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COST-OF-LIVING ALLOWANCES IN NONFOREIGN AREAS

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HEARINGS

BEFORE THE

COMMITTEE ON COMPENSATION

OF THE

COMMITTEE ON

POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES

EIGHTY-NINTH CONGRESS

FIRST SESSION

ON

H.R. 8390

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

JULY 19, 21, 22; AUGUST 11, 12, 1965

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14-1400

COST-OF-LIVING ALLOWANCES IN NONFOREIGN AREAS

MONDAY, JULY 19, 1965

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

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

MR. UDALL. The Subcommittee on Compensation will come to order. Today we begin public hearings on H.R. 8390, a bill to terminate cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas, and for other purposes. The bill represents an official proposal of the administration, submitted by Chairman Macy of the U.S. Civil Service Commission. It was introduced by the chairman of the full committee, the Honorable Tom Murray of Tennessee.

Without objection, H.R. 8390 will be printed in the record at this point, along with the official communication from the Civil Service Commission, which led to its introduction.

(The bill H.R. 8390 and the communication follows:)

[H.R. 8390, 89th 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) adding after the word "stationed" the words "in nonforeign areas".
- (2) striking out the words "living costs substantially higher than in the District of Columbia, or" and the words " , or both such factors", and
- (3) 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. (a) In accordance with regulations issued by the President or such agency or agencies as he may designate, an employee who immediately before the effective date of this Act was receiving a cost-of-living allowance under section 207 of the Independent Offices Appropriation Act, 1949, as amended, shall receive a retained cost-of-living allowance during an adjustment period subject to the limitations and provisions for reduction prescribed by this section unless his former allowance is completely offset by a special rate authorized for his position under section 504 of the Federal Salary Reform Act of 1962, as amended (76 Stat. 842; 78 Stat. 412; 5 U.S.C. 1173), to take effect on the effective date of this Act.

(b) If an employee is entitled to a retained allowance under (a) above, the amount of the retained allowance which he is initially to receive shall be equal to five-sixths of the dollar amount of the cost-of-living allowance which he was receiving immediately before the effective date of this Act after that dollar amount has first been reduced by the amount by which it may be partially offset by a special rate authorized for his position under section 504 of the Federal Salary Reform Act to take effect on the effective date of this Act.

(c) An employee's retained allowance shall be reduced annually thereafter on the anniversary dates of the effective date of this Act by such equal amounts as will result in the termination of the retained allowance five years after that effective date.

(d) If after the effective date of this Act, a special rate applicable to an employee's position is authorized for the specific geographic area where he is employed, the amount of the employee's retained allowance may be reduced or his retained allowance may be terminated as prescribed by regulation. If the retained allowance is reduced but not terminated, it will be further reduced on the anniversary dates of the effective date of this Act by equal amounts so that it will be finally eliminated had the special rate not been authorized.

(e) An employee's retained allowance will be terminated when he ceases to occupy either the position in which he was receiving the allowance immediately before the effective date of this Act or another position in which he would have received an allowance had he been assigned to it immediately before that date. If, however, an employee returns to the area where he was receiving the allowance after having been transferred for the convenience of the Government to a nonforeign area where additional compensation is paid on the basis of conditions of environment or to a foreign area, he may be paid the retained allowance for the remainder of the adjustment period in the amount which he would have been receiving had he not been transferred.

SEC. 3. Section 504 of the Federal Salary Reform Act of 1962 (76 Stat. 842) as amended by the Federal Employees Salary Act of 1964 (78 Stat. 412) is further 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 the following new subsection:

"(e) 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. This Act shall take effect on the first day of the first pay period which begins immediately following ninety days after the date of enactment.

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., May 10, 1965.

HON. JOHN W. McCORMACK,
Speaker of the House of Representatives.

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

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

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

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

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

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

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

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

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

By direction of the Commission:

Sincerely yours,

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

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) adding after the word "stationed" the words "in nonforeign areas",
- (2) striking out the words "living costs substantially higher than in the District of Columbia, or" and the words ", or both such factors", and
- (3) 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. (a) In accordance with regulations issued by the President or such agency or agencies as he may designate, an employee who immediately before the effective date of this Act was receiving a cost-of-living allowance under section 207 of the Independent Offices Appropriation Act, 1949, as amended, shall receive a retained cost-of-living allowance during an adjustment period subject to the limitations and provisions for reduction prescribed by this section unless his former allowance is completely offset by a special rate authorized for his position under section 504 of the Federal Salary Reform Act of 1962, as amended (76 Stat. 742; 78 Stat. 412; 5 U.S.C. 1173) to take effect on the effective date of this Act.

(b) If an employee is entitled to a retained allowance under (a), above, the amount of the retained allowance which he is initially to receive shall be equal to five-sixths of the dollar amount of the cost-of-living allowance which he was receiving immediately before the effective date of this Act after that dollar amount has first been reduced by the amount by which it may be partially offset by a special rate authorized for his position under section 504 of the Federal Salary Reform Act to take effect on the effective date of this Act.

(c) An employee's retained allowance shall be reduced annually thereafter on the anniversary dates of the effective date of this Act by such equal amounts as will result in the termination of the retained allowance five years after that effective date.

(d) If after the effective date of this Act, a special rate applicable to an employee's position is authorized for the specific geographic area where he is employed, the amount of the employee's retained allowance may be reduced or his retained allowance may be terminated as prescribed by regulation. If the retained allowance is reduced but not terminated, it will be further reduced on the anniversary dates of the effective date of this Act by equal amounts so that it will be finally eliminated at the same time that it would have been eliminated had the special rate not been authorized.

(e) An employee's retained allowance will be terminated when he ceases to occupy either the position in which he was receiving the allowance immediately before the effective date of this Act or another position in which he would have received an allowance had he been assigned to it immediately before that date. If, however, an employee returns to the area where he was receiving the allowance after having been transferred for the convenience of the Government to a nonforeign area where additional compensation is paid on the basis of conditions of environment or to a foreign area, he may be paid the retained allowance for the remainder of the adjustment period in the amount which he would have been receiving had he not been transferred.

SEC. 3. Section 504 of the Federal Salary Reform Act of 1962 (76 Stat. 842) as amended by the Federal Employees Salary Act of 1964 (78 Stat. 412) is further 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 the following new subsection:

"(e) 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. This Act shall take effect 90 days after its enactment.

SECTION ANALYSIS

To accompany a proposed bill to terminate cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas, and for other purposes.

Section 1 of the draft bill amends section 207 of the Independent Offices Appropriation Act, 1949, as amended, by adding the words "in nonforeign areas" so as to make it clear that the additional compensation which is authorized by that section is payable only to people stationed in nonforeign areas outside the continental United States or in Alaska. This makes no actual change in existing authority but simply brings the language up to date in light of the Overseas Differentials and Allowances Act of 1960. Authority for differentials and allowances for foreign areas is provided by that act.

Section 1 of the draft bill also amends section 207 so as to eliminate the authority for the cost-of-living allowances which are now paid to statutory-salaried employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands. It does not affect the authority to pay additional compensation as to recruitment incentive based upon conditions of environment, the authority under which post differentials for certain U.S. territories are currently established.

Section 1 of the draft bill also eliminates the second proviso in section 207 which reads as follows:

"*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."

This language has been obsolete since enactment of the Overseas Differentials and Allowances Act of 1960.

Section 2(a) provides that each employee who was receiving the allowance immediately before the effective date of the act shall receive a retained allowance unless the allowance he was receiving is entirely offset by a higher rate of basic compensation, authorized for his position under section 504 of the Federal Salary Reform Act to take effect at the same time as this act. This retained allowance will be paid in accordance with regulations issued by the President, or such agency or agencies as he may designate. Section 2(b) provides for the determination of the amount of the retained allowance. First, if a special rate of basic compensation is authorized for his position, to take effect at the same time as this act, the dollar amount of the allowance that an employee was receiving immediately before the effective date must be reduced by the amount that special rate exceeds the basic rate of compensation that the employee was receiving immediately before the effective date. The employee's retained allowance is equal to five-sixths of the remaining dollar amount, after the first reduction, if any has been made.

Subsection (c) of section 2 requires that each year thereafter, a further reduction is to be made on the anniversary date of the effective date of the act. These further reductions are to be equal in amount and the fifth such reduction is to result in the elimination of the retained allowance.

Subsection (d) of section 2 provides that the employee's retained allowance may be reduced or terminated by regulation if a special rate applicable to his position is authorized for the specific geographic area where he is employed after the effective date of the act. Provision is then made for the phasing out of any portion of the retained allowance which may remain after a reduction resulting from authorization of such a special rate.

Subsection (e) of section 2 provides that an employee will cease to receive his retained allowance when he no longer occupies either the position in which he received the allowance immediately before the effective date of the act or another position in which he would have received it had he occupied it before the effective date of the act. This means that, in general, he would cease to receive the retained allowance before the end of the phaseout period only if he left the service, left the area, changed to a wage board job or his allowance was superseded by a higher special salary rate. This subsection also provides authority to resume payment of the retained allowance after an employee returns to the area if he is transferred for the convenience of the Government to either a foreign area or a nonforeign area where he receives a post differential.

Section 3 of the draft bill amends section 504 of the Federal Salary Reform Act of 1962, as amended. First it amends subsection (a) so as to except Alaska from the seventh-rate limitation on the authorization of increased minimum rates. Under the present provisions of the subsection, no minimum rate may be established which exceeds the seventh salary rate prescribed by law for the grade or level. It also amends section 504 by adding a new subsection (e) which authorizes the President or such agency or agencies as he may designate, notwithstanding other provisions of law, to prescribe by regulation the 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 under that section apply. This new subsection provides authority for regulation which will prevent an employee who is paid at an increased rate authorized for a particular area, Alaska, for example, from being paid at that increased rate when he transfers to an area to which it does not apply. While much of the authority to regulate on this subject already exists, there is specifically no existing authority to regulate with respect to Classification Act promotions.

Section 4 provides that the act shall become effective 90 days after the date of approval.

STATEMENT OF PURPOSE AND JUSTIFICATION

To accompany a proposed bill to terminate cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas, and for other purposes.

PURPOSE

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

To this end the proposed bill would (1) repeal the authority for payment of cost-of-living allowances to Federal statutory-salaried employees in nonforeign areas contained in section 207 of the Independent Offices Appropriation Act, 1949, as amended, (2) provide for phasing out in an equitable manner the allowance being received by present employees, (3) amend section 504 of the Federal Salary Reform Act of 1962 to permit authorization of higher rates in Alaska when warranted, and (4) provide for 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.

JUSTIFICATION

Background

Cost-of-living allowances authorized under section 207 of the Independent Offices Appropriation Act, 1949, are currently paid in Alaska, Hawaii, Puerto Rico, and the Virgin Islands. They are paid to employees whose rates of pay are fixed by statute. The largest groups are those whose pay is fixed by the Classification Act of 1949, as amended, and by part III of title 39, United States Code, in the postal field service. The allowances are paid to all employees in statutory-salaried positions whether they are recruited locally or in the continental United States. (The post differentials which are also authorized under sec. 207 for certain employees at "hardship posts" are not affected by this proposal.)

Statutory authority for cost-of-living allowances was provided in 1948 to regularize the payment of additional compensation to employees in U.S. territories. Prior to that time additional compensation in the form of differentials or higher grades was paid for employment in territorial areas. Different agencies authorized various amounts of additional pay, some authorized none. In some instances the additional pay applied to all employees while in others it applied only to employees recruited in the continental United States. There was no systematic basis or uniformity in determining and applying these differentials. Section 207 tied the additional compensation to a comparison of living costs. At that time additional compensation was considered necessary in order to staff Federal activities in the areas concerned.

Need for change

Since 1948, there have been significant changes which make inappropriate the continuation of additional compensation based on living costs. There have been substantial changes in the economies of the areas concerned, especially in those of Puerto Rico and Hawaii. There has been enacted legislation which provides new principles for determining Federal salaries and new authority for adjusting salary rates and ranges where required to meet private industry pay levels.

In enacting the Federal Salary Reform Act of 1962, the Congress established two major principles upon which the fixing of Federal salaries is to be based. These principles are that:

(a) There shall be equal pay for substantially equal work, and pay distinctions shall be maintained in keeping with work and performance distinctions; and

(b) Federal salary rates shall be comparable with private enterprise salary rates for the same levels of work.

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. The Federal Government competes with industry for personnel to staff its offices and installations. 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.

In addition to establishing these principles, the Federal Salary Reform Act introduced an element of greater flexibility in the setting of Federal salaries. Section 504 of the act provides authority to establish higher rates of pay for statutory-salaried Federal employees when private enterprise salaries are so substantially above the salary rates appearing in the compensation schedules as to significantly handicap the Government in recruiting and retaining well-qualified personnel. This authority has been used sparingly on an occupational basis in a number of localities and for some occupations on a nationwide basis. It can be used where warranted in a geographic area to increase the pay rates

of all employees paid under statutory-salaried systems, of employees at certain grades or levels, or of employees in certain occupations.

In light of the changed economic conditions, the new Federal salary principles, and the new authority to adjust salary rates where called for by private enterprise salary levels, it is inappropriate to continue paying additional compensation in some States and nonforeign areas on the basis of living costs.

Living costs vary from city to city within the continental United States. According to a study of city workers family budgets made a few years ago by the Bureau of Labor Statistics, 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 were found to have 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 employees in the latter cities when the differences in living costs between Washington and Seattle and between Washington and Chicago are not reflected in the compensation of employees in those cities.

In June 1963, surveys of salaries paid by private employers were conducted in Alaska, Hawaii, and Puerto Rico to obtain information which could serve as the basis for higher base rates where warranted under section 504 of the Federal Salary Reform Act of 1962. These surveys, which were conducted by the Bureau of Labor Statistics at the request of the Civil Service Commission and the Bureau of the Budget, were the same kind as those conducted in the contiguous 48 States to provide information for the general statutory salary adjustments.

The surveys showed that private enterprise salaries are very substantially higher in Alaska than in the contiguous 48 States but that they are about the same level in Hawaii as on the mainland and significantly lower in Puerto Rico than on the mainland.

On the basis of these surveys, higher base salaries could be established for Alaska on an across-the-board basis simultaneously with the termination of the allowance. No higher salaries would be justified in Hawaii or Puerto Rico on an across-the-board basis, but higher rates for individual occupations could be authorized if it is subsequently found that they are needed and justified.

By eliminating the cost-of-living allowances in all the areas and providing higher base pay under section 504 of the Federal Salary Reform Act where warranted, Federal statutory salary rates in the nonforeign oversea areas can be placed on the same footing with statutory salaries in the District of Columbia and the contiguous 48 States.

To accomplish this objective it is necessary to repeal the language now appearing in section 207 of the Independent Offices Appropriation Act, 1949, as amended, which authorizes additional compensation in nonforeign areas on the basis of living costs.

Transitional period

In Alaska, higher base rates under section 504 would, in general, replace the allowance on the effective date of the act. In the other areas, however, a transitional period would be required during which new employees would receive no allowance but employees on the rolls would retain an allowance at a gradually reduced rate.

The phasing out of the allowance for employees on the rolls is proposed in order to avoid the hardship which might otherwise result from termination of the cost-of-living allowances. The phasing out is to be accomplished by reducing the allowance received by current employees by one-sixth each year until it is terminated. The first reduction would take place on the effective date of the act.

This gradually reduced amount which is referred to as a "retained allowance" would be continued during the phaseout period as additional compensation quite apart from base pay. It would be a cost-of-living allowance paid under regulations issued by the President and as such would not be subject to Federal income tax. The aggregate compensation of the employee would not be frozen, but, instead, the employee would get an increase in compensation whenever he is promoted, or receives a within-grade increase, or a general pay increase. Each year the amount of the retained allowance would be reduced by a small amount.

Because the size of the annual reductions in the retained allowance would be small they would generally be offset by general pay increases and within-grade increases.

The bill provides that if the allowance is partially offset on the effective date of the act by higher base salaries under section 504 but not entirely eliminated by them, the remaining allowance will be phased out gradually in the same manner as the allowance would have been had there been no special rates.

The bill also provides that the retained allowance may be reduced or terminated when higher base salaries are authorized at a later date under section 504. The specific manner of reduction, in this case, is left to be prescribed by regulation because of the possible different situations which must be equitably treated.

In general an employee will cease to be paid the retained allowance if he leaves the position in which he was receiving an allowance immediately before the effective date of the act unless he moves to another position in which he would have been receiving it had he occupied it before the effective date. This means that, in general, he would cease to receive the retained allowance before the end of the phaseout period only if he left the service, left the area, changed to a wage board job or his allowance was superseded by a higher special salary rate.

A special provision is included to permit payment of the retained allowance to an employee who returns to the area after having been transferred for the convenience of the Government to a foreign area or a nonforeign area where a post differential is paid.

Tax-free character of allowance

The cost-of-living allowance is exempt from the Federal income tax. It is recognized that to the extent that the dollar amount of the retained allowance is reduced over the phasing-out period the employee will lose the advantage of its tax-free character. The effect of this change will vary from employee to employee and will be felt more by the employees at higher salary levels than at lower levels. Because the allowance is currently paid on the basis of total base pay, this tax-free characteristic makes the payments very generous. In light of this and 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.

Amendments to Federal Salary Reform Act

The draft bill would amend section 504 of the Federal Salary Reform Act to permit, to the extent warranted, authorization of higher rates in Alaska than are permitted generally. This would be accomplished by exempting Alaska from the present seventh-rate limitation on establishment of increased minimum rates. Under the present law, no minimum rate may be fixed at a rate higher than the seventh rate of the statutory range. Private enterprise rates are so high in Alaska that in order to provide comparable Federal salary rates, minimum rates higher than the seventh rate of the statutory range may be required at some or all levels.

The proposed bill contains a provision clarifying the authority of the President to regulate regarding the fixing of pay of employees who are reassigned, promoted, or demoted from or to positions for which increased rates under section 504 have been authorized.

The higher rates of pay which may be authorized under section 504 on a geographic basis will, like the cost-of-living allowance, be payable only during the time that employees are stationed in the area concerned. The rate should not be paid to the employee when he leaves that area. For example, if the present statutory minimum rate for GS-11, \$8,650, should be increased to \$11,000 for Alaska, it would not be appropriate for an employee receiving \$11,000 in that grade in Alaska to be reassigned to a GS-11 position in Washington, D.C., and continue to receive the Alaska rate. Instead his rate in Washington, D.C., should be set at \$8,650 which would be the corresponding rate for the new location. On promotion to a position outside the area for which the high rates have been authorized, the employee would similarly receive a rate appropriate to the new area.

The bill provides general authority to regulate with respect to the fixing of an employee's pay upon change to or from a position for which increased rates are authorized. This authority is needed so that regulations can be issued which will prevent an employee who is paid at an increased rate authorized for a particular area, Alaska, for example, from being paid at that increased rate when he is transferred and promoted to an area to which the increased rate does not apply. The authority is not limited to cases involving movement from one geographic area to another because, except where equitable treatment calls for a different rule, rules consistent with those for geographic changes will be needed to govern changes from one occupation or grade level to another.

Mr. UDALL. We have with us this morning the distinguished Resident Commissioner of the Commonwealth of Puerto Rico, Mr. Polanco-Abreu. He advises me he has introduced House Joint Resolution 569, dealing with this same subject. Without objection, that resolution will be printed in the record at this point. We will consider both the administration bill and the related proposal of the gentleman from Puerto Rico in these hearings.

(H.J. Res. 569 follows:)

[H.J. Res. 569, 89th Cong., 1st sess.]

JOINT RESOLUTION Requiring a cost-of-living survey to be made by the Bureau of Labor Statistics before the cost-of-living allowance for Federal employees in Puerto Rico and the Virgin Islands may be reduced

Whereas the United States Civil Service Commission administrative order announced in Federal Personnel Manual Letter 591-6, dated May 10, 1965, ordered a reduction from 12.5 per centum to 5 per centum in the cost-of-living allowance paid to Federal employees in Puerto Rico and the Virgin Islands; and Whereas the survey which resulted in this reduction ordered by the Civil Service Commission was made without benefit of consultation with the affected Federal employees who had no opportunity to present information concerning their actual living costs; and

Whereas the Federal employees in Puerto Rico and the Virgin Islands consider that this action by the Civil Service Commission in not consulting with them constitutes a violation of the spirit of Presidential Executive Order 10988, which encouraged participation by Federal employees through their employee organizations in the formulation of policies and procedures affecting their conditions of employment; and

Whereas it is the sense of Congress that Federal employees be guaranteed in their rights under Executive Order 10988: Now, therefore, be it

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the Civil Service Commission administrative order announced in Federal Personnel Manual Letter 591-6, dated May 10, 1965, ordering a reduction from 12.5 per centum to 5 per centum in the cost-of-living allowance paid to Federal employees in Puerto Rico and the Virgin Islands shall be without legal effect. No further order relating to the cost-of-living allowance for Federal employees in Puerto Rico and the Virgin Islands shall be issued until after a cost-of-living survey is conducted by the Bureau of Labor Statistics with full participation by the affected employees and their representatives, and a report of such survey has been made to and considered by the Civil Service Commission. A report of such survey shall also be made to the Congress.

Mr. UDALL. H.R. 8390 is substantially identical, except in one respect, to H.R. 7401 of the 88th Congress, on which extensive hearings were held early last year. The bill would repeal existing authority, contained in section 207 of the Independent Office Appropriation Act, 1949, as amended. Under that section Federal statutory-salaried employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands are paid additional compensation on the basis of living costs in those areas. The stated purpose of the administration's proposal is to place such Federal employees on the same footing as those in other parts of the United States with respect to compensation under the regular statutory salary systems.

There is one important difference between this bill and that of last year. H.R. 7401 of the 88th Congress would have provided for the "phasing out" of allowances now being paid to employees in the affected areas over a period of not to exceed 6 years. However, the rather general terms of this provision left the manner of phasing out up to the administrative authorities. The current bill, H.R. 8390, contains specific provisions as to the manner in which the existing allowances are to be phased out.

Both the earlier bill and H.R. 8390 are presented, and should be considered, in the light of existing authority of the Civil Service Commission to authorize higher than minimum salary rates in areas where substantially higher local private enterprise salary levels significantly handicap recruitment or retention of qualified persons in the Government service. This authority, under section 504 of the Federal Salary Reform Act of 1962, could be used in place of the present cost-of-living allowances which would be repealed by H.R. 8390.

Hearings have been scheduled for today, Wednesday, and Thursday of this week. I might say that we will not finish the hearings this week. This is obvious from the great interest that has been expressed by many organizations and individuals. We have had several Members of Congress who have specifically requested an opportunity to testify, and we will probably schedule additional hearings in the near future.

Mr. POOL. Mr. Chairman.

Mr. UDALL. Mr. Pool.

Mr. POOL. How does this bill differ from the bill of the Resident Commissioner of Puerto Rico?

Mr. UDALL. I have not studied his bill. These hearings are on both bills. I am sure we will get into that as the hearings move along.

Our first witness this morning is the distinguished Chairman of the U.S. Civil Service Commission, the Honorable John W. Macy, Jr. Mr. Macy, we are happy to have you with us and we look forward to an interesting presentation. I am sure you will be questioned by subcommittee members when you complete your statement.

STATEMENT OF HON. JOHN W. MACY, JR., CHAIRMAN, U.S. CIVIL SERVICE COMMISSION, ACCOMPANIED BY O. GLENN STAHL, DIRECTOR, BUREAU OF PROGRAMS AND STANDARDS, AND FRANK S. MELLOR, SALARY AND WAGE SPECIALIST

Mr. MACY. Thank you, Mr. Chairman. Such a prospect is a familiar one for me appearing before your subcommittee.

I appreciate very much this opportunity to testify on the bill Chairman Murray has introduced, H.R. 8390, a bill which would terminate cost-of-living allowances in nonforeign areas.

With your permission, Mr. Chairman, I would like to read my statement with respect to this matter. I think it is essential that all the facts be offered and the views of the Civil Service Commission and the administration.

Mr. UDALL. That is perfectly satisfactory, and you may proceed.

Mr. MACY. This bill, which is part of the administration's legislative program, would place Federal white-collar employees in all locations on a common salary basis; that is, it would terminate the cost-of-living allowances which are now paid to those Federal civilian employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands whose rates of pay are fixed by statute. In any area, as on the mainland, where private enterprise salary rates are substantially above the Government's statutory salary rates, the cost-of-living allowance would be replaced by special salary rates authorized under section 504 of the Federal Salary Reform Act of 1962. Unless his allowance were completely offset by such special rates, an employee on the rolls on the

effective date would receive a retained allowance at gradually reduced rates over a period of years. New employees would receive no allowance.

We expect that, in general, special rates would completely replace the allowance in Alaska. In the other areas current employees could expect to have their allowance reduced gradually under the phaseout plan.

I recognize that this bill cannot be expected to attract support from any substantial number of employees in the affected areas because it would take away a special advantage which they now enjoy. At the same time, it deserves the attention of people who are concerned with equal treatment of all Federal employees and with responsibility to American taxpayers.

PURPOSE OF BILL

This proposal is essentially the same as the one we submitted to the 88th Congress. A subcommittee chaired by Mr. Udall, the chairman of this subcommittee, did an excellent job of exploring this subject in 1964 and I believe helped to provide a general understanding of the objectives of this legislation. Unfortunately, because of the demands of other important legislation, there was not time for that subcommittee to conclude its work.

The objective of the bill, which remains the same, is to put 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 that of similar employees in other parts of the country and to eliminate expenditures which can no longer be justified.

Under the Salary Reform Act the pay comparability principle results in nationwide pay scales based on national average salaries paid by private enterprise. In the contiguous 48 States departures from the resulting base rates are permitted only when substantially higher salaries are paid by private employers. No additional compensation based on living costs is authorized—even though there are material differences in living costs among various cities on the continent.

To apply these same principles in Alaska, Hawaii, and the other nonforeign areas calls for the payment of the same nationwide base salary rates or higher base rates when needed because of higher private industry salary levels in the area concerned—but in any case without the addition of a living-cost allowance.

The bill would have no effect upon the post differentials which are paid in a number of island territories on the basis of living conditions which differ substantially from those in the States or upon the various allowances and differentials which are paid to employees who serve in foreign countries. The bill would, furthermore, have no effect upon trades and crafts employees whose rates of pay are fixed by wage boards. In the geographic areas with which we are concerned, these latter employees do not now receive a cost-of-living allowance.

HISTORY

Let me review for a moment a little of the history of these allowances and furnish some information about the allowances that are now being paid.

Additional compensation has been paid in one form or another to employees recruited on the mainland for service in Alaska, Hawaii, Puerto Rico, and the Virgin Islands for a number of years. At the time of World War II, sizable numbers of employees were needed in these areas for defense activities. Local labor markets were inadequate to supply the needed skills in the quantities required. Additional compensation was needed to attract employees from the mainland to these areas which were in those days often viewed by prospective employees as remote and unfamiliar. Generally, the additional compensation amounted then to 25 percent of base pay.

In 1948 Congress passed legislation which put these allowances on a regular cost-of-living basis. Under this law and Executive Order 10000, the Civil Service Commission must review the allowance rates at least once a year and establish the appropriate allowances based on its review.

For this purpose the Commission has been using for about the last 10 years indexes prepared for it by the Department of State. The Department of State, sometimes assisted by the Bureau of Labor Statistics, does the work, because it has had long experience with measuring living-cost relationships between Washington, D.C., and overseas posts. These indexes are based upon detailed surveys of prices in the various areas concerned and on reports of their housing expenditures prepared by Government employees.

At the present time cost-of-living allowances in nonforeign areas are as follows:

Alaska: 25 percent, paid to about 7,000 at a cost of about \$13 million.

Hawaii: 15 percent, paid to about 11,000 at a cost of about \$12 million.

Puerto Rico: 5 percent, paid to about 4,700 at a cost of about \$1½ million.

Virgin Islands: 5 percent, paid to about 140 at a cost of about \$52,000.

These allowances are paid to all Federal employees in the areas concerned whose rates of pay are fixed by statute whether they are recruited locally or on the mainland. The allowances are not subject to Federal income tax.

The Commission recently reduced the allowance rates for Puerto Rico and the Virgin Islands from 12½ and 15 percent, respectively, to 5 percent. This change took effect at the beginning of the first pay period commencing after July 1.

The Commission had first announced this reduction in January 1964 but postponed its application when it appeared that action might be taken on the allowance termination bill which was then pending in Congress. Like the bill we are now considering, that measure would have provided for a more gradual reduction of the allowance rate—a step the Commission could not take under its current authority. Out of fairness to the employees concerned, the Commission decided that it would be best to put off the reduction to see if the bill would be passed.

In August, when it was recognized that the bill could not be enacted by the 88th Congress, the Commission decided that it would delay taking action to reduce the allowances until it could get new data

based upon current surveys. These surveys were conducted in the fall of 1964. When the results became available in the spring of this year, they showed that an allowance rate higher than 5 percent could not be justified in Puerto Rico or the Virgin Islands.

Later, on April 12, 1965, the Comptroller General, after reviewing the subject in some detail, reported to Congress that the Commission's delay in acting upon the allowance reduction was resulting in Federal agencies making excessive payments for cost-of-living allowances at the rate of about \$2 million annually. The Comptroller General recommended that the Commission no longer delay in taking action to reduce the cost-of-living allowances paid in Puerto Rico and the Virgin Islands. The Commission had postponed action out of consideration of fairness to the employees, but we recognized that even though we were again recommending allowance termination legislation, we could not under the law and in light of the existing living-cost relationships, further postpone taking action.

Accordingly, on May 10, the Commission announced that the reduction would take effect in July. The rather substantial reduction in the rates resulted in large measure from the Commission's determination that certain adjustments known as "use factors" which favored one area over another were no longer appropriate for application in calculating living-cost indices for nonforeign areas. The Commission had no authority to make this reduction on a gradual basis, that is, step by step over a period of time. A rate lower than the existing rate but higher than the rate justified by the findings could not be authorized.

I must emphasize that this reduction of the allowance rate for Puerto Rico and the Virgin Islands is unrelated to the legislative proposal which we are considering today. It was an administrative reduction required by existing law.

NEED FOR CHANGE

Let me return now to the reasons why we believe the system of cost-of-living allowances in nonforeign areas should be eliminated.

We advocate legislation to terminate these allowances because they are inconsistent with Federal pay principles. Payment of the allowances is inequitable because it results in higher gross compensation in these areas based upon living costs, while at the same time no distinctions are made in compensation among different areas on the mainland because of living costs.

Living costs are substantially higher in some localities in the continental United States than in others. In a study made by the Bureau of Labor Statistics in 1959, it was found that some major cities had living costs as much as 20 percent above those of others. Living costs were about 7 percent higher in Chicago and Seattle than in Washington, D.C.

Payment of the allowances constitutes an unjustified expenditure of funds. For the most part, Federal positions in Hawaii, Puerto Rico, or the Virgin Islands can be filled by persons from the local labor market who can be expected to accept positions at the regular nationwide salary rates. Salary rates paid by other employers to administrative, professional, technical, and clerical personnel in Ha-

waii are not higher on the average than on the mainland, and in Puerto Rico they are lower than on the mainland.

The Federal Salary Reform Act of 1962 provides authority to establish rates by occupation or geographic areas that are higher than those appearing in the statutory schedules. This can be done whenever it is found that the salary rates in private enterprise are so substantially above the rate in the statutory schedules as to handicap significantly the Government's recruitment and retention of well-qualified persons. Thus, payment of the allowance, per se, is unnecessary as a means of enabling the Federal Government to recruit and retain employees even if, as in Alaska, other employers pay salaries substantially higher than our statutory rates.

Payment of the allowances tends to provide gross compensation in Puerto Rico which is unsuitable for the local labor market. The Federal base salary rates themselves are relatively high compared with going rates paid by other employers in Puerto Rico, particularly at the lower grade levels. At the time that the Bureau of Labor Statistics made a salary survey for us in 1963, the base salary rate for stenographers, GS-3, under the Classification Act (that is, not the rate which was actually paid but the base rate without the allowance was 38 percent above the average private industry rate for that job in San Juan. The Classification Act base rate for accountant, GS-7, was 41 percent above the San Juan industry average. Even for engineer, GS-12, the base rate was 9 percent above the San Juan industry average.

In spite of this we propose to continue base pay in these locations at the nationwide rates applying everywhere. But we see no more justification to pay a premium rate in Honolulu of 15 percent than to pay 7 percent to Federal workers in Seattle, or 7 percent in Chicago, or 3 percent in San Francisco.

SPECIAL PROVISIONS

There is only one really significant difference between H.R. 8390 and the bill which was considered last year. In H.R. 8390 the phase-out formula, for those now receiving the allowance, would be part of the law whereas in the earlier bill the actual formula would have been determined by regulation.

The formula which appears in the bill is essentially the same as that which we described last year as the proposed phaseout plan for administrative application. The inclusion of the phaseout formula substantially increases the complexity of the bill, but we believe that the added assurance may make the bill more acceptable. The formula applies only to employees on the rolls. New employees would receive no allowance.

Under this formula, the allowance would be terminated on the effective date if it is replaced by a special, higher-than-usual, base rate under section 504 of the Salary Reform Act. This could be expected in Alaska. In the other areas, beginning on the effective date each employee on the rolls would receive a retained allowance equal to five-sixths of the allowance he was receiving immediately before the effective date for a period of 1 year. At the end of that year, it would be dropped by one-sixth of the original amount so that

he would receive two-thirds of the original allowance for the next year, then the year following, one-half, and so forth, until 5 years after the effective date, the allowance would be finally terminated.

The retained allowance would be paid as a separate amount which would not interfere with salary increases through promotion, step-increases, or general pay increases. The employee would, in general, receive the retained allowance until he left the service, left the area, or were changed to a position (a wage board position for example) in which he would not have received the allowance had he been in it on the effective date. The bill has a provision for the adjustment of the retained allowance by regulation should a special base rate under section 504 be authorized at some time after the effective date but before the retained allowance itself is terminated.

In Hawaii, for example, where the present allowance rate is 15 percent of base pay, an employee whose salary is \$6,000 would be receiving an allowance of \$900 immediately before the effective date. Under the formula, this would be reduced to \$750 for the first year after the effective date, \$600 for the next year, \$450 for the next year, and so forth. Employees appointed after the effective date would receive no allowance.

In Alaska, where it is contemplated that special rates would be authorized to take effect simultaneously with the effective date of the bill, the phaseout provisions would have application only if the special rates should not completely offset the allowance.

The recent reduction of the allowance rate for Puerto Rico and the Virgin Islands to 5 percent in large measure eliminates the advantages of the phaseout provisions of the bill so far as those areas are concerned. When the plan for the gradual elimination of the existing allowances was developed, it would have had real significance for Puerto Rico and the Virgin Islands. Unfortunately, we were forced to make the administrative reduction, and now there remains only a small allowance to phase out in those locations.

There are some other less important differences between H.R. 8390 and the bill which was considered in the 88th Congress.

In section 1, there is an additional provision which would amend section 207 of the Independent Offices Appropriation Act, 1949, as amended, so as to state explicitly that the additional compensation authorized by the section is for people stationed in nonforeign areas. The language in the present law appears to cover both nonforeign and foreign areas, although it has not applied to foreign areas since the enactment of the Overseas Differentials and Allowances Act of 1960. After enactment of this bill, the additional compensation for nonforeign areas would be limited to the post differential which is based on living conditions rather than on the cost of living.

The new bill does not include the previously proposed amendment to section 1009 of the Federal Salary Reform Act of 1962. That section, which established a \$20,000 ceiling, became obsolete upon enactment of the Government Employees Salary Reform Act of 1964.

The provision for the effective date is different in that the new bill would not take effect until the first day of the first pay period which begins immediately following 90 days after enactment. The lag is necessary to permit time for issuance of necessary regulations and the establishment of the necessary special rates for Alaska. The adminis-

tration's draft bill did not tie the effective date to the pay period. We recognize this difference in Chairman Murray's bill as an improvement.

The provision which would exempt Alaska from the seventh-rate limitation on special rates and the provision authorizing regulations to prescribe the rate of basic compensation which will be paid to an employee who is transferred, reassigned, demoted, or promoted to, or from a special rate position are continued as they appeared in the earlier bill. The first of these is necessary to permit authorization of adequate special rates in Alaska. The second is necessary to assure that a special rate paid to an employee in Alaska will not serve as the basis for fixing his rate upon his promotion to a position outside Alaska, such as in Washington, D.C., for example.

CONCLUSION

In summary, Mr. Chairman, I should like to emphasize that the objective in this bill is to put the compensation of employees in these nonforeign areas on the same footing as the compensation of employees in other parts of the Nation. The continued payment of additional compensation on the basis of living costs is an unjustified expenditure and is inconsistent with Federal pay principles. I urge your support of H.R. 8390.

I believe the subcommittee has copies of the section analysis and the statement of purpose and justification which accompanied the draft bill which was sent to the Congress. I believe you have already introduced that material in the record.

I want to thank you, Mr. Chairman, for affording me this opportunity to explain the proposal and related matters and I shall be pleased to try to answer any questions you may have.

Mr. UDALL. Thank you. As always, you are a forceful and impressive advocate.

The subcommittee operates under the rules of the full committee which has a 10-minute rule for the questioning of witnesses. That includes the time yielded for questions. I have several questions. I will apply the rule to myself and try to save time for my colleagues.

Mr. Macy, in the hearings last year we had a great deal of testimony on the cost of living in these areas—groceries, drycleaning, and so forth. Let me give a concrete example of the situation to see if I understand the administration's justification for the bill. I think sometimes last year we did not fully distinguish between cost of living and the cost to the Government of going out in the labor market to obtain particular services.

Suppose that a stenographer or typist in the District of Columbia is paid \$5,000. For that \$5,000 she can maintain a particular standard of living in this area. Let us suppose in Puerto Rico it takes \$5,250 to achieve that same standard because living costs are higher there. From your testimony one might assume, hypothetically, that an employee of that character could be obtained in San Juan, not for \$5,000 or \$5,250, but for \$4,500. One of the arguments the Government makes is that there is no justification for paying more in a free labor market for a particular employee, when the labor market in Washington, D.C., or on the mainland has qualified employees available for less than this amount.

Is that a fair presentation of the facts?

Mr. MACY. Yes, that is a fair presentation of the facts. As I indicated in my testimony, a GS-3 stenographer in San Juan can be secured and the going private industry rate for that job in San Juan is 38 percent less than the Classification Act rate.

Mr. UDALL. The employee organizations say, "It cost us more to live down there." You answered, "This does not justify the Government paying more than when it can get that skill on the free market"?

Mr. MACY. That is right.

Mr. UDALL. You make the further point, that you will not pay \$4,500, but the nationwide rate?

Mr. MACY. Yes, because of the declared policy of Congress that there should be nationwide rates based on comparability with national average rates paid by private industry. Where the rates paid by private industry are less, we do not reduce the nationwide rate. Where they are substantially more, we are authorized under section 504 of the Federal Salary Reform Act of 1962 to pay an additional rate if we are experiencing serious difficulty in obtaining qualified employees.

Mr. UDALL. In that case the justification is that you are handicapped in obtaining the skills and therefore have to pay more to get them. But where you do not have to pay more to get the skills, you say the taxpayer is not justified in paying more?

Mr. MACY. That is exactly right.

Mr. UDALL. You made the point, and I think it is true, that there are material differences in living costs among various cities on the continent. One thing that has bothered me is our failure to compensate for these differences. A postal worker with a large family in Chicago who is getting a pay rate of \$6,000 may be on the border of poverty. Yet someone in a small farming community in my congressional district getting the same amount is sometimes in the upper third of the economic strata in his locale.

Mr. MACY. That is correct. We have paid through the years a nationwide rate for these statutory jobs. We pay the local prevailing rate for blue-collar jobs based on what the private industry rate is in that community, but we have not found it feasible to do this for postal or white-collar jobs.

Mr. UDALL. I was impressed with your illustration showing that the effect on an employee in Hawaii under the phaseout plan would be slight. Under the formula, an employee whose salary is \$6,000 would have his cost-of-living allowance reduced from \$900 to \$750 during the first year. The most heated arguments against this bill last year came from Hawaii and Puerto Rico. Because the Civil Service Commission has already cut the allowance to 5 percent for Puerto Rico and the Virgin Islands, as you have pointed out, the effect of the phaseout on these employees would be very minor.

Mr. MACY. Less than 1 percent a year.

Mr. UDALL. Which would be a very few dollars in most cases.

I am wondering if we would not have more enthusiasm for this bill from the people in Puerto Rico if we keyed the phaseout, not to the new rates, but to the old ones? What would be your comment on that?

Mr. MACY. It seems to me there would be substantial equity in doing that. It would pose some substantial administrative problems but it seems to me those could be surmounted. I do not believe there will ever be enthusiasm for this bill but it seems to me this would reduce the degree of opposition.

Mr. UDALL. If this bill does not pass, the fine people in Puerto Rico will still be cut. It seems to me they might turn around and show enthusiasm for the bill if we key their phaseout to the old rates rather than the new ones.

Mr. MACY. I might point out the phaseout formula is one that would mean there would be relatively little net reduction because the workings of the salary system would tend to decrease the reductions on an annual basis because of the annual review, comparability, and promotions, so that the loss is minimized and to some extent completely wiped out.

Mr. UDALL. We are only talking about \$1.5 million in Puerto Rico. I will pursue this further because it would mean the passage of this bill would actually result in a pay raise under the action of the Commission on July 1.

Mr. MACY. That is correct. Last year the Commission deferred this action because Congress was at that time considering legislation along this line.

Mr. UDALL. And the Commission was criticized by the Comptroller General for giving 18 months additional cost-of-living allowances to these people in Puerto Rico. The Comptroller General said the Commission had no business doing that.

Mr. MACY. That is correct.

Mr. UDALL. Mr. Pool.

Mr. POOL. To pursue this principle further, why do you not have a different rate in Arkansas than in New York State?

Mr. MACY. If you were to apply in the continental United States the same principle you are now applying in Alaska, Hawaii, Puerto Rico, and the Virgin Islands, the only logical conclusion you could reach is that you would have to set up adjustments all over the continental United States. There is a spread of 20 percent between the lowest and the highest level in the continental limits.

Mr. POOL. Who determined that you should use a national average as a fair way to do it?

Mr. MACY. The national average relates to the salary scale adopted by the Congress years ago and sustained through the years. I think probably in the Washington administration it was recommended by somebody. I have been around a long time but I do not recall when this started.

Mr. POOL. Henry Ford once said if you ever cut a man's salary you might as well fire him. It looks to me what you are doing is cutting some people's salary; is that right?

Mr. MACY. We are reducing their cost-of-living allowance which reduces their gross income, yes.

Mr. POOL. And you are hurting their morale.

Mr. MACY. Nobody likes to have his salary reduced and the reason the Commission recommended in this legislation a phaseout formula was to reduce the amount of the reduction each year.

Mr. POOL. There is no other method you could do it without cutting anybody's salary?

Mr. MACY. It was my hope the Congress would enact this last year and that the cut would be offset by the then pending general pay act, but no action was taken. As I pointed out earlier, I believe under the formula in the bill the workings of the salary system will for the most part offset the rather limited decrease that will occur each year until the allowance is phased out.

Mr. POOL. Do you take into consideration the fact it costs these people more in travel expense when they go back home?

Mr. MACY. Most of them are local employees and live in Hawaii or Puerto Rico. The Government has used to the maximum extent possible people who are trained and available in the local market rather than trying to recruit them on the mainland.

Mr. POOL. What is the percentage of local people employed?

Mr. MACY. In Hawaii, about 80 percent are local hires. For example, in the post office department in Puerto Rico only one employee, as I recall the survey, came from the mainland. The rest were from the island.

Mr. POOL. When the Government first started operating there, probably 90 percent were from the mainland?

Mr. MACY. During the war a substantial proportion came from the mainland, but it has been the employment policy of the Government to use to the maximum extent the people available in the local labor market.

Mr. POOL. I reserve the rest of my time, Mr. Chairman.

Mr. UDALL. The gentleman from North Carolina, Mr. Broyhill.

Mr. BROYHILL. Thank you, Mr. Chairman. I do not have many questions. I think Mr. Macy's testimony was very clear and forthright and very valuable to me as a member of the subcommittee in making up my mind about the legislation.

The present policy, as you pointed out, has resulted in paying a premium off the mainland, and if we followed this policy on the mainland, we would have to raise the pay of people in certain high-cost-of-living places like Chicago, and maybe reduce salaries of people in certain other areas of the country.

What you are really saying is that we should have one pay scale for the entire country and should not have multipay scales?

Mr. MACY. Right. I am saying that the Congress, I believe wisely, set a policy in 1962 whereby this nationwide rate is set in accordance with the rates being paid for like jobs across the country; that it, the market rate, the rate that has to be paid in order to get these skills. The cost-of-living allowance goes back before that principle was in being and it is not justified now because it brings in another, we feel irrelevant, standard in computing premium pay.

In regard to your point about reducing salaries, we have never had a system of reverse premium. We establish a floor and go above that for the cost-of-living allowance. It is true today it is based on 100 in Washington, D.C. Seattle, Wash., would be 107, which is more than the difference between Washington and Puerto Rico and the Virgin Islands. Houston is 87 on the basis of this. So your point is well made.

Mr. UDALL. If the gentleman will yield, when I first came on this committee it immediately struck me that we ought to pay more in high cost areas and less in low cost areas. The more I studied it, the more it became apparent that we would be opening a can of worms. It would be an administrative monstrosity. You would get into problems like an employee who lives in a suburban area but works in a metropolitan area a few miles away. Which area would determine the salary he should receive?

Mr. BROYHILL. I agree. It would be ridiculous, it seems to me, to have multipay scales across the country.

Mr. POOL. If you will yield, do you not think that would be the fair way to do it, though?

Mr. BROYHILL. How will you be fair in administering it?

Mr. POOL. I do not know. That is his problem.

Mr. BROYHILL. If you cannot administer it fairly, it is not a fair way.

Mr. MACY. It is difficult to determine what the boundary would be, particularly for the Post Office Department, where you have 34,000 post offices. This is where we ran into serious difficulties. You could do it based on certain metropolitan areas, but even this is extremely difficult.

Mr. UDALL. Where in Chicago does the metropolitan area end and the rural area begin?

Mr. MATSUNAGA. Will the gentleman yield?

Is this not contrary to the principle applied to blue-collar workers where you have local wage boards setting salaries based on the prevailing wage rates in various communities? If you are proposing one set of standards for blue-collar workers, why propose another set of standards for white-collar workers when they are all Federal employees?

Mr. MACY. The distinction is one that goes back over 100 years based upon the view that for the craft and trade jobs you have positions in the community, in industry, which are roughly the same and where you are drawing for the most part skills from that immediate area, and you have far less movement between various parts of the country with the blue-collar employees than you do with those in administrative, clerical, and professional jobs here, to a substantial extent, you do have a nationwide market.

So you are correct; there are two different policies. For the 600,000 employees in the crafts and trades the rates are determined based upon local prevailing rates. For the 1,600,000 in the 4 statutory classifications, the Congress has adopted a standard of nationwide rates. Through the years a number of variations have been studied and been considered and the conclusion has been that either the administrative or the political feasibility made it impossible.

Mr. MATSUNAGA. And insofar as the blue-collar workers are concerned you have been able to work out a workable schedule for various districts?

Mr. MACY. Yes.

Mr. MATSUNAGA. So there is really no reason why you cannot apply the same policy to white-collar workers as well?

Mr. MACY. My view would be you could not do it for all the white-collar employees. I feel it might be possible to do it for clerical jobs,

but the point I made earlier still applies: How do you arrive at the boundaries between areas? On the blue collar you have industrial establishments of the Government located in well-defined centers, whereas the white collar tend to be in many more areas, particularly in the Post Office Department, and that would pose a very serious problem. Also, I think our good friends in the postal leadership would find this a horrifying possibility.

Mr. MATSUNAGA. Thank you. I am sorry I took up so much time.

Mr. BROXHILL. What I am trying to say is that those who advocate the system we now have where extra salaries are paid to civil servants in certain parts of our country, even though they are not on the mainland, just on the basis of the cost of living, to carry this principle to its ultimate conclusion would mean we would have to pay more in other areas of high cost of living, and that means we will base all salaries on cost of living and we will have to reduce salaries in certain areas. In my judgment a system of this kind is completely wrong. It seems to me this legislation is well thought out and you have presented good arguments for it. No doubt there will be some who will argue for the status quo.

Mr. UDALL. It seems to me the gentleman from Hawaii has always had an enthusiastic area interest in this legislation. The gentleman from Hawaii.

Mr. MATSUNAGA. Thank you. Looking at it from an academic viewpoint it seems to me the proposed measure would impose a grave injustice on the employees concerned, and, to carry it further, I would say, Mr. Macy, in tracing the history of the cost-of-living allowance, is it not true it was determined that the justification for it was that the cost of living was higher in those areas where the allowance was authorized?

Mr. MACY. Yes; but that was before we were basing salaries on comparable salaries across the country. This was before the Congress had established that as a principle for determining salary.

Mr. MATSUNAGA. But the justification was that in Hawaii and Puerto Rico and Alaska and the Virgin Islands the cost of living was higher and therefore it was justified to pay them the additional amount?

Mr. MACY. It was justified at that time.

Mr. MATSUNAGA. The justification still exists in Hawaii, for example, even by your own survey it has been shown that the cost-of-living index is 115.8, I believe, for 1964. So that if you were to take it historically—and you did in answer to my question earlier as to the difference between blue collar and white collar, that it goes back historically 100 years—if we are to base our decision on history in one instance why not base it in this instance, that the justification still exists today?

Mr. MACY. I would bring into my argument more recent history; namely, the establishment by Congress of a new principle to determine salary rates and that new principle is more appropriate than the one which existed previously, and that the use of premium pay above those salaries based upon differences of cost of living is no longer appropriate and results in an excessive payment by the Government. We found in Hawaii, in a survey conducted of salary rates, that private employers in Hawaii were not paying in excess of the

nationwide rate without any premium at all. Therefore, we view that as an adequate rate in keeping with the present position of Congress without any supplement.

Mr. MATSUNAGA. Again I think you have indicated certain inconsistencies here. You spoke of determining the white-collar salaries on a national basis because you say the movement of personnel is different among the white-collar workers as compared to the blue-collar workers. Now, again, you bring in the local salary scale of private industry. I think you are being inconsistent here.

Let me further inquire, when you speak of a national average for white-collar workers, do you mean to say you will determine the salary of a GS-5 in Hawaii on the basis of what is nationally paid a GS-5?

Mr. MACY. That is correct.

Mr. MATSUNAGA. Is it not true in determining what the GS-5 in Hawaii gets you also include the cost-of-living allowance?

Mr. MACY. No; we do not. In determining the rates in the nationwide survey, there is an examination of what is being paid by private enterprise in 80 different communities across the country. We arrive at what the rate is for a GS-3, or GS-4, or GS-8, and we construct a comparability line which represents what is being paid in private enterprise for those rates.

Mr. MATSUNAGA. Nationwide, or just in Hawaii?

Mr. MACY. Nationwide. It includes Hawaii. But in order to check this in 1963 to ascertain what the facts were in Hawaii, we had a special study made of the salaries that were being paid in that marketplace in order to acquire the skills that are necessary in private enterprise where those skills are the same as in the Government. We found that the rate that the Federal Government was using was about on par with what private enterprise was paying in Hawaii, and that the Government could be adequately staffed in Hawaii with the nationwide rate without any cost-of-living allowance.

Mr. MATSUNAGA. The cost-of-living allowance is determined by comparing the cost of living in Hawaii to Washington, D.C. Now, I am told by employees, white-collar workers in the Federal Government who have come from Hawaii to Washington on vacation and study programs, that what they are given in Hawaii as compared to what comparable workers get in Washington is about 15 percent if you discount the cost-of-living allowance.

Has your department made any investigation, or survey, in this area?

Mr. MACY. I am sure this is reasonably scientific. Our conclusions do not match that at all.

Mr. MATSUNAGA. I wish you would look into this. I have had numerous complaints, and I am having the unions look into this, that the cost-of-living allowance of 15 percent which is now being given Hawaii is taken into consideration in setting the basic rate to begin with.

Mr. MACY. No. That is incorrect. I respectfully disagree.

Mr. MATSUNAGA. I wish you would go into that.

Mr. MACY. I know that. This is not included in setting the rates. This is a premium above the nationwide rate that is authorized for white collared employees of the Federal Government.

Mr. MATSUNAGA. In the beginning it was 25 percent?

Mr. MACY. Yes, during the war it was 25 percent.

Mr. MATSUNAGA. This was given as an incentive for workers of other areas to go to Hawaii to work?

Mr. MACY. That was the justification.

Mr. MATSUNAGA. There are many who are still working there, I presume, who went by virtue of this incentive that you offered. What about these workers? Do you feel any contractual obligation to them?

Mr. MACY. No.

Mr. MATSUNAGA. You do not?

Mr. UDALL. A moment ago Mr. Matsunaga suggested that the basic reason for initially authorizing this cost-of-living allowance was higher living costs in Hawaii related to those in Florida.

Is this not part of the story? Was it not the justification that there was a higher cost of living in Hawaii; and in order to get the workers—the technical skills the Government needed in Hawaii—this was offered? The justification was not to do equity, or to give Federal workers in Hawaii a particular standard of living, but to get the Federal workers we needed to accomplish the Government's mission.

Mr. MACY. This was extra compensation to attract people in the mainland to staff activities in Hawaii.

Mr. UDALL. We needed them in the war effort.

Mr. MATSUNAGA. Pursuing that, a recent article in the Honolulu papers indicated a shortage of skilled workers. The unemployment rate in Hawaii from the last figure I saw was down to about 3.6 percent. This, according to statistics, is just about full employment. Right now, in the skilled areas, especially in the radio field, electronics, et cetera, we are short of labor. As a matter of fact, even in the stenographic field we find we are short. Would this not be a continuation of a part of the justification?

Mr. MACY. If the situation were such that the Federal Government was unable to fill its positions at the nationwide rates in Hawaii to such a degree in certain occupations and in certain fields, it would be possible under section 504 of the Salary Reform Act to raise those particular jobs to a higher rate without resorting to the inappropriate means of the cost-of-living allowance.

Based on the information I have, the Federal Government is not experiencing any difficulty in staffing its organizations in Hawaii. In fact, a recent report from our civil service representative there indicated we had one of the most favorable situations with respect to available candidates on our registers in Hawaii, particularly in the clerical skills.

Mr. MATSUNAGA. Can you state here without any qualifications in answer to a question that I put earlier to you that the 15 percent cost-of-living allowance is over and above the national rating which would normally be given, say a GS-5?

Mr. MACY. Yes. The 15 percent is applied as a premium, tax-exempt, on top of the base salary which represents the nationwide sale paid in all other parts of the country.

Mr. MATSUNAGA. You would say it is absolutely false that anyone who says that instead of hiring a worker at GS-7, he is normally given a rating of GS-5 because of the 15 percent additional cost-of-living allowance being taken into consideration?

Mr. MACY. If that were so, it would be in violation of the Classification Act.

Mr. MATSUNAGA. In fact—

Mr. MACY. In fact, I dispute this. This certainly is not a general practice.

Mr. MATSUNAGA. Supposing we can show this is so?

Mr. MACY. I do not believe you can show it is so. I would question this as being a valid representation of actual conditions.

Mr. MATSUNAGA. Supposing we can show this is to be so in Hawaii, then you would say there would be full justification for continuing the 15 percent?

Mr. MACY. No. I would say there would be need for correcting inappropriate classification elsewhere.

Mr. MATSUNAGA. You would recommend correction of classification?

Mr. MACY. Yes. If this condition exists, I certainly would want it reported.

Mr. MATSUNAGA. Even if it means the raising across the board 15 percent in classification rating in order to make up for that 15 percent which is now being considered in setting grades, you would go along with that?

Mr. MACY. It is not being considered in setting grades.

Mr. MATSUNAGA. I prefaced my statement—if we can prove in hiring personnel in Hawaii they take this 15 percent differential, cost of living, and add it on to a grade in order to determine what grade level to hire this person at so he would be getting the same pay as a GS-7, if we can show that, would you be willing to raise the classification from a GS-5 to a GS-7 for the same position in Hawaii?

Mr. MACY. If such a condition existed, I would prefer to eliminate the cost-of-living allowance and pay the proper grade, even if that grade were higher.

Mr. MATSUNAGA. You would be willing to recommend the raise in classification across the board?

Mr. MACY. I would recommend a very thorough classification survey of all positions to ascertain whether the condition you describe in fact truly exist. If they did exist, it would be necessary to make adjustments.

Mr. MATSUNAGA. You would make a good witness in court.

Mr. UDALL. Mr. Krebs of New Jersey.

Mr. KREBS. First of all, I want to say I believe Mr. Macy has done his usual excellent job in representing the point of view he expressed here this morning and that of his agency. I want to say at this juncture it is quite obvious, without a secret ballot, or with a secret ballot, that there is going to be more discussion in the committee about your proposal. I would suggest I would not be on your side, but on the side of my two predecessors here for a lot of reasons.

Mr. MACY. I would be interested in hearing them.

Mr. KREBS. When the time comes, we will give them to you. It is my turn to hear you and that is why I am asking questions.

Mr. MACY. I will be happy to respond.

Mr. KREBS. One thing I cannot quite understand is, a couple of weeks ago you appeared before this committee and testified about the equitable 3 percent, the fair 3 percent, and you related this to com-

parability. I am sure you recognize the fact that with a 3-percent increase that has been proposed by the administration, and advocated by you, it would leave us lagging some 21 to 24 months behind comparability. If it is all right to ignore comparability on that end of the scale, I am surprised to hear you use the same argument with respect to reducing the wages of people who are getting these alleged unnecessary and unfair added incentives for working in these areas of the world.

I want to say that several different times I have heard comparability referred to in these hearings. What I think we are talking about is really ambivalent comparability.

How can you say that 3 percent is a fair increase for all the other civil service employees that we talked about in our previous hearings and now say that we have to reduce the wages of people to achieve comparability?

Why do we not have a 21- to 24-month timelag in the negative aspect of this as it relates to the employees?

Why do we have to hurry to cut them down to this new kind of comparability when we are not too concerned about raising them up to complete comparability in other areas when you say 3 percent is enough to do the job?

Mr. MACY. How much time do I have, Mr. Chairman?

Mr. UDALL. The gentleman has about 6 minutes.

Mr. MACY. I fear that I have not really made my case clear this morning. This is not a proposal to reduce base rates. This is a proposal to comply with the standards established by the Congress in the 1962 act establishing the principle of comparability, comparability with what is being paid by private enterprise for positions similar to those in the Federal Government and to eliminate the premium on top of that based upon a different standard, namely, cost of living, a standard which may have been entirely appropriate prior to the establishment of comparability as a basis, and prior to the establishment of annual review of salaries in order to maintain comparability.

What is proposed here is to carry out the standard set in 1962 for the entire country rather than to have for these four locations a separate standard that relates to it.

Mr. KREBS. I still feel you have two kinds of comparability, one for going up and one for going down, and I do not think that is right.

Mr. MACY. I do not believe that comparability is a factor in establishing the rates that I am proposing to review.

Mr. KREBS. You are the one who brought comparability into it. I copied it down as you said it. You said comparability is a policy of the Government.

Mr. MACY. You are right. It is the established policy. In the light of that policy, it is the view of the administration, and incorporated in this bill, that this alternate approach be eliminated and we apply comparability in all parts of the country, in the 50 States, and in these other offshore operations.

Mr. KREBS. I wanted the record to show that it was you who raised comparability, and not I.

Mr. MACY. In 1962.

Mr. KREBS. I do not think it is fair that you say it should not be raised in this respect.

Mr. MACY. I just want to be responsive to your question.

Mr. KREBS. You have been responsive to the question.

Can you tell us what the total reduction, percentagewise, would mean to how many employees in toto?

Mr. MACY. The reduction would be for Hawaii, 11,000 employees, 15 percent.

Mr. KREBS. Is this the total number?

Mr. MACY. Yes.

Mr. KREBS. Are postal employees involved in this?

Mr. MACY. Yes.

Mr. KREBS. What we are doing is talking about wage increases for post office employees, and in another committee we are talking about cutting them.

Mr. MACY. We are talking about eliminating the cost-of-living allowance for all employees.

Mr. KREBS. How long has this been in effect?

Mr. MACY. This statute has been in effect since 1950.

Mr. KREBS. The cost-of-living allowance?

Mr. MACY. Yes.

Mr. KREBS. So, actually, for 15 years this has been an integral part of the salaries of these people?

Mr. MACY. It has been an incremental part of the wages.

Mr. KREBS. Call it what you want, it is take-home pay.

Mr. MACY. That is right.

Mr. KREBS. It buys butter, meat, pays the rent, and the doctor bill, and gets the kid's tooth filled when it has to be filled. It is the purchasing power and the standard of living of the people being affected by it.

I wonder, since this has been in effect for 15 years, why it would not be proper and possible to let attrition take care of this. For the employees who made sacrifices as you suggest initially to go to these uncomfortable parts of the world to work for the U.S. Government, now that the need is not so great for them, we say we want to express our gratitude by chopping you down \$900, we will cut you one-sixth each year for 6 years.

This seems to me as a pretty unappreciative way of expressing to these workers our gratitude for helping us out when we needed help. I am sure we would not bankrupt the Treasury of the United States if we let attrition take care of this.

Another point was made here and I think it ought to be straightened out, the argument they really would not be suffering any cut in pay because the increments they would get would make up for what they lost. They would have to enjoy these for 6 years to stand still, is that not so, while the other employees who are not in the same category go ahead with their annual increases?

Mr. MACY. This would bring them into line with the other employees over a 6-year period. They would continue to enjoy a fraction of these extra benefits during the 6-year phaseout period. Your proposal would be we continue this for the life of the employee, or the career of the employee with the Federal Government. This would be another way of phasing it out.

My view would be this is excessively long and would result in excessive payments by the Federal Government.

Mr. KREBS. Some have already been cut according to your testimony.

Mr. MACY. Those were cut on the basis of the present law; that is right.

Mr. KREBS. I want the record to show I do not believe that the subsequent increases they would get in any event are going to take care of the injustice that was done to them.

I have one more question. Do you know how many different indexes the Bureau of Labor Statistics publishes?

Mr. MACY. I do not understand your question.

Mr. KREBS. They have one, a cost-of-living index for one area of the country and another for another area of the country, depending on the various standards of living. In some areas of the country it is cheaper to provide a normal level of life.

Mr. MACY. There is a difference of about 20 percent.

Mr. KREBS. I wonder how you reconcile that with your expression of support for a nationwide yardstick as you did in response to my colleague's question?

Mr. MACY. Yes. I feel that the administrative complications of setting up separate schedules for different locations throughout the country are significant enough to justify a nationwide rate as long as the Federal Government has the option, as it was provided in the 1962 statute, for a means of increasing rates if rates in a different locality are substantially higher and it is difficult for the Federal Government to staff its organization with the skills and qualities it needs.

Mr. UDALL. We have one other witness this morning, but I am going to depart from the usual procedure, with the consent of the other members of the subcommittee. Sitting with us this morning is a distinguished gentleman from Puerto Rico. Because he is from this area, I think he ought to have some time.

Mr. POLANCO-ABREU. Thank you for including in this hearing House Joint Resolution 569.

My first question is in regard to the surveys, Mr. Macy. It seems that a decision for reduction in Puerto Rico was based on the result of surveys prepared; is that correct?

Mr. MACY. Yes.

Mr. POLANCO-ABREU. May I have a description of how the surveys were conducted and the specific results in regard to groceries and housing in Puerto Rico and in the Washington, D.C., area?

Mr. MACY. The survey was conducted by the Department of State along the same lines it has been conducted in the past 10 years. This is a survey that follows the pattern that the Department uses in ascertaining the differences in cost of living between Washington and overseas posts.

This is the same survey used in determining the differences between Washington and Hawaii and Alaska and the other points covered in this program.

Mr. POLANCO-ABREU. Were the employees specifically consulted in regard to this?

Mr. MACY. Yes. In San Juan, last year, the employees' representatives were brought together and the survey team explained to them what the approach would be. It asked them for specific information, asked them for guidance, and then the survey was conducted. The

State Department presents to the Civil Service Commission the results of those surveys. The Commission had a survey in 1964 that indicated that it was no longer appropriate to maintain the 12½-percent allowance. It proposed 5 percent but withdrew application of that because the subcommittee was considering legislation.

There also has been at least a year's indication that this reduction was contemplated.

Mr. POLANCO-ABREU. Referring to your statement, Mr. Macy, would you explain the formula, specifically in regard to the Federal employees in Puerto Rico and how it will operate?

Mr. MACY. With respect to the phaseout formula in Puerto Rico, this would mean that based on the current rate of 5 percent there would be a reduction of one-sixth of 5 percent, or roughly 1 percent, of each of the successive years until the rate was entirely eliminated.

So if we have today an employee with a base salary on the nationwide schedule of \$5,000, there is a 5-percent cost-of-living allowance on that which is \$250 and it would mean that one-sixth of that, or slightly less than \$50 would be reduced from that over a period of 6 years until you reach zero.

So this would amount to at most \$50 on an annual basis for those currently on the effective date receiving the 5-percent allowance. It would mean that those new employees who were hired subsequent to the effective date would not receive anything except the nationwide basic salary.

Mr. MATSUNAGA. Are you in opposition to House Joint Resolution 569, or what is your position? Have you had a chance to look at it?

Mr. MACY. Yes. I have looked it over. I am in opposition. I do not feel that would accomplish a desirable result.

Mr. MATSUNAGA. When was the latest survey conducted in Puerto Rico?

Mr. MACY. In the fall of 1964.

Mr. MATSUNAGA. This was a survey conducted by your office.

Mr. MACY. No; the survey was conducted by the Department of State.

Mr. MATSUNAGA. By the Department of State?

Mr. MACY. Yes; as it has been for the past 10 years. The new survey was conducted in the fall of 1964 because the Commission felt that it was unfair to the employees to take action on the basis of an earlier survey in view of the passage of time. A new survey was conducted, and the action of the Commission announced on May 10 was on the basis of that survey.

Mr. MATSUNAGA. And the survey indicated a cost-of-living excess in Puerto Rico of only 5 percent above Washington.

Mr. MACY. Above Washington; yes.

Mr. MATSUNAGA. Then your recommendation of reduction to 5 percent was on the basis of this finding of the cost of living in Puerto Rico as compared to Washington.

Mr. MACY. Yes. The 5 percent is the Commission's action under the existing law and Executive order which makes it necessary for the Commission to annually review all of these rates and set administratively the cost-of-living allowance that was appropriate.

As I indicated, this was deferred last year because of the consideration of this legislation at that time.

Mr. POLANCO-ABREU. And you are proposing in the bill that you have recommended to eliminate this 5 percent also?

Mr. MACY. That is correct.

Mr. POLANCO-ABREU. And this would take an additional \$1.5 million away from the salary earners in Puerto Rico.

Mr. MACY. This would eliminate that amount of money presently being paid for the cost-of-living allowance.

Mr. POLANCO-ABREU. And we are proposing to spend \$15 million to alleviate poverty in Puerto Rico?

Mr. MACY. Yes; that is correct. I do not feel we connect poverty with a pay scale unjustified for Federal employees.

Mr. KREBS. Could you tell us what factors the State Department evaluated in their study in 1964?

Mr. MACY. Yes; I can provide for the record, if you wish, the summary of the findings of the State Department for complete review.

Mr. KREBS. What I would specifically like to see is what factors they evaluated to ascertain the cost of living in Puerto Rico.

Mr. UDALL. In the interest of time, you could give that to us for the record.

(See p. 71 for information requested.)

Mr. POLANCO-ABREU. May I introduce a statement that I prepared when I introduced my bill, House Joint Resolution 569?

Mr. UDALL. We would be delighted to have it.

Without objection, the statement will be made a part of the record at this point.

(The statement follows:)

PREPARED STATEMENT OF HON. SANTIAGO POLANCO-ABREU, RESIDENT COMMISSIONER
OF PUERTO RICO

Mr. Chairman, today I have introduced House Joint Resolution 569, requiring a cost-of-living survey to be made by the Bureau of Labor Statistics before the cost-of-living allowance for Federal employees in Puerto Rico and the Virgin Islands may be reduced.

For the benefit of our colleagues who may not know of the situation which prompted me to introduce this joint resolution, I should like to offer a word of explanation by way of background.

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

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

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

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

This system has worked well and has provided an equitable way for Federal employees to cope with unusual financial burdens stemming from conditions in their overseas employment which result in higher living costs through built-in

ocean freight rates, scarcity of items for which the consumer dollar competes, and other factors depending on the local situation.

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

A bill to phase out the cost-of-living allowances and substitute the comparability system was proposed by the Civil Service Commission and introduced in the 88th Congress. The bill had hearings but did not receive any further attention from the Committee on Post Office and Civil Service, to which it was referred.

A similar bill, H.R. 8390, has been introduced in the 89th Congress and is pending before the Post Office and Civil Service Committee, where it has received no action to date. Under these "phaseout" bills the Federal employees now receiving cost-of-living allowances would have those allowances reduced gradually over a period of years, to cushion the shock of elimination. The theory is that during the "phaseout" period, perhaps increments in the Federal salaries would take place.

Under the law governing the cost-of-living allowances, however, the Civil Service Commission has the authority to adjust the cost-of-living allowance in any particular area according to the findings of the surveys so as to make adjustments for any changes in living-cost relationships between Washington, D.C., and the particular area involved. Under this authority, a cost-of-living survey was completed early this year in Puerto Rico and the Virgin Islands which, according to the Civil Service Commission, resulted in a finding that the cost of living in Puerto Rico in 104.5 percent of the cost of living in Washington, D.C. On the basis of this survey, the Civil Service Commission announced on May 10, 1965, that effective July 1, 1965, the cost-of-living allowance for Federal employees in Puerto Rico and the Virgin Islands would be reduced from 12.5 percent of their salary to 5 percent. Obviously, the Federal employee who has made long-term, inelastic financial commitments based on his income, is going to suffer severe hardship and a damaged morale by reason of such a drastic cut in his paycheck. This, I maintain, is not only unreasonable, it is unfair. And I should think, from the Government's point of view as an employer it is unwise.

I have had several conferences on this question with Mr. John W. Macy, Jr., Chairman of the U.S. Civil Service Commission, and other officials of the Civil Service Commission, in an effort to resolve the problem. I have not only been unsuccessful in these efforts, but I have been confused and frustrated by the systems and methodology, which were utilized to arrive at the final figures of the survey. I have been unable to obtain actual retail figures for the hundreds of items which have been included in the market basket list, so that it is impossible to make any comparison of item costs in Washington, D.C., with those in Puerto Rico. Nor have I been able to learn which other considerations reflecting in living costs were included. Leaders of Federal union groups in Puerto Rico, as well as the American Federation of Government Employees, have been equally unsuccessful in obtaining this information.

I do know that employees in Puerto Rico and the Virgin Islands were not consulted before the final decision was made to reduce their salaries, either individually or through their employee organizations. Insofar as I have been able to ascertain, the only contact with the people affected by the ultimate decision was through a questionnaire distributed to married, male, Federal employees as to their rents, or mortgage payments.

These people are bewildered in that they were not consulted. They are hurt, and they are angry.

According to the Civil Service Commission, the survey on living costs in Puerto Rico and the Virgin Islands was conducted by a State Department team. The State Department conducts such surveys to determine comparative living costs as related to Washington, D.C., for their employees stationed all over the world. I understand that they take such matters into account as the local availability of items which U.S. citizens are accustomed to having, as well as taking into account certain use factors where the employees would have to employ some other means of accomplishing the services necessary to them that were otherwise available at home in the United States. I should think that these surveys by the

State Department would be geared to meet unusual conditions encountered in foreign service, which would not be the case of Federal employees living under the U.S. flag.

The cost-of-living surveys for Hawaii and Alaska, however, were performed by the Bureau of Labor Statistics, and did not result in any reduction on the cost-of-living allowance for employees in Hawaii and Alaska. My resolution, therefore, calls for the setting aside of the reduction of the cost-of-living allowance for Federal employees in Puerto Rico and the Virgin Islands, and for the conducting of a new and realistic survey by the Bureau of Labor Statistics, as was done in the case of Hawaii and Alaska. Certainly, I know of no lowering of prices in Puerto Rico and I am unable to comprehend how any survey, consciously conducted, could arrive at a different conclusion.

Finally, the law under which the Civil Service Commission has been arranging for surveys and gearing them to a cost-of-living allowance is a creature of the Congress, and I believe that this matter is properly one for congressional consideration. In my resolution, I am not asking Congress to give any special consideration to the Federal employees in the Caribbean or to do them any particular or special favor. I am merely asking that the recent administrative order of the Civil Service Commission be without legal effect; that a new cost-of-living survey be conducted by the Bureau of Labor Statistics, as was done in the case of Hawaii and Alaska; and that a new cost-of-living allowance be established for the Federal employees in Puerto Rico and the Virgin Islands, based on the new survey.

This is not an important matter to the U.S. Treasury. There are 4,700 Federal employees in Puerto Rico who would be affected, and perhaps only about 200 in the Virgin Islands. I hope that all of my colleagues will support me in this resolution, including those who have people from Puerto Rico living in their districts, and those who do not. I would most deeply appreciate such support for those people in Puerto Rico who need help at this time.

Mr. UDALL. I want to cover two quick points.

The point has not yet been developed in these hearings that this cost-of-living allowance is tax free. There is no income tax on it.

Mr. MACY. That is correct. I believe I made that statement in my preliminary remarks.

Mr. UDALL. When a general pay raise of 5 percent is given to other Federal employees, the cost-of-living allowance is automatically increased by 5 percent, and that new 5 percent, as well as the old amount, is entirely tax free.

Mr. MACY. That is correct.

Mr. UDALL. So the net take-home effect of these cost-of-living allowances is substantially greater than the simple dollar amount that would appear.

Mr. MACY. That is correct.

Mr. UDALL. Someone from the press has suggested that we satisfy the public interest by determining for the record the effect of the passage of the administration proposal on Alaska. As I understand it, it would be the same as for Hawaii. If a Federal employee in Alaska is being paid \$6,000 and his cost-of-living allowance is \$1,500, the first year that would be reduced by one-sixth, the second year it would go down to \$1,000, then to \$750, and finally it would be eliminated.

Mr. MACY. That is correct.

Let me add quickly, that is largely academic as far as Alaska is concerned. The salary survey in Alaska shows that the difference in salaries between the nationwide scale and the salaries paid in Alaska are such that the present allowance would largely be offset by a necessary increase in the salary scales.

Mr. UDALL. Which you have authority to do under the 1962 act.

Mr. MACY. Under the 1962 act, section 504, with certain additional authorization which is incorporated in this bill.

Mr. UDALL. And you would contemplate then as a general proposition that Federal employees in Alaska would not have their compensation reduced by the passage of this bill.

Mr. MACY. That is correct. As those employees like to point out to me, they will lose the tax exemption you have just referred to.

Mr. MATSUNAGA. Insofar as Alaska is concerned, you are going back to the comparability on a local level.

Mr. MACY. What I am saying is, under the terms of the Federal Salary Reform Act of 1962, there is a provision that if in any locality the prevailing salary scales are substantially above the national average and it is impossible for the Federal Government to meet its staffing needs with the nationwide salary, it is possible for the Civil Service Commission to establish special rates.

Now, at the present time the Commission has special rates authorized under that section for certain jobs nationwide such as engineering; it has it for certain jobs in a geographical center where the rates are higher. What would happen in Alaska would be that the rates are significantly higher and as far as we are able to ascertain, it would not be possible for the Government to staff its organization at the nationwide rates; consequently, under this authority and provisions in this bill, the Commission would authorize an upward adjustment in rates in Alaska.

The same thing would be applicable in other areas if the local conditions with respect to salaries showed the same situation.

Mr. MATSUNAGA. It seems to be now you are speaking against your national average theory by making exceptions not only for Alaska, but, if the same situation prevails, in other areas as well.

You go back to the blue-collar situation.

Mr. MACY. It is entirely a different situation. We say we have a nationwide base scale that is based on a survey of 80 metropolitan areas across the country. What the Congress has said in that law is that if the Government is unable to compete in a specific labor market, or for a specific skill, it is possible to set a new rank above the rank in the nationwide scale. This is added flexibility to make it possible for the Government to meet its staffing needs.

Mr. UDALL. The criterion is not cost of living, or doing equity to the employee. The criterion for using these additional scales is for the Government to get and retain the key people it needs to carry out its various missions.

Mr. MACY. It is the marketplace test being applied in the competitive market, and not to apply cost of living as a measure.

Mr. UDALL. But, basically, the cost-of-living allowance was initially meted out as an incentive in areas where we had difficulty in employing workers.

Mr. MACY. It is a matter of ascertaining in the current labor market just what the needs are. If in the current market the going rate for a particular job is significantly higher in that community than the nationwide rate, then the Government has the provision for doing it, but it does not need to overpay everyone else.

Mr. KREBS. I have a question. Public Law 739 specifically spells out the Chairman of the Bureau of Labor Statistics' statement that

for determining comparability they measure the rates of pay being paid by private companies, not by other governmental agencies, or nonprofit organizations.

I recall you testifying before one of the hearings saying that other Federal wage scales were computed in coming to these conclusions.

Mr. MACY. I indicated that the Federal Salary Reform Act of 1962 provided that the Bureau of Labor Statistics' annual survey of salary rates was limited to private enterprise, but the administration proposal this year was that that survey be broadened to include salaries paid by other public jurisdictions and by foundations.

Mr. KREBS. In other words, you are saying now that it might be a comparison with the rates being paid in private industry, or it might very well be a comparison of the rates being paid by other governmental agencies.

Mr. MACY. As the law stands now, it is a comparison with private enterprise.

Mr. KREBS. You are saying the administration now intends to change that.

Mr. MACY. My point is the administration's proposal would provide that the Bureau of Labor Statistics' survey include other public employment such as State and municipal and nonprofit corporations as well as private enterprise.

Mr. UDALL. Thank you, Mr. Macy. You have been very helpful.

Mr. MACY. Thank you, Mr. Chairman. I appreciate the interrogatory with the members.

Mr. UDALL. Our final witness this morning is Mr. F. Henry Barclay, Jr., Assistant General Counsel, General Accounting Office. He is accompanied by Mr. F. A. Randall.

STATEMENT OF F. HENRY BARCLAY, JR., ASSISTANT GENERAL COUNSEL, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY F. A. RANDALL, AUDIT SUPERVISOR

Mr. BARCLAY. Mr. Chairman and members of the subcommittee, the proposed legislation, H.R. 8390, would repeal the authority contained in section 207 of the Independent Offices Appropriation Act of 1949, as amended, for paying cost-of-living allowances to Federal employees whose basic compensation is fixed by statute and who are stationed in nonforeign areas outside the continental United States. At the present time the allowance is being paid to employees stationed in Alaska, Hawaii, Puerto Rico, and the Virgin Islands. Under H.R. 8390 the cost-of-living allowances now authorized in those areas would be phased out over a 5-year period. That concept would only apply to those employees receiving the cost-of-living allowance immediately before the proposal would become effective. The allowance would not be paid to employees entering on duty in those areas on or after its effective date. Provision is made in the bill, however, to permit payment of special rates of basic pay in accordance with and subject to the limitations in section 504 of the Federal Salary Reform Act of 1962, when salary rates in private industry are substantially above the salary rates of the statutory pay schedules.

Since the bill involves a matter of policy for decision by the Congress we offer no recommendation either for or against its enactment on a Government-wide basis.

Our Office has approximately 25 employees who now are or are expected to be stationed in Hawaii within the next 3 months. We would feel it is a matter of some conjecture as to whether the legislative proposal would cause any substantial adverse effects on present or future employees.

However, if the legislative proposal results in some loss of take-home pay to employees now stationed or subsequently assigned to duty in Hawaii over that presently payable, our Office anticipates difficulty in retaining present personnel and in recruiting personnel on a voluntary basis for such duty, unless some other offsetting factors favorable to the employees become available.

The responsibility for setting cost-of-living allowances in nonforeign areas now is vested in the Civil Service Commission. In April 1965 our Office submitted a report to the Congress entitled "Excessive Cost-of-Living Allowances Paid to Federal Employees in Puerto Rico and the Virgin Islands." A copy of our report is offered for the record. In brief, the report concerned the failure of the Commission to promptly terminate the excessive cost-of-living allowances to eligible employees in those areas. We recommended to the Commission, which had withheld action pending a new survey and congressional consideration of the legislative proposal, that action be taken without further delay to reduce the cost-of-living allowance to the percentage found to be justified. By notice of May 10, 1965, the Commission informed agencies that as a result of a current review new cost-of-living allowance rates were authorized effective at the beginning of the first pay period beginning on or after July 1, 1965. The rate in Puerto Rico was reduced from 12½ to 5 percent and in the Virgin Islands from 15 to 5 percent. No change was made in the 25 percent rate for Alaska or the 15 percent rate for Hawaii.

This concludes our statement, Mr. Chairman. We will be glad to answer any questions you and any other members of your subcommittee may have.

Mr. UDALL. Thank you.

The Chair will divide the remaining 12 minutes into four 3-minute segments.

In your statement you touch on the difficulties your own Office might run into if this bill is passed. This surprises me a bit because the bill was originally submitted by the administration as a result of criticism by your agency.

You say you would have difficulty unless some other offsetting factors favorable to the employees become available. Won't you agree that section 504 of the 1962 act is an offsetting factor? Has not the Civil Service Commission in the past set special rates for employees where there was hardships or difficulty in obtaining personnel in those areas?

Mr. BARCLAY. We certainly would agree that is is an offsetting factor. As to whether that offset factor would come into play in Hawaii is an entirely different question.

Mr. UDALL. The General Accounting Office sharply criticized Mr. Macy and the other Commissioners in delaying the effective action

under the authority they now have. They claimed this delay was resulting in an unjustified expenditure by the Federal Government at the rate of \$166,000 a month. Would you now tell us that we should not pass this bill, or that the Commission should not take action because it might affect some of your employees?

Mr. BARCLAY. In reply to that question, Mr. Chairman, I would say that so far as our report—which is based on the current provisions of law on the cost-of-living allowance—is concerned, we believed it was our duty to inquire into and report this matter since we felt that the Commission did not have a basis to continue delaying action to reduce the allowance to what the Department of State had found to be the true figure, which was 5 percent at that time, and it remained at 5 percent on their new survey.

However, under the proposed legislation, we have an entirely different concept which is of course putting everything on a base pay concept as against the cost-of-living concept.

We have, I might mention to bring up up to date, just transferred an office to Honolulu from Tokyo. This was the factor that made me inquire the other day of our International Operations Division Director as to what problems he may have encountered in the transfer of our people. He advised me of the 15 people that he anticipated taking direct from Tokyo, 12 of them had agreed to go to Honolulu, but that 3 had declined, and were returning stateside.

Mr. UDALL. The Chair would ask unanimous consent that the report of the Comptroller General which is dated April 1965, be made a part of the record at this point.

Without objection, it is so ordered.

(The report follows:)

REPORT ON EXCESSIVE COST-OF-LIVING ALLOWANCES PAID TO FEDERAL EMPLOYEES
IN PUERTO RICO AND THE VIRGIN ISLANDS BY THE COMPTROLLER GENERAL OF THE
UNITED STATES

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., April 12, 1965.

To the President of the Senate and the Speaker of the House of Representatives:

The United States Civil Service Commission's postponement of a reduction in cost-of-living allowances to eligible Federal employees in Puerto Rico and the Virgin Islands, from the planned effective date of the reduction, April 1, 1964, until after the completion of a new survey of living costs early in calendar year 1965, is resulting in Federal agencies' making excessive payments for cost-of-living allowances at the rate of about \$2 million annually. The continuing additional costs to the Government for the payment of excessive cost-of-living allowances warrant bringing this matter to the attention of the Congress.

The Commission's delay in acting upon its determination that there is no longer a justification for applying certain factors for domestic service, clothing, and food in computing cost-of-living allowances for Federal employees in Puerto Rico and the Virgin Islands is resulting in unjustified expenditures by Federal agencies at the rate of about \$166,000 monthly. These unjustified expenditures will continue until the Commission takes appropriate action, as required by Executive Order 10000, to reduce the cost-of-living allowances so as to insure that payments of additional compensation will not in any instance exceed the amounts justified.

The Chairman of the Civil Service Commission informed us that it was decided not to insist on carrying out the immediate sizable reduction in the allowance rates when it became known that hearings had been scheduled early in 1964 on proposed legislation to terminate the cost-of-living allowances by gradually phasing them out. The Chairman stated that serious consideration would be given to reducing the cost-of-living allowances after a new

survey had been completed and the results reviewed in the light of the current situation. We are recommending that the Commission—in accordance with its determination that the application of certain factors in computing cost-of-living allowances is not justified—no longer delay in taking action to reduce the cost-of-living allowances paid to Federal employees in Puerto Rico and the Virgin Islands.

Copies of this report are being sent to the President of the United States and to the Chairman, U.S. Civil Service Commission.

JOSEPH CAMPBELL,
Comptroller General of the United States.

REPORT ON EXCESSIVE COST-OF-LIVING ALLOWANCES PAID TO FEDERAL EMPLOYEES IN PUERTO RICO AND THE VIRGIN ISLANDS—U.S. CIVIL SERVICE COMMISSION

INTRODUCTION

The General Accounting Office has made a review of the cost-of-living allowances paid to certain Federal employees in nonforeign overseas locations in accordance with section 207 of the Independent Offices Appropriation Act of 1949, as amended (5 U.S.C. 118(h)). Our review was made pursuant to the provisions of the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Our review included a study of applicable legislation and of the regulations of the U.S. Civil Service Commission (Commission) and an examination of selected records relating to the payment of territorial cost-of-living allowances to Federal civilian employees in the Commonwealth of Puerto Rico and the Virgin Islands of the United States whose rates of basic compensation are fixed by statute.

The principal officials of the Commission responsible for the establishment and the administration of the cost-of-living allowances discussed in this report are listed in the appendix.

BACKGROUND

Section 207 of the Independent Offices Appropriation Act of 1949, as amended, authorizes the payment of additional compensation to Federal employees stationed in nonforeign areas outside the continental United States whose rates of basic compensation are fixed by statute. Part II of Executive Order 10000, as amended (20 F.R. 7025), provides that the Commission shall designate places in the territories where it determines that living costs are substantially higher than in the District of Columbia and shall establish an additional rate of compensation—called a territorial cost-of-living allowance—for certain Federal employees stationed in such places. The Commission, in designating places for additional compensation, must consider the relative consumer price levels giving due consideration to the differences in the goods and services available and to the manner of living of persons employed in positions comparable to those of U.S. employees in the area concerned.

The Commission is responsible for prescribing regulations governing the payment of the additional compensation and for reviewing periodically, but at least annually, the places designated, the allowance rates fixed, and the regulations prescribed. Also, the Commission is required to make any changes necessary to insure that the payment of the additional compensation shall be made only during the continuance of conditions justifying the payment and shall not in any instance exceed the amount justified.

Since 1955 the Commission has used living-cost indexes prepared by the Department of State for determining the percentage rate of base pay to be used for cost-of-living allowances in nonforeign overseas areas. In preparing these indexes, the Department of State uses, in general, the same method as that used in computing its own foreign area living-cost indexes. The Department's measurement of relative living costs is based upon a comparison of the living costs incurred by a Federal employee who is an American citizen stationed at an overseas post with the living costs the same citizen would incur in Washington, D.C. The purpose of the cost-of-living allowance is to enable the Federal employee stationed overseas to purchase, with his base pay and cost-of-living allowance, goods and services equivalent to those a Federal employee could purchase in Washington, D.C., with his base pay alone.

The findings of a salary survey conducted in Puerto Rico in May 1963 by the Bureau of Labor Statistics, Department of Labor, indicated that the average salary rates for Federal civilian employees in Puerto Rico were generally higher than the average private enterprise salary rates. The survey findings, furnished to the Commission in November 1963, also showed that average private enterprise salaries paid in Puerto Rico were generally considerably below those paid on the mainland. A survey by the Bureau of Labor Statistics of the private enterprise salary rates in the Virgin Islands was not justified because of the small volume of Federal employment in the islands.

At June 30, 1964, 5,229 Federal civilian employees with statute-fixed salary rates, including 4,505 employees who were local residents of Puerto Rico and the Virgin Islands, were being paid cost-of-living allowances totaling about \$3.5 million annually by the following Federal agencies:

Federal agency	Puerto Rico	Virgin Islands
Department of Defense	1,634	
Post Office Department	1,428	64
Department of Agriculture	410	16
Veterans Administration	373	
Department of Health, Education, and Welfare	265	
Housing and Home Finance Agency	199	
Federal Aviation Agency	197	17
Department of Justice	127	21
Department of the Interior		45
Others	427	6
Total	5,060	169

FINDING AND RECOMMENDATION

Postponement of reduction in cost-of-living allowances is resulting in excessive payments at the rate of about \$2 million annually

The Commission's postponement of a reduction in cost-of-living allowances to eligible Federal employees in Puerto Rico and the Virgin Islands, from the planned effective date of the reduction, April 1, 1964, until after the completion of a new survey of living costs early in calendar year 1965, is resulting in Federal agencies' making excessive payments for cost-of-living allowances at the rate of about \$2 million annually.

Delay by the Commission in acting upon its determination that there is no longer a justification for applying certain factors for domestic service, clothing, and food in computing cost-of-living allowances is resulting in unjustified expenditures by Federal agencies at the rate of \$166,000 monthly. These unjustified expenditures will continue until the Commission takes appropriate action to reduce the cost-of-living allowances paid to Federal employees in Puerto Rico and the Virgin Islands.

The Commission is charged with the responsibility for administering the cost-of-living allowances authorized by the Independent Offices Appropriation Act of 1949 and Executive Order 10000, as amended. The allowances are based on comparisons made by the Department of State of the costs of living incurred by Federal employees at nonforeign overseas posts with the costs of living of Federal employees in the District of Columbia. In preparing living-cost indexes, the Department of State makes adjustments for certain factors, known as use factors, to provide insofar as local conditions permit a pattern of living equivalent to that of Federal employees in Washington, D.C. The adjustment or "use factors" applied in computing the cost-of-living indexes for Puerto Rico and the Virgin Islands were for the estimated additional costs of domestic service, clothing, and food. The domestic-service factor was intended to compensate for the costs of additional household servants, and the clothing and food factors were intended to adjust for the added costs of clothing and food in an exceptionally warm climate.

Elimination of use factors reduced cost-of-living indexes

The Commission considered the question of eliminating use factors in computing cost-of-living indexes in nonforeign areas as early as 1961. Surveys of living costs, with use factors applied, were made in Puerto Rico and the Virgin Islands in October and November of 1962. It was not until January 1964, however, that the Commission determined that in nonforeign areas generally there

was no longer a justification for applying use factors in computing cost-of-living indexes.

The Commission decided that the employment of additional servants in non-foreign overseas posts was a matter of personal choice and that the adjustment of the cost-of-living index by the use factor for the cost of additional servants, rather than tending to equalize the purchasing power of an employee in an overseas area with that of a Federal employee in Washington, D.C., tended to give the overseas employee an advantage. With respect to the use factor for clothing, the Commission found that many steps have been taken in the last decade to provide clothing suitable for hot weather use and that generally in tropical areas only one wardrobe would be required, compared with two seasonal wardrobes needed in the Washington, D.C., area where many items of expensive winter clothing are needed for all members of the family. The food use factor was also found to be inappropriate since Federal employees in overseas areas can be expected to have refrigerators similar to those of Federal employees in Washington, D.C., and with proper care little food spoilage should occur. The Commission concluded that, with the use factors excluded, living costs in those areas where cost-of-living allowances were paid could now be compared with the cost of living in Washington, D.C., on the basis of actual prices and expenditures.

The elimination of the use factors substantially reduced the cost-of-living indexes for Puerto Rico and the Virgin Islands. As a result, the Commission on January 16, 1964, advised the heads of all Federal agencies that effective April 1, 1964, the cost-of-living allowances rates for Puerto Rico and the Virgin Islands of 12½ and 15 percent of base pay, respectively, would be reduced to 5 percent of base pay. On February 12, 1964, however, the Commission advised the heads of all Federal agencies that it had taken action to defer the application of the reduction in the cost-of-living allowances. On the basis of the cost-of-living allowances of about \$3.4 million and about \$140,000 paid annually to Federal employees in Puerto Rico and the Virgin Islands, respectively, the Commission's postponement of the effective date of the reduction in allowances is resulting in Federal agencies' making excessive payments for cost-of-living allowances at the rate of about \$2 million annually.

The reason for deferring the reduction in the cost-of-living allowances was that the Commission decided to await the results of action by the House Committee on Post Office and Civil Service on proposed legislation that (1) would repeal the authority for paying any cost-of-living allowances in nonforeign areas, and (2) would permit the gradual reduction of the cost-of-living allowances over a maximum period of 6 years to minimize any hardship on present employees.

Congressional hearings on proposed legislation to terminate cost-of-living allowances

The hearings on the legislation that was proposed by the Commission to terminate cost-of-living allowances for Federal civilian employees in non-foreign areas (H.R. 7401, 88th Cong., 1st sess.) were held by the House Committee on Post Office and Civil Service in February and March, and were concluded on April 28, 1964. The proposed legislation provided for discontinuing the authority for paying cost-of-living allowances in nonforeign areas and for authorizing, under the Federal Salary Reform Act of 1962 (5 U.S.C. 1171 et seq.), increased salary rates to the extent warranted by salaries paid by private enterprise for the same level of work. In areas where the increase in salary rates would not be warranted, the bill would have permitted the elimination of the cost-of-living allowances by gradual reductions over a maximum period of 6 years.

During the hearings the Chairman of the Commission testified, in February 1964, that the gradual phasing out of the cost-of-living allowances was preferred over the sizable reduction in the allowances which would have to be made for employees in Puerto Rico and the Virgin Islands. The Chairman of the Commission also pointed out that the cost of living in other cities varies substantially in relation to the cost of living in Washington, D.C., but that cost-of-living allowances are not provided to compensate any Federal employees for increased living costs within the contiguous United States. The proposed legislation was generally opposed by various employee groups.

Hearings on the proposed legislation were printed for the use of the House Committee on Post Office and Civil Service; however, no report was issued and no action was taken by the Congress.

Reduction in cost-of-living allowances delayed until completion of new survey of living costs

On August 31, 1964, the Commission advised the heads of Federal agencies that a new survey would be made of living costs in nonforeign areas, including Puerto Rico and the Virgin Islands, and that the Commission did not plan to make any adjustment in the cost-of-living allowance rates until the results of the new survey became available. The Commission stated also that a new proposal for legislation to terminate cost-of-living allowances in nonforeign areas would be submitted to the Congress because the payment of additional compensation on the basis of differences in living costs was no longer appropriate.

AGENCY COMMENTS

We discussed the postponement of the reduction in the cost-of-living allowances paid to employees in Puerto Rico and the Virgin Islands with an official of the Commission. The official stated that the results of the new survey would be available early in calendar year 1965 and that the postponement of the reduction in cost-of-living allowances was justified (1) because the reduction did not result from normal changes in the indexes of living costs but rather from a change in the method of determining the allowances, and (2) because of the impact on employees of the substantial reduction in their cost-of-living allowances.

We were informed on December 28, 1964, by the Chairman of the Commission that, when it became known that hearings had been scheduled on the proposed legislation to terminate the cost-of-living allowances by gradually phasing them out, the Commission decided to not insist on carrying out the immediate sizable reduction in the allowance rates but, rather, to give the employees concerned the benefit of the slower reduction rates that would result from enactment of the proposed legislation. The Chairman of the Commission stated that, when it became apparent during the summer of 1964 that the proposed legislation would not be enacted by the Congress, the Commission, which had been prepared to act in January 1964 on the data collected in 1962, now considered the data too old to use as a basis for ordering the reduction since there was no assurance that new facts might not show that living-cost relationships had changed.

Although the Commission recognized that it had a clear responsibility for seeing that cost-of-living allowance rates did not exceed the amounts justified, the Commission administered the allowances with a view to maintaining the reputation of the U.S. Government as a fair employer and stated that it was out of consideration of fairness to the employees in Puerto Rico and the Virgin Islands that the reduction in the cost-of-living allowances was deferred.

The Chairman of the Commission informed us further that appropriate steps to reduce the cost-of-living allowances paid to Federal employees in Puerto Rico and the Virgin Islands would be given serious consideration after the results of the new survey had been completed and reviewed in the light of the current situation.

CONCLUSION

The Commission had considered the question of eliminating use factors from cost-of-living allowances since as early as 1961 and eventually, on the basis of a survey made in late 1962, made a determination, in January 1964, to eliminate the use factors from the computation of living costs. An earlier determination to eliminate the use factors from the computation would have afforded the Commission two opportunities in 1964 to ease the effect of reduced cost-of-living allowances on Federal employees in Puerto Rico and the Virgin Islands: (1) in January, to coincide with the increase in salary rates effective the first pay period after January 1, 1964, as provided for by the Classification Act Amendments of 1962 (5 U.S.C. 1113) and (2) in August, when it became apparent that the proposed legislation would not be enacted by the Congress, to coincide with the increase in salary rates provided for by the Federal Employees Salary Act of 1964 (Public Law 88-426, 78 Stat. 400) approved August 14, 1964. We believe that correlation of the reduction in cost-of-living allowances with the salary increases would have provided a suitable means for minimizing the hardship on employees.

In regard to the data compiled during the 1962 survey being too old to use in August 1964 as a basis for establishing living-cost relationships, the proposed reduction in the cost-of-living allowances was initiated by the Commission on

the basis of a change in the method of determining the allowances—the elimination of the unjustified use factors—rather than on a change in living-cost relationships; consequently, the new survey of current living costs would also have to take into consideration the elimination of the use factors in ascertaining the difference, if any, between actual living costs in Puerto Rico and the Virgin Islands and actual living costs in Washington, D.C. The elimination of the unjustified use factors, therefore, would be applicable in determining the effect on living-cost relationships in using either the 1962 data or the data obtained by a new survey of current living costs.

The Commission's delay in acting upon its determination that there is no longer a justification for applying use factors for domestic service, clothing, and food in computing cost-of-living allowances for Federal employees in Puerto Rico and in the Virgin Islands is resulting in Federal agencies' making excessive payments for cost-of-living allowances at the rate of about \$2 million annually. These unjustified expenditures will continue at the rate of about \$166,000 monthly until the Commission takes appropriate action, as required by Executive Order 10000, to reduce the cost-of-living allowances to insure that payments of additional compensation will not in any instance exceed the amounts justified.

RECOMMENDATION TO THE U.S. CIVIL SERVICE COMMISSION

We recommend that the Commission—in accordance with its determination that the application of use factors in computing cost-of-living allowances is not justified—no longer delay in taking action to reduce the cost-of-living allowances paid to Federal employees in Puerto Rico and the Virgin Islands.

Principal officials of the U.S. Civil Service Commission responsible for establishment and administration of cost-of-living allowances

	Tenure of office	
	From—	To—
Commissioners:		
John W. Macy, Jr., Chairman	March 1961	Present.
L. J. Andolsek	April 1963	Do.
Robert E. Hampton	July 1961	Do.
Executive Director: Warren B. Irons	February 1955	Do.
Director, Bureau of Programs and Standards: O. Glenn Stahl	January 1955	Do.
Chief, Program Planning Division: Harold H. Letch	August 1958	Do.
Chief, Pay Systems Section: Robert S. Hare	December 1953	Do.

Mr. MATSUNAGA. The recommendation which I believe was inserted in the record applied to Puerto Rico and the Virgin Islands only; is that not so?

Mr. BARCLAY. Our report only dealt with the Virgin Islands and Puerto Rico; that is correct.

Mr. MATSUNAGA. And that recommendation was based on the survey conducted by the State Department, according to Mr. Macy, the State Department.

Mr. BARCLAY. That is what Mr. Macy stated, and that is true.

Mr. MATSUNAGA. But your recommendation was based on the State Department's findings of what the cost of living was in Puerto Rico above that of Washington, D.C.

Mr. BARCLAY. That is correct. That survey had been made. The reduction had, in fact, been placed in effect and was rescinded by the Commission shortly after.

Mr. MATSUNAGA. So if the survey showed, and did show a cost-of-living excess in Hawaii over Washington, D.C., of 15.8 percent, you would, on the basis of this recommendation, not have recommended any reduction of the cost-of-living allowance in Hawaii.

Mr. BARCLAY. That is entirely correct.

Mr. MATSUNAGA. And that is so in the case of Alaska.

Mr. BARCLAY. That is so in the case of Alaska on the 25 percent.

Mr. KREBS. I would like to ask you if you could give us an idea as to how many employees will leave, or will not accept the job.

Mr. BARCLAY. General Accounting Office employees?

Mr. KREBS. The employees you refer to.

Mr. BARCLAY. It is a very small number, as you notice, approximately 25. As to the exact number that would or would not leave, of course I would have to say this would be a matter of conjecture. I did state to the chairman that this matter was taken up with our Division Director who indicated to me specifically and directly that he was having difficulty, though he did get 12 of his 15 people to go direct to Honolulu, and that one of the big factors was the actual money factor these people would receive in going to Hawaii.

Mr. KREBS. And 12 out of 15 were hesitant?

Mr. BARCLAY. In fact, 12 out of 15 agreed to go. His statement to me was that it was not without some hesitancy.

Mr. KREBS. So that would mean 12 out of 15, or 80 percent.

Mr. BARCLAY. That is correct.

Mr. MATSUNAGA. And three refused?

Mr. BARCLAY. Three refused.

Mr. KREBS. So it is 100 percent actually.

Mr. BARCLAY. I think we must keep in mind we are shooting a little in the dark on our own employees since this is our first time in the area.

Mr. KREBS. I appreciate all you can give now is an educated guess. I wondered how you ascertained in the first instance you had this difficulty. You must have talked with them to get this kind of response.

Mr. BARCLAY. This came from the discussions that took place between our Far East Director with our International Division Director here in Washington in connection with the transfer from Tokyo to Honolulu.

Mr. KREBS. So the question was actually put to these people.

Mr. BARCLAY. The question was actually put to these people, not on the basis of this bill, but the question of their going and in their decisions he advised me that the factor of the 15—cost-of-living allowances was brought in issue as a very major item. In other words, it became a money factor to the employees.

Mr. KREBS. Do you know what factors were used in determining the cost-of-living result used here?

Mr. BARCLAY. No, I do not know how they arrive at the cost of living—the various factors the State Department uses.

Mr. KREBS. It is one thing if you have factors like bread, butter, meat, and it is another if you have factors like Cadillacs, Rolls Royces, and penthouse apartments.

Mr. UDALL. The gentleman from Puerto Rico is recognized for 3 minutes.

Mr. POLANCO-ABREU. In other words, you depend exclusively on the resources of the surveys prepared and accepted by the Civil Service Commission?

Mr. BARCLAY. As to what the proper rate of cost of living is?

Mr. POLANCO-ABREU. As to the report you fill in regard to cost of living.

Mr. BARCLAY. That is correct.

Mr. POLANCO-ABREU. In other words, following the line of thought of the gentlemen from Hawaii, had the survey showed there was a difference in the cost of living in Puerto Rico, the report would not be sent.

Mr. BARCLAY. That is correct. If the survey had showed that the percentage that was being used at the time was correct, the report would not have been issued.

Mr. POLANCO-ABREU. Thank you very much.

Mr. MATSUNAGA. Coming back to the 25 employees in your office who are expected to be stationed in Hawaii, and the 15 who returned from Tokyo, 12 you say accepted with hesitancy even at the present level of pay, that is with the additional 15 percent?

Mr. BARCLAY. That is my understanding.

Mr. MATSUNAGA. So if the 15 percent had been deducted, the probability would have been they would not have accepted those positions.

Mr. BARCLAY. I think it is fair to say we would have had a much more difficult time, though I cannot say how many additional employees would have rejected the transfer.

Mr. MATSUNAGA. The three who refused to accept the jobs in Honolulu, did they state any reasons? Was one of the major reasons the lower pay, or the higher cost of living in Hawaii?

Mr. BARCLAY. It is my understanding it was based on a cost factor to them, of take-home pay, though I would not want to be held to that statement exactly because I do not know all the details that were involved in that transaction.

Mr. MATSUNAGA. It is generally safe to conclude, then, insofar as your Department is concerned, the GAO, if the 15 percent cost-of-living allowance were taken away, you would definitely have difficulty in recruiting workers for Hawaii?

Mr. BARCLAY. We feel so.

We feel perhaps we may be in a little different position than some agencies in the sense that we are dealing with an average level of our accountants in GS-11 and GS-12 who would be coming from the United States and would not be taken from the local labor market. They would be individuals who have worked and been trained in the continental United States. Therefore, we have people who would be going who are a part of the small minority that come from the 48 States to Hawaii, and who are now getting the 15-percent cost-of-living allowance.

Mr. MATSUNAGA. The fact is such skills are needed in Hawaii, and without the 15 percent cost-of-living allowance, you would have difficulty in recruiting.

Mr. BARCLAY. We believe so.

Mr. KREBS. Is it your statement, Mr. Barclay, if level 12 employees would be reluctant to go because of this reduction, it might be even more important for levels 4, 5, and 6 employees?

Mr. BARCLAY. I think that is clearly so, if we are dealing on a comparable basis of personnel coming from the continental United States.

Mr. KREBS. Thank you.

Mr. UDALL. Thank you, Mr. Barclay. These hearings will continue on Wednesday at which time we will hear a large number of employee organization representatives. This subcommittee stands adjourned until 10 a.m. Wednesday.

(Whereupon, at 12 noon, the subcommittee adjourned to reconvene at 10 a.m., Wednesday, July 21, 1965.)

COST-OF-LIVING ALLOWANCES IN NONFOREIGN AREAS

WEDNESDAY, JULY 21, 1965

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

The Subcommittee on Compensation met at 10 a.m., in room 215, Cannon House Office Building, Hon. Morris K. Udall (chairman of the subcommittee) presiding.

Mr. UDALL. The subcommittee will come to order.

We are meeting this morning for the further consideration of the bill H.R. 8390, introduced by Chairman Murray of the full committee, and a related resolution, House Joint Resolution 569, introduced by the distinguished gentleman from Puerto Rico.

I would advise the witnesses this morning that we are having to change our schedule for this subcommittee. Tomorrow we intend to take up the 1965 Compensation Act in executive session at 10:30 a.m. The plan now is for this subcommittee to meet tomorrow at 9:30 until 10:30. Then we will go into executive session for the consideration of the bills relating to compensation.

We may not reach all of the witnesses scheduled for tomorrow. We will start at 9:30, and I will give precedence tomorrow to those witnesses from out of town.

This morning we have five distinguished witnesses. Our first witness this morning is Mr. Nathan T. Wolkomir, president of the National Federation of Federal Employees. Mr. Wolkomir, we are happy to have you here this morning. You may proceed.

STATEMENT OF NATHAN T. WOLKOMIR, PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES; ACCOMPANIED BY FRANK TAYLOR, ASSISTANT STAFF DIRECTOR, EMPLOYER RELATIONS STAFF

Mr. WOLKOMIR. Thank you very much, Mr. Chairman. I am Nathan T. Wolkomir, president of the National Federation of Federal Employees. To my right is Frank Taylor, who is the assistant staff director of our employer relations staff.

Our organization has had for many years, and has today, members serving the Federal Government in the nonforeign areas covered by the provisions of the bill now under consideration, H.R. 8390. In brief, this measure, which reflects administration recommendations as did H.R. 7401 in the last session of Congress, would terminate cost-of-

living allowances paid Federal employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands whose base salaries are fixed by statute.

Mr. Chairman, the subcommittee under your chairmanship held extensive hearings in the second session of the 88th Congress on the predecessor measure, H.R. 7401, which as the U.S. Civil Service Commission has frankly stated was in all major respects similar to the present legislation, introduced in view of the failure of the former bill to win congressional approval. Those hearings were thorough and developed a great deal of factual information which, in our judgment, revealed the inequity and injustice of the proposed action.

H.R. 8390, the new version of the earlier proposal, adds up to the same basic proposition: To eliminate the cost-of-living allowance.

We oppose that proposition now as we opposed it in the last session. In our view, it has no more validity now than it had at that time.

The facts of day-to-day living in the areas affected do not square with the cold statistical findings of a cost-of-living index which cannot take into account all of the many factors, situations, nuances and other tangibles and intangibles which necessarily have an impact upon the budget of the Federal employee and his family away from these shores.

I would call attention to the fact that both recruitment and retention of skilled and qualified employees unquestionably would be rendered more difficult by the elimination of the cost-of-living allowance, and this is a factor of very substantial importance from the standpoint of national security, and certainly that factor is especially true at this time.

There are many other cogent reasons for opposing the enactment of this legislation.

For example, the proposal to offset the cost-of-living allowance provision for a salary adjustment to be determined by Presidential regulation, represents the substitution of a specific provision, by law, for something intangible and perhaps vague or even problematical. Moreover, there would be no time limitation as to the effective date of the proposed regulations.

It should be noted, too, that the present cost-of-living allowance is not subject to income tax. The offsetting proposal, on the other hand, would be subject to income tax and thus represent a further loss to the employees and their families. Because of this tax factor, the basic salary, if and when authorized for increase, actually would represent a net decrease in income as compared with the present pay plus cost-of-living allowance. Surely, this would be manifestly unfair to the employees and, in our view, highly unsound from the Government's standpoint as an employer. In fact, it is not inconsistent with the present administration philosophy of lower taxes in order to boost the economy?

May I point out Mr. Chairman, that possible increases in basic compensation would be largely meaningless to many older employees nearing retirement whose salaries are now in the highest step of their grades. For other employees with 25 or more years of service the potential increase in annuity upon retirement would be negligible. On the other hand, the taking away of the cost-of-living allowance would represent a hardship.

With respect to the matter of pay comparability, it is pertinent to cite the fact that many Federal employees are doing highly important work, vital to the national security and welfare, for which there are no comparable jobs in the private sector in those areas covered by the proposed legislation. That is the situation to an even greater extent in those oversea areas than it is in continental United States. Some of these services are highly classified. With recruitment as difficult as it is in the zone of interior, how can we expect anything but directive assignments to such areas and the resultant demoralization. If incentives for volunteer assignments are being consistently whittled away, one can expect as a result mediocre results.

It is our firm belief, Mr. Chairman, that the enactment of H.R. 8390, would have serious adverse effects upon the Federal service in the areas concerned. It is our view that these harmful effects would heavily overbalance any possible dollar saving which might be adduced. This is disguised austerity. Combine present budgetary maneuverings with resultant native hire, temporary appointments, and contracting-out policies, and the situation becomes all the more acute. One should not forget fixed costs concept versus hidden costs that would accrue.

We are convinced by experience and the record that the compelling arguments of logic and equity which originally brought the cost-of-living allowance policy into force are equally valid today, and, indeed, in some respects even more urgent. We feel that there is a fundamental and shortsighted fallacy in endeavoring to flatly equate cost-of-living factors in noncontiguous areas with those prevailing in continental American cities.

Mr. Chairman, we urge the subcommittee to take into account all of the factors involved—intangible as well as tangible, including that of the image of the U.S. Government as a progressive employer—and to reject this proposal. We are strongly convinced that disapproval of this bill is in the national interest. With your kind indulgence, I have added several attachments to this testimony for your analysis. Although not read here for purposes of expediency and because of time limitation, I call your particular attention to the statements attached. They are the sentiments of our members in the areas affected. the true experts because they accomplish the mission in spite of administrative redtape.

And the attachments, in order to show our nonpartisan viewpoint, the first attachment is the one from the Puerto Rican delegation, which is a petition that has been drawn up by a council of all unions in Puerto Rico. This petition is added for your survey and consideration.

The second attachment merely consists of the Alaskan stand with reference to the cost-of-living allowance. In this attachment we have many charts showing comparative figures on cost of living and actually itemizing the various elements of food and construction items and other elements involved for the people of Alaska. It is long and we would appreciate the committee's consideration of it.

The same is true with regard to the Panamanian attachment, which represents the viewpoint of our people in Panama.

(The attachments referred to follow:)

STATEMENT OF THE NATIONAL FEDERATION OF FEDERAL EMPLOYEES,
WASHINGTON, D.C.

A delegation of Federal employees from Puerto Rico arrived at the National Federation of Federal Employees headquarters protesting the recent Civil Service Commission stand on the cost-of-living allowances for Puerto Rico. This group is contacting Congressmen and Senators and Vice President Humphrey for redress of the grievance. Attached is the text of the petition addressed to the Vice President of the United States.

JUNE 18, 1965.

HON. HUBERT H. HUMPHREY,
President of the Senate,
Washington, D.C.

PETITION FOR REDRESS OF GRIEVANCE

We the undersigned, representatives of the unions and the associations of Federal employees in Puerto Rico, as listed below, do formally request of the Congress of the United States a redress of grievance as provided for under the provisions of the first amendment to the Constitution.

As Federal employees serving in an offshore area, our salary has been augmented by a cost-of-living allowance authorized under the provisions of Executive Order 10000. This allowance has recently been ordered reduced by the Civil Service Commission from 12.5 percent of base pay to 5 percent effective July 1, 1965. In accordance with the provisions of Executive Order 10000, responsibility for establishing these allowances rests with the Civil Service Commission.

As American citizens and as Federal employees, we strongly protest this action by the Civil Service Commission since we, the affected parties, have been denied the opportunity to be heard. We have exhausted all possible means of appeal before the Civil Service Commission and its Chairman, the Honorable John W. Macy, Jr. Despite our efforts and the efforts of our Resident Commissioner, the Honorable Santiago Polanco-Abreu, and despite an aroused public opinion the Commission's attitude toward the Federal employees in Puerto Rico remains unchanged.

Therefore, as citizens of this great Republic we are addressing ourselves to the Congress as our last resort for a redress of grievance. We sustain that the Civil Service Commission has in the past and continues at present discriminated against the Federal employees in Puerto Rico. This discrimination is apparent in the arbitrary manner in which our salaries have been reduced, thus seriously impairing our economic well-being and that of our families.

We sustain that the Civil Service Commission's refusal to hear Federal employees or their representatives in matters regarding the establishment of cost-of-living allowances in a denial of due process of law. We further sustain that ample evidence exists to show that the Civil Service Commission has acted arbitrarily and discriminatorily in Puerto Rico when compared with Federal employees of other offshore areas.

Therefore, in the name of all Federal employees serving in Puerto Rico, we hereby request of the Congress of the United States—

(a) That a request be made to the Civil Service Commission for a suspension of the proposed reduction in our cost-of-living allowance presently set for July 1965.

(b) That a full investigation be made of the procedures followed by the Civil Service Commission in arriving at its decision to reduce the cost-of-living allowance in Puerto Rico.

(c) That public hearings be heard in Puerto Rico in order that all interested parties may offer evidence in this matter.

(d) That the Civil Service Commission be required to make a full disclosure of its findings in order that it may be publicly challenged.

(e) That we the representatives of the Federal employees in Puerto Rico be given the opportunity of sustaining our charges of discrimination with adequate protection and guarantee from reprisal.

In support of the truth of the aforementioned allegations, we the undersigned pledge ourselves as loyal American citizens and as Federal employees dedicated to upholding the principles of equality and justice for all.

Signed at San Juan, P.R., this 18th day of June 1965.

David G. Velez, president, Lodge 2408, AFGE, AFL-CIO; Nareiso Sahabria, president, United Federation of Postal Clerks, AFL-CIO, Puerto Rico Branch; Agustin Vera Palma, president, Na-

tional Association of Postal Supervisors, Branch 269; Ramiro Ortiz, president, Council of Federal Employees of Puerto Rico; Adolfo Mariani, president, National Association of Special Delivery Messengers, San Juan Local; Angel L. Garcia, president, Motor Vehicle Maintenance Employees National Association; Juan A. Gonzalez, president, Airport Customs Inspectors Association, Puerto Rico; Ismael Marrero, Esq., delegate, Federal Bar Association, San Juan, P.R.; Adolfo Mayoral, president, House & Home Financial Agency Welfare Association; Cristobal Lliteras, president, National Postal Union, Puerto Rico-Virgin Islands Local; Ubaldo Torregrosa, president, San Juan Branch 869, National Association of Letter Carriers, AFL-CIO; Andrew Vega, president, National Federation of Federal Employees, Puerto Rico Local; Hector Arana, president, National Customs Service Association, Puerto Rico Branch; Angel Borrero, president, National Association of Post Office Maintenance Employees, San Juan Local; Victor Rosario, president, Chapter E-97, International Association of Fire Fighters, Puerto Rico; Froilan Negron, president, Antilles Command Employees Union; and Manuel Huertas, president, Local 1070, United Federation of Postal Clerks, AFL-CIO.

INDICATIONS OF DISCRIMINATION ON THE DIFFERENT REDUCTIONS OF THE COST-OF-LIVING ALLOWANCE TO FEDERAL EMPLOYEES IN PUERTO RICO

In 1953 cost-of-living allowance was completely eliminated and totally restored after a period of discontinuance of 8 consecutive months.

Surveys made by the Labor Department consistently indicated over 25-percent cost-of-living differential between Puerto Rico and Washington, D.C. The survey was later shifted to the State Department and immediately a drop in the percentage was claimed by the U.S. Civil Service Commission with the resulting reducing of the cost-of-living allowance.

Per diem is paid Federal employees and officials in continental United States at \$16 per day; in Puerto Rico at \$24 per day.

Although last year it was intended by the U.S. Civil Service Commission that a reduction be made in the cost-of-living allowance for Alaska, Hawaii, Puerto Rico, and Virgin Islands, only Puerto Rico and Virgin Islands are now affected by such reduction.

Surveys made by Civil Service Commission have been consistently denied to the affected employees. On several instances we have requested information as to how the surveys are conducted and we are only informed of the results of the survey but denied access to the survey papers.

THE ALASKAN SITUATION

The following material augments the petition presented by a delegation of organized Federal employees from Puerto Rico (attachment No. 1 to this testimony), who came to national headquarters in Washington and contacted Members of the Senate and House and Vice President Hubert H. Humphrey. The protested CSC's recent order to reduce the cost-of-living allowance in Puerto Rico and other areas. The Anchorage, Alaska, delegation of the National Federation of Federal Employees reiterates the resolution they passed last year on H.R. 7401 and finds that said resolution is still applicable to the new proposed H.R. 8390. The resolution reads as follows:

"RESOLUTION BY LOCAL 1019, NFFE

"The following resolution adopted unanimously by Chapter 1019 National Federation of Federal Employees, Anchorage, Alaska, at the September meeting:

"Whereas H.R. 7401 of the 1st session of the 88th Congress proposes to remove from Federal employees in Alaska the cost-of-living allowance they now receive, but fails to provide for any other equitable means of adjusting basic pay to meet the very high cost of living in Alaska; and

"Whereas said bill completely fails to recognize that the present cost-of-living allowance of 25 percent is inadequately low when compared with the true differential of approximately 40 percent between Fairbanks, Alaska, and Seattle, Wash., itself one of the highest cost areas in the Nation; and

"Whereas said bill contemplates step increases and future increases in basic salary to make up most of the deletion but fails to recognize that instead of the additional income above basic pay they are intended to provide, these increases in salary would only make up a part of the loss in real income brought about by the bill; and

"Whereas area increases under the provisions of section 504 of the Pay Reform Act of 1962 are discretionary with the President and according to such specific occupations in which the Government may find itself handicapped to recruit or retain personnel, but basic needs and local high cost-of-living conditions affect all Government employees alike; and

"Whereas it is recognized by all or most Alaska Federal employees that enactment of said bill would be detrimental to the Government and to Federal employees by causing the Government to lose valuable and experienced help and by causing employees to move out of Alaska; Now, therefore, be it

"Resolved, That Local 1019, NFFE, and all members urge the national office, NFFE, and all Representatives and Senators in Congress to exert all efforts to defeat said bill; be it further

"Resolved, That in lieu of said bill, Local 1019, NFFE, and all of its members urge the national office, NFFE, and all Representatives and Senators in the U.S. Congress to enact a law providing for adjustment of basic salaries of GS employees according to cost-of-living indexes by geographic areas throughout the Nation, including Alaska and Hawaii, as based on the only equitable principle of equal pay for equal work, it being evident that pay can only be translated in real income or purchasing power; and be it further

"Resolved, That the executive board of this chapter furnish a copy of this resolution to the national office, NFFE, to Representative Rivers, and to Senators Bartlett and Gruening."

(Signed by) OFFICERS OF NFFE LOCAL 1019.

Our Juneau, Alaska delegation, local 251, reiterates their former stands on H.R. 7401 and also state that the inequities existing in H.R. 8390 are just as applicable.

In addition, the following is a compilation of statistics and letters presented by both our Kodiak and Juneau, Alaska, delegations and we believe that the information concerning the cost-of-living in these statistics should be of particular interest to this committee.

In summary of the general Alaskan stand, gentlemen, the National Federation of Federal Employees would like to also call your attention to the fact that in addition to the cost-of-living allowance maneuver, our members in Alaska are also suffering under such actions as the removal of exchange privileges, the removal of commissary privileges, a series of down-grading reclassification actions, and also the removal of club privileges. Need we remind the committee that the accumulation of a series of actions done separately and apart from each other, when looked at in retrospect and combined, are all very weighty factors influencing the overall cost-of-living impact on Government employees throughout the State of Alaska. It is in this broad aspect, if we may, the "big picture element," that H.R. 8390 should also be considered. The above constitutes generally the Alaskan stand on H.R. 8390.

NATIONAL FEDERATION OF FEDERAL EMPLOYEES, LOCAL 251,

Juneau, Alaska.

NATIONAL FEDERATION OF FEDERAL EMPLOYEES,
Washington, D.C.

GENTLEMEN: This is in reply to your recent wire concerning H.R. 8390.

We have had several meetings of Federal employees and the sense of these meetings is that we doubt the ability of the Civil Service Commission to administer H.R. 8390 properly. This is because the pay data that was collected is meaningless. Alaska has little comparable private industry, not any of which is large. There are almost no comparable positions in the professional and technical fields. In addition, recruitment by non-Federal employers is not from the Alaska labor market—at least for professional and technical employees. Even

the State of Alaska hires only a small fraction of its professional and technical employees from Alaska residents.

Since the statistical information that was collected reveals ignorance about Alaska hiring practices we urge that H.R. 8390 not be passed until it can be shown that meaningful pay information can be collected.

We urge that members of the subcommittee visit Alaska, talk with employees and agency representatives and learn for themselves what the problems are.

Sincerely yours,

MAXINE MCCOY,
First Vice President.

NATIONAL FEDERATION OF FEDERAL EMPLOYEES, LOCAL 251,
Juneau, Alaska.

To all members, National Federation of Federal Employees and all Federal employees in Alaska, whether NFFE members or not:

We have just received word that H.R. 8390 is to come up for committee hearings in Washington. Initial hearings will be held before the House Post Office and Civil Service Committee, Representative Morris K. Udall presiding.

H.R. 8390 is the bill to permanently eliminate the 25-percent cost-of-living allowance for Alaskan employees and substitute increases in base pay where warranted. The entire base pay would then be subject to Federal income tax. The present 25-percent cost-of-living allowance is not taxable by the Federal Government, but is taxed by the State of Alaska.

Local 251 of the National Federation of Federal Employees objects to the proposed bill for the following reasons:

1. The proposed salary adjustment when needed is too intangible, and percentages are apt to be deceptive. Also who determines "where needed" and how long does it take to make the determination?

2. In many cases there are no comparative commercial jobs in Alaska to which a proper comparison for grading and salary purposes can be made.

3. Alaskan agencies would shortly be filled with older employees from the lower 48 States who would accept an Alaskan transfer to get in their high 5 years of salary at the Alaskan adjusted scale before retiring. While we have the utmost respect for our own elderly employees, Alaska needs young and virile employees to adapt themselves to the rigorous climate, natural hazards, and rapidly changing conditions since statehood. Some of these elders will not live out their period of service in Alaska, and additional costs to the Government will be incurred in returning widows and household goods to the States. These elderly people will be in need of more medical attention than the younger employees, and medical and hospital care is lacking in many Alaskan communities. There will be more sick leave incurred and more positions unoccupied and without needed work being accomplished.

4. The income tax applied to the entire salary constitutes a definite financial burden to the employees who are even now finding it most difficult to make ends meet with the real estate market badly overpriced, both as to residence purchasing and rentals, as well as service such as carpenters, mechanics, plumbers; also dentistry and optometry services. It is also often necessary for the employee and his family to go "outside" at personal expense for specialized medical attention not available in Alaska. His only recovery is a percentage writeoff on his income tax for transportation only and nothing for living expenses if he or his family are "outpatients." The Government life insurance program makes no provision to cover such emergencies. Utilities in Alaska are higher than in most States. Heavy commodities must still be shipped in from Seattle with resultant higher costs to include the transportation charges.

Your agency personnel office will undoubtedly go as far as possible through channels to explain these conditions. More is needed for the committee.

If you want to retain the 25-percent cost-of-living allowance, you should address a letter to Mr. Charles E. Johnson, staff director, Post Office and Civil Service Committee, U.S. House of Representatives, Washington, D.C., to be received there not later than Monday, February 24. Senators Bartlett and Gruening and Representative Rivers would appreciate receiving copies of your letters.

Make your letters factual, giving the committee a résumé of your current additional living costs over what you formerly encountered in the lower 48,

and bring out any unusual expenses which will show a real need for retaining the 25 percent tax free.

Don't delay. Write your letter today.

Sincerely,

WALTER L. GNAGY, *President.*

LOCAL NO. 985 OF THE
NATIONAL FEDERATION OF FEDERAL EMPLOYEES,
January 18, 1965.

PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES,
Washington, D.C.

DEAR SIR: In reply to your recent letter regarding proposed legislation to increase salaries or wages of civil service employees at the Naval Station, Kodiak, in order to compensate for the loss of commissary and Navy exchange privileges, we strongly urge that these privileges be restored rather than a raise in salary for the reasons outlined in the attached copy of letter from the National Association of Supervisors, Local No. 53, Kodiak, Alaska, to the commanding officer, Naval Station, Kodiak.

We concur in the information and recommendations contained in the attached enclosure and urgently solicit your immediate aid in restoring the commissary and Navy exchange privileges to our employees at the Naval Station, Kodiak. The restoration of these privileges would be of far greater benefit than a raise in wages for the following reasons:

(a) Past experience has proven that a raise in wages is followed by a reduction in force. We do not want any employees to lose their jobs because of a raise for others.

(b) Any raise in wages would not be adequate to compensate for benefits lost by revocation of commissary and Navy exchange privileges, as outlined in attached letter.

(c) Should a raise in wages or cost-of-living allowances be granted, prices would raise as they always have after previous raises.

Again, we urgently request your aid in restoring commissary and Navy exchange privileges to our employees.

Very truly yours,

M. B. WALLACE, *Secretary.*

GENERAL COST-OF-LIVING INFORMATION, KODIAK, ALASKA

1. The following general information concerning the cost of living in the Kodiak area is of particular interest to civil service employees employed by the Naval Station, Kodiak.

(a) The city of Kodiak is located on an isolated island approximately 200 miles from the nearest port on the mainland of Alaska and 1,400 miles from Seattle. It is the principal city of the island of Kodiak and is a freight seaport serving the many small villages and canneries of the island and adjacent islands. Fishing is the chief industry. Air transportation is the only reliable means of personnel access. A State-owned ferry service inaugurated last season provides small relief in the transportation to the mainland of Alaska.

(b) Naval Station, Kodiak, located 7 miles from the city of Kodiak, serves as the commercial air terminal for the one airline supporting the city of Kodiak and adjacent area. Indirect support provided by this naval station to the overall economy of the city of Kodiak is estimated at 30-50 percent.

(c) The principal industry of the city of Kodiak is fishing and cannery operations.

(d) Area population:

(1) City of Kodiak and immediate area adjacent to city limits (includes 300 civil service employees and dependents, and Navy personnel and dependents who live off Naval Station, Kodiak)	5,000
(2) Naval Station, Kodiak (includes 80 civil service employees and dependents living on the Naval Station, Kodiak)	2,500
(3) Adjacent villages, canneries, and islands served by Kodiak seaport and airport (seasonal workers not included)	1,500
Total area population	9,000

(e) Civil service employees of Naval Station, Kodiak, living off the station are required to use commercial facilities available in the city of Kodiak for food, shelter, clothing, and other necessities of living. Per annum civil service employees in Alaska are paid a 25-percent cost of living allowance. Per diem employees' wages are similarly higher than the average wage of similar trades in the south 48. These increases are not sufficient to cover the high cost of living prevailing in the Kodiak area.

(f) The already limited commercial facilities in the city of Kodiak were recently destroyed by tidal wave. Reconstruction work now in progress contributes to poor roads and living conditions. The housing shortage is critical and the limited shopping facilities, many of which are now operating from emergency buildings, must reflect the normally high cost of operation plus reconstruction efforts in consumer costs which are far above similar costs in the south 48 States. Presently, no satisfactory public laundry or drycleaning facilities have been reestablished. Telephone service is poor. Approximately 200 telephones, many of which are on 10-party lines, are now operating.

(g) Two grocery stores now serve the public needs in the city of Kodiak. Aside from a small amount of beef and eggs, no food is produced locally; all must be shipped in. Relative costs of Bureau of Labor Department standard food basket, stateside, city of Kodiak and Naval Station, Kodiak, commissary are shown below. The prices shown for U.S. average and city of Kodiak were taken from BLS quarterly bulletin published in June 1964. The commissary store prices shown are those current in January 1965:

Food item	U.S. unit average	City of Kodiak ¹	Navy commissary ²
Flour, 5 pounds.....	\$0.58	\$0.92	\$0.57
Rolled oats, 2 pounds 10 ounces.....	.59	.78	.43
Corn Flakes, 12 ounces.....	.29	.35	.25
Bread, 1½ pounds.....	.32	.50	.20
Round steak, pound.....	1.02	1.29	.89
Chuck roast, pound.....	.56	.72	.39
Ground beef, pound.....	.49	.69	.33
Bacon, sliced, pound.....	.67	.82	.41
Lunch meat, 12 ounces.....	.49	.56	.32
Pork chops, pound.....	.83	1.00	.56
Frying chicken, pound.....	.38	.62	.30
Milk, fresh, quart.....	.24	.44	.18
Ice cream, ½ gallon.....	.84	1.44	.89
Butter, pound.....	.75	.88	.74
Milk, evap. 14½ ounces.....	.15	.21	.15
Eggs, large AA, dozen.....	.49	.64	.48
Strawberries, frozen, 10 ounces.....	.28	.31	.24
Orange juice, frozen, 6 ounces.....	.32	.41	.30
Apples, pound.....	.18	.35	.12
Bananas, pound.....	.18	.54	.12
Oranges, pound.....	.21	.29	.14
Potatoes, pound.....	.08	.13	.06
Onions, pound.....	.11	.16	.06
Carrots, pound.....	.14	.24	.08
Lettuce, pound.....	.21	.52	.14
Cabbage, pound.....	.11	.26	.04
Tomatoes, pound.....	.37	.76	.13
Orange juice, 46 ounce can.....	.65	.86	.47
Peaches, No. 2½ can.....	.35	.42	.40
Fruit cocktail, 303 can.....	.28	.33	.23
Peas, 303 can.....	.23	.25	.24
Tomato soup, 11 ounces.....	.12	.19	.11
Pork and beans, 16 ounces.....	.15	.20	.13
Jello.....	.10	.13	.09
Baby food, 4½-5 ounces.....	.11	.16	.10
Coffee, pound.....	.83	.94	.85
Shortening, 3 pounds.....	.80	.98	.75
Oleo, pound.....	.26	.28	.17
Salad dressing, quart.....	.77	.76	.52
Sugar, 10 pounds.....	1.37	1.77	1.08
Total.....	16.92	23.10	13.64
Percent of U.S. average.....	100	136	
Percent of Navy commissary.....	124	169	100

¹ Lowest price good quality items correspond to Navy issue commissary items.

² Navy issue quality used when available.

A family of four spends \$50 to \$65 per week for food in the city of Kodiak. A typical family who spent \$61 in 1 week (\$15.25 per person) analyzed their daily menu costs per person as follows:

Breakfast.....	\$0.45
Lunch.....	.58
Dinner.....	1.14

Total (average of 72½ cents per meal)..... 2.17

A weekly cost of \$15.25 per person amounts to approximately \$800 annually (\$3,200 for a family of four). This same amount of food would average slightly above \$2,300 in the lower 48 States and about \$1,900 in the Navy commissary at Kodiak.

(h) The following cross-section of common commodities shows comparative costs in the city of Kodiak stores, with costs typical in the lower 48 States:

	Typical state-side cost	Kodiak merchant
Cement, 100-pound bag.....	\$1.25	\$3.50
Concrete, ready mixed, yard.....	14.00	50.00
Sheetrock, ½ inch by 4 feet by 8 feet.....	2.00	4.10
Plywood, ½ inch by 4 feet by 8 feet exterior grade.....	5.50	10.00
Cement block.....	.30	1.10
Dimension lumber, 1,000 board foot.....	90.00	150.00
Paint, flat wall latex, gallon.....	4.10	6.90
Fuel oil, gallon.....	.14	.22
Butane, 100-pound tank.....	10.00	18.00
Electricity kilowatt-hour (50 kilowatt-hour beginning rate).....	.04	.11½
Gasoline.....	.31	.46

(A few nationally advertised items such as Atlas tires, batteries, and small Black & Decker power tools are sold at national advertised prices. Generally, large electrical appliances are sold at nationally advertised prices plus freight at \$4.37 per 100 pounds. Automobile prices are usually nationally advertised prices plus transportation costs—\$200 to \$500.)

(i) By stateside comparison, 90 percent of the rental housing available in Kodiak is sub-substandard and could not be rented in many stateside areas. Poorly constructed and maintained project housing and trailers comprise most of the rental units available. Rent for this housing approximates 160 percent of costs for similar size units in the Seattle area. A limited number of the more desirable, privately owned, rental housing units are rented for up to 200 percent of similar sized units in the Seattle area. A typical rental house for a family of four rents for \$160 per month.

(j) Conservative construction costs for private homes approximate 200 percent of stateside costs. All construction materials and equipment must be shipped in. There are no forest or other raw materials suitable for development. Even rock aggregate for concrete is of poor grade and must be trucked 10 miles or more. An acceptable three bedroom home, suitably insulated, heated, and located within the city of Kodiak costs the owner \$36,000 or more. Averaged 50 by 100-foot city lots run about \$1,500 to \$3,000 each. Lots in more desirable locations run even more.

(k) The present real estate tax in the city of Kodiak is \$20 per \$1,000. Next year it is anticipated that a rate of \$30 per \$1,000 will be required to support the newly organized borough government. (Real property in the city of Kodiak is currently valued at about \$12 million.) Three percent city sales tax is charged for support of small boat harbor facilities and roads. Gasoline tax is 8 cents per gallon.

(l) Two general practice physicians (one is a surgeon), one dentist, and one optometrist serve the general medical needs of the city and adjacent villages. One 20-bed hospital serves the public. Most residents of Kodiak rely on the local medical and dental facilities for emergencies and common illnesses only. Specialized attention is obtained in the Seattle or Anchorage areas at the expense of delays and added cost of transportation. (Round trip plane fare to Anchorage, \$73.50, Seattle, \$186.50 plus tax.)

(m) Four garages and service stations in the city of Kodiak support the automotive needs of the Kodiak residents. Service is inadequate, especially during

winter months. Costs of parts and repairs run approximately 150 percent of costs for similar items in the Seattle area. Winter driving conditions require considerable use of tire chains and poor road conditions contribute to accelerated rate of vehicle depreciation. A car driven 10,000 miles in Kodiak is generally in worse condition than a similar car driven 30,000 miles in the lower 48 States. Parts for older model cars must often be special ordered, contributing to delays and higher cost of repairs. Passenger automobile license cost \$30 per year regardless of year of manufacture. Military personnel or civilian employees of Naval Station Kodiak living in the city of Kodiak drive a minimum of 200 miles per week or 10,000 miles annually between the city of Kodiak and the naval station. Garage services, parts, gas, oil, and insurance costs are estimated at 9 cents per mile or \$900 annually.

(n) Two steamship lines now serve Kodiak. Approximately 30 days' delay may be anticipated in delivery of nonpriority items. Currently, private shipping schedules are delayed by the high-priority items required in reconstruction work being accomplished to replace public facilities lost in the recent tidal wave. In the past, shipping costs on certain categories of merchandise have been more than the cost of the item. A 500-gallon septic tank listed in Sears, Roebuck catalog at \$69.50 cost one civil service worker \$90 freight and \$10 local drayage. A wheelbarrow listed in Sears at \$29.50 cost \$37.50 freight. Charges on these items were based on cubic volume rather than weight (\$1.28 per cubic foot). Less dramatic was a chair listed in Sears catalog at \$49.50 on which \$25 shipping charges were paid. Rates on items shipped by weight vary from \$1.28 to \$6.17 per 100 pounds. Efforts are now underway to base all shipping on weight rates rather than cubes.

(o) Access to Kodiak for personnel is by air only. One airline now serves the Kodiak area. Plane fare from Seattle is \$94.75. (The recently inaugurated ferry system between Anchorage and Kodiak provides little relief in traffic between Kodiak and the south 48 States.) Local taxi fares are based on a \$1 minimum charge. The minimum fare between Naval Station Kodiak and downtown Kodiak is \$4.75. A similar distance in the Seattle area costs \$2.

(p) Fishing, hunting, hiking, picnicking, exploring, are the chief family outdoor recreations. A few own boats but these are expensive and operation in the rugged and wintry coastlines is extremely dangerous. Before the tidal wave, bowling was the only organized sport open for the public to participate in. No bowling facilities in Kodiak have been reestablished yet. Nightclub dining, dancing facilities in and adjoining the city are numerous and typical of boom and frontier areas. One low-power television and radio station, operated by the Naval Station Kodiak as a public service, is universally enjoyed by all military and civilian population in the Kodiak area.

(q) Considering the above cost-of-living information it is apparent that a family willing to forgo the convenience of stateside-type shopping centers; recreation and transportation facilities; and, adequate medical, dental, and hospital capabilities, for life in the Kodiak area, must earn a minimum of 50 percent more than they would require in the south 48 to live in the city of Kodiak.

Typical costs of basic necessities are listed below for a family of four living in rental housing. These figures do not include any amount for savings, purchases of any unusual items, or emergencies:

	Annual estimate Kodiak cost	Annual estimate stateside cost
Food.....	\$3,200	\$2,300
Clothing at \$300 per person.....	1,200	800
Personal property insurance.....	100	100
Personal insurance at \$1 per person per week.....	200	200
Medical and dental at \$100 each.....	400	400
Personal services (barber, beauty shop, school allowance, drycleaning) \$6 per week per person.....	300	150
Rent at \$160 per month.....	1,900	1,300
Electricity at \$30 per month.....	360	120
Heat at \$30 per month.....	360	150
Butane at \$20 per month.....	240	
Automotive expense (9 cents per mile, 4-year-old car).....	900	400
City water, sewage, garbage.....	110	110
Telephone (when obtainable).....	120	80
Total.....	9,390	6,110
Percent of stateside costs.....	154	100

(r) Fishing operations in the Kodiak area normally provide boatowners an average income considerably above the average U.S. income. Net income of \$10,000 to \$20,000 for fishing boat crew members working on a share basis is common. Income of cannery operators in the area is normally in the upper income brackets. A large percent of cannery workers are members of fishing families, boat operators or fishing boat crew members, who pool their incomes. Many fishing boats are owned and manned by a family.

(s) Private contractors and employees doing Government work in the Kodiak area earn a minimum of 60 percent more than stateside average. Typical wage scales of these employees are compared below with the wage scale paid to civil service employees at the Naval Station Kodiak:

Trade or title	Maximum civil service hourly scale	Minimum hourly scale, private contract ¹
Electrician.....	\$4.63	\$6.25 (\$8.00)
Plumber.....	4.63	6.40
Carpenter.....	4.48	5.40
Truckdriver, heavy.....	4.06	5.25
Laborer.....	3.50	3.60 (\$5.00)
Painter, brush.....	4.40	5.80 (\$6.00)

¹ These are the minimum wage scales. In order to obtain workers, contractors now doing government work in the Kodiak area are paying premium wages. The normal workweek is 54 hours with time and one-half rate after 40 hours.

In special instances where the demand is urgent, the scale shown in () above is paid with an even longer workweek. This indicates that contractor employees working in the same area as the civil service employee receives a paycheck which is often more than twice as much as the civil service worker.

Contractor project managers receive \$1,500 to \$2,000 per month plus bonus (\$18,000 to \$24,000 per year); bonus averages \$2,500. An equivalent GS-13 civil service employee on Naval Station Kodiak would receive about \$15,000.

Scales paid to private enterprise employees in the city of Kodiak usually run 25 cents to \$1 per hour above the minimum contractor scale shown above.

Accountants in the city of Kodiak charge \$7.50 per hour. An equivalent GS-9 accountant in civil service at Naval Station Kodiak receives \$4.34 to \$5.66 per hour, depending on length of service in the grade.

(t) Considering the above factors it is apparent that merchants, local families and trades, contractors and contract workers living in the area have incomes based on the local economy, which is approximately 50 percent above stateside averages.

The wages and salaries of civil service workers in the Kodiak area are not based on this economy. A family of four must have a bring-home pay of approximately \$11,000 annually in order to provide a reasonable degree of comfort and rate of savings. This amount of income necessitates that civil service employees living in the city of Kodiak, who are under the grade of GS-11 or 12 (or equivalent per diem rate), must augment their income. This may be accomplished by (1) separate employment of the wife or husband of the employee, (2) moonlighting by the employee.

Families can live in the city of Kodiak for less than the scale depicted above; however, their housing and standard of living will be far below that of the average civil service employee in the lower 48 States.

(u) Regardless of the difficulties outlined above, many civil service families remain in the area because they are attracted by the outstanding hunting, fishing, and frontier type of life typical of the area. Schools are excellent. The climate is mild when compared with the mainland of Alaska. The air is clean and the general health excellent. Isolation from the mainland minimizes itinerant workers and vagrancy. There are no soup lines in Kodiak; anyone capable of work can usually find employment. The city is prospering and efforts are being made to make it the "All American City of the Year" during 1965.

NATIONAL FEDERATION OF FEDERAL EMPLOYEES,
Juneau, Alaska, August 30, 1963.

NATIONAL FEDERATION OF FEDERAL EMPLOYEES,
Washington, D.C.

GENTLEMEN: This letter concerns H.R. 7401, a bill to terminate cost-of-living allowance for statutory-salaried Federal civilian employees in nonforeign areas, and for other purposes which the Federal employees in Alaska strongly oppose for the following reasons:

1. The proposal, if placed into effect, will reduce the take-home pay of every graded employee in Alaska. This cannot help but have an adverse effect on the employee morale and increase our present difficulties in recruiting and holding capable employees in this area. We believe the tax-free differential received by classified employees in Alaska is a factor which determines, in many cases, whether an employee will work and live in many localities in this State. Many employees already feel that Federal employment in Alaska is not as attractive as in other States. One reason is that their standard of living is lower than it would be elsewhere. Adequate housing is extremely scarce and very expensive. In addition, Alaska is isolated. Specialized medical care and some other services must be obtained by traveling to other States at the expense of the employee. A reduction in take-home pay would be the deciding factor in forcing these people to leave Federal service in Alaska. Recruitment difficulties would be further increased, since the tax-free cost-of-living allowance has been a strong incentive in recruitment.

2. The proposal is based upon the principle of comparability with salaries in private enterprise in Alaska. There is very little private industry here from which to gather such information. Even if it is possible to make an accurate survey, we do not feel that this principle applies here. In Alaska nonclerical recruitment of GS employees is almost entirely from the contiguous States, either as transferees or new hires. Thus private industry in Alaska does not exist either as a recruitment source or as a consideration in setting pay rates for nonclerical GS employees. Because our employment sources are in the lower 48 States we must offer employment equally attractive in terms of what employees' salaries will buy. The logical way to assure this is to provide base salaries equal to those in other States plus an adequate allowance to cover the increased cost of living here.

3. There are a number of questions concerning the plan to place the new basic rates on a level with private enterprise. There is no private enterprise in Alaska which can compare with the Government. State and Federal employment and the military bases in the interior of Alaska are the main support of such towns as Anchorage, Fairbanks, and Juneau. There is no private enterprise of any size in Alaska to which Government salaries could be compared. In general, the classified employees in Alaska are concerned over the proposed change. Many feel that the plan has been "masterminded" in Washington without proper study and would like more specific information as to what the actual results will be on their individual paychecks.

4. There is no doubt that the proposed changes will result in loss of take-home pay to all classified employees. The only possible advantage which can be foreseen would be to the older career employees who would, through the increase in the basic pay, have a larger annuity at time of retirement. With the removal of the cost-of-living allowance and some unknown increase in base salary, older employees might well seek assignments in Alaska to raise their high 5-year salary and thus their retirement annuity. At the same time, younger people would stay away because their salary would purchase a higher standard of living in other States. This could result in a disproportionate share of people in the older age group.

5. On the other hand, we can foresee many problems in administering the proposed new pay rates. For instance, for a period at least, new employees coming to Alaska would not receive any cost-of-living allowance while employees already on the rolls would be "phasing out" their cost-of-living allowance and there would, therefore, be two rates of pay for the same work. It is not clear just how the new system would work in regard to new basic rates, what limitations might be imposed, how step increases would be affected, et cetera. In any event, it appears that breaking away from the standard GS schedule will present some very serious problems in pay administration.

6. It appears that because of the tax-free nature of the present cost-of-living allowance, basic rates would have to be increased by approximately 31 percent in order to preserve take-home pay. In most cases this would increase pay the equivalent of several GS grades. In some instances a GS-2 would have to receive a rate at the GS-6 level and a GS-4 would have to receive a rate at the GS-8 in order to suffer no loss in take-home pay. We do not believe that the Civil Service Commission can increase basic pay rates this much and for this reason are apprehensive as to the results of the plan which has been proposed.

7. Although the proposal is one which will affect employees of every agency in Alaska, we do not believe the Civil Service Commission obtained the views of any

of the agencies in Alaska prior to introducing the legislation. The first information we had of this proposed major change in the pay of Alaska employees was through news releases. Our employees throughout the area immediately called upon us for explanations and further information which we were unable to supply.

8. We believe that action on the proposal should be withheld until a comprehensive on-site study can be undertaken and the people concerned here in Alaska be given more definite information and a chance to express their views on the matter.

This is to enlist your aid in protesting and opposing this bill which we consider of an arbitrary nature and detrimental, to the interests of Federal employees in Alaska. Our first luncheon meeting this fall is on September 9 and we would appreciate very much receiving some response from you which we could pass on to our membership.

Sincerely yours,

WALTER GNAGY, *President.*

NATIONAL FEDERATION OF FEDERAL EMPLOYEES LOCAL 985,
Kodiak, Alaska.

NATIONAL FEDERATION OF FEDERAL EMPLOYEES,
Washington, D.C.

GENTLEMEN: The attached list is submitted for your information relative to the replacement of civilian jobs with military personnel at this station. This is a partial list, but as complete as current information we have, and covers the past several years.

The trend toward replacement of civilians with military seems to be stronger as time goes by. We strongly urge that positive action be taken to curb the practice and to restore civilian jobs to civilians.

Very truly yours,

MARY B. WALLACE, *Secretary.*

THE PANAMA SITUATION

In light of the situation on the Isthmus recently, the morale of civilian employees is a consideration that should be reviewed in addition to cost-of-living allowance impact. Annexed is a memo sent by the Governor to all employees in the Panama Zone.

Are the Government employees in Panama to be rewarded with a cost-of-living allowance in view of all of the hardships and their faithful loyalty and steadfastness in these trying times? This group of devoted employees is also being subjected to downgrading of positions, removal of security status, replacement of civilians by military, and other elements of demoralization.

We sincerely hope that this committee will bear in mind, here again, the various factors governing the day-by-day operation of our faithful servants in Panama. The National Federation of Federal Employees, as they did last year, again definitely protests this attempt to reduce and eliminate cost-of-living allowances in our various overseas areas.

[From the Spillway Publication of the Panama Canal, Jan. 20, 1964]

GOVERNOR HAILS "MAGNIFICENT RECORD"

FELLOW EMPLOYEES: With so much bad news reaching us these troubled days, it is cheering to have one positive report of good news each day. This good news is that the employees of the Panama Canal are continuing to transit ships expeditiously and safely. A magnificent record of sustained service to shipping is being maintained during this troubled period.

I thank the employees of the Panama Canal for their loyalty, restraint, forbearance, and dedication to duty. The lack of communication with our employees has kept them in a state of confusion and perhaps frustration. Conflict-ing reports and rumors have created tension and excitement.

My message to employees is this. Don't get excited about what you read in the local papers. English language newspapers printed in Panama are Panamanian papers and in all recent reports have been slanted. News favorable to Panama is highlighted. One of these papers for months has been dedicated to encouraging the controversy between Panama and the United States. And when the

ships were down and all of us, Panamanians and Americans alike, needed objective reporting, the other one was not much better.

When you read the local newspapers, keep cool and remember that the items you read are calculated to stir you up and get you excited. Now you may ask about the U.S. press. The first batch of newspapers from the States really clobbered the Zonians. I have been working with correspondents and I believe the tide is changing. The next few days should bring stories from the United States which will be more objective. It is essential that we get the true story before the American public but it takes time and we couldn't do it during the first few days.

During the time of crisis along the borders, the Panama Canal administration could not publish, print, or disseminate news to its employees directly. It was necessary, and I am sure you know why, that only one voice should speak for the United States. Later the Peace Commission of the Organization of American States requested the Governments of the United States and the Republic of Panama to refrain from discussing the events starting Thursday, January 9, in an effort to improve the climate for resumption of relations. The United States has scrupulously observed this request. Our forbearance will earn us allies in the long term.

I do not need to tell you that the American employee of the Panama Canal has been singled out for special attack by many individuals and much of the press and radio media. I have been telling, and most emphatically, representatives of the press and radio that the American employee was not responsible for what has happened. The current conflict springs from something bigger, more basic, than we Americans in the Canal Zone.

Before the existing crisis is completely resolved an examination will be made of the basic causes of United States-Panama differences. To the extent that I am permitted to do so, I will keep the Panama Canal employee informed of what is going on. You can depend on this.

Panama Canal employees may receive more unwarranted criticism before the true facts are established and the U.S. public better understands the situation. In the meantime, keep your blood pressure down, ignore unfair and slanted publicity, and continue to do your work to the best of your ability. This will be a major contribution from each of you. Again, I thank you for your loyalty and steadfastness.

ROBERT J. FLEMING, Jr., *Governor.*

Mr. WOLKOMIR. We certainly appreciate the opportunity of presenting this statement to the subcommittee this morning.

Mr. KREBS (acting chairman). Thank you very much.

Mr. WOLKOMIR. Thank you.

Mr. KREBS. The next witness is Mr. Sidney Goodman, president of the National Postal Union. Mr. Goodman, we will be very glad to hear from you at this time.

STATEMENT OF SIDNEY A. GOODMAN, PRESIDENT, NATIONAL POSTAL UNION; ACCOMPANIED BY CRISTOBAL LLITERAS, PRESIDENT, PUERTO RICO & VIRGIN ISLANDS POSTAL UNION

Mr. GOODMAN. Mr. Chairman and members of the subcommittee, my name is Sidney A. Goodman, and I am privileged to serve as president of National Postal Union, located at 509 14th Street NW., Washington, D.C. I am accompanied here by Mr. Cristobal Llitteras, president of our Puerto Rico & Virgin Islands Postal Union. National Postal Union represents over 53,000 postal employees, organized in excess of 500 local affiliates in 50 States, including Alaska, Hawaii, Puerto Rico, and the District of Columbia.

Mr. Chairman, National Postal Union is strongly opposed to passage of H.R. 8390. We believe it to be unfair, discriminatory, and prejudicial to the best interests of the Post Office Department and of the Nation.

First established under the Brookhart Act in 1930, cost-of-living allowances have served a constructive purpose and have provided incentive for attracting desirable employees and stabilizing personnel in nonforeign areas. The action of the U.S. Civil Service Commission in reducing cost-of-living allowances for postal employees in Puerto Rico and the Virgin Islands is, in our opinion, bound to aggravate existing problems which have necessitated special attention from the Department, particularly since transfer of Puerto Rico and the Virgin Islands from the jurisdiction of the Atlanta to the New York post office region.

We wish to point out at the outset, Mr. Chairman, that there are serious political implications involved in the action of the Civil Service Commission in reducing cost-of-living allowance. We know that the Commission's actions were taken solely on the basis of its assumed obligations to administer cost-of-living allowance under Executive Order 10000. Nevertheless, the action is bound to have a significant and direct effect on the political situation in Puerto Rico, particularly, both internally and externally. Culturally and historically, Puerto Rico has close cultural bonds with all of South America. Particularly in view of recent developments in the Dominican Republic, it would be an error to underestimate the adverse propaganda effects of reducing cost-of-living allowance. Puerto Rico is a showcase of democracy in action from our point of view. What happens here is bound to affect the major effort we are making in South America under the Alliance-for-Progress program. Puerto Rico, itself, is split into three major political movements, oriented toward preservation of the Commonwealth status, statehood, and independence, the latter sparked by a strong nationalist movement. Large numbers of Americans of Puerto Rican descent feel strongly that they continue to be the victims of racial discrimination in a number of major areas, particularly employment, housing, and education. They respond strongly to any move which, from their point of view, adversely affects their status, whether in Puerto Rico or in the United States, whether it be political, economic, or social.

Mr. Chairman, I respectfully submit a number of pictures taken on July 1, 1965, the day that reduced cost-of-living allowances went into effect. They show groups of Federal employees marching with banners inscribed with such slogans as "Fasting—Federal Employees," and similar slogans. Such is the mood of Puerto Ricans, that organized labor was strongly represented by a number of trade union groups who spontaneously and voluntarily marched in protest against reduction of cost-of-living allowances, carrying placards, banners, et cetera. All marchers wore black armbands, intended as a symbol of mourning for what they feel is highly discriminatory and unfair treatment.

Mr. Chairman, in February of 1964, hearings were held on a similar bill, H.R. 7401, as is now proposed. In a letter of transmittal dated May 14, 1963, Mr. John W. Macy, Jr., the distinguished Chairman of the U.S. Civil Service Commission, stated in part:

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.

On June 1, 1965, testifying before the House Subcommittee on Compensation, this distinguished official frankly conceded that the pay recommendations of the administration could, at best, be expected to hold the line and prevent a worsening of the gap in comparability with respect to pay for postal and Federal employees as of the survey taken March 1964. He further conceded that an increase of at least five-tenths of 1 percent would be necessary to reach real comparability, and even this would have a 1-year gap built in. When it comes to reduction of cost-of-living allowances, the Commission has moved most resolutely and, on this aspect, alleged comparability must be absolute and current, as distinguished from the Commission's approach to pay, as has just been cited.

Mr. Chairman, we challenge the surveys utilized in arriving at the Commission's conclusions, with respect to the necessity for reducing cost-of-living allowance. All that the Commission has presented to substantiate its fiscal conclusions are summaries of the results of surveys taken in Puerto Rico and the Virgin Islands. No representative of affected employees was ever consulted or advised concerning specific methods and criteria utilized in the survey. Further, while on the one hand the Bureau of Labor Statistics was cited as the authority for surveys taken earlier this year in Hawaii and Alaska, neither the Commission nor the Bureau of Labor Statistics was involved in the most recent survey of Puerto Rico and the Virgin Islands. In these instances, the State Department conducted the survey, an agency which has no particular mission in this area. Surveys conducted by representatives of the affected employees show that actual living costs in San Juan, for example, are 20 percent above costs in the Washington, D.C., area. We believe the difference is accounted for by the fact that the State Department's so-called survey compared unlike things, or hamburgers with steaks. Mr. David Dubinsky, president, International Ladies Garment Workers Union, is quoted this past Thursday, July 16, as stating before a Senate labor subcommittee, that the cost of living in San Juan was 29 percent higher than in Washington, D.C. A conservative survey taken by employees themselves last year shows cost 20 percent higher in San Juan as against Washington, D.C.

We quote again from Mr. Macy's letter of transmittal accompanying H.R. 7401 last year:

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.

We cannot help noting that this year, the Commission found grounds for excluding reduction of cost-of-living allowance in Hawaii. It is difficult to believe that the cost of living in Hawaii has increased abnormally in past months as against that of Puerto Rico and the Virgin Islands. We heartily endorse maintenance of cost-of-living allowance for Hawaii, as well as Alaska, but cannot help but emphasize the distinction being made.

Mr. Chairman, in that same letter of transmittal, the distinguished Chairman of the U.S. Civil Service Commission states with reference

to the phasing out of the cost-of-living 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.

Mr. Chairman, utilizing step 7, level 4 of the postal field service as the median, postal employees in Puerto Rico face a net loss of \$600 in take-home pay in this first year, with the reduction of the cost-of-living allowance from 12½ to 5 percent. Virgin Island employees with a reduction from 15 to 5 percent face an even greater loss in net take-home pay between now and July 1, 1966. It should be noted that the Virgin Islands must import virtually all manufactured and finished products, with a significant increase in cost for even the smallest household item of daily use.

In the case of Puerto Rico, residents suffer certain financial disabilities by virtue of their Commonwealth status, which places them at a distinct disadvantage as against residents of the mainland. A new Chevrolet, for example, costs over \$1,000 more in San Juan than in the United States. In addition, the purchaser must pay from \$200 to \$300 for the license plates in the first year, plus proportionately reduced amounts in the years following. Further, residents of Puerto Rico and the Virgin Islands are denied, for example, the benefits of recently reduced excise taxes on automobiles, TV sets, et cetera.

Mr. Chairman, reduction of the cost-of-living allowance at this time has created much bitterness among affected employees, who consider it a highly discriminatory action. Newspapers in San Juan have given a great deal of prominence to this issue in recent months. From an editorial point of view, they are universally indignant. For example, typical comment appeared in the San Juan Star last week on Thursday, July 15, 1965. Under the headline "Blue Collar Pay Rates Are Hiked," the lead sentence of the San Juan Star stated, "As down goes the cost-of-living allowance for white-collar Federal workers in Puerto Rico, up goes the pay for the blue-collar workers for the Navy." The item went on further to say that 942 employees at Roosevelt Roads and the naval station in San Juan were receiving a 7.7-percent raise, starting the first pay period after July 14.

I want to point out that while the Commission has been quick to equate postal employees in Puerto Rico with those on the mainland, distinct differences are being ignored. Postal employees in Puerto Rico, especially letter carriers and window clerks, must be able to speak both English and Spanish. Unless they are able to do so, and this applies only somewhat less to other employees, they cannot possibly be of any value whatever. Apparently, the Commission regards this unusual requirement quite casually. Is there anything like this on the mainland and has the U.S. Civil Service Commission taken this into consideration?

Mr. Chairman, it would be quite possible to go on in far greater detail and length concerning the inequity that has now been imposed by the Commission's action in reducing the cost-of-living allowance in Puerto Rico and the Virgin Islands. I would not, however, impose on the distinguished members of this committee. I would close by

strongly urging this committee to act quickly and favorably on House Joint Resolution 569, introduced by the Resident Commissioner of Puerto Rico, Mr. Polanco-Abreu, which would immediately terminate the economic injustice imposed by the Commission, and provide for a proper survey which would include appropriate consultation with the representatives of affected employees.

Before I close by thanking the chairman and the distinguished members of the subcommittee, may I point out that with me is Mr. Christobal Lliteras, president of our Puerto Rico and Virgin Islands Postal Union, and while I know we do not have much time, I have spoken rapidly so that if you wish to ask him any questions you may do so.

Thank you very much for the opportunity of commenting on this important subject.

Mr. KREBS. Thank you, Mr. Goodman, for your statement. I have a few questions I would like to ask.

I had a vacation for 2 weeks in Puerto Rico after the last campaign, and I saw no evidence whatsoever that the cost of living was going down in San Juan or in any of the surrounding areas. As a matter of fact, it keeps going up.

We also had some important testimony Monday from the Chairman of the Civil Service Commission. Again we get back to comparability. It is his judgment that Public Law 793, in which the principle of comparability was set forth, contemplated the use of nonprofit organizations as well as other civil service employees in other levels of government.

I also recall that I asked Mr. Clague, the head of the Bureau of Labor Statistics, that specific question. He said their interpretation of the law is that the comparability has to be exclusively with private industry and not with nonprofit organizations.

I would like for you to restate, for the record, your feeling about this.

Mr. GOODMAN. Thank you very much. I will be glad to comment on that.

Obviously one of the sections of the pay bill presently being considered by this committee would extend the authority of the President to include in his criteria of comparability compensation paid by the nonprofit institutions you mention. We strongly object to this. We feel employees of nonprofit institutions are the poorest paid in the country. The pay of employees in nonprofit hospitals of that type is notoriously substandard. We think this is unfair and urge that comparability be restricted to comparison with private enterprise industry.

Mr. KREBS. The Chairman of the Civil Service Commission also said that the reason the cost-of-living allowance was given in Alaska, Hawaii, Puerto Rico, and the Virgin Islands was that there were no natives in those areas that could do the work. That goes back 15 years. He said this meant people had to leave their homeland and go to distant communities. Because they had to reestablish a new life, they were given the required and necessarily equitable cost-of-living adjustments. Now he says there are natives who can do the work and the rates have to be cut one-sixth each year over a period of 6 years. In some instances cited by him people are cut \$900 a year; I believe that was the figure he cited.

Do you think it is fair that people who have given 15 years of their lives to Government service should be told either to take these cuts or to get out?

Mr. GOODMAN. Mr. Chairman, first I think it is unworthy of the U.S. Government to extend incentive pay in some instances and then withdraw it when the amount involved is negligible. The Commission projects a theory of the marketplace, and I would remind the distinguished members of the committee that the circumstances of the marketplace is quite different from the circumstances we are discussing here. I wonder if the Commission would advocate for postal employees the orthodox methods of negotiating in the marketplace to which they refer. We have a comparison of two unlike things. On the one hand we use the marketplace, and on the other hand, postal employees do not have the right to strike or other methods available to employees in the private sector. I merely point out that we believe strongly it is unfair to compare unlike things, and if we are to have the private enterprise package, then let those who initiate it see that bargaining methods are the same for Federal employees and postal employees, as they are for outside employees.

Mr. KREBS. This reference to the marketplace is like a lot of arguments I have heard over the years about our free-enterprise system. It is my feeling that with monopolies like General Motors, Westinghouse, and General Electric there is not really any free movement in the marketplace. And I think that is true in the Government. They are free to take a reduction of one-sixth a year for 6 years or quit.

Another thing that I think is very important is the question of comparability. I said to them, "You argue you have to accomplish absolute comparability when you are cutting people in four nonforeign areas, but your proposed pay increase leaves a timelag for comparability."

Mr. GOODMAN. I would point out that the Commission, in its testimony last year and this year, indicates that in Alaska, at least, the cost of living is 29 percent higher than in Washington, D.C. But it is interesting to note that it is almost 3 years since the Federal Salary Reform Act of 1962 was passed but the Commission has not recommended for Alaska the increase that would be in line on the principle of comparability. We see a lag when it comes to moving salaries upward, but comparability to the hilt when it comes to moving them downward.

There is no such thing from a scientific point of view as comparability. Mr. Elmer Staats stated last year:

It is not possible to price in private enterprise the jobs in these three specialized services (postal field service, the Foreign Service, the 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.

In lieu of that we have the method called linkage, which in fact there is bound to be a large measure of inequity because admittedly there are no comparable jobs in private industry.

Mr. KREBS. We were assured two or three times during the course of the hearings on Monday that these people would catch up by other increases. Do you agree?

Mr. GOODMAN. I would hope that would be the case, but we tend to see a picture of freezing salaries to so-called comparability which has a 2-year lag. No one has said we are entitled to a better standard of living, and nobody has talked about increasing salaries beyond comparability as such. We feel strongly that postal and Federal employees are under two disabilities: (1) the comparability formula itself, and (2) the use of comparability tends to freeze improvements in the standard of living.

Mr. KREBS. Mr. Olsen.

Mr. OLSEN. I want to congratulate Mr. Goodman on his sound statement. I do not have any questions. I think you have covered the point very well. I simply want to thank you for your splendid presentation.

Mr. GOODMAN. Thank you.

Mr. KREBS. Mr. Matsunaga.

Mr. MATSUNAGA. Thank you, Mr. Chairman.

Mr. Goodman, has your organization made any effort to determine what the actual cost of living index is in Puerto Rico and the Virgin Islands?

Mr. GOODMAN. Yes, we have, and at this point I will ask my colleague to respond specifically to that question because he has been directly involved in that.

Mr. LLITERAS. In surveys we carried out in San Juan last year and part of this year the figures came up to 20 percent higher than Washington, D.C.

Mr. MATSUNAGA. This was last year?

Mr. LLITERAS. Last year and the early part of this year.

Mr. MATSUNAGA. And were you using the same commodities as were used by the State Department?

Mr. LLITERAS. We used food, housing, education, medical bills, and so on. I do not know if those were the kind of things they used because they never showed us anything.

Mr. OLSEN. Will the gentleman yield?

Mr. MATSUNAGA. Yes.

Mr. OLSEN. I note in looking at this statement that one complaint was that the employees were not informed as to what the State Department uses. They are aware of what the Bureau of Labor Statistics uses but not the State Department.

Mr. GOODMAN. Thank you, Mr. Olsen. That is the point we were making. We had no way of knowing what the criteria were, but our people used the items they use every day. We do not know what the State Department uses.

Mr. MATSUNAGA. Mr. Llitteras, were you cognizant of the fact that the State Department was making some kind of a survey last year?

Mr. LLITERAS. Yes. We were called to the Civil Service Commission's office and shown a paper and told they had concluded the survey.

Mr. MATSUNAGA. They had concluded the survey?

Mr. LLITERAS. Yes. That was the end of the meeting.

Mr. MATSUNAGA. But at no time prior to that were you notified a survey was being conducted or to be conducted?

Mr. LLITERAS. No, sir. We did not even know they were there.

Mr. MATSUNAGA. So you actually do not know how this survey was conducted?

Mr. LLITERAS. No, sir.

Mr. MATSUNAGA. And you feel this survey is not in accordance with the facts as they existed at that time?

Mr. LLITERAS. Yes, sir.

Mr. MATSUNAGA. And had no relation to what the actual cost of living in Puerto Rico is?

Mr. LLITERAS. Yes, sir.

Mr. MATSUNAGA. I think I observed you in the audience Monday?

Mr. LLITERAS. Yes.

Mr. MATSUNAGA. The Chairman of the Civil Service Commission was testifying and I raised the point whether to his knowledge they were hiring people at a lower grade in Hawaii—and this may be true in Puerto Rico and the Virgin Islands as well—but do you have knowledge of such a practice going on that because of the cost-of-living allowance some of the agencies have had a tendency to lower the grade and arrive at the basic salary being paid for the same job specification here on the mainland?

Mr. LLITERAS. Mr. Congressman, my agency is the Post Office and we only have levels 3 and 4 and a clerk definitely has to be a 4, he cannot be brought in at a lower level. So in the Post Office itself I do not think this has happened because of the fact of these specific levels. The other agencies, I have heard where a level 8 from the States would have to come down to a level 7 because they have the cost-of-living allowance which brings it up to level 8, but in the Post Office I cannot tell.

Mr. MATSUNAGA. I realize in the Post Office Department it is universal throughout the United States.

Mr. LLITERAS. Right.

Mr. MATSUNAGA. But you say you have heard of instances in other agencies?

Mr. LLITERAS. Yes.

Mr. GOODMAN. If I may, on that point, while we cannot comment directly from personal experience because our levels are established by Public Law 68, this point has been brought out in the ad hoc emergency committee, and it is a simple thing for an agency to comply with the law by giving the employee a lower level to take into account the cost-of-living allowance.

Mr. MATSUNAGA. In Hawaii the postal workers never did enjoy the cost-of-living allowance. It was some time after the other white-collar workers were given the cost-of-living allowance that the postal workers were given the cost-of-living allowance. Was this true in Puerto Rico and the Virgin Islands?

Mr. LLITERAS. Yes. One time it was cut out for 8 months, and 8 months later brought back again.

Mr. MATSUNAGA. So this argument made, that the cost-of-living allowance is not now justified because we are able to recruit native workers, actually does not apply to the postal workers, does it?

Mr. LLITERAS. No, sir.

Mr. MATSUNAGA. In that the postal workers had already been hired, regardless of where they came from, and the sole justification for the cost-of-living allowance for postal workers was that the cost of living in Puerto Rico, the Virgin Islands, Hawaii, and Alaska was higher than here in Washington, D.C. That was the sole justification.

It was not given as an incentive to bring in skilled workers from other areas?

Mr. LLITERAS. That is correct.

Mr. MATSUNAGA. And the result of your survey shows that the justification still exists?

Mr. LLITERAS. That is correct.

Mr. MATSUNAGA. In that in your survey the cost of living in Puerto Rico is 20 percent higher than here in Washington, D.C.

Mr. LLITERAS. That is correct.

Mr. MATSUNAGA. I think you have made a good case.

Mr. GOODMAN. Thank you, Mr. Congressman.

Mr. KREBS. The gentleman from Puerto Rico.

Mr. POLANCO-ABREU. I want to congratulate Mr. Goodman for his wonderful statement. I would like to ask just a few questions.

Could you tell the subcommittee the consensus of opinion among the employees in Puerto Rico and the Virgin Islands in regard to the survey prepared in this case?

Mr. GOODMAN. It is not only universally regarded with skepticism but with indignation, part of which is shown by pictures taken in front of the post office in San Juan on July 1, the day that reduced cost-of-living allowance went into effect. A number of affiliated groups in San Juan participated in the demonstration. They are indignant. These people know, on the basis of their daily experience, what bread costs, what the utilities cost, what housing costs, and Puerto Rico has regulations regarding imports. The point made by Mr. Matsunaga is well taken. The original reason for the cost-of-living allowance in Puerto Rico remains unchanged. They have made some progress in schools and so forth, but the original justification for the cost-of-living allowance as such remains unchanged.

Mr. POLANCO-ABREU. Does the National Postal Union that you represent support the resolution that I introduced in regard to this problem?

Mr. GOODMAN. Yes, and I made it a point at the conclusion of my testimony to say so specifically. That is House Joint Resolution 569 introduced by you, and we support it heartily.

Mr. POLANCO-ABREU. Thank you.

Mr. KREBS. I have just one more question.

Mr. MATSUNAGA. Mr. Chairman, if I may for the record, do you recall, Mr. Goodman, what year it was that the postal workers obtained the cost-of-living allowance?

Mr. GOODMAN. I believe it was in 1949, as the result of an amendment to the Appropriation Act. The Brookhart Act made it available in 1930 for other employees, but to my knowledge the postal employees were not given consideration until 1949.

Mr. KREBS. Mr. Macy testified it was roughly 15 years.

I wonder if you would give us your feelings about House Joint Resolution 569?

Mr. GOODMAN. I have, but I will repeat it. The National Postal Union strongly endorses House Joint Resolution 569, introduced by Mr. Polanco-Abreu.

Mr. KREBS. Thank you very much, Mr. Goodman.

Mr. GOODMAN. Thank you.

Mr. KREBS. The next witness is Mr. John Griner, president of the American Federation of Government Employees.

STATEMENT OF JOHN GRINER, PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES; ACCOMPANIED BY GEORGE MEAGHER, LEGISLATIVE DIRECTOR; AND DAVID G. VELEZ, PRESIDENT, LOCAL FEDERATION OF GOVERNMENT EMPLOYEES, SAN JUAN, P.R.

Mr. GRINER. Mr. Chairman and members of the subcommittee, for the record, my name is John Griner. I am president of the American Federation of Government Employees. To my left is Mr. David Velez, president of my local group in Puerto Rico and president of the cost-of-living allowance group which is representing about 19 different organizations. I would also like to say that this organization has local lodges in practically every country on earth. We have them in Alaska, Hawaii, Puerto Rico, the Virgin Islands, Germany, and other places, so we are vitally interested in this legislation.

At the outset I would like to say we oppose 100 percent the enactment of H.R. 8390.

The American Federation of Government Employees is opposed to the bill H.R. 8390 because it would repeal the authority for payment of cost-of-living allowances to Federal employees in four nonforeign areas. Section 207 of the Independent Offices Appropriation Act of 1949 provided this authority and it is our contention that the basis for establishing the cost-of-living differential is still valid and the need for its retention is substantially as compelling as it was when the legislative authority was enacted in 1948.

It has been contended in support of H.R. 8390 that there have been significant changes in the economies of the four areas concerned, particularly in two of the areas; namely, Puerto Rico and Hawaii. We question the accuracy of this contention and we shall submit evidence of the validity of our belief.

The Civil Service Commission has urged enactment of the legislative authority provided in H.R. 8390 on the ground that the Salary Reform Act of 1962 established two major principles upon which Federal salary fixing henceforth must be based. The first principle cited—equal pay for substantially equal work—is not controverted by the existing cost-of-living increment. Without such an allowance, Federal employee salaries would in fact be reduced in comparison to those paid on the mainland because of the existing price differential.

On the basis of the most recent cost-of-living survey made in Puerto Rico by the State Department for the Civil Service Commission last November, the price differential was approximately 5 percent. If we accept the Commission's own cost-of-living figure, Federal salaries in Puerto Rico and the Virgin Islands have a purchasing power of 95 percent when compared with salaries received in Washington, D.C. This situation is not one of equal pay for substantially equal work.

The Commission has also declared that the other, and even more compelling, principle of comparability of salaries of Federal employees with those in private industry precludes direct recognition of high prices in an area by payment of a cost-of-living allowance to supplement existing statutory pay rate. The fact is that the Salary Reform Act does not require the discontinuance of cost-of-living allowances in these nonforeign areas. On the contrary this law con-

tains a positive admonition in section 1006 not to reduce existing compensation. This provision reads as follows:

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.

And I contend the word "gross" means cost-of-living allowance.

Provision of a cost-of-living allowance involves more than the legal authority which permits its payment of the economic conditions which make it peculiarly appropriate. There is also a matter of our Government fulfilling its obligation to the persons who accepted employment in these nonforeign areas. At the time many were sent there, employees were hard to get. Because it was not easy to persuade many persons to accept positions at great distances from their homes and under living conditions then quite different from what they were accustomed to having, those who accepted offers of employment were given certain promises and one was this cost-of-living allowance which would assure them of losing no income.

The cost-of-living allowance was a condition of employment. It was an inducement for them to accept these positions at great distances from their homes where living conditions were different and where it required in some instances undergoing some hardship. The Federal Government was fortunate at that time that enough persons were willing to accept these offers of jobs. That fact now should not be forgotten.

Are we going to break faith with these employees now? Does not the Government owe them some consideration for having come to its assistance in years past? Many were already employed and those who went to these nonforeign areas could have had as good or better jobs at home. Some accepted these positions during the war years when employment was plentiful. By this time they could have developed worthwhile careers here at home.

We believe that these four nonforeign areas affected by this bill involve a different set of circumstances from those prevailing in the contiguous 48 States. The Commission has made the point that, because living costs vary as between such cities as Seattle, Chicago, and 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 employees in the latter cities," when differences in living costs are not reflected in the compensation of employees in stateside cities. I think that is one of the principal points that the Civil Service Commission has attempted to make before this committee.

This line of reasoning is in our belief fallacious. Differences in cost of living do not depict the total difference between the economies of two distantly removed economies. A more important and meaningful characteristic of a local economy is the type of goods which are produced or processed within the area or which are readily obtainable. Local economies which are separated by great distances over many miles of ocean are virtually certain to present different problems such as those relating to the production or stocking of such goods as food, clothing, or the means of providing shelter.

Honolulu is 2,500 miles from San Francisco and Juneau is more than 1,500 miles to the north of that Pacific port. In a different

direction, Puerto Rico is about 1,000 miles from the Florida mainland. It is an island 100 miles long with an area of less than 3,500 square miles or not quite three-fourths the area of Connecticut, the State which is 46th in size of the 50 States in this country.

We wonder why a method for providing extra compensation which has been satisfactory as a means of recruiting and retaining employees in these distant areas is being abandoned. It is fair and equitable to the employees concerned and is appropriate to the circumstances it is intended to offset.

But objectionable as the discontinuance of the cost-of-living differential is in Alaska and in Hawaii, it is peculiarly indefensible in Puerto Rico and the Virgin Islands. The reasons why it should not be eliminated for those areas are apparent to anyone familiar with them, but they are not reflected in the cost-of-living surveys conducted in the fall of 1964. The survey in Puerto Rico did not disclose the true cost-of-living situation in that insular territory. So far as this failure can be analyzed it resulted largely from the method of collecting data, but principally from the technique used by the State Department. It is because of this failure of the survey to disclose the true conditions in Puerto Rico that we urge this committee to remove the serious doubt which prevails by insisting upon a survey conducted by the Bureau of Labor Statistics and carried to its conclusion by that Bureau. This is provided in three House joint resolutions now pending. These resolutions and their sponsors are House Joint Resolution 568 of Representative Gilbert, House Joint Resolution 569 of Resident Commissioner Polanco-Abreu, and House Joint Resolution 573 of Representative Ryan. And I might say at this point we wholeheartedly endorse those resolutions.

BLS made the surveys in Alaska and Hawaii because it periodically does so in preparing the Consumer Price Index. This Bureau has been preparing this price index for 50 years and has not only developed the needed technique but applies it in such a way that subjectivity is virtually eliminated. The State Department uses a different approach which to some degree is highly subjective, and as a result the findings are not as meaningful. The State Department technique has in the past given considerable weight to use factors in its analytical technique, and these factors represented such differences in Puerto Rican residence as climate or lack of refrigeration. More recently the State Department concept that has had an important role in its analytical technique is availability. However, there are degrees of availability. This variance is an important factor in price fixing under competitive market conditions.

I would like to state at this point that we contacted the State Department, trying to secure from it the basis on which the survey was made, and the State Department told us the survey was made for the Civil Service Commission and any information regarding that survey must come from the Civil Service Commission. We then contacted the Civil Service Commission. We were able to secure very limited information as to how they went about the survey, and when we asked for particulars we ran up against a blank wall. They didn't say so in so many words, but, as I interpret it, we were told "This is none of your business."

One of the most objectionable aspects of this reduction of the cost-of-living allowance and its proposed discontinuance in Puerto Rico and the Virgin Islands is the unwillingness of the Civil Service Commission to assess the true situation fairly and to make known the exact content and method of the cost-of-living survey undertaken. It has been made to appear as a State Department project, but that Department has declined to discuss the specific details because it was employed by the Civil Service Commission. The Commission has been vague in its comment on the methodology used.

We wonder why all of this secrecy. Have the nearly 5,000 employees in these two areas no right to know exactly how certain conclusions were reached? They have a right to know. The American Federation of Government Employees has formal recognition with the Civil Service Commission at the national level, consequently, we have a right to be consulted regarding working conditions which affect employees in these areas.

We were not consulted even up until this date.

It places these employees in the position of fighting a phantom. The fact is that they do not know what it is they are fighting. This is scarcely the way a democratic government should deal with its employees, particularly when there has been not only an implied but an express promise to consult them before important policy changes are decided.

The paramount characteristic of the domestic economy of Puerto Rico is that few commodities are produced on the island. Nearly everything is imported. Puerto Rico does not raise cattle to any appreciable extent. Its shoe industry is restricted only to a rubber-soled type and does not produce any dress shoes. Such prime food staples as green beans or carrots are not grown. Rice, beans, potatoes, and meat are imported. Rice is refined but not grown on the island, although it is an important item in Puerto Rican diet.

The basic assessment of cost of living, it must be remembered, is based on a comparison with Washington, D.C. The most recent cost-of-living survey by the State Department indicated that prices of bread, rice, and fresh citrus fruit were lower in San Juan than in Washington. The figures made public showed that the prices of bread and rice were the same while the price of fresh citrus fruit had increased 1 cent per pound. The price shown for fresh citrus fruit was puzzling, first because only oranges are grown on the island; secondly, bananas are the only fruit sold by the pound. How they did arrive at that we cannot understand.

There are other puzzling aspects of the survey of prices in Puerto Rico. One item listed is meat, but there is no indication whether it represents ground chuck, porterhouse steak, or prime ribs of beef. The same is true of milk and bread, which are not marketed as one uniform item. Eggs are stated as having one price, whereas in any market they are sold at varying prices depending on size. The 1964 findings showed a rise in the price of meat from 70 to 80 cents a pound in Washington, while it was maintained at 89 cents in San Juan. Butter evidenced a similar price situation. It rose from 79 to 80 cents in Washington while remaining stable at 84 cents in San Juan. Eggs maintained a difference of 13 cents a dozen in the Puerto Rican capital over Washington, though dropping 2 cents in both places between

1962 and 1964. Gentlemen, we can't help but question the validity of the survey that was made by the State Department.

The cost of transportation is an important item in Puerto Rican living. Public transportation is not adequate. Therefore, Federal employees need an automobile to provide their own transportation. The majority must drive at least 5 miles through the city traffic of San Juan. What this means in cost to the individual may be illustrated by the price of \$2,995 for a Chevrolet series 700 compared to \$1,997 in Washington or \$2,195 for a Volkswagen sedan in Puerto Rico and \$1,669 in Washington. The cost does not end there, however. License plates for 3 years of ownership will illustrate additional costs. Tax the first year for a car having a taxable price of \$2,100 or over is 8 percent of the taxable price or \$168 or more; 6½ percent the second year; and 2 percent the third year.

Or to take another example of living costs other than for food, prices of household appliances are substantially above those in Washington, D.C. The price of an electric refrigerator, model U14D, sold by Sears, Roebuck & Co., is \$339.95 in Puerto Rico compared with \$239.95 in Washington. The tax rate on electric appliances is 15 percent. That is the Puerto Rican tax rate.

The net effect of final elimination of the cost-of-living allowance in Puerto Rico and the Virgin Islands would be to the definite disadvantage of the 4,700 Federal employees in Puerto Rico and 140 employees in the Virgin Islands. The Puerto Rican economy in particular is developing but even the development it is manifesting will not necessarily remove price differentials between that area and the mainland. It may increase them. To shift to a salary-comparability basis for maintaining compensation still will not establish price comparability which constitutes the principal problem in these nonforeign areas. The latest cost-of-living survey in Alaska indicated price differentials between that area and Washington as high as 42 percent in Fairbanks and 16 percent in Honolulu. The 1963 salary survey showed private enterprise salaries ranging from 20 percent in GS-2 to 58 percent in GS-5 above the fourth rate in those grades. Salaries were as much as 15 percent above the fourth rate in GS-5 in Hawaii. Puerto Rico, however, does not have the comparable salary structure in private industry, which leaves the salary comparison as a potential disadvantage and the price situation the problem still to be solved.

Let me point out to you, at this point, gentlemen, that I have at no time in the last 3 years that I have been president of this organization seen, nor have I heard of, any responsible official of this Government coming forth and saying at that time, "The price differential in Alaska is 42 percent and we should increase the 25 percent differential to 42 percent." But let them even think that there has been a decrease in the cost of living in some place and they immediately want to apply it.

The bill, H.R. 8390, proposes an exception to the procedure of paying higher salary rates in Alaska in hard-to-recruit categories. We do not believe this method will solve even the Alaskan problem. What should be done is to permit a higher cost-of-living differential in Alaska or any other nonforeign area when the facts warrant a cost-of-living allowance of such proportions.

The American Federation of Government Employees asks this committee to withhold action on H.R. 8390 and approve the proposal in three House joint resolutions to require a cost-of-living survey by the Bureau of Labor Statistics before the cost-of-living allowance for Federal employees in Puerto Rico and the Virgin Islands may be reduced. We do so in the interest of equity and justice for a large group of Federal employees in these nonforeign areas.

Thank you, Mr. Chairman and members of the subcommittee, for your interest in this situation affecting so many Federal employees, and for giving us this opportunity to bring to your attention some of the circumstances which need to be placed in their true perspective.

If you have any questions, we will try to answer them.

Mr. UDALL. Thank you for your testimony, Mr. Griner.

At this point I would like to ask unanimous consent that the hearings be considered as relating not only to the bill and to the resolution before us, H.R. 8390 and House Joint Resolution 569, but also to House Joint Resolution 568 and House Joint Resolution 573, introduced by Representatives Gilbert and Ryan, respectively.

Mr. GRINER. I believe those resolutions are identical, Mr. Chairman, to the best of my knowledge.

Mr. UDALL. The Chair would also ask unanimous consent that a statement submitted by the U.S. Civil Service Commission on computation of cost-of-living indexes for review of allowance rates under Executive Order 10000, be included in the record at this point.

Mr. KREBS. At this point, also, I would like to ask that the BLS cost-of-living index for comparable areas be made a part of the record.

Mr. UDALL. Without objection, this will be done.

(The material referred to follows:)

STATEMENT OF U.S. CIVIL SERVICE COMMISSION ON COMPUTATION OF COST-OF-LIVING INDEXES FOR REVIEW OF ALLOWANCE RATES UNDER EXECUTIVE ORDER 10000

METHODS STATEMENT

The indexes used for review of the allowances paid under Executive Order 10000 are computed by a method developed by the Department of State for comparing living costs of U.S. employees in foreign areas with those of similar employees in Washington, D.C. The method used in foreign areas is modified for use in nonforeign areas by the addition of a comparison of housing expenditures. The expenditure pattern which serves as a basis for making the comparisons is that of the Federal employee in Washington. Actual employee expenditures for housing are compared. For other categories, prices are compared giving due consideration to the differences in goods and services available.

Housing costs are based on amounts reported on special questionnaires distributed in the allowance posts to all married male employees. Data collected in Alaska, Hawaii, Puerto Rico, and the Virgin Islands during the 1964 survey period were compared to estimates of Washington costs derived from the 1961 Federal employee survey adjusted for movements within the housing component of the BLS Consumer Price Index for Washington.

For categories other than housing, prices are collected from selected retail outlets representing high, medium, and low price ranges in both the allowance post and in Washington. The retail outlets surveyed in both places are selected to represent the stores and price levels most commonly used by Federal employees living there. Because of the different grades, sizes, and so forth, on the market in different parts of the world, it is not possible to select articles or services exactly comparable; therefore detailed specifications are not used. Within each retail outlet selected, the highest, lowest, and a middle price are selected for each item. The prices collected at each post have one important characteristic in common; while the individual items priced may not exactly match those collected

in Washington they do permit a comparison of prices for an item to meet a specific need. Where goods and services are considered either inferior or superior to the "average Washington standard," careful editing is necessary to compare prices on the most comparable basis possible. Unlike surveys based on defined specifications or "item definitions" these living cost surveys do reflect the availability of goods and services within the consumer market surveyed.

The prices collected for these place-to-place indexes are not comparable to those used for the consumer price indexes prepared by the Bureau of Labor Statistics, or other similar indexes, to show changes over a period of time.

Prices collected are weighted according to their relative importance in the average family budget of the white-collar Federal employee in Washington, D.C. The resulting figure is an index of living costs from the allowance post with Washington, D.C., as the base city.

SURVEY OF LIVING COSTS AFFECTING ALLOWANCES IN ALASKA, HAWAII, PUERTO RICO, AND THE VIRGIN ISLANDS

This report summarizes the results of surveys of living costs in Alaska, Hawaii, Puerto Rico, and the Virgin Islands as compared to Washington, D.C. The surveys were conducted in the period September through November 1964.

The surveys were made for the Civil Service Commission under the direction of the Compensation Division of the Department of State. Living cost information for Puerto Rico and the Virgin Islands was collected by a Department of State survey team in the cities of San Juan, Charlotte Amalie, Christiansted, and Frederiksted. Similar information was collected in Washington, Honolulu, Anchorage, Fairbanks, and Juneau by the Bureau of Labor Statistics of the Department of Labor. Price data in all cities were collected in accordance with the Department of State's procedures using forms used for living cost comparisons for American employees stationed in areas around the world. To make the survey of costs more complete, however, it was decided to collect the prices of additional household furniture and appliance items. The introduction to the schedule of additional items was made possible with the help of price specifications furnished by the Department of Labor.

As in previous surveys, housing costs for all cities except Washington were based on amounts reported on special questionnaires distributed to all married male employees. Data collected in Alaska, Hawaii, Puerto Rico, and the Virgin Islands during the 1964 survey period were compared to estimates of Washington costs derived from the 1961 Federal employee survey adjusted for movements in the shelter component of the BLS Consumer Price Index for Washington.

The following table shows the indexes for each locality. A description of the more important changes occurring within each index follows the table:

Indexes for specified cities, 1962 and 1964 (Washington, D.C.=100)

	1964	1962 ¹
Honolulu.....	115.8	114.9
San Juan.....	104.5	104.4
St. Thomas (Charlotte Amalie).....	106.3	106.1
St. Croix (Christiansted and Frederiksted).....	104.5	
Anchorage.....	137.8	141.9
Fairbanks.....	142.4	145.4
Juneau.....	129.3	131.4

¹ The 1962 indexes shown here have been adjusted to eliminate the influence of any use factors which were employed in the calculation of the original indexes.

Honolulu, Hawaii

As in the previous survey, housing expenditures by Federal employees in Honolulu showed larger increases than those of Federal employees in Washington, D.C. This trend, together with substantially higher price levels for household furnishings and equipment, resulted in an increase in the Honolulu index from 114.9 to 115.8. Food prices in retail grocery outlets and in restaurants declined relative to Washington and this prevented a somewhat greater increase in the final index. Changes in all other categories since 1962 were relatively minor.

San Juan, P.R.

Although the index showed almost no change since the 1962 survey, there were changes in the components of the indexes. Significant increases in housing and medical care costs in San Juan, for example, were offset by relatively higher food costs in Washington, D.C. The higher housing costs were reflected in the tabulation of housing questionnaires distributed to all married male employees during the survey period. Costs for medical services and some drug items rose more in San Juan than in Washington. Prices for fresh meats, fresh milk, bread, and some other food items were relatively unchanged since the 1962 survey, but higher Washington prices for these items lowered costs compared to the base city. The resulting index for 1964 is 104.5 compared to 104.4 in 1962.

St. Thomas (Charlotte Amalie), V.I.

As in the San Juan survey, housing costs showed substantial gains. These were partially offset by increases in Washington prices for food items which showed little price change in Charlotte Amalie. Relatively lower costs for clothing, transportation, and recreation items left the indexes showing almost no change since the 1962 survey. The index rose slightly from 106.1 to 106.3.

St. Croix (Christiansted and Frederiksted), V.I.

The initial survey for St. Croix was based on a limited number of retail outlets. Two important modifications of methods used in St. Thomas were necessary. As there are only two principal cities on the island, major price sampling was concentrated in Christiansted with residual sampling and the availability of certain goods and services only within one or the other town made this type of sampling feasible. The other modification dealt with the housing portion of the index. It was made necessary by the small number of Federal employees on St. Croix. A comparison of housing questionnaires and discussions with real estate people on both islands produced no evidence of a significant housing cost difference for the two places. This made it feasible to use all Virgin Island housing questionnaires in developing the housing component of the indexes for St. Thomas and St. Croix.

Most of the differences in costs between St. Croix and St. Thomas were found in the household furnishings, medical care, and food away from home categories. But medical care and food away from home were lower in St. Croix, but household furnishings were significantly more expensive. The resulting index was 104.5. Because of the small difference between indexes for the two islands it would appear unnecessary to prepare separate indexes in any further surveys.

Anchorage, Alaska

The decline in the index for Anchorage from 141.9 in 1962 to 137.8 in 1964 was due almost entirely to a reduction in food costs in Anchorage accompanied by an increase in food costs in Washington. A more pronounced decline was prevented by sharply rising housing costs for Federal employees as reported on special housing questionnaires during the survey. Changes in other categories of the index were minor.

Fairbanks, Alaska

As in Anchorage, relatively lower food costs were primarily responsible for reducing the index for Fairbanks from 145.4 in 1962 to 142.4 in 1964. The decline in the index for Fairbanks was not as great, however, due to rising housing costs and significant increases in recreation costs when compared to Washington.

Juneau, Alaska

Living cost changes were more scattered in Juneau than at the other two posts but, again, a decline in relative food costs and an increase in housing costs were involved in an overall decline in the index from 131.4 to 129.3. Additional significantly lower cost ratios were apparent in the clothing, household furnishings, and transportation categories.

ADDITIONAL EXPLANATION OF SAN JUAN INDEX

The index comparing living costs for Federal employees in San Juan with those of civilian employees in Washington, D.C., remained about the same in 1964 as it was in 1962 but there were changes in the different components.

In the important food component which accounts for about 25 cents of each dollar spent by the Federal employee in Washington, increases in Washington

prices brought costs in the two cities to about the same level. In 1962 San Juan food costs were substantially above those in Washington.

Of all market-basket food items priced in Washington, 74 percent increased, 16 percent remained unchanged, and 10 percent declined. In San Juan only 42 percent increased, while 37 percent remained unchanged and 21 percent declined.

A tabulation showing, for selected categories, the Washington and San Juan average prices collected in the surveys in 1962 and 1964 is attached. These categories represent about 75 percent of the market-basket dollar for the employee in Washington.

Transportation costs (including automobile operation but excluding the purchase of an automobile which is separately considered) and recreation costs in San Juan, which were below those in Washington in 1962, dropped even further below in 1964. Clothing costs which were substantially below those in Washington in 1962 remained at about the same level relative to Washington.

Average prices for selected categories of food¹

Category	1962		1964	
	Washington	San Juan	Washington	San Juan
Meat (pound).....	0.70	0.89	0.80	0.89
Milk (quart).....	.29	.28	.32	.28
Bread (pound).....	.24	.22	.25	.22
Rice (pound).....	.23	.18	.25	.18
Fresh citrus fruit (pound).....	.16	.08	.20	.09
Canned citrus fruit (18 ounces).....	.18	.14	.24	.24
Other fresh fruit (pound).....	.20	.27	.23	.22
Fresh vegetables (pound).....	.20	.21	.25	.23
Sugar (pound).....	.13	.10	.14	.11
Butter (pound).....	.79	.84	.80	.84
Other fats (pound).....	.30	.31	.32	.33
Eggs (dozen).....	.64	.77	.62	.75

¹ Due to the survey method employed by the Department of State, these figures may differ from other published data. Valid intercity price comparisons can be made only when the same survey method is used for both places. (See statement of method.) Not all of these categories are of equal importance in the Federal employee's family budget.

Changes in the relationship of costs in San Juan to costs in Washington would have caused a significant decrease in the index for San Juan had not the average Federal employee's housing expenditures in San Juan increased substantially. For employees in the GS-5 to 9 grade range, housing expenditures in San Juan, as shown by employee questionnaires, increased over the 2-year period by about 17 percent. Housing costs in Washington increased only about 2 percent in this period.

Helping to keep the index from dropping were the larger increases in the cost of medical services and drugs in San Juan as compared with the increases in Washington. On the other hand tobacco costs, while they remained above Washington, were not as much above Washington in 1964 as in 1962.

Mr. UDALL. The Chair notes that we still have two witnesses to hear. Since we are moving along fairly well, I will not put any time limit on the questioning for the present. I would ask the committee members to cooperate so we can get through this morning.

Does the gentleman from Hawaii have any comments or questions?

Mr. MATSUNAGA. Thank you, Mr. Chairman.

Mr. Griner, I want to commend you for your fine statement. You brought out some points I believe this committee could very well use in showing that the action of the administration is not warranted at this time.

I was particularly pleased to note your argument that the Salary Reform Act does not require discontinuance of a cost-of-living allowance, because that is a strong point which the Commission has been making, that they were trying to implement the provisions of that act. I assure you we can use this to great advantage in defend-

ing our position, the position of those who believe that the bill is at this time unwarranted.

Have you or your organization, Mr. Griner, made any survey as to the actual cost of living in Puerto Rico and the Virgin Islands?

Mr. GRINER. No, sir, there has not been any actual survey made by us.

May I refer that question to Dave Velez? I think he is more familiar with that condition than anyone else, due to the fact that he is heading this cost-of-living allowance group, as well as being president of my organization over there.

Mr. MATSUNAGA. Mr. Velez.

Mr. VELEZ. Thank you, Mr. Matsunaga. We did make a survey last year, and we added certain parts to it at the beginning of this year. As Mr. Llitas said a few minutes ago, that survey was submitted to the committee during the hearings on H.R. 7401. At this time it is my own opinion—I don't have the figures before me. I intended to have them here when I appear before you the first thing in the morning. But just off the top of my head I would say it is 20.3 percent or thereabouts. It is not below 20 percent under any circumstances.

Mr. UDALL. Isn't the survey the gentleman refers to printed in connection with the hearings?

Mr. VELEZ. Yes, Mr. Chairman.

Mr. MATSUNAGA. Mr. Griner, you were in the audience here when Mr. Macy testified yesterday, were you not?

Mr. GRINER. I am sorry, I was not. But I do have some knowledge of his testimony.

Mr. MATSUNAGA. But Mr. Meagher and Mr. Velez were?

Mr. VELEZ. Yes.

Mr. MATSUNAGA. Yesterday I inquired of Mr. Macy about the validity of reports which I have been getting that among the white-collar workers, because of the cost-of-living allowance, some of the agencies have been employing individuals in these nonforeign areas at a lower grade than they would normally hire had it been Washington in order to just about make the salary equal, including the cost-of-living allowance. Have you had any reports of this nature or do you know of your personal knowledge as to the existence of such a practice?

Mr. GRINER. Congressman, we have our suspicions, but I do not have proof. We have had our suspicions regarding some conditions in both Alaska and Hawaii, but up to this time I do not have sufficient proof that I would care to say definitely that this is the condition.

Mr. MATSUNAGA. You have not had any complaints from any of your members in this regard?

Mr. GRINER. We have some complaints only along the line that they feel that this is a condition, they feel this is what is happening. But we are trying to find some case or group of cases where we might appeal the classification to determine what might happen, determine if that was possible for it to happen. If appealing a classification does not get any better results in that group than we are now getting in appealing classifications within the mainland, I am afraid we are up against a blank wall.

Mr. MATSUNAGA. Could you make an effort, either you or your organization, in these various areas as to whether any of your members have been confronted with this situation?

Mr. GRINER. I shall be glad to.

Mr. MATSUNAGA. Thank you.

Mr. UDALL. The gentleman from New Jersey.

Mr. KREBS. I, too, want to compliment Mr. Griner for an excellent presentation. I have a couple of questions I would like to ask.

You said something I would like you to expand on a little. You mentioned that you had never been consulted at all by anybody about these changes. Is this the custom? Do you have anything resembling collective bargaining or do you learn about decisions after they are made unilaterally?

Mr. GRINER. That is exactly what happened in this case.

Let me give you the basis for my statement. Under Executive Order 10988 there is a provision for recognition on the national level in those cases where the agency finds that a certain organization has a sufficient number of lodges or a sufficient number of members within that agency to merit such recognition. We do have such recognition with the Civil Service Commission, and when we have such recognition it provides a means whereby the Civil Service Commission can deal directly with my office regarding matters that might affect my general organization or any particular part of the organization. This certainly would fall within the working conditions and pay and other things that are negotiable under the Executive order. At least, it is my opinion they should. It is also my opinion that this is a matter on which we should have been consulted, because under formal recognition at the national level we have a right to be consulted on such matters. We were not consulted. We knew nothing of this officially until the order came out.

Mr. KREBS. Does the Civil Service Commission ever discuss these things with you before they are consummated?

Mr. GRINER. Of this nature I don't believe they have, but there are other things.

Mr. KREBS. It seems to me that is the whole purpose of collective bargaining on wages and working conditions.

Mr. GRINER. Yes, they do consult. I wouldn't say in every case, but we are consulted from time to time over different changes in policy.

Mr. KREBS. Is there no set policy that would make the fact they did not discuss this with you unusual? Is it just a hit-or-miss proposition?

Mr. GRINER. I would say this is more unusual than normal. We have asked the Commission to consult with us more. For instance, on pay, these organizations that are supposed to be actually consulted with on pay, this is in accordance with the law, the 1962 pay act. But we have gotten the brushoff. There has been no real meaningful consultation between the Commission and my organization and, so far as I know, any other organization. We do have things that are brought to our attention which affect the membership as a whole or affect the employees as a whole.

Mr. KREBS. So much for that. I have one more comment.

I, too, had underlined, as you read your testimony, the reference made to the Salary Reform Act and some of its provisions affecting your problem. This is a very meaningful contribution to these hearings, something on which I have had some research work done.

I want to say I think your testimony is comprehensive. I certainly thank you for it.

Mr. GRINER. At this point, Mr. Chairman, may I add just one thing that I think there is some misunderstanding about?

Mr. UDALL. Yes.

Mr. GRINER. It has been said that the cost of living is not taxable. That statement is not correct, at least insofar as Puerto Rico is concerned. The cost of living is taxable in Puerto Rico under their local tax system.

Mr. UDALL. But not Federal tax.

Mr. GRINER. It all amounts to the same. In other words, as I understand it, while you take credit on your Federal tax for the amount of tax that you pay there, you do not include this. So then you are taxed there where you cannot take credit on your Federal tax. So it is taxable.

Mr. UDALL. I am going to interrupt for just a moment here to acknowledge the presence of our distinguished colleague from New York, Mr. Powell, the chairman of the Committee on Education and Labor. He is only going to sit with us very briefly this morning. He had asked leave to testify now because he has constituents and friends vitally interested in this legislation. I explained to him, as one who is familiar with the delicacies of protocol and problems, we have members of the committee, like Mr. Matsunaga and the distinguished gentleman from Puerto Rico here. We have other Members of the House who have this very problem in their congressional districts. In some cases it is probably the most pressing political problem today. We have arrived at a "gentlemen's agreement" that no Members of Congress would testify until the organizations and the administration are completed. We plan to set a day in August. We would be very happy to receive the statement from our distinguished colleague to be included with the others or to have him come back at that time.

I have not heard what your position is on this legislation. I rather suspect you are against it. But we look forward to having any help and counsel you might give us. We want to thank you very much for coming here. I am told you have a pressing problem in the Rules Committee and would hope you could stay with us and listen as long as possible this morning. However, if the gentleman must leave, we certainly understand.

Mr. POWELL. Thank you. I would like to furnish the committee with information I received yesterday from the Consumer Price Index Branch of the Department of Labor concerning the problem, which seems to be enlightening.

(The information appears on p. 156.)

Mr. UDALL. We will be most happy to have it. Thank you very much for coming.

The gentleman from Puerto Rico.

Mr. POLANCO-ABREU. Mr. Chairman, I join with the members from Hawaii and New Jersey in thanking Mr. Griner for the testimony that has just been presented. I consider it an outstanding defense of the right of Federal employees affected by this legislation. Thank you very much.

Mr. UDALL. Thank you, Mr. Griner.

Mr. MATSUNAGA. Mr. Griner, I was not quite clear on the answer you gave to the gentleman from New Jersey as to the practice of the Civil Service Commission in consulting with you. Do they normally consult with you or normally do not consult with you? Which is it?

Mr. GRINER. What happens normally, they send us over a proposed regulation and ask us to comment on it. If the regulation is somewhat minor in nature, I might sit down and comment, but I have passed that stage where I am satisfied to comment on something that is important. I say to the Commission I want to come over and sit down with some of their responsible people and do the things that the Executive order says to, and that is consult. In this case I certainly would have gone over and asked to consult with the Commission and tried to find out all of these things that I have been unable to find out at the present time.

Mr. MATSUNAGA. So you are saying that normally there is no consultation?

Mr. GRINER. Normally there is little consultation unless I request it.

Mr. MATSUNAGA. I would think, Mr. Chairman, we ought to make a point of this. You are recognized as the union for the Federal employees?

Mr. GRINER. Not only recognized as the union, but we are of the few unions that have recognition at a national level with the Civil Service Commission.

Mr. UDALL. I am happy this significant point is brought out. I would hope the witness would let members of this committee know when he feels he has not had adequate consultation. If he would call some of these specific instances to our attention, we could check them out and see that justice is done.

Mr. MATSUNAGA. I have always maintained, Mr. Chairman, that the Government requires private industry to bargain by law, and here we should practice what we require private industry to do. This is my entire position.

Mr. UDALL. Time is running.

Mr. KREBS. One more question, Mr. Chairman. This has been the pattern all throughout these hearings. First of all, it is the labor policy of the U.S. Government to compel employers to deal with employees if properly certified.

Mr. GRINER. That is right.

Mr. KREBS. And the Walsh-Healey and the Davis-Bacon Acts provide other protection.

Mr. GRINER. Yes.

Mr. KREBS. I cannot see how the Government can ask private industry to respect these laws when you don't have collective bargaining. You don't really have recognition, and you don't really have anything to say about the changes that are made in the hours, wages, and working conditions. I certainly think you should. Either you have collective bargaining, or you don't have collective bargaining, and we ought to know about it.

Mr. GRINER. I could spend hours on this.

Mr. UDALL. Thank you, Mr. Griner.

The next witness is Mr. John McCart, operations director of the Government Employees' Council. You have been most patient this morning. We have about 30 minutes left. As so often happens, Mr.

McCart, you are down at the end of the witness list and get short-changed on the time. I would hope we could divide the remaining half hour into 15-minute periods between you and Mr. Jaskan. You may proceed.

**STATEMENT OF JOHN MCCART, OPERATIONS DIRECTOR,
GOVERNMENT EMPLOYEES' COUNCIL, AFL-CIO**

Mr. McCART. I am John McCart, operations director of the Government Employees' Council, AFL-CIO. The 800,000 Federal employees who are members of the 31 unions associated with our council emphatically oppose the enactment of H.R. 8390.

Mr. Chairman, we have supplied the committee with a copy of our formal presentation.

Mr. UDALL. Without objection, that will appear at this point in the record.

(Mr. McCart's prepared statement follows:)

**PREPARED STATEMENT OF JOHN A. MCCART, OPERATIONS DIRECTOR, 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 objections to H.R. 8390.

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 the 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. 8390 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 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 effective July 1, 1965, is 5 percent for Puerto Rico and the Virgin Islands, with 15 percent for Hawaii and 25 percent for Alaska. In Puerto Rico and the Virgin Islands, then, Federal and postal salaries have purchasing power 5 percent less than Washington, D.C. Clearly, there is justification for retaining the cost-of-living concept.

Surveys of the economic situation in Puerto Rico and the Virgin Islands were conducted by the Department of State. The Bureau of Labor Statistics completed the cost-of-living reviews in Hawaii and Alaska because of the different standards applied by the two agencies in reaching their conclusions. We recommend that BLS be requested to undertake surveys in Puerto Rico and the Virgin Islands. The long and wide experience of BLS in this field proves it is eminently qualified.

Another justification offered by advocates of H.R. 8390 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 involved 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 5 years?

The situation in Alaska deserves special consideration. In H.R. 8390, 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 29 to 42 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. 8390 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. 8390 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. Elimination of the cost-of-living differential is not justified because differences do actually exist.

3. The underlying assumption in H.R. 8390 is that no differential will exist between Washington and the nonforeign localities 6 years hence.

4. Enactment of H.R. 8390 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.

5. Because of its unusual qualifications in the field of cost-of-living reviews and the difference between its methods and those of the State Department, BLS should be asked to commence a survey of the Puerto Rico-Virgin Islands area.

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.

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. If it meets with your approval, I would like to proceed with a few extemporaneous remarks.

Mr. UDALL. You may proceed. Your extemporaneous remarks are generally very helpful.

Mr. McCART. Mr. Chairman, I think there is one basic reason for retaining the present system of cost-of-living differentials in the four areas in question, and that is the fact that the cost of living differs in those areas today with the cost of living in Washington, D.C. Even if we take the lowest figure proposed by the Civil Service Commission, 3 percent in Puerto Rico and the Virgin Islands, which we do not accept, or the highest, 42 percent in Alaska, the fact remains that there is a difference in the cost of living now.

What is the basic justification proposed by the proponents? It is based on the 1962 Salary Reform Act which had two principal factors: one, comparability, and the other, equal pay for equal work.

We maintain, Mr. Chairman, that the establishment of these elements in fixing the pay of Federal employees has nothing whatsoever to do with the cost-of-living differential. These factors were designed by Congress to establish base pay for the classified, postal, and other salary schedules covered by the law.

When the cost-of-living authorization originally enacted in the 1948 Independent Offices Appropriations Act, one of the principal purposes was to eliminate the confusion and diversity of action by the various Federal agencies in this field. Some agencies paid differentials, others did not, even in the same location. We feel, Mr. Chairman, that, if the proposal in H.R. 8390 is enacted and the Commission can proceed under its authority in section 504 of the Federal Employees Salary Act of 1962, you will revert to the same confusion that existed prior to the 1948 enactment, because under the 1962 legislation it will be possible to fix separate rates of pay for individual occupations in the salary schedule and even in individual grades, and we are going to have a plethora of rates for different groups of Federal employees.

Reference has been made to the surveys conducted by the State Department and the Bureau of Labor Statistics in the various areas. I need only say we, too, request that the Bureau of Labor Statistics, with its vast experience, be asked to undertake a survey of Puerto Rico and the Virgin Islands locality.

In order to ease the burden of this proposal on the employees, the administration proposes to put it into effect over a 6-year period. We think this points up one of the fallacies of the legislation, actually, because it presumes that in the next 5 years the cost of living will continue to decline in those areas, and that there will be no difference between Washington and the localities in question at that time. We just don't think it is possible to predict that far in advance, despite the economic developments that have occurred in the localities.

The situation in Alaska, of course is something special. The cost-of-living difference there ranges from 29 to 42 percent. We think it would be much more feasible, from an administrative standpoint, rather than to enact section 504 authority, to lift the current 25-percent ceiling so that the inequity that has existed over a long number of years in that State can be removed by allowing a payment of a differential above 25 percent.

So, in summary, Mr. Chairman, the council feels that there is no sanction in the legislative history of the 1962 Salary Reform Act for changing the present differential. The fact is that differences do exist

today in the cost of living. The assumption that no cost-of-living difference will be in existence 5 or 6 years hence is false. If this legislation becomes law, employees will suffer not only a decline in base pay but also the additional loss resulting from the elimination of their tax-exempt status with respect to the differential.

We advocate the Bureau of Labor Statistics undertake a survey in Puerto Rico and the Virgin Islands. We urge that the present statutory authority be retained. With respect to Alaska, the council recommends it be increased to permit payment above 25 percent where the need is shown.

Mr. Chairman, the Government Employees' Council sincerely hopes that the committee will not take action on H.R. 8390.

That concludes my presentation, Mr. Chairman.

Mr. UDALL. Thank you, Mr. McCart.

The gentleman from Hawaii.

Mr. MATSUNAGA. Thank you, Mr. McCart, for your statement.

I was very much interested in your statement about the use of section 504. Prior to the Salary Reform Act of 1962 you spoke of a situation existing then. At that time, did the Civil Service Commission or the various agencies have the authority to determine additional or higher salaries for those with special skills?

Mr. MCCART. No, Mr. Matsunaga, section 504 was enacted principally to relieve a very serious problem of the Government's inability to recruit, particularly in the fields of science and engineering. Section 504 authorized the Civil Service Commission to hire people above the entrance rate of a grade. This represents an exception to the normal salary-fixing pattern for postal and classified workers. If section 504 becomes a criterion for payment of employees in the areas in question, we are going to have selected groups of employees, both by occupation and grade, who can very well receive more than other employees outside the normal salary schedule. Section 504 is an exception itself, and what is being advocated here is an exception to the exception.

Mr. MATSUNAGA. So you feel use of section 504 would be a poor substitute for the cost-of-living allowance that we are now giving Federal workers in nonforeign areas?

Mr. MCCART. Yes, sir.

Mr. MATSUNAGA. That is all.

Mr. UDALL. The gentleman from New Jersey.

Mr. KREBS. One question. What has been your experience, Mr. McCart, with changes in your wages and working conditions, and salaries, being made without your knowledge?

Mr. MCCART. I am not sure I completely understand.

Mr. KREBS. The last witness testified changes were made without any consultation or collective bargaining.

Mr. MCCART. In our experience, Mr. Krebs, the Civil Service Commission occasionally sends us communications containing proposed changes in regulations or policies. Since we are a coordinating organization, we have committees that review this material and normally responds in writing. If we feel it is necessary, we request the Commission to arrange a conference to consult about the problem. The conference occurs, and we express our views, and the Commission takes them under consideration. That is the end of it. Such consultation happens relatively infrequently.

Mr. KREBS. In other words, your experience is pretty much like that of the previous witnesses?

Mr. McCART. That is correct, sir.

Mr. KREBS. Sometimes you do and sometimes you don't?

Mr. McCART. That is right.

Mr. KREBS. I have no further questions.

Mr. UDALL. Could you cite any specific instances where you have requested a conference with the Civil Service Commission or an agency and been denied it?

Mr. McCART. No. I indicated, Mr. Chairman, that, after we prepared our response, normally in writing, if we feel the subject demands it, we ask the Civil Service Commission for a conference, which is provided. Then at the conference we present our viewpoint, and that is the conclusion.

Mr. UDALL. The gentleman from Puerto Rico.

Mr. POLANCO-ABREU. No questions, Mr. Chairman. Thank you, sir.

Mr. UDALL. Thank you, Mr. McCart. You are always a helpful witness.

Mr. McCART. Thank you.

Mr. UDALL. Our next witness this morning is Mr. Daniel Jaspan, legislative representative of the National Association of Postal Supervisors.

Mr. Jaspan.

STATEMENT OF DANIEL JASPAN, LEGISLATIVE REPRESENTATIVE, NATIONAL ASSOCIATION OF POSTAL SUPERVISORS

Mr. JASPAN. Mr. Chairman and members of the subcommittee, my name is Daniel Jaspan. I am the legislative representative of the National Association of Postal Supervisors, composed of more than 28,000 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 non-foreign 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 cost-

of-living allowance 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. 8390 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. 8390 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:

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 overseas 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 such rapid deterioration in a short period of time, resulting in quicker tire wear and much 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.

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 addi-

tional clothing in order to maintain a neat appearance during their employment hours.

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.

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.

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-round 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.

TAXES

In both Puerto Rico and Hawaii the local or State taxes are much higher than the national average in the 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. I understand in Puerto Rico there is a graduated sales tax which goes to pretty high amounts. The Hawaiian State gasoline tax is 9¼ cents per gallon compared with 6 cents in Washington, D.C., and I believe it is 9 cents in Puerto Rico.

In Hawaii, many homes are built on leasehold 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.

INCREASED STANDARD OF LIVING

Since the Federal employees in the islands affected by the possible loss of cost-of-living allowance 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 cost-of-living allowance 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.

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 cost-of-living allowance. Many of them, if not the great majority, have current obligations which they contracted for based on the continuation of cost-of-living allowance. The loss of the cost-of-living allowance, even over a 5-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. And this bill's enactment would lead to a salary cut, regardless of what we may call it.

METHOD OF SURVEY

Another item difficult to comprehend is why the proposed reductions in cost-of-living allowance should be based on a survey made by the State Department, which usually conducts such surveys in foreign areas only. House Joint Resolution 569—and other identical resolutions—asks that, before any reduction in cost-of-living allowance is made, cost-of-living surveys be made by the Bureau of Labor Statistics, which conducts similar surveys on the mainland, as well as in Hawaii and Alaska. We all know that different agencies use different methods as well as people with varying qualifications in performing any duties. And we know that different people can arrive at different conclusions when making any study. Even in statistical studies, human errors,

human emotions, and human subjectivity play a large part. Such a study as cost-of-living studies is not necessarily based on an exact science, such as mathematics.

It is our firm belief that a study made by the Bureau of Labor Statistics would lead to different conclusions from those arrived at by the State Department. It is even possible that a BLS study may show that the State Department findings were too liberal, although we doubt it.

We also ask that the BLS statisticians who make the survey be instructed to consult with the employees in the areas concerned, both individually and through the employee organizations. It seems strange that no recommendations for immediate decreases in cost-of-living allowance were made for Hawaii and Alaska, where the Bureau of Labor Statistics made the survey, but only where it was made by the State Department; that is, Puerto Rico and the Virgin Islands. We urge this committee to lay aside H.R. 8390 and report House Joint Resolution 569, which appears to be the only fair and impartial way to solve the problem.

CONCLUSION

We request 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. 8390 be rejected, but that the authority to lower the cost-of-living allowance be taken from the Civil Service Commission or frozen at the level in effect before July 1, and that the Congress act in the future based on BLS findings.

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.

I didn't know until you stepped up here what position you were going to take on this bill. I have been waiting for weeks to have a witness in favor of it but most of the testimony seems to be against

Mr. JASPAN. You had one in favor of it the first day.

Mr. UDALL. So much of the testimony in these hearings, as in those of last year, relates to the higher cost of living. As I understand the administration's point of view, they concede this. They say, "Sure, the living costs are high in Puerto Rico, they are higher in Hawaii, they are higher in Alaska than they are in some areas of the continental United States." But they place the issue on the question of whether we are going to have one nationwide salary schedule or whether we are going to have these exceptions in the outlying areas under the U.S. flag and in the States of Hawaii and Alaska. They come back and say "There are differences in the cost of living between Chicago and New York and Red Rock, Ariz., and Houston." They seem to concede the point made on cost of living, but they are arguing for one national wage schedule for Federal employees. What is your comment on this, conceding as I do that the cost of living is higher?

Mr. JASPAN. Mr. Chairman, we agree there should be a national salary schedule, as there is, but it is our contention that the cost of living in the islands is so much out of line with the cost of living in

any of these places in the United States, so much higher, unless it can be proved by the same way of measuring as they do for the United States, with the Bureau of Labor Statistics, that our figures are wrong—and I don't believe they will be found wrong—I think everything else is out of line.

You mentioned Arizona. They certainly don't have to pay for an automobile to come across the ocean to go to Arizona, which increases the cost of living there. There are many of these other factors of transportation, and everything going into the island must come by boat, and there must be American lines which are necessarily higher than other lines.

Mr. UDALL. This is again something I would cheerfully concede. I am sure the administration in favor of the bill would also concede it.

One other point made is that Congress as the manager of this great business of government ought to be concerned, not with the cost of living, but what it costs in the marketplace for the particular skills needed to discharge the Government's mission. Is this a sound distinction?

Mr. JASPAN. I cannot agree with that method, especially in a marketplace where labor has been so low over the period of years. In the islands, particularly Puerto Rico, as well as Central and South America, you can get people to work for such low wages that, if we are going to use that as a basis, we would downgrade everybody. I think the fact they are treating with a market where there has been a low value, shall we say, on cost or on salaries, that fact does not warrant bringing down our Federal salaries to compete in that market.

Mr. UDALL. Let's get to the heart of this controversy, and lay it right on the table. Suppose I am on the board of directors of a large corporation and we need 10,000 typists. I can go out in the market and get those typists for \$5,000 a year. Can I justify paying \$5,500?

By the same token, the Congress is the board of directors for the Federal Government. Can I go back to a taxpayer who is urging me to cut Federal expenses and tell him I can get a stenographer in Puerto Rico for \$4,500 in the open market. Can I justify to that taxpayer paying not \$4,500, not \$5,000, which is the rate the same stenographer is paid all over the United States, but \$5,250?

Mr. JASPAN. If you are going to use just plan figures, you can't justify it. If you are going to use the human element, then you can justify it. It is not the same thing. We know that almost any business or any industry can go out and get people to work for less money if there are no unions there to protect them.

Mr. UDALL. In the open market that we have for goods and for people, you pay the going rate. I am not arguing for the bill, but I am pointing out that so much of this testimony has not dealt with the basic issue. Can we justify paying more for a Federal employee than we have to pay in the competitive marketplace for that particular skill? This is the heart of the issue, and I do not think all of this testimony on the cost of living really bears on it.

Mr. JASPAN. There again, if you are just going to use figures, you can't justify it. If you are going to use people and the human element, I think you can.

Mr. UDALL. Several other witnesses, as well as you, have made some strong arguments on these grounds. I am impressed. But I wanted to take just a moment to lay out the basic philosophical question.

The gentleman from Hawaii.

Mr. MATSUNAGA. I believe, in response to the question of the chairman, you would agree the difference between a private corporation and the Government is that, on the one hand, a corporate stockholder is looking for dividends, for profit. On the other hand, the taxpayer is not looking for any profit. And you can carry it further, and, on the one hand, in that private corporation they would not hesitate to hire anyone so long as the market is providing it at below living wages, and we have had, as a government, to legislate against such hiring practices. On the other hand, we have taxpayers who are interested in maintaining a standard of living which would give any citizen in the United States a decent living standard.

Mr. JASPAN. That is right.

Mr. MATSUNAGA. So there is this difference which must be taken into consideration, and we just can't compare figures one against the other.

I might make one correction, Mr. Jaspán. It is not really a correction, because I am sure your figures are based on the latest available to you, but the 3½ percent sales tax in Hawaii has been increased to 4 percent in the last legislature.

Mr. UDALL. The record will show the tax has gone up in Hawaii.

Mr. MATSUNAGA. The question which was put by the chairman, again, Mr. Jaspán, did not really apply to postal supervisors in that the original justification given in giving the cost-of-living allowance to postal workers was not an incentive to workers outside of the nonforeign areas to come to Hawaii, Puerto Rico, the Virgin Islands, and Alaska, but you got your cost-of-living allowance subsequent to the white-collar workers, did you not?

Mr. JASPAN. That is what I pointed out in my second paragraph. Of course, we have been long-time employees.

Mr. MATSUNAGA. That is right. So insofar as your members are concerned, the sole justification was the higher cost of living in these nonforeign areas?

Mr. JASPAN. Yes, sir.

Mr. MATSUNAGA. And that justification still exists?

Mr. JASPAN. Yes, sir. And that is true of the supervisors, whether it is Hawaii, Puerto Rico, or Alaska. All supervisors generally have 15, 20, 23 years of service. They were in the service before the cost-of-living allowance was put into effect.

Mr. UDALL. The gentleman from New Jersey.

Mr. KREBS. I know the chairman was pursuing his line of questioning because it is part of his job to be the devil's advocate.

Mr. UDALL. I do not have any contrary witnesses here to make the points.

Mr. JASPAN. I would like to say the chairman has always been fair and impartial with me.

Mr. KREBS. I think so, too.

I believe the U.S. Supreme Court years ago found that human beings and their labor are not commodities like a sack of sugar or a bag of coffee. If you want to carry this argument to the logical and ultimate conclusion, we should start finding out why the U.S. Government is buying oil, furniture, or uniforms in the United States where our higher standard of living makes them more expensive.

If it is right to cut salaries of people who made a sacrifice 15 years ago, I think we ought to start shopping all around the world to buy the things to run the U.S. Government as cheaply as we can. I say this is not the concept of government that I look to, nor is this the one to which the majority of Americans subscribe.

I think that is a question of what it costs people. The cost of living is extremely relevant. I would not accept for a second the notion the cost of living is not part of this total problem. I think this ought to be put on the record very firmly.

I would suggest that, if the Civil Service Commission thinks elimination of the cost-of-living allowance is fair, then the Government should save by buying commodities it needs from countries where workers are paid \$30 a month or \$50 a month. This is infinitely cheaper than the price paid to Americans today to enable us to maintain our high standard of living.

I have nothing further.

Mr. UDALL. The gentleman is a very perceptive and very valuable member of our subcommittee, and I think he expressed, probably as well as it can be expressed, the answer to the point I raised.

The gentleman from Puerto Rico.

Mr. POLANCO-ABREU. No questions.

Mr. UDALL. The next witness is Mr. Harold McAvoy.

Mr. McAvoy.

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 AFL-CIO and the Government Employees' Council. Our national office is located in the Warner Building, 13th and E Streets NW., Washington, D.C.

As I understand it, H.R. 8390 is the official recommendation of the administration. H.R. 8390, if enacted into law would terminate the cost of living allowances for statutory—salaried Federal employees in nonforeign areas.

For the record our national organization is definitely in opposition to H.R. 8390 being enacted into law. 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. Our national organization fails 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.

It is our national organization's sincere and honest opinion that in the passing of the 1962 Salary Act, Congress fully intended that the base rates to be established would apply to the nonforeign areas without charging the cost-of-living allowance. We believe that the

cost-of-living allowance was established because postal employee's 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 which was established under section 207 of the Independent Offices Appropriation Act of 1949.

Various witnesses have pointed out in their testimony that said allowance did not entirely cover the excessive difference between the nonforeign areas and the 48 States. Practically everyone agrees that has testified before this committee that said allowance was a big help in eliminating the hardship that prevailed at said time. I would like to point out that time has not changed in any way the picture of said areas.

In closing Mr. Chairman and members of this subcommittee, I would like to urge you to vote no on H.R. 8390, the administration bill and I ask you that this committee meet again in the very near future to increase the cost-of-living allowance for these nonforeign areas.

Thank you for the privilege of appearing before you whereas I could present the sincere thinking and express our views representing our national organization.

Mr. UDALL. Thank you, Mr. McAvoy.

The next witness is Mr. Ross A. Messer.

Mr. Messer.

**STATEMENT OF ROSS A. MESSER, LEGISLATIVE REPRESENTATIVE,
NATIONAL ASSOCIATION OF POST OFFICE AND GENERAL SERVICES
MAINTENANCE EMPLOYEES**

Mr. MESSER. Thank you, Mr. Chairman and members of the subcommittee, for the opportunity to appear before you today. I am Ross A. Messer, legislative representative of the National Association of Post Office and General Services Maintenance Employees, with headquarters at 724 Ninth Street NW., Washington, D.C.

We are the national exclusive bargaining representative with the Post Office Department for the 17,000 postal field service maintenance employees, under the terms of our national agreement with the Post Office Department.

This association has locals in the 50 States, Puerto Rico, the Virgin Islands, and the District of Columbia.

I appear today in opposition to H.R. 8390, a bill which would terminate cost-of-living allowances in nonforeign areas.

The Civil Service Commission has stressed the fact that the Salary Reform Act of 1962 provides that salaries of Federal and postal employees should be on a national average based on the "marketplace test" and not on the cost-of-living formula. This is true on the mainland, but has never been applied to the nonforeign areas.

The fact is that the Salary Reform Act of 1962 does not require the discontinuance of the cost-of-living allowance in these nonforeign areas. On the contrary the Salary Reform Act of 1962 contains a positive admonition in section 1006 not to reduce existing compensation. This provision reads as follows:

SEC. 1006. Notwithstanding any provisions 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.

In our opinion, section 1006 of the Federal Salary Reform Act of 1962 prevents the Civil Service Commission from discontinuing the cost-of-living allowances for these nonforeign areas.

Mr. Chairman, the Bureau of Labor Statistics of the U.S. Department of Labor has been making cost-of-living surveys for many years and is experienced in this field. Their data on such surveys are very complete and are always accepted as fact by everyone. It is very strange to us that the Civil Service Commission requested the State Department to make the survey in Puerto Rico and the Virgin Islands instead of securing the services of the Bureau of Labor Statistics. Is it possible that the Commission wanted a different type of survey, so that it could reduce the cost-of-living allowance in Puerto Rico and the Virgin Islands? Details of the surveys made by the Bureau of Labor Statistics are always available to employee organizations. The details of the survey conducted by the State Department for Puerto Rico and the Virgin Islands are not available to us.

The employees in these nonforeign areas were hired with the understanding that they would receive the cost-of-living allowance. To take it away from them at this time is a great injustice to these employees who have planned their financial lives upon the base pay plus the cost-of-living allowance. The discontinuance of cost-of-living allowance at this time is going to place many of these employees in the very embarrassing position of having to refinance many of their financial obligations.

It is our sincere hope that this committee will take no action on H.R. 8390. We respectfully request that the committee approve House Joint Resolution 569 to provide a cost-of-living survey in Puerto Rico and the Virgin Islands by the Bureau of Labor Statistics.

I wish to again thank you, Mr. Chairman and members of the committee for this opportunity to appear before you today.

Mr. UDALL. Thank you, Mr. Messer.

We will now hear Mr. Everett G. Gibson, president, National Federation of Post Office Motor Vehicle Employees, AFL-CIO.

Mr. Gibson.

STATEMENT OF EVERETT G. GIBSON, PRESIDENT, NATIONAL FEDERATION OF POST OFFICE MOTOR VEHICLE EMPLOYEES, AFL-CIO

Mr. GIBSON. Mr. Chairman and members of the subcommittee, my name is Everett G. Gibson. I am the president of the National Federation of Post Office Motor Vehicle Employees, AFL-CIO, with headquarters at 412 Fifth Street NW., Washington, D.C., and affiliated with Government Employees' Council, AFL-CIO.

We have national exclusive recognition under Executive Order 10988 and are the sole bargaining representatives for all motor vehicle employees under the terms of the national agreement with the Post Office Department. We also have local formal recognition for supervisors within our service.

At the outset, we are opposed to H.R. 8390, which would repeal the differentials now paid Federal workers in Alaska, Hawaii, Puerto Rico, and the Virgin Islands and which would substitute the Civil Service Commission's authority to pay employees above the normal minimum rate for their classified or postal pay schedule in occupations for which it is difficult to recruit qualified employees.

The Civil Service Commission justifies its proposal based on the two principles in determining the pay of postal and classified employees under the Postal Service and Federal Employees Salary Act of 1962—comparability and equal pay for equal work. It is our opinion that Congress in the enacting of these principles did not intend that existing consideration in establishing additional compensation to meet unusual circumstances, should be discarded. The Salary Reform Act of 1962 contains a positive admonition in section 1006—not to reduce existing compensation. This provision reads as follows:

SEC. 1006. Notwithstanding any provisions 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.

It is, therefore, our opinion that section 1006 of the Federal Salary Reform Act of 1962 does not give the Civil Service Commission the right to discontinue the cost-of-living allowance for the Federal employees in nonforeign areas. We would recommend that the Bureau of Labor Statistics of the Department of Labor make a cost-of-living survey, as such surveys are now used for a more realistic analysis than that of the Department of State which was used by the Civil Service Commission in their survey in Puerto Rico and the Virgin Islands.

It is a fact that postal and Federal employees in these nonforeign areas were hired with the provision of receiving the cost-of-living allowance and have adjusted their living standards to their base pay plus cost-of-living allowance. To deny the cost of living at this time would be an injustice and hardship upon these employees.

We sincerely urge that this committee take no action on H.R. 8390, and that the committee approve House Joint Resolution 569, to provide a cost of living in Puerto Rico and the Virgin Islands through a survey made by the Bureau of Labor Statistics.

We appreciate the privilege of appearing before the subcommittee today and allowing us to express our views on the pending legislation.

I thank you.

Mr. UDALL. Thank you, Mr. Gibson.

This will conclude our hearing this morning. I will say again we will resume tomorrow at 9:30 a.m. The subcommittee stands adjourned until that time.

(Whereupon, at 12 noon the subcommittee adjourned, to reconvene at 9:30 a.m., Thursday, July 22, 1965.)

COST-OF-LIVING ALLOWANCES IN NONFOREIGN AREAS

THURSDAY, JULY 22, 1965

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

The subcommittee met at 9:30 a.m., in room 215, Cannon House Office Building, Hon. Paul J. Krebs (acting chairman of the subcommittee) presiding until arrival of Hon. Morris K. Udall (chairman of the subcommittee).

Mr. KREBS. The Subcommittee on Compensation will come to order.

In the absence of the chairman, who is at another meeting, I will preside until he gets here. My name is Paul J. Krebs.

The first witness is Mr. David Velez, president of the American Federation of Government Employees in Puerto Rico. The subcommittee welcomes you, Mr. Velez. You may proceed.

STATEMENT OF DAVID G. VELEZ, PRESIDENT, COST-OF-LIVING ALLOWANCES DEFENSE COMMITTEE OF PUERTO RICO; ACCOMPANIED BY PETER S. A. KRYZANOWSKI, VICE PRESIDENT OF THE COUNCIL OF FEDERAL EMPLOYEES OF PUERTO RICO AND ECONOMIC ADVISER TO THE COST-OF-LIVING ALLOWANCE DEFENSE COMMITTEE; AND CRISTOBAL LLITERAS, PRESIDENT, NATIONAL POSTAL UNION, PUERTO RICO AND VIRGIN ISLANDS BRANCH

Mr. VELEZ. Mr. Chairman and members of the subcommittee, my name is David G. Velez. I am an attorney employed by the National Labor Relations Board at San Juan, P.R. I am appearing before you today as president of the Cost-of-Living Allowances Defense Committee of Puerto Rico. This committee is composed of the presidents of 19 Federal employee unions and organizations, representing some 4,000 Federal employees in Puerto Rico. With me today are Mr. Peter S. A. Kryzanowski, vice president of the Council of Federal Employees of Puerto Rico and economic adviser to the Cost-of-Living Allowance Defense Committee; and on my left, Mr. Cristobal Lliteras, president of the National Postal Union, Puerto Rico and Virgin Islands branch.

Our purpose in appearing before this committee today is twofold—we intend to place before you our reasons for opposing the enactment of H.R. 8390 and we also intend to urge the committee for the prompt approval of House Joint Resolution 569, sponsored by the Honorable

Santiago Polanco-Abreu, Resident Commissioner of Puerto Rico and similar resolutions introduced by Representative Jacob H. Gilbert, of New York (H.J. Res. 568) and Representative William F. Ryan, of New York (H.J. Res. 573). It is our understanding that these three resolutions are now pending before this committee and we would like to thank the committee for considering these resolutions concurrently with H.R. 8390.

Before proceeding with our statement, Mr. Chairman, I would like to request that the Chair take notice of the extensive presentation made by my organization before this committee on February 26, 1964, during the hearings on H.R. 7401 and respectfully request that the statement made on that date and the accompanying exhibits be made a pertinent part of the record of the current hearings. We make this request primarily because we feel that the studies carried out at that time were accurate and timely and whatever change in the economic picture of Puerto Rico may have occurred in the intervening 15 months would be in the nature of a rise and therefore does not detract from our findings. I would also like to state that the work product of that statement and its attachments cost the Federal employees of Puerto Rico many hard earned dollars which they can no longer expend. Therefore, your consideration of the contents of that statement will be greatly appreciated by the Federal employees of Puerto Rico.

Gentlemen, many thousands of words have been spoken for, against, and about the cost-of-living allowances. I am sure we would all agree that we could sit here and argue the pros and cons of cost-of-living allowance from now till doomsday and still be right back where we started from unless we can arrive at some specific definition of what it is that we would like to accomplish. I have not traveled all these miles from Puerto Rico with my two companions merely for the sake of making a personal appearance before this committee when for a 5-cent stamp we could have sent our statement and had it submitted into the record knowing full well that it would receive the same consideration that this distinguished committee gives to all matters placed before it. We have come this far because we feel that cold printed words do not always convey the full meaning of the matter. You cannot discuss differences with the printed page or with the items it contains; for that, you must have the person who placed those thoughts on paper before you and that, gentlemen, is one of the greatest problems that has faced Federal employees for the past 12 or 13 years. We have received many administrative orders from the Civil Service Commission, many interpretations and justifications regarding the establishment of cost-of-living allowance, the maintenance of cost-of-living allowances, the reduction of cost-of-living allowance and, finally, the elimination of cost-of-living allowances without being able to discuss our views on the matter. Several days ago, the distinguished Chairman of the Civil Service Commission, the Honorable John W. Macy, Jr., appeared before this committee and informed you that the Federal employees of Puerto Rico have always been consulted regarding proposed actions concerning cost-of-living allowance. I could not morally appear before this committee and continue beyond this point without making one thing clear: the Federal employees of Puerto Rico were not and have not been consulted regarding any of the provisions of cost-of-living allowance reductions and they most assuredly were not

consulted regarding the cost-of-living-allowance reduction that was effectuated on July 1 of this year. I am quite sure the Honorable Chairman of the Civil Service Commission has submitted to this committee a copy of a register, if you will, which was signed by myself and several other Federal employee representatives at San Juan, P.R., sometime last year. I do not question the veracity of the chairman's statement when he tells this committee that Federal employees were told. However, I do question the use of the word "consultation," since I believe it is being used completely out of context. According to Webster's Dictionary, "consultation" means, and I quote, "a meeting to discuss, decide or plan something." My group was invited to meet with representatives of the Civil Service Commission's Office at San Juan, P.R. Ostensibly, the meeting was for the purpose of discussing a cost-of-living-allowance survey to be carried out by the Civil Service Commission. This meeting was held in the office of the Civil Service representative at San Juan, P.R., Mr. Anibal Rolan. Thinking that we were going to be granted that long-sought opportunity to participate in an objective study of our cost-of-living situation, the majority of the presidents of the organizations that I represent appeared at that meeting with more than enough data to help the survey specialists carry out a meaningful survey. However, much to our dismay and frustration, the survey specialists had already completed their work and the meeting was no more than a get-together, since the consultation aspect ended before it began. The only thing we got out of that meeting, gentlemen, was a copy of the survey form used by those gentlemen who, by the way, were not Civil Service Commission employees but State Department employees.

I would like to submit for the record, Mr. Chairman, a copy of the sum total of the consultations we were afforded. I draw your attention to the fact that every page in this folio is blank, insofar as information is concerned, other than for the headings and the titles of the different sections. That is enough to make anybody's blood boil.

Mr. UDALL. It does not appear to be a very informative collection of papers.

Mr. VELEZ. No; it is not. The cover document says:

The attached form DSP-23 and the addendum thereto are used by the Department of State for collecting price information in Alaska, Hawaii, Puerto Rico, the Virgin Islands, and Washington, D.C., to serve as a basis for cost-of-living allowance indexes.

That is not what Webster meant when he defined the term "consultation." If this committee is willing to accept reductions in the cost-of-living allowances for Puerto Rico or any other area based on such procedures, then I do not believe you, as the representatives of our employers, the people of the United States, will be keeping the faith with us. We are not in a position to challenge the Civil Service Commission's findings in a positive manner for one simple reason: you cannot fight what you cannot see and you cannot believe what has not been proven.

The Civil Service Commission has said that the cost-of-living allowances have lost their usefulness; that the philosophy in Government today is comparability. We have no quarrel with this philosophy. We agree 100 percent with the Civil Service Commission, except when they attempt to compare steak with hamburger—and that is being done in the case of Puerto Rico.

The Civil Service Commission also says that it was forced to reduce the allowances in Puerto Rico and the Virgin Islands because its survey, and I underscore the word "survey," showed a differential of only 4.6 percent in San Juan, P.R., as compared to Washington, D.C. The Civil Service Commission goes on to state that this action was obligated by the Comptroller General inasmuch as the Commission was sharply criticized before the Congress for making this unwarranted expenditure of \$166,000 a month in Puerto Rico and a smaller sum in the Virgin Islands. We do not take issue with the Comptroller General's report, and we agree with the Comptroller General's action because we know that it is his duty to watch for unnecessary spending in the Federal Government. As responsible citizens and career Federal employees, we applaud the actions of any agency which takes care of the fiscal integrity of our Government. However, we must also realize that the Comptroller General criticized the Civil Service Commission on the basis of information submitted to him by that same Commission. Therefore, to carry this analysis one step further, we must say that if the Civil Service Commission was misinformed or mistaken in its conclusions, then the Comptroller General's criticism was unfounded. We have in the past shown this committee what we believe was an accurate appraisal of the cost-of-living situation in Puerto Rico. We do not intend to bring before this committee today any additional studies although we do have a wealth of material available to us which, if requested, will be placed at the disposal of the persons who carry out the cost-of-living survey in Puerto Rico; that is, if this request is granted.

To conclude this line of discussion, we wish to state that any time an action by a Federal agency draws so much fire, it must be quite obvious to all concerned that deficiencies do exist. Therefore, we are strongly urging the committee to take immediate action on the resolutions previously mentioned and that we be granted a new survey by the Bureau of Labor Statistics with full participation and consultation by Federal employee representatives and not merely lipservice.

I am authorized to make this committee a solemn promise, if our differential is reinstated at 12½ percent and a new survey carried out under the aforementioned conditions: We will bind ourselves to the findings brought forth by that survey and withdraw from any further protest in this matter. I might also add that the administrative reduction made by the Civil Service Commission, and which was effective on the first day of this month, has dropped the morale of the Federal employees in Puerto Rico to the lowest point I have seen in 15 years of Government service. I will not go into the confusions this is creating in many households right now. As you know, a petition for redress of grievances was filed before the Congress several weeks ago by the Puerto Rican Federal employees. As you have also been told, the Federal employees of Puerto Rico have gone so far as to publicly fast in protest of this action.

Mr. Macy went to great lengths in attempting to justify the proposed action on H.R. 8390 on the basis that the necessary skills to run the Federal machinery in Puerto Rico are with some slight exception fully available in the local marketplace. I would be the first to agree that Puerto Rico has a high unemployment rate and that manpower is available. However, Mr. Macy has forgotten a very salient point

about the nature of the Federal Establishment in Puerto Rico and that is bilingualism. I can assure you that in Puerto Rico it would be practically impossible to run the Federal machinery in English alone. Outside of your top executive and supervisory personnel, almost every employee dealing with the general public must be bilingual. The official language of Puerto Rico is Spanish, not English. The government of Puerto Rico and most of private industry that does its hiring in the local marketplace, hires in Spanish. When a bilingual employee is wanted, that fact is clearly indicated, and additional compensation is paid for that added skill. The Federal Government does not pay additional compensation for the added skill of speaking Spanish on the premise that the Puerto Rican speaks Spanish anyway; however, you are not paying us for that language and I daresay that if we refused to speak Spanish tomorrow, you would have a hard time getting labor disputes solved or getting a social security claim processed. These things get done because nobody would violate the law by purposely stalling or slowing down the machinery of government. However, without speaking Spanish, I daresay it would take three times as long to get anything done in Puerto Rico. Thus, as you can see, bilingualism is a factor in our employment.

How does this affect the marketplace situation? In a very simple way. As I have already said, the local government hires in Spanish as does most private businesses. However, the Federal Government does its hiring in English and that employee must be bilingual. As a result of this requirement, most Federal agencies have secretaries who have college degrees or at least several years of higher education. Where a teacher in Puerto Rico may have a salary of \$300 a month, a GS-4 Federal secretary's salary may be \$400 a month. But if you follow my analysis, you must agree that this second language in effect constitutes having two employees for \$100 over the price of one. When looked at in this light, your stenographer is not being overpaid, as Mr. Macy would have us to believe. This same argument holds true for my own position as an attorney to Mr. Llitas' position as a postal employee. We could not do our work in an efficient and economical manner if we were not bilingual. I have merely cited one example, but the general idea holds true in every agency. We admit that our gross compensation is higher than that of our fellow employees in the States; however, we insist that the cost-of-living allowances were not created as a bonus. They were created to guarantee Federal employees in offshore areas a standard of living commensurate with Federal employees in Washington, D.C.

It is, in a sense, a form of comparability between us—the Federal employees in the offshore areas and the employees here in Washington. We did not pick Washington, D.C., as a base, gentlemen, you picked it. It could very well have been Dallas, San Francisco, or someplace else. To attempt to apply comparability in Hawaii, Puerto Rico, or the Virgin Islands, is not only impractical but illogical.

I repeat, gentlemen, that the recent cost-of-living allowance reduction in Puerto Rico was not a justified action and I do not believe the solution to the problem will be found in H.R. 8390.

The Civil Service Commission admits that the cost-of-living allowance in Hawaii is 15 percent; therefore, they have no valid argument there other than to leave our friends from Hawaii alone—and that is

something that I am sure will happen. It is only in Puerto Rico and the Virgin Islands that the problem reaches such great heights and takes on such great magnitude. Mr. Macy very strongly stated and affirmed the fact that these allowances are tax free. He has hammered away at this point in every piece of correspondence he has sent to Members of Congress. We have over 100 pieces of mail from Congressmen and Senators accompanied by copies of letters of justification from Mr. Macy. In the majority of them, the tax-free aspects of this allowance are emphasized. I hate to rebut Mr. Macy but I must say that he is 100 percent wrong in the case of Puerto Rico. Federal employees in Puerto Rico are the only bona fide residents who pay Federal income taxes. As a general rule, and in keeping with the theory of "no taxation without representation," no other bona fide resident of Puerto Rico pays Federal income taxes. Federal employees must also pay Puerto Rican taxes which are on a par with the Federal tax structure and include our so-called tax-free allowances as taxable income. Last year, the Federal employees in Puerto Rico contributed to the Puerto Rican treasury in excess of \$400,000 in taxes on the cost-of-living allowance alone. We do not object to paying taxes in Puerto Rico because we love our little island and we know this money goes to help raise the standard of living for our people; however, we strongly object when somebody hints that we may be getting a "free ride."

The present reduction and proposed elimination of the cost-of-living allowance will deny the Puerto Rican treasury the benefits of this most needed money. Therefore, gentlemen, indirectly you don't only hurt us by approving H.R. 8390, you hurt all our people. I have already spoken about the effect this action has had on the morale of the Federal employees and I have just mentioned the economic effect—there is still one more effect which I would like to mention in passing; and that is the effect that this will have on our country's image in Latin America. As Federal employees, we are not permitted to be active in politics. However, we are asked to be ambassadors of good will and representatives of all that which is good in our democracy.

We do not wish to be the pawn in any inter-American ideological struggles. We do not wish our efforts before this committee to become the basis for criticism of the United States or of the Government's treatment of Federal employees in Puerto Rico. However, gentlemen, we must face the truth. Any time you do something to a Puerto Rican Federal employee, be he native born or stateside born, somebody in Latin America will invariably say, "You see, they claim to do so much for us but they don't even do anything for their own." This does not sound like much, but when you translate it into Spanish and add equal parts of emotion and economic frustration, you have got something which will linger on long after the problem has been solved to the satisfaction of all concerned.

In closing, I would like to say that we realize your problems in dealing with this situation and we agree that legislation is needed to resolve the problem. New legislation is needed to provide a firm base upon which the Federal Government may establish the salaries and

incentives to be paid to its employees in offshore areas. We urge that this committee consider the creation of a separate salary scale for the four affected offshore areas. We encourage the study of our socioeconomic structure, not only insofar as individual income and expenditures are concerned, but with a consideration of the sociopolitical effect of your actions on these people. We urge this committee to visit the affected areas and to speak with the people in these areas. It is quite obvious they cannot all come to Washington and we think you should make it possible for these people to express their views. However, we must continue to strenuously object to any studies which do not objectively consider present-day economic realities but rather prefer to rely on controvertible statistical surveys which are at best the end product of incomplete information, or preconceived opinions. A study which does not take into consideration the final economic effect of its conclusions is of negligible value when it is equated with the actualities of running the complex machinery of Government. There are no statistics to portray the full depth and meaning in human terms of the services rendered by Federal employees in Puerto Rico and the Virgin Islands, but it is clear that any legislation that diminishes or eliminates in whole or in part the economic incentives of the employees will in the final analysis have a telling effect on the operation of this governmental machinery.

Therefore, we strongly urge the approval of House Joint Resolution 569 and its companion resolutions immediately in order that our take-home pay not be reduced at the end of this week.

On behalf of the Federal employees in Puerto Rico, I wish to thank you for your courtesy and patience in bearing with me during this exposition and for the opportunity to appear before you.

Mr. UDALL. Thank you, Mr. Velez, for a very effective and articulate statement.

I mentioned yesterday, we have a scheduling problem today. We are going into executive session in about 35 minutes to consider Federal pay bills. We have another witness from Puerto Rico, Mr. Cole, scheduled for this morning. Is Mr. Cole here?

Mr. COLE. Yes, sir.

Mr. UDALL. Do you have a prepared statement, Mr. Cole?

Mr. COLE. Yes, sir.

Mr. UDALL. How long is it?

Mr. COLE. It is very brief; about 15 minutes.

Mr. UDALL. I am trying to determine how much time we should devote to questions to be fair to both of you.

I wonder if it would be agreeable to the subcommittee members if we would have Mr. Cole present his statement and sit at the table with Mr. Velez. Questions might then be asked of all the witnesses after Mr. Cole has finished.

Mr. KREBS. I have no objection, Mr. Chairman.

Mr. BROYHILL. No objection.

Mr. UDALL. You may proceed, Mr. Cole.

STATEMENT OF BENJAMIN COLE, PRESIDENT, NATIONAL LEAGUE OF POSTMASTERS, PUERTO RICO BRANCH; ACCOMPANIED BY HENRY J. STOFFER, POSTMASTER, SHEFFIELD, IOWA, AND PRESIDENT, NATIONAL LEAGUE OF POSTMASTERS; AND HENRY H. WOMACK, POSTMASTER, CATRON, MO., AND VICE PRESIDENT, NATIONAL LEAGUE OF POSTMASTERS

Mr. COLE. Mr. Chairman and members of the subcommittee, I would like to ask your permission to let Mr. Henry J. Stoffer, president of the National League of Postmasters, say a few words before I present my statement.

Mr. UDALL. Very well, Mr. Stoffer, you may proceed.

Mr. STOFFER. Mr. Chairman, and members of the subcommittee, my name is Henry J. Stoffer. I am postmaster of Sheffield, Iowa, and president of the National League of Postmasters. I am accompanied today by the vice president, Henry H. Womack, postmaster at Catron, Mo., and Benjamin Cole, president of our Puerto Rico branch, and postmaster at Mayaguez, P.R.

We wish to express our sincere gratitude for this opportunity to present the views of our members in Puerto Rico. As recently as 2 months ago, it was my pleasure to attend the convention of the Puerto Rican branch, and it was then that I became aware of their concern for legislation affecting pay differential. During my brief stay, I visited with many postmasters and other postal employees, and they were very effective in pointing out many of the unusual expenses incurred on that tropical island. In just a few hours, an Iowan such as myself, who knows well the expenses of keeping warm in zero weather, I found living costs I had not anticipated. When a Puerto Rican purchases a new car, equipped with a heater as standard equipment, he usually removes it, and in its place, installs an air conditioner worth several times the price of the removed heater. It was obvious, also, that most products must be imported, as virtually none of their daily needs are produced locally. Real estate, including land, homes, and rent seemed unusually expensive. All factors considered, I saw sufficient evidence of above normal expenses to assure our Puerto Rican members we would ask to appear in their behalf before this subcommittee.

At this time, I would like to yield to Mr. Cole, as he is familiar with the entire island, and has complete knowledge of the problems involved. Prior to his postmastership at Mayaguez, Mr. Cole served 12 years in the legislature for the Commonwealth, and his many trips to the United States qualify him as an appropriate witness before this committee. The Mayaguez Post Office has approximately 100 employees.

Mr. UDALL. Thank you, Mr. Stoffer. Mr. Cole, you may proceed.

Mr. COLE. Mr. Chairman and members of the subcommittee. My name is Benjamin Cole, former city auditor of the municipal government of Mayaguez, P.R., for 5 years; former Representative of the District of Mayaguez in the Puerto Rico House of Representatives, for 8 years; and at the present time, postmaster of Mayaguez, the third largest city in Puerto Rico. I come before this subcommittee on behalf of the Puerto Rican branch of the National League of Postmasters of the United States; and of the Mayaguez branches of the United

Federation of Postal Clerks, the National Association of Letter Carriers, and the Association of Postal Supervisors. The official stand of said postal organizations is in absolute opposition to the ordered reduction or the proposed elimination of the cost-of-living allowance to Federal employees in Puerto Rico, the Virgin Islands, Alaska, and Hawaii.

I will attempt to demonstrate clear deficiencies and bias in the documents used by the Civil Service Commission that evidently misled the Commission on its decision. I have with me (1) a statement of the method used in the survey ordered by the Commission; (2) a copy of the summary report on the 1964 survey; and (3) additional explanation regarding the San Juan survey.

Looking at an average list of prices for selected categories of food prepared for the Commission you can read:

Due to the survey method employed by the Department of State, these figures may differ from other published data. Valid intercity price comparison can be made only when the same survey method is used for both places.

This conditioned explanation of the survey method employed denotes how little confidence anyone can have in the results and conclusions of it. There is another condition that reads:

Not all of these categories are of equal importance in the Federal employees' family budget.

I just want to take one example to show how this is true: In the average price list there are different items of food, but nothing is said about quality, brands, tastes, and preferences of the consumer. Take the rice. The report shows that the price for a pound of rice in San Juan in 1962 and 1964 was 18 cents, while in Washington in 1962 it was 23 cents, and in 1964, 25 cents. The report does not say that the kind of rice mostly used in Washington is the partly boiled one, and the most common brands are Uncle Ben and Carolina, that are of the first class. In Puerto Rico the one used is the whole raw rice, that is cheaper; but in Washington the average annual rice consumption per person is 7 pounds, which, at a price of 25 cents per pound, is \$1.75 per person a year. In Puerto Rico the average consumption is 140 pounds per person per year, which, at a price of 18 cents a pound, is \$25.20 per person a year. This means that a Federal employee in Washington with a family of five members will spend \$8.75 for rice in a year; while in Puerto Rico a Federal employee with the same number of family members spends \$126 for rice in a year. This proves that the tastes and preferences of the consumer are very important factors to be considered when working with price indexes. While in Washington the rice is an auxiliary dish, in Puerto Rico it is a basic one in the family diet.

Going to another one of the documents used by the Civil Service Commission, we find that the survey was conducted in the period of September through November. This is the fall season, when most of the stores are on special sales, releasing stock at very low prices to make room for the Christmas purchases and season. So, these low prices are not representative of the year-round activity.

It is also noted that the survey covered only the city of San Juan. That is not Puerto Rico. This means that the sample is not representative on the whole island. More than that, the prices in San

Juan are lower than in the rest of the island, especially in big cities like Ponce, Mayaguez, Arecibo, and Aguadilla. This is due to the great offer and competition in San Juan, while in the other areas the demand for goods and services is higher than the offer, causing a rise in the prices. This is especially noticed in housing, furniture, and other home appliances. Most of the goods are imported through San Juan. Transportation charges to the other cities of the island cause an increase in prices.

The same report, speaking of housing costs says:

Data collected in Alaska, Hawaii, Puerto Rico and the Virgin Islands during the 1964 survey period were compared to estimates—

Listen to that—not facts, not true figures—

estimates of Washington costs derived from the 1961 Federal Employees' Survey adjusted * * *.

How can actual facts be comparable to estimates, and how can reliable conclusions and recommendations be based on mere estimates?

When the statements on pages 2 and 3 of that brief of the 1964 surveys are read, there is found very similar wording; more or less the same facts are described, but the wording is placed in different positions, thus giving unreliable different results.

It shall be noticed that it is admitted that there were "significant increases in housing and medical care costs in San Juan." But look at this: They were offset not by a decrease in San Juan food prices, but "by relatively higher food costs in Washington." In other words, the price of apples is offset by the price of airplanes, things that are not comparable.

Notice that the report also admits that "costs for medical services and some drug items rose more in San Juan than in Washington." These are very important factors in the cost of living. And about food prices the report says that in some items the prices were relatively unchanged since the 1962 survey; but higher Washington prices lowered costs compared to the base city. Then, what the reduction of the elimination of the cost-of-living allowance in Puerto Rico and the Virgin Islands, and so forth, will do is to penalize our Federal employees because food costs in Washington have increased. In other words, instead of proposing an increase in the salaries of Federal employees in Washington, it proposes a substantial reduction in the income of the 6,000 U.S. citizens living in Puerto Rico and working for the Federal Government. And the worst thing of this proposition is that it comes when the Honorable President Johnson is promoting better standards of living in the Nation as well as in Puerto Rico, and even in other countries.

The Commonwealth government has been fighting very strongly in this connection also.

The clear situation is that there has been no decrease in the cost of living in Puerto Rico since 1962 and 1964. In spite of all the differences pointed out in the Civil Service Commission's own documents, the price index for Puerto Rico rose from 104.4 in 1962 to 104.5 in 1964. But from the statement submitted to the Subcommittee of

Labor, Committee on Labor and Public Welfare, U.S. Senate, on July 14, 1965, page 12, I quote Mr. David Dubinsky:

There is every justification for improving the wage and hour standards of workers in Puerto Rico. Their living costs are high—living costs in San Juan, P.R., are now 29 percent higher than in Washington, D.C., and Washington has a well-deserved reputation as a high-cost city.

The effect of a \$2 million cut in the Puerto Rican economy will be a stoppage of almost \$12 million in the business current transactions. Has anyone thought about the psychological effect of this cut? What does a cut of \$2 million in the Nation's budget mean to the people of Puerto Rico and the Virgin Islands? This amount compared to the large budget of the United States is like a little spot in the immensity of the earth space.

And in the long run, who is going to receive the impact of the proposed cut: the U.S. industry and commerce. Why? Because Puerto Rico is the fifth market in the world, and the second in domestic territory, for the U.S. products. If the buying power of the Puerto Rican people is reduced, the reduction will be reflected in that market. Is it not "economic nonsense" to decrease people's income when prices are increasing, and when real income, that is, income in terms of goods and services, is low and decreasing with the rise in the cost of living? This is the situation in the Commonwealth of Puerto Rico.

And last but not least: H.R. 8390 proposes to eliminate the total differential in a number of years. This means that no matter what the cost of living will be in the coming years, the income of Federal employees in Puerto Rico and the Virgin Islands will be reduced. Then, a strong importance is given to prices, indexes, and cost of living at this moment to propose the decrease or the elimination of the differential; but no importance is given to said factors, no matter what changes may occur in the future.

The chairman of this subcommittee said yesterday that the administration is trying to establish a uniform pay for Federal employees in equal levels anywhere under the flag of the United States.

Gentlemen, with all my respect, uniform salaries do not mean equal purchasing power. Thus, the issue cannot be a matter of equalizing salaries; it must be of equalizing the purchasing power. In other words, what amount and what quality and kind of goods and services can a Federal employee purchase in Washington as compared to a Federal employee in Puerto Rico, the Virgin Islands, Alaska, Hawaii, or elsewhere? By reducing or eliminating cost-of-living allowance you may get uniform pay, but not equal purchasing power. This is why it is necessary to use cost-of-living indexes * * * but good and reliable ones; not ambiguous, confusive, and misleading because inefficiently worked out.

My honest opinion is that the Civil Service Commission was misled by the way the surveys relative to cost-of-living allowance were conducted.

On behalf of the organizations I represent here, I urge you, gentlemen, to reject H.R. 8390; to repeal Executive Order 10000; to leave the cost-of-living allowance unchanged at the level in effect before July 1; and to consider favorably House Joint Resolution 569 introduced by the Resident Commissioner of the Commonwealth of Puerto Rico, Mr. Santiago Polanco-Abreu.

Thank you very much for your kind attention.

Mr. UDALL. Thank you very much, Mr. Cole, for a very forceful and effective statement.

Mr. COLE. Thank you.

Mr. UDALL. Mr. Cole, if the gentlemen with you will move back and Mr. Velez will come forward, I will divide the remaining time and each member of the subcommittee may use his time for questions to either or both of you or for comments and observations. The one reaction I have this morning is that if the Congress should ever go to a wage system in the United States that depended on cost of living in different areas, I say the Lord help us, and I think I would seek membership on another committee. I can imagine the testimony that would be brought forth from the various areas of the country. I think you need a standard nationwide Federal wage system. What we should do about those affected by the cost-of-living allowance is something else that this committee will have to decide.

Let me ask you one question. If no action is taken on this administration bill before us, it is obvious that the present law will continue. As it is currently administered, the Federal employees in Puerto Rico are going to get a 5-percent cost-of-living allowance as against the 12½ percent they got before.

Mr. VELEZ. Yes, sir.

Mr. UDALL. I made a suggestion when Mr. Macy was testifying, that if we were going to pass this bill and have a phaseout, the phaseout should be based on the 12½ percent rather than on the 5 percent. Which would you rather have? Would you rather continue as you are under the 5-percent cost-of-living allowance or have this whole thing phased out over 6 years under the 12½ percent?

I caution you that this statement does not necessarily reflect my opinion. I have not made up my mind. If you were put to that hard choice, which would you prefer?

Mr. VELEZ. One of the primary reasons for being here, Mr. Chairman, is to try to make the situation of my people whole again. I cannot be against anything obviously that will reinstate the 12½ percent.

However, as far as accepting the phaseout, as I said in my statement, if we can get a survey which we can honestly believe in, we will accept zero if that is what it shows. We would have no argument with an honest survey that will show this. We believe in the system that is being used insofar as establishing the quotas, and we believe nobody should get any more than he is entitled to. If the sense of Congress is to eliminate this completely we will abide by it. However, until Congress arrives at that conclusion we will resist, of course.

Mr. UDALL. I believe Mr. Cullen is here.

Mr. CULLEN. Yes, sir.

Mr. UDALL. Do you wish to be rescheduled later to present your testimony or would you like to file your statement for the record this morning?

Mr. CULLEN. It may be filed.

Mr. UDALL. You may want to consider it a moment longer.

My time has expired. The gentleman from North Carolina.

Mr. BROYHILL. Mr. Velez, are you advocating that we pay Federal workers in various cities of the United States on the basis of cost of living in those areas?

Mr. VELEZ. No, sir; I am not. For the United States you have a system established now called comparability. What I advocate is that comparability is not suitable in an area where your economic situation is so far removed from the general standard in the United States. It jeopardizes your Federal employee because he is in an area where the majority of people do not at this time have the same standard of living.

Mr. BROYHILL. In other words, the Federal workers' standard of living in Puerto Rico is far above the standard of living of the average worker in Puerto Rico?

Mr. VELEZ. Yes, sir.

Mr. BROYHILL. Their income is much greater; is that right?

Mr. VELEZ. Yes, sir.

Mr. BROYHILL. If that is the case, why are you advocating and saying that you need this increase, or need this cost-of-living situation retained? This is not the case in other cities of the United States. We have in many areas of the United States situations where the Federal worker is paid at less than the other workers in the area. You are saying that you are paid on a higher basis than your workers in the area. Yet you want to be paid more.

Mr. VELEZ. We will not be paid more, Mr. Broyhill. We will be paid what will give us an equivalent salary to what our fellow workers here in Washington, D.C., have. In my particular case, I served here in the District for almost 10 years with the Federal Government. When I transferred to Puerto Rico I was given cost-of-living allowance to maintain the same standard I had here. Without it I could not do it.

I realize there are areas in the United States that have a standard which is higher than that of the Federal employee in the area, but for that I believe you have a pay bill coming up.

Mr. UDALL. The gentleman from Hawaii.

Mr. MATSUNAGA. Mr. Velez, when the cost-of-living allowance was originally given to Federal employees to serve as an incentive for those such as yourself, those with certain skills to go to Puerto Rico to undertake Government work for which skills were not available locally, that was the situation; is it not true?

Mr. VELEZ. That is partly correct, Mr. Matsunaga.

Mr. MATSUNAGA. So that as in your case if the Federal Government should now decide that there is no justification for cost-of-living allowance because Puerto Ricans in general can live much more cheaply than other Americans who live here in Washington, the Federal Government in effect is reneging on its contract with people like you who went there with the promise of an additional cost-of-living allowance in order to make up for the personal sacrifices which you had made?

Mr. VELEZ. I believe that is correct.

Mr. MATSUNAGA. And you are here asking not really for retention of the cost-of-living allowance, in a way, but more in the way of justice in that you feel the last report of the State Department relative to the actual cost of living in Puerto Rico is wholly on unsound ground?

Mr. VELEZ. That is true.

Mr. MATSUNAGA. I commend you for this—you are willing to stake the entire allowance on a new survey based on facts.

Mr. VELEZ. That is what I have been authorized to do, sir. We ask no more than what is just and what is right. We are willing to go to

any lengths to cooperate with any agency that is named, but we do not feel that Puerto Rico is a foreign country and we do not feel that the gentlemen with whom I spoke know what they are doing in Puerto Rico. I don't say they don't know what they are doing so far as being economists, but I don't believe they know what they are doing when they walked around the various cities like San Juan, Ponce, and Mayaguez.

Mr. UDALL. Mr. Pool?

Mr. POOL. I yield the balance of my time to Mr. Matsunaga.

Mr. MATSUNAGA. Then so long as the law allowing the cost-of-living allowance exists you would like the full benefits of the law. This is all you are asking for. Is that right?

Mr. VELEZ. That is all; that is correct.

Mr. MATSUNAGA. Thank you.

Mr. UDALL. The gentleman from Kansas?

Mr. ELLSWORTH. I yield my time to the gentleman from North Carolina.

Mr. BROYHILL. Just this comment. I might misunderstand your argument, gentlemen. If I follow your argument to its conclusion, you are saying that because your area is a high-cost-of-living area then perhaps this committee should consider giving increases to other fellow employees in other high-cost-of-living areas. Are you advocating this?

Mr. VELEZ. I am not advocating it as part of my presence here but I agree with you. You should.

Mr. BROYHILL. I am not advocating that. I am stating this as a question.

If you are saying this, and if you carry that argument to its conclusion, you will actually be reducing the wages of people in certain areas in this country, maybe even on your island there you would be reducing the wages of people in certain areas of the island which have a lower cost of living.

Mr. VELEZ. I doubt very much, sir, that you will find any place in Puerto Rico which has a lower cost of living because everything comes in over water or through the air. Until you build a bridge or a tunnel you will not cut down prices.

Mr. UDALL. One of the statements suggested that it was wrong to use San Juan because cost of living varied greatly between cities. Would you advocate separate cost-of-living allowances for different areas within Puerto Rico?

Mr. VELEZ. No, sir; I believe that would only compound the confusion and the problem.

Mr. BROYHILL. That is all I have.

Mr. KREBS. I want to get one thing cleared up in the record and I hope you make your answers as terse as possible.

My colleague, Mr. Broyhill, suggested an increase. Are you looking for an increase? Actually, the fact of the matter is that you are here opposing a program which will cut all of the employees in these four areas one-sixth of the cost-of-living allowance that they had been getting for going into difficult areas, out of the country at that time, 15 years ago, and these are cost-of-living allowances you have had for 15 years and you are now objecting to their being taken away. You are not here looking for an increase in this respect?

Mr. VELEZ. That is correct, sir.

Mr. KREBS. The second question is this: Is it the practice of collective bargaining, or consultation as it seems to be called here—is it a practice generally for the Civil Service Commission or an agent of the Commission to come down and say: "This is the schedule we have worked out. These are going to be your wages. These will be it." Or do they give you a chance generally to bargain in the classical manner?

Mr. VELEZ. As far as cost-of-living allowance is concerned that has been the prevailing practice ever since it was established. When we lost it for a period of about 8 months back in the early fifties it disappeared and came back just as mysteriously with no explanation. The first time we found out how it came back was when we heard Mr. Macy explain it.

Mr. KREBS. Also, is it a fact that every group of employees from postmasters down are opposed to this reduction?

Mr. VELEZ. That is correct.

Mr. KREBS. I think you pointed out that just by taking the survey in San Juan it does not truly reflect the differences in cost of living between Washington and Puerto Rico because then in the other areas the cost of living is higher than in San Juan.

Mr. COLE. I was the one who made that statement.

Mr. KREBS. Is this true?

Mr. COLE. Yes. San Juan is the capital. It is far away from other areas and the products are just brought through San Juan. They have to be transferred to other areas by road and other means.

Mr. KREBS. I think you are to be commended on your statement which sets forth the difference in the most basic staple item in the diet of people of Puerto Rico, which is rice. When you compare the cost of rice and the consumption of rice between the United States and Puerto Rico you are comparing two different things, because rice is the basic food there which you have in virtually every meal.

I also think this underscores the unreal nature of the survey made by the State Department which I believe is ill equipped to make such surveys.

I agree with you that a new survey should be made by the BLS.

Mr. POOL. I merely want to say that I have certainly enjoyed your testimony. It has been wonderful. I hope to come down to Puerto Rico and visit with you.

Mr. VELEZ. Thank you very much.

Mr. UDALL. Thank you, gentlemen.

The Chair announces that these hearings will continue at a date we shall select in August. We are anxious to hear everyone who wants to be heard. I particularly apologize to Mr. Cullen. Sometimes we will schedule three witnesses and are through at 11 a.m., and other times we will schedule three or four, and we have not reached the second one by noon. We have a difficult problem. We recognize it is an inconvenience to you, and we shall receive your testimony later on.

Mr. CULLEN. Thank you.

Mr. UDALL. The subcommittee is now adjourned.

(Whereupon, Thursday, July 22, 1965, the subcommittee adjourned subject to the call of the Chair.)

COST-OF-LIVING ALLOWANCES IN NONFOREIGN AREAS

WEDNESDAY, AUGUST 11, 1965

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

The subcommittee met at 10 a.m., in room 219, Cannon House Office Building, Hon. Morris K. Udall (chairman of the subcommittee) presiding.

Mr. UDALL. The Subcommittee on Compensation will come to order for further consideration this morning of bill H.R. 8390 and a number of other legislative proposals relating to the cost-of-living allowances in the States of Hawaii and Alaska and in the Virgin Islands and Puerto Rico.

We have scheduled four witnesses this morning. The first is Mr. Patrick Nilan, legislative director of the United Federation of Postal Clerks.

Mr. Nilan, you may come forward, take the hot seat, and proceed. We are happy to have you with us.

STATEMENT OF PATRICK J. NILAN, LEGISLATIVE DIRECTOR, UNITED FEDERATION OF POSTAL CLERKS

Mr. NILAN. Thank you very much, Mr. Chairman. I appreciate the opportunity to be with you this morning.

Mr. Chairman and members of the committee, my name is Patrick J. Nilan, legislative director of the United Federation of Postal Clerks. We represent approximately 16,000 post office clerks in the continental United States and Alaska, Hawaii, Puerto Rico, and the Virgin Islands. Our national headquarters is located here in Washington, at 817 14th Street NW.

I welcome this opportunity to present our views on H.R. 8390 because we are opposed to this legislation. In explaining our opposition perhaps we can bring some thoughts to your attention which would be helpful in your deliberations.

In the interest of clarity, I shall divide my statement into a consideration of the merits of cost-of-living allowances, the merits of the alternatives offered in this bill, and a consideration of the methods by which cost-of-living surveys are conducted.

COST-OF-LIVING ALLOWANCES

The Civil Service Commission places heavy emphasis on the argument that the cost-of-living allowances in nonforeign areas should be discontinued because payment of these allowances "results in higher gross compensation in these areas * * *" while at the same time no distinctions are made in compensation among different areas on the mainland because of difference in living costs. The point was made that some major cities on the mainland had living costs as much as 20 percent above those of others and that living costs were about 7 percent higher in Chicago and Seattle than in Washington, D.C.

We believe that there is a fundamental fallacy in this type of reasoning. How many Federal employees voluntarily elect, when they have a choice, to move from a city where the cost of living is low to one where these costs are high? Obviously, there is no need to pay a premium to attract workers to high living cost centers on the mainland because Federal requirements can be met locally. The cost of living is high in these areas but they are part of a contiguous and well-established cultural economic community. The accumulation of mechanical and intellectual skills, executive and technical experience, is sufficiently similar among principal U.S. cities that the Federal Government usually has little difficulty in meeting its personnel requirements. Hence, there is no real need to pay an inducement to attract personnel to high cost-of-living centers.

Payment of allowances, according to the Civil Service Commission, constitutes "an unjustified expenditure of funds" because Federal positions in Hawaii, Puerto Rico, or the Virgin Islands can be filled for the most part by persons from the local labor market who can be expected to accept positions at the regular nationwide salary rates. The critical language here is "for the most part" because it is our contention that as long as there is any portion of Federal positions in these areas which cannot be filled from local sources and must necessarily be filled by personnel from the mainland, elimination of cost-of-living allowances would result in intolerable inequities.

Another argument of the supporters of this bill is that the Federal Salary Reform Act of 1962 provides authority to establish rates by occupation or geographic area that are higher than those appearing in the statutory schedules. This can be whenever it is found that the salary rates in private enterprise are so much above the rates in the statutory schedules as to handicap significantly the Government's recruitment and retention of well-qualified persons. Since, with the exception of Alaska, high salary rates in private industry are not a problem, it is argued that statutory schedules will be sufficient to meet Federal requirements and that in the case of Alaska, Federal salary schedules can be increased to compare with those in private industry.

We believe that this reasoning is also erroneous. The problem is not to compete with private enterprise for the required skills and personnel; the real problem is to find enough qualified personnel on the local market to satisfy all Federal requirements. There is little private industry that requires the same or similar skills as Government in the offshore areas. Further, for many reasons the reservoir of trained and skilled personnel is much smaller than in comparable mainland areas. Hence, it is our belief that while it will

be possible to fill the majority of Federal positions in these areas from local residents, it will continue to be necessary for some time to come to bring a portion of Federal employees from the mainland. According to Senator Hiram L. Fong, in his statement before this committee in February 1964, the number of Federal employees in Hawaii who are recruited from the mainland continues to be significant.

Senator Fong stated:

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 effect the cost-of-living allowances has on their subordinates. To a man, they voiced grave concern over recruitment prospects if cost-of-living allowance was eliminated. There is a critical need for physical science engineers and 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 cost-of-living allowance 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 sharply inhibit the migration of these critically needed skilled persons to Hawaii as Federal employees. The skills needed to handle the intricate instruments of our Nation's defense require more schooling and specialization. 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.

While H.R. 8390 makes no specific provision for those employees who necessarily must still be recruited in the mainland, it can be reasonably assumed that they will be attracted to the offshore areas by premium salaries. We do not believe that these premium salaries will be confined to exotic trades. Instead, we believe they will be necessary to supplement Federal requirements in a broad variety of administrative, professional, technical, and clerical categories. If this proves to be the case, and we sincerely believe it will, an immediate result of H.R. 8390 would be to create a situation in which local personnel performing the same jobs side by side with their mainland colleagues would not receive the premium pay and would be earning substantially less pay for the same work.

This would put local employees on an equal salary footing with the salaries of mainland employees—one of the avowed purposes of the bill—but could completely distort their income in relation to those in their midst who were brought in from the mainland. This would certainly be contrary to the Civil Service Commission's announced desire for "equal pay for equal work."

We believe, therefore, that the supporters of this bill have overlooked one of its principal fallacies, the notion that just because "most of the Government's personnel requirements" can be met from within the offshore areas it follows that, "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 employees in the latter cities" when differences in living costs are not reflected in the compensation of employees in stateside cities.

Our point is that until the Federal Government has the same or equivalent supply of local skills that are available in the principal mainland cities, it is premature and injudicious for the Government to discontinue the principle of cost-of-living allowances.

An additional oversight in this bill is the obligation that the Federal Government assumed upon hiring those mainland employees now serving in the offshore areas. This obligation was not to pay cost-of-living allowances to these employees "until legislation could be passed to eliminate such allowances." The obligation, in our view, was to pay cost-of-living allowances as long as a difference exists between living costs in Washington and the locality concerned. The cost-of-living allowance was a condition of employment. It was an inducement to persuade them to accept positions under different living conditions, away from their home environment and in areas where living costs were much higher than in the areas they left. These employees were not told when they left the mainland that their allowances would be eliminated if the cost-of-living goes up in Chicago or Seattle. They were told that Washington, D.C., would be used as the basis for calculating their allowances. Surely it would be a breach of faith with these employees if the Government were unilaterally and arbitrarily to change the term of its original agreement—to the financial and economic disadvantage of the employees.

SALARY REFORM ACT OF 1962

The Civil Service Commission has urged enactment of H.R. 8390 on the ground that the Salary Reform Act of 1962 established two major principles by which Federal salaries must be calculated. The first was "equal pay for substantially equal work." The second and even more compelling principle, according to the Commission, is the principle of comparability of salaries of Federal employees with those in private industry.

We believe that the Civil Service Commission's argument against cost-of-living allowances is not enhanced by seeking recourse to the principle of "equal pay for substantially equal work" because the paramount consideration in attracting and keeping employees is not salary but "real income." The employee's concern is whether he can live as well as he could have on the mainland or as well as his colleagues in Washington, D.C. It seems to me that there is little room for debate here.

In seeking to advance the principle of "comparability," the Civil Service Commission appears to be extracting a great deal from the language of the Salary Reform Act of 1962. That act, quite clearly, was intended to tie Federal salaries to a national index compiled by the Bureau of Labor Statistics. It was not intended as a mechanism by which salaries could be raised in some areas and lowered in others. To suggest this, we believe, is to stretch the meaning of that act to the point of almost deliberate distortion. We believe it would be entirely foreign to the meaning of Congress to use this act to depress the income of Federal employees in Puerto Rico, the Virgin Islands, or in Hawaii. Similarly, we believe it is incorrect to cite this act in building a case against cost-of-living allowances. This legislation, in fact,

contains an admonition in section 1006 not to reduce existing compensation. This provision reads as follows:

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.

It is, therefore, not germane to the proposed legislation to point out that salaries paid by private industry in Puerto Rico are substantially lower than those paid within the contiguous States. On the other hand, it is germane to note, in the case of Alaska, that where salaries paid by private industry are significantly higher than the national index it is not because they have a higher standard of living or because their employees are more deserving or more demanding. It is because these salaries are deemed necessary to meet the increased costs attendant to living at a level comparable with standards on the mainland. We submit, therefore, that the purpose of the Salary Reform Act of 1962 was to raise Federal salaries and definitely not to lower them.

In proposing to substitute the provisions of the Salary Reform Act of 1962 for existing cost-of-living allowances, the Civil Service Commission clearly proposes to substitute "convenience of the Government" for equity and fairness to its employees. It proposes to renounce its obligations and start out afresh—the critical war days are over. The employees have lived in their new homes for many years now, and may be assumed to be permanent residents. Why continue to honor commitments made in bygone days under conditions of national emergency when the chances are good that these employees will retain their positions even if their cost-of-living allowances are terminated? And so go the arguments of the Civil Service Commission in this regard.

Under the proposed legislation, these "sentimental" considerations would be substituted by a return to the cold workings of the marketplace, of supply and demand. In effect, present employees would be told that if they cannot maintain their present standard of living without their allowances, they are free to seek other employment elsewhere because the Government is no longer dependent upon their services.

On the other hand, if the supply does not meet the demand, the Government is prepared to raise its bid until enough "takers" come in to satisfy its needs. We question, gentlemen, whether this is either a moral or a prudent course to follow.

COST-OF-LIVING SURVEY TECHNIQUES

If it is argued that there is no moral or prudent alternative to continuation of the present system of cost-of-living allowances, then we would like to comment on the system by which cost of living is calculated. There are presently three House joint resolutions pending before the House. All of these deal with a situation relating to Puerto Rico and the Virgin Islands that is the product, we believe, of a faulty system.

First, it bears the earmarks of a conspiratorial system because its victims are not permitted to examine either its criteria or its statistical data; second, it was not based upon the same methodology that was used in the case of the other nonforeign areas and, in fact, appears to

have been altered from the previous survey; and third, there is persuasive evidence that the survey's results were erroneous.

This survey was conducted by the State Department. Surveys for Alaska and Hawaii were conducted by the Bureau of Labor Statistics. Why is it necessary or appropriate to use two different agencies, as was done in this instance? The Department of State conducts cost-of-living surveys in foreign countries where the Department of Labor does not operate. But Puerto Rico and the Virgin Islands are not foreign countries. Alaska, Hawaii, and Puerto Rico are 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.

But conditions affecting cost of living in the offshore areas are different from those in the United States. The offshore areas are hundreds of miles from the mainland. They sell their surplus to the mainland and purchase food and consumer goods from the mainland. Ocean freight between the offshore areas and the mainland is governed by coastwise shipping laws and freight rates are very high. There are no trains, no trucks, no tractor-trailers to keep transportation competitive and lower the costs to the consumers. The offshore areas depend largely upon the mainland for foodstuffs. In Puerto Rico, for instance, about one-half of its 3,500 square miles are not arable. With a population of $2\frac{1}{2}$ million, it cannot hope to feed and service itself economically.

There are many additional circumstances that create a different cost-of-living profile in the offshore areas than on the mainland, yet we believe that cost-of-living surveys in the offshore areas must be conducted by an agency with extensive experience and knowledge of mainland conditions. Since the offshore areas are definitely a part of the United States, economically, politically, and in every way except geographically, it is our view that all cost-of-living surveys should be conducted by the same agency.

We therefore support the pending House joint resolutions that seek reinstatement of the previous cost-of-living allowance in Puerto Rico and the Virgin Islands, 15 and 12.5 percent, respectively, until a cost-of-living survey can be conducted by the Bureau of Labor Statistics. We also urge that legislation be considered that would require uniform criteria for these surveys and would establish minimum conditions that would govern the manner and circumstances under which these criteria could be changed.

We are confident, Mr. Chairman, that the members of this committee will agree that elimination of the cost-of-living allowances would be unwise. We have seen no statistics from the Civil Service Commission on the number of offshore positions that must be filled by recruiting on the mainland, but we believe this is a substantial number. We also believe that this committee will agree that the U.S. Government cannot have a double salary standard in the same locality—one for the "natives" and one for those who are lured from the mainland by premium rates.

Mr. Chairman and members of the committee, thank you very much for giving us this opportunity to present the views of the United Federation of Postal Clerks. We know, as always, you will give thoughtful and objective consideration of our representations before this distinguished committee.

Mr. UDALL. Thank you, Mr. Nilan.

Your statement implies that if the cost-of-living allowance were eliminated and the Civil Service Commission undertook to use the 1962 act to fix higher salaries for positions in short supply one rate would be paid to a person coming to San Juan from Philadelphia while a Puerto Rican native filling an identical job would receive the regular rate without the premium under the 1962 act.

I did not understand the Commission either to advocate this or to indicate this is how they would operate under the 1962 act. Is this your understanding?

Mr. NILAN. Our understanding is, Mr. Chairman, this would happen under the provisions of the law or the legislation that is being proposed in H.R. 8390. We got the impression this could happen where they could not fill a particular type of position, that they would recruit from the mainland in order to fill it at a higher rate than perhaps they are paying the native Puerto Rican and on these other islands. This is our impression.

Mr. UDALL. I will check this out. An example of my reading the 1962 act that the Commission must designate that the position of radar specialist with the FAA, GS-7, is in short supply in Hawaii and therefore that all such positions there are hereby raised to the next grade or the next step.

I think you have a very valid objection if your interpretation of the law and their intention is correct. On the other hand, I did not get that impression. This is something which should be checked out. I agree that the result you indicate will be unfair. It will be unjust. You could not have a resident of the State of Hawaii working at a job while the person at the next desk doing an identical job was paid at a different rate. This would be postposterous.

These cost-of-living allowances were fixed many years ago. We have operated under them for 10 or 15 years. On each occasion when the Civil Service Commission has attempted to adjust the cost-of-living allowance, the employee organizations have protested. A great number of them have protested very vociferously again this year about the elimination of these cost-of-living allowances.

Is it the position of your organization that once having fixed a cost-of-living allowance for an area it must be continued forever?

Mr. NILAN. No, sir. That is not the position of the organization. We feel that basically, let me put it this way: We have two objections in the way this was handled. One, the fact that our unions and people in Puerto Rico and the Virgin Islands and I understand the other employee unions also were completely ignored in the consideration of the surveys that were made down there. We have this directly from our officers and our membership down there. We feel that is wrong.

Secondly, we feel that the two different methods of surveying, one by the State Department and one by the Bureau of Labor Statistics again points up an inconsistency in the basic approach. I would feel that we would have much more confidence in the validity for adjustment upward or down if it is done by the BLS and it could be assumed such adjustments would be applied fairly. We see in this some inadequacy in the way it is handled.

We would not for a moment suggest that there should not be some flexibility in cost-of-living adjustments. I would also like to suggest that we consider that it is not only a cost of living but the standard of living we are concerned with here. Certainly in these countries concerned we feel that Federal employees' standard of living should be somewhat commensurate with our people on the mainland. This is another point.

Mr. UDALL. Thank you very much, Mr. Nilan. You have been helpful to the subcommittee this morning.

Our next witness is Mr. Rademacher, vice president of the National Association of Letter Carriers.

We are pleased to have you back with us again, Jim. Proceed as you see fit.

**STATEMENT OF JAMES RADEMACHER, VICE PRESIDENT,
NATIONAL ASSOCIATION OF LETTER CARRIERS**

Mr. RADEMACHER. Mr. Chairman, I am just going to highlight the statement, with your permission.

At the outset, in behalf of our organization I want to commend you, Chairman Udall, for the tremendous efforts that you have put forth in the pay bill which now is heading toward the Rules Committee for floor action, we hope.

Mr. UDALL. I join you in those hopes. We shall see what occurs. I do not think anyone controls the Rules Committee in the process of the House. I appreciate your kind words, and we will see what we will see.

Since you are going to highlight your statement, without objection, it will appear in the record at this point.

(The statement follows:)

PREPARED STATEMENT OF JAMES H. RADEMACHER, VICE PRESIDENT,
NATIONAL ASSOCIATION OF LETTER CARRIERS

Mr. Chairman and members of the subcommittee, my name is James H. Rademacher, vice president of the National Association of Letter Carriers, with headquarters at 100 Indiana Avenue NW., Washington, D.C. We represent approximately 170,000 letter carriers in more than 6,000 branches located in all our States and territories, including Alaska, Hawaii, and Puerto Rico, the areas in which we are most interested today.

Before beginning my formal testimony I want to express my gratitude for being permitted to appear before you today. We, of the National Association of Letter Carriers, are deeply appreciative of the fairness and the courtesy which you, Mr. Chairman, and the other members of this subcommittee have always extended to us.

We are very much opposed to the proposed legislation to eliminate the cost-of-living differential from the pay of Federal and postal workers in noncontiguous domestic areas.

We feel that the perennial attempts by the Civil Service Commission to eliminate this differential have had a serious effect on the morale of postal workers in those areas and, if they prove to be successful, will have a disastrous effect upon the service.

We feel that the Civil Service Commission is acting unwisely and in direct opposition to the finest tradition of Federal employment in advocating the exploitation of "cheap labor" in these areas. The arguments that the distinguished Chairman of the Commission has brought forth in these hearings leave the impression that his advisers believe that practically anyone who is warm and moving can do postal work and so, the cheaper the Government can get a sufficient number of bodies into uniform, regardless of skills and capability, the better.

We have been fighting against this Neanderthal approach to Federal employment for years. We thought we had been successful in proving that the employment of cheap and inefficient help costs more money in the long run than does the employment of capable, decently rewarded help. It is somewhat disconcerting to find this false and obsolete argument showing its head again in serious discussions.

Also, Mr. Chairman and members of the committee, we feel that this attempt by the Civil Service Commission is in direct contravention of the sense and intention of the Congress as embodied in the Pay Reform Act of 1962. As you will remember, section 1006 of that act, as passed by the 87th Congress, had this to say:

"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 language seems perfectly clear, and the present proposed legislation seems to be a perfectly clear violation of this principle. If this bill (H.R. 8390) were to become law, its effect would be to reduce the salaries of Federal and postal employees—a step that has not been taken in this country since 1934 in the darkest days of the great depression.

Although I shall discuss the specific situation in each of the three areas in which we are interested, I would like to point out that postal employees in Alaska, Hawaii, and Puerto Rico do not distinguish between their base pay and their cost-of-living allowance. It is all compensation to them. They have scaled their lives to this wage structure. They are paying for their homes on this basis; they are planning the education of their children on this basis; they are buying automobiles and appliances on this basis. If their incomes were to be cut 15 percent they would have to make a serious downward adjustment in their standard of living—a condition that seems directly contrary to the philosophy of the Congress as expressed in legislation over the past 20 years.

Congress, Mr. Chairman, has been doing a splendid job of making the postal and Federal service more attractive to able and ambitious employees. You people have been performing a most constructive service in trying to achieve comparability with the salary structure in private industry. You have created incentives with step increases and longevity increases and similar measures. But, if this proposed legislation were to pass you would give the Federal and postal employees in the affected areas nothing to look forward to over the next 5 years except a gradual and inexorable diminishment of their incomes. I can think of few things more damaging to morale than this.

Before getting down to specifics, Mr. Chairman, I would like to question the source of the statistics upon which the suggestion for eliminating the cost-of-living allowance was based. The figures come from a State Department source, evidently, though we have never seen these figures, and I understand that very few other people have seen them. We are accustomed to rely upon the figures supplied by the Bureau of Labor Statistics. We have always found the Bureau fair and objective and reliable. Surely it would be more prudent to delay taking any drastic action until a reliable survey can be made by the acknowledged authority in this area of reference, the Bureau of Labor Statistics.

We are, of course, opposed to any reduction in these allowances, but we are especially opposed to a recommendation based upon figures developed by a source whose reliability is unknown to us, and upon processes of deduction which have not been revealed to us. These State Department figures, it seems to us, Mr. Chairman, are very much of a pig in a poke. Certainly, if the proposal to reduce these allowances is carried on further, the employees in Alaska, Hawaii, and Puerto Rico are entitled to have their cases judged by figures developed by a source which they trust and respect, and which the entire world knows to be the most reliable authority available. I don't think this is too much to ask.

I would like now, Mr. Chairman, if I may, to discuss the problem of cost-of-living allowances according to the various involved regions, beginning with Alaska.

ALASKA

There is no doubt that living in Alaska is a great deal more expensive than it is in the original 48 States.

In Anchorage the present complement of postal employees is 178. During the year 1964 there was a turnover of 98 employees, or more than 55 percent. During the first 6 months of 1965, the turnover was 59. If this rate persists, the turnover for the full year would reach 118, or about 67 percent.

The reason most employees give for leaving is that they can get more money elsewhere. If the cost-of-living allowance is eliminated, we can expect those turnover figures to leap accordingly.

Mr. Chairman, we all know you cannot run an efficient service with an annual turnover of 67 percent, or 55 percent, or even 50 percent. Stability, experience, and pride in the job are the elements which contribute most to an efficient service. If the turnover at Anchorage grows greater than it is, we shall have a chaotic situation in that post office.

We made a survey among some of our members asking them about the cost of living in Alaska. The replies have been interesting.

One of our members, James Randolph, tells us that he has just started mortgage payments on a new house in the least expensive development to be built in Alaska since statehood. His house has only 900 square feet; he paid \$23,000 for it and is paying \$172 a month on his 30-year loan. His electric bill for this modest two-bedroom house averages \$25 a month. Sewerage and water cost \$24 a month. He can afford only an eight-party telephone line, and this costs him \$7 a month. (It is fortunate Mr. Randolph doesn't have a teenage daughter to go with that eight-party line. This would be a combination that would set communications back to the smoke-signal level.)

Another one of our members, George Zeiger, tells us that the city taxes on his home in Anchorage have risen since 1961 from \$322 a year to \$514. The State income tax—which is levied on the cost-of-living allowance, incidentally—is an enormous 18 percent.

Our members also tell us that automobiles in Alaska cost about \$1,000 more than they do in other States and, I might add, letter carriers are expected to have a car available. Gasoline in Anchorage costs 49.9 cents a gallon and the hourly shop-rate for labor in auto repair shops is \$9 an hour.

John Webster, still another member, has four children ranging from 1 to 12 years. He rents a two-bedroom home in Anchorage, with a three-quarter finished basement. He pays all utilities and his total expense for this comes to \$471 a month, which is about 88 percent of his monthly take-home pay (including the cost-of-living allowance) of \$535. Mr. Webster is a substitute, working 6 days a week. He cannot even afford to become a regular letter carrier, but even so, if the cost-of-living allowance is reduced he would be forced to give up his home if he stayed on at the post office. Of course, he will leave and seek employment elsewhere. He has signed a statement to this effect, adding that he had no desire to abandon postal work.

All goods and services in Alaska are expensive. Living is expensive. The present allowance is not a generous one but our members tell us that it makes just enough difference to permit them to continue to work in the post office. If the allowance is removed, they shall have to leave the service.

HAWAII

I think, Mr. Chairman, that I could almost let the Hawaiian case rest on a statement made by F. H. Barclay, Jr., a counsel in the General Accounting Office, when he testified on this subject on July 19 last. Although he was officially supporting the elimination of the cost-of-living allowance, he admitted that the GAO is having some trouble transferring an office of 25 persons to Honolulu.

It should also be noticed that while the Federal Government is contemplating reducing its postal employees' pay by 15 percent in Hawaii, the Hawaiian State government is going all out to attract and retain first-class talent. A communication from the Hawaiian Government Employees' Association tells us that on January 1, 1966, all State employees will receive a 7½-percent pay increase, plus an amazing retirement program which will permit any employee with 35 years' service to retire at 55 years of age, with an annuity amounting to 70 percent of his salary. In addition, the State dental health program takes care, free of charge, of the children of all State employees up to the age of 19; and all retired State employees are entitled to free medical care.

The salaries of Hawaiian State employees have risen, since 1941, on an average, 445 percent.

Of course, building costs, automobile costs, gasoline costs, and food costs in Hawaii are considerably higher than they are on the mainland.

The average cost of a two-bedroom home among our members in Honolulu is \$26,375. The average cost of a three-bedroom home is \$32,500—and 77 per-

cent of our members are buying their own homes. Telephone bills, hospital bills, medicine, and grocery staples are all higher than they are on the mainland—except, of course, for those products which are home grown and home manufactured. But these latter are few in number.

It is going to be tough enough for the post office to compete with the State of Hawaii and private industry for competent and productive employees under existing conditions.

PUERTO RICO

The case for Puerto Rico is somewhat more subtle than that for Alaska and Hawaii, but it is nonetheless persuasive.

The salaries of our members in Puerto Rico have already received a severe slash because of the figures—those mysterious figures—developed by the Department of State. This has caused a serious disruption in the morale of the postal employees. A further cut, eliminating the cost-of-living allowance entirely would have a catastrophic effect on morale.

We have been trying diligently to improve the standard of living of the workingman in Puerto Rico, to close the gap between the affluent and the poor, to develop a solid middle class. The 5,000 Federal and postal workers have not only been filling this gap themselves, they have been making a significant contribution to its development through their modest, but steady, spending power. To reduce that spending power still more would be disruptive to the program of economic development which we have been working on for some while.

Besides, the postal employee (and, of course, the Federal employee) is a symbol of the U.S. Government in an area where the prestige of our Government is more than a little battered. After all, Puerto Rico is only about 90 miles from the Dominican Republic. It is in the area of the West Indies where Fidel Castro's influence is strongly felt. In the troubled waters of the Antilles it has stood as a bastion of democracy, a showcase for our own brand of government.

We like to feel that in this area our Puerto Rico letter carriers are indeed the domestic diplomats for democracy. They are respected by their fellow Puerto Ricans as representatives of the U.S. Government. They are looked up to.

When the U.S. Government cut their salaries by reducing the cost-of-living allowance these men suffered a loss in prestige and influence. Another such cut as the one proposed in this bill would cause irreparable damage to their prestige and influence.

The post office at San Juan, P.R., today is efficiently run. It has a stable work force. There are few turnover problems. The employees have been satisfied with their wages and their working conditions until now. Their loyalty and dedication alone should warrant immediate restitution of the compensation which has already been terminated. A turnover of employees in Puerto Rico will mean a deterioration in service and a decrease in efficiency. The decrease in efficiency in itself could cost the U.S. Government more in money than the present cost-of-living allowance is costing right now—and the cost in prestige would be beyond computation.

CONCLUSION

Mr. Chairman, and members of the committee, we feel that a reduction in the take-home pay of postal and Federal workers in these areas would definitely turn back the hands of the clock. After generations of suffering under blind and despotic postal administrations, the postal employees have at last begun to move forward into an area of approximate comparability with their fellow workers in private enterprise. We are grateful to you, Mr. Chairman, and to the members of this subcommittee for the enormous part you have played in this forward movement.

But, we feel, it would be unthinkable to take a retrogressive step by cutting the take-home pay of postal workers at this time of optimism and progress. It would certainly be a shock to every postal and Federal employee if this administration—which has done so much for us all—should also be the first administration in 30 years to cut the salaries of postal workers.

Once again, Mr. Chairman and members of the committee, I want to thank you for your courtesy and your interest in this matter. If there are any questions I shall be glad to try to answer them.

Mr. UDALL. You may proceed to highlight it in any way you wish.

Mr. RADEMACHER. Mr. Chairman, we feel that the perennial attempts by the Civil Service Commission to eliminate this differential

have had a serious effect on the morale of postal workers in those areas and, if they prove to be successful, will have a disastrous effect upon the service.

When I mention service, I am talking about the postal service.

We feel that the Civil Service Commission is acting unwisely and in direct opposition to the finest tradition of Federal employment in advocating the exploitations of cheap labor in these areas. The arguments that the distinguished Chairman of the Commission has brought forth in these hearings leave the impression that his advisers believe that practically anyone who is warm and moving can do postal work and so, the cheaper the Government can get a sufficient number of bodies into uniform, regardless of skills and capability, the better.

We have been fighting against this Neanderthal approach to Federal employment for years. We thought we had been successful in proving that the employment of cheap and inefficient help costs more money in the long run than does the employment of capable, decently rewarded help.

It is somewhat disconcerting to find this false and obsolete argument showing its head again in serious discussions. Although I shall discuss the specific situation in each of the three areas in which we are interested, I would like to point out that postal employees in Alaska, Hawaii, and Puerto Rico do not distinguish between their base pay and their cost-of-living allowance. It is all compensation to them. They have scaled their lives to this wage structure. They are paying for their homes on this basis; they are planning the education of their children on this basis. They are buying automobiles and appliances on this basis.

If their incomes were to be cut 15 percent, they would have to make a serious downward adjustment in their standard of living; a condition that seems directly contrary to the philosophy of the Congress as expressed in legislation over the past 20 years. Congress has been doing a splendid job of making the postal and Federal service more attractive to able and ambitious employees.

You people, Members of Congress, have been performing a most constructive service in trying to achieve comparability with the salary structure in private industry. You have created incentives with step increases and longevity increases and similar measures. But if this proposed legislation were to pass, you would give the Federal and postal employees in the affected areas nothing to look forward to over the next 5 years except a gradual and inexorable diminishment of their incomes.

I can think of few things more damaging to morale than this. I would like to discuss Alaska very briefly. There is no doubt that living in Alaska is a great deal more expensive than it is in the original 48 States.

In Anchorage, the present complement of postal employees is 178. I believe these following statistics are extremely important in this discussion: During the year 1964 of the 178 employees in Anchorage there was a turnover of 98 workers or more than 55 percent. During the first 6 months of this year the turnover was 59 workers. If this rate persists, the turnover for the full year would reach 118 or about 67 percent turnover.

The reason most employees give for leaving is that they can get more money elsewhere. If the cost-of-living allowance were to be eliminated, we can expect those turnover figures to leap accordingly.

We all know that you cannot run an efficient postal service with an annual turnover of 67 or 55 or even 50 percent. Stability, experience, and pride in the job are the elements which contribute most to an efficient service. If the turnover at Anchorage grows greater than it is, we shall have a chaotic situation in that post office. We have surveyed some of our members and just very briefly one of our members, James Randolph, tells us he has just started mortgage payments on a new home in the least expensive development to be built in Alaska since statehood.

His house has only 900 square feet. He paid \$23,000 for it and is paying \$172 monthly on a 30-year loan. His electric bill for this modest home averages \$25 monthly and then there are sewerage and water costs which are \$24 monthly. He can afford only an eight-party telephone line which costs \$7 monthly. It is fortunate Mr. Randolph does not have a teenage daughter to go with that eight-party line. This would be a combination that would set communications back to the smoke signal level.

Mr. UDALL. Or even a talkative wife.

Mr. RADEMACHER. Another one of our members, George Zeiger, tells us that the city taxes on his home in Anchorage have risen since 1961 from \$322 annually to \$514. The State income tax, which is levied on the cost-of-living allowance, incidentally, is an enormous 18 percent. Our members also tell us that automobiles in Alaska cost about \$1,000 more than they do in the States.

Letter carriers are expected to have a car available.

In Hawaii, Mr. Chairman, I could almost let the Hawaiian case rest on a statement made by Mr. F. H. Barclay, Jr., counsel of the GAO. Although he was officially supporting the termination of the cost-of-living allowance he admitted that the GAO is having some trouble transferring an office of some 25 persons to Honolulu. It should also be noted what while the Federal Government is contemplating reducing its postal employees' pay by 15 percent in Hawaii, the Hawaiian State government is going all out to attract and retain first-class talent.

A communication from the Hawaiian Government Employees Association tells us that on January 1, 1966, all State employees will receive a 7.5-percent pay increase plus an amazing retirement program which will permit any employee with 35 years of service to retire at 55 years of age, with an annuity of 70 percent of his salary.

In addition, the Hawaii State dental health program takes care, free of charge, of the children of all State employees up to the age of 19 as well as all retired State employees who are entitled to free medical care. Salaries of Hawaiian State employees have risen, since 1941, on the average of 445 percent.

In Puerto Rico, the case is somewhat more subtle than that for Alaska and Hawaii but it is nonetheless persuasive.

At this point I would like to state for the record that our organization solidly supports House Joint Resolution 569. Salaries of our members in Puerto Rico have already received a severe slash because of the figures—those mysterious figures—developed by the Department

of State. This has caused a serious disruption in the morale of postal employees. A further cut in eliminating the cost-of-living allowance entirely would have a catastrophic effect on morale. We have been trying diligently to improve the standard of living of the workingman in Puerto Rico, to close the gap between the affluent and the poor, to develop a solid middle class. The 5,000 Federal and postal workers have not only been filling this gap themselves but they have been making a significant contribution to its development through their modest but steady spending power. To reduce that spending power still more would be disruptive to the program of economic development which we have been working on for some while. Besides, the postal employee and Federal employee is a symbol of the U.S. Government in an area where the prestige of our Government is more than a little battered.

After all, Puerto Rico is only about 90 miles from the Dominican Republic. It is in the area of the West Indies where Fidel Castro's influence is strongly felt. In the troubled waters of the Antilles it has stood as a bastion of democracy, a showcase for our own brand of government. We like to feel that in this area our Puerto Rico letter carriers are indeed domestic diplomats for democracy. They are respected by their fellow Puerto Ricans as representatives of the U.S. Government. They are looked up to.

When the U.S. Government cut their salaries by reducing cost-of-living allowance, these men suffered a loss in prestige and in influence. Another such cut as the one proposed in this bill would cause an irreparable damage to their prestige and influence. The post office at San Juan, P.R., today is efficiently run. It has a stable work force. There are few turnover problems. The employees have been satisfied with their wages and their working conditions until now. Their loyalty and dedication alone should warrant immediate restitution of the compensation which has already been terminated. A turnover of employees in Puerto Rico will mean a deterioration in service and a decrease in efficiency. The decrease in efficiency itself could cost the United States more in money than the cost-of-living allowance is costing right now.

The cost in prestige would be beyond computation. Mr. Chairman, we feel that a reduction in the take-home pay of postal and Federal workers in all of these areas would definitely turn back the hands of the clock. After generations of suffering under blind and despotic postal administrations, the postal employees have at last begun to move forward into an area of approximate comparability with their fellow workers in private enterprise.

We are grateful, Mr. Chairman, to the members of this subcommittee for the enormous part you have played in this forward movement but we feel it would be unthinkable to take a retrogressive step by cutting the take-home pay of postal workers at this time of optimism and progress. It would certainly be a shock to every postal and Federal employee if this administration—which has done so much for all of us—should also be the first administration in 30 years to cut the salaries of postal workers.

Once again I want to thank you, Mr. Chairman, for your keen interest in this legislation and the fact that you are attempting to bring the matter to a head so that it may be resolved once and for all.

Mr. UDALL. Thank you, Mr. Rademacher.

I would like to compliment you on the high quality and persuasiveness of your statement. Your excellent presentation illustrates the very great advantage of employee organizations. Not only your fine organization, but all others who appeared here have come to the aid of relatively small groups of employees located in far distant places. I have a hunch if organizations like this did not exist that this legislation probably would have been passed long ago.

There is a need in this country for strong, honorable organizations of employees such as yours. I think you perform a real service, regardless of the outcome here, in representing these people in those far-off places. They certainly get their money's worth in being members of organizations such as yours. Thank you very much for your testimony.

Mr. RADEMACHER. Thank you very much, Mr. Udall.

Mr. UDALL. The Chair wants to announce we are running ahead of schedule. I have only two more witnesses this morning.

I am supposed to be at the White House in 5 minutes for a ceremony. The gentleman from New Jersey, Mr. Krebs, will be along shortly. I would cancel the White House engagement if it were needed to complete the business this morning, but I am sure that we can adequately finish by 12. I am going to stand in recess until Mr. Krebs arrives. He will conduct the hearings, and I shall undoubtedly be back before we finish. We can take up again in the next 10 or 15 minutes.

(Short recess taken.)

Mr. KREBS (acting chairman). The subcommittee will come to order. We will resume hearings on H.R. 8390.

The next witness is Mr. John J. Murphy, president of the National Customs Service Association. We are glad to have you appear before the committee this morning, Mr. Murphy. You may proceed with your statement.

STATEMENT OF JOHN J. MURPHY, PRESIDENT, NATIONAL CUSTOMS SERVICE ASSOCIATION

Mr. MURPHY. Thank you, Mr. Chairman. 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. 8390.

Our organization opposes H.R. 8390 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. 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. 8390 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, it 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 net loss in pay 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 specialties.

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 cost-of-living allowance 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. We are 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, or for other reasons?

Would it not be more logical, we ask, to gather the facts first, 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 cost-of-living allowances, 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 cost-of-living allowances, taking into consideration the fact that cost-of-living allowances are 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. 8390. 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 average close to \$300 per month.

All necessities of life, such as clothing, food, drugs, automobiles, radios, television, spare parts, tires, gasoline, and so forth, have to be transported from the mainland by rail and shipped 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 cost-of-living allowances 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. 8390, and we join the Cost-Of-Living Allowances Defense Committee of Puerto Rico in their statement in opposition to the bill.

We wish to express our complete support of House Joint Resolution 569, introduced by the Honorable Santiago Polanco-Abreu, Resident Commissioner of Puerto Rico, and similar resolutions introduced by Representative Gilbert (H.J. Res. 568) and Representative Ryan (H.J. Res. 569). As we understand these resolutions, they provide that before any reduction in the cost-of-living allowance is made, cost-of-living surveys be made by the Bureau of Labor Statistics.

The Commonwealth of Puerto Rico, which is in the middle of a unique social change, would be adversely affected by the elimination of the cost-of-living allowance. 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 committee 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 in regard to this. It would be useful, we believe, if this committee could make an on-the-site inspection.

The Virgin Islands would be particularly hard hit by the elimination of cost-of-living allowance. The Virgin Islands are primarily a vacation area and the abode of many persons of wealth. The Federal employees in the Virgin Islands must pay prices for staple commodities that are considerably higher in most instances than in nearby San

Juan, P.R., 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 cost-of-living allowance. 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. 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. This includes the cost of food, housing, clothes, furniture, automobile insurance, automobiles, et cetera. Our membership in the Virgin Islands joins with their fellows in Alaska, Hawaii, and Puerto Rico in voicing their strong opposition to H.R. 8390, and in support of House Joint Resolution 569.

The summary of our position is as follows:

(1) It is our view that stripped of all other considerations H.R. 8390 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 committee consider a different method of gathering cost-of-living statistics and suggest that an on-the-site inspection by the committee could be useful in determining the actual conditions.

(4) We believe that testimony presented to this committee 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 the cost-of-living allowance 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 committee for your courtesy and consideration. In the interest of fairness, we respectfully urge that the members of the committee take into consideration the views of the National Customs Service Association on the legislation before them.

Thank you.

MR. KREBS. Thank you, Mr. Murphy, for your excellent statement. You have covered the subject very well. I do not believe I have any questions.

The next witness is Mr. John G. Brady, legislative chairman of the National Association of Internal Revenue Employees. You may proceed, Mr. Brady.

STATEMENT OF JOHN G. BRADY, CHAIRMAN, NATIONAL ASSOCIATION OF INTERNAL REVENUE EMPLOYEES; ACCOMPANIED BY GEORGE BURSACH, EXECUTIVE SECRETARY-TREASURER

Mr. BRADY. Mr. Chairman and members of the committee, I appreciate this opportunity to appear today and submit to you our association's ideas and comments on H.R. 8390.

I received the following information from our chapters in Alaska and Hawaii dated August 6, 1965, and I quote:

NATIONAL ASSOCIATION OF INTERNAL REVENUE EMPLOYEES,
CHAPTER 69,
Anchorage, Alaska, August 6, 1965.

Re cost of living, Alaska.

Mr. JOHN G. BRADY,
Chairman, NAIRE National Committee on Legislation,
Richmond, Va.

DEAR Mr. BRADY: In reply to your letter of July 21, 1965, requesting details regarding our objection to H.R. 8390, all that can be said has already been said. Representative Rivers has stated these objections eloquently and with depth from the standpoint of both employee and employer. His statement before the Committee on Post Office and Civil Service of the House of Representatives in opposition to H.R. 7401 on February 27, 1964, is as true today as it was then, and expresses our position perfectly.

We are opposed to H.R. 8390. Present standards of living for Government employees in Alaska are now substandard as compared to those enjoyed by Government employees of comparable grade in any State in the south 48.

Employees whose skills are in demand cannot be retained at present pay levels, turnover of skilled employees exceeds 100 percent per year.

Cost comparisons used are not a reliable index as they are based on cost per unit. For example, the figures do not reflect the large total cost of fuel needed to heat a house in Alaska during the long winter as opposed to the average requirements in the south 48.

Over the last 3 years the constant ill-conceived and vaguely worded parade of proposals to eliminate the cost of living have amounted to harassment of Government employees in Alaska and have had a severe demoralizing effect. This alone has been a major factor in the high turnover and detrimental to long-range planning and efficient operations.

While each of the proposed programs both past and present have stated their purpose to be the removal of inequities, their net effect is an economic subterfuge not in accord with the integrity expected of an employer.

Sincerely,

DICK KRUSE,
President, NAIRE Chapter No. 69.

NATIONAL ASSOCIATION OF INTERNAL REVENUE EMPLOYEES,
UNIT No. 5,
Honolulu, Hawaii, August 6, 1965.

Re cost-of-living allowances—H.R. 8390, Hawaii.

Mr. JOHN G. BRADY,
Chairman, NAIRE National Committee on Legislation,
Richmond, Va.

DEAR JOHN: My apologies for not having some information for you sooner. Trying to secure updated cost-of-living information in Hawaii is extremely difficult.

I did secure some figures from the Bureau of Labor Statistics which indicate that the local trend of prices is still rising. Using December 1963 as the base figure, 100:

	September 1964	June 1965
Retail food index.....	100.8	103.7
Consumer Price Index.....	100.5	101.7

(The Civil Service Commission release, in May 1964, stated that their survey in "the fall of 1964" showed that the cost of living in Hawaii was 115.8 of that in Washington, D.C.)

Since July 1, 1965, we have started feeling the effects of new State and county tax increases. Our use tax and consumption tax (sales), which exempt practically nothing, rose from 3½ to 4 percent. At the old rate, our IRS guideline permitted a deduction of 2 percent of one's gross income up to \$15,000 in lieu of an itemized record.

Oahu county assessments on real property and improvements will result in an average increase of 23 percent. Most Federal workers in Hawaii live here on Oahu. Although most of us do not own the land on which our homes are located, by lease terms we must pay the taxes.

Excise taxes have risen. An additional 4 cents tax went on cigarettes, and the tax on alcoholic beverages increased from 16 to 20 percent of the wholesale price.

Next January our State income tax goes up sharply. Using Mr. John Macy's figures from the July 19 release, which showed that cost-of-living allowances here is about \$12 million for about 11,000 employees, it would appear that our average gross is around \$8,364. A hypothetical employee, making that sum and having a wife and two children, will if he uses the standard deduction, see his tax rise from \$230.18 to \$300.88.

Although no authoritative study has been made, some experts estimate that the new taxes will raise our cost of living between 4 and 6 percent.

Mr. Macy noted that the cost-of-living allowance came into being with World War II when the need for employees became acute in Hawaii. He states that this is no longer true—that labor needs can be met locally.

Mr. Macy's statement is a generalization and is not entirely true. Hawaii does have plenty of unskilled labor, a supply of some semiskilled labor, a supply of clerks and office workers, but it does not have a supply of engineers, scientists, and the various specialists who man the various Government headquarters out here in the Pacific. Many vacancies are still being filled by mainland hiring.

Mr. Macy may be able to see into the future far enough to be sure that the escalation of the war in Vietnam won't require more hiring out here. However, this does not seem to be the propitious time to discourage employees from coming to Hawaii.

John, your efforts in our behalf have been appreciated.

Aloha,

BYRON H. DAVIS,

Chairman, Cost-of-Living Allowances Committee, Chapter 35.

CONCLUSION

Mr. BRADY. Our association of over 27,000 members is opposed to the elimination of the cost-of-living allowances for statutory-salaried civilian employees in nonforeign areas.

Mr. Bursach and I thank you very much for your interest and we appreciate the opportunity of appearing before your committee.

Mr. KREBS. Thank you, Mr. Brady. As always, you have made an excellent presentation.

Our next witness is Mr. Michael J. Cullen, president of the National Association of Special Delivery Messengers.

STATEMENT OF MICHAEL J. CULLEN, PRESIDENT, NATIONAL ASSOCIATION OF SPECIAL DELIVERY MESSENGERS, AFL-CIO

MR. CULLEN. Mr. Chairman and members of the subcommittee, my name is Michael J. Cullen. I am president of the National Association of Special Delivery Messengers. We have national exclusive recognition for our craft under Executive Order 10988.

We would like to voice our objections to the provisions of H.R. 8390, and would like to express our support of House Joint Resolution 568 by Congressman Gilbert, House Joint Resolution 569 by Resident Commissioner Polanco-Abreu, and House Joint Resolution 573 by Congressman Ryan. The reasons for our objection to H.R. 8390 are several:

1. The comparison of cost-of-living figures between Puerto Rico and the Virgin Islands and Washington, D.C., which has been the basis for this proposal, was made on statistics furnished by two different sources. The figures on the former were supplied by a State Department survey; those on the latter were furnished by the Bureau of Labor Statistics. Moreover, there is no indication that the State Department's inquiry considered the same factors as did the Bureau of Labor Index. This seems like comparing an apple to an orange.

2. The Civil Service Commission in espousing the aims of H.R. 8390 speaks of comparability. Apparently, the idea is to put the Federal and postal employees in Puerto Rico and the Virgin Islands on the same salary scale as the employees on the mainland. On the basis of the Commission's figures for 1964, the employees in these areas were 5 percent behind Washington, D.C. Recommending an elimination of the cost-of-living allowances even over a 6-year period is reminiscent of the Commission's testimony on comparability a few weeks ago. On this occasion a 3-percent across-the-board increase was recommended with a 6-month-hence effective date, while admitting that this figure was lower than the BLS figure for 15 months earlier. In short, the Commission's recommendation for comparability had a 21-month timelag. We do not believe that this kind of comparability is what Congress had in mind when it passed the Salary Reform Act of 1962.

3. There seems to be no doubt that at one time these cost-of-living allowances were justified. We feel that because of the fact that many of the products which are used by the people in this area have to be imported there is a definite need for this allowance. Even if this were not so we would have strenuous objection to the withdrawal of this benefit which was extended to Federal and postal workers in 1948 to compensate them for leaving the mainland to go to work in these nonforeign areas when it was difficult to secure an adequate work force. We feel that such action is unconscionable. We oppose the proposition to include the cost-of-living allowances in Alaska as part of the basic salary because this will deprive the Federal employees in Alaska of the full advantage of such an allowance. Since the Bureau of Labor Statistics figures indicate that 25 percent is inadequate in Alaska, consideration should be given to increasing this allowance. We also are in favor of maintaining the cost-of-living allowances for Hawaii. In conclusion, we ask that this subcommittee not only report H.R. 8390

unfavorably but that the cuts in cost-of-living allowances which were instituted on July 1, 1965, by the Civil Service Commission be rescinded pending a realistic cost-of-living study in these areas as provided in House Joint Resolutions 568, 569, and 573.

Mr. Chairman and members of the committee, we appreciate the opportunity to appear before you to present the views of our membership on this subject.

Mr. KREBS. Thank you, Mr. Cullen.

If there are no questions, the subcommittee will stand adjourned until 10 a.m., tomorrow morning.

(Thereupon, at 11:55 a.m., on Wednesday, August 11, 1965, the subcommittee adjourned until Thursday, August 12, 1965, at 10 a.m.)

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COST-OF-LIVING ALLOWANCES IN NONFOREIGN AREAS

THURSDAY, AUGUST 12, 1965

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

The subcommittee met, pursuant to recess, at 10 a.m., in room 219, Cannon House Office Building, Hon. Morris K. Udall (chairman of the subcommittee) presiding.

Mr. UDALL. The subcommittee will come to order. We are meeting this morning for the further consideration of the bill, H.R. 8390, and a number of other resolutions relating to the statutory cost-of-living allowances applicable to the States of Hawaii and Alaska and to Puerto Rico and the Virgin Islands.

Our first witness this morning will be one of the most popular Members of the House of Representatives, the very able and delightful lady from Hawaii, Mrs. Mink.

STATEMENT OF HON. PATSY T. MINK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF HAWAII

Mrs. MINK. Mr. Chairman and members of the Subcommittee on Compensation of the Post Office and Civil Service Committee, I wish first to thank you for this opportunity to appear before you in opposition to H.R. 8390, a bill to terminate cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas and for other purposes.

As a Representative from the State of Hawaii, I am vitally concerned with the maintenance of the cost-of-living allowance presently granted Federal employees living in Hawaii, Alaska, Puerto Rico, and the Virgin Islands.

The bill before you is substantially the same as H.R. 7401 of the 88th Congress, 2d session, with the added proviso that a proposal to remove cost-of-living allowances gradually has been made a part of the proposed legislation.

At the time of your hearings on H.R. 7401, a number of able witnesses appeared in opposition to the measure, and the bill was not approved by your subcommittee. Now, the proposal is before you again and I have come before you to stress that it would have serious repercussions on the economy of Hawaii, besides being unfair to the Federal employees who have entered and remained in Government

service on the basis that they could count on this portion of their compensation.

The arguments supporting the retention of cost-of-living allowances have been discussed in one form or another many times before. They are good arguments, however, and bear repeating here.

First, there is no serious contradiction to the fact that the cost of living in Hawaii is in reality higher than that of the mainland United States. The current 15-percent cost-of-living allowance being paid in Hawaii is in line with Bureau of Labor Statistics surveys.

In the hearings held on February 27 of last year, you heard a number of distinguished witnesses testify that from June 1953 to June 1963 the Consumer Price Index in Honolulu rose about 26 percent. During this same period, the Consumer Price Index rose about 14 percent on the mainland. And, from December 1963 to December 1964, according to Department of Labor statistics, the Consumer Price Index rose about 1.1 percent both in Honolulu and on the mainland.

These facts alone would be enough to justify the continuation of cost-of-living allowances, as the conditions which called for its establishment have grown worse over the passing years. The fact remains, and every economic barometer indicates that it will continue to do so in the future, that it costs the average Hawaiian consumer more for the same automobile, the same house, and the same piece of furniture than it does his mainland counterpart.

Now, I certainly recognize that similar gaps in the cost of living also occur in the mainland United States. But the point is that Hawaii's geographic location offers more special and serious problems. The key word here is mobility.

It is a good deal easier and less expensive to move about on the mainland than it is to move goods to Hawaii. This is a built-in additional cost which is rigid, and is a primary reason why the cost of living will continue to be higher on Hawaii and why cost-of-living allowances must be continued.

Because of those 2,500 miles of ocean water separating the mainland from Hawaii, the cost-of-living allowance payments take on a double importance. Not only do they help to insure an equal purchasing power for this Hawaiian consumer, but they also serve to attract and retain the highly skilled technician. Without cost-of-living allowances, I am convinced that a serious shortage of skilled labor in Government employment would be a chronic problem in Hawaii; and, I might add, the cancellation of these payments would encourage the skilled workers now employed to look for other areas of employment.

I am not alone in these views. You have heard from F. H. Barclay, Jr., Assistant General Counsel of the U.S. General Accounting Office, that his own agency feels that it would have difficulty staffing its operations in Hawaii if cost-of-living allowances were eliminated.

The concern that he voices is even more pertinent when we consider that our military commanders have voiced their concern with this problem. They feel that the elimination of cost-of-living allowances will cause a serious shortage of the highly trained personnel required to operate some of the Nation's most important defense installations.

We can ill afford to jeopardize the employment stature of the Federal Government in Hawaii by eliminating this cost-of-living allowance. I don't think it is necessary to remind you that it is bad economy

to lose even one highly trained technician in the labor force, and I am firmly convinced that Hawaii is dependent on cost-of-living allowances for the recruitment of the necessary skilled labor required to operate the sophisticated defense hardware in the islands.

Gentlemen, it would be easy for me to restate in great detail and at great length the statistical data that show Hawaii's high cost of living. Rather than do that, however, it would be more profitable, I believe, to turn to the basic assumptions under which this bill has come before you.

It is stated that the purpose of the bill is to equalize the treatment, in salary matters, of Government employees in Hawaii, Alaska, Puerto Rico, and the Virgin Islands with those in the mainland. That is to say, the stated purpose is to impose the "pay comparability principle," or equal pay for equal work as called for under the terms of the Salary Reform Act.

Indeed, Mr. Macy has stated in his last appearance before you that:

We advocate legislation to terminate these allowances because they are inconsistent with Federal pay principles.

With all due respect, I must submit that the payment of cost-of-living allowances, at least in Hawaii, is fully in accord with both the spirit and the letter of the law.

In the spirit of equal pay for equal work, we are talking, I believe, about the amount of dollars needed to give the Federal worker in Hawaii the same standard of living as his counterpart in Washington, D.C.

The letter of the law also can apply most cogently in this regard. Section 1006 of the Salary Reform Act 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.

The intent of this section is amplified by the following explanation of the conference report on the bill submitted to the House on October 4, 1962:

Section 1006 provides, in effect, that no provision of the conference substitute shall operate to reduce any rate of salary, pay, or compensation of any officer or employee covered by the conference substitute.

It clearly can be interpreted that when this section of the law uses the words "gross or total annual compensation" they include the supplementary compensation provided by cost-of-living allowances. When the law provides in section 502 that "Federal salary rates shall be comparable with private enterprise rates for the same levels of work," the language relates of course to basic rates of compensation and may not properly be applied to such supplements as cost-of-living allowances.

Furthermore, the two methods of insuring adequacy of compensation—cost-of-living allowances and requirement that salaries be comparable with private enterprise rates—are not interchangeable. The allowances, as has been stated, insure the maintenance of living standards with those in Washington, which is not necessarily achieved by dollar comparability with salaries paid by private employers in Hawaii.

The Civil Service Commission has attempted to meet objections to this proposal by including within it a 6-year phasing out of cost-of-living allowances presumably on the assumption that these reductions will be compensated for by annual salary increments or by an equalization in the cost of living in Hawaii and Washington, D.C.

As for the latter, let me emphasize that there is absolutely no indication that the cost of living in Hawaii will be lowered to that of Washington, D.C., in the foreseeable future.

By attempting to provide that the phaseout be absorbed by annual increments or pay raises you would actually be penalizing the 11,000 Federal employees in Hawaii who receive cost-of-living allowances to the amount of at least \$12 million, according to Mr. Macy's own figures.

Since these workers now receive \$12 million in cost-of-living allowances, they would in effect be giving up that much in annual gross compensation over the period of the phaseout, while Government workers in the mainland United States will be receiving salary increments on top of their present compensation.

Indeed, the workers in Hawaii and elsewhere who now receive cost-of-living allowances actually would be losing spendable income.

Cost-of-living allowances are not subject to Federal income taxation, while their salaries are. At the \$12 million figure, and using a 10-percent taxation rate, Hawaii's 11,000 Government employees would be poorer in take-home pay by \$1,200,000 by the time their cost-of-living allowances has been matched by basic salary.

This would hardly accord either with section 1006 of the Salary Reform Act or its purpose of equal pay for equal work. It is no wonder, then, that the employees that would be affected by this measure are shaken in morale.

They have made their economic plans and have projected their futures on the basis of one standard of compensation only to find that they are threatened with loss of part of it and the substitution of another that will cost them dearly in funds and in their standard of living.

Let me also note, in passing, that there is precedent in the actions of this very committee for continuation of cost-of-living allowances.

On July 12, the House passed and sent to the Senate H.R. 2035, which provides automatic cost-of-living adjustments in the prices of personally operated star route contracts. This was done to bring them into line with existing law that allows the Postmaster General to adjust contract prices on that part of the contract price determined to represent wages for the contractor. The bill had previously been approved by the Post Office and Civil Service Committee.

Surely, the walking postman in downtown Honolulu or in the rural post offices of Hawaii is just as worthy of his hire as the star route contractor. And this same principle is just as applicable to other Government workers there.

I would like to turn now to another vitally important factor bearing on the subject. It is this: The State of Hawaii is a small one, and relies heavily on personal income in the form of salaries and wages for its economic vigor. The loss of \$12 million in income would have a heavy impact on Hawaii's economy, affecting activities far removed from those of the Federal Government itself.

Economists know that when an increased amount of money is available for spendable income there results a multiplier-accelerator effect that can generate economic investment by a factor of two or three.

Simply put, more spendable income creates more buying power, which in turn creates more jobs, and so forth. We have just had a magnificent practical proof of this theory in the impetus given our national economy by the recent Federal income tax cut.

But economists also recognize the reverse is possible. When spendable income is removed from an economy, the result often is a negative investment factor. So we are not talking about the loss of \$12 million. We are talking about a depressant to Hawaii's economy of twice or three times that.

In the light of economic evidence, such action—the abolition of cost-of-living allowance—would be a violation of sound economic theory by the Federal Government. Even more, it would serve to depress wage standards in the area, a social policy which goes entirely counter to the social theory we have so magnificently upheld in such legislation this year as the Elementary and Secondary School Act, the Manpower Development Act of 1965, the military pay raise bill, and other legislation.

I believe most strongly that the Federal Government should not be a party to actions that might reverse rising trends in the standards of living for any of its residents, or to depressing wage levels that have provided more and more people with a better life. It is one thing to base salaries on prevailing wages as a matter of equity and to match salaries being paid by other employers. It is quite another thing to reduce Federal compensation when by so doing you reduce the standard of living below that which has been established as fair and equitable.

In that regard, I would like to conclude by reaffirming my support of House Joint Resolution 569, introduced by the Resident Commissioner from Puerto Rico, Mr. Polanco-Abreu.

Many questions have been raised regarding the cost-of-living survey under which cost-of-living allowance in Puerto Rico was reduced from 12½ percent to 5 percent.

These questions regarding survey technique and the information collected can be answered satisfactorily only by having the principal Government agency making price surveys—the Bureau of Labor Statistics—appraise the situation.

Discrepancies between the findings of the State Department survey team and the statements on the cost of living in Puerto Rico as made by persons knowledgeable about the Puerto Rican economy are such that I urge speedy action by your subcommittee and parent committee on the joint resolution.

MR. UDALL. I understand you wish to make some further comments, and we are happy to hear them.

MRS. MINK. Thank you, Mr. Chairman, for this opportunity to appear before this committee.

We, of course, in Hawaii, are very much interested in the fate of this bill, and I am here this morning asking this committee to oppose it, and I think I do this on sound principle. Basically, I am speaking for some 11,000 Federal employees in my State, and when we consider that a normal family is two or three or perhaps four additional mem-

bers, I am speaking here for a significant number of persons who will be affected in my State were this bill to pass.

I think all of us are cognizant of the tremendous economic impact that \$12 million would be on a small State such as ours if it were to be removed from the economy, and this is one of the points I raise in my statement that I presented to this committee. Families have relied upon this as part of their income. They have incurred expenses in the course of their years of service with the Federal Government relying on this income. We feel not only has the cost-of-living allowance been justified by the high cost of living in my State, but for the reason that this has become part of the practice of securing employees in my jurisdiction.

We feel that the large number of Defense and Federal installations that are located in my State would be severely jeopardized if this bill were to pass and the employees could no longer rely upon the additional cost-of-living allowance which has been allowed them in the past. I am also here to speak on behalf of House Joint Resolution 569, which has been introduced by Mr. Polanco-Abreu urging that this resolution be adopted to give the residents of Puerto Rico an opportunity to have a resurvey of their cost-of-living situation there and to make a report to this subcommittee. Both the opposition of H.R. 8390 as well as the passage of House Joint Resolution 569, we believe to be consistent with the overall policies of this Government.

Thank you very much, Mr. Chairman.

Mr. UDALL. Thank you, Mrs. Mink. I know from my experience with you that you are a member who is diligent and one who does her homework. If we had the time, I would like to go into a rather extensive discussion of the problem with you. I know we have discussed it informally. I understand you have important business with votes coming up in your committee this morning, so I hope you will not feel it is any indication of a lack of interest on my part that I do not detain you here with further colloquy and questions.

Mrs. MINK. I appreciate your courtesy, Mr. Chairman. Thank you very much.

Mr. UDALL. Thank you.

The next witness is a Member of Congress from Alaska, the very distinguished Congressman Ralph Rivers.

We are happy to have you with us here this morning, and we are happy to hear any wisdom or enlightenment you can provide for the subcommittee.

STATEMENT OF HON. RALPH RIVERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALASKA

Mr. RIVERS. Mr. Chairman, I appreciate very much this opportunity to testify today on H.R. 8390.

It is my purpose to show that this proposal of the Civil Service Commission to terminate cost-of-living allowances now paid to Federal classified employees in nonforeign, noncontiguous areas under the American flag should not be enacted.

Before I consider the Civil Service Commission proposal as it would affect Alaska specifically, I want to consider it in its entirety. In this frame of reference, the bill, if enacted, would be bad legislation

because it is based on faulty premises, and because it would produce consequences that none of us want.

One premise upon which the bill is based, judging by the testimony of the chairman of the Civil Service Commission, is that Alaska, Hawaii, Puerto Rico, and the Virgin Islands should be brought into conformance with the 48 contiguous States. This is of no validity because the areas which would be affected by this bill are in fact, non-contiguous, or overseas, if you wish to use that expression, and as a consequence they do present different conditions and recruitment difficulties, and there can be no complete uniformity anyway so long as our Government continues to pay allowances and differentials now paid to Federal employees in foreign areas.

It seems to me that the geographic distance existing between these four areas and the 48 contiguous States, is in itself, adequate reason to think them different, particularly with reference to Alaska with its extremely high cost of living and long, cold winters.

The second premise underlying the bill is apparently that since people can presumably be hired without paying a cost-of-living allowance, the allowance ought to be ended. In other words, if people can be hired more cheaply, they ought to be hired more cheaply. This, in my view, is an unsound concept upon which to build a pay system or, more broadly, upon which to build a career service of efficient and able civil servants. It is also an unworthy philosophy for our Government to pursue.

The U.S. Government does not seek to hire as cheaply as it can those persons who will serve at foreign posts, and it should not seek to hire as cheaply as it can in any other place.

A second objection I have to the entire bill is that it would produce consequences that none of us want.

If H.R. 8390 were enacted, there would be widespread dissatisfaction among the civil servants affected. The Civil Service Commission agrees that this would be a consequence—explaining that no employee likes to have his pay cut—but the Commission suggests that this is only to be expected and indicates that it is a matter of little importance. I disagree. It is a matter of real importance, as manifested by this stack of letters from Federal employees who are my constituents, and who are opposed to this bill. They believe it is a matter of real importance.

They also believe that, if the Commission's proposal is to be seriously considered, hearings ought to be held in Alaska.

If we look to the likely effect of dissatisfaction, it becomes plain that it is a matter of real importance. The likely effect would be the movement away from the nonforeign, noncontiguous areas by our present classified employees, especially those in Alaska. Some might leave in anger—not having been told upon their recruitment that the cost-of-living allowance was to be temporary, and they'll correctly conclude that they've been unfairly treated. Others will leave because the monthly commitments they have made on purchases of homes and cars and in other credit transactions were based upon contemplation of a tax free allowance that is no longer paid. And others will leave because they simply cannot afford to stay.

In Alaska we have been fortunate in attracting and keeping the highest caliber of Federal classified employees under the system in

effect under law for 17 years. We don't want to lose them. And if we must lose them, we don't want them replaced by any who are less able. The Federal Government has succeeded, under the present system, in adequately staffing its multiplicity of departments and agencies operating in Alaska with competent, dedicated and loyal people of high morale. Let us not take action now which will seriously shake if not shatter this Federal establishment in Alaska, and cause our agencies in Alaska more headaches than they can count. A solution to what was a difficult recruitment problem has been found. We have a winning combination. Let's not change it.

Although I believe these to be adequate reasons to reject the bill, I want now to comment on two problems of this proposal of the Civil Service Commission as it relates specifically to Alaska.

The first of these problems is that associated with the principle of comparability—the principle that the Commission says should be the basis of the higher salary schedule that would replace the cost-of-living allowance if H.R. 8390 were enacted. Though I agree with the principle of comparability in establishing governmental pay systems, that principle cannot be effectively applied in Alaska. There are two reasons for this:

(1) Since the population of Alaska is small, there are many Government positions that have no counterpart in private industry that might be used for comparison. In the 1963 survey conducted by the Bureau of Labor Statistics, private industry counterpart salaries to three classification act grades were left blank in a chart of salaries with the footnote that there was "insufficient data to warrant presentation of an average."

(2) Since the higher salary schedule that would be proposed by the Commission would be based upon an average of salary differentials between all grades found in private industry counterpart positions, comparability in salaries would be at best only a very rough approximation of true salary differences.

Let me explain. By the 1963 survey, the private enterprise counterpart to a classified grade 1 earned 39 percent more in Alaska than he earned in the contiguous 48 States; the private enterprise counterpart to a classified grade 11 earned 14 percent more in Alaska than he earned in the contiguous States. These specific salary differences would not be applied to these specific classified grades in Government under the Commission proposal. Instead, an average would be struck that would take into account all of the grades and the differences.

One final observation on this matter—since the population of Alaska is small, and the smallness of any sample reduces its reliability, I think the present system is more nearly based upon the comparability principle than what is proposed. What we have, of course, is a nationwide comparison of salaries between private industry and Government that is used as the basis of the salaries in Alaska and elsewhere. Then the cost-of-living allowance is added to this salary schedule—a schedule that is basically sound.

The second problem that I want to comment on specifically as it relates to Alaska is one I touched upon earlier—the reduction of take-home pay that the Civil Service Commission desires to effect for all Federal classified employees in Alaska and the other nonforeign areas. In my earlier remarks I offered several reasons why such reduction

should not be brought about. Now I want to elaborate on one of them—that the cost of living is so high in Alaska that Federal employees will not be able to afford to stay in Alaska as Federal employees if their take-home pay is reduced. They will leave Federal employment for private jobs, or they will leave Alaska.

At this point, Mr. Chairman, I request that these letters from Federal employees in Alaska—all in opposition to this proposal, with emphasis upon the cost of living aspect—be made a part of the record at the conclusion of my statement.

I have selected some of these letters for the record, there being a large additional number of letters, which are duplicatory in effect and which I submit for the file.

Mr. UDALL. Without objection, we will review the letters that you feel are particularly important. If they meet the committee requirements, they will be included in the printed record and the others will be in the file.

(The letters referred to were retained in the committee files.)

Mr. RIVERS. While I am on the subject of cost of living in Alaska, I would like to interpolate at this point material I am about to mention and which is not referred to in my statement. We have two sheets of advertising from Sears-Roebuck. One of them applies to Sears' offerings in the District of Columbia, and the other is an ad pertaining to identical merchandise, released in Alaska, as a fill-in on one of the Alaska newspaper distributions. By comparing these two ads you can graphically see the difference in price. Here is one which applies to a certain chair, \$109.77 and it says, "Save money at these bargains." This was published in Alaska. In this other publication we see \$89.77 for the same object in Washington, D.C. I thought I would hand these over for the committee to look at and then put in the file.

Mr. UDALL. We would like to have them very much.

Mr. RIVERS. These two newspaper-sized folders are replete with many items but I have just mentioned this particular item as an example.

Mr. UDALL. When I was in the service, they used to complain about discrimination against servicemen in restaurants. There was something that was known as the servicemen's menu in which the prices were twice as high.

Mr. RIVERS. This is the Alaska menu on prices for furniture in this instance. This is a good example of the fact that the extraordinarily high cost of living in Alaska has long been a serious factor in regard to Federal staffing in Alaska up to 17 years ago. The existing 25-percent cost-of-living allowance, which is free from Federal income taxation, and which was put into effect 17 years ago, actually did solve that recruitment problem. We will show a little later that the actual differential is around 40 percent instead of 25, but that the tax factor makes the 25-percent cost-of-living allowance about equivalent to what would be 40 if taxed, or 50 if taxed. Thus the Federal employees in Alaska have contented themselves with the 25-percent cost-of-living allowance although the figure runs up to 40 and 50 percent higher than Washington, D.C., because the exemption from Federal taxation largely makes up the difference.

We have had a very good Federal establishment in Alaska with dedicated service and high morale. This idea of trying to eliminate the

system that has worked so well under the extremely difficult circumstances incident to Alaska insular economy at the end of a long, long freight haul would be a serious mistake. I will proceed with my typewritten statement.

According to the Civil Service Commission, once the 25-percent tax-free cost-of-living allowance is terminated a new basic schedule of salaries 27 percent over mainland salaries would be instituted. Since all of the salary under the new schedule would be taxed, the effect would be a substantial reduction of take-home pay.

Following is a chart showing the scope of reductions that typical employees would suffer.

(See table on p. 182.)

Mr. RIVERS. These are very substantial reductions to inflict upon any group of dedicated employees. They are very substantial reductions—especially in view of the fact that the 25-percent cost-of-living allowance presently paid in Alaska does not fully cover the higher cost of living in Alaska.

The most recent figures quoted by the Civil Service Commission itself show the cost of living in Alaska to be higher than the allowance now paid. According to these figures, compiled by the Bureau of Labor Statistics, living costs are higher than Washington, D.C., by 29.3 percent in Juneau, Alaska; 37.8 percent higher in Anchorage, Alaska; and 42.4 percent higher in Fairbanks, Alaska; and at least 50 percent higher at Nome.

These used to run from 40 to 60 percent above Washington, D.C. Apparently Washington, D.C., is gradually catching up with Alaska's high cost of living, but it still has a long way to go before there would be any justification for terminating cost-of-living allowance in Alaska.

To reduce take-home pay by repealing cost-of-living allowance—as the Commission proposes—would work a severe hardship on Alaska's civil servants and be a grave injustice to them. As I have said, it would result in the loss of many competent and dedicated Federal civil servants from their Alaskan jobs. Such would be a tragic consequence for the Federal service and for Alaska.

The Civil Service Commission has failed in its advocacy of H.R. 8390 because of unavoidable contradictions within its case.

(1) The Commission claims it is seeking a uniform pay system for U.S. areas, but admits that a special schedule would be necessary for Alaska.

(2) The Commission claims comparisons of Government salaries with private salaries in Alaska ought to determine salary levels, but fails to show that there is an adequate number of comparable private positions in Alaska to enable reliable comparisons.

(3) The Commission indicates that substantial savings would be realized with termination of the allowance to Alaska's Federal civil servants, but agrees to a special higher schedule in Alaska that would cancel out a large portion of the alleged savings.

Mr. Chairman, I urge you to reject H.R. 8390.

Thank you for your attention.

Mr. UDALL. Thank you, Mr. Rivers.

The gentleman from Hawaii, Mr. Matsunaga.

Mr. MATSUNAGA. Thank you, Mr. Chairman. Thank you, Mr. Rivers, for your very comprehensive and well-presented statement.

Of course, you know that I am in hearty agreement with you. I believe that it is a grave mistake to eliminate cost-of-living allowance at this stage. I was interested in the figures you quoted earlier relative to the nontaxing of cost-of-living allowance to bring it up to about 40 percent. Would it come that high; that is, the 25 percent which you mentioned?

Mr. RIVERS. I think that 40-percent cost-of-living allowance fully taxed on the top, of employees salaries of \$8,000, \$9,000, or \$10,000, would be about the same as the 25 percent not taxed.

Mr. MATSUNAGA. That is putting it in a higher bracket.

Mr. RIVERS. Would the gentleman indicate to me which way he thinks I am in error.

Mr. MATSUNAGA. I think the 25 percent really would not give you 40 percent. Probably 30 or 32 percent.

Mr. RIVERS. The average tax on that would be about 25 percent of the 25 percent. That is worth \$500 or \$600 in take-home pay anyway. Maybe it would not even come up to 40 percent. Is that the point you are making?

Mr. MATSUNAGA. That is it. What you are getting now by way of cost-of-living allowance is less than what you really ought to be getting.

Mr. RIVERS. We should be getting the full 40 percent, but it could then be argued that the allowance should be subjected to the Federal income tax. I would rather have the 25 percent without the Federal tax on top than have the 40 percent with the whole works taxed. This is maybe not based on very exact mathematics. The fact remains you justify not taxing this 25 percent by the Federal Government because it is considerably below the actual difference in the cost of living. That is the reason for my saying what I did.

Mr. MATSUNAGA. I have no further questions.

Mr. UDALL. The gentleman from New Jersey.

Mr. KREBS. I have some questions. I, too, want to commend Mr. Rivers for his excellent statement and some of the corroborating evidence. It is also true that I agree completely with my colleague from Hawaii that this is a totally inequitable move that has been recommended, and I opposed it in the committee hearings we have had this far and I will continue to oppose it because I think it is wrong, period. As you said in your statement and I said earlier in the record, I did not know it was the purpose of the U.S. Government to demand certain conditions salarywise of private industry and then deny its own employees the same consideration. This just does not add up. I do not believe in administration by slide rule rather than consideration for the well-being of human beings. I think the ad you submitted for the record tells a cogent story. Also, there is another side to this. Unfortunately, the whole proposal is not predicated on the cost of living, but on comparability. I was wondering what the situation is between salaries paid for comparable work in Alaska in private industry.

Mr. RIVERS. There is a paucity of comparable jobs in private industry upon which to base a comparison. I haven't figured out yet what jobs in private industry are comparable, for example, to a mail carrier's job, or to a deputy marshal's job. All the postal employees and classified civil service people were practically starving in Alaska and turning over rapidly prior to the cost-of-living allowance. We had a

serious recruitment problem until the U.S. Government came up with cost-of-living allowance. Cost-of-living allowance has been an absolutely sound and valid answer and it has worked. We have had a fine Federal civil service establishment in Alaska. I do not think that many agencies who do business in Alaska would be happy with the headaches they will get if this is upset. They could rue the day that it was taken away as far as solving their recruitment problem in Alaska is concerned.

Mr. KREBS. There have also been statements made by responsible people in the Federal Government that the employees affected in the four areas, Alaska, Hawaii, Puerto Rico, and the Virgin Islands, would make up in the new increase virtually all that has been taken away from them. I do not want to burden the record with a lot of statistics, but I was interested in how you felt about the one fact that is easily worked out arithmetically that this $4\frac{1}{6}$ percent would mean that the employee would wind up getting two-thirds of 1 percent increase in the new bill that is in the legislative process now, and in effect would be denying virtually the total increase.

Mr. RIVERS. May I comment at that point?

Mr. KREBS. Yes.

Mr. RIVERS. As I understand it, this percentage you mentioned would apply to Puerto Rico, Virgin Islands, and Hawaii. In Alaska they plan on a completely different pay structure because you cannot stretch the Salary Reform Act within-grade promotions to cover the spread in Alaska. That is why I said to you that the Civil Service Commission indicates that it has in mind some 27-percent increase in base pay in Alaska, all of which, of course, would be subject to the Federal income tax. My point is that if, under the circumstances, you have to come up with a special formula for Alaska, then you are not putting Federal civil servants in Alaska under the Salary Reform Act, so better leave this matter alone.

I am not very well versed on the percentage you have mentioned because I have been looking at it strictly from the Alaska standpoint where the cost of living well exceeds the cost-of-living allowance maximum of 25 percent over base pay.

Mr. KREBS. Actually, if this bill becomes law and its details are invoked, the employees will wind up getting virtually no wage increase at all. While we hear much talk about comparability, and this was raised many times throughout the many hearings we have had, actually you will still find the Federal employees involved some 21 to 24 months behind private industry in their earnings.

I just think it is morally wrong to say to people who were willing to make sacrifices some 10 or 15 years ago to go to these areas, and pay them for the sacrifice the cost-of-living allowance, and now say to them: "Even though you have worked for the Federal Government for 10 or 15 years at substantial hardship to you and your family; you have uprooted yourself and moved away from your native areas; now that we can get cheaper labor, unless you agree to take what amounts to a wage cut because we can get somebody that can do your job for a lot less"; this to me is diametrically opposed to what my concept of the American democratic system of government involves. I want to say that I very strongly oppose this. I think it is bordering on sinful to come out and say to people who made these sacrifices, and

while technically the cost of living may not be a factor in the language of the law, I do not believe you can divorce yourself from the facts of life.

The facts of life are as indicated in the ad that you submitted, one for Washington, D.C., and one for Alaska. I am sure if you get into an area where working people spend the greatest part of their income for rent, for food, for clothing, for medical attention, the gap is even greater and the need for raising the wages rather than cutting them is a very natural compelling argument. I want to say I commend you for fighting on this thing. I believe all the areas involved ought to fight. I think we have enough friends on this committee and in the Congress that appreciate what is involved here.

I want to say again at the risk of being burdensome, to me a personnel policy that is predicated on a slide rule and how cheaply we can get people to work for us is un-American, and I am opposed to it.

Mr. RIVERS. I must have been reading the gentleman's mind because I echoed it in my statement, only not quite so well.

Mr. KREBS. Thank you very much.

Mr. UDALL. Thank you, Mr. Rivers. We appreciate your helpful testimony.

Mr. RIVERS. Thank you, Mr. Chairman and members.

Mr. UDALL. This is a busy time for the Congress and we have a number of distinguished witnesses scheduled this morning. I think the Chair will take a moment to try to line up the batting order and see who has the worst problems. I have to go to the Rules Committee a little later. The gentleman from Hawaii is a member of this subcommittee and was scheduled as our first witness. Is he agreeable to going ahead with some of the other witnesses and present his testimony later?

Mr. MATSUNAGA. Yes.

Mr. UDALL. The distinguished Delegate from Puerto Rico has been with us more than any other member in these hearings and he is scheduled. Would you defer your testimony for a moment?

Mr. POLANCO-ABREU. Yes; I will.

Mr. UDALL. The second most important Post Office and Civil Service Committee on the Hill is the Senate committee. I see one of its members here today—the distinguished Senator from Hawaii, Senator Fong. I understand you have an engagement at the White House.

Mr. FONG. Yes; we Republicans have a field day at the White House.

Mr. UDALL. I also see Senator Bartlett here. I originally scheduled these witnesses in the order they requested to appear. I might suggest we will first take any witnesses in favor of the bill. We will settle that quickly. All in favor of the bill will stand up. Seeing none, we will decide how to proceed among those who are opposed.

Could either of you simply offer your statement for the record?

Senator BARTLETT. Mr. Chairman, I rejected the White House invitation. I would like to talk.

Mr. UDALL. With this understanding, Senator Fong, you may come forward. We are happy to have you with us.

We appreciate the great work you do on our counterpart committee on the Senate side.

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

Senator FONG. Mr. Chairman and members of the subcommittee, I deeply appreciate this opportunity to testify in opposition to H.R. 8390, the administration's bill to terminate cost-of-living allowances for statutory salaried Federal civilian employees in Hawaii, Alaska, Puerto Rico, and the Virgin Islands.

I strongly urge rejection of this proposal on the ground that it would not be in the best interest of the Federal Government. It may well prove penny wise and pound foolish. It would impose serious hardship on the Federal classified and postal employees in these areas.

The distinguished Chairman of the Civil Service Commission, Mr. John W. Macy, Jr., on July 19 testified that the objective of H.R. 8390 is to put the pay of statutory Federal employees in Hawaii, Alaska, Puerto Rico, and the Virgin Islands on the same basis as statutory employees in other parts of the country and to eliminate expenditures which can no longer be justified.

For the first half of this objective, Mr. Macy relies on the principle of comparability, which is central to the Federal Salary Reform Act of 1962. Under this act, Congress said Federal workers should be paid according to salary levels of their counterparts in private industry. A nationwide standard was to be set and Federal employees doing the same kinds of work at the same levels of responsibility were to receive the same pay regardless of where they live and work.

As a member of the Senate Post Office and Civil Service Committee, I helped to write that pay bill. I agree with the principle of Federal salaries comparable to private industry salaries. In this act, Congress has come closer than ever before to devising pay scales fair to Federal employees compared with the going rate for comparable jobs in private industry. The principle is established, and once Congress passes another pay increase bill, practice will be even closer to the principle, instead of lagging 21 months behind as it does now.

While the Salary Reform Act of 1962 established the principle of comparability, it did not abolish certain special pay and allowances. Hazardous-duty pay such as is allowed Central Intelligence Agency, the FBI, and certain other law enforcement agencies is still permitted. Holiday and overtime pay are also examples of special pay still continued. Special pay for firefighters is still another example, as are allowances for uniforms for certain employees.

The point I am making is that the principle of comparability, established in the 1962 act, with which I concur, and the payment of special allowances are not incompatible. The principle of comparability does not rule out all other special pay features and allowances.

Furthermore, a very important section of the 1962 act, section 1006, provides 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.

Now for the second half of the objective of H.R. 8390, as stated by Mr. Macy; that is, to eliminate expenditures which can no longer be justified.

Mr. Macy correctly pointed out that cost-of-living allowances were originally paid as recruitment incentives to obtain skilled employees needed particularly for defense activities in insular areas such as Hawaii or remote areas such as Alaska.

At that time, there were not sufficient skilled employees in local labor markets to meet Federal needs. In 1948, Congress enacted the existing cost-of-living allowance provisions as employment incentives.

Today, Mr. Macy contends the cost-of-living allowance is no longer needed for recruitment purposes and payment of this allowance is no longer justified.

As I stated in my testimony before this subcommittee last year, I firmly believe one of the reasons we have not had a serious problem in Hawaii of recruiting and retaining Federal employees is precisely because we do have the cost-of-living allowance.

It is still an incentive for mainland specialists to uproot themselves and journey to the mid-Pacific to take up a new life.

It is still an incentive for both mainland and Hawaii specialists to remain to work for the Federal Government in Hawaii instead of taking higher pay jobs on the mainland.

I have obtained some figures from the Army, Navy, and Air Force in Hawaii in regard to recruitment of employees from outside Hawaii.

As of June 30, 1965, the number of Army civilian employees in Hawaii who were recruited from outside Hawaii was 453. Of these, 437 were Classification Act employees and 16 wage board employees.

There were 53 civilian employees recruited from the mainland for the Army in fiscal year 1964 and 57 in fiscal year 1965. The civilian personnel director advised me that these are not considered "typical" periods. With all the stepped-up defense activities in southeast Asia, one can reasonably expect that fiscal year 1966 will not be typical either—in other words, that recruiting outside Hawaii will continue to be necessary.

For, as the director pointed out, "Difficulty is encountered in recruiting engineers and digital computer systems from within Hawaii. Further, some staff specialist and technician positions in certain career fields (e.g., supply, comptroller, personnel) require employees with a broader background of experience and training than is possible for employees of Army activities in Hawaii to obtain."

The Navy has advised me that 672 of its civilian employees in Hawaii were from continental United States as of March 1965. A total of 84 new recruits were obtained from continental United States during fiscal year 1965 alone. These included 23 engineers, 6 physical scientists, 6 administrative personnel, 6 digital computers, 1 communications specialist, and 1 water inspector.

As of June 1965, there were 234 civilian employees working for the Air Force in Hawaii who were brought in from outside Hawaii. The Air Force recruited 48 Classification Act employees and 5 wage board employees from the mainland for civilian posts in Hawaii for the period January 1, 1961, through June 30, 1965.

Among the 48 recruited were digital computer specialists, electrical engineers, an aerospace engineer, communication specialists, a structural engineer, industrial engineers, and a security administrator.

The Honolulu newspapers have been carrying stories over the past several months of the need for skilled technicians in the Federal service

in Hawaii. I understand the Navy has put out a nationwide bulletin to find qualified employees who are willing to work in Hawaii. The Far East situation makes the need even more acute. Abolishing cost-of-living allowances would certainly hamper these recruiting efforts.

Just 2 days ago, the Honolulu Advertiser carried a front-page story headlined: "Worker Shortage Called Critical."

May I ask that this article be received and made a part of the record?

Mr. UDALL. Yes, without objection, the article will be made a part of the record at this point. You may proceed.

(The article follows:)

[From the Honolulu Advertiser, Aug. 10, 1965]

WORKER SHORTAGE CALLED CRITICAL

(By Ken Gepfert)

An acute shortage of skilled workers and technicians in Hawaii is forcing many military and civilian employers to hire personnel from the mainland, the chamber of commerce's manpower committee said yesterday.

Members of the new committee met with the press yesterday to outline the problem and propose solutions.

Robert T. Gaffney, committee chairman, warned that the problem is "now in the critical stage. Too many businessmen don't appreciate the seriousness of the situation."

Gaffney said the problem was brought to light when the military in Hawaii started complaining of unfilled civilian positions. The shortage was reported especially severe at the Pearl Harbor Naval Shipyard.

Rear Adm. E. A. Wright, commander of the shipyard, said he needed about 550 new civilian employees each year. He said even enlarged apprentice and helper programs could not supply enough qualified personnel.

The Navy in Hawaii has 10,000 civilians on its payroll, compared to 5,000 for the Army and 3,000 for the Air Force.

Col. John M. Farnell said the Army has had to hire 125 mainland civilians since January 1963, because qualified people couldn't be found here. The jobs included safety officer, cemetery superintendent, historian, and librarian.

Farnell said all jobs paid more than \$6,500 yearly.

E. M. Bradley, director of civilian personnel at Hickam Air Force Base, said the manpower shortage costs the Air Force time and money.

"We often have trouble finding people here with the proper educational requirements, so we have to go to the mainland," he complained.

Numerous representatives from the business community were on hand to assure the committee that they also suffered from the shortage.

Curtin A. Leser, personnel manager of Hawaiian Electric Co., Inc., said the situation reminded him of 1941 "when everyone was bidding for a nonexistent labor pool and pirating from one another."

He said the shortage was caused by the increasing number of high school graduates who continue on to a 4-year college and shun technical training and by the stepped-up draft call.

"The answer lies in training," Leser said. That training could be accomplished through a company's in-service instructional program and financial aid from the Department of Education, he said.

Richard Kosaki, assistant to the president at the University of Hawaii, thinks the manpower pool can best be increased by the community college program. The legislature recently voted funds for the conversion of five State technical colleges into community colleges.

Three of the colleges will be on Oahu, with one each on Maui and Kauai.

Kosaki said the program would provide colleges with expanded facilities and an improved image in the prospective student's mind. "And for different capacity people, we'll have different courses," he added.

Gaffney said a lack of communications between employer and prospective employee also contributed to the worker shortage. To improve communications, he said the chamber of commerce will set up a "clearinghouse" to inform workers of job opportunities.

What will industry's need be in the future?

Robert K. Hasegawa, deputy director of the department of labor and industrial relations, said his department will ask that same question to some 839 employers in the next 2 weeks.

It will be called the Hawaii State manpower skill survey. Hasegawa explained that its purpose is to gage the future demand for skilled workers and technicians—2 years from now and 5 years from now.

Results of the survey won't be available until the first part of next year, but the manpower committee still will be around to evaluate them.

"This isn't a one-shot deal," Leser said.

Senator FONG. This is exactly the kind of situation Chairman Macy in his testimony said existed "at the time of World War II," when "local labor markets were inadequate to supply the needed skills in the quantities required" and gave rise to cost-of-living allowances to attract skilled workers.

The Assistant General Counsel of the General Accounting Office, Mr. Barclay, told this subcommittee on the first day of hearings on H.R. 8390 that the GAO would have problems if the cost-of-living allowances is abolished in Hawaii.

He said GAO has about 25 employees who are now or will be stationed in Hawaii within the next 3 months. He said further if H.R. 8390 "results in some loss of take-home pay to employees now stationed or subsequently assigned to duty in Hawaii over that presently payable, our office anticipates difficulty in retaining present personnel and in recruiting personnel on a voluntary basis for such duty, unless some other offsetting factors favorable to the employees become available."

At present, we know there are no offsetting factors in Hawaii. Very few, if any, salaries could be raised under section 504 of the Salary Reform Act, for this has two requirements: that private pay for comparable work must be substantially higher and that the Federal Government must be experiencing difficulty recruiting for those jobs. In Hawaii, private pay scales are not generally substantially higher than Federal pay scales, so section 504 would not be likely to come into play. Even if it should, it would be only for a few positions, not across the board.

If cost-of-living allowance is abolished, I believe we will begin to have a very serious recruitment and retention problem in Federal employment in Hawaii. The General Accounting Office has already so testified in regard to its employees newly stationed there.

When cost-of-living allowance begins to phase out, I predict many skilled Federal employees will seek transfers to the mainland. Once these specialists leave, it will be increasingly difficult without cost-of-living allowance to obtain replacements.

Moreover, under H.R. 8390, new employees assigned to Hawaii would not receive any cost-of-living allowance.

How are we going to persuade mainland employees to uproot their families and leave mainland relatives, friends, cities, job opportunities, schools, and vacation spots and so on to settle in a distant area where the cost of living is so high—15.8 percent higher than Washington, D.C. Persuasion will be very difficult when prospective employees are told their take-home pay will be reduced by 2½ percent in 60 days, 5 percent in a year, 7½ percent in 2 years, 10 percent in 3 years, 12½ percent in 4 years, and 15 percent in 5 years, if they take employment in Hawaii.

What kind of morale problem would H.R. 8390 create because new employees would be denied cost-of-living allowance during the 5-year phaseout for old employees. Two people could be doing the same work side by side but one would take home pay up to 12½ percent higher than the other while cost-of-living allowance is being phased out.

H.R. 8390 would have a depressing effect on employee morale, not only of present employees, but of future employees during the next 5 years who would receive no cost-of-living allowance, while other employees would.

In weighing the impact of H.R. 8390 on future staffing of Federal agencies in Hawaii, the geographic disadvantage of Hawaii cannot be ignored. Our islands are approximately 2,500 miles from the west coast, separated by ocean waters that can only be crossed by boat or by air. It is not possible to pack the entire family in a car, hitch a trailer to the car with the family belongings and say, "Here we go. We're moving to another town."

As a consequence, our labor force is not a highly mobile one. There is not a considerable movement of workers between Hawaii and the mainland, for it is difficult and costly.

With the growing turbulence in southeast Asia and the growing U.S. involvement there, which affects Hawaii, the hub of our Pacific defenses, mainlanders are going to think, not twice as they do now, but three times, before deciding to make the big switch to Hawaii.

Despite the difficulty of moving to the mainland, there are skilled workers in Hawaii who are lured by higher mainland pay in private industry. Cost-of-living allowance has been a plus factor in persuading many of these skilled workers to remain in Hawaii to work for the Federal Government. Abolish cost-of-living allowance and we may lose many of these skilled employees to the mainland.

About 88 percent of the general schedule Federal employees in Hawaii are employed at military installations. Many of these are highly skilled workers recruited from the U.S. mainland. If cost-of-living allowance is abolished, the big question mark is how many mainlanders and how many local people will leave the Federal Government in Hawaii to work on the mainland.

Abolition of cost-of-living allowance may well trigger a major personnel upheaval, which will prove costly to the Federal Government in recruiting, transferring, and training replacements, to say nothing of the cost in terms of less efficient Federal operations.

Is the risk of such personnel disruption warranted? Are the resulting costs to the Federal Government justified?

Let us for a moment put ourselves in the shoes of an individual asked to take a job in Hawaii. A man raising a family, buying a home, a car, paying the costs of food, schooling, medical care, and all the other costs of living must look at hard realities.

One of those hard realities is that Hawaii is a high-cost living area. More than two-thirds of the food consumed in Hawaii is imported. In fact, more than 90 percent of all consumer goods is imported. Shipping over vast distances and extra handling costs entailed raise the price of commodities in Hawaii compared with many mainland commodities.

Hawaii's scenery is spectacular, but it is not an edible nor spendable commodity.

Hawaii's climate is delightfully balmy, but few can live in the great outdoors. Most 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 in the District of Columbia was \$15,400.

Residents of Hawaii bear a heavy tax burden. The State per capita tax collections during the year ending June 30, 1964, rated Hawaii as second highest in the Nation—an average of \$207.75 for every man, woman, and child, compared with the U.S. average of \$129.08 per capita. Hawaii's tax burden was 62 percent higher last year than the national average.

In fact, taxes paid to State and county governments in Hawaii climbed from \$88 million in 1955 to \$210 million in 1964. This was an increase of 138 percent in just 10 years, compared with a 107-percent increase for the United States as a whole.

As of last December 31, every islander owed his State and county governments \$481.71. Hawaii's per capita debt is relatively high compared with other States. The director of Hawaii's Tax Foundation has pointed out that taxes and debt are rising faster than income or population in Hawaii.

On top of all this, the State legislature this year increased excise and income taxes. On July 1, under the new law a 4-percent excise tax went into effect, replacing the former 3½-percent rate. This is in effect a retail sales tax on all consumer purchases, including food. Of course, the excise tax increase will increase the already high cost of living in Hawaii.

Under this same law, State income taxes on individuals were raised on all taxable income above \$1,000. The new income tax rates, which go into effect for earnings starting January 1, 1966, range from 2.25 percent on taxable income up to \$500 on up to 11 percent for taxable income over \$30,000.

May I say here, Mr. Chairman, that the payment of taxes to the Federal Government is not a deductible item under the State income tax law.

Business taxes also were increased under this tax bill. The rate on corporate net income under \$25,000 was raised from 5 to 5.85 percent; on incomes over \$25,000 the rate was raised from 5.5 to 6.435 percent. These taxes can be expected to be passed on to consumers.

Also real property taxes were increased this year on Oahu, where about 80 percent of our people live, adding another increase to the cost of living. Both the rate of tax and the assessed valuation were raised.

According to the U.S. Bureau of Labor Statistics, the cost of living in Hawaii has risen 1.7 percent since December 1963, when the BLS survey first began. The cost of living is still rising. I have pointed out a number of factors that will push costs higher.

Any mainlanders being recruited to work for the Federal Government in Hawaii will look into this total picture before making his decision. With the cost-of-living allowance, an affirmative answer is more likely. Without the cost-of-living allowance, it will be increasingly difficult to recruit mainlanders to work in Hawaii.

To summarize, I believe cost-of-living allowances should be retained for the same reason that it was first used: to recruit and retain needed Federal workers in Hawaii.

To abolish cost-of-living allowance would lead to grave and serious problems for Federal agencies in our islands. Recruitment and retention of personnel will be made more difficult, will result in increased personnel turnover, with the resultant increase in personnel replacement, recruitment, and training costs, and a decrease in efficiency and effectiveness of Federal operations there. This is why I say abolishing cost-of-living allowances would be penny wise and pound foolish.

In addition, a serious morale problem would be created by H.R. 8390 because new employees would not get any cost-of-living allowances—whereas those already employed with identical duties would receive more take-home pay by reason of cost-of-living allowances.

I have confined my remarks to Hawaii because I am familiar with the situation there. I know representatives of the other cost-of-living allowances areas are far better able to present their case than I. But in closing I do want to express my concern, particularly for Puerto Rico and the Virgin Islands, where cost-of-living allowances has already been cut from 12½ percent and 15 percent, respectively, to 5 percent. I hope the subcommittee will find some way to ease the impact of such a large cut for Federal workers in Puerto Rico and the Virgin Islands.

In conclusion, again I urge the subcommittee to reject H.R. 8390, to phase-out and abolish cost-of-living allowances. This proposal is not in the best interest of the Federal Government. I believe it would create more problems than it would solve.

Thank you, Mr. Chairman.

Mr. UDALL. Thank you, Senator.

The gentleman from Hawaii?

Mr. MATSUNAGA. Senator Fong, I wish to commend you for your wonderful statement. It is very comprehensive. You have covered just about every point that needs to be covered.

There is one area of concern I would like to discuss. Perhaps through your constituents who have written to you, who are employed by the Federal Government, you may have received some idea as to its existence. I have had some complaints that some of the agencies in Hawaii use cost-of-living allowance as an item for reducing the hiring base. They take into consideration the 15-percent allowance and hire personnel, that is, local personnel, at about 15 percent lesser base salary.

Senator FONG. Yes, I have received some complaints on that. I think that is not right. I think the Civil Service Commission should look into it and stop it wherever it exists.

Mr. MATSUNAGA. So that from your testimony many of the recent employees are not receiving the full advantage of cost-of-living allowances.

Senator FONG. Yes. They will be suffering twice if cost-of-living allowance is abolished.

Mr. MATSUNAGA. I wish to congratulate you again, Senator, for your wonderful statement.

Senator FONG. Thank you.

Mr. UDALL. The gentleman from New Jersey?

Mr. KREBS. I, too, want to join Mr. Matsunaga in congratulating the Senator on an excellent and comprehensive presentation. I know the Senator is busy and I do not want to delay you any longer than is necessary.

I have one question that I think ought to be on the record and I meant to ask this of Mr. Rivers. You are familiar with the provisions of Public Law 743 which deal with the principle of comparability and how it is to be accomplished.

Senator FONG. Yes.

Mr. KREBS. It says specifically in that law that the comparison shall be between Federal employees and those in private industry. In the questioning in several previous hearings, I asked this question and I asked it once or twice of Mr. Macy, and I would like to see what your feeling is, particularly since you are on the Post Office Committee in the Senate.

Is it your interpretation of the law that comparability entails not just the salaries and wages being paid in private industry, but also those being paid in nonprofit organizations and smaller governmental bodies such as municipal, civil service employees, and county and State employees?

Senator FONG. I believe we should take in the broader aspect of employees. It should include everything—county employees, those working for charitable institutions, and these should be considered.

Mr. KREBS. How would you account for the fact that Mr. Clague who is Director of the BLS said absolutely no, in his judgment this was not contemplated when the law was passed?

Senator FONG. I believe he is mistaken in that respect. As far as I am concerned, it was supposed to be included.

Mr. KREBS. It is not going to help accomplish what we are trying to accomplish. I am sorry to hear you say that.

In closing, let me say, I do not think it should be. The language is quite clear and specific. I am not a lawyer and maybe you are, so I have no desire to dispute about it. I firmly feel that it is not. In closing, I would like to say I am happy to see that the Senator, who is from the Republican Party and I am a Democrat, is concerned with what this will do to the people of Hawaii, like the Democrats on this committee are. I do hope that you will join us in trying to get some Republican colleagues on the Senate side to approve what we are trying to get some Republicans on the House side to join us in passing.

Senator FONG. You can be assured, Mr. Congressman, that I do have some on my side.

Mr. MATSUNAGA. If the gentleman will yield, as a lawyer speaking to a nonlawyer, I might remark that you should never ask a witness a question unless you know what the answer is going to be.

Mr. KREBS. You never learn what it is going to be unless he verbalizes it.

Mr. UDALL. The Chair would observe that there seems to be some interest in this legislation in the great State of Hawaii. We have had the entire delegation from that State in this room this morning. I notice the other Senator has come in. I know you have to get on your way, and I wanted to say that we Democrats are pleased to make the White House available to you this morning for this Republican unity rally.

Senator FONG. Thank you very much.

Mr. UDALL. I just want to warn you that as far as this Democrat is concerned I do not want you to get in the habit of doing this sort of thing.

Senator FONG. I know how courteous the chairman is, and I want to thank you for your courtesy for allowing me to testify.

Mr. UDALL. Thank you very much.

Senator Bartlett, if you will come forward.

Let me say to the junior Senator from Hawaii that we set up the batting order before the gentlemen came in.

I did indicate that we would give precedence to those who would submit their statement. All of the witnesses today indicated they want to be talkers rather than extenders. I would assume that my friend falls in that category so we will put him on after Senator Bartlett. I will say to Senator Bartlett that I must be at the Rules Committee on a bill of which I am an author. I will ask Mr. Matsunaga to preside when I depart.

The distinguished gentleman from New York, Mr. Powell, asked leave to testify and was unable to be here. Unless there is objection, Mr. Powell will be permitted to file a statement in opposition to the bill in connection with this morning's proceedings.

Hearing no objection, it is so ordered.

(The statement follows:)

PREPARED STATEMENT OF HON. ADAM C. POWELL, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF NEW YORK

Mr. Chairman, I am opposed to H.R. 8390 which would eliminate the cost-of-living allowance in Puerto Rico. I am submitting the following statistics which I believe more than substantiates my reasons for opposing the elimination of the cost-of-living allowance in Puerto Rico. To do so at this time would wreak an unnecessary economic hardship on the government workers of Puerto Rico which in turn could adversely affect that island's booming economy.

The consumer price index for wage earners' families in Puerto Rico moved up from 116.6 in April to 118.3 in May 1965, or, 1.5 percent. Compared with the index for May 1964 (115.1), this May index was 2.8 percent higher. This means that the change in price for wage earners' families in Puerto Rico was 18.3 percent higher in May 1965 than it was during the 1957-59 base period. Stated another way, it now costs \$11.83 to buy a "market basket" of goods and services as compared to \$10 during the 1957-59 period.

These figures are similar to those published by the U.S. Bureau of Labor Statistics for the U.S. consumer price index. However, collection of prices, calculation and speculation is undertaken by the Department of Labor of the Commonwealth of Puerto Rico.

The 18.3-percent increase in the index for Puerto Rico since the 1957-59 period is approximately 90 percent (twice the increase that has occurred in the U.S. index for the same period). In the United States, the average consumer price index rose 9.6 percent between 1957-59 and 1965.

It should be noted that these indexes cannot be used to compare living costs or price levels between Puerto Rico and the continental United States. The reason is basically that the base period price levels are not always the same and the indexes are based on expenditures. Unless expenditures and prices are the same in the base period for both the United States and Puerto Rico, a comparison of this sort cannot be made.

THE CURRENT COST-OF-LIVING ALLOWANCE SITUATION

Current cost-of-living allowance

Twelve and one-half percent in Puerto Rico.

Fifteen percent in the Virgin Islands.

Cost-of-living allowance authority

Section 207 of Independent Offices Appropriation Act of 1949.

Basis of cost-of-living allowance level

Annual surveys of cost of living in Washington, D.C., San Juan, and Charlotte Amalie by State Department for Civil Service Commission.

History of cost-of-living allowance level

April 3, 1954, 25 percent in Puerto Rico and the Virgin Islands.

May 5, 1957, 17½ percent in Puerto Rico and the Virgin Islands.

March 20, 1960, 12½ percent in Puerto Rico and 15 percent in the Virgin Islands.

January 16, 1964, reduction to 5 percent, Puerto Rico and the Virgin Islands, announced to be effective in April 1964, but action withheld.

May, 1965, reduction to 5 percent in Puerto Rico and the Virgin Islands announced effective July 1965.

Basis of proposed reduction to 5 percent

State Department survey of cost of living in 1963 showed Puerto Rico and the Virgin Islands to be about 5 percent higher than Washington, D.C. Elimination of three "use factors" from the comparison more responsible for the change than any actual reduction in relative prices. Use factors:

1. Domestic service: Far less used than formerly, a presumed saving.
2. Clothing: New fabrics no longer require unusually heavy cleaning bills.
3. Food: Spoilage reduced by better refrigeration.

Reason for withholding reduction in cost-of-living allowance

Civil Service Commission in May 1963 submitted legislation to Congress to terminate cost-of-living allowance and to place salary levels in Puerto Rico and the Virgin Islands on the basis of comparability with private enterprise salary levels, as elsewhere, in accordance with the Federal Salary Reform Act of 1962. The approval of this legislation (H.R. 7401), on February 28, 1964, appeared imminent and would supersede the proposed reduction to 5 percent.

The fate of H.R. 7401

Extensive hearings in February to April 1964, held by Hon. Morris K. Udall, chairman of the Subcommittee on Compensation led the subcommittee to conclude that the bill and the comparability principle were desirable and inevitable for Puerto Rico and the Virgin Islands. Nevertheless, the bill died, never having been reported out of committee because of inadequate time for its consideration by the 88th Congress. Udall anticipated action on such a proposal in the 89th Congress.

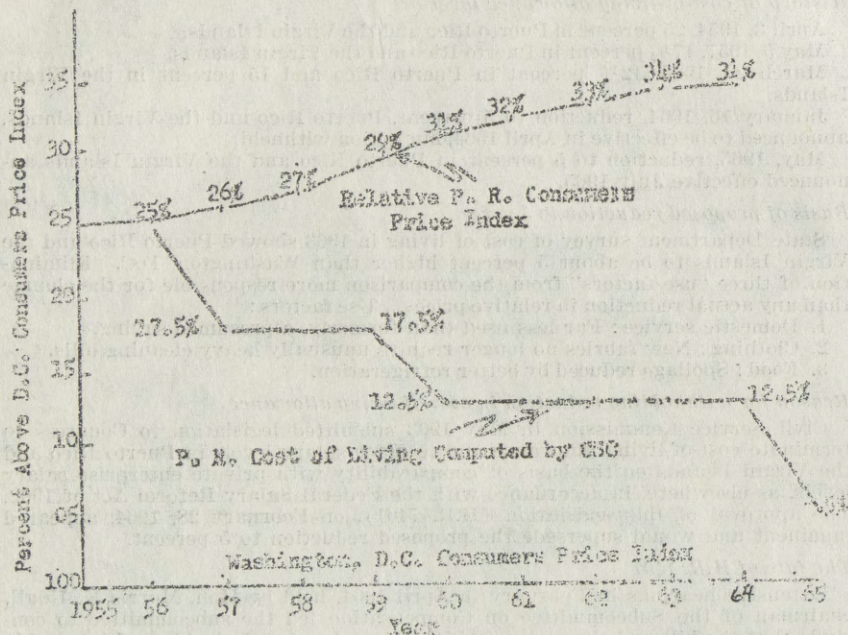
When it became apparent in August 1964 that H.R. 7401 would not be enacted by the 88th Congress, the Commission notified agencies that it would not make any adjustment in the allowance rates until the results of new surveys could be obtained. Such surveys were made in the fall of 1964. (Presumably these were made in Puerto Rico and the Virgin Islands but Federal employees were not consulted.) The survey showed that the relationship of living costs in Puerto Rico and the Virgin Islands to those in Washington had remained almost unchanged since similar surveys made in 1962. Accordingly, the Commission had no legal authority but to order the reduction of the allowance rates.

Present prospects for continued cost-of-living allowance

On April 12, 1965, the Comptroller General reported to Congress that excessive cost-of-living allowance was being paid Federal employees in Puerto Rico and the Virgin Islands as a result of the Commission's postponement of the allowance reduction. He further recommended that the Commission delay no longer in reducing the cost-of-living allowance.

The Commission is recommending new legislation to Congress which would terminate cost-of-living allowances now being paid in nonforeign areas. It is similar to the proposal submitted to the 88th Congress. Such legislation would phase out cost-of-living allowances gradually over a 6-year period. The reduction for Puerto Rico and the Virgin Islands in July from 12½ to 5 percent is precipitate. The termination of the 5-percent cost-of-living allowance after July 1965 would be gradual. No reduction for Alaska or Hawaii is forthcoming, except that provided by the newly proposed legislation.

Annex 2



Consumer Price Indexes, Washington, D.C., and Puerto Rico

[1957-59=100]

Year	Washington, D.C. (Bureau of Laboratory Statistics)	Puerto Rico (Department Trabajo)	San Juan relative to the D. of C. if 125 percent in 1955	Cost-of- living allowance
			Percent	
1955	94.4	92.7	125.0	25.0
1956	95.4	93.8	125.0	25.0
1957	98.3	97.6	126.4	17.0
1958	100.6	100.0	126.6	17.5
1959	101.1	102.4	128.9	17.5
1960	102.2	105.2	131.0	12.5
1961	103.7	107.7	132.1	12.5
1962	104.6	109.6	133.4	12.5
1963	106.4	112.2	134.2	12.5
1964	108.9	114.8	134.1	12.5
1965				(?) 5.0

¹ Reduction on May 5, 1957.² Reduction on Mar. 20, 1960.

MR. UDALL. We have a letter dated July 23, 1965, from the Comptroller General's Office, supplementing the testimony the Comptroller General presented previously. Without objection, this will be made a part of the record.

(The letter follows:)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, July 23, 1965.

HON. MORRIS K. UDALL,
*Chairman, Subcommittee on Compensation of the Committee on Post Office
and Civil Service, House of Representatives.*

DEAR MR. CHAIRMAN: A representative of our Office testified before your subcommittee on July 19, 1965, on H.R. 8390, which would terminate cost-of-living allowances for statutory-salaried Federal civilian employees stationed in nonforeign areas.

Our representative testified at the hearing that in the event H.R. 8390 should become law it is possible that we could have some problems in assigning staff to our Office in Hawaii, "unless some other offsetting factors favorable to the employees become available." Specifically, our view is that in the event section 504 of the Federal Salary Reform Act should be determined as applicable to our employees stationed in Hawaii, or if other legislation such as H.R. 9800, which would amend certain provisions of the Administrative Expenses Act of 1946, is enacted, our anticipated staffing problems would be alleviated.

In any event, the possibility that our Office might have some staffing problems in connection with a limited number of positions in our Office in Hawaii—approximately 25—certainly would not justify our opposing the enactment of H.R. 8390 should your subcommittee conclude that its enactment would be in the best interests of the Government as a whole.

Our position on H.R. 8390 is that its enactment is a matter of policy for decision by the Congress. This is consistent with that taken by us over the years on similar legislation.

We would appreciate it if this letter could be included in the hearings of your subcommittee on H.R. 8390.

Sincerely yours,

FRANK H. WEITZEL,
Acting Comptroller General of the United States.

Mr. UDALL. In addition, there is a letter from our colleague on this committee, Congressman Dulski, dated July 1, 1965, to Hon. John W. Macy, expressing some opinions of his on this legislation. Without objection, this will be made a part of the record at this point.

(The letter follows:)

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON POSTAL OPERATIONS,
OF THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, D.C., July 1, 1965.

HON. JOHN W. MACY,
*Chairman, U.S. Civil Service Commission,
Washington, D.C.*

DEAR MR. CHAIRMAN: I have just received strong protests on behalf of the Federal employees in Puerto Rico, many of whom are postal service employees, against your recent regulation decreasing the cost-of-living allowance from 12½ to 5 percent for employees in Puerto Rico, effective at the beginning of the first pay period which commences on or after July 1, 1965.

The employees allege your action discriminates against Puerto Rican employees when compared with other Federal employees, particularly those in the Pacific Island areas, and that the Commission has acted in an arbitrary and unjust manner in reducing the employees' salaries, which will seriously impair the economic well-being of the employees and of their families.

Your legislative proposal to terminate the cost-of-living allowance, which was sponsored by Mr. Murray (H.R. 8390) and which is now pending before the Subcommittee on Compensation, recognizes that specific provisions regarding the manner in which the cost-of-living should be phased out, should provide a solution that will not adversely affect present employees.

It would seem desirable that the Subcommittee on Compensation have an opportunity to consider this proposal and recommend the legislative provisions to protect employees now receiving the allowance. Accordingly, it is requested that you suspend the reduction in the cost-of-living allowance for the Federal employees in Puerto Rico until the committee has had an opportunity to consider your legislative proposal. A copy of this letter has been sent to Mr. Udall, chairman of the Subcommittee on Compensation.

With kindest regards, I am,

Sincerely yours,

THADDEUS J. DULSKI, *Chairman.*

Mr. UDALL. Senator Bartlett, we are happy to have you. You may proceed.

STATEMENT OF HON. E. L. BARTLETT, A U.S. SENATOR FROM THE STATE OF ALASKA

Senator BARTLETT. Thank you, Mr. Chairman.

Occasionally I occupy the position you are now in. I am always hoping people will extend rather than deliver. However, it is apparent this is a subject of such consequence to certain areas of the United States that the witnesses want to talk. That is my situation.

Mr. Chairman, I was opposed to H.R. 7401, the bill introduced in the 88th Congress at the request of the Civil Service Commission to abolish the cost-of-living allowance for Alaska, Hawaii, Puerto Rico, and the Virgin Islands.

This year's bill, H.R. 8390, although not identical with last year's measure, is similar enough as to be no more entrancing.

As explained by Chairman Macy in his July testimony before this subcommittee, the cost-of-living allowances in Hawaii, Puerto Rico, and the Virgin Islands would be phased out over a 6-year period.

In Alaska, the allowance would be abolished and section 504 of the Federal Salary Reform Act of 1962, could come into play. Section 504 permits the entrance rate of a grade to be raised to the seventh rate. It is my understanding that this allows an increase in rate which amounts to about 21 percent.

H.R. 8390 states Alaska would be excepted from the upper limit of the seventh rate, which implies that adjustments above 21 percent could be made.

Mr. Chairman, I have served in the Congress since January of 1945, longer than any other Member of Congress from the areas affected by this bill, and I am a battle-scarred veteran of the cost-of-living fight.

Mr. Chairman, this struggle to maintain the cost-of-living allowance began when many who are now Members of the Congress were too young to be admitted either to the House of Representatives or the Senate.

For example, Frank Church, the Senator from Idaho; Edward Kennedy, the Senator from Massachusetts; Robert Kennedy, the Senator from New York; Joseph Tydings, the Senator from Maryland, and many others who could not have entered the Congress when this all started.

Yesterday, before the vote was taken in the Senate, Mr. Chairman, on the proposition to create a Department of Urban Affairs, some of my friends from States with big cities came to me and expressed the hope that I would vote for the establishment of that Department despite the fact that Alaska has no metropolitan areas. I said I would,

and I did. I did because I thought this was good for the whole country.

It seems to me that each of us who is a Member of Congress is here to represent not only our particular district, our particular States, but the entire Nation, and that is why I was especially delighted when I discovered that the gentleman from New Jersey was so against this bill. He has taken into account, as I see it, the needs of the entire country, and I honor him for this.

Mr. KREBS. Thank you.

Senator BARTLETT. Mr. Chairman, years ago I had a delegation in my office when another effort was being made to abolish the cost-of-living allowance, and I called for my file on this subject and it did not come in immediately. Through the intercom system I renewed the request and learned that the file, then a massive one in one folder, had been dropped on the floor. It took 3 hours to reassemble the papers in that file. If this request were to be made today and a similar dropping were to take place, it would take days for reassembling.

I think this is the thickest file in my office.

Just by way of a historical note, Mr. Chairman, the drive to abolish the cost-of-living allowance began not because it was desired to do so in Hawaii, or Alaska, but because a very strong effort originated in Puerto Rico. The Government, by providing a cost-of-living allowance in Puerto Rico, was elevating the entire salary structure in that beautiful island, and likewise in the Virgin Islands. And some of those who ran businesses did not like this. They wanted to continue to pay their employees slave wages, if you please, and this was not possible with the Government establishing a wage rate more nearly equitable. Those who inspired this were willing to have the cost-of-living allowance die in Hawaii and Alaska so they could work their will insofar as Puerto Rico and the Virgin Islands were concerned. This was the thrust of the whole movement in those days.

I do not make any comparison between then and now. I do not think that the same situation prevails. But I want to tell this committee that is why this whole effort was originally launched, and why some years thereafter it was continued. That, and for no other reason.

I want to say, Mr. Chairman and members of the committee, that I very strongly support House Joint Resolution 569 offered by the distinguished resident commissioner from Puerto Rico to stay the effect of the Civil Service Commission administrative order reducing the cost-of-living allowance in Puerto Rico and the Virgin Islands until the Bureau of Labor Statistics has made a cost-of-living survey in those places.

You know, it seems to me we are entering upon strange days. You pick up the morning paper or the evening paper, and find out that the Department of State is making a cost-of-living survey in Puerto Rico and the Virgin Islands. I do not know how in the world the Department of State is equipped to do this. I do not know what their very special interest in these areas is. I do know that BLS is a Government agency that is supposed to do this and ought to do it, and I hope this resolution is adopted.

Now, to return, Mr. Chairman, momentarily at least to my prepared statement.

In all candor, when I was told about this proposal last year, my first reaction was more in favor than against. Vivid yet are my recollections

tions of the history of the cost-of-living allowance and the many attempts made in the past to abolish it in one phase or another.

I am going to divert again to say it reached such a ridiculous point on one occasion it was proposed to pay the cost-of-living allowance to those who would go to these areas concerned from any one of the then 48 States, but persons recruited locally would not receive it. I suppose there was some magic concept that if he lived at Point Barrow, Alaska, it did not cost him nearly so much to exist as if you came to Point Barrow, Alaska, to work for the Federal Government when your original home was in Iowa. That is complete nonsense, and happily that view did not prevail. When it came, it came from the then administration. We have had some strange proposals.

It occurred to me that perhaps the proposal carried with it a welcome reform by placing salaries for Federal classified and postal employees in Alaska, with upward adjustments allowed, in conformity with the 1962 law applying to the other States.

A thorough exploration of the proposal, so far as Alaska is concerned, dispelled that first reaction.

The proposal is unrealistic. It is illogical.

The same reasons which prevailed in defeating past attempts to abolish the cost-of-living allowance should be controlling now.

Last year, before this subcommittee, Representative Barry asked Chairman Macy what he had in mind to do about Alaska.

Mr. Macy replied:

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.

The underlying principle of section 504 of the 1962 act was to establish Federal salary comparability with private industry. In other words, Government requested and received ammunition to assist it when "significantly handicapped" in recruiting and retaining employees in competition with private industry.

It is my understanding, Mr. Chairman, that Mr. Macy used the above-quoted upward adjustment of 27 percent for Alaska following a survey of salaries paid in private industry.

Alaska's situation simply, I insist, does not fit into the section 504 mold. The number of companies in Alaska, unhappily, 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 mid-1950's. The Civil Service Commission then took an Alaska survey, and I was advised by Mr. Macy, who was then 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.

Because of that difficulty, I take it from Mr. Macy's testimony of last year that the Commission would apply the 27 percent upward ad-

justment for Alaska on a geographic basis so that it would apply in all localities.

However, in his statement before this subcommittee on July 19 of this year, Mr. Macy said: "We expect that, in general, special rates would completely replace the allowance in Alaska."

What, ask the Federal classified and postal employees in Alaska, do these words "in general" mean?

It means to them that the stable cost-of-living allowance, although inadequate, will be replaced by an uncertain future. The relative safety of the cost-of-living law will be replaced by the vagaries of administrative decisions.

The problem in Alaska, Mr. Chairman, is cost of living, and this must continue to be the basic consideration involved in the Government's recruitment and retention program 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 and postal field workers 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 effects linger 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 and postal workers 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 May 10 of this year the Commission, in 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 allowance for Federal employees would be reduced from 12.5 percent in Puerto Rico to 5 percent, as would the allowance for the Virgin Islands.

The Commission stated that the 1964 living indexes for Alaska, using 100 for Washington, D.C., were 137.8 for Anchorage, 142.4 for Fairbanks, and 129.3 for Juneau.

As of June 30, 1964, there were 6,766 classified employees in Alaska and 560 postal employees, for a total of 7,326. It is my understanding that less than 15 percent of the Federal workers receiving the allowance live in southeastern Alaska. The majority work in the Anchorage and Fairbanks areas, where the cost of living is considerably higher.

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 allowance 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.

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 above the highest.

2. H.R. 8390, 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 salaries paid in private industry for fixing upward rates. 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 the comparability between private industry and Federal salaries.

The categories upon which the Bureau of Labor Statistics based its survey 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.

Cost of living being what it is in Alaska, not one dollar of take-home pay should be reduced. Any upward adjustment of salary, with elimination of the allowance, would be counted toward retirement benefits but would no longer be exempt from the payment of income tax. Under the terms of this bill the Federal employee in Alaska would suffer a loss in that take-home pay, even if the Civil Service Commission should substitute for the tax-free allowance an upward adjustment in salary of a taxable 27 percent.

Herbert L. Meader, national representative in Alaska for the American Federation of Government Employees, has submitted to this subcommittee a table showing the annual direct loss of take-home pay for various grades of general service employees if the cost-of-living allowance is converted to an increase in salary. It is reproduced here.

(The table referred to follows:)

Grade	Base pay	Cost-of-living allowance	Total income	Taxes	Loss in take home
GS-4 (S/I), single:					
Present	\$4,480.00	\$1,120.00	\$5,600.00	\$437.00	
Proposed	5,600.00	0	5,600.00	617.00	\$180.00
GS-7 (S/I), 1 dependent:					
Present	6,050.00	1,512.50	7,562.50	430.00	
Proposed	7,562.50	0	7,562.50	1,001.25	571.25
GS-9 (S/I), 1 dependent:					
Present	7,220.00	1,805.00	9,025.00	939.60	
Proposed	9,025.00	0	9,025.00	1,264.50	324.90
GS-9 (S/I), 2 dependents:					
Present	7,220.00	1,805.00	9,025.00	501.00	
Proposed	9,025.00	0	9,025.00	1,144.50	643.50
GS-11 (S/I), 1 dependent:					
Present	8,650.00	2,162.50	10,812.50	1,197.00	
Proposed	10,812.50	0	10,812.50	1,623.94	426.94
GS-11 (S/I), 2 dependents:					
Present	8,650.00	2,162.50	10,812.50	1,077.00	
Proposed	10,812.50	0	10,812.50	1,482.94	405.94
GS-13 (S/I), 1 dependent:					
Present	12,075.00	3,018.75	15,093.75	1,920.63	
Proposed	15,093.75	0	15,093.75	2,660.31	739.68
GS-13 (S/I), 2 dependents:					
Present	12,075.00	3,018.75	15,093.75	1,779.63	
Proposed	15,093.75	0	15,093.75	2,499.31	719.68

Senator BARTLETT. Mr. Meader has pointed out that in addition to the loss shown on the table, 6.2 percent would be taken out for retirement, which is also a loss of take-home pay. Based on a period of 10 years before retirement, Mr. Meader has calculated it would take an average of 7 years before an employee would derive any benefit from his retirement to begin to compensate for the loss.

It should be noted that Mr. Meader has worked with a 25-percent increase in salary. Mr. Chairman, I did a little figuring on my own, based on a 27-percent salary increase. My results were figured on a man filing a joint return—no dependents—and taking the unitemized deduction allowances.

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Ranking from a \$5,000 base salary to a \$15,000 base salary, the take-home pay losses are as follows :

Basic income.....	\$5,000.00	\$6,000.00	\$7,000.00	\$8,000.00
With cost-of-living allowances.....	6,250.00	7,500.00	8,750.00	10,000.00
Tax.....	501.00	658.00	829.00	1,000.00
Salary with 27 percent.....	6,350.00	7,620.00	8,890.00	10,160.00
Tax.....	717.85	935.02	1,152.19	1,372.40
Salary increase.....	100.00	120.00	140.00	160.00
Tax increase.....	216.85	277.02	323.19	372.40
Take-home loss.....	116.85	157.02	183.19	212.40

Basic income.....	\$9,000.00	\$10,000.00	\$11,000.00	\$12,000.00
With cost-of-living allowances.....	11,250.00	12,500.00	13,750.00	15,000.00
Tax.....	1,171.00	1,342.00	1,556.00	1,776.00
Salary with 27 percent.....	11,430.00	12,700.00	13,970.00	15,240.00
Tax.....	1,650.60	1,930.00	2,209.40	2,520.00
Salary increase.....	180.00	200.00	220.00	240.00
Tax increase.....	479.60	588.00	653.40	744.00
Take-home loss.....	299.60	388.00	433.40	504.00

Basic income.....	\$13,000.00	\$14,000	\$15,000
With cost-of-living allowance.....	16,250.00	17,500	18,750
Tax.....	1,996.00	2,216	2,460
Salary with 27 percent.....	16,510.00	17,780	19,050
Tax.....	2,837.50	3,155	3,498
Salary increase.....	260.00	280	300
Tax increase.....	841.50	939	1,038
Take-home loss.....	581.50	659	738

Senator BARTLETT. 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 42 percent to Federal employees in Fairbanks, 39 percent to those in Anchorage, et cetera.

Such a bill, introduced at the request of the Civil Service Commission, 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 13 years ago contained in a statement which is still pertinent :

"The employment problem in Alaska," that report stated, "has been further complicated by the fact that 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."

Mr. Chairman, last year and this, many articulate and persuasive and eloquent letters have come to this subcommittee and members of the Alaska congressional delegation from Federal employees in Alaska opposing this legislation. Many of those letters point out that a goodly proportion of salary goes for housing being purchased on a fixed mortgage payment plan.

During the period between January and May of 1963, for example, 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 saying that comparable housing plus heating costs alone used up his 25-percent allowance without regard to increased food, medical, and other expenses.

Here in Washington we live in a high-cost city, and I can understand that a person who has not experienced the high cost of living in Alaska would think that a salary plus a tax-free 25-percent cost-of-living allowance is a generous one.

I am going to quote only from two letters which I have received. They tell graphic stories.

One from Anchorage:

I believe that one of the items overlooked by many in their consideration of this allowance is the 100-percent higher cost of medical services in Alaska. By personal experience I have compared such items as office calls, X-rays, eye examinations, prescription glasses, and hospital expenses and find that they are almost invariably from 85 to 130 percent above the same items in the lower 48.

My \$12,000 home in Denver cannot be duplicated in Anchorage for less than \$27,000. The Denver house rents for \$120 a month, but a similar house in Anchorage rents for about \$250 or more per month. A two-bedroom basement apartment across the street from my "basement house" in Anchorage, in a less desirable neighborhood, rents for \$195 a month.

And here is a letter from a native village postmaster:

My base pay is \$3,110, my take-home pay \$65.56 per week. To make both ends meet I have a large garden and work at every odd job I can do to earn a dime. There are three of us.

The take-home pay of \$65.56 per week includes the 25 percent cost of living. Afraid the take-home pay will be reduced by an increase in salary as planned, the taxes will increase accordingly by putting me into a higher bracket, taking a bigger bite. To be honest with you, if I were not in the 60-year bracket, I would have to give up the post-office job and look for a better paying one, but at my age jobs are far and few.

I am satisfied with the present setup, but to cut the take-home pay will complicate things, as I do not have to explain the high cost of everything you buy in a remote Alaska village to you.

As pointed out earlier in this statement, the May report of the Civil Service Commission placed costs at Anchorage 37.8 percent above the District of Columbia, Fairbanks 42.4 percent above, and Juneau 29.3 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 factors 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.

I should like to make available for the record the March 1965 study of the Alaska Agricultural Experiment Station, comparing retail prices on 40 items in 10 Alaska cities with the U.S. averages. It is attached to this statement.

If the subcommittee anticipates taking any further action on H.R. 8390, I urge that it be deferred until hearings can be held in the areas affected. The legislation is vitally important to the Federal classified and postal employees and to the personnel policy of the Government.

However, I hope H.R. 8390 will rest in peace right where it is.

(The Alaska Agricultural Experiment Station table follows:)

ALASKA AGRICULTURAL EXPERIMENT STATION, MARCH 1965

March average retail prices of 40 items in 10 Alaska cities

Food item	Unit	U.S. Average ¹	Ketchikan	Petersburg	Sitka	Juneau	Kodiak	Seward	Anchorage	Palmer	Fairbanks	Nome
Flour.....	5 pounds.....	\$0.58	\$0.83	\$0.84	\$0.92	\$0.82	\$0.90	\$0.83	\$0.85	\$0.82	\$0.96	\$1.28
Rice, long grain.....	1 pound.....	.29	.28	.29	.31	.30	.27	.30	.28	.33	.34	.43
Corn flakes.....	12 ounces.....	.30	.37	.41	.40	.38	.44	.47	.36	.45	.46	.62
Bread.....	12 ounces.....	.32	.45	.45	.46	.47	.50	.47	.47	.45	.50	.62
Round steak.....	1 pound.....	1.05	1.13	1.18	1.32	1.11	1.14	1.14	1.16	1.24	1.48	1.89
Chuck roast.....	do.....	.58	.78	.78	.79	.79	.79	.77	.79	.80	.80	.94
Ground beef.....	do.....	.48	.63	.71	.69	.64	.69	.66	.63	.66	.69	.77
Pork chops.....	do.....	.88	.99	.96	1.03	1.01	.93	.96	1.06	.91	1.26	1.14
Bacon.....	do.....	.67	.83	.89	1.02	.86	.79	.88	.86	.86	.86	1.04
Frankfurters.....	do.....	.62	.73	.71	.82	.76	.69	.79	.74	.72	.78	.84
Frying chicken.....	do.....	.38	.58	.60	.69	.67	.52	.65	.62	.62	.65	.84
Unsalted, light.....	do.....	.32	.39	.44	.42	.38	.40	.38	.34	.41	.45	.54
Milk, fresh.....	Quart.....	.24	.37	.39	.45	.40	.42	.43	.43	.42	.45	.54
Ice cream.....	1 1/2 gallon.....	.80	1.31	1.50	1.37	1.25	1.40	1.55	1.14	1.23	1.21	1.86
Butter.....	1 pound.....	.76	.79	.85	.83	.79	.89	.92	.89	.87	.86	1.08
Milk, evaporated.....	14 1/2 ounces.....	.15	.19	.19	.20	.19	.20	.20	.19	.20	.21	.23
Eggs, large A.....	Dozen.....	.52	.61	.55	.56	.51	.62	.62	.62	.60	.73	.98
Orange juice ¹	Pound.....	.32	.34	.41	.39	.38	.40	.43	.39	.39	.42	.62
Apples.....	do.....	.28	.28	.28	.30	.29	.34	.29	.27	.25	.33	.54
Bananas.....	do.....	.15	.29	.33	.36	.26	.44	.30	.34	.34	.39	.69
Oranges.....	do.....	.20	.24	.27	.27	.24	.26	.24	.24	.28	.32	.49
Potatoes.....	do.....	.09	.13	.14	.15	.12	.12	.13	.14	.12	.12	.24
Onions.....	do.....	.11	.11	.11	.12	.12	.12	.13	.14	.18	.20	.32
Carrots.....	do.....	.15	.20	.22	.26	.23	.23	.23	.24	.27	.31	.56
Lettuce.....	do.....	.24	.30	.33	.34	.34	.34	.34	.34	.35	.34	.69
Cabbage.....	do.....	.11	.18	.20	.21	.19	.22	.22	.24	.25	.26	.46
Onatoes.....	do.....	.33	.40	.53	.53	.47	.54	.51	.59	.57	.62	.74
Pineapple-grapefruit drink.....	46 ounce can.....	.34	.47	.46	.53	.52	.53	.59	.48	.56	.53	.76
Pears No. 2 1/2.....	can.....	.44	.44	.49	.53	.54	.42	.49	.38	.40	.40	.44
Fruit cocktail.....	303 can.....	.26	.31	.29	.30	.29	.30	.30	.24	.32	.31	.37
Peas.....	do.....	.23	.26	.23	.24	.23	.22	.24	.22	.23	.24	.28
Chicken soup.....	10 1/2 ounces.....	.13	.22	.21	.24	.23	.22	.24	.24	.23	.24	.28
Baby food.....	4 1/2 to 5 ounces.....	.18	.23	.21	.24	.23	.22	.24	.24	.23	.24	.28
Coffee.....	1 pound.....	.85	.91	.96	.96	.88	1.13	.86	.94	.94	.96	1.20
Salad or cooking oil.....	Pint.....	.36	.46	.46	.46	.38	.36	.40	.41	.39	.51	.69
Oleo.....	Pound.....	.28	.33	.33	.33	.25	.25	.30	.27	.26	.32	.43
Salad dressing, Italian.....	8 ounces.....	.27	.48	.43	.44	.46	.45	.44	.48	.50	.53	.67
Coca cola, 6 pack.....	12 ounces.....	.67	.84	1.06	1.14	1.09	1.06	.92	.93	.89	1.01	1.58
Beans, dried.....	1 pound.....	.17	.27	.26	.28	.26	.29	.29	.30	.30	.30	.36
Sugar.....	5 pounds.....	.58	.78	.76	.80	.79	.85	.83	.86	.79	.98	1.27
Total.....		15.40	19.50	20.75	21.60	20.20	20.64	20.88	20.36	20.49	23.16	28.93
Percent of United States.....		100	127	135	140	131	134	136	132	133	150	188
Total ²		-----	20.52	21.76	22.10	21.10	21.50	22.15	21.53	21.51	24.98	30.82

¹ Based on January 1965 U.S. Department of Labor, BLS, "Retail Food Prices by Cities."² Frozen.³ Based on original series of 40 food items.

Senator BARTLETT. And in final conclusion, Mr. Chairman, speaking of Alaska, I would be very sorry if this bill were to be enacted into law for the sake of those Federal employees who are there, and who would be obliged to remain there under a decreased take-home pay scale. There would be some, understandably, who would be caught in that situation, who would not be able to go elsewhere, who would have to try to get along with less money.

I have observed in my trips throughout Alaska, and I have learned through correspondence, that more often than not, as is the case elsewhere admittedly, wives of Federal employees have to find employment to meet the monthly bills. So there is a very human element in all this.

There is another one, and I suppose a committee of Congress must look more objectively at the second one, especially this subcommittee and this committee. You have a duty to perform in making sure that the Federal function in a particular area is discharged according to law.

Well, I suggest to you, Mr. Chairman and members of the committee, that if this bill becomes law this cannot be done because most people in Federal employment in Alaska, for example, and I suspect the same is true in these other areas concerned, can find employment elsewhere, and they will probably do so. No man voluntarily, without struggling to escape, embraces a situation where his take-home pay is reduced noticeably, or notably, as would be the case here. So those people will drift away. They will drift away to employment elsewhere in Alaska, or more likely they will go south. After all, they are of the caliber and the education of that group of our citizens who probably could find employment elsewhere in the Federal Government or out of the Federal Government in Washington, or Florida, or Maine, or elsewhere to the south of Alaska and what then—and I think this is a question that ought to be considered very carefully—what then is the Federal Government going to do to provide the services in the several departments in Alaska that the law calls upon the Federal Government to provide?

This is important. This is vital. I do not think it has been taken sufficiently into account by the administration.

Thank you, Mr. Chairman.

Mr. MATSUNAGA (acting chairman). We certainly appreciate your statement, Senator.

Surprisingly, more to the administration perhaps, the only one who has testified in favor of the proposal is Mr. Macy himself. How this subcommittee can do otherwise than to let this bill rest in peace I do not know.

Senator BARTLETT. Those are comforting words and logical words.

Mr. MATSUNAGA. I am in full agreement with you. One of our principal objectives as legislators is to see that equity is done by legislation. Certainly this piece of legislation would bring about inequity.

Mr. KREBS. I do not have any questions.

I do want to make a statement for the record.

First of all, I want to commend you, Senator, for an excellent statement and the motivation that I am sure led to your being here this morning.

I want to say that I personally feel enriched by your being here this morning. It gave me an opportunity for meeting you the first time. I am happy to be in the same Congress with you.

Secondly, we are happy for having you on our side in this what to me is an ideological and philosophical fight.

Senator BARTLETT. Thank you, sir.

Mr. MATSUNAGA. Thank you again.

Our next witness is our colleague from Hawaii, Senator Inouye.

STATEMENT OF HON. DANIEL K. INOUE, A U.S. SENATOR FROM THE STATE OF HAWAII

Senator INOUE. Mr. Chairman and members of the subcommittee, thank you for extending me this opportunity to testify on H.R. 8390, the bill to terminate cost-of-living allowances in nonforeign areas.

I am happy to note that the present bill spells out the specific manner in which the Civil Service Commission proposes to phase out cost-of-living allowances—a point which was not clear to me in last year's measure.

I must, however, reiterate my strong opposition to the entire bill. I am forced to do so for three principal reasons: First, because it will have an alarmingly adverse effect on the people of the State of Hawaii, particularly the 11,000 Federal workers; second, because sufficient consideration has not been given to the high cost of living in noncontiguous areas of our country, particularly Alaska and Hawaii; and finally, because I do not believe that the bill fulfills the expressed purpose for which it has been drafted.

First, I would like to speak on the harmful effect of the bill on Hawaii's people and economy. There are an estimated 11,000 Federal employees in my State who receive cost-of-living allowances amounting to \$12 million annually. This suggests that the average individual cost-of-living allowance payment received per annum is more than \$1,000. Under the proposed legislation, the payment would be reduced by \$182 per year. While at first glance this does not appear to be a large amount, it nevertheless presages hardship for many of the families of Federal employees, especially when you consider Hawaii's higher living costs and the fact that our people are perhaps more heavily in debt than anyone else if such factors as higher mortgage payments are taken into account.

It has been argued that with annual increments and within-grade pay increases, the Federal employee in Hawaii will not feel the effect of such a reduction too much. The claim apparently is predicated on the assumption that annual increments and within-grade pay hikes will be forthcoming in the future at the same proportions as in the past. Except for stipulated annual increments, I would submit that this assumption is not entirely a valid one, since there is no guarantee that an employee's salary will automatically increase in the same proportions as they have in the past. It is in effect being argued that, with annual increments and within-grade increases, the Federal employee will somehow lose his cake and gain it, too. I would assert that there is more of a chance of the employee's losing his cake and gaining nothing.

Moreover, this type of reasoning contains another basic fallacy. As just noted, it is implied that, with annual increments and within-grade pay increases, the Federal worker will not suffer much of a loss—if at all—in take-home pay. It is not mentioned, however, that as the cost of living in the Nation as a whole and in Hawaii in particular rises, the purchasing power of such an employee in Hawaii will decline, since that employee can now buy less for his money. As an example, take the Hawaii employee who earns \$6,000 in annual take-home pay, of which \$900 is a cost-of-living allowance benefit. If he receives a total increment of \$900 during the total reduction period, as Mr. Macy has implied he might, then the employee's total income will, of course, remain at \$6,000 at the end of 6 years. What happens to the mainland counterpart of this Hawaii employee at the end of the same 6 years? Let us say he, too, is earning \$6,000 in take-home pay to start off with. Since he does not have any cost-of-living allowance benefits, he loses nothing by passage of this bill. Then, if he receives the same increment of \$900 as his Hawaii counterpart, he will have take-home pay totaling \$6,900. He will certainly have more purchasing power than his Hawaii counterpart. More importantly, however, the Hawaiian employee, even assuming that salary increments and raises offset his annual cost-of-living allowances reduction, will find that his standard of living will decrease because costs of living will increase while his take-home salary remains constant.

The removal of cost-of-living allowance and the reduction of the purchasing power of the Federal employee in Hawaii will lead to serious personal consequences. It would be natural for many of the highly skilled, irreplaceable non-Hawaiian employees to seek transfer to other localities where living costs are lower. In addition, a number of highly skilled employees, recruited and trained locally, would leave for areas such as California where costs are lower and wages better. Undoubtedly, most of those Federal employees who must remain in Federal service or are not able to move elsewhere would be demoralized.

The loss of this additional income will affect Hawaii in other ways. Since total personal income in Hawaii was estimated in 1964 at \$1.77 billion, cost-of-living allowances payments comprised less than 1 percent of the total wages and salaries. However, there is more meaning to this statistic than meets the eye. The effect of the loss of cost-of-living allowances payments would be increased by the failure of those dollars to circulate repeatedly in our noncontiguous, island economy. Over a period of time, the drop in actual pay levels would also depress local wage scales. Relative immobility of the labor force and economic isolation have resulted in lower salary levels in many of Hawaii's unorganized white-collar occupations. Among white-collar jobs, Government pay scales have tended to set the pace. Decreased Federal pay scales may lead to a fall in private pay in comparable positions. I strongly believe that the duty and responsibility of Government is not simply to pay the lowest possible salary, which it must do if private industry wage scales were to be used as criteria in Hawaii, but to try to pay commensurate with the responsibilities of the job and the longrun economy which will result to the United States in terms of retaining highly trained personnel.

The second major objection that I have to H.R. 8390 is that I do not think that the Commission has paid adequate attention to the extremely high cost of living in noncontiguous areas of our country particularly Alaska and Hawaii. Admittedly, the Commission has promised to establish special compensation rates for Alaska in view of the higher gross compensation presently paid to employees in private business there as compared to those in the Federal service. But it appears that the Commission refuses to recognize that the cost of living in the noncontiguous areas of Hawaii and Alaska is at a level which warrants special dispensation.

For example, Mr. Macy, in his testimony on July 19, stated that "payment of the allowances is inequitable because it results in higher gross compensation (for Hawaii and Alaska) while at the same time no distinctions are made in compensation among different areas on the mainland because of living costs." To support his point, he goes on to cite statistics from a 1959 Bureau of Labor Statistics report, in which he says, "it was found that some major cities on the mainland had living costs as much as 20 percent above those of others." I have consulted the report referred to, "The Interim City Worker's Family Budget," published by the Labor Department and have found that the statement is indeed true, but the statement itself does not present an entirely accurate picture of living expenses in the country as a whole. Covering 20 cities and using Washington's cost of living as a base of 100, the survey indicated that the cost of living in Houston—the cheapest city to live in—was 87 percent of that in Washington, while the cost of living in Seattle and Chicago—the most expensive cities to live in—was 107 percent. Subtract 87 from 107 and we have Mr. Macy's 20 percent. The important thing to note, however, is not the percentage spread between the most expensive and least expensive city, but the distribution among the 20 cities surveyed. The cost of living in nine of the cities was below that of the base city of Washington, D.C., while the cost of living in the eight others was only from 1 to 3 percent above that of Washington. Seattle and Chicago, with their cost of living 7 percent above that of Washington, are definite anomalies in this distribution; they should not be cited as the rule, for they are really exceptions.

Unfortunately, Honolulu was not covered in the survey. But most of the facts that I am about to cite will make it quite clear that the cost of living is extremely high in the noncontiguous area of Hawaii.

Before I continue, however, we should note the obstacles in comparing costs of living. Ordinarily the BLS (Bureau of Labor Statistics) is the source of most information on prices. However, such information is inadequate since BLS figures usually compare prices in a point of time within a specific area; they are not meant to illustrate the differences in living costs between different localities. We must, therefore, largely rely on recent cursory studies such as "The Estimated Average Retail Prices of Important Foods, Western Region," compiled by the BLS. My colleagues from Hawaii and I have touched upon this point of lack of information concerning living costs over and over again, but little has been done to remedy the situation.

Last year I suggested a detailed comparison of cost-of-living figures compiled by the State Department experts who forward their statistics to BLS and the figures compiled by the Hawaii State Economic

Planning and Development Department as well as by private industries in Hawaii. Nothing to my knowledge has been done in this particular area by the Commission.

Whatever information we have, however, tends to corroborate the view that there is an out-of-the-ordinary cost of living in Hawaii. For example, BLS estimates for the western region, calculated in April 1965, show that of 81 food items surveyed, in 68 cases—or 82 percent—the price of the item was higher in Honolulu than in San Francisco or Los Angeles. To cite just a few specifics: hamburger in Honolulu sold for 65.1 cents per pound, compared to 44.6 cents in Los Angeles and 41.8 in San Francisco; a half gallon of milk that sold for 60.8 cents in Honolulu went for only 47.8 cents in San Francisco and 47.2 cents in Los Angeles; a head of lettuce cost 40 cents in Honolulu, in comparison to only 20.5 cents in Los Angeles and 21.9 cents in San Francisco; a carton of large grade A eggs sold for 60.8 cents in Honolulu compared to 44.2 cents in San Francisco and 45.4 cents in Los Angeles.

We in Hawaii have recognized the inadequacy of present survey methods and have tried to obtain better information. More than 2 years ago in April of 1963, a University of Hawaii study entitled "Comparative Prices of Selected Consumer Items" was issued. The survey, conducted by Prof. Joseph W. McGuire of the Universities of Washington and Hawaii and carefully hedged as to comparability, nevertheless indicated that, on a sampling of 33 food items, Honolulu prices were higher than those in a sampling of 46 cities, in 88 percent of the cases. The survey also showed that in over half of the instances, the food prices across the country were from 70 to 89 percent of the Honolulu prices.

Not only are food items much higher in Hawaii than on the mainland, housing figures, taken from the U.S. Census Bureau, illustrate the remarkable difference between cost of housing in Hawaii and the national average. Hawaii is at the top of the country in the median cost of owner-occupied housing units: our median value is \$20,000 versus the U.S. value of only \$11,900. We also rank first in overcrowding, second in percentage of renter-occupied dwelling units, and almost at the bottom in the percentage of vacancies. As a recent report by the University of Hawaii's Land Study Bureau, "An Economic View of Leasehold and Fee Simple Tenure of Residential Land in Hawaii," observes:

The high price of residential property is an immediately noticeable feature of life in Hawaii. * * * If the average value of residential lots in the Honolulu area could be reduced to the level typical for the country as a whole, the average residential property would still be 20 to 25 percent higher in value than the national average * * * not to mention that the house would be slightly smaller in size, and of generally lighter construction.

Thus, the most recent figures support my contention that the cost of living in Hawaii is substantially greater than that on the mainland. In view of this, it would be difficult to conclude that the 15 percent cost-of-living allowance is unfair. If anything, it is insufficient.

There are many factors that contribute to a high cost of living in Hawaii. This is not the time nor the place to delve into them. I will merely touch on them in passing: we are over 2,000 miles from the mainland; the vast majority of our hard goods and foods is im-

ported; the relative lack of competition among distributors contributes to higher markups; Honolulu, our urban center, is located on one of the most densely populated islands in the world and the land area for residences as well as for warehouse and storage space is severely limited.

I would like at this point to cite a personal experience I had a few years ago. I was deeply in love with a plot of land in Honolulu, and this plot was 10,000 square feet in size. It was in a residential area. It was up for auction, and the upset price was \$1.75 per square foot, or \$17,500. Within 5 minutes after several bids were made, this lot was sold for \$33,200. This is much, much higher than in Montgomery County.

When we speak of lighter construction in Hawaii, as you can imagine we have no need for heating facilities and very little need for air conditioning, so most of our houses are single wall construction. You do not have the elaborate double wall construction with air ducts.

Certainly, in view of these conditions, a cost-of-living allowance would be justified.

My final objection to H.R. 8390 is that I do not believe that it fulfills its expressed purpose, which is, according to Chairman Macy—

to put 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 that of similar employees in other parts of the country and to eliminate expenditures which can no longer be justified.

As noted earlier, I sincerely feel that the expenditures in terms of cost-of-living allowance payments are justified because of the higher cost of living in Hawaii.

As for placing compensation for Hawaii employees on the same basis as that for mainland employees, I would merely point out that I think excessive emphasis is being placed by proponents of this legislation on so-called uniformity of pay schedules. Mr. Macy has stated that he advocates the legislation because cost-of-living allowances are "inconsistent with Federal pay principles." I would assert that the Federal Salary Reform Act of 1962, cited by Chairman Macy to bolster his testimony, not only does not prohibit the payment of cost-of-living allowances, but actually could very well be interpreted as supporting it.

The Civil Service Commission has argued that the 1962 act was aimed at setting up a nationwide uniform pay scale for Federal employment and at relating Government pay schedules to comparable private industry salaries. The first principle stated in section 502(a) of the act, however, is that "there shall be equal pay for substantially equal work * * *." Identical dollar amounts for comparable classifications is only one interpretation of section 502(a). But if we are to be consistent and logical, identical dollar amounts mean very little when there exist tremendous variations in the relative purchasing power of these same dollars in different localities.

Equal pay for equal work ought to mean relatively equal real wages for the same type of job. Cost-of-living allowance, it seems to me, is a means for maintaining this principle. Cost-of-living allowance helps the Federal service to maintain and retain top technicians and managers usually trained at great expense and difficult to replace. Also, cost-of-living allowance provides for payment commensurate with the responsibilities of the job instead of pegging Government

salaries to the lowest denominator, private industry scales in Hawaii.

In conclusion, Mr. Chairman, I think the case against H.R. 8390 is clear cut. It will work hardship on Hawaii's 11,000 Federal workers and on the economy of the State. It will depress white-collar wages in private business, since there will no longer be any pace setting in pay by the Federal Government. It does not recognize the fact that living expenses are indeed significantly higher in noncontiguous areas such as Hawaii. And it sacrifices truly fair compensation for Federal workers in Hawaii on the altar of a seemingly uniform pay schedule.

For all these reasons, Mr. Chairman, I hope that this committee will not report favorably on this bill.

In conclusion, may I submit the following material for the record:

May I request consent that a letter dated July 23, from the president of the Pearl Harbor Association, Mr. W. D. Bennett, be placed in the record at this point?

Mr. MATSUNAGA. Without objection, it is so ordered.

(The letter referred to follows:)

PEARL HARBOR ASSOCIATION,
July 23, 1965.

HON. DANIEL K. INOUE,
U.S. Senate,
Washington, D.C.

MY DEAR SENATOR INOUE: The July 19, 1965, edition of the Honolulu Star Bulletin contained an article (attached) which contains statements supposedly made by the Chairman of the U.S. Civil Service Commission, Mr. John W. Macy. These statements should not be permitted to remain in the record unchallenged as many of my fellow employees and I fail to understand how and why Mr. Macy is so misinformed. I will attempt to provide you with the facts of the current situation out here and why it is so important that the cost-of-living allowance be continued.

Mr. Macy states, "that the allowances were initiated to attract workers to areas short on manpower, and that the proposed legislation would eliminate expenditures which can no longer be justified."

This manpower shortage situation has not changed in Hawaii, in fact, it is probably more serious now than ever before. Mr. Macy's own local office should know that it is difficult to hire engineers from the local market. At the present time the shipyard, because it could not obtain engineers and technicians, has had to contract very important work out to two mainland firms. These people are now working in the shipyard under contract. The shipyard has been successful in hiring approximately 20 recent graduates from the University of Hawaii at the GS-5 level. It will take many years to train these people. It is extremely doubtful if any of these graduates would have accepted employment if cost-of-living allowance was not included in their salary.

It is very difficult to understand why the Civil Service Commission continues their crusade to abolish cost-of-living allowance in view of the fact that the cost of living is at least 15 percent higher here than any other State except Alaska because of just a few simple reasons—some of the more obvious being housing, land, lease rental, automobiles. Needless to say, the publicity generated by the Commission's crusade, knocks morale to "rock bottom" and makes it difficult, if not impossible, to recruit people from the mainland.

It is our opinion that Mr. Macy has been misinformed regarding the true facts as to why the cost-of-living allowance is still required. The shipyard commander and commandant of the 14th Naval District have continually endorsed the continuation of cost-of-living allowance. These people are responsible, knowledgeable, and are exposed to the facts firsthand, but evidently the Civil Service Commission does not want to believe the basic fact; which is, that if cost-of-living allowance is abolished, the commands in this area will find it difficult, if not impossible, to continue to operate efficiently with the proper personnel.

In view of the above, it is requested that every effort be made to insure that the true situation is brought to Mr. Macy's attention and that some form of action be initiated to find ways and means to stop the Commission from continually destroying the morale of the employees in this area.

Very truly yours,

W. D. BENNETT, *President.*

Mr. MATSUNAGA. I wish to commend the Senator from Hawaii, my colleague, for his most convincing argument against H.R. 8390. He has long been a champion against any legislation which would bring about an inequitable situation, especially among his own constituents. I congratulate you for your statement.

Senator INOUE. I thank you very much, Mr. Chairman.

Mr. MATSUNAGA. There is one question I would like to put to you relative to the hiring practice of certain Federal agencies in Hawaii. I put this question to you because I have had quite a number of complaints which may warrant some investigation. I have heard that agents recently have been using cost-of-living allowances as a means of hiring new employees at a reduced grade so with cost-of-living allowance included the base pay would be about equal to that of a comparable job held by an employee here in Washington. Have you by chance come across any complaints along that line?

Senator INOUE. Yes.

Like my distinguished friend in the House, I too have received letters from my constituents in Hawaii attesting to this fact, and I think it is a shameful practice, and I hope your committee will see fit to investigate this matter. I think it deserves consideration by your committee.

Mr. MATSUNAGA. I appreciate your comments on that.

I feel the intended purpose of granting cost-of-living allowances to Federal employees in Hawaii is being frustrated by such practices. We intend to do something about bringing about justice in this area.

Mr. KREBS. I have no questions.

I do want to commend the gentleman from Hawaii for presenting a most comprehensive, scholarly, and helpful statement. My personal feeling is the facts set forth in his statement are the best kind of ammunition.

I want to commend you and thank you for making this information available.

Senator INOUE. I wish to thank the gentleman for his very gracious words.

Mr. BROYHILL. No questions. I want to join my colleagues in welcoming the distinguished Senator before the committee.

Senator INOUE. Thank you very much. It makes me feel at home. I served here for 4 years. I am very happy to be back in my happy hunting grounds.

Mr. MATSUNAGA. Thank you again, Senator, for your excellent statement.

Senator INOUE. Thank you.

Mr. MATSUNAGA. Our next witness is the Honorable Polanco-Abreu of Puerto Rico.

STATEMENT OF HON. SANTIAGO POLANCO-ABREU, RESIDENT
COMMISSIONER OF PUERTO RICO

Mr. POLANCO-ABREU. Mr. Chairman, thank you for allowing me to appear before the Subcommittee on Compensation this morning to give my views on H.R. 8390 and my bill House Joint Resolution 569. I appear in opposition to H.R. 8390, and in support of House Joint Resolution 569.

H.R. 8390 has as its purpose the gradual elimination of cost-of-living allowances for statutory-salaried employees in the noncontiguous areas of the United States, and the substituting therefor, of the principle of comparability of statutory salaries with those in private enterprise, presumably as a logical compliance of the Salary Reform Act of 1962. I associate myself with those who maintain that the Salary Reform Act of 1962 does not contemplate the elimination of cost-of-living allowances but indeed does contemplate the retention of the cost-of-living allowances system as a practical means of comparability.

The cost-of-living allowances system is practicable and workable. Certainly, it is favored by those directly affected; namely, the Federal employees, themselves, who have found that cost-of-living allowances, with proper administration, protects them from both sudden and subtle variations of living costs in their areas of employment. I have been impressed in the hearings on this bill that the advocates of H.R. 8390 are indeed small in numbers. The only testimony in favor of the bill has been the Civil Service Commission, itself. Federal employee representatives and spokesmen have been unanimous in their opposition, as are congressional delegations from Hawaii, Alaska, Puerto Rico, and the Virgin Islands. When a legislative proposal finds almost universal opposition, it is a very good indication that something is wrong with the proposal. On this occasion it is the retraction of a necessary protection against the hazards of rising living costs affecting Federal employees in the noncontiguous areas.

Moreover, it appears to me that there are administrative dangers in H.R. 8390. The Civil Service Commission believes that with the elimination of cost-of-living allowances they will still be in a position to recruit Federal employees for the noncontiguous areas. The authority which they say they have to recruit and retain personnel is by setting separate salary scales for each area, according to the skills required so as to compete in the local market with private industry.

To replace cost-of-living allowances by adjusting and jockeying salaries to employees special skills would, I think, result in an administrative nightmare. It would be replacing a simple and workable system with an exceedingly complex system of assigning different grades and steps within a grade, area by area. In comparison, cost-of-living allowances is streamlined and uncomplicated, and merely requires a flat-percentage determination based on regular cost-of-living surveys in Washington and the area involved.

There is another fault that I find with H.R. 8390: that is the Federal Government placing itself in a position as an advocate of cheap labor in areas, where competition in the marketplace allows it to pay

less than the Government workers' gross compensation, including cost-of-living allowances. I think that the principle that you get what you pay for, always holds true, and that cheap labor would make for the cheapening and lowering of efficiency in Federal Government functions. I believe the Federal Government should assume leadership as an advocate of higher living conditions and not as an advocate of lower living standards. It should set the example for industries competing for available personnel.

For these reasons I am opposed to H.R. 8390, and I hope that the subcommittee may table the bill.

Now I direct my attention to the resolution which I introduced to correct a very serious and urgent situation facing Government employees in Puerto Rico. House Joint Resolution 569 would rescind the administrative order of the Civil Service Commission announced on May 10, 1965, requiring a reduction from 12.5 to 5 percent in the cost-of-living allowance paid to Federal employees in Puerto Rico and the Virgin Islands. It also would require a new cost-of-living survey to be made by the Bureau of Labor Statistics with the full, co-operative participation by the affected employees and their representatives. In addition, it would require that a report of such survey be made to the Congress.

As was brought out in the recent hearings on House Joint Resolution 569 before this subcommittee, there are serious questions as to the accuracy, methodology, and reliability of the cost-of-living survey which resulted in the 7.5 percent cut in cost-of-living allowances and which was conducted by a State Department survey team without consultation with or participation by representatives of the groups affected in Puerto Rico and the Virgin Islands.

Witness after witness appearing before the subcommittee demonstrated clear deficiencies in the conducting of the survey by the State Department team. They pointed out the secrecy with which the survey was conducted, and questioned why the checkoff list of market basket comparison has never been made public.

If a survey to compare prices in Puerto Rico and the Virgin Islands with those in Washington were conscientiously, efficiently, realistically, and accurately conducted, and if the result clearly called for a reduction in the cost-of-living allowances because the differential could no longer be justified, I am sure that the Federal employees would accept this. But when they can see no reduction in their cost of living and when the prices in the supermarkets are higher and not lower, and when rents creep ever upward, and when the entire study has been shrouded in a climate of mystery and secrecy with the result that the paychecks are suddenly reduced by 7.5 percent, the Federal employees, I think, are justified in challenging the survey and the Civil Service Commission.

Moreover, it would appear that if the Bureau of Labor Statistics is charged with responsibility for the survey in Hawaii and Alaska, it should also be charged with the assignment in Puerto Rico and the Virgin Islands. The State Department, in protecting their personnel overseas from spirals in living costs, is faced with an entirely different problem. Their employees in overseas posts are living under varied conditions and in an economic climate which can in no way be compared with the circumstances and economic climate encountered

in nonforeign areas. The Bureau of Labor Statistics is accustomed, by experience, to domestic conditions; the State Department to foreign conditions.

The Civil Service Commission maintains that the cost of living in San Juan is now 104.5 percent above Washington, D.C., whereas previously it had been 112.5 percent. This is scarcely consistent with a Federal Government policy which pays Federal employees per diem at the rate of \$16 per day in continental United States, and \$24 per day in Puerto Rico.

In summary, let me say that there have been many claims and counterclaims to this committee regarding the survey. The positions taken by the Civil Service Commission and the Federal employees are diametrically opposed. The market basket list used by the State Department survey team has never been released by the Civil Service Commission with the prices and costs they found. There has been unusual secrecy in connection with the survey. Federal employee groups in Puerto Rico and the Virgin Islands were neither consulted nor heard. The cost-of-living situation between Puerto Rico and Washington, D.C., is challenged and debated. There is distrust in the reliability of the survey. This constitutes no great problem for the U.S. Treasury since there are less than 5,000 Federal employees concerned. But many more than 5,000 are being directly affected by the 7.5 percent cut. It is a matter of immediate concern to the Federal employees and their families who are finding 7.5 percent less in each pay check, week after week, and month after month, and they have had to make severe and sudden budgetary adjustments. Where financial commitments have been made on a long-term basis, such adjustments are impossible.

The situation is one of financial emergency to these Federal employees, and I am sure that it will show up in their work through worry and lowered morale. In this sense, the Federal Government is the continuing loser, as well as the Federal employees.

House Joint Resolution 569 would call a halt to the situation until it can be properly studied by experts, with the participation of the Federal employees affected. I believe that hearings should eventually be held on this question in Puerto Rico.

I support the statements of my distinguished friends, Mrs. Mink, Mr. Rivers, Senator Fong, and Senator Bartlett.

I think these statements are eloquent and profound enough to table the bill H.R. 8390, and I hope the subcommittee will take prompt and favorable action in considering House Joint Resolution 569.

Mr. KREBS. I want to commend Mr. Polanco-Abreu for the leadership he has given in opposing this reduction in the cost-of-living allowance. I want to make certain one thing is clear in the record.

He said that the employees involved, or their labor organizations, or representatives of theirs were not given an opportunity—

Mr. POLANCO-ABREU. They were not consulted.

Mr. KREBS (continuing). To testify in behalf of the interests of their members, and perhaps shed new light on why this should not be done.

Mr. POLANCO-ABREU. That is correct.

Mr. KREBS. In other words, it was virtually a unilateral private service.

Mr. POLANCO-ABREU. A secret service.

Mr. KREBS. Which is even worse, and the people who obviously could have made a meaningful contribution to a greater understanding of this problem were not even notified, or given an opportunity to come in before this Commission.

Mr. POLANCO-ABREU. That is what I understand.

Mr. MATSUNAGA. I, too, wish to commend the gentleman from Puerto Rico for the gallant effort he has put forth in trying to have a stay of the reduction from 12.5 to 5 percent in the cost-of-living allowance of Federal workers in Puerto Rico.

The gentleman can be assured of the support from the Hawaii delegation as was indicated this morning by all those who testified before this subcommittee. We do hope that the chairman will agree to bringing House Joint Resolution 569 to a vote in the subcommittee at an early date.

Mr. POLANCO-ABREU. Thank you very much, Mr. Chairman.

Mr. MATSUNAGA. Our next witness is the distinguished Senator from Alaska, the Honorable Ernest Gruening.

STATEMENT OF HON. ERNEST GRUENING, A U.S. SENATOR FROM THE STATE OF ALASKA

Senator GRUENING. Mr. Chairman, I appreciate this opportunity to comment on H.R. 8390, the proposed legislation which, if enacted, would terminate the cost-of-living allowances of Federal civilian employees in Alaska, Hawaii, Puerto Rico, and the Virgin Islands.

Let me state emphatically that I am opposed to this bill.

In substance, H.R. 8390 is the same bill that was introduced last year as H.R. 7401. In effect, the legislation now before the subcommittee would abolish the present 25-percent cost-of-living allowance in Alaska which is not subject to Federal income taxes, and would substitute a taxable cost-of-living allowance of 27 percent.

This legislation would remove the present congressional control and in its place authorize the Civil Service Commissioner to adjust salary differentials as provided by section 504 of the 1962 Salary Reform Act. Section 504 of that act was adopted because our Federal agencies were "significantly handicapped" in recruiting and retaining employees because those agencies were competing with private industry who could offer higher salaries.

Section 504 presently limits the upward adjustment the Commissioner can make in an entrance rate of a grade to the seventh rate. Recognizing that Alaska is a "special" case, the legislation before us today would except Alaska from the provision, thereby permitting the Commissioner to pay higher differentials in Alaska.

Now it is a foregone conclusion that the salaries of Federal employees in Alaska are not commensurate with the cost of living. The Civil Service Commission readily admits that the cost of living, in all cases, exceeds the 25-percent allowance now paid.

Commissioner Macy has even gone further and proposed that the cost-of-living allowance be adjusted upward to 27 percent.

On the surface, it appears that civil servants in Alaska would be given an increase under this bill.

This is not the case.

Generally, salaries would be increased. But when we go from the general to the specific, we find instead a net decrease.

If enacted, this legislation would substantially reduce Federal employees take-home pay, because in every instance individual income tax increases would wipe out the Commissioner's 2-percent increase.

This is wholly unrealistic.

How much higher is the cost of living in Alaska?

The Civil Service Commission, by its own figures and using Washington, D.C., as a base, reported 1964 cost-of-living indexes in Alaska were higher by 37.8 percent in Anchorage, 42.4 percent in Fairbanks, and 29.3 percent in Juneau. These percentages are impressive, but even gain additional impact when converted into terms of dollars and cents.

In Anchorage, gasoline costs 50 cents a gallon, oil is 75 cents a quart, milk is 45 cents a quart, bread is 55 cents a loaf, lettuce is 45 cents a pound, and potatoes are 15 cents a pound. Meat averages \$1.50 per pound. Haircuts are \$2.75. It costs 60 cents to have a shirt laundered and \$2.85 to have a suit cleaned. The average rent for a one-bedroom apartment is \$165, a two-bedroom is \$185, and a three-bedroom apartment rents for \$220.

As I have stated before, the proposal before the subcommittee would, in effect, further reduce the take-home pay of our civil servants in Alaska. This must not be done. In fact, it seems remarkable to me that we are able to retain or recruit any qualified employees on the differential that is now being paid.

To what extent would the Federal workers pay be reduced if this legislation were to pass?

From a table worked out by Mr. Herbert L. Meader of the American Federation of Government Employees, we see that salaries would be cut by \$180 at the GS-4 level and by \$739.68 at the GS-13 rating. A GS-7 with one dependent would suffer a net reduction of \$571.25 yearly or roughly \$50 a month. This does not include the additional 6½ percent to be credited to retirement. This is a substantial reduction when we take into consideration the fact that his allowance as of now is not commensurate with the cost of living. Commissioner Gil Johnson, of the State department of labor, has written me stating that the percentage cost of goods and services translated into dollars and cents make basic living needs for Anchorage an average \$8,400. It is apparent that a Federal employee rated as a GS-7 is not meeting his basic living needs and further reductions of his income must not be made.

(The table referred to follows:)

Effect on take-home pay of conversion of 25 percent cost-of-living allowance to salary

[Prepared by Herbert L. Meader, national representative in Alaska for the American Federation of Government Employees]

Grade	Base pay	Cost-of-living allowance	Total income	Taxes	Loss in take-home pay
GS-4 (S/I), single:					
Present.....	\$4,480.00	\$1,120.00	\$5,600.00	\$437.00	-----
Proposed.....	5,600.00	0	5,600.00	617.00	\$180.00
GS-7 (S/I), 1 dependent:					
Present.....	6,050.00	1,512.50	7,562.50	430.00	-----
Proposed.....	7,562.50	0	7,562.50	1,001.25	571.25
GS-9 (S/I), 1 dependent:					
Present.....	7,220.00	1,805.00	9,025.00	639.60	-----
Proposed.....	9,025.00	0	9,025.00	1,264.50	324.90
GS-9 (S/I), 2 dependents:					
Present.....	7,220.00	1,805.00	9,025.00	501.00	-----
Proposed.....	9,025.00	0	9,025.00	1,144.50	643.50
GS-11 (S/I), 1 dependent:					
Present.....	8,650.00	2,162.50	10,812.50	1,197.00	-----
Proposed.....	10,812.50	0	10,812.50	1,623.94	426.94
GS-11 (S/I), 2 dependents:					
Present.....	8,650.00	2,162.50	10,812.50	1,077.00	-----
Proposed.....	10,812.50	0	10,812.50	1,482.94	405.94
GS-13 (S/I), 1 dependent:					
Present.....	12,075.00	3,018.75	15,093.75	1,920.63	-----
Proposed.....	15,093.75	0	15,093.75	2,660.31	739.68
GS-13 (S/I), 2 dependents:					
Present.....	12,075.00	3,018.75	15,093.75	1,779.83	-----
Proposed.....	15,093.75	0	15,093.75	2,499.31	719.68

Senator GRUENING. One of the Federal agencies in Anchorage, at my request, made a survey of the monthly income and expenses of its employees. A typical GS-7 with a net monthly salary of \$440.54 reported expenses of \$992 a month. If it were not for the fact that his wife is employed, he would be receiving a net pay of only one-half of his expenditures.

Another GS-7 whose take-home pay is \$514.50 reported expenses of \$683 per month. It is also necessary for his wife to work to make ends meet. In fact, of the 17 employees of this agency, 8 have expenditures that exceed their net pay and find it necessary to supplement their income. Six of these employees list expenses from \$12 to \$70 under their net pay. Thus 14 of 17 employees in that agency are either just meeting their financial obligations or are forced to supplement their income.

Because of the cost of living in Alaska, a working wife is more often the rule than the exception. If both the husband and wife happen to be employed in the Federal Establishment, the impact upon their take-home pay would be nearly doubled. In specific cases, husband-wife teams are actively recruited as teachers for the BIA because of the unique situation in Indian and Eskimo villages. These positions are difficult to fill as the teacher is normally transported to these areas by airplane and remains in this remote site, virtually out of contact with the outside world, for the remainder of the year. Because both are federally employed, they would suffer a substantial cut in income. Many of the present teachers would take jobs with the independent school district, which even now have salary schedules in excess of those set by the BIA. I fear that qualified personnel could not be found as replacements.

I have other objections to this bill. The salary rates under the bill are to be set by comparing civil service salaries to base wages paid in private industry. A recent survey made by the Bureau of Labor Statistics attempted to find counterpart positions in private industry in Alaska to Federal positions for the purpose of making wage comparisons. Alaska again ably demonstrated that it is, in fact, the last frontier, as many of these Federal job categories simply do not exist in private industry in Alaska. Our private industry has not developed to that extent. Without differentials based on salaries paid in private industry, the only other alternative upon which to base differentials is the cost-of-living index. On this basis section 504 cannot apply, as the law clearly states that base wages must be set upon counterpart positions in private industry.

We do not meet this problem when we consider rates paid wage board employees. Here job and salary comparisons can be made. These employees, who represent the trades, the skilled craftsmen and laborers, have their wages fixed according to prevailing rates in the immediate area.

In Alaska, wage board rates in most cases compare favorably with wages paid employees in private industry and more nearly reflect the cost of living.

For instance, a wage board 2 which is a common laborer averages \$3.28 per hour. A beginning classified employee rated at GS-7 makes an hourly rate of only \$3.64. Semiskilled employees rated at wage board 6 average \$3.79 per hour.

But if no real comparisons to private industry can be made for the classified employee, I see no good reason why the Congress should relinquish its power to set cost-of-living allowances even though it is inadequate. Why should we give the Commissioner power to set salary schedules arbitrarily, when, as I have demonstrated, the Commissioner would in fact reduce salaries.

I have received a number of letters from civil service employees on this legislation, all of whom are unalterably opposed to the proposed changes. At this point, Mr. Chairman, I request that excerpts from these letters be made a part of the record at the conclusion of my remarks.

Mr. MATSUNAGA. Without objection, it is so ordered.

Senator GRUENING. I must emphasize that if the proposed salary reductions are made, we will lose many dedicated employees who simply cannot afford to remain in Alaska.

Our Governor, William Egan, has indicated his opposition to H.R. 8390 in a wire to me stating:

Members Alaska congressional delegation have presented compelling facts need for retention costs-of-living allowance for Federal employees in Alaska. I fully support those statements and strongly urge favorable committee action to retain this minimal allowance. The committee undoubtedly has before it Department of Labor statistics proving the 25-percent allowance does not fully compensate employees for higher costs confronting them in Alaska. Anchorage and Fairbanks living costs, where most Federal employees are assigned, is more than 40 percent above costs in Washington, D.C. This situation stems from continuing need import most food supplies, construction materials, and other essential items. In years since statehood progress has been made in reducing costs but differential with other areas American Union still remains high. Allowance first established 1943 to fill civil service manpower needs. Terminating allowance now would do grave injury to thousands fine citizens Alaska. Their ability to meet payments would be severely impaired. Many of the more than 32,000

Federal employees in Alaska have assumed high-cost home mortgages on basis of income which includes 25-percent living allowance. Base salary increase inadequate substitute for present allowance. Estimated savings to Federal Government from H.R. 8390 would come out of take-home pay of Federal employees which now affords only nominal living standards. Passage of bill certain to result in large turnover Federal personnel in Alaska. Many skilled persons with extensive knowledge of northland would leave Alaska—to detriment of Nation and State. Approximately 50 percent Federal employees Alaska are in defense agencies. There should be little need to point out Alaska's strategic position in this critical time. A stable force Federal civil servants in this northern outpost is, I submit, in the best interests our Nation.

Mr. Chairman, the high cost of living in Alaska is a result of many factors. The most notable of these factors is the cost of transportation.

Within the last year, real competition has arisen within the transportation industry. Rates have been reduced and we hope they will be reduced even more. These reductions should have a direct effect on our cost of living. Our hope is that one day it will cost no more to live in Alaska than elsewhere. Until that time we must make do with a situation that leaves much to be desired. The cost-of-living allowance paid Federal employees is vital to their well-being and the economy of the State.

I urge you to reject H.R. 8390.

(The excerpts from letters received in opposition to H.R. 8390 follow:)

The employees of the Anchorage Bureau of Indian Affairs Employees Association supports the continuation of the cost-of-living allowance as its discontinuance will work a hardship on the families of Federal employees and be a detriment to the economy of the State of Alaska.

We strongly urge that you support the continuance of the cost-of-living allowance to Federal employees in Alaska.

There should be no question that cost of living in Alaska exceeds by more than 25 percent the cost of living in the coterminous States. The present method of salary adjustment for Alaska has worked well for a good number of years and is considered a reasonable, although not completely equal to increased living costs, salary adjustment. Control of this allowance is with Congress, where, in my opinion, Federal salaries and allowances should be established and controlled.

It is difficult to understand the merit of a proposal to change the form of the salary adjustment unless a different result is desired.

It appears that CSC may adjust salaries under the proposal to an equal extent (25 percent), however, it would be a taxable adjustment. The impact of this would be an actual reduction in the effect of the cost-of-living allowance. I feel that data obtained by cost-of-living surveys do not warrant such reduction.

If the proposal would only change control of the allowance from Congress to Civil Service Commission, I can see no justifiable reason or advantage.

The allowance should, of course, be based on actual cost of living and should be adjusted if and when costs change significantly. If living costs in Alaska go below the 25 percent allowance level, then the allowance should be adjusted downward. But if living costs constantly remain well above the 25 percent allowance level, as has been the case since its establishment, then no action should be taken which would, in fact, reduce its effect on net take-home pay.

For those Federal employees who are purchasing their own homes, the average cost of a basic house in Alaska is \$25,000. Based on a \$25,000 purchase, the average rental and upkeep is \$225 per month. Payments will be increased for larger houses with a normal amount of amenities for living.

With the living costs included, it is necessary that in the average family both the husband and the wife be employed in order to meet the normal living expense.

The Anchorage City Council has directed me to express the deep appreciation of the city for your efforts in behalf of defeating efforts to eliminate or modify the cost-of-living allowance for Federal employees in the State.

As you well know, living costs in Alaska are measurably greater here than in island areas being considered at the same time. The combination of large Federal employment and a very essential differential to cover unavoidably high cost differentials makes the subject of unusually vital importance to the Metropolitan Anchorage area.

It is also possible that when a person's income is cut he will turn to "moonlighting" to supplement it. If he turns to "moonlighting" his efforts would be divided. The division of efforts could possibly affect his efficiency because he would be striving to retain his standard of living. Also, if he did "moonlighting" he would be taking a job that could be held by a needy person. This would then be in direct contrast to President Johnson's thoughts on how to solve the unemployment situation.

On behalf of some 30 employees of the Supply Division of the U.S. Army Engineer District, Alaska, I solicit your assistance in either voting against the Civil Service Commission's bill to cut differential pay or in substituting a positive and realistic alternate.

We feel the loss of this additional allowance will not only be detrimental to the State of Alaska, but to the efficient operation of many Federal agencies in existence here. On a more personal basis, we are acutely aware of the many surveys conducted by Federal agencies which have established what we know from experience: That the equivalent take-home pay of the Federal employee in Alaska is not comparable to our counterpart employees in the south 48 even with this differential. Many employees who would like to establish a permanent home here are either forced to leave, their wives must go to work, or they must engage in "moonlighting" to stretch their income.

The many suggestions for substitutions or adjustments in kind for the differential are vague, indecisive, and certainly unofficial.

We urge you, Senator Gruening, to either work against cutting the cost-of-living allowance, or for a firm and realistic increase in pay to take its place.

Classified workers cannot hope to begin at GS-7, step 3 base salaries, but we have the same degree of hunger, we need the same protective clothing in the wintertime, our homes require the same amount of heat, our taxes, gasoline, cars, rents, medical care, electric bills, butane or gas expense, and our children require the same amount of money to meet our expenses as does the lowest unskilled wage board worker.

If something isn't done on this downgrading, us engineers will all take out for the lower 48 before the snow flies.

RESOLUTION No. 1

Whereas the high cost of living in Alaska has been recognized by the cost-of-living allowance paid to Federal employees for a long period of time; and

Whereas the discontinuation of the cost-of-living allowance will completely demoralize the operation of the Post Office Department in Alaska; and be it

Resolved, That the Alaska chapter NAPUS extends its deep appreciation to Senators E. L. Bartlett and Ernest Gruening and Representative Ralph Rivers for their continuing and untiring efforts in the Congress of the United States toward retention of the cost-of-living allowance; and be it further

Resolved, That a copy of this resolution be forwarded to each of them.

Mr. MATSUNAGA. Thank you, Senator Gruening.

Mr. UDALL. I will take over the chair and will announce that the next witness is our distinguished colleague, the gentleman from Hawaii, Mr. Matsunaga, a member of the Subcommittee on Compensation. We will be happy to receive your testimony, Mr. Matsunaga.

**STATEMENT OF HON. SPARK M. MATSUNAGA, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF HAWAII**

Mr. MATSUNAGA. Mr. Chairman and members of the subcommittee, I thank you for this opportunity of appearing before you and expressing my views with respect to H.R. 8390, a bill to terminate cost-of-living allowances for statutory-salaried Federal civilian employees in nonforeign areas, which is now under consideration by this subcommittee.

The many witnesses who have appeared before this subcommittee and submitted testimony in opposition to H.R. 8390 have shown that the basis for establishing the cost-of-living differential is still valid and the need for its retention is substantially as compelling as it was when the legislative authority was enacted in 1948. It seems to me that this is the crux of the whole matter. Once we perceive, with respect to the so-called nonforeign areas involved, namely, Hawaii, Alaska, Puerto Rico, and the Virgin Islands, that the justification for the payment of the cost-of-living allowances still continues, then the arguments which have been advanced in favor of the termination of these allowances become quite tenuous indeed.

May I briefly examine, for instance, the point raised by the Chairman of the U.S. Civil Service Commission, specifically, that no distinctions are made in compensation among different areas in the contiguous 48 States based on living costs? Admittedly, there are differences in living costs between different areas on the mainland. But these differences existed in 1948, when Congress passed the legislation authorizing payment of cost-of-living allowances, as much as they exist today. To say, therefore, that because living costs vary among such cities as Chicago, Seattle, and Washington, D.C., it is no longer logical or fair to continue to reflect the difference between living costs in Washington, D.C., and those in Honolulu, Anchorage, and San Juan, is to draw our attention away from the main focus of the problem.

What, then, is the justification for the continuance of cost-of-living allowance payments to statutory-salaried Federal civilian employees in these four nonforeign areas? The answer is simple: Conditions are substantially the same. I refer to conditions which today exist in each of the four areas where cost-of-living allowances are paid. Since I am most familiar with the conditions which exist in Hawaii, I shall direct my remarks with reference to my own State. Other witnesses who are much better qualified than I will no doubt speak of conditions which exist in Alaska, Puerto Rico, and the Virgin Islands and discuss their significance with reference to the bill under consideration.

Insofar as Hawaii is concerned, the latest Bureau of Labor Standards cost-of-living survey shows that living costs are still about 15 percent higher in Hawaii than in Washington, D.C. No attempt has been made at these hearings to refute this differential. Rather, as I have already pointed out, the illogical argument has been advanced that because differences in the cost of living among urban centers of the contiguous 48 States are the rule rather than the exception, payment of the cost-of-living allowance to statutory-salaried Federal civilian employees in Hawaii should therefore be terminated.

The Chairman of the U.S. Civil Service Commission also advanced the premise, in his statement of July 19, 1965, that "payment of the allowance, per se, is unnecessary as a means of enabling the Federal Government to recruit and train employees." Here, we have an argument, which, if true, calls for serious consideration because it denotes a change of conditions since the enactment of the 1948 legislation. But have conditions in Hawaii with respect to the recruitment and retention of Federal workers actually changed? Or have such conditions, in fact, worsened?

For the answer I am going to refer to an unsolicited letter from a Mr. William D. Bennett, president of the Pearl Harbor Association, the largest voluntary organization of Federal civilian employees in the Pearl Harbor complex. He was moved to write me because of a wire service story in a Honolulu newspaper on the testimony which was given by the Chairman of the U.S. Civil Service Commission before this subcommittee on July 19, 1965. Because Mr. Bennett writes from firsthand knowledge I have appended a copy of his complete letter to my statement and I am respectfully asking that it be incorporated therein. I should like, however, to emphasize his statements with respect to the problem of recruiting and retaining trained personnel at Pearl Harbor. He writes:

This manpower shortage situation has not changed in Hawaii; in fact, it is probably more serious now than ever before. Mr. Macy's local office should know that it is difficult to hire engineers from the local market. At the present time the (Pearl Harbor naval) shipyard, because it could not obtain engineers and technicians, has had to contract very important work out to two mainland firms. These people are now working in the shipyard under contract.

Mr. Chairman, when I testified before the special subcommittee last year on a bill very similar to the one presently under consideration, I made the prediction that if the earlier bill, which also provided for the termination of cost-of-living allowances were passed, the passage of the bill would have a most ruinous effect on the morale and efficiency of the Federal civil servants involved. I was wrong. The adverse effect on morale and efficiency is present and existing, according to Mr. Bennett, because of the fact that a bill is being repeatedly introduced in the Congress to terminate the cost-of-living allowances. Again, I quote from Mr. Bennett's letter:

It is very difficult to understand why the Civil Service Commission continues their crusade to abolish cost-of-living allowances in view of the fact that the cost of living is at least 15 percent higher here than any other State except Alaska because of just a few simple reasons—some of the more obvious, "housing, land, lease rental, automobiles." Needless to say, the publicity generated by the Commission's crusade, knocks morale to "rock bottom" and makes it difficult, if not impossible, to recruit people from the mainland.

(See identical letter sent to Congressman Inouye on p. 175.)

Mr. MATSUNAGA. I wish to echo and reecho what has been stated before the subcommittee that H.R. 8390 is a bill which would definitely bring about inequity removed by an earlier act in 1949. To remove cost-of-living allowances at this stage would not only bring about hardship upon the individual Federal employees concerned, but also upon the Federal Government as well. This was so ably testified to by those who preceded me.

The same conditions which prevailed when cost-of-living allowances was instituted prevail today. While there has been some testimony

given here by the Chairman of the U.S. Civil Service Commission that ample local skilled labor now exists in Hawaii and elsewhere, we have overwhelming evidence to prove the contrary.

In my statement, as well as in the statements presented by my colleagues from Hawaii, we show conclusively that the representation made by the Chairman of the U.S. Civil Service Commission is just not so. We are having difficulty in recruiting labor locally and must still import skilled workers from the mainland. Without the cost-of-living differential of 15 percent, we will not be able to fill the positions which become vacant from time to time.

You will recall that the representative from GAO testified here before us that it was his belief that if cost-of-living allowances was removed he would have difficulty in filling 15 or 25 positions which GAO maintains in Hawaii.

Mr. Chairman and members of the subcommittee, for the reasons I have stated, I urge this subcommittee not to report out H.R. 8390.

Thank you very much.

Mr. UDALL. Would anyone like to interrogate, or cross-examine, the gentleman from Hawaii?

Any questions?

As we come to the close of these hearings, I want to say that the Chair deeply appreciates the help of the gentleman from Puerto Rico and the gentlemen from Hawaii who are directly involved in this legislation. They have been most attentive and diligent. While there are certainly no people in North Carolina or New Jersey affected by this bill, we have had a great deal of help and interest from Mr. Krebs and Mr. Broyhill and some of the other members of the subcommittee in carrying out what I think has been rather complete and full hearings on this subject.

Unless there is further business, the Chair will announce that the record will remain open for 1 week to receive some of the material which has been ordered and for statements of any other Members of Congress who might wish to present them in connection with this matter.

As far as I am concerned, this will close the taking of testimony.

Mr. KREBS. I want to thank the chairman for the very adequate and effective and equitable conduct of these hearings, and I might say fruitful also.

Mr. UDALL. The gentleman from New Jersey has done a good deal of presiding here. It seems every time I scheduled a hearing on these bills, I had problems.

With these remarks, the subcommittee will stand adjourned subject to the call of the Chair.

(Whereupon, at 12 noon, the subcommittee adjourned, subject to the call of the Chair.)