

June 14, 1955

ALLOWANCES AND DIFFERENTIALS

The President in his January 11, 1955 message to the Congress on personnel matters, commented on the need for improvements in certain conditions affecting all U. S. citizens employed overseas, and listed allowances among those subjects requiring attention.

Currently three major systems of allowances are applicable to American citizen civilian personnel stationed outside the continental United States:

- (1) Foreign area allowances, payable to personnel stationed in foreign countries;
- (2) Territorial allowances, payable to personnel stationed in the Territories and possessions of the United States;
- and
- (3) Maximum twenty-five percent salary differential payable to personnel stationed in the Canal Zone.

Overseas allowance and differential practices vary among the three systems, among agencies, and among pay groups (for example, the Classification Act and wage-board groups). Some of the differences are warranted by differences in circumstances, others are not.

With respect to civilian allowances, substantially greater uniformity can be achieved as regards personnel stationed in foreign areas and Territories and possessions, respectively.

Significant progress has been made in recent years in the direction of standardization of the allowance program for "white collar" civilian personnel stationed in foreign areas. Certain basic problems—in addition to those arising from the existence of the several different systems—exist as deterrents to the most effective development of the system on a uniform and equitable bases:

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- a. Legislative authority for certain aspects of the program has not been provided on a permanent basis but must be renewed annually;
- b. Authority for the payment of some items is granted only to certain agencies;
- c. "Loop-hole" provisions in legislation grant certain agencies authority to make exceptions to the standardized system;

During recent years substantial progress has also been made toward a coordinated system of additional compensation for Federal employees stationed in territorial areas. A major problem requiring legislative action results from the existing statutory provision that total additional compensation in territorial areas may not exceed 25% of the rates of basic compensation.

It is the consensus of major departments and agencies that a single statute, consolidating existing authority for the payment of allowances and differentials for civilian personnel and correcting certain inequities that now exist is highly desirable.

Accordingly, we are submitting at this time a proposed draft of a bill on overseas allowances and differentials, short-titled the "Overseas Allowances Act of 1955."

The proposed bill is based on the principle that the Government should compensate Federal employees overseas (a) for additional expenses associated with overseas service not incurred, or not incurred on a comparable scale, by Federal employees in the States, and (b) for differences in conditions of environment at overseas posts that necessitate additional compensation as a recruitment and retention incentive.

Fundamentally the proposed bill:

- a. Codifies in one act various provisions of law now found in numerous

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separate statutes, in order to provide a single continuing authority, uniform for all agencies, for allowances and differentials.

- b. Brings about uniformity in overseas allowances and differentials to the extent consistent with conditions. It eliminates unwarranted differences between the territorial and foreign systems; permits extension of allowances and differentials to employees whose rates of pay are fixed administratively, mainly the wage-board group; and eliminates the many differences that now exist between agencies using the Foreign Service Act authority and other Federal agencies in foreign areas.
- c. Provides a basis for the more efficient and equitable administration of allowances and differentials.
- d. Meets the major problem of allowances in territorial areas by eliminating the statutory 25 percent ceiling on total additional compensation.

General provisions of proposed bill

The proposed bill provides two coordinated systems of allowances and differentials, one for foreign duty and the other for service in territorial areas. Substantial differences exist between conditions of employment at foreign posts and in territorial areas of the United States. No agency has shown a need, for example, for an education allowance, or a transfer allowance, or a separate maintenance allowance in territorial areas. Certain needs at foreign posts are associated with the function of representing the United States. There is no basis in territorial areas for expenditures paralleling the representation expenditures in foreign areas.

Further, one basic difference between territorial and foreign areas

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must be taken into account in all allowance and differential matters. In contrast with conditions at foreign posts, local residents in most territorial areas are United States citizens. An allowance and differential system for territorial areas must fit the needs of United States citizen employees recruited locally as well as those recruited from the mainland, and must avoid unwarranted distinctions between the two groups.

Because of various special conditions affecting employment in the Canal Zone, the bill does not change the present practice in that area. However, provision is made to extend coverage of the Act, by Executive Order, to the Canal Zone, either as a foreign area or territory, should it be found appropriate at some future date.

Conditions in the Trust Territory seem more similar to those in relatively undeveloped foreign areas than those in a United States territory. Although Guam, which is a U. S. territorial area and will continue to be treated as such, is surrounded by the Trust Territory, the agencies with most employees on the island do not feel that payment of foreign allowances in the Trust Territory, as proposed in the draft bill, will create problems on Guam.

Other general provisions of the bill provide for central coordination through regulations to be issued by the President, and authorize payment of allowances to employees whose rates of pay are fixed administratively. At present, foreign allowances may be granted to wage-board and other employees whose rates of pay are fixed administratively. They are not eligible, however, for the foreign post differential, territorial cost-of-living allowance, or territorial post differential. As a consequence, agencies commonly incorporate amounts equivalent to post differentials and territorial cost-of-living allowances into wage rates. Including such amounts in base pay distorts

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retirement, overtime, and other payments.

The proposed draft bill authorizes extension of overseas allowances and differentials to such employees only if their wages are set at rates which do not consider allowances or differential and correspond to rates paid in the States. This avoids the possible duplication of benefits that would exist if, for example, agencies set wage-board rates on the basis of exceptionally high rates prevailing in an overseas area, as in parts of Alaska, and, in addition, paid the employees concerned cost-of-living allowances based on high costs in the area. The proposed bill does not prevent fixing pay rates for wage-board employees in accordance with rates prevailing in an overseas locality, however, as an alternative to payment of allowances and differentials.

Foreign Quarters Allowances

The Act of June 26, 1930, first provided permanent statutory authority to all Federal agencies to furnish living quarters--including heat, fuel, and light--in Government-owned or rented buildings to civilian officers and employees stationed in foreign countries without cost to them. Where quarters were not available, agencies were authorized to grant allowances in lieu of quarters. It was anticipated at the time of passage of this legislation that an expanded Government housing program would, in time, provide quarters for all, or most personnel stationed overseas. This goal has not been possible of accomplishment.

During the ensuing 25 years, the quarters allowance has become an accepted aspect of the allowance structure for service in foreign areas. The Government has found it advantageous to provide either Government housing or quarters allowances in lieu thereof in order that employees may be able to carry out their official duties properly regardless of housing shortages and

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relevant adverse conditions and in order that they may appear locally representative of American standards of living, efficiency, and activity.

The proposed bill continues the foreign living-quarters allowance, which compensates employees for the cost of their permanent quarters at a post, and adds water to the utilities payable by the Government.

The proposed bill extends to all agencies authority for payment of the temporary lodging allowance. This allowance is now available only to agencies authorized to use the Foreign Service Act provisions, yet the same need exists in other agencies.

Temporary lodging allowances are intended to cover employees' hotel room expenses on first arrival at a foreign post, while looking for suitable quarters and awaiting arrival of furniture. The proposed language also permits payment of such allowance under the very similar conditions that exist immediately prior to an employee's departure from the post, when he must relinquish his lease or pay for a period beyond his departure date. Generally, the employee moves to a hotel for a short period to allow himself time to complete his departure arrangements, such as settlement of utility bills and preparation of furniture and effects for storage or shipment.

The proposed language omits the present restriction of this allowance to the amount of per diem that would be allowable if the employee and his family were in a travel status. There are two reasons for this change. First, this restriction would not operate uniformly among departments. Employees under the Foreign Service Act are allowed per diem for the employee and for each member of his family, but no per diem is authorized for members of the family of most other departments. Second, the temporary lodging allowance is not intended to cover the same kinds of expenditures that are the basis for per diem payments. This allowance relates only to the cost

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of quarters (in this instance, hotel rooms) and does not reflect expenditures for meals, which are considered in per diem.

Very sparing application is envisaged for the new authority for repairs and alterations. This is not intended to pay for such normal expenditures on establishment of a new residence as minor alterations and redecorating. At primitive posts or at posts where all acceptable housing is occupied, employees have at times been forced to make heavy personal outlays for essential improvements to substandard dwellings, such as installation of plumbing or electric wiring. No specific legislative authority has hitherto existed for their relief. The proposed bill provides authority for payment or reimbursement of actual and necessary expenses for repairs and alterations of this type.

Foreign cost-of-living allowances

Foreign cost-of-living allowances compensate an employee for the excess cost of living at a foreign post where living costs (except rent and utilities, covered by quarters allowances) are higher than in Washington, D. C.; for initial outfitting costs on being transferred to a station where, for example, a different type of clothing or electrical equipment of a different voltage is required; and for the cost of maintaining a separate establishment when conditions at his post require him to leave his family elsewhere.

The principal change in existing cost-of-living allowances is the application of a transfer allowance upon an employee's assignment to a post in the United States between foreign assignments. In career service, a transfer back to the United States is just another in a series of transfers. The unusual expenses incident thereto may be as great or greater than similar costs incurred in transferring between posts abroad. In the case of employees of long years of service, a transfer to the United States adds that much more to

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the total out-of-pocket expenditure incident to the mobile nature of their employment.

The Congress recognized the need for such allowance in its recent enactment of P.L. 22 - 84th Congress, amending the Foreign Service Act of 1946, including authority for payment of this allowance under the same conditions specified in the proposed legislation. Since the general authority for payment of cost-of-living allowances by other agencies of the Government is contained in Appropriation Acts, renewed annually, and based on the section of the Foreign Service Act which has been amended, this same authority is now available to all agencies. In practice this authority will be used principally by the Foreign Service of the Department of State, but to the extent that similar conditions of service apply, it is appropriate that the permanent authority be available to other agencies for their employees.

Another change in existing cost-of-living allowances concerns the separate maintenance allowance. This allowance is designed to assist an employee in meeting the duplication of expenses caused when he is required to live at a post and maintain his family elsewhere. The proposed language substitutes "post of assignment" for the existing phrase "country of assignment," and provides the more accurate designation of "separate maintenance allowance". In some cases, it is not essential that the employee send his family outside the country. Hypothetically, an employee stationed in Bombay might send his family away in time of protracted rioting and violence followed by plague. New Delhi might be safe, but in order to qualify for a separate maintenance allowance under existing legislation, the employee would have to send his family out of India.

One new type of cost-of-living payment is provided, an education allowance and related travel expenses, to help employees overseas meet additional costs of educating their children. Until recently, civilian employees of the

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Government in foreign areas were faced with two variables beyond their control, with respect to the problem of educating their minor children: (1) the employee may or may not have been eligible for financial or other assistance, depending upon the agency for which he worked or the area of his assignment; (2) he may or may not have been stationed where there were suitable schools to which he could send his children at his own expense.

Civilian employees of the Defense agencies who are stationed overseas are eligible for the following assistance in the education of their minor children: (1) free attendance at schools operated by the armed services, or (2) the cost of correspondence courses up to the maximum average permitted by the appropriation, \$235, (P.L. 458, 83rd Cong., Sec. 709) or (3) tuition fees at suitable local schools up to a maximum of \$235, and (4) free "space available" travel on Government vessels or aircraft to or from the United States for the purpose of attending school for one round trip per year. These benefits parallel those authorized for military personnel (Air Force Regulation No. 34-50; Army Regulations No. 350-950-1; Navy Regulation No. 7820). Employees of all civilian agencies are required to pay tuition when they enroll their children in Defense-operated schools.

There are employees of other civilian agencies, stationed overseas, who receive assistance for education of their dependents. The Panama Canal Government under annual appropriation acts receives funds with which to maintain schools authorized by Section 5, Title II, Canal Zone Code, as amended by Section 1, Act of September 26, 1950 (P.L. 841, 81st Cong). Reimbursements for attendance by dependents of employees of other agencies, except the Panama Canal Company, are authorized in Section 105, P.L. 453, 83rd Cong. The Foreign Operations Administration, under authority in Section 411(b) of P.L. 665, 83rd Cong., pays for education of dependents of employees of that agency at several posts.

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The present Congress recognized the necessity for extending authority for providing Government assistance in the education of dependents of employees abroad by adding to the cost-of-living allowances provisions of the Foreign Service Act authority for payment of education allowances. This authority is made available to other agencies of the Government under the General Provisions of the Supplemental Appropriation Act, which authorizes for all agencies the cost-of-living allowances of the Foreign Service Act. The language of the proposed legislation is substantially the same as that in P.L. 22 - 84th Congress amending the Foreign Service Act, except that authority is included to make advance payments.

Another aspect of this problem is that many employees in foreign areas are troubled by the possibility that their children may become expatriates by virtue of continued residence abroad. The importance of spending part of the adolescent years in this country has been recognized by the Congress in another connection. Section 201(g) of the Act of October 14, 1940, "Nationality Act of 1940" (P.L. 853, 76th Congress), states in effect that a child born abroad of an American citizen and an alien is an American citizen provided he resides in the United States or its outlying possessions for a period or periods totaling 5 years between the ages of 13 and 21, such residences to begin not later than age 16. While this legislation does not apply to children of Government employees, it is cited as evidence of the importance which has been attached to a period of residence in the United States, during their formative years, by children normally living abroad.

To meet this problem, we recommend that authority be granted to pay the transportation costs of dependents to and from the nearest port of entry in the continental United States, not to exceed one round trip, for the purpose of securing an American secondary school education.

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When a round trip to the United States for the purpose of securing secondary school education is provided, the education allowance is not paid. The parents of children of high school age are thus given a choice of three kinds of assistance: (1) sending them away to a foreign school, where necessary, and receiving any applicable allowance, or (2) having them returned to the United States, at Government expense, with no allowance payable, or (3) sending them to the United States at their own expense and receiving an allowance to assist with their maintenance expense in this country.

In the United States, a majority of parents send their children to nearby colleges or universities; in contrast, overseas personnel are faced with the significant added expense of sending their children long distances in order to enroll them in American colleges or universities. We recommend that at least a part of this expense be offset by defraying the expense of one round trip to the United States for the purpose of securing an undergraduate college education. Tuition, room, and board would not, of course, be paid in such instances.

In P.L. 22 - 84th Congress, amending the Foreign Service Act, Congress provided these travel authorities for educational purposes. However, these are available only to those agencies authorized to exercise authorities of the Foreign Service Act and do not apply to other agencies operating in foreign areas. The proposed legislation provides authority similar to that now contained in the Foreign Service Act.

Representation Expenses

The proposed bill includes an amendment to the Administrative Expenses Act of 1946, P.L. 600, 79th Congress, to provide general authority in place of existing scattered authorities to permit use of administrative expenses funds for representation purposes in the promotion of official policies and programs.

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Such expenses are associated with the function of representing the United States in a foreign country and gaining acceptance for its policies and programs. The direct official approach to discussion and negotiation generally preferred by Americans is not understood in many foreign areas. Such impersonal tactics, unembellished by gestures of a social nature, not only may not be productive of response and cooperation but may even arouse antagonism and distrust. Informal social contact is often the key to results.

Moreover, the nature of our entertainment is often used by others as a yardstick for judging our national prestige. Stinting too much in this respect might lead to invidious comparison of the United States with other great powers. There are also official acts of courtesy which are mandatory for our principal representatives abroad, such as the purchase of flowers or similar tokens when important local personages marry or die and the purchase of memorial wreaths for public monuments on national holidays.

It is not expected that more than a few agencies will require this allowance. The Department of State is the principal agency discharging representational functions. However, the interests of the United States can be furthered on occasion by granting similar authority to other agencies, for example, the director of a program of assistance in a foreign country. For this reason, general authority for payment of such expenses appears desirable. Use of this authority will be prescribed by regulations issued by the President.

Storage Expenses

The proposed bill extends authority for payment of storage expenses, now available primarily to agencies under the Foreign Service Act, to Federal agencies generally. It provides for amendment of existing statutes (Sec. 911(4) and (5) P.L. 724, 79th Cong. and Title I P.L. 195, 83rd Cong.) but retains the current bases for payment. In addition, it specifically

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authorizes payments when storage would avoid the cost of transporting effects from one location to another.

This provision relieves the employee of the personal expense for storage when conditions at his post of assignment or the nature of his job, both beyond his control, preclude his using his effects. Expenses for storage occur during:

- (1) the employee's occupancy of hotel rooms, or other temporary quarters, on first arrival at a new post while he is locating permanent quarters;
- (2) the employee's occupancy of furnished quarters, either provided by the Government or privately leased (in some areas, unfurnished private quarters are not available);
- (3) emergency conditions such as chronic civil disturbance or continued hostility at the post toward Americans which may necessitate evacuation of personnel; strikes, blockades, lack of transportation facilities, etc. at the post or in transit which preclude safe or prompt transportation of effects;
- (4) official travel of the employee away from the post (storage in such circumstances generally is necessary only when quarters at the post are relinquished).

Savings to the Government in transportation costs may be realized under items (2), (3), and (4). They also can result from storing rather than transporting the furniture and effects of an employee who, for personal reasons, prefers not to take them with him. Many unpredictable factors, however, would affect potential savings or cost, such as length of time effects remain in storage vs. distance between successive posts of assignment, necessity to store effects where located in areas charging higher rates

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than those in the United States, etc. Nevertheless, and despite the uncertainty of ultimate savings or cost, it is only equitable that the Government assume storage costs incident to the nature and location of the job to be performed on its behalf.

Official Residence Expenses

Although covering different expenses, this provision is similar to the representation authority in a number of respects. The Department of State has been and will remain the principal user, but other agencies on occasion have need of it. Its payment by the Foreign Operations Administration is now permitted. Consequently, general authority for such expenses appears desirable, subject to regulations of the President.

Top officials abroad, State Department and other, are compelled to maintain residences on a scale which would not be necessary except for the position of conspicuous responsibility which they occupy at the post. As principal representatives of the United States, they are persons of major importance locally and must maintain contact with and entertain the highest level of local officials, residents, and visitors. Apart from the physical need for a larger establishment, the factor of national prestige is important for furtherance of the interests of the United States.

This authority will not permit reimbursement to an individual for the ordinary household expenses he would incur in any case. It is intended to defray only the extra expense of keeping up a residence commensurate with the position of an important representative of the United States abroad. These expenses include salaries and subsistence of extra servants and costs of upkeep and repair of a larger and more elaborate residence than would otherwise be required.

As compared with the State Department's existing authority for payment of such expenses for a single chief representative of the United States at

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any post, the proposed language permits payment to this country's chief representatives at a post. The new language permits payment of residence expenses for the deputy chiefs of the largest missions abroad, for example. Residence requirements of deputy chiefs of such missions may exceed those of the chiefs of missions at smaller posts.

Foreign Post Differential

The proposed bill consolidates the two major authorities for foreign post differentials, one for the Foreign Service and one for all other agencies.

The post differential compensates employees for undesirable conditions of environment which exist at some foreign posts, such as difficult living conditions, physical hardships, and hazards to health. Thus it serves as an incentive in recruiting and retaining personnel for such locations. The rate payable in any instance may not exceed 25 percent of an employee's rate of basic compensation. Language used in the proposed bill to authorize payment of post differentials continues the statutory language now applicable to Federal employees generally rather than adopting the statutory provisions currently applicable to the much smaller groups of Foreign Service officers and employees.

Territorial Allowance and Differentials

Territorial cost-of-living allowances and Territorial post differentials are authorized on the same basis that additional compensation is now authorized for Territorial areas by section 207 of the Independent Offices Appropriation Act, 1949, as amended, with one significant difference. The new provisions eliminate the existing 25 percent ceiling on cost-of-living allowances (and on cost-of-living allowance plus post differential if both are payable at the same post) but retain a 25 percent maximum rate for post differentials. This is parallel to the treatment of foreign cost-of-living allowances and foreign post differentials under existing law as well as in

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the proposed draft bill.

A serious administrative problem is created in Alaska by the present statutory limitation of 25 percent on rates of additional compensation payable in territorial areas. The high level of living costs in the Territory is shown by a survey of Fairbanks and Anchorage made by the Bureau of Labor Statistics in 1951. This study showed that prices of goods and services including rent, were 40 percent higher in Anchorage and 47 percent higher in Fairbanks than in Seattle. A survey of the total cost of the standard city worker's family budget conducted by the Bureau of Labor Statistics in 34 large mainland cities in 1951 resulted in an index of 96 for Seattle with the District of Columbia as 100. Thus, living costs in Alaska bear nearly the same relationship to living costs in the District as to living costs in Seattle.

A new differential - the prevailing rate differential - is proposed for territorial areas. This is authority to pay to locally recruited employees, in those areas where prevailing wage rates are higher than statutory rates, a differential in order to enable Federal agencies to compete on equal terms with other employers for locally available personnel. Authority is also provided to permit payment of this differential in lieu of the cost-of-living and/or post differential payable at such post. There might be locations where the prevailing rate differential is higher than the combined total of the allowable cost-of-living allowance and post differential. In such circumstances it would be essential to pay the prevailing rate differential to employees recruited outside the territorial area in order to avoid creating a morale problem.

While there is no separate section under this title covering storage expenses for employees in the Territories and possessions, such employees will be eligible to the same provisions available for employees in foreign

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areas inasmuch as this authority is proposed as an amendment to the Administrative Expenses Act of 1946, as amended. Neither that Act nor the proposed Amendment makes any distinction between foreign areas or territorial areas, and the same authorities and regulations will apply to both areas.

To avoid any immediate adverse effects from the proposed provisions which will limit payment of the cost-of-living allowance to employees recruited outside a territorial area, a savings provision is provided to continue payment of the allowance for a limited period. Allowance and differential payments would continue on the current basis until regulations are issued under this title of the proposed legislation. Any employee recruited locally who as of the effective date of such regulations is receiving the cost-of-living allowance would, for a period of one year, continue to be eligible for allowance payments, if a cost-of-living allowance is provided for employees recruited outside the area, provided he is continuously employed in the same territorial area. However, he would not be eligible for any increases in allowances and, in addition, the amount payable would be reduced by any amounts received as an increase or increases in basic compensation. It is further provided that in any area where a prevailing rate differential is paid, employees protected under this section will continue to be paid the allowance for the one-year period unless such differential at least equals the amount received as a cost-of-living allowance. The purpose of this provision is to provide an adequate period of notice before withdrawal of the cost-of-living allowance (unless such allowance is discontinued for all employees).

Recommendation

We recommend favorable consideration of the proposals incorporated in the attached draft bill, the Overseas Allowance Act of 1955. We believe that the proposed bill provides fair and consistent treatment of employees serving

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the Government overseas irrespective of the agency in which they are employed, greatly simplifies administration of overseas allowances and differentials, and facilitates recruitment and retention of competent personnel for the highly important activities of the Government performed outside continental United States.