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ADMINISTRATIVE AND BUDGETARY CO-ORDINATION OF THE
UNITED NATIONS WITH THE SPECIALIZED AGENCIES AND
THE INTERNATIONAL ATOMIC ENERGY AGENCY

IMPACT OF INFLATION AND MONETARY INSTABILITY ON
THE REGULAR BUDGET OF THE UNITED NATIONS

Report of the Secretary-General

Introduction

1. This report is submitted in response to General Assembly resolution 36/230, in which the Assembly requested the Secretary-General to prepare a detailed study of the impact of inflation and monetary instability on the regular budget of the United Nations, including a calculation of the amounts which, over the last three biennia, have resulted from inflation and monetary instability in the developed countries where United Nations organizations have their headquarters.

2. In the course of the discussions of the draft resolution in the Fifth Committee, it was made clear that the study was not to deal with the causes or political connotations of inflation but was to be a technical analysis of the changes in the United Nations regular budget over the last three biennia in relation to inflation and monetary instability. An in-depth study of world inflation and the development process is contained in a separate document prepared by the Secretary-General of the United Nations Conference on Trade and Development in response to General Assembly resolution 34/197 of 19 December 1979. That study, which has been transmitted to the Assembly in document A/37/518, includes a review of the history of past intergovernmental discussions of the issue of world inflation, a review of the patterns of inflation in developed and developing countries and of policy developments over the years 1971 to 1982, an analysis of domestic and international factors in world inflation and the consequences of world inflation for developing countries. An examination of its contents and, in

particular, the analysis of the interplay of the various economic factors and their world-wide impact on inflation and monetary instability serve to demonstrate the difficulties inherent in any attempt to calculate the extent to which the increases in the United Nations regular budget over the last three biennia resulted from inflation and monetary instability in the developed countries where United Nations organizations have their headquarters.

3. In the circumstances, the present report is limited to providing a comparison of the evolution of expenditures under the regular budget over the period 1976 to 1981 in New York, Geneva and Vienna, with the cost-of-living changes measured in United States dollar terms at those locations. The study is further limited to an examination of the expenditures for salaries and common staff costs which comprise the major part, approximately 77 per cent of the regular budget. While inflation and currency fluctuation obviously affect the level of other expenditures at the three locations, these expenditures basically result from contracts for the purchase of goods and services based on tenders and bids to firms which may operate elsewhere. It should suffice to note the observation made in paragraph 102 of the in-depth study of world inflation which deals with its impact on government budgets, namely, "the costs to the public sector of providing goods and services tend to increase at the same rate as the price level".

Basic considerations

4. The basic features of the United Nations salary system are such as to make inevitable a close correlation between increases in the cost of salaries and common staff costs, and the combined effects of inflation and monetary fluctuations in a given location. For staff in the Professional and higher categories, post adjustments are added or subtracted to the global dollar-based salary scale according to the levels of cost-of-living at each location as measured in dollar terms over time in relation to the base of the salary system, New York, and a base date. For each 5 per cent movement in the cost of living, the net remuneration (base salary plus post adjustment) is adjusted by amounts ranging from 4 to 4.5 per cent, depending on the grade and step of the official. Thus, the net remuneration of Professional staff at a given location will increase, in the absence of any revision in the base salary scale, by, on average, approximately 87 per cent of the cost-of-living increase as measured in United States dollar terms. As indicated in paragraph 17 of the Foreword to the proposed programme budget for the biennium 1982-1983, 1/ posts in the Professional category and above are costed in the regular budget not on the basis of straight application of the anticipated rates of inflation but on the basis of their estimated effect on the level of post adjustment at each duty station. Because of the regressivity in the post adjustment rates and the statutory four-month delay in effecting post adjustment changes after the "trigger" cost-of-living level has been reached, the rate of increase in these salaries and common staff costs will not be identical to the inflation rate at the various duty stations.

5. In the case of the General Service and other locally recruited categories, the salaries and allowances are set in accordance with the best prevailing conditions of employment in each location. As has also been indicated in the 1982-1983

programme budget submission, the rates of increase forecast for each duty station reflect projections either of past increases based on salary surveys or of cost-of-living indexes. In the cases of New York, Geneva and Vienna, which account for some 78 per cent of the regular budget, General Service salaries are automatically increased between the comprehensive salary survey, undertaken every four or five years, on the basis of changes of 5 per cent or more in the local consumer price index (CPI) (Geneva and New York) or a combination of a salary index and cost-of-living index (Vienna). The increase in the net salaries ranges from 86 to 90 per cent of the index movement.

6. In resolution 36/230, the Assembly indicated that the present study should cover the last three biennia. Therefore, the biennium 1976-1977 is taken as the base or reference biennium for comparing increases in the expenditures for salaries and common staff costs with cost-of-living changes. This should not, however, be construed as constituting the appropriate reference point for measuring the evolution of either the regular budget or inflation. The CPI and exchange rates, where applicable, for each biennium were calculated as the average levels over the two-year period.

New York

7. Table 1 of the annex provides an analysis of the changes in staff costs over the three biennia 1976-1977, 1978-1979 and 1980-1981 in relation to the movement of CPI for New York. During this period, the number of established posts increased from 4,323 to 4,364 or by 0.9 per cent. The expenditures for salaries and common staff costs increased by 44.1 per cent. For purposes of relating the cost changes to the CPI movement, an index of the staff costs on a per-post basis was calculated. As indicated in column 5 of the table, the staff costs on a per-post basis for the 1980-1981 biennium reflect an increase of 42.8 per cent over the level for the 1976-1977 biennium. The CPI movement over the same period was 37.5 per cent. Thus, the real increase in staff costs on a per-post basis was 3.8 per cent.

8. During the three biennia, the increases in the net remuneration of staff in the Professional and higher categories were due solely to post adjustment changes based on the cost-of-living movement in New York. Therefore, there was no real increase in the net remuneration applicable to staff in those categories. For the General Service and related categories, there were cost-of-living increases and an increase in 1979 based on the comprehensive salary survey undertaken by the International Civil Service Commission (ICSC). This latter factor, together with the changes in the distribution of staff among the grades and steps during the period, were the main contributors to the 3.8 per cent real increase in the staff costs per post.

Geneva

9. Table 2 of the annex provides an analysis of the evolution of staff costs in Geneva in United States dollars. The number of established posts increased from 2,047 to 2,297, or by 12.2 per cent. The staff costs in United States dollars

increased by 56.2 per cent. As shown in column 5 of table 2, the staff costs per post increased by 39.2 per cent. At the same time, CPI for Switzerland increased by 13.2 per cent, and the dollar depreciated by 36.7 per cent, or a combined increase in the cost of living in dollar terms of 54.6 per cent. Therefore, as shown in column 9 of the table, the staff costs per post in United States dollars increased by 10 per cent less than the cost-of-living change in dollar terms. That was attributable, in the main, to (a) the regressivity in the numerous post adjustment changes made in response to the dollar depreciations, and (b) the freeze in the net remuneration of the overwhelming majority of the General Service staff in Geneva following the introduction of a lower salary scale on 1 January 1978 resulting from an ICSC salary survey.

Vienna

10. Table 3 of the annex analyses the situation in Vienna. The number of established posts increased from 740 to 1,118, or by 51.1 per cent, due mainly to the relocation of certain units from New York and Geneva to that duty station. The staff costs in United States dollars increased by 142.1 per cent, which represented an increase in the staff costs per post of 60.2 per cent, as shown in column 5 of the table. Over the same period, the CPI movement in Austria was 21.2 per cent and the dollar depreciated by 27.6 per cent, a combined increase in cost of living in dollar terms of 54.6 per cent. Therefore, as shown in column 9 of the table, the staff costs per post in United States dollar terms increased by 3.7 per cent more than the inflation in dollar terms. That increase was due, in the main, to (a) adjustments in the General Service salary scales greater than the cost-of-living movement as a result of comprehensive surveys in 1978 and 1981, with the latter being undertaken by ICSC, and (b) to the impact of expenditures for certain elements covered by common staff costs, such as the travel, removal of household effects, installation grants etc., for those staff members transferring to Vienna.

Conclusions

11. The above analysis illustrates the close correlation between changes in the expenditures for salaries and common staff costs and cost-of-living increases in United States dollar terms at the three locations considered. A similar result would be obtained for other locations and other organizations in the United Nations common system.

Notes

1/ Official Records of the General Assembly, Thirty-sixth Session, Supplement No. 6 (A/36/6), vol. I.

Annex

TABLE 1. ANALYSIS OF STAFF COSTS IN NEW YORK

(1)	(2)	(3)	(4)	(5)	(6)	(7)
<u>Number of posts a/</u>	<u>Index</u>	<u>Actual staff costs b/</u>	<u>Index</u>	<u>Index of per post staff costs (col.4/col.2)</u>	<u>CPI c/</u>	<u>Ratio staff costs per post to CPI (col.4/col.6)</u>
1976-1977	100	176 583.2	100	100	100	100
1978-1979	99	208 033.8	117.8	119	113	105.3
1980-1981	100.9	254 424.5	144.1	142.8	137.5	103.8

a/ Established posts, Professional and higher categories and General Service and related categories.

b/ In thousands of United States dollars, excluding staff assessment.

c/ CPI for New York published by United States Bureau of Labor Statistics; index for each biennium was calculated as the average over the two-year period.

TABLE 2. ANALYSIS OF STAFF COSTS IN GENEVA

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Number of posts a/	Index	Actual staff costs in US dollars b/	Index	Index of staff costs per post (col.4/col.2)	Switzerland CPI Index c/	Exchange rate d/	Index	CPI in US dollar equivalent (col.6/col.8)	Ratio staff costs per post to CPI in US dollar terms (col.5/col.9)
1976-1977	100	126 717.4	100	100	100	2.46	100	100	100
1978-1979	108.7	193 227.7	152.5	140.3	103.6	1.73	70.3	147.4	95.2
1980-1981	112.2	197 956.3	156.2	139.2	113.2	1.80	73.2	154.6	90.0

a/ Established posts, Professional and higher categories and General Service and related categories.

b/ In thousands of United States dollars, excluding staff assessment.

c/ Index for each biennium was calculated as the average over the two-year period.

d/ Exchange rate for each biennium was calculated as the average over the two-year period.

TABLE 3. ANALYSIS OF STAFF COSTS IN VIENNA

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Number of Posts a/	Index	Actual staff costs in US dollars b/	Index	Index of staff costs per post (col.4/col.2)	Austria CPI Index c/	Exchange rate d/	Index	CPI in US dollar equivalent (col.6/col.8)	Ratio staff costs per post to CPI in US dollar terms (col.5/col.9)
1976-1977	100	34 013.1	100	100	100	17.29	100	100	100
1978-1979	116.7	56 573.4	166.3	142.5	108.3	13.91	80.5	134.5	105.8
1980-1981	151.1	82 343.2	242.1	160.2	121.2	13.56	78.4	154.6	103.7

a/ Established posts, Professional and higher categories and General Service and related categories.

b/ In thousands of United States dollars, excluding staff assessment.

c/ Index for each biennium was calculated as the average over the two-year period.

d/ Exchange rate for each biennium was calculated as the average over the two-year period.