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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Seminar 94/12

2:30 p.m., December 2, 1994

A. D. Ouattara, Acting Chairman

Executive Directors	Alternate Executive Directors
	M. F. Melhem, Temporary
	M. Sirat
J. Bergo	
	V. J. Fernández
I. Clark	G. F. Murphy
	D. Z. Guti
H. Evans	J. Shields
	R. Kannan, Temporary
J. E. Ismael	
D. Kaeser	
	A. Chang Fong, Temporary
	D. Daco, Temporary
	H. A. Barro Chambrier
	N. Coumbis
K. Lissakers	B. S. Newman
H. Mesaki	T. Fukuyama
	M. Daïri
C. Saito	
	E. Wagenhoefer
	Y. Y. Mohammed
	A. V. Mozhin
	M. Petrie, Temporary
J. de Beaufort Wijnholds	
	Wei B.

J. W. Lang, Acting Secretary
S. L. Yeager, Assistant

<u>Also Present</u>
IBRD: R. A. Marcou, Personnel Services and Compensation Department. Administration Department: G. F. Rea, Director; D. S. Culter, A. D. Goltz, J. P. Kennedy, C. C. Loureiro. Secretary's Department: K. S. Friedman, B. R. Hughes, A. Mountford. Office of the Managing Director: S. Sugisaki, Special Advisor; J. Prust. Office of Internal Audit and Review: M. Caiola, Director. Advisors to Executive Directors: M. A. Ahmed, S. K. Fayyad, N. Toé. Assistants to Executive Directors: R. D. Bessone Basto, J. A. Costa, J. Dagustun, M. Dzervite, G. El-Masry, C. M. Gonzalez, J. Hamilius, O. Himani, E. Kouprianova, J. A. K. Munthali, M. W. Ryan, F. A. Schilthuis, R. von Kleist, E. Zamalloa.

1. STAFF COMPENSATION SYSTEM

The Executive Directors, meeting in a seminar, considered the Fund's staff compensation system. They had before them a background paper on the principal features of the Fund's staff compensation system (EBAP/94/94, 11/30/94).

The staff representative from the Administration Department stated that an important aspect of the compensation system was a clearly established framework for the conduct of annual reviews. That framework was essential for management, for the Board, for those staff who worked on the annual exercise, and for the staff at large. Direct compensation was easily the most sensitive area in the relationship between the Fund and its staff. In the past, the staff had staged work stoppages to protest the arbitrariness of the decision-making process and had called for rational and accepted criteria for guiding decisions on compensation matters. The staff strongly believed that in the absence of such criteria, reviews would continue to be ad hoc, largely political, exercises in which some countries sought to impose their views as to what were correct salary levels. In that context, the first Joint Bank/Fund Committee was established in 1979, under Mr. Kafka's chairmanship, followed by a new Joint Committee in 1984, with the aim of tuning up the system. The latter quickly found that it was difficult to tinker with parts of the system in isolation. The result was a four-year exercise that required an enormous effort and generated considerable uncertainty among the staff.

In the staff's view, the current system had proved its worth, the staff representative from the Administration Department stated. It had provided a good balance between objective measurement and the exercise of judgment. Having participated in the four-year effort of the last Joint Committee, he would be reluctant to open the way for a repetition of that long drawn-out exercise.

The Executive Directors then heard a presentation by the staff representative from the Administration Department on the Fund's compensation system.

The Director of Administration observed that the staff presentation had not touched on expatriate benefits, which were available only to non-U.S. staff and were specifically targeted to certain special costs or perceived needs of expatriates. There were three specific benefits. The first was reimbursement of the costs of moving to the United States on appointment and of returning from the United States to the home country, or an equivalent country on departure. The second was the home leave policy; every two years staff members had the opportunity to return to their home country, with travel costs and some accommodation costs being borne by the Fund. The third benefit, which had attracted the most discussion over the years, was the education allowance.

Mr. Evans made the following statement:

At the discussion on the 1994 annual review of staff compensation earlier this year, there was significant support for a review of the way in which the system has been working; this seminar is an important first step.

The present system has been in operation now for five years. We therefore have a good deal of experience with the way it operates, and we are able to compare this with our original intentions for the system back in 1989. On this basis alone, I would think a review to be worthwhile. In addition, the pay system of this organization cannot be seen in isolation. We need to take into account the fact that many member governments of this organization have been making efforts to restrain public sector pay in recent years--sometimes at the request of this institution. Here at the Fund, too, we need to be concerned about the most effective use of public sector money.

A major flaw in the current arrangements, I believe, is that they do not allow for the total benefits package--namely, benefits plus salaries--to be discussed by the Board in any meaningful way as a package. This means that we cannot look in any systematic way at whether the total package is meeting our objectives. We can correct this by retiming reviews: then we would be better able to explore whether the overall size of the package is right and whether the balance is right between the various elements in package.

I therefore believe that it is time to review whether the total compensation system--taking pay and benefits together--is operating in a way that best meets the objectives we have set for ourselves. I would characterize these briefly as to provide appropriate incentives to recruit and retain a high-quality and representative staff in the most efficient and cost-effective way. This market-driven approach is the avowed aim of the present system, and will always be at the heart of any pay system that this chair would wish to support.

Any such review of the compensation system might include the following four issues:

First, reviewing which elements of the system were meant to be automatic and which were intended to be discretionary. For those areas where discretion plays a part, there needs to be a greater level of transparency and understanding of the triggers that invoke these discretionary elements.

Second, reassessing the way in which the system, with its heavy reliance on percentile comparators, provides a mechanism for ensuring that isolated and specific recruitment difficulties--for example, related to specific skills--are overcome. In the current system there is no ability to target rewards on specific market shortages, and so the system represents an extremely blunt tool and, as such, is not efficient. Thus the objective of a market-driven system is not being realized: it should be capable of responding much more to market variations. We need to think carefully about how we can address this issue.

Third, creating scope in the system to address problems related to the recruitment of non-U.S. nationals, looking for ways other than untargeted salary structure increases when the international competitive "test" shows there is a problem. I see here a need to review the current expatriate benefits package, and we should also recognize that recruitment problems in such areas cannot be addressed simply by financial means alone; nonfinancial issues, such as spouse employment, are extremely important in this context.

Finally, reviewing the percentiles used to construct the results of the comparator study. It was always understood, for example, that the 75th percentile comparator for the U.S. private sector market and the French and German private sector and public sector markets was simply an initial figure--to be reviewed at some stage.

On the comparatio, the Board would benefit from an explanation of how the system is likely to work in different circumstances, including those which the Fund faces over the coming few years.

In view of the amount of effort that went into the design of the system in the period leading up to 1989 and the work that was carried out jointly with the World Bank, I would certainly not want the system to be redesigned in its totality. I would suggest that the issues above be remitted to the Committee on Administrative Policy in the first instance, to examine the experience of the past five years and to look at whether changes could be made to the operation of the existing system to make it work more effectively as a market-driven system. It would be helpful if the Committee could complete its work by April, in time for the next annual review of pay.

Mr. Daïri observed that the midpoint was intended to represent the position of a good performer in each grade. Did that mean that the time spent in grade did not have any affect on a staff member's position within the payline for that grade? He assumed that if a staff member remained at a certain grade level for several years, over time he would move toward the upper range of the payline for that grade, regardless of performance.

In measuring competitiveness, particularly against France and Germany, the system allowed for a margin of 10 percent to 20 percent, and a margin of 10 percent had been adopted by the Board in reviews in recent years, Mr. Daïri continued. He wondered whether other indications, for instance, based on incentives used by the comparator companies in Germany and France to induce their staff to work in the United States could be used.

On the comparatio, he wondered whether that complex mechanism was really needed, Mr. Daïri stated. Rather than comparing midpoint salaries to comparators when deciding on the salary adjustment, average Fund salaries could be compared directly with average salaries in the comparator markets.

As to expatriate benefits, Mr. Daïri said that he wished to underscore that someone working in the United States who was not a permanent resident or U.S. citizen bore additional costs. Moreover, those who did not pay U.S. income taxes did not benefit from all the services offered to nationals or to holders of permanent resident status.

The staff representative from the Administration Department confirmed that staff members who spent a long time in the grade without being promoted did tend to move somewhat above the midpoint. There was some trade-off, perhaps, between the true rigor of those who advanced up the payline through performance and the longer-serving staff member who year after year turned in a good, solid performance. As good performance could be recognized through the merit pay system, it was not only star performers who were able to progress above the midpoint.

Regarding recruitment incentives for non-U.S. staff, the Administration Department did obtain information on expatriate premiums and allowances provided by U.S. organizations, multinational organizations, and European countries, the staff representative continued. That information had to be treated with some caution, however, because the incentives were designed to recruit staff for short-term, two-year to three-year, assignments abroad rather than for career positions. Nevertheless, the magnitude of the incentive pay provided by European organizations tended to be similar to that of U.S. organizations, namely, within a range of 10 percent to 20 percent of base pay. Adopting that practice would be a costly proposition.

Directly relating average salaries to the market would have no impact on the outcome of the salary adjustment, the staff representative stated. However, it would still be necessary to relate the midpoints to the market to ensure that salary ranges remained competitive. That had been a problem under the previous compensation system, which related average pay to the market but did not pay enough attention to what was happening to salary grades. As salary grades were not adjusted fully for market movements, for a large number of staff, salaries were pushed to the maximum for their grade because ranges were not moving to the same extent as were average salaries. While Mr. Daïri's proposal might simplify the discussion, a mechanism would still be needed for adjusting the midpoints.

The Director of Administration said that the staff recognized that there were expatriate costs other than those covered by the specific expatriate benefits that had been mentioned. Those costs differed greatly from one individual to another, from one family situation to another. The 10 percent margin of international competitiveness was, in fact, intended to cover, to some degree, those costs that were not captured by a specific expatriate benefit.

Ms. Lissakers commented that the 10 percent to 20 percent margin over the labor costs among the highest labor-cost members of the institution plus expatriate benefits resulted in some double compensation for expatriates of a fairly generous nature.

More generally, the overall approach to salaries, certainly to the salary formula, made sense, Ms. Lissakers considered. She doubted that any Director would want to reopen the issue of the basic structure of the compensation system and repeat the painful and protracted exercise of the 1980s that had led to the design of the system. All could probably agree that its goals were central to the functioning of the institution--namely, effective recruiting and retention of staff and internal equity in terms of promotions and pay scales. She noted, however, that the Working Group on Women in the Fund had concluded that the internal equity applied primarily to male staff of the institution. She hoped that issue would be taken care of in the process.

She had questions about some specific features of the system, particularly regarding process and application, Ms. Lissakers commented. Mr. Evans had mentioned one aspect--the fragmented approach. While salaries were reviewed annually, other parts of the total compensation package were reviewed on a different schedule, for example, the remuneration of Executive Directors and of management. That did not seem to be a formula for either transparency or coherent management of personnel costs, which overall accounted for almost three quarters of the Administrative Budget. She hoped that either the Committee on Administrative Policies or the Committee on the Budget would look seriously at this fragmented process and correct it. It should not be so difficult to have a somewhat more consolidated approach that was consistent with the kind of budget management advice given to member countries.

On the comparator market, she found it curious that academia was excluded, as that seemed to be a large market and competitor for the kind of persons that the Fund sought to recruit and retain, Ms. Lissakers remarked. She also wondered whether it was appropriate for the Fund and the Bank to use the same comparators, as the two institutions had somewhat disparate job skill requirements. She also wondered whether, when making comparisons within the comparator groups, the Fund was comparing second- and third-year economists with second-year security analysts in an investment bank or a trader who was making $20 million a year.

As to the comparatio, she suspected that it tended to boost salaries to the high end of the scale, Ms. Lissakers continued. Looking at recruiting patterns in recent years when there had been a huge growth in Fund membership and new staff at entry-level salaries, she would have expected the midpoint to decline somewhat. She also did not understand why average salaries should be raised to achieve a comparatio of 100 percent according to some weighted average, rather than, say, 96 percent of the midpoint, as the Fund's recruiting pattern in recent years had most likely differed from that of the comparator institutions. Finally, she wondered why, in assessing international competitiveness, comparators were limited to France and Germany rather than opting for a more representative slice of the membership, like Switzerland. It was possible that under current practices, the entire salary structure could become biased to attract a few candidates from the most expensive competitor markets.

As to the basic goals--to recruit and retain high-quality staff--she wondered whether the Fund had been too successful with respect to the latter, Ms. Lissakers commented. As the Fund's rate of staff turnover was below 2 percent--much below that of the most successful commercial banks around the world--it was necessary to ask whether that rate was healthy from an institutional viewpoint. Mr. Preston, a former chief executive officer of J.P. Morgan, had observed during a World Bank discussion on the matter that "even at Morgan, the turnover is in the neighborhood of 10 percent" and "it is not because we hire a bunch of incompetents." In her view, it should be possible to cap compensation levels without risking wholesale departures from the staff.

The staff representative from the Administration Department recalled that the inclusion of academics in the sample of comparator markets had been discussed extensively in the Joint Compensation Committee, which was advised by Hay Management Consultants that such comparisons would be extremely difficult. Typically, the salaries of academics were not a measure of their total earnings, as most had income from research or consultant's fees and because they had a degree of freedom in how they disposed of their time throughout the year. At the recruitment level, a career in academia was chosen not so much on the basis of salary, but on the basis of the psychic rewards and the freedom to pursue independent research.

Bringing together the compensation review and the review of benefits would be difficult in view of the work involved in moving from a quadrennial to an annual review of the latter, the staff representative commented.

As to using different comparators for the Fund and the Bank, while the employment markets were somewhat different, the Joint Compensation Committee had emphasized, as did subsequent discussions in the Boards of the two institutions, the importance of parallelism, and the difficulties that could result if either institution tended to pay staff at a higher level than the other, given the fact they worked closely together, the staff representative explained. Hence, one of the guiding principles of the Committee had been that the two organizations should have a common salary structure, which involved some compromises on comparators.

The system did not compare similar 23-year olds in various organizations or their qualifications, but similar jobs, the staff representative continued. The job evaluation methodology of Hay Management Consultants focused on job content, know-how, problem-solving skills, and accountability. For example, the midpoints of Fund grades with a range of 600 to 800 Hay points were compared to jobs in the market with 600 to 800 Hay points.

In selecting France and Germany as proxies for a broader range of member countries the Committee was partly influenced by cost considerations, as surveying a broad range of organizations in any country was a costly proposition, especially as the survey was to be conducted annually, the staff representative recalled. He doubted that France and Germany had the highest pay scales among Fund member countries, or even among the Fund's European member countries. In terms of pay, a number of countries had surpassed France and Germany, including Austria, Switzerland, and some Scandinavian countries.

On the comparatio, he would reformulate the question slightly, the staff representative suggested. If the comparatio were left at 96 rather than raised to 100, who would be penalized? The answer was those staff who had been with the organization for some time rather than new recruits, because suppressing average salaries and the rate of increase would limit the resources available for merit pay to staff with years of service. Moreover, the effect of the larger number of appointments over the past two years on the comparatio had probably been marginal--less than 1/2 of 1 percent of pay in a given year. In fact, the variance between the structural increase and the comparatio each year ranged from 1.4 to about 2.1 in the year when the largest number of appointments were made.

As to the rate of staff turnover, the Fund's situation was not comparable to that of Wall Street, where there was intense bidding for skilled security analysts and professionals concentrated within a few blocks of Manhattan, the staff representative from the Administration Department observed. The nature of Fund employment and its primarily expatriate staff created a different playing field; once a staff member and his/her family had made a commitment of three, five, or seven years to the Fund, he or she had already distanced himself or herself, to some extent, from the home market and faced all sorts of barriers to relocation, such as children's schooling. Thus, the increasing difficulty for expatriates to leave the Fund as they built up commitments and ties in the United States largely accounted for the institution's low turnover rate.

Mr. Daïri said that in considering expatriate benefits and other related issues, there was a bias, insofar as Fund salaries were compared with gross U.S. salaries netted down to exclude income taxes. If the effective rate of taxation were used--the amount of taxes actually paid rather than the amount of the tax allowance provided by the Fund--the margin of Fund salaries compared to U.S. salaries would be much larger.

The staff representative from the Administration Department explained that the Fund's approach to netting down gross salaries was symmetrical with the approach used in the tax allowance system. In calculating the taxes payable by a taxpayer in outside organizations, the same average deductions were assumed to be taken as in the Fund's tax allowance system.

Ms. Lissakers said that she had mentioned commercial banks in comparing turnover rates because they tended to have a more long-term staff. She recognized that there were higher costs involved in leaving an institution like the Bank or the Fund, particularly for expatriates, than in moving from Morgan to Chemical Bank on the island of Manhattan. Nevertheless, as one goal of, or justification for, the Fund's compensation policy was the need to retain people, she wished to see a more realistic approach to that particular component.

With regard to the psychic compensations of being an academic, given the enormous stack of esoteric Fund studies on her desk and bookcases, she would argue that there was considerable freedom and time for Fund staff to engage in abstract research, and not always at the request of members of the Board, Ms. Lissakers remarked. While it was true that determining income levels for academia might be somewhat more complex than compensation in other companies, it remained an important and legitimate comparator. She would like to see Hay Associates asked to gather such data; any resulting increase in the cost of their survey was likely to be more than compensated for by some modification of the overall level of Fund compensation. Moreover, while senior faculty might gain a large part of their income from consulting work, that was probably not true for most academics.

The Director of Administration observed that the Fund was in direct competition with the universities for its most important recruitment program, the Economist Program, where candidates came largely from among recent Ph.D.s and MBAs. Therefore, in setting its starting salaries, the Fund was constantly aware of academics' salaries. The situation was, however, cyclical. A few years earlier, there had been great difficulty in competing with universities, particularly U.S. universities, which were hiring substantial numbers and at increasingly higher salaries so as to attract young graduates into the academic stream. In recent years, universities had been recruiting far less actively, and year-on-year increases in their entry-level salaries had diminished considerably. As the cycle seemed to be moving once again toward a period of expansion in the universities, the Fund could again face a highly competitive market.

More generally, in selecting comparators, Hay Associates looked at all jobs comparable to Fund jobs, which did not include traders in currencies, the Director of Administration continued. Broadly comparable jobs were weighted in the same manner as jobs in the Fund and the Bank. In that context, it should be recalled that there had been considerable concern when developing the system that the composite would reflect the Bank staff as well as the Fund's. In fact, at one point, the Fund had argued that a different composite of jobs was needed for the Fund owing to concern that the Bank's comparators would yield a lower salary level than would be appropriate for the Fund. In the end, the principle of parallelism had prevailed. Hence, the two institutions shared a common system and a common market.

The selection of France and Germany to represent the international market was arrived at by the Joint Compensation Committee after considering other markets, the Director of Administration recalled. It concluded that those two countries could stand as proxies for salaries that would be competitive internationally, recognizing that potential Fund staff would have the capacity to compete in an international market. Therefore, the Committee had chosen two markets that were representative of fairly well-to-do industrial countries, thereby setting a high, but not the highest possible, standard. The Committee then set the salary comparators at the 75th percentile, which again meant going beyond the "average." Subsequently, those decisions were endorsed by the Boards of the two institutions.

Mr. Evans said that he wished to begin with a basic point about the difference between a market-driven system and an index system: if in setting up a factory or office, it was decided to look at what competitors were paying in salaries and benefits and to pay the same as they did, that would be an index approach; if, instead, it was decided to pay only what was needed in order to attract, retain, and motivate staff, that would be a market-driven approach. It was clear from the staff's presentation that the Fund's system was essentially an index system--albeit a complicated one--with limited degrees of flexibility and a high degree of automaticity. Moreover, while it reflected a number of elements of competitiveness, particularly pay, some important elements were clearly missing, including productivity and the degree of job security. The real test of a salary structure was whether it recruited, retained, and motivated.

It was misleading to refer to the Fund's system as market-driven, Mr. Evans considered. Indeed, he would like to see it move more in that direction. In practice, the systems of most successful organizations, certainly the larger ones, were a mixture of the market and index approaches.

The merit system resulted in a different salary progression depending on whether individuals got a rating of 1, 2, 3, or 4, Mr. Evans observed. As 15 percent of staff received a "1" rating and 84.9 percent received a "2" rating, there was a high degree of automaticity in the progression up the salary scale.

He wondered whether, in circumstances where the staff was constant in number and structure, there would be a tendency for the comparatio to fall, Mr. Evans asked. If so, to what extent had the big increase in staff in recent years yielded a bigger fall? In that regard, he would expect new staff to be less productive on average than more seasoned staff, at least for a time, but he had not seen that element taken into account in management's recent budget document.

The staff representative from the Administration Department said that, if staffing levels were frozen for a period of time and appointments, separations, and promotions continued at a normal rate, the adjustment of the comparatio would be less than in those years when the Fund was expanding most rapidly. As he had indicated earlier, the difference was marginal compared to the total wage bill. Historically, the comparatio had varied between 1.6 percent and 2.1 percent, which reflected the growth of the staff as well as other factors, such as the number of promotions in any given year.

The Assistant Director of Administration remarked that the merit system did not lead to a ratcheting up of salaries, because the merit matrix provided for a range of increases--for a "2" rating, for example, the amount of increase ranged from zero up to 4.5 percent. Given the discipline that was imposed on departments by the size of the allocation for merit increases, a differentiation had to be made between staff who were marginal "1"s and those who were marginal "3"s, or whose performance needed improvement. Of course, in 1994, with an overall average increase of 2.7 percent, there had not been a great deal of scope for differentiation. But the merit system did have the ability to differentiate, and supervisors used it.

Mr. Clark said that he had considerable sympathy for Ms. Lissakers's point on comparators, for two reasons. The first was job security--an element in overall compensation that had become more important since 1989, when the Board last looked at the compensation system. Job security in the private sector was not nearly as great as in the government sector or the Fund.

The second element--which he had stressed to public servants in Canada when they complained about their salaries--was the intrinsic value of the opportunity for public service, Mr. Clark continued. The Fund provided an opportunity to serve the world in a way that other comparators did not, which helped to explain why the Fund had been so successful in attracting and retaining talented staff.

As to comparators, an effort should be made to bring an academic comparator into the scheme, Mr. Clark considered. Also, the government sector should probably be given more weight in the comparator. Having had to enforce the compensation policy in Canada's Federal Government for the past few years, he found Fund compensation to be very high overall compared with that of Canadian public servants. Canada also used the Hay system. In his view, a B1 salary should be made to correspond to the 50th percentile, rather than the 75th percentile of the private sector comparators, so that at top management levels, compensation would be about one half of private sector salaries.

Those judgments were based on some intrinsic elements of compensation and what was politically acceptable in Canada, Mr. Clark explained. The benefit levels for Canadian public servants amounted to about 25 percent of salary, whereas in the Fund, the level appeared to be about 45 percent on average. Moreover, in Canada, as in many member countries, public sector salaries had been frozen in absolute terms for the past three years.

The Fund had to take into account compensation trends in the public sector of member countries if it was to maintain its credibility, Mr. Clark stated. The First Deputy Managing Director had attended only a week earlier a session with parliamentarians and nongovernment organizations at which the general sense was that the Fund and the World Bank, although having high-quality staff, were increasingly out of touch with the real world in terms of compensation and benefits. While he would not wish to abandon the current system and return to a time when compensation decisions were at the mercy of country authorities' political whims, he believed that account had to be taken of the general change in the world environment when considering compensation issues.

The other key element in compensation--motivation and the impact of any changes in pay levels on morale and productivity--would also have to be examined, Mr. Clark commented. With respect to procedures, he would associate himself with all the points made by Mr. Evans. It would be useful to refer the matter to the Committee on Administrative Policies so as to allow for a more detailed discussion of some of the issues that had been raised.

The Director of Administration observed that, in the context of the annual compensation exercise, the staff provided figures relating to the Fund's experience with recruitment and retention for the Board's review. In the past few years, those figures had not indicated any serious problems. In general, member countries had been experiencing periods of relatively high unemployment and relatively low economic activity, which had made Fund recruitment much easier. Other factors favoring recruitment were the strength of the U.S. dollar and the general level of Fund salaries. However, the recruitment experience tended to be cyclical, and the situation was changing. The low level of salary increases produced by the compensation system had resulted in a modest structural increase in recent years, and a modest one was likely for the coming year.

Mr. Fernández said that he completely disagreed with Mr. Clark's view that one could compare civil servants and salaries in national administrations with Fund staff and Fund compensation levels. To be competitive and to be able to recruit staff from Spain, for example, Fund salaries had to be higher than public sector wages elsewhere. He himself would have to reject joining the staff because Fund salaries were low compared with compensation levels in Madrid or Barcelona. While U.S. citizens and Canadians might feel comfortable comparing Fund salaries with those in their home governments, he would argue against adopting such a narrow perspective when considering compensation issues in the Fund.

As to the relation between administrative expenditures, wage bills, and yearly compensation increases, he would be interested to know to what extent the average yearly increase in Fund salaries diverged from the average rate of U.S. inflation over the past 10-20 years, Mr. Fernández remarked. That information would be indicative of the extent to which Fund staff were overpaid in real terms.

The Director of Administration said that those figures were not at hand. He suspected, however that Fund salaries had moved ahead of the rate of inflation in the United States and that there had been real increases over the years, especially in those years when it had been decided that Fund salaries were relatively low and had to be adjusted upwards in a significant manner; for example, at the conclusion of the work of the first and second Joint Compensation Committees. On those occasions when the U.S dollar had been weak, it also had been necessary for Fund salaries to move ahead of the U.S. salary line in order to compensate for that weakness. It would therefore be necessary to look at changes in the exchange rate of the U.S. dollar in assessing the rate of increase in Fund salaries in real terms. The staff would certainly look at that issue.

Mr. Kaeser observed that even though the compensation system was complex, it functioned very smoothly. He wondered, however, whether it was flexible enough to solve isolated and specific recruitment difficulties.

The comparators made no specific reference to international organizations, in spite of the fact that the same people recruited by the Fund could probably go to the OECD or the European Economic Commission, Mr. Kaeser added. There was an indirect reference to international organizations with respect to compensation for the Managing Director and senior staff.

On the cost of expatriation, he wondered what kind of job a spouse could take on the basis of a G-4 visa, Mr. Kaeser remarked. The opportunities did not seem large in that respect.

The Director of Administration, commenting on whether the system was flexible enough to address specific recruitment problems, noted that, at the professional level, the system was in fact principally designed with the economist in mind. The Fund had no particular difficulties recruiting from nearly all the disciplines under the resulting payline. The Treasurer's and Legal Departments had, however, encountered some problems recruiting in the areas of finance and law, respectively. The World Bank, which had a large requirement for personnel with investment skills, had also experienced some difficulties recruiting in that area. On the whole, however, the composite payline used by the institutions was adequate to recruit staff in most of the required disciplines.

The fact that no other international organizations were included among the comparators was indeed notable, the Director of Administration continued. The Joint Committee on Compensation had instead focused on private sector and public sector agencies. To some extent, the Fund and the Bank were themselves the comparators for a number of other international organizations outside Europe. The European organizations tended to follow their own system and their payline tended to be high compared to that of the Fund and the Bank.

On the costs of expatriation, and specifically, the problem of employment of spouses, it was important to keep the matter in perspective, the Director of Administration commented. Although it was difficult to determine exactly what the situation was, there was no doubt that the restrictions on G-4 spouses were a limiting factor for many of them in getting jobs. The problem was not only the restrictions on work conferred by a particular visa status but also the various standards applied by professions in the host country, which were to some extent biased against those educated outside the country. That situation was not unique to the United States; it was a general problem of expatriates.

To date, the problem of spouse employment had not been a major disincentive for most expatriate staff, the Director of Administration stated. It might well become more of a problem in the future, as the numbers of professional couples increased. That was likely to become a general disincentive to expatriation, and not only to the United States.

Ms. Lissakers observed that the problem of spouse employment was not unique to the Fund. Multilateral corporations grappled with the same issue. Obviously, the Fund's current salary levels were sufficient to attract people, despite that impediment.

With regard to the recruiting difficulties of the Treasurer's and Legal Departments, she wondered whether the current salary system provided enough flexibility, Ms. Lissakers remarked. For example, could the Legal Department provide extra compensation if that was necessary to attract the people it wanted to attract, or would compensation levels have to be raised for the entire institution in order to add three competent lawyers to the Legal Department?

Mr. Sirat said that the remarks of Mr. Clark, Mr. Evans, and Ms. Lissakers left the impression that the Fund should behave like a long-term employer of civil-service-type people. At the same time, they argued that the Fund should have enough flexibility to attract bankers and lawyers on a short-term basis for short-term attractive jobs. Obviously, the Fund should do both. In his view, the current system was well suited to that task.

Mr. Daïri remarked that the situation of G-4 spouses should be a concern insofar as it affected the overall family income of expatriates.

Mr. Petrie, commenting on the level of Fund salaries, noted that the sectors from which Fund staff were actually recruited did not match very well the sectoral split in the methodology. In particular, Fund staff were drawn more from public sector agencies than from the financial sector in private industry that had generally put upward pressures on the results of the methodology. He would appreciate staff comment on that point.

As to the reasons for looking at benefits and compensation together, the first was that prospective staff did just that when they considered whether to take up an appointment, Mr. Petrie continued. While he was not at the current stage suggesting that the Board should every year undertake a complicated exercise looking at benefits and salaries together, it would be useful to have at least a one-off session in which the benefits package and the salary system were examined alongside each other, especially as they had been in place for some five years. Moreover, there might be some duplication between the international competitiveness margin and some expatriate benefits.

More generally, he wished to join other speakers in welcoming the opportunity to better understand the staff compensation system, Mr. Petrie remarked. It was highly complex, and a good understanding was important, given that salaries were the major cost driver in the Fund.

In April his chair had pointed to two areas of concern--the comparatio and the way it was working, and the rationale for the international competitiveness margin, Mr. Petrie recalled. As he, among others, did not fully understand the comparatio, it would be useful to have more discussion and clarification on that issue, perhaps in the Committee on Administrative Policies.

In general, he supported Mr. Evans's comments, Mr. Petrie stated. In his view, there were opportunities to improve the effectiveness with which the objectives of the compensation system were being achieved. Despite the fact that the 1984 review that took five years started out with a similarly modest agenda of marginal improvements, he believed that with careful management, some further review of certain issues and, in particular, those mentioned by Mr. Evans, would be useful.

The Director of Administration observed that about 60 percent of those entering the Fund's main career stream--the economist stream--came through the economist program. There, the Fund was not competing with academia but with the world, in the sense that as recent graduates, most candidates were in the process of choosing which sector they wished to enter; very few of them, in fact, would be thinking of the public sector as their first choice. Thus, for the Fund's core career staff, it was not correct to say that the institution was competing with the public sector. Most, but by no means all, midcareer recruits came from the public sector, usually on a fixed term or on secondment. Those points were sometimes overlooked when discussing where the Fund's economists came from and where they might be going.

Mrs. Wagenhoefer found Mr. Evans's statement on the alternative of having more automaticity or more flexibility in Board decision making very interesting. She would appreciate more clarification on that point, particularly, on the so-called testing range. She understood that the Board and management had a wide range of discretionary decisions to make, and it would be helpful to have the opportunity, perhaps in the next meeting of the Committee on Administrative Policies, to discuss that point.

She agreed with Mr. Clark that job security played a bigger role today than in the past 20 years, Mrs. Wagenhoefer remarked. She also had sympathy with the comments by other speakers on the need for Fund compensation to keep touch with the real world. That point should be considered in future deliberations on salary increases.

Mr. Saito considered that after five years of experience with the staff compensation system there should be some indicators for evaluating whether it had been a success or not. While such an evaluation was difficult, it should be possible to spend some time discussing the methodology for assessing whether the system had been successful in supporting recruitment, retention, and the motivation of high-quality staff, and in achieving as wide as possible a geographical representation among the staff.

The current system was potentially incompatible with the objective of keeping the Fund's administrative expenditures under close control, given the automatic element of salary adjustment, Mr. Saito commented. In particular, it would be helpful to know to what extent discretionary adjustment had been made since the system was put in place.

Mr. Bergo remarked that he not only understood the comparatio, he also found the broad outline of the system to be reasonable, insofar as most important factors were taken into account. Certainly there would be a need from time to time to look at the specifics of the system and, as Mr. Evans had suggested, a review might be undertaken at some stage. Perhaps that stage was approaching. He hoped that such a review would be limited to looking at specific aspects of the system and that it would not result in five years of haggling and discussion in an attempt to create a new system. He did not think that Directors would be successful in arriving at a system that was better than the current one.

The Director of Administration observed that one of the critical questions that had been raised was whether the system was yielding appropriate levels of salary in terms of the Fund's recruitment and retention experience, particularly in recent years. One conclusion that could be drawn was that the system was yielding salaries that enabled the Fund to recruit and retain high-quality staff. It had certainly been serving that purpose much more satisfactorily than the system that had preceded it, particularly during the long period of the Joint Committee's deliberations.

It was difficult to answer the other critical question that had been raised--namely, whether the Fund was spending more than was needed to achieve that goal, the Director of Administration continued. The fact that the question was linked, although not perhaps as closely as some Directors might wish, to the market, gave some assurance that Fund salaries were not totally out of line with "the real world." He did not, however, know whether it could be demonstrated that pay levels could be lower, short of running the risk of actually lowering them. In his experience with another international organization, the Asian Development Bank, a decision to keep salary levels down for several years had had an observable impact on retention, in terms of losing better staff, and at a certain point the loss of staff accelerated into a sort of hemorrhaging, as the inertia that kept people in place--considerations regarding children's schools, homes, family, and friends--was overcome. In that instance, salaries were pushed too low. That was the risk.

The staff understood that it had to demonstrate to Directors and members country governments that the Fund was not paying unnecessarily high salaries, the Director of Administration stated. He was ready to discuss that question further, although he was not sure how such as assessment might be made.

The Acting Chairman made the following concluding remarks:

> This has been a most interesting discussion, and I would join those speakers who commended the staff for the clarity of its presentation. I hope that it has served to clear up some misunderstandings on a few of the more complicated areas of the staff compensation system, including the comparatio.
>
> While the general view was that there is no need at this time for a major review of the system, which was so slowly and painfully established, there is some feeling that some certain technical aspects of the system do merit further examination and clarification. I believe that these should be pursued, although--speaking personally--I would not want this work to mushroom into a major exercise, consuming extraordinary effort of both Executive Directors as well as the staff, both in the Fund and in the Bank, and with the potential for creating considerable uncertainty among the staff.
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> I understand that the Bank is going to pursue a few issues in its Committee on Personnel Policy Issues--its equivalent of our Committee on Administrative Policies--and it has been suggested that we do the same in the Fund. I might mention that direct compensation has never been dealt with by the Committee on Administrative Policies, so perhaps some further consultations on how we proceed would be called for. This is, after all, a

seminar, and not a session of the Board at which decisions can be taken on how these issues are to be pursued. Meanwhile, the staff will review this discussion carefully to determine where attention should be directed.

LEO VAN HOUTVEN
Secretary