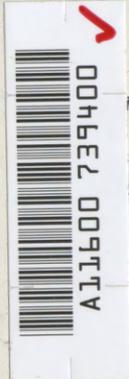


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TERMINATING COST-OF-LIVING ALLOWANCES

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HEARINGS BEFORE THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE HOUSE OF REPRESENTATIVES EIGHTY-EIGHTH CONGRESS SECOND SESSION ON H.R. 7401

A BILL TO TERMINATE COST-OF-LIVING ALLOWANCES FOR
STATUTORY-SALARIED FEDERAL CIVILIAN EMPLOYEES
IN NONFOREIGN AREAS, AND FOR OTHER PURPOSES

FEBRUARY 26 AND 27, MARCH 17 AND 18, APRIL 28, 1964

Printed for the use of the
Committee on Post Office and Civil Service



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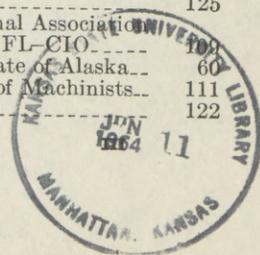
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TERMINATING COST-OF-LIVING ALLOWANCES

WEDNESDAY, FEBRUARY 26, 1964

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., room 215, Cannon House Office Building, Hon. Morris K. Udall of Arizona (chairman of the subcommittee) presiding.

Mr. UDALL. The subcommittee will come to order to undertake the business as scheduled this morning.

This subcommittee, which is composed of Mr. Watson from South Carolina, Mr. Wilson of California, Mr. Gross of Iowa, Mr. Barry of New York, and myself as chairman, was appointed to consider H.R. 7401, introduced by Chairman Murray, providing for the termination of the cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas.

(The bill H.R. 7401 and the official recommendation from the Civil Service Commission follows:)

[H.R. 7401, 88th Cong., 1st sess.]

A BILL To terminate cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 207 of the Independent Offices Appropriation Act, 1949, as amended (62 Stat. 194; 62 Stat. 1205; 5 U.S.C. 118h), is further amended by—

(1) striking out the words "living costs substantially higher than in the District of Columbia, or" and the words ", or both such factors", and

(2) striking out the second proviso which reads "*Provided further, That no additional compensation based on living costs substantially higher than in the District of Columbia shall be paid under this section to any person who is entitled to receive a cost-of-living allowance under section 901(2) of the Foreign Service Act of 1946 or section 204 of this Act:*".

SEC. 2. The payment of additional compensation received as a cost-of-living allowance by an employee immediately prior to the effective date of this Act under section 207 of the Independent Offices Appropriation Act, 1949, as amended, shall be terminated within a period of not to exceed six years following the effective date of this section and shall be reduced within that period at such times, at such locations, and by such amounts or methods as may be prescribed by regulations issued by the President or by such agency or agencies as he may designate.

SEC. 3. Section 504 of the Federal Salary Reform Act of 1962 (76 Stat. 842; 5 U.S.C. 1173) is amended by—

(1) changing the proviso in subsection (a) to read as follows: *Provided, That in no case, except in Alaska, shall any minimum salary rate so established exceed the seventh salary rate prescribed by law for the grade or level.*, and

(2) adding at the end of such section a new subsection to read as follows: "(d) Notwithstanding other provisions of law, the President or such agency or agencies as he may designate may, by regulation, prescribe the rate of basic

compensation to be received by an employee who is transferred, reassigned, demoted, or promoted to or from a position to which increased rates authorized by this section apply."

SEC. 4. Section 1009 of the Federal Salary Reform Act of 1962 (76 Stat. 868; 5 U.S.C. 1113, note) is amended to read as follows: "Except as provided in section 1005, and except in Alaska, no rate of compensation which exceeds \$20,000 per annum shall be increased or established by or pursuant to this Act and no increase made by or pursuant to this Act shall cause any rate of compensation to exceed \$20,000 per annum."

SEC. 5. The foregoing provisions of this Act shall become effective on the first day of the first pay period beginning on or after January 1, 1964.

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., May 14, 1963.

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. There are enclosed a draft bill, section analysis of the draft bill, and a statement of purpose and justification.

This proposed legislation is intended 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.

The Federal Salary Reform Act of 1962 established comparability with private enterprise salary levels as the standard for determining Federal salaries for employees paid under the Classification Act, for employees in the postal field service, and for employees paid under other statutory systems. That law also provided authority to establish rates higher than those appearing in the statutory schedules when the Government is significantly handicapped in recruiting and retaining well-qualified persons due to substantially higher salary rates in private enterprise.

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 newly established principles governing Federal salary determination and is unnecessary since, where warranted by the level of private enterprise salaries, increased minimum rates and rate ranges can now be authorized under the Federal Salary Reform Act. The continuation of the cost-of-living allowances in nonforeign areas is illogical. It is unfair to employees in other parts of the country where living costs may be higher than in Washington, D.C., but where no authority exists to pay additional compensation for that reason.

We urge enactment of this proposed legislation 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.

Surveys are currently being conducted to determine levels of private enterprise salaries in Alaska, Hawaii, and Puerto Rico. To the extent warranted by the findings, increased rates will be authorized coincident with the effective date of this legislation.

The bill includes a provision to permit the phasing out of the allowance over a period of not to exceed 6 years. We believe that even where increased base rates are not warranted, the allowances can be terminated through a series of small reductions so that, with very few exceptions, no employee will receive less gross compensation than he is now getting, provided that statutory adjustments are made annually to reflect Bureau of Labor Statistics findings on national averages of private enterprise salaries.

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,

(Signed) JOHN W. MACY, Jr.
Chairman.

Enclosures (3).

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., January 23, 1964.

HON. TOM MURRAY,
Chairman, Committee on Post Office and Civil Service,
House of Representatives,
Room 213, Cannon House Office Building.

DEAR MR. CHAIRMAN: The Commission, by letters of May 14, 1963, to the President of the Senate and the Speaker of the House, recommended legislation which would terminate the cost-of-living allowances currently paid to statutory salaried civilian employees in nonforeign areas. The bill has been introduced in the House of Representatives as H.R. 7410.

Current rates of the allowances which would be affected by this legislation are as follows: Alaska, 25 percent; Hawaii, 15 percent; Puerto Rico, 12.5 percent; and the Virgin Islands, 15 percent. Under action recently taken by the Commission, the allowance rates for Puerto Rico and the Virgin Island will be reduced early in April. The new rate in each of these areas will be 5 percent. We estimate that the per annum cost of the allowance after the April reduction will be approximately as follows: For Alaska, \$11.4 million; for Hawaii, \$10.4 million; for Puerto Rico, \$1.3 million; and for the Virgin Islands, about \$50,000.

The proposed legislation is intended to put the compensation of employees in the areas where these allowances are now paid on the same footing as that of employees on the mainland in accordance with the policy established by the Federal Salary Reform Act of 1962 that Federal statutory salaries shall be comparable with private enterprise salary rates for the same levels of work. It contemplates the authorization of higher base salary rates under section 504 of the Federal Salary Reform Act in those areas where substantially higher private enterprise salary levels would significantly handicap the Government's recruitment or retention of well-qualified persons. In the letters proposing the legislation, we said that salary surveys were currently being conducted in Alaska, Hawaii, and Puerto Rico to provide information upon which such rates could be authorized to the extent warranted.

I am enclosing with this letter the survey findings which have been furnished to us by the Department of Labor. The results are stated in terms of average private enterprise salaries for positions equivalent to Classification Act grade levels. The results are presented in this manner because, for some occupations, a presentation of averages on an occupational basis would jeopardize the confidential character of the data obtained from individual companies. I am also enclosing for your convenience a table which compares these survey findings with mainland private enterprise salaries. The mainland averages are based on the 1963 national survey of professional, administrative, technical, and clerical pay made by the Bureau of Labor Statistics at approximately the same time as the surveys in Alaska, Hawaii, and Puerto Rico.

You will see that the survey findings show that private enterprise salary rates in Alaska are rather substantially above mainland private enterprise averages. On the other hand, in both Hawaii and Puerto Rico the private enterprise salaries are shown to be generally less than those on the mainland. These findings emphasize the inappropriateness of the present cost-of-living allowances in Hawaii and Puerto Rico from the point of view of sound salary administration and comparability with private enterprise rates.

In Alaska, the findings would warrant the authorization of base salary rates under section 504 substantially higher than the statutory salary rates. These new base salary rates would replace the existing allowance. Similar increased salary rates on an across-the-board basis, however, would not be warranted for the other areas.

This does not rule out the possibility, of course, that higher rates might be warranted in either Hawaii or Puerto Rico for certain individual occupations in certain grade levels if experience shows the need and the private enterprise salary rates should justify them.

We continue to urge your favorable consideration of the bill which we believe appropriately balances the economical use of funds and the equitable treatment of employees.

By direction of the Commission:

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

Mr. UDALL. The bill is the result of an official recommendation submitted to the Congress on May 14, last year, by the U.S. Civil Service Commission.

In general, the legislation would repeal the existing authority in the law for the payment of cost-of-living allowances that are now paid to Federal employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands. It also provides for the phasing out of allowances now being paid to employees in these areas over a period of not to exceed 6 years.

The Civil Service Commission points out that it now has authority under section 504 of the Federal Salary Reform Act of 1962 to authorize higher base salary rates in areas where substantially higher private enterprise salary levels significantly handicap the Government's recruitment or retention of well-qualified persons. It would contemplate using this authority where necessary in place of the present cost-of-living allowances.

Today's hearing is the first of two which we have scheduled on this legislation. The second hearing will be at 10 o'clock tomorrow morning. We do have a rather large number of witnesses scheduled to testify on both days, and I am hopeful that the witnesses will cooperate so that the 2 days that we have allocated will be sufficient to hear them all.

The first witness this morning is no stranger to this committee—the distinguished Chairman of the U.S. Civil Service Commission, the Honorable John W. Macy, Jr., who will outline in detail the justification for the legislation.

Mr. Macy, we are happy to have you with us again. You may proceed as you see fit.

Do you have staff assistants that you would like to have at the table with you?

Mr. MACY. Mr. Chairman, I believe that I will serve as the prime target, and if there is any need for backup, my associates will join me. I appreciate very much your calling this hearing, and appreciate Mr. Barry's presence.

STATEMENT OF HON. JOHN W. MACY, JR., CHAIRMAN, U.S. CIVIL SERVICE COMMISSION

If I may, I would like to open with a statement which I believe will provide the background that you refer to, Mr. Chairman, and then I will be available for further questions that you and the members of the subcommittee may wish to present to me.

Mr. UDALL. Well, I trust you have your bulletproof vest, because I understand some folks may be firing at you.

Mr. MACY. Well, Mr. Udall, I find this a rather familiar situation.

Mr. UDALL. All right.

Mr. MACY. One of the reasons the Chairman of the Civil Service Commission has to be an upright figure is that the pressures come from 360°, and there is no possibility of lapsing in any given direction.

Mr. Chairman and members of the committee, I welcome this opportunity to appear before you this morning to testify in favor of H.R. 7401, a bill to terminate the cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas.

The Commission urges enactment of this administration proposal, which is part of the program to provide an equitable and effective system of compensation for Federal employees who are paid under statutory systems. The 87th Congress passed the Federal Salary Reform Act of 1962. That act is a landmark in the improvement of the pay systems applicable to more than 1½ million Federal employees. It establishes as the first principle of Federal employee compensation the standard of comparability with private enterprise salary levels. The bill which you are considering this morning is part of the administration's program to implement this principle.

It is the basic purpose of this bill to place the compensation of Federal employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands, who are paid under statutory salary systems on the same basis as similar employees in the other parts of the Nation. Before I develop in more detail the reasons why this legislation is necessary, let me review briefly the nature of the allowances which are now paid.

The cost-of-living allowances are paid to employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands whose rates of pay are fixed by law. These are employees in positions under the Classification Act and in the Postal Field Service. The allowances were established and have been continued under the authority of section 207 of the Independent Offices Appropriation Act of 1949, as amended. That law authorizes additional compensation for employees in nonforeign areas outside the continental United States when living costs are substantially higher than those in the District of Columbia.

At the present time the allowance rates are 25 percent of base pay in Alaska, 15 percent in Hawaii and the Virgin Islands, and 12.5 percent in Puerto Rico. The allowances are paid to all employees in those areas paid at statutory rates whether recruited locally or from outside the area. The allowance is not subject to Federal income tax. The allowance rate is fixed on the basis of surveys which measure the difference between living costs for Federal employees in the areas concerned and those in Washington, D.C. The surveys are conducted for the Commission by allowance experts from the State Department. There are about 7,000 employees receiving the allowance in Alaska, between 10,000 and 11,000 in Hawaii, some 4,000 to 5,000 in Puerto Rico, and about 140 employees in the Virgin Islands. We estimate the present cost of the allowance to be: A little over \$11.4 million in Alaska; about \$10.4 million in Hawaii; about \$3.4 million in Puerto Rico; and about \$140,000 in the Virgin Islands.

Following its regular annual review of the allowance rates this year, the Commission announced that the rates applicable to employees in the Virgin Islands and Puerto Rico would be reduced from 15 to 5 percent and from 12½ to 5 percent, respectively, effective in April. When we learned that hearings were to be held on this bill, however, we decided that it would be best to defer application of these reductions. The gradual phasing out of the allowance under this proposed legislation is much to be preferred over a reduction of the size which would otherwise have to be made in Puerto Rico and the Virgin Islands.

This reduction, which was announced in January and which has now been postponed, is based on the Commission's conclusion that certain adjustments called use factors which have heretofore been applied

in the Virgin Islands and Puerto Rico can no longer be justified. The use factors were intended to reflect certain additional costs encountered by employees in the areas where the allowances are paid over and above costs encountered by similar employees in Washington. With recent changes in economic and living conditions, it is no longer appropriate to apply these adjustments in nonforeign areas.

This bill would have no effect on the pay of trades and crafts employees whose rates of pay are fixed by wage boards. Their pay in the areas with which we are concerned is established on the basis of local prevailing rates. They do not receive this cost-of-living allowance. They are already paid in the same manner as employees in the wage board pay category in the continental United States.

The bill would not affect the postdifferential received by certain employees in Guam, American Samoa, and on some other Pacific Islands such as Midway and Wake. This differential is based not on living costs but on conditions of environment. It is paid only to employees who are recruited outside the areas concerned, and as of last year, there were fewer than 700 statutory-salaried employees receiving this differential in nonforeign areas.

The bill would not affect the post differential received by certain allowances paid to U.S. citizen employees in foreign areas. They are paid under authority of the Overseas Differentials and Allowances Act, Public Law 86-707.

Now, Mr. Chairman, let me turn to the reasons why this legislation is necessary.

As I have said, the purpose of this bill is 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.

The Federal Salary Reform Act, in addition to providing for comparability with private enterprise salary levels on a national average basis, provides authority to establish rates by occupation or locality that are higher than those appearing in the statutory schedules whenever it is found that the salary rates in private enterprise are so substantially above the rates in the statutory schedules as to handicap substantially the Government's recruitment and retention of well-qualified persons.

Adoption of the comparability principle is a recognition of the fact that in order to recruit and retain well-qualified personnel the Government must be able to pay salaries reasonably related to those paid by private employers for work of a similar level of difficulty. By basing Federal salaries on a comparison with salary levels in private enterprise, other factors such as living costs are indirectly taken into account to the extent that they affect industry salaries.

The nationwide salary schedules, as revised by the Congress, are applicable generally to employees on statutory schedules including those in Alaska, Hawaii, Puerto Rico, and the Virgin Islands. Thus, when fully implemented, the new comparability approach will provide base salary rates for employees in these locations, as well as employees on the mainland, which are reasonably comparable to average nationwide private enterprise salaries for similar work levels.

Under the adjustment authority previously referred to, whenever the nationwide Federal salary rates are so substantially below private

enterprise salary levels in a given area, Alaska for example, as to significantly handicap the Government in recruiting and retaining well-qualified employees, the Civil Service Commission can establish higher salary ranges for that area.

The Bureau of Labor Statistics at the request of the Bureau of the Budget and the Civil Service Commission recently conducted surveys of salaries paid by private employers in Alaska, Hawaii, and Puerto Rico. These surveys are substantially the same as the nationwide survey which is used as a basis for establishing averages for the purpose of recommending changes in nationwide rates. If justified by the results of these surveys, higher rates could be established for an area on an across-the-board basis, that is, for all occupations, at one at one or more grade levels.

The results of these salary surveys were recently made available to the committee. They show that only in Alaska are private enterprise salary averages substantially above private enterprise salary averages in the mainland 48 States. The surveys show that private enterprise salary averages in Hawaii are a little lower than those on the mainland, and averages in Puerto Rico are considerably below those on the mainland.

In the light of these results, the Salary Reform Act would permit the Commission to authorize higher rates in Alaska to meet competition from private employers. The amount by which these base salaries for Alaska would exceed the nationwide base rates would, of course, depend on what action is taken with respect to the latter rates. If the difference is great enough, they would replace the current cost-of-living allowance entirely. H.R. 7401 includes a provision which would exempt Alaska from that part of the Salary Reform Act which limits special minimum rates to the seventh rate of the rate range.

This, then, is the system under the Salary Reform Act:

Basic salaries set on the basis of comparability with private enterprise paid levels across the Nation; and

Flexibility to meet competition where needed.

The continuation of the cost-of-living allowance in nonforeign areas is both inconsistent with the new comparability principle and unnecessary in the light of the flexibility provided.

Living costs vary from city to city within the continental United States. According to a study made by the Bureau of Labor Statistics of city workers family budgets in 1959, some major cities in the continental United States had living costs which were more than 20 percent above those with the lowest living costs. Chicago and Seattle had living costs which were some 7 percent above those in Washington, D.C. It is neither logical nor fair to continue to reflect the difference between living costs in Washington, D.C., and those in Anchorage, Honolulu, and San Juan in the gross compensation of the employees in those latter cities when the differences in living costs between Washington, D.C., and Seattle and between Washington, D.C., and Chicago are not reflected in the compensation of employees in those cities.

At the time of World War II and immediately thereafter, additional compensation in the form of a differential or allowance was looked upon as necessary for application in the nonforeign oversea

areas because it was necessary to staff the activities rather substantially by employees from the mainland. This meant that employees had to move to an area where many of the advantages of mainland living could not be enjoyed. Today conditions have changed so that this is no longer true. First of all, the local labor markets in the areas concerned afford skilled personnel of well-educated personnel who may readily be trained for specialized Federal jobs; and, secondly, in those instances where personnel must be transferred from the mainland they find living conditions more nearly comparable to those they left behind.

Mr. Chairman, I have described the pay system under the Salary Reform Act as it applies to these areas. I have indicated that under this system the continuation of the cost-of-living allowances is both unnecessary and undesirable. I recognize, however, that though the allowances may not be needed and though they may be inconsistent with the new salary system, the change must be made in a fashion that will minimize the impact upon the employees themselves. With this in mind, the bill proposes that the change become effective over a period of time.

Having witnessed the reaction to reductions in the living cost allowances which the Commission has prescribed from time to time, I fully appreciate the hardship that would be imposed on the employees affected if the allowances were suddenly cut off in those areas where they will not be replaced by special higher rates required by prevailing salaries. But the change can be accomplished without any need for abrupt financial adjustment on the part of present employees.

The bill provides authority under which the allowances can be phased out gradually for employees on the rolls. Under this authority, we plan to recommend to the President—or issue ourselves, if the authority is delegated to the Commission—regulations which would cushion the loss of the allowance by spreading the reduction out over an extended period and would at the same time not interfere with promotions and grade increases.

We could, for example, recommend or issue regulations which would provide for freezing the dollar amount of the allowance as of the effective date of the bill, reducing it by one-sixth at the same time, with further one-sixth reductions on the anniversary date each year until it is finally terminated.

After the effective date, the allowance would not, of course, be paid to new employees or to employees newly transferred to areas where it is now paid.

Reductions by amounts equal to one-sixth of the dollar amount immediately before the effective date were selected because they are small enough so that they will not cause any real hardship to employees—they are small enough so that in some years, at least, they will be offset by pay increases—they are small enough so that the loss will be completely offset in any year when an employee receives a within-grade increase. The initial reduction in Hawaii and the Virgin Island would be $2\frac{1}{2}$ percent of base pay that existed immediately before the effective date, and it would amount to just slightly over 2 percent in Puerto Rico.

If this bill can be enacted promptly, we could also develop regulations which would provide for the absorption of part of the allowance

by the next salary increase enacted and then for the phasing out of the remainder of the allowance over a period of years up to the full 6-year period. This would mean that no present employee would receive lower gross compensation during 1964 by reason of this bill than he receives today. By gross compensation I mean base pay plus the cost-of-living allowance.

Under this kind of phaseout plan, the remaining allowance would continue to be paid as a separate item of compensation until completely eliminated. It would not mean that employees would be paid at "frozen" total pay rates. Within-grade increases, quality increases, and pay increases due to promotion would take effect as usual. Only the allowance itself would be a "retained" rate, at a gradually reduced level.

We believe that this transition can be accomplished without any real hardship on the part of present employees and with a strong probability that through within-grade increases, promotion, and necessary future statutory increases, most employees will get increased rather than decreased gross compensation over the phaseout period.

In Alaska, where increased base rates under the Salary Reform Act may be expected to take the place of the allowance, a similar phase-out arrangement for cushioning the change would be provided only if the increased rates are not as high as the current gross compensation.

The committee, Mr. Chairman, has copies of the section analysis and the statement of purpose and justification which accompanied the draft bill which was sent to the Congress, and you may wish to include this as a part of the record.

I wish to thank you and the committee for this opportunity to explain this proposal. I shall be very pleased to answer whatever questions you may have.

Mr. UDALL. Thank you, Mr. Macy. As usual, you have given us a very forceful and logical exposition of your position.

I have a couple of questions. First, I am not sure that I understand the effect of the existing law. You indicated on page 3 of your testimony that the Commission had undertaken to announce reductions in the Virgin Islands and Puerto Rico, to have been effective last month, from 15 to 5 percent and 12½ to 5 percent, respectively. No, they were to have been effective in April.

Mr. MACY. That is correct.

Mr. UDALL. And that this action has not been taken because of this pending legislation. Now, then, you have also indicated that in Hawaii today the cost-of-living is actually less than in many mainland areas. Why did not the Commission undertake to make a reduction in Hawaii, also?

Mr. MACY. The cost-of-living differences between Washington, D.C., and Hawaii remained, in the most recent survey, at the previous level; namely, 15 percent. And therefore there would not have been any change through the exercise of the Commission's administrative review and discretion.

The use factors, the elimination of which prompted the reduction for Puerto Rico and the Virgin Islands, are not present in the computation of the differences between Washington, D.C., and Hawaii. Consequently, under the status quo, the Commission would continue the prevailing allowances of 15 percent in Hawaii and 25 percent in Alaska,

but would be obliged to make the indicated reductions in Puerto Rico and the Virgin Islands because of the elimination of the use factors in the computation of these differences.

Mr. UDALL. Well, now, is the amount of those cost-of-living allowances in Hawaii, for example, is this an automatic thing depending upon the result of your survey? Must the Commission then fix it mandatorily; you have no discretion if these certain facts were found?

Mr. MACY. That is correct, sir. Under section 207 of the Independent Offices Appropriation Act of 1949 and Executive Order 10,000, which President Truman signed in September 1948, the Commission is required to make a finding and to apply the results of their findings up to a maximum of 25 percent in allowance. The Commission since 1955 has utilized the allowance experts of the Department of State to perform these surveys on an annual basis, reimbursed by the Commission. At the beginning of each calendar year, the Commission has reviewed the findings of the Department of State and has set the allowance rates. The allowances generally through the years have been going down. The Commission reached a judgment in 1957 that it would endeavor to make these reductions in amounts of 2½ percent.

The Commission in 1961, in light of the anticipated elimination of the use factors, requested its General Counsel for an opinion as to whether the Commission had sufficient discretion under the statute and the Executive order to phase this reduction over a period of years in order to cushion the shock on the employees. The decision received from the General Counsel was that there was no such discretion, and that if a finding were made, it was obligatory upon the Commission to fix a rate in accordance with the survey.

Mr. UDALL. Based on your last survey, would the Commission have any right, power, or discretion to reduce the cost-of-living allowance in Hawaii below the present 15 percent?

Mr. MACY. No, sir. The rate is within 1 percentage point of the present figure.

Mr. UDALL. You indicated in your statement that this bill provides a 6-year phaseout machinery and that, if the bill were enacted tomorrow morning, the worst you could do to any employee would be to reduce his pay about 2½ percent—his total gross pay. Is this correct?

Mr. MACY. That is correct. And the reduction would then be in similar amounts on the anniversary of the statute over a 6-year period. And the view is that other salary actions that would take place in the intervening period would more than offset this reduction over that period of time. This 6-year period was specifically determined to make it possible for a reduction of 2½ percent per year over that period in eliminating the 15 percent that exists.

Mr. UDALL. This is your answer, then, to the argument, that has been expressed to me in letters—and I have seen it in the newspapers—that it would be unfair when families have adjusted their standard of living and entered into home-purchase contracts and other things, to suddenly cut their pay by a substantial amount, 15 or 20 percent? Your answer is that this bill does not do that?

Mr. MACY. This bill does not do this. The portion of the bill relating to the proposed phaseout has, I do not believe, been fully explained and understood. That is why I welcome this opportunity to explain it.

The proposal was introduced last year because it was known at that time that the Congress had already enacted salary legislation that would call for an increase in statutory salary rates as of January 1, 1964, and that that already committed action would further tend to moderate the reduction process.

Mr. UDALL. Now, I want to emphasize here that this cost-of-living allowance is a tax-free allowance. This is simply added to the employee's income and he pays no tax on it; is this correct?

Mr. MACY. That is correct. This is added compensation that is tax free. I think it is important also for me to point out, because this is added compensation, it is not included in the determination of the employee's retirement annuity nor is it used as a basis in computing his life insurance coverage.

Mr. GROSS. What is not included, if I may?

Mr. MACY. I beg your pardon?

Mr. GROSS. What is not included?

Mr. MACY. The cost-of-living allowance, Mr. Gross, as extra compensation is tax free; it is not considered to be subject to income tax coverage. But, on the other hand, it is also not included in computing the salary level for retirement compensation or for life insurance computation.

Mr. UDALL. So that actually the net effect on the employee if you give him a 15-percent tax-free cost-of-living allowance is really the equivalent, depending upon tax bracket, of a 20- to 25-percent increase in salary, if it were possible?

Mr. MACY. Yes, depending on tax bracket and the family status and other factors.

We have not tried to compute what this represents in terms of additional income that would not be available for the employee at the same rate under the statutory system without the allowance. But obviously it does constitute additional compensation.

Mr. UDALL. Could your staff perhaps give us an average or give us an estimate, make a brief study? I do not want any great detail on this—as to what it amounts to per typical employee?

Mr. MACY. Yes, we can give you some rough figures. I just do not have that at my fingertips.

Mr. UDALL. One final question, and then I will let my colleagues fire away at you here.

The committee received a report from the Comptroller General dated August 23, 1963, commenting on this proposed legislation. I am sure you have seen his report.

Mr. MACY. Yes.

Mr. UDALL. And in there the Comptroller General points out that sections 2 and 3 of the bill authorize the President to designate one or more agencies to issue the contemplated regulations which you say will take the place of this present allowance, the contemplated regulation giving authority to set higher pay scales in the areas where the Government is at a disadvantage in hiring and retaining personnel. And he questions the advisability, the Comptroller General does, of designating more than one agency, and thinks this authority may be better centralized in one place so you would not have variations in findings of this kind. What is your comment on that?

Mr. MACY. I would have no objection to the designation of a specific agency to perform that function.

The President has delegated, by Executive order, authority to the Civil Service Commission to exercise the grant of authority under section 504 of the Salary Reform Act as it is presently constituted. The Commission has taken actions under that authority in order to provide increased salary ranges where there are serious shortages. Presumably this would be handled the same way.

Mr. UDALL. Is it not likely, in view of the policies that have been followed, that, even though the President had the power to designate two or more agencies, he in all probability would designate simply one for convenience and uniformity?

Mr. MACY. That is correct.

The only reason for the reference in the plural is that there are two salary systems involved here—the Classification Act, which is the responsibility of the Commission, and the Postal Field Service Act, which is the responsibility of the Postmaster General.

Mr. UDALL. The distinguished gentleman from Iowa.

Mr. GROSS. Thank you, Mr. Chairman.

In view of the fact that my colleague from New York, Mr. Barry, has to go to another committee meeting, may I defer to him at this time?

Mr. UDALL. You may, indeed.

Mr. BARRY. I appreciate very much the gentleman from Iowa yielding to me. Thank you, Mr. Chairman.

Mr. MACY. I fully recognize that this legislation repeals existing legal authority for the payment of cost-of-living allowances. Does not the Commission now have this authority without any additional legislation to reduce or discontinue the allowance if it feels that such action is justified?

Mr. MACY. The Commission, Mr. Barry, has authority to reduce the cost-of-living allowance if the findings indicate that the differences between Washington and the area call for it. The Commission does not have authority to eliminate the allowances as long as such a finding of substantial difference occurs.

The legislation is proposed in view of the establishment of a new salary principle, that of comparability, in the statute in 1962. Under that statute, the principle of relating Federal salaries to salaries in private enterprise, we feel, supersede the concept of measuring differences by cost of living.

Mr. BARRY. I note that you do not propose to repeal the authority for paying the so-called differential that was established by section 207 of the Independent Offices Appropriation Act of 1949. Since section 207 provides that this differential shall be paid as a recruitment incentive, why could you not use section 504 authority in these cases also?

Mr. MACY. The difficulty there is that in the application of the post differential we are dealing with outposts where there is virtually no private enterprise with salaries against which comparisons could be made. The differential is primarily to compensate for the isolated and sometimes rigorous environment in which the employment is undertaken. The conditions are such that they are just not susceptible to the 504 type of determination.

There is a relatively small number—only 700 such employees—and they are located in very small groups in very isolated locations. So it is our judgment that it would be better to retain the post differential approach in order to provide supplementary compensation for those who have to be recruited from the United States for that kind of duty.

Mr. BARRY. You mentioned the 700 figure several times. Can you give us any information, particularly in regard to Alaska and Hawaii, on the number of or percentage of employees who are recruited here and have been sent to these areas?

Mr. MACY. This is very difficult to compute. However, I do have some figures with respect to Puerto Rico which may give you some indication of this.

The general trend has been to employ to the maximum extent those who are already present in the labor market. Our figures show that in Puerto Rico there are presently approximately a total of 7,000 Federal employees. Of that number, 6,300 are local citizens. The balance, roughly 650, are those who presumably were recruited or transferred for duty there from the mainland and were consequently outsiders. This percentage of outsiders has been steadily declining through the years, and we would anticipate it would decline further.

Mr. BARRY. Mr. Macy, last year the Congress failed to enact a Federal pay bill based on the figures compiled by the Bureau of Labor Statistics that would justify being in line with comparability as its major principle. Do you think it is a good policy to take away the cost-of-living allowance and ask Congress to enact legislation to make up the difference?

Mr. MACY. I have complete confidence that the Congress is going to follow through with action in accordance with the principle of comparability. There were certain factors last year that complicated and delayed the enactment. This is now public policy, and it is our view that we should present to you recommendations for further changes that are in conformance with and appropriate to that statement of policy.

Mr. BARRY. Thank you, Mr. Chairman.

Mr. UDALL. The gentleman from South Carolina.

Mr. WATSON. I suggest a question or two, and perhaps you have covered it earlier in your testimony, and I apologize for not being here on time.

Actually, if this bill should pass, you would still be authorized to give additional compensation based on conditions of environment which differ substantially from conditions of environment in the States, would you?

Mr. MACY. That is right. That is the post-differential-type of determination that I was referring to in response to Mr. Barry.

Mr. WATSON. You still would be authorized to do that?

Mr. MACY. The Commission would still be authorized to do that.

Mr. WATSON. Is it within the contemplation of the Commission that such payments would be made, such differentials?

Mr. MACY. Such differentials would continue to be made in places like Guam, Wake, and Midway, where, because of the special environmental conditions, it is necessary to provide further information incentives to attract the skills that are necessary for those locations.

Mr. WATSON. Would you anticipate such payments to be made to those on Hawaii, Puerto Rico, or Virgin Islands?

Mr. MACY. No. The judgment has been made through the years that post differentials are not appropriate to those locations.

Mr. WATSON. Well, then maybe I do not understand. Why, or upon what basis, are you making these payments now, since, according to your figures, the cost of living is substantially less, or at least less in Hawaii, Puerto Rico, and the Virgin Islands than in Washington, D.C.?

Mr. MACY. I think I can clarify a very understandable confusion on that.

My comments with respect to lower figures in Hawaii and Puerto Rico relate to lower salary rates for like positions in private enterprise at those locations. This is separate and distinct from differences in cost of living as measured under the existing statutory authority by the Commission. The application of cost of living to Hawaii in terms of the existing statute shows that there is a difference of approximately 15 percent between Hawaii and Washington, D.C. So that the cost of living as measured is 15 percent higher, warranting the cost-of-living allowance.

The judgment made with respect to Puerto Rico earlier this year is that the difference is approximately 5 percent between Washington and San Juan, and that this would warrant only a 5-percent cost-of-living allowance.

Mr. UDALL. Will the gentleman yield?

Mr. WATSON. Yes, sir. And I want to develop it a little further. Go right ahead.

Mr. UDALL. Well, maybe I am stealing your—

Mr. WATSON. No; you go right ahead.

Mr. UDALL. Well, the point it seems to me you are really making is that, while the cost of living in Hawaii is 15 percent higher than the District of Columbia, the labor market and the pool of specialists available is such that the Government can get the skilled technicians and employees it needs without paying this.

Mr. MACY. That is right. In other words, the marketplace situation with respect to labor in these areas means that the Federal Government is meeting or exceeding that market level with the nationwide salary scales that Congress has authorized.

Mr. UDALL. And to follow through, that, therefore, it is an unnecessary expenditure of Federal funds to pay this additional amount, because the basis of paying it was that we had to pay it to get the skills?

Mr. MACY. That is correct.

Mr. UDALL. And now we do not need to pay it to get the skills?

Mr. MACY. The genesis of these payments, Mr. Watson, is the World War II period, when it was necessary to man these locations very quickly with skills that were judged to be only available on the mainland. Therefore, these allowances were applied. They were continued after the war because of a maintenance of the same conditions. We did not have a salary law as we have had now since 1962 which set a basic principle for determining compensation; namely, comparability with the market in like positions.

So that we do have a situation where we can measure cost-of-living differences and show that cost of living is somewhat higher in these locations, whereas at the same time we find that the salary levels are lower than the nationwide rates.

Now, differences in cost of living also exist between locations within the continental limits. As I pointed out in my testimony, both Chicago and Seattle are 7 percent higher than Washington, D.C. There is a 22-percent difference between Houston and Chicago. This is data collected by the Bureau of Labor Statistics that prices out the market basket in each place, and this is what it reveals.

It is our view, with the new salary statute and the principle of comparability, that the Government is no longer warranted in paying extra compensation for the type of cost-of-living difference that exists in these outside areas.

Mr. WATSON. Is it your intention to apply the principle of comparability to the salary in the particular area? I will tell you what I am concerned about; we might be getting into a situation of gradually getting down to a salary differential, even in States or even down into cities. And I can anticipate that we would create or open a Pandora's box to all types of employee problems among the Federal employees. That is the thing that disturbs me.

Is it your design to make the comparability work right on down to the local area labor market?

Mr. MACY. No, sir. The principle in the Salary Reform Act is that there shall be paid nationwide rates based upon nationwide surveys of private enterprise. And there is the flexibility for paying advanced rates where a survey reveals that the salaries being paid in a particular locality are substantially higher than this nationwide average, and consequently the Federal Government is facing difficulty in recruiting and retaining well-qualified people.

This would be the situation that, based upon our survey, would prevail in Alaska, where the rates being paid by private enterprise are substantially higher than the nationwide rates that we are paying at the present time.

And what we are recommending here is that we substitute the use of this flexibility in connection with comparability for the cost-of-living allowance in order to meet the market in that particular situation. Do I make myself clear?

Mr. WATSON. I think so.

Let me ask you about Alaska. And granted that they are one of the States now.

Mr. MACY. Yes, sir.

Mr. WATSON. Am I to understand that the prevailing wage rates up there are higher than the cost of living?

Mr. MACY. They tend to be rather similar to the differences in the cost of living.

Mr. WATSON. But in Hawaii and Puerto Rico and these other areas the prevailing wage rates are substantially lower than the cost of living?

Mr. MACY. Right. They are, for the most part, lower than the nationwide survey rate that has been set up by statute.

Mr. WATSON. Perhaps this is unrelated. What is your experience insofar as the continental limits of the United States; is the salary

schedule comparable or about on a par with the cost-of-living rates?

Mr. MACY. This is extremely difficult to answer, because you actually do have, even within the continental limits, some cities where the salary level tends to be high, even though relatively the cost of living is lower. So that there is not a direct positive correlation between the two, although that tends to be the pattern.

Mr. WATSON. One final question, then. Certainly it is not anticipated that we get into salary juggling here so much that we try to equate the salary schedule to the cost of living in every particular geographic region.

Mr. MACY. No. In fact, what we are saying is that we should not apply the cost-of-living principle. The cost of living, as it should be reflected, is included in the salary rates that are being paid in the marketplace across the country for jobs that are similar to jobs in the Federal Government.

Mr. WATSON. Thank you.

Mr. UDALL. The gentleman from Iowa.

Mr. GROSS. Mr. Macy, you have not made a mistake in the differential, difference in cost of living in Houston, Tex., and Chicago, have you: 22 percent?

Mr. MACY. Twenty-two percent, yes.

Mr. GROSS. Twenty-two percent was your figure?

Mr. MACY. Pardon?

Mr. GROSS. Twenty-two percent was your figure?

Mr. MACY. Yes.

Mr. GROSS. And you have not made a mistake there, have you?

Mr. MACY. I do not believe so.

Mr. GROSS. Well, this seems incredible. I have worked in Houston, Tex., and I have worked in Chicago in days gone by. This has been some time ago. I am getting to be an old man, but this was in my balmy days.

Mr. MACY. I believe that this was data from a survey in 1959 that showed that there was that much difference. I would be happy to include what I have in the record, if that would be helpful.

Mr. GROSS. How about the prevailing wage rate as between Chicago and Houston, Tex.? Do you have any idea?

Mr. MACY. No, I do not. I would gather that there is far less difference in the rates of pay paid for the types of jobs that we include in the statutory salary system.

Mr. GROSS. I would suspect that would be the case. There would be far less difference.

Mr. MACY. The only system we have, Mr. Gross, where we are actually measuring prevailing rates community by community are the wage-board system, the blue-collar jobs. There we do have under authority that has existed for a hundred years the determination of rates based upon surveys in the community. The Department then establishes the comparability in those terms for those particular manual-type jobs.

Mr. GROSS. Now, may I ask you, in Hawaii, for instance, is there a post differential as well as a cost-of-living allowance?

Mr. MACY. No, sir. It is only a cost-of-living allowance.

Mr. GROSS. It is only a cost-of-living allowance.

Mr. MACY. Fifteen percent.

Mr. GROSS. And you say there are approximately 700 Classification Act employees; is this correct, 700 drawing post allowances?

Mr. MACY. Drawing post differentials.

Mr. GROSS. Drawing post differentials?

Mr. MACY. That is correct. And they are primarily in Guam, Wake, Midway, Samoa, Swan Island.

Mr. GROSS. This is, of course, exclusive of Foreign Service personnel.

Mr. MACY. Yes, sir. These are just Classification Act employees.

Mr. GROSS. What are you going to do where we have Classification Act employees and Foreign Service employees?

Mr. MACY. This would not affect the Foreign Service employees. In most of the areas that are covered by the post differential there will not be Foreign Service personnel stationed, because these are U.S. locations rather than foreign countries where the State Department is represented. We are talking about U.S. territories where these post differentials are applied.

If Foreign Service personnel is involved, this comes under a different statute and under the administrative jurisdiction of the State Department.

Mr. GROSS. Now, is it true that in this bill in the case of employees in Alaska, it removes entirely the \$20,000 salary limitation in Public Law 77-893, and do you not think this is a radical departure from the established congressional policy that has always placed a ceiling on salaries that could be paid to Federal employees?

Mr. MACY. Mr. Gross, that is correct. Section 4 of H.R. 7401 would provide for compensation in Alaska above \$20,000. And the reason for this is that there are a number of positions in grades 14 and 15 and 16 in Alaska where the present application of the 25-percent allowance does mean that the pay exceeds this. If we are eliminating the allowance and are substituting instead authority under section 504, which would mean that there would be an increased statutory rate as justified by the salary survey, it would mean that there would not be an opportunity to compensate these particular positions in accordance with those new rates unless the ceiling were raised.

This may be an entirely academic point depending upon what action the Congress takes with respect to the pending legislation.

When this was written 14 months ago, it was in the context of the existing statute. At that point the \$20,000 was completely fixed. The pending legislation would raise that ceiling and consequently this would not be a problem.

Mr. GROSS. Well, do you not think Congress ought to retain control of salaries; that is, have certain maximum limits, at least? And would we have under the terms of section 4?

Mr. MACY. No. Under section 4, for the particular positions that would be compensated at rates that would run over \$20,000, the Congress would only have control insofar as it has control over the number of supergrades that the Commission is able to distribute. There would not be control with respect to grades 14 and 15, which would also, with the upward adjustment, exceed that figure.

Mr. GROSS. Who would set these salaries? Would it be you or who?

Mr. MACY. The salaries for grades 16, 17, and 18 would be set by the Commission, because the Commission controls the determination

of grade for all positions at that level. The departments and agencies would determine in the grade below 15, and consequently the rate that would be paid in those jobs.

Mr. GROSS. But going above \$20,000?

Mr. MACY. Well, regardless of the rate, they would determine the grade, and that in turn would indicate the rate.

Mr. GROSS. Who would gain?

Mr. MACY. The employing agency or Congress.

Mr. GROSS. Yes. So Congress would, in fact, lose control, would it not, except for the allocation of supergrade positions?

Mr. MACY. It would not be any different from positions elsewhere in the United States, except that we would have a higher range of roughly 25 percent similar to the allowance that is paid at the present time.

Mr. GROSS. In two or three places in your statement, Mr. Macy, you refer to pay increases in the future. Are you here today advocating more pay increases in the future or—

Mr. MACY. I do not believe that is the purpose of the hearing.

Mr. GROSS. I know, but—

Mr. MACY. I have advocated one that is still pending, yes.

Mr. GROSS. Yes, I know.

Mr. UDALL. I would hope you might persuade my friend to support this one that is pending now.

Mr. MACY. I am sure that he will.

Mr. GROSS. Especially a nice bite for Members of Congress.

Mr. MACY. Yes, sir. I think that is a very commendable portion of the bill.

Mr. GROSS. Well, we could argue about that.

On page 9, twice you refer to—in one place you say that, “* * * in some years, at least, they will be offset by pay increases”; and again you say, on the same page, “* * * the next salary increase enacted * * *” I just wondered if this was to be the cure-all in the future for discrepancies and differentials. We just enact another pay bill. You do not mean that, I am sure.

Mr. MACY. If we look at this historically, we will see that since World War II, there has been a pay increase authorized by Congress every 2 or 3 years.

Mr. GROSS. Yes.

Mr. MACY. Under the Salary Reform Act, there is a provision that there be an annual review of salaries and, although this in no sense commits the President or the Congress to enacting a change on an annual basis, there will be, under the workings of this principle, an annual consideration of the salary picture.

Mr. GROSS. I will tell you; if you think the cost of living is going to go up and up and up in this country—

Mr. MACY. No, I do not. I think it has been quite stable for quite a number of years.

Mr. GROSS. But we have had salary increases, have we not?

Mr. MACY. Yes, but the salary increases are not related to the cost of living. They would be related in the future to comparable salaries for like positions in the private economy. And in the private economy the salaries have moved upward on an annual average of between 2 and 3 percent.

Mr. GROSS. Yes. So that in the future, if the cost of living keeps going up as it has, the arguments are made here that they have to have salary increases in order to keep up with them, both in private industry and in the Government. So there is a direct relationship, is there not?

Mr. MACY. I think you would find that most of the increases in private enterprise are not reflections of increases in cost of living but are reflections of greater productivity and of upward movement of salary levels in the economy generally.

Mr. GROSS. Well, in some substantial industries we have escalator clauses in union contracts that take them up.

Mr. MACY. That is only true in the automobile industry.

Mr. GROSS. That is a big one.

Mr. MACY. And both parties would like to eliminate them, I am sure.

Mr. GROSS. I do not see any sign that the cost of living is going to go down until the lid comes off—blows the ceiling off.

Mr. MACY. There has been a remarkable stabilization in the last 4 years.

Mr. GROSS. Well, I will not argue that.

Thank you, Mr. Chairman.

Mr. UDALL. Mr. Macy, I have just two quick ones, and then we will move on here. We have a number of witnesses to cover.

You indicated that, if this legislation were passed, adjustments would be made in Alaska under the section 504 authority.

Mr. MACY. Yes, sir.

Mr. UDALL. Now, would these be made on an occupational basis, a city basis, an area basis? And I ask you this because I am told that in Juneau the cost of living may be 130 percent above the United States and in Anchorage 140 percent, and in some other area may be 120 percent. Would this be a flat rate, or have you reached a determination on that?

Mr. MACY. Our preliminary determination—and I think clearly you should have our views on this—is that, based upon the salary survey, there appears to be relatively little difference in salaries paid by private enterprise at the various points within Alaska; that it would be our thinking that if this bill were enacted and if we had the authority, that what we would do would be to establish a new salary line for all statutory positions in Alaska based upon the percentage difference between the Alaska private industry rates and the nationwide private industry rates that we are using for the rest of the service. It is estimated that, based upon the salary figures in your bill, this will be approximately 27 percent above those rates.

Mr. UDALL. I see.

Mr. MACY. This is based upon the survey conducted by the Bureau of Labor Statistics last year.

Mr. UDALL. One final question. And our next witness is one of these Treasury watchdogs from the Bureau of the Budget who may have a better answer than you do.

But I was a little disappointed that my friend from Iowa did not ask this question.

If this bill before us were enacted, would you contemplate that the hard-pressed taxpayers of this country would save money or it would cost more money?

Mr. MACY. We would definitely save money, because we would immediately eliminate the payment of this allowance to all of those newly hired or transferred to these areas, and we would be gradually phasing out the payment of the allowance to those presently on the rolls.

Mr. UDALL. Would you care to pluck a figure out of the air; either a range of figures or an estimate that might be applicable?

Mr. MACY. You will recall I indicated that the present rates were costing about \$11 million in Alaska. It would be anticipated that there would be no saving there, that the rates would be about the same, \$10.4 million in Hawaii, and over a period of time that difference would be totally eliminated. Just how much would be saved the first year and in successive years I have not computed.

The same thing would be true of the \$3.4 million in Puerto Rico.

Mr. GROSS. Would the gentleman yield?

Mr. UDALL. Yes.

Mr. MACY. So that clearly this would constitute, Mr. Chairman, a savings in payroll dollars to the taxpayer.

Mr. GROSS. Will the gentleman yield for one observation?

In response to the chairman's remark that I had not asked the question of how much money this would save, I thought that that was implicit in your statement. And, moreover, I am beginning to hear rumors and rumbles around here that the administration is backing down to some extent upon the total expenditure in the pending pay bill. And I assume that the distinguished Chairman of the Civil Service Commission has probably had a hand in revising some of the figures in the pending pay bill, changing the effective date of it, or—this is a report or rumor—which would result in some alleged economy in the pay bill. So, coming here today, I just assumed that the gentleman was here on an economy measure.

Mr. MACY. Yes, sir.

Mr. GROSS. So I did not ask the question.

Mr. MACY. It is a great privilege to appear before you on such a question, sir.

Mr. UDALL. I want everyone to know that this subcommittee never operates on the basis of rumor. We operate only on the basis of fact. And we thank you for coming.

Mr. MACY. Thank you, Mr. Chairman. I appreciate it.

Mr. UDALL. Our next witness is Mr. Phillip S. Hughes, who is Assistant Director for Legislative Reference of the Bureau of the Budget, accompanied by Mr. David McAfee, management analyst.

**STATEMENT OF PHILIP S. HUGHES, ASSISTANT DIRECTOR FOR
LEGISLATIVE REFERENCE, BUREAU OF THE BUDGET; ACCOMPANIED BY DAVID McAFEE, MANAGEMENT ANALYST**

Mr. HUGHES. Thank you, Mr. Chairman.

Mr. UDALL. I understand that you have a prepared statement, Mr. Hughes.

Mr. HUGHES. I have, Mr. Chairman. It is relatively brief. But brief though it is, I think it is somewhat repetitive of Mr. Macy's presentation, and I think he told our story very effectively. And I would suggest, if you are agreeable, that the statement be placed in the record, and I will try and highlight a few points.

Mr. UDALL. You have warmed my heart. I was afraid to suggest that, and I am delighted that you did.

I do have some out-of-town witnesses whom I had hoped to get to this morning. And you may proceed to highlight it, and we will ask any questions we have.

Mr. HUGHES. All right, sir.

(The full text of the prepared statement of Mr. Hughes follows:)

STATEMENT OF PHILIP S. HUGHES, ASSISTANT DIRECTOR FOR LEGISLATIVE REFERENCE, BUREAU OF THE BUDGET

Mr. Chairman and members of the committee, I appreciate this opportunity to testify on behalf of the Bureau of the Budget in support of H.R. 7401, a bill "To terminate cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas, and for other purposes."

It is the purpose of this bill to determine the compensation of Federal white-collar employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands on the same basis as the compensation of Federal employees in all other parts of the United States is determined. Specifically, the bill would:

(1) Repeal section 207 of the Independent Offices Appropriation Act of 1949 which provides authority for the payment of cost-of-living allowances to Federal employees in nonforeign areas.

(2) Provide for the gradual reduction of allowances, over a period not to exceed 6 years, in order that the loss of income may be offset, either completely or to a large extent, by general salary increases.

(3) Authorize the payment of higher rates, where warranted, under section 504 of the Salary Reform Act of 1962.

(4) Provide for the issuance of regulations to govern the adjustment of an employee's pay when he is promoted, transferred, or reassigned to or from a position for which increased rates are authorized under section 504.

The practice of paying salary differentials to Federal employees stationed outside of the continental United States originated as a recruitment device to induce mainland people to accept oversea assignments. Prior to 1948, authority to pay additional compensation was based upon section 2 of the Brookhart Act of July 3, 1930. Since this authority was permissive, different agencies authorized various amounts of additional pay—some authorized none. In some cases the differentials were paid to all employees, while in others they applied only to employees recruited in the continental United States.

The Independent Offices Appropriation Act of 1949 (section 207) was designed to insure uniformity in determining and applying these differentials. The amount of additional pay was related to a comparison of living costs in the District of Columbia and the area for which the differential applied. The original "cost-of-living allowances" were set at 25 percent of basic salary (the maximum) in Alaska, Hawaii, Puerto Rico, and the Virgin Islands. They applied to all employees whether they were recruited locally or in the continental United States.

Since 1948, there have been significant changes in the areas to which these cost-of-living allowances apply. Alaska and Hawaii have become States and Puerto Rico, a self-governing Commonwealth. Economic development, especially in Hawaii and Puerto Rico, has resulted in the growth of trained labor forces so that the need for mainland recruitment has been reduced to a minimum. Adequate staffing of Federal agencies in these areas now depends largely upon the ability of those agencies to compete with local industry for the available labor supply—just as it does in any of the 48 mainland States.

Another pertinent development has been the enactment of the Federal Salary Reform Act of 1962. This legislation established comparability with private enterprise rates for the same levels of work as the appropriate criterion for Federal salary levels. Private enterprise salary levels, of course, take into account such factors as living costs so it is no longer appropriate to consider them separately. The Salary Reform Act also provided for the establishment of higher rates of pay where private enterprise salaries are so substantially above Federal statutory rates as to significantly handicap the Government in recruiting and retaining well-qualified personnel. This new flexibility makes it possible to adjust Federal rates on a geographic as well as an occupational basis wherever conditions warrant such action.

Present allowances and their costs are shown in the following table :

Area	Cost-of-living allowance	Approximate number employees	Estimated cost
	<i>Percent</i>		
Alaska.....	25.0	7,000	\$11,400,000
Hawaii.....	15.0	10,700	10,400,000
Puerto Rico.....	12.5	4,200	3,400,000
Virgin Islands.....	15.0	140	140,000

These allowances now amount to more than \$25 million a year. Since the percentages are applied to basic pay rates, the dollar value rises each time the basic schedule rates are increased.

In the opinion of the Bureau of the Budget, the pay principles and flexibilities for salary adjustment established by the Federal Salary Reform Act, together with the economic changes that have occurred in the areas in question, make it inappropriate to continue the payment of cost-of-living allowances to employees in these areas.

We wish to emphasize that, with the exception of Alaska, most employees are now recruited locally. Where salaries higher than scheduled rates are needed to meet local competition, the Salary Reform Act now makes it possible, when conditions warrant, to establish special rates for nonforeign offshore areas as well as for any area on the mainland. In these circumstances, we believe the continuation of these allowances in the future constitutes an unjustifiable expenditure of taxpayer dollars.

In order to ascertain how private enterprise rates in any of the areas where allowance would be eliminated compare with mainland rates, the Bureau of the Budget and the Civil Service Commission requested the Bureau of Labor Statistics to undertake salary surveys in Alaska, Hawaii, and Puerto Rico. These surveys were conducted in the spring of 1963 using the same techniques as those used for the National Survey of Professional, Administrative, Technical, and Clerical Pay upon which national salary schedules are based. The results of these special surveys are now available. Comparing the results with mainland rates for the same period (1963), we find that private enterprise rates in Alaska are approximately 25 percent higher. In Hawaii private enterprise rates are about 95 percent of mainland rates, and in Puerto Rico only 73 percent of mainland rates. Thus, survey results clearly indicate that under the comparability principle higher rates would be justified only in Alaska.

The administration recognizes that the immediate elimination of cost-of-living allowances in Hawaii, Puerto Rico, and the Virgin Islands would work a hardship on Federal employees in these areas since it would mean a cut in take-home pay. It is proposed, therefore, that the allowances be reduced gradually over the next 6 years—reductions in allowances being keyed to general pay increases over the same period. In this way there would be few, if any, actual cuts in take-home pay. Affected employees would continue to be eligible for within-grade increases and promotions so that they could still look forward in salary advancement even during the period while the allowances were being phased out.

With respect to Alaska, the cost-of-living allowance would be eliminated immediately and replaced with special rate ranges under section 504. At the present time, section 504 limits advanced salary ranges to the seventh rate of the regular schedules. This would restrict the higher rate range to about 20 percent. Since survey results suggest the need for rates higher than 20 percent, the bill would exempt Alaska from this statutory limitation and make possible adjustments more in line with comparability.

The bill would also authorize the President to have issued (by the Civil Service Commission) regulations to adjust salary rates for employees transferred or promoted to or from grades and locations where special rate ranges have been established.

For the reasons stated, the Bureau of the Budget favors this bill and urges its enactment before there is another general adjustment of statutory salary schedules.

Mr. HUGHES. First of all, Mr. Chairman, I think it is worth emphasizing that it is the purpose of this bill to determine the compensation of Federal white-collar employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands on essentially the same basis as the compensation of Federal employees in all other parts of the United States is determined. And the key word here is "comparability." The basis for determination of salary levels in these areas would be comparability with private industry, which is the criterion for mainland United States.

Secondly, for emphasis, I would like to point out that there have been significant changes in the character areas to which the existing cost-of-living allowances apply. Alaska and Hawaii have both become States. And Puerto Rico has become a self-governing Commonwealth since the establishment of the present arrangements.

Economic developments, especially in Hawaii and Puerto Rico, have resulted in the growth of trained labor forces so that the need for mainland recruitment has been reduced to a minimum. Adequate staffing of Federal agencies in these areas now depends largely upon the ability of those agencies to compete with local industry for available labor supply—just as it does in any of the 48 mainland States.

Again, Mr. Chairman, the key thought here is comparability.

On the money side, we point out that these allowances now amount to more than \$25 million a year. And furthermore, since the percentages are applied to basic pay rates, the dollar value of the allowances rises each time that the basic rate schedules are increased.

In the opinion of the Bureau of the Budget, the pay principles and the flexibilities for salary adjustment established by the Federal Salary Reform Act, together with the economic changes that have occurred in the areas in question, make it inappropriate to continue the payment of cost-of-living allowances to employees in these areas.

We wish to emphasize that, with the exception of Alaska, most employees are now recruited locally. Where salaries higher than scheduled rates are needed to meet local competition, the Salary Reform Act now makes it possible, when conditions warrant, to establish special rates for nonforeign offshore areas, as well as for any area on the mainland. In these circumstances, we believe the continuation of these allowances in the future constitutes an unjustifiable expenditure of taxpayer dollars.

Mr. Chairman, we also recognize the difficulties of the immediate elimination of the cost-of-living allowances, and we subscribe fully to the Commission's proposal for a graduated reduction in the allowances.

It would be our hope—and, like Chairman Macy, I do not want to get into the prediction of pay increases, although the past certainly lends some support to this—it would be our hope that the successive gradual adjustments would be reasonably well offset by pay adjustments.

The bill would also authorize the President to have issued by the Commission regulations to adjust salary rates for employees transferred or promoted to or from grades and locations where the special rates, the rate ranges contemplated by the bill, have been established.

And in summary, Mr. Chairman, for all the reasons that Mr. Macy outlined and that I have rather hastily—some of which I have rather

hastily tried to emphasize here, we do favor this bill and urge its enactment at the earliest possible date.

Mr. UDALL. And do you concur with the statement that Mr. Macy made that as this bill were phased into operation, there would be substantial dollar savings in the budget?

Mr. HUGHES. There would, indeed.

The Alaska costs of the present arrangement of something approximating \$10 or \$11 million would be offset largely by the comparability differential. But all of the other savings would accrue, and over the years, would grow because of the fact that the allowances are a percentage of base. And as base pay grows, the allowances would expand if retained.

Mr. UDALL. I was startled to note in your statement that—it is perhaps the biggest discrepancy that has come out here—in Puerto Rico private enterprise pay rates are only 73 percent of mainland rates.

Mr. HUGHES. Yes, sir.

Mr. UDALL. And yet the Federal Government is not only not paying just the same rates as we have on the mainland; we are paying 112½ or 115 percent.

Any questions by the gentleman from Iowa?

Mr. GROSS. Well, you are from the Bureau of the Budget, Mr. Hughes?

Mr. HUGHES. Yes, sir.

Mr. GROSS. This is part of the President's economy program?

Mr. HUGHES. This is the administration's proposal, yes, sir.

Mr. GROSS. Well, the administration's economy program, then. Let us put it that way.

Mr. HUGHES. This is one aspect, a very limited aspect of it.

Mr. GROSS. The President is saving \$2,000 now by turning off the lights in the White House, and the Congress, about the same day, the same hour, passed a bill to light the Capitol dome, with the added cost of \$4,000 a year; that is, to light it from midnight until dawn. I hope the economy program works out.

Mr. UDALL. Will the gentleman yield?

Mr. GROSS. But I have some doubt about it.

Yes.

Mr. UDALL. I do not ordinarily tell Republican jokes, but one of my Republican friends said he was against the President turning off the lights in the White House. He felt that there had been too much groping around in the dark down there as it was.

Mr. GROSS. But the trouble is the lights have not come on yet.

That is all, Mr. Chairman.

Mr. UDALL. The gentleman from South Carolina.

Mr. WATSON. I have no questions, Mr. Chairman.

Mr. UDALL. Thank you, Mr. Hughes. Your statement is helpful. We will have it for the record.

Mr. HUGHES. Thank you, Mr. Chairman. I appreciate the opportunity to appear before the committee.

Mr. UDALL. Now, my next three witnesses apparently are from off the mainland here, and I would ask them to stand up, because I want to make some arrangements here that I hope will be convenient.

Mr. Herminio Concepcion, are you here, sir? And Mr. Ramiro E. Ortiz?

Mr. ORTIZ. Yes, sir.

Mr. UDALL. Would you stand just a moment, sir?

And Mr. Alonzo G. Moron?

Mr. MORON. Here.

Mr. UDALL. I have you three gentlemen scheduled next in that order. But the House will resume its business in about 40 minutes, and I am not sure I can complete all three of you in this time. Is there any one of you that perhaps plans to be here tomorrow?

Mr. ORTIZ. All of us. I plan to be here tomorrow.

Mr. UDALL. You plan to be here tomorrow?

Mr. MORON. Yes, sir.

Mr. UDALL. So that you do not have reservations this afternoon or this evening. So that if we do not finish your testimony today, it would be convenient for you to return tomorrow and finish?

Mr. CONCEPCION. Yes.

Mr. UDALL. All right, with that understanding, then, gentlemen, we will proceed in the regularly scheduled order, and Mr. Concepcion will be the next witness.

You may come forward, sir. We are happy to have you with us. I understand that you have a prepared statement which has been submitted to the committee. And you may proceed to read it to the committee and make whatever comments you care to make, sir.

Mr. VELEZ. Mr. Chairman, with your permission, I am going to accompany Mr. Concepcion for any problems of grammar, and so forth. I am Mr. David A. Velez, the counsel of the other Puerto Rican group.

Mr. UDALL. We are delighted to have you, Mr. Velez. And you may participate with the witness.

Mr. VELEZ. Thank you, sir.

STATEMENT OF HON. HERMINIO CONCEPCION de GRACIA, CHAIRMAN, COMMITTEE ON RECREATION AND SPORTS, HOUSE OF REPRESENTATIVES, COMMONWEALTH OF PUERTO RICO; ACCOMPANIED BY RAFAEL MASONET, VICE PRESIDENT, PUERTO RICAN FEDERATION OF LABOR, AFL-CIO, AND DAVID G. VELEZ, COUNSEL

Mr. CONCEPCION. Mr. Chairman, members of the committee, my name is Herminio Concepcion de Gracia. I am chairman of the committee on recreation and sports of the House of Representatives of the Commonwealth of Puerto Rico.

On April 1, 1963, the house of representatives of the Commonwealth approved unanimously a resolution authorizing our speaker to express our desire that the pay differential of Federal employees not be reduced. He was to do so in whatever manner he saw fit and before any official or official body concerned. In accordance with this resolution, the speaker has designated me to appear before you to express the support by our house of representatives of the position of the Federal Employees Council of Puerto Rico.

The Civil Service Commission has, as you know, recommended that the cost-of-living allowance be eliminated for Federal employees in Puerto Rico. We believe any reduction whatsoever in the present allowance of 12½ percent of salary to be unjustified by the facts, unfair to the Federal employees affected and a disservice to both Puerto Rico and the United States.

The cost of living is demonstrably higher in Puerto Rico than it is in the continental United States. Most of the merchandise we consume is imported. During the 1963 fiscal year, we imported \$1.17 billion worth of merchandise, mostly from the States. Ocean and air freight on these goods amounted to \$128 million. By itself, freight increased the wholesale cost of this merchandise by more than 10 percent above its U.S. value. Add local wholesale and retail markups to this higher base price and add on Commonwealth excise taxes, and it is clear that retail prices in Puerto Rico are much higher than in the continental United States.

Many services are also more costly. In some cases and because of crowding in our public school system, most Federal employees send their children to private schools. This costs more in Puerto Rico than in the United States. Interest rates on loans and mortgages are above those prevailing here, and insurance rates, especially casualty and liability rates on cars, are much higher, because our accident rate is about six times the U.S. average. As for housing, the vacancy rate in Puerto Rico is much lower than the U.S. average, and a respectable used house is almost unobtainable. New houses in the subdivisions that are springing up around San Juan start at about \$13,000. We have very few rental apartments, and the price of condominiums starts at about \$20,000, which is far out of the reach of most Federal employees.

We maintain that the cost of living in Puerto Rico has been, is now, and will continue for some time to be, substantially higher than on the mainland. This has been proven time and time again, not only by the statistical studies carried out by the Department of Labor of the United States, but also by the Department of Labor of the Commonwealth of Puerto Rico. I am going to send to this committee a copy of an economic survey, with projections up to the year 1970, which, in my opinion, offers definite support to the Federal employees' position. They seek no advantage over their fellow workers elsewhere, but they do feel entitled to an equivalent level of living for equal work.

I should like to add that Federal workers in Puerto Rico have more mouths to feed, at higher prices, than their counterparts in continental United States. We do not have the figures for Federal workers separately, but for Puerto Rico as a whole, the typical family has 4.8 members and in continental United States it has 3.4 members.

I am sure you gentlemen are familiar with the effort Puerto Rico has been making under the leadership of Gov. Muñoz Marín to lift up its level of living to a decent standard. When we started in 1940, our per capita income was \$117, 23 percent of the average that prevailed at that time in the United States. In 23 years we multiplied incomes several times, but they are still less than a third of the U.S. average. Clearly, we must continue to pull hard on our bootstraps, and every dollar our Federal workers get helps the whole economy. Fair treatment of the Federal employees Puerto Rico would seem to be clearly in the best interests of the United States as well as Puerto Rico.

Therefore, gentlemen, on behalf of the House of Representatives of the Commonwealth of Puerto Rico, I ask you to withhold any action on any legislation that would reduce the cost-of-living allowance of Federal employees in Puerto Rico and extend an invitation to you to

make a survey of the conditions that actually prevail in Puerto Rico.

Thank you.

Mr. UDALL. Thank you, Mr. Concepcion de Gracia. We are happy to have you with us. And your statement will be helpful to the committee.

I do not know whether we will accept your kind invitation to come and survey the conditions, although at least one member of this committee would enjoy a visit there.

Mr. CONCEPCION. You come also, Mr. Chairman.

Mr. UDALL. I wanted to say, further, that I am one of those that admire the efforts that your people have made in Puerto Rico to lift themselves by their bootstraps, as you say, and I think you are certainly to be commended for the many efforts the fine people of Puerto Rico have made through their own legislature, through their own economic institutions, to make such a striking improvement in the welfare of your people. And I assure you that the impact of your statement will be carefully considered.

Are there any questions?

Mr. GROSS. Mr. Chairman; I note you say there are 4,000 Federal employees in Puerto Rico. The testimony of the Civil Service Commission, the Chairman of the Civil Service Commission, was that there are 7,000 employees, almost double the number that you gave in your statement.

Mr. VELEZ. May I answer that, Mr. Gross?

Mr. GROSS. Of course.

Mr. VELEZ. We got our figures, preliminary figures, from the Civil Service Commission. And the gentleman on my right, Mr. Maisonet was informed by one of the people up there, a supervisory person, that we could have just as well gotten that same figure from the World Almanac.

The exact figure that I have in the statement I will make to you gentlemen, either this afternoon or tomorrow, says 5,077. So on that, if the Commission's figures for the general public do not agree with the ones they say, we have no excuse.

Mr. WATSON. If the gentleman will yield?

Mr. GROSS. Yes.

Mr. WATSON. The Bureau of the Budget puts the figure at 4,200 in Puerto Rico in the testimony that was just given a moment ago. So apparently it pretty well parallels your figure.

Mr. VELEZ. By my organization's figures, we do not represent but a little more than 4,000. And we consider only a very small part of the Federal employees of Puerto Rico to not be affiliated with us.

Mr. GROSS. I am sure I am right that the Chairman of the Civil Service Commission, Mr. Macy, said there were 7,000. I do not care to make an issue of this. I was just attracted to the figure given in the gentleman's presentation.

Now, a quick question or two. Tell me why there is no rental housing in Puerto Rico, that it starts at about \$20,000, you say.

Mr. CONCEPCION. We are now building new housing to supply it. The amount of money is higher than the supply.

Mr. GROSS. What is your average wage rate in Puerto Rico? Do you happen to know? That is, in the construction industry.

Mr. CONCEPCION. Well, \$1.20 an hour.

Mr. GROSS. Sir?

Mr. CONCEPCION. \$1.25 per hour.

Mr. GROSS. \$1.25 per hour.

Mr. MAISONET. And the skilled labor, if I may interrupt, involves the skilled workers in the high echelon, and it will be 98 cents in the construction industry for the nonskilled workers.

Mr. GROSS. Why does a dwelling unit, let us say an average one—I assume that is what you are talking about—cost \$20,000? With that kind of a wage scale, why does it cost \$20,000 to put it up in Puerto Rico?

Mr. MAISONET. The land in Puerto Rico, sir, is really high.

Mr. GROSS. The what?

Mr. MAISONET. The land. The cost of the land on the island is really high. As a matter of fact, last year a law was approved to have an agency of the Government control the selling of the land in order to keep cost of labor in which it will be possible for the construction industry to build houses or multiple apartment buildings at reasonable costs. So now the least you can buy one of these apartments in the San Juan-Santurce, Rio Piedras, and Bayamon—and I am talking about the metropolitan area—will be \$20,000 on private housing and \$12,000 on the public housing authority that we have there. But the public housing authority will not sell a house to a Federal employee.

Mr. GROSS. Am I correct in assuming, then, that the pay of Federal Classification Act workers in Puerto Rico is substantially above that of those employed in private industry in Puerto Rico?

Mr. MAISONET. You are right, sir.

Mr. GROSS. That is all.

Mr. WATSON. What is your ratio of local, native Federal employees to nonnative?

Mr. VELEZ. I would say it is about 8 to 1, sir.

Mr. WATSON. Eight to one. Do you encounter any substantial difficulty today in recruitment of Federal employees from your native population?

Mr. VELEZ. If you base it on skills; yes, sir. The higher your technical ability the more difficult it is to provide people. I can speak for my own agency, the Veterans' Administration. I have served in Puerto Rico two different tours. I am one of those contract employees that are down with the employment agreement. Both times I was recruited in the States. Both times because my particular specialty, which is a hybrid medicolegal specialty, as an attorney and having been a specialist in disability determination, I fill a position right now in the VA that was publicized in the 48 States. I was recruited right here in Baltimore—or in Baltimore, rather, not right here. That position could not be filled tomorrow on the island of Puerto Rico. And there are many very similar.

If I may offer something to the gentlemen along this line—I realize that you are going to run a little short—we have in the Federal employees group—if you will forgive my bringing this up—we have a rather lengthy exposition along the lines that the gentleman from South Carolina mentioned, which I believe I will be offering if my voice holds up. And in there I believe your question, sir, will be answered in a rather good detail. And I hope I will be privileged to do the answering.

Mr. WATSON. Fine.

Mr. GROSS. One resident of Puerto Rico—I do not know that he is a citizen of Puerto Rico—is the gentleman from New York, Mr. Powell. I do not suppose he had any trouble acquiring a site for a house and the means to put it up. You do not need to answer that.

Mr. UDALL. The Chair was about to rule that question out of order.

Mr. VELEZ. I can only refer the gentleman from Iowa to the Federal Constitution. He cannot be a citizen of Puerto Rico.

Mr. UDALL. Well, Mr. Concepcion de Gracia, we thank you for your attendance here. And you are excused. And I understand Mr. Velez is accompanying you, in addition to the previous witness.

Mr. VELEZ. Mr. Chairman, at this time we would like to ask the indulgence of the committee in allowing us to yield our turn to the gentleman who is visiting with us from the Virgin Islands. And my reason is the following. Our group is composed of seven people, most of them specialists in their field. You probably will want to get a good answer from each of them in their field. So, since it is rather long, and I realize that you are pressed for time, we would yield to the gentleman who has traveled from the Virgin Islands, since he is alone, and we would ask that we be allowed to take the first turn in the morning.

Mr. UDALL. Well, this would be entirely satisfactory with the chairman. And in that event, we will now hear from Mr. Alonzo G. Moron, who is from the Virgin Islands, as the next witness. If we have time after he has concluded to begin with your testimony this morning, you may do so. So if you will stand by, we will appreciate it.

Mr. VELEZ. Thank you, Mr. Chairman. We appreciate it very much.

Mr. UDALL. Mr. Moron, we are happy to have you with us this morning.

Mr. MORON. Thank you, sir.

Mr. UDALL. Do you have a prepared statement?

Mr. MORON. I have a prepared statement, sir.

Mr. UDALL. All right.

Mr. MORON. And it has been circulated.

Mr. UDALL. You may proceed, sir.

STATEMENT OF ALONZO G. MORON, PRESIDENT, VIRGIN ISLANDS FEDERAL EMPLOYEES ASSOCIATION, ST. THOMAS

Mr. MORON. My name is Alonzo G. Moron, and I am the Assistant to the Regional Administrator for Virgin Islands Operations of the Housing and Home Finance Agency. I represent the Virgin Islands Federal Employees Association in these hearings, and I have been asked to speak for the association in opposition to the bill, H.R. 7401, and to the Commission's proposal to reduce the cost-of-living allowances.

First, Mr. Chairman, I would like to express our thanks for the privilege of being heard at this hearing and particularly for the privilege of being heard as the representative of the Virgin Islands group of employees and not as a member of a larger group of employees from other nonforeign areas.

Indeed, one of the reasons for opposing this bill is the indication we have had from our experience with the Civil Service Commission, sponsors of this bill, that the Virgin Islands are to be dealt with officially by the Commission as if they were part of the Commonwealth of Puerto Rico and that whatever studies are made of cost of living or levels of private enterprise salaries in Puerto Rico are ipso facto applicable to and controlling for the Virgin Islands.

I appreciate the references made to the Virgin Islands in the Puerto Rican statement, but one of my purposes here is to try to call attention to the fact that we have significant differences in our economic picture in the Virgin Islands from the economic picture presented by Puerto Rico.

We have been concerned by the indication that the Civil Service Commission, sponsor of this bill, proposes to deal with the Virgin Islands as if they were part of the Commonwealth of Puerto Rico, and that whatever studies are made, as I say, as to cost of living or levels of private enterprise salaries in Puerto Rico are applicable to and controlling for the Virgin Islands.

I hope to show by argument and exhibits the economic picture in the Virgin Islands presents enough differences in prospect and retrospect to require that the two situations be regarded as disparate units and not as component parts of a single entity.

In January of this year, when the Civil Service Commission announced an arbitrary reduction in the cost-of-living allowances to become effective within 90 days, we were compelled to protest against this action on the grounds that the action to equalize the cost-of-living allowance paid Federal employees in the Virgin Islands and in Puerto Rico was arbitrary, unsound, and without any justifiable foundation. We objected also on the grounds that legislation had been pending on this question before Congress for some time and the Commission appeared to be doing by administrative fiat what Congress should do, or not do, by appropriate legislation after public hearings and open discussion. We are grateful for whatever pressure was exerted on the Commission to suspend its order and to leave the question up to the honorable Members of Congress.

Although the present practice of paying a cost-of-living allowance to statutory-salaried employees was not formalized until section 207 of the Independent Offices Appropriation Act of 1949 was amended, the recognition of the need to pay extra compensation for service overseas goes much further back in our history. This recognition developed from the sincere desire on the part of our policymaking officials to supply the offshore areas with topflight personnel who would not be penalized financially by being transferred from familiar surroundings to work in less developed, unfamiliar and distant areas. Recognition developed also from the demonstrable fact that it cost more for continental-American families to live in offshore areas if they were to maintain American standards of living as well as American standards of efficiency in accomplishing the tasks to which they were assigned. Even at this late day in the management of Federal business overseas, it is still considered important that Americans living in nonforeign areas, as well as in foreign areas, be proper examples of the American way of life and an inspiration to those around them who are trying to achieve a higher standard of living.

In practice, extra compensation was paid only to those continentals who were transferred to the offshore areas or who were appointed specifically for service in nonshore areas. It did not take long, however, for this informality to give rise to serious criticisms of favoritism and salary discrimination against two classes of Federal employees—(1) continentals who were recruited in offshore areas, and (2) natives who were recruited for Federal service in nonforeign areas. Attempts to solve the problems for the first group by giving them extra compensation only made more stark the discrimination against the Federal employees who were natives. That the majority of natives recruited happened to be nonwhite also gives strength to the charge of discrimination.

The formalizing of the principle of extra compensation to all statutory salaried Federal employees and the tying of this additional compensation to comparisons of living costs removed the taint of unequal treatment of Federal employees and established firmly the principle of equal pay for equal work regardless of the employees' race, color, or place of birth. By this action our Government gained not only in stature as a fair employer, but morale in the Federal service received a substantial boost as more self-respecting and qualified natives of these offshore areas acquired the necessary skills and esprit de corps to increase efficiency and reduce turnover.

As we examine the provisions of this bill which would give administrative authority to regulate the rate at which the allowance is to be reduced over a 6-year period and to make salary adjustments during and beyond the 6-year period for employees as individuals or as groups, let us not forget that we may be moving backward to a re-enactment of what the salary reforms of 1949 were designed to correct—great flexibility in fixing compensation for Federal employees in offshore areas and abuse of that authority leading to well-founded charges of salary discrimination against native employees in the Federal service. We object to this feature of the bill and will continue to do so until proper safeguards, if any can be contrived, are injected to make discrimination against the native employees impossible, or, at least, infinitely more difficult.

The bill before us proposes that salary schedules in the future be set in accordance with the principles established by the Salary Reform Act of 1962. The second of these principles is that "Federal salary rates shall be comparable with private enterprise salary rates for the same levels of work."

I would like to interject here that it has been most reassuring to hear from the Chairman of the Civil Service Commission that the private enterprise salary rates referred to are nationwide rates, rather than private salary rates in the localities involved.

While we subscribe wholeheartedly to the first of the two principles, we have some apprehension about using the principle quoted above as a substitute for the cost-of-living allowance.

We also respectfully request that the committee examine critically the proposition advanced by the Commission that the principle of paying Federal employees additional compensation based on living costs "is inconsistent with the newly established principles governing Federal salary determination * * *." We do not think it is an inconsistency.

The Commission later admits that cost-of-living differentials will be taken into account indirectly "to the extent that they affect industry salaries." In other words, the Commission is recommending that you substitute an indirect and questionably weighted factor for a direct, identifiable, and justifiable factor in determining individual compensation in the Federal service.

While we agree with the Commission's statement of the obvious that substantial changes in the economies of Puerto Rico and Hawaii have taken place in recent years, we should also like to call the committee's attention to the fact that these changes have not produced universal and consistent improvement in private salary scales. Neither have these changes produced a pattern of similarity in the jobs for which the Federal Government and private industry must recruit staff. Where there is a pattern of similarity, for example, in the clerical field, the salaries paid in private industry are notoriously lower than in private industry on the mainland or in Federal service. Here I thought that the Commission was going to tie the private salary scales to local scales.

However, the trend in Federal employment in offshore areas has been in the direction of employing more specialists who have no counterparts in private industry. How do you equate the salary of an FAA man in St. Thomas with private salary scales?

The general application of the principle of comparability with private enterprise in offshore areas will work considerable hardship on the clerical staff currently employed, and it will make recruitment of qualified personnel extremely difficult to fill the vacancies that will occur in increasing numbers if this principle is followed. In this connection, it is well to keep in mind that competition for clerical help is coming more directly from local governments than from private industry and that fringe benefits, like more relaxed working conditions, more paid holidays, more freedom to participate in local political affairs, will be more attractive to the more intelligent secretaries and clerks when the rates of Federal compensation are reduced as they will be if the Federal salary rates are tied to local private enterprise rates.

Cost-of-living allowances, applied directly, tend to place Federal employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands on the same footing as to real income, as Federal employees in other parts of the United States. If the differences in the cost-of-living allowances between Washington and Seattle or Washington and Chicago are as substantial as between Washington and Charlotte Amalie or Washington and Anchorage, the proper solution is not to abolish the cost-of-living allowances where the differentials are acknowledged to be substantial and thereby make more of us unequal in the actual benefits we get from our compensation. The more orderly approach would be to explore other possible solutions. Why is Washington used as a base? What would be the deleterious effects, if any, of using regional scales in order to achieve equal pay for equal work? Have our cost-of-living studies become so complicated that objective comparability cannot be achieved? The following may be a good illustration of how the new approach to cost of living can be misused:

A letter from the Civil Service Commission, dated January 16, 1964, ordered that—

the Commission has decided that the calculation of living cost indexes for non-foreign areas can no longer appropriately include the application of "use factors."

I quote:

The decision to drop the application of use factors results in the reduction of the allowances for Puerto Rico and the Virgin Islands * * *.

This drastic change was announced by the Commission as applying to the Virgin Islands when no study was made by the Commission of conditions in the Virgin Islands. A cost-of-living study was made in Puerto Rico and by inference the results were applied to the Virgin Islands. Such arbitrary action raises grave questions about the Commission's use of living-cost indexes to reflect an actual situation or to serve a Commission purpose.

On April 10, 1963, and again on January 29, 1964, the Virgin Islands Federal Employees Association requested the Commission to make a cost-of-living study of the Virgin Islands. We offered the assistance of our members in making such a study. As far as we have been able to discover, no cost-of-living study has been made by any Federal agency since 1954, even though administrative action was taken to reduce the cost-of-living allowance to the current rate of 15 percent and more recently a further reduction to 5 percent was contemplated by the Commission.

Yesterday afternoon, by patient, diligent search, I found that the State Department has made a study of the cost of living in the Virgin Islands. But no one in the Virgin Islands could give me any information as to when or how such a study had been conducted. I understand it takes almost an act of Congress to get a copy. So we do not know.

Mr. UDALL. I am glad you brought this up, and I will certainly ask the staff to prepare for me a request on behalf of this committee that it be furnished. We find usually that when committees of Congress make a request, the departments heed them. So perhaps we can get the information for you.

Mr. MORON. I appreciate the information, Mr. Chairman. Thank you very much.

The Virgin Islands Association wishes to go on record as deploring the trend to equalize at a lower figure the cost-of-living allowance in Puerto Rico and the Virgin Islands.

During the past 20 years, Puerto Rico has made remarkable and commendable strides toward the creation of a self-sufficient economy for the island and its people. In Puerto Rico they have reached the point where, because of population growth, industrial diversification, and rise in per capita income, they can chart the course of their own economic and social development. We have not yet reached that point in the Virgin Islands, and we may never reach it, because of the size of our population and other basic economic reasons.

We are dependent upon the vagaries of tourism. At present we are enjoying a tourist boom, but we do not know how long it will last or what the full extent of its effects will be. We do know that it provides full employment in service occupations and in almost every

other occupation except agriculture. This means that even if we had good soil, abundant rainfall, and plenty of flat arable land, we would not have the manpower to raise our own foodstuff. As a consequence, almost every item of food, basic as well as supplemental, has to be imported, mostly by air from Puerto Rico and the continent. This means high costs for freight, transshipment, brokerage, and spoilage. It also means irregular shipments in terms of time and quantity, another costly factor. It means considerable markup over prices for the same commodities in Puerto Rico and the continent.

Because we had such short notice of this hearing, we were able to do only a sample study of comparative prices in Charlotte Amalie, San Juan, and Washington, D.C. The brief results of that study are appended. However, I am sure you will agree with me that there is a substantial difference in the prices of basic commodities in the three markets. Hamburger costs twice as much in the supermarket in Charlotte Amalie, as it did day before yesterday in the A. & P. store in Southeast Washington.

Our dependence on the national beauty of the islands to attract tourists and permanent residents has had a skyrocketing effect on land values, on construction costs, and consequently on rents. Four hundred and five hundred percent increases in lot prices within the past 3 years are not unusual in the Virgin Islands. The banks are using the figure of \$20 per square foot as the cost of simple home construction in the Virgin Islands as compared with \$10 and \$11 per square foot in Puerto Rico.

A survey conducted among the Federal employees last week showed that there had been substantial increases in rents charged them during the past year and that monthly rent payments of \$100, \$150, and \$175 were not unusual. Many complained that these prices were being charged for substandard housing for which they would be paying 40 to 50 percent less in the States.

There is attached a list of statements culled from questionnaires filled out by Federal employees and which are illustrative of the many different areas where unexpectedly higher costs are encountered while living in the Virgin Islands. I should call special attention to the many references to the high cost of medical care for those families with children.

I want to observe that I used the word "medicare" in these quotations. And I do not intend it to be perjorative. This was just my shorthand.

Mr. UDALL. A very dangerous word. I am happy that Mr. Gross has departed.

Mr. MORON. I used it as a shorthand for "medical care" and the typist copied it as I wrote it.

I should call special attention to the many references to the high cost of medical care for those families with children. Educational expenses are also a heavy item of cost that comes as a surprise to the continental. The public schools are overcrowded and the private and parochial schools seem to be more acceptable. But tuition has to be paid, and the textbooks are not free.

The Virgin Islands Federal Employee Association would like to be recorded in opposition to the proposed bill on the following grounds:

- (1) Greater flexibility for the executive branch in fixing salaries

may lead to the recurrence of the favoritism that the Salary Reform Act of 1949 eliminated.

(2) The cost-of-living allowance principle is not in conflict with the principles established by the Federal Salary Reform Act of 1962.

(3) Reliance on comparability with private enterprise salary rates will work considerable hardship on employees in the lower grades since the progress in salary reform in private industry has not been uniform for all occupational levels.

(4) Cost-of-living allowances, applied directly, tend to place Federal employees in offshore areas on the same footing, as to real income, as Federal employees in other parts of the United States.

(5) There are substantial differences between the economy of Puerto Rico and the economy of the Virgin Islands. These differences affect the costs of living in both places. It would be unfair to the Federal employees in the Virgin Islands to assume, without an actual study of conditions in the Virgin Islands, that they can achieve equality of compensation by being treated exactly like the Federal employees in Puerto Rico.

In closing I should like to state that His Excellency, Ralph M. Paiewonsky, Governor of the Virgin Islands, and the Senate of the Virgin Islands, join the Virgin Islands Federal Employees Association in opposing this bill. A formal resolution passed by the Virgin Islands Senate and approved by the Governor, will be forwarded to the committee as soon as it has been engrossed.

In closing, I should like to express my thanks and appreciation for the courtesy extended to me by this committee in giving me an opportunity to be heard.

Thank you, Mr. Chairman.

Mr. UDALL. Thank you, Mr. Moron, for a most informative statement. I want to congratulate you on the way, on short notice, you have put together such a rational, orderly and, I think, very effective argument against this bill. The other members of the subcommittee, I am sure, will read your statement and consider it before any decision is made.

I noted the interesting cost prices in grocery stores that you referred to in the latter part of your statement. I think this gives us all an insight into some of the living factors with which you are faced.

Mr. WATSON.

Mr. WATSON. Mr. Chairman, only to commend the gentleman for a splendid statement. And I am at a total loss to understand how the Commission came up with the figure that the cost of living in the Virgin Islands is substantially less than in the continental United States.

Mr. MORON. I cannot see it.

Mr. WATSON. And what you say here seems to make sense to me.

Mr. Chairman, I do not want to be out of line, but if we cannot arrive at some equitable and fair figures here, that it might not be remiss to suggest that perhaps a committee of some designates of the committee make a trip down to the beautiful Virgin Islands for on the site cost of living studies.

Mr. MORON. I certainly hope that you will come to that conclusion, sir. We will be very happy to have you. And I think it would be very instructive in many lines.

Mr. UDALL. The chairman of the subcommittee does not know what the reaction of his constituents would be to such a trip.

Mr. MORON. I think the chairman, too, would have no complications from his brother, the Secretary of the Interior, who is responsible for the Virgin Islands.

Mr. UDALL. This concludes our hearing this morning. I do want to make several announcements.

The hearings will continue tomorrow morning at 10 o'clock. I will be unable to be here. I am the chief witness on the bill that I am sponsoring that has direct impact on the good citizens of Arizona, and if I arrive, it will be late. And the Chair has asked his good friend, the gentleman from South Carolina, to conduct the hearings tomorrow morning. But I will assure the witnesses I will read the statements that are submitted and read them carefully.

I wanted to say to Mr. Velez, in particular, and the witnesses with him, I have six Members of Congress scheduled to testify tomorrow morning. Protocol is such in this establishment that they will be called upon first. And because of the long distance you have come and the large number of people you represent and the importance of having your testimony, we will attempt to reserve, oh, 35 or 40 minutes of the morning for you. And you might conduct yourself accordingly and gage whether you wish to read all of the prepared material you have or highlight it or answer questions in part at that time.

The other witnesses who were scheduled today, most of them are here; they are available; they did not come from out of town, and I will advise them that we will get to them tomorrow, if we can. If not, these hearings will be continued on March 10, which is the next day that we have a committee room available and can schedule a continuation of these hearings.

With these announcements, the subcommittee will stand in recess.

(Whereupon, at 12 p.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, February 27, 1964.)

TERMINATING COST-OF-LIVING ALLOWANCES

THURSDAY, FEBRUARY 27, 1964

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., room 215, Cannon House Office Building, Hon. Albert W. Watson (acting chairman of the subcommittee) presiding.

Mr. WATSON. The subcommittee will come to order.

We will proceed at this time with the continuation of the hearings, and the first witness that we have to testify is our colleague, Thomas P. Gill, Member of Congress from Hawaii.

I might state this, just in passing, I am sure that Congressman Gill, through his interest in this measure, was here yesterday and appreciates the fact that we had to pass over some of the representatives from Puerto Rico, and we tried to assure them that we would give them adequate time to testify this morning. Additionally, if my colleagues, despite their keen interest in this particular measure, will try to contain themselves, we will certainly be grateful.

Mr. Gill, we are delighted to have you.

Mr. GILL. Thank you, Mr. Watson. I will contain myself in the smallest possible amount of time.

I would like, before starting, to submit for the record a statement from the Honorable John A. Burns, Governor of Hawaii, pointing out the serious consequences if the copy of this bill were passed, and asking that the bill not be passed. I believe it has been circulated to the committee.

Mr. WATSON. Well, without objection, we will place the statement of the Honorable John A. Burns in the record.

Mr. GILL. Also, Mr. Chairman, before starting, I would like to submit for the record a copy of a concurrent resolution of the Second Legislature of the State of Hawaii duly certified by the president of the senate and the speaker of the house, which, in short, points out the consequences of the cut and, in particular, the loss of \$1 to \$2 million in tax revenues to the State of Hawaii, and hoping that the bill will be unfavorably reported, and also inviting the committee, if it felt it was necessary, to come to Hawaii and investigate the problem on the ground.

I would like to submit this for the record, if I could.

Mr. WATSON. Without objection, we will put that statement with that of Governor Burns after your statement in the record.

Mr. GILL. Thank you very much.

**STATEMENT OF HON. THOMAS P. GILL, U.S. REPRESENTATIVE FROM
THE STATE OF HAWAII**

Mr. GILL. Mr. Chairman, I have a written statement here, which I will go through with as great rapidity as possible. I appear in opposition to H.R. 7401. This opposition is based not only on the unfortunate effect that removal of over \$10 million would have on the people and economy of Hawaii, but also on what I consider to be the proper interpretation of the Federal Salary Reform Act of 1962. Let's take a look at these two main arguments in their various parts.

First, the impact on the people and economy of Hawaii.

Individual impact would vary, of course, depending on pay scales and personal financial condition. However, taking the estimated 10,000 Federal employees in the State of Hawaii who receive COLA and dividing that figure into the estimated annual total of COLA payments received in Hawaii of \$10,400,000 would indicate that the average individual COLA payments received per annum would exceed something around \$1,000. When you consider Hawaii's higher living costs and the fact that our people are just as heavily in debt as anyone else, you can see that very few could take a pay cut of this magnitude without serious personal consequences. The personal impact would surely echo in Federal hiring and retention problems in Hawaii. Certainly, many of the highly skilled employees who were not recruited and could not be replaced in the State would ask for transfer to other localities where living costs are less. Certainly, a number of highly skilled employees, recruited and trained locally, would leave for areas where wages were better and costs lower. Without a doubt, the bulk of the Federal employees who were not able to leave the service or move elsewhere would suffer a severe drop in morale. I don't believe that results of this sort could possibly be viewed as "economy" in any real sense of the word.

The impact on the economy of Hawaii would probably be more than the mere removal of dollar income would indicate. Total personal income in Hawaii was estimated in 1962 at \$1.6 billion, of which about 76 percent, or \$1.2 billion, was in wages and salaries. This would indicate that the COLA payment is less than 1 percent of total wages and salaries in Hawaii. However, it is fair to argue that the effect of the loss would be heightened by the failure of those dollars to circulate several times in an isolated island economy.

Mr. Chairman, I mention this island economy problem, because I think it is common to all of the areas covered by COLA at the present time. They are far away, and the money behaves in a slightly different way in isolated economies than it does on the mainland.

The loss in actual pay levels would also act as a depressant, over a period of time, on local wage and salary levels. Relative immobility and economic isolation have led to lower pay scales in many unorganized white-collar occupations in Hawaii. Government pay scales have, in these cases, tended to set the pace in the community.

By Government pay scales I mean not only Federal but State and local as well. To cut Federal pay could well result in a cutback in private pay in comparable positions.

Second, I submit that the Federal Salary Reform Act of 1962, in its equal-pay-for-equal-work proviso, not only does not prohibit but actually supports the payment of COLA.

It is generally argued by the Civil Service Commission that the 1962 act was meant to set up a uniform pay scale across the country for Federal employment and relate that pay scale to private industry salaries for comparable positions.

However, the first principle stated in section 502(a) of the act is that "there shall be equal pay for substantially equal work * * *." I submit to the committee that "equal pay" should mean more than identical dollar amounts for equivalent classifications. Certainly, if we are to maintain consistency in the Federal pay system across the Nation, and in all its insular parts, it does little good to pay the same number of dollars when those dollars buy markedly different amounts of necessities on the mainland than in the outlying areas.

COLA is a simple way of maintaining equal pay for equal work on Federal jobs in insular areas where it costs more to live. This helps to insure the Federal service that top technicians and managers can move freely between the mainland and the insular areas without personal hardship; it tends to correct for the lower level of certain white-collar wages in Hawaii and elsewhere, which is due in part to the relative immobility of local labor supply.

I think that is obvious, Mr. Chairman. You cannot have clerks and typists and people in the lower grades moving freely between Hawaii and the mainland; it costs too much.

Basic to this argument that "equal pay" should mean relatively equal real wages is the assertion that living costs are higher in the outlying areas now receiving COLA. I will not attempt to make a specific case for areas other than Hawaii; Alaska, Puerto Rico, and the Virgin Islands will be represented by people more competent to explain their particular problems.

Before getting to specifics, though, we should recognize the difficulties that exist in comparing costs of living. Available data from such normal sources as the Bureau of Labor Statistics is not adequate. This is mainly because the Bureau of Labor Statistics figures generally compare prices in a point of time within a given locality; the figures are not held out to show the differences in prices, or living costs, between different areas. The Bureau of Labor Statistics has made special studies comparing costs between areas. I am informed that the last was the "City Worker's Family Budget," done in 1959, which compared equivalent budget costs in 20 cities but that even this study doesn't help us in our present case.

We are, therefore, limited largely to the survey done by the Department of State which compared prices on items in Honolulu and similar items in Washington, D.C. The last survey of October-November 1962 leaves the Honolulu index at 114.9 or approximately 15 percent over Washington, D.C. This, of course, is the amount of our cost-of-living differential.

However, we in Hawaii have recognized the inadequacy of present survey methods and tried for better information. In April of 1963, the University of Hawaii issued a study entitled "Comparative Prices of Selected Consumer Items: Honolulu, San Francisco, Los Angeles." After the release of the final 1960 U.S. Census of Housing statistics in September 1963, we were able to compare certain basic housing costs with the rest of the Nation. This additional information tends to bear out our contention that the cost of living in Hawaii is substan-

tially higher than on the mainland and that the 15 percent COLA differential is necessary if Federal employees in Hawaii are to be paid substantially equal real wages.

The University of Hawaii report, while carefully hedged as to comparability, indicates that on a sampling of 33 food items, Honolulu prices were higher than a sampling of 46 cities in the United States in all but 12 percent of the instances. Exhibit I, which is attached to the statement, shows the distribution of the sample. It shows that in over half the instances, the food prices across the Nation were from 79 to 89 percent of the Honolulu prices.

Exhibit II, taken from a limited sample of Honolulu clothing prices, as compared with similar items in San Francisco and Los Angeles, indicates that Honolulu prices are a little lower.

I think, Mr. Chairman, parenthetically, this may arise out of the fact that we need fewer clothes. In fact, in the summertime muumuus and bikinis are very common.

The housing figures, taken from the U.S. Census Bureau and attached hereto as exhibit III, indicate a cost of housing in Hawaii remarkably above the national average. This is a distinction I do not take too much pleasure in, but it is here. Hawaii ranks first in the Nation in the median cost of owner-occupied housing units: Our median value is \$20,900; the U.S. median value is \$11,900. We also rank first in overcrowding. I would like to point out that these figures are for the 50 States plus Washington, D.C. They do not include Puerto Rico or the Virgin Islands. We rank second in percentage of renter-occupied dwelling units, and almost last when it comes to percentage of vacancies. All of this adds up to a monumentally tight and expensive housing situation in our State as compared with the rest of the Nation.

In short, the best available information supports our position that it costs substantially more to live in Hawaii than in most of the mainland. There is certainly nothing to show that the State Department estimate of 14.9 percent higher living cost than Washington, D.C., is inaccurate. If anything, it may be on the conservative side.

I would also like to add, Mr. Chairman, that the situation does not seem to be getting any better. Our Honolulu consumer price index indicates a rise of almost 26 percent in prices in Honolulu since 1953, whereas the comparable rise in the United States has been around 14 percent. We do not seem to be making much headway.

There are many special reasons for high costs in Hawaii. I won't deal with them in any detail. Suffice it to merely mention them so as to buttress our findings.

In the first place, we are over 2,000 miles from the mainland; we import the vast majority of our hard goods and foods; one carrier, Matson Navigation, supplies almost 95 percent of our carriage and its freight rates have what might be called a "multiplier" effect on prices.

Mr. Chairman, just to explain that word, we have noted that when Matson, for instance, raises its freight rates 9 percent, that if you allocate that raise to the resulting increase in retail prices, you do not find the retail increase comparable. The raise is far more on retail prices than the freight increase would seem to justify. The only explanation I have been able to find for this is, because of our limited

supply channels, everybody in the chain of distribution adds a little extra, and, as a result, you come out with a greater increase in prices on the retail shelves than you would expect to find because of the freight increase.

In the second place, in the distribution of goods within the State, we have relatively little competition compared to many mainland areas and this probably contributes to larger markups than might be considered normal. In the third place, our urban center, which is Honolulu, on the Island of Oahu, is on one of the most densely populated islands in the world, our land is short, and large tracts are under the control of few owners. In short, we are the victims of an insular economic situation where high costs are about as natural as our sunshine.

In summary, H.R. 7401 would take away the only workable answer the Federal Government has been able to find to cope with high-living costs in the outlying areas. It would sacrifice equal buying power on the altar of a seemingly uniform pay scale. It would visit real hardship on 10,000 of our people. It would put the Federal Government on the side of depressing or holding back wage levels among white-collar workers in Hawaii. For all of this, the Civil Service Commission offers no answers other than the hope that the reductions would not be too abrupt.

If the Commission can come up with a better solution for this problem, we certainly should consider it. As of this date, I don't believe they have.

I hope you will not report favorably on this bill.

(The statement of Gov. John A. Burns referred to, and the concurrent resolution referred to follow:)

STATEMENT OF HON. JOHN A. BURNS, GOVERNOR OF HAWAII

As Governor of the State of Hawaii, I strongly urge the maintenance of the cost-of-living allowance presently granted Federal employees in Hawaii. I would like to point out that there has been ample statistical data to support Hawaii's case on this issue. It should be further noted that elimination of the 15-percent cost-of-living allowance in Hawaii will remove an estimated \$10.4 million in personal income from the economy of our relatively small State.

We are greatly concerned about the adverse effect that the abrupt loss of this allowance will have on some 10,000 residents of Hawaii and their families. Lowered morale among these Federal civil servants is a serious possibility and could well undermine the recruiting program and the retention of high-caliber personnel employed by Federal agencies in our State.

Should there come a time when the cost-of-living allowance will have to be eliminated, I strongly urge that adequate and appropriate steps be taken to insure that the take-home pay of our Federal employees be kept at the level they would enjoy with the cost-of-living allowance. Such an adjustment is the least the Federal worker in Hawaii deserves. Further, it would insure that our overall economy would not be as severely disrupted as it would be if the allowance were to be eliminated without adjustment.

We recognize your concern over continuation of the cost-of-living allowance. But at the same time we ask recognition of the vital human elements that enter this issue, as well as the overall importance of the current allowance to the general economic well-being of the State of Hawaii.

I appreciate the opportunity to present this statement to your distinguished committee and am confident that you will give our views your usual fair consideration.

HOUSE CONCURRENT RESOLUTION NO. 9 OF THE SECOND LEGISLATURE OF THE STATE OF HAWAII

Concurrent Resolution Urging the House of Representatives of the Congress of the United States to Reject Legislation Eliminating the Cost-of-Living Allowances to Federal Workers. Introduced February 25, 1964, Adopted February 25, 1964 (House); February 25, 1964 (Senate)

Whereas legislation now being considered by your honorable body would eliminate payment of cost-of-living allowances to Federal workers; and

Whereas affirmative action on such legislation would adversely affect more than 10,000 Federal workers in Hawaii and would take from them a very substantial portion of their income, thereby reducing the standard of living to which they have adjusted themselves; and

Whereas loss of such funds would seriously jeopardize the continued economic growth and prosperity of Hawaii; and

Whereas, in addition to reducing the standard of living of these 10,000 Federal workers in Hawaii, there would be a loss of spendable income in the economy of Hawaii in the amount of approximately ten and a half million dollars; and

Whereas the ten and a half million dollars of spendable income in Hawaii's economy creates approximately 250 secondary jobs and generates from \$1½ to \$2 million of tax revenues for the State of Hawaii; and

Whereas the loss of such jobs would have a serious impact on the other citizens of Hawaii; and

Whereas the loss of \$1½ million in tax revenues will have a serious impact on the financial situation of our State when it is currently faced with a multimillion-dollar operating deficit; and

Whereas an on the spot investigation of the situation would be helpful to the Post Office and Civil Service Committee of the House of Representatives, which is presently considering the legislation: Now, therefore, be it

Resolved by the House of Representatives of the Second Legislature of the State of Hawaii, Budget Session of 1964 (the Senate concurring), That the House of Representatives of the Congress of the United States be and it is hereby respectfully requested to reject legislation eliminating payment of cost-of-living allowances to Federal workers; and be it further

Resolved, That the Post Office and Civil Service Committee of the House of Representatives is hereby requested and invited to come to Hawaii to investigate and to review the necessity and effect of such payments; and be it further

Resolved, That duly certified copies of this resolution be sent to the Speaker of the House of Representatives, the Honorable Morris Udall, and the Honorable Thomas P. Gill and the Honorable Spark M. Matsunaga, U.S. Representative from the State of Hawaii.

HOUSE CONCURRENT RESOLUTION NO. 9

THE HOUSE OF REPRESENTATIVES
OF THE STATE OF HAWAII,
February 25, 1964.

We hereby certify that the foregoing concurrent resolution was this day adopted by the House of Representatives of the Second Legislature of the State of Hawaii, budget session of 1964.

ELMER F. CRAVALHO,
Speaker, House of Representatives.
SHIGETO KANEMOTO,
Clerk, House of Representatives.

THE SENATE OF THE STATE OF HAWAII,
February 25, 1964.

We hereby certify that the foregoing concurrent resolution was this day adopted by the Senate of the Second Legislature of the State of Hawaii, budget session of 1964.

NELSON K. DOI,
President of the Senate.
SERLRE HIRAI,
Clerk of the Senate.

Mr. GILL. Mr. Chairman, I have also prepared very briefly four points in rebuttal to Mr. Macy's testimony of yesterday. I could go over them quickly, if you would like, or submit them for the record as you desire.

Mr. WATSON. If you might highlight them, Mr. Gill.

Mr. GILL. All right.

Mr. WATSON. And we will include all of your exhibits in toto at the conclusion of your testimony.

Mr. GILL. Thank you very much, Mr. Chairman.

1. Mr. Macy, in his statement and under questioning, indicated that it would take 6 years under H.R. 7401 to phase out COLA.

The bill doesn't say the Commission shall take 6 years; it says COLA shall be terminated "* * * within a period of not to exceed 6 years * * *." (See sec. 2, p. 2, lines 10 and 11.) Under the language of this bill, COLA could be terminated in large percentages or all at one time, and at any time after the effective date of the legislation.

2. Mr. Macy said that the loss of pay caused by elimination of COLA would probably be replaced by pay increases or increments granted during this 6-year period.

First, Mr. Macy's reliance on "the strong probability" of within-grade increases, promotion, and future statutory increases to ease the hardship of the COLA elimination is no assurance that such increases will occur.

Second, Mr. Macy overlooks the tax impact of replacing all or part of COLA with taxable income. Certainly, the replacement of 15 percent tax-free COLA with 15 percent in salary increases will probably mean a loss in take-home pay of somewhere between one-fifth and one-third of the allowance, depending on the individual tax bracket. An employee is not so concerned with his gross pay as with what he can take home to cover living expenses.

3. Mr. Macy seems to tie the Salary Reform Act of 1962 to comparability with private industry rates.

First, he overlooks the equally important principle set forth in the act of "equal pay for equal work," which we contend means roughly equivalent real wages.

Second, the principle of "comparability" is likely to lead to more of a "wage board" approach in the classified service. This could mean lower white-collar wages in low-wage areas. We submit this is a bad precedent to set or follow.

4. In the case of Alaska, Mr. Macy expects the COLA to be replaced by higher wage levels.

First, he doesn't take into account the very serious tax impact on the replacement of 25 percent of tax-free COLA with 25 percent of taxable income.

Second, he doesn't explain the difficulties that would probably ensue when a Federal employee in Alaska, with the new special wage rates, was transferred back to some other part of the country and the regular rates. In what grade or step would he be placed? What effect would this have on his retirement contributions?

Mr. Chairman, I will amplify this for you and submit it.

I would just like to mention, since we are talking about private problems, two instances that have been brought to my attention.

We asked a number of people in Hawaii to tell us what personal effect the cutoff would have on them. I will just tick these off so you can get some idea of what we are talking about.

One instance which was made available to us through the Department of Economic Development is a Federal Aviation employee with a wife and seven children. This is probably a particularly hard case, because expenses are high. But I think this shows what kind of a problem you get into.

This is a GS-9 in the middle range. His present gross per month with COLA is \$784. Without COLA, he figures it would be \$681.50. His take-home pay with COLA is \$650 a month. He figures his take-home without it about \$100 less, or \$555.50. Then he gives a list of his expense such as house payment of \$137 and many other things—telephone, utilities, and so forth; school lunches and clothing up to \$160; his food at \$200 a month; and he comes up with total expenses at the present time of about \$633.50. Compared to his \$650, he just makes it. He has enough left for a trip to the movies, I guess. But if he were cut \$100, he figures he would come out about \$78 short per month.

Now, this example is not necessarily accurate for all employees, but it does indicate the type of problem that people in this range would have when their expenses run at the indicated level.

I have one other listing of comparative expenses that I think is particularly interesting, because the gentleman concerned is a member of the Antitrust Division, one of the higher paid employees, a lawyer, who has been out in Honolulu a short time, and who came from Arlington prior to coming to Honolulu. The nature of his duties leads him to know more about the economy of the State than perhaps most of us do.

He gives a comparison in his own personal costs. He had housing costs of \$158 a month in Arlington, including utilities, for a three-bedroom apartment with a full basement. It costs him \$220 per month in Hawaii, plus \$25 for utilities. So he is pushing almost \$100 more per month for housing.

Gasoline—he points out that in Arlington he was paying 31.9 cents per gallon for 100 octane. In Honolulu it is 45.9 cents for 100-octane gasoline.

Mr. GROSS. Wait a minute; 100 octane at 31 cents in Arlington?

Mr. GILL. That is what he said. For 100 octane, yes; 31.9 cents. I think I pay about 34 cents over here.

Mr. GROSS. I will have to argue with you. I live in Arlington.

Mr. GILL. The fact remains, though, even if you run it up 10 cents, he is still behind. We have one of the highest gasoline prices in the country—I am not sure about Alaska, but we are certainly much higher than the mainland average, because it has to be brought in, even though some is processed in the islands.

His automobile costs he estimates at about \$490 higher for a standard Ford Fairlane eight cylinder with automatic transmission. I think that may be fairly close to being accurate; clothing about balanced, because he does not need as much; medical and dental, comparable; telephone, higher.

Mr. Chairman, I do not want to burden the record with any more of this type of detail. But I merely want to point out that we do

have a special problem here. I am not sure exactly how we are going to solve it. And the obvious fact is that a cutback averaging \$1,000 per annum for 10,000 people in the State of Hawaii would have a serious effect not only on the individuals concerned, which is obvious, but also on the economy of the State.

I should be happy to answer whatever I can for you.

Mr. WATSON. Thank you very much, Congressman.

I notice evidence of your keen interest in this bill in that you have a rather voluminous file. And although we shall not ask you to let us incorporate all this into the record, I hope you will let it be available to the committee should they desire to see any of the exhibits later on.

Mr. GILL. Yes, sir; and I also have the backup material from which the exhibits were taken that I have included in my testimony, which will be available to the committee or the staff, if they so desire.

Mr. WATSON. Fine. Thank you.

Just two or three questions. How does the Government, Federal Government, pay compare to the private industry pay in Hawaii?

Mr. GILL. The figures that we have indicate that in the lower levels—I am not sure where the break line is; it may be around GS-5 and below—Federal Government pay is higher. And in fact the Federal Government gets the pick of the employees in that level.

When you get up above that, and particularly when you get up into 14's, 15's, 16's, the higher technical job, they are either not available or the Federal Government pay is having a little trouble with private industry.

This is a spotty situation. But I think it is due to the fact that our wage pattern levels in Hawaii have some peculiar, not distortion, but lumps in it. In some areas we have fairly high pay. For instance, we have some of the highest paid agricultural workers in not only the country but the world. Our base field wage in sugar, including fringes, runs over \$2 an hour. And the sugar companies are making good money.

However, when you get into certain white-collar areas that are not organized, particularly in the lower classifications of the clerks, the typists, our private industry wage levels are low. Now, the reason for this is obvious. People cannot move back and forth. If you take the situation, say, of Los Angeles and San Francisco, if a clerk does not like the wages he is getting in Los Angeles, he can move to San Francisco with relative ease particularly if he is a young person without encumbrances. If he does not like the wage level he is getting as a clerk in Honolulu, it is a much more monumental step to move to San Francisco, even though many of our people are doing it.

So we do not have the labor mobility or the movement and this tends to distort certain levels of our wage pattern. In the higher levels I think the demand, like every place in the country, is high in private industry, and we have to bring in a number of our high Federal employees.

Mr. WATSON. Would it be fair to conclude, then, that you would not experience too much difficulty either in recruitment or retention of Federal employees under the present salary scales?

Mr. GILL. You mean the COLA?

Mr. WATSON. Yes, sir.

Mr. GILL. No, the Federal Government is doing quite well with COLA at the present time. I think that is fair to say. But its greatest competitor, Mr. Watson, is not private industry; it is State and local government.

Mr. WATSON. Now, that was the next question: How does the Federal Government employee salary schedule compare with your local government salary schedule?

Mr. GILL. When you asked that question yesterday, I got on the phone and called up our Civil Service Commission to get a comparison for you, which I will be happy to submit as soon as it arrives.

Generally speaking, I think the State and local lags a little behind the Federal. But it is fairly close competitor. The transfer back and forth between them is relatively fast. And this, of course, is a big item.

Our employment in government is very much higher than the national average. I think this is probably true in other outlying areas as well. There are a number of reasons for this, but nevertheless it is true. So your big competitor is not private industry; it is the local government.

Mr. WATSON. One final question. What is the percentage of Federal employees in Hawaii; that is, the percentage of native and State-imported, or continental States-imported?

Mr. GILL. That is the second question I asked the Commissioner to look up. I think it is fair to say that the vast majority are local hires.

Mr. WATSON. Yes.

Mr. GILL. We have a variation, which is the "imported Kamaina." This is the gentleman who comes out to work for a couple of years and who stays. So while he may have been originally recruited on the mainland, he will continue to live in Hawaii and comes to be considered a local.

But I will get the best figures we have available on that for you.

Mr. WATSON. Fine.

Mr. GROSS?

Mr. GROSS. I do not want to belabor this gasoline business, but I drive an automobile with a regular-fuel engine, so I can escape this 35-36 cents a gallon high-octane gasoline. Of course, I suppose employees or people in Hawaii drive high-octane engines with a lot of power. They probably need it over there. I do not know.

Anyway, let me ask you, Mr. Gill, do you or do you not subscribe to the comparability provision in the 1962 pay act?

Mr. GILL. I think it has some merit, Mr. Gross. I think the comparability across the country is probably one way of fixing a pay system that is relatively equal. But I think if you are going to be comparable in dollar averages across the country, that you should also have comparability of buying power in mind as well. And that, of course, is where we feel that COLA is the easiest answer to it.

Now, just one parenthetical remark. I would just like to assure you, Mr. Gross, that Hawaii has the highest percentage of foreign cars of almost any part of the Nation. The reason for that is that they do use regular fuel, and not very much of it. Also, we do not have very far to drive.

Mr. GROSS. I am sorry they are buying foreign automobiles since they became a State of the United States. I am one of those individuals that thinks the American market is the best market for American labor, and I do not go for much of this foreign-made stuff if I can possibly avoid it.

Mr. GILL. If we could drop our gas prices 10 cents a gallon, neither would we.

Mr. GROSS. No.

Now, tell me, you do not dispute, then, Mr. Macy's statement that a survey shows private enterprise salary averages in Hawaii are lower than they are in—

Mr. GILL. He said it was about 95 percent, as I recall, in positions the Commission found comparable. I think that is probably accurate. But this, again, is your lower level bulge. Now, they are moderately lower in some of the middle and lower brackets and comparable or higher in the upper brackets.

Mr. GROSS. Since you do not want to lose this \$10.4 million that is vital to your economy, you say, tell me briefly about your tax structure down there. Do you have an income tax, a State income tax?

Mr. GILL. Mr. GROSS, we have every tax known to man and a couple that have not been invented yet.

Mr. GROSS. A sales tax as well?

Mr. GILL. We have a 3½-percent gross excise or sales tax. We have one of the highest income tax rates in the country. We tax cigarettes, liquor, everything that walks and crawls. I helped work on the 1957 tax bill in the State of Hawaii, and I assure you that we had our researchers working around the clock for months trying to figure out new ways to find income. I think we found everything there is.

Mr. GROSS. I suppose, then, you are on a comparability with the State of Iowa.

Mr. GILL. I would daresay that many of our people would be happy to exchange tax systems with the State of Iowa.

Mr. GROSS. I doubt that very much, but I will not argue with you.

Mr. GILL. I am repeating what people tell me.

Mr. WATSON. Thank you very much, Congressman. We appreciate your testimony.

Mr. GILL. Thank you.

Mr. WATSON. Now we will call on Congressman Spark M. Matsunaga. Although a new Member, serving in a very distinguished capacity, Mr. Matsunaga was selected to be the George Washington of the House of Representatives, reading George Washington's message last Friday—Mr. Matsunaga, we are glad to have you.

Mr. MATSUNAGA. Thank you, Mr. Chairman.

Mr. GROSS. And George Washington advised us to stay out of permanent foreign entanglements, with foreign countries, did he not, Mr. Matsunaga?

Mr. MATSUNAGA. Well, I do hope that George Washington's philosophy, to many degrees, will not be applied to COLA; that is, that COLA will remain where it is and not be construed as getting into foreign entanglements.

Mr. GROSS. In other words, if it is expedient, we make an exception, is that it? All right.

STATEMENT OF HON. SPARK M. MATSUNAGA, U.S. REPRESENTATIVE FROM THE STATE OF HAWAII

MR. MATSUNAGA. Mr. Chairman and members of the subcommittee, I thank you for this opportunity to appear before you to add my voice to those who have already testified in opposition to H.R. 7401, a bill providing for the termination of the cost-of-living allowance (COLA) now allowed Federal employees in Hawaii, Alaska, Puerto Rico, and the Virgin Islands.

If I might be permitted to make a prediction, the passage of this bill will have a most ruinous effect on the morale and efficiency of the Federal civil servants involved. While I do not presume to speak for Alaska, Puerto Rico, and the Virgin Islands, I believe we can safely assume that the effect in those areas will be the same as in Hawaii.

Ten thousand Federal workers and their families in Hawaii have geared their standard of living to their present salaries (including COLA). Like Americans in other States, they have committed themselves to purchases on credit of homes, furniture and appliances, automobiles, televisions, and other items on the basis of their monthly earnings. Approval of H.R. 7401 would jerk the rug from under them and force them into defaulting on their monthly obligations. Many of them would need to change their plans for the education of their children and even alter their whole mode of living. Surely, their morale and efficiency on the job will suffer. As a consequence, their employer, the Federal Government, will also be the loser. The biggest sufferer, of course, will be the State of Hawaii, whose economy will be dealt a staggering blow by the withdrawal of \$10.5 million of income annually.

If H.R. 7401 were designed to abolish a giveaway program, we would not be here asking for its defeat. If the continuance of COLA were an unjustifiable enrichment of undeserving profiteers, we would not be here begging.

As stated by the Chairman of the U.S. Civil Service Commission in his testimony before this subcommittee—

the purpose of this bill is 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.

It is safe to assume, I believe, that by this the Commission means that it believes that a clerk-typist in Hawaii ought to receive the same pay as the clerk-typist of the same classification in Washington, D.C. The Commission proposes to accomplish this by terminating the cost-of-living allowance of 15 percent now paid the worker in Hawaii if given the authority to do so.

We can readily agree with the intended purpose of the bill to place Federal employees in Hawaii "on the same footing" as their counterparts in Washington, D.C. But we cannot agree that elimination of the cost-of-living allowance will accomplish this purpose. In fact, the bill will destroy the nearly equal footing now enjoyed by Federal employees in Hawaii.

As it has been admitted by the chairman of the U.S. Civil Service Commission, the cost of living in Hawaii is 15 percent higher than in Washington, D.C. This means that the dollar in Hawaii is worth 15

cents less than it is in Washington. To place the Hawaii worker on an equal footing with his counterpart in Washington, therefore, we must pay him an additional 15 cents for every dollar. The cost-of-living allowance which the former now gets makes up for this difference. Its elimination would place Federal workers in Hawaii on a subordinate footing and defeat the very purpose of the bill.

While I am willing to accept the finding of the Civil Service Commission that the cost-of-living differential between Washington, D.C., and Hawaii presently stands at 15 percent, I wish to call your attention to the list of comparable retail prices (as of yesterday) of selected food items which I submit for the record. You will note that the average price on the listed items is 34 percent higher in Hawaii. I refer you, of course, to the attached list, which is made the last page of my testimony.

The Chairman of the Civil Service Commission has stated that rises in the cost of living is not a consideration in increasing wages and that we should be concerned only with the general level of prevailing wages. No doubt this statement was made to bolster the argument that Federal wages should not be based on the cost of living. However, we all know that in fact labor unions have long bargained for cost-of-living wage increases and that wage and salary levels are in part based upon what it costs to maintain a standard of living commensurate with the positions involved.

The argument that the cost of living should not be a consideration in determining salary levels, therefore, is without any real basis.

For the reasons stated, I urge this special subcommittee not to report out H.R. 7401.

I thank you very much, Mr. Chairman. I would be most happy to answer any questions which you have.

Mr. WATSON. Thank you very much, Congressman.

Not directly related to the subject at hand, but as a fellow American I always try to pronounce the name of the State as the natives prefer. And somewhere along the line I had heard it called Huh-vaw-ee. It is Huh-wah-ee, is that correct?

Mr. MATSUNAGA. It is a longstanding argument, Mr. Chairman, even in Hawaii. People say Huh-vaw-ee and Huh-wah-ee.

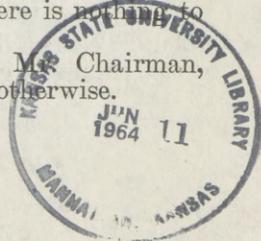
Mr. WATSON. Just so we remember you and are considerate of you, you do not care what pronunciation we use?

Mr. MATSUNAGA. No; just as I do not care about people calling me Matsugawa, Matsoonga, and so forth. It represents the same person; it represents the same State. But Huh-vah-ee, I am told, is the result of the Russian influence. The Russians were there also at one time. As a matter of fact, they built a fort on the island of Kauai which still stands. And the Russians, you know, pronounce "w" as "v."

Mr. WATSON. Well, we certainly appreciate your coming over and testifying. We have heard earlier of your keen interest in this legislation and its impact on Hawaii.

Let me ask you this question: I thought that the natural beauty and wonder of the island were so great that really you did not have to worry too much about money over in Hawaii. There is nothing to that?

Mr. MATSUNAGA. Fortunately or unfortunately, Mr. Chairman, Hawaii has become Americanized economically and otherwise.



Mr. WATSON. Only the tourists go over there and are lured and able to live on the beautiful surf and the sun and sand of Hawaii, the natives have to live just as the rest of us and buy groceries?

Mr. MATSUNAGA. And if you will talk to any of the tourists who have been to Hawaii, Mr. Chairman, you will find that they are in agreement that the cost of living in Hawaii far exceeds that on the mainland United States. In talking to representatives at the various conventions held here in Washington, I find that they are all in favor of extension of COLA.

Mr. WATSON. Incidentally, would it be advisable for the benefit of the Hawaiian Chamber of Commerce for us to seal this record here concerning the higher cost over in Hawaii? I will not ask you to answer that. You have so many other attractions that I am sure that they more than offset the added financial burden.

Mr. MATSUNAGA. Yes, sir.

Mr. WATSON. I would ask you some additional questions, but I have already propounded them to your colleague, and I assume that both of you will get the answers for the subcommittee.

Mr. GROSS, do you have any questions?

Mr. GROSS. Well, Mr. Matsunaga, you say that the differential is 15 percent as between Hawaii and Washington, D.C.; is that correct, or approximately 15 percent?

Mr. MATSUNAGA. Yes; we are willing to accept that figure.

Mr. GROSS. Now Mr. Macy testified or presented a statement yesterday saying that the differential between Houston, Tex., and Chicago was 22 percent. Would you suggest that we extend the cost-of-living allowance to Chicago?

Mr. MATSUNAGA. Well, actually, as you know, Mr. GROSS, the cost-of-living allowance was instituted by law for the purpose of attracting skilled labor as well as for the purpose of retraining skilled workers employed in the Federal civil service in Hawaii. And regardless of what has been said about the beauty of Hawaii and the attractiveness of living in Hawaii, we still find that in many Federal jobs such as, say, a marine architect, we are unable to get such skills in Hawaii proper. And we still are required to import skilled labor from the mainland United States.

And without the differential, without COLA, it would be just impossible to attract the skilled workers that we would need in important Federal jobs such as at Pearl Harbor.

Mr. GROSS. Of course, we hear that in every pay bill that comes up, that it is impossible to get people in the Federal Government to take jobs unless we increase the pay, and so on and so forth. But I guess you prefer not to answer the question of whether we should extend this to Chicago and to other high cost-of-living places and centers in the United States.

Now tell me about this. Do you have bread in Washington, D.C., at 19 cents and in Honolulu at 23 cents? That would be awfully stale bread in Washington for 19 cents a loaf, would it not, for a pound loaf?

Mr. MATSUNAGA. Well, that is the figure I took from advertisements.

Mr. GROSS. Well, if you can buy any bread around here for less than about 22 cents a loaf, unless it is stale, I would like to know where you get it, because I go shopping once in a while.

Mr. MATSUNAGA. I do too, Mr. Gross. But this is the figure also used by Mr. Moron of the Virgin Islands in his presentation yesterday. And I took these figures. I did not want to change any of the figures he had given. I accepted, and I checked and found them to be substantially correct.

Mr. GROSS. Now you have cornflakes at 23 cents, I suppose a box, in Washington and 47 cents, double the price, in Honolulu. Yet you have soap powder at 77 cents a box in Washington and 79 cents a box in Honolulu. I do not understand why.

Mr. MATSUNAGA. Soap powder, Mr. Gross, is manufactured, to a large extent, in Hawaii proper.

Mr. GROSS. Soap powder?

Mr. MATSUNAGA. Soap powder; yes. It is for that reason—we do not have the added freight onto the price—that we are able to enjoy such a low price.

Mr. GROSS. Well, you have strained foods at 11 cents as compared to 12 cents. Do you prepare them down there too, or process them?

Mr. MATSUNAGA. No; but then when you take the percentage—there is one penny there.

Mr. GROSS. Vegetable soup, 14 cents in Washington and 16 cents in Honolulu. Evidently the ocean freight rate is not the factor. In some places it appears that it is, and in some places it appears that it is not. Well, I do not know that we want to spend a lot of time on this.

Mr. MATSUNAGA. Well, it has been a puzzle to us consumers in Hawaii, Mr. Gross, as to why the prices vary so much on some items.

In clothing, of course, the average consumption per annum in Hawaii is lower, as shown by Mr. Gill's figures presented earlier, because we wear practically nothing but aloha shirts and muumuu all year round. It is for this reason that the total cost of clothing is much cheaper in Hawaii. But then we have not been able to figure out why there should be such a difference in other items. The shipping industry tells us that shipping cost is but a small part of the cost of goods in Hawaii.

Mr. GROSS. Do you not get a lot of your goods in Hawaii from Japan?

Mr. MATSUNAGA. Yes; we do.

Mr. GROSS. What makes their prices so high, if they are high?

Mr. MATSUNAGA. Of course, we have duty imposed upon foreign products.

Mr. GROSS. You have a tariff in the State of Hawaii, is that right?

Mr. MATSUNAGA. No; not the State itself, but the Federal duties which are imposed upon foreign imports.

Mr. GROSS. Well, this does not stop them from coming into the mainland of the United States.

Mr. MATSUNAGA. But then even the Japanese products are practically sold at comparable prices. The markup might be much greater than it ought to be.

Mr. GROSS. Well, is there not something that you ought to be solving in the State of Hawaii?

Mr. MATSUNAGA. Yes. The State itself has been looking into the matter for a long time.

Mr. GROSS. I will have to talk to my friend, Governor Burns, and see what goes on here.

Mr. MATSUNAGA. I am sure he would be glad to——

Mr. GROSS. Thank you, Mr. Chairman. Thank you, Mr. Matsunaga.

Mr. WATSON. Mr. Barry.

Mr. BARRY. Thank you, Mr. Chairman. I am interested in some of your comparisons, Mr. Matsunaga. I would not believe that you would need to spend very much for heat in Hawaii. That is a big item in the wintertime for Washington, D.C., comparing figures to Washington. I recognize the food differentials, but you do not have many changes of clothing or many types of changes of clothing. We have winter clothing and summer clothing here.

Mr. MATSUNAGA. That is right.

Mr. BARRY. And overcoats and all, things that cost a lot. And you do not have them. Then, in addition, one of the biggest items of expense to the average householder is the cost of heat.

Mr. MATSUNAGA. Yes.

Mr. BARRY. If you take those items out, I just wonder why the percentage is as great as it is. It would not seem to me to be as great as that. Now maybe you would like to answer that.

Mr. MATSUNAGA. Yes. As was presented in earlier testimony, the cost of housing is tremendously higher in Hawaii than here. The average home would run into \$20,000 or more in Hawaii, whereas here you could get it for—that is, the mainland United States—on the average of about \$11,000 or \$11,500.

I have a home here now in Bethesda—of course, I have only an equity; the bank owns it legally—but that same home for which I paid \$26,500 I could not purchase in Hawaii for \$40,000. And land is so hard——

Mr. BARRY. But you would not purchase the same kind of house, would you, with all the insulation and heating? The heating is a very important part, and this would not be necessary, then?

Mr. MATSUNAGA. Yes, I realize that, and sadly so, because I am paying \$60 a month now for heating. But then while I pay a hundred——

Mr. BARRY. I mean the heating plant, the actual furnace and radiators and things of that kind.

Mr. MATSUNAGA. For the house in Bethesda, fully furnished with heating equipment and even with deep freeze and with washer and a dryer, all I had to pay was \$26,500. And as I said, I would not be able to get such a home in Hawaii for \$40,000.

Mr. BARRY. I understand that in Hawaii you do not have to put basements in the houses, because you do not have a frost problem and, therefore, you can just lay them on a flat slab of concrete.

Mr. MATSUNAGA. That is correct. But then a home which I own in Hawaii—that is here, again, only an equity—but for which I paid \$40,000 with a lot of only 6,500 square feet. Here my lot is 9,000 square feet; now, \$40,000 for a home in Hawaii; I would pay probably \$30,000 here.

Mr. BARRY. I think to get a comparable figure you have to calculate square feet of cost of building in Hawaii versus square feet of cost of building on the mainland, because if you start comparing land values, you get into another problem too.

Mr. MATSUNAGA. Well, that is an item of housing.

Mr. BARRY. 6,000 square feet in Hawaii, which is a rare part of this earth, may be a lot more valuable than 9,000 feet in the hills of Maryland.

Mr. MATSUNAGA. Well, that, of course, is the largest cost of our living expenses; that is, if it had not been for the high cost of land, perhaps housing would not be as costly in Hawaii.

Mr. BARRY. Yes; but you have to distinguish between the two. Because it is difficult for me to see how a house without basements, without heating plants, and without the heavy insulation, without the necessary thickness of walls, and so on, costs materially more. I think you will find, if you look into it, that it is a land item that makes the cost so high.

Now, another thing. I notice on the last page of your testimony you have various items of expense and you compare the Honolulu price and Washington price. Then on the right-hand side you show the percentages. Then on the bottom you average percentages. The first lesson in statistics is that you cannot average percentages, because the need for milk is far greater than the need for another particular item. It would not give you a true percentage.

Mr. MATSUNAGA. Yes.

Mr. BARRY. Now, you take an item of 115 percent of the cost here. Maybe that is not an item you would use much of in Hawaii. It happens to be potatoes. I think most people in Hawaii like rice much more. And, I have a feeling that rice is the more important commodity there. Yet the one used as an average, that staple is around 114 percent, and it happens to be potatoes.

I just point out this inconsistency because I do not think it is true. The average cost of food in Hawaii would run 34.3 percent higher for the average family total expenditure for food in a given month.

Mr. MATSUNAGA. Well, this percentage, Mr. Barry, is given only as an indication of an average of just these items listed here. And it was just as a figure to give some indication as to the high cost of food in Hawaii.

As to potatoes, though, Mr. Barry, I might point out that the Caucasian in Hawaii constitutes 33 percent of the entire population.

Mr. BARRY. I know there is potato consumption all over the world. But I did not notice anything down here for rice. And I thought maybe there are some commodities you undoubtedly pay more for down there, just as you obviously pay less for pineapples and coconuts and other things on the list.

Mr. MATSUNAGA. Yes.

Mr. BARRY. I think a true evaluation of the cost of food would be better than just individually singling out certain items and giving a percentage and then averaging your percentages, which is not a fair method in statistical analysis in arriving at a conclusion.

Mr. MATSUNAGA. Yes. As I said earlier, Mr. Barry, I am not contesting the figure presented by the U.S. Civil Service Commission yesterday that there is a differential of 15 percent. We are willing to accept that. But I presented these figures here as a matter of interest and as a matter of following through on what was presented yesterday by the representatives from the Virgin Islands.

Mr. Gross. You see, Mr. Matsunaga, you are talking to a New Yorker who thinks that New York ought to have a cost-of-living al-

lowance because they have within the State of New York another state known as the state of the United Nations.

Mr. BARRY. Commenting on the remarks of the gentleman from the State of Iowa, I would say that I do think we should have a cost-of-living allowance, but not for the purpose the gentleman suggested. I think we should have one in New York because of the post office. In order to work in the post office in New York, you either have to have an outside income, moonlighting, or have another member of your family work, or live in the slums. You cannot possibly work for the post office and live in New York City; pay the rents required to live in New York City and have enough left over for food and clothing without living in a slum.

So I am almost on the perimeter, shall we say, of wanting wage board analysis of postal employees in the city of New York. Incidentally, the city of New York generates as much mail as the rest of the world, besides the United States, and that is a great deal of mail.

Mr. MATSUNAGA. I take it that the gentleman is in favor of the Federal pay raise bill.

Mr. BARRY. Yes, I am in favor of the Federal pay raise bill.

Mr. MATSUNAGA. In closing, Mr. Chairman, I would like to invite the subcommittee to visit Hawaii and perhaps get a better picture of what it really is like and conclude for yourself that there is really a need for retention of COLA in Hawaii.

Mr. WATSON. Thank you, Mr. Matsunaga. And despite the rather discouraging cost differential, I still am anxious to visit Hawaii.

Mr. MATSUNAGA. I think the subcommittee ought to visit Hawaii.

Mr. WATSON. So that we might have as orderly a record here as possible, and if our colleague, Mr. Rivers, will defer for a moment, we have Congressman Fong here from Hawaii—Senator, excuse me—and if he will come up, we will hear from him at this time.

And I would remind the witnesses again that we have promised the gentleman from Puerto Rico that we would allow them at least 40 minutes here, and so if you could hit the highlights of your written testimony, we will assure you that all of the committee members will read your statement in its entirety.

Excuse me, Senator, for referring to you as "Congressman," but we are rather proud of the title of "Congressman."

Senator FONG. Many people refer to me, Mr. Chairman, as worse than that.

STATEMENT OF HON. HIRAM L. FONG, U.S. SENATOR FROM THE STATE OF HAWAII

Senator FONG. Mr. Chairman and members of the subcommittee, I appreciate very much this opportunity to submit a statement expressing my views on H.R. 7401, a bill to terminate cost-of-living allowances for statutory-salaried Federal civilian employees in non-foreign areas, and for other purposes.

I strongly urge the subcommittee to reject this proposal of the Civil Service Commission, on the ground it is not in the best interest of the Federal Government in the areas affected; namely Hawaii, Alaska, Puerto Rico, and the Virgin Islands.

In the statement of purpose and justification submitted by the Civil Service Commission with the draft bill, it was said there have been significant changes since 1948 which make inappropriate the continuation of additional compensation based on living costs. One change cited was "substantial changes" in the economies of the areas concerned, especially in Puerto Rico and Hawaii. Another change cited was passage of the Federal Salary Reform Act of 1962, embodying two principles: equal pay for substantially equal work and comparability of Federal salary rates with private enterprise for the same levels of work.

The justification does not explain why a change in the economies of Puerto Rico and Hawaii since 1948 calls for terminating cost-of-living allowances. Official cost-of-living figures for the city and county of Honolulu, our principal city in the State, where 79 percent of our people live, show that the Consumer Price Index rose about 26 percent in the last 10 years. During this same 10-year period from June 1953 to June 1963, the Consumer Price Index for the mainland United States rose only about 14 percent. The steep rise in Honolulu's cost of living is shown in the following table based on data obtained by the Research and Statistics Section of the State of Hawaii Department of Labor and Industrial Relations and published in the Hawaiian Business Review by the Hawaiian Trust Co., Ltd., of Honolulu.

Honolulu's consumer price index (Mar. 15, 1943 equals 100)

	June 1953	June 1958	June 1963	Percent change 1958-63	Percent change 1953-63
All items.....	142.0	157.9	178.2	+12.8	+25.5
Food.....	151.4	162.6	185.7	+14.2	+22.6
Clothing.....	118.6	125.6	133.0	+5.9	+12.1
Fuel, light.....	121.2	142.0	140.9	-0.8	+16.2
Housefurnishings.....	138.8	156.0	164.4	+5.4	+18.4
Transportation.....	162.5	186.4	230.3	+23.6	+41.7
Medical care.....	158.5	179.7	200.1	+11.4	+26.2
Household operations.....	142.1	160.8	182.4	+13.4	+28.4
Recreation.....	147.5	182.0	204.1	+12.1	+38.4
Personal care.....	133.8	175.1	207.3	+18.4	+54.9

Mr. FONG. You will note that on all items the index for June 1963 is 178.2.

The latest available figure shows the cost of living in Honolulu at 178.6, as compared with 178.2 in June 1963, the date used in the preceding table. So the cost of living is still going upward in Hawaii.

A 26-percent increase in the cost of living for Hawaii compared with a 14-percent increase on the mainland indicates that the 15-percent cost of living allowance for Hawaii is certainly merited.

In fact, the cost of living in all four areas, Hawaii, Alaska, Puerto Rico, and the Virgin Islands, as shown by Government surveys, has exceeded that of the District of Columbia by at least 12.5 percent in every year through 1963 since 1948 when section 207 permitting COLA was enacted. In the latest survey regarding Puerto Rico and the Virgin Islands, a new basis for determining cost of living was used and this had the effect of substantially lowering the cost of living index for these areas. In Hawaii, the cost of living was still deter-

mined to be 14.9 percent above Washington, D.C., and that of Alaska even higher.

The second change cited by the Commission as justification for abolishing COLA is the Federal Salary and Reform Act of 1962.

Figures show that base salaries paid Federal employees in Hawaii are 14.6 percent less than private industry in the fourth rate of grade 5; 13.7 percent less in grade 13; 11.8 percent less in grade 6; 10.9 percent less in grade 4; 4.1 percent less in grade 3; 2.8 percent less in grade 11; 2.5 percent less in grade 12; 2.4 percent less in grade 7; and 0.3 percent less in grade 9.

No comparable industry average is shown for grades 8, 10, 14, or 15. Only in the fourth rate of grades 1 and 2 are Federal salaries in Hawaii higher than private industry there.

One of the original reasons advanced by the Commission was the possibility of giving section 504 pay increases to offset the abolishment of COLA. A Bureau of Labor Statistics survey was begun to find out what comparable pay scales are in private industry in the four COLA areas.

I have studied in detail the figures for the State of Hawaii. From my examination of the Hawaii survey figures, it appears unlikely that elimination of COLA can be offset by pay raises under section 504. For those in the eighth step and above, section 504 cannot be applied as section 504 is applicable only in steps one to seven inclusive.

The Commission has now conceded that section 504 pay increases are not contemplated for Hawaii, Puerto Rico, and the Virgin Islands but only for Alaska.

Repeal of the cost of living allowance would mean a sure and definite cut of 15 percent in the take-home pay for all of Hawaii's Federal classified and postal workers.

Despite assurances of Civil Service Chairman Macy that COLA would be reduced 2.5 percent each year for 6 years, this still adds up to a 15-percent cut in take-home pay. To offset the 2.5-percent yearly reduction in COLA, the Commission now holds out two possibilities: one, general salary increases contingent on enactment by Congress and, two, in-grade and grade promotions.

General salary increases would not compensate for the loss of COLA.

Obviously, in-grade promotions and grade promotions would go to individuals on the basis of merit and not across the board to offset the loss of COLA which goes to all employees.

Having shown that the approval by Congress of the 1948 act permitting COLA is justified because until this year the cost of living in all four areas where COLA is paid has been above Washington, D.C., by at least 12.5 percent, having shown that the cost of living in Hawaii has risen 26 percent since 1953, compared with a national rise of only 14 percent, and having shown that the Federal Salary Reform Act of 1962 is a change offering little prospect of offsetting loss of cost-of-living allowances in Hawaii, I now turn to an important factor that has not changed since the 1948 act, that is, geography.

In 1948, Hawaii, Puerto Rico, and the Virgin Islands were island areas. They still are today. In 1948, Alaska was in the remote far northwest corner of the continent, far distant from the rest of the United States. It still is today.

Speaking for Hawaii, because this is the area with which I am most familiar, this geographic insularity poses special problems. Our insularity necessarily involves higher living costs as we must import from distant points more than 90 percent of our consumer goods.

Our location nearly 2,500 miles from the west coast poses another problem in that our labor force is not a highly mobile one. There is not a considerable movement of labor between Hawaii and the mainland, for it is costly to pull up family, house, and belongings and go to the mainland or vice versa. Many mainland workers hesitate to come to Hawaii, not only on account of cost, but also because of the great separation from mainland relatives, friends, cities, jobs, schools, vacation spots, and so on.

One of the reasons I believe we have not had a serious problem in Hawaii of recruiting and retaining Federal personnel is precisely because of the cost-of-living allowance. It has been an incentive for mainland specialists to uproot themselves and journey to the mid-Pacific to take up a new life.

Recently, I had the opportunity to visit with a number of Federal officials in Hawaii whose duties as administrators of Federal facilities give them insight as to the effect the cost-of-living allowance has on their subordinates. To a man, they voiced grave concern over recruitment prospects if COLA were eliminated. There is a critical need for physical science engineers and metal tradesmen in the defense establishments in Hawaii. The cost-of-living allowance plays a great part in obtaining skilled personnel in these critical professions. The abolishment of COLA will in the opinion of these administrators, most definitely result in serious recruitment problems.

Approximately 88 percent of the general schedule Federal employees in Hawaii are employed at military installations. Many of these employees are highly skilled and were recruited from continental United States. Such recruiting is still being carried on. Our military commanders in Hawaii are greatly concerned that elimination of the cost-of-living allowance will inhibit the migration of these critically skilled persons to Hawaii as Federal employees. The skills needed to handle the intricate instruments of our Nation's defense require more schooling and specializing. I am convinced that Hawaii's cost-of-living allowance is decisive in persuading many mainland recruits and local talent to work for our Federal Government in Hawaii instead of taking jobs with mainland private industry. We can ill afford to jeopardize the employment stature of our Federal Government in Hawaii by eliminating this cost-of-living allowance.

If COLA is abolished, I believe we will begin to have a serious recruitment and retention problem in Federal employment. For people of modest incomes and salaries, Hawaii is a very high cost-of-living area. Although our climate is delightful, many mainlanders in Hawaii miss the change of seasons. To obtain such a change is costly because of Hawaii's distance from the mainland.

If COLA is abolished, I predict many skilled specialists will seek transfers to the mainland. Once Hawaii loses those with special skills, it will be difficult to obtain replacements.

Hawaii's scenery is spectacular, but it is not an edible or spendable commodity.

Hawaii's fine hotels and restaurants and other tourist facilities are in the main geared for the tourist trade.

Hawaii's carefree, relaxing atmosphere is fine, but few can be beachcombers and must live in houses. The average price of owner-occupied housing units in Hawaii is the highest of any State in the Nation, according to Census Bureau figures released in November 1962. Hawaii's average is \$20,900, compared to the national average of \$11,900. The average for the District of Columbia is \$15,400.

Hawaii's delightful air is free, but living is not. Residents of Hawaii bear a heavy tax burden. The State per capita tax collections during the year ending June 30, 1962, rated Hawaii as fifth highest in the Nation—an average of \$252 for every man, woman, and child, or \$3,000 for every family. This tax burden was 79 percent above the national average. Fifty-two percent of this tax collection came from personal incomes, 16 percent through taxes at consumer levels, and 5 percent from real property taxes. The State of Hawaii imposes a 3.5-percent retail sales tax on all consumer purchases. The State motor vehicle fuel tax is 9.5 cents per gallon. The District of Columbia, by comparison, has a 3-percent retail sales tax and a 6-cent motor fuel tax.

I believe the unusual problems of island areas and Alaska are just as compelling as ever and that continuance of COLA for Hawaii, Puerto Rico, the Virgin Islands, and Alaska is amply warranted in recognition of these problems.

These are problems rooted in geography, a factor which remains constant. Abolition of COLA in these four areas would work a great hardship on Federal workers and would in time compound the difficulty in obtaining and retaining qualified personnel for Federal posts in these areas.

Again I urge the subcommittee to reject the proposed bill.

Thank you.

Mr. WATSON. Thank you very much, Senator Fong. We appreciate the expeditious manner in which you read the testimony. And let the record show that the speed with which you read it was not indicative of your lack of interest in this particular problem. And we appreciate your coming over here.

Mr. Gross, do you have any questions?

Mr. GROSS. No questions. Thank you.

Mr. WATSON. Mr. Barry.

Mr. BARRY. Mr. Watson, I want to compliment Senator Fong on a very comprehensive statement. I do like the statistics that you furnished me, and they are understandable.

I would like to point out one thing on page 8. You mentioned that they collect only 5 percent of their total tax take from real property tax. I do not know what is the matter with the economy of the State of Hawaii, but when you take only 5 percent of the total tax from the real property, which we have now found out is the major thing that causes houses and living to be so high in Hawaii, there is something wrong in the way in which the whole economy is operating; namely, that the land itself is not paying its share.

Senator FONG. Well, these taxes are being upgraded. And I note that there has been about a 1,000-percent increase in some areas.

Mr. BARRY. I imagine that is necessary. So this figure would change if you were to render a report?

Senator FONG. Yes. And when you consider that only 5 percent comes from real property taxes, then you can see how high the cost of living is in Hawaii relative to our housing costs.

Mr. BARRY. Relative to your 3½-percent retail sales tax, that is high. Sixteen percent of your tax at retail levels, whatever that means; that is a hidden tax.

Senator FONG. That 3½ percent is tax on tax on tax; for example, a man might own a piece of property. He subleases it to another one, and the sublessor subleases it out to another and pays a tax. So there may be a tax on tax on tax.

Mr. BARRY. And it says 52 percent of this tax comes from personal incomes. I do not know a State in the Nation that collects 52 percent of its tax from personal income. This is more like the U.S. Federal tax.

Senator FONG. That is true. And yet when you—

Mr. BARRY. I think this has a historic bearing on the day when Hawaii was not a State in this Nation, and they adopted our tax structure and slapped on a very heavy personal income tax; and now the people in Hawaii not only pay their Federal income tax, but they pay this very high State personal income tax.

Senator FONG. Yes. That runs up to 10 percent at the high figures.

Mr. BARRY. So I think the heart of your problems on the high cost of living, if I see it right, are the high taxes that do not go to the land; the landowners offer only a very small amount of the share of the burden of carrying the economy.

Senator FONG. The Federal tax which is being paid in Hawaii is not a deductible item in the income tax consideration for the State of Hawaii. So you can see how high our taxes are.

Mr. BARRY. Yes, I do.

Senator FONG. And the fact is, regardless where you get the tax, whether you get it from property, whether you get it from income, whether you get it from excises, we still pay a high tax. If we do not get it from the land, we must get it elsewhere. If we get it from the land, we reduce it elsewhere. But the totality of taxes will still remain high, regardless of what we do.

Mr. BARRY. It does make a difference if the value of the land tax is high. Certainly to get only 5 percent of the total cost of running the Government—I assume this is schools as well—only 5 percent from the land is way out of step with all the rest of the Nation.

And so I suggest that those who own the land could bear a far greater share, therefore not throwing so much on the consumers, and reducing the high cost of living. You make the point they have to get it from the land, that that is adding to the cost. This is not necessarily true, because the land could be already owned by people who may lease it out. I do not know what the problem is exactly, but I will say that, if I had to pinpoint where it is, from everything that has been presented to the committee thus far, I would say it is too low a real estate tax and a very high proportionate tax on consumer items, sales taxes, hidden taxes, and income taxes.

Senator FONG. Just last week I heard the Governor announce that some of these parcels of property are being taxed a thousand percent more this year than last year. So there is a revision going on, Mr. Barry.

Mr. BARRY. Thank you.

Mr. WATSON. Thank you very much, Senator Fong.

At this time we will call on our colleague, Congressman Rivers. We certainly appreciate your patience, Congressman. You were here all day yesterday, and then deferred to the Senator in order that we might put all of the Hawaii testimony together. We are certainly grateful to you and appreciate your keen interest in this problem.

Mr. RIVERS. Thank you, Mr. Chairman. I approve of the procedure you followed.

STATEMENT OF HON. RALPH J. RIVERS, U.S. REPRESENTATIVE FROM THE STATE OF ALASKA

Mr. RIVERS. Mr. Chairman and members of the committee, I appreciate this opportunity to be heard in opposition to H.R. 7401, which would terminate the cost-of-living allowance paid to classified Federal employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands, and amend the so-called Federal Salary Reform Act of 1962 in such a way as to stretch the pay system set forth in that act to make it fit the unusual situation in Alaska, and the situations in the referenced off-shore areas.

Before criticizing this bill, I wish to make it clear that it is my impression that the distinguished chairman of the Committee on Post Office and Civil Service introduced it upon request (although such words were not included on the face of the bill), and that in doing so he lent his name to a bill drafted by the U.S. Civil Service Commission, sponsored by the Civil Service Commission, and promoted by the Civil Service Commission. I base this statement upon the executive request addressed to Hon. John W. McCormack, Speaker of the House of Representatives, under date of May 14 and signed by John W. Macy, Jr., Chairman of said Commission.

Involved in H.R. 7401 is a fundamental dispute. In pressing for the legislation, the Civil Service Commission contends that it is acting under a mandate from the Congress contained in the Federal Salary Reform Act of 1962. I have read this act with care, recognize its applicability to the 48 contiguous States, note that section 502 sets up a criterion of comparability with private enterprise salary rates for the same levels of work upon the basis of national averages, but I fail to find any mandate telling the Civil Service Commission to seek legislation to abolish the cost-of-living allowance in areas where the rates of pay found by determining nationwide averages are inadequate, and, therefore, invalid. This is highlighted by the fact that upward adjustments authorized in section 504 of the Salary Reform Act of 1962 are limited to the seventh salary rate prescribed by law for classification grades or levels, which fits the economic situation and salary requirements of the older 48 States but is inadequate to encompass the economic situation and Federal salary requirements in Alaska. This is consistent with the fact that a 25-percent cost-of-living allowance has been in effect in Alaska for many years, and ostensibly when the Congress enacted the 1962 act, it intended to keep the cost-of-living allowance in Alaska and the other cost-of-living allowance areas.

This point becomes clearer when you look at the rates of starting pay and maximums within grades up to and including the seventh level

presently in effect. The rate at the seventh level is not high enough to encompass present base rates in Alaska plus 25 percent as the equivalent of the cost-of-living allowance, even without considering the increased tax factor. This is tacitly admitted in H.R. 7401, on page 2, section 3(1), lines 19 and 22, which read as follows:

Provided, That in no case, except in Alaska, shall minimum salary rate so established exceed the seventh salary rate prescribed by law for the grade or level.

Additionally, you will find in section 4 of the bill, lines 6 through 13, on page 3, that admittedly the maximum salary of \$20,000 set by the Salary Reform Act of 1962 is considered inadequate for several top grades in Alaska.

This demonstrates to me that in passing the 1962 act, the Congress intended that the base rates to be established thereunder would apply to Alaska without changing the cost-of-living allowance.

Mr. Chairman and members of the committee, let us now look into the original reason for establishing the cost-of-living allowance in 1949 and the part it has played in the maintenance of a good civil service establishment in Alaska.

Postal employees and other Federal civil servants in Alaska couldn't make ends meet on the regular base pay rates in effect in the 48 States. At that time Alaska was a territory. The cost of living in Alaska, which was as high as 50 percent over the national average, impelled the establishment of a cost-of-living allowance. Such allowance, also found to be warranted in other noncontiguous areas of Hawaii, Puerto Rico, and the Virgin Islands, was, therefore, established by section 207 of the Independent Offices Appropriation Act of 1949 with a maximum of 25 percent above the regular base rates. This allowance did not entirely cover the excessive difference between the cost of living in Alaska and the 48 contiguous States, but was a great palliative in removing hardship and in solving the Federal Government's recruitment problem. This 25 percent cost-of-living allowance, combined with exempting same from the Federal income tax, established an equitable situation in Alaska. Permit me to say that in the ensuing years the situation hasn't changed. The latest Bureau of Labor Statistics report on the cost of living—using Washington, D.C., as the base—shows as follows: Anchorage 143.2; Fairbanks 146.5; Juneau 132.8. Included in establishing those figures are the following items: market basket, clothing, housing, transportation, recreation, medical care, household services, and household furnishings. Not included in the figure are such items as the high total cost of the large total amount of fuel needed to heat a house during the long Alaskan winters, and the cost of heavy winter clothing for all members of the family in addition to the usual wardrobe requirements.

Let us now consider the fact that even if the base pay of Alaska's classified Federal employees were to be raised by an amount equal to the cost-of-living allowance, such base pay raise, as distinguished from the cost-of-living allowance, would be subject, at the top, to the Federal income tax. This alone, generally speaking, would result in 20 to 30 percent of such increase in base pay being withheld for taxes and in an equivalent reduction of take-home pay. I might add that in my conversation with Civil Service Commission representatives, I find no disposition to assure that the increase in base pay will equal amounts now

attributable to the cost-of-living allowance, much less overcome the added Federal income tax. Thus, under this bill the Federal employees in Alaska are bound to suffer a reduction in total compensation if this bill is passed.

This brings me to a fundamental provision in the Salary Reform Act of 1962 entitled "Saving Provision," to wit: Section 1006, which reads as follows:

Notwithstanding any provision of this act, no rate of basic, gross, or total annual compensation or salary shall be reduced by reason of the enactment of this act.

This, in effect, guarantees the classified Federal workers in Alaska that they shall not be penalized, as the Civil Service Commission urges should be done, by the passage of this bill. The Civil Service Commission wishes to mitigate such a penalty by providing in section 3 of H.R. 7401, an amendment to the Salary Reform Act of 1962 which would exclude Alaska from the salary adjustment limitation of the seventh salary rate. Obviously this proposal will not suffice to fulfill the promise of the language of the "Savings Provision" above quoted, and I challenge the witnesses for the Civil Service Commission to demonstrate how they propose to live up to that promise by virtue of this proposed amendment, and to warrant to this committee that the Federal employees in Alaska will be fully protected against any loss of take-home pay.

I think I have demonstrated the unique human and Federal problem existing in regard to the maintenance of a civil service establishment in Alaska. What I am saying is that the Congress, in its wisdom, solved the referenced problem in Alaska and the other noncontiguous areas under our flag, by establishing the cost-of-living allowance in 1949, and demonstrably did not, in the Salary Reform Act of 1962, give the Civil Service Commission a mandate to seek legislation to distort the matter by trying to fit—and I coin a word—an "unfittable" element into the formula governing the contiguous 48 States.

There are several other inconsistencies contained in H.R. 7401 which I would like to call to the attention of this committee. For example, the general authority for the Civil Service Commission to upgrade salaries on a job-by-job basis, to coincide with the rates of pay used by private enterprise in Alaska upon a regional basis, is a departure from the general requirement of using national averages, and leads in the direction of setting up another wage board system in Alaska. Then there are also the complications which would be incident to paying higher salaries in Alaska for given grades than in the rest of the country. Withholding for retirement on a higher wage base allowed an employee while in Alaska, for example, would be inconsistent with the lower wage paid to the employee upon his reassignment to the contiguous States. Other complications, administrative involvements, and troubles would result from passage of this bill. Therefore, I urge that we keep the cost-of-living allowance and its application and familiar pattern and its equitable results for the benefit of all concerned.

There are 13,507 classified civil servants in Alaska at this time. Most of them have become permanent residents of Alaska by making the usual commitments of their incomes along the lines of keeping up with contracts for the purchase of homes, the furnishing and maintenance of same, various kinds and degrees of insurance coverage, local

property taxes, provisions for sending children to college, automobile expenses, and all the items that go into the cost of living in the high-cost State of Alaska. These people of whom I am now speaking, in making their commitments and thereby establishing their respective standards of living, have definitely depended upon what they considered to be the reliability of their employer "Uncle Sam," in terms of, at least, keeping up the existing level of their take-home pay. They need every bit of what they are getting as base pay plus the Federal tax free cost-of-living allowance. Thus, they look at this bill—as I do—with a critical eye and the perception that the repeal of the cost-of-living allowance as provided for in this bill would surely undermine and cut down on their take-home pay. Understandably, this would cause hardship and bitter feelings and ruination of the morale of these classified civil service workers in Alaska. This in turn would erode the present satisfactory Federal establishment in Alaska by increasing turnover. It would also increase the cost of training replacements, and multiply the costly procedure of transporting 2-year turnaround employees and their families into and out of Alaska. In my opinion, the passage of this bill could not save the Government any money, but would, on the contrary, result in deterioration of the service, added costs and the compounding of administrative complications.

Let me now mention the Federal civil service workers stationed in Alaska on temporary tours of duty. Presently, when they arrive in Alaska with their established grade, they simply commence receiving the cost-of-living allowance and continue to undergo withholding for retirement purposes consistent with the level of their base pay. Then when they return to the lower 48 States, the cost-of-living allowance is dropped, without effect upon retirement plans, and other factors. Under the new system which would be used pursuant to this bill, the nonresident Federal employees of whom I speak would receive in-grade elevations and upward adjustments of base pay, upon which retirement withholding would be based, and upon leaving Alaska to fulfill assignments elsewhere, downgrading and reduction of base pay would ensue. This would, as I have already mentioned, becloud the retirement situation involved and lead to other complications.

Let us now think of the very important concern of the Federal Government in regard to situations where the Government finds itself at a disadvantage in competing with private industry in the recruitment of qualified people with the desired talents and skills and other endowments, and also to fill positions, I may say, in faraway places where it is hard to attract employees.

Basically, the Congress in its wisdom removed this disadvantage as pertains to the Federal Government in Alaska by authorizing the cost-of-living allowance, which has enabled the executive branch to adequately staff its agencies in Alaska and which system has proved to be satisfactory to the Federal civil service workers in Alaska. This system has also been easy to administer in consonance with the basic grade and salary specifications prevailing within the contiguous 48 States. As to this problem of Federal Government recruitment handicaps which underlies the situation in Alaska, the solution has been achieved. We already have it. The cost-of-living allowance is the answer to the unique situation in Alaska, and the answer to the particular problem of the Federal Government as far as recruitment for

Alaska is concerned. When you have a winning combination to meet a particular situation, don't change it. Especially when the winning combination coincides with fairplay and satisfaction to all concerned.

I now offer for inclusion in the record of this hearing many letters and telegrams which I have received from Federal employees throughout Alaska—all in opposition to H.R. 7401. Other letters from Alaska have been sent directly to the committee for inclusion in the record and copies sent to me. And in summary, these communications make three main points:

(1) The cost of living in Alaska is so high that many of the Federal civil service workers now residing there would be forced to move elsewhere if their take-home pay were to be reduced.

(2) It is impossible to discover salary rates as to jobs in private industry in Alaska comparable to many job classifications in the Federal civil service because private industry in Alaska is largely made up of small businesses and no labor market exists in private industry for such services.

(3) The augmentation of civil service salaries by virtue of the cost-of-living allowance has had an important effect upon the economy of the State of Alaska, as well as being beneficial to the employees themselves. Thus no change should be made without exhaustive consideration of all factors. Such consideration should include hearings in the principal cities of Alaska, to give the thousands of Federal employees most concerned a chance to be heard before this issue, which is of such vital concern to them and to Alaska, is resolved.

Off the record, Mr. Chairman.

(Discussion off the record.)

Mr. RIVERS. On the record. If, after these hearings are completed, this committee still wants to pursue this matter further, it may consider that I join with my constituents in requesting that it hold hearings in the principal cities of Alaska. If it turns out that this bill is rejected upon the case as presented here, so much the better.

Thank you, Mr. Chairman and other distinguished members of this committee, for your courteous attention and consideration.

And I now hand over House Resolution No. 7 from the Legislature of Alaska with a transmittal telegram attached thereto, and this batch of letters and telegrams from Alaska opposing the bill.

Mr. UDALL. Without objection, the resolution will be made a part of the record in this case; and the letters, telegrams, and individual communications will be filed with the record of these hearings.

(Resolution No. 7 follows:)

[In the House by all the Members of the House]

HOUSE RESOLUTION NO. 7 IN THE LEGISLATURE OF THE STATE OF ALASKA, THIRD LEGISLATURE, SECOND SESSION

Relating to the Federal Cost-of-Living Allowance in Alaska

Be it Resolved by the House of Representatives:

Whereas legislation is now before Congress which would eliminate the cost-of-living allowance for classified Federal employees in Alaska; and

Whereas H.R. 7401 would replace the allowance with salary adjustments which supposedly would make the salaries comparable to those paid by industry in the State; and

Whereas the absence of an industrial economy in Alaska and uncertainty as to the effect of the proposal on take-home pay strongly suggests the need for further study of the legislature: Be it

Resolved, That the subcommittee of the House Committee on Post Office and Civil Service is respectfully requested to give H.R. 7401 exhaustive study, with hearings in Alaska, to determine its actual impact on the classified Federal employees in Alaska; and be it further

Resolved, That copies of this resolution be sent to the Honorable Tom Murray, chairman, House Committee on Post Office and Civil Service; the Honorable Morris K. Udall, chairman of the Subcommittee on the Cost-of-Living Allowance; the Honorable Olin D. Johnston, chairman, Senate Post Office and Civil Service Committee; and the members of the Alaska delegation in Congress.

Passed by the house February 20, 1964.

BRUCE KENDALL,
Speaker of the House.

Attest:

PATRICIA R. SLACK,
Chief Clerk of the House.

Certified true, full, and correct:

PATRICIA R. SLACK,
Chief Clerk of the House.

JUNEAU, ALASKA, February 21, 1964.

Hon. RALPH J. RIVERS,
U.S. House of Representatives,
Washington, D.C.

SENATE RESOLUTION NO. 12 IN THE LEGISLATURE OF THE STATE OF ALASKA, THIRD
LEGISLATURE, SECOND SESSION

Relating to the Federal Cost-of-Living Allowance in Alaska

Be it resolved by the Senate:

Whereas legislation is now before Congress which would eliminate the cost-of-living allowance for classified Federal employees in Alaska; and

Whereas H.R. 7401 would replace the allowance with salary adjustments which supposedly would make the salaries comparable to those paid by industry in the State; and

Whereas the absence of an industrial economy in Alaska and uncertainty as to the effect of the proposal on take-home pay strongly suggests the need for further study of the legislation: Be it

Resolved, That the subcommittee of the House Committee on Post Office and Civil Service is respectfully requested to give H.R. 7401 exhaustive study, with hearings in Alaska, to determine its actual impact on the classified Federal employees in Alaska; and be it further

Resolved, That copies of this resolution be sent to the Honorable Tom Murray, chairman, House Committee on Post Office and Civil Service; the Honorable Morris K. Udall, chairman of the Subcommittee on the Cost of Living Allowance; the Honorable Olin D. Johnston, chairman, Senate Post Office and Civil Service Committee; and the members of the Alaska delegation in Congress.

Passed by the senate February 20, 1964.

FRANK PERATROVICH,
President of the Senate.

Mr. RIVERS. I also offer as an exhibit for the file a printed page from the Alaska Agricultural Experiment Station showing a survey of food prices in Alaska.

Mr. UDALL. Without objection, the document will be made part of the subcommittee file.

Mr. RIVERS. Thank you.

I might add, Mr. Chairman, that this covers many of the items mentioned in the discussion about commodities in Hawaii, and I think it might be of interest to the committee.

Mr. UDALL. I thank our able colleague for his very forceful and effective presentation.

Are there any questions? The gentleman from New York.

Mr. BARRY. Thank you, Mr. Chairman.

I noticed that 13,507 classified civil servants are in Alaska at this time.

Mr. RIVERS. That is right.

Mr. BARRY. Do you know what the total labor force in Alaska is?

Mr. RIVERS. Oh, about 60,000. That is a round figure that runs in my mind.

Mr. BARRY. In other words, close to 20 percent of all the people who are earning income in Alaska are civil servants?

Mr. RIVERS. Well, that is probably correct, yes.

Mr. BARRY. So this puts Alaska in almost a separate category, does it not, from almost every other State?

Mr. RIVERS. I would think so. Yes, Alaska has the distant early warning system and the White Alice communication system, and lots of military installations up there. That, along with the usual departments and establishments, including the FAA and all of its air regulation and control services, the post offices and the other Federal agencies, leads to a good-sized force of classified civilian workers.

Mr. BARRY. You think as a percentage of income for the entire State that 20- to 25-percent figure probably would be correct, or do you think the average civil servant is paid more than the average worker in Alaska?

Mr. RIVERS. No. Alaska is a place where private enterprise pays high salaries. And on that score I have a memorandum, the latest study made by the Civil Service Commission, based upon contact with about 57 businesses; whereas they thought there was some comparability of jobs along the lines of the classifications in the civil service list, and found that they could not find too many, because Alaska business is made up pretty much of small business instead of being an industrialized State. And so they did not have enough average specimens to do too much, but by a little bit of probably correlating from their experience, they came up with this—that the fourth grade, for instance, in the 48 States is \$3,620, and in Alaska that comparable work in private enterprise would draw \$4,392.

Mr. BARRY. That is a clerk level in Government service?

Mr. RIVERS. Now I go to grade GS-5—no; I see, this is grade 1, fourth rate of grade. That is what I was showing you.

Now I come to grade 5, fourth rate of grade 5, \$5,170; and private enterprise would pay, they estimate, \$8,190 for that.

Mr. BARRY. That is a wide disparity.

Mr. RIVERS. Yes, it is.

Mr. BARRY. Would you mind putting that into the record? I think we ought to have that, because that is rather telling.

Mr. RIVERS. I agree.

Mr. BARRY. Mr. Chairman?

Mr. UDALL. Without objection, the document referred to will be made part of the record.

(The table of comparative salary averages follows:)

Comparison of private enterprise salary averages in Hawaii, Alaska, and Puerto Rico with those on the mainland

[Also shown are the 4th rates of the Classification Act grades]

Grade	4th rate of grade ¹	Main-land average ²	Alaska		Hawaii		Puerto Rico	
			Survey average	Percent of main-land average	Survey average	Percent of main-land average	Survey average	Percent of main-land average
GS-1-----	\$3,620	\$3,166	\$4,392	139	\$2,976	94	\$2,550	81
GS-2-----	3,935	3,725	4,728	127	3,504	94	2,694	72
GS-3-----	4,195	4,384	5,565	127	4,370	100	3,234	74
GS-4-----	4,635	5,347	6,852	128	5,142	96	3,355	63
GS-5-----	5,170	6,330	8,190	129	5,920	94	3,706	59
GS-6-----	5,760	-----	-----	-----	6,444	-----	4,188	-----
GS-7-----	6,380	7,209	8,844	123	6,538	91	4,889	68
GS-8-----	7,020	-----	-----	-----	-----	-----	-----	-----
GS-9-----	7,720	8,187	11,172	136	7,750	95	5,630	69
GS-10-----	8,455	-----	-----	-----	-----	-----	-----	-----
GS-11-----	9,250	10,009	11,436	114	9,516	95	8,196	82
GS-12-----	10,970	11,991	14,967	125	11,246	94	9,540	80
GS-13-----	12,880	14,167	-----	-----	14,652	103	10,985	78
GS-14-----	14,965	16,574	-----	-----	-----	-----	13,628	82
GS-15-----	17,210	21,180	-----	-----	-----	-----	-----	-----

¹ Rates effective on the 1st day of the 1st pay period beginning on or after Jan. 1, 1964.

² BLS National Survey of Professional, Administrative, Technical, and Clerical Pay, 1963.

Mr. RIVERS. This shows that the 25-percent cost-of-living allowance in Alaska is well justified.

Mr. BARRY. In other words, you are saying, Congressman, that not only is this justified for the individual, but it would have a heavy impact on the economy of Alaska, since 20 to 25 percent of income is probably derived from Government employees' salaries or derived from the Government; is that correct?

Mr. RIVERS. I made that the last part of my statement, Mr. Barry.

Mr. BARRY. It is a 25-percent cost-of-living allowance which the Alaskan Federal employee now has; is that correct?

Mr. RIVERS. That is correct. It has been that way since 1949.

Mr. BARRY. So it would be more than a 2½-percent reduction in his case on a 6-year basis? It would be nearer 3½ to 4 percent?

Mr. RIVERS. Yes; I think so.

Mr. BARRY. It would be 4 percent if it were cut down, 4 percent if it were cut down in a 6-year period.

Mr. RIVERS. I am not brisk enough to be checking your mathematics as you go, Mr. Barry, but I think that is about it.

Mr. BARRY. Would this be a severe hardship for the Federal employees in Alaska?

Mr. RIVERS. Yes, it would. And I think the cost-of-living allowance is a solution to an existing and positive problem, and it is working very satisfactory and should not be changed.

Mr. BARRY. You made another point which I could not help but observe, and that is, if salaries were comparable, Federal salaries for a given job, those employees in Alaska would move away. They would leave the Federal service there because they would be able to live cheaper elsewhere on the same salary, and therefore it would be very difficult to get Federal employees to move there?

Mr. RIVERS. I think without the 25-percent cost-of-living allowance the Federal Government would not have maintained a satisfactory Federal establishment in Alaska during all these years. And it is working very well.

Mr. BARRY. Mr. Rivers, if we thought this bill was satisfactory for other areas but not necessarily satisfactory for Alaska, would you join in an amendment to except Alaska from the bill?

Mr. RIVERS. May I put it this way, Mr. Barry? The Federal Salary Reform Act of 1962 does establish a criterion for establishing the rate of wage for Federal civil servants in their respective categories of jobs. Now, I concur with that. Perhaps adopting that criterion the rates of pay adhered to by private enterprise for comparable work on the basis of a nationwide average as the means of determining the rates of base pay for classified civil servants was a good idea. I don't mind if the base pay of the Federal workers in Alaska is so determined, so long as, on top of that, they get the cost-of-living allowance.

Now, with reference to the last 2 years, I do not know just what changes the Civil Service Commission has made in establishing the present job classifications and salary levels under the purview of the 1962 act. However, it is quite acceptable to me as a Representative of Alaska, including the application of base salary levels to the Federal establishment in Alaska, so long as the Federal employees in Alaska will continue to get the 25-percent cost-of-living allowance. This gives uniformity as to job classification and base salaries plus solving a unique recruitment problem.

Mr. GROSS. I think you have made a very good advocate for the State of Alaska.

Mr. RIVERS. Thank you, Mr. Gross.

Mr. GROSS. As with Hawaii, this cost-of-living allowance problem is one that we heard nothing about in Congress when the statehood bills were before Congress, is that not true?

Mr. RIVERS. This was put into effect in 1949. And that was 10 years prior to the grant of statehood.

Mr. GROSS. No; but I say no consideration was given to this problem when the statehood bills were before Congress?

Mr. RIVERS. I mean I am trying to clarify—

Mr. GROSS. This is another one of the problems that we are running into now that were implicit in statehood.

Mr. RIVERS. No, sir. We were in the same position as a territory, so far as the Federal civil service was concerned prior to statehood as we are now. Alaska was an incorporated Territory of the United States. Nothing short of a civil war could have extracted it or separated it from the United States.

Mr. GROSS. I know, but the granting of statehood put this in a different perspective, do you not agree?

Mr. RIVERS. No, sir.

Mr. GROSS. Why not?

Mr. RIVERS. Legally the situation is identical. As an incorporated Territory of the United States, the Federal Government maintained its activities in Alaska. Under an organic act, Alaska had a government of its own virtually tantamount to a State government. Alaska becoming a State carried with it the same Federal establishment, but a new State government. And I will tell you it makes no difference

whatsoever in terms of either legalities or the practical operations of the Federal civil service in Alaska.

Mr. GROSS. Well, now, with a differential of 22 percent as between Houston, Tex., and Chicago, Ill., we have to take a second look at some of these. You are a State now; so is Hawaii.

Mr. RIVERS. Yes. But as to Alaska no change has occurred since it became a State? If the differential you mention is getting acute down here, the change has occurred down here, not in Alaska.

Mr. GROSS. I did not say it had. But it seems to me we have to take a different look at it, Alaska having been given statehood.

Mr. RIVERS. Well, Mr. Gross, you see, I have indicated, too, that, if you tried to depart from use of national averages in fixing wages which is the criterion for operating under the 1962 act now in the 48 States and in Alaska, too, except for the cost-of-living allowance, and if you start breaking this base pay rate down into regional comparabilities, then you would be getting into a wage board situation. Now, the Federal Civil Service is determined that it is going to continue with the basic proposition of adhering to the national averages in seeking comparability of civil service salaries and the salaries paid for comparable work in private enterprise.

If we are getting into such serious disparities in different parts of the United States that it might be necessary to start going onto regional comparabilities and actually set up a second wage board system in the United States.

Mr. BARRY. I am not against that.

Mr. RIVERS. Very well. But the Civil Service is. And you have something here—

Mr. GROSS. I will want a real good look at it.

Mr. RIVERS. Thank you, Mr. Gross.

Mr. UDALL. Thank you, Mr. Rivers.

The Chair has a real problem here. I notice that the Honorable Ernest Gruening, Senator from Alaska, is with us. Yesterday, before we concluded, I announced that the last 30 or 40 minutes of today's hearing would be given to some witnesses from Puerto Rico who had come a long way and who could not stay until the continuation of these hearings on March 10. There are really two ways to go about this, and I will ask for guidance from Senator Gruening and the witnesses:

We can continue for another 30 minutes, if Senator Gruening is willing to defer his testimony and take the Puerto Rican witnesses. Or, if the Senator wanted to conclude his testimony and the other witnesses felt it desirable, I could go to the floor and, with the courteous assistance of Mr. Gross, ask for permission to sit during general debate this afternoon, which requires unanimous consent of the House, and we could take the off-mainland witnesses for about an hour this afternoon. And those are the two solutions I have.

Senator Gruening?

Senator GRUENING. Mr. Chairman, I am anxious to do whatever seems most convenient for the committee. I could, if the committee likes, merely present my statement as if read, and therefore consume no time; and if the committee in the future wants to ask me any questions, I will be glad to come back. Would that satisfy the needs of the committee?

Mr. UDALL. That would be a delightful solution to my dilemma. And if you will come forward and present your statement, we will incorporate it in the record as if read in full, and we would certainly thank you for your patience.

STATEMENT OF HON. ERNEST GRUENING, U.S. SENATOR FROM THE STATE OF ALASKA

Senator GRUENING. I merely wish to say that I oppose this legislation very, very vigorously, and I want to commend highly my colleague in the House and your colleague, Ralph Rivers, for his excellent statement.

One reason I regret not having more time is because I wish Representative Gross would enter into the same controversy with me to the effect that now that we are a State, consequently we are not entitled to special treatment.

Mr. GROSS. I did not say you are not entitled to special treatment. I have not made up my mind about Alaska.

Senator GRUENING. If you will agree to read my book, "The State of Alaska," I will be glad to send you a copy free, gratis, which will show you how much a colony we were and how the economic consequences of 99 years of colonial status have affected us.

Mr. GROSS. Senator, just send me the book on a loan basis, and I will return it to you. I do not want you out of pocket for supplying me a book, and I will read it if you lend it to me.

Senator GRUENING. There is a very special set of conditions that exist in Alaska, and most of them are of Federal origin. The Public Enemy No. 1 through the years of Alaska colonialism is the Federal Government, which denied us the inclusion in the Federal highway legislation, which fastened on us discriminatory steamship legislation, and put us under a steamship monopoly beginning back in 1920; and I can give you a long list of similar actions which did not apply to any other of the outlying possessions. And those consequences still have a bearing on this thing.

Thank you very much.

Mr. UDALL. Thank you very much, Senator.

Senator GRUENING. You have copies of my statement?

Mr. UDALL. Yes, sir. And I would advise the Senator we will continue these hearings on March 17, and if you care to come back at that time, we will be most happy to have you.

Senator GRUENING. Thank you, sir.

(The statement of Senator Gruening follows:)

PREPARED STATEMENT OF SENATOR ERNEST GRUENING, OF ALASKA

Mr. Chairman, I appreciate this opportunity to comment on H.R. 7401, the proposed legislation which, if enacted, would terminate the cost-of-living allowances of Federal civilian employees in nonforeign areas, such as the State of Alaska, where, according to the State commissioner of labor the cost of living has risen approximately 10 percent in the past 7 years.

Let me state emphatically that I am opposed to this bill.

Let me assure you that 99⁴/₁₀₀ percent of the Federal Government employees in Alaska are opposed.

The letters and telegrams I have received substantiate the opposition I express, as do the countless conversations I have had with concerned Alaskans in the State and elsewhere.

This opposition is shared by non-Federal employees in Alaska who understand and share the feeling of their Federal brothers and sisters.

Why is there opposition to H.R. 7401?

Why would the demise of the 25 percent cost-of-living allowance in Alaska be disastrous to employee and employer alike?

The simple fact of life is that the 25-percent cost-of-living allowance in Alaska today has not been adequate. Indeed, it should be higher. The recent study for the Civil Service Commission by the Department of Labor confirms this as do figures sent to me this week by Alaska's commissioner of labor, Mr. Gil Johnson.

Commissioner Johnson observes that the costs of equivalent goods and service in Alaska is considerably over the U.S. average. He has supplied the most recent figures available which I will cite:

*Cost of goods and services*¹

Ketchikan-----	23 percent higher than U.S. average.
Juneau-----	27 percent higher than U.S. average.
Anchorage-----	29 percent higher than U.S. average.
Fairbanks-----	42 percent higher than U.S. average.
Nome-----	72 percent higher than U.S. average.

¹ Figures supplied by Alaska commissioner of labor, Feb. 25, 1964.

Commissioner Johnson has translated the percentages I have cited in dollars and cents.

He wires:

"Translated into dollars the average cost of basic living needs is: Ketchikan, \$6,869; Juneau, \$7,492; Anchorage, \$8,400; Fairbanks, \$8,700."

Commissioner Johnson adds that these figures are for food, shelter, and clothing only. Recreation is excluded.

The U.S. Civil Service Commission tells us that the present cost-of-living allowance "is inconsistent with the newly established principles governing Federal salary determination and is unnecessary since, where warranted by the level of private enterprise, salaries, increased minimum rates and rate ranges can now be authorized under the Federal Salary Reform Act of 1962."

I do not agree.

The solution offered in H.R. 7401 will not solve the cost-of-living problems which confront Alaskans.

Actual cost of living is a major determining factor in this matter.

We know that Washington, D.C., has a high cost-of-living index. It is pertinent to recall that comparisons of the District's base with certain Alaskan cities made Alaska the reluctant winner each time. The comparative figures for November 1962, for example were: Washington, D.C., 100 percent; Fairbanks, 146.5 percent; Anchorage, 143.2 percent; and Juneau, 132.8 percent.

Why, then, do Alaskans stay in Alaska?

One Alaskan, a resident of Juneau who I understand has also communicated with this committee, has spoken effectively in a letter to me of February 21, 1964. He wrote:

"The committee may very well ask why we stay up here, and that is a really good question. Many newspapers castigate the Federal employee as a 'leech,' 'public parasite,' etc. I can only answer for myself. I came to Juneau in 1957, and have renewed my agency contract twice, and expect to renew it again this year. My reasons: (1) I like my job, (2) I like the people I work with and also the friendly Alaskan general public (they extract your extra dollars from you in the nicest ways), and (3) if you have heard the record 'North to Alaska,' particularly the lines 'Big fantastic land, from the Bering Sea to Ketchikan,' perhaps you can get an idea of what I mean.

"Since statehood in 1959, Alaska has been a 'slumbering giant,' beginning to yawn and stretch a little. Her natural resources, many still unknown, are so vast that it is almost incomprehensible. So far, the Federal and State agencies interested in development have merely scratched the surface. Many of us feel that we are watching history in the making which, in truth, we are. In just a few years many of the lower 48 States will be looking toward Alaska for their raw materials and supplies to keep their industries going, and we, as Federal employees, would like to do our part in seeing this development come to pass. When the State's new MV *Malaspina* came into Juneau in January of 1963 there wasn't a Federal employee who boarded her who didn't feel like going on her forward deck and declaring 'I'm proud to be an Alaskan.'"

Some Federal employees with legitimate complaints have expressed them to the committee and to members of the Alaska congressional delegation.

They compare take-home pay in Alaska with that received in Montana and equate it to be about 60 percent. They feel that an increase in the cost-of-living allowance is long overdue.

A husband and wife took time to itemize the difference of family expenditures in Denver, Colo., and Douglas (near Juneau), Alaska. The comparison is revealing and I will note but half a dozen samples:

	Denver, Colo.	Douglas, Alaska
To have a skirt cleaned and pressed.....	\$0.75	\$1.75
½ gallon homogenized milk, delivered.....	.47	.71
Haircuts for Ed.....	1.75	2.65
Lettuce, per pound.....	.13	.49
Lowest price ever seen in Juneau.....		.39
3 hamburgers with french fries and 1 milkshake.....	1.06	3.30
6 quarts oil for car.....	1.59	4.20
Windshield wiper blades (2).....	3.10	7.80
Pepsi, sixpack.....	.65	1.15

Living expenses include major capital investments such as a home. One Federal employee in Juneau wrote:

"A major cost differential is for housing. We have recently purchased a house in the Auke Bay area (mailing address, Star Route, Juneau), built by a large California contracting firm. The Juneau cost is \$28,250 but the same house sells in California for \$17,000."

The Civil Service Commission has stated that the salary increase proposed in Alaska can be counted toward retirement benefit. The present cost of living allowance cannot. This has prompted one Federal employee who loves Alaska to write:

"I have had a chance to go over this bill thoroughly and find that it is administratively a beast. It proposes to set up for all grades (although the Commission is vague about this) a new advance in hiring steps which may or may not be above the seventh step in any grade. In connection with putting this new system into effect, they propose to bleed off the cost-of-living allowance one-sixth at a time for those who now receive it.

"Under its terms all of our income would be federally taxable, our insurance and retirement deductions would go up (and so, of course, would the benefits) but since the tax advantage amounts to nearly 40 percent, their proposed 25-percent raise would amount to a 15-percent cut in take-home pay. It is difficult enough now to recruit certain skilled and professional personnel for Alaska, as much as I hate to admit it, but a cut in pay would make it even more difficult.

"One subtle result of this new bill would be that those approaching retirement with say 5 years to go, would be attracted because they could raise their retirement high-five average by the simple expedient of serving the last 5 years of their careers in Alaska. Young personnel with families to support and educational expenses to face would be discouraged from coming up here or staying here * * *.

"In short, while the 25-percent cost-of-living allowance is not perfect nor adequate, especially for Fairbanks and northwestern Alaska, it is better than the new proposal which incidentally will provide for equal salaries for personnel throughout Alaska also. The cost-of-living allowance is easy to administer, is simple to understand, and because of the tax consideration is flexible in meeting the financial needs of different families.

"Until a much improved scheme is developed I strongly recommend against any change."

Alaska's problems will be compounded if the proposals of H.R. 7402 become law.

Years of neglect as a Territory have thrown the State badly out of step. Its roads are scarce, its industry nearly nil.

Alaska's economy has been pushed out of shape by the consequences of transportation monopoly originating in Federal action. Alaskans have been and are dependent on water transportation.

From the days of the U.S. Shipping Board Alaskans have suffered the consequences of adverse rate regulation. They have been and are dependent on

water transportation for nearly everything they eat, wear, use, and need for any purpose. Ninety percent of all commodities sold in Alaska have been and are transported by water.

And, through the years there has been one consistent pattern in the cost of living in Alaska—that is up—always increasing and increasing at a rate faster than other living cost increases. That Alaska's rising costs follow the cost of transportation is undeniable because the pattern of transportation cost has been the same—inexorably increasing, year by year, and the cost of living in Alaska has been roughly proportional to the transportation rates.

Any increase in freight rates, and they have been legion, have been imbedded in the cost of living in Alaska. This has happened repeatedly and is a fairly certain forecast of what can happen again although the Alaska congressional delegation and the government of Alaska have fought always unsuccessfully new freight rate increases.

The facts on hand seem to me conclusive that at the very least the present cost-of-living allowance should be continued, but preferably should be increased.

We must not give the Civil Service Commission a blank check. I consider it desirable that hearings be held in Alaska on this proposal, as does the legislature of the State of Alaska.

I thank you, Mr. Chairman, for this time in which to discuss the dangerous and unjust proposal which has been made by the U.S. Civil Service Commission.

Mr. UDALL. Mr. Gross has gone down to the floor to ask permission for the subcommittee to sit during debate, but pending confirmation of that, I will continue hearing the witnesses from Puerto Rico.

Mr. VELEZ, we are pleased to have you and the other witnesses you have with you. You may proceed.

STATEMENT OF RAMIRO E. ORTIZ, PRESIDENT, COUNCIL OF FEDERAL EMPLOYEES OF PUERTO RICO; ACCOMPANIED BY DAVID G. VELEZ, COUNSEL, AND PETER S. A. KRYZANOWSKI, FIRST VICE PRESIDENT

Mr. ORTIZ. Mr. Chairman, I am Ramiro E. Ortiz, president of the Council of Federal Employees of Puerto Rico, Inc., with a statement we have prepared for this. Mr. Velez will present our statement.

Mr. UDALL. Thank you, Mr. Ortiz. We are happy to have you back with us, Mr. Velez, and you may proceed in any fashion you see fit that will best utilize the time that we have.

Mr. VELEZ. Thank you.

Mr. UDALL. And I want to assure you, in view of the way we have been forced to treat you, in view of the number of Members of Congress whose statements have been presented, I will let you, as a matter of personal honor, read in full what you wish to submit.

Mr. VELEZ. We appreciate your courtesies and the courtesies of the honorable gentlemen of the committee this morning. I realize your problems, Mr. Chairman.

Of course, we are also faced with a problem, and this is outside of the written statement. It is that I have been given the difficult duty of defending a position against two different situations which affect the group I represent and who have traveled a rather long distance of some 1,700-some-odd miles. They are all Federal employees, and they are all here at their own expense out of pocket. We have no subsidies on that score, so we have to sort of challenge the other side, and we do not have a kitty to do it with.

So I thank you for all the courtesies that have been extended thus far, and if we do run out of time, I am sure the chairman will give us all the consideration our statement merits.

Mr. Chairman and distinguished members of this subcommittee, my name is David G. Velez. I am an attorney employed by the U.S. Veterans' Administration of San Juan, P.R. I am also legal counsel for the Cost-of-Living Allowance Defense Committee of Puerto Rico and the Virgin Islands and the Council of Federal Employees of Puerto Rico, representing a membership of approximately 4,000 of the 5,077-and-some Federal employees in Puerto Rico and the Virgin Islands.

The membership of this committee consists of the executive boards of the several Federal Employees' Unions in Puerto Rico, together with Federal employees who are not affiliated with any employee organization. It is by the authority of this council and the employees they represent that I am appearing before you today to voice our opposition to H.R. 7401 and against any measures which would terminate the COLA for statutory salaried employees in Puerto Rico and the Virgin Islands.

I am accompanied by the full complement from the committee. For the sake of brevity, I ask that their names from our statement be entered into the record.

Mr. UDALL. They will be, indeed.

Mr. VELEZ. I am accompanied by Ramiro E. Ortiz, president, Council of Federal Employees of Puerto Rico, Inc.; Cristobal Llitas, president, National Postal Union, Puerto Rico and Virgin Islands chapter; Hector Arana, president, National Customs Service Association, Puerto Rico chapter; Narciso Sanabria, president, United Federation of Postal Clerks AFL-CIO, Puerto Rico branch; Peter S. A. Kryzowski, first vice president, Council of Federal Employees of Puerto Rico, Inc.; Rafael M. Maisonet, vice president, Puerto Rico Federation of Labor AFL-CIO; Miguel D. Hudo, treasurer, Council of Federal Employees of Puerto Rico, Inc.

The Civil Service Commission has stated that the purpose of this bill is to place Federal employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands on the same salary footing as Federal employees in other parts of the United States. And we cite the letter contained in the committee's print on the bill as evidence—the letter from chairman of the U.S. Civil Service Commission to Hon. John W. McCormack, Speaker of the House of Representatives—dated May 14, 1963.

This bill, if enacted into law, will result in the repeal of the authority to pay COLA as now contained in section 207 of the Independent Offices Appropriation Act of 1949, which for almost 15 years has stood as the equalizing economic factor for our offshore Federal employees. Section 207 is now considered illogical and unfair to our counterparts in the United States. We do not believe that it is illogical or unfair in the true sense of the word. A consideration of the economics behind the contents of the Independent Offices Appropriation Act of 1949 and of the very just section 207, contained therein, shows it was written in recognition of the special needs of Federal employees working outside of the United States under adverse conditions, which did not and do not exist in Washington, D.C. We submit that any unfairness that may exist by the application of this law is not the fault of the Federal employees concerned.

This bill proposes to phase out the COLA on a gradual basis over a stated period of years. The bill contains no consideration whatever

for the possibility of increases in the cost-of-living index or economic changes in the markets which supply our several offshore areas, nor does it offer any security to those thousands of lower grade employees who are at or near the top of their grade level and who would not be benefited by any adjustments in salary as has been proposed.

There are many Federal employees who do not understand why it is now attempted to remove the COLA in light of the high sale prices found in Puerto Rico and the Virgin Islands for most consumer goods. It is our contention that the repeal of section 207 of the aforementioned act will eventually cause Federal employees in Puerto Rico and the Virgin Islands to receive compensation which would represent in effect approximately a 25-percent decrease in the buying power of their money when compared with the purchasing power received by employees in the continental United States.

While it is true that the Federal Salary Reform Act of 1962 takes into consideration the cost of living in the United States and while it is also true that in its application an attempt would be made to advance Federal salaries to meet the private industry salary increases in the United States, we sincerely believe that, irrespective of any such attempted increase here, the employees in Puerto Rico and the Virgin Islands would not benefit, since the economy of our area is not on a par with that of Washington, D.C., or San Francisco, Calif.

May I add parenthetically: or any other city in the United States?

We will continue to be at a disadvantage with our counterparts in the States because of our status as employees in offshore areas. We admit that on a dollar-for-dollar basis, we receive a higher remuneration; however, we submit that on the basis of quality, quantity, and actual prices, we do not receive the same benefits from our salary as those in the United States. We further contend that any attempt to compare our salaries with those paid to public or private employees in the Commonwealth of Puerto Rico and the Virgin Islands is unrealistic. These areas are striving to improve the standard of living of the people, their working conditions and their actual remuneration. Using the island of Puerto Rico as an example, it cannot be expected that Federal employees, a great number of whom are on the island under employment agreements, should be expected to measure their economic standard by that of an island whose average yearly per capita income was reported just several weeks ago by our Governor in his State message as being a little over \$700 per year.

Federal employees in Puerto Rico are entitled to the same economic levels as their counterparts here in Washington. The reduction of the COLA as is now proposed would not only be a hardship on these 5,077 employees in Puerto Rico and the Virgin Islands but it would also have a telling effect on the economy of the islands. Someone once said that a career in the public service of your country would never make you rich but it would give you, when you finally finished your labors, the satisfaction of knowing that you had served your country well. Gentlemen, we are now, and by the grace of the Almighty hope to continue to be, Federal employees until the day our services are either no longer needed or when we reach the end of our careers. However, we would like to believe that no one expects us

to receive less than a just compensation for our efforts. Therefore, it follows that if we are to feel secure in our present careers and if we are to pursue those careers with dignity, we must be compensated on an equal footing with our counterparts in the United States. As long as the commodities and services necessary for daily living in the offshore areas continue to increase, we honestly believe the additional compensation known as COLA is justified.

It has been said by the Civil Service Commission in their explanation dated January 1964—

of the role of use factors in the COLA in Puerto Rico, that the index for Puerto Rico, using Washington, D.C., as 100, has dropped from 112.3 to 104.4.

Inasmuch as Federal employees in Puerto Rico have not been consulted regarding that conclusion, we challenge its accuracy. We propose to submit to this committee for its consideration independent consumer cost studies carried out by our organization with the very able assistance of the staffs of several of our national employee union organizations. Based on these studies, which are not 2 years old but rather a very young 2 weeks old, we maintain that the cost-of-living index in Puerto Rico is not 4 percent over Washington but 20 percent or more.

It is our considered opinion that this bill goes beyond its stated intent of placing offshore areas on an equal footing with the continental United States. It proposes to equalize the pay of Federal employees regardless of where they may be employed with that of their counterparts at the seat of government. However, what it will actually do is compel the Federal employee in a low-wage, low-income area to adapt himself to the standard of living of that area, since it uses private industry wages as a measure. This practice would never be consented to or applied to Federal employees in Germany, France, or any country which has an economic standard of living lower than the United States. We do not know why we as American citizens living in American areas outside of the mainland should be discriminated against. Would you compare the economic level of the Federal employee in Alaska with that of his less fortunate brethren, the Eskimo? We do not believe so, gentlemen. Therefore, we do not believe you can compare us with our less fortunate brethren in Puerto Rico who have been striving for 20 years to raise their standards of living and who have always used the Federal employee as the example for that standard. We do not believe there is a single citizen in Puerto Rico who, if given a choice, would drop our standard rather than raise his own to meet it.

Right now, just about everything we use coming into the island of Puerto Rico is subject to one or more excise taxes and levies. We, the Federal employees in Puerto Rico, are not a special group, we are not exempt from excises and levies, and if we are to live as well as our counterparts in Washington, we must have the same buying power. The reduction of COLA will take away from us a part of that buying power.

May we add parenthetically that we are greatly concerned over the misconception that exists in many parts of the United States concerning the belief that we in the offshore areas live like kings as a result of having the advantage of COLA. We wish that were the case, and I hasten to assure you gentlemen that, although all of us who work

in Puerto Rico and the Virgin Islands consider we are in a paradise, it is a very expensive paradise. I can assure you that very few Federal employees sit around the pool at the Caribe-Hilton at San Juan or anywhere else and sip rum and coke. Like every other employee of our Government anywhere in the United States, we are fortunate if we can afford to stop at a second-class hotel on our vacations.

And I may also add parenthetically we feel Congress is in the same boat.

Mr. UDALL. We thank you for those kind remarks.

Mr. VELEZ. As I said previously, it is our contention that the index for Puerto Rico is over 120; therefore, in plain terms, that means that we cannot afford any of these luxurious diversions we are believed to have or partake of. Inasmuch as by all conservative estimates our needs exceed our actual income by approximately 8 points, we challenge anyone to prove to us that we can live as cheaply in Puerto Rico as our brothers on the mainland without sacrificing our status as equals.

H.R. 7401 has, we believe, been proposed with the highest and most noble intentions. We do not question the sincerity behind the proposal; what we do question is whether you gentlemen are aware of the inequalities which will be placed upon those affected. We are sure that because of the concepts of justice controlling the makers of our laws, very few laws have ever been approved by our legislators which would intentionally harm those affected. We are here today asking for that justice—justice based on a true application of the economic realities which control our everyday existence. If the Independent Offices Appropriation Act of 1949 was logical and just when it was approved by Congress, it is more so in our present-day economy of rising prices and reduced buying power.

The passage of H.R. 7401, as proposed, would place the Federal employee in the offshore areas at such a great economic disadvantage when compared with their counterparts on the mainland that it leaves no doubt in our minds as to the ultimate result. There would be an exodus to the mainland of highly trained, irreplaceable experts, technicians and professionals, both in Puerto Rico and the Virgin Islands. We should add that, since Federal employees serving outside of the United States are paying higher prices and additional transportation costs, it is very logical to assume that they would seek employment in the United States and be equal. As dedicated career public servants we fully realize the necessity of our presence in these areas. However, there is nothing that will cause an employee to change his position or his location quicker than economic pressures which affect him and his family. We realize that, of the estimated 5,077 employees in Puerto Rico and the Virgin Islands, a large majority are island born and that they would prefer to work in their own familiar surroundings. However, as many of us have at one time or another migrated, if you wish, to the continental United States as Federal employees in order to improve our skills or our opportunity for advancement, it would be reasonable to expect that many of us would do so again.

Many agencies here on the mainland recruit employees for service in Puerto Rico and the Virgin Islands and use the COLA as an incentive. Remove this incentive and when costs are considered, very few

would transfer to Puerto Rico or the Virgin Islands. The Civil Service Commission prepares indexes to determine the COLA pursuant to Executive Order 10,000. The purpose of this Executive order was to implement the authority vested in the President of the United States by section 207 of the Independent Offices Appropriation Act of 1949.

I will not quote the sections involved, gentlemen. I merely offer section 206, contained in my brief, and section 210 as such.

Section 210 of this order requires the Commission to make surveys at least annually to determine whether the continuance of the COLA is justified. For over 15 years now the Civil Service Commission has been making these surveys and studies and presenting conclusions without revealing their findings. We cannot help but question any study made by the Commission when we reflect on the abruptness with which these decisions are handed down.

The most recent study was purportedly made over an extended period of time with surveys in various points in Puerto Rico. Very few Federal employees were contacted and questioned by the Civil Service Commission in San Juan, P.R. Therefore, gentlemen, we believe that the Civil Service Commission has not received the most accurate or timely information available if we are to believe the results of the studies carried out by the Council of Federal Employees of Puerto Rico and the Virgin Islands, and which we are submitting for your consideration. These studies are based solely on actual prices and expenditures. They do not even begin to take into consideration all the other related factors which in the past have been applied by the Commission by the name of "use factors." These use factors, as applied by the Commission, were three in number—a domestic service use factor, a clothing use factor, and a food use factor. Since 1955, when these factors were first applied, they have, if anything, been detrimental to the Federal employees in Puerto Rico and the Virgin Islands. As proof of this we need only look to the fact that the COLA which was originally established in 1949—and, I may add, at 25 percent—was subsequently reduced to 17½ percent and then to 12½ percent, and finally, by the Commission's most recent decision, would have been reduced to 5 percent, presumably, in this last order by the removal of the use factors.

These use factors as applied to Puerto Rico and the Virgin Islands purportedly took into consideration the fact that we used more servants than in the United States; that we used more clothing because of the exceptionally warm climate; and that we used more food because of the spoilage, also due to the exceptionally warm climate.

We agree that first of these factors is a fiction. Any housewife in Washington, D.C., will tell you—you just cannot get help today. Well, any housewife in Puerto Rico will tell you the same thing. They both have solved their problems by taking advantage of our advanced technology and the resultant availability of mechanized equipment which substitutes for these servants. However, where the housewife in Washington, D.C., can buy a washing machine or dryer or any number of electrical appliances at moderate prices, well within her normal household budget, the housewife in Puerto Rico must contend not only with additional shipping charges but with additional excise taxes and levies on every piece of equipment bought in Puerto Rico. As you all know, in Washington the cost of repairing household appliances is

quite high. Well, in Puerto Rico it is even higher, because that same repairman in Puerto Rico must also face levies and taxes when he orders the spare parts to repair the equipment and will pass these added costs on to the client.

The so-called clothing use factor is disposed of by the Civil Service Commission with the explanation that we now have modern drycleaning facilities and, by proper laundering and drycleaning, any additional wear experienced by the employee (to his clothing, of course) should be small. We submit that this conclusion is erroneous. Drycleaning costs in Puerto Rico are not equal to U.S. prices. We pay on an average of \$1.20 to \$1.30 to dryclean a suit. However, that suit cost more than in the United States and must be cleaned more often, thus shortening its useful life.

The third use factor removed by the Civil Service Commission as part of the justification for the removal of the COLA and their support of H.R. 7401, is the food use factor. It is alleged that this factor was created because of the excessive food spoilage in Puerto Rico and the Virgin Islands due to the very hot climate and that Federal employees can be expected to have refrigerators similar to those owned by employees in Washington—the conclusion being that little or no food spoilage would occur. Gentlemen, we submit that this conclusion is erroneous. It is erroneous, first, because food spoilage has never been a problem for the average family in the Federal employee community. The food spoilage problem has been one for the shipper, the wholesaler and the retail merchant, with the resultant higher costs passed on to the consumer.

Refrigeration equipment has been available in Puerto Rico as long as it has been available in the United States. In fact, you can purchase anything in Puerto Rico that you can purchase in the United States if you can afford to pay for it, and this has been true since 1898, when Puerto Rico first became a part of this Republic. What the Civil Service Commission has forgotten is that this very expensive food we buy must be placed in an equally expensive refrigerator or freezer, and that is what makes the food use factor justified today. We must pay high prices for meat, which in many cases does not even bear the USDA stamp, and definitely does not compare with what you or I would put on our tables here in Washington. One need only look at a San Juan daily paper on Thursday, sales day, a very American custom which has been brought to the island of Puerto Rico; and look at the Washington Star for that same Thursday, sales day, and make a comparison. Therefore, we ask, gentlemen, that in accepting the conclusions of the Civil Service Commission you also accept our theory that each and every one of the original factors is modified by other equally important factors. If it is intended to drop these special considerations which in light of section 202 of Executive Order 10000 form a part of the costs accounted for by the COLA, then these other equally significant factors should be applied.

We realize, gentlemen, that this part of our statement has been a digression from the purpose of this hearing; however, it is our sincere opinion that no consideration of cost-of-living allowances can be carried out without an appraisal of the application of the Executive Order 10000. To us, the Federal employees of Puerto

Rico and the Virgin Islands, Executive Order 10,000 has been, and if we are to believe recent statements of the Civil Service Commission, a sort of economic sword of Damocles hanging over our heads, which can drop at any moment without warning.

It was stated earlier in our statement that, to our knowledge, very few Federal employees in Puerto Rico were contacted or interviewed by the Commission before rendering their most recent decision to reduce our COLA. It is our opinion that such a decision is not justified when balanced against economic realities in Puerto Rico and the Virgin Islands.

We, the Federal employees of Puerto Rico and the Virgin Islands, have always attempted to be the example, and not the exception, of the American way of life. We sometimes act as if we were somewhat special. We have good reason to act that way, since we are employed by the finest Government on the face of the earth; but when we are faced with threats to our economic security, we begin to wonder if maybe we are not becoming the exception insofar as our employment is concerned. Here in Washington you find represented every type of employee union. I may add I feel privileged to have been chosen to represent the employees of the different unions composed of Federal employees in the Customs Service, the Veterans' Administration, Social Security, U.S. Post Office, and many other agencies operating in Puerto Rico, but I appear before you under one great disadvantage. Were I representing employees of private industry, this would be a bargaining table. However, in consideration of the limits placed upon Federal employees, I can only appear here and plead a cause, well aware that I have no right to demand but only to suggest or ask for your consideration of our problem.

However, gentlemen, knowing full well that as our employers you will do what is just for us, your employees, we ask that H.R. 7401 not be approved by this subcommittee.

In closing, I would like to quote from an article that I read in a magazine called the Washington World, dated February 1964 and published here in Washington, D.C. The writer of this article is the distinguished Senator from Wyoming, Milward L. Simpson. The Senator from Wyoming states, and I quote:

It is not my purpose to set up a pattern of moral conduct for anyone. My purpose is to suggest with firmness that where the will of Congress has been deliberately expressed through the law, that law should not be subverted by any agency of Government.

He also states in another paragraph, and I quote:

The question today is whether the law will be recognized and applied as written. In my opinion, Congress must act to uphold the law. Any other course would be a negation of our very reason for existence and in effect would place congressional blessing on the concept of government by men rather than government by law.

We take the liberty, gentlemen, to stand next to the distinguished Senator from Wyoming and make his words our own, and in doing so ask you to review Executive Order 10000 and to review the decisions handed down by the Civil Service Commission in application of that executive order to see whether or not the last two reductions and the recently proposed reduction in the COLA had the

benefit of all the facts and not merely some fact and some assumptions. We submit that they have not, and as I said previously, we have a sword of Damocles hanging over our heads. We appear before you in defense of the COLA of Puerto Rico and the Virgin Islands, knowing full well that if your decision favors us, the Civil Service Commission could hand down a decision reducing our COLA to zero, without giving those affected by it an opportunity to rebut their conclusion.

I wish to state that we have submitted certain exhibits today in support of our statement, and we respectfully request of the committee that the committee allow us sufficient time to complete further studies now in process and submit the results to you for your consideration.

We wish to thank you for your indulgence, gentlemen, in hearing this, our plea, and for your future cooperation in considering our needs as heretofore mentioned.

Thank you.

MR. UDALL. Thank you for a very forceful and helpful statement, Mr. Velez.

I notice that in your statement you refer to certain exhibits which you are now preparing and do not have available at this time.

MR. VELEZ. We have some available now, Mr. Chairman.

MR. UDALL. They will, without objection, be received and made a part of the file in this case. And any that you should care to submit before the hearing record is closed will be received.

The record of this hearing will continue for 2 or 3 weeks, at least, and we would be happy for you to file with the committee such documentary information as you feel might help us.

MR. VELEZ. We will submit right now, Mr. Chairman, the original of the statement I have just read, which, instead of copies of these figures, contains the actual verified documents, clippings and signed statements by the parties who provided us with the same.

MR. UDALL. There being no objection, they will be received for the file.

MR. VELEZ. And if you wish a copy of the comments by the Senator from Wyoming, I also have the magazine. But I guess you gentlemen receive it in your offices.

MR. UDALL. Thank you.

Are there any questions?

MR. BARRY. Thank you, Mr. Chairman.

MR. VELEZ, I think you have made a very good statement in behalf of the Federal employees in Puerto Rico and the Virgin Islands.

On page 2, you say at the bottom of the page:

* * * nor does it offer any security to those thousands of lower grade employees who are at, or near the top, of their grade level and who would not be benefited by any adjustments in salary as has been proposed.

Well, why would they not be benefited by Federal salary increases just as well as any other Federal employees?

MR. VELEZ. I speak there, sir, of section 207—no, I am sorry; I am getting a little confused here.

I speak there of the proposal of the Civil Service Commission in the section of the bill in question. I do not have offhand the clause, because I did not read it directly and my mind is not fresh on it. But

as has been mentioned here previously, it is proposed to pay up to the seventh step in all offshore areas, with no limitation in Alaska to any person up there who loses this COLA, and you would replace his loss in salary with that in those cases where his salary fell below local salary.

Assuming that it falls below local salary level and you did use that system provided for in the bill which you are considering, a clerk in the Veterans' Administration office—my own office—in Fairbanks, grade 4, minimum education, 25 to 28 years' service, he came in in the days when you could get in with a letter from a friend, practically. Let us say that that clerk has not had to suffer any type of test or training because he has a limited scope of occupation; however, he is still an employee and an individual. If this bill is approved, he loses the COLA. He gets nothing in return. You cannot give a seventh step where you have no steps to give. If you are at the top of your grade, you are finished.

I for one, gentlemen, am at the top of the grade because I had the unfortunate experience of having to drop grades for personal reasons. I would get nothing. But that is the least of it. An attorney has many ways of earning his living, including going into politics.

Mr. BARRY. You would be eligible for the salary increase of the salary bill that is before this committee, or was just recently before this committee. There would be nothing to bar you from that increase, would there?

Mr. KRZYANOWSKI. Yes.

Mr. BARRY. You did not answer the question, but I think the answer is obvious where on page 3 you say that:

We further contend that any attempt to compare our salaries with those paid to public or private employees in the Commonwealth of Puerto Rico and the Virgin Islands is unrealistic.

But everyone that has been here has been comparing Government salaries to private employees. Do you not think that there is a comparability level that would be applicable in most instances, or in all instances, to some degree? I can understand your reluctance to want to compare Government salaries with a struggling economy where formerly salaries were only a pittance, but there are a lot of well-established businesses in Puerto Rico today, and there is a comparability level there that we should be able to measure. I doubt very much that the disparity would be anything like the way you presented it to us.

Mr. KRZYANOWSKI. Sir, in the statement given the other day, yesterday I think it was, it was said that in Puerto Rico 43 percent, using the figures, I think, of the budget or somebody, 73 percent, the wages were lower. The average wages were lower than the Federal wages. However, as the Senator from Hawaii said, in the bottom scale that is true; in the top scales, in the managerial part, the executive parts, it is true private industry is higher than Federal Government down there in the factories and things like that, the big managers; they do get a higher salary. That is true. But it would fall more or less like in Hawaii, the same figures there.

Mr. UDALL. Would you identify yourself for the record?

Mr. KRZYANOWSKI. Peter S. A. Kryzanowski.

Mr. UDALL. Thank you.

Mr. BARRY. I notice on page 4 you stated that the average salary or income is \$700 per year. What is the average Government salary in Puerto Rico?

Mr. VELEZ. This is the average salary for the people, the 2½ million Puerto Rican people, that I got here.

Mr. BARRY. Per person or per family?

Mr. VELEZ. Per capita.

Mr. UDALL. Per capita.

Mr. VELEZ. To extend further, our Government said there was something \$350 lower than the lowest State in the Union, Mississippi.

Mr. BARRY. I am not trying to compare it to the United States. I was trying to figure the average per family share, or where a Federal family fits in that kind of situation.

Mr. VELEZ. I cannot offer you an average, but I can cite an example, if I may use my own family as an example.

Mr. UDALL. Yes.

Mr. VELEZ. My wife has a bachelor's degree from the university and a master's degree from the medical school. She is a public health supervisor in an agency which is subsidized in part by the Federal Government. She earns the fabulous salary of \$345 a month. My secretary earns over \$400. Because she is at the top of her grade.

Mr. BARRY. She is a Federal Government employee and your wife is a State employee?

Mr. VELEZ. State employee. So, using that as a measure and repeating what Mr. Kryzanowski said, except in the case of executives and attorneys, which are paid much higher in the State government than in the Federal Government, State attorneys start at \$600 base—green, right out of the bar exam, and they go all the way up in four steps to, I believe, right now \$1,150 a month, and there is a proposal to raise them even more. But as a general rule, outside of the top-drawer professionals, your executives, your doctors, and your highly trained special technicians, of which you would not find much comparability—for example, FAA was mentioned for Virgin Islands; it carries through to Puerto Rico.

Mr. BARRY. There are 5,077 Federal employees on the two islands. What is the total employment in the two islands?

Mr. VELEZ. Total Federal employment?

Mr. BARRY. No. You have given me that figure. That is 5,077.

Mr. VELEZ. In general.

Mr. BARRY. What is the total employment?

Mr. VELEZ. I do not have that figure, but Mr. Concepcion de Gracia offered you our study, and we have a copy here. I believe we have two copies—we are submitting the book, the big book.

Mr. KRYZANOWSKI. Sir, we do not have the figure of the total employment in Puerto Rico. The figure runs around 31 percent.

Mr. BARRY. Is it half a million people or something of that kind, or is it 200,000? I am trying to get some kind of a comparability. We found in Alaska that almost 20 to 25 percent of the employment there was Federal employment. I would like to find out something by way of the impact of the Federal Government.

Mr. VELEZ. I see your point now, Mr. Barry. On that point we are a very small percentage.

Mr. BARRY. I would think so, too.

Mr. VELEZ. We are very small percentage.

Mr. BARRY. On page 5, you speak of a report showing there is a 20-percent differential in cost-of-living index as distinguished from 4 percent. Where is this report?

Mr. VELEZ. Parts of this report are contained as appendixes right in the statement you have, sir.

Mr. BARRY. This is the report you are referring to on page 5, is it?

Mr. VELEZ. Yes, sir.

Mr. KRYZANOWSKI. Yes, sir.

Mr. VELEZ. We have about 20 pages of it included in this statement. My statement was not as thick as it looked; and the rest of it is in preparation now, as I said, with the able assistance of some of the specialists from the national employee unions here, which I need not detail. You will be hearing from them on the 10th, I understand.

Mr. UDALL. We will be glad to have them and have that information in the record.

Mr. BARRY. In conclusion, I want to direct your attention to page 14, where you talk about a Damocles sword hanging over your head. Do you actually believe that, if we rendered a decision in your favor, that the Civil Service Commission would hand down a decision reducing COLA to zero? Do you think there is that little integrity in the Civil Service Commission?

Mr. VELEZ. Sir, I did not mean any disrespect to Mr. Macy or any Government official in Civil Service Commission. I am stating a fact, the fact of some of the communications to some of the members of your committee and some of the gentlemen in Congress who are supporting our position, saying that: We are holding off on the reduction of 5 percent, which, as you gentlemen know, was to have been effectuated on April 1. Until this hearing is over with, if nothing happens with this bill, they will survey again in the fall.

Our contention is that the way they carry out the surveys, we are right back where we started from, and I can just start packing now, because they are going to cut the COLA.

Mr. BARRY. In other words, you have a 5-percent cost-of-living index?

Mr. VELEZ. No, they would cut it from 12½ to 5 percent.

Mr. BARRY. Well, you say here to zero.

Mr. VELEZ. I say they could cut it to zero and we could not rebut their conclusions, because we are told about these things when we read it in the press. And as I said, if this were a bargaining table, the deck would be stacked just a little bit different. But as it is, all we get is decisions and conclusions. And even under the laws in effect now, where employee unions are supposed to have certain rights of bargaining, shall we say, with our employer, we have no such rights with the people who administer those laws, the Civil Service Commission.

Mr. BARRY. I appreciate your coming before us, but I do not believe you want the statement on page 14 to stand stating that you believe that Civil Service would cut to zero the cost-of-living allowance if we in this committee decided that you were to continue the cost-of-living allowance. I do not think you want that in, do you?

Mr. VELEZ. Well, sir, I say they could hand down a decision.

Mr. BARRY. They could have done it at any point in the past, but they did not, did they?

Mr. VELEZ. Yes, sir; they handed down a decision——

Mr. KRZANOWSKI. Yes.

Mr. BARRY. To zero?

Mr. VELEZ. To 5 percent, effective April 1.

Mr. BARRY. Maybe they had some facts to base it on, but it is not to zero.

Mr. VELEZ. It is on the basis of facts, sir, and that is exactly what we are rebutting with our studies.

Mr. UDALL. The Chair is going to have to conclude this. There is a quorum call on. I want to thank you for coming such a far distance.

Mr. John MacKay, the distinguished president of the National Postal Union, who will be heard from later; I understand you have Mr. Cristobal Llitasas from Puerto Rico. Did he wish to be heard separately; could he return?

Mr. MACKAY. Mr. Chairman, he is part of our delegation. He is not supplying a separate statement. But I would like to have him stand and introduce him to the members of the committee here. He is president of the Postal Union of Puerto Rico and the Virgin Islands.

Mr. UDALL. We are very sorry we did not get to hear you in detail, and I will assure you that you are in good hands with the president of your organization, and he will present your case very adequately when the time comes.

Mr. LLITERAS. Thank you, sir.

Mr. UDALL. In addition, I would like to say that you have a very fine advocate for the territory of Puerto Rico, and I think your statement is most comprehensive.

Mr. VELEZ. Thank you, Mr. Chairman.

The next witness is Mr. John G. Brady, chairman of the legislative committee of the National Association of Internal Revenue Employees.

Mr. Brady.

STATEMENT OF JOHN G. BRADY, NATIONAL ASSOCIATION OF INTERNAL REVENUE EMPLOYEES

Mr. BRADY. Mr. Chairman and members of the subcommittee, I am John G. Brady, chairman of the legislative committee of the National Association of Internal Revenue Employees, accompanied by George Bursach, executive secretary-treasurer. Our association of over 27,000 members are opposed to the elimination of the cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas.

I received the following information dated February 20, 1964, from our chapter 35 president, Donald C. Peacock, and I quote:

We, the affected employees, do not consider the dollars paid to us through COLA to be fringe benefits. We consider those dollars just a part of the payroll dollars paid to us by the Federal Government—the payroll dollars which were originally contracted for between the Federal Government and us. Thus, the intent to eliminate COLA should be denounced by not only the Hawaiian classified Federal employees but also by all classified Federal employees, for what is being attempted by the Civil Service Commission at this time, to eliminate COLA, to the detriment of the Hawaiian classified Federal employees, might in the future be attempted to the detriment of the classified Federal employees in those areas where the cost of living is so low as to warrant similar reductions in take-home pay. We consider ourselves, out here in Hawaii, to be one segment of the Federal employees family and what affects us should be construed as affecting

all members of the family. We here in Hawaii emphatically denounce the Government's attempts to single out one member of the Federal family for a reduction in payroll take-home pay. Furthermore, it is bad faith on the Government's part to enter into contracts with Federal employees, agreeing to pay them certain wages including the cost-of-living allowance and then reneging on its agreement. As you can see, the intended elimination of COLA is creating a severe morale problem in this area.

The 137 members of the National Association of Internal Revenue Employees, Unit 35, respectfully request your aid in preventing the announced cut in the cost-of-living allowance in Hawaii.

We feel that such a decrease is not warranted by the facts. This would seem to be borne out by the figures which were given me by the local U.S. Civil Service Commission. They show the following:

Year	Washington, D.C.	Honolulu
1958.....	100	121.4
1959.....	100	117.6
1960.....	100	118.3
1961.....	100	113.0

Both of the indicated drops in the ratio of cost-of-living allowance are a result of new factors. We are told that the decrease in 1959 was caused by the removal of a weighting factor when we were taken out of the "tropical" category. This was based on an apparently arbitrary figure that states that 76° mean temperature is tropical; a mean figure of 75.1° such as ours is not tropical unless the humidity is high.

Who decides what is high? Is the humidity of Honolulu really considered low? If so, why do our leather goods and clothes mildew in the closets? Why do our cars rust out in a few years?

We lost 2½ percent of our cost of living in 1960. Now although the cost of living, as reported in the local newspapers, has hit a new high in Hawaii, we are scheduled to lose an additional 2½ percent.

The explanation for the drop in our cost-of-living ratio as compared with Washington, D.C., is supposed to be that the cost of homeownership is compared in 1961, for the first time. We are not told the basis of this, but as one who came to Hawaii from the mainland, I find it hard to believe that a valid comparison was made. In fact, the cost of housing in Hawaii is the most shocking adjustment that most of us have to make. The cost of housing here greatly exceeds anything comparable on the mainland, and the cost of fee simple land is shocking. In most areas of the mainland, most people would not even dream of building a home on leased land and paying land rent and then paying the property tax on the land (for which no deduction is allowed).

Does this survey of comparative living costs give any consideration to the cost of higher education. Although the University of Hawaii is being constantly improved, many families find it necessary to send children to mainland colleges and universities, either for studies not available here, or for some other reasons. We do not have four universities in Honolulu proper, as they do in Washington, D.C.

Mr. Chairman, I would like to place on record the following information from chapter 69, Anchorage, Alaska:

COST OF LIVING, ALASKA

I am enclosing the sheets on which we conducted a survey to endeavor to arrive at comparative living costs in Alaska. A comparison of this nature is very difficult as many of the employees live in substandard housing here than what was available in the States.

The following facts seemed quite apparent:

Housing and utilities were at least double of those in the south 48.

Medical expenses are approximately twice that in the States.

Many employees who attempted to make their homes in Alaska and have purchased housing on a 30-year contract were demoralized by this proposal. Housing costs are apparently being adjusted downward here, but the employees at-

tempting to make their homes here have made 20- to 30-year commitments at the higher costs. They, therefore, do not feel they are getting fair treatment if their future salary will be reduced.

The proposed elimination of the 25 percent cost-of-living allowance has had an adverse effect on employees who might be in the housing market now, as they do not dare make a long-term commitment. Several of the better homes have been placed "for sale" to endeavor to get out from under the long-term contracts.

There is no doubt, as you can note from the comments on the survey made, that Alaska would lose a material portion of its more qualified civil-service personnel if the proposal to eliminate this allowance goes through.

In Anchorage, there are approximately 10,000 trailers, with a probable 30,000 people living in trailers from estimates given me by local real estate firms. There is, therefore, a large potential housing market as yet unfilled. Also, the industry here needs the work. It is hoped that a somewhat permanent arrangement can be worked out whereby if employees purchase homes they will have future protection on income reductions. The present proposals by the Civil Service Commission have had an adverse effect on this situation.

This situation also places a much heavier tax burden, on the people who do purchase housing, in that school taxes, etc., must be comparably higher.

I would like to furnish to your committee all of the data covering the cost of living survey prepared by our chapters from Alaska and Hawaii.

I thank you for your interest and I appreciate the opportunity of appearing before your committee.

(The communication containing the Hawaii data is as follows:)

NATIONAL ASSOCIATION OF INTERNAL REVENUE EMPLOYEES,
Honolulu, Hawaii, March 2, 1964.

Mr. JOHN G. BRADY,
Chairman, Legislative Committee, National Association of Internal Revenue Employees, Washington, D.C.

DEAR MR. BRADY: Thank you very much for the copies of your February 27, 1964, statement before the House subcommittee concerning H.R. 7401.

I believe further clarification is warranted concerning the Government's part of entering into bilateral contracts with Federal employees and the Government's subsequent one-sided attempts to break those contracts. Therefore, I will relate to you my case as an example.

During May 1955, I was employed as a special agent in the Internal Revenue Service with post of duty at Seattle, Wash. In January 1959, in response to the Government's published requests for applicants to fill a special agent's position in Honolulu, I applied for the position by completing and submitting a form 57 to the Honolulu district. In answer to the question set forth on the form 57, I stated that the lowest salary I would accept for my employment in Honolulu would be my Seattle, Wash., base pay plus a 20 percent cost-of-living allowance. The Government accepted my offer to work in the Honolulu district at that wage and that percentage of cost-of-living allowance by (1) executing a form 50, dated June 12, 1959, changing my post of duty from Seattle to Honolulu and my salary from \$7,030 to \$7,030 plus 20 percent COLA; and (2) paying me that wage and percentage of COLA after my arrival in Honolulu. In the latter part of 1960, my COLA was arbitrarily reduced by the Government to 17½ percent. Almost a year later, my COLA was arbitrarily reduced by the Government to 15 percent.

In effect, what has happened? (1) The Government solicited mainland employees to fill a vacancy in Hawaii; (2) I offered to work in Hawaii for x dollars plus 20 percent cost-of-living allowance; (3) the Government accepted my offer, transferred me to Hawaii, and began paying me at my requested rate of pay plus my requested percentage of COLA; (4) the Government violated our bilateral agreement by reducing the agreed upon COLA; and (5) the Government again violated our bilateral agreement by further reducing the agreed upon COLA.

It may be argued that my base pay now exceeds the base pay plus COLA which the Government agreed to pay me when I first came to Hawaii. Such an argument is without merit because the major portion of my increase in wages after coming to Hawaii resulted from my being promoted to a higher grade and

my receipt of a "quality increase" in accordance with section 702 of the Classification Act of 1949. It is presumed that with the same quality of work on the mainland I would have received the same increases in pay. Furthermore, no matter the amount of my base pay, the Government has a moral if not a legal obligation to maintain my COLA at the initially, bilaterally agreed-upon percentage.

The Government has argued that the COLA is unfair to other Federal employees on the mainland. If that is true then the Government should make its adjustments by not paying COLA to new Federal employees; however, it should not attempt to renege on its contracts with present employees until such time as each and every Federal employee is called upon to accept a reduction in pay.

A similarity may be drawn between the Government's attempts to eliminate our COLA and a private firm's actions:

A private firm entered into an agreement with an individual to pay him *x* wages and furnish for his use a rent-free home if he moved to X city. Several months after the employee accepted the offer and had moved to the new city and into the rent-free house, the firm informed the employee that it would no longer provide for his use the rent-free home.

A violation of contract? Of course, it is. And, we in Hawaii look upon COLA in the same manner as employee above looked upon his rent-free home.

The Government has made much to-do over its comments that COLA would be phased out so as to avoid inflicting hardships on the affected Federal employees. What nonsense. No matter whether COLA is phased out or terminated overnight it is going to result in less take-home pay for the affected employees. The Government has blithely announced that there will be no hardship if COLA is phased out because interim pay increases granted by Congress can serve to offset the loss of COLA. Has the Government lost sight of the fact that prices are constantly rising, and if a pay increase is offset by a reduction in COLA our purchasing power will steadily decrease?

We have incurred long-range obligations for housing and transportation based upon agreed upon base pay and COLA. If our purchasing power is cut through a partial or complete loss of COLA it will not be possible for us to renege on our contractual obligations with the mortgage company, bank, or finance company—they would not permit our doing so. The loss of our purchasing power could only result in a reduction in our standard of living.

You will note that I have not argued the percentage of COLA which should be paid the affected Federal employees in Hawaii. I have argued only that (1) the Government has a moral if not a legal obligation to fulfill the terms of its contracts with the affected Federal employees; and (2) the Government should not single out one group of Federal employees for a reduction in take-home pay.

In behalf of the members of chapter 35, NAIRE, thank you for your efforts to cast unfavorable light upon the unjust and immoral H.R. 7401.

Very truly yours,

DONALD C. PEACOCK,
President, Chapter 35, NAIRE.

Mr. UDALL. Thank you, Mr. Brady, for a very fine and complete statement.

The committee stands adjourned until 10 a.m., Wednesday, March 17, 1964.

(Whereupon, at 12:30 p.m., the subcommittee adjourned, to reconvene at 10 a.m., Wednesday, March 17, 1964.)

TERMINATING COST-OF-LIVING ALLOWANCES

TUESDAY, MARCH 17, 1964

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., room 215, Cannon House Office Building, Hon. Morris K. Udall, of Arizona (chairman of the subcommittee), presiding.

Mr. UDALL. The subcommittee will come to order.

We are continuing today the hearings on H.R. 7401 which was introduced by Chairman Murray of the full committee at the request of the U.S. Civil Service Commission. The bill provides for the termination of the cost-of-living allowances for statutory salaried Federal civilian employees in nonforeign areas.

Our first witness today is our distinguished colleague, the Honorable A. Fernós-Isern, Resident Commissioner of Puerto Rico. Commissioner Fernós, we are happy to have you with us this morning, and you may proceed to present whatever you have for the subcommittee.

STATEMENT OF HON. A. FERNÓS-ISERN, RESIDENT COMMISSIONER OF PUERTO RICO

Mr. FERNÓS-ISERN. Good morning, Mr. Chairman.

I appreciate the opportunity to appear today to express my views with reference to H.R. 7401. H.R. 7401 would phase out cost-of-living allowances for statutory civilian Federal employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands so as, eventually, to place them in the same salary position as Federal employees in mainland United States, regardless of the difference in living costs in the offshore areas and, therefore, regardless of the difference in the purchasing power of such employees vis-a-vis local conditions.

The philosophy underlying the establishment of cost-of-living allowances is simple. They are designed to take care of cost-of-living expenses over and above those obtaining in Washington, D.C. In other words, the purpose is to equalize the purchasing power of Federal employees, and to arrive, therefore, at equal pay for equal work in real fact.

The offshore areas are subject to economic pressures and conditions not present within the continental limits of the Nation. Alaska, Hawaii, and Puerto Rico live within the U.S. tariff and monetary system; there is free trade between them and the mainland; they are part, therefore, of the U.S. economic system. However, conditions and circumstances are not the same. These are certain factors that

economically affect the offshore areas, which do not affect the mainland.

The offshore areas are hundreds of miles away from the mainland. They depend on the mainland market to sell their products. They buy on the mainland their food and the consumer merchandise. Ocean freight between the offshore areas and the mainland United States is subject to the coastwise shipping laws. Freight rates are concedely very high. Air costs are higher than shipping rates. There are no trains, no trucks, no tractor-trailers that can be employed in competition with the ocean carriers so as to effect a general lowering of transportation costs to the consumers. It is the consumers of the offshore areas who must pay for transportation costs. No subsidy is authorized for domestic carriers serving offshore areas. In fact, the offshore areas pay, through increased freight rates, what amounts to a subsidy for the merchant marine of the United States. The offshore areas depend to a very large extent on imports from the mainland for their foodstuffs. In the case of Puerto Rico, for instance, it is obvious that 3,500 square miles of territory, half of which is not arable, cannot from its own soil feed its 2½ million inhabitants.

We hear much these days about equal pay for equal work. The enactment of H.R. 7401 would not result in this principle. In fact, it would run counter to this principle although it may appear otherwise. For were the salaries, grade by grade, equal as between continental Federal workers and offshore Federal workers, still, in terms of real wages, real take-home pay, real purchasing power, they would mean less, buy less at the counter than in mainland United States. The cost-of-living allowance as established since 1949, is the one method of handling this situation on behalf of Federal workers in the insular areas; it is the best approach to the problem and one which effects the best results. It is a realistic approach. The only alternative would be to decrease the cost of living in the offshore areas to the level of the cost of living in mainland United States.

The proposal to terminate the cost-of-living allowances, which was initiated in the Independent Offices Appropriations Act of 1949, gives rise to the question, in the minds of all of us, as to whether the principle was right in 1949 or whether it was wrong. For if it was right in 1949, it must still be right today, and if it is right, it can be efficiently administered on the basis of regular cost-of-living surveys as heretofore so that a grade 7 worker in any offshore area may, at all times by virtue of the differential, receive the same real wage as a grade 7 worker in Washington, D.C.

It has been stated that within the Government plan of gradually increasing Federal salaries to the level where the Government can compete with private industries in recruiting workers, Federal salaries will rise to the point where cost-of-living allowances will no longer be necessary. But I submit that while in the mainland the increases will allow the Government to compete with private industry—and this means an increase in the salaries of the mainland employees—this same salary paid in an area where the cost of living is higher than in the mainland still leaves the Federal employees in the off-shore area with a salary actually lower than that paid to his mainland counterpart insofar as purchasing power is concerned.

It may be said that in Puerto Rico industry pays less in some aspects than in the mainland, but we all recognize this is not to be a satisfactory situation. It is not a desirable situation. It means poverty, and poverty cannot be considered an acceptable way of life. Precisely, the whole effort in Puerto Rico at present is to increase salaries and wages in industry and all other activities, so as to bring the island people to the same level of existence as their fellow citizens of the mainland. We cannot, therefore, adopt in Puerto Rico the comparability criterion in salaries and wages. We hope that the fact that there are lower salaries in industries in Puerto Rico than in the mainland is a passing phase in the economic development of Puerto Rico, that the time will come when salaries in Puerto Rico are comparable to those of the mainland. Even then, either the cost of living should come down so that there may be in the island the same purchasing power as in the mainland, or salaries should go still higher so that they may cope with the higher cost of living there prevailing. As a matter of fact, that is the philosophy upon which the Federal minimum wage law is predicated in its application in Puerto Rico. It allows at present lower wages in some industries than the minimum wage in the mainland, but this is considered a temporary measure, and the law provides for revision of such wage scales every 2 years. The stated philosophy is that such wages should be increased continuously, as they have been in the last few years, until they reach the level of mainland wages and this should happen as soon as possible.

I am forced, therefore, to oppose H.R. 7401 on the basis (1) that it would be eminently unfair to reduce the take-home pay of Federal workers and (2) that even if, by virtue of increases of basic salaries, the take-home pay would still be about the same, the purchasing power of the Federal employees in Puerto Rico would remain lower than the purchasing power of their fellow employees in the mainland. This would run against the principle of equal pay for equal work.

I hope that this committee will pay close heed to the arguments presented in these hearings by the representatives from the offshore areas which would be affected, and that it will table H.R. 7401.

Thank you, Mr. Chairman.

Mr. UDALL. Thank you, Mr. Commissioner, for an excellent statement.

The gentleman from Iowa.

Mr. GROSS. Mr. Fernós, do you know whether the military pays cost-of-living allowances in Puerto Rico?

Mr. FERNÓS-ISERN. I am not certain about that. I think so.

Mr. UDALL. Will the gentleman yield on that a minute?

Mr. GROSS. Yes.

Mr. UDALL. I asked the staff this when this question came up the other day. They did some checking with the Defense Department, and apparently they have a somewhat complicated system in some areas for offshore pay and cost-of-living allowances for military personnel. As I said, it is a complex system. They claim it takes 16 to 18 pages to set up the rules and regulations.

But I have a very brief summary on the situation on a sheet here which probably at some point should get into the record because this is a very valid point the gentleman is raising.

Mr. GROSS. According to this sheet you have just handed me, neither cost-of-living nor additional housing allowances are paid in Puerto Rico to the military.

How about the Peace Corps training camp down there? Do you know whether there are cost-of-living allowances paid to any of the members of the Peace Corps, either volunteers or those who are engaged in training these Peace Corps people?

Mr. FERNÓS-ISERN. No, Mr. Gross; I am not familiar with the financial aspects of the Peace Corps. I have heard very laudatory comments about their work there, and so forth, but not the financial aspects.

Mr. GROSS. Thank you, Mr. Chairman.

Mr. UDALL. The gentleman from California.

Mr. WILSON. I have no questions, Mr. Chairman. I want to thank the gentleman for his fine statement.

Mr. UDALL. Because this question is raised I think I will take just a moment to read this into the record. I would emphasize again this is not intended to be a completely accurate or detailed summary of the armed services allowances, but here is what it says:

There is a system of additional allowances now paid to military personnel serving in certain areas outside the mainland 48 States. These allowances can be in the form of cost-of-living or additional housing payments or both. There is no fixed and generalized method of making these payments as there is with the system of additional allowances for civilian employees. The allowances vary by the military installation within an area, and in regard to additional housing allowance they vary in amount according to rank.

Alaska: In certain areas of Alaska both cost-of-living and additional housing allowance are paid. In other areas only cost-of-living allowances are given. Generally the cost-of-living allowances are in an amount equal to the additional cost of living in Alaska as determined by the Bureau of Labor Statistics indexes. Most areas, for example, would be entitled to the approximate 40 percent cost-of-living allowance.

Hawaii: In Hawaii a cost of living allowance is paid to military personnel on all the islands except the main one of Oahu where, incidentally, most of the military personnel are stationed. Personnel on Oahu do receive additional housing money. Where cost-of-living allowances are paid they vary between 8 and 12 percent.

Puerto Rico: Neither cost-of-living nor additional housing allowances are paid in Puerto Rico.

Virgin Islands: A cost-of-living allowance averaging 20 percent is paid in the Virgin Islands. No housing allowance is paid.

Let me ask just one other question here which has occurred to me during the course of these hearings. The real kernel of this dispute, it seems to me, can be stated or posed in a hypothetical example. Let us assume that on the mainland in order to compete with private industry and get a sheet metal worker the Government has to pay \$2 an hour. In Puerto Rico the going rate for the same kind of worker is not \$2 an hour, it is \$1.80. The Government can go out and compete with private industry and can get the skill that it needs for \$1.80. And the third part of my hypothesis—and I think this has been borne out by the testimony—is that despite this, the living costs in Puerto Rico are not in the range of \$2, they may be in the range of \$2.20.

Mr. FERNÓS-ISERN. That is correct.

Mr. UDALL. Now, the question posed by this legislation in my mind is—is the Government justified, can we justify it to the taxpayers in paying \$2.20 for this kind of labor when we could get it in the competitive market as it exists in Puerto Rico for \$1.80?

Now what is your comment on this?

Mr. FERNÓS-ISERN. Well, precisely the application of the Federal minimum wage law is aimed at raising the salaries and wages in Puerto Rico because they are low. The Government by law is trying to raise the wages in Puerto Rico to levels that will allow for a satisfactory level of existence. If on the other hand the Government, if it just went out into the market to pay the salaries that are generally being paid, which we will concede are low, it would be doing the opposite; in one case trying to raise wages, in the other actually keeping them where they are.

Mr. UDALL. All right. Going back to my example, there are three levels that I have been talking about. There is the \$1.80 for which, hypothetically in my example, we could get this kind of worker that we need. The Civil Service Commission and the Government do not say that we ought to go out and pay \$1.80.

Secondly, there is the \$2 figure, which is what the Government in my example is paying on the mainland. This bill in effect takes the position that this is the range that should be paid.

The third level is the \$2.20, which would give the Puerto Rican worker the same standard of purchasing power that a similar worker would have on the mainland, and this is the range that the opponents of the bill think should be paid, and I am trying to justify in my own mind what I can tell taxpayers as to why we should pay this additional 20 cents in my example when the Government could get the same services for \$1.80 but is willing to pay more than that, to wit, the \$2 figure that I am talking about.

Mr. FERNÓS-ISERN. Well, in other words, the question is whether the Federal worker in Puerto Rico should get the same actual pay as on the mainland. In order to get the same actual pay he would have to get more in money to get the same purchasing power.

Mr. UDALL. All right. Well, I was just posing this because it seems to me this is the heart of the controversy.

Are there any further questions?

Thank you, Mr. Commissioner. We appreciate your coming and your fine statement.

Mr. FERNÓS-ISERN. Thank you very much, Mr. Chairman.

Mr. UDALL. Our next witness this morning is Mr. John MacKay, who very patiently sat through the 2 previous days and we did not get to him. He was very gracious in letting us take some of the out-of-town witnesses ahead of him.

You are accompanied this morning by Mr. David Silvergleid, your secretary-treasurer, and Mr. Walter Noreen, the vice president of your organization. We are happy to have you, and you may proceed.

STATEMENT OF JOHN MacKAY, PRESIDENT, NATIONAL POSTAL UNION

Mr. MacKAY. Thank you.

Mr. Chairman and members of the subcommittee, my name is John W. MacKay and I am privileged to serve as president of National Postal Union, 509 14th Street NW., Washington, D.C. We represent approximately 60,000 postal and Federal employees in 500 local unions situated in 49 States, the Island of Puerto Rico, the Virgin Islands, and the District of Columbia.

I am accompanied here by Mr. David Silvergleid, our national secretary-treasurer, Mr. Walter O. Noreen, our executive vice president. Unfortunately, Mr. Cristobal Lliteras, president of our Puerto Rico and Virgin Island Postal Union, who was with us earlier, had to return to his residence in the island and is not able to be with us here today.

We are grateful, Mr. Chairman, to you and your associates for the opportunity to testify. We appreciate the action taken by this subcommittee in holding hearings on H.R. 7401, a proposal to terminate cost-of-living allowances for Federal and postal employees in nonforeign areas. The purpose of this measure is to phase out, within 6 years, current cost-of-living allowances that have been established by law for Federal personnel in Alaska, Hawaii, Puerto Rico, and the Virgin Islands.

For the past 18 months, since implementation of President Kennedy's Executive Order 10988, dealing with employee-management relations, this union has been accorded exclusive recognition for its affiliated locals in both Anchorage, Alaska, and San Juan, Puerto Rico, the two largest cities in a goodly portion of the nonforeign areas now under consideration. Consequently, through this relationship we have been accorded an extraordinary opportunity to become well aware of the conditions and economic facts of life that prevail in these locations. Our experience has demonstrated conclusively that the cost-of-living allowance for nonforeign areas, as referred to in H.R. 7401, should not be terminated and that any action, with such an objective in mind, is both inappropriate and unwarranted.

Hence, we place ourselves on record unequivocally in opposition to H.R. 7401. We contend that the circumstances that prompted cost-of-living allowances in 1949, through the adoption by Congress of the Independent Offices Appropriation Act, have not changed but have indeed been further extended so as to require not only continuation but a possible upward revision of such allowances.

COMPARABILITY UNDER THE FEDERAL SALARY REFORM ACT OF 1962

On February 5, 1964, the Civil Service Commission was responsible for the issuance of a statement endeavoring to establish purpose and justification for the termination of the allowances referred to herein. In addition, the Commission attempted to justify passage of H.R. 7401 by virtue of section 504 of the Federal Salary Reform Act of 1962. The Reform Act, in this instance, was cited as authority for the justification of higher rates of pay when salaries in the private industrial sector are sufficiently above Federal pay levels to an extent the Federal Government is handicapped in recruiting and retaining qualified personnel.

When the Reform Act of 1962, Public Law 87-793, was under consideration by this committee, we testified in opposition to the theory of comparability, so vigorously advocated by the Civil Service Commission. We believed then and we still insist no factual evidence has been submitted to substantiate such a theory. In fact, in testimony presented to the committee, and to the Senate committee in May and

June of 1962, the Deputy Director of the Bureau of the Budget, Mr. Elmer Staats stated:

It is not possible to price in private enterprise the jobs in these three specialized services (postal field service, the Foreign Service, and doctors, dentists, and nurses in the Department of Medicine and Surgery) by the method used in pricing Classification Act work, since most of the jobs have few direct counterparts in private enterprise.

We contended then, and we have not changed our position since, that there was no demonstrable tie-in between postal field service operations and those in private enterprise. We believe our sentiment then is pertinent to the legislation now under discussion. Once again, the Commission has resubmitted its all too familiar plea for pay level "comparability" in an area where private employment criteria have no relationship to postal and many Federal assignments.

What has happened to comparability to date?

In its statement to this committee, on February 5, 1964, the Commission endeavored to assure all concerned that no employees would suffer any appreciable loss of income, through the passage of H.R. 7401. CSC claimed that any reduction in cost-of-living allowance would be supplemented by higher salary levels through full application of the comparability principle embodied in the Salary Reform Act of 1962.

The Commission then cited the variation in living costs in Chicago and Seattle which were computed as approximately 7 percent above those in Washington, D.C., In an accompanying table of statutory salary levels the actual GS grade is compared to alleged existing private enterprise levels in Alaska, Hawaii, and Puerto Rico. The Commission indicates therein that Alaska is 29 percent above the mainland average. While these statistics may be significant, we cannot help but wonder what the Commission has done since the passage of the Pay Act of 1962 to recommend the higher salary levels it promised when it so enthusiastically advocated passage of section 504 of the Reform Act. Why have there been no recommendations by the Commission to increase salary levels in the higher cost-of-living areas but rather, in lieu thereof, a campaign to reduce living allowances in a portion of the nonforeign areas referred to above?

CONDITIONS IN PUERTO RICO AND VIRGIN ISLANDS

On January 16, 1964, the Commission announced that the allowance in Puerto Rico would be reduced from 12.5 to 5 percent and that in the Virgin Islands from 15 to 5 per cent. Subsequently, the Commission deferred this action and indicated a desire to resolve the issue through passage of H.R. 7401. As far as Puerto Rico and the Virgin Islands are concerned, passage of H.R. 7401 and the later application of section 504 of the Reform Act of 1962 would, according to CSC figures, bring about a reduction in pay averaging 20 to 40 percent in the first five pay levels. We contend this would have a shattering effect on postal and Federal workers in these areas and would end any semblance of their retention of the American standard of living.

To more sharply illustrate our concern for employees in the Puerto Rico and Virgin Islands area, we present a case history of a retired member of this union who obtained disability retirement in 1957. He first went to Miami, Fla., but found conditions there too expensive.

Later, he decided to try Puerto Rico. This retiree's name is Allan Semel, now residing part of the year, when weather permits, at 3100 Ocean Parkway, Brooklyn, N.Y.

Retiree Semel's health precludes his continued residence in the north due to the rigorous northern winters. His disability prevents other part-time employment to supplement his annuity. Faced with these conditions, he believed Puerto Rico would offer the climate and the circumstances that would enable him to live better on his retirement pay. Mr. Semel went to Puerto Rico in 1962 where he remained for 3 months. The following statement recounts the situation he encountered there.

I went to Puerto Rico and found that the place I was going to live in for \$60 a month wouldn't be occupied by any American familiar with the term "standard of living." Things I had always taken for granted such as shower and bath, modern plumbing, fresh paint, ample space and closets were noticeable only by their absence. The myth of cheaper living expenses in Puerto Rico exploded in my face when I discovered it represented the end of any acceptable American standard.

Food and clothing were considerably higher, about 20 to 25 percent, I would estimate, than what I paid for same in New York. The quality of the food was nowhere near to what I had been accustomed. Dining out was a prerogative of tourists and the wealthy Puerto Ricans.

I was even more shocked when I learned the cost of medicine and drugs. Insulin purchased in Washington, D.C., for \$2 costs \$2.85 in Puerto Rico. Gelusil, a necessary medication for ulcers, costs \$1.15 in Washington, D.C., while in Puerto Rico I was asked to pay \$1.85 for same. Enerax, a compound for the same ailment, which I purchased in the District of Columbia for 5 cents a pill costs 12 cents a pill in Puerto Rico. Peritrate, essential for angina, costs twice as much in San Juan. These are not exceptional cases. They apply all the way down the line on all medicines and drugs.

I marveled that Puerto Rico's famous Operation Bootstrap had brought such prosperity which I mistakenly believed was the reason for such high prices. I was not there too long before I learned that the staple diet is rice and beans. Meat, and even chicken, when available on great occasions, were causes for rejoicing. In short, I discovered that many people existed on what, for a continental American would prove a subsistence diet.

In Puerto Rico and the Virgin Islands, I learned that middle class income groups, particularly Federal and postal employees, are inculcated with American ideals. They want American-style housing, an automobile, proper medical care, and adequate education for their children. Homes that post office clerks and carriers might purchase in the States are far beyond the reach of such Federal personnel in Puerto Rico or the Virgin Islands. Needless to say, this was too expensive for me. I managed to stay 3 months on funds supplied by my family.

And so, like 2 million Puerto Ricans have done during recent years, I made my way to the continental United States. I find now I am able to live better and feel better in the alleged costly atmosphere of New York City, Miami Beach or Washington, D.C., than I could ever hope to do in Puerto Rico.

In figures made available to us as submitted by the Bureau of Labor Statistics, U.S. Department of Labor, we are convinced the case history cited above could be duplicated over and over by countless Federal and postal employees in nonforeign areas. For these reasons, we strongly urge this committee to reject H.R. 7401. We further advocate that members of this committee request the Civil Service Commission to maintain all existing cost-of-living allowances as established under the Independent Offices Appropriation Act of 1949.

Mr. Chairman, if we may, sir, with the permission of yourself and the members of the subcommittee, we would like to file a supplemental statement that we have prepared following the testimony that was offered here previously.

Mr. UDALL. We would be happy to have your supplemental statement and to make it a part of the record, unless there is objection.
(Supplementary statement of Mr. MacKay follows:)

SUPPLEMENTAL STATEMENT RE H.R. 7401

MARCH 17, 1964.

DEAR MR. CHAIRMAN: Since the start of hearings on H.R. 7401, a proposal to terminate cost-of-living allowances for Federal and postal employees in non-foreign areas, the members of this committee have had an opportunity to hear from officials of the Civil Service Commission, Bureau of the Budget, as well as congressional leaders and representatives of employee groups. In this testimony we note the need for clarification and further comment. Hence, we submit this supplemental statement at this time.

SURVEY OF CONDITIONS

Both John W. Macy, Chairman, Civil Service Commission, and Phillip S. Hughes, Assistant Director, Bureau of the Budget, made mention in their testimony of surveys that had been conducted in the areas under consideration. The surveys reportedly were made by the Bureau of Labor Statistics and "allowance experts" from the State Department. While we have no information on the nature of this survey in Alaska and Hawaii, we have been reliably informed on several of its aspects with regard to Puerto Rico; the area that would be hardest hit should H.R. 7401 be enacted or cost-of-living allowances be reduced.

The island of Puerto Rico is comparatively small and it is no secret that the comings and goings of those officials assigned to these surveys were well known to all concerned. It is unfortunate that, during the surveys in Puerto Rico, no effort was made to contact employee organization representatives or to discuss economic conditions with employees themselves. We believe such an approach might have considerably altered the ultimate conclusions made by the survey teams.

INCOME TAX ARRANGEMENT

In previous hearings, emphasis was placed upon the advantages enjoyed by Federal employees in offshore areas, particularly Puerto Rico, where it was pointed out that the "cost-of-living allowance was not subject to Federal income tax." While this is true, we note no mention of the fact that all employee income of Puerto Ricans employed by the U.S. Federal Government, including the cost-of-living allowance, is subject to the Puerto Rican income tax law. Prevailing rates of the Puerto Rican income tax is approximately 7 percent of taxable income.

INDUSTRIAL DEVELOPMENT

Here again the emphasis is placed on the island of Puerto Rico inasmuch as it has been singled out, by official statistics, as the one area in which the cost-of-living allowance is no longer essential. Any thorough evaluation of the economic development of Puerto Rico during the past 15 years would certainly indicate an immense transformation from the calm, sugar-producing island that was its former status. Under Puerto Rico's Economic Development Administration (popularly known as "fomento," the Spanish term for "development") industrial plants have grown from 13 to 900 since 1947. This huge industrialization advocated and sponsored by the Commonwealth's Operation Bootstrap, has ushered in a new era of manufacturing and trade comparable to that found in many sections of the mainland. It is obvious that this tremendous industrial growth, particularly in such industries as oil refineries, synthetics, plastics, electronic equipment, and furniture making will bring about the customary employee-management relations and a resultant development of trade unionism. There appears nothing on the horizon to indicate that the need for the cost-of-living allowance has established in all of the areas under consideration in 1949, has changed in any way as to warrant elimination of such allowances. Consequently, we cannot help but reemphasize our belief that the legislation under consideration, H.R. 7401, should be rejected and the cost-of-living allowance maintained at its current level.

Mr. UDALL. Are there any questions?
The gentleman from Iowa.

Mr. MacKAY. I would like to point out, if I may, Mr. Chairman, that in this supplemental statement since the hearings on H.R. 7401 the members of the committee have had an opportunity to hear from officials of the Commission and the Bureau of the Budget. We would like to comment just momentarily on the survey that was referred to therein.

While we have no information on the nature of this survey in Alaska and Hawaii, we have been reliably informed on several of the aspects with regard to Puerto Rico, the area hardest hit should H.R. 7401 be adopted.

The island of Puerto Rico is comparatively small and it is no secret that the comings and goings of those officials assigned to these surveys were well known to all concerned. It is unfortunate that, during the surveys in Puerto Rico, no effort was made to contact employee organization representatives or to discuss economic conditions with such employees themselves. We believe such an approach might have considerably altered the ultimate conclusions made by the survey teams.

Now, with respect to income tax, in previous hearings emphasis was placed upon the advantages enjoyed by Federal employees in off-shore areas, particularly Puerto Rico, where it was pointed out that the "cost-of-living allowance was not subject to Federal income tax." While this is true, we note no mention of the fact that all employee income of Puerto Ricans employed by the U.S. Federal Government, including the cost-of-living allowance, is subject to the Puerto Rican income tax laws. Prevailing rates of the Puerto Rican income tax are approximately 7 percent of taxable income.

Under industrial development, certainly emphasis should be placed on the island of Puerto Rico inasmuch as it has been singled out as the one area in which the cost-of-living allowance is no longer essential. We contend that any evaluation of the economic development of Puerto Rico during the past 15 years would indicate an immense transformation from the calm, sugar-producing island that was its former status. Under Puerto Rico's Economic Development Administration (popularly known as "fomento" the Spanish term for "development") industrial plants have grown from 13 to 900 since 1947. This huge industrialization advocated and sponsored by the Commonwealth's Operation Bootstrap, has ushered in a new era of manufacturing and trade comparable to that found in many sections of the mainland.

It is obvious that this tremendous industrial growth, particularly in such industries as oil refineries, synthetics, plastics, electronic equipment, and furniture making will bring about the customary employee management relations and a resultant development of trade unionism. There appears nothing on the horizon to indicate that the need for the cost-of-living allowance in Puerto Rico as in all of the areas under consideration in 1949, has changed in any way as to warrant elimination of such allowances. So, Mr. Chairman, we cannot help but reemphasize our belief that the legislation under consideration, H.R. 7401, should be rejected.

Mr. UDALL. The gentleman from Iowa.

Mr. GROSS. Mr. MacKay, I am a little surprised in the light of your testimony that one of our colleagues in Congress has taken up residence in Puerto Rico if the situation is as you say it is.

I ask you this: In your opinion, then, there are no jobs in Puerto Rico that are comparable to that of a post office clerk in private industry?

Mr. MACKAY. It is our opinion, Congressman Gross, that there are no jobs in private industry either in Puerto Rico or in the United States that are comparable to those in the postal field service, and we advocate that this situation prevails. We believe that the testimony of Mr. Saas, Bureau of Labor Statistics, lent great emphasis to that fact.

Mr. GROSS. Well, now, I will not pursue the question further with you, but I do want to ask someone, a witness before the committee, Mr. Chairman, who does believe in this so-called principle of comparability. I will pursue the question with someone who does believe in it.

Mr. UDALL. The gentleman from California.

Mr. WILSON. I have no questions.

Mr. UDALL. Does the gentleman from New York have any St. Patrick's Day observations?

Mr. BARRY. Thank you, Mr. Chairman.

How many Federal employees in the postal field service are there in Puerto Rico?

Mr. MACKAY. I understand that there are approximately 4,000 Federal employees. Of this number I would say probably a little better than half of them are in the postal operation.

Mr. BARRY. What is the per capita gross national product of Puerto Rico? Do you know?

Mr. MACKAY. No, sir; we do not have that. I will be glad to procure it and provide it for the committee.

Mr. BARRY. I was a little disturbed at the statement made not by you, but by the letter you were reading, and later to find out that they have grown from 13 plants to 900 plants, and then that they are on a rice and beans diet. That would seem to me to be implying quite a severe charge that American industry has taken advantage of these people.

I would be very curious to know what the GNP is. Do any of the others know?

Mr. UDALL. Will the gentleman yield on that point?

Mr. BARRY. Yes.

Mr. UDALL. We had testimony the other day, if my recollection serves me right, that the per capita income on the mainland is something on the order of \$3,000 average, more than \$2,500; per capita income in Puerto Rico is \$780-some, as I recall it.

Mr. MACKAY. Well, I think that there has been in this Commonwealth development Operation Bootstrap certain advantages offered to industry to locate in that area. I think they have been given definite advantages in corporate tax levels and they have had an opportunity at this time, at least up to this time, to take advantage of a comparatively low-cost labor market. But I think that with the passage of time just as we have experienced it in this country that this situation will not always prevail.

In fact, I believe that as the industrialization of the island becomes more pronounced that wages and prices of manufactured items will continue to go up rather than level off and go downward.

Mr. BARRY. Mr. MacKay, on page 5 you say that if H.R. 7401 and the later application of section 504 of the Reform Act of 1962 are enacted it would bring about a reduction of pay averaging 20 to 40 percent in the first five pay levels. There is a great difference between 20 and 40 percent. Would you amplify that a little bit?

Mr. MACKAY. Yes; I will be glad to. The 20 to 40 percent is brought about by the different areas under consideration. In one area it would be more than it would in some of the others. It was included in the committee print on the purposes and justification of H.R. 7401. I think you find therein that there is a table which sets forth the amount of the reduction in each of the areas, and we were able to ascertain from comparing it with the first four or five pay levels that that percentage of a reduction in income would prevail.

Mr. BARRY. This is after the pay raise bill that was just defeated but which will come back in another form?

Mr. MACKAY. I am glad you brought that up. While we are prepared to go into that, I do not think this is the place to do it.

I believe even with that increase we find that we would still be about 15 months behind the cost of living increase. We would also find that we would still be a goodly percentage behind if this reduction in cost of living allowance took place even with the passage of that legislation.

Mr. UDALL. Will the gentleman yield on this point?

Mr. BARRY. Yes.

Mr. UDALL. I think there may be some misunderstanding. At least I am confused. On page 5 of your original statement you touch on this, and you say that passage of this bill and application of section 504 of the Reform Act would according to CSC figures bring about a reduction in pay averaging 20 to 40 percent in the first five pay levels. Now the Commission study you referred to does bear out that comparability in those lower levels would bring about the reductions that you have mentioned. But the Reform Act, as I understood it, section 504, contains no authority to reduce salaries below the basic levels. It is only an authority to increase them if the Government finds it cannot retain and procure the personnel it needs. And my question is, Are you assuming in making this statement that the Government has some authority to reduce the pay scales down below the salaries fixed in the 1962 act?

Mr. MACKAY. No, sir; I am not assuming that they have the authority. I understand what the provisions of the law are in this respect. However, on page 1 of the committee print on the statement and purposes you will find a table in there that contains the percent of the mainland average that would prevail in these various areas, and it points out in the committee print just what the situation would be in the event that this cost-of-living allowance was phased out; and I am reasonably familiar enough with the manifestations of the act and also the way in which the job assignments are handled by the Commission that some of these jobs could be reevaluated downward such as we have experienced in the postal service here on the mainland to the point where they would be in the lower salary levels. This is not hard to do, and it has been done under Public Law 68.

Mr. UDALL. Well, I understand your point now, but you do concede that there is nothing in section 504 that permits the Government to reduce below the salaries fixed in the 1962 act?

Mr. MacKAY. Yes; I agree with you on that point.

Mr. Udall. Mr. Barry.

Mr. Barry. I yield the floor.

Mr. Gross. One observation and a couple of questions. The gentleman from New York, Mr. Barry, raised the question of another pay increase bill, which leads me to observe that he is ever the optimist. He is even optimistic enough to think that we can continue to spend billions of dollars on foreigners and accomplish something by doing it.

But neither of those issues are presently before the subcommittee. I just wanted to make that observation. He is a confirmed optimist.

Now, Mr. MacKay, is there any significance to the fact that you have dealt only with Puerto Rico and not with Hawaii or Alaska?

Mr. MacKay. Well, Mr. Gross, first in answer to your question I would like to take this opportunity to express our appreciation to Mr. Barry for his introduction of this pay bill. We think it is extremely cooperative on his part and certainly indicates his interest and his desire to try to remedy a very difficult situation.

But getting back to the question itself, we have a large group of affiliates in Anchorage, and we have been in touch with them. We are familiar with the economic situation up there, and certainly I think in this area even the Commission admits that the cost of living and the cost of labor in outside industry is such that the living allowance would have to be maintained.

Mr. Gross. Well, there is no particular significance in the fact that you emphasized Puerto Rico?

Mr. MacKay. No, sir.

Mr. Gross. In supplying the subcommittee, as I believe you indicated you would do, with figures on the gross national product in Puerto Rico I would also like to have you give the committee the national income in Puerto Rico—not the gross national product, but the national income, if you can find it.

Mr. MacKay. I think we have those figures available. I do not have them at my fingertips, but I will certainly be glad to try to procure them for you.

Mr. Gross. I am not one of those who agrees with this business of using the gross national product without weighting the figures against inflation, various other elements. I do not think the gross national product is a true index of the economic situation in any country, including the United States.

I would appreciate it if you can find the figures with respect to national income. There is quite a difference. I am sure you will agree with that.

Mr. Udall. Are there further questions? If not, we thank you, Mr. MacKay. We appreciate your coming this morning.

Mr. MacKay. Thank you.

Mr. Udall. Before the Chair overlooks it, I will ask unanimous consent that a number of statements be printed in the record following the testimony of various witnesses this morning. These include the following: An additional statement of the Honorable Daniel K. Inouye, U.S. Senator from Hawaii, who previously presented a statement for this subcommittee; a letter submitted by the Honorable Carl Perkins, a Member of the House, which was received by him from

Mr. Fred Grigsby, St. Thomas, V.I.; and a letter from Mr. Harding Franco Soto, Federal employee from San Juan, P.R.

Unless there is objection, these and other statements in the hands of the staff will be received.

Our next witness this morning is Mr. Daniel Jaspán, legislative representative, National Association of Postal Supervisors. Mr. Jaspán, you may proceed.

**STATEMENT OF DANIEL JASPÁN, LEGISLATIVE REPRESENTATIVE,
NATIONAL ASSOCIATION OF POSTAL SUPERVISORS**

Mr. JASPÁN. Mr. Chairman and members of the House Subcommittee of the Committee on Post Office and Civil Service. My name is Daniel Jaspán. I am the legislative representative of the National Association of Postal Supervisors, composed of more than 26,000 postal supervisors in all States of the Union, Puerto Rico, and the Virgin Islands. Included in our membership are supervisors in the Motor Vehicle and Maintenance Services.

Our members in Puerto Rico, the Virgin Islands, and Hawaii, who would be the first ones affected if this bill were enacted into law, are naturally very much concerned with the loss of pay that would result. Practically all of our members in these areas have been receiving the cost-of-living allowance since the adoption of section 207 of the Independent Offices Appropriation Act of 1949.

The additional allowance was granted by the Congress because the cost of living in these nonforeign areas was substantially higher than in Washington, D.C., the seat of Government and logically the working place of a large percentage of all Federal employees.

The allowance was granted primarily so that Federal employees in these areas could buy about the same quality merchandise, rent or buy the same quality houses, and afford the same quality of services that a Federal employee in the same level could afford in Washington, D.C.

The Federal Salary Reform Act of 1962 established the principle of comparability with private enterprise. This principle is based on salaries paid in industry generally, not necessarily salaries paid in certain locations. It may be true that salaries of the non-Federal employees in the areas which would be affected by the loss of COLA are substantially lower than the salaries paid to Federal employees.

However, there is no logical reason to attempt to bring the salaries in line by reducing those of Federal employees. The trend has been for regular increases in salaries in areas where there are substandard conditions. This is true in the regions which would be adversely affected by the passage of H.R. 7401 as well as throughout the world.

We feel certain that the Members of Congress do not desire to equalize the salaries by reducing those of Federal employees. That is exactly what H.R. 7401 would accomplish.

It must be borne in mind that there are many factors that increase the cost of living in Puerto Rico, the Virgin Islands, and Hawaii. Some of these are hidden factors and some apparent, as follows:

1. TRANSPORTATION AND REPLACEMENT

Since any merchandise transported from continental United States to Puerto Rico, the Virgin Islands, or Hawaii must be carried by sea and on ships under the U.S. flag, it follows necessarily that this is a more expensive form of transportation and the additional expense must be borne by the people in those places. We feel that it is only equitable for this to be taken into consideration. We do not, in any way, ask that the islands be permitted to receive merchandise transported under any other flag.

In many cases there is additional expense transporting the merchandise over land in continental United States before it is placed on a vessel. This leads to additional expense in loading and unloading the merchandise both on surface vehicles and on ships.

All of this adds to the ultimate expense to the consumer in these areas. We are certain that the retailer takes his markup on the total cost, including transportation, before he sells the merchandise to the consumer. This is the usual business practice and naturally increases the cost of the various items.

If we consider the purchase of an automobile, for example, we can see the additional costs to the citizens who do not live on the mainland. In the first place, they must pay the freight for the overland as well as the oversea delivery. This increases the cost considerably.

Due to the atmosphere, the automobile tires, batteries, and parts must be replaced more often. The life of the automobile itself is shorter than on the mainland.

Any of us who have spent any time at shore points could see rapid deterioration in a short period of time, resulting in quicker tire wear and must faster rusting. Due to the transportation charges mentioned above, the price for automobile tires, batteries, and other necessary replacements cost more than on the mainland. The cost of gasoline is also considerably higher in the island areas than in Washington, D.C.

2. CLIMATE AND WEATHER CONDITIONS

Due to the considerably warmer climate in the islands, it is necessary to have more changes of clothing than in an area like Washington, except during the summer months here. Although the people in the islands do not need overcoats as we do, they must necessarily buy additional clothing in order to maintain a neat appearance during their employment hours.

3. PER DIEM

Apparently the U.S. Government has recognized that there is a substantial difference in the cost of living between continental United States and the islands. A good example of this is the fact that per diem in continental United States is limited to \$16 per day. Per diem for San Juan, P.R., is \$24 and in the rest of Puerto Rico, \$18.

In the Virgin Islands during the months of May through November the per diem is \$20 and during December to April, inclusive, it is \$30. This certainly demonstrates that there is a big difference between the cost of living in continental United States and on the islands.

Knowing that the Bureau of the Budget is not ultraliberal in allowing expenditures, we feel that the fact that they permit 50 percent more for per diem in San Juan for employees in a travel status shows conclusively that there must be a difference between the mainland and the islands.

4. TOURISM

Puerto Rico, the Virgin Islands, and Hawaii are becoming increasingly popular tourist areas. All of us realize that one of the penalties of being in a tourist area is the payment of substantially higher prices for everything, including food and lodging. We certainly do not want the tourists to find Federal employees in these islands living in substandard conditions by not being able to meet the increased cost of living brought on by the tourist invasion.

5. OTHER HIDDEN LIVING COSTS

Since the climate is warm the year around in the islands, the usage of appliances such as refrigerators and freezers is much heavier in order to preserve foods. The atmospheric conditions also lead to additional use of washing machines and dryers since the climate requires more frequent changes of linens and wearing apparel. The clothing must be washed or cleaned more often than on the mainland.

Another hidden expense is the year-around control of moths, bugs, and termites which abound in the warmer areas.

The land costs are relatively higher, as are construction costs, in these areas.

6. TAXES

In both Puerto Rico and Hawaii the local or State taxes are much higher than the national average in continental United States. Even the sales tax is higher, with a 3.5-percent sales tax in Hawaii as compared with 3 percent in Washington, D.C. The Hawaiian State gasoline tax is 9½ cents per gallon compared with 6 cents in Washington, D.C. There is a local cigarette tax of 21 cents for 20 cigarettes in Puerto Rico, as well as a sales tax on jewelry and home appliances of 25 percent.

In Hawaii, many homes are built on lease-hold lands by Federal workers. The value of the land is not reflected in the home costs but very often at the end of the lease period, the homes revert to the landlord.

In Washington, D.C., even though the value of the house depreciates, the owner still has the land plus the value of the house at the lower figure if it has depreciated, or at a higher figure when the value has appreciated.

7. INCREASED STANDARD OF LIVING

Since the Federal employees in the islands affected by the possible loss of COLA are all American citizens, a lowering of their standards of living would not be a good political move in these changing times. I am not referring to Republican or Democratic politics, but to world politics.

The lowering of the living standards that would result in Puerto Rico and the Virgin Islands certainly would be seized upon by opportunists in the Latin American countries to show what happens to American citizens who are largely of Spanish or Latin American descent. Similarly, such a lowering of the living standards in Hawaii would be good propaganda for the Asian Communists.

It appears to us that the relatively few million dollars which it would cost to continue COLA would pay handsome dividends. The propaganda value alone is worth the money but we are appealing to the members of this subcommittee on the basis of simple justice and not propaganda.

8. MONETARY COMMITMENTS

We believe that the members of this subcommittee are well aware of the fact that employees of the U.S. Government do not become rich on the job. There is no salary that will lead to financial independence for Government employees. All of us must use the money we receive for our necessary expenses.

We are certain that our members in the islands concerned are basing their current expenditures on the expected continuation of their present salaries, plus COLA. Many of them, if not the great majority, have current obligations which they contracted for based on the continuation of COLA. The loss of the cost of living allowance, even over a 6-year period, could be disastrous to many of these American citizens.

We know that, with the continually rising cost of living, none of us could keep up our present standards—even though they are not as high as we would like—with any salary reductions. A salary cut of any kind would play havoc with our future plans.

CONCLUSION

We urge this subcommittee to give very careful consideration to the various factors presented by our association, as well as other organizations and the Federal employees from the islands who are appearing before you. We also urge not only that H.R. 7401 be rejected, but that the authority to lower the cost-of-living allowance be taken from the Civil Service Commission or frozen at the present level.

We thank you for the opportunity of appearing before you on behalf of our members and the other Federal employees in Puerto Rico, the Virgin Islands, and Hawaii.

Mr. UDALL. Thank you, Mr. Jaspán. Are there any questions or pronouncements?

Mr. BARRY. Mr. Chairman.

Mr. UDALL. The gentleman from New York.

Mr. BARRY. Let me ask, Mr. Jaspán, how you would propose to take the authority to lower the cost-of-living allowance from the Civil Service Commission?

Mr. JASPÁN. It was granted to them by an act of Congress, Mr. Barry, and it could be taken away in the same manner. I believe that either it should be taken away or frozen by an act of Congress. That is the only way it could be done.

Mr. BARRY. The cost of living allowance seems to presuppose that it is based upon a percentage. Are you recommending that present percentage levels be frozen? In the past few years there was a change in this position. You certainly would not recommend that we do that?

Mr. JASPAN. Not necessarily a permanent freeze, Mr. Barry; but at least until there is such time when the cost-of-living allowance would not be necessary. But we firmly believe that it is necessary now, and the 6 year phasing out would not be enough time to give the people to pay their bills; those that have contracted debts certainly would be caught in the squeeze.

Mr. BARRY. It is not a punitive matter here. Do you have in mind taking away Civil Service authority in this matter, or is it strictly what you have just stated, namely, that the 6-year period is not a long enough period to phase out the program?

Mr. JASPAN. Well, definitely I do not believe it is a long enough period because some of these people have debts contracted for the next 10, 20 years, or more, and certainly it would not be fair to those people to take away the money that they are planning for in paying those debts.

Another thing that I have not mentioned here, I do not know how true it is, but I understand that the Civil Service Commission bases its findings on what they have been told by the State Department, not by the Bureau of Labor Statistics, and the State Department is going into a nonforeign area instead of a foreign area for its figures. I suppose they have the authority to go into a nonforeign area, but that would be the same as the State Department going into Iowa or New York or Arizona or any other State.

Mr. GROSS. Don't wish that on Iowa.

Mr. JASPAN. I just want to point that out, Mr. Gross.

Mr. GROSS. I appreciate that.

Mr. BARRY. Maybe there is a comparison there if we actually obtain statistics where they are compiled from internal sources in many different departments of government. It is just a question whether they are collated.

Mr. JASPAN. That is one thing. But we understand that the greatest weight is given to the findings of the State Department. They base their observations on what they would do in a foreign country.

Mr. BARRY. Do statistics from the State Department differ from the Department of Commerce?

Mr. JASPAN. According to people in the islands they differ considerably.

Mr. BARRY. I think if there is a difference we ought to know that here and we ought to have a comparison of the difference.

Mr. JASPAN. Well, our members tell us that there is a big difference.

Mr. BARRY. Would you be willing to get up some kind of a comparison?

Mr. JASPAN. I will try.

Mr. BARRY. So instead the general statement here will we have a comparability table for us to look at in our final decision on the matter?

Mr. JASPAN. I will see whether I can get it, Mr. Barry.

Mr. BARRY. Thank you.

Mr. UDALL. I suspect, Mr. Jaspán, when you talk of freezing the cost-of-living allowance you would want a freeze on the bottom and not necessarily a freeze on the top. You still leave the Civil Service Commission the power to adjust upward, not downward?

Mr. JASPAN. Oh, definitely.

Mr. UDALL. This might be termed a one-way freeze.

Mr. JASPAN. I do not think they would do it.

Mr. BARRY. Mr. Chairman, I ask that Mr. Jaspán be permitted to have the right to submit the comparability table that I mentioned earlier.

Mr. UDALL. Without objection, Mr. Jaspán will have the right to provide that and it will appear in the hearings.

Our next witness is Mr. Vaux Owen, president of the National Federation of Federal Employees.

You may proceed, Mr. Owen.

STATEMENT OF VAUX OWEN, PRESIDENT OF NATIONAL FEDERATION OF FEDERAL EMPLOYEES

Mr. OWEN. Mr. Chairman and members of the committee, our organization has members in seven locals in the State of Alaska, a local in the State of Hawaii, and two locals in the Commonwealth of Puerto Rico.

H.R. 7401 proposes to gradually reduce, until totally terminated 6 years after the date of enactment of bill, cost-of-living allowances payable under existing law to Federal classified employees stationed in the States of Alaska and Hawaii, in the Commonwealth of Puerto Rico, and in the Virgin Islands.

In lieu of the cost-of-living allowances, the bill would authorize increases in compensation not to exceed 25 percent of the basic rates of compensation. Such increases would be authorized by regulations to be promulgated by the President or issued by agencies designated by the President.

The National Federation of Federal Employees is strongly opposed to the enactment of H.R. 7401 for several reasons:

(1) The proposal to offset the cost-of-living allowance by salary adjustment, determined by Presidential or agency regulation, represents the substitution of a definite and specific provision of law for an intangible. There would be no time limitation as to the effective date of the proposed regulations. Further, the bill would permit agencies to prescribe their own regulations with the possibility of varying rates of increases applicable to employees in the same grade in different agencies within the same area.

(2) The present cost-of-living allowance is not subject to the Federal income tax. The proposal to offset the cost-of-living allowances by increases in basic compensation would be subject to payment of the income tax and constitute a definite financial loss to the employees. The basic salary, if and when authorized, in many cases would result because of the tax factor in a net decrease in the employees' present income which comprises compensation and cost-of-living allowances.

(3) The proposed increase in basic compensation would be meaningless to many older employees nearing the statutory retirement age whose salaries are now in the highest step of their grades. As to many other employees with 25 or more years of service, the potential increase in their annuity upon retirement would be negligible.

(4) In the determination of the amount of the increase in basic compensation, as proposed by H.R. 7401, resort would necessarily be had to comparative commercial jobs in the particular area. There are many Federal employees occupying positions in professional and technical fields under the Classification Act who would be affected by the bill, particularly those stationed in the State of Alaska and the Commonwealth of Puerto Rico, for which there are no comparable positions in private industry.

We appreciate very much the opportunity which you have given us to appear at this hearing.

Mr. UDALL. Thank you for a very fine statement, Mr. Owen.

The next witness is Mr. Roy North. An old friend of the members of this committee.

You may proceed, Mr. North.

**STATEMENT OF ROY NORTH, LEGISLATIVE REPRESENTATIVE,
NATIONAL ASSOCIATION OF POSTMASTERS**

Mr. NORTH. Mr. Chairman and members of the committee, my name is Roy M. North, former postmaster at Washington, D.C., and I am now legislative representative of the National Association of Postmasters.

The membership of our association is composed of over 90 percent of the more than 34,000 active postmasters of the 50 States including Puerto Rico and the Virgin Islands. In addition we have approximately 1,500 retired postmasters as associate members.

The bill before us, H.R. 7401, introduced by Chairman Murray on July 8, 1963, would terminate the cost-of-living allowances now granted statutory-salaried Federal civilian employees in the non-foreign areas of Alaska, Hawaii, Puerto Rico, and the Virgin Islands.

We have approximately 400 postmasters who are vitally concerned in this legislation.

Under the Independent Offices Appropriation Act of 1949, as amended, the Civil Service Commission has the authority and responsibility of establishing these allowances after review of the cost-of-living conditions in such areas.

The Commission announced on January 16 that the allowance in Puerto Rico would be reduced from 12.5 percent of base pay to 5 percent of base pay and the allowance in the Virgin Islands would be reduced from 15 to 5 percent early in April. This action has been postponed until the Commission has had an opportunity to learn the results of congressional action on this bill.

The present allowances of 25 percent in Alaska and 15 percent in Hawaii apparently are not considered subject to reductions at this time.

There appears to be some good features to H.R. 7401; for instance, it is proposed to phaseout any reductions by degrees over a 6-year period.

The allowances are not includible for retirement or life insurance benefits and they are not subject to Federal income tax.

It is easily understandable that for Federal employees in these areas, a sharp reduction in their expected income would work a real hardship. A phasing out for a 6-year period would, of course, be of some help.

However, this committee has heard a number of witnesses including prominent local officials and congressional Representatives and Senators for each area who oppose H.R. 7401 and maintain that any termination or reduction in allowances is unjustified and an extended investigation in each area would support their contention, while Chairman Macy of the Commission contends that section 504 of the Salary Reform Act of 1962 provides a salary differential authority which would adequately meet the cost-of-living problems.

This section is a followthrough on comparability of Federal pay with that of private enterprise.

Under the provisions of the Independent Offices Appropriation Act of 1949, as amended, these allowances are cost-of-living differentials.

This is an entirely different matter from comparability principles, and the testimony before you, which in our opinion is most impressive, as to the higher living cost in these areas certainly suggests that an extensive analysis be made in each area before any reduction or change be made in existing cost-of-living differentials provided in the amended act of 1949.

We recommend, therefore Mr. Chairman and members of the committee, that you do not approve this legislation and that the Civil Service Commission be constrained to make a comprehensive examination of conditions in each area before any reductions or changes are made.

We appreciate this opportunity of submitting testimony on this most important subject to many of our postmasters.

Mr. UDALL. Thank you, Mr. North, for giving us the benefit of your views.

Next on our witness list is Mr. George D. Riley of the International Association of Bridge, Structural, & Ornamental Ironworkers.

You may proceed, Mr. Riley.

STATEMENT OF GEORGE D. RILEY, LEGISLATIVE REPRESENTATIVE, INTERNATIONAL ASSOCIATION OF BRIDGE, STRUCTURAL, & ORNAMENTAL IRONWORKERS, AFL-CIO

Mr. RILEY. At the request of the financial secretary of Local Union No. 625, Ironworkers, Honolulu, I am presenting our opposition to H.R. 7401. I believe the same statements can be applicable to conditions in Alaska, Puerto Rico, and elsewhere.

While our members are wage earners in contrast to salary groups, the impact would be considerable when prevailing rates of whatever character are concerned.

When most of the necessities of life have to be transported to any part of the globe, the cost of such commodities is bound to rise.

Tourism, while important, nevertheless is not the entire sustaining factor of any worthwhile economy. But when Federal Government

budgets are involved, the removal of such basic consideration can only have a major effect. Federal pay has a decisive tendency to pull other class of pay for personal services upward. The reverse is bound to happen from an adverse movement.

Paring the Federal budget has become something of an order of the day lately.

We do not join forces with those who say "Look elsewhere to economize." But we certainly do not regard the eager action of the U.S. Civil Service Commission as constructive, useful, or in the best interests of all concerned.

Because of the general situation involved and because a "tax cut" accompanied by a pay cut is no way to get anywhere, I suggest referring the bill, H.R. 7401, to the limbo of forgotten proposals.

Mr. UDALL. Thank you, Mr. Riley. As usual, you have presented a terse, but fine, statement.

Mr. McAvoy, I believe you are our next witness. You may proceed with your statement.

STATEMENT OF HAROLD McAVOY, NATIONAL PRESIDENT, POST OFFICE MAIL HANDLERS, WATCHMEN, MESSENGERS & GROUP LEADERS

Mr. McAvoy. Mr. Chairman and members of the subcommittee, for the record my name is Harold McAvoy. I am national president of the Post Office Mail Handlers, Watchmen, Messengers & Group Leaders and our membership in the Bureau of Facilities.

We are members of the American Federation of Labor and Congress of Industrial Organizations, and the Government Employees' Council. Our national office is located at 900 F Street NW., Washington, D.C.

I fully appreciate this opportunity to give the views of our national organization pertaining to the proposed legislation known as H.R. 7401. This bill, if enacted into law, would terminate the cost-of-living allowances for our people in nonforeign places—Alaska, Hawaii, Puerto Rico.

Again, for the record, our national organization's stand is definitely opposed to H.R. 7401 being enacted into law.

We understand this bill was introduced by request. That the Civil Service Commission contends it is acting under a mandate from the Congress, continued in the Federal Salary Reform Act of 1962, section 502—sets up a criterion of comparability with private enterprise salary rates for the same levels of work upon the basis of national averages. I fail to find any mandate which would tell the Civil Service Commission to abolish, through legislation, the cost-of-living allowances in nonforeign areas, where the rates of pay found by determining nationwide averages are inadequate and therefore invalid. This, I believe, should show that in passing the 1962 Salary Act, which Congress fully intended the base rates to be established would apply to the nonforeign areas without changing the cost-of-living allowance.

As far as I know, the cost-of-living allowance was established because postal employees just could not make ends meet. This allowance was a must for our people in Hawaii, Puerto Rico, Alaska, and

the Virgin Islands to combat the cost of living and was established under section 207 of the Independent Offices Appropriation Act of 1949. It has been pointed out by various witnesses, who testified before this committee, that said allowance did not entirely cover the excessive difference between nonforeign areas and the 48 States. It was a big help in eliminating the hardship that prevailed at said time. I would like to point out that time has not changed the picture of said areas.

I would like to urge you and the committee members, at this time, to vote "No" on H.R. 7401, and for the near future to consider increasing the cost-of-living allowance for those nonforeign areas.

Thank you for the privilege of appearing before you and presenting the views of our national organization.

Mr. UDALL. Thank you, Mr. McAvoy.

Our next witness is Mr. William H. Ryan, president, International Association of Machinists.

Mr. Ryan, we are happy to have you here, and you may proceed.

STATEMENT OF WILLIAM H. RYAN, PRESIDENT, INTERNATIONAL ASSOCIATION OF MACHINISTS

Mr. RYAN. Mr. Chairman and members of the committee, my name is William H. Ryan, and I am president and legislative representative of District 44 of the International Association of Machinists, AFL-CIO, with offices located in suite 811, 400 First Street NW., Washington, D.C.

District 44 of the International Association of Machinists is composed of affiliated locals of the I.A. of M. which are made up of membership of Government employees throughout the 50 States and insular possessions of the United States.

I have been authorized by International President A. J. Hayes to speak in behalf of the 900,000 members of the I.A. of M. in reference to H.R. 7401 which is receiving the consideration of this committee.

The general purpose of H.R. 7401 is to repeal the statutes which provide the authority for the payment of certain cost-of-living allowances and percentage differentials to Federal statutory-salaried employees in nonforeign areas.

The affected employees are, generally, those whose pay is fixed by the Congress under the Classification Act of 1949, as amended, and by part III of title 39, United States Code, in the postal field service. These historic cost-of-living differentials authorized by the aforementioned statutes are paid to the affected employees only during the period that they are actively employed in the areas for which such differentials are authorized.

These differentials have always been recognized by the affected employees as a condition of employment which played a part in their decision to accept, and to continue, employment in such areas.

These differentials have had a tax-free character, and the elimination of such statutory differentials, and the substitution of additional base pay, would remove the tax-free character of this additional pay and adversely affect these employees in varying degrees, depending upon their salary income status.

It must be recognized that the availability of the same grade and quality of housing, foods, clothing, and other necessary living commodities and services, comparable to those available to employees in other than these areas, is always a problem.

In order to provide these employees with a living standard which is not inferior to that available to Government employees in other areas, we strongly recommend that this subcommittee vote that the provisions of H.R. 7401 be not adopted.

The economics of the cost of living in the affected areas are so unstable and unpredictable that we submit that it would be unfair to the affected employees to take any action which would adversely affect their income and standard of living.

Conversely, the proposed objectives of H.R. 7401 could conceivably hamper the recruitment and retention of qualified personnel in these areas, as well as adversely affecting the morale of those presently employed in the affected areas.

Our organization expresses appreciation to this committee for the opportunity to set forth our views in respect to H.R. 7401.

Mr. UDALL. Thank you, Mr. Ryan.

Are there questions?

Mr. GROSS. No questions.

Mr. BARRY. No questions, Mr. Chairman.

Mr. UDALL. Thank you for coming. You may be excused.

The next witness is Mr. George Meagher, legislative representative of the American Federation of Government Employees. Mr. Meagher, we are happy to have you, and you may proceed with your presentation.

STATEMENT OF GEORGE MEAGHER, LEGISLATIVE REPRESENTATIVE, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

Mr. MEAGHER. Mr. Chairman, my name is George Meagher, director of legislation, American Federation of Government Employees. I am accompanied by Mr. William Voss, director of research.

Our national president, Mr. Griner, intended to be here this morning and regrets that he could not make it.

With your permission, sir, this is a five-page statement so I will just read part of it.

Mr. UDALL. This would be appreciated because we have a large number of witnesses, and without objection, the statement which is before us consisting of five pages and a table appendix will be printed in the record as though read in full, and you may highlight the statement or make whatever presentation you desire.

(The complete statement follows:)

STATEMENT OF GEORGE MEAGHER, DIRECTOR OF LEGISLATION, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

The bill H.R. 7401 is unacceptable to the American Federation of Government Employees for reasons which I shall enumerate in this statement. I propose that no action be taken to change the existing differential based on living costs as a means of insuring adequate compensation for Federal employees who are recruited and assigned to Alaska, Hawaii, Puerto Rico, and the Virgin Islands. Accordingly, my recommendation is that the committee take no action on this bill.

The change from cost-of-living allowances to salary comparability with private industry will not affect sound economies. It will make recruiting and retention

of employees in these nonforeign areas more difficult and to that extent reduce efficiency of governmental operations.

Federal employees were recruited in the 48 States for these distant places with the understanding that they would not suffer economic loss. Now that assurance will be withdrawn if H.R. 7401 becomes law. In effect, the U.S. Government will be violating its pledge given to these employees.

The elimination of the allowances would be tantamount to returning to the same confusing situation which prevailed prior to the act of 1948 which authorized cost-of-living allowances in U.S. territories. Some agencies authorized various amounts of additional pay. Others authorized no extra pay. There was no uniform manner of determining or applying these differentials.

The proposed amendments to existing law have been prompted by the belief that cost-of-living provisions do not meet the needs of the Federal civil service. The Civil Service Commission has proposed this legislation on the premise that the Federal Salary Reform Act established the principle that Federal salaries shall be comparable with private industry salaries for the same levels of work. The Commission has emphasized that the act permits upward adjustment of salaries for particular areas or occupations where private enterprise pay rates are so substantially above the nationwide schedules as to handicap the Government's recruitment and retention of well qualified employees. It is proposed to substitute this procedure for the cost-of-living allowances in effect for more than a decade.

The first and still inadequately answered question is "Why change a method that has been satisfactory? There has been no specific allegation that the present method is unsatisfactory as a means of recruiting and retaining employees in these distant areas.

The bill would arbitrarily discontinue the cost-of-living allowances in these four areas mainly because the Salary Reform Act of 1962 provides that "Federal salary rates shall be comparable with private enterprise rates for the same levels of work." There is no indication in this law that cost-of-living allowances must be discontinued where they provide a satisfactory means of supplementing basic salary.

The Salary Reform Act also calls for "equal pay for substantially equal work" which is assured by the cost-of-living allowance. That supplement to basic salary is intended to make certain that Federal employees in these four nonforeign areas are paid in dollars which provide them with the same real income received by Federal employees in the contiguous 48 States.

The Salary Reform Act not only does not require the discontinuance of the cost-of-living allowances in these areas, but it contains a positive admonition in section 1006 not to reduce compensation. That section reads:

"SEC. 1006. Notwithstanding any provision of this Act, no rate of basic, gross, or total annual compensation or salary shall be reduced by reason of the enactment of this Act."

Cost-of-living allowances are preferable because they were specifically designed to answer one of the compelling objections to employment in any one of the four areas involved; namely, they provided a direct offset to higher prices for various commodities and services prevailing in these areas. Another reason for preferring these allowances is that they are clearly understandable. Employees can be certain that in the foreseeable future they will receive a fixed percentage in addition to basic compensation. A third reason is that the allowances are not subject to Federal income tax.

Another objection is the proposal that the cost-of-living allowance will be gradually phased out with no definite assurance that it will be replaced by increasing the rate range so that an employee may to a substantial degree be compensated for the change. In fact the one certainty in the bill is that the allowance will end within 6 years.

There is no assurance that a salary survey will be made every year or 2 or even 5 years. Nor is there any definite indication that the proposed adjustment will be made on an across-the-board basis for all positions in the area or on an occupational basis which may result in higher pay for some jobs but completely ignore others. This method would surely be an unsatisfactory and unsound substitute for the cost-of-living allowance.

Another aspect of this legislation is that it deals with distant areas which geographically are somewhat removed from the 48 States. Alaska, Hawaii, Puerto Rico, and the Virgin Islands present a different set of circumstances from the continental United States. It is, therefore, not so illogical to continue cost-

of-living allowances in these so-called nonforeign areas. It is about 2,500 miles from San Francisco to Honolulu and more than 1,500 miles northward to Juneau. And Juneau is about 900 miles to the north of Seattle, the most northerly city in the contiguous 48 States. That is scarcely to be considered as being in close relationship to the economic conditions in the States. Why, therefore, consider it more appropriate to apply the standard which is considered so suitable to the 48 States?

The salary surveys in the 48 States and in the more distant areas further substantiate our viewpoint. The cutoff point for size of establishment in the statewide surveys was 250 employees. When BLS surveyed Alaska, Hawaii, and Puerto Rico minimum size of establishment was reduced to 50 employees. If the cutoff point for any of the four areas had been maintained at 250, there would have been relatively little industry to survey. And yet it has been asserted that it is inconsistent to maintain the cost-of-living allowance there and in the other three areas when a most important feature of the nationwide survey had to be modified. In itself this is an indication that conditions are not directly comparable.

In short, what is being proposed in the way of substituting salary comparability for cost-of-living allowance is a vain and invalid effort to apply a method of salary determination suited to the highly developed urban centers of the 48 States to distant areas which by their very nature do not have the same advanced type of industry. This assertion is borne out in the results of the survey conducted by the Bureau of Labor Statistics in May and June 1963.

In Alaska, Hawaii, and Puerto Rico sufficient comparable positions were not found to present an average for grades GS-6, 8, and 10. Furthermore, averages could not be presented from data corresponding to GS-13, 14, and 15 in Alaska and Hawaii, and for GS-15 in Puerto Rico. The chief reason is that there is not present in these areas the highly developed and extensive manufacturing industry which flourishes on the mainland. But the bill H.R. 7401 proposes the same treatment of these distant areas as provided in the 48 States.

It is our contention, Mr. Chairman, that the principal factor for consideration is the price situation. Federal employees must pay higher prices for many goods and services in these areas and would in effect suffer a salary reduction if they were not given the offsetting advantage of a salary differential.

It is also our contention that the comparison should be made with current classified salary rates, since the purpose of the comparison is to determine what, if any, increase should be made in rates and not only for the purpose of analyzing salary conditions in those areas.

The comparison of the salary averages in private enterprise in Alaska and Hawaii with current rates in the salary schedule of the Classification Act is stated in a table attached to this statement. It may be noted that percentage differences are considerably greater because the Classification Act rates do not yet reflect more nearly current rates paid in private enterprise either in Alaska and Hawaii or in the 48 States.

The Alaska survey average corresponding to grade GS-5 is 29 percent above the fourth rate. It is 53 percent above the fourth rate in making the same comparison using the Hawaii survey averages.

That higher living costs also are proportionately higher in Alaska and Hawaii is indicated in the latest data developed in a survey by the State Department for the Civil Service Commission. The cost-of-living level, based on expenditure data for Alaskan and Hawaiian cities are as follows (Washington, D.C.=100): Anchorage, 143.2; Fairbanks, 146.5; Juneau, 132.8; Honolulu, 114.9.

It appears to the American Federation of Government Employees that the legislative change embodied in H.R. 7401 loses sight of the intangibles which deter many employees from going to these distant areas. It is more than prices alone. Instead, it is due to a complex of reasons, such as one's reluctance to leave the section of the country where one has lived for many years, or to change residence from a type of climate that for various personal reasons would be undesirable. It must be remembered that we are dealing with persons in general with all their varying tastes and individual reactions.

Enactment of H.R. 7401 would have disastrous effects on the Federal service in Alaska, Hawaii, Puerto Rico, and the Virgin Islands. Expressions have already been voiced by Federal employees in these distant areas that they would return to the mainland because they could not afford to live outside the 48 States. For those unable to return, it will result in lowered morale. Federal administrators in these nonforeign areas are already troubled by the outlook.

Nearly 90 percent of Federal employees in Hawaii work at military installations. A radical change in the method of compensating them could have serious effects on that segment of our national security. In Alaska also many are involved in the military program.

It is, therefore, our considered opinion that H.R. 7401 does not offer a substitute method for determining an appropriate salary differential and that the present cost-of-living method should be continued.

Mr. MEAGHER. Thank you, Mr. Chairman.

We propose that no action be taken to change the existing differential based on living costs as a means of insuring adequate compensation for Federal employees who are recruited and assigned to Alaska, Hawaii, Puerto Rico, and the Virgin Islands.

The change from cost-of-living allowances to salary comparability with private industry will not effect sound economies. It will make recruiting and retention of employees in these nonforeign areas more difficult and to that extent reduce efficiency of governmental operations.

The elimination of the allowances would be tantamount to returning to the same confusing situation which prevailed prior to the act of 1948 which authorized cost-of-living allowances in U.S. territories. Some agencies authorized various amounts of additional pay. Others authorized no extra pay. There was no uniform manner of determining or applying these differentials.

The proposed amendments to existing law have been prompted by the belief that cost-of-living provisions do not meet the needs of the Federal civil service.

The first and still inadequately answered question is "Why change a method that has been satisfactory?" There has been no specific allegation that the present method is unsatisfactory as a means of recruiting and retaining employees in these distant areas.

The bill would arbitrarily discontinue the cost-of-living allowances in these four areas mainly because the Salary Reform Act of 1962 provides that "Federal salary rates shall be comparable with private enterprise rates for the same levels of work." There is no indication in this law that cost-of-living allowances must be discontinued where they provide a satisfactory means of supplementing basic salary.

The Salary Reform Act also calls for "equal pay for substantially equal work" which is assured by the cost-of-living allowance. That supplement to basic salary is intended to make certain that Federal employees in these 4 nonforeign areas are paid in dollars which provides them with the same real income received by Federal employees in the contiguous 48 States.

The Salary Reform Act not only does not require the discontinuance of the cost-of-living allowances in these areas, but it contains a positive admonition in section 1006 not to reduce compensation.

Another objection is the proposal that the cost-of-living allowance will be gradually phased out with no definite assurance that it will be replaced by increasing the rate range so that an employee may to a substantial degree be compensated for the change. In fact, the one certainty in the bill is that the allowance will end within 6 years.

There is no assurance that a salary survey will be made every year or 2 or even 5 years. Nor is there any definite indication that the proposed adjustment will be made on an across-the-board basis for all positions in the area or on an occupational basis which may result in higher pay for some jobs but completely ignore others. This

method would surely be an unsatisfactory and unsound substitute for the cost-of-living allowance.

What is being proposed in the way of substituting salary comparability for cost-of-living allowance is a vain and invalid effort to apply a method of salary determination suited to the highly developed urban centers of the 48 States to distant areas which by their very nature do not have the same advanced type of industry. This assertion is borne out in the results of the survey conducted by the Bureau of Labor Statistics in May and June 1963.

It is our contention, Mr. Chairman, that the principal factor for consideration is the price situation. Federal employees must pay higher prices for many goods and services in these areas and would in effect suffer a salary reduction if they were not given the offsetting advantage of a salary differential.

It is also our contention that the comparison should be made with current classified salary rates, since the purpose of the comparison is to determine what, if any, increase should be made in rates and not only for the purpose of analyzing salary conditions in those areas.

It is our opinion that H.R. 7401 does not offer a substitute method for determining an appropriate salary differential and that the present cost-of-living method should be continued.

Thank you, Mr. Chairman.

Mr. UDALL. Thank you, Mr. Meagher.

Are there any questions?

Mr. BARRY. Mr. Chairman, I just want to say I think the witness made a very good statement and a good explanation of his president's statement.

Mr. MEAGHER. Thank you.

Mr. UDALL. Thank you, Mr. Meagher.

We only have one more witness scheduled for this morning, Mr. John O'Connor, legislative representative, United Federation of Postal Clerks. Mr. O'Connor.

STATEMENT OF JOHN O'CONNOR, LEGISLATIVE REPRESENTATIVE, UNITED FEDERATION OF POSTAL CLERKS

Mr. O'CONNOR. Mr. Chairman and members of the committee, if it meets with your approval I would like to put my statement in the record and just make a few brief comments.

Mr. UDALL. We would welcome that procedure, and without objection, the prepared statement of Mr. O'Connor will appear in the record as if read in full, and you may proceed.

(Statement of Mr. O'Connor follows:)

STATEMENT OF JOHN F. O'CONNOR, LEGISLATIVE DIRECTOR, UNITED FEDERATION OF POSTAL CLERKS, ON H.R. 7401—ELIMINATION OF COST-OF-LIVING ALLOWANCE IN NONFOREIGN AREAS

Mr. Chairman and members of the committee, I am John F. O'Connor, legislative director of the United Federation of Postal Clerks. We, as an organization, represent approximately 160,000 post office clerks in the continental United States and Alaska, Hawaii, Puerto Rico, and the Virgin Islands. We have been accorded exclusive recognition by the Post Office Department as a result of a referendum election among post office clerks, who selected our organization as their exclusive representative. Our national headquarters are located here in Washington, at 817 14th Street NW.

We appreciate the opportunity to present our views in opposition to H.R. 7401, in behalf of our membership located in Alaska, Hawaii, Puerto Rico, and the Virgin Islands.

H.R. 7401 provides for the elimination of the present cost-of-living allowance given to Federal and postal employees located in nonforeign areas outside of the continental United States. It would amend section 207 of the Independent Offices Appropriations Act of 1949, as amended. This, in effect, would eliminate the present provisions that a determination should be taken as to whether or not the cost of living in these nonforeign areas is higher than the cost of living in the District of Columbia, and after such determination has been made, these employees be paid a cost-of-living allowance of not more than 25 percent above the salaries set by law for Federal and postal employees.

H.R. 7401 would substitute the provisions of section 504 of the Federal Salary Reform Act of 1962, as it concerns itself with the comparability of salaries in private enterprise and the salaries of Federal and postal employees in a particular area. Under the Federal Salary Reform Act of 1962, if it is found that the salaries of persons in private enterprise are higher than those in the Federal or postal service, or that it is difficult to recruit Federal or postal employees in that particular area, there shall be adjustment of salary.

It is our belief that the provisions of the Salary Reform Act of 1962, as outlined above, should not be used in this instance. For one reason, we do not believe that the Congress, in passing the Salary Reform Act of 1962, intended that its provisions should be used for the purposes outlined in H.R. 7401. Also, we believe it is unfair to the employees in the nonforeign areas, who are American citizens, because the bill itself admits that in excepting the State of Alaska it would not be possible to match the extremely high salaries of private enterprise in that State.

In the instances of Puerto Rico and the Virgin Islands, it would pull down the standard of living of Federal and postal employees. It is our understanding that in Puerto Rico the annual average salary in private industry is approximately \$750, or ridiculously lower than any State in the Union. We do not believe that Federal and postal employees in Puerto Rico and the Virgin Islands should be brought down to the level of private enterprise in these areas. We feel that the Federal Government has an obligation to maintain an adequate salary for Federal and postal employees based on the cost of living, which would serve to encourage private enterprise to improve both working conditions and salaries of its employees.

Frankly, it is doubtful if there would ever be a recruitment problem and consequently we do not believe that the provisions of section 504 of the Salary Reform Act of 1962 would be invoked because in comparison to salaries of private enterprise the Federal and postal salaries would be considered attractive.

However, these employees who are located in areas of the United States of America, but not within its continental boundaries, should be paid salaries and even cost-of-living allowances that will enable them to purchase the same quality of merchandise, buy or rent the same quality of homes, and acquire the same quality of service that a postal or Federal employee of the same level could buy in the continental United States.

Due to huge transportation costs, there is no question in our minds but that the cost of living for an employee of the Federal Government living in Puerto Rico, the Virgin Islands, Hawaii, or Alaska, is much greater than the cost of living as it applies to an employee living within the continental United States.

We believe that recognition should be continued as to the buying power of salaries in these nonforeign areas. Some type of cost-of-living allowance has been in existence for many years. It has been recognized by competent authorities for many years that such a cost-of-living allowance was necessary and just to the employees concerned. Prior to the enactment of the cost-of-living allowance by Congress, different agencies of the Government had different ways of making a cost-of-living allowance to their employees. Some agencies did not provide the cost-of-living allowance for their employees who may have lived in the same location, and for this reason the Congress, in 1949, established a cost-of-living allowance for Federal and postal employees outside of the continental United States.

If H.R. 7401 is enacted into law, we shall be returning to the same conditions existing prior to the enactment of the law in 1949. We shall again find some agencies making allowances and others not making them, despite the fact these employees of the same government, but of different agencies may be located in the same area and subject to the same high cost of living.

Even as recently as the end of 1963, the Civil Service Commission recognized the fact that there was a differential between the cost of living in Washington, D.C., and Alaska, Hawaii, Puerto Rico, and the Virgin Islands; 5 percent for Puerto Rico and the Virgin Islands; and 15 percent for Hawaii, and 25 percent for Alaska. So, by their official decision there is an admission that the condition still exists. We do not accept their findings, but believe the differential is greater. In their pronouncements they indicate that there is a difference. Actually, the difference in the cost of living between the District of Columbia and Alaska is fantastic. Legally, the Civil Service Commission is limited is 25 percent, but the difference verges on 50 percent.

We do not believe that there is any question in the minds of the committee members that Federal and postal employees located in Alaska, Hawaii, Puerto Rico, and the Virgin Islands are anything but good employees, and any comparison made with postal and Federal employees in the continental United States would prove these employees compare favorably in productivity, intelligence, education, and ability to do the job to which they are assigned.

As employees of the U.S. Government they are entitled to the same advantages as employees in the continental United States as far as the purchasing of various commodities is concerned.

Our organization has membership in all of the areas mentioned and believes that in fairness to these employees of our Federal Government that the cost-of-living allowance should be continued.

We thank you for allowing us to present our viewpoint in opposition to H.R. 7401.

Mr. O'CONNOR. We do as an organization oppose the legislation and we do trust that the committee will so report. In my statement I have outlined a number of reasons. They are similar to what many of the other organizations have outlined.

Mr. UDALL. Well, I shall personally take the time to read your statement.

I had been looking forward here to having some witnesses who supported the legislation other than the Government witnesses. We have not had any yet. There does not seem to be a great deal of enthusiasm for this bill among the employee organizations.

Mr. O'CONNOR. Well, I do not believe you will find too much because most of us have members in these localities and we are interested in our membership. You have had a lot of what I believe impressive testimony opposing the bill.

Mr. UDALL. Are there any other questions?

The gentleman from Iowa.

Mr. GROSS. Mr. O'Connor, do you believe in this theory of comparability?

Mr. O'CONNOR. Do I believe in comparability?

Mr. GROSS. Yes.

Mr. O'CONNOR. Yes, I do in part.

Mr. GROSS. Then that leads me to a question. Take a native resident of Puerto Rico, born and lived there all his life; according to the Bureau of Labor Statistics, if he has a job in private industry there that is comparable in duties and responsibilities to a clerk in the post office his salary would average \$3,706 per year. However, instead of going to work in private industry he gets a job as a clerk in the post office at \$5,170 a year, or \$1,464 more than he could possibly make at a similar job in private industry.

Now, how can you justify paying this postal clerk in Puerto Rico an additional twelve and a half percent on his already higher than average basic salary? This would be above New York or some of the other places that we are using on a comparability basis.

Mr. O'CONNOR. Well, comparability as I understand it and as far as Government salaries are concerned concerns all the U.S. citizens in all parts of the United States. The survey was conducted in all sections of the country, and without question they have found differences in all sections of the country. There are some people in this country—in fact, in the city of Washington—who are probably working for \$7 or \$8 a day. Yet both you and I will agree that that is not an adequate salary for anyone.

Mr. GROSS. I am giving you the specific instance of a postal clerk in Puerto Rico.

Mr. O'CONNOR. Well, you are comparing the local employees with other local employees, and I contend that they are U.S. citizens, and as such are entitled to the same consideration as the citizens on the mainland.

Mr. GROSS. With all of that I agree, but how do you account for in this case paying \$1,400 plus more per year than they could get in the same kind of work in Puerto Rico?

Mr. O'CONNOR. Well, for the same kind of work?

Mr. GROSS. Yes.

Mr. O'CONNOR. There is no same kind of work as far as post office clerks are concerned.

Mr. GROSS. Then how can you believe in the theory of comparability.

Mr. O'CONNOR. We do not entirely believe that there is any comparable position to a post office clerk anywhere in the United States. We certainly believe there is some method whereby in the overall picture through the entire United States, which includes Puerto Rico, we arrive at a comparable salary for some type of job which compares in some way with that of a post office clerk.

Mr. GROSS. Then you do believe in the theory of comparability?

Mr. O'CONNOR. I do; yes.

Mr. GROSS. And yet you do not. Is this right?

Mr. O'CONNOR. I do not believe we can compare, for instance, some of the salaries we might find in Washington, D.C., with other salaries.

Mr. GROSS. Then you disagree with the Bureau of Labor Statistics in this?

Mr. O'CONNOR. Well, now you might select, for instance, for my information some particular job in Puerto Rico which you would compare with a post office clerk and we will see if I will agree with you on that particular job.

Mr. GROSS. I have not made the job selection, but the Bureau of Labor Statistics apparently has.

Mr. O'CONNOR. On the overall picture.

Mr. GROSS. Well, yes.

Mr. O'CONNOR. I am not familiar with the salaries in Puerto Rico, but I am assuming that there are many salaries in Puerto Rico which are much higher than the salaries which you have indicated.

Mr. GROSS. I do not question that. That is not the point.

Mr. O'CONNOR. Maybe we as post office clerks feel we are entitled to those higher salaries and our people in Puerto Rico are entitled to them.

Mr. GROSS. Regardless of any factor, cost of living or anything else?

Mr. UDALL. Will the gentleman yield?

Mr. GROSS. Yes.

Mr. UDALL. It seems that the gentleman is saying that perhaps all employees are comparable, but some are more comparable than others.

Mr. GROSS. Well, that's all.

Mr. UDALL. Any further questions?

If not, we thank you, Mr. O'Connor for your testimony and help.

Mr. O'CONNOR. Thank you very much, Mr. Chairman and members of the committee.

(The following statements and communications were previously ordered placed in the record at this point:)

STATEMENT OF SENATOR DANIEL K. INOUE ON H.R. 7401 (see also p. 150)

Mr. Chairman, I would like to submit the attached advertising brochures on household furnishings distributed by Sears, Roebuck & Co. in the cities of Washington, D.C., Honolulu, Hawaii, and Alaska, for the record.

These brochures were distributed at about the same time in Washington, Honolulu, Hawaii, and Alaska in the month of February 1964. Every article advertised is exactly the same for all three locales except for one thing: The prices for Washington, as compared to Hawaii and Alaska, are very much lower. For example, an advertisement which reads: "A good buy. Modern sofabed, chair and recliner in 'soft-touch' vinyl, all three pieces \$199.88" in the Washington brochure, is exactly the same in the Honolulu and Alaska brochures except for the price. In Honolulu and Alaska, the same suite costs exactly \$364.88.

The difference paid by the Honolulan and Alaskan is \$165. This is almost double the Washington price.

In the area of household furnishing at least, the cost-of-living difference between Washington on the one hand, and Honolulu and Alaska on the other, has been sadly understated. The difference here appears not be one of around only 10 to 14 percent but several times that.

Mr. Chairman, there are other significant differences which I would like to point out for the record. These are as follows:

3-piece French provincial suites with costly solid carved fronts :	
Hawaii and Alaska	\$251. 88
Washington, D.C.	199. 00
Difference	52. 88
85-inch sofa or Mr. and Mrs. chairs :	
Hawaii and Alaska	209. 00
Washington, D.C.	159. 00
Difference	50. 00
7-piece king-size bronzetone dinettes :	
Hawaii and Alaska	124. 88
Washington, D.C.	99. 88
Difference	25. 00
5-piece colonial dinettes, topped in warm maple-grained plastic :	
Hawaii and Alaska	84. 88
Washington, D.C.	69. 88
Difference	15. 00
5-piece plastic-top dining sets—round or oblong tables, plastic-top buffet, china cabinet—choice :	
Hawaii and Alaska	124. 88
Washington, D.C.	99. 88
Difference	25. 00

Big serofoam cushioned sofas :	
Hawaii and Alaska	269.00
Washington, D.C.	199.00
Difference	70.00
Solid maple sofabed, armchair, 2 step tables, 1 cocktail table :	
Hawaii and Alaska	244.88
Washington, D.C.	166.00
Difference	78.00
Colonial tables with a hand-glazed finish :	
Hawaii and Alaska	37.88
Washington, D.C.	29.88
Difference	8.00
Sofas with serofoam cushions :	
Hawaii and Alaska	259.00
Washington, D.C.	179.00
Difference	80.00
Hawaii and Alaska	279.00
Washington, D.C.	199.00
Difference	80.00
Danish style tables with inland tops of imported marble :	
Hawaii and Alaska	49.88
Washington, D.C.	37.99
Difference	11.89
Decorator chair values :	
Hawaii and Alaska	69.77
Washington, D.C.	49.77
Difference	20.00
Hawaii and Alaska	94.77
Washington, D.C.	69.77
Difference	25.00
Hawaii and Alaska	119.77
Washington, D.C.	89.77
Difference	30.00

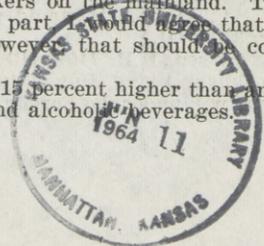
ST. THOMAS, V.I., February 10, 1964.

HON. CARL PERKINS,
House of Representatives,
Washington, D.C.

DEAR MR. PERKINS: On February 26, 1964, a special subcommittee will begin hearings on the Civil Service Commission proposal to eliminate the cost-of-living allowance now in effect in Puerto Rico, Virgin Islands, Hawaii, and Alaska.

The Civil Service Commission feels that the cost-of-living allowance should be eliminated because it is unfair to civil service workers on the mainland. The Civil Service Commission point is well taken and in part I would agree that it should be eliminated. There are a few things, however, that should be considered before such a law is passed.

The cost of living in the Virgin Islands is at least 15 percent higher than anywhere in the States, excluding, of course, tobacco and alcoholic beverages.



Most people employed by the Federal Government in the Virgin Islands are natives, as I am sure are most people in Puerto Rico, Alaska, and Hawaii. Federal employment offers these people, in most cases, a high salary, probably higher than any other job available to these people. These people then get the higher salary plus a cost-of-living allowance. Regardless of the cost of living is it fair for these people to get the extra cost-of-living allowance?

There is another side of this, however. Consider the people who live on the mainland, Kentucky in particular, who come to the Virgin Islands on a 2-year contract, to serve their Government. I was a GS-10 in Kentucky, I am a GS-10 in the Virgin Islands. My position now has little if any more prestige than my former position. It was definitely a hardship to come to the Virgin Islands; in fact, it cost me and my family something like \$2,000 over and above what I was reimbursed for to move here. Also, my wife, 6-month-old son, and I lived for 2½ months waiting for our furniture to arrive from Kentucky.

Being born and raised in Perry County, Ky., I, after military service, graduated from Union College in June 1960. My mother and two of my sisters with their families reside in Perry County. One of my sisters is a teacher in the Perry County school system.

Why did I come to the Virgin Islands to work? The social security regional III representative thought me to be the best qualified man for this job. I did not ask for the job, my regional representative asked me to come here and work. All details about the Virgin Islands were discussed with me before I accepted the job. Some of the things discussed with me included the drinking water, which sometimes looks like a creek after a group of young boys have waded in it and the water always taste like that creek would, and other small inconveniences, too long in length to mention here. Also, how unrealistic the prices were, especially on food. My mind at this point was made up, I would not leave Kentucky and go to the Virgin Islands.

"Since everything is so high in the Virgin Islands we are allowed to give you 15 percent of your salary as a cost-of-living allowance." With the 15 percent cost-of-living allowance and my personal selfish motive of ambition, I signed the minimum 2-year contract and came to the Virgin Islands in October 1963. Under no circumstance would I stay longer than the 2 years.

Having completed only a fraction of my contract is it now fair or right that one of the determining factors which caused me to sign this contract be removed? Namely, the 15 percent cost-of-living allowance.

None of my family or I have had the privilege of meeting you personally. You have, however, long been an idol in our home. My mother had stated that if I ran for the House of Representatives against you, she would vote for you, and I am her only son.

Far be it from me to tell you how to vote or use your influence on this matter. No one individual has that right. You represent the majority of the people in eastern Kentucky and not just me. This letter is being written only to point out certain hardships the people have that come here to the Virgin Islands from the States, on the request of the Government.

Thank you very much for the time you have spent in reading this letter.

Sincerely yours,

FRED S. GRIGSBY.

SAN JUAN, P.R., March 9, 1964.

Re against H.R. 7401, 88th Congress, introduced July 8, 1963.

Hon. TOM MURRAY,
Chairman, House Civil Service and Post Office Committee,
Washington, D.C.

DEAR MR. MURRAY: Kindly insert the following comments in the record on H.R. 7401 now before your consideration.

I am against H.R. 7401 because, in a way, if approved it will have the effect of abolishing Executive Order 10000, and would abolish, too, the authority to pay cost-of-living allowances in nonforeign areas as set forth in section 207 of the Independent Offices Appropriations Act of 1949 (62 Stat. 194-62 Stat. 1205; 5 U.S.C. 115h). It would also abolish Civil Service Commission Regulations, part 350-COLA.

If passed, H.R. 7401 will abolish congressional intent under section 2 of the Brookhart Act of July 3, 1930, and further it will abolish and nullify congressional will under the Foreign Service Act of 1946.

H.R. 7401, if approved, will step upon the wisdom of Congress as expressed in section 207 of the Independent Offices Appropriations Act of 1949, which justly provides authority to pay cost-of-living allowances when chaotic economic burdens merit such payments.

The legislation tends to amend section 504 of the Federal Salary Reform Act of 1962 (76 Stat. 842; 5 U.S.C. 1173), in order to eliminate the additional compensation paid Federal employees when living costs are substantially higher than in the District of Columbia.

It is true the Federal Reform Act established new principles governing salary determinations, based on comparability with private enterprise salary levels but very unjustly such act failed to provide for high cost-of-living differentials in offshore areas, ignoring that during the last 14 years Congress understood the problems of Federal employees in Hawaii, Alaska, Puerto Rico, and the Virgin Islands and saw it fit, generous, and wise to pay a cost-of-living allowance. In like manner many firms of private enterprise do make many allowances which amount to a cost-of-living allowance in these areas and which also is similar to a recruitment device.

I do favor an amendment to the Federal Salary Reform Act of 1962 to include cost-of-living allowances not only for offshore areas but also to be extended to areas in continental United States which deserve such payments.

I feel Puerto Rico is being denied political equality, when statehood is denied on equal footing with the 50 States; so Puerto Rico is a special case and must continue to be dealt with in a special way as long as we remain in a special position of disparity and unevenness with the rest of our Nation.

Even if the cost-of-living allowance were a special handout, I do feel though I normally abhor handouts, we are entitled to such allowance and especially as long as there is in effect and full force the statute of 1949 and Executive Order 10000 which is binding upon the U.S. Civil Service Commission.

Give us statehood and we would forget about cost-of-living allowances as preferential treatment or privilege and so we could resume our fight for the cost-of-living allowance as something badly needed in offshore areas as well as in continental United States where farmers and shipping companies usually receive subsidies that amount to a cost-of-living allowance.

The philosophy that private enterprise salary levels should be considered as criteria to pay Federal salaries is quite unrealistic, and discriminating for the mere fact that local salary levels in private enterprise are way below those of the mainland even though many local firms have fabulous profits and enjoy a tax haven while Puerto Rico still suffers a 25-percent population of illiteracy while in the mainland such rate is negligible.

Congress is the protector of our rights as U.S. citizens and we have great faith in the wisdom and justice of the Congress.

Give us equality in civil liberties, give us representation in Congress, and vote in presidential elections, make us State 51, and this will give us the kind of political liberty we have been yearning for. This alone will pave the way for political stability and economic prosperity.

Even back in 1946, with the Foreign Service Act, the Congress saw it fit under section 901(2), advantageous and necessary to pay a cost of living to Foreign Service personnel. It is recognized that the cost-of-living differential is a basic determination of Congress and as important a compensation as the one paid as recruitment incentive and/or upon conditions of environment.

I firmly believe that section 504 of the Federal Salary Reform Act contains no equivalent guarantee to redeem the Federal employees from our predicament caused by a factual high cost of living which entitles us, under existing statute, to the differential payment.

The Federal employees are the first line of defense against the enemies of democracy and the United States. America is in danger and what America needs is the union of all those who believe in the American way of life. We need Puerto Rico as State 51 and we need also Panama if we are to stay there as State No. 52. We must unite and we must strengthen the United States and we must extend the blessings of our free institutions and political equality to those people. I am not so naive as to believe that the cold war between capitalism and communism is over. It is not a handful of Communists who are operating in the United States and in Latin America. The overthrow of the Americas might come from within, by subversion and fifth column, and the Quislings, and by those who, under the cloak of academic freedom and free speech, drive our youth away from our ideology.

The Federal employees have shown duty and dedication to God and to our United States, and Congress is our protector.

Respectfully yours,

HARDING FRANCO SOTO.

ADDITIONAL STATEMENT OF SPARK M. MATSUNAGA, U.S. REPRESENTATIVE FROM HAWAII

Mr. Chairman, in response to a request made by a member of this subcommittee for comparative cost figures on home construction in Hawaii and Washington, D.C., I submit the following information obtained from the Construction Cost Section of the Federal Housing Administration:

Type of construction	Cost of construction (per square foot)	
	Honolulu	District of Columbia
Single board, 1 story; no basement.....	\$12.50 to \$16.50....	No comparable construction.
Double wall, 1 story; no basement.....	\$13 to \$17.....	\$10 to \$13.50.
Hollow concrete block, 1 story, no basement.	\$14 to \$18.50.....	\$10.50 to \$14 (brick with hollow block backup).
2 story, 1st floor studs with siding; single board 2d floor (without sheathing); no basement.	\$10 to \$12.50.....	\$9.50 to \$12 (with sheathing in addition to studs with siding).

It will be noted that for similar types of construction, the cost per square foot of home construction is \$3 to \$4.50 or 30 to 32 percent higher in Honolulu than in Washington, D.C.

Federal Housing Administration figures also show that the cost of land in Honolulu is about 227 percent of that in Washington, D.C., and that the price on an average house lot runs about \$4,558 higher in Honolulu.

All comparative costs, whether they be on homes, furniture, furnishings, appliances, or food (with the possible exception of clothing) would seem to justify fully the 15-percent cost-of-living allowance for Federal workers in Hawaii.

I again urge this subcommittee not to report out H.R. 7401. If justice is to prevail, the bill should die quietly in this subcommittee.

Thank you.

Mr. UDALL. The Chair desires to announce that this concludes the witnesses who were scheduled for today. Tomorrow we will conclude these public hearings. We only have three witnesses scheduled in the morning, and I would urge my colleagues to be punctual because the Chair desires to run a tight ship here and operate on time.

Following the testimony of these three witnesses, if there is time tomorrow, we might have an informal discussion on the testimony that has been presented.

Mr. BARRY. Who are the three witnesses?

Mr. UDALL. They are listed on the sheet. Mr. Rademacher, Mr. Murphy, and Mr. McCart are the three remaining witnesses.

Unless there is further business to come before the subcommittee we stand adjourned until 10 a.m., tomorrow.

(Whereupon, at 11:25 a.m., the subcommittee adjourned, to reconvene at 10 a.m., Wednesday, March 18, 1964.)

TERMINATING COST-OF-LIVING ALLOWANCES

WEDNESDAY, MARCH 18, 1964

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., room 215, Cannon House Office Building, Hon. Albert W. Watson, of South Carolina, presiding.

Mr. WATSON. The hearing will come to order.

I am presiding in the absence of Mr. Udall who has a conflict over with the Interior Committee concerning an important matter in his State, and he will be here a little later on.

Continuing the hearings this morning on H.R. 7401, which was introduced by our chairman, Mr. Murray, at the request of the Civil Service Commission providing for the termination of the cost-of-living allowances for statutory-salaried Federal-civilian employees in nonforeign areas.

We have three witnesses scheduled this morning. The first is Mr. James Rademacher, vice president of the National Association of Letter Carriers.

We are very glad to have you with us, Mr. Rademacher.

STATEMENT OF JAMES H. RADEMACHER, VICE PRESIDENT OF THE NATIONAL ASSOCIATION OF LETTER CARRIERS, WASHINGTON, D.C.

Mr. RADEMACHER. Mr. Chairman, Representative Gross, we are happy to see progress being made by a Representative of South Carolina serving as chairman this morning.

Mr. Chairman, I realize that the committee has had much testimony, including lists from various supermarkets and prices of appliances, so it is not the purpose of this witness this morning to add to the volume of lists, but to merely state our position and our position, Mr. Chairman, is that we feel that what has been termed as a "cost-of-living allowance" actually is now a standard-of-living allowance—and not just an allowance to necessarily cope with the cost of living.

My name is James H. Rademacher. I am the elected vice president of the National Association of Letter Carriers with headquarters in Washington, D.C. I appear here today in opposition to the proposed legislation contained in H.R. 7401 for the reason that such legislation would have harmful effects on the members whom I am privileged to represent in the States of Alaska, Hawaii, and the territory of Puerto Rico.

Our present membership in Alaska is 100; the total membership in Hawaii is 500; and we have 300 members in Puerto Rico. Therefore, based upon the number of persons in the families of our members, I can state that my appearance here today is in behalf of over 4,000 American citizens.

The National Association of Letter Carriers strongly feels that the cost-of-living allowance now being paid to postal and classified workers in the States and territory mentioned above are at this date considered standard of living allowances, and not just allowances to necessarily cope with the cost of living.

For many years, Federal employees have received this higher level, financial recognition in view of the tremendous differences in costs which prevail in their home areas in comparison to the cost of living in many of the United States. Many of the younger employees of the Federal Government in the areas in question have entered Government service because of the higher salary conditions; and with such benefits the Government itself has benefited for the reason that higher caliber personnel have been attracted to Government employment.

The average number of persons in the American family is now less than four, while the number of persons per family in an area such as Puerto Rico is almost five. I might say in the surveys we have taken of our members in Puerto Rico, we find that there are Government employees that have as many as 14 children, but our average shows 6 people per family. Our average in the United States is less than four in the letter carrier family, which indicates for one reason or another, that the Puerto Rican letter carrier has a larger family and we feel that much of this is because of the fact that he does have the income with which he can provide a better living for his family.

Mr. WATSON. May I interrupt right there?

Mr. RADEMACHER. Yes.

Mr. WATSON. I assume this figure, average number in the families would apply to non-Federal families as well?

Mr. RADEMACHER. I believe, Mr. Chairman, that the Census Bureau will tell you that the figure is about 4.9 in Puerto Rico now, but our survey, among Government workers, shows six.

Mr. WATSON. In other words, you feel that the Government-worker family is larger than the average non-Government?

Mr. RADEMACHER. This is what our survey shows; yes, sir.

Mr. WATSON. Thank you.

Mr. RADEMACHER. Another item that has not been properly explained and considered in the documents we have read is that of the tremendous increase in the cost of locally produced foods in Puerto Rico, which rose from 64.4 percent of the 1957-59 basis in 1949 to the unbelievable present average of 123 percent. In other words, because of the higher standards which have been made available by premium U.S. pay, the standards of local citizens likewise have been raised—especially in the areas of locally produced foods.

Also referring to Puerto Rico and the subject of comparability, we were surprised to learn that even with the higher salaries paid by the U.S. Government, local government employees in some instances receive higher wages. For example, the personnel director of the Commonwealth of Puerto Rico, who is responsible for some 300 employees, receives an annual wage of \$9,600. The director of person-

nel of the local San Juan post office, who has responsibility over 807 employees of the U.S. Government, receives an annual wage of \$7,200. His requests for placement into a higher level with his responsibilities has been denied for the reason that his workload is not as heavy as comparable employees on the stateside because of the low turnover of employees in the San Juan post office. This is an indication that the Government is saving money by paying wages sufficiently high enough to prevent constant turnover which is a costly item in the States.

In looking upon our contention that the cost-of-living allowance being paid Government workers in Alaska, Hawaii, and Puerto Rico is actually a standard-of-living allowance; we point to the following facts to support our contention:

(1) A standard-of-living allowance such as is being paid by the U.S. Government attracts career-minded personnel.

(2) It likewise retains career-minded personnel.

(3) It permits the purchasing by the Government worker of normal goods and modern appliances thereby providing job opportunities where the purchases are made.

(4) It reflects the U.S. Government in good image as a good employer.

(5) A standard-of-living allowance raises the standard of entire populations.

The standard-of-living allowances are equally important in Alaska and Hawaii for the reasons stated above. I was amazed as a visitor to the beautiful city of Honolulu to find that gasoline used in a private motor car costs 51 cents per gallon. On an occasional shopping tour with local letter carriers, I was again greatly surprised to find all goods normally purchased by working people to be considerably more expensive than those same items on stateside.

I believe that the Civil Service Commission realizes that it would be impracticable to adjust downward the wages of Government employees in Alaska and Hawaii, and that belief stems from the press release of February 6, wherein no downward adjustment in these salaries was recommended.

In conclusion, it would be appropriate to explain the viewpoint of our organization concerning the confusion and inequity as well as inconsistency in the proposal the subcommittee has before it today. At the time of the original granting of the allowance for Government employees in Puerto Rico, and based on the 1957-59 CPI equals 100 percent, the CPI index in 1949 was: Puerto Rico, 77.4; United States, 83, which indicates in the United States, at least on the stateside, the cost of living was 6 points higher. And as we go along here, you will find in the 1962 figures quoted, that in Puerto Rico it is 109.6 and in Washington, 105.3.

There is reason, therefore, to believe that rather than a decrease in the cost-of-living allowance on the contrary, the allowance should be increased if living costs in Puerto Rico have been compared all these years with Washington, D.C.

We trust that this subcommittee, after hearing many witnesses, will find insufficient reason exists for disturbing the wages now being paid to Government employees in Alaska, Hawaii, and Puerto Rico. We feel in the best interests of the U.S. Government in promoting dignity and higher standards, as well as culture among all citizens of the

world, the wages being paid Government employees in the areas mentioned in H.R. 7401 should not be disturbed.

We appreciate the opportunity given to us to state our views.

Mr. WATSON. Thank you, Mr. Rademacher.

I assume from your reference to being over in the beautiful city of Honolulu that you had occasion perhaps to observe the effect, if any, adversely I am referring to now, of the higher wages paid to the Federal worker than to the local worker. What adverse effect, if any, did it have on local private employment?

Mr. RADEMACHER. The automobile that was used to drive me around from one post office to another when I was there attending a convention was a 1959 vintage and the other automobiles that I noticed on the street were not quite as new. I believe that perhaps our people have a little better automobile. They might be able to purchase commodities that the rank and file in Hawaii would not purchase, but I think that this tends to increase the standards in Hawaii, to bring all people up to the level of Government workers, which is good for this country.

I would like to also say that I think eventually, in my opinion, Puerto Rico will be a State and I think it is up to us as a government to make certain that State would have a proper standard to equal the standards that exist in other States today, speaking of culture as well as monetary values.

Mr. WATSON. It has disturbed me and perhaps some other members of the committee that the Civil Service Commission has come in here with the statement that the cost of living is less in these areas, some of them. I believe they exclude Alaska.

Mr. RADEMACHER. The figures I have quoted, sir, come from the Commonwealth of Puerto Rico and I am not familiar whether or not we have, in the U.S. CPI index, taken into consideration the factors in Puerto Rico, whether we have just said because they belong to us, they are all-inclusive in the CPI index. But the figures that I have here from the Commonwealth of Puerto Rico show a tremendous increase, as indicated in my testimony, and especially in a point I did not touch on, but which is included in my report, and that of the increased cost of education and recreation in Puerto Rico. This exceeds all increases, which is evidence that there is a tremendous increase in educational values today over there, that more people are being educated and it is becoming more costly.

But I notice in the figures released by the Commonwealth of Puerto Rico, that the figure today for education and recreation is 125, and you compare that with transportation figure of 109, or medical care 110, or personal care 111, tobacco and beer is 102.6, which indicates that there has been a tremendous increase in the culture and, at the same time, a tremendous increase in the cost of education.

Mr. WATSON. And so far as you have been able to ascertain this, certainly no objection on the part of the other members of your Association of Letter Carriers about this cost-of-living allowance which is given those in Hawaiian and Alaskan cities?

Mr. RADEMACHER. We feel, Mr. Chairman, once an employee has been living on a certain wage, his entire environment, his daily living is based upon the wages that he is earning, that it would be most harmful to morale and to his very existence to take away. For example, people purchase automobiles, they purchase a home, they have a

large-size family, all based upon what they can afford, and if they are once receiving this, we feel that it is not as though we were to come in and say we want to pay more money in New York City than we do in Detroit, or in your own good city in South Carolina. We feel that this is irrelevant. Our thoughts are that this is a wage that has been paid these people and now to take it away from them would have a very harmful effect on the image of the United States, on their existence, which is all based upon the earnings that they receive.

Mr. WATSON. When did those cost-of-living allowances begin, prior to or subsequent to their becoming a State? I am referring now to Hawaii and Alaska.

Mr. RADEMACHER. The law became effective in 1949. Of course, statehood was nearly 2 years ago.

Mr. WATSON. So actually the cost-of-living allowance at that time apparently was predicated upon more or less semiforeign service or noncontinental service so far as Hawaii is concerned?

Mr. RADEMACHER. That is true.

Mr. WATSON. And, of course, with the advent of statehood for these two areas, I should assume that they would step in as any other State and that was the thought that provoked the question as to whether or not the other letter carriers might per chance now feel that although they did have this cost-of-living allowance prior to statehood, that now perhaps all should be fed out of the same spoon.

But you have not detected any such—

Mr. RADEMACHER. No, sir, our people feel that they are earning the wage and should receive it and not be penalized because of the reflection of the cost of living elsewhere.

Mr. WATSON. Generally speaking your members would not favor trying to adjust salaries on a cost-of-living basis within or among the various States?

Mr. RADEMACHER. That is correct, sir. We are very much opposed to determining wage scales on the basis of area and it may appear to you and members of the committee that we are contradicting ourselves to this extent, but we are not. We, as I have stated, feel once an employee is earning a salary, he should not have that salary reduced if everything he is living under and with depends on that salary. We would never come before this committee and say that we ought to have separate pay scales in one city or another. What we would rather say to you is, "What is it worth to have a faithful, loyal servant of the Government arrive at each doorstep daily; what is it worth to the Government, regardless of what it costs to live in that city?" And we shouldn't punish the people who live in areas where it isn't as costly because the cost of living is higher in other areas. We ought to determine what is a fair wage for delivering the mail and then if you are in an area where it is more costly, then you will just have to face it. And in those areas people have second jobs and their wives are working to cope with it.

If they are not satisfied with that, they can move into an area that isn't as costly.

Mr. WATSON. Thank you.

Mr. GROSS?

Mr. GROSS. Mr. Rademacher, how do you account or do you account for this 64.4 percent rise in food costs in Puerto Rico?

Mr. RADEMACHER. Mr. Gross, I feel that the influence of the higher American wage has forced the producers of foodstuffs in Puerto Rico to increase their wages proportionately and that at the same time I want to call your attention to the fact that the Governor has urged a dollar and one-half minimum wage, which shows you their continuing increase in desire to raise their standards. That is what has happened to the food people, I believe.

Mr. GROSS. Urged—

Mr. RADEMACHER. Recommended and it has not been passed, but he has recommended.

Mr. GROSS. It is not particularly meaningful unless it has been passed. To urge it is one thing, to enact \$1.50 an hour minimum wage would be something else again, but it has not actually been adopted. Is this what you are saying?

Mr. RADEMACHER. It hasn't been adopted, but this is his thought. They are trying to do everything they can in Puerto Rico to raise the standards there and to probably eventually become a State.

Mr. GROSS. That may be true, but I still don't understand why food costs should go up 64.4 percent in Puerto Rico.

Mr. RADEMACHER. I believe, sir, that isn't a shocking figure because there probably will only be 10 or 12 percent difference in what has happened here since 1949. I point that out to show that the Government employee's salary has brought other wages up; it is good for the country, good for the U.S. Government, I think.

Mr. GROSS. They may not have, for instance, an adequate meat supply in Puerto Rico, but they do have it in Haiti which is close by, is it not?

Mr. RADEMACHER. Yes.

Mr. GROSS. Because we find Bobby Baker and some of his associates have been engineering the importation of beef into this country from Haiti. So evidently they have a source of meat supply close at hand. I don't quite understand—

Mr. RADEMACHER. Of course, as I say, you must realize when we are talking about increased costs, that we also have modern equipment now in Puerto Rico and that is costly, so naturally there would be an increase in the price of the food if you are going to pay more for the equipment to supply it.

There has been such a tremendous gain in Puerto Rico in the past 20 years, there has to be an increase from prices for that gain.

Mr. GROSS. You made a point of 51 cents for gasoline in Hawaii. Am I correct in assuming that this is the top price for gasoline there, high-octane gasoline?

Mr. RADEMACHER. The letter carrier that was driving the car I was in buys just the premium gasoline and that is the minimum price of gasoline in Hawaii.

Mr. GROSS. 51 cents.

Mr. RADEMACHER. Minimum price in the gas station I went into. I made notes—

Mr. GROSS. What is the top price then?

Mr. RADEMACHER. I am not certain, but I believe it was around 57. I can tell you that before it is mentioned that of course they don't have the many miles of driving, but they still have the cost and the cost of the original car is much higher and the cost of parts and repairs is

tremendous. But I didn't want to get into that because the committee has heard so much of comparable price lists of groceries and appliances, I thought we would talk about something different.

Mr. GROSS. You mean, I appreciate that, you mean to say that our military personnel, and we have a lot of them there, are paying 51 or 57 cents a gallon for gasoline?

Mr. RADEMACHER. Yes, sir.

Mr. GROSS. Or do they sell it on their bases?

Mr. RADEMACHER. They may have an exchange, sir, that handles the gasoline. I was not acquainted with that. The letter carrier can't purchase it there, he had to go to a gas station.

Mr. GROSS. I understand that.

Mr. RADEMACHER. I am telling you that the average citizen who purchases the gasoline in Hawaii pays 51 cents a gallon.

Mr. GROSS. It doesn't cost this kind of differential to tank it out there from the United States, does it? I don't understand.

Mr. RADEMACHER. I don't know the reason for costs, but that is exactly what it was. It wasn't only one gas station. In fact, at the convention, I went to another island besides Honolulu and this was only last September, and we paid 53 cents in that gas station on the island of Hilo. I was not aware that this exorbitant cost exists, but it certainly does, and I witnessed it. For that reason, I doubt that any letter carrier ever says "Fill the tank." I think it is "Give me \$2 worth."

Mr. GROSS. I am surprised that so far as military personnel is concerned, that they don't have some form of cost-of-living allowance under these circumstances, but I believe the testimony is that they do not have cost-of-living allowance in Hawaii.

Mr. RADEMACHER. I am not certain, but of course I know the Congressman will agree, if they can purchase items at the PX, where there hasn't been a reflection of the form of an increase, they might not need the allowance like the Government employee would. I am not certain whether they have an allowance or not.

Mr. GROSS. That is all, Mr. Chairman.

Mr. UDALL (presiding). Any further questions? If not, Mr. Rademacher, we thank you for coming and for your help on this legislation.

Our next witness is Mr. John J. Murphy, who is president of the National Customs Service Association. Mr. Murphy, welcome to the committee. You may proceed.

STATEMENT OF JOHN J. MURPHY, PRESIDENT OF NATIONAL CUSTOMS SERVICE ASSOCIATION

Mr. MURPHY. Thank you, Mr. Chairman, Representative Gross, Representative Watson, and Representative Wilson.

My name is John J. Murphy and I am national president of the National Customs Service Association. Our organization is representative of the employees in the customs service at all levels. We have members in Alaska, Hawaii, Puerto Rico, and the Virgin Islands who would be adversely affected by H.R. 7401.

Our organization opposes H.R. 7401 because the end effect it would have would be a reduction in the take-home pay for employees. The fact is that no matter what procedures are used, such as a 6-year

phasing out, the end result will be that the employee would have less take-home pay.

We view as immaterial the fact that Congress may see fit to raise Federal pay in general, as under the proposals of this bill a pay raise will be given with one hand and taken away by the phasing out process. Our organization opposes any proposals that will diminish the take-home pay.

It seems to us that ample authority exists to bring about an equitable solution to this matter. There is statutory authority to adjust salaries by cost-of-living allowances in section 207 of the Independent Offices Appropriation Act, 1949. If there is no demonstrated need to do so, there need be no action taken. It is our view that Congress by authorizing cost-of-living allowances for Alaska, Hawaii, Puerto Rico, and the Virgin Islands recognized that higher prices are a part of life in these areas. Persons recruited to work in these places have the understanding that the allowance is part of their take-home pay.

We submit that the Government has a moral obligation to continue the allowance. To our way of thinking Congress does not intend to cut the pay of Federal employees. Stripped of all other provisions, this is what H.R. 7401 will do. All the affected employees strenuously oppose the enactment of this legislation.

Our membership in Alaska opposes this legislation. There is a general feeling that there will be a reduction in take-home pay. They feel that there is no private enterprise in Alaska to which their salaries can be compared and that because of the complex nature of industry in the area that considerable misunderstanding may exist.

With no indication of how surveys will be made or what type of statistics the Bureau of Labor Statistics will use, that leaves the entire matter to conjecture. There is a feeling on the part of our customs people affected that the phasing out procedure will result in a net loss in pay.

In April of 1963 representatives of various Federal agencies, including Customs, in the Juneau, Alaska, area met and their conclusions were that H.R. 7401 would adversely affect them for the following reasons:

1. In Alaska, there is a lack of adequate base for comparison with salaries of comparable positions in private enterprise. This is especially true in the higher professional grades and in the specialities.

2. Since the State of Alaska is probably the largest single employer outside the Federal Government, there is concern that BLS might use statistics based upon State jobs. This would result in an unsatisfactory scale, since pay in State jobs traditionally lags behind Federal pay scales, especially in the higher grades.

3. Adjusted pay scales would have to result in a larger than 25 percent increase over current salaries because this increase would be subject to Federal income tax while our present cost-of-living allowance is not.

4. To be equitable, any increase in salary range in Alaska should consider geographical areas. BLS statistics for October and November of 1962 show the following increased living costs as compared to Washington, D.C., with a base of 100 percent: Fairbanks, 146.5 percent; Anchorage, 143.2 percent; and Juneau, 132.8 percent.

Thus, salary changes should reflect the variation in actual living costs. This further limits statistics available for salary comparison with private enterprise.

5. Any resultant decrease in net pay received would undoubtedly result in mass transfer and resignations of Federal employees in Alaska. Statistics show that the present 25 percent COLA is inadequate at the lower grades. These employees simply could not survive any decrease in this allowance.

6. There is a moral, and possible legal, obligation in connection with existing employment agreements. Employees signed these agreements to remain in Alaska for a specified period with the understanding that they would receive a 25 percent cost-of-living allowance. Any lowering of this allowance should violate the agreement.

7. The group was concerned with the possible effect upon Public Law 737 if Federal employees in Alaska receive an increased salary rather than a cost-of-living allowance. Might this prohibit payment of return expenses to the point from which recruited for other than transfers? If so, this would seriously limit our abilities to recruit and retain qualified personnel.

8. We ask are the proposals to remove cost-of-living allowances and substitute increased salaries definitely tied together? Is there any danger that the authority for cost-of-living allowances will be repealed and that increased salary ranges will not be substituted simultaneously due to inability to gather adequate data in the June survey, or for other reasons?

Would it be more logical, we ask, to gather the facts first in the June survey, and then decide whether or not to substitute increased salaries for cost-of-living allowances?

9. Our present salary scale does not go high enough to offset allowances, even at the top steps. Thus, any increased rate range would have to be higher than salary schedules now available.

10. An increase in salary in lieu of cost-of-living allowance might result in an unfavorable age pattern of Federal employees in Alaska. Those near retirement could conceivably seek assignments in Alaska for the advantage of having a greater "high 5-year salary" and thus a greater retirement annuity.

Unless salary increases at least offset the net pay received now through use of 25 percent COLA, younger employees might well avoid Alaska assignments because they are concerned with what is required to support their families now and not with retirement.

It is estimated that the base pay would need to be raised by approximately 40 percent to equal the present base salary plus the COLA, taking into consideration the fact that COLA is nontaxable. The only incentive for new employees to come to Alaska at the present time is the 25-percent allowance, and we believe that the Government would have a difficult time recruiting competent people and retaining those now on the rolls should the allowance be eliminated.

Our Hawaii branch members are likewise unanimously opposed to H.R. 7401.

Civil Service Commission estimates to the contrary, we believe that the actual cost-of-living differential between Hawaii and Washington, D.C., is closer to 25 percent rather than the 15 percent presently recognized.

One of the reasons mainland citizens do not hear more about the unusual high cost of living in Hawaii is because the economy of the islands depends to an important extent on the tourist industry.

Plainly, it would be difficult to persuade visitors to spend vacations in the islands or compete favorably for investment capital if the fact that Hawaii is such an expensive place in which to live and do business is widely advertised.

An important consideration for our members in Hawaii is the education of their children. The public school classrooms have one of the highest teacher-pupil ratios in the United States. The result has been a downgrading of the caliber of education in the schools.

This has become so bad that many Federal workers who want to enroll their children in mainland colleges are obliged to send them to private schools. Tuition for this purpose, for example, tuition in Iolani School, a private institution sponsored by the Episcopal Church, is \$750 a year.

It has been pointed out how expensive housing is in the islands. One of our members, for example, lives in a single-wall-construction frame house with four small bedrooms for which he had to pay \$40,000. A 10,000-square-foot lot on which it is situated is appraised for tax purposes at \$16,000 and yet it doesn't even belong to him because it is leased land that never can be held in fee simple.

This individual pays \$400 ground rent per year. Rental for homes such as the one described averages close to \$300 per month.

All necessities of life, such as clothing, food, drugs, automobiles, radios, televisions, spare parts, tires, gasoline, and so forth, have to be transported from the mainland by rail and ship over a distance of 3,000 to 5,000 miles.

Naturally they cost a whole lot more than if purchased close to their source. Freight rates are very high and this added cost on everything purchased on the islands has contributed greatly to the high cost of living.

Our membership in Hawaii is of the opinion that if COLA were to be eliminated it would result in many of our workers transferring back to the mainland. It would also make it exceedingly difficult to recruit and retain the type of employee needed in the Customs Service.

Our Puerto Rico branch likewise strongly opposes H.R. 7401, and we join the Council of Federal Employees of Puerto Rico in their statement in opposition to the bill.

The Commonwealth of Puerto Rico, which is in the middle of a unique social change, would be adversely affected by the elimination of COLA. Federal employees in this area, as in other areas affected, have made financial commitments such as we all make: home mortgages, home improvements and repairs, loans for education of children, financing of necessary automobiles, and so forth. It goes without saying that a cut in income would result in financial difficulties.

In the interests of saving the time of the subcommittee and in consideration of the detailed statistics already presented regarding the cost of living in Puerto Rico, we wish to be brief and state in summary that it is our view that there is considerable misunderstanding of the so-called "use factors" in the COLA in Puerto Rico. It would be useful if this committee could make an on-the-site inspection.

In regard to the Virgin Islands, the Virgin Islands would be particularly hard hit by the elimination of COLA. The Virgin Islands are primarily a vacation area and the abode of many persons of wealth. The Federal employee in the Virgin Islands must pay prices for staple commodities that are considerably higher in most instances than in nearby San Juan, Puerto Rico, and in every instance greatly higher than Washington, D.C.

There is considerable apprehension among our members in the Virgin Islands about using the principle of the Salary Reform Act of 1962 as a substitute for COLA. They feel that there is no private enterprise in the Virgin Islands with which they could be properly compared and that the end result will be a loss in take-home pay. Our clerical employees would be particularly hard hit, as the salaries for these positions has always been low in private industry.

It is our view that the Virgin Islands is another area where an on-the-spot survey could be most revealing. As has been previously stated, we believe that no cost-of-living study has been made in the Virgin Islands since about 1954.

The Virgin Islands situation is unique because of the dependence upon tourism, a small, generally untrained population. Almost every item of food must be imported. This, of course, means high cost for freight and results in considerably higher prices for the same commodity than in Puerto Rico and on the continent.

Costs of practically any kind are extremely high in the Virgin Islands. This includes the cost of food, housing, clothes, furniture, automobile insurance, automobiles, etc. Our membership in the Virgin Islands joins with their fellows in Alaska, Hawaii, and Puerto Rico in voicing their strong opposition to H.R. 7401.

The summary of our position is as follows:

(1) It is our view that stripped of all other considerations H.R. 7401 would result in a diminishment of the take-home pay. Our association is opposed to any measure that would reduce the earnings of our membership.

(2) It is our belief that the present statistics supplied to the committee do not properly reflect actual conditions in the affected areas.

(3) We urge that the subcommittee consider a different method of gathering cost-of-living statistics and suggest that an on-the-site inspection by the subcommittee could be useful in determining the actual conditions.

(4) It is our hope that the Civil Service Commission will not take any steps to reduce the cost-of-living allowance in any areas until Congress has had an opportunity to act on this legislation.

We believe that testimony presented to this subcommittee clearly shows that further study needs to be made of the criteria on which the Civil Service Commission bases its cost-of-living allowances, as authorized in section 207 of the Independent Appropriation Act, 1949.

(5) We emphasize that it is our belief that the Government would lose the services of many of its experienced and well-trained personnel if COLA were to be abolished, and further that it would greatly inhibit the recruitment of competent personnel for positions in the affected areas.

In closing I should like to thank you, Mr. Chairman, and members of the subcommittee for your courtesy and consideration. In the in-

terests of fairness we respectfully urge that the subcommittee take into consideration the views of the National Customs Service Association on the legislation before them and reject the proposed bill.

Thank you.

Mr. UDALL. Thank you, Mr. Murphy, for your testimony.

The gentleman from Iowa.

Mr. GROSS. Mr. Murphy, on page 6 of your statement you spoke of a \$40,000 home in Hawaii with single-wall construction?

What do you mean by "single-wall" construction?

Mr. MURPHY. Well, it is customary here, as you know, to have a plaster-type wall with plaster on both sides, or if you have a dry wall, it is a double type of wall with a space between. This is a single wall, a type of partition, very cheap type of construction, usually.

Mr. GROSS. You mean just the outside wall, it isn't finished on the inside?

Mr. MURPHY. It is finished, but it is a single—

Mr. GROSS. Studding and everything else is exposed, is that what you are saying?

Mr. MURPHY. No; but a single-sheet type inside and they don't normally have studding in the type of construction I refer to. It is just a partition in the interior.

Mr. GROSS. You go on to say that the ground rent per year is \$400. Is this ground rent in the nature of a tax?

Mr. MURPHY. No; this is a ground rent similar to ground rent that we have in Maryland and possibly other places. And this is for a 10,000-square-foot lot, which is appraised for tax purposes at \$16,000; and for this he is required to pay \$400 a year rent.

Mr. GROSS. Then he pays taxes in addition, is this correct?

Mr. MURPHY. That is correct.

Mr. GROSS. Thank you, Mr. Chairman.

Mr. UDALL. The gentleman from South Carolina.

Mr. WATSON. Mr. Murphy, I am inclined to agree with you, and so many of the other witnesses, about the cost of living being higher in Hawaii and, of course, the Commission agrees that it is higher in Alaska.

Yet, at the same time, we have these figures. I am sure that they weren't picked out of the air in here on this May-June survey last year. And they show clearly the average salary in Puerto Rico is \$2,550, which is only 81 percent of that in the mainland. In Hawaii it is \$2,976, which is 94 percent of the average mainland salary.

You referred in your testimony to suggesting that we hold any action until the facts have been ascertained in a June survey, on page 4 of your testimony. Do you suggest that we make another survey in June of this year, or what survey is that you are referring to?

Mr. MURPHY. We feel, Mr. Watson, that there has been such a discrepancy between the prices that have been mentioned here, by the Bureau of Labor Statistics, by the Civil Service Commission, by the various Members of Congress and employee representatives who have testified, that we feel that in order to get a really clear picture of it, it would be helpful if the committee could make an on-site inspection and see for themselves some of the conditions that we are talking about. There is such a difference, this is disturbing to us as well as to you—I believe you mentioned before that this was a point that disturbed you. It disturbs us also.

We would like to arrive at the real facts.

Mr. WATSON. How could we arrive at some figures that would be acceptable to your association? Sooner or later we have to resolve this conflict of information.

Mr. MURPHY. One of the things that our Puerto Rico members particularly object to is using statistics which are compiled by the State Department. They feel that these do not properly reflect conditions in the nonforeign areas. They would prefer to have a more realistic type of survey geared to what is happening in Puerto Rico, possibly made by the Bureau of Labor Statistics with participation by the employees and the employee groups.

Up to this time, the participation by the employee groups has been very small, actually nonexistent in some instances. We feel that this would bring out the facts if we could get participation.

Mr. WATSON. Another question. I am trying to reconcile in my mind as to how the local wages in these areas are generally less, but yet the cost of living is generally higher.

Is that your position?

Mr. MURPHY. It is difficult to reconcile these two things. But I think the essence of it is that the people who are local employees—if I could use that term, as opposed to Federal where the salaries are higher—the end result of this is that they are forced to live under a much lower standard of living than we feel all of our citizens in this area should have.

Mr. WATSON. How many of your Customs employees are recruited locally, as compared with those who are recruited on the mainland?

Mr. MURPHY. I don't have the background of that, Mr. Watson. I could get it for you and submit it for the record.

We have small numbers of employees in these areas, as compared to some of the others. The total is somewhat in excess of 400, and ranges from a high of 230-odd in Puerto Rico, to 35 people in Alaska.

Mr. GROSS. Will the gentleman yield?

Mr. WATSON. Yes.

Mr. GROSS. There is a Representative in the House who represents a district in New York, but apparently makes his home in Puerto Rico. Perhaps we could get from him—if we called him before the committee—some expert testimony on Puerto Rico, rather than send a committee of Congressmen down, and save the taxpayers this money.

Mr. UDALL. The chairman has no idea to whom the gentleman might be referring.

Mr. MURPHY. I do not know either, Mr. Chairman, but if we do have an expert somewhere, perhaps we should try to use him.

Mr. WATSON. If the gentleman will yield, I do have an idea as to whom he is referring, but still, I would rather rely upon other information than that gained by him. I do not know whether he would be in close contact with all of the living conditions.

Mr. GROSS. I think I would be inclined to agree with the gentleman.

Mr. MURPHY. This is one of the reasons, Mr. Watson, I would suggest that members of this subcommittee make an on-site inspection and confer with some of the employee representatives. I think you could get quite a clear picture.

Mr. WATSON. Thank you very much.

Mr. UDALL. The gentleman from California.

Mr. WILSON. I think, Mr. Chairman, the gentleman has a very good suggestion, that the committee go to Puerto Rico, Alaska, and Hawaii and have an on-site inspection of these things.

I wish it were possible for Mr. Gross to make a motion to increase the budget of the committee so we could do this.

Mr. UDALL. I think if that motion is made by the gentleman from Iowa today, that you can look out to the west and see the sun coming up early in the morning.

Mr. WILSON. Mr. Murphy, I was interested in the same question Mr. Watson asked about—the ratio of the people recruited locally as against those brought over from the mainland. I can appreciate the fact that people who are sent over there, assigned, who have been working on the mainland, might require additional living expenses because they naturally assume a different type of life.

I am just wondering whether the same justification would hold up for those who are hired locally and who are not requiring any different type of living than what they were accustomed to before.

Mr. MURPHY. I think it would be rather difficult in our agency particularly, to set up two different levels of salary for the same job and same work. This is something that we wouldn't want to get into at all.

Mr. WILSON. Isn't the tendency now to hire more people locally though?

Mr. MURPHY. Yes; because as time goes on, the local people are becoming better trained, for one thing, and we do have that.

However, most of our top people where we need quite a background of technical know-how have been recruited from the mainland.

Mr. WILSON. Thank you.

Mr. UDALL. Any further comments or questions? If not, we thank you, Mr. Murphy.

Mr. MURPHY. Thank you, sir.

Mr. UDALL. Our final witness this morning is Mr. John McCart, who has frequently been before this committee, the subcommittee. We are happy to have you with us and you may proceed, sir.

STATEMENT OF JOHN A. McCART, OPERATIONS DIRECTOR, GOVERNMENT EMPLOYEES' COUNCIL

Mr. McCART. Mr. Chairman, I am John A. McCart, operations director of the Government Employees' Council.

With your permission I would like to have filed at the conclusion of my presentation, a statement by the International Association of Fire Fighters, AFL-CIO, registering their objections to H.R. 7401.

Mr. UDALL. Unless there is objection, the statement will be received and made a part of the hearing record.

Mr. McCART. I, of course, Mr. Chairman, am testifying in behalf of the 26 unions associated with the Government Employees' Council. We appear in opposition to H.R. 7401.

I would like to direct your attention to page 4 of my statement, which has been presented to the subcommittee, and I would like to proceed extemporaneously to discuss some of these conclusions that we have listed there rather than going through the entire statement.

Mr. UDALL. I am sure the committee would appreciate that proce-

ture. Many of the unions you represent have testified in detail and unless there is objection, the full statement of Mr. McCart consisting of five pages, will be printed in the record as though read in full and you may proceed informally.

(The statement is as follows:)

STATEMENT OF GOVERNMENT EMPLOYEES' COUNCIL, AFL-CIO

Mr. Chairman and members of the subcommittee, the Government Employees' Council, representing 26 AFL-CIO unions of classified, postal and wage board Federal employees, desires to register its objection to H.R. 7401.

Stated simply, the purpose of the legislation is to repeal the statutory authority for cost-of-living allowances in Alaska, Hawaii, Puerto Rico, and Virgin Islands, and to substitute the existing authority of the Civil Service Commission to compensate employees above the normal minimum rate for their classified or postal pay schedule in occupations for which it is difficult to recruit qualified candidates. It involves a change to an entirely different basis for determining the personnel needs of the Federal Government in these localities and the pay of employees in these farflung areas.

In justifying its proposal, the Civil Service Commission insists that there are two fundamental principles in fixing the pay of postal and classified workers under the "Postal Service and Federal Employees Salary Act of 1962"—comparability and equal pay for equal work. We feel equally strongly that Congress in enacting these principles did not intend that existing considerations in establishing additional compensation to meet unusual circumstances should be discarded. To our knowledge, there is nothing in the history of the 1962 pay statute which indicates the intent of Congress to consider only the two criteria cited above to the exclusion of all preexisting enactments in fixing Federal salaries.

It is well to remember that the original purpose of statutory authorization for cost-of-living allowances by Congress, in 1948, was to insure equality of treatment in paying additional compensation to Federal workers assigned to territories of the United States. Prior to that time, diverse methods were used by agencies to establish differentials in these areas. Some agencies paid a differential, others did not in the same location.

We submit, Mr. Chairman, that if Congress accepts the theory advanced in the pending bill, it will be returning to the same type of confusion which existed prior to the 1948 law recognizing differentials. Enactment of H.R. 7401 will permit fixing various levels of pay for particular occupations and even particular grades of Federal employees, based solely upon the standard of the difficulty experienced by Federal administrators in filling jobs. Thus, we will then witness a situation where one group of Federal employees may be treated differently than all others, despite the fact that the costs they must pay are identical for all.

Proponents of the legislation argue that substantial changes have occurred in the economies of the nonforeign areas in question since 1948. The fact remains, however, that the difference in cost of living between these four locations and the remainder of the United States continues to exist. Even if we were to accept the Civil Service Commission's latest findings—which we cannot do—the lowest differential to take effect in April 1964 would be 5 percent for Puerto Rico and the Virgin Islands, with 15 percent for Hawaii and 25 percent for Alaska. Clearly, then, there is justification for retaining the cost-of-living concept.

Another justification offered by advocates of H.R. 7401 is that it is inequitable to Federal workers in other localities on the mainland to pay a differential on the basis of living costs in Washington, D.C., and Hawaii, and not provide an allowance for higher cost-of-living in Seattle above the District of Columbia. Such an argument overlooks the fact that the District of Columbia area represents a median metropolitan area in the cost-of-living scale. It represents neither the highest nor the lowest locality from the standpoint of cost of essential commodities and services. Use of the present comparison does not discriminate against Federal workers in other cities because Congress has subscribed for many years to the establishment of national rates of pay for postal and classified employees as most beneficial to the Government and workers alike.

The Civil Service Commission asserts that a 6-year period will be utilized to gradually eliminate the differential in Hawaii, Puerto Rico, and the Virgin

Islands so as to minimize hardship to the employees involved. We believe this argument to be tenuous. It involves an unjustified assumption that no difference in cost of living will exist between Hawaii, Puerto Rico, and the District of Columbia by 1970. Who can predict positively the economic trend in these localities in the next 6 years?

The situation in Alaska deserves special consideration. In H.R. 7401, the Civil Service Commission recommends an exception for this State, which would permit it to fix pay rates beyond the present authority in section 504 of the Salary Reform Act. In this way, the Commission recognizes that the cost of living in cities such as Juneau and Fairbanks varies from 33 to 46½ percent above Washington, D.C. The Government Employees' Council is convinced that the better administrative solution would be to retain the present statutory authority, but to permit the Commission to fix the differential above 25 percent where reliable data justifies this course of action.

Because of decisions of the Federal courts, present differentials are exempt from Federal income tax. If H.R. 7401 is approved, the rates fixed under section 504 will be considered base pay, and will be subject to income tax. Thus, employees face loss not only of the original percentage differential, but also an additional percentage representing the amount of payroll deduction of taxes.

To summarize, Mr. Chairman, the council opposes enactment of H.R. 7401 for these reasons:

1. The legislative history of the Salary Reform Act of 1962 shows no intention by Congress to repeal the statutory cost-of-living differential.
2. Approval of H.R. 7401 may result in restoring the inequities which Congress sought to eliminate in enacting the original authority for differentials.
3. Elimination of the cost-of-living differential is not justified because differences do actually exist.
4. Washington, D.C., as a comparison point for cost of living is logical because the urban area represents a median community on the cost-of-living scale.
5. The underlying assumption in H.R. 7401 is that no differential will exist between Washington and the nonforeign localities 6 years hence.
6. The unusual situation in Alaska warrants an extension of present authority to establish differentials, rather than disrupting the salary schedule further by providing an exception to section 504, which in itself is an exception.
7. Enactment of H.R. 7401 will result in loss to employees of amounts in addition to the differential because of loss of the current tax-exempt status on the differential.

For these reasons, Mr. Chairman, we urge strongly that the subcommittee take no further action on the pending legislation.

Thank you for this opportunity to offer our comments on this serious matter.

Mr. McCART. Part of the justification for the legislation offered by the Civil Service Commission involves the enactment of the Salary Reform Act of 1962 with its two basic concepts of comparability and equal pay for equal work. Great stress is laid upon this in the statement of purpose and justification.

We submit, Mr. Chairman, that the adoption of those principles by Congress of 1962 provides no justification for repealing the statutory cost-of-living differential. We can find nothing in the history of that legislation, the Salary Reform Act of 1962, which would indicate otherwise.

Now, one of the reasons for the enactment of the original authorization for cost-of-living differentials in 1948 and 1949 was the diverse policies among the various Federal agencies in providing cost-of-living differentials. Some did and some didn't. Some provided one level of allowance for a certain group of employees in a particular area, other agencies provided a different allowance for the same category. It is our feeling, Mr. Chairman, that if the basis for determining the differential is to be moved to section 504 which authorizes higher pay in recruiting for hard-to-fill jobs, if that is to be the

basis, we maintain that it is going to restore the inequalities which existed prior to 1948. The result will be different rates of pay being paid by the same agencies in different localities.

Furthermore, Mr. Chairman, I think we have to look at the fundamental point of this legislation. It is simply to repeal the cost-of-living statutory authority. Even the minimum figures offered by the Civil Service Commission indicate clearly that the cost-of-living differences continue to exist from 5 percent to 43 or 44 percent. We submit, Mr. Chairman, that this is not the time to repeal the cost-of-living allowance authority, when, in fact those differentials do exist today.

Stress has been placed on the inequity suffered by employees within what we normally call the continental United States, places like Seattle and San Francisco and New York, vis-a-vis employees in the Washington, D.C., area as compared with the employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands.

It is our opinion, Mr. Chairman, that Washington, D.C., represents a very reasonable and moderate point of comparison because it occupies a middle place in the cost-of-living scale as between the high-cost areas in our country and the low-cost areas.

There is another assumption with which we must differ. That is that 6 years hence, which would be the effective date when the differentials would all be eliminated, no cost-of-living differential would exist. We just don't feel that assumption is justified. We don't feel that we can look into a crystal ball today and predict that 6 years from now the cost of living in the four areas in question will equal that in Washington, D.C.

With respect to Alaska, Mr. Chairman, there is a rather unique situation. There is no question that for many, many years the cost of living in Alaska has far exceeded the statutory 25-percent differential. In years past, there have been presented to the Congress bills to remedy this situation by permitting the executive branch to fix a percentage differential above the statutory 25-percent allowable in that particular State. Rather than enacting the pending legislation with respect to Alaska, we think if any legislation is going to be enacted, it should be to relieve the unusual situation in Alaska where the differential varies from 32 to 44 percent above that existing in Washington, D.C.

And finally, Mr. Chairman, a point which has been emphasized by many witnesses. If the statutory differential now available is eliminated, it will mean not simply a loss of 25 percent, or 5 percent, or 15 percent, but will entail an additional loss to employees. Under rulings of the courts, the differential now is exempt from income taxes. These seven reasons, Mr. Chairman, the Government Employees' Council asks that you defer any further action on H.R. 7401.

Mr. UDALL. Thank you, Mr. McCart.

Are there any questions?

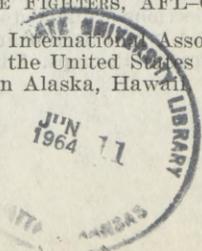
Apparently there are none and we thank you for coming.

Mr. McCART. Thank you.

(Statement of International Association of Fire Fighters follows:)

STATEMENT OF THE INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS, AFL-CIO

Mr. Chairman and members of the subcommittee: The International Association of Fire Fighters, representing 113,000 firefighters in the United States and Canada, and speaking particularly for its membership in Alaska, Hawaii, and



Puerto Rico, is appreciative of this opportunity to register its views, which are adverse to the passage of H.R. 7401.

As we understand it, the legislation is intended to substitute the existing authority of the Civil Service Commission, to compensate employees above their normal rate in occupations which present recruitment difficulties, for the present statutory authority which allows cost-of-living allowances in Alaska, Hawaii, Puerto Rico, and the Virgin Islands.

The Government Employees' Council, AFL-CIO, with which we are affiliated, are stating, in broad scope, our basic objections.

There are, however, areas in which we have personal knowledge concerning certain facets of the proposed change; we believe these facts may enlighten the committee.

We have already attempted to pursue the "comparability of pay" avenue of approach in an attempt to raise the salaries of one of our member unions in the San Francisco area. Here, the Federal firefighters suffer in a comparison with the municipal firefighters on a variety of fronts—retirement, hours, and salaries (drastically). As long as the agency involved, however, insists that no recruitment problem exists, and this is a unilateral decision, no adjustment can be allowed. We do not look with favor therefore on any firefighters relying upon this "comparability of pay" regulation to obtain equitable treatment. Neither do we see that there is any logical connection between the application of the comparability of pay principle, which was certainly intended to help underpaid employees achieve parity, and the repeal of cost-of-living allowances, the effect of which will be in the diametrically opposite direction.

We would like to also point out the salaries and working conditions in the areas mentioned are fixed by the Congress—Congress also fixes the salaries and working conditions of the District of Columbia firefighter. The latter enjoys a retirement, based on hazard, which is more liberal than that enjoyed by his municipal coworker; he works a 48-hour week; he (the basic firefighter) receives a salary ranging from \$5,650 to \$8,050. These benefits the District of Columbia firefighter has justified. The Federal firefighter enjoys no such premium retirement; he is subject to the anachronistic workweek of 72 hours; his yearly wage (including a 20 percent premium for night differential, holidays, and time worked over 40 hours) ranges from \$5,058 to \$6,570. He is truly the forgotten man.

Given these facts, it is easy to understand why we strongly oppose any measure which tends to increase the gap between the Federal firefighter and his Washington, D.C., counterpart.

We urge no further action on H.R. 7401.

Again, we thank you for the opportunity to air our opinions.

JOHN C. KABACHUS,

Secretary-Treasurer, International Association of Fire Fighters.

Mr. UDALL. A number of statements have been received for inclusion in the record. They will be placed in the record at this point.

(The statements referred to follow:)

STATEMENT OF SENATOR E. L. (BOB) BARTLETT, ALASKA

Mr. BARTLETT. Mr. Chairman, this statement is made by a battle-scarred veteran of the cost-of-living allowance fight. The battle has been waged since the 1920's with periods of truce, periods of attacks and again times of truce. It had been hoped that an armistice had been signed, but the proposal before you now in the form of H.R. 7401 would abrogate that armistice.

The Civil Service Commission on March 22, 1963, announced it would be sending a proposal to Congress to abolish the cost-of-living allowances with upward adjustments of salary ranges, authorized by section 504 of the Federal Salary Reform Act of 1962, substituted when warranted. Chairman Macy's letter stated, in part: "Recognizing the probable need for unusually high rates in Alaska, the proposal will seek amendment of the provision in the Salary Reform Act that the entrance rate of a grade may not be raised above the normal seventh rate."

My initial reaction to the proposal, although recognizing a need to explore it thoroughly, was more favorable than otherwise. Vivid were and are my recollections of the history of the cost-of-living allowance, the many times attacks against it had been nearly successful, its vulnerability to change at any time by Congress. Perhaps, I thought, if salaries for Federal classified employees in

Alaska, with upward adjustments allowed, were set in conformity with the 1962 law applying to the other States such a reform might be a welcome one.

Thorough exploration of the proposal, however, leads me to state that the proposal is unwelcome and illogical, so far as Alaska is concerned.

The very reasons which prevailed in defeating past attempts to abolish the cost-of-living allowance prevail now.

The underlying principle of section 504 of the 1962 act was to establish Federal salary comparability with private industry. In other words, Government wanted and received ammunition to assist it when "significantly handicapped" to recruit and retain employees in competition with private industry.

That competition comes about largely in the fields of trained professionals, such as scientists and accountants. So far as I know, the only section 504 adjustments which the Civil Service Commission had made since passage of the 1962 act have been in salaries for accountants in California.

Be that as it may, section 504's target was to balance competition with private industry.

H.R. 7401 seeks to place Alaska in the section 504 mold, and Alaska's situation simply won't fit in that mold.

The number of companies in Alaska is not sufficient to provide competition in recruitment and retention of Federal employees. Nor is the number of companies in Alaska sufficient to provide a means of determining comparable salaries for comparable positions, a cornerstone of the 1962 Salary Reform Act.

The situation is little different now from what it was back in the midfifties. The Civil Service Commission then took an Alaska survey, and I was advised by Mr. Macy, who was at that time Executive Director of the Commission: "In general, the number of firms having jobs matching those on the survey list was insufficient to warrant showing average salary rates for individual localities. Accordingly, the summary combines data from private firms in all the localities surveyed."

The problem in Alaska, Mr. Chairman, is cost of living, and this must continue to be the cornerstone in considering the Government's recruitment and retention problem in Alaska.

And so it has always been.

Prior to 1943 various Government agencies having employees outside the continental United States had varying policies regarding salary differentials. In Alaska because of high costs, some Federal agencies paid differentials as far back as the mid-1920's, the differential largely taking the form of upgrading in positions. It was not, however, until 1943 that the practice became general. Due to complaints and dissatisfaction with this system, in 1943 the Civil Service Commission, after consultation with various agencies, issued a departmental circular setting forth a policy agreement addressed to heads of departments and independent agencies on the subject of salary differentials. As a result of that circular, different Government agencies entered into voluntary agreements to pay the differential, and up to the 1949 fiscal year a general allowance of 25 percent was paid to Federal employees coming under the Classification Act of 1923, as amended.

In passing the Independent Offices Appropriation Act of 1949, as amended, the Congress wrote into law for classified Federal employees outside the continental United States or in Alaska the requirement to pay additional compensation up to 25 percent above basic salaries based on living costs in the District of Columbia.

This action was not predicated upon the political status of the areas affected. It was, rather, based on the recognition that the geographic locations necessitated importation of most of the food and goods with resultant high costs. The situation, at least in Alaska, was aggravated beginning in the early 1940's and continuing throughout the next decade, by accelerated Federal construction—particularly military—which brought about expanded inflation. The effect lingers on.

Whereas in the past differentials were subject to income tax but could be counted toward retirement benefits, the new law resulted in the opinion from the Civil Service Commission that as "additional compensation" the allowance could not be counted toward retirement. Internal Revenue Service officials stated that the income tax would continue. Not until 1953, when the Secretary of Labor asked for a ruling, did an Internal Revenue Service opinion place the allowance in a tax-exempt status.

Following the issuance of a Presidential Executive order and regulations by the Civil Service Commission, the terms of the new law were placed into effect, and all Federal classified employees in Alaska have received the 25-percent cost-of-living allowance. Reductions over the years have been experienced in Hawaii, Puerto Rico, and the Virgin Islands. On January 16 of this year the Civil Service Commission, issuing its annual report, stated that the 25-percent allowance would be continued for Alaska, that the 15-percent figure would continue for Hawaii, but that the cost-of-living allowance for Federal employees would be reduced from 12½ percent in Puerto Rico to 5 percent, as would the allowance be reduced for the Virgin Islands.

The Commission stated that based on the October–November 1962 surveys, and using 100 for Washington, D.C., the index for Anchorage was 141.9 percent, for Fairbanks 145.4 percent, and for Juneau 131.4 percent.

It has been estimated that exemption of income tax on the 25-percent cost-of-living allowance in Alaska pushes the differential up to about 31 percent at the maximum. It can be readily seen, then, that the cost of living based on Washington, D.C., falls far short of meeting the high costs in Fairbanks and Anchorage and is about equal to meeting the costs in southeastern Alaska. Actually, however, the majority of Federal employees work in the Anchorage and Fairbanks areas due to the presence of military bases there.

That the Alaska situation may well be something special and unique is underscored by the following facts:

1. No matter what high cost city is used for cost comparison purposes, Alaska's costs soar about the highest.

2. H.R. 7401, while applying section 504 of the Federal Salary Act to Alaska, makes an exception for Alaska alone by permitting upward adjustments above the normal seventh rate in a grade. In making such a proposal, the Civil Service Commission recognizes that Alaska is "special."

3. Section 504 has as its base for fixing upward rates salaries paid in private industry. This is wholly unrealistic so far as Alaska is concerned. In the survey of private business in Alaska the Bureau of Labor Statistics covered every private company in Alaska with 50 or more employees. It found 97 such firms in Alaska with a total of 9,100 employees. Of this total only about 2,900 were white-collar employees. This could not furnish adequate information to establish comparability between private industry and Federal salaries. The categories upon which Bureau of Labor Statistics bases its surveys simply do not exist in Alaska in many fields. And many of the Federal jobs in Alaska do not find their counterparts among private industry in Alaska.

The Federal Government must recognize that the cost of living has to be the factor upon which to base differentials. This is the factor used by the Government in setting wage board rates in Alaska which find those rates ranging from 35 to 45 percent above the same rates in the other States. This is the factor used by Congress in passing the Independent Offices Appropriations Act of 1949, as amended. This is the factor which won so many times in Congress when attempts were made to abolish the cost-of-living allowance in whole or in part. This is the factor which must be considered now.

With cost of living the factor to be considered, then the terms of section 504 simply are not applicable. They are based on a conception foreign to the Alaska situation.

Because of the cost factor, proposals have been made in the past to allow differentials in Alaska to match the costs above Washington, D.C., in other words, pay 41 percent to Federal employees in Anchorage, 45 percent to those in Fairbanks, etc.

Such a bill was reported to the Senate in 1952. However, I am not asking for that. I am asking for the status quo.

However, the Senate report issued some 12 years ago contained a statement which is still pertinent: "The employment problem in Alaska," that report stated, "has been further complicated by the fact a considerable portion of the work accomplished on behalf of the Federal Government in that area (Alaska) is performed by contract rather than direct hire. As a result the Federal Government, in effect, pays a realistic wage to personnel employed by contractors, while at the same time is unable under existing law to grant a fair cost-of-living allowance to its own employees."

I should like to point out too, a very recent law which recognizes Alaska's high costs. Public Law 88-220, approved December 21, 1963, making appropriations for military construction, states, with relation to the construction of military family housing units:

"Sec. 108: During the current fiscal year, appropriations available for construction of family quarters for personnel shall not be obligated for such construction at a cost per family unit in excess of \$22,000 on housing units for generals or equivalent; \$19,800 on housing units for colonels or equivalent; \$17,600 on housing units for majors and lieutenant colonels, or equivalent; \$15,400 on housing units for second lieutenants, lieutenants, captains, and warrant officers, or equivalent; or \$13,200 on housing units for enlisted personnel, except that when such units are constructed outside the continental United States or in Alaska, the average cost per unit of all such units should not exceed \$32,000 and in no event shall the individual cost exceed \$40,000."

Mr. Chairman, many articulate, eloquent, and persuasive letters have come to the committee and the Alaska congressional delegation from Federal employees in Alaska opposing H.R. 7401. Many of those letters point out that a goodly proportion of the Federal employee's salary goes for housing being purchased at fixed rates. During the period between January and May of last year 21.8 percent of the single-family homes with mortgages insured by the Federal Housing Administration were purchased by Federal families. Many of these Federal workers were barely able to get by FHA's analysis of their ability to continue making high mortgage payments because their effective income was near the margin of adequacy. Any drop in take-home pay will certainly jeopardize ability to meet those payments. One man wrote from Anchorage stating that comparable housing plus heating costs alone used up his 25-percent allowance without regard to increased food, medical and other costs.

Many family budgets of Federal employees are geared to what is felt was a promise made by the Federal Government. Because of the desire of the Federal Government to reduce as much as possible the difficulties of recruitment many of our citizens go to Alaska to work under 2-year contracts. When they were hired they were told they would be paid a 25-percent cost-of-living allowance, tax free, to assist in meeting high costs. H.R. 7401 poses a possible threat. Civil Service Commission officials are unable at this time to state just exactly what H.R. 7401 will mean to the Alaska employee in take-home pay but are as certain as they can be at this time that there will probably be a reduction in that pay.

We live in a high-cost city here in Washington, and I can see that to a person who has not experienced the high cost of living in Alaska a 25-percent cost-of-living allowance, exempt from taxation, sounds generous. I imagine it looked that way, too, to Edward H. Stone and his wife, Diane, when they were sent to Juneau from Denver. From a letter dated February 17 to the committee, here is how it looks now to the Stones:

"Three years ago, when my family and I transferred to Alaska, the Government promised us a 25-percent cost-of-living increase to cover the higher expenses of living in the 49th State. We found on arrival, that people do not live here as they do 'down below,' so we found it necessary to make adjustments. We adapted our way of life to the local conditions and have been relatively happy ever since. Now we find that the Government is thinking about pulling the rug from under us via bill H.R. 7401. As I understand it, this bill would remove the 25-percent cost-of-living allowance and does not state, specifically, what or when compensation would be made. I think every Government employee in Alaska will be 155 percent opposed to this bill until it is made absolutely clear just what effect it will have on each individual income.

"I sincerely hope the committee will look into the matter in much greater detail than have some of the cost-of-living surveys conducted by some Government agencies. I will list some examples with costs that pertain to my family:

"Monthly family expenditures

	Denver, Colo. (previous home)	Juneau, Alaska
"Housing, 2 bedrooms.....	\$105.00	\$155.00
Milk.....	16.64	20.02
Meat purchased at store.....	16.94	19.26
Orange juice.....	2.00	2.80
Automobile, gas.....	13.24	18.88

"When printed in a formal report these figures present a picture of high prices, but not too much higher than some other places in the States. They may suggest that our 25-percent cost of living is too high. Let's take a closer look:

"The two-bedroom house in Denver contained 1,792 square feet with a full basement, paved street, large landscape yard, garbage disposal, gas heat, etc. Such a house in Juneau (if you could find one) would rent for \$225 to \$280 per month. Needless to say, we are not living in such a house. Our two-bedroom apartment (one-half a duplex) contains 864 square feet plus all our belongings that were in the twice as large Denver home. It has none of the conveniences listed above.

"In Denver our family drank grade A homogenized milk. Up here such milk is almost twice as expensive as in Denver, so we drink powdered milk, or occasionally, mix powdered and whole milk, half and half.

"Monthly costs of supermarket meat are not out of line, because we buy very little meat there. Our meat bill is supplemented to a great extent with wild fish and game. This is not cheap either. We spend about \$200 a year on our small boat. It costs \$40 to fly to Yakutat to hunt moose and 8 cents per pound to fly the meat back to Juneau (if you find a moose). It costs \$7.50 for a boat ride to Admiralty Island each time we go deer hunting.

"The high cost of canned or frozen orange juice has persuaded us to change to Tank, a synthetic. We no longer drink the real thing.

"In Denver we drove a Plymouth stationwagon. When we arrived in Juneau and observed the price of gas (43 to 46 cents per gallon) and repairs (\$8 an hour and up for labor plus shipping charges on parts, etc.) we acquired and now drive a second-hand VW.

"With these points I am attempting to show that much of the past information gathered on cost of living in Alaska is not really comparing apples to apples but is comparing apples to oranges and can be very misleading.

"I am told that one purpose of H.R. 7401 is to bring Federal salaries into line with commercial salaries in the State. I am a landscape architect and have a young man of the same profession working under me. To my knowledge there is only one other landscape architect in the State, a woman who practices part time in Anchorage. Is my salary to be brought into line with hers?

"If one of our children should become seriously ill, we would be faced with the expense of flying myself or my wife and the child to Seattle for treatment. The adult's living expenses, while there, would be an additional cost. To my knowledge, no medical insurance will cover expenses of this nature. Any arbitrary decrease in my income would leave me even more vulnerable to this possibility.

"Three years ago the Government offered me a position in Alaska. Moving costs and a 25-percent cost of living were part of the bargain. I, in turn, agreed to remain in Alaska 2 years or repay moving costs to the Government. I have lived up to my part of the agreement; will the Government continue to meet its obligations? If this bill has to pass, I believe it should apply only to those who transfer to Alaska in the future (if anyone is interested). They will have the opportunity to examine the situation and will know what they are getting into. Those of us who are already here are completely at the mercy of this legislation. We offered to 'play the game' under one set of ground rules; now we find that someone wants to arbitrarily change the rules, even though, to us, the game is still in progress.

"Sincerely,

"EDWARD H. STONE."

"I would like to add a postscript to my husband's letter. While digging out the information he wanted for his letter I came across some other examples of actual expenditures made in Colorado and Alaska that point up the difference in prices for comparable items:

	Colorado	Alaska
"To have a skirt cleaned and pressed.....	\$0. 75	\$1. 75
½ gallon homogenized milk, delivered.....	. 47	. 71
Rental for a year on frozen food locker.....	16. 75	22. 66
Newspaper, per month:		
Denver Post.....	1. 75	-----
6-page Daily Alaska Empire.....	-----	2. 75
Large mixing bowl for Sunbeam Mixmaster (to replace ones broken).....	1. 75	2. 65
Haircuts for Ed.....	1. 75	2. 75
Lettuce, per pound.....	. 13	. 49
Lowest price ever seen in Juneau.....	-----	. 39
3 hamburgers with french fries and 1 milkshake.....	1. 06	3. 30
Gasoline, per gallon (no gas wars up here either).....	. 30	. 42½
6 quarts oil for car.....	1. 59	4. 20
Grease job for car.....	1. 50	3. 00
Windshield wiper blades (2).....	3. 10	7. 80
Telephone:		
2-party.....	-----	-----
4-party.....	4. 84	4. 87
Pepsi, 6 pack.....	. 65	1. 15
Bananas, per pound.....	. 11	. 49
On sale in season.....	-----	. 39

"The latest U.S. Bureau of Labor Statistics survey indicates that the cost of living in Juneau is 31.4 percent higher than Washington, D.C. I believe this is a conservative estimate. Please take these figures into consideration during your hearing.

"Very truly yours,

"DIANE STONE
"Mrs. Edward H. Stone."

As pointed out earlier in this statement the January report of the Civil Service Commission placed costs at Anchorage 41.9 percent above the District of Columbia, Fairbanks 45.4 percent above, and Juneau 31.4 percent. This is a big drop from the report of 1957 which placed Anchorage costs 56.7 percent above the District of Columbia, Fairbanks 66.8 percent, and Juneau 41.7 percent. I should like to think, Mr. Chairman, that the improved transportation picture and other considerations have worked favorably to bring these costs down. And if these and possibly others operate in the period ahead and those costs drop appreciably below the 25-percent ceiling placed in the law that the Civil Service Commission should and will reduce the Alaska cost-of-living allowance. It has done so in Hawaii, Puerto Rico, and the Virgin Islands.

The consumer index studies of the Bureau of Labor Statistics have long been recognized as dependable guides. They compare actual costs of services and goods. The Bureau of Labor Statistics works in an area where there is an overabundance of statistics available. However, now the Civil Service Commission wants the Bureau of Labor Statistics, so far as Alaska is concerned at least, to work in an area of uncertainty, where the statistics to compare salary structures in private industry just don't exist. They are asking the Federal employees to trade fact for guesswork.

The Bureau of Labor Statistics, since it extended its consumer index studies to Alaska, has been basing those studies on Seattle prices. I should hope, Mr.

Chairman, that the members of the committee would study the results of those surveys. I do not want to burden the record unduly with them, but I do want to point out that they demonstrate better than any words spoken here what the situation in Alaska really is. Seattle has been used in the index for comparison purposes because, according to the Bureau of Labor Statistics "that city has been the traditional base for recruiting workers for Alaska employment and, therefore, has been the basis for living cost comparisons as used in wage negotiations."

I don't know now how the cities throughout the country rate as to high costs. I have been advised by BLS officials that the last comparison was made in 1959. At that time, using Washington as 100, Seattle and Chicago rates were the highest at 107.

The comparison rates made with Seattle disclose that Alaska's costs rise high above those for Seattle. In the assumption that the Bureau of Labor Statistics studies may be made part of the record I will not submit them here. However, I would like to make available for the record the December 1963 study of the Alaska Agricultural Experiment Station and Extension Service comparing on 40 food items the costs in 10 Alaska cities with those in Seattle. This tells a graphic story.

I urge that if the subcommittee anticipates taking any further action on H.R. 7401 that it defer doing so until hearings are held in Alaska. The Alaska Legislature now in session has approved House Resolution No. 7 urging such hearings. Copies of that resolution have been sent to the committee. The action contemplated by H.R. 7401 is so important to the Federal classified employees, so vital to the personnel policy of the Government, so important a part of Alaska's economy, that I hope the request of the legislature may be honored. It would be the wise and fair thing to do.

TERMINATING COST-OF-LIVING ALLOWANCES

Quarterly report on Alaska's food prices, December 1963
 [December average retail prices of 40 items in 10 Alaska cities, compared with Seattle and United States]

Food Item	United States		Seattle	Ketchikan	Petersburg	Sitka	Juneau	Kodiak	Seward	Anchorage	Palmer	Fairbanks	Nome
	Unit	Average											
Flour.....	5 pounds.....	\$0.57	\$0.65	\$0.80	\$0.79	\$0.83	\$0.78	\$0.88	\$0.84	\$0.86	\$0.80	\$0.94	\$1.00
Rolltd oats.....	2 pounds 10 ounces.....	.56	.58	.59	.65	.68	.68	.68	.69	.66	.68	.69	.83
Cornflakes.....	12 ounces.....	.31	.31	.37	.36	.39	.36	.37	.37	.36	.35	.40	.44
Bread.....	1 1/2 pounds.....	.32	.37	.45	.45	.47	.47	.53	.47	.47	.45	.50	.55
Round steak.....	Pounds.....	1.06	1.19	1.16	1.11	1.23	1.01	1.30	1.39	1.32	1.26	1.59	1.34
Chuck roast.....	do.....	.60	.68	.74	.70	.73	.64	.69	.68	.67	.66	.78	.94
Ground beef.....	do.....	.51	.46	.67	.63	.64	.64	.69	.69	.67	.66	.69	.69
Bacon, sliced.....	do.....	.67	.73	.80	.80	.90	.81	.82	.81	.86	.84	.98	.89
Lunch meat.....	do.....	.52	.50	.62	.58	.64	.60	.56	.57	.63	.61	.70	.70
Pork chops.....	Pound.....	.88	.91	.92	.90	.99	.95	1.00	.88	1.24	1.06	1.26	1.04
Frying chicken.....	do.....	.48	.48	.55	.59	.67	.69	.61	.61	.79	.56	.70	.84
Milk, fresh.....	1/2 gallon.....	.25	.25	.37	.38	.37	.34	.45	.45	.44	.44	.50	.70
Ice cream.....	do.....	.85	1.01	1.34	1.45	1.32	1.24	1.44	1.22	1.18	1.21	1.84	1.98
Butter.....	do.....	.76	.73	.76	.82	.79	.77	.89	.89	.88	.85	.89	.88
Milk, evaporated.....	do.....	.16	.16	.20	.20	.20	.18	.21	.19	.22	.20	.22	.23
Eggs, large A.....	Dozen.....	.57	.62	.62	.68	.63	.62	.68	.74	.69	.69	.86	.97
Strawberries.....	10 ounces.....	.28	.27	.34	.36	.34	.36	.36	.32	.35	.31	.39	.59
Orange juice.....	6 ounces.....	.33	.36	.40	.46	.46	.38	.42	.43	.40	.46	.40	.50
Apples.....	Pounds.....	.14	.15	.23	.26	.26	.26	.33	.27	.27	.27	.34	.46
Bananas.....	do.....	.16	.18	.29	.33	.34	.33	.33	.34	.37	.36	.36	.51
Oranges.....	do.....	.22	.26	.26	.27	.27	.30	.28	.30	.34	.31	.37	.48
Potatoes.....	do.....	.06	.06	.09	.08	.09	.08	.10	.10	.10	.09	.12	.14
Onions.....	do.....	.11	.10	.14	.14	.15	.13	.14	.18	.19	.18	.24	.26
Carrots.....	do.....	.15	.16	.20	.23	.25	.25	.25	.22	.22	.24	.24	.29
Lettuce.....	do.....	.28	.33	.31	.35	.40	.46	.47	.40	.39	.46	.56	.66
Cabbage.....	do.....	.08	.10	.16	.18	.24	.24	.23	.23	.23	.27	.24	.33
Tomatoes.....	do.....	.31	.32	.40	.57	.47	.56	.58	.50	.50	.56	.69	.81
Orange juice.....	46-ounce can.....	.58	.65	.81	.83	.86	.77	.74	.84	.84	.86	.70	.86
Peaches.....	No. 2 1/2 can.....	.33	.30	.43	.39	.39	.43	.40	.44	.46	.44	.50	.63
Fruit cocktail.....	do.....	.26	.26	.33	.31	.32	.32	.30	.32	.36	.31	.38	.46
Tomato soup.....	8 3/4 can.....	.23	.23	.29	.26	.30	.27	.25	.29	.35	.28	.36	.46
Pork and beans.....	do.....	.13	.16	.18	.18	.16	.16	.17	.17	.20	.22	.24	.26
Jello.....	16 ounces.....	.15	.16	.22	.21	.21	.21	.25	.21	.25	.23	.24	.26
Baby food.....	3 to 4 ounces.....	.12	.12	.13	.14	.13	.11	.13	.15	.12	.13	.15	.18
Coffee.....	4 1/2 to 5 ounces.....	.11	.12	.13	.15	.15	.10	.16	.15	.13	.14	.15	.18
Shorthing.....	Pounds.....	.81	.85	.89	.75	.78	.72	.84	.80	.78	.79	.99	.85
Oleo.....	3 pounds.....	.81	.85	.89	.90	.95	.89	.99	.90	.98	.92	.85	.97
Sauad dressing.....	Pounds.....	.24	.29	.33	.29	.32	.29	.36	.32	.32	.30	.46	.46
Sugar.....	Quarts.....	.77	.88	.77	.76	.81	.77	.83	.77	.81	.78	.94	.92
Sugar.....	10 pounds.....	1.41	1.38	1.58	1.62	1.64	1.58	1.74	1.63	1.72	1.52	1.91	2.45
Total.....		16.89	17.89	20.73	21.28	21.72	21.12	22.50	22.10	22.95	21.52	25.21	28.94
Percent of Seattle.....		94	100	116	119	121	118	126	124	128	121	141	162
Total, September 1963.....		\$16.96	\$17.84	\$20.64	\$21.22	\$21.78	\$21.21	\$22.64	\$22.06	\$22.48	\$22.06	\$25.00	\$28.97
Total, December 1962.....		\$16.46	\$17.32	\$19.90	\$20.67	\$20.86	\$20.73	\$22.76	\$21.52	\$21.91	\$21.52	\$24.55	\$28.44

Source: Alaska Experiment Station and Extension Service.

STATEMENT OF SENATOR DANIEL K. INOUE OF HAWAII

Mr. Chairman, I respectfully request your permission to present the following statement to this subcommittee of the House Post Office and Civil Service Committee on H.R. 7401. Ordinarily, I would have preferred to withhold any statement I may have on this matter until such time as the issue was raised in the corresponding Senate committee. However, my feelings on the matter are so strong and the beliefs of my constituency so convincing, that I felt obliged to speak out now.

I would like to preface my remarks today by pointing out that this bill is not one which developed from the current administration's concern with economy in government, however laudable that aim might be. One may have gathered that conclusion by certain of the remarks made in committee yesterday morning. If my recollection proves correct, the embryonic formation of H.R. 7401 may be seen in two documents released March 22 and 24, 1963, in a letter and press release respectively from the office of the Chairman, U.S. Civil Service Commission. In other words, almost 1 year ago, H.R. 7401 was already conceived. Mr. Chairman, I do not wish to prolong discussion of this gestation period except to point out that any attempt to associate this bill with the current economy drive is misleading, not only intrinsically, but chronologically.

Again by way of prefatory remarks, I would like to point out that H.R. 7401 fails to spell out specifically a formula which I had been led to believe would govern the 6-year elimination period of cost-of-living allowances. After receipt of the aforementioned letter, Mr. Stahl of the U.S. Civil Service Commission held a briefing in which it was stated that there would be a phasing out procedure where the take-home pay of those receiving COLA would not be too severely affected. At that time, it was mentioned that there would be an annual 2½-percent reduction in the 15 percent COLA for Hawaii Federal employees over a period of 6 years, totaling 15 percent. In this way, the take-home pay of the Federal employee would not be drastically cut, especially in view of the stated belief that annual increments and other expected Federal increases in salaries during that 6-year period would offset the COLA reduction losses.

These assurances were later endorsed by Chairman Macy in a letter which I received from him on July 5, 1963. Although Chairman Macy did not refer specifically to the percentage figures for annual reduction, he did state: "The administration's bill would afford a period of up to 6 years for the gradual reduction of the allowance for present employees. We believe that this allows ample time for a gradual phasing out of the allowance in a manner which should have a minimum of adverse impact on the employees. Let me assure you that we share your concern about effecting this change in a way which will not impose any real hardship on employees now receiving the allowance."

And now we come to the black and white print of H.R. 7401. We find under section 2, the following: "The payment of additional compensation received as a cost-of-living allowance by an employee immediately prior to the effective date of this act under section 207 of the Independent Offices Appropriation Act, 1949, as amended, shall be terminated within a period of not to exceed 6 years following the effective date of this section and *shall be reduced within that period at such times, at such locations, and by such amounts or methods as may be prescribed by regulations issued by the President or by such agency or agencies he may designate.*" [Italic mine.]

The danger to which I, as well as other Members of Congress then present, pointed to is still inherent in this bill. The danger is that the annual percentage reduction figure is not specifically spelled out. The only thing spelled out is the terminal date of the reduction 6 years hence. Thus, it is quite possible that the annual percentage reduction figure could very well be 14 percent the first year, no reduction during the next 4 years, and then 1-percent reduction in the sixth year. Even a 15-percent reduction in the first year is not out of the realm of possibility. To a Federal employee in Hawaii who has had to mortgage his home at roughly two to three times the cost of a comparable dwelling on the mainland, such a possibility is one not taken too lightly.

It is true that Chairman Macy said on February 26, 1964, in this committee: "The bill provides authority under which the allowances can be phased out gradually for employees on the rolls. Under this authority we plan to recommend to the President (or issue ourselves, if the authority is delegated to the Commission) regulations which would cushion the loss of the allowance by spreading the reduction out over an extended period and would at the same time not interfere with promotions and grade increases."

However, Mr. Chairman, I would like to argue against the worthy Mr. Macy that delegation of such authority without specific stipulations and/or limitations does not especially lead to peace of mind among the 10,000 Federal employees in Hawaii. Of course, I need not add that I would far prefer specific wording in legislation, at least on matters of this sort, than trust to administrative discretion later on.

Mr. Macy, however, proffers a palliative. He says on the same date: "Reductions by amounts equal to one-sixth of the dollar amount immediately before the effective date were selected because they are small enough so that they will not cause any real hardship to employees—they are small enough so that in some years at least they will be offset by pay increases—they are small enough so that the loss will be completely offset in any year when an employee receives a within-grade increase." The palliative, however, must be analyzed. And when analyzed, we find that the phrase used, "were selected," is misleading because it suggests that either this is understood in H.R. 7401, or is, in some way, the percentage formula which has already been agreed upon. This may be so in Mr. Stahl's meeting with us, or in Mr. Macy's testimony yesterday, but it is not so in H.R. 7401. Moreover, such a view is predicated on an assumption that in-grade increases will likely continue in the same proportions as they have been in the past. Thus, together with annual increments and within-grade increases the Federal employee somehow will eat his cake and have it too. Or, somehow we will economize by spending more.

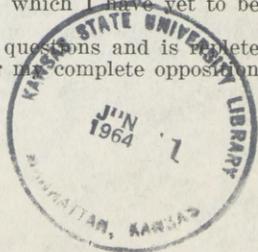
Moreover, there is a basic fallacy to the foregoing argument, a fallacy which must be clearly apparent by now. The fallacy to which I refer is the assumption that somehow the cost of living for a given Federal employee in Hawaii will remain relatively static over the next 6 years, or during the "red circled" period, while that of his Pasadena brethren will increase. Granted, the Federal employee in Hawaii may suffer no decrease in overall take-home pay, assuming that periodic increments and within-grade increases offset the percentage diminution in his cost-of-living allowance. However, this is not to say that his purchasing power will not suffer proportionately for it most certainly will. The purchasing power of his Pasadena brethren, on the other hand, will increase.

In fact, there may actually be a loss in take-home pay for the Hawaii Federal employee because he will lose the tax-exempt privileges of COLA. Judging again from the testimony heard on February 26, the cost-of-living index in Hawaii, we can infer, is not far different from Washington, D.C. (but not according to allowance experts from the Department of State on loan to the Civil Service Commission). Mr. Macy has so concluded and I do not wish to challenge him or the State Department allowance experts, except to point out that neither the State administration or business leaders in Hawaii have agreed with the general summation of the hearing. I would like to suggest a detailed comparison of such figures compiled by the State Department experts with those compiled by the State economic planning and development department, as well as those of private industries in Hawaii. I am not at all certain that this has been done by the Civil Service Commission.

Insofar as the new so-called comparability approach in Federal salary schedules is concerned, I believe that theory is based on the validity of the wage labor survey, as well as on the theory that it is relatively easy to recruit Federal workers in Hawaii for a particular job skill at even the planned reduced wages because private industry does not offer any meaningful competition. The latter, I believe, is the gist of the wage labor survey report. However, I would like to raise certain questions. As far as I know there is not a private shipyard in Honolulu with either the range or depth of skills required amongst white-collar personnel stationed at Pearl Harbor. There are, to my knowledge, only two very small ship repair yards. If this be so, what was the basis of comparison? Did the wage labor survey go into the question of just how many skilled navy yard workers in Hawaii will leave the islands with the institution of H.R. 7401 and go, not into nonexistent private shipyards in Hawaii, but back to the mainland, thereby seriously handicapping national defense? Has any study been conducted on the cost to the Federal Government of recruiting and training crucial white-collar workers to replace such employees?

These are questions which come to my mind and to which I have yet to be given adequate answers.

Mr. Chairman, this bill leaves unanswered so many questions and is riddled with so many ambiguities that I am forced to register my complete opposition to it.



I request permission to have the following letter from one of my constituents reprinted for the record. It is representative of the many hundreds I have received on this subject.

FEBRUARY 4, 1964.

Senator DANIEL K. INOUE,
*Old Senate Office Building,
Washington, D.C.*

DEAR SENATOR INOUE: I am one of the more than 10,000 Federal employees in the islands. I am employed by the Federal Aviation Agency at the air traffic control tower at Honolulu International Airport.

It is of prime concern to me and my fellow workers that we do not lose the 15 percent cost-of-living allowance.

The cost of living versus wages in Hawaii has, we believe, been incorrectly presented.

Published figures show that the private industry wages are lower in Hawaii than on the mainland. However, there has been little evidence presented that the cost of living is lower in Hawaii than on the mainland. The fact that private industry wages are lower does not mean that it costs less to live in Hawaii.

This cost versus wages has been a problem for some time in the islands. The shipping costs for most all goods is higher than most mainland areas. Most wages were, until recently, dictated by a relatively few controlling interests. There was very little wage competition. Most industries paid the same, although low, and therefore had little problem retaining trained employees.

Unlike Alaska, where private industry wages have been consistently high, Hawaii has had a wage structure similar to other tropical areas where the economy is controlled by a limited number of companies.

In Hawaii these companies also controlled the shipping as well as the wholesaling of goods to the consumer outlets. This caused a wage/cost-of-living imbalance.

This is one of the paramount factors indicating the continued need for a cost-of-living allowance in Hawaii.

In my work there is no competitive job in private industry. The present grade structure of the Air Traffic controller is for the responsibility of the job, not for the cost of living.

A problem for Government to consider, is the recruiting of mainland air traffic controllers for duty in Hawaii.

These men are only able to make ends meet, after transfer from the mainland, with the cost-of-living allowance. They are not used to the high cost of housing and other highly priced items such as gasoline in Hawaii.

To cut off the cost-of-living allowance would seriously impair the recruiting of these highly trained personnel.

The average grade of the controller in Hawaii is GS-10. A GS-10 in rate 3 has a base salary of \$8,200. On the mainland if he is buying a house, his payments are approximately \$95 to \$115 monthly. This would be up to \$1,380 a year.

In Hawaii, he would pay \$125 to \$170 monthly or \$2,040 a year. This is \$760 more than on the mainland.

The 15-percent cost-of-living allowance in Hawaii for a GS-10 in rate 3 is \$1,230 a year. The additional cost of housing, plus the higher cost of consumer goods, is somewhat equalized by the cost-of-living allowance.

Therefore, to do away with the cost-of-living allowance in Hawaii would be an injustice to all concerned.

The Civil Service Commission's continued argument that "Hawaii is not one of the areas where private industry wage rates are above the national average * * * and so cannot be given the special salary increases necessary to help the Government recruit and retain competent workers," appears to be pointless.

Especially since the Federal Aviation Agency must compete with the cost of living on the mainland, as against that of Hawaii, to recruit controllers for positions in Hawaii.

One possible solution to the problem of the cost of living, would be to institute a wage level adjustment such as starting a GS-10 in rate 5 (\$8,710) instead of rate 1 (\$7,690). This difference of \$1,020 would offset the cost of living for the most part, but it appears other inequities might result due to a higher rate within grade.

The most practical and intelligent approach would be to retain the cost-of-living allowance, but call it a "post differential allowance," if that would ease the conscience of the Commission regarding "the point of view of sound salary management."

Since a post differential allowance is usually taxable, it should in this case be at least 20 percent of base salary to allow for the taxes.

Whatever the approach, we here in Hawaii cannot afford to lose the cost-of-living allowance. It would cause undue hardship in most cases and this, above all, must be avoided.

Any assistance you can provide will be greatly appreciated.

Cordially,

STUART A. MERIWETHER.

STATEMENT BY HON. JACOB H. GILBERT, OF NEW YORK

Mr. Chairman and members of the committee, you have before you for consideration H.R. 7401, to terminate cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas, and for other purposes.

According to information given me, this bill would impose grave hardships upon our Federal employees, now dependent upon present cost-of-living allowances. Officers of the National Postal Union and Mr. Christobal Llitas, president of the Puerto Rico and Virgin Island Postal Union, have presented to your committee ample information, facts, and figures, to substantiate their position that this bill is unfair and should not be approved; they claim that the "use factors" which have in the past been used in computing the cost-of-living indexes in nonforeign areas should continue to be employed, and that the determination not to consider such factors was erroneous.

I am very familiar with present living conditions in Puerto Rico. We must realize that wherever tourist business skyrockets, as it has in Puerto Rico, living costs soar. Our postal employees in Puerto Rico are expected to present a neat appearance, to maintain decent homes. Living costs cannot be met on their low salaries. They must have the cost-of-living allowance in order to make ends meet and to fulfill their obligations to their families and the community, and as faithful and conscientious employees, they are entitled to our best consideration.

I urge your committee to give them the assistance they request, and I trust that legislation harmful to them will not be approved.

STATEMENT OF HON. LEONARD FARBSTEIN, OF NEW YORK

Mr. Chairman, this committee is now holding hearings on H.R. 7401, a bill to terminate the present cost-of-living allowances paid to statutory-salaried Federal employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands.

In my opinion the pending measure is harmful legislation and I am confident that this committee, once these hearings are concluded, will not wish to see this bill enacted into law.

The avowed purpose of H.R. 7401 is to place the compensation of Federal employees in those four areas on the same basis as the rest of the civil service in the continental United States. This is a commendable purpose, but if any adjustment or rectification is needed, this bill is not the answer.

The statement of purpose and justification for this bill is, at first glance, a persuasive document. But on closer scrutiny, one realizes that the ends this bill hopes to attain are based on some shaky and questionable assumptions and circuitous language and that are far from reassuring.

For example, the cost-of-living allowances are to be phased out over a period of 6 years to minimize hardship. The bill proposes to offset these losses with regular pay increases.

In the words of the justification: " * * * assuming that increased salary schedules are enacted annually on the basis of Bureau of Labor Statistics findings with regard to private enterprise salaries, there should be few if any actual decreases in total compensation."

In his letter of May 14, 1963, supporting the ideas incorporated in H.R. 7401, the Chairman of the Civil Service Commission, John W. Macy, Jr., makes the same point: " * * * with very few exceptions," he wrote, "no employee will re-

ceive less gross compensation than he is now getting, provided that statutory adjustments are made annually to reflect Bureau of Labor Statistics findings * * *."

Appearing in each of these statements are two points that strike us immediately. The first is that the comparability principle, written into the 1962 Pay Act and supported by most of us, is to be applied to balance the loss of the cost-of-living pay.

The trouble is that Congress has so far flunked its very first test in applying this principle after passing the 1962 pay law. BLS figures clearly called for a pay raise last year, but that raise has not been enacted, and there is no assurance when, or if, it will be.

The second point is that both statements express the belief that there will not be many cases of reduced compensation if H.R. 7401 is passed. Put another way, it appears that at least some people will be hurt.

This, I think, would be unjust and economically unsound.

Let me quickly touch on one more point. The present cost-of-living allowance is exempt from the Federal income tax. Even if this allowance were to be made up in regular salary, the loss in take-home pay would be considerable. As the justification for the bill admits: "* * * because of the varying impact on different employees, it is not possible to assure that there will be no loss to employees through this change."

This, too, I think is both unfair and unwise economic policy.

The existing cost-of-living plan has proved satisfactory and continues to work well. The pending bill would replace it with a system that is at best uncertain and could very well be grossly unjust.

H.R. 7401 should not be enacted into law.

[In the Senate by Senator Bronson]

SENATE RESOLUTION NO. 12 IN THE LEGISLATURE OF THE STATE OF ALASKA, THIRD LEGISLATURE, SECOND SESSION

Relating to the Federal cost-of-living allowance in Alaska

Be It Resolved by the Senate:

Whereas legislation is now before Congress which would eliminate the cost-of-living allowance for classified Federal employees in Alaska; and

Whereas H.R. 7401 would replace the allowance with salary adjustments which supposedly would make the salaries comparable to those paid by industry in the State; and

Whereas the absence of an industrial economy in Alaska and uncertainty as to the effect of the proposal on take-home pay strongly suggests the need for further study of the legislation; be it

Resolved, That the subcommittee of the House Committee on Post Office and Civil Service is respectfully requested to give H.R. 7401 exhaustive study, with hearings in Alaska, to determine its actual impact on the classified Federal employees in Alaska; and be it further

Resolved, That copies of this resolution be sent to the Honorable Tom Murray, chairman, House Committee on Post Office and Civil Service; the Honorable Morris K. Udall, chairman of the Subcommittee on the Cost-of-Living Allowance; the Honorable Olin D. Johnston, chairman, Senate Post Office and Civil Service Committee; and the members of the Alaska delegation in Congress.

Passed by the Senate February 20, 1964.

FRANK PERATROVICH,
President of the Senate.

Attest.

EVELYN K. STEVENSON,
Secretary of the Senate.

Certified true, full, and correct.

[SEAL] EVELYN K. STEVENSON,
Secretary of the Senate.

Mr. UDALL. The Chair will announce this will conclude the witnesses to be presented this morning and the Chair proposes to have a very brief 5- or 10-minute executive session to discuss where we go from here with this legislation. So I would ask all the spectators and those in the room, except staff, to depart, and we will undertake to consider the matter further.

(Whereupon, at 10 a.m., the committee went into executive session.)

Mr. Board. The Chair will announce this will conclude the will
be presented this morning and the Chair proposes to
have a very brief or 15 minute session to discuss what we
to have here with this legislation. So I will ask all the operators
and those in the room except staff to depart and we will undertake
to consider the matter further.
(The report of the committee went into executive session.)

TERMINATING COST-OF-LIVING ALLOWANCES

TUESDAY, APRIL 28, 1964

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE OF THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., room 215, Cannon House Office Building, Hon. Morris K. Udall, of Arizona, presiding.

Mr. UDALL. The subcommittee will come to order.

It is the intention of the chairman to conclude the hearings this morning on H.R. 7401, a bill to terminate cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas. At the conclusion of our last meeting, the subcommittee voted to extend an invitation to the Honorable John W. Macy, Jr., Chairman of the Civil Service Commission, to return and offer such additional testimony as he may wish and to be available for any questions that may have occurred to the members since Mr. Macy's original appearance before this subcommittee last February.

Mr. Macy, we are happy to have you back with us again. You may come forward and give us any additional information and testimony you choose. I assume that you have had an opportunity, or your staff has had, to read the testimony of the various witnesses we have had here in the intervening time since you testified?

STATEMENT OF HON. JOHN W. MACY, JR., CHAIRMAN, U.S. CIVIL SERVICE COMMISSION; ACCOMPANIED BY HAROLD H. LEICH, CHIEF, PROGRAM PLANNING DIVISION; ROBERT S. HARE, CHIEF, PAY SYSTEMS SECTION; AND FRANK MELLOR, PROGRAM PLANNING SPECIALIST

Mr. MACY. I have read the record very carefully and with great interest.

Mr. UDALL. I gathered that most of the witnesses were not in favor of this legislation—that was the general impression.

Mr. MACY. After extensive reading, that was also my conclusion. I found that this was not a piece of legislation that was greeted with any great enthusiasm by those who were likely to be the beneficiaries of it.

Mr. UDALL. I waited in vain for some other witness who would say a kind word for this bill, but you appear to be the only one that we can find so far.

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Mr. MACY. In view of the singular nature of my earlier testimony, I appreciate an opportunity to come back and balance the record, at least partially.

Mr. UDALL. Defend yourself, as you see fit. Go right ahead.

Mr. MACY. Mr. Chairman, thank you very much for inviting me to come back to appear again in connection with H.R. 7401.

We believe that this bill, which would have the effect of replacing the living-cost allowance with higher base rates in Alaska and of gradually phasing out the allowance in Hawaii, Puerto Rico, and the Virgin Islands, is necessary to put Federal salaries in these areas on a sound basis consistent with Federal pay principles. We recognize that the proposed legislation is not welcomed by the employees in the areas concerned. That the present system is advantageous to them, there can be little room for doubt. The question, though, is whether the Government is justified in continuing to provide a special advantage for these employees.

Much has been said in these hearings about the living costs in Alaska and the offshore areas. This is not the point at issue. We agree that living costs are very high in Alaska. We agree that they are higher in Hawaii than in Washington, D.C. According to the measurement used, they are a little higher in San Juan and St. Thomas than in Washington. The point which requires emphasis is that living costs are not the basis upon which Federal salaries in these nonforeign areas should be set.

Salaries are not adjusted on the mainland to reflect the differences in living costs between different areas. They should not be adjusted on that basis in these offshore areas.

It is true that there is some difference of degree involved here, but the principle is the same. Actually, living costs in San Juan are probably no more in excess of those in Washington than are living costs in Seattle and some other higher cost mainland cities. The difference in living costs between Honolulu and Washington, D.C., is probably not as great as the difference in living costs between the lowest cost and the highest cost mainland cities. It is true that living costs in Alaska exceed those in Washington, D.C., by an amount which bears little relationship to differences among the other States, but in the case of Alaska these costs are reflected in the local salary rates, salary rates which would form the basis for higher Federal rates.

Question has been raised about the impact of eliminating the allowance on the financial arrangements of current employees. We agree that if the allowance were cut out entirely all at once it would work a hardship on the employees who are now receiving it. Under H.R. 7401, however, there is no need or intention to do this.

Under the phaseout arrangement which I described earlier in my testimony on February 26, the annual reduction would be equal to only 2½ percent of the employee's base pay at the time of enactment in Hawaii and the Virgin Islands, and just slightly over 2 percent in Puerto Rico. If the bill were passed this month the allowance would not be completely eliminated until April 1969. The pay increase bills which are currently under discussion could provide an average increase of 4.2 percent for Classification Act employees. The planned reduction would be so gradual that it would not give employees any significant problems in meeting their obligations.

Mr. Chairman, I can probably be most helpful by trying to answer your questions rather than speaking again at any length about this bill but I should like to point out one of the effects of the present policy on pay relationships in Puerto Rico.

Pay rates for trades and crafts employees in Puerto Rico are fixed, as they are on the mainland, in accordance with local prevailing wages. These employees are not eligible for the cost-of-living allowance because their rates of pay are not fixed by statute.

Let's compare the pay of a journeyman electrician working for the Army or Air Force with that of a typist hired directly upon graduation from high school. In each case the first rate of the rate range is used.

In Washington, D.C., the typist's pay is about 60 percent of the electrician's. The actual rates on an annual basis are: electrician, \$6,011, and typist GS-2, \$3,620.

In Anniston, Ala., the typist's pay is about 69 percent of the electrician's. The actual rates are: electrician, \$5,283, and typist GS-2, \$3,620.

In Detroit, the typist's pay is about 53 percent of the electrician's. The actual rates are: electrician, \$6,802, and typist GS-2, \$3,620.

But, in San Juan, when the present allowance is included, the typist's pay is 117 percent of the electrician's.

The actual rates are: electrician, \$3,474, and typist GS-2, including allowance, \$4,073.

In San Juan, even without the allowance the typist's pay would be about 104 percent of the electrician's.

The actual rates are: electrician, \$3,474, and typist GS-2, without the allowance, \$3,620, just the same as in the mainland.

The entrance rate for typists, GS-2, without the allowance, \$3,620—

Mr. BARRY. This is in San Juan?

Mr. MACY. The entrance rate for typists in San Juan without the allowance, which is the nationwide rate, is \$3,620, and it is \$1,040 above the private-industry average in San Juan for typists working at this level. That rate is \$2,580, as shown by the June 1963 BLS survey of private industry in Puerto Rico. This means that in applying the national scale for typists the Federal Government is paying \$1,040 more than the market; if the present cost-of-living allowance is retained the Federal Government is paying nearly \$1,500 more than the market. This is an indefensible public policy.

We have no intention to propose prevailing rates for the white-collar employees in Puerto Rico. The bill would not permit payment of anything less than the regular nationwide Classification Act and Postal Field Service pay rates, but there is absolutely no justification to continue to add an allowance to these rates which, so far as the Puerto Rican labor market is concerned, are already high.

The allowance also increases Federal compensation for white-collar employees in Hawaii to rates in excess of the rates paid by local employers but the total effect is not felt now except at the lower grades because of the pay lag in the statutory schedules.

Enactment of H.R. 7401, by bringing the compensation of Federal employees in offshore areas into line with accepted Federal pay principles, will have the effect—in the long run—of one, saving money;

and, two, making Federal pay levels more consistent with national as well as local private enterprise pay levels.

We hope you will be able to take favorable action on the bill. I shall be happy to try to answer your questions. Thank you very much, Mr. Chairman.

Mr. UDALL. Thank you, Mr. Macy. The Chair will recognize the gentleman from Iowa for such penetrating and illuminating questions as he may have this morning.

Mr. GROSS. Thank you, Mr. Chairman, for the introduction.

Mr. Macy, in your first appearance before this subcommittee on February 26, at which time the House had not yet acted on the pay bill, you made this statement in response to a question from Mr. Barry:

I have complete confidence the Congress is going to follow through in action in accordance with the principle of comparability.

In view of the subsequent House action, do you still feel the same degree of confidence?

Mr. MACY. Yes; I do.

Mr. GROSS. I can't say that I share your confidence at all because I think about the same fate is likely to meet the bill when it comes up again if the House votes on the bill on a rollcall vote. Nevertheless, if this so-called principle of comparability were to be strictly applied in Hawaii, Puerto Rico, and the Virgin Islands, is it not true Federal salaries in these areas are too high now and should actually be reduced?

Mr. MACY. The principle of comparability applies on a nationwide basis with a single scale made up from a survey by BLS of 80 different communities across the country. As I indicated in my testimony just now, in Puerto Rico this means that, in certain jobs, the nationwide scale is substantially higher than the prevailing rates in the market. This difference is further increased by the fact that we are paying the cost-of-living allowance in addition to the nationwide rate.

Mr. GROSS. Yes.

Mr. MACY. We are recommending that the cost-of-living allowance be eliminated and that the nationwide scale, based upon comparability, be applied as the basic pay policy in these offshore areas in the same way as within the continental limits under the statute of 1962.

Mr. GROSS. Even with the cost-of-living allowance eliminated, the actual salaries paid still are not comparable; they are above comparability, are they not?

Mr. MACY. The nationwide scale is higher than the local rates in Puerto Rico. It is approximately the same as the rates in Hawaii. In fact, at some grade levels in Hawaii, the comparability scale as it applies at the present time is slightly below the rates that are being paid in the local market.

Mr. GROSS. Doesn't this make the Federal Government an unfair competitor with private industry in Puerto Rico?

Mr. MACY. It means that the Federal Government is paying in excess of the market; that is correct. The alternative is the alternative of going to a prevailing rate for white-collar jobs across-the-board, which would mean that, in those communities where the prevailing rate is above the nationwide rate, Federal salaries would be increased and, where the nationwide rate is above local rates, Federal rates would be reduced. The conclusion of the Commission and of the administration was that the principle of comparability on a nationwide basis

tended to equalize conditions and constituted the most appropriate principle for the Federal Government.

Mr. GROSS. But, if in Hawaii, Puerto Rico, and the Virgin Islands the pay rate without the cost-of-living allowance is still higher than the average pay rates in those areas, comparability is not infallible as a yardstick, is it?

Mr. MACY. No. It seems to me we have a choice, Mr. Gross, to decide if we are going to follow the market on a nationwide basis, as we have decided to do or Congress has decided to do in setting the principle of comparability, or else go to the prevailing rate system where we determine rates based upon each locality. That is the manner in which wages are set for the blue-collar workers at the present time. Consequently, we have the varying rate for electrician from one point to another that I cited in my example. The conclusion has been that on white-collar jobs there tends to be more of a nationwide salary pattern, particularly in the middle and upper grades. There are some differences from community to community at the lower end of the scale.

The prime example is Puerto Rico. In Hawaii, as I have indicated, the prevailing rate for most of the white-collar jobs tends to be about the same as nationwide comparability for the Federal Government.

Mr. GROSS. Since you still subscribe—apparently you do—to the principle of comparability, it is difficult for me to see how your answer was in the affirmative. Is that correct?

Mr. MACY. Yes; I feel that the Congress took a very enlightened position in adopting this as a basic pay principle for the Federal Government.

Mr. GROSS. I don't see how you can justify this disparity that exists, as you freely admit does exist, in these areas where the salaries paid without the cost-of-living allowance are higher than the salaries of the Government, State, and municipality. I just don't see how you can do this.

Mr. MACY. The survey was of private salaries, not including State and municipalities. I advocate this, Mr. Gross, on the grounds—

Mr. GROSS. I will eliminate municipalities, but let's call them local employers?

Mr. MACY. Private enterprise employers in the locality.

Mr. GROSS. That is right.

Mr. MACY. The survey was based upon the salaries that they pay for like positions.

Mr. UDALL. Will the gentleman yield?

Mr. GROSS. Certainly.

Mr. UDALL. This is a problem that has always interested me and I know I have localities in which a postal clerk, with the salary he receives, places him in the top 10 or 15 percent of the income bracket in the community. This is an exceptionally good job in some of my smaller communities and I suspect there are some of those in outlying areas of Iowa where \$5,600 is a very good salary, whereas the same salary in Brooklyn may place one down at the bottom 30 percent of the economic ladder. This raises the larger question, whether Congress wants to—I can see some strong arguments for it—go to the basis of adjusting the classified schedule and the postal schedule to

prevailing rates in the locality. But, until we reach that conclusion, we have a very crude scale for the classified scale.

We fix one rate nationwide, one scale for GS-2 typists; one for GS-7 and it is a good wage in some communities, a very high wage in some communities, and a very low wage in still others. But I don't see that this is involved in this problem because the nationwide scale is going to apply in Puerto Rico, if this bill is passed.

Mr. MACY. I would feel, Mr. Chairman, that the first step to take in line with Mr. Gross' argument would be to eliminate the cost-of-living allowance. That step at least would bring these areas into line with the rest of the country under the nationwide comparability scale.

Mr. GROSS. Now it is proposed to pass a pay bill that would further compound the situation, and even leaving out the cost-of-living allowance, it is going to further compound the differentials as between wages paid in private enterprise and private industry in those areas.

Mr. MACY. In Puerto Rico it will. In Puerto Rico it will increase the difference; that is correct. However, on a nationwide basis, the rates that are proposed for enactment represent action by the Federal Government to meet the comparability standard on a nationwide basis.

Mr. UDALL. It will further complicate the problem in Tombstone, Ariz., where the cost of living is low. It will compound the problem in all other rural areas where Federal salaries, the nationwide Federal salaries, are really too high based on local conditions. It will compound it everywhere.

Mr. MACY. It will have the other extreme also involved in this proposal and that is the situation in Alaska where both the cost of living and the salary levels are much higher than they are on the nationwide basis and it is the proposal in this bill that the existing machinery in the Salary Reform Act be used as a means for adjusting these salaries as reflected by the salaries in that area rather than to follow the device of the cost-of-living allowance.

Mr. GROSS. You testified earlier that the Federal wage-board employees are not covered by this legislation since their wage rates are already established comparable to local prevailing wage rates. If so, wouldn't this mean the average wage-board employee in Hawaii, Puerto Rico, and the Virgin Islands would be paid less than his counterpart in any of the mainland 48 States?

Mr. MACY. It varies depending upon the rates in some 200 different local prevailing rate areas on the mainland. In some parts of the country, the rates are relatively in line with what you would find in Puerto Rico, and in others it would be substantially higher. But we have two different principles here that we are applying for two different groups of employees and have for many, many years.

On the blue-collar employees, we determine what the rate of pay for a particular trade or craft or job is in a community and then we pay that in the Federal Government. For white-collar jobs, we have followed a nationwide scale and this was continued in the Salary Reform Act, but with the basis for setting the rates being comparable with private enterprise rates for similar jobs.

Mr. GROSS. The letter carrier in Puerto Rico gets the same as the letter carrier in New York.

Mr. MACY. That is correct.

Mr. GROSS. And you add 12½ percent for cost of living, which is, incidentally, tax free, as I understand it.

Mr. MACY. That is correct. I am proposing, in urging favorable consideration of this bill, that the 12½ percent be phased out over a period of 6 years so that we will not have that increment on top of the salary that is paid on the nationwide basis.

Mr. GROSS. Isn't your phase-out period extended over a rather unusual length of time.

Mr. MACY. I don't know of any—

Mr. GROSS. Could this be shortened?

Mr. MACY. I don't know of any precedent that would guide us as to whether it is usual or unusual. This is the first action of this type with which I am familiar. The effort was to cushion whatever adverse economic impact this elimination might have upon the employees who are receiving it at the present time. We arrived at the six-step reduction because this would mean that the individual steps would not be more than 2½ percent and our feeling was that the workings of the salary system would cushion those cuts and reduce the adverse effect upon individual employees.

Mr. GROSS. I could suggest a cushion, but it seems to me that 2½ percent is a pretty slow cutback. They could stand more than 2½ percent.

Mr. MACY. I gather from reading the testimony of many of the witnesses that appeared before the subcommittee that most of them felt that was a rather extreme cutback.

Mr. GROSS. Well, I am sure it would to them. They like to hang on to this as long as they can. Were you questioned before with respect to establishment of wage-board pay in Alaska?

Mr. MACY. Wage-board pay in Alaska?

Mr. GROSS. Yes.

Mr. MACY. I don't believe I was.

Mr. GROSS. For all employees. What would you think of that?

Mr. MACY. White-collar employees in Alaska on wage-board basis the same way as the blue-collar employees?

Mr. GROSS. Right.

Mr. MACY. I would prefer to see us continue to use the nationwide rate with the discretion that exists in section 504 of the Salary Reform Act to make the necessary upward adjustments as revealed by the salary surveys rather than setting up a separate pay system for the white-collar employees in Alaska and basing that on prevailing rates. It seems to me this would be, in effect, a separate system for the State of Alaska.

Mr. GROSS. No question about it, but you have what amounts to a unique situation there, do you not?

Mr. MACY. Yes, we have special conditions there as far as salaries are concerned. There is no doubt about that.

Mr. GROSS. So either way you go to increase the base pay of employees in Alaska, you are creating a different situation than you have anywhere else in the system; is that not true?

Mr. MACY. You are correct.

Mr. GROSS. I merely asked the question, I am not necessarily suggesting it. I am trying to get your reaction to the installation of wage-board rates.

Mr. MACY. My preference would be the plan as proposed. However, I do think it would be feasible to go to a system of prevailing rates for Alaska based upon a survey of the salaries being paid on an annual basis.

Mr. GROSS. Am I taking too much time, Mr. Chairman?

Mr. UDALL. No. Would you like to ask a question, Mr. Barry?

Mr. BARRY. There will be time.

Mr. GROSS. Would your opposition to the wage board setup for white-collar workers in Alaska involve setting up a principle that might be used in this country or might be recommended on the mainland, so called, as between let's say, Houston, Tex., and Chicago where there is a 22-percent differential in the cost of living, or at least we are told that—someone testified to that effect.

Mr. MACY. I did. That is the difference in the cost of living. The difference in salaries between Houston and Chicago would be less than that figure. I don't have the exact amount. I think that this might be cited as a precedent for operating the white-collar salary system on a prevailing rate basis on the mainland, but as you indicated, the only argument for doing it in Alaska would be because of the very special conditions that exist there that clearly do not exist within the mainland. Frankly, Mr. Gross, one of the serious problems that would be involved in administering a prevailing rate system within the United States would be the matter of where you draw the boundaries for the white-collar jobs because they exist at some 34,000 different points within the United States.

The blue-collar jobs tend to be more concentrated in areas where there are large military establishments and it is a fairly clearly identified center.

On the white-collar jobs, as we have tried to look at the administration of such a system, we have found it would be exceedingly difficult to draw these boundaries and to make distinctions in the close proximity of two communities.

Mr. UDALL. Part of your problem is, as I have studied it, you may have a large metropolitan area like Des Moines or Houston or San Antonio and you drive 25 miles out in the country and you change almost immediately to a rather low cost-of-living area. Then you get the person who lives in the small community and commutes to work 20 or 30 or 40 miles to the big community and his salary is determined by where he works and his cost of living by where he lives. I can see a lot of problems here, and while I am troubled by the fact that the Government shouldn't and doesn't really have to pay these high rates in many of these smaller communities in order to get the employees, as a practical administrative matter, there are many, many problems. If I felt we could resolve these problems fairly, I would be for going to the wage-board setup for white-collar workers, but I can see the administrative problems might really be a problem.

Mr. GROSS. Not only would there be an economic problem involved, but I imagine political problems involved, too.

Mr. UDALL. The gentleman knows that these never concern me. Without regard to fear or favor, I always do what is good for the country.

Mr. MACY. On the matter of prevailing rates in Alaska, there are really two other factors to point out: One, that in Alaska the Federal

Government is the major employer. The extent of private enterprise is relatively limited. Of course we all hope that this condition will change over a period of time. Also, you do have significant variations in rates at various points within Alaska. The difference between the nationwide rates and the local rates in Juneau are less than the difference between the nationwide rates and the rates in Fairbanks, so that you would have some problems within the State in trying to do this.

Mr. GROSS. Yes, I have no doubt about that. I am just exploring this a little bit since you are here and we have some time this morning.

Mr. MACY. I am delighted to do it and let me assure you we are interested in doing what we can to provide the appropriate pay scale to get the Government's business accomplished and to be fair to the people that work for the Government.

Mr. GROSS. By way of conclusion, Mr. Macy, it seems to me that this points up some real defects in this yardstick of comparability, this whole testimony that we have had here, and your statements point up that it is far from an infallible yardstick. I see some real defects in it as a result of this testimony.

Mr. MACY. Mr. Gross, we have never testified that it was infallible. It was our belief that it was a better principle for setting rates of pay than any principle that had been applied in the past. It gave us at least a measure based upon the prevailing rates in the marketplaces across the country, whereas in the past, we had applied a number of different principles from time to time in setting rates. This was at least a more rational and defensible system than we had before. We would hope with the passage of time we would continue to improve this principle, improve its application.

Mr. GROSS. Thank you, Mr. Chairman.

Mr. UDALL. The gentleman from New York.

Mr. BARRY. Thank you, Mr. Chairman.

Mr. Macy, it is good to have you before our committee again.

Mr. MACY. Thank you, sir.

Mr. BARRY. I want to endorse our chairman's view that if we could find a way to bring about comparability, that would be equitable to all regions of the country, I would support such legislation. I think that it is not generally realized that there are more Federal employees—you correct me if I am wrong on this—more Federal employees who work in the State of California than work in the District of Columbia.

Mr. MACY. That is correct.

Mr. BARRY. And there are almost as many Federal employees in the State of New York as work in the District of Columbia.

Mr. MACY. That is right.

Mr. BARRY. This presupposes varying degrees of hardship, depending upon where they live. Taking the city of New York and the post office there, to live in New York with the postal salaries scaled the way they are now, unless there is another earner in the family, it is compulsory that the postal worker live in a slum. He couldn't possibly live, on the salary rates paid, decently in New York City without extra income, either holding another job—moonlighting—or having another person in the family earn an additional salary. If you get out 50 miles in a country that I also happen to represent, the reverse is true.

As the gentleman from Arizona was stating a minute ago about Tombstone, Ariz., it would be a high rate of pay for a level of activity

that would not command in the neighborhood the rates which the Federal Government pays.

Four years ago, I introduced a bill to provide salary adjustments in the basic salary of the postal field service employees in certain areas and for other purposes. This was an attempt to solve the problem of deciding who would and would not get this rate, the varying rates. I found, in what study I made at the time, the cost of living tended to be high in direct relation to the size of the community. In populations of over 3 million, salary rates tended to be more or less comparable to Chicago, Los Angeles, and New York.

So, I divided the Nation into areas by population, using the post office as a central point and taking cities over 3 million in a radius from that central point of up to 25 miles. The cost of living would tend to be the same in all three cities. Twenty-five miles out the cost of living would be comparatively low and as you move in to the center of the circumference the cost steadily graduates.

I applied the same principle in areas of population from 500,000 to 1 million and from 250,000 to 500,000.

Your counterpart 4 years ago approved of this and thought it was a good thing. The Bureau of the Budget at the time thought it was not a good thing because it broke from the pattern of a national wage scale.

I do think this comes nearer than anything I have ever found to demarcate cost of living.

We do this in the United Nations in the matter of tax abatement where they do not charge embassies for properties that they buy as long as they are within a certain number of miles of the United Nations. So there is a principle already set up where this is operative, not in this field, but certainly in the field of not collecting taxes for any property that the embassies own near the United Nations. I would like to hand this to you, if I may.

Mr. MACY. Fine. I don't want to take too much time because I think this is a broad issue that requires a good deal of thought. The interesting thing is that in many of the major communities, the marketplace salaries do not necessarily follow the differentials in cost of living. They tend generally to, but there is quite a degree of difference. From my research, I find that the differences in cost of living don't necessarily follow the population cluster.

For example, the largest city in the South at the present time is Houston, Tex. Based upon an index of 100 for Washington, the cost of living in Houston is 87 and yet the figure for Chicago is 107. The figure for Boston is 103, Los Angeles, 102.

Mr. BARRY. Mr. Macy, if you broke that up a little differently; if you took the central post office instead of taking the whole city of Houston, take the postal employees working within a 6-mile radius and then go out beyond that, I think you will find a greater degree of comparability closest to the center of the large city than you would otherwise.

If you take the whole city, I will agree, but if you take these small centers, have a series of concentric circles around the central post office and go out with it this way [indicating] instead of taking just one city as such, I think you could find something workable.

Mr. MACY. I think you would find that the trend in the large cities is that your higher cost-of-living communities are the suburban fringe rather than the core.

Mr. BARRY. Not really.

Mr. MACY. It is the lower income people who are forced to live nearer the core where rents are lower and other conditions tend to be less desirable.

Mr. BARRY. We find in the slums of New York rents are higher than suburbia. This is fantastic, but true. People become prisoners without realizing it.

Mr. GROSS. Will the gentleman yield?

Mr. BARRY. Yes.

Mr. GROSS. Of course, if you are going to let the inhabitants of the United Nations get away tax free on their property in New York City, I, for one, can understand under those circumstances why New York City has the highest per capita debt of any city in the United States, \$413 per capita. Multiply that by 7 million, the city of New York is \$3-billion-plus in debt, the worst debt-ridden city in the United States and I'm beginning to understand why.

As a Member of Congress, I would not be amenable to going to the Federal Treasury to take care of the people up there so they can pay their taxes in order to eliminate them from those who inhabit the United Nations. Not through me you don't.

Mr. BARRY. If I could interrupt the gentleman to say that since New York State pays 18 percent of the Federal tax load and since we pay \$171 to the Federal Government for every dollar that New York gets back and since New York State has one of the lowest debts of any State in the Nation and the lowest debt, I believe, in relation to its tax take each year—

Mr. GROSS. I'm talking about New York City.

Mr. BARRY. I think whatever debt we do have today may be because it has perhaps been contributing too much to the Federal administration and maybe Iowa has gotten the benefit of some of it in agricultural programs.

Mr. GROSS. You have been contributing too much to the United Nations.

Mr. UDALL. This is all very interesting but the chairman would hope we might get back to the original bill sometime during the morning. Has the gentleman concluded?

Mr. BARRY. I just wanted to say that we have been wrestling with this problem, Mr. Macy, but I believe you are on the right track and I hope that some way can be found to bring comparability throughout the Federal structure.

I know the job that is before you. The job you have had in the past has not been an easy one and it won't be easy ahead, as you can tell from the colloquy here between the two of us, but nevertheless, I think this is a step in the right direction. I feel very badly about Alaska right now because they have been hit pretty hard. I would be interested to know what definitely you had in mind to do about Alaska?

Mr. MACY. Mr. Barry, if the legislation were passed, it would be our proposal to use the authority in section 504 to provide for an adjustment in the nationwide scale for Alaska of about 27 percent. This is what the survey of salaries in Alaska reveals as the difference between the nationwide rate.

Mr. BARRY. When would that take effect if you use that authority?

Mr. MACY. It would take effect upon the effective date of the act, so that there wouldn't be a drop and then an increase again. Now the bill, as it is presently written, calls for an effective date January 1, 1964. The bill was introduced in July of last year. I would believe that we should discuss obviously a new effective date without sufficient time to make the preparations for the adjustment in Alaska and for initiating these phasing out steps in the other three areas.

Mr. UDALL. That raises an interesting question, if the gentleman will yield.

Mr. BARRY. Yes.

Mr. UDALL. The bill provides for a phaseout of cost-of-living allowance and you have indicated, if the bill is passed, the Commission would exercise this section 504 authority and grant something to take its place. Now, would current employees get the benefit of both? Would they get a windfall so they are still getting cost-of-living allowance in a phaseout program and, in addition, getting their salaries adjusted 27 percent upward under 504?

Mr. MACY. It would be one or the other and, very clearly, the 504 authority of 27 percent or whatever was indicated would only come once the cost-of-living allowance was eliminated.

Mr. GROSS. Will the gentleman yield?

Mr. BARRY. Yes.

Mr. GROSS. You are already using section 504 authority in some places?

Mr. MACY. We are applying 504 authority to about 40,000 jobs, largely engineering and scientist jobs at the in-hiring rate at the graduate level.

Mr. BARRY. Is that authority on a job basis or is it on a regional basis?

Mr. MACY. It can be either way. As far as the bulk of the jobs are concerned, it is on an occupational basis across the country. We do have a small number of jobs in certain communities.

Mr. BARRY. What is your latitude under that authority?

Mr. MACY. The latitude is up to the seventh step in the rate; in other words, we can move the scale so that the entry level is up to the seventh rate or any one of the intervening rates. So this is really a matter of moving the scale up to a new point based upon our study of the market in that particular occupation. This has been primarily applied for engineers and scientists in the recent past.

Mr. GROSS. Will the gentleman yield?

Mr. BARRY. Yes.

Mr. GROSS. I notice you have used this in Houston, Tex.

Mr. MACY. For scientists and engineers.

Mr. GROSS. Have you used it in Chicago?

Mr. MACY. For scientists and engineers. It applies across the country.

Mr. GROSS. Across the country.

Mr. MACY. Because on scientists and engineers, Mr. Gross, we find that there is a nationwide market and that the salaries being offered are virtually identical across the country.

Mr. GROSS. You have used it for medical officers in the postal service, too; have you not?

Mr. MACY. We have used it for medical officers, again across the board. Doctors are very difficult to hire in the Federal service.

Mr. BARRY. Mr. Macy, I would like to ask, if and when the pay bill is passed—

Mr. UDALL. It will be passed.

Mr. BARRY (continuing). Will Government salaries be slightly more than, slightly less than, or comparable to rates paid by private industry?

Mr. MACY. It is difficult to answer that categorically. If the pending bill is passed, the lower grades in the proposed scale will be on the basis of comparability as of 1963. The middle grades will be based upon comparability as of 1962 and the upper grades as of 1961. So that there is still in the proposed bill a lag behind the most recent comparability study in the middle and upper levels.

Mr. BARRY. There hasn't been an appreciable change in the cost of living since 1961, 1962, and 1963.

Mr. MACY. This has been a change in salary levels, not a change in cost of living.

Mr. BARRY. There hasn't been an appreciable change in salary rates or in any costs; has there?

Mr. MACY. The change in salary costs has averaged over the past 5 years between $2\frac{1}{2}$ and 3 percent increase a year.

Mr. BARRY. In the upper and middle grades?

Mr. MACY. Along the entire scale.

Mr. BARRY. So you would still be as much as 4 or 6 percent off, then; is that correct?

Mr. MACY. At the top we will be between 4 to 6 percent behind the comparability rate measured across the country.

Mr. BARRY. Do you feel that the honor of serving in Government and the built-in protection of civil service is worth the 4 to 6 percent?

Mr. MACY. This is difficult to price out in economic terms. My belief is that the principle of matching the market is a sound one in setting rates of pay and that the point is that the Federal Government needs to be a competitor in the market for the people that are available.

Mr. BARRY. Let me phrase it a different way. Do you think we should put some kind of price tag on some of the things I just mentioned, built-in security and the honor?

Mr. MACY. Well, honor is very difficult to evaluate. I think that as far as the top executive posts are concerned, where it is virtually impossible to measure comparability, that we have been asking that honor make up for compensation for quite a period of time.

Mr. BARRY. I am for the principle of comparability, but I do think we should establish something by way of recognition of the fact that (1) it is an honor to work for the Federal Government; and (2) there is a built-in security which you do not get in private enterprise.

Mr. MACY. I would feel on the security matter that you would find that particularly in the lower levels of white-collar jobs, but that to an appreciable extent the same kind of security is being provided by most employers. I think many of our Government employees who are in military bases at the present time would begin to wonder about the degree of security that is actually involved and, clearly, we should

not continue to maintain Government operations that are no longer required just to provide security. The effort is being made to replace those individuals in other Government activities, if this is at all possible. I would prefer to see us adhere to the comparability principle on the grounds that the Federal Government needs to go into the marketplace to compete with other employers to get the best people possible to do the Government's work, and that the principles of tenure or security, the principles involved in fringe benefits and honor should be part of the assets that we present. I don't feel that we should pay appreciably more than the market or appreciably less than the market.

The annual survey approach, so that we know what is being paid in these 80 communities and on which we set an average, it seems to me, is the best way to meet the competition and hopefully constantly improve the quality of people that are brought into the Federal service.

Mr. BARRY. Sometimes private enterprise can catch themselves in a shortage whereby they begin to compete and they can change their rate scales much faster than Government.

Mr. MACY. They can indeed.

Mr. BARRY. I think that we should be set at least to preserve the principle of comparability, but not to pursue it to such an extent that we jeopardize the current legislative-executive relationship with respect to pay policy.

Mr. MACY. That is why I think it is desirable that we have the annual survey and the annual review and have both the executive branch and the Congress consider what is appropriate as salary action under this principle every year.

Mr. BARRY. Mr. Chairman, I have taken considerable time outside of the realm of the bill before us, but I wanted to have this exchange with the Chairman.

Mr. UDALL. Surely. The gentleman from Iowa had one more inquiry and then I have a number of questions.

Mr. GROSS. Thank you, Mr. Chairman.

I mentioned earlier the higher salary rates that were established for aerospace engineers and pilots, I believe, and your answer was this was done on a nationwide basis.

Mr. MACY. Yes.

Mr. GROSS. But I am informed that this may not be precisely correct, Mr. Macy, that the Civil Service Commission has not dealt with aerospace engineers and pilots across the country.

Mr. MACY. I believe the pilots are probably located at one or more locations in NASA, but they are recruited on a nationwide basis.

Mr. GROSS. Well, this applies, it is my understanding, only to Houston, Tex., and to no other place. Can you clarify this for me?

Mr. MACY. I can clarify the record if I'm in error and I apologize if I am.

Mr. GROSS. Thank you.

(NOTE.—Under section 504 of the Federal Salary Reform Act, the pay ranges of aerospace engineers in grades GS-5 through GS-11 have been increased on a nationwide basis. However, the pay ranges for the classes of aerospace engineer and pilot in GS-13 and GS-14 have been increased only in Houston, Tex. This specialization applies to

only those few positions of astronauts in NASA, the duties of which include serving as a pilot of aerospace vehicles and require in addition professional competence in aerospace engineering.)

Mr. UDALL. I have just a few questions. The Chair intends to close the record this morning and see what disposition the subcommittee wants to make of this legislation. But a number of points have been raised by extensive testimony we had following your first appearance here.

We have heard testimony that for many positions in the middle and upper grades, such as technicians and attorneys and whatnot, the Government still has to recruit here in the mainland, the 48 States, for duty in Hawaii, Puerto Rico, and the Virgin Islands. What are your comments on this? Is this still a problem?

Mr. MACY. This is true, but to an increasingly reduced extent. The people of Puerto Rico and the people of Hawaii are to an ever greater extent supplying the needs of the Federal Government from among the people that are educated in those areas. The same thing will be increasingly true of Alaska where it is necessary to recruit on the mainland and to assign people in professional fields to these outlying areas. It is possible to pay their transportation to the new location if they stay there for an extended period of time and it is possible for them to have home leave from those points.

I don't believe that we should mix into this consideration the costs of relocation. I believe that should be handled as a separate basis and there is legislation to improve the arrangements for those who move at Government expense from one location to another. I would hope that legislation would receive consideration, not just in connection with this, but in connection with all moves that are made from one point to another at the Government's request, not at the convenience of the employee.

Mr. UDALL. Assuming this legislation is passed and dealing not with Alaska but with just Hawaii, Puerto Rico, and Virgin Islands, do you anticipate that there might be circumstances under which you would have to use your section 504 authority for payment of higher salary rates for particular types of employees in those three areas?

Mr. MACY. We would feel that that would be the proper way to take care of a shortage condition that might develop. We do not have specific information at the present time that would have to be the action immediately after the passage of this legislation. We would study it in terms of the market situation in each one of the communities and in terms of specific professions and occupations before we would make a judgment of this kind.

Mr. UDALL. And as I understand it, section 504 authority need not be exercised in across-the-board fashion, but you can pinpoint the technicians who are skilled in fields in which you are short and apply that authority only to those.

Mr. MACY. That is correct; be completely selective to meet a particular situation.

Mr. UDALL. We had a lot of concern expressed about the special situation in Alaska. Much of our testimony dealt with that. Since you have already testified that you anticipate using 504 authority in Alaska if this bill passes, could you give us any more specific idea how

the new salary rates would be determined, how they would apply, and just how the authority would operate in Alaska?

Mr. MACY. The arrangement in Alaska would be one of applying a percentage figure under section 504 to all of the rates—

Mr. UDALL. Across the board?

Mr. MACY. Across the board. Our view would be that this would be more feasible from an administrative point of view and more equitable as far as the employees are concerned, even though there are some differences from point to point within Alaska. The question came up in the testimony before you concerning the tax-free nature of the allowance. This is so and, as I provided in some of the supplementary material I sent to the subcommittee, the tax-free nature of the cost-of-living allowance does add about another 5 percent to the increased compensation.

Our view would be that even in Alaska we would not be warranted in compensating for the loss of that tax-free amount, that we would move to the principle of meeting the differences in salary rates between the nationwide scale and the scale in Alaska. We would intend to operate this in such a way as to have an annual survey of the salaries prevailing in Alaska and to make an annual judgment with respect to the proper adjustment under 504 in order to meet what was revealed in the survey.

Mr. UDALL. That answers my next question. Assume this passes again and peer down the future a little way, assuming that the cost-of-living factors and the private enterprise pay factors at sometime in Alaska begin to go down, so that we no longer need 27 percent as presently indicated, we need 15 or 20 percent, you would contemplate making annual checks?

Mr. MACY. We would contemplate making an annual survey concurrently with the comparability survey made on a nationwide basis, so that we would have data available to us to make the judgment to recommend to the Congress with respect to comparability nationwide and we would have the data to make the adjustment for Alaska.

Mr. GROSS. Will the gentleman yield?

Mr. UDALL. Yes.

Mr. GROSS. No part of the adjusted compensation would be tax-free?

Mr. MACY. No part would be tax-free. All of the compensation would be viewed as pay and therefore would be taxable.

Mr. GROSS. I thoroughly agree with that.

Mr. MACY. I don't feel, Mr. Gross, that we are justified in providing any tax-free compensation to Federal employees when other employees are taxed on all their income.

Mr. GROSS. I agree.

Mr. UDALL. Some fear has been expressed that while it is easy and very popular to raise pay, it is extremely difficult, political considerations being what they are, to lower pay. Is it your feeling that if this were done on an annual basis, so that any changes would be relatively slight, you might go from 27 to 25, 24, and perhaps up and down from year to year, that you wouldn't run into these very serious practical political problems when rather large changes are contemplated because they haven't been attended to over the period of years?

Mr. MACY. I would feel by reviewing this annually and keeping ourselves fully informed as to what the trends are, we would be able to avoid any kind of dramatic change. It would also be our desire to take into account the human factor that is involved in any adjustment.

Mr. GROSS. Are you confining this reply to Alaska?

Mr. MACY. Yes, the Chairman's questions dealt with Alaska.

Mr. UDALL. The next question I wanted to ask is related to the section 504 authority. This is established and can be used when local rates are so much higher than the nationwide Federal rate as to make it difficult for the Government to recruit and obtain qualified people. What would happen in Alaska if over a short period of time or rather suddenly, while you have the higher rates already established, you find the Government no longer has any difficulty recruiting or retaining qualified specialties at lower rates than established? Would you reduce the Federal salary rates?

Mr. MACY. For those particular jobs?

Mr. UDALL. Yes.

Mr. MACY. That is a question based on an assumption which our experience in Alaska would not tend to support. Generally, the entire scale is higher and there it does tend to be a reflection of the differences in cost-of-living. I would just hazard a guess that if there were such a change we would analyze it very carefully and refrain from taking any action until we were certain that this was not just a passing situation. The desirable course of action would be one of keeping the entire scale in balance for all of the white-collar jobs in Alaska.

Mr. UDALL. The members of the Alaska delegation and many of the employee organizations who testified have expressed great fear if this bill were passed of sudden and large-scale reductions in compensation. Is it possible if the bill were passed and action were taken under 504, along the lines you have indicated, that many employees would be receiving just as much and perhaps even more in take-home pay than they are receiving now?

Mr. MACY. They would actually receive a little more in take-home pay, but their net compensation would be slightly less because of the change in the tax situation.

Mr. UDALL. Have you ever been able to figure a dollar value or monetary value on the increased retirement benefits and life insurance that the employee in Alaska might receive by reason of the establishment of higher salary rates in that area and related, and is it not possible that these increased benefits might fully compensate for any loss in tax-free income?

Mr. MACY. In answer to your first question, we have not computed what the differences would be. We could do that. It is largely a mathematical proposition. On your second question, again, I would speculate that these increased benefits would make up for the difference in net income, but on a deferred basis. The benefits would come in a different form and at a later date.

Mr. UDALL. It is my understanding, and this was brought out previously, that the present cost-of-living allowance is not figured in as far as retirement benefits and these other fringe benefits are concerned. This is something additional which is not taken into account?

Mr. MACY. That is correct.

Mr. UDALL. Whereas the 504 increases would be?

Mr. MACY. That would be considered salary and would form the base for computing the benefits that are based on salary.

Mr. GROSS. The chairman has raised a very interesting question there. I would think something could be worked out whereby the increased pay would not result in an increase in the fringe benefits. It seems to me we are trying to compensate them for actual service performed in Alaska, are we not, to make up the differential in immediate pay?

Mr. MACY. The salary level forms the basis for the retirement computation, also the retirement contribution, and also determines the amount of life insurance.

Mr. GROSS. If the gentleman will indulge me for a question.

Mr. UDALL. Be my guest.

Mr. GROSS. Is it fair to provide for this substantial pay differential, admitting that it is warranted, and go on then and increase the fringe benefits on the basis of it?

Mr. MACY. It would seem to me we would be making a judgment that the salary levels competitively need to be at this higher rate and that the benefits that are related to salary rates should also be carried along to the new salary figure. For example, that is the way the 504 authority that resulted in the increase in salaries for engineers is applied.

Mr. UDALL. I think your testimony has touched on this point, but I want to pose it directly for any comments you might have. We heard a great deal of testimony about the tremendous impact the elimination of cost-of-living allowance would have on the economy of these areas, Alaska particularly. All of this testimony and your previous testimony was prior to the Alaskan earthquake. Now does the very serious situation that has resulted from that act of nature change your position with regard to inclusion of Alaska in this bill and elimination of cost-of-living allowance there?

Mr. MACY. No. I would feel that all of us have a great sense of compassion for the people in Alaska in the harrowing situation that they have passed through, but my view would be that the aid and relief to those people should be in forms other than the compensation device of the cost-of-living allowance. I believe that event should not deter us in arriving at an appropriate salary policy for those people that work in Alaska.

Now it may be that the conditions subsequent to the earthquake will have an impact upon salary levels in Alaska. That is something that will be revealed in the survey that is made this year. We will be able to ascertain just what the economic conditions are and their bearing upon the labor market generally. So I would feel that the conditions there do not change the desirability of proceeding with legislation of this kind.

Mr. UDALL. One final question and perhaps your staff might want to comment on this. I don't know what disposition the subcommittee will make of this bill, but in an informal conversation with one of the members the other day, and he shall remain anonymous, he suggested that in the light of the strong opposition to this legislation, perhaps a solution might be to go ahead and enact the bill as written, but to bracket in all of those who are now entitled to cost-of-living allowances, leave them in that position, and apply the provisions of this bill only to new people as they come into the Federal salary system. Would

this be administratively difficult, would it be unwise and what problems would it pose?

Mr. MACY. I think it would be difficult and unwise. I believe that the same purpose is more appropriately and easily applied in the phasing-out that we have proposed. Under this legislation, all new employees would come in at the the new rate without the cost-of-living allowance. Those that presently receive it, would start receiving the first reduction this year of 2½ percent, in the case of Hawaii and the Virgin Islands, and 2 percent in the case of Puerto Rico. In the event that some pay legislation is enacted in the course of this year, that will more than offset that reduction.

The workings of the normal advancement from rate to rate within the grade would in subsequent years tend to cushion the reduction in the cost-of-living allowance, even if there were not a subsequent general pay increase. I think that this method is decidedly preferable to freezing the present cost-of-living allowance on top of the rates that exist at the present time.

Mr. UDALL. Any further questions?

Mr. GROSS. Yes; one more, and I agree with that, too. I think we ought to meet this in legislation such as we have before us rather than in some other way. I think there ought to be a direct confrontation with this issue. Now about these native residents, cost-of-living allowance to native residents, you don't need legislation, do you? Can't the Executive order be amended or another issued to end as of now the cost-of-living allowances to native residents?

Mr. MACY. The cost-of-living allowance applies to all Federal employees in a location where it is adjudged to be needed based upon the comparison of costs between Washington and that location. The only way in which we would eliminate the cost-of-living allowance as such would be to declare that one of these areas is subject to a post differential rather than a cost-of-living allowance and then not apply it to those who are recruited locally. That was done in Puerto Rico in 1953 with rather devastating results. And the Commission less than a year later repealed it and restored the cost-of-living allowance.

My own views, Mr. Gross, would be it would be unfair and discriminatory to say that you are going to pay the cost-of-living allowance to an American in Puerto Rico who is recruited in South Carolina and came down there and not pay it to the American who was born and brought up in San Juan.

Mr. GROSS. In other words, you would put the native resident on the same phase program as the other?

Mr. MACY. Yes.

Mr. GROSS. But there would be nothing to prevent an amended Executive order to stop the payment of the cost-of-living allowance to native residents, or would there?

Mr. MACY. The only way that it could be done under the existing legislation, the legislation on the books now, would be for us to make a finding that a post differential rather than a cost-of-living allowance was desirable and my own view is that is administratively infeasible even if legally it were possible.

Mr. UDALL. The staff here had another suggestion that may come up as to how this could be phased-out.

Mr. IRVINE. I was just wondering, Mr. Macy, if instead of phasing this out in a specified 6-year period, if you had given any thought to

phasing it out on the basis of actual future pay increases, reducing the allowance by all or part of pay increases. For example, maybe one-half of a future pay increase could go to the employee and the other half would go toward a reduction in his cost-of-living allowance.

Mr. MACY. The practice on pay increases in the past 10 years has been one about every 2 years. This could be done. I think I would prefer to see a more specific commitment, that an annual step was going to be taken, because with all respect to the Congress, the Congress has many other things to consider and it doesn't always consider salary legislation on a regular basis. I think we should, as Mr. Gross suggests, we should confront this issue, figure the amount that will cushion the economic shock for the individuals, and then proceed with it.

My feeling is that the workings of the pay system, the within-grade increases, the promotions that occur from time to time, as well as the general pay increases that may come along during the period between now and April or whatever date in 1969 would eliminate the amount of the allowance and would do it without injury to the people involved.

Mr. UDALL. One other thought has occurred to me and I think perhaps we should have some comment on the record for the subcommittee's deliberations in this: as I understand it, under the existing law setting up this cost-of-living allowance, the Commission is empowered to make adjustments from time to time. The Commission has indicated its intention to make effective adjustment earlier this year and because this legislation was pending, the Commission held off putting that into effect. Assuming that this bill is shot down in flames, either in the subcommittee or full committee, and goes nowhere this year, would it probably be the Commission's intention to go ahead with the reductions in the cost-of-living allowance which were previously indicated?

Mr. MACY. The Commission would, under the law in the Executive order, be obliged to apply the existing standards. I could not speak for my colleagues, as we have not discussed this as yet, but it would be our view that we would have no alternative, if there is no legislation enacted, but to go ahead with the action that we proposed in January, which was to reduce the cost-of-living allowance in both the Virgin Islands and Puerto Rico to 5 percent.

Mr. UDALL. Did you have a comment?

Mr. GROSS. Just this, if I may, Mr. Chairman.

Mr. UDALL. You may.

Mr. GROSS. In light of the testimony we have had so far, would you suggest any changes in the pending bill?

Mr. MACY. One suggestion I might make, Mr. Gross. In view of the strong opposition of the employee groups, you might wish to include in the statute a more specific requirement with respect to the phasing-out in order to reassure the employees that there is a legislative intent that this be done step by step over a 6-year period. This might add some reassurance that the administrative agency, presumably the Commission, would not act in a more drastic way in reducing the amount.

The other suggestion I might have was the one I made earlier with respect to the effective date. I believe it would be well for us to consider jointly what would be an appropriate effective date. I would be inclined to recommend January 1, 1965, as the effective date for

eliminating the allowances. I think there should be an ample period of notice to those who are presently receiving cost-of-living allowances and adequate time to prepare for the administrative machinery that would bring about the change. Those would be the two suggestions I would have to offer.

Mr. UDALL. Do you suggest that perhaps a specific provision might be in the bill to provide the separate salary schedule in Alaska? Some complaint has been made that well, you are talking about separate scheduling in Alaska, but nothing in the bill that requires it.

Mr. MACY. You might insert in the bill more mandatory language requiring that the Commission take action under 504 of the Salary Reform Act to provide the appropriate salary levels not only in Alaska, but in the other communities, if the surveys reveal a necessity for it.

Mr. UDALL. The Hawaiian Legislature has passed Concurrent Resolution 9, which urges the Congress to reject any legislation eliminating cost-of-living allowance to Federal employees and this resolution was printed in the Congressional Record and referred by the Speaker to this committee by the chairman of the full committee to this subcommittee. I don't think it is necessary to print it in the record of these hearings but I wanted to make reference to it.

Congressman Thomas P. Gill has submitted the following material to be added to the record.

Also an additional statement by Dr. A. Fernós-Isern, Resident Commissioner of Puerto Rico.

(The material and statement follows:)

Federal recruitment for certain agencies

Government agency	Local hire		Mainland hire		Total
	Number	Percent	Number	Percent	
Veterans' Administration.....	56	76.7	17	23.3	73
Bureau of Commercial Fisheries.....	57	76.0	18	24.0	75
Geological Survey.....	36	73.5	13	26.5	49
Federal Aviation Agency.....	583	82.1	357	37.9	940
Pearl Harbor.....	2,850	81.4	650	18.6	3,500
Total.....	3,582	77.2	1,055	22.8	4,637

Source: Department of Planning and Economic Development, State of Hawaii, March 1964.

Comparative prices of hamburger, San Francisco-Honolulu

1963	Prices per pound		Percentage difference
	San Francisco	Honolulu	
December.....	\$0.538	\$0.689	28.0
November.....	.529	.712	34.5
October.....	.542	.670	23.6
September.....	.540	.676	25.1
August.....	.529	.693	31.0
July.....	.535	.693	29.5

NOTE.—The prices are based on comparable grades of hamburger; 12 to 25 percent fat content in the Federal figures; 25 percent fat content in the Hawaii figures.

Source: Hawaii Department of Labor and U.S. Bureau of Labor Statistics.

[From the Honolulu Advertiser, Mar. 13, 1964]

HIGH GASOLINE PRICES DUE TO TAXES, MARKUP?

(By Al Goodfader)

The attorney general's office told the legislature yesterday that Hawaii retail gasoline prices are high, "primarily due to higher taxes and dealer markup."

The report on local gasoline sales practices was made at the request of last year's legislature.

Vernon F. L. Char, deputy attorney general in charge of the State's antitrust section, said no conclusions were drawn because State and Federal antitrust investigations are underway.

He noted that some of the material in the report was gathered last year and may have been altered since.

He said that Union Oil Co., Tidewater Oil Co., Shell Oil Co., and Texaco, Inc., who, with Standard Oil, are Hawaii's major gasoline sellers, get part or substantially all their basic "regular" gasoline by direct pipeline from the Standard refinery.

"To this basic gasoline the companies add their respective additives which generally comprise a small portion of the final product," he said. Premium gasoline is shipped in from the mainland, as is all the gasoline sold by the Armour Oil Co., at the GEM discount stores.

Char noted the sharing practice is also followed on the mainland, under an "exchange program" maintained by oil refiners.

"The (wholesale) prices of gasoline generally do not vary from company to company and from area to area," he said. "Basically, the wholesale prices of regular gasoline in Honolulu are as follows: Standard, 18.4 cents (a gallon); Tidewater, 18.4 cents; Shell, 18.4 cents; and Union, 19.4 cents." (No information was available on Texaco.) The prices charged Honolulu wholesalers are higher than in all but 1 of 10 mainland cities.

To this, gasoline station operators add a "markup" to take care of taxes, operating costs, and profit.

"Sources indicate that the markup of from 8.9 to 9.9 cents per gallon of regular gasoline is relatively high by national norm," Char said. "However, this comparison may be incomplete because of the relatively lower volume of gasoline sold by the average station (in Honolulu)."

Char noted that actual retail prices vary from the average 41.9 cents per gallon (for regular gasoline) because dealers use trading stamps, rebates, and other sales promotion methods.

He also said that the government, which buys gasoline in bulk lots, pays less than service stations. The Federal Government here has been able to get a price as low as 10.64 cents a gallon for regular gasoline and the State and city as low as 14.79 cents, while service stations were paying either 18.4 or 19.4 cents.

"Near-identical" prices were quoted by oil companies on contracts to supply the city and State until 1961, when bidding practices were changed, Char said.

"All phases of the gasoline industry in Hawaii are under study by the Federal Antitrust Division," Char said.

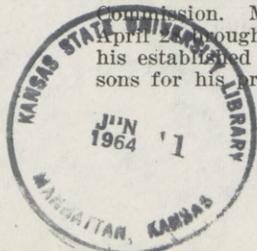
"A factor of consideration by the State attorney general's office in its investigation is to avoid, where possible, duplication of the Federal Antitrust Division's investigation.

"This office is studying the gasoline industry in this State. The investigation is still pending. An evaluation or conclusion at this time is premature."

ADDITIONAL STATEMENT BY DR. A. FERNÓS-ISERN, RESIDENT COMMISSIONER OF
PUERTO RICO

I appreciate the opportunity to submit an additional statement concerning the legislative proposal in H.R. 7401 to terminate the cost-of-living allowances for statutory-salaried Federal civilian employees in non-Federal areas.

I desire to give my views relating to the second appearance before the subcommittee by Mr. John W. Macy, Jr., chairman of the U.S. Civil Service Commission. My study of the additional testimony offered by Mr. Macy on April 22 brought me to the conclusion that Mr. Macy substantially maintained his established position and offered little in the way of enlarging on the reasons for his proposals. His thesis appears to be: (1) That Federal salaries



should be paid on a nationwide basis in accordance with the principle of comparability with private enterprise; and (2) that offshore differential, cost-of-living allowances should be eliminated over a period of time.

In my opinion, the proposal to eliminate offshore cost-of-living allowances because a nationwide salary system is recommended is a non sequitur. It appears to me that the two systems are entirely compatible and could exist at the same time. Each system is directed to solving a particular problem. On the one hand, a nationwide Federal salary scale based on comparability is directed to improve the Federal Government's position in competing with private industry for efficient, trained, and qualified white-collar workers. On the other hand, the cost-of-living allowance, which has been in effect for more than 15 years, is directed to cushioning the higher cost-of-living experienced in the insular areas, including Puerto Rico, which is a real and serious problem and which must be reckoned with.

In my original statement before the subcommittee, I pointed out that the insular areas, being far away from mainland United States, have special problems and situations which result in a higher cost of living caused by factors and pressures which are nonexistent in continental United States. They are inherent in the offshore economies.

One of these factors is the long freight haul, first, overland to reach continental ports and, then, over water to reach the insular areas and, then overland again to reach the marketplace. The ocean carriers must be relied on, and these carriers have no competition from trains, trucks, or tractor-trailers, so that the people, the consumers, must depend upon them alone and are in large measure at the mercy of their monopoly. The resulting high shipping costs are built into the commodity shelf price which the consumer must pay.

In the case of Puerto Rico, Hawaii, and the Virgin Islands, another high cost factor is that they are sought out by the tourist and vacation trade and they tend to become resorts. It is well established that restaurants, recreation, clothing, and other items are notoriously higher in price in resort areas. However much this trade is desirable, the impact on the local population is higher prices.

Witnesses appearing before the subcommittee in the early days of these hearings furnished for the record item-by-item examples of commodities showing typical shelf prices in Puerto Rico and in Washington, D.C. Invariably the price in Puerto Rico was higher and considerably so. The comparison of prices between the two areas was made on shopping tours only a few days apart.

I do not understand how, in the face of such evidence, it can be maintained that living costs are not higher in Puerto Rico than in Washington and, if the fact of higher costs in Puerto Rico is recognized, I fail to comprehend how the proposal to eliminate the offshore cost-of-living allowances can be justified.

Testimony presented by the Civil Service Commission concerning the relationship between the blue-collar and white-collar Federal salary scales brought out that a beginner typist in Puerto Rico with the cost-of-living allowances included in her salary is compensated at the rate of \$4,073 per annum, whereas the pay of a journeyman electrician working in Puerto Rico for the Army of the Air Force and who does not receive the cost-of-living allowance, earns \$3,474 per annum. On this basis, the Civil Service Commission proposes to reduce the typist's salary sharply through the elimination of the allowance. It appears to me that a better solution would be to raise the electrician's salary so that he may earn a fair wage and maintain himself on a higher living standard.

Of course, the example of the difference in the two illustrated salaries in Puerto Rico shows up graphically, because Puerto Rico is still an underdeveloped area.

It seems incongruous that while the Federal Government, through various programs, is struggling to raise the underdeveloped countries of the world, one of its agencies should be advocating lower take-home pay in one of the domestic underdeveloped communities.

It is well known that, through its Operation Bootstrap, Puerto Rico since 1948 has been striving intensively to attract industry and raise wages and living standards so that its people might enjoy a way of living comparable to that of U.S. citizens living in the mainland United States. In this connection, special industrial wage boards in Puerto Rico under the U.S. Department of Labor are requiring higher minimum wages, industry by industry, as fast as

the industries can afford to pay those salaries, so that the minimum wages prevailing in Puerto Rico are rapidly approaching the minimum wages of the mainland. As these minimum wages are realized, negotiation and collective bargaining sets in so that the wage scales then rise above the minimum, as is in the case with mainland labor. On this basis, skilled labor in Puerto Rico receives periodic wage adjustments, and I am hopeful that before long it will become impossible to draw such a comparison between the compensation received by an electrician in Puerto Rico and a typist in Puerto Rico.

Meanwhile, we still face the very real problem of higher living costs in the island, and if a white-collar Federal worker in Puerto Rico is to receive the same purchasing power as the Federal worker in continental United States, he must be given a special allowance over and above the Federal salary scale to enable him to pay the extra costs which are prevalent for practically all commodities that he must purchase.

I am sure that when the subcommittee studies the full and adequate record of these hearings which has resulted from a great number of witnesses from the offshore areas who appeared to give their views, it will find that the preponderance of the evidence is on the side of maintaining the cost-of-living allowances as a wise and prudent and necessary means of enabling the Federal Government to maintain a qualified, industrious, and spirited employees force to carry on the Government's business in these areas.

Mr. UDALL. Unless there are further questions or further matters to come before the subcommittee, it will stand adjourned, subject to the call of the Chair.

(Whereupon, at 11:30 a.m., Tuesday, April 28, 1964, the subcommittee was adjourned.)

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