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0404

INTERNATIONAL MONETARY FUND

Secretary's Journal of Executive Board
Informal Session 89/8

10:00 a.m., April 19, 1989

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
F. Cassell	
	Zhang Z.
	C. S. Warner
	G. P. Alzetta, Temporary
E. T. El Kogali	L. B. Monyake
	R. J. Lombardo
	E. Ayales, Temporary
	N. Kyriazidis
	A. M. Othman
M. R. Ghasimi	O. Kabbaj
G. Grosche	
J. E. Ismael	E. Kiriwat
B. Jalan	L. E. N. Fernando
	J. R. N. Almeida, Temporary
	D. McCormack
	A. R. Ismael, Temporary
	I. A. Al-Assaf
J. Ovi	
H. Ploix	
	G. P. J. Hogeweg
	M. J. Shaffrey
	S. Yoshikuni

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

Also Present

J. H. Landriault, Joint Bank/Fund Committee of Executive Directors on Staff Compensation; IBRD: R. E. Myers, Office of U. S. Executive Director. Administration Department: G. F. Rea, Director; H. J. O. Struckmeyer, Deputy Director; D. S. Cutler, Assistant Director; D. A. Anderson, T. Cole, A. D. Goltz, P. D. Swain, L. A. Wolfe. Legal Department: W. E. Holder, Deputy General Counsel. Advisors to Executive Directors: M. B. Chatah, P. O. Montórfano, P. D. Péroz, R. Wenzel. Assistants to Executive Directors: G. Bindley-Taylor, B. A. Christiansen, E. C. Demaestri, S. K. Fayyad, C. L. Haynes, J. Heywood, V. K. Malhotra, A. Rieffel, S. Rouai, Shao Z., C. C. A. van den Berg.

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

The Executive Directors continued from the previous meeting (IS/89/7, 4/14/89) their consideration of a staff paper on the principal elements of the proposed 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 and Sup. 1, 4/5/89).

Mr. Grosche made the following statement:

I would like to express my appreciation to the staff for its excellent effort in producing the paper on the competitiveness of the U.S. market at such short notice. I believe that the illustrative pay lines presented in that paper will provide Board members with a fair idea of a pay line that could be considered competitive in the U.S. market and the differences between such a pay line and the French/German 75th percentile pay line.

As I understand it, the approach taken expresses the market relationship as an average percentile for grades A9 to B2. In looking at averages, it was possible to tilt the pay line to meet two main considerations: first, the need to reduce the difference in slope between the U.S. market and the traditional slope in the two institutions and, second, the need to be particularly competitive at the main recruitment level of A11. The staff hinged the pay line at level A13 at the selected percentile, raising the line against the market below A13 and lowering the line at grades above A13. This is illustrated in Table 2 on page 9 of the staff paper for the 75th percentile level, and for higher percentile levels in Table 3 on page 10, in each case showing the difference between the actual and tilted pay lines.

Although I understand the objective being pursued with the tilting approach, I am still somewhat uneasy about favoring some levels at the expense of others, as opposed to raising the pay line uniformly, as has been the tradition in the Fund and the Bank. But on the other hand, I certainly recognize that this tilting produces increases from range to range which are much closer to our tradition.

With reference to the tilted 75th percentile pay line, the paper shows that it is, on average, only 2.4 percent above the average pay line of the U.S. industrial sector and almost matches average pay in the industrial sector. This serves to indicate that simply tilting the pay line at the 75th percentile would not be sufficient to maintain an appropriate level of competitiveness in the U.S. market as a whole. In this connection, I recall that, on a number of occasions in our Committee discussions, it had been considered that an appropriate relationship with the private sector should be maintained and that it might be necessary to require a higher percentile relationship with the public sector in order to achieve this.

I find the comparison of the 75th percentile of the U.S. combined market to different segments of the market, as illustrated in Table 4 on page 13, very useful. Certainly, the data is revealing in illustrating the significant differences that exist between sectors. The staff's reference to the 75th percentile of the economic/planning pay line within the U.S. industrial sector, at level A11 in the same table, would appear to be pertinent to its suggestion that the pay line at this critical recruitment level be raised to a range of $47,000-49,000, at least in principle.

These further steps have led the staff to conclude that, in order to maintain an appropriate level of competitiveness in the U.S. market as a whole, an 85th percentile relationship, at the very least, would have to be established with that market. In so concluding, the staff observes, as illustrated in Table 6 on page 20, that the 85th percentile of the combined U.S. market is very close to the 75th percentile of the U.S. industrial sector, which, as you know, comprises the most comprehensive and reliable data base in Hay's ACCESS data bank.

Finally, with regard to the level of competitiveness in the U.S. market, the paper places two alternatives before us: establish a relationship at the 85th percentile of the U.S. combined market; or establish a relationship at the 75th percentile of the U.S. industrial sector, for the present, and, eventually, of the combined U.S. industrial and financial sectors when the data base in the latter sector has improved.

Based on the JCC's position that the public sector should be included in the comparator market, I would prefer that a relationship be established at a selected percentile of the combined U.S. market, which would then be at least the 85th percentile.

With regard to the issue of international competitiveness, the staff paper includes very useful data in Table 7 on page 22. U.S. market pay lines at different percentile levels are compared to the 75th percentile of the French/German pay line. In particular, it can be noted that the U.S. 85th percentile pay line is, on average, 6.2 percent lower than the line that would be needed to restore a 10 percent margin above the French/German market. Indeed, a gap of this size would not seem to be unmanageable in the context of seeking international competitiveness.

> The data contained in this table would appear to provide a fair estimate of the degree of movement in the pay line that would be needed, should it be decided to address the international competitiveness issue through an adjustment of the pay structure.
>
> In conclusion, it would seem to me that we have two basic decisions to make: first, whether the 85th or another higher percentile relationship is needed to ensure competitiveness in the U.S. market, and second, whether further adjustments to the salary structure should be made to ensure international competitiveness. In addition, it is my view that, once a decision is taken with regard to a percentile relationship with the U.S. combined market, the level of relationship and the resulting slope of the pay line should be considered to be a "floor" structure that should not be tampered with in the future, except for very tangible reasons.

The Director of Administration, in response to a question by Mr. Cassell, said that the Fund staff had not discussed the contents of the staff paper with the Bank staff. It had simply been responding to a request for information from the Fund Board. It had indicated to the Bank staff that it had had that request for information and had sent the Bank staff a copy of the paper, but had had no opportunity nor occasion to consult with the Bank staff as to its position on the information contained therein. In fact, the Fund staff had not had enough time itself to consider in depth the implications of adopting a U.S. pay line other than the 75th percentile.

Mr. Cassell noted that any discussion in the current meeting was under the shadow of the requirement that the formal Bank Board meeting take place the following day, at which time a final decision would be made by the Bank. He had received the impression that the Bank Board was becoming a bit more flexible on other aspects. Parallelism did imply that the two Boards ought to move in a consistent fashion over the period that remained before the final decisions were taken. Had the latest Bank proposals, which he understood the President of the Bank would be putting before the Bank Board at the next day's meeting, and which affected the competitiveness range, been discussed with the Fund staff?

The Director of Administration said that the Fund staff had received a draft paper from the President of the Bank to Executive Directors outlining certain modifications in approach that the President seemed ready to propose. The Fund staff had been asked for its view and whether the Fund would have any serious objections to the propositions contained in that paper. After careful review, the Fund staff had concluded that it would not have serious problems with the propositions. However, until it was decided whether the proposals would in fact be made, it was difficult to discuss the issues contained in the paper. They did not depart in any major way from the proposals that had already been made by the Bank and certainly did not propose any change in the pay line that had been proposed in both institutions.

Mr. Cassell said that the Bank paper proposed reverting to the original JCC proposal of a testing range for international competitiveness of 10-20 percent, instead of having an automatic fixed margin of 12 percent. In addition, the President was proposing that there be some flexibility in the comparatio in future years.

The Director of Administration said that the paper seemed to be addressing the principles on the basis of which future pay lines would be adjusted. In that sense, Mr. Grosche seemed to be suggesting not a change in the proposed pay line for the current year, but a setting out of the underlying principles for future years' adjustment. The Managing Director felt strongly that a 15 percent margin for international competitiveness ought to be maintained, but it was the staff's view that the precise point within the 10-20 percent range proposed by the JCC could be determined each year based on management's recommendation. That did not preclude any specific figures being adopted. Either one had to agree upon a target that was maintained for a long period of time or the target would have to be established each year. The Bank seemed to be avoiding any decision on that issue for the current year, falling back on the idea of a testing range of 10-20 percent. He believed that the Fund management was prepared to go along with that if it would help to reach a solution.

The Fund staff could agree with the propositions that a comparatio of 100 be maintained; that, with an important qualification, a study be made in conjunction with the Bank over the next few months; and on the validity of aiming at the same comparatio in the Bank and the Fund in the context of demographic and other factors in the two institutions before the next pay adjustment had to be considered. It should be established whether there was some built-in justification for differences between the two institutions' comparatios.

Mr. Cassell responded that, on the issue of international competitiveness, the decision was between an automatic system and one that gave discretion to the Boards each year. As he understood it, the President of the Bank was going along with the JCC's recommendation for a system that allowed for discretion.

The Acting Chairman remarked that that did not preclude the managements of both institutions coming forward with a specific proposal for a margin of international competitiveness each year. It was in that spirit that the Fund management could support a 10-20 percent range; within that range, management considered that the margin should be on the order of 15 percent over time.

The Director of Administration emphasized that the flexibility suggested by the Bank's proposal had both positive and negative implications. Flexibility to adapt to current circumstances and produce the best results in the light of current circumstances was beneficial. However, such flexibility also offered the opportunity to take into account extraneous circumstances and could lead to detrimental results. The Fund staff was extremely concerned that undue flexibility would lead to politicization of the process each year. The management's willingness to go along with the Bank President's suggestion was very much based on the assumption that it would help Directors to reach a consensus.

The Assistant Director of the Administration Department noted that the proposed decision, as set out in the Appendix to EBAP/89/85, would have to be adjusted somewhat based on the Bank's latest proposal. First, the Appendix did set out as a general principle that a 15 percent margin of international competitiveness would be aimed at, with the added caution that "action would be taken to restore a competitive margin if the average margin fell below 12 percent."

Second, on the comparatio, the Fund had never placed in its decision the same mathematical formula as the Bank, the Assistant Director said. Rather, it had used the words of the JCC that the objective would be to maintain average salaries at a comparatio of 100. That wording was sufficiently general and would probably not have to be changed in light of the Bank's suggestion.

Third, on support staff, the principles set out in the Appendix referred only to the Washington market for support staff, the Assistant Director of the Administration Department recalled. The Bank seemed to be incorporating in its decision the suggestion to check the French and German markets against the support staff pay line. He suspected that some of the Fund's Executive Directors would be interested in adding that element to the Fund's decision.

Mr. Warner said that the Bank President appeared to have seen the necessity of adhering to the JCC recommendation for 10-20 percent trigger points for international competitiveness. As he understood it, the President's proposal was in addition to the staff paper's suggestion for a 12 percent adjustment in 1989. The two Boards would then revert to the judgmental process with 10-20 percent trigger points in 1990.

He found the staff paper on the competitiveness of the U.S. comparator market to be interesting and responsive to Mr. Grosche's request, but considered that there were dangers in the paper's suggestion that the 85th percentile of the U.S. market now be considered as the basis for the new compensation system, Mr. Warner commented. The way in which the current system was established would set a precedent for future years upon which to base judgment. As Mr. Kafka had observed, much of the Board's judgment on compensation issues depended on foreign exchange considerations. If the 1990 pay line were based on the staff paper's suggestion of a 12 percent margin of international competitiveness, together with an 85th percentile relationship to the U.S. market, certain foreign exchange conditions could lead to an excessively high pay line. Even the current management proposal for a 12 percent margin, while based on the 75th percentile of the U.S. market, actually represented the 90th percentile of the U.S. combined market, which was close to the limit of a system that could be rationalized in any way. He had also been impressed with the point made in the staff paper that the current pay line was above the 80th percentile of the combined U.S. market.

The fact that the U.S. interest in having a standing joint committee on compensation had not been supported, concerned him, Mr. Warner said, because it meant that both Boards would have to become a sounding board in determining many details in the context of future adjustments, which would use a great deal of Board time. He was concerned that the system would move, with time, progressively further away from the essence of the JCC Report.

Mr. Grosche said that the JCC had made it quite clear in its recommendations that the Boards would have to make a decision on the appropriate pitch to the selected U.S. comparator market. The 75th percentile relationship had been selected by the JCC as a starting point for comparison on the basis of the 1987 data, but the Committee had made it very clear that that percentile relationship would have to be checked against the overriding principle that the needs of the two institutions in recruiting and retaining desirable staff members be met, with due regard to costs. He welcomed the fact that the staff paper currently before Directors discussed the appropriate relationship to the U.S. market, and did not consider that step as a deviation from the JCC proposals.

With regard to international competitiveness, Mr. Grosche agreed with Mr. Warner that once a pay line that was sufficiently competitive in the U.S. market had been selected, it ought to be tested internationally. The Committee had recommended that the Board take action whenever the margin was outside the 10-20 percent range. Such action could involve lowering the U.S. market pay line if the margin of international competitiveness surpassed 20 percent, or raising the U.S. market pay line if the margin was less than 10 percent. It was important to bear in mind that the main staff paper (EBAP/89/85) set out a pay line that did take into account competitiveness in both the U.S. and the European market. He had stressed the importance of delineating the steps leading up to that pay line and of discussing the appropriate percentile relationship to the U.S. market before considering international competitiveness. The proposal as it stood could lead people to believe that the increase being suggested in the proposed pay line was solely due to considerations of international competitiveness, which was not true. Part of the increase in the pay structure was necessary to achieve competitiveness in the United States.

Mr. Warner granted that the JCC had recommended that an appropriate pitch be determined. His observation had been that if the 85th percentile were selected as that appropriate pitch, that would set a precedent that would have to be very carefully monitored in the future since there would be little room for upward adjustment. In addition, while the JCC had contemplated that, in the process of setting pitches and margins for international competitiveness, adjustments could also be downward, it was clear that any downward adjustment would be extremely difficult. He would therefore caution against establishing too high a starting point.

Mr. Almeida remarked that it was the decision of the Board to select which percentile of the U.S. market the proposed pay line should be pitched at.

Mr. Jalan noted that the competitiveness of any Bank/Fund pay line, both with respect to the U.S. market and internationally, depended on developments in the U.S. market. For example, if the U.S. Administration's proposal for a 50 percent increase in civil service pay had been accepted by Congress, the relationship of the proposed pay line to the U.S. market would have been quite different. Other elements of uncertainty were the development of foreign exchange rates and private sector salaries, which depended on such variables as inflation rates. Accordingly, he would question Mr. Warner's assertion that a decision based on management's proposals would create difficulty for future years. Any judgment had to be exercised in the light of developments in the variables; such problems were unavoidable.

Mr. Warner said that the closer one stayed to the 75th or 80th percentile, with the Board making judgmental adjustments for international competitiveness, the better off one was. Such a position was preferable to crowding oneself out by starting with a high percentile relationship, in which case judgmental adjustments would still have to be made.

Mr. Jalan said that Mr. Warner's point was valid if one assumed that the U.S. markets would remain uncompetitive vis-à-vis European salaries, or that the U.S. public sector's salaries would remain uncompetitive vis-à-vis the U.S. private sector. However, one could anticipate changes that would alter those relationships. He did not consider that the Board would be creating further problems if it was to base its decisions on the proposals before it, although he had not finalized his opinion as to the appropriate salary structure.

Mr. Warner said that he was willing to accept the use of judgment in adjusting for international competitiveness. However, future Boards should be able to state that their judgment had been based on the 75th percentile relationship to the U.S. market rather than, say, the 85th percentile. Any movement above the 80th percentile would make it difficult to defend future judgments.

Mr. Jalan said that his understanding of the management's proposal was that the 75th percentile relationship had indeed been the starting point for comparison. However, it had been found that the pay line at the 75th percentile would not be competitive with the U.S. market, which was why it had been adjusted upward. Only then had the international competitiveness of the pay line been tested.

Mr. Warner said that future Boards would be better off if their judgments on international competitiveness were not based on a preliminary percentile relationship to the U.S. market in excess of 80 percent. He accepted adjustments being made for the purpose of international competitiveness, but could not support a higher initial percentile relationship.

Mr. Jalan said that he agreed with Mr. Warner's point that the 75th percentile of the U.S. market be used as a starting point. However, it seemed that if such comparison revealed that, in order to be competitive, the Fund ought to pitch the pay line at the 85th percentile, that would be ruled out by the U.S. chair's view that the percentile relationship be no higher than the 80th. The issue was whether such a limit would allow the Fund to achieve its objective of acquiring an internationally competitive staff.

Mrs. Ploix remarked that, as she had understood it, the JCC had been established in order to define a system that would not require significant, judgmental decisions in future years.

Mr. Warner commented that there was a danger in automaticity. Notwithstanding the difficulty that future Boards would encounter in debating the compensation issue each year, it was important that the Board retain its judgmental properties.

Mr. Ovi said that he agreed with Mr. Grosche on the technical details of the staff paper, with the proviso that the percentile relationship to the U.S. market be based on the combined market, and not the industrial sector alone. It could be discussed at which percentile one would have to set the pay line in order to achieve competitiveness in the U.S. market; Mr. Grosche had mentioned a minimum of the 85th percentile, while he himself arrived at a figure closer to the 90th percentile, given the specific comments in the staff paper about the need to substantially increase the margin of international competitiveness at grade A11. If one accepted that U.S. competitiveness was achieved at the 90th percentile, of the 12 percent margin that the proposed pay line had over the 75th percentile, about 8 percent was fully justified by the need to achieve competitiveness in the U.S. market, while only 4 percent was due to the need to achieve international competitiveness.

On the issue of international competitiveness, Mr. Ovi found himself fully supportive of the management's proposal and shared the concern expressed on several occasions that the necessary international competitiveness might not exist at grade A11, which was the key recruitment level. He could go along with management's proposal, which was fully in line with the JCC Report in that competitiveness with the U.S. market had been established first, and only then had a margin of international competitiveness been added.

However, Mr. Ovi continued, it was necessary that Directors have an implicit understanding of which percentile relationship to the U.S. market had been the starting point. Mr. Warner had said that he wished to use the 75th percentile, and that going beyond the 80th percentile would create difficulties. However, as he saw it, automaticity at the 75th percentile could also pose problems. In addition, if Directors accepted a testing range of international competitiveness of 10-20 percent, it had to be set out very clearly how much of the margin above the 75th percentile was due to U.S. competitiveness; attributing any margin above the 75th percentile to international competitiveness could have a downward pull on the final pay line, in that there might appear to be a greater margin of international competitiveness than there actually was.

Mr. Warner said that, as he understood it, Mr. Ovi's concern was that maintaining the 75th percentile as an automatic established basis for the pay line offered no flexibility and would require considerable adjustment even to be competitive in the U.S. market. The data showed that under present conditions there was merit in that observation. While he expected that the new compensation system eventually approved would be less than perfect, the substance of that system should serve as a basis for future years' compensation decisions. It was in that context that the percentile question played a vital role. The higher the percentile relationship basis, the less latitude one had in making future adjustments even if the 10-20 percent testing range of international competitiveness were accepted instead of an absolute margin.

He would suggest that the Board determine whether the 12 percent margin of international competitiveness built into the management proposal was clearly justified, Mr. Warner said. If not, reducing the margin made more sense than changing the percentile relationship to the U.S. market. Any defense of changing the percentile relationship to the U.S. market was based on recruitment considerations. However, the Fund's data on recruitment procedures and results were limited, in part because the Fund was so small. A number of variables determined the success of an organization's recruitment, not just salary questions. Certainly, the compensation system ought to be competitive, but he was not entirely convinced that the Fund or the Bank had had as difficult a time in recruiting as had been implied.

Mr. Ovi said that he would agree with Mrs. Ploix that the system being encouraged by Mr. Warner would lead to substantial decision making by future Boards both with respect to the U.S. market and internationally.

Mr. Hogeweg made the following statement:

> We are inclined to support the pay line as proposed in the original staff paper. This pay line reflects the compromises reached in the JCC as well as the subsequent Board discussions, and we would hope that a very large majority of the Board could support it.
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> In the previous meeting we indicated, in line with the request made by Mr. Grosche, that we regretted the fact that management had solved both elements of competitiveness--vis-à-vis the U.S. market and vis-à-vis Europe--in a single

step. We would have preferred a more transparent, step-by-step approach, which I believe, in contrast with Mr. Warner but in line with Mr. Ovi and Mr. Grosche, would be closer to the thinking of the JCC rather than moving away from it. Such an approach would first establish at which percentile of the U.S. comparator market--which is after all the primary comparator market in the JCC Report--Fund salaries would be competitive against the U.S. market. In the process, the Fund's pay line could be tilted to better serve our needs. Once these relationships were established, we would stick to them for a number of years. The pay line thus based on the U.S. market should then be judged on its competitiveness vis-à-vis Europe and, if deemed necessary, amended.

The staff paper on the competitiveness of the U.S. comparator market goes a long way toward this reasoning and I think it provides a rationale for the proposed pay line. Like Mr. Ovi, I gather from the figures that a tilted line at the 90th percentile of the U.S. market may be needed for the Fund to be competitive in that market. The difference between the 90th percentile line and management's proposed pay line is not that large. This presentation has the advantage that it clearly allocates the needed increase to where it belongs; most of the margin over the 75th percentile is needed for the pay line to be competitive in the United States. Only for the much smaller gap with the margin over Europe do foreign exchange problems come into play.

I have the impression from our discussions in the past few weeks that the consequences of aiming for a comparatio of 100 in both institutions have not been fully thought through. It seems that there are real and valid differences in the structures of the two staffs, which should as far as possible be quantified as to their effects on the average salaries in comparison with the grade midpoints. The principle of equal pay for equal work will be better served by allowing structurally justified differences in the comparatios of the two institutions than by forcing unjustified equality. Of course, it will not be possible to solve this issue before we have to take decisions on the salary structure and, subsequently, the actual salary increases. In my view, until we know more of the structural differences in the two staffs, we should not even begin the process of letting the comparatios converge. We can begin that process next year as far as it will then seem warranted.

Let me reiterate that we support the pay line as proposed by management. We hope a large majority of the Board will find it possible to agree on this compromise.

Mr. Warner asked the staff to comment on the effectiveness of tilting pay lines. Most of the tilting that had been performed by the staff in its paper suggested some attractiveness to raising the anchor point and perhaps making downward adjustments at the upper levels. However, such tilting did not solve the problems of recruitment at grades A11 and A12. Another difficulty with tilting was that the raising of the midpoint for grade A9 also raised the extrapolated pay line for support staff.

The staff representative from the Administration Department said that there had been an element of judgment in the tilting process. Each of the percentile relationship pay lines had been smoothed, with the lower professional grades being raised to a more competitive recruitment position while maintaining an overall average relationship to that percentile. Since the tilting had been performed by the Fund staff, the focus had been on grade A11, which was the Fund's key recruitment level. Table 7 of EBAP/89/85, Supplement 2 set out the amount of the adjustment to the support staff pay line that would be attributable to the international competitiveness portion of the adjustment to the professional staff pay line. For example, the tilted 90th percentile line would lead to about a 4 percent increase to the upper end of the support staff pay line.

Mrs. Ploix and Mr. Alzetta said that they could support the statements of Mr. Ovi and Mr. Hogeweg.

Mr. Cassell said that he, too, could endorse Mr. Hogeweg's comments, particularly with respect to the comparatio. Adherence to a comparatio of 100 in both institutions for 1989 implied very different salary increases for the two institutions, and he could not support such a proposition. He would welcome an explanation by the staff on the implied average salary increase for the Fund associated with a comparatio of 100.

The Director of Administration indicated that a 7.5 percent salary increase would have been necessary to bring the Fund's average salaries to the midpoints of the new ranges based on current salaries; however, the staff now had fairly precise figures on the promotions that would occur as of May 1, the effect of which was to lower average salaries in relation to the midpoints of the ranges. Accordingly, the average salary increase required to reach a comparatio of 100 as of May 1 would be 8.8 percent.

The Assistant Director of the Administration Department remarked that no proposal had yet been put to the Board on the actual salary increase. That was a management decision to be taken in the light of all the circumstances, including the final decision of the Bank. While an 8.8 percent overall average increase would be necessary for the Fund to achieve a comparatio of 100, he would point out that substantial internal adjustment would be necessary to maintain equitable relationships among staff--for example, in relation to new recruits' starting salaries--and those adjustments would certainly be helped by the higher average increase that might be available. A decision would have to be made on the split between the minimum increase that all satisfactory staff members would receive and the increase that would be distributed on a discretionary basis based on merit. In that context, it should be borne in mind that the latest figures on the annual rate of inflation indicated a 5.8 percent rate, which gave an indication of how the two elements of the increase might be split.

On the distribution of the discretionary element, the staff was developing a matrix of potential increases that would take into account first, the staff member's performance, and second, the position of that staff member's salary in relation to the midpoint, the staff representative from the Administration Department indicated. The way in which the performance-related element of the increase was distributed for the current year would not be the precedent for future years both because the year in which a new compensation system was being implemented presented a unique situation and because the staff wanted to develop in some detail, consulting with the Departments and with the Staff Association Committee, precisely how the annual merit exercise ought to be administered.

Mr. Cassell commented that it was awkward that the Bank's formal Board meeting would take place ahead of that of the Fund Board, particularly for those Directors that would participate in both meetings.

Turning to the question of the 10-20 percent testing range for international competitiveness, which the Bank President had said should apply not for the current year but for the years thereafter, Mr. Cassell said that he had the impression that Fund management agreed with the Bank management on that. He would find it helpful to know whether any of the Fund's Executive Directors had significant problems with that issue. He would also welcome Directors' views on the appropriate comparatio for 1989, and specifically, on how they would react if the Bank Board did support a comparatio of 100 at its next meeting. He himself would not do so. Some Directors might consider it appropriate for the Bank to phase its adjustment over two years, while the Bank would likely prefer that the phasing occur on the Fund's side, with a comparatio of 102 being aimed at for 1989. It was quite possible that the Bank Board would decide on a comparatio of 100 because the President of the Bank favored flexibility in the future, while remaining firm in his support of a comparatio of 100 for 1989.

The Director of Administration noted that the staff had been careful not to indicate what the management would be recommending as a pay increase for 1989. However, there had always been a very close correspondence between the pay increase granted in the Bank and that in the Fund. On two occasions at least, the pay increase indicated for the Fund had been larger than that in the Bank as a result of the somewhat different markets that the two institutions had then been using. On each occasion, the Bank Board had proceeded to grant a pay increase to the Bank staff close to that granted to the Fund. While he did not want to prejudge the decision of management, it was unlikely, if the Bank approved a pay increase of 12.8 percent, that the Fund's management would recommend a similarly high increase. There was a need to begin to move average salaries closer together. At the same time, the Fund staff would be reluctant to make a proposal of only 8.8 percent. The Fund management might want to suggest to the Board that the pay increase for the Fund for 1989 be set somewhere between those two figures--for example, 10 percent. If that sounded high, he would point out that the paper being issued on pensions indicated that a 5.8 percent pay increase would be required simply to maintain salaries in real terms, let alone to increase them.

Mr. Grosche indicated that his counterpart at the Bank Board supported the Bank management's proposals as they stood. On the issue of international competitiveness, the JCC had recommended two trigger points of 10 percent and 20 percent, at which the Boards would have to make a judgment as to whether action was necessary to maintain international competitiveness. The arguments put forward by both managements in favor of a margin of about 12 percent over the U.S. market were quite valid. However, the testing for international competitiveness against only two foreign markets, which were considered to be high paying, was fraught with problems with regard to exchange rate movements. The data base in France and Germany was substantially smaller than that for the United States, although Hay Associates had assured the JCC that those data were reliable. There was, therefore, considerable room for discretion and judgment regarding the notion of international competitiveness.

He would be comfortable with establishing a conservative margin of international competitiveness for the first year of the new compensation system given the uncertainty of exchange rate developments, Mr. Grosche said. One could begin with the re-establishment of a 10 percent competitive margin, assessing the adequacy of that margin over the coming year. That was his personal view, however, and he had no specific instructions from his authorities; his counterpart in the Bank was convinced that a 12 percent margin should be re-established.

On the comparatio, Mr. Grosche recalled that the JCC had recommended that after a period of adjustment, the percentage increase of average salaries in the two organizations should be roughly equal. The JCC had been aware of the problems that would arise in introducing the new system because of the differences in average pay between the institutions. However, it had been specific in its suggestions that the adjustments be phased in over several years. He would feel quite comfortable in having the Fund move close to the comparatio of 100, with the Bank remaining below that comparatio for two or three years. That view, again, had not been coordinated with his counterpart in the Bank, but as a Fund Executive Director he considered them appropriate.

Mr. McCormack said that his chair had not favored an automatic system in the past and therefore was interested in proposals that included an element of judgment, particularly at the initial stages of the new compensation system. On the comparatio, his chair's views were close to that set out by Mr. Cassell; the necessity of immediately adopting a comparatio of 100 in both institutions was not clear to him.

Mr. Grosche asked for verification of his understanding that the Bank's Board discussion on the following day would be concentrated on the issue of the salary structure, and would not be asking Directors for a decision on the comparatio.

The Director of Administration said that the proposal of the Bank President was to achieve agreement on the principles underlying the compensation system, which would include the propositions that the Bank should aim at a comparatio of 100 and that salary adjustments should be made accordingly.

The Assistant Director of the Administration Department said that the Bank management had always stated that a separate proposal would be made on the proposed salary increase. The Bank staff, however, considered that many of the parameters of that salary increase required a Board decision. In the Fund, however, it was traditionally management's prerogative to decide how merit increases would be distributed, for example.

Mr. Cassell remarked that the latest paper that had been distributed to the Bank Board on staff compensation firmly supported a comparatio of 100. The Bank President clearly felt very strongly on that point.

He was concerned by the Fund staff's allusion to the parallelism in average salary increases, Mr. Cassell said. As he saw it, Fund Directors preferred that any phasing in to the comparatio of 100 take place on the Bank side rather than on the Fund side. If the Bank Board did go along with the President's proposal for a comparatio of 100 in 1989, he would find it extremely difficult to go along with the Director of Administration's suggestion that the Fund approve a pay increase higher than that implied by a comparatio of 100. Among other problems with that proposition was the cost consideration.

Mr. Warner said that he viewed the objective of a comparatio of 100 in both institutions as a worthy goal and strongly supported it. Having said that, though, he would be sensitive to Mr. Cassell's wish for a phasing in on the part of the Bank.

Mr. Grosche pointed out that the JCC had never proposed that a comparatio of 100 be maintained. Rather, it had suggested the comparatio be maintained as close to the target of 100 as practicable. If the Bank were to move to a comparatio of 100 in one step in 1989, he considered it would be advantageous for the Fund also to do so, thus avoiding discussions in future years. However, there should be sufficient leeway to accommodate any changes that might be necessary because of the differences in the organizational problems of the two institutions. The JCC had always opposed the idea that both organizations should receive identical pay increases each year, and preferred that the two Boards work instead toward a common salary structure, which automatically implied that average increases would deviate somewhat. Parallelism should be in the form of similar salary structures in the two organizations, rather than identical increases in average salaries.

He was firmly opposed to the Bank management's suggestion that the ranges around the midpoint in certain grades be higher in the Bank than in the Fund, which would give the Bank more room for maneuver in terms of paying its staff, Mr. Grosche stressed. That was not in conformity with the JCC recommendations. The Fund management should stress that point, which would be facilitated if the Board indicated its agreement.

The Acting Chairman said that management fully agreed that the Bank and the Fund should adopt the same ranges around the midpoint. The Fund had been prepared to accept the Bank's use of 60 percent ranges in some grades for the current year only because some adjustments would need to be phased in. However, that was understood to be a temporary situation.

The Director of Administration noted that the Bank paper had referred to the 60 percent range as being temporary or subject to review. However, one of the two reasons given in the Bank paper to justify the 60 percent spreads was not a temporary phenomenon at all, and the fact that it applied to Grade 24, which corresponded to the Fund's grade A14, an end of career grade for many professional staff, could pose problems. The Fund staff had considered it acceptable if the extended range were to apply only to a limited group of staff, but his impression was that a wider group than grandfathered staff alone would be permitted to achieve the higher ceiling. That cast some question on the temporary nature of the proposal.

Mr. Hogeweg said that he, like Mr. Grosche, found it intolerable that there should be differences in salary ranges between the two institutions. He hoped that that would not be necessary.

The Executive Directors then concluded their informal discussion of staff compensation.

LEO VAN HOUTVEN
Secretary