

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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ADMINISTRATIVE AND FINANCIAL QUESTIONS

Erosion of Salaries and Allowances for Staff in the Professional Category and Above

Note by the Director-General

1. At its meeting of 5 July 1974, some members of the Committee on Budget, Finance and Administration requested the secretariat to prepare a study concerning the erosion of salaries and allowances and to furnish additional information, together with the outcome of the studies made by various bodies of the United Nations and alternative proposals within or outside the Common System and their financial implications (L/4057 of 8 August 1974).

2. Studies made by various bodies of the United Nations

2.1 The International Civil Service Advisory Board (ICSAB) held its 22nd session from 1-12 July 1974. The Board was requested by the General Assembly of the United Nations to submit, as a matter of priority, to the Assembly at its 29th session (Autumn 1974) a report with recommendations concerning the salaries of staff in the Professional and Higher categories and staff allowances of the United Nations Common System to be effective from 1 January 1975. After discussion, the Board came to the following conclusions:

(a) Net salaries should be increased by 6 per cent with effect from 1 January 1975. The Board looks upon this proposal as an interim step, designed to restore a measure of equilibrium to a situation in flux. A further interim measure should not be excluded if the current monetary and economic trends continue, pending a more fundamental revision.

(b) The Board took particular note of the renewed disproportion in the amount of overall remuneration received in net post adjustments, as compared with base salary. It did not appear to the Board that it had on hand all the elements for a firm recommendation as to whether two, or possibly three, classes of post adjustment should be consolidated on 1 January 1975. (See paragraph 2.2 below.)

(c) The Board decided to recommend that the Childrens' Allowance be increased as from 1 January 1975 to \$450 a year (it has been \$300 since 1957), but decided to make no recommendation for an increase in the Spouse Allowance at this time (it has been \$400 a year since 1962).

(d) The Board did not make recommendations on the Education Grant, considering that the whole question of the modalities of payment of the Grant, including the possibility of increasing the 75 per cent reimbursement figure, should be the subject of further study.

2.2 Consultative Committee on Administrative Questions (CCAQ) met in July 1974 and examined the question of how many classes of post adjustment could appropriately be incorporated. Taking into account the gross salary levels which would result from the ICSAB recommendation of a 6 per cent increase in net pay in combination with incorporation, CCAQ concluded that the appropriate level of incorporation would seem to be two classes. It was pointed out that this will need to be reviewed in September 1974.

It was agreed that the recommendation of the Expert Committee on Post Adjustment (ECPA) in June 1974 for slight modifications in the application of the fractional class system should be applied from 1 August 1974. This will make it possible to react more quickly in compensating for fluctuations in the cost of living. However, this measure will not correct the problem arising from the fact that each full class of post adjustment which represents a 5 per cent change in living costs or exchange loss compensates staff members with dependants to the extent of about 4.2 per cent and staff members without dependants to about 2.9 per cent.

2.3 United Nations Joint Staff Pension Board The 19th session of the Board was held from 15-26 July 1974. The Board had been requested by the General Assembly of the United Nations to "carry out a study on various selective systems designed to compensate for currency changes and inflationary measures in the countries of residence of pensioners and to explain the administrative and financial implications thereof". A report was produced by a working group which would give the following choices to present and prospective pensioners - firstly, the possibility of having their pensions (established in local currency) adjusted regularly in the future in relation to the evolution of the cost of living in their place of residence, as well as having them protected against future loss in value in local currency terms. Secondly, if the pensioner wishes, he could stay on the present dollar pension plus Weighted Average Post Adjustment (WAPA) procedure. However, once having exercised the choice of local currency, he would not be able to return to the dollar WAPA system.

The Pension Fund Board submitted the proposal to the General Assembly of the United Nations for consideration at its forthcoming session (Autumn 1974).

3. Alternative proposals

(a) At its meeting on 5 July 1974 the Budget Committee, with one member dissenting, took the view that solutions to current problems should be found within the context of the Common System. It was considered that the system of salaries and allowances, including compensation for cost of living (post adjustment system) was the result of careful studies and twenty years' experience, although changes could be introduced to meet changing conditions. However, developments in recent years (fluctuating instead of fixed exchange rates) have added a new and hitherto unforeseen element to the problem.

As long as the Common System is based on salaries expressed in United States dollars, the equivalent of which is obtained through accounting rates of exchange (set by the United Nations each month) corrected by post adjustments, the present fluctuating situation will prevent any stabilization of take-home salary payments to staff outside the United Nations Headquarters.

While the Common System of post adjustments works reasonably well in compensating for increases in cost of living, compensation for exchange rate variations would seem to need a different system of adjustment to assess and correct the impact of these fluctuations on salaries.

The Annex indicates some examples of the inadequacy of the system according to which post adjustments compensate both the additional cost due to cost of living and exchange rate. The examples shown in the Annex give evidence of the fact that these inadequacies have disturbing effects on:

- (a) the smooth transition of General Service staff members to Professional grades;
- (b) recruitment action where higher steps than Step 1 have often to be applied, especially for lower Professional grades;
- (c) the equivalence of remuneration of staff members with dependants and without dependants; that equivalence being disrupted in case of changes in exchange rate.

If GATT were to compensate fully for these exchange rate changes, there would not be any effect on the GATT budget, since it is expressed in Swiss francs, although it might reduce the savings presently being made.

GATT is in a special position in the Common System in that:

- (a) GATT's budget is expressed in Swiss francs,
- (b) all activities of GATT take place in Switzerland where all its staff members are located,

(c) nearly all expenses of GATT are incurred in Swiss francs.

Even if some other organizations which are members of the Common System have one of these points in common with GATT, GATT is the only one which has the combination of all three.

It should also be mentioned that GATT's personnel policy aims at a reasonable degree of stability, with a low turnover of personnel and a stable complement, as shown by the freeze in the manning table which has been maintained for some years. Such stability clearly adds to the efficiency of the secretariat and is thus important especially on the eve of the Multilateral Trade Negotiations.

One of the elements ensuring such an overall stability is the stability of remuneration.

It would be reasonable to envisage for GATT, while still basing itself on the common system - either to compensate decreases in remuneration on account of changing exchange rates, until such time as the pre-decrease position is restored as a result of revaluation, or to set accounting exchange rates for periods of at least one year in order that fluctuation in remuneration due to changing exchange rates would be eliminated.

It would also be possible to express all GATT salaries in local currency (Swiss francs), but this may mean some departure from the Common System.

4. Education Grant

No proposals have been worked out so far, within the system, concerning Education Grant. In general, tuition fees and education expenses of Geneva-based families have gone up greatly in recent years, while the maximum reimbursement has been reduced by about 30 per cent due to the application of the ceiling expressed in dollars. In order to avoid the resulting problems and to enable staff members to enter into commitments with adequate information on the reimbursement which they may expect later - i.e. at the end of the school year, GATT has decided in recent years that reimbursement would be made at an exchange rate which would not be less than the rate prevailing at the beginning of the school year, i.e. Sw F 3.23 to \$1 for 1972/73, Sw F 3.03 to \$1 for 1973/74). Even so, in a number of cases this has meant considerable loss for some staff members. As there is no automatic provision for exchange adjustments in this area, it would be reasonable to apply to education grants the exchange rate which prevailed up to 1971.

ANNEX

Several staff members of GATT who were promoted from G.7 to P.1 or P.2 in recent years now earn less than they would have earned had they not been promoted but remained at G.7 grade, as exemplified by the following cases:

	Actual salary 1974 in Swiss francs	Salary at G.7 would be	Salary at present level if exchange rate had remained unchanged
Case A (now P.2/5)	49,960	52,282	56,065
Case B (now P.2/6)	51,666	52,282	57,979

A number of staff members who were appointed or promoted at the same level of remuneration some time ago now have a considerable difference in take-home pay depending upon whether or not they are entitled to the dependency rate of post adjustment. The figures indicated below relate only to the basic salary and do not include family allowances (for spouse and children).

	Yearly totals in Swiss francs		
	July 1971	September 1974	Increase
Staff member P.2/3 without dependents	43,673	47,821	9.5%
Staff member P.2/3 with dependents	45,447	53,762	18.3%

For the same period (July 1971 - September 1974) the cost-of-living index changed from 119.7 to 153.6, i.e. 28.3 per cent increase.