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PAYROLL DISCIPLINE COULD STRETCH COLORADO'S BUDGET DOLLAR

By Fred Holden

Introduction: The Editors

Budget crisis or false alarm? In March 1988, Denver's largest newspaper headlined a five-part series called Colorado Government: Running on Empty. In May 1988, the beleaguered legislature called in reinforcements, creating a citizen task force to run a six-month Vision Colorado study on how to stretch the state dollar in coming years.

But economic analyst Fred Holden draws a different conclusion from the numbers. Tracking trends through the years and the decades, comparing our state with all the others, he argues that it is Colorado taxpayers, not tax users, who are in danger of being drained dry. State spending has grown twice as fast as population and inflation since 1982, the author shows.

Holden explains that payroll, the biggest cost factor in most human endeavors, is also the fat item here. The state workforce -- when measured against cold national averages, not subjective criteria -- seems unnecessarily large and high-paid.

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Here is a documented rebuttal to the above-mentioned journalistic broadside which alleged: "Public agencies often cannot perform basic services because of tight budgets and inflexible spending restrictions. Popular decisions to cut taxes and limit state spending during the late 1970s damaged the state's ability to cope with population growth and the current economic downturn. The public's health and safety often are endangered because of funding shortages" (Rocky Mountain News, March 13, 1988, pp. 1 and 6).

Here is a practical action plan to help the legislature's Vision task force answer its exam question: "What should be the role of state government, in terms of revenue collections and expenditures, to ensure a healthy, vital, competitive Colorado economy for the year 2000 and beyond?"

The Holden prescription is to flatten the bulge currently keeping state employee numbers and pay levels conspiciously above those of their public counterparts elsewhere and their private-sector counterparts here in the state. Savings when this is done (and he recommends 1992 as a phasedown target) could exceed one-third of a billion dollars per year. As for alternate uses of the money, no lack of persuasive "visions" on that subject is likely.

I. Americans are overtaxed. So are Coloradans.

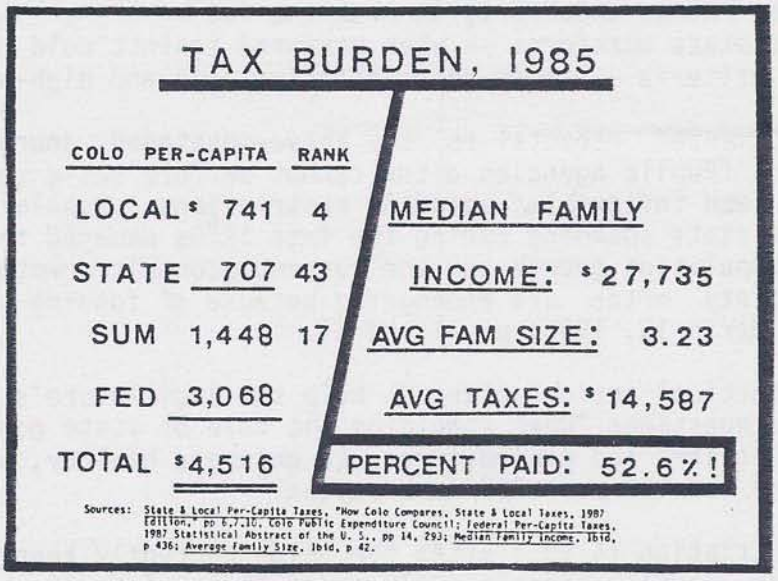
Economic freedom is where you keep more of the fruits of your labors than are taken from you. Political freedom is where you have a say in your economic freedom. We're losing both, our economic and political freedoms. To better understand we'll study specifically Colorado to illustrate what's happening all over America, in all governments at all levels, federal, state and local.

Only people pay taxes. One's level of taxation determines one's relative economic freedom. If you earn $100 and keep $100 you're 100% free. If you earn $100 and keep $0 because something or someone takes it away, you're 100% slave. We must by necessity be somewhere in-between, but where?. How taxed are we? Are Coloradans more free than slave? How free are you?

Government spending is 37% of gross national product (1). That means over one-third the price of anything is taxes, imposed directly and indirectly, visible and hidden, on all goods and services. Without taxes a $90,000 house would cost $60,000; a $15,000 car would cost $10,000. In a variety store, of the $7.50 sales tax paid on a $100 purchase, $2.78 is sales tax on the taxes levied in the production and distribution chain, in the consumer purchase price. With alcoholic beverages, most of the sales tax levied is on taxes.

The family is the backbone of America. Can we determine the tax burden on the family? Yes, and gain insight into what's happening to our lives and future. Colorado 1985 per-capita state taxes were $707, ranked 43rd; local taxes, $741, 4th; total, $1448, 17th (2). Add average federal taxes of $3068 (3), for $4516 total taxes paid per person per year. The average family, 3.23 (4) people, pays $14,587 in taxes. The family tax burden is over 52%, based on 1985 median family income of $27,735 (5), see Figure No. 1.

Figure No. 1: Family Tax Burden, Percent of Median Family Income, 1985



How has the family tax burden changed over time? A more rigorous historic analysis divided total federal, as well as state-and-local taxes (less federal funds) by the population. Family taxes as percent of total income increased from 45% in 1950 to 59% in 1985, rising at 1/2% a year since 1980 (6). But averages don't tell the whole story. Since those 65-and-over pay virtually no social security or income taxes, placing those taxes also on the family raised the 1985 tax level to 62.7%. Finally, updating to 1988, today's family tax burden is over 64%! Is this breaking the back of America?

II. Colorado government burgeons, in real, inflation, population-based terms.

As the state grows, citizens keep relatively less of their hard-earned money, while government takes relatively more. Our present legislative, political and governmental systems systematically enrich the rich and impoverish the people.

A case can be made that state spending must increase the same amount as inflation to do the same work with cheaper dollars. Similarly if there are more people, proportionally more dollars are needed to serve their needs, and will be available because they are. Using published state data and with 1982 the base year, 1987 population increased 8.4% (from 3.072 million to 3.331 million people) (7), inflation 16.7% (Denver CPI-U, 1982, 317.0 to 1987, 369.8) (8) for a total of 25.1% defensible growth. Actual total state spending increased 53.3% (1982, $3.477 billion to 1987, $5.330 billion) (7).

See Figure 2 for annual state spending percentage growth, based on the previous year for years 1982-87, compared to percent growth of inflation and population, and their sum. Figure 3 shows cumulative state spending growth compared to inflation and population, beginning 1982.

Fig. 2: ANNUAL State Spending Growth vs Inflation/Population Sum, 1982-87

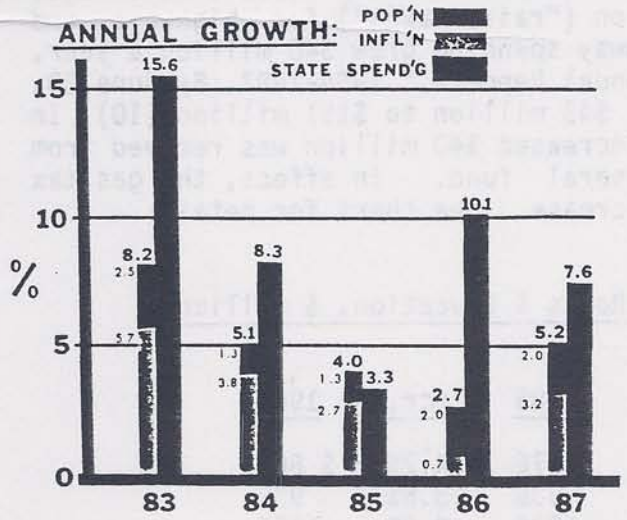
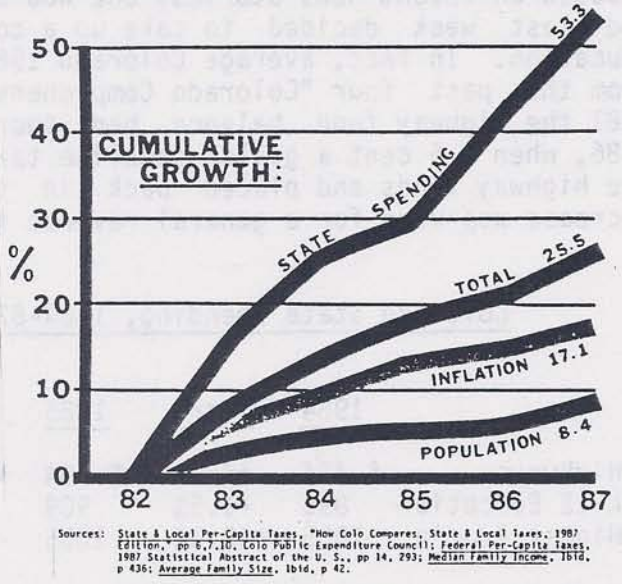


Fig. 3: CUMULATIVE State Spending Growth vs Inflation/Population Sum, 1982-87



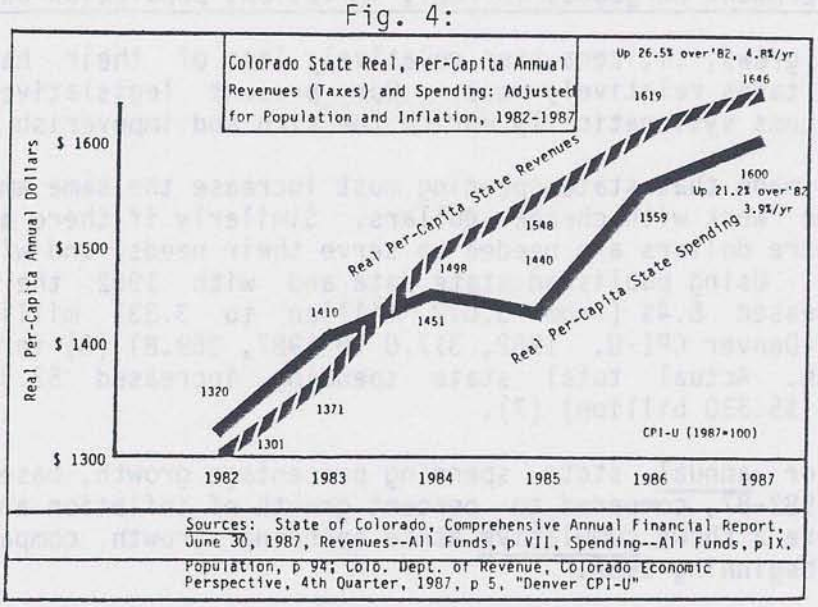
Sources: State & Local Per-Capita Taxes, "How Colo Compares, State & Local Taxes, 1987 Edition," pp 6,7,10, Colo Public Expenditure Council; Federal Per-Capita Taxes, 1987 Statistical Abstract of the U. S., pp 14, 293; Median Family Income, Ibid, p 436; Average Family Size, Ibid, p 42.

What effect has explosive state spending growth to relatively impoverish taxpayers? The five year difference between actual state spending and the sum of inflation and population amounts to $1.347 billion, about $417 per person. Through excess taxation the state has impoverished each family of four, by $1668.

For the General Fund, 1982-1987, Gross General Revenues grew 44% (7.5% compounded/year), from $1.517 billion to $2.178 billion. Of that, net individual and corporate income taxes grew 72% (11.4%); sales, use and excise taxes grew 19% (3.6%); and all other taxes increased 17% (3.2%). (9) Annual increases in general fund taxes have averaged $132 million a year. Where has that money gone?

Total Colorado revenues (taxes) grew considerably in real terms. From 1982 to 1987, inflation-adjusted, per-capita state REVENUE grew 26.5% (4.8% compounded per year). For those five years, real, per-capita state SPENDING grew 21%, (3.92%) (7) (8), see Figure No. 4. In an ideal society, the curves should be down-sloping, or at worst, horizontal.

Fig. 4:



III. Colorado government spends generously for education and highways.

Based on recent news stories, one would think Colorado became a state a month ago, and last week decided to take up a collection ("raise taxes") for highways and education. In fact, average Colorado 1987 highway spending grew $40 million a year, from the past four "Colorado Comprehensive Annual Reports," 1984-1987. By June 30, 1987 the highway fund balance had increased $43 million to $151 million (10). In 1986, when a 6 cent a gallon gasoline tax was increased $40 million was removed from the highway funds and placed back in the general fund. In effect, the gas tax increase was used for a general revenue fund increase. See chart for detail:

Colorado State Spending, 1984-87, for Roads & Education, $ millions

	1984	Incr.	1985	Incr.	1986	Incr.	1987
Highways	$ 484	+4.1%	$ 504	+14.3%	$ 576	+4.7%	$ 603
K-12 Education	896	+1.5%	909	+3.2%	938	+3.6%	972
Higher Educ'n	1085	+43.3%	1555	-19.2%	1296	+8.0%	1357

Colorado K-12 education spending grew an average of $25 million a year; higher education, over $90 million a year. K-12 and higher education, at $2.33 billion, totaled 45% of the 1987 state budget. That provides almost half the education funding, the remainder funded by the local districts with property taxes.

From 1973 to 1987, the average daily attendance entitlement (ADAE) dropped from 533,000 students to 514,000, according to a Colorado Education Funding report (11) by the Colorado Legislative Council. ACT (American College Test) scores at 19.9 in 1973, dropped slightly, then came back up to 19.9 in 1987, indicating steady but not improving education performance. During the 14 years, local funding for education increased 3 times from $315 to $954 million; state funding towards equalization of school districts increased 5 times from $160 to $799 million.

Compared to what? For the 14 years total education funding increased 269% (9.8% compounded/year) from $475 million to $1,753 million. Inflation gained 182% (7.7%). While education funding gained 2.1% a year on inflation, citizen ability-to-pay, median family income, lost a point a year, increasing only 152% (6.8%), from $12,051 to $30,316.

Education got ahead, families fell behind, students stayed even, and taxpayers not surprisingly, paid lots more taxes.

IV. Government revenues (taxes) go to government workers, not government work

Contrary to popular opinion, government workers are paid MORE than private workers! Comparing levels and growth of government compensation to all-industries is revealing. In 1980 average government salary $15,911 was 1% higher than industry's $15,757. Benefits as a percent of pay were also higher for government, 24% vs 19%. By 1985 average government salary was 6% higher, having grown 39% to $22,186 while industry's grew 33% to $20,991. Benefit levels grew to 26% and 20%, respectively (12).

Colorado average state employee salaries (CASES) grew even more. During the same period the CASES grew not 33% (industries) or 39% (government), but 46%, from $19,056 to $27,840 (13). The Colorado state average teacher salary grew over 50% from $16,205 to $24,454 (14) (15), where teachers work 79% the enterprise year (over 3 months off), 185, less-than 8 hour days, compared to 235 8-hour days. During the same period, median family income of education's "customers" rose only 32% from $21,023 to $27,735, about the same as all-industries salaries.

While the national average teacher salary grew 47% from $16,001 to $23,546, with 1988 updates from "Battle lines set on Denver teachers' pay," by Janet Bingham, Denver Post, 4/17/88, specific Colorado school district average teacher salaries grew as follows:

School District	1980	Increase	1985	Increase	1988
Jefferson	$18,460	+58%	$29,199	+18%	$34,416
Denver	$20,724	+51%	$31,311	- 1%	$30,992
Cherry Creek	$17,718	+57%	$27,883	+17%	$32,460

When it comes to getting more government money, people do, programs and projects don't. Perhaps that's why governments always need more money despite all the more money they get.

Consider the following episode in which an angry parent taught taxpayers how government funding really works and where the money goes:

a) Voters approved a 1983 Jefferson County Public Schools $12 million mil levy property tax increase. In 1984 the Jefferson County Schools Citizen Budget Task Force was determined to find the real reason public schools never have sufficient funds.

b) During the years under study, 1980-84, district management allowed teacher and administrator salaries to rise 9.5% a year, two percent faster than incoming revenues, 7.5%. Each 1% was $2 million (16). Personnel expense grew from 86.1% in 1980 to 86.4% in 1984. Another 10% was required for facilities, transportation, safety, maintenance and other non-educational needs. The difference, 3.6%, was all that remained for the "educational, enhancement, enrichment increment" that makes the materials, services and supplies difference in education quality.

c) Instructional aids "is one of the areas of the budget that has simply not kept up with the times," said Mary Ann Parthum, director of curriculum services in Denver public schools, in "Denver schools plagued by materials shortages," 4/27/88 Denver Post, concluding "Now the decision on how much to spend is left up to the districts, and materials often suffer the first cuts during budget time."

VI. Government compensation policy inequitably seeks to make unequals equal.

How has such explosive and unwarranted state employee salary growth happened? Three ways: 1) by policy, about half state employees get automatic 5% annual longevity increases, 2) overstaffing, people are added too frequently and 3) raises are granted based on an annual compensation survey of the PRIVATE SECTOR.

Should raises be automatic? Or should raises be for improved performance and/or increased levels of responsibility and promotions? When workload grows should new and better methods be created or should more employees be hired? When it comes to compensating public sector employees based on private sector salaries it's timely and appropriate to ask "WHY?"

Government and enterprise aren't comparable. They may look the same in formal credentials, education, experience and capability, even similar in responsibility, visibility and accountability. But the public sector leaves off where the private sector must take into consideration additional important real world factors, risk, uncertainty and liability.

Aerospace employment has always been known for its relatively higher salaries and benefits. The reason's wrapped in the tongue-in-cheek definition of an optimist: one who brings his lunch to work. That went around during impending, then realized layoffs of engineers upon loss of a government contract. Such uncertainties and lightning fast layoffs are inconvenient, but expected. That's how higher risk justifies higher salaries. Those layoffs not only disrupted families and lives, but prompted personal trauma, killings and suicides as well.

All small and large businesses to varying degrees are subject to the vagaries of the marketplace. Lost market share, cutthroat competition, product obsolescence, quality problems, excess inventory build-up, inadequate cash flow, too high personnel expense, legal problems, excess costs for sales, marketing and advertising, can put a business out of business and frequently does. How many governments "go out of business," and how many government employees are laid off?

Compared to government employment, private sector jobs have substantially higher risk, uncertainty, and liability, both corporate and personal. Many private sector workers are subject to family-straining shift work, long hours and weekends, mandatory overtime, working holidays and inconvenient, sometimes hazardous work environment exposure, which also includes some in the public sector such as firefighters, police, even bus drivers on "grid-locked" highways, etc.

Picture traipsing through puddles of cattle blood on a meat packing plant kill floor; climbing power poles during a blizzard; or putting barley into a cold, humid 40-degree germination bin, or removing barley malt from a hot 120-degree carmelizing kiln. Picture the graveyard shift, midnight to 8 am shift in the noise of a newpaper printing press, walking the iron suspended in space in tall building structural skeletons, or the sometimes "rotten egg" stench of a chemical or oil processing plant.

Contrast these to routine government 8 to 5 day shifts, Monday through Friday, office work, predictable, comfortable, in a stable, safe, non-threatening environment. Add 15 days sick leave a year, cumulative and reimbursable, 15 days vacation, 11 holidays plus the non-scheduled "Governor's Christmas Extra" holiday, and government workers have a decided edge over their private sector counterparts, even not taking into account higher pay, pay increases and benefits.

You can't have it both ways, low risk, little uncertainty, low liability, comfortable environment, premium work conditions, AND high risk pay and benefits; not, that is, unless you're in government today.

VII. Enterprise risks profit to please customers. Government follows procedures.

Enterprise faces risk to please a customer at a profit. Or it ceases to exist. Government follows procedures, upholds laws, exists and grows.

Private enterprise establishes a need, raises capital, takes the risk to organize to operate, then performs all functions necessary to find, serve, please and keep customers at a profit. In the process, people, employees, are hired, trained and assigned, within appropriate laws, regulations and competitive conditions. Wages and benefit levels must meet or beat tough competition, and all necessary business systems set up to function, eg., communications, payroll, product design, marketing and sales, etc. Appropriate tax laws are determined, rigorously enforced, and taxes collected, accounted and paid.

There are no guarantees the business and its products and services will succeed, that is, please a customer at a profit. There are no warrantees the job can be done profitably competing with others having different managerial and technological capabilities. Either innovate and improve, produce more and better at a profit, or go out of business, put people out of work. Business succeeds or fails with the fortunes of competition and the local and national economy.

Private enterprise, business and industry are much more subject to personal and corporate liability. Lawsuits may originate for legitimate, imagined or vindictive reasons by customers, public spirited individuals, competitors or judicial, police and government agencies. Though lawsuits are not normally filed, the possibility, pressure and potential are a fact of life on the enterprise job. Personal or organization liability is a virtual non-entity in the government sector.

Contrasting, government work has a virtual lifetime guarantee of employment and stable, predictable comfortable working conditions. Recession or depression, boom or bust, government jobs are secure. If those jobs become unacceptable, the individual's power of choice always opens doors, possibilities and opportunities in the enterprise sector.

VIII. Pay Equity Between Enterprise and Government: Not Just Possible, Fair!

Equity isn't established across the line dividing public and private, but within each of these sectors. Public salaries should be compared to public salaries, enterprise to enterprise. There may be those who would cry "unfair." But it's not. If the jobs are truly equivalent, people are free to leave government work and choose instead the private sector with its higher risk, challenge, unpredictability and opportunity. With all the uncertainty, risk and liability, enterprise compensation should be significantly higher, for good reason, The two must not be compared or equated because they're not comparable or equal.

While enterprise faces risk to please a customer at a profit, government has no risk and must please no one, using instead, power of government and force of law. That means if you don't pay your taxes (buy the government "product" whether you need or like it or not), you'll be punished, perhaps go to jail, even lose your home and suffer breakup of your family. That's not like working to please a customer.

Another way to think of this is to consider enterprise workers change jobs some six or seven times during a 40-year working career. Out of work 3-4 months for each job change totals two years unemployment, 5 percent the total work life to spend, save and live. Double that for emotional and physiological stress, uncertainty, risk and loss of self-image, to arrive at 10%. Those who are in it just for the money will bypass government work to favor working in the private sector. Others will seek, find and enjoy working in government.

Public salaries like private salaries, will be gaged against their contemporaries across the nation, same types of job, same type of work. Colorado may wish to adopt a policy to pay public workers at a level somewhat higher than the national average, say 3%. That can be fair, equitable and impartially administered based on readily available information.

Private sector salaries are also gaged against their contemporaries, but will be relatively higher than those of government because of added risk, uncertainty, liability, and responsibility for pleasing people at a profit, as discussed.

For instance, it's normal for different auto manufacturing companies to pay competitive salaries, but not competitive with, say, Wildcat OIL Ltd, high risk oil exploration company. It's similarly reasonable for an accountant as a state employee in one state to receive pay and benefits equivalent to an accountant in another state, ceteris parabis.

Even with equivalent education, work aptitudes and experience, it does not follow that a government accountant should receive the same pay as an accountant at Wildcat OIL. With the vicissitudes of oil boom and bust, the oil company accountant will reasonably receive defensibly higher compensation for the risk and working conditions that go with it. At lower pay, the government accountant with equivalent credentials may seek oil company work, with the greater reward and higher risk that go with it. Accounting's a skill transferable to the private sector if the worker has sufficient confidence enough in himself and the work situation that the risk is worth the reward, potential layoffs and job performance demands.

It's likely the oil company accountant will change jobs several, even many times in his working lifetime, suffering monetary loss, job search rejections and wounded personal pride, lack of confidence, physical and emotional trauma, life turmoil and intermittent loss of health benefits, life insurance, etc. The private sector world is a world of difference from the structured, protected, predictable world of government.

So state employees should be compensated not compared to the private sector, but to their peers and contemporaries across the country. If pay levels are insufficient for "equal work" they can seek the "equal work" in the less secure enterprise sector and get the well-deserved, expected and available-for-good-reason higher compensation.

IX. How to determine what's fair, using relative state ranking for CASES equity?

"Compared to what?" is an apt question for evaluating subjective "fairness" or even quantitative comparisons. A relevant question is how much higher on average is a state government employee's pay, and pay growth, compared to the taxpayer? Ranking states with various parameters is a way to assess relative fairness and set criteria for judgment. Here are some examples of measured incomes of Colorado people ranked among the other 50 states:

Characteristic Income to Compare	1985 Colorado Rank in 50 States	Amount	
Per-Capita Money Income	10	$11,713	(19)
Personal Income per-capita	9	$14,812	(20)
Average annual pay	11	$19,569	(21)
Disposal personal income per-capita	12	$12,540	(22)
Median Family Income	15	$28,500	(23)
Average of Income Rankings:	11.4		

It's difficult to determine what is truly "fair." But it's easier if like or similar characteristics are found and compared. For instance, government workers work for enterprise workers. We have reason to believe compensation of those paid should be equal to or somewhat less than those paying. It would be equitable to have similar or equal ranking among the 50 states, of the people's measured income or documented compensations, and state workers compensation as well among the states. More objective, measureable data can help determine what relative ranking state worker salaries should be, to be more "fair."

A 1985 rank of 11 fairly and accurately describes relative income data of Colorado workers compared to other states, targeting Colorado average state employee salary (CASES) of about the same magnitude. In fact, CASES ranked 6, 16% above national average state employee salary (NASES) in 1980, rising to 3 (20% above NASES) in 1985, considerably higher than the 1985 all-Colorado pay levels 11 ranking with the other 49 states.

What percentage level above NASES would serve as a benchmark for an equivalently-ranked CASES? What would be the effects of CASES at equivalent rank 11 or 12? What newly-available funds would result if CASES matched ranking of all Colorado citizens income? What if the Colorado state employee salary average were evaluated 5% below, equal to, 5% above and 10% above the national average, then to where the 1985 11 ranking is the same as Coloradans income? Here are the answers:

Avg. Salary Colo. to Nat'l	Newly-Available $$ 1980-85 Inclusive	Nat'l Ranking 1980	Nat'l Ranking 1985	Indicated Salary Cut
5% below	$1,275,000,000	26	23	20.8%
equal to	$ 999,000,000	17	14	16.6%
10% above	$ 448,000,000	7	6	8.3%
5% above	$ 723,000,000	10	9	12.4%
4% above	$ 779,220,000	11	10	13.3%
3% above	$ 834,165,000	13	** 11 **	14.1%

This analysis indicates CASES should be 3% above NASES, the national average; therefore, CASES should be cut 14.1% to achieve an equitable, comparable and fair ranking between 11 and 12. That would have made available $834 billion, 1980-85. What are the full effects of adopting that stance?

Colorado state full time employees were paid $19,056, 16% higher than the national average in 1980, growing to $27,840, 20% over in 1985 (15). These calculations are based on 37,000 full time equivalent employees and 25% benefits. Had state employees been ranked 11, and therefore paid 3%, not 20% over the national average for the six years inclusive, 1980 through 1985, $834,000,000 additional funds would have been available for state programs and projects. Here's a "first look" at this concept for 1980-85:

	1980	1985		
Colo. Avg. State Sal'y	$19,056	$27,840	+ 46.1%	(13)
Nat'l Avg. State Sal'y	$16,476	$23,220	+ 40.9%	(13)
Colo. % of Nat'l Salary	+ 15.7%	+ 19.9%		
Colo. 103% Nat'l Sal'y	$16,968	$23,916	+ 40.9%	
Annual Savings, per employee	$ 2,088	$ 3,924		
Including 25% benefits	$ 2,610	$ 4,905		

The 1980 savings would be $96,570,000; 1985, $181,485,000. Proportional in-between year savings would be 1981, $113,553,000; 1982, $130,536,000; 1983, $147,519,000; 1984, $164,502,000. Total: $834,165,000.

Further, in 1985, with 2000 less full time people at 35,000 full time employed by Colorado for those six years, another $352 million would have been available, assuming benefits 25% of salary. Savings would have been $47,640,000 in 1980, $69,600,000 in 1985, and in between, 1981, $52,032,000; 1982, $56,424,000; 1983, $60,816,000; 1984, $65,208,000. Total: $351,720,000.

An important policy change, reducing authorized sick leave from 15 days cumulative and reimbursable to an actual experience average of 5 days per employee per year could free up another $276 million from the $46 million per year (17).

This "first look" grand total, 1980-85 six year inclusive savings becomes $1.232 billion, about $205 million a year average!

The case should not be misinterpreted to say we're cutting salaries and employment levels. More precisely, we're correcting a situation where we realize pay was too high too long. Many people seemingly have benefited greatly through artificially-creating unwarranted state jobs, and with compensation systems that propagate excessive salaries and long term compensation increases. Money has been consumed for people expense where it was slated for needed Colorado programs and projects to serve Colorado taxpayers who pay for those state services.

These concepts result in part from what Colorado University economics professor Dr. Barry Poulson (24) calls "endogeneity," the property of self-perpetuation or self-expansion into state policy. He explains we generally assume state fiscal policy is exogenous, controlled from outside, subject to the discretion of the state bureaucracy. "But an alternative view is that fiscal policy is endogenous and this endogeneity leads to what economists call 'public sector failure.'" The results are that while the Colorado economy has experienced decline, state expenditures balloon precipitously, jeopardizing the very survival of our society, and economic, legislative, political systems.

Poulson explains "if state fiscal policies cannot be explained by motives of equity, efficiency, or economic growth we are left with a political economy rationale derived from the nobel Prize-winning "public choice" theory of government behavior. This theory asks us to view the state government as a bureaucracy in which individual politicians 'maximize their own utility' subject to various economic and political constraints." He defines utility maximization in terms of the benefits of public office, which is for the system, not the citizen or taxpayer. One additional possibility is that our elected officials had no way to adequately assess state compensation levels and policies, letting the system dictate the results.

Necessary long range policy changes must be instituted immediately to reconstruct state fiduciary responsibility and restore taxpayer solvency and confidence. These misdirected dollars are legitimate costs of ex post facto determination of mismanagement of state tax revenues and monetary resources, whereby too many state employees have been overpaid for a long period of time, with unreasonably generous sick pay allowances.

It's not that we don't want that many employees, nor that we don't want to pay or reward them well. It's the economic limitations of having only so much money, and how best to balance the taxpayers that do without to supply it, the oppressiveness of the taxing mechanism, and the special interests and forces that compete for it. It's to observe a true basic fairness whereby all facets of a job are taken into account to determine a comprehensive true equivalent job value for compensation purposes. We don't have the money, we can't afford it, nor can we afford these continually increasing trends. How many highways, prisons and educational projects could have been funded those six years with $1,076 million? What kind of tax CUTS could have been made?

Our goal is not to use state government money and workplace as a way-station for unemployed people. Our goal, much like the enterprise sector, is to get government's job done as effectively, efficiently, judiciously and inexpensively as possible. Too many people making too much money with too generous benefits do not fulfill these criteria. Every time a state worker gets an increase in pay, a taxpayer takes a cut in pay. It's that simple. That's why it's so important to view the whole picture to accomplish a more equitable result.

X. Where are we now, and where are we heading?

An update and projection are important to know where to go, what to do and how to do it. A recent Colorado report (25) gives updated state auditor information on employee numbers and monthly pay for December, 1987:

Regular Full Time	36,942	$ 92,240,644	(Avg. Sal. $2497)
Regular Part Time	6,575	7,120,410	
Other	21,812	10,164,898	
Total	65,595	$109,525,952	(Avg. pay, $1670/mo or $20,037 annual)

In October, 1985, Colorado had 62,090 employees (18). In the 26 months to December, 1987, 3505 employees were hired, a net hiring rate of 135 new employees per month, this in "tough economic times."

Average 1985 monthly salary $2320 increased to $2497 in 26 months, for average annual growth of 3.4%, dropping considerably from the 1980-85 annual growth rate of 7.9%. Assume both the Colorado and national average rate of salary growth will continue at 2.5% average for the next 4 years. Growing at 3.4% for two years and 2.5% for five years, the average national state employee salary in 1992 will be $2341, with 3% above being $2411, the new Colorado policy level to meet in 1992. We're already over that, so an immediate reduction or 5-year salary freeze is necessary.

Colorado population grew at a rate of about 2.14% a year from 1980's 2,909,000 to 1985's 3,234,000 (7). With 1987 population estimate of 3,331,000 (7), and similar annual growth of 1.5%, 1988's Colorado population will be 3,381,000, which by the least squares parameters (slope, .01272; intercept, 19,053) will support a state workforce of 62,059, requiring an immediate 5.4% reduction, 3536 state employees. Growing at 2%, 1992 population will be 3,660,000 people justifying 65,608 state employees to serve that population. With December, 1987's 65,595, we're there. Colorado can hire no more people; or after the layoff, can hire 74 per month through 1992.

XI. Action Plan: Gradually bring expenses into line. Target: 1992

What to do? Head in the direction of relatively fewer employees, relatively lower compensation, somewhat fairer benefits.

Colorado can cut all state employee salaries and benefits 14.1% and lay off 3536 employees. Things like that happen routinely in the private sector in their quest to please a customer at a profit, facing risk and incurring liability, while fighting for their very business lives. Or we can be more moderate and even-handed than that, with discipline, courage and intelligence.

For instance, Colorado can adopt as state compensation policy, paying state employees at the same ranking as Colorado people income ranking, presently 11, placing CASES 3% above national average state employee salary (NASES), based on the 1985 national average monthly pay of $1935 (13) for state employees. The 1985

Colorado employee average monthly salary would be $1993, not $2320, 14.1%, or $327 less. Rather than ranking number 3 in 1985, Colorado would have ranked 11, behind Alaska, California, Minnesota, Michigan, Connecticut, New Jersey, Mississippi, Wisconsin, Arizona, and New York, but still ahead of the other 39 states.

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XII. These are Colorado's 4-year action plan alternatives:

Plan A

1. Trim personnel rolls to their 62,708 level based on a 1988 Colorado estimated population of 3,432,000. That means an immediate layoff of 5.4%, 3536 employees, from the December, 1987 total of 65,595. A proportional layoff of all categories would result in immediate savings of $20,037 (plus 25% benefits) per person average, $89 million annually.

2. Reduce remaining 62,708 employee salaries 14.1% across the board, 17.6% including benefits, to produce additional annual savings of $221 million.

3. Modify sick pay policy to protect workers income with full pay if sick, full work if well, and supervisory action for excessive absenteeism. In other words treat employees as honorable human beings. Offer voluntary, contributory accidental death and disability, and long term disability income protection. With average sick leave at 4-7 days per year, annual savings of $46 million.

4. Provide bonus incentive awards for the division directors and department managers for each year these requirements are met. Provide extra incentives for innovation leading to more and better work by less employees through new job analysis and definition, automation and computers, and simplification leading to providing better services at less cost.

Potential total savings can amount to $356 million a year, becoming available for highways, education, social services, water, prisons, environment, etc., and perhaps half, 50%, back to Colorado taxpayers, amounting to $53 each, $212 a year, family of four.

or, Plan B

Attenuate Plan A for less fair ranking and less generous state programs and projects funding availability. Lay off less people, reduce pay less, moderate sick pay policy changes.

or, Plan C

Colorado can gradually regain fiscal balance and control over four or five years with no personnel layoffs or salary cuts, through natural attrition, retirements and resignations without replacement. Miniscule initial savings and less painful layoffs would result in a slow, less painful Plan A as follows:

1. Freeze salaries and benefits through 1993, monitoring to assure CASES ranks 11, the same as Colorado income parameters among the 50 states, placing CASES presently 3% above NASES.

2. Freeze net state employee numbers through 1992.

3. Provide management incentives as in Plan A-4 above.

or, Plan D

A combination of Plan A, Plan B and Plan C, with job cuts mostly through natural attrition, resignations and retirements without replacements.

or, Plan E

Do nothing. Let Colorado's light dim, and accept the consequences.

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XIII. Tax cuts may increase tax revenues.

Money is scarce and becoming moreso, demanding a careful balance of all sources and needs. For the economic health and future of Colorado, tax cuts should be carefully planned, timed and implemented.

Tax Capitalization may save the day. With what economist/journalist Warren Brookes calls "Tax Capitalization," even with tax cuts, the state may end up with the same or increasing revenues! In his 4/25/87 article "Tax Cuts Always Cause Economic Growth," Brookes tells how a cut in taxes is an investment in the private sector. He coins the term "tax capitalization" which says "every dollar of tax on a piece of property reduces the capitalized value of that property by a multiple of the reciprocal of the mortgage rate. At current mortgage rates around 10%, this means that every dollar of tax lowers the value of property by about $10."

Brookes cites an example of a $100,000 house on which annual interest costs are $10,000, annual taxes $2000. With 10% value on capital, the combined costs of $12,000 suggest a "no-tax condition" could justify a real market price on the home of $120,000. Because of the $2000 annual taxes, the house loses $20,000 value, or $10 for each $1 tax.

He says "The principle of tax capitalization suggests that any tax reduction has an immediate stimulative effect on any economy, and any tax increase has an immediate depressive effect, by a ratio of 10-to-one under current interest rates." Brookes concludes, "Every dollar in tax requires the diversion of about $10 in capital growth away from supporting economic growth. Unless government can use this diversion to create new capital wealth of its own, it will destroy a like amount of the people's economic wealth and well-being."

Thus a dollar less of tax frees up a multiple of that dollar to work in the economy. Those extra $10 rolling around in the economy create businesses and jobs, and likely more than a dollar in taxes back to government, a mighty smart investment. Relinquishing one dollar to create significant economic development, and get back even more in tax revenue is a prudent investment! Raising taxes in any way is very foolish. At present repressive levels of government, reducing taxes strangely has the probability to increase tax revenues, only through the deducedly clever mechanism of economic development and business growth.

XIV. Looking ahead to 2000, 12 short, expensive, challenging years.

Review the $10 billion total financial responsibilities Colorado leaders consider essential in the near future, not sequentially but simultaneously: new airport, $3 billion; roads to new airport, $500 billion; Governor's mobility plan, $700 million; light rail transit, Denver to Technological Center, $850 million; Regional Transportation District (RTD) link to light rail transit, $3 billion; water (Two Forks reservoir), $500 million; beltways E-470, W-470, $1.3 billion; convention center, $110 million; prisons, $146 million. Treatment of AIDS cases through 2000 will cost another $500 million.

Colorado will spend about $100 billion by the year 2000. We must begin now to plan and prioritize, to spend wisely and frugally. With new knowledge, new information and new approaches, we can meet all our commitments, save our over-taxed economy, and create a new wave of economic growth, health and wealth, economic, political and personal freedom, resulting in a brighter, more prosperous future for all citizens of Colorado.

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Endnotes

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(13) Ref 3, p 284.
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