89TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
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COST-OF-LIVING SURVEY BEFORE REDUCTION OF FEDERAL EMPLOYEES' COST OF LIVING ALLOWANCES IN PUERTO RICO AND VIRGIN ISLANDS

SEPTEMBER 23, 1965.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. MATSUNAGA, from the Committee on Post Office and Civil Service, submitted the following

REPORT

[To accompany H.J. Res. 569]

The Committee on Post Office and Civil Service, to whom was referred the joint resolution (H.J. Res. 569) requiring a cost-of-living survey to be made by the Bureau of Labor Statistics before the cost-of-living allowance for Federal employees in Puerto Rico and the Virgin Islands may be reduced, having considered the same, report favorably thereon without amendment and recommend that the joint resolution do pass.

PURPOSE

The purpose of House Joint Resolution 569 is to postpone the effect of an administrative order, which sharply reduces cost-of-living allowances of Federal employees in Puerto Rico and the Virgin Islands, until the Bureau of Labor Statistics in the Department of Labor shall have completed a survey of living costs in those areas in order to provide valid data for the determination and fixing of proper levels for such cost-of-living allowances.

STATEMENT

For many years, in order that the Federal employees stationed in oversea areas might receive compensation to give them real take-home pay comparable to that of Federal employees living in the Washington, D.C., area, a cost-of-living allowance has been given, over and above their statutory salaries, where it is found that living costs at their stations are, in fact, higher than those prevailing in Washington.

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If, for example, it were found that the cost of living in any given oversea area were 25 percent higher than in Washington, D.C., Federal employees there would receive 25 percent of their salary, in addition to their statutory salary, to compensate them for such higher cost of living.

The theory behind this system was to equalize their real salaries with those of their Federal employee colleagues in Washington, D.C., so that each might be paid equal salaries for equal work.

The relationship of living costs in any particular oversea area with the living costs in Washington, D.C., has been determined by surveys, usually made annually. The surveys generally have taken into consideration costs of sample items from the grocery store shelves, rents, services, and such other items as reflect in the day-to-day expenses encountered by the Federal employees.

This system has worked well and has provided an equitable way for Federal employees to cope with unusual financial burdens stemming from conditions in their oversea employment which result in higher living costs through built-in ocean freight rates, scarcity of items for which the consumer dollar competes, and other factors depending on the local situation.

The U.S. Civil Service Commission has been endeavoring for several years to eliminate the system of cost-of-living allowances and substitute what it calls the comparability rule. By this the Commission means that all Federal employees living in areas under the U.S. flag be paid the same salary, which finds its level through competition with salaries paid by private enterprise for similar work. The Federal salaries, then, according to this theory, would be comparable to salaries being paid by private enterprise.

Under the law governing the cost-of-living allowances the Civil Service Commission has the authority to adjust the cost-of-living allowance in any particular area according to the findings of the surveys so as to make adjustments for any changes in living-cost relationships between Washington, D.C., and the particular area involved. Under this authority, a cost-of-living survey was completed early this year in Puerto Rico and the Virgin Islands which, according to the Civil Service Commission, resulted in a finding that the cost of living in Puerto Rico is 104.5 percent of the cost of living in Washington, D.C. On the basis of this survey, the Commission announced on May 10, 1965, that effective July 1, 1965, the cost-of-living allowance for Federal employees in Puerto Rico and the Virgin Islands would be reduced from 12.5 percent of their salaries to 5 percent. Obviously, the Federal employee who has made long-term, inelastic, financial commitments based on his income is going to suffer severe hardship and damaged morale by reason of such a drastic cut in his paycheck.

The committee has experienced difficulty in reconciling the rather confused systems and methodology used to arrive at the final figures for the survey. Actual retail figures are not of record for the hundreds of items included in the "market basket" list, such as are needed to make any valid comparison of item costs in Washington, D.C., with those in Puerto Rico and the Virgin Islands. Nor is it entirely clear which other considerations affecting living costs were included in the survey. Employee representatives have stated that they have been unsuccessful in obtaining this information. Employees in Puerto Rico and the Virgin Islands were not consulted before the final decision was made to reduce their compensation through an administrative striking down of their authorized cost-of-living allowances. They are completely bewildered and seriously hurt.

According to the Civil Service Commission, the survey on living costs in Puerto Rico and the Virgin Islands was conducted by a State Department team. The Department conducts such surveys to determine comparative living costs, as related to Washington, D.C., for employees under the jurisdiction of the Department who are stationed all over the world. The Department takes into account, in its own surveys, such matters as local availability of items which U.S. citizens are accustomed to having, as well as certain use factors where the employees may have to utilize some other means or substitutes to obtain the things or the services they need and which would be available to them were they at home in the United States.

These surveys by the State Department, directed solely to determining allowances for employees under the Department's jurisdiction, are geared to meet unusual conditions encountered in the Foreign Service of the United States and related programs, which would not necessarily be the case for Federal employees living under the U.S. flag such as those in Puerto Rico and the Virgin Islands.

Cost-of-living surveys for Hawaii and Alaska—unlike the one made for Puerto Rico and the Virgin Islands—were performed by the Bureau of Labor Statistics, and did not result in any reduction of the cost-of-living allowance for employees in those States. The committee concurs in the view, expressed by many witnesses, that there is no justification for having a different survey, made by a different agency, as was done in Puerto Rico and the Virgin Islands. House Joint Resolution 569 is directed to the correction of this discriminatory treatment. It is also pertinent to note that the record of hearings has demonstrated no lowering of prices or living costs in Puerto Rico.

The resolution does not ask any special consideration for Federal employees in the Caribbean area involved or that they be granted favored treatment. Upon enactment it will have these desirable effects: It will make the recent order of the Civil Service Commission—reducing cost-of-living allowances from 12½ to 5 percent in Puerto Rico and the Virgin Islands—without legal effect. It will require that a new cost-of-living survey be conducted in those places by the Bureau of Labor Statistics, in conformity with the policy followed in the cases of Hawaii and Alaska. It will prohibit the issuance of any new administrative order affecting the allowances in question until such survey has been completed. And it will provide for the establishment of a new—and validated—cost-of-living allowance for Federal employees in Puerto Rico and the Virgin Islands, based on the new survey.

Cost

There are 4,700 Federal employees in Puerto Rico, and approximately 200 in the Virgin Islands, who will be affected. The cost to the Government, therefore, is not a significant factor. It is certainly a minor consideration when weighed in the balance with the harsh impact on the employees, the lowered morale, and the adverse effect on efficiency resulting from the order of the Civil Service Commission that their historic allowances be reduced by 60 percent.

Administrative Reports

Official reports were requested from the U.S. Civil Service Commission, the Bureau of the Budget, and the Department of Labor on July 13, 1965, but have not been received. The Commission on May 10, 1965, submitted an official request for the enactment of legislation to completely terminate the cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas, which is embodied in H.R. 8390. The official request of the Commission for enactment of that legislation follows:

U.S. Civil Service Commission,
Washington, D.C., May 10, 1965.

Hon. John W. McCormack,
Speaker of the House of Representatives.

Dear Mr. Speaker: We are submitting with this letter for the consideration of the Congress proposed legislation to terminate cost-of-living allowances for statutory salaried Federal civilian employees in nonforeign areas. This proposed legislation is very similar to that we recommended to the 88th Congress. There are enclosed a draft bill, section analysis of the draft bill, and a statement of purpose and justification.

It is the purpose of this proposed legislation to place Federal employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands on the same footing as employees in other parts of the United States with respect to compensation under statutory salary systems.

In Alaska, Hawaii, Puerto Rico, and the Virgin Islands, statutory-salaried Federal employees are receiving additional compensation on the basis of living costs under authority of section 207 of the Independent Offices Appropriation Act, 1949, as amended. This method of compensation is inconsistent with the principles governing Federal salary determination as established by the Federal Salary Reform Act of 1962. It is also unnecessary since, where warranted by the level of private enterprise salaries, increased minimum rates and rate ranges can now be authorized under section 504 of that act.

In February, March, and April 1964, a subcommittee of the Post Office and Civil Service Committee of the House of Representatives conducted extensive hearings on H.R. 7401, the bill which was introduced in the last Congress to terminate these allowances. In September, the Honorable Morris K. Udall, chairman of the subcommittee, announced that the subcommittee would take no further action on the bill in 1964, but emphasized that this in no way was to be construed as a rejection of the proposal. "The subcommittee" he said, "was unable to meet further for executive consideration of the bill, due principally to [the] full committee's concentrating its effort toward securing passage of the Federal employees' salary increase bill."

In concluding his statement on the bill, Mr. Udall said that he anticipated that "whatever action might be taken in the next Congress in regard to the COLA proposal, the Congress will be able to arrive at a solution that will not adversely affect present employees but will have the desirable objective of eventually discarding the now obsolete cost-of-living allowance concept."

The proposal we are submitting with this letter is very similar to that we submitted to the 88th Congress. We have included in the draft bill this time, however, specific provisions regarding the manner in which the existing allowance is to be phased out for employees on the rolls. In the earlier bill, the proposed statutory provision would simply have authorized the phasing out of the allowance for present employees. The formula for the phasing out would have been left to administrative discretion. We believe that this change may make the bill somewhat more acceptable to employees in the areas concerned.

We urge enactment of this proposal in order that the pay principles of the Federal Salary Reform Act may be properly applied in the areas where the allowances are now paid.

The Bureau of the Budget advises that enactment of the recommended bill will be consistent with the administration's objectives.

A similar letter is being sent to the President of the Senate.

By direction of the Commission:

Sincerely yours,

John W. Macy, Jr.,
Chairman.