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Cost of Living Salary Adjustments

The purpose of this document is to review the background of the salary system of the Bureau and outline the policies under which it is now operating.

The present salary, allowances and leave system, applied alike to personnel of the Pan American Sanitary Bureau and of the World Health Organization, is based on the system adopted by the United Nations General Assembly for Staff Members of the United Nations Secretariat. The salary system applicable to staff members in the international recruitment group has been in effect since 1 January 1951. The system embodies many recommendations made by the Committee of Experts on Salary, Allowances and Leave Systems which was selected by the Secretary-General of the United Nations in 1949.

The Director-General of the World Health Organization is required to establish salary and allowances for WHO following basically those established for the United Nations unless in any case he considers such action not advisable and obtains the approval of the Executive Board for a deviation. Under PASB Staff Regulation 3.2 any deviation from the World Health Organization scales of salaries and allowances which may be necessary for the requirements of the PASB shall be subject to the approval of, or may be authorized by, the Executive Committee.

Before the United Nations plan was placed in effect for the Region of the Americas and the Pan American Sanitary Bureau a single salary scale having a series of grades from 1 - 19 had been in effect. In addition to the basic salary provided for in the scale a cost-of-living increased was applied during 1950. One of the principal features of the change in the salary plan of the United Nations was the division of all posts into one of two groups; those appropriate for international recruitment of staff, and those which could best be filled ordinarily

by recruitment in the local commuting area around any office. For the first group there was established a single uniform salary scale applicable throughout the world but subject to differentials designed to equate the salaries in all offices to those paid in New York. For the second group there was established a separate salary and allowance plan for each locality based on the best prevailing practices in that locality.

Last December the Secretary-General of the U. N. presented to the 5th Committee of the General Assembly a request for an immediate cost-of-living adjustment for the staff of the U. N. in New York in the amount of 7.5% of gross salary based on a rise in the cost of living of 10.8% between May 1950 and November 1951, as well as authority to make subsequent adjustment in multiples of 5% whenever increasing living costs so warrant it. In submitting this request the Secretary-General stated that at the time the present salary scale was worked out by the Committee of Experts in 1949 it appeared that economic conditions in the United States had reached a reasonable degree of stability so that a salary plan could be evolved which would be adequate for some time to come but that the rising cost of living created a serious problem for the staff members of the Organization. The Secretary-General of the United Nations also made the following statement regarding cost-of-living adjustments elsewhere:

"The change in the salary situation of the United Nations staff, resulting from the new system adopted by the General Assembly in its Fifth Session, has had consequences for the staffs of the specialized agencies. Most of the agencies have now adopted the main features of the United Nations salary system, including the provision for salary differentials, under which internationally recruited staff in all areas of the world are given salary treatment comparable to that of staff at United Nations headquarters in terms of cost-of-living and related factors.

"Member Governments will understand that the operation of a worldwide salary system of this type inevitably must result in a rather cumbersome and complex machinery, the impact of which is especially felt in a time when prices are unstable in many parts of the world.

"There is, however, an alternative policy which, while maintaining the fundamental principle of a relationship between New York and other areas of the world through the establishment of a basic differential, in a more simple way can provide the same guarantee for uniform salary treatment of the staff.

"The alternative is to establish a basic differential for each area on the basis of a cost-of-living survey as of a given date and from then on to vary the salaries at any offices by means of

temporary cost-of-living adjustments, solely on the basis of changes in the local cost-of-living index. However, in establishing cost-of-living adjustments for offices in places other than New York, the same policy should be followed as that applied for the New York staff."

The 5th Committee of the General Assembly on 16 January 1952 adopted the following resolutions:

"1. That the cost-of-living allowance to be established for staff at UN headquarters, effective 1 January 1952, should be at the rate of 7.5% of gross salary.

"2. That the cost-of-living allowance should be granted without limitations because of level of income, provided that no staff member shall receive an allowance smaller than \$300 gross or larger than \$750 gross."

It referred to the next General Assembly the question of the automatic adjustment on a sliding scale of the cost-of-living allowance proposed by the Secretary-General.

The Director-General of the World Health Organization in presenting the above material to the Executive Board of the WHO stated that the acceptance of the Secretary-General's figures as to the amount of the increase for New York could only be interpreted as acceptance of May 1950 as the base date for computing the increase in the cost-of-living. He also noted that a 7.5% increase on full salary represents the equivalent of 10% on 75% of salary, the latter being in conformance with one of the principles recommended by the Committee of Experts to the effect that cost-of-living increases should be applied to only 75% of gross salary.

In view of the variety of decisions and expressions of opinions on the method of determining and applying cost-of-living increases to salary throughout the world the Director-General of the WHO requested guidance from the Executive Board on the following questions of policy. (Under-scoring added.)

"9.1 Are cost-of-living adjustments to be applied to 75% of salary?

"Following the recommendations of the UN Committee of Experts on Salary, Allowance and Leave Systems, WHO has been applying this policy and the Director-General would recommend that it continue to do so for the reasons stated by the Experts.

"9.2 Are initial adjustments to be applied only when there is evidence of a difference in cost-of-living to the staff members concerned of at least 10%, as recommended by the UN Committee of Experts, the ACC and the Fourth World Health Assembly?

"WHO has been following this policy and the Director-General would recommend that it continues to do so. The UN Advisory Committee on Administrative and Budgetary Questions, by recommending a minus 5% salary differential for the UN staff stationed in Geneva, and by again recommending to the Fifth Committee of the General Assembly now in session a 5% cost-of-living allowance for the UN headquarters staff on the basis of a 4.92% rise in the cost-of-living index between December 1950 and November 1951, apparently adopted the principle that adjustment should be in multiples of 5%. The UN Assembly's approval of a minus 5% differential for the UN Geneva staff appears to have endorsed that principle.

- "9.3 If the initial or subsequent differences are of more than 10%, is the adjustment to be only in multiples of 10% as recommended by the Committee of Experts?

"The United Nations has, to date, not committed itself to multiples of 10%. In fact it has applied differentials on several occasions in multiples of 5% and it was noted that the Secretary-General proposed such for the future. WHO has expressed itself in favour of 10% multiples but has actually applied multiples of 5% in order to maintain uniformity with the UN. The Director-General would recommend that in the future WHO apply adjustments only in multiples of 10%.

- "9.4 If the size of the multiple is to be 10%, will adjustment of salary be effected only to the nearest multiple of 10% below the actual percentage of difference (i.e. if there is a difference of 23% or 28% is the adjustment to be 20%)?

"The Director-General would recommend that this be so, since some arbitrary procedure must be adopted and this method tends to minimize extreme variations.

- "9.5 Are subsequent adjustments to be made only when the percentage change in cost-of-living reaches the next multiple (i.e. if an initial differential of 20% is established on the basis of a difference in cost-of-living of 23%, is the differential to be changed to 30% only when the cost-of-living rises another 7% and reduced to 10% only when the cost-of-living drops 13%.

"The Director-General would recommend that this method be followed. Again it is necessary to fix some arbitrary procedure. This would appear to be the most equitable one, as staff members would keep credit for any percentage units of the difference in cost-of-living which were not taken into account when the initial differential was established.

- "9.6 Should a minimum and maximum dollar limit be placed on the application of cost-of-living adjustments?

"The Secretary-General of the United Nations in proposing the plus adjustment for the staff in New York advocated such limits and this principle was endorsed by the Advisory Committee and accepted by the Fifth Committee. Such limits have not previously been applied in dealing with minus adjustments. The application of a minimum limit does not appear necessary when considering only internationally recruited staff since application of the normal percentage to the base salary of the lowest professional grade produces a reasonable adjustment. (The minimum proposed by the Secretary-General and endorsed by the Advisory Committee and Fifth Committee in fact had application only for New York local staff.) The Director-General does not advocate the application of a maximum limit with respect to adjustments of salaries for internationally recruited staff since he knows of no logical grounds for such limitation. He does believe, however, that this question should be examined by the Board in view of the action taken by the United Nations.

- "9.7 Is there an absolute minus differential which is reasonable?

"The Director-General considers that there is a practical limit to how much the salaries of staff may be reduced regardless of decreases in the cost-of-living if competent personnel are to be retained. He has so far consistently maintained that no minus differential of more than 20% should be applied and recommends that this principle be approved.

- "9.8 Is the initial adjustment in any city to be based on a comparison between the cost-of-living in that city and that in New York as recommended by the ACC?

"The scheme of cost-of-living adjustments as approved by the ACC and apparently as accepted by the Secretary-General and the Advisory Committee, assumes that a determination will be made wherever there is an established office of the UN or one of the specialized agencies, as to what is the ratio of the cost-of-living for international staff in that city compared with the cost-of-living for such staff in New York. This would be done as of a predetermined base date. The ratio which is found would result in a plus or minus differential in that city if there is a substantial difference in the cost-of-living. The Director-General recommends that this policy, agreed to by the ACC and hitherto followed by WHO, be continued.

"9.9 After the initial differential has been established, is it to be adjusted subsequently on the basis of the change in cost-of-living in the city in question as agreed to by the ACC?

"The scheme as adopted by the ACC and as endorsed now by the Secretary-General and Advisory Committee provides that once the initial ratio between New York and the other city has been established, any future adjustments in salary in the other city would be made on the basis of movement in the local cost-of-living. The Director-General recommends that this principle be adopted.

"9.10 Are percentage changes to be computed on the index figure for the current month or on an average over a period of months?

"The Director-General would recommend the adoption of the second alternative. It takes better account of intervening variations in the cost-of-living index, avoiding the risks that an adjustment made on the current months figure may prove to be too high or too low in the light of the figures for the following months. It is also this method which the Secretary-General has adopted in his proposals to the General Assembly."

The Executive Board of WHO approved without change the ten policy recommendations of the Director-General quoted above with effect from 1 January 1952.

Further information has been received from the Geneva Office with respect to the implementation of these principles as outlined hereinafter.

Cost-of-living adjustments covered by this procedure will apply only to staff in the international recruitment group, that is, those in P and D grades. They also apply only where there is an established office which means that they do not apply to short term field projects. It is not considered feasible to make the necessary analyses in other locations. It is felt that the short term staff in field projects would be treated much more equitably under the present arrangement of the subsistence allowance or per diem established for the area. Since this allowance need not be justified on the basis of the complex survey which the cost-of-living adjustment requires it can more easily be readjusted at such time as it becomes apparent from data immediately available that the allowance is not adequate.

For each city where there is an established office there must be a cost-of-living survey conducted according to the standard procedure developed by the United Nations. It is proposed that surveys be made in Lima, Peru; Buenos Aires, Argentina; Guatemala City, Guatemala; Rio de Janeiro, Brazil, and Mexico City, Mexico.

It is not proposed that an actual survey be made in Washington, D. C., but rather to use the comparison index material afforded by the United States Bureau of Labor Statistics. This data reflects an average cost-of-living for the six months period 15 August 1951 to 15 February 1952 slightly more than 10% in excess of the base period. Under the approved policies outlined above it is expected that Headquarters WHO will direct a cost-of-living increase of 7.5% for its international personnel stationed in Washington.

As outlined heretofore, the policy initially adopted by the United Nations and later by the World Health Organization and the Pan American Sanitary Bureau applicable to personnel subject to "recruitment in the local commuting area around any office" is that their salary will be based on the best prevailing practices in that locality. The present scale for Washington, D. C., is based on rates prevailing in the area with primary consideration being given to salaries paid in the U. S. Federal Government.

There are three related points in connection with this situation:

- (1) If action is taken to increase the international staff of either the WHO or PASB employees in Washington, it will be difficult to explain to locally recruited personnel why no action is taken with respect to their salaries since they are subject to the same hardships of an increase in the cost-of-living as international personnel. In this connection the U. S. Federal Government has in the past ten years adjusted salaries of its employees only after extended periods of increases in the cost-of-living, thus such salaries are continually behind actual living costs.
- (2) At the time the United Nations granted an increase of 7.5% for its international personnel stationed in New York it also increased the salary of locally recruited personnel by the same percentage.
- (3) Whereas it had been considered that the salaries of the international and locally recruited personnel of Washington were in balance with each other this situation would not obtain if action was taken only for the international group.

This problem will be presented to the WHO Headquarters in Geneva with a request that an adequate solution be advanced for locally recruited WHO personnel.

There are a number of problems involved in the prescribed approach to the matter of salary adjustments outlined above. However, the Director, in the interest of uniformity and in conformance with Staff Regulation 3.2, is of the opinion that the Pan American Sanitary Bureau should adjust the salaries of its employees on the same basis as the Headquarters of the World Health Organization may direct for employees of the Regional Office of the Americas under the policies outlined above.