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Larry L. Kehler

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ME A

THE PUBLIC EMPLOYEE PAYROLL

Can we afford it?

by LARRY L. KEHLER / Partner, St. Louis

Given the growing enthusiasm for taxpayer revolt, the stage is set for a crisis in local government. The crisis is that we may not be able to afford the payroll bill of our public employees. It will occur as a result of two separate movements approaching from different directions but meeting on the public compensation system battleground.

One of these movements is very old, dating back to the turn of the century. It is the organized labor movement. While the percentage of the labor force that is unionized in the United States has declined steadily from 30 percent in 1958 to 22 percent in 1978, the unionization of government workers has soared. The American Federation of State, County, and Municipal Employees has increased its membership from 297,000 in 1967 to more than 1 million. The American Federation of Teachers has increased from 125,000 to 420,000.

The strength of such groups is demonstrated by newspaper bulletins from major cities:

Cleveland: Teachers strike; students sent home.

Philadelphia: 19,000 municipal employees go on strike.

Memphis: Police and firemen return to work after 8-day strike.

A comparison of hourly wages among three different types of employees is shown in the accompanying box. Federal employees' average hourly earnings, it can be seen, have increased at a greater pace than have those in the private business sector.

Municipal hourly earnings are close to the private sector in earning growth over the last 10 years.

The second movement approaching the public payroll battleground is the demand by taxpayers to reduce the cost of government. These demands are just beginning, the first being the passage of Proposition 13 in California.

Comparison of Hourly Wages

(Average Hourly Earnings)

	Consumer Price Index	Private Business	Fire-fighters & Police ¹	Federal Executive Branch
1967	100.0	100.0	100.0	100.0
1968	104.2	107.6	107.0	106.5
1969	109.8	115.1	117.0	115.7
1970	116.3	123.3	128.0	128.9
1971	121.3	131.5	135.0	139.5
1972	125.3	138.9	145.0	150.0
1973	133.1	150.3	157.0	161.1
1974	147.7	164.3	168.0	*
1975	161.2	180.2	180.0	*
1976	170.5	196.5	193.0	199.5
1977	181.5	213.6	203.0	*

*Data not available

¹ Cities with 100,000 inhabitants or more

Source: Bureau of Labor Statistics

The government reaction to tax cuts is likely to be reduced work forces and salary freezes. That was the action planned in California after passage of Proposition 13. The employee reaction was a strike threat and job action. Fortunately no showdown occurred, but the threat of organized public employees closing down our cities is real. Clearly, what is needed is a thorough review

of existing civil service and employee compensation systems.

The Typical Compensation Program

To satisfy the requirements of most civil service laws and to minimize the administrative effort, most public compensation programs are based on a salary structure comprised of fixed grades and fixed pay rate steps within each grade. The number of individual steps per grade ranges from 5 to 10, with salary difference between steps averaging 5 percent.

Such a structure requires comparatively little administrative effort, because jobs are assigned to their respective grades by a classification program, and rules are established for all employee movement between steps. Such a structure is, of course, a basic minimum; on top of that must be built a full compensation program tailored to local conditions. Too often, it is not.

With inflation ranging as high as 10 percent in recent years, it is obvious that fixed salary structures require overall adjustments to compensate for this increase. Many administrators respond by advancing each employee up one or two salary steps. While this solution is easy, it creates many problems. Employees who are already at the top of their salary grade have no new salary step to move up to. After several years, all but new employees will be at the highest step of their grade.

Proper administration requires a periodic review of jobs to determine if grades or steps should be adjusted

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in response to changes in duties and responsibilities. It is the practice of many public organizations to re-evaluate jobs only to (1) upgrade individuals, and (2) provide the salary level needed to hire a specific individual for a job. The result is to create inequities between many individual jobs in the system, plus higher total salary costs, employee unrest, and the need for frequent re-evaluation and classification.

Action Programs

Proper control of public payrolls requires a major effort on the part of administrators. Two broad areas to concentrate on are the absolute number of public employees required and the method of compensating those employees.

The high cost of public payrolls is not the simple result of increased salary rates. It is the combination of higher rates and a simple failure: the increase in the number of public employees has not been matched by a comparable increase in productivity. As a result, service has not kept pace with needs.

One reason for the growth of staff in many jurisdictions is political. It is easier to establish a new department with federal funds than to assign the work one department provides to employees in another department.

Productivity can be improved. There have been successful programs in several major city governments. These programs compared departmental results to performance standards in order to determine (1) if service was at an adequate level and (2) the staffing necessary to achieve such levels. The result: operational payroll reductions averaging 20 percent.

Once staffing levels have been lowered to balance workload

requirements, a basic compensation system is needed to maintain that balance. A fixed salary structure that is competitive in the marketplace is the minimum starting point. Such a compensation system was recently established in Maricopa County, Arizona. The county, which includes the city of Phoenix, employs more than 7,000 public employees. The first step was to analyze 770 position descriptions. This established the basis for a formal job evaluation. A salary structure of 41 grades, each with seven steps, was then created. With the aid of special computer programs, a team was able to consider complex salary structure alternatives and recommend a program.

“My father was a barber. He said, ‘You need security. Work for the city. You got a job for a lifetime.’”

ARTHUR TEBALDI
Former New York City civil servant

Maricopa County had last conducted a job evaluation in 1969; and many new positions, combined with rapid salary inflation, had produced numerous salary inequities. Employee unrest had resulted in several job actions and the threat of walkouts in many departments.

What was the response to the project's recommendations? They were well received by employees of the county. The program not only eliminated employee unrest now, but also provided a methodology for strong salary administration in the future.

Method of compensation. A compensation technique which has

proven very effective in private business—incentive compensation—is little used in the public sector. It should be, since a system which provides more pay for increased productivity could work well in a large public jurisdiction. The elements of such a program are:

- a performance reporting and monitoring system,
- established work standards,
- an employee communication system, and
- effective management to direct the program.

Such programs will not alone resolve the personnel problems of public institutions. They are only the tools of a skilled administrator. Most systems fail because of the lack of skill on the part of the administrator rather than because of the design of the compensation system itself.

Summary

The result of the taxpayers' revolt is expected to be tighter fiscal budgets for public payrolls. This budgetary pressure will require public administrators to review traditional salary administration programs and to challenge the basis of the current payroll.

Action programs which can reduce payroll costs include improved productivity, a structured compensation system, incentive compensation, and improved personnel management. While these programs are common in the private business sector, they are just beginning to be applied in our governmental jurisdictions. They are management tools which we cannot afford to overlook in our growing need for increased efficiency.

With these tools, with improved programs, and with strong leadership by public administrators, we may one day again be able to afford our public employee payroll. △