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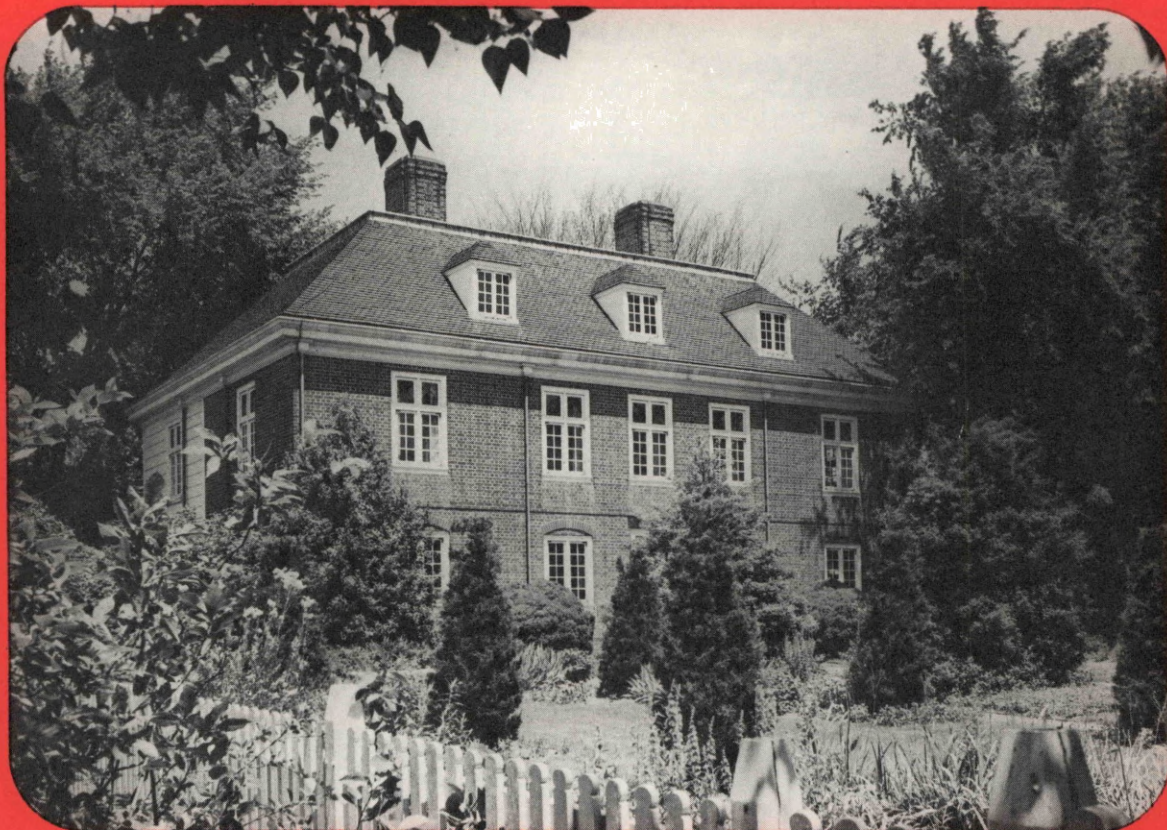
Banking Structure:
What Does the Future Hold?

Pennsylvania's Economy:
Cyclically Sensitive and Secularly Sluggish

Will the Four-Day Week Work?

FEDERAL RESERVE BANK of PHILADELPHIA

business review



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. . . The four-day week may not be a wave of the future, but its many benefits have started managers and workers thinking about new ways to arrange their work and leisure.

On our cover: On the banks of the Delaware, near Tullytown, Pennsylvania, stands Pennsbury Manor. This site and re-creation of William Penn's country estate includes attractive furnishings, herb gardens, orchards, and a spacious lawn. Of all of Penn's dwellings this manor was the only one planned and built especially by and for him. (Photo courtesy of the Bucks County Historical-Tourist Commission, Fallsington, Pa.)

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Banking Structure: What Does the Future Hold?*

By Jerome C. Darnell

Some of the most turbulent waters of the entire banking industry are within the broad arena we call banking structure. Hopefully, my remarks do nothing to add to the confusion and maybe they can bring a small measure of calm to the waters. Let me also hasten to add that my remarks reflect my own views and, of course, should not be construed as any official thinking of the Federal Reserve System.

I shall refer to some trends and future changes, primarily national in scope, that are obvious, and then move on to areas that become cloudier.

Let's consider the following: branch banking, multibank holding companies, nonbanking subsidiaries of holding companies, the doctrine of potential competition, interlocking managements, the Hunt Commission Report, and the Federal Reserve System.

TRENDS AND CHANGES SEEN CLEARLY WITH THE NAKED EYE

Wider Area Branching on the Way. What does the future hold in terms of branch banking? There's going to be more and more branch banking in the years ahead. West Virginia became the next to the last state in the Union in 1972 to authorize detached facilities. (Wyoming does not have detached facilities but does have multibank holding companies.) Therefore, the signifi-

* This article is based on a speech given at the annual convention of the Colorado Bankers Association at Colorado Springs, June 9, 1973.

cance of West Virginia's action is that banks in every state now have the capability of operating from more than one location.

Granted, a limited service facility falls somewhat short of being a full service branch office. But let's face it: A very high proportion of all banking transactions can be handled just as conveniently at a facility as at a branch office, and it's pointless to draw fine distinctions between them. The term "facility" is just a euphemism that came into vogue some three decades ago to give the illusion that there was no branch banking. Even with the multiple-office capability that now exists, several states still have a predominately "unit banking" orientation. But it seems obvious that it is just a matter of time until multiple-office banking of one form or another is the rule.

Before making some predictions about what I think will happen in the various states, let's briefly review where we've been. Certainly the trend toward more and more branch banking in this country has been steady and relentless for many years. The first great wave of states adopting some style of branch banking occurred in the two decades following World War I, culminating in the mid-1930s. The number of states permitting some form of branching rose from about 15 to around 30. From then until the early 1960s, banking structure changed very little, with less than half a dozen states moving toward more full-service branching, but several did add a facility provision. According to a classification of the states put out by the Federal Reserve Board in 1960, the lineups were about equal with 16 classified as statewide branching states, 16 were limited branching states, and 18 states were called unit banking. Then things started to happen. By 1970 statewide branching increased from 16 to 19 states, 16 were called limited branching (with shifts in the make-up of the groups), and 15 were unit banking. By 1973, the numbers are 20 statewide, 17 limited, and only 13 unit.

However, these classifications are somewhat meaningless. For example, in five of the 13 so-called unit-banking states—Colorado, Florida, Minnesota, Missouri, and Montana—multibank holding companies control over half of the deposits. In two other unit banking states, North Dakota and Wyoming, the proportion exceeds 40 percent. Statewide banking, or the capability of going statewide, is now the dominant characteristic of the banking systems in these seven states. In three of the seven, the change in banking structure has occurred in the relatively short span of time since the 1966 Amendment to the Bank Holding Company Act.

Now only five states have neither multibank holding companies nor full service branching, at least on a limited geographical basis. These are Nebraska, Kansas, Oklahoma, Illinois, and West Virginia. So today, unit banking is not nearly as prevalent as before, and the classification of states into this category is often arbitrary.

Let's look on to 1985. During the next ten to fifteen years the movement toward wider area branch banking should increase considerably. In retrospect, we will see that the rapid growth of multibank holding companies was one of the main driving forces behind the transition. My best estimate is that in another ten years there will be no states remaining that do not have some form of statewide, multiple-office banking. I think a number of states will be disposed to look at the dominant position of holding companies and say that we'd just as well call a spade a spade, and go all the way to statewide branching.

The trend toward statewide branching is snowballing. New Jersey, after a transitional period of using holding companies, is now almost certainly going to statewide branching.¹ New York has legislated this change

¹ A statewide branching bill has passed the Legislature and is awaiting the Governor's signature.

to start in 1976. Pennsylvania is holding hearings on statewide branching now. The bill's prospects of passage appear slim this year, but my guess is that Pennsylvania will probably have either statewide branching or multibank holding companies or possibly both not too many years down the road. Ohio and Massachusetts are two more leading candidates for statewide branching in the not-too-distant future. Iowa and Arkansas have gone to limited area branching. Several other unit banking strongholds are now talking about liberalizing their facility laws. One might go down the list and find other states priming themselves for a change.

Two observations are pertinent on changes in the banking structure code. First, when study commissions are appointed to review the law, it is a clear sign that change is in the wind. Right now over half the states that do not have either statewide branching or multibank holding companies are currently reviewing their banking codes to see if changes are desirable or warranted. In some cases the study commissions have come long after holding companies became firmly entrenched and established a *de facto* statewide branching network.

The second observation is that there seems to be about a ten-year cycle at work. From the time the yeast of change starts to ferment until something is accomplished may take about ten years. New York is perhaps the best recent example of this ten-year cycle theory.

State legislators, like some bankers to a certain extent, feel a great pressure to conform with the group. As the switch to statewide branching gathers steam, legislators will be under increasing pressure to jump on the bandwagon and not have the unique distinction of being the last state in the Union to prohibit statewide branch banking or holding companies. Reapportionment of state legislatures has been shifting the power base from rural legislators to the city representatives. Smaller country banks, which

have typically been opposed to branching, are not going to be as influential as they once were. In another decade the transition to statewide branching or holding companies will be virtually complete.

Decline in Number of Banks. One result of wider branching will be a corresponding reduction in the number of independent banking units and larger-sized banks. Figures on the number of banks nationally show that the number has been rising, currently standing at 13,900 and about 500 above the low point in 1962. This number is a statistical illusion. Set aside the banks controlled by multibank holding companies and count them as branch offices, and you'll see that around 1966 the number of independent banking organizations peaked. It's down now to slightly over 12,000, the lowest number since before World War I. In years to come the number of separately operated banking institutions will be falling much faster because of mergers and acquisitions. My guess is the number might eventually stabilize at something less than 10,000.

More Concentration. If you like to play around with concentration ratios,² you'll probably find that, in the future, concentration of banking resources in most states will be going up. It's a well-documented phenomenon that when wider area banking takes over, especially statewide branching, concentration ratios for the state usually go up. This seems to be an inevitable side effect of having more widespread banking. Over the past 15 years, statewide branching states have shown, with few exceptions, that concentration was increasing while it was declining in limited branching and unit banking states. However, the relevant question may be: What is happening to concentration in the local banking markets? Here we find

² Concentration ratios refer to the deposit share of the largest bank or banks in a geographical area.

that the concentration increase is not so pronounced, but it can be observed. The regulatory agencies over the years have become more watchful and are less likely to let concentration in local markets or for the state as a whole get out of hand.

Technology Will Hasten the Branching Movement. The movement to wider area branching will be hastened by the sophisticated electronic hardware that is now becoming available for a high proportion of the run-of-the-mill banking transactions. Because of this trend, a very crucial legal decision is coming soon in a number of nonbranching states as to whether free-standing, automated tellers should be considered branches. Clearly, we're on the verge of substituting automated tellers for live ones. Point-of-sale terminals³ are moving rapidly beyond the experimental stage. Systems are coming that will link banks with customers and business firms, and the need to set foot in a bank is going to diminish. As we move closer to the "less check" society, investment in a traditional banking office composed of brick, mortar, and people will become more and more suspect. We'll not need so many of the typical banking offices, but they'll need to be more strategically located.

The Future of Multibank Holding Companies. A good question at this juncture is: What will multibank holding companies do when given the opportunity to convert to branching? Many holding company bankers readily admit that they prefer branching, but resort to the holding company device because of branching restrictions. However, some holding company bankers recently

claimed that they prefer the holding company over branching because smaller affiliated banks can be kept out of the Federal Reserve System and avoid the higher reserve requirements associated with membership. It will be interesting to see what transpires in New Jersey and New York when they permit statewide branching. At least one large New York holding company has announced that it will convert to branching. Since holding company operations are generally believed to be more cumbersome than branching, I would expect most of them to convert to a branching system.

Multibank holding companies really took off after the 1966 Amendment to the Bank Holding Company Act. Consequently, they're now in the midst of their greatest growth era. But I detect some signs that make me believe the growth will be slowing down in a few more years, perhaps as early as 1975 or 1976.

One of the brakes on growth will be states like New Jersey and New York going to statewide branching. Another reason for slowing is that in many states the eligible banks for acquisition have been pretty well culled. Some holding companies are finding out that acquisitions are not panning out as they had thought. The Justice Department has started flexing its muscles on a number of holding company acquisitions, as some bankers are painfully aware. And the Fed is doing more homework and looking at some acquisitions with more skepticism that it ever has in the past.

It has been my observation that when a half dozen holding companies get over half of the deposits in a state, they are forced to be more cautious in their expansion programs. Therefore, combining all of these factors, I would expect that the rush toward holding companies is going to be slowing down.

Furthermore, no virgin territory is left where holding companies can spring up without law changes. Multibank holding

³These are computer terminals located in retail establishments. Such terminals are used to provide instant transfers of money from the customer's account to the retailer.

companies are now in every state which does not have a law prohibiting their operation. The last three states without holding company legislation and with no active holding companies are Arkansas, Alabama, and Texas. In 1970 large banks in these states discovered almost simultaneously that there was no state restriction on their acquiring other banks. However, before the process could get very far off the ground in Arkansas, the legislature closed the door.

CHANGES THAT ARE NOT SEEN SO CLEARLY

Let us move on now to some structural changes that do not come into focus as sharply as those previously discussed.

Interstate Branching. How far will we be from branching across state lines by 1985? I don't think interstate branching will be here by that time, but it will not be too far away. Ohio's study commission proposed to allow out-of-state banks into the Buckeye State if the same privilege would be extended to Ohio banks. New York has made this offer for holding companies. Others will probably follow. The process will start in the metropolitan areas that straddle state lines and spread from there. Already foreign banks can set up offices in more than one state as long as they play by the local rules.

In terms of moving toward regional interstate branching, I think the 1970 bank holding company amendments, opening the gates for banks to expand nationwide through nonbanking subsidiaries, will prove to be the catalyst that started us toward interstate banking. The real question facing us is this: If we are going to let a Pennsylvania bank operate consumer finance companies in Delaware, Maryland, Ohio, and Puerto Rico, and industrial banks in Colorado, what is the rationale for confining its retail banking operations to the state of Pennsylvania?

Nonbanking Subsidiaries. The Board of Governors of the Federal Reserve System has now settled on about 15 activities "closely related" to banking that holding companies can engage in. No doubt the list will be expanded in the future, but I have no special insight into what the areas may be. It seems banks have achieved essentially what they sought—an opportunity to diversify, to smooth their earnings stream, and to offer more services. Banks now have latitude in the things they can do and in the places they can operate. Certainly the geographical barriers are being broken down in terms of nonbanking activities which, in my view, will hasten the erosion of state boundaries on more traditional banking functions.

The decisions on nonbanking acquisitions suggest some clear guidelines to me. Choose one of the items from the list of approved activities (if you want to be a trailblazer, be prepared for a longer delay). To minimize regulatory red tape, start from scratch. *De novo* applications usually sail through with fewer problems. If it's going to be an acquisition of an existing firm, stay out of your own backyard. Ordinarily out-of-state acquisitions of nonbanking subsidiaries cause fewer problems since it is less likely there will be any competitive harm. If you should seek an acquisition in your own market, say a consumer loan company, be certain the bank and the loan company do not have a substantial share of the local consumer loan market.

The Doctrine of Potential Competition. While we are on the subject of competition, let's talk about the doctrine or theory of potential competition. I would submit to you that while the Justice Department was suffering a string of some seven consecutive defeats⁴ in the lower courts and one setback

⁴ The Justice Department has now lost its eighth consecutive potential competition banking case in an

in the Supreme Court with the Greeley case;⁵ actually, it has won the potential competition war. I say this because the Fed, the busiest application processor of all, is now regularly applying the doctrine of potential competition to the cases it reviews. It is my understanding that the Federal Deposit Insurance Corporation also does the same thing, and just last year axed a proposed merger between a couple of fairly large Pennsylvania banks on the grounds of potential competition.

Because of attention to the potential competition issue, a number of talked-about mergers and holding company acquisitions never even reach the application stage. Thus, I would argue that the Justice Department has been successful in its battle to establish potential competition as a viable concept. Moreover, one of these days the right case will come along, and they will be able to convince the Supreme Court. Potential competition will be used more and more for both banking and nonbanking acquisitions. You should be prepared to act accordingly.

Interlocking Managements and Common Ownership. Another topic to consider is the status of those banks having common ownership links and interlocking managements.

The statutory restrictions are drawn so loosely that banks operating across the street from each other could, with no more than a sixth-grader's ingenuity, have common directors, presidents, officers, and what have you.

Now there are rumblings in Congress and in the state houses to take a closer look at the matter. Two years ago the House Bank-

ing and Currency Committee held hearings on this very issue. There seemed to be widespread agreement among those testifying, of which I happened to be one, that interlocking managements and common ownership had long outlived their usefulness, whatever it may have been, and it was time to stop the practice because of the obvious potential for competitive abuse. The bill never left Committee, but the seeds have been sown.

The Ohio Legislature has a bill that would eliminate interlocking managements among all financial institutions operating in contiguous markets. Maine has just passed a law banning interlocking directorates among financial institutions. The New York State Department of Banking has made a similar recommendation to its legislature. And now the Justice Department has tried its first case, a Texas case which it lost in the lower court. Noise is being made on this matter, and I would predict that a ten-year cycle probably holds here also. By that time, we may see interlocking managements between competing banks outlawed and possibly even a lid put on the amount of investment you may hold in another independent bank. The Justice Department has already announced that common ownership ties must be at least half or it will view the banks as separate legal entities, which will have to pass muster under the antitrust standards.

Hunt Commission Report. No discussion of banking structure would be complete without mentioning the President's Commission on Financial Structure and Regulation, better known as the Hunt Commission. This Commission came into being at a time when there was concern about the performance of the financial system. The Commission turned in a useful piece of work. However, many of their recommendations did not go much beyond those made by three other study groups some ten years ago. Unfortu-

antitrust suit that sought to block the proposed merger of two large Connecticut banks. See *American Banker*, June 26, 1973.

⁵ *United States v. First National Bancorporation, Inc.* On February 28, 1973 the U. S. Supreme Court in a 4-4 vote sustained a lower court ruling against the Justice Department.

nately, little of legislative substance ever came from those studies. And, based on this experience, it is unlikely that we will see a major restructuring of the financial system coming from the Hunt Commission's efforts.

Nevertheless, I do think several recommendations in the Report have merit and will likely be implemented on a piecemeal basis in the years ahead. For example, I think Regulation Q stands a good chance of being suspended and put on a standby basis.⁶ Probably explicit interest payments on demand deposits is another good prospect the further we get away from the Great Depression era. Thrift institutions are likely to gain the right to offer third-party transfers via household checking accounts, as mutual savings banks now do in some half dozen states. The tax burden on all financial institutions will tend to be equalized as they take on more common characteristics. Finally, thrift institutions, especially savings and loan associations, are likely to get broadened consumer lending powers and an opportunity to loosen their close ties to residential mortgage markets.

The point is many of the recommendations in the Hunt Commission Report have virtue and will eventually find their way to the surface. But my guess is that implementation will likely be on a fragmented basis and not through a comprehensive legislative package.

Changes in the Federal Reserve System. Increasing holding company activity has placed still more work on the shoulders of

an already heavily burdened Board of Governors. Consequently, more and more of the workload on holding company cases is being delegated to the 12 Federal Reserve Bank staffs. In one sense this is a move in the right direction, but in another sense it could cause problems because inconsistency may develop among the staffs in their handling of cases.

Even with a lot of delegation, the Board still may have to spend a substantial amount of time in deciding holding company cases of a borderline nature. Therefore, it may be appropriate to give some consideration to creating a new body, perhaps a committee within the existing System, that would be charged with handling most of the holding company decisions. In this way, the Board can maintain sufficient time to meet its other responsibilities.

THE FUTURE: WHAT NEW CREATIONS?

I wish my vision were good enough over the next 10 to 15 years to foretell of stunning revolutions in banking lurking somewhere on the near horizon. But it isn't.

My view is that the one-bank holding company movement was a revolution, and indeed the major one of the past decade. Perhaps in retrospect the real surprise is that it took so long for the movement to be born in the first place because the option was always there. No doubt time will bring on changes that are mere pipedreams today.

In sum, an acceleration toward wider area branching and a slowdown in multibank holding companies appears inevitable. Surely there will be more and more national and even international financial conglomerates. Above all else, competition within the banking industry and other financial institutions will become much more intense, ultimately benefiting the consumer. ■

⁶ The Fed has the authority to establish ceilings on the rate of interest commercial banks can pay on time and saving deposits. This authority is implemented through Regulation Q. On May 16 the Board suspended interest rate ceilings for all single maturity time certificates of deposits (negotiable and nonnegotiable) in denominations of \$100,000 or more.

Pennsylvania's Economy: Cyclically Sensitive and Secularly Sluggish

*By
Howard Keen, Jr.*

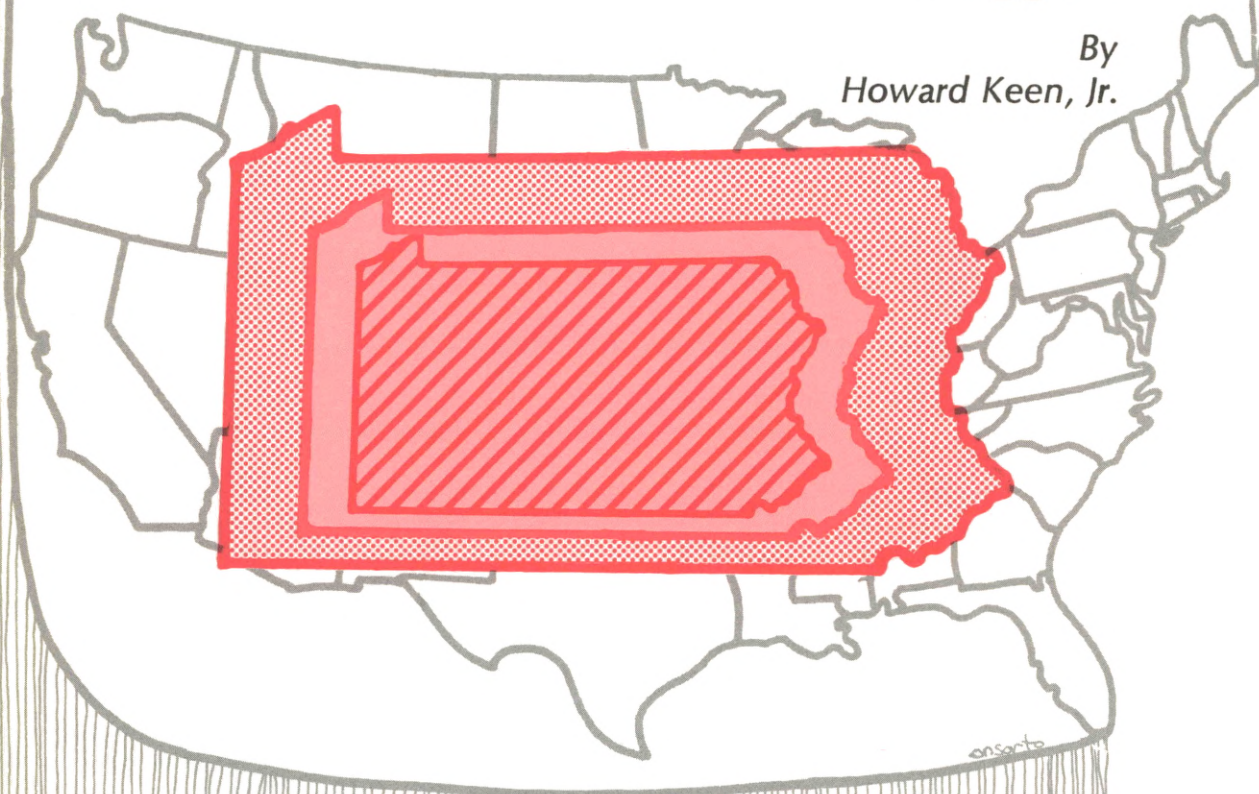


CHART 1

LIKE THE NATION AS A WHOLE, PENNSYLVANIA IS SHARING IN THE CURRENT BOOM

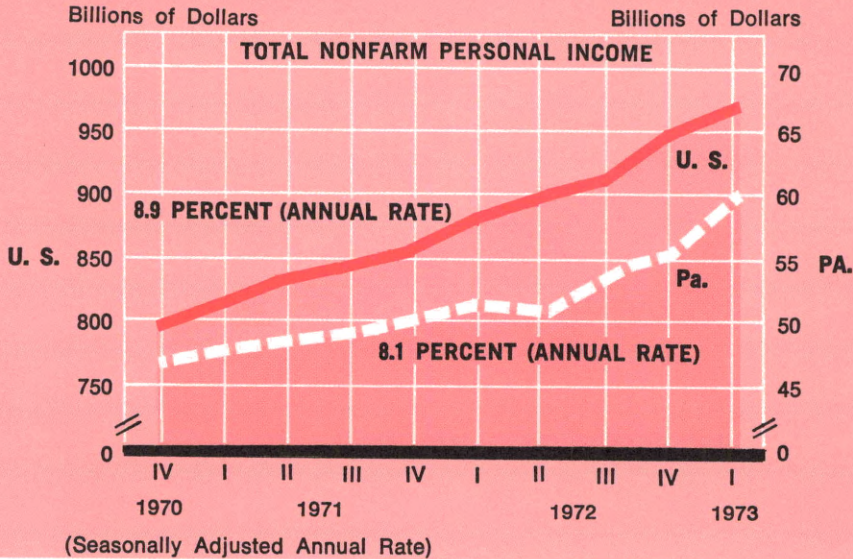
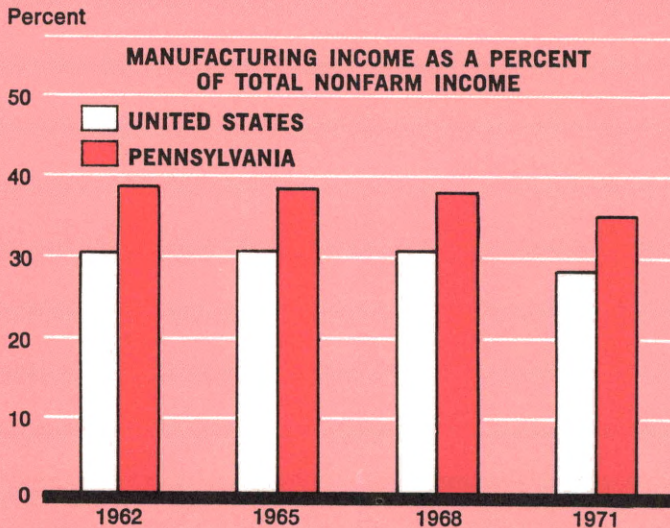


CHART 2

HOWEVER, THE KEYSTONE STATE IS MORE HEAVILY CONCENTRATED IN MANUFACTURING THAN THE COUNTRY AS A WHOLE ...

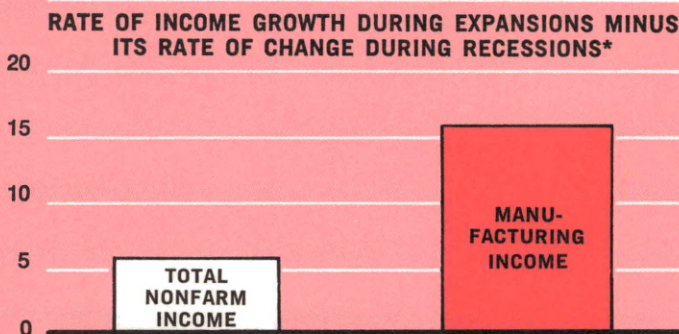


Source: U. S. Department of Commerce, Bureau of Economic Analysis

CHART 3

AND SINCE THE DIFFERENCE BETWEEN THE GROWTH RATE OF INCOME DURING EXPANSIONS AND ITS RATE OF CHANGE DURING RECESSIONS (CALLED "CYCLICAL SENSITIVITY") IS GREATER FOR THE MANUFACTURING SECTOR THAN THE ECONOMY AS A WHOLE . . .

Percent

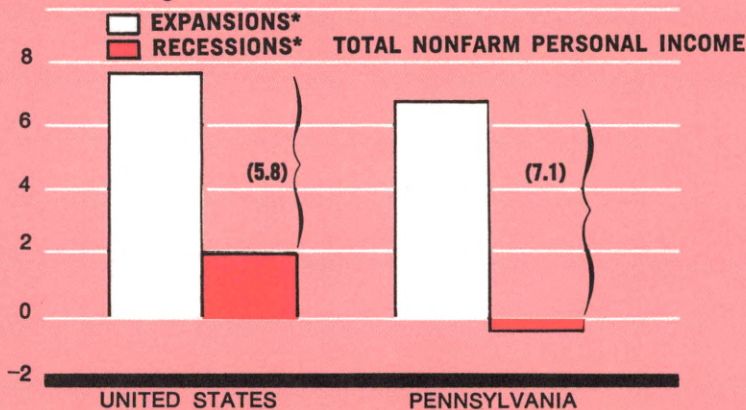


* Mean quarterly percent change at annual rate for four postwar cycles, 1948-IV to 1969-III.

CHART 4

PENNSYLVANIA'S GROWTH EXPERIENCES WIDER SWINGS IN INCOME THAN THOSE OF THE REST OF THE NATION'S ECONOMY

Percent Change



* Mean quarterly percent change at annual rate for four full postwar cycles, 1948-IV to 1969-III.

CHART 5

MOREOVER, MANUFACTURING INCOME HAS GROWN AT A SLOWER PACE THAN TOTAL NONFARM INCOME . . .

Billions of Dollars (Ratio Scale)

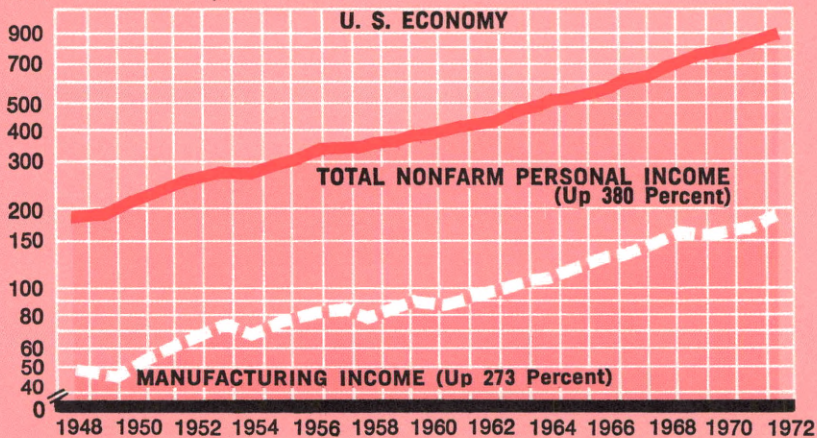
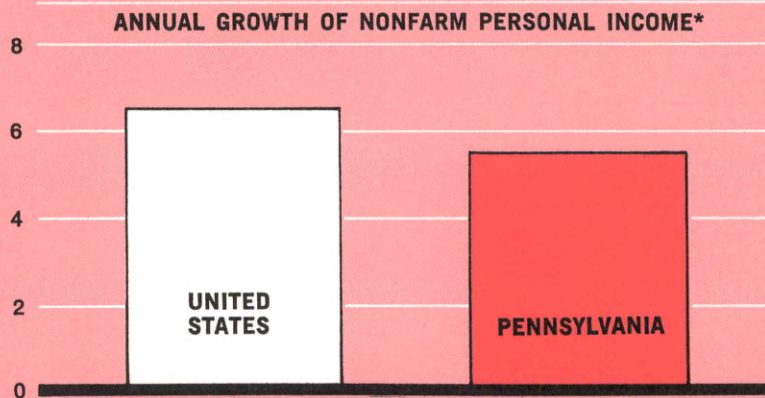


CHART 6

SO, UNFORTUNATELY, PENNSYLVANIA'S GROWTH TRAILS THAT OF THE REST OF THE NATION'S ECONOMY

Percent



* Compound Annual Percent Change, 1948-72.

Will the Four-Day Week Work?

By Curtis R. Smith

The last several years have been especially trying times for managers and executives as well as for workers on the assembly line. Corporate officers and small businessmen alike, under intense pressure to hold the line on costs, have been looking for ways to boost productivity. Labor, faced with ever more specialized and repetitious tasks, has been seeking ways to improve life on the job. One solution for both parties may be new approaches to arranging the workday. A plan known as "flexitime" has been winning converts, especially in Europe (see Box). The major thrust in the U. S., however, has been toward the four-day workweek.

Under a variety of plans that rearrange the workweek without shortening it, each worker labors the *same* total number of hours per week but spends fewer days on the job. For some, it means four days on the job and a three-day weekend. For others,

it's a day off in midweek and a two-day weekend. Still others enjoy a three-day midweek "weekend." Private industries, governments, and nonprofit institutions are among those adopting the four-day schedule; estimates are that upwards of a million workers are now involved. Although these workers are employed in a relatively limited number of firms, proponents of the reshuffled workweek are predicting widespread conversion in the not-too-distant future.

ECONOMIC ADVANTAGES OF THE FOUR-DAY WORKWEEK

For an innovation of this nature to spread throughout the economy, it must offer advantages to all concerned. There are some strong reasons for believing that many firms can realize productivity gains and that workers will be more satisfied on a four-day schedule.

EUROPE TRIES FLEXTIME—HOW ABOUT AMERICA?

Plans going under the banner of flexitime, or gliding time, are rapidly being accepted in Europe. Designed to give workers flexibility in arranging their own work schedules, the arrangements divide the workday into "fixed" and "flexible" periods. Employees must work the fixed core time—usually mid-morning to mid-afternoon. But within the arrival and departure "windows," they start and stop each day whenever they please.

Each plan is tailored to meet the individual firm's needs. Most flexitime arrangements allow workers to determine the length of their day, as long as a certain amount of time is worked each month (or week). Other firms, especially in production, ask work teams responsible for specific jobs to set arrival and departure hours for the team.

Gliding time was first tried in clerical, professional, and managerial-type jobs but has spread to almost all kinds of work. The only infeasible areas seem to be those in production-line work where the components are large and cannot be easily inventoried and in custodial, security, and cafeteria jobs where workers must be on their jobs at certain times.

Flexitime proponents indicate that both workers and management are happy with the plan. Workers are not subject to a fixed schedule; they have time to tend to personal business needs without taking time from work. Family emergencies can be more easily handled. Probably the most important, and enduring, benefit is the feeling of responsibility that workers get. This frequently translates into increased productivity which management likes. The productivity gains seem to stand up over time, a question still unanswered by the four-day week. Flexitime also helps companies recruit in tight labor markets and alleviate traffic jams around the plant.

In Europe, Switzerland has the highest concentration of gliding time workers—close to 30 percent of the workforce. Germany and Britain are also heavily involved with the plan. While subsidiaries of European firms were among the first to introduce flexitime schedules in the United States, a sprinkling of companies and other organizations are now experimenting with various flexible schedules. Flexitime bears watching as another means of boosting productivity and workers' interest in their jobs.

Firms Stand to Gain. Firms are interested in the specific benefits of the four-day week that will reduce costs and translate into higher profits. For most businesses the biggest potential benefit is increased productivity of both labor and capital. Breaking out of the eight-hour, five-day mold may allow firms to schedule their work loads to meet their own particular demand, person-

nel, and machine requirements.

Many businesses have a large investment in their machines and want to keep them running as much, and as efficiently, as possible. Most machines take time to get keyed into their most productive speed and calibration. Production is lost each time one is started up or shut down. During a five-day week there are five start-up and shut-down

periods. The four-day, 40-hour week cuts these losses by 20 percent.¹ Savings can also apply to labor. Worker preparation ranges from the morning cup of coffee to the donning of special equipment; end-of-day shut-down often involves substantial clean-up time.

Another "four-day" advantage can be easier maintenance. Taking care of complicated machinery frequently requires considerable downtime. For machines where maintenance can't be completed over weekends, the "four-day" can avoid the loss of a day's production. Even for firms with less time-consuming maintenance requirements, there are advantages. Having a weekday available for repairs may speed things up since suppliers are likely to be open to provide needed parts.

Keeping labor costs under control is just as important as the efficient use of capital. One key aspect of this campaign is the battle to boost labor productivity. Workers often prolong their weekends by calling in sick, and the Monday and Friday "blues" are a common problem of the present workweek. If employee morale is improved by the four-day week, inefficiency, absenteeism, and tardiness all should be reduced. Costly turn-over should be less likely and recruitment easier. Other productivity gains are possible. Top management can work on the fifth day when production is not scheduled. Staff meetings, planning, and consulting can be effectively conducted without interruption.

The Worker's Viewpoint. In principle, the average worker might be indifferent between the rearranged four-day week and the standard five-day week.² However, there's evidence that workers prefer their "off" time in long blocks. Since 1960 the trend has been away from reducing the number of hours worked each week and toward having longer blocks of time away from the job. The average workweek, which dropped steadily until the late 1950s, has stabilized around 40 hours. In contrast, paid holidays and vacations spread rapidly in the '60s. Over the decade full-time workers saw their average vacation time rise from 1.8 to 2.2 weeks.³ Furthermore, workers have overwhelmingly accepted the recent designation of five national celebrations as Monday holidays.

People seem to favor blocks of leisure time because they can do a variety of things more pleasantly—shop when stores are less crowded, keep appointments, work around the house, or just loaf. Necessary chores can be done on the extra day off, freeing the weekend for "fun" things. Not only that, the four-day week cuts a worker's job-related costs by up to a fifth. Commuting costs, restaurant lunches, and traveling time would drop, and family child-care expenses could be lower.

Although it is not as apparent, the four-day plan offers a further benefit to workers. Over the long run, economic theory suggests that wage movements reflect increases in productivity. If firms garner productivity

¹ For example, these savings may be garnered in the following manner. If there is a half hour start-up and a half hour shut-down time, each eight-hour day results in seven hours production or a total of 35 hours a week. On the four-day schedule, however, there are only four hours of downtime. This results in nine hours of production each day and 36 in the week. The firm realizes an extra hour of production each week in addition to the longer continuous running time of both labor and capital.

² Economic theory tells us that workers' acceptance of the four-day week will hinge on monetary considerations as well as personal tastes. If workers preferred a five-day schedule, firms could conceivably get them to work four days by raising wages. Since firms are trying to keep costs down, it is essential for widespread acceptance that workers be willing to agree to the plan without monetary inducements.

³ Geoffrey H. Moore and Janice N. Hedges, "Trends in labor and leisure," *Monthly Labor Review*, February 1971, pp. 4-5.

gains upon conversion to the four-day week, it's likely that some of those gains will be passed on to the worker in the form of higher wages.

THE FOUR-DAY WORKWEEK IN PRACTICE

The four-day workweek sounds good in theory, but how practical is it? Which profitability considerations apply to which type of firms? Is its applicability widespread enough to be a valuable tool in keeping costs and, therefore, prices down?

Some industries have particular production constraints which make it highly unlikely that the "four-day" will be adopted. Others are more able to garner its efficiencies. Further, even within a firm there are differences: some departments are well suited to four-day operations; others face insurmountable problems. Although each industrial unit must evaluate the four-day week in light of its own requirements, in general the economy can be divided into three groups of firms with common characteristics. Within each category, the "four-day" offers important advantages.

Production Industries. Firms in production-oriented industries such as manufacturing, mining, and construction seem particularly well suited to the four-day week. They frequently have a heavy investment in machinery and tend to use skilled workers. Because these firms employ nearly a third of the labor force and face the toughest international competition, more efficient use of both capital and labor is quite important.⁴

For instance, manufacturing firms using metal- and plastic-molding equipment realized economies by avoiding a day's lengthy heat-up and cleaning time. The chemical

industry is also beginning to use this innovation. Some paint firms find that the rearranged week boosts the efficiency of their batch processing. In other industries, such as machine tool production, the four-day week with two ten-hour shifts has resulted in better capital utilization than the 16 hours of two traditional shifts.

Many production-oriented firms have already realized the expected reduced labor costs associated with the four-day week. Increased worker interest has paid substantial dividends in cutting lost work time. Many businesses also find it easier to attract workers with a four-day plan. In textile production, for example, some firms have been able to fill relatively unattractive jobs more easily by scheduling two ten-hour shifts four days a week. Further, they are able to utilize their equipment fully by offering a four-hour evening shift that attracts students and women.

Despite the potential savings resulting from the four-day/40-hour week, there are problems that may limit its applicability in production-oriented industries. For many three-shift firms, scheduling problems make the "four-day" impractical. Obviously, three eight-hour shifts divide evenly into 24 hours where ten-hour shifts do not. Moreover, the four-day week presents difficulties for some businesses providing products and services to other firms and for companies producing perishables (such as food products and building materials) that must be shipped for immediate use. Because these businesses

ing to the Workweek, April 1972; Eugene Murphy, "4 Days, 40 Hours: Palliative or Panacea?" *New Jersey Business*, February 1972, pp. 57-64; Kenneth E. Wheeler, *The Four-Day Week: An AMA Research Report* (New York: American Management Association, 1972); L. Erick Kanter, "An Industrial Pioneer Rescued by the 4-day Week," in Riva Poor, ed., *4 days, 40 hours* (Cambridge, Mass.: Bursk and Poor Publishing, 1970), pp. 39-46.

⁴ For a more detailed discussion of the efficiencies, see The Research Institute of America, *What's Happen-*

can't ask their customers to reshuffle their needs, longer hours and fewer days would be sensible only if the customers were on four-day schedules themselves. Further, at some firms, service requirements dictate that certain departments remain on the traditional five- or six-day schedule even if the rest of the plant converts. Sales staffs and shipping and receiving departments are the most common examples.

Labor may present the biggest obstacles in this sector. For some types of work the ten-hour day is too long. Many jobs in mining, construction, and heavy manufacturing are physically demanding and hazardous. Both workers and firms in these industries can be expected to resist a longer day. Workers will not want to endanger their health. Most firms realize that once fatigue sets in, employee productivity drops and, in the case of the dangerous job, more accidents may result. Consequently, unit costs rise and profits suffer.

Customer Contact Industries. Many industries directly serve the public and, therefore, rely on people rather than machines. Therefore, they have a heavy stake in any innovation that makes more efficient use of labor and helps control labor costs.

Public service operations are prime examples. Since 24-hour staffing is a basic problem, some hospitals have adopted two ten-hour shifts and one five-hour evening shift with employees working only seven out of every fourteen days. Recruitment of both full- and part-time personnel is easier with this schedule. Likewise, police and fire departments find the four-day week enables them to schedule their work force more efficiently, thereby providing the citizen with more protection for his tax dollar. Overlapping ten-hour shifts help police cover rush hours and the late-night high crime period. Many fire departments work a 48-hour week composed of two ten-hour day shifts and two 14-hour night shifts.

The four-day week is also proving useful in those areas where competition is forcing businesses to remain open longer. This is particularly true among large retail outlets and increasingly the case in banking. The four-day week can help them efficiently arrange their operations. With the addition of part-time workers, the traditional five-day/40-hour schedule can be arranged to cover six- or seven-day operations. However, a staggered four-day week has two distinct advantages. It allows the store to be manned full-time by persons more familiar with a firm's products, customers, and methods of doing business. Moreover, it aids in recruiting weekend help by offering a third day off.

Other customer contact industries have been able to adapt the four-day schedule to their particular needs. For example, automotive services firms, with a heavy capital investment in equipment, have been able to please old customers, attract new ones, and more fully use their equipment by expanding their hours. Mechanics can work a rotating four-day week, trading longer daily hours for an extra day of leisure. A chain of retail and wholesale tire stores in California is open Thursday, Friday, Saturday, and Sunday each week. It found that these are the days when tire demand peaks and decided to concentrate its personnel on those days.

Paperwork Industries. Industries that deal with "paperwork" are in an ideal position to take advantage of the four-day workweek. There is no need to set specific hours of operation, and most employees are concerned with continuing functions such as record-keeping, personnel matters, and research. Physical exhaustion is generally not a factor, and the longer day does not routinely entail problems of mental fatigue. Moreover, there are usually no shift-scheduling problems.

For instance, insurance firms can turn the four-day week to their advantage. Processing

of applications can easily be squeezed into four days. Publishers could surely rearrange the week in a similar manner. Perhaps the largest work force eligible for the four-day change is that of governments — Federal, state, and local. Bureaucratic activities such as court cases, studying the economy, procuring airplanes, and road building are usually not tied to any set schedule.

The rearranged workweek is the rage in computer and data-processing operations. This is an excellent example of optimal machine and labor utilization allowing an efficient shortening of the workweek — as few as three extended days each week is common. Companies have come up with a seven-day schedule using two 12-13 hour shifts each day as each employee works a three-day/36-39 hour week.

Taking Stock. The four-day workweek offers numerous cost-cutting advantages, but it also faces some practical obstacles. Lurking in the background is the possibility that all of the expected gains in productivity will not last.⁵ This issue will not be decided, however, until industry has had sustained and widespread experience with the plan. Of immediate concern are the practical limitations of implementing the plan at all.

The biggest difficulties are in production-oriented firms. Health and fatigue may involve substantial problems in businesses employing as much as 15 percent of the total work force. Scheduling difficulties also make

it impractical to utilize the plan in many of the same firms, but estimates indicate that only 5 to 10 percent of the labor force is employed by three-shift companies.⁶ Although it's difficult to say exactly, firms that produce perishable products and have stringent shipping requirements probably constitute an equally small group.

In addition, there are substantial numbers of employees in all enterprises whose functions are incompatible with a rearranged workweek. This is the most difficult group to enumerate. Nevertheless, it seems that the four-day workweek applies to a large number of American workers. Half (perhaps more) of all employees have jobs in firms and industries that could use a rearranged four-day week.

SOME MAJOR OBSTACLES TO OVERCOME

Although the four-day plan appears to be a promising cost-fighting tool in a large segment of the economy, forces such as legal restrictions, union opposition, and social conventions loom as major obstacles. These forces, which involve emotional and subjective reactions, are crucial to the concept's acceptance.

Legal Constraints. As the eight-hour day and five-day week became accepted as norms, they became embodied in both law and custom. Federal statutes, as they now stand, impede adoption of the four-day week. Over 2.5 million Federal employees receive, by law, time-and-a-half pay for any work in excess of eight hours each day; the same provisions blanket another 3.7 million employees of Government contractors. While some states have laws providing for compulsory overtime pay after eight hours,

⁵ The so-called Hawthorne experiments indicate that almost any work innovations introduced in a plant boost productivity in the short run, but that after a while things return to normal. Workers, finding that more attention is paid to them, become interested in the experiment and work better for a time. Soon the fuss dies down and then they return to their normal speed and work patterns. Some reports have indicated that this phenomenon may apply to the four-day week also, causing a few firms to return to a standard five-day schedule.

⁶ Derived from statistics on workers on third shifts, from U. S. Department of Labor, Bureau of Labor Statistics, *Area Wage Surveys*, Bulletin 1660-92, 1972.

a larger group restricts the number of hours that can be worked each day. However, most of the maximum hours legislation and many of the overtime laws at the state level apply almost solely to women, and are being challenged in equal opportunity cases.

The influence of these laws spreads far beyond the relatively small number of people legally covered. Both union and non-union workers have pushed mightily to attain similar overtime provisions in their agreements with business. Any employer will be less interested in converting to the "four-day," if he has to pay two hours of overtime each working day. Thus, in order for the four-day workweek to become widespread, both laws and implicit agreements will have to change.

The Unions' Stand. Unions are interested in more than just money. Management attempts to change work rules usually require labor's consent. And many unions oppose the four-day/40-hour week. Long concerned with working conditions, organized labor played an integral part in the battle to reduce the workday to eight hours. Even when coupled with only four days of work each week, the ten-hour day is viewed by many labor leaders as retrogressive.⁷

Unions contend that four-day advocates have stressed cost-cutting aspects but have ignored the fact that long exposure to industrial hazards will more than proportionately add to safety and health problems. Noise is often cited as an example. Threshold limits of allowable noise are presently based on eight hours of exposure. Unionists feel that

it's not necessarily true that ten hours of the same tolerance will be safe. They point out that the exposure problem also exists with other hazards such as toxic chemicals and materials and adverse temperatures.⁸

Union opposition is a serious obstacle because nearly 30 percent of the nonagricultural labor force are union members.⁹ Since production-oriented industries are highly organized, union objections will curtail implementation in an area where the four-day week can be particularly beneficial. While less of an obstacle in other industries, union influence is also growing in retail trades and Government and must be reckoned with in the future.

Social Considerations. Workers may not realize that the different schedule may seriously disrupt their existing social relationships and lifestyles. A ten-hour day means up to 12 hours from door to door. Car pools will be harder to coordinate if friends and neighbors are on different four-day plans. Public transportation may not be as frequent and convenient, since transit schedules will be spread out to accommodate staggered work patterns.

Other dislocations would occur. The ten-hour day limits what a worker can do after work, and may isolate him from family and friends. Scheduling peculiarities might mean that a husband and wife would be on different four-day schedules, or that one might work a four-day and the other a five-day week. This might lead to less time with each other and the family during the week. Community activities such as Little-League, church groups, political participation, and dozens of other volunteer organizations could suffer.

⁷ A demonstration of union attitudes toward the four-day week surfaced during Department of Labor hearings in 1971. Four-day proponents had requested that the daily overtime requirements for Federal contractors be dropped. The AFL-CIO Executive Council urged the rejection of any change, stating "the eight-hour day standard was achieved after decades of trade union efforts and we believe that Federal laws must continue to protect workers against excessive hours of work per day, as well as excessive hours per week."

⁸ Jacob Clayman and Thomas Hennigan, "The 4-40 Workweek: Two Views," *Manpower*, January 1962, pp. 14-19.

⁹ U. S. Department of Labor, Bureau of Labor Statistics, *Directory of National Unions and Employee Associations 1971*, Bulletin 1750, 1972.

Problems may be particularly extreme for working mothers. Many want to see their children off to school or day-care centers and be home when they return. However, education is an industry for which the longer day would probably be impractical; children could return home before the parent who's on a ten-hour schedule. Alternatively, the hours of child-care centers would have to be geared to the new longer working day.

THE FUTURE OF THE FOUR-DAY WEEK

The four-day workweek has the potential of becoming the next major innovation in the work patterns of American industry. If adoption is widespread, the plan could result in substantial productivity gains that will help in the fight against rising costs and prices. A further bonus could be a reduction in present congestion and the unpleasantness of peak-hour commuting patterns.

However, underlying obstacles exist. Many firms cannot implement the plan because of technical and worker-health constraints. Workers may become disenchanted once they realize how radically their normal lifestyles will have to change. Probably the key short-run obstacle is the lack of union approval. Most unions will favor the four-day week only when it is tied to shorter hours

for the same pay; this obviously discourages many firms by offsetting whatever cost reductions might result from the four-day week. Over the long haul, though, this may not be an insurmountable problem. Projections show that productivity gains in the next decade will be substantial enough to allow for continued economic growth *and* a shortening of the workweek.¹⁰ Possibly, management and labor will channel some of these gains into a four-day workweek of mutually acceptable length.

Taking all this into consideration, it seems unlikely that the four-day rearranged workweek will sweep the country. For some production firms it may prove to be a crucial weapon in the struggle against rising costs. Further, as an experiment the plan will surely spread, particularly in the growing service sector. For the present, however, it must share the stage with other efforts to increase worker productivity and satisfaction. Nevertheless, the four-day workweek has started managers and workers thinking about new ways to arrange their work and leisure.

¹⁰ Janice N. Hedges, "A Look at the 4-day Workweek," *Monthly Labor Review*, October 1971, pp. 33-36.

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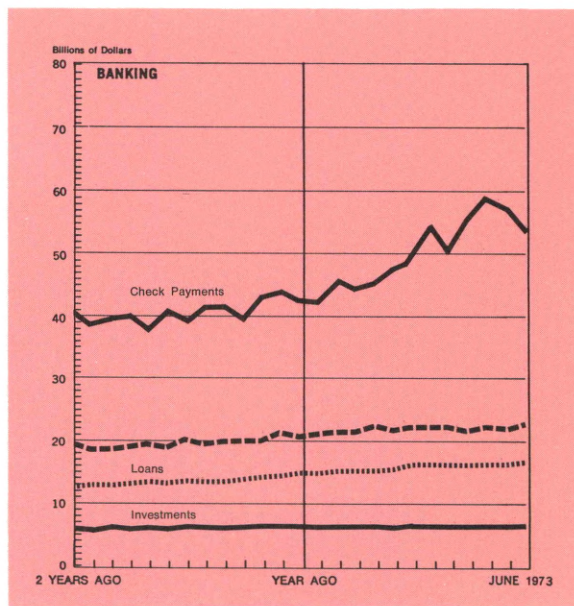
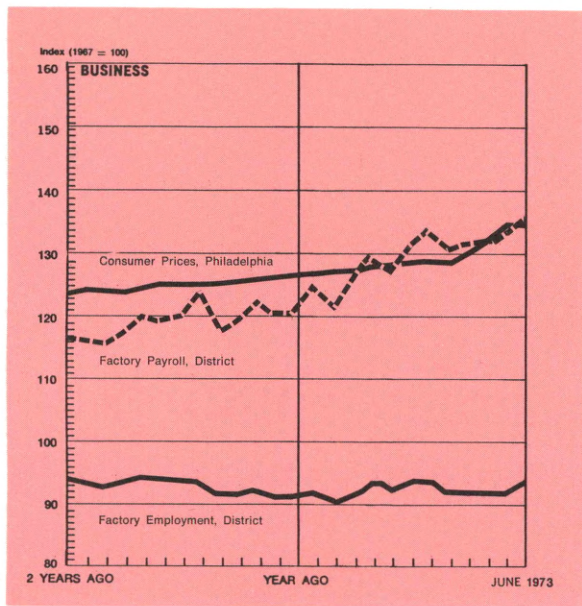
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Persons in the Third District may direct requests for loan of the film to Truth in Lending, Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania 19101. Such requests should provide for several alternate presentation dates.

FOR THE RECORD...



SUMMARY	Third Federal Reserve District			United States		
	Percent change			Percent change		
	June 1973 from		5 mos. 1973 from	June 1973 from		5 mos. 1973 from
	mo. ago	year ago	year ago	mo. ago	year ago	year ago
MANUFACTURING						
Production.....				+ 3	+10	- 5
Electric power consumed ...	N/A	N/A	N/A			
Man-hours, total*.....	N/A	N/A	N/A			
Employment, total.....	N/A	N/A	N/A	+ 2	+ 5	+ 5
Wage income*.....	N/A	N/A	N/A			
CONSTRUCTION**	N/A	N/A	N/A	N/A	N/A	N/A
COAL PRODUCTION	N/A	N/A	N/A	N/A	N/A	N/A
BANKING						
(All member banks)						
Deposits.....	- 1	+ 7	+ 8	N/A	N/A	N/A
Loans.....	+ 1	+12	+15	N/A	N/A	N/A
Investments.....	0	- 1	+ 1	N/A	N/A	N/A
U.S. Govt. securities.....	- 1	- 7	- 4	N/A	N/A	N/A
Other.....	0	+ 2	+ 3	N/A	N/A	N/A
Check payments***.....	N/A†	N/A†	N/A†	N/A	N/A	N/A
PRICES						
Wholesale.....				+ 2	+15	+11
Consumer.....	0‡	+ 6‡	+ 5‡	+ 1	+ 6	+ 5

*Production workers only

**Value of contracts

***Adjusted for seasonal variation

†15 SMSAs

‡Philadelphia

LOCAL CHANGES Standard Metropolitan Statistical Areas*	Manufacturing				Banking			
	Employment		Payrolls		Check Payments**		Total Deposits***	
	Percent change June 1973 from		Percent change June 1973 from		Percent change June 1973 from		Percent change June 1973 from	
	month ago	year ago	month ago	year ago	month ago	year ago	month ago	year ago
Wilmington.....	N/A	N/A	N/A	N/A	N/A	N/A	- 1	-88
Atlantic City.....	N/A	N/A	N/A	N/A	N/A	N/A	+ 2	+16
Bridgeton.....	N/A	N/A	N/A	N/A	N/A	N/A	- 1	+15
Trenton.....	N/A	N/A	N/A	N/A	N/A	N/A	- 2	+ 3
Altoona.....	N/A	N/A	N/A	N/A	N/A	N/A	0	+16
Harrisburg.....	N/A	N/A	N/A	N/A	N/A	N/A	0	+17
Johnstown.....	N/A	N/A	N/A	N/A	N/A	N/A	0	+15
Lancaster.....	+ 2	+ 6	N/A	N/A	N/A	N/A	0	+16
Lehigh Valley.....	+ 2	+ 4	N/A	N/A	N/A	N/A	0	+14
Philadelphia.....	N/A	N/A	N/A	N/A	N/A	N/A	- 2	+ 9
Reading.....	N/A	N/A	N/A	N/A	N/A	N/A	0	+15
Scranton.....	+ 2	- 2	N/A	N/A	N/A	N/A	+ 1	+12
Wilkes-Barre.....	N/A	N/A	N/A	N/A	N/A	N/A	0	+27
Williamsport.....	N/A	N/A	N/A	N/A	N/A	N/A	+ 1	+26
York.....	+ 3	+ 2	N/A	N/A	N/A	N/A	- 1	+13

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