

New England

BUSINESS



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Effects of Federal Wage Floors

The influence of the Federal Government tends to bring national uniformity in many fields. Roads spawned by the federal highway program look the same wherever traveled, federal insurance on bank deposits has brought uniform banking standards, and U.S. prime beef has the same basic standards wherever bought.

There is also a national minimum wage. It might be thought that the national floor to wages would tend to make wages uniform throughout the country for the same occupation. In practice, however, wage differences do persist between regions despite these regulations. This is because the wage regulations apply only to the minimums, a rather small proportion of the total, and wages above the floor tend to be adjusted in such a manner that interregional wage differences are maintained. These are the findings of a study of the reaction of interregional wage differentials to changes in minimum wages.

The Walsh-Healey Act — The Federal Government has three programs which set minimum wages. One is the Fair Labor Standards Act, which fixes minimums for all workers engaged in interstate commerce. The Davis-Bacon Act sets minimums for workers under federal construction contracts and the Walsh-Healey Act covers workers performing under federal procurement contracts. Many states, in-

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cluding all the New England states, also have minimum wage laws, which extend to workers not covered by federal law.

The significance of the federal wage programs was broadened last year by the inclusion of an additional 31½ million workers under the Fair Labor Standards Act. This brings to almost 30 million the number of workers covered by the act, and for most of them the minimum wage is now \$1.15 an hour and will climb to \$1.25 in September of next year.

Reactions to minimum wages can best be studied in the Walsh-Healey Act because its effects are centered in specific industries in manufacturing. The Fair Labor Standards Act covers a variety of workers for which wage information is inadequate, while the Davis-Bacon Act is limited in its coverage to construction, and is therefore too restricted for study.

The purpose of Walsh-Healey is to encourage fair labor standards to counteract the effects of a policy in which the Government awards contracts to the lowest bidder, a factor which might encourage low wages. The Secretary of Labor determines minimum wages which government contractors can pay. Contractors must also limit work hours to 40 per week, eight hours a day, and pay 1½ rate for overtime.

In recent years the determination of "prevailing minimums" has been on the basis of minimums in existence throughout the national industry. Thus the minimum for a contractor in a particular industry would be the same in Bos-

ton as in Atlanta.

Most of the Walsh-Healey minimum wages are at the same level as the Fair Labor Standards Act with only one-fourth of the industries higher. The highest minimum is \$1.77 (tire workers) set in June, 1960. Thus the minimums are far below the average of \$2.29 for all manufacturing workers.

To test reactions to minimum wage determinations, differences in average wages between regions in the same industry were examined before and after the setting of a new wage. It was assumed that if the new minimum were to affect relative wage standings between regions, the effects would be felt in some way on this differential. Mere maintenance of the differential at existing levels was not considered proof that the new minimums did not affect relative wages. The differential was also considered both in respect to its size before and after the new minimums as well as by its historical change and any alteration in this change which might result from the new minimums.

New England Wages

New England average wages in manufacturing are below the national average and this difference has been growing rather than diminishing. It is thus apparent that whatever influences minimum wages may have had in reducing interregional differences, other forces have been more important. In 1950 the New England average hourly wage for manufacturing was 11 cents below the national average, by 1960 it was 20 cents below (after adjustment for price changes.)

The general tendency for the wage differential between New England and the rest of the Nation to widen has also increased the range of differentials among the 19 different industries. The range of differentials in 1950 was -30 cents to +11 cents but by 1960 this range had increased from -44 cents to +10 cents. The industry with the greatest differential paid an average wage 22 percent lower than the national industry average in 1960.

Although the number of New England industries paying less than the national industry average decreased from 16 to 14 during the period, the proportion of New England production workers employed in these industries increased from 72 percent to 75 percent. This increase in low wage industries production workers occurred in spite of the fact that the two industries (apparel and furniture) which shifted accounted for almost 8 percent of New England's manufacturing employes.

The tendency is for New England employment to shift to industries in which it pays less than the national industry average. Thus when wages

NEW ENGLAND - U. S. WAGE DIFFERENTIAL

Industry	Difference Between N.E. and U.S. Average Hourly Earnings		Change in Differential 1950-1960
	1950	1960	
Lumber and wood	\$-.30	\$-.44	\$-.14
Primary metals	-.04	-.38	-.34
Ordnance	-.02	-.31	-.29
Fabricated metal products ..	-.16	-.30	-.14
Rubber and plastic	-.22	-.28	-.06
Electrical machinery	-.12	-.26	-.14
Instruments	-.15	-.23	-.08
Printing and publishing	-.16	-.20	-.06
Miscellaneous manufacturing ..	-.11	-.19	-.08
Machinery (except electrical)	-.10	-.19	-.09
Food and kindred	-.10	-.18	-.08
Paper and pulp	-.09	-.15	-.06
Chemicals	-.03	-.09	-.06
Transportation equipment	-.12	-.09	+.03
Furniture and fixtures	-.02	+.03	+.05
Stone, clay and glass	+.11	+.03	-.08
Apparel	-.09	+.04	+.13
Textile mill products	+.07	+.10	+.03
Leather	+.06	+.10	+.04

in a particular New England industry become high relative to the U.S. industry average, this industry is replaced by one for which New England is lower than the rest of the country.

Effects of New Minimums

In measuring the effects of Walsh-Healey, first consider those industries in which New England wages tend to be higher than the national average. These are textiles, leather products, and stone-clay-glass. For these industries the Walsh-Healey minimums are now set at the Fair Labor Standards level.

These three industries showed no change in their relationship to the Nation one year after new minimums took effect. There was some increase in the wages of the industry generally, and thus the dollars and cents differential became smaller in percentage terms. Other regions of the country also tended to maintain their same standing relative to the Nation after the establishment of new minimums in these industries.

In the long run the differentials would not be expected to remain the same even without the imposition of wage regulation. The effects of the minimum can best be judged for the long run by whether it alters the existing trend of the relative wage movements. A study of the differentials before and after the new minimums indicates that if the differential increased prior to a new minimum it continued to increase after the minimum, and if it was decreasing, it continued to decrease.

In stone-clay-glass and textiles the long run tendency is for the excess of New England over the national average to decrease. Four years after the establishment of a new minimum in stone-clay-glass, the New England differential over the United States was reduced 5 cents an hour. In leather products, however, the differential over the United States had widened by 2 cents per hour five years after the establishment of a new minimum in 1958. This widening, though small, was in accordance with the long run trend in the industry.

It thus appears that the tendency for wage differences to remain the same after a new minimum is temporary. The industries were undergoing changes in their differentials and these changes were halted by the new minimum. The minimum wage determination acts as a stabilizing influence the first year, but afterwards the long run relationships are restored.

REGIONAL WAGE DIFFERENCES AND THE WALSH-HEALEY ACT

Industry	Change in New England-U.S. Wage Differential following Increase in Walsh-Healey Minimums effected 1952-1958			
	One Year	Long-run	One Year in %	Long-run in %
New England below U.S. wage:				
Ordnance	+\$.03	+\$.12	+ .9	+5.4
Electrical Machinery	+ .02	+ .04	+ .5	+1.2
Instruments	0	0	— .4	— .8
Food and Kindred products	— .02	+ .01	—1.4	— .6
Paper and pulp	0	— .01	+ .2	— .6
Printing and publishing	— .01	— .02	— .3	—1.1
Chemicals	0	+ .02	+ .3	+1.2
New England above U.S.:				
Stone, clay and glass	0	— .05	— .2	—3.3
Textile mill products	0	— .01	— .2	— .7
Leather & leather products	0	+ .02	— .2	+1.4
New England, U.S. equal:				
Furniture and fixtures	0	+ .03	0	+1.6
Apparel	— .02	+ .05	—2.1	+4.7

Note: All wage changes adjusted for price changes

Source: Data from U.S. Bureau of Labor Statistics

Now turn to those industries in which New England wages are below the national average. Seven of the region's industries covered by Walsh-Healey are in this category. In these industries also the minimum wage seems to have a stabilizing influence on the differentials in the first year, but afterwards the long run relationship continues.

Ordnance was the only industry which showed a change of more than 2 cents in its differential with the United States in the first year after the establishment of a new minimum. With regard to the long run trend, instruments maintains a fairly stable relationship with the rest of the country. The paper and the printing industries show a long-term tendency to narrow their differentials with the United States and the others a tendency to widen the differential. For all industries and regions in which the regional wage is below the national wage, the tendency for the differentials to increase or decrease is not as noticeable as for the cases in which the regional wage is above the national.

New England also has two industries which had the same average wage as paid in the Nation at the time of minimum wage setting. These are furniture and fixtures and apparel. Again these industries showed stability the first year after the minimum was established, and then continued their long run trend. This trend has placed wages in these industries above the national average.

Earnings Distribution

Even if minimum wages do not greatly alter regional differences, they could still conceivably affect the distribution of wages within an industry (the percent of workers in each wage range.) It was found, however, that the over-all distribution is changed relatively little as minimum wages are raised. The upper portions of the wage scale, which are not directly affected by the wage floor, tend to maintain their relative position even though the average wage rises as a result of an increase in the minimum wage.

The maintenance of wage structures can be exemplified in the woolen and worsted industry. The chart below shows the distribution of earnings of workers in this industry both before and after minimum wage establishment in 1954. This chart indicates little change between years in the distribution of workers earning more than the average wage. The percentage of workers earning more than 15 cents above the average varies between years by no more than 9/10ths of a percent.

This stability of the higher earning group held true for other industries studied. For example, in the footwear industry in New England between the years 1945 and 1958 the percentage of workers in any one wage bracket earning more than 15 cents above the average varied by less than 1.1 percent. The examples in woolen and worsted and footwear and a number of other industries studied indicate that as the average wage increases the same number of persons continue to earn above-average wages. The main change in the wage distribution is to boost the very low wage earners so that their wages will comply with the new legal minimum.

Significance of Walsh-Healey

One of the difficulties of analyzing Walsh-Healey is that its wage determinations only apply on work done under government contract. These minimums have influences, however, far beyond the employes immediately involved in making goods under contract. For one thing, it is difficult

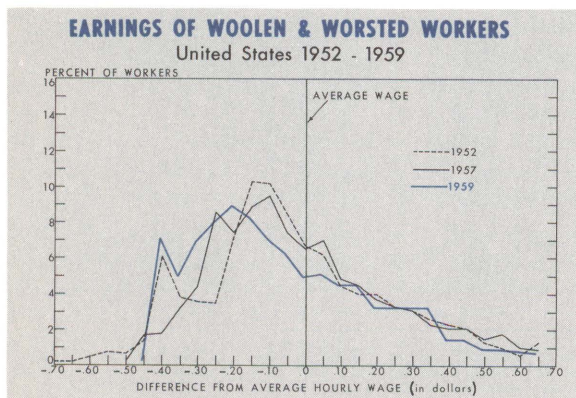
This article is based on a graduate thesis by Ronald Charles Buehner of the School of Industrial Management at Massachusetts Institute of Technology. Copies of the complete report *The Effect of Walsh-Healey Minimum Wages on Regional Industries* are available upon request from the bank's research department.

for management to separate employes working on government products from other employes—difficult both administratively and from the standpoint of union relationship. Even the firm which does not make any goods under government contract is affected through competition for employes from firms which do work for the Government. The noncontracting firm is also affected through the union which bargains on behalf of workers in both types of plants.

The Fair Labor Standards Act covers many more workers than Walsh-Healey, but there is no reason to believe that it would have substantially different effects from those shown by Walsh-Healey. The study of Walsh-Healey has concentrated on the wage structure effects within each industry, and the fact that the general minimum covers more industries should not alter the effects within any given industry. If there were any difference in effects, Walsh-Healey probably would exert a stronger influence since in some industries its minimum is above the FLSA minimum.

It would seem then that the entire minimum wage programs of the Federal Government have not altered interregional wage differences that would otherwise prevail. The effect of these programs is to give one-year stability to existing regional differences when a new minimum is imposed, but thereafter wage differentials continue on their pre-established trend.

This study would not necessarily have resulted in the same findings if minimum wages had been set at higher levels. Higher minimums under the Fair Labor Standards Act would affect New England differently from higher minimums under Walsh-Healey. The majority of New England industries pay less than the national industry average. Thus the industry-by-industry approach of Walsh-Healey might tend to raise the region's wages toward the national level if higher minimums were imposed. The Fair Labor Standards minimum is a pervasive floor and would always tend to be lower than the minimums in some specific industries. This floor would naturally tend to touch low wage industries first. Yet in most of the low wage national industries New England pays above the national average. It can thus be concluded that even higher minimums under the Fair Labor Standards Act would affect New England much less than would more vigorous application of the Walsh-Healey Act.



Consumer Prices on Rise

THE CONSUMER PRICE INDEX in May was 1.3 percent higher than it was a year ago, the largest year-to-year margin since March 1961. A little over half the increase occurred between mid-January and mid-April, following a period of seven months in which movement was confined to a range of less than one-half of 1 percent.

The rise is composed of diverse increases in the prices of the various commodities and services measured. Among the major component parts of the index rises have been less rapid in prices of apparel, food, housing and a miscellaneous group of other goods and services while more rapid increases have included prices of personal care, reading and recreation, medical care and transportation. Food prices in May dropped slightly from the month before. (Those of April, led by the greater cost of eating out, equalled the previous high set last July, frequently the month of the year with the highest food prices.) Higher prices for footwear pace the modest rise in apparel prices. Rents have risen 1.2 percent in the past year but utilities and homefurnishings costs have declined slightly, holding total housing costs back somewhat. There was no change in fuel prices from the year-ago figure. Both public and private transportation costs were noticeably higher than in May 1961. Used car prices, responding to strong demand for both new and used cars, were 11.1 percent above those a year ago, a time when demand for automobiles was at low ebb. New car prices were at about the same level as a year ago.

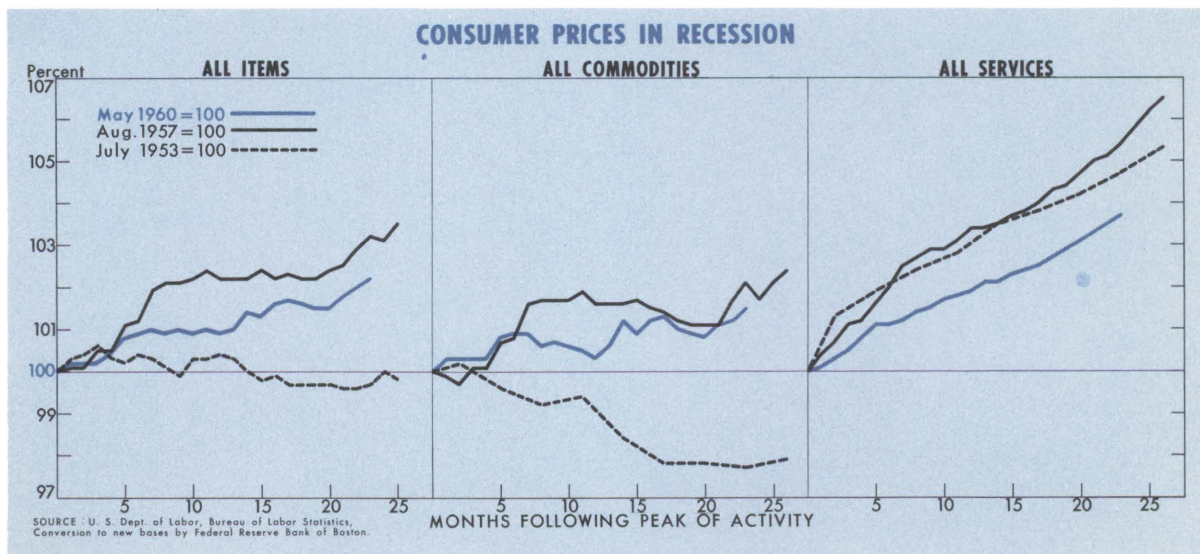
Service prices continued their uninterrupted rise during the past year. The gain of a little less than 2 percent, however, was the smallest

year-to-year increase since the end of World War II. Among the various services, rent and the cost of medical care did not rise as rapidly during the past year as in most recent years. Increasing vacancy rates have served to reduce gains in rents charged to about 1 percent. The gain in medical care costs, while less than in recent years, was still nearly 3 percent. The prices of services in transportation, personal care, recreation and others continued their upward trend.

Price Behavior in Recent Recessions

Consumer prices pursued different paths during the most recent period of recession and recovery than they did in the preceding two such periods. The chart below points up these differences. Prices of goods declined in the 1953-1954 recession, appearing to behave in the classically expected manner, while they have had only interruptions in rises in the two succeeding recessions. On further inspection of the data, however, it appears the decline is traceable to reaction to the high prices durables commanded during the period of scare-buying set off by the Korean War. Evidence of this is the fact that even three years after the start of the recession in 1953 these prices had shown little sign of recovery while prices of nondurables had begun to move upward about a year earlier. Service prices rose steadily throughout this recession.

During the 1957-1958 recession, service prices not only continued to rise steadily but actually rose a little faster than during the previous dip in economic activity. Unlike the earlier recession, this one witnessed a rise in commodity prices. Food prices played an important part



in this rise early in the recession period. They reacted, as usual, much more strongly to supply conditions than to demand pressures. Prices of other commodities declined only a few months after economic activity began to slacken but food prices did not weaken until a year had passed, at which time prices of other goods had started to strengthen in response to increased consumer demand.

Consumer prices rose during the past recession but less rapidly than during the preceding one. Even service prices rose less vigorously. Although it is generally conceded that there is little room for automation of service activities, there is some (e.g., automatic drycleaning machines). As service prices get higher and higher, certainly more effort is and will continue to be made to find ways to substitute machines for hand labor and otherwise streamline service activities.

Service prices in May were 3.8 percent higher than at the previous peak of business activity, a smaller increase than in the previous two periods of economic decline and recovery. Nonetheless, the increase in service costs has exceeded that for commodities. Prices of goods in May were 1.6 percent higher than in May 1960, a smaller rate of increase than in the 1957-59 period but markedly different than that of the 1953-55 period. On a combined basis, prices in May had risen 2.2 percent from those prevailing in May 1960. Both the similarities and differences in price behavior in the three recent periods of recession and recovery appear in the chart on the previous page. It is particularly interesting to note the similarity of behavior in commodity and total prices between the 1957-59 period and the current business cycle.

DEPARTMENT STORE INDEXES REVISED

Indexes of sales and stocks of New England's department stores have been adjusted to levels indicated by data recently made available from the 1958 Census of Business. The period upon which the indexes are based has been shifted from 1947-49 to 1957-59, as suggested by the Bureau of the Budget. In addition, new seasonal adjustment factors have been computed. Sheets of the revised indexes are available upon request to this bank's research and statistics department. The national indexes have also been revised and are available from the Board of Governors of the Federal Reserve System, Washington 25, D. C.

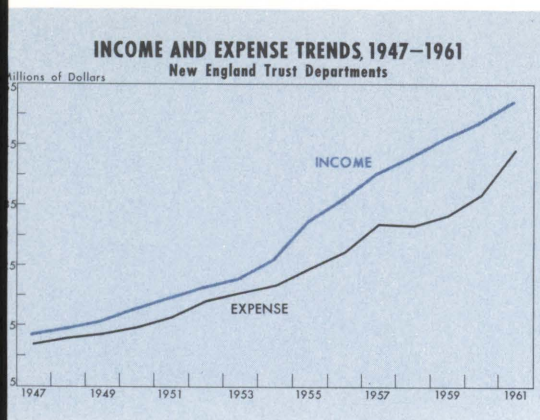
Growth in New England Banks' Trust Income

Trust income continued its upward surge in New England banks during 1961. Except for the years 1952 and 1953, income from trust business has made noticeable strides towards higher levels each year. The biggest gain occurred in 1955 following a revision in schedules and fees by the public and private fiduciaries. At the time of the revision, the ratio of expenses to income had risen to nearly 90 percent, and while expenses continued to rise during the intervening years, the ratio never exceeded 80 percent. Expenses have continued to rise at a faster rate than revenue and in 1961 net revenue was at its lowest point in nine years.

First District member banks during 1961 reported a larger proportional increase in trust income to total bank income in comparison with the total for the previous year. This relative increase, a new source of income, in comparison with other services offered by a bank, has proved many times to be consistent and steady — keeping pace with and in some years surpassing the growth rate in total bank revenue. All income categories, except estate and corporate trust, showed substantial increases over year-ago totals as shown in the table in the last column.

Forty-one of the 62 participating banks reported profitable trust department operations during the year. The number of trust departments reporting losses increased over 1960. A review of the income accounts revealed a sharp drop in estate revenue from the previous year. Though most net loss banks are generally the smaller banks, there were seven with income over \$100 thousand that ended the year unprofitably.

Trust Department Income (\$000)	Number Profitable		Number Nonprofitable	
	1961	1960	1961	1960
\$20 — \$49	2	3	6	5
50 — 99	7	5	8	12
100 — 199	10	8	5	0
200 — 499	9	9	0	2
500 — 999	5	5	0	0
1000 and over	8	8	2	0
Total	41	38	21	19



In the expense categories, overhead showed the largest increase in several years reflecting not only a general growth in business but also a revision by several large trust departments of formulas for computing overhead charges. All expense items increased from a year ago. Salaries and wages made the largest absolute gain during the year of any expense item. Owing to the need for skilled employees to administer trust accounts, average salaries in the trust department are higher than those in the other departments of the bank.

Other direct expenses increased 12.7 percent during 1961 at the reporting banks. Extra salary benefits, which is included in other direct expenses of the bank in the form of pensions and retirements, increased nearly 150 percent in seven years while salary and wages have doubled. During this same period, the banks have added 70 percent more employees to the trust departments. In the trust department one expense that is relatively inflexible is personnel costs, and therefore the high volume banks obtain a greater return on their expense dollar. The technical nature of trust business precludes easy adjusting of expenses to meet income. Departments must maintain a staff of attorneys, research and investment specialists, and other professional and technically trained personnel either on a permanent consulting basis.

One of the more interesting comparisons that commercial men make to the trust department is the high salary to total expense ratio incurred in the trust department and the total bank. However, salary and wage ratios have declined from 73 in 1947 to 55 in 1961. The total bank ratios

have been falling also but not at as impressive a rate of decline as the trust department. The following tabulation points this out:

	1947	1949	1951	1953	1955	1957	1959	1961
Trust Dept.	73	70	69	69	65	57	56	55
Total bank	46	49	50	48	48	46	47	45

Trust bankers in general feel confident about new business increases in 1962. New sources of business, for example, are coming from the beneficiaries and distributees of accounts handled by the bank. Bankers have reported adding staff employees to handle the increase in estate planning and administration and in the living trust and agency accounts. Several banks also report will appointments at an all time high. Pension and profit sharing trusts are being added at a rapid and steady rate. Other participating banks report adding new business principally from municipalities, utilities, business, charitable and educational organizations.

TRUST DEPARTMENT INCOME AND EXPENSE

Surveyed New England Banks, 1961
(Amounts in thousands of dollars)

	15 banks with trust income exceeding \$500,000 in 1961		35 banks with trust income from \$20,000 to \$500,000 in 1961	
	1961	Percent Change From 1960	1961	Percent Change From 1960
Income				
Commissions and fees:				
Estates	\$ 4,355	+ 1.6	\$1,184	- 8.7
Personal trusts	17,791	+13.8	2,843	+12.6
Pension trusts	1,672	+25.1	252	+24.1
Personal agencies ..	8,471	+13.6	1,115	+11.8
Corporate trusts	492	-12.3	33	+94.1
Corporate agencies ..	6,808	+15.4	139	+ 1.5
Total	\$39,589	+12.1	\$5,566	+11.2
Expenses				
Salaries and wages ..	\$17,440	+12.5	\$2,911	+ 4.9
Officers	6,334	+12.1	1,567	+ 7.7
Other employees	11,106	+12.6	1,344	+ 1.8
Other direct expense ..	8,967	+13.8	1,629	+ 7.0
Overhead	6,430	+53.6	870	+23.2
Total	\$32,837	+19.1	\$5,410	+ 8.1

Note: A detailed report of the information obtained from the 1961 survey is available on request from the research and statistics department. Detailed tables for 1947 through 1960 are available in limited quantities.

