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INTERNATIONAL MONETARY FUND

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R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
F. Cassell	
	Zhang Z.
	C. S. Warner
J. de Groote	
	W. K. Parmena, Temporary
	R. J. Lombardo
	E. Ayales, Temporary
	S. Appetiti, Temporary
	A. M. Othman
	S. Rouai, Temporary
G. Grosche	
J. E. Ismael	E. Kiriwat
	L. E. N. Fernando
	J. R. N. Almeida, Temporary
	D. McCormack
	A. R. Ismael, Temporary
	I. A. Al-Assaf
J. Ovi	M. Fogelholm
H. Ploix	
G. A. Posthumus	G. P. J. Hogeweg
C. R. Rye	
K. Yamazaki	S. Yoshikuni

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. Administration Department: G. F. Rea, Director; D. A. Anderson, T. Cole, D. S. Cutler, A. D. Goltz, P. D. Swain, L. A. Wolfe. Legal Department: J. S. Powers. Advisors to Executive Directors: N. Adachi, M. B. Chatah, P. D. Péroz, B. A. Sarr, A. Vasudevan, R. Wenzel. Assistants to Executive Directors: G. P. Alzetta, G. Bindley-Taylor, B. A. Christiansen, E. C. Demaestri, C. L. Haynes, J. Heywood, V. K. Malhotra, J. K. Orleans-Lindsay, A. Rieffel, Shao Z., M. J. Shaffrey.

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

The Executive Directors continued from the previous meeting their consideration of 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 on the same subject (EBAP/89/91, 4/5/89 and Sup. 1, 4/5/89).

The Director of Administration, in response to a question from Mr. Monyake at the previous meeting, indicated that over the past ten years, including FY 1990, the Fund would have paid over $5 million to Hay Associates for salary surveys. Since those services were split equally between the Fund and the Bank, $10 million would have been spent in total. The Executive Secretary of the JCC estimated that approximately $2 million of that amount was accounted for by the surveys specifically commissioned by the JCC.

The staff representative from the Administration Department indicated that the changes to the U.S. comparator market proposed by management had resulted in a pay line that was, on average, nearly 3 percent higher than that resulting from the JCC recommendations. Of that 3 percent, nearly 2 percent was accounted for by the use of the average plus 10 percent formula rather than using the 75th percentile for the U.S. public sector comparator, and the remaining approximately 1/2 percent was accounted for by the weighting methodology that had been accepted by the Executive Board.

With respect to the change from 13 financial organizations to 19, the list of 13 had been the preferred group of relevant comparators, the staff representative indicated. However, when Hay Associates had provided the data for those organizations, the very small number of observations, in particular at the higher professional levels, had clearly distorted the data, and data was not available at some grades. At that time, Hay Associates had suggested that the Fund use interpolation from the remaining grades in order to arrive at the 75th percentile for the grades for which data were not available. That process would have produced a result that was, on average, about 7 percent higher than the broader financial market, but as much as 18 percent higher at the higher grades. Those data were set out on page I-14 of the consultants' report (EBAP/89/85, Sup. 1, 4/3/89). Accordingly, the staff had felt that use of the narrower market could not be justified, given the lack of data at particular grade levels. Hay Associates had assured the staff that, over the coming year, a number of major New York banks would be added to the Hay Access system, so that a much more relevant market would be available.

It was not possible to calculate the difference between the pay lines for the U.S. financial sector that would result if one used the average plus 10 percent formula, the staff representative said, since the Hay

Access system had actually suppressed the data at particular grades for confidentiality purposes and the staff therefore did not have access to those data.

Some Directors had asked what the implication for the combined market might be of using a higher percentile relationship to the U.S. public sector, the staff representative from the Administration Department recalled. The staff did not have thorough percentile statistics for the entire U.S. market. The staff had conducted some tests of the proposed midpoint pay line for grades A9-B2 against the information that was available, and it appeared that the proposed line, which had been developed from the average plus 10 percent formula and which took account of international competitiveness, was at about the 85th percentile of the private sector at A9 and at about the 60th percentile at the B2 level. The 85th percentile relationship to the private sector at the A9 level was derived from a 75th percentile relationship to the industrial sector and a 90th percentile relationship to the financial sector. The slope of the private sector pay line was very different from that of the public sector pay line, so that the same proposed midpoint line from A9-B2 tracked the public sector from about the 90th percentile at A9 to about the 95th percentile at the B2 level. The private and public sector pay lines therefore crossed each other, and while there was no way to calculate an average percentile, she would estimate that the proposed pay line ran at about an average of the 85th percentile of the private sector and the 90th percentile of the public sector.

Mr. Grosche observed that, in the past, the average plus 10 percent relationship to the U.S. market had been approximately equivalent to the 75th percentile relationship. Did the staff have access to the data necessary to plot the 80th or the 85th percentile of the U.S. market?

The staff representative from the Administration Department replied that while the staff did not have the percentile data for the combined U.S. market, it had asked the Hay Associates to provide additional information of that nature.

Mr. Cassell recalled that the Bank staff had indicated that there was very little difference between the pay lines resulting from the JCC recommendations and from those of management. However, the Fund staff had indicated that there was a 3 percent difference. He would suggest that the Fund staff consult with its colleagues at the Bank on that discrepancy.

The Director of Administration said that in addition to resolving the question of the difference between the two pay lines, the staff would also obtain data on other percentile relationships to the U.S. market other than the 75th percentile and see how those compared with the pay line being proposed by management.

Mr. Grosche remarked that it would be helpful if the Board could develop a consensus on the issue of temporarily replacing the 75th percentile relationship with the average plus 10 percent formula for the public sector; once that issue was resolved, the U.S. market data base could be approved.

Mr. Warner suggested that the staff construct one or two pay lines that straddled the proposed pay line, which began at the higher European salaries and ended at the higher U.S. salaries as it proceeded through the grades.

The staff representative from the Administration Department, in response to a question by the Acting Chairman, remarked that the slope of the pay line for the U.S. private industrial sector as illustrated in Table 1 of the staff paper was significantly flatter than that of the financial sector for a number of reasons. Historically, the industrial sector had paid more than the financial sector in the United States. However, in the early 1980s, the financial sector had begun to increase its salaries fairly rapidly, particularly at the higher levels, and had also begun to use incentive payments more often at those higher levels. While the staff did not have precise information on the jobs contained in the Hay data base at the lower end of the financial sector, the 75th percentile of the financial sector was actually below the average plus 10 percent of the U.S. public sector. She would request a list from Hay Associates of the jobs included at those lower levels, because it might well be that some of those positions were administrative and paraprofessional in nature, rather than truly financial positions.

The Director of Administration noted that Table 3 of the staff paper illustrated the fact that the slope of the French and German pay lines was much flatter than that of the U.S. market, with the U.S. and European lines crossing at about grade A12 or A13. That had been the case for many years, even when the U.S. dollar had been much stronger than it currently was relative to the French and German currencies. In that connection, it was significant that the present pay line had more of a European slope than a U.S. slope. In other words, the Fund had not yet adapted its pay line to the U.S. market. Currently, the issue was of relevance because if the Fund was to maintain a constant percentile relationship to the U.S. market, a somewhat wrenching adjustment to the slope of the existing line would be necessary.

The fact that the average margin of the proposed pay line over the French/German comparator market was 12 percent concealed the fact that the margins varied significantly at the various grades, the Director of Administration commented. It was almost impossible, given all the elements that had to be taken into account, to construct a pay line that reflected a fixed percentage margin over the French/German data at each grade, bore a reasonable relationship to the U.S. data, had relatively even midpoint progression from grade to grade, and resulted in the extrapolation of a realistic support staff pay line. The pay line proposed by management represented an attempt to balance those different objectives.

The staff representative from the Administration Department indicated that, in the process of developing the proposed pay line, the staff had begun with the U.S. pay line and compared that to the French/German pay line, checking the margin at each grade. At the B2 level, the margin was well within the range recommended by the JCC, at about 15 percent. The staffs of the Bank and the Fund had then proceeded to indicate those grades at which they could accept a minimum of a 10 percent margin. The margin had been phased out toward the A9 level, both because of the impact of that grade on the downward extrapolation for support staff, and because A9 was not a key international recruitment level. The Bank had been very interested in having as close to a 15 percent margin as possible at grades A13 and A14, where it did much of its recruitment. The Fund had compromised on the minimum of a 10 percent margin at the important grade of A11, considering that 8.5 percent was close to that goal. Once the approximate margins at each grade had been established, the two staffs had tried to smooth the progression from grade to grade, taking into account the needs of both institutions. For example, in the Fund, there was fairly rapid advancement between grades A11 and A12, but at the same time, grade A11 was a career ceiling for some staff members. Once a set of midpoints had been arrived at, each proposed midpoint had been weighted by the number of staff in both the Bank and the Fund who were in that grade, at which time it was determined that there was an average of 12 percent margin over the French/German market. In fact, then, the 12 percent margin had been a result of the process, and not a goal. Then the line had been tested once again against the JCC criterion that the pay line should be competitive in all U.S. and international markets.

Mr. Grosche said that he acknowledged the necessity to take a number of factors into account when constructing a salary structure. However, he was concerned that such an unsystematic approach would imply excessive judgment for the following years. The JCC had hoped that it would be possible in the future to rely more heavily on detailed grade-by-grade market data, which would be factored into the existing salary structure.

The staff representative from the Administration Department noted that the proposed pay line was a first attempt at designing an internationally competitive salary structure. The U.S. market at the lowest professional levels had never contained a margin over France and Germany, as the Director of Administration had noted. The U.S. pay line tended to progress by about 16 percent between grades, whereas the French/German pay lines progressed by about 10 percent between grades; the 12 percent progression that was reflected in the proposed pay line lay between the two extremes.

Mr. Grosche said that it was important that the process of arriving at a salary structure from the data base provided by Hay Associates be as systematic as possible, with each step being documented for the use of future years' calculations. That would create confidence in an objective system.

Mr. Cassell said that he was puzzled by the fact that the desired 15 percent margin of international competitiveness existed at the top of the pay line, whereas considerably smaller margins were present for the grades at which staff members were recruited. While the Bank claimed that grades A13 and A14 were important for recruitment, it was his impression that A13 was the primary recruitment grade in the Bank. He would prefer that the margin of international competitiveness be reduced at the higher grades.

The Director of Administration noted that grades A13 and A14 were important to both institutions from the point of view of retention since they were end-of-career grades for most professional staff members. Second, any reduction of the margin at grades A14, A15, and B2 had the effect of bringing the pay line below the U.S. market figures. Third, if one bent the pay line at grade A14, which would be the case if the margin for the higher grades were reduced, internal relationships would be compressed. There was already one bend in the line at grade B3, and Directors had to consider whether any more would be appropriate.

The staff representative from the Administration Department noted that lowering the margin at the B2 level and raising it at grade A11 would flatten the pay line so much that if a 50 percent spread were established around each midpoint as was proposed, some grades would have overlapping pay ranges. The proposed pay line took into account internal equity as well as market relationships.

Mr. Grosche remarked that it might have been a mistake to introduce additional grades four years ago. Part of the problem with the proposed pay line was the constraint of parallelism with the Bank, which limited the Fund's flexibility. However, in general, he considered it reasonable that the proposed pay line reflected an average of European and U.S. progression patterns.

Mr. Posthumus commented that it was difficult to measure the competitiveness of salaries by looking at a mix of public sector and private sector comparators. Competitiveness might be more of an issue at the lower grades than at the higher ones, when the element of public service became a consideration. Other elements that had given rise to the slope of the proposed pay line should be set out by the staff.

Mr. Grosche said that the JCC had held the view that competitive salaries were indeed more important at the lower grades, while at the higher grades the element of public service became more relevant. The JCC had originally considered relating the salaries of the entry level grades purely to the private market, with the higher grades being more closely related to the public sector, much like in the U.S. public sector where employees at the upper end of the scale were not paid as much as they could receive on the market. However, the Committee had discarded that idea as being overly complicated, and it had decided to stick with the one third/one third/one third weighting with judgment being applied at that time.

Mr. Posthumus remarked that he had not proposed segmentation of the comparator markets, but had simply been asking how much freedom the Board had to change the pay line at the upper grades. Competitiveness might be lost at those grades, but there may be good reasons for accepting such a loss.

The Director of Administration said that the staff had been working within the principles set out by the JCC, which had been to regard the A9-B2 grades as a single group, applying a single formula for that pay line. Certainly, the public service comparator pulled down the B2 salary more than it did the salaries of the lower grades because of the severe caps and compressions that existed in the U.S. civil service compensation structure. Accordingly, there was a type of built-in constraint on the upper grades.

On the point that perhaps the Fund system had too many grades, the Director of Administration noted that those grades had been developed by evaluating job content and converting those evaluations into Hay point terms; jobs had been arranged into grades with about a 15 percent differential in Hay point terms from grade to grade. That process had resulted in the addition of one or two grades. In that context, the salary per Hay point that people in the higher grades were receiving was lower than that of people in the lower grades, because the Hay point progression between grades was 15 percent, while the salary progression was 12 percent. Once again, then, the B2 salaries were dampened.

Mr. Cassell noted that the proposed midpoints for grades A15 and B1 were significantly higher than the U.S. 75th percentile. Perhaps the pay line ought to be bent at a lower grade than B2.

Mr. Grosche said that he endorsed the staff's approach in working toward competitiveness at the grades that were important for both institutions when it came to recruitment, and in basing the salary structure at those grades on market indications. The salaries for the higher grades, at which staff members were not generally recruited, might still have to be competitive, since recruits took into account their potential salary when making decisions about their future careers. Flattening out the pay line too much would reduce incentives for staff members' stay at the Fund. Certainly, the Fund's higher-ranking staff, starting at grades B1 and B2, was heavily underpaid compared with the market data for the United States, and he agreed that some increase should be introduced at those levels without attempting to match the market. While JCC had decided to ignore market data from grade B2 on because of the high comparator salaries, it considered discretionary adjustments at lower grades to be unreasonable. In fact, one Committee member had favored the use of market data up to grade B2, and he himself still considered that to be reasonable.

Mr. de Groote remarked that, as he saw it, the large number of grades that existed in the Fund compensated for the fact that promotion possibilities were, on the whole, rather limited in the Fund. If the number of grades was reduced, the salary ranges of those grades would have to overlap.

The Director of Administration remarked that the number of grades that currently existed provided fairly tight control over progression, which was not necessarily to the advantage of the staff.

On another point, the Director of Administration drew Directors' attention to the fact that rather limited pay increases were being proposed at the higher professional grades, as illustrated in Table 11 of the staff paper. The present salary structure was very compressed at those grades, with staff members' salaries moving toward the ceilings as it was recognized that their work load was substantially heavier than that of staff members two or three grades below. Accordingly, average salaries had moved toward the ceiling of the present range, and were not very far below the midpoints being proposed. While that factor should not be taken into account in theory when developing a new structure, it did have practical implications, since the grades in question included the Fund's division chiefs, who were absolutely critical to the effective operation of the Fund.

The Acting Chairman noted that when an institution maintained a grade structure that was below the market, there was a tendency to allow the average salary to rise, in order to be competitive, with staff being paid salaries that were close to the ceiling. Such was the case in the U.S. public sector. If, eventually, a tendency to move away from the currently proposed pay line developed, it would be necessary to re-examine the comparatio principle, because the acceptance by management of that principle was based on the understanding that the resulting pay line was related to the market.

Considerable importance was attached by both the Managing Director and himself, the Acting Chairman continued, to the point that grades B2 and B3 included the critical division chiefs who were working in the field and with individual countries. It was important to have a salary structure that attracted good performers to the Fund and that would present them with a reasonable pay progression through their careers. While the salaries at grades above B2 were not reasonably competitive with the market, it might well be that the public service consideration became more important at that point.

The Director of Administration turned to the question of alternatives to adjusting the Fund's salary structure. Essentially, three possibilities had been mentioned by Directors. He had already expressed his views on the undesirability of recruitment incentives at the previous meeting. Expatriation allowances would meet with considerable opposition from U.S. staff members. Mr. Kafka's proposal for a nonsalary allowance to be paid to all staff when necessary to ensure international competitiveness, which would be adjusted from year to year depending on exchange rate fluctuations, was the third possibility. While Mr. Kafka had suggested that such allowance should be pensionable, that might not be practicable, since the present pension scheme operated on the basis of the staff member's highest average gross remuneration over the three years prior to retirement. If the nonsalary allowance varied widely from year to year, the implications for staff members' pensions could be quite inequitable. He would welcome comments from Directors on information that they would find useful in their consideration of the feasibility of the three possibilities.

Mr. Grosche said that he agreed with the Director of Administration that an expatriation allowance was probably not feasible since it implied a discrimination between U.S. nationals and all other staff members. At least one member of the JCC had expressed opposition to such a proposal. While he would note that in the context of costs to the Fund, U.S. nationals were substantially more expensive for the Fund to employ than were expatriates, he understood that the provision of expatriation allowances would prove to be an extremely divisive concept.

There were also many difficulties with recruitment incentives, Mr. Grosche continued, because it would be difficult to reconcile the possibility of a new recruit in the Economist Program earning the same as a fully performing economist at grade A14 or A15 with the principle of equal pay for equal work. The concept of a nonsalary allowance for all staff members also posed problems.

His preference, Mr. Grosche indicated, was for an expatriation allowance, because of its simplicity and clarity, but he recognized that the U.S. chair and U.S. staff members would have difficulty with that. Accordingly, he would like the staff to consider further the nonsalary allowance, which was his second preference.

Mr. de Groote asked whether the OECD and the EEC, for example, granted an expatriation allowance that did not apply to nationals of France and Belgium respectively.

Another staff representative from the Administration Department responded that the OECD had always offered an expatriation allowance. If the Fund wished to do so, however, it would face the difficulty of introducing the allowance as a new practice.

Mr. Cassell said that his first preference would be for some form of expatriate allowance. In response to the point that that led to discrimination, non-U.S. staff members also experienced discrimination, such as the fact that their spouses often had difficulty in finding employment in the United States, for example.

It would be useful to have the procedures of other international institutions set out, Mr. Cassell continued. The way in which the Bank and the Fund dealt with the issue of taxes, for example, was unique among international institutions. The effect of that practice was that it was considerably more expensive for either of the institutions to employ a U.S. citizen than to employ citizens of other countries. The expatriate allowance would also have to be viewed in terms of the net cost of the individual to the institution. He considered that an expatriate allowance could be defended; he was primarily attracted to the concept because of his distaste for the alternative--building in a margin of international competitiveness over the U.S. market, which required quite substantial sums at grades A9-A11 in order to preserve a relationship that might be drastically changed with an adjustment in exchange rates. An expatriate allowance would be more flexible than changing the entire salary structure.

The other staff representative from the Administration Department remarked that it was not necessarily clear that paying a 15 percent expatriation allowance to 75 percent of the Fund's staff would be less expensive than increasing the salary structure by the amount necessary to achieve international competitiveness. In fact, if one took the point of Mr. Cassell regarding movements in exchange rates, there would be many times when no adjustment at all would have to be made for international competitiveness. On the other hand, if expatriate staff members were recruited with the understanding that they would receive an expatriation allowance, it would be difficult to eliminate that allowance when exchange rate relationships so dictated.

The Director of Administration commented that the JCC had decided that an adjustment to the salary structure was the least offensive way to deal with international competitiveness.

Turning to the question of support staff salaries, the Director of Administration noted that in the past three years, the Fund had recruited only four support staff members from the U.S. civil service; two of those staff members were messengers, and the other two held clerical positions. The low rate of recruitment from the civil service was certainly not due to a lack of Fund competitiveness with the public service, but rather, reflected the fact that the qualifications that the Fund was seeking were not generally found in the support staff of the U.S. civil service. The Fund recruited secretaries who had higher typing speeds than many other employers considered necessary, were proficient in shorthand, were skilled in operating automated systems, and had a good deal of experience. In addition, many secretaries had second or third language qualifications. There was therefore a good argument for suggesting that the U.S. public service was simply not a relevant comparator for the majority of the support staff.

The staff representative from the Administration Department explained that a number of factors had been taken into account in designing the support staff salary structure; it had not simply been extrapolated downward from the A9 level by 12 percent for each grade. The first test had been a line between the recommended midpoint for A9 and the 90th percentile of the private sector for grade A5, which was the grade assigned to fully functioning secretaries in both the Fund and the Bank. The results of that process had provided an unsmooth progression, with a 10 percent progression between some grades and a 13 percent progression between others. Accordingly, the line had been smoothed out to create a 12 percent progression between grades, as had been the case for the professional grades.

The staff had looked at the possibility of having a steeper slope below grade A9, the staff representative from the Administration Department indicated, but it had found that the private sector average plus 10 percent for grade A8 provided a result that was very close to the U.S. comparator market result for grade A9. The large gap that might have been expected between the two grades was not present, and the Washington private market at the 90th percentile actually produced a result that was significantly above the U.S. comparator for grade A9. While the Fund classified staff members in grade A8 as being support staff--although a number of research assistants and administrative officers were in that grade--the Bank categorized staff members in grade A8 as professionals, and recruited them internationally--a fact that argued for a smooth progression from grade A9 downward. As it turned out, the proposed midpoint for grade A8 fell between the average plus 10 percent and the 90th percentile of the Washington private market.

Mr. Cassell commented that it would be useful to have information on any recruitment and retention difficulties that the Fund was experiencing at the support staff level. If it was not having such problems, it would be difficult to justify a higher relationship with the market than the 75th percentile.

The Director of Administration noted that the final topic was the implications of the new salary structure for actual salary increases. At the next meeting on compensation, the staff would return to the expression of compensation in SDRs, which it had been considering for some time. The staff would first consult with Mr. de Groote on the objectives that he considered desirable in that context. The staff would also outline the salary increases that were feasible, and how they would be distributed, at the next meeting on compensation. Clearly, anomalies and inequities would have to be avoided, as the SAC representative had remarked.

The figures in the staff paper on the average salary increase that would be necessary to bring the Fund to a comparatio of 100 had been based on current salary data, the Director noted. However, promotions in the Fund were effective on May 1 of each year, and the effect of those promotions would be to lower average salaries in relation to the proposed new midpoints. Now that the Administration Department had a clear idea of the upcoming promotions, it had been able to calculate that, in fact, an 8.8 percent average salary increase would be necessary to reach a comparatio of 100 as of May 1, as opposed to the previously cited 7.5 percent. That figure reduced the differential between the Fund and Bank salary increases, since promotions in the Bank became effective throughout the year.

The suggestion had been made by Mr. Grosche that, for the first year at least, the Fund could stay somewhat above a comparatio of 100, which would lead to a larger pay increase for FY 1990 than would be justified simply by moving immediately into a comparatio of 100, the Director recalled. Mr. Grosche had also observed that another option would be for the Bank to remain somewhat below the comparatio of 100 for the current year. Both of those certainly were possibilities.

The staff considered it important to obtain information from the Bank in order to develop a clearer understanding of why differences in average salaries had arisen, the Director of Administration said. That included information on relative progression rates and on relative pay opportunities for people of comparable qualifications and experience. The Fund staff was concerned that the Fund was no longer very competitive in relation to the Bank, which had not been the case a number of years ago. Traditionally, Fund pay increases had been larger than those that appeared justified by market comparison for the Bank; the Bank nevertheless then implemented the same pay increase in order to avoid inequities between the two groups of staff. Since a study on that issue could not be completed before May 1, the 1989 pay increases might have a provisional nature about them.

Mr. Grosche said that the JCC had certainly had in mind some phasing in of the new system. He had never expected that the degree of difference in proposed average salary increases now being encountered would develop, and considered that some phasing in would be particularly appropriate in the circumstances.

The Director of Administration, in response to a question from Mr. Grosche, explained that when a staff member was promoted from one grade to the next, his salary did not change substantially, which meant that his salary position in the higher grade would have a dampening effect on the average salary in that grade. In addition, since the staff member would have presumably had a relatively high salary in his previous grade, his promotion out of that grade had the effect of reducing the lower grade's average salary. The fact that movement through the grades appeared to be more rapid in the Bank than in the Fund might well have led to lower average salaries in the Bank.

Mr. Grosche remarked that it had not been the intention of the JCC in recommending parallelism between the Bank and the Fund that Fund staff members be, in effect, punished for working in the leaner and more stable institution. The JCC had not meant to ignore any impact on individual pay by such structural characteristics as an institution's growth and career opportunities. If there was a flaw in the JCC's system, that ought to be corrected.

Mr. Cassell said that his concern about the comparatio of 100 had been increasing during the course of the meeting. Perhaps the implications of such a concept had not yet been fully grasped. If the differential in pay increases was transitional, that was acceptable, but if it reflected a structural difference between the institutions, reconsideration was necessary. It did not seem reasonable that the institution that had tighter control over its manpower would be given less scope for pay increases. He stressed that no commitment should be made to a comparatio of 100 without understanding the underlying principles.

The Director of Administration indicated that in the two years since the reorganization of the Bank, average pay in that institution had dropped by 2.3 percent in relation to average pay in the Fund. The decline could only be accounted for by a combination of a greater number of positions in the Bank, a higher number of new positions being added, and/or a more rapid rate of progression through grades. That pointed to a built-in bias toward lower average salaries in the Bank. The JCC had not really focused on the fact that if two institutions with different demographics adopted an identical salary structure with each seeking a comparatio of 100, different average pay increases were inevitable.

The staff representative from the Administration Department indicated that, in the late 1970s, average pay in the two institutions had been almost identical at each grade. By 1984, some differentials had begun to emerge, with the Fund's average salaries being 1 or 2 percent higher than the Bank's. Since 1984, that gap had grown to more than 5 percent. And in the past two years, since the reorganization of the Bank, the gap had widened by a little more than 2 percent.

The Director of Administration remarked that the Bank might view statistics on average salaries as implying that Fund staff were paid more than Bank staff, but that was true only on average within each grade, and not necessarily for staff members with comparable qualifications and experience.

On the distribution of pay increases, the objective would be to award pay increases differentially, probably in accordance with the quartile position in a particular grade, so that the higher up in a grade a staff member was, the harder it would be to receive an above average increase, and vice versa, the Director said. That would result in a tendency for average salaries to move toward the midpoint of a grade. A strong staff member would be promoted on the basis of his good performance, so that before he reached the ceiling of a particular grade he would most likely be promoted to the next grade.

In response to a question by Mr. de Groote, the Director of Administration explained that Vice Presidents in the Bank were in a grade corresponding to the Fund's grade B5, which was the grade for the Fund's department heads. While a Director of department in the Fund corresponded to a Vice President in the Bank, a Deputy Director in the Fund was equivalent to a Director in the Bank. Above the vice presidential level at the Bank was a group of Senior Vice Presidents; there was no corresponding position in the Fund staff. The Deputy Managing Director, who could be compared to the Bank's Senior Vice Presidents, was not a staff member and his salary was not determined in the same way as that of staff. Rather, it was fixed at the beginning of the five-year term, and adjusted two and a half years later. The Senior Vice Presidents, on the other hand, received annual adjustments. Currently, two Senior Vice Presidents were being paid more than the Deputy Managing Director.

Mr. de Groote asked whether Directors felt that the responsibilities of those two Senior Vice Presidents were more important than the responsibilities of the Deputy Managing Director, and whether the Vice Presidents responsible for research, for example, in the Bank deserved a higher salary than the Fund's Economic Counsellor and Director of the Research Department.

Mr. Grosche, returning to the question of the comparatio, recalled that the JCC had recommended staying as close as possible to the comparatio of 100 as practicable. When the Committee had first discussed the concept of a comparatio, which it had adopted from common practice in the private sector, it had been informed that many companies deliberately stayed below a comparatio of 100 by devoting much of the salary increase produced by an adjustment in the salary structure to promote "fast runners" in a given salary range, while keeping other staff members to as small an increase as possible. Such companies would tend to stay below a comparatio of 100. Other companies, which were growing very fast, might tend to stay somewhat above the comparatio of 100 since they were concerned not so much with saving costs as with growing and attracting high quality staff. The comparatio was not an objective at which one should aim at all cost; rather, it could be interpreted according to the needs of a given institution.

The Director of Administration noted that the Board would have to address the issue of using the average plus 10 percent formula for the U.S. public sector comparator market before a methodology could be established. Perhaps a consensus was not necessary, but the staff did need an indication that the Board would eventually endorse management's proposal to use that formula at least until more rational percentile data could be obtained.

Mr. Warner said that he would decline joining a consensus on that issue at the current time since the issue attached itself to other related decisions; he would prefer to approach the question on a more global basis at the next meeting.

Mr. Grosche stressed the importance of completing the discussion of staff compensation by the end of April, since the Board had other serious matters to deal with after the Interim Committee meeting.

The Executive Directors then adjourned their discussion of staff compensation.

LEO VAN HOUTVEN
Secretary