that would reflect the need for the exercise of caution in such an uncertain environment. It is very much a matter of judgment. And in solving the problem of whether to increase the salary structure for all members of the staff, Board members might wish to explore other avenues such as recruitment incentives, as suggested in paragraphs 4.12 and 4.29i of the JCC Report, or perhaps housing allowances for expatriate staff. But again, I feel that one first would have to examine the structure and decide whether it is really appropriate to move the entire structure to take care of a problem in international competitiveness that has at least partly been caused by exchange rate developments over the last year.

On the proposed salary structure, I hesitate at this time to say very much since its final definition would be predicated on the decisions taken on the three important elements of the compensation system that I have just referred to. It is my view that we should seek first to resolve any differences that remain in the areas of market relationship, support staff salaries, and international competitiveness, with the objective of formulating the basis for a justifiable salary structure.

Let me add that my assessment of all other features of the proposed new compensation system indicates that the revisions being proposed by management generally adhere to the JCC guidelines or have resulted from refinements agreed to by the two Executive Boards after comprehensive discussions. Consequently, these segments of the management's proposal would seem to me to require minimal further discussion, if any.

Before concluding, I will address briefly the issue that was raised by the SAC Vice-Chairman with regard to the difference in suggested average salary increases between the Bank and the Fund. As members of the Board are aware, and as has been reconfirmed by the Director of Administration, the system suggested by the JCC restricts parallelism between both organizations to the salary structure. Increases for individuals in order to bring actual average pay close to the pay policy midpoint--or technically speaking, to a comparatio of 100--are a matter for each organization to implement. We have to expect that different increases will occur in the future. To begin the new system with a huge difference as currently proposed between the increases for the Fund and the Bank staff certainly poses a problem, and we would have to decide together with our colleagues from the Bank whether the comparatio of 100 should be reached in one step or whether it should be phased in.

This phasing in could be done in a number of ways. The Fund could stay above 100 temporarily, awarding a higher increase in average salaries this year and next year than would be necessary if 100 were to be reached in one step, or another solution would be to have the Bank phase the 100 comparatio in, awarding a lower increase in average salaries and staying below the comparatio of 100 for one or two years. While there are solutions to narrow down the difference, we have to expect in future that differences will occur in average increases and our staff should become comfortable with the idea that parallelism in future will not extend to the actual salary increases.

Parallelism will be restricted to the pay policy line, which will be developed from one comparator market, and in this respect we do have a problem, I admit. The comparator market is a uniform one, serving both organizations, and perhaps not perfectly. It would have been better, with hindsight, I would say, if the JCC had been given the mandate by both Boards not to stress the idea of parallelism as strongly as has been done. But the JCC had no leeway. Given that mandate, it tried to come up with a reasonable solution restricting parallelism to the pay structure. I did not expect the unfortunate result of average salaries being raised by substantially smaller amounts in the Fund than in the World Bank. I must say that I am surprised and not particularly happy about this particular outcome.

Mr. Monyake made the following statement:

I have served on a number of boards of international organizations and have been involved in negotiations of salaries, but I have never been involved in a negotiation that has been stretched over so many years as this one. I can assure you that the net effect of such a lengthy consideration of the review of anybody's salary is to dampen morale and lower efficiency. I hope that this Board will see its way to a conclusion to this review sooner than later.

One can ask the question, why should anybody be paid a salary? I think the answer to that is quite obvious--that a salary is remuneration for services rendered, and the higher the quality of those services, the greater the salary that should be paid for those services. In addition, the type of life that the staff member is supposed to lead within the community where those services are rendered is also to be taken into account. There is a need for numerous comparisons and a need to take into consider the changing living conditions in the environment. I would suggest that we soon come to an agreement as to what should be done to these salaries.

A number of exercises have been undertaken, surveys have been undertaken, papers have been produced, and this chair has continued to support refinements and upward adjustment to salaries. We want to repeat today that we endorse the new structure as put forward by management to constitute the basis for the salary adjustment as of May 1. We are fully aware of the amount of effort and careful consideration that has gone into the formulation of this new structure by the JCC since 1984. During this time, staff morale has also undergone considerable strain resulting from job grading and grandfathering. There has also been yearly tension on the part of the staff related to uncertainties in salary adjustment.

It is to be hoped that the new structure will overcome most of these problems. In this connection, we have no problems with the underscored parts of the text in the appendix to the staff paper, which constitute the principal elements of the new system. We note that the new salary structure as displayed in Table 10 is generally higher than the present structure in Table 9 with two significant refinements regarding internal relationships and international competitiveness.

Before commenting on the refinements, I must say that on grounds of equity, the absolute level of the lowest salary scale, A1, should not be allowed to fall as the only exception in the new structure. In fact, I personally always favor the underdog. I prefer to have greater increases occur in the lower ranges, since that is where the cost of living is felt more severely.

Otherwise, the new structure enhances internal equity and consistency through the constant percentage progression of salary midpoints of 12 percent between most midpoints. In this connection, we endorse the downward extrapolation of the midpoints of the support staff salaries from the lowest grade of the professional staff. Although this has tended to generate a higher salary structure for the support staff, it has reinforced internal equity and enhances the competitiveness in recruitment. We also concur with management on the need to align the support staff salaries to the higher percentile levels of Washington's private market in order to be able to recruit and retain the best staff.

With regard to international competitiveness, we appreciate management's search for the appropriate margin vis-à-vis the German and French markets for professional staff. It is clear that a policy pay line for grades A9-B2 based on the 75th percentile of the U.S. market is not competitive. As indicated in Table 3, the U.S. market pay line falls considerably below the 10 percent minimum margin relative to the combined French and German salaries that have been indicated to be desirable in the JCC Report. We, therefore, endorse management's proposal for adding a 12 percent, rather than a 15 percent, margin for the time being. We hope that this will help in overcoming the recruitment problem at lower and middle levels of the professional staff. However, we look forward to a progress report by the staff in due course with a view to adjusting the margin even further, if necessary.

Finally, we note that further proposals will be submitted as a basis for the salary adjustment due on May 1. Perhaps the staff could comment on whether the proposals in the Fund and in the World Bank will be similar.

Mr. Rye made the following statement:

My authorities are very anxious to preserve the consensual approach that the Board so far has been able to follow in this very difficult matter. Otherwise, they fear this is going to be a very long, drawn out difficult exercise for us all with very damaging consequences for the morale of the staff.

I have no great problems with management's proposals, but I would like to raise a few questions. On the use of the 19 financial enterprises in the U.S. comparator market instead of the 13, as I understand it, this reinstates six institutions that we had already decided were not appropriate for comparisons with the Fund. Has the staff investigated alternative approaches using the data only from the original 13 institutions? I note in that regard that in other areas where the data resulted in anomalies, such as in the U.S. public sector, for example, the established formula of average plus 10 percent was reverted to. I wonder what kind of results one would get in this area if one pursued that particular approach here.

Second, my authorities have suggested that the downward extrapolation used to calculate the support staff pay line may lead to an overgenerous result. I note the broad equivalence to the 90th percentile of the Washington private sector, and have expressed the view that perhaps the 75th percentile would have been more appropriate. I would be interested in any comment the staff may have on the results that that would provide I should add that I personally accept both the reasoning advanced earlier by management for apparently generous treatment in this area and the points made by Mr. Grosche earlier. But since my authorities have raised the point, I feel bound to put it forward to the Board.

My next two points, however, are of greater substance. First, I share the concerns expressed by the Staff Association Committee about the different proposals for the Fund and the Bank. I realize that this result is consistent with the JCC Report, but it is perhaps not the only thing that is consistent with the JCC Report. I am particularly intrigued by the Staff Association's view that an organization's target comparatio needs to be adjusted or normalized for its demographic structure, recruitment history, and some other variables that were mentioned. If that were practical, one might well reach the conclusion that such adjustments would also be consistent with the overall approach as the JCC recommended it. I would welcome any comments by the staff on that subject. Quite frankly, I see no justification in relative recruitment difficulties or in the demands placed on the respective staffs for the much larger increase now proposed for the Bank staff, and I do fear that we are taking parallelism to excess. It may be, of course, that the remedy has to be instituted at the Bank rather than at the Fund, but that is a matter that remains to be tested.

Finally, again on a point made in the Staff Association Committee's paper, there is a reference on page 6 to an alleged need for adjustments for anomalies that would result from the introduction of the new salary structure. As I understand the Association's fears, they are that such adjustments would use up an inordinate proportion of the overall 7.5 percent increase. Maybe it is too early for the staff to comment on this, but I would like to know whether these fears on the part of the Association have any real justification.

Mr. Filosa made the following statement:

The paper before us on the proposed salary structure constitutes an important step toward a new compensation system after more than four years of work. Our assessment of management's proposal should be based on how consistent we believe it is with the original objective we intended to achieve; namely, to enable the Fund to retain and recruit the high quality staff it needs to perform its institutional duties, to maintain the international character of the staff, and to provide room for recognizing more clearly individual performance ability.

The proposed salary structure has been broadly drawn from the recommendations of the JCC and the suggestions of management, taking into account the technical aspects of the Report that we discussed in the last two meetings on this subject.

There are, however, three exceptions, on which I would like to comment briefly. The first concerns the data base to be used for the private financial sector, which the staff suggests should include 19 instead of 13 organizations, to provide more reliable statistical analysis. When we discussed this issue at our last meeting, Directors were all aware that some work was still needed to improve the statistical soundness of this part of the data base. Directors were not in favor of the inclusion of the additional six commercial banks, which they felt were not relevant to the activities of the Fund. Their inclusion now will certainly improve the percentile analysis by increasing the number of organizations covered, but I wonder whether this will also improve the statistical relevance of the result. The problem is not only one of the quantity, but also of the quality, of the data collected. Accordingly, I could go along with this proposal only as a temporary solution with the understanding that we will continue our work toward a more permanent improvement of the financial sector database.

As for the exception for data on the U.S. public sector, I can go along with the suggestion to adopt the existing average plus 10 percent formula, instead of the 75th percentile, which has been proved to be an unstable and unreliable benchmark. We have addressed this issue at the last meeting.

The third new proposal is for the reduction of the margin for international competitiveness to 12 percent. We attach particular importance to the issue of international competitiveness, and I continue to favor the margin of 15 percent over the German and French benchmark, which was agreed upon during the last meeting on this subject, despite the rigidity that this implies. I favor this wider 15 percent margin because it will allow improved flexibility in hiring the high caliber staff we need, and will help to avoid odd results in the lower range of the salary structure.

In particular, looking at Tables 4 and 5, I note that in applying the average 12 percent margin, the midpoint for grade A11, which is particularly important as an entry position, has significantly less than the 15 percent margin over the French and German comparative market necessary to ensure an adequate international competitiveness. This is particularly important given that the problem of recruitment incentive has not yet been tackled.

I confirm my agreement with the proposed method of administration of senior staff salaries and with the downward extrapolation system for setting the support staff salaries. I believe that such a system for grades A1-A8 is both more equitable and less expensive to apply, and at the same time the results produced show a reasonable relationship with the market. However, some adjustment should be granted to avoid particularly out-of-line results for some grades, which would be undesirable and counterproductive.

On the implementation of the salary adjustment, in spite of the fact that the Bank and Fund are going to have similar salary structures, two different percentage increases would be necessary to correct the present pay line. This is because the Fund and the Bank have different personnel structures, with the staffs varying in seniority and qualifications. These differences should be taken into consideration in implementing the new compensation system in order to avoid a comparative disadvantage for the staff of this institution.

Mr. Warner made the following statement:

My authorities have serious concerns about management's recommendations and are deeply disturbed because the increase in the Fund's salary structure proposed in EBAP/89/85 is unjustified and indefensible. The adjustments being sought are out of line both with the needs of the institution and with the system that was proposed after long and careful study by the JCC. Specifically, in the area of international competitiveness, the proposed structure increase essentially reflects the addition of an average 12 percent margin over the data obtained from the international competitiveness test. This gives the Fund a proposed pay line above both the U.S. and French/German markets, which we believe is invalid for several reasons.

The system proposed by the JCC is based on the U.S. market and depends on extensive surveys of the broad U.S. industrial, financial, and public sectors. As a safeguard, the JCC agreed that if the U.S. market fell below the 10 percent margin over a test French/German market, this would demonstrate the need for an evaluation of international competitiveness. Instead, the Bank and Fund managements are apparently proposing raising the testing margin to 12 percent, changing an evaluation threshold to an automatic target, and in effect overriding the database on 100 or so U.S. organizations to those of 9 French and 9 German agencies. We believe that such a system is overly rigid and ignores other options to deal with any localized recruitment problems.

In this respect, I listened very intently to previous speakers, and in particular, to Mr. Grosche, who touched on the idea of considering further options. I would support, in particular, further examination of recruitment incentives.

We also place a great emphasis on preserving the judgmental role of the Board. This is not in any way intended to override normal management recommendations, but the Board should retain a significant role in the area of evaluating international competitiveness.

We also have serious reservations about the international data, for which the sample size is very small. As pages E2 and E3 of Hay Associates' compensation survey (EBAP/89/85, Sup. 1, 4/3/89) indicate, approximately 94,000 individual salary observations were made in the narrow U.S. professional market, and nearly 500,000 in the broad U.S. market. This compares with 1,100 total observations in the three French and German sectors combined. At grade A12, there were five observations from the German industrial sector versus 5,599 in the U.S. industrial sector. Not surprisingly, anomalies emerge. On page I4, which sets out data from the French and German markets, there are a number of salary inversions, with higher-ranked individuals being reported to earn less than or the same as their subordinates. We doubt that data of such quality should be accepted.

We question whether recruitment experience in fact justifies the large structural increase. The key question is whether the Fund is filling its vacancies with qualified candidates. We think that on balance it is. The Fund may have to work harder at recruitment, particularly from certain geographic areas. Moreover, since we are not pitching our salaries at the 100th percentile of comparator markets, rejections based upon salary levels are inevitable. However, many of the rejections are based on nonsalary related elements, which raises the question in my mind of whether the candidate with the most impressive academic credentials would necessarily make the best Fund staff officer, in particular in the context of field operations. This issue deserves further study.

Turning to the U.S. public sector, we object to the proposal to ignore the 75th percentile relationship for the U.S. public sector. That was the system proposed by the JCC and I think it should be maintained. We are all aware of the heavy weight given to the Federal Reserve Board's salaries, which pushed up the proposed pay line. Switching to an average plus 10 percent formula raises the composite U.S. pay line by approximately 2 percent. If a switch to average salaries is warranted on statistical grounds, why should we then add a premium that further raises the pay line? This seems inappropriate.

On support staff salaries, the JCC suggested several options, largely because of the problems with the 1987 Hay survey data. We understand now from the staff paper that the 1988 Hay data is much improved, and therefore there is no justification for not linking support staff salaries to their relevant market just as we do professional staff salaries. We therefore reject the extrapolation of support salaries.

Under such a procedure, the support staff pay line will be above any reasonable percentile of the market, and will become increasingly divorced from market salaries. The effort to show some relationship to the outside world is not convincing since it depends on eliminating the public sector, ignoring non-secretarial support staff, and raising the benchmark to the 90th percentile. Instead of extrapolation, we should choose the appropriate local comparative market and better explain that choice to the support staff.

My authorities are extremely concerned that they would be unable to counter criticism in the United States of the two institutions if the Bank and the Fund adopted the compensation system that is currently proposed. Over the last few years we have been able to point to the ongoing JCC study with the expectation that a sound and reasonable salary system would be implemented. Unfortunately, since just after the release of the JCC Report, the managements have sought to adjust, refine, and further remove certain key parts of the JCC proposals.

You will recall that the comparator market sample has been cut from over 100 industrial firms to 78. The financial sector sample was reduced to 13 organizations and subsequently had to be raised to 19 because of inadequate data. The civil service was cut to six agencies and an attempt to raise the weight of Federal Reserve Board data to 50 percent was made. Function weighting was introduced with weights that had to be revised after individual Directors noticed clear distortions.

Had the JCC proposals been accepted, the institutions would be considering today proposals for salary increases at a level that could be more easily accepted and defended by our chair. Instead, we are confronted with a proposal for a 12 percent structural increase, which we think is unjustifiably large, and which will put my authorities in an extremely difficult position when seeking funding for any quota increase.

The structural increase of 12 percent, as noted by earlier speakers, raises the entire salary structure and therefore unnecessarily increases the cost to the institution. Serious consideration should be given to alternative methods of strengthening our international competitiveness. We recognize the importance of conducting our recruitment programs with good,

> sound international competitiveness. We want this organization to continue to be well balanced in terms of geographical distribution and be able to recruit high quality staff worldwide. I do not consider that that is at issue. What we are discussing is the methodology by which we can support that strategy.

Mr. Grosche said that the proposed new salary structure would not add 12 percent to the margin of international competitiveness of 10 percent that already existed, as suggested by Mr. Warner.

With regard to recruitment experience, it was difficult to say that certain rejections of offers or resignations were related only to salary levels, Mr. Grosche remarked. There were very often different reasons. The concept necessarily implied a judgmental approach, but like inflation, by the time recruitment problems became evident, the underlying cause had already been around for quite some time. There was a long recognition lag in recruitment difficulties, and if one continued to neglect finding a solution, those problems would be aggravated and the quality of the staff could be eroded, at which point there was no case for raising salaries.

As to the qualifications of recruits, Mr. Grosche doubted that the two institutions could be run on the high level that they were currently if one decided not to compete with universities for macroeconomists, for example.

On international competitiveness, Mr. Grosche asked how, if the Fund was already paying a high enough salary, it could be explained that, for example, the number of German nationals in the World Bank had decreased over 1 percentage point in two years.

Finally, Mr. Grosche concluded, when the U.S. chair went before Congress to apply for funding for a quota increase, it should try to make it very clear to the members of Congress that it was not the U.S. taxpayer that paid for Fund and Bank salaries.

Mr. Jalan recalled Mr. Warner's point that some of the changes to the JCC recommendations that the Board had approved, together with the further changes proposed in the staff paper, raised the total proposed salary increases substantially. His understanding had been that all the changes to the JCC Report proposed by the Board had been for the sake of convenience, in order to facilitate the adjustment of salaries. He wondered whether it was possible to make some kind of estimate, however rough it might be, of the likely difference between the cost of the present proposals and the cost that would arise if the JCC Report recommendations were applied without any change. His guess was that the difference would not be very substantial, but it would be useful to have that figure in making a judgment.

Mr. Warner responded that the JCC had set up two trigger points, one of which was a floor of 10 percent. In that sense he saw a rigidity in management's proposal of a 12 percent margin, which would supersede any trigger point mechanism for evaluation. He considered that Mr. Grosche's observation with regard to the timing of recruitment problems was accurate; by the time significant symptoms in recruitment could be seen, the problem was already entrenched. How serious that problem was depended on a number of factors, one of which was foreign exchange circumstances. Accordingly, the question of international competitiveness ought to remain under fairly consistent scrutiny, given its susceptibility to variance with time.

He agreed entirely with Mr. Grosche that quality considerations in the Fund's recruitment program should be preserved, Mr. Warner continued. His observation had been that certain flexibilities might be envisioned in the recruitment program because there were instances in which it was not necessary to recruit staff members who had the very highest academic qualifications. For example, a number of graduates in the top 20 or 30 percent of an MBA class at Harvard or Wharton would make splendid bank officers and understand field operations extremely well, but might not be classified as top researchers.

With regard to Mr. Grosche's comments on realistically addressing international competitiveness, Mr. Warner hoped that his remarks had also supported that viewpoint. His chair considered international competitiveness to be very important, and had every intention of making whatever realistic adjustments necessary for the Fund to maintain its competitiveness worldwide.

He understood Mr. Grosche's point on the financing of staff salaries, Mr. Warner said, and assured him that when the U.S. chair addressed any issues pertaining to the Fund before Congress, it would be fully prepared to describe the individual character of the institution, the nature of its hiring and compensation practices, and the quality of its staff.

Mr. Kafka made the following statement:

> It is our belief that the Board should attempt to follow the JCC recommendations, and like Mr. Grosche, we feel that the staff paper is not in essence inconsistent with such an arrangement. The most clearly posed problem that we see concerns the issue of international competitiveness. The JCC wished differences between the French, German, and U.S. markets to be considered as a trigger for consideration of adapting the salary structure that would be derived at the agreed percentile on the basis of the U.S. comparators. It did not support automatic adjustments, which does not mean that the Board should not make a discretionary adjustment at this time.
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> Regarding competitiveness in the U.S. market, we know that the Fund is having difficulties in recruitment and retention. The Board will have to decide to what extent the evidence now available would support going beyond the 75th percentile if we

did not have to consider international competitiveness. This chair has always maintained, as a member of the Committee and in the Board, that the 75th percentile is no more than a possible benchmark, and indeed the JCC did not make a firm recommendation to stick to the 75th percentile, apart from international competitiveness, under all circumstances. We seem to have evidence that we are not competitive with France and Germany, except in the higher ranges. No doubt, there are statistical problems here that we will have to consider. To shift the salary structure upward from the 75th percentile of the U.S. market by 12 percentage points as proposed by the staff would, according to them, meet both any problem of U.S. competitiveness and that of international competitiveness.

If we are convinced that the problem of U.S. competitiveness has been demonstrated, the rational attitude would be to go to a higher percentile than the 75th apart from international competitiveness. If, however, we feel that the problem of U.S. competitiveness has not yet been fully demonstrated, then an adjustment of the salary structure on the grounds of international competitiveness, without abandoning the 75th percentile of the U.S. market as a basic benchmark, would be appropriate.

We are impressed with the difficulties that the staff notes in the hiring of professional staff members at entry level and in retaining them. Our inability to hire or retain professional staff at the midcareer level is perhaps not yet demonstrated as a general problem in relation to the U.S. market.

If, on the other hand, one is afraid that the problem of international competitiveness reflects to an important extent a temporary decline of the U.S. dollar in relation to the German and French currencies, then a temporary bonus might be applied to all staff pending a correction of the U.S. dollar devaluation. Such a bonus would, of course, in that case, have to be pensionable. The idea of a general bonus is, however, not included in the JCC Report. If we decide against a general bonus--and it would have to be a general bonus because the market for professionals is international and the European problem cannot be met by recruitment bonuses and by housing allowances--and against raising the percentile for the U.S. market, then we still have to decide on how to correct the U.S. market for competitiveness vis-à-vis Europe.

Another problem concerns support staff. The arguments for setting support staff salaries so as to maintain a smooth progression, as mentioned in item 5(f) on page 24 of EBAP/89/85, are convincing given our practice of having a uniform salary structure for all staff. Such an extrapolation to determine support staff salaries would meet our need to maintain the exceptionally high quality of the secretarial staff that we now have. It would result in salaries comparable to the 90th percentile of salaries paid for secretarial positions in the private sector in Washington. Applying the 75th percentile would not enable us to hire the competent secretaries we require. I remind you that Mr. Bernstein, the first Director of the Research Department, used to say that one good secretary was the equivalent of 3 excellent economists. Nevertheless, at some point in the future we may wish to discuss the usefulness of differential salary structures for different career streams, for both professional and support staff.

Mr. Cassell made the following statement:

Since this is a preliminary meeting, I would like to take the opportunity of posing one or two questions to the staff. Their answers might help me to arrive at a judgment on some of the issues raised by the staff paper.

First, what difference have management's refinements to the JCC proposals made to the actual numbers? I take it that the answer to that is in Table 2 of the staff paper. While it does depend on which particular grade one looks at, overall, the changes proposed by management seem to result in a pay line that is 2 1/2 to 3 percent higher. But I am puzzled by this, because we put this same question in the Bank Board yesterday and the staff responded that the proposed changes made virtually no difference. In fact, my calculations show that if the JCC proposals had been accepted in toto, salaries would have been increased by about 6.8 percent, while the various management refinements would result in an increase of 6.6 percent, which is not substantially different, but it is significant that the former increase is higher.

Next, we face a fact that is set out very clearly in Table 3 of the staff paper. The U.S. market pay line starts relatively low but progresses rapidly through time, whereas in Europe the pay line seems to go up more gradually but from a higher starting salary. In the Bank discussions, we were provided with a graph that showed that the proposed pay line is being fitted to the U.S. market at the higher salaries and the European market at the lower salaries. Curiously enough, even such a practice, which is generous at both ends, seems to leave the competitiveness margin almost at its weakest point in the Bank, and I think also in the Fund, at grade A11--an important recruiting grade. This makes me wonder, as Mr. Filosa mentioned, whether we are pitching the new pay line at the most effective point.

It was suggested at the Bank Board meeting that maybe a higher margin than the current 8.5 percent is necessary around the crucial recruitment grades, but not at some of the other grades. What you would finish up with, then, is a rather flatter curve for the pay line than is currently proposed by management, which we should consider implementing. Otherwise, the Fund will be paying what I might call economic rents at many of the other grades, paying people more than is required to recruit them and retain them.

I am concerned that we are levering up the whole salary structure to meet the competitiveness problem--a problem that very much has to be addressed. One does tend toward solution of some sort of expatriate allowance, but that is not without its own problems, including that of a political backlash. However, we ought to at least consider it fairly exhaustively.

The third question I have for the staff is on recruitment. A lot of stress was laid yesterday in the Bank on the need to limit starting salaries to the first and second quartiles of the new ranges; I gathered that a lot of recruitment in the Bank over recent years has been above the midpoint of the ranges. In the Fund, the average salaries for each comparable grade continue to be considerably higher than they are in the Bank, which is why in achieving parallelism in the pay line we cannot have parallelism in the average salary increases. There are various reasons for this, some of which the SAC Vice-Chairman set out. Without endorsing all that he said, I did agree with one or two of his points. The reorganization in the Bank led to quite a change in where average salaries lie within the salary ranges. Before setting up the objective of reaching a comparatio of 100 in one step, we should pause and consider whether that really is the sensible thing to do, given the considerable transitional problems that will result. I would find it very difficult to persuade my authorities that it is right for the Bank staff to have a bigger salary increase than the Fund staff. I would welcome staff comments on this question.

Mr. Zhang said that he had read with interest the staff paper on recent developments in recruitment and retention (EBAP/88/295, 12/5/88), which outlined the problems encountered by the Fund in the past few years in recruiting and retaining both professional staff and secretarial staff of the highest caliber. His chair was very concerned by those recent negative trends, and had always maintained that the Fund should promote the recruitment and retention of staff of the highest caliber. With that in mind, he could support in principle management's proposals as presented in the staff paper. He hoped that the question of staff compensation would be solved as early as possible in order to boost the morale of the staff and maintain the high efficiency of the institution.

Mr. Ovi made the following statement:

I also attach great importance to reaching an early settlement of the new compensation scheme for the Fund for reasons of staff morale. Recent experience with recruiting highly qualified staff members at all levels clearly shows that Fund salaries are out of line with the comparator markets, and there is an urgent need for a solution that redresses the current problems. While I find the proposed salary structure clearly logical and find it generally acceptable, it is also highly complex. I must say that my preliminary reaction to the overall package is somewhat reserved inasmuch as I doubt that the proposal will enable us to redress the recruitment situation while, for instance, at the same time securing a reasonable relationship between the salaries of experienced in-house staff and those newly recruited staff.

I shall confine myself to commenting on the critical issues and raising some questions. I wonder whether the proposed salary structure will restore competitiveness even vis-à-vis the U.S. market. I note, as was said by Mr. Kafka, that the 75th percentile was suggested in the JCC Report but that it by no means is a given figure. Has the staff made any calculations on how the proposed pay line would differ from a pay line based on the current formula of the average plus 10 percent? Clearly, when moving to international competitiveness, there is a need for adjustment. At the same time, I must say I find it doubtful whether the average 12 percent margin is going to materially solve the problem because the margin at critical grades, such as A11, for instance, does not give the necessary spread in order to compensate for the cost involved in moving to another country. In passing, let me say that we do not favor a fully automatic system. Of course, the system has to be revised from time to time in view of the recruitment situation, but certainly at present there is a need for some sort of discretionary adjustment.

In this context, I should like to raise another question. It is not clear to me from the staff paper by how much the adjustment for international competitiveness raises the salary structure. Mention has been made of the figure of 12 percent, but certainly it must be lower. Of course, we should not raise the overall salary structure in order to solve more specific problems. Could one have a more targeted approach? One possibility is to give up the notion of having equal progressions between grades.

With respect to Mr. Warner's comment that nonsalary factors are also important, this is true, but if we take one very practical case in which a couple moves to the D.C. area in order for one person to work for the Fund and as a result the spouse has to give up a job, the only way to compensate for the spouse's lack of access to the U.S. labor market is through the Fund staff member's salary. Not only is that legitimate; it should be done. And if such compensation cannot be made within the overall salary system, then we need some sort of additional allowance. It could be temporary, or it could apply to expatriate staff only, but I can see a case for it applying to all staff. We do need to look into this further before we can decide on the issue. In passing, such allowances might also make it much easier to solve what is, at least for my constituency, a recruitment problem as regards support staff.

On support staff salaries, it is clearly unsatisfactory that we have not been able to test that pay line for international competitiveness. To my mind, this issue simply on grounds of equity has been a main point of contention among support staff in the past. I am not so sure that it would make a great deal of difference when it comes to salary, but we will have to live with the proposal that we now place on the table in the future as well. So, while it might be too late this year, we should develop a way of testing support staff salaries against the international market.

Could the staff explain exactly how the downward extrapolation was performed? The starting point seems to be the midpoint of grade A9. Did the staff then simply move downward by 12 percent grade by grade, and make the calculation that the relationship to the market was roughly the 90th percentile? Again, I do not see the case for having even progression from one grade to the other, and I find the results for grades A1 and A2 clearly unacceptable.

As regards recruitment of support staff, while we recruit support staff here in Washington, they are de facto internationally recruited. And I must say, based on recent experience in my office, that I fail to see how we can recruit support staff with the proposal on the table. We are trying to recruit a Swedish-speaking secretary, but even compared with the Swedish civil service, which is among the lowest paying civil services in Europe, our salaries are 30 percent lower.

Finally, on implementation, while that is not our basic concern today, given the magnitude of our problems, we should move to as speedy an adjustment to the new salary structure as possible. As regards the Fund-Bank relationship, I am concerned, like most other Directors, about having such a large discrepancy in the proposed salary increases. I listened with great sympathy to the Vice-Chairman of the Staff Association Committee, and I would expect management and staff to comment in detail on the issues that he raised. Mr. Grosche made the point that one should define parallelism in terms of pay structure.

That sounds reasonable, and we fully accept that that might result in differences as regards nominal wage increases. However, differences in the demographic structures of the two institutions are another matter.

Mr. Kiriwat stated that he was in favor of adjusting staff salaries, and emphasized that a concrete decision should soon be reached on the important matter of staff compensation. Further delays could be counter-productive.

Mr. Posthumus remarked that little progress appeared to be being made at the current meeting. He was particularly concerned about issues being raised that had already been settled in the context of the instructions to the JCC when it first began its work. Those instructions mandated the JCC to bear in mind the importance--which was now being questioned--of recruiting and retaining staff of the highest caliber and of international character. He would support Mr. Grosche's initial statement that the proposals currently on the table were, by and large, in line with the JCC recommendations. The few remaining issues of contention could be isolated and agreed upon, but other issues should not be brought up for discussion once again.

An interesting point had been raised by Mr. Cassell regarding the slope of the proposed pay line, Mr. Posthumus recalled. It might be useful for the next discussion on staff compensation for the staff to prepare graphs to illustrate that point. He was concerned that the proposed pay line paralleled European salaries at the lower levels and U.S. salaries at the higher levels, which would be attractive to staff members but was not necessarily what the Board should be advocating. Another point that he found interesting was the fact that, according to the data in the staff report, the pay line resulting from the JCC recommendations would not even be competitive in the U.S. market, let alone internationally.

Mr. Yamazaki welcomed the opportunity to consider the new compensation system. However, his authorities had not had enough time to examine the proposals in the staff paper and reach a final decision. Therefore, he would stress only a few points to which he attached particular importance.

First, Mr. Yamazaki considered it essential to complete work on the compensation system by the end of April, as scheduled. Any postponement of the introduction of the new system should be avoided. Second, the new system should be structured in such a way as to provide the staff with appropriate incentives and to redress the difficulties of recruiting new staff, as well as to provide the authorities of member countries with convincing arguments for the introduction of the new system. Third, unanimous agreement on the new system would be essential for its successful implementation.

Mrs. Ploix said that, like previous speakers, she considered the proposed compensation system to be broadly in line with the JCC recommendations.

On the relationship with the public sector, Mrs. Ploix agreed with Mr. Grosche's view that the average plus 10 percent formula was a valuable intermediate solution.

With respect to support staff salaries, Mrs. Ploix considered that downward extrapolation from the midpoint of grade A9 better reflected the international character of the Fund's support staff than would other solutions. It had taken her office one full year to replace two secretaries. Also, the Fund very often placed great pressure on its support staff.

Turning to international competitiveness, her chair had always been more in favor of automaticity than judgment, Mrs. Ploix remarked. The risk associated with a 10-20 percent testing range as proposed by the JCC was that that would require ad hoc decisions. She favored a precise figure, such as 15 percent, and could go along with a 12 percent testing point. The comments of Mr. Ovi on the difficulties associated with working at the Fund as an expatriate were well taken. Also, elements other than salary competitiveness should be taken into account when assessing the adequacy of Fund compensation for non-U.S. nationals, among which was the fact that, very often, staff members' spouses were unable to find employment in Washington. She pointed out that the cost of employing U.S. citizens was higher than employing non-U.S. nationals.

Finally, the issue of Fund-Bank parallelism had only recently been raised, and she would like to consider it further before taking a position, Mrs. Ploix indicated, since reflection was necessary on the average salary increases implied by such a policy.

Mr. McCormack made the following statement:

> The issues before us are obviously very sensitive and have quite an impact on staff morale, and we therefore have to discuss them with all due haste. However, we were very concerned about the short time between the issuance of the documents and today's discussion. Our views are, therefore, necessarily tentative at this time.
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> My authorities attach importance to an early resolution of this issue. In our earlier discussions, there was broad agreement on the prerequisites for a consistent and transparent system of salary determination. We joined with other Directors who endorsed the thrust of the JCC Report, which, in our view, provided a useful framework for developing a new salary structure that would be internationally competitive and, therefore, capable of attracting and retaining staff of the highest quality. We said at that time and repeat now that this must be one

of the hallmarks of any system. And, with recent recruitment experience suggesting that the Fund has lost some of its competitive edge, we believe that the salary structure that we come up with should seek to reverse this trend.

Having said that, the guidelines of the JCC Report and any modifications that we subsequently adopt can have operational meaning only when calculated pay lines are actually tested for competitiveness in the marketplace. This system is, as other Directors have said, a complicated one in which we are using various proxies for staff in different grades. We believe that in the light of experience, there may well be a need for further refinements in order to attain the agreed objectives.

I would also add that on the issue of international competitiveness, nonsalary methods of attracting staff may well be an alternative, which we would like to see explored further if they are cost effective. Such methods might include once-off relocation allowances, housing grants, and other items mentioned by Mr. Grosche and others. Accordingly, the new system will have to be viewed not really as a fully automatic one but as one in which the Board will have a degree of discretion.

Turning to the most recent Hay survey and management's interpretation of the data, we note that additional changes to the proposed treatment of the market have been made. These, however, appear to fall within the spirit of the JCC Report and a compromise along these lines would seem possible.

Management has found the 75th percentile data for the public sector to be unstable, and has therefore used the average plus 10 percent formula for that market. In the circumstances, we find this deviation acceptable, but in principle would prefer to see use of the percentile approach maintained, even if it means that a higher percentile than the 75th may be necessary.

Management has reverted to a broader sample of firms within the financial sector. While we agree with the need for a large sample, and indeed emphasized this point in previous discussions, we were surprised at the decision to include firms whose relevance to Fund activities was previously judged to be somewhat marginal. Mr. Rye and others have raised the same question. I would welcome staff comment on this point. Until this data base can be improved, I have sympathy for the staff's position that, as in the public sector, it might be more transparent to use the average plus 10 percent formula at this time.

I recognize the weaknesses of the Hay survey for the support staff in the Washington market, while noting that the 1988 survey is an improvement over the 1987 survey. In general, support salaries should bear some relationship to the Washington market. Given the special skills required of our secretaries, it seems clear that a competitive salary requires a comparator percentile higher than the 75th, with the 90th percentile being the one that is arrived at by the process of extrapolation.

On a technical point, we note that the extrapolation process itself is based on maintaining equal progression between grades. While equity is a desirable characteristic, we are not sure about the need to maintain a uniform grade progression. In particular, a 12 percent spread between the midpoints of grades A8 and A9 is perhaps not necessarily appropriate, given the differences of skills involved. The staff may wish to comment on this point.

My authorities are concerned about whether the proposed margin over the U.S. market is reasonable. It seems to result in salaries that could be interpreted as excessive, and I use that word advisedly. But I think this is a reality that we have to acknowledge. We accept that these margins were constructed in the spirit of the JCC Report in order to yield what is a competitive salary, but given the shifts that they impose in the salary structure, it might be preferable if a more gradual approach to adjusting salaries were undertaken, rather than doing it all in one step. If such a gradual approach is at all feasible technically, there may be presentational arguments in favor of it.

Finally, we are concerned about the issue of benefits. We are prepared to go along with its discussion toward the end of the year along the lines of the schedule mentioned by the Director of Administration, but feel that within that general timetable the discussion should take place as early as possible since the issues of compensation and benefits are so closely linked.

Mr. Lombardo remarked that since the current meeting was an informal session, he would make only a few comments. The Board should carefully analyze the ability of the proposed compensation structure to retain current personnel and to recruit highly qualified new staff members. There was little doubt that current recruitment problems being faced by the Fund underlined the Fund's lack of competitiveness. Given the difference between current salaries and those resulting from the proposed salary structure, he wondered whether the problems of recruitment and staff morale would be adequately solved by that structure. Consequently, he considered that the proposed system and salary structure ought to be adapted so as to better resolve those issues.

One solution might lie in the way that individual salary increases were derived within the context of the proposed structure, Mr. Lombardo suggested. For example, it might be better to increase salaries within a particular grade by the difference between the current and proposed midpoints, rather than by the difference between the current average salary and the proposed midpoints. In addition, the compensation system should be allowed some flexibility to adapt to any special circumstances that might arise.

Mr. Al-Assaf said that he shared the views of Mr. Rye and Mr. Warner on the wisdom of constructing the support staff pay line by extrapolating from the professional staff pay line, since the outcome did not really reflect the actual recruitment experience for both groups of staff. Second, he wondered what the rationale was for the fact that the spread for all grades except B3-B5 was 50 percent, as illustrated in Table 10.

Mr. A. R. Ismael welcomed the staff paper and the proposed salary structure, which covered all grades. He generally endorsed the principal elements of the new compensation system as refined by the staff. He hoped that the methodology developed would address the most pressing problems faced by the institution in recruiting the quality of personnel needed. However, he realized that, as explained by the staff, if the institution continued to fail to attract the type of staff needed with the new salary structure, the Fund should be prepared to make the appropriate changes. He did note that the Board would have to return to issues relating to staff benefits and the establishment of a joint standing committee on compensation at a later date.

With respect to senior level staff, Mr. Ismael noted that an equitable progression between the midpoint of grade B2 and the Managing Director's salary had been established, which had achieved the aim of reducing the present compression at those salary levels. However, even the new salary levels would be well below the JCC comparator market for those grades.

He had no problems with the proposed salary structure for the support staff, Mr. Ismael remarked, because it would help to attract the type of above-average secretarial staff that was needed; the new salary levels would not be above those of the private sector; and the proposed pay line maintained the required balance between the two key principles of internal equity and a reasonable relationship to the comparator market.

He agreed that the proposed salary structure would address the problems of uncertainty and morale that had plagued the Fund in the past few years, Mr. Ismael commented. He supported the adoption of the principal elements needed to establish a new compensation system and the proposed salary structure, and looked forward to its implementation by May 1, 1989.

Mr. Jalan said that he, like other Directors, attached considerable importance to resolving the issue of staff compensation as early as possible. He also attached significance to ensuring that the Fund staff continued to be highly competent and, even more so, that it be internationally representative. Therefore, he was prepared to support any consensus which might be reached, including the proposals contained in the staff paper.

His chair strongly supported the maintenance of a staff that was international and competent, even though the burden of additional administrative costs fell largely on those who borrowed from the Fund and on the developing countries, Mr. Jalan commented. Even so, he felt that the quality of the staff and its international character was in those countries' interests, in terms of the advice that they received from the Fund. It was to the institution's advantage if staff members had different experiences from various socioeconomic systems. Frankly, his country would gain if salaries were lower in the sense that its citizens would then be more likely to be recruited than those from Europe or Japan. However, all Fund members had an interest in ensuring that the Fund remained international and had the best possible access to top-quality advice.

Having said that, Mr. Jalan went on, when there was a change in the salary structure, internal relativities were extremely important even though arithmetic might suggest otherwise. He therefore also shared the concern expressed by several Directors with regard to the proposals for the support staff. A system that led to a relatively low increase for the support staff would create problems, for the reasons mentioned by several Directors from the European countries, and a solution was essential. Similarly, he was concerned from the point of view of fairness about any substantial difference in the average salary increase for the Fund and the Bank. A higher proposed salary for the Bank would be particularly difficult to defend given the fact that the Bank had been able to recruit 6,000 people at its present salary structure, while the Fund was very much smaller.

Mr. de Groote made the following statement:

> I can go along with Mr. Grosche's suggestion to try to agree as quickly as possible on, say, the basic comparators and the basic compensation system, and then leave for further negotiation the whole question of international competitiveness. Indeed, I agree with him that the aspects that do not relate to international competitiveness are very much in the line of the recommendations made by the JCC and therefore we could easily go along with them. In particular, the proposal to use the average plus 10 percent relationship to the U.S. public sector seems to be quite useful as an intermediate solution until we obtain better information. It is not at all a solution that is valid in principle, but as a practical alternative I think it is very much in the line of what we had in mind in the Committee.
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> On the support staff salaries, I very much agree with all of those who feel that the proposed solution is not ideal, but in that case also we will have to settle for the second best

solution, which consists of extrapolating from the results for professional staff at A9. This is appropriate given the difficulties being experienced in recruiting appropriate support staff in the Washington area.

On international competitiveness, I take a more reserved view--not that I doubt at all the need to attract very good staff on a competitive basis with Europe. That need is quite clear. However, I am concerned about the mechanical way in which the management proposal has been made, since the Report implied that that would be a matter of assessment and judgment, and that the criteria for international competitiveness would act as a trigger point at which time the Board would be asked to assess the situation. After all, in some cases a large upward adjustment from the U.S. pay line might not be necessary, while in other cases it might be necessary to go further than recommended in the current proposal. It should not be forgotten that the main purpose of that second comparator is to give to the Board the opportunity to correct the mechanical results that are obtained from the U.S. comparator by an overall judgment that protects fully the competitiveness of our recruitment. I feel we might lose something by being mechanistic and rigid in the use of the international competitiveness comparator.

I would have, as of now, the greatest difficulty in going along with management's proposals because the staff has failed to produce a paper that I had asked for on the possibility of using the SDR, either totally or partially, better to protect salaries and pensions against exchange rate fluctuations. I would like the staff not to start a priori with the assumption that the expression of salaries in SDRs is unfeasible. We should take the time to discuss at a later stage this possibility of better protecting the income of our staff and of our retirees against exchange rate fluctuations. Fluctuations in the U.S. dollar are partly or to a large extent compensated by fluctuations in the other direction of other currencies in the SDR basket, and therefore I would have expected that an expression of some elements of remuneration in SDRs would provide a more stable measurement of real income. Of course, I know that this depends on the share of salaries that is spent abroad as well as on other elements.

Another idea that was suggested by a colleague was that one could calculate an average of currencies over, say, the previous year. In any event, we should not completely forget about this issue. It is one of the sensitive points for our staff and we might save a lot of time and effort as well as reducing tensions by having a formula that after all would also reflect our belief in the importance of the SDR in the system.

I had also made a request for an assessment of the value of the Bretton Woods Recreation Center, the existence of which I am still opposed to. I would very much welcome information--not a staff paper, but simply a bilateral communication--on the monetary value of renting the Bretton Woods land out to another club and on the real income advantages that the existence of the club implies for the staff. The Bretton Woods club had its origin at a time when it was not possible for those belonging to some ethnic groups to enter a club in the Washington area, but that is not now the case. Membership in a club should be viewed as a personal matter of free choice, and not be subsidized by an employer.

Mrs. Filardo said that her authorities were inclined to support management's recommendations. However, in view of the discussion at the current meeting, she would like to convey to them the points that had been made by other Directors before presenting the final position of her chair.

Mr. Monyake asked what the market surveys that had been conducted to date had cost.

The Director of Administration said that he joined those Directors who urged that a decision be taken as soon as possible to bring to an end the lengthy review of the compensation system. It was unfortunate that that review had taken four years since over that period the compensation system had become even more out of line with the needs of the institution than would have been the case if the review had been completed in a more timely fashion.

He would address his remarks to four topics, the Director indicated: the U.S. pay line, the issue of international competitiveness, the resulting salary structure, and what alternative there might be to a modification in the structure, such as recruitment incentives, for example. He would also like to discuss some of the problems of relativities with the Bank.

On the 75th percentile of the U.S. market, it was important to look at the overall results of applying any formula, the Director commented. Much discussion could go into methodology, but ultimately it was the outcome of the formula that was important. As had been pointed out, in the course of discussions prior to, and during, the survey, certain modifications had been made in some of the specific elements recommended by the JCC. Table 2 in the staff paper indicated that, broadly speaking, any refinements to or departures from the JCC proposals led to a pay line that was about 3 percent higher on average than if the JCC proposals had been strictly adhered to. However, it was not possible to assess the difference precisely, because, for example, the JCC had made no specific recommendations on support staff salaries, nor had it made an explicit recommendation on what should be done if an adjustment was necessary for international competitiveness purposes. He emphasized that, in the opinion of the staff and management, the pay line that had been derived from the 75th percentile of the U.S. professional comparator market was not sufficiently competitive, especially at the lower end of the scale, where recruitment took place. At grade A11, the 75th percentile pay line would offer no material increase over present salary levels, and at grades A9 and A10, the salary levels would actually be lower. Accordingly, the staff felt that it would not be appropriate to apply the pay line derived from the 75th percentile uniformly throughout the whole range of A9 to B2. At grades higher than B2, it had been agreed not to apply the 75th percentile relationship, and indeed the proposed pay line for senior staff was significantly lower than the 75th percentile of the comparator market. The staff was convinced that particularly at the lower professional grades, a higher percentile than the 75th would be necessary, thus resulting in a pay line that sloped more gradually than that resulting from the survey.

Turning to international competitiveness, the Director remarked that the U.S. pay line derived from the 75th percentile was also not competitive with the pay line derived from the 75th percentile of the French and German comparator market. Accordingly, the staff and management had proposed adjustments to the pay line derived from the survey to make it competitive both internationally and in the United States. One Director had questioned the appropriateness of a pay line based on European salaries at the lower level and on U.S. salaries at the higher level. He, however, considered that a legitimate procedure, since the objective was a pay line that enabled the Fund to compete in all markets.

A question that had concerned him more, the Director went on, was whether a pay line that at grades A9-A11 was only marginally above the French/German market would enable the Fund to compete, since international institutions needed to have a built-in expatriate margin in order to attract people from industrial countries, in particular, to accept the difficulties of expatriation. The staff's general feeling was that with the proposed adjustment to entry-level salaries, particularly at grade A11, the Fund would be in a much better position to compete than it was currently. However, the validity of that view had to be tested. The implications of the salaries at grades A12 and A13 also had to be examined, since the Fund recruited a number of staff members at A12 and the Bank did most of its recruitment at the A13 level.

One difficulty was that the international competitiveness of the proposed pay line was vulnerable to exchange rate developments, the Director admitted. It would have been preferable to establish a pay line that was less likely to be susceptible to such fluctuations in the future, but the general feeling was that the U.S. dollar was not likely to strengthen dramatically enough to substantially change the pay line relationships. Indeed, there appeared to be a desire on the part of industrial countries to more or less maintain present exchange rate relationships.

The Board would certainly wish to address further whether there were other ways in which the Fund could meet its recruitment and retainment objectives than simply increasing the salary structure, the Director continued. For example, recruitment incentives, expatriation payments, or even a nonsalary allowance that was paid to all staff but could be rescinded if the competitive situation changed were all possibilities. Recruitment incentives would be difficult to administer fairly and equitably and it might in fact be necessary to allot different bonuses for each nationality, depending on the Fund's competitiveness with respect to each country. The other difficulty was that while a recruitment incentive might induce a staff member to accept a position with the Fund, the goal of the compensation system was to develop a career staff, which required competitive salary development throughout one's professional development. Yet another difficulty was that recruitment incentives would disturb internal relativities. Indeed, the Fund was increasingly having problems with retention; the latest figures indicated that the current turnover rate for economists was 5 percent annually, which was high in comparison with past experience.

Finally, one had to keep in mind that economists were recruited primarily through the economist program, whereby they were originally hired on a two-year fixed-term contract, after which they decided whether or not to join the regular staff, the Director said. Clearly, it was pointless to offer participants in that program a recruitment incentive for the first two years that they worked at the Fund and then eliminate that incentive at the point that a career decision was being made. The expatriation allowance that had been proposed might well solve some of the recruitment problems with regard to expatriates but would not resolve the difficulties with regard to U.S. citizens, who were clearly also desirable recruits; such an allowance would be an extremely divisive and inequitable tool.

On the resulting salary structure, which was set out in Table 10 of the staff paper, the Director observed, there was a regular progression between the midpoints of each grade. Because there were a number of career streams in the institution that spanned several grades, it was important to have a reasonably regular progression from grade to grade for all career staff. The current structure was very irrational with varying differentials between grades as a result of adjustments over time to the salaries of selected grades, and had been exacerbated by the job grading procedure, which had resulted in the interpolation of some new grades.

The staff had been informed just before the Bank circulated its proposed structure, the Director of Administration said, that that institution strongly favored 60 percent spreads for quite a number of its grades, as opposed to the 50 percent spread that the Fund had been developing and that, indeed, the Fund staff had thought the Bank had been developing. The Fund staff had retained its proposal for a maximum spread of 50 percent, while the Bank currently had a proposal before its Board that would contemplate, at least temporarily, a 60 percent spread at about five or six grades. That was an issue that the staff considered needed to be discussed further before final decisions were made in either institution. If the Bank Board did indeed approve such a spread, the effect being that Bank staff in those grades could be paid up to 5 percent more than Fund staff at the same grade, then he would need to consider whether to ask the Fund Board for the authority, at least temporarily, to allow the Fund's most outstanding staff to be paid the same as their counterparts in the Bank.

Mr. Cassell remarked that the Bank staff had assured the Board that the 60 percent spread would be used to accommodate those staff members who had reached a plateau and were not eligible for further promotions, rather than being a tool for rewarding rapidly progressing staff members.

The Director of Administration said that the Fund staff would have to consult with the Bank staff because the reasons for the 60 percent spread proposal were not entirely clear; a number of explanations had been set forth.

With respect to parallelism and the fact that a comparatio of 100 in both institutions would lead to a significantly higher average increase in the Bank than in the Fund, the Bank had pointed out that its average salaries were lower than those of the Fund, the Director remarked. However, one had to examine the reasons behind that statistic. Since the Bank was growing and adding new positions each year at a much faster rate than the Fund, and since staff members normally were recruited below the midpoint of a grade, average salaries in the Bank would naturally be lower than those in the Fund. By definition, a fast-growing institution would tend to have lower average salaries than an institution that was growing slowly. Ironically, the Fund's more controlled approach toward growth, which resulted in increased work load for existing staff, meant that those staff would be eligible for a smaller pay increase if one adhered to the principle of identical comparatios for both institutions.

The principle of parallelism was not being applied to all elements of the Fund-Bank relationship; the two institutions had different staffs that were recruited from different markets and they had a different policy toward growth, the Director commented. He would suggest that the Fund and Bank staffs prepare a paper outlining average pay for individuals with comparable experience and qualifications in the two institutions. If it turned out that the Bank had not been paying less than the Fund when one took those elements into account, that would justify a re-examination of the justification for both institutions aiming at a comparatio of 100.

The Executive Directors agreed to continue their discussion in the afternoon.

LEO VAN HOUTVEN
Secretary