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# WAGES: *an introduction*

(Popular Pamphlet)

by H. M. DOUTY

INSTITUTE OF INDUSTRIAL RELATIONS  
UNIVERSITY OF CALIFORNIA, LOS ANGELES

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# **WAGES:** *An Introduction*

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## *An Introduction*

BY

H. M. DOUTY

*Edited by Irving Bernstein*

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# Foreword

**T**HE INSTITUTE OF INDUSTRIAL RELATIONS of the University of California was created by the California Legislature for the purpose, among others, of conducting research in industrial relations. Effective research requires not alone scholarship but an audience to receive it as well. Hence the Institute seeks through this series of popular pamphlets to disseminate research beyond the professional academic group. Pamphlets like this one are designed for the use of labor organizations, management, government officials, schools and universities, and the general public. Those pamphlets already published (a list appears on the preceding page) have achieved a wide distribution among these groups.

The wage question, of course, is at the heart of industrial relations, a matter of vital concern alike to workers, unions, employers, and the public at large. Wages in its many ramifications is one of the most complex and controversial issues of our time. The basic purpose of this pamphlet is to shed light rather than heat upon this problem. Dr. Douty has here provided an excellent introduction to wages. The list of readings he has suggested at the rear will lead the inquiring reader further into the subject.

H. M. Douty is Chief of the Division of Wage Statistics

of the Bureau of Labor Statistics. He has been closely identified with work in the wage field for many years. Dr. Douty is, therefore, eminently qualified to introduce this subject.

The Institute expresses gratitude to the following for reading the manuscript: Dr. George A. Pettitt, Assistant to the President, Dean Neil H. Jacoby of the School of Business Administration, Professors Arthur M. Ross, George H. Hildebrand, Jr., and Philip Neff of the University of California, and Professor Frank C. Pierson of Swarthmore College. The two large charts were prepared by the Bureau of Labor Statistics; the cover design and the small charts are the work of J. Chris Smith. Mrs. Anne P. Cook assisted with the editing.

The viewpoint expressed is that of the author and may not necessarily be that of the Institute of Industrial Relations, the Bureau of Labor Statistics, or the Department of Labor.

EDGAR L. WARREN, *Director*  
*Southern Division*

CLARK KERR, *Director*  
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# I. Importance of Wages

**W**AGES AND SALARIES are payments by employers for the use of human time and effort in production.

Wages thus involve an employer-employee relationship. There are many other aspects to this relationship, including industrial health and safety, physical working conditions, discipline, job requirements, and promotional opportunities. However, wages, together with the amount of employment that workers can expect on their jobs, are of signal importance.

Wages are clearly of broad public interest in the United States. In 1950, out of a working population (excluding the armed forces) of about 63 million persons, approximately 44 million were employed for wages or salaries in factories, mines, stores, offices, and other non-agricultural establishments. Additional workers received wage income as domestic servants or as hired labor on farms. Thus, the economic welfare of more than two-thirds of the labor force in 1950 depended wholly or in part on wages.

The total compensation of employees in 1950 amounted to about 150 billion dollars. This figure represented more than 64 percent of national income. The factors that influence the size of the nation's wage and salary bill clearly

are important in terms of the maintenance of reasonable economic stability.

Finally, the public interest is involved in the conflicts that sometimes develop between employers and workers over the level and structure of wages in particular firms and industries. These conflicts are rooted in the twofold nature of wages; that is, as income to workers and as cost to employers.

## II. Some Wage Concepts

### 1. RATES, PREMIUMS, AND SUPPLEMENTARY BENEFITS

a. *Wage rates.* A “wage rate” may be defined as basic pay for a unit of time or output. It is the amount per hour, per day, per week, or per piece that an employer agrees to pay a given worker or for a particular type of work. The rate (aside from the question of duration of employment) is the most important element in wages

Under certain circumstances, however, the worker may earn more than his basic rate; he may also receive certain other benefits that represent cost to the employer. For some purposes, therefore, it is useful to look upon wages as made up of basic rates, premiums on rates, and supplementary benefits.

b. *Premiums.* In general, premiums are intended to compensate employees for conditions of work that are considered disadvantageous or burdensome as compared with “normal” conditions.

One important type of premium relates to hours worked in excess of some standard number of hours. Workers covered by the Federal Fair Labor Standards Act, for example, must be paid time and one-half their regular rates for hours worked in excess of 40 in the work-

week. Many union contracts provide for premium payments for work beyond a given number of hours per day. Premium pay is often provided for work on Saturday or Sunday as such, or for work on specified holidays.

Another type of premium is for late-shift work. In the basic steel industry, for example, workers on the second shift have 4 cents an hour, and on the third 6 cents, added to their regular rates. There are other types of premiums. Workers called in at other than their normal hours frequently receive premium rates. Premium rates are paid in some industries for tasks that are especially heavy, disagreeable, or dangerous. Longshoremen, for instance, are paid premium rates for handling explosives and certain other types of cargo.

Premium payments, when earned, serve directly to increase money wages. They are, in effect, additions to basic rates. Their amount is often directly related to basic rates, as when overtime is paid for at time and one-half or when late-shift premiums are computed as a percentage of straight-time rates.

c. *Supplementary benefits.* In addition to premiums of one kind or another, a variety of supplementary benefits have developed in recent years. These benefits contribute to the general well-being of the worker or enhance his economic security. They consist, in part, of pay, usually at regular rates, for hours *not* worked. Paid vacations, for example, are now widespread for manual as well as for nonmanual workers. Many workers receive pay for specified holidays.

Of growing importance are benefits that contribute to economic security. In addition to legally required social insurance (such as workmen's compensation, old-age and survivors' insurance, and unemployment compensation), many workers are now covered by private pension and insurance plans. The costs of these plans are usually borne wholly or in part by employers. A recent study by the Bureau of Labor Statistics indicates that in late 1950 at least 5 million union workers were employed in establishments with private pension plans and that more than 7 million were covered by one or more types of insurance, such as life, sickness, or hospitalization. Many unorganized workers also receive these and related benefits.

d. *Cost of premiums and benefits.* The cost of premiums and supplementary benefits varies widely from firm to firm, from industry to industry, and even from time to time. This is so because there is no uniformity in the benefits that firms provide, and because the extent of overtime, shift work, and the like, may vary substantially from one period to another.

In 1949, the U. S. Chamber of Commerce secured "actual data or best estimate" from 690 companies on expenditures on a wide variety of supplementary benefits. Premium pay for overtime and late-shift work was excluded. Included were legally required payments for old-age and survivors' insurance, unemployment compensation, and workmen's compensation, together with expenditures on private pension and insurance plans,

paid holidays and vacations, and a number of other items. The returns indicated that expenditures on these benefits ranged from less than 6 percent of payroll (18 companies) to 30 percent or more (30 companies). The average for all companies was 16 percent. Although based in part on estimates, and probably not representative of all industry, these figures provide a rough indication of the range and level of expenditures on supplementary benefits.

## 2. WAGE AND SALARY RATES

Wage rates for manual workers are usually set by the hour. Rates for office, supervisory, and professional workers are typically set by the week, month, or year. This difference in the unit of time to which the rate relates is perhaps the principal distinction between wages and salaries.

There are some other differences. The upper end of the salary structure is on a substantially higher level than the upper end of the wage structure. On the other hand, rates for "salaried" and hourly-rated workers overlap for a considerable distance in wage and salary arrays. To some extent, salaried employees may have greater security of job tenure. However, the job security of hourly-rated workers with long seniority in establishments with steady employment is exceptionally high. Wage earners are more highly organized into unions than salaried employees.

In the remainder of this pamphlet, the term "wages" should be understood to refer to both wages and salaries. Attention will be centered, of course, upon hourly-rated and lower-salaried employees.

### 3. RATES AND EARNINGS

A wage rate of \$1.00 an hour will yield weekly earnings of \$40 for a straight 40-hour week. For a 48-hour week, with 8 hours paid for at time and one-half, the same rate will yield weekly earnings of \$52. In general, earnings depend upon wage rates, premium payments, and time worked or paid for during the period for which earnings are computed.

Earnings are usually calculated prior to payroll deductions for such items as taxes, social security, and union dues. They include, as already noted, overtime, shift, or other premium payments. They also include nonproduction bonuses (such as year-end bonuses). They may include the value of room, board, or other perquisites provided by the employer.

High wage rates do not necessarily mean high earnings. This is conspicuously true in such industries as construction or longshoring, where employment for a variety of reasons is likely to be intermittent.

#### 4. MONEY AND REAL WAGES

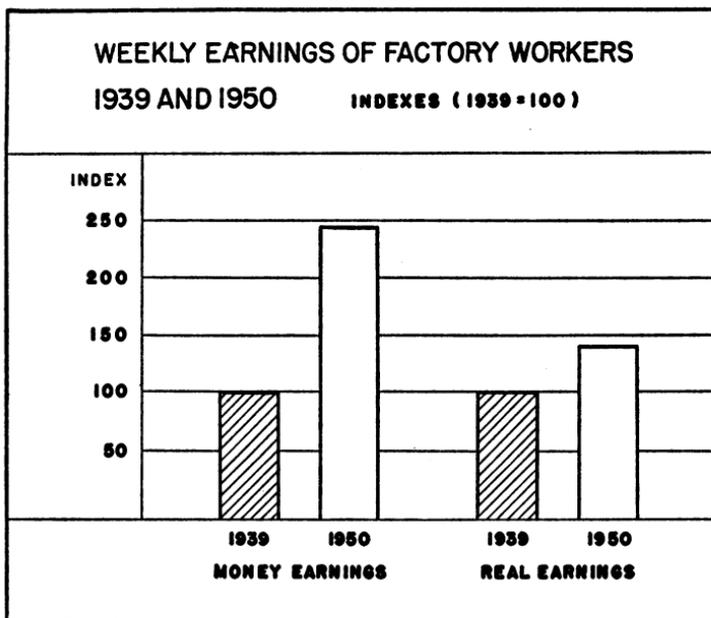
Money wages give workers command over goods and services. The actual goods and services for which money wages can be exchanged constitute their "real" value. For this reason, a rise or fall in money wages does not necessarily mean a corresponding increase or decrease in real wages. For example, if the general level of retail prices increases more rapidly than money wages, the real wages, and hence the standard of life, of the worker will fall.

The concept of "real wages" is especially useful during periods of rapid change in wages and prices, or for measuring changes in the economic welfare of workers over long periods of time.

Changes in money wages can most appropriately be compared with changes in the average price of a "market basket" of the goods and services typically purchased by wage earners or lower-salaried employees. The Consumers' Price Index, issued monthly by the Bureau of Labor Statistics, is widely used in this country for real wage calculations.

As the tabulation and the accompanying chart show, the average weekly earnings of factory workers in the United States were \$23.86 in 1939. By 1950, average weekly earnings had increased to \$59.27, a gain of 148 percent. During the same period, however, the level of consumers' prices had advanced 73 percent. The in-

Year	Average weekly earnings, factory workers	Indexes (1939 = 100)		
		Money earnings	Consumers' prices	Real earnings
1939.....	\$23.86	100	100	100
1950.....	59.27	248	173	143



crease in real weekly earnings, therefore was about 43 percent ( $248 \div 173 \times 100 = 143.3$ ).

Changes in either wage rates or earnings, of course, can be converted to real terms. The average weekly earn-

ings of factory workers increased somewhat more rapidly than average wage rates during the period since 1939. The real rates of some groups of workers, in fact, declined during this period. This was true, for instance, of policemen and firemen employed in cities of 100,000 population or more.

# III. Methods of Wage Payment

## 1. TIME RATE SYSTEMS

**T**HE MAJORITY of workers in the United States are paid on a time basis. Rates are fixed by the hour, day, week, or for some other period without direct relation to worker output.

The term "rate system" implies the existence of a generally recognized scale of rates for at least the more important jobs in an establishment. About three-fourths of more than 15,000 manufacturing plants studied by the Bureau of Labor Statistics in 1945-46 had formal wage rate systems in this sense. In the remaining establishments, wage rates were set by the owner, plant manager, or foreman for individual workers without any consistent regard for occupational duties. Such "personal" rate determination is likely to be found in small manufacturing establishments, offices, and service enterprises, although it is by no means entirely confined to small firms.

Establishments with formal time rate systems may use either single rates or rate ranges. Under a single rate system, all workers in a given job are paid the same wage rate. In some industries, such as motor vehicle manufacture, workers entering an occupation typically receive a probationary rate. After a short qualifying period, they progress to the single job rate.

Under rate-range systems, workers in a given job are paid at rates between an established minimum and maximum for the job classification. For example, the established rate range for a given occupation may be \$1.30–\$1.46. Unless specially qualified, workers entering the occupation will usually receive the rate-range minimum.

Workers may be advanced within rate ranges on the basis of merit review, length of service, or a combination of the two. Management tends to favor the merit review approach. Unions generally urge automatic progression based on length of service. Sometimes the two methods are combined, with automatic progression up to, for example, the midpoint of the range, and the use of merit review thereafter.

The principal claim for rate ranges is that they provide scope for the reward of merit or service on particular jobs. A rate-range system, especially with merit review, offers greater flexibility for management in the administration of wages.

## 2. INCENTIVE RATE SYSTEMS

Roughly 30 percent of the plant workers in manufacturing are paid on the basis of incentive rates; that is, their earnings are in some way related to output. The proportion ranges from as high as two-thirds in the apparel industries to 3 percent in industrial chemicals.

Payment on a commission basis is common in some non-manufacturing industries.

Incentive rates can best be used in production situations where output is measurable in homogeneous units, where product specifications do not change frequently, and where worker effort can directly influence output. Incentives are difficult to employ where, as in industrial chemicals, output is fixed substantially by the requirements of the production process and cannot be controlled by the worker. They are not well adapted to situations in which production is in small lots and quality standards are high, as in many tool and die jobbing shops. However, some production engineers believe that incentive methods can be employed successfully in many situations in which time rates are now typically used.

The most common type of incentive system is straight piecework, which simply means a constant rate of pay per unit of output. For example, a worker may receive 5 cents for machining a small metal part. His earnings will depend upon how many parts he machines during the payroll period. A particular form of straight piecework is encountered when sales personnel are paid on a commission basis.

Bonus plans represent another method of incentive pay and involve, in general, the determination of standard tasks. Bonuses are paid for production above standard. It may be established, for instance, that a particular operation normally takes 8 hours. If the worker

completes the operation in 6 hours, he is paid in some fashion for the hours saved.

A great many problems arise in connection with incentive plans. Of basic importance is the way in which production standards are determined under either straight piecework or bonus systems. Under bonus plans, the extent to which increased production will be rewarded must be decided. The question of incentive rate adjustment in light of technical changes which increase output is also important. Guarantees of minimum earnings under incentive systems is another area in which crucial problems arise.

A substantial amount of controversy between labor and management has arisen over the use of incentive pay methods. Organized labor does not, however, have a uniform position in the matter. Some unions are opposed in principle to incentive plans; others accept wage incentives and are concerned primarily with the equitable determination of rates and the prevention of abuses.

Earnings tend to be higher for incentive than for time workers in the same occupation. For wage comparisons with time workers, a useful concept is the "earned rate" for incentive workers. The "earned rate" is obtained by dividing earnings at straight time under incentive by hours worked during the pay period. Thus, a worker on piece rates who received \$56.90 for 38 hours would have an "earned rate" of \$1.497 an hour for that period.

### 3. JOB EVALUATION

A related aspect of methods of wage payment may be noted briefly at this point. A wage structure consists of a series of differentials among jobs or among groups of jobs. In some way, therefore, jobs in an establishment must be ranked. In the process of ranking, jobs that are broadly similar in terms of job requirements and job conditions may be grouped together for the purpose of determining rates.

This process of ranking and grouping jobs is necessary for the establishment of a "rational" wage structure. In broad terms, a "rational" structure provides equal pay for jobs of equal worth and a defensible system of pay differentials for jobs of unequal worth.

Job ranking and grouping can be accomplished in a variety of ways. It may be based simply on the judgment and experience of management. It may be achieved through collective bargaining. In recent years, formal procedures of job evaluation have developed. Job evaluation can be undertaken solely by management or jointly by management and the union representing the workers in the establishment.

Job evaluation seeks to determine the relative worth of one job to another. This aim is sought through a systematic appraisal of jobs in terms of job requirements and job conditions. The first step in job evaluation, there-

fore, is the preparation of detailed descriptions of at least the key jobs in the establishment.

After key jobs have been adequately described, they are "evaluated." Evaluation is ordinarily in terms of such factors as skill, responsibility, physical effort, and working conditions. Point values are often assigned to these factors. On a scale of 100, for example, skill might be assigned a maximum of 40 points, responsibility 30, effort 20, and working conditions 10. Jobs are then rated in terms of these elements and are ranked according to their point scores. Jobs with point scores falling within a comparatively narrow range may be grouped.

Job evaluation is not scientific in any strict meaning of the term. Human judgment enters largely into the evaluation process. When properly applied, job evaluation does make possible a systematic approach to the ranking of jobs. In this sense, it may produce more objective results than less formal methods.

Three additional points should be noted. First, job evaluation is usually carried through without reference to money wage rates. Actual rates are assigned after jobs have been ranked and grouped. Second, job evaluation or some other form of ranking is necessary for any sound system of incentive as well as time rates. Third, there is need for careful administration of a plan. For example, account must be taken of such changes as may occur in the requirements for existing jobs. New jobs must be properly placed in the job structure.

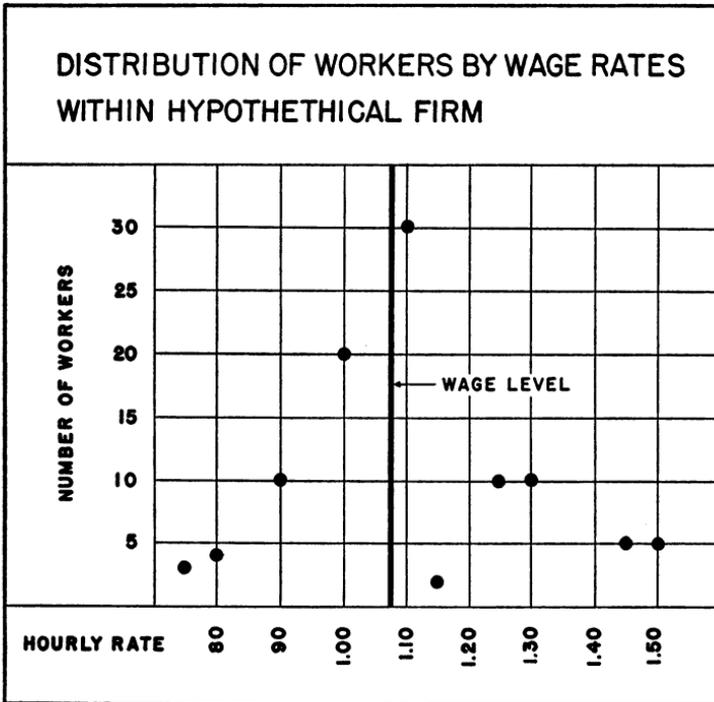
# IV. Wage Levels and Distributions

## 1. WAGE LEVELS IN SELECTED INDUSTRIES

**S**UPPOSE THAT AN ESTABLISHMENT has 100 workers paid wage rates as follows (see also the accompanying chart):

Number of workers	Hourly wage rates	Aggregate hourly rates
3	\$0.75	\$ 2.25
4	.80	3.20
10	.90	9.00
20	1.00	20.00
30	1.10	33.00
2	1.15	2.30
10	1.25	11.25
10	1.30	13.00
5	1.45	7.25
5	1.50	7.50
100		\$108.75
Average rate—\$1.0875		

The wage rate level in this establishment is approximately \$1.09. The term “wage level” simply means the average of all of the wage rates (or of any other wage measure, such as hourly or weekly earnings) paid to



workers in an occupation, an establishment, an industry, or a group of industries. A wage distribution, as above, shows the relative importance of each rate (or other wage measure) in the level or average of rates.

The Bureau of Labor Statistics publishes widely used information on wage levels in the United States in the form of monthly reports on average hourly and weekly earnings by industry. These average earnings are computed directly from aggregate payroll and employment

data. They are gross earnings in the sense that they reflect the influence of premium payments as well as of wage rates. Weekly earnings, of course, are affected by the length of the average workweek.

As Table 1 shows, the average factory worker in the United States earned \$1.50 an hour in October 1950. His average weekly earnings were about \$62.00. Workers in industries producing durable goods (steel, automobiles, and the like) had higher levels of hourly and weekly earnings than workers in nondurable goods industries. Among the nonmanufacturing industries shown in Table 1, the level of hourly earnings ranged from 87 cents in laundries to \$2.02 in contract construction. Average weekly earnings were as low as \$35.79 in laundries and as high as \$77.72 in construction.

## 2. LEVELS AND DISTRIBUTIONS OF WAGES

Information on wage levels provides a general view of wages for a particular group of workers. The group may be large or small. As we have seen, factory workers averaged \$1.50 an hour in October 1950, including overtime and other premiums. This average reflects wage payments to about 13 million production workers. Clearly, we need to know something about how the average for this large group of wage earners is made up.

Although we do not know precisely how the 13 million

workers in manufacturing were distributed by wage rates in late 1950, some rough approximations can be made. The lower end of the distribution, with perhaps 5-6 percent of the total number of manufacturing

TABLE 1  
AVERAGE EARNINGS AND HOURS, MANUFACTURING AND SELECTED  
NONMANUFACTURING INDUSTRIES, OCTOBER 1950

Industry classification	Average earnings		Average hours per week
	Hourly	Weekly	
Manufacturing.....	\$1.501	\$61.99	41.3
Durable goods.....	1.577	66.39	42.1
Nondurable goods.....	1.406	56.66	40.3
Bituminous coal.....	2.007	72.65	36.2
Contract construction.....	2.024	77.72	38.4
Class I railroads <sup>1</sup> .....	1.560	63.18	40.5
Local transit.....	1.512	67.44	44.6
Telephone.....	1.426	56.33	39.5
Telegraph.....	1.444	64.55	44.7
Gas and electric utilities...	1.619	67.19	41.5
Wholesale trade.....	1.494	61.25	41.0
Retail trade.....	1.197	48.24	40.3
Laundries.....	.873	35.79	41.0

<sup>1</sup> September.

SOURCE: U. S. Department of Labor, Bureau of Labor Statistics.

workers, was 75-80 cents an hour. We know that in some industries at this time there was a considerable concentration of workers at or slightly above the 75-cent minimum rate under the Fair Labor Standards Act (see Chapter IX).

The upper end of the manufacturing distribution was composed of workers earning \$2.00 or more an hour. This group, which may have accounted for as much as 10 percent of the total, was composed largely of highly skilled workers. Probably 30–40 percent of the workers had rates or straight-time earnings ranging between \$1.30–\$1.70 an hour.

Actual distributions of workers by wage rates for a number of individual manufacturing industries are available for recent periods from detailed wage studies by the Bureau of Labor Statistics. Three such distributions are shown in Table 2. In two of these industries—motor vehicles and automotive parts—wage rate levels in early 1950 were \$1.63 and \$1.57, respectively, a difference of only 6 cents. The general level in fertilizer, 97 cents, was markedly lower.

An inspection of the distributions for motor vehicles and automotive parts will show that similarity of wage levels does not necessarily mean that distributions of rates are similar. In motor vehicles, more than one-half of the workers were concentrated within the 15-cent range of rates from \$1.50 to \$1.65. Almost 28 percent were in the \$1.55–\$1.60 interval. No similar concentration was found in automotive parts. In this latter industry, the middle 50 percent of the workers were found in the 35-cent range from \$1.40 to \$1.75. Moreover, about 7.5 percent of the automotive parts workers earned less than \$1.20; the proportion of workers in motor vehicles

**TABLE 2**  
**PERCENTAGE DISTRIBUTION OF PLANT WORKERS BY STRAIGHT-TIME**  
**AVERAGE HOURLY EARNINGS—THREE INDUSTRIES, 1950**

Straight-time average hourly earnings (in cents)	Motor vehicles <sup>1</sup> (February 1950)	Automotive parts (April 1950)	Fertilizer (May 1950)
Under 75 cents.....	(2)	....	4.9
75-79.9.....	(2)	0.3	23.8
80-84.9.....	(2)	.2	9.9
85-89.9.....	(2)	.2	7.6
90-94.9.....	(2)	.5	5.8
95-99.9.....	(2)	.5	6.5
100-104.9.....	(2)	1.1	5.1
105-109.9.....	(2)	1.2	6.2
110-114.9.....	(2)	1.6	5.0
115-119.9.....	(2)	1.9	3.9
120-124.9.....	0.2	2.9	4.6
125-129.9.....	.4	5.1	4.6
130-134.9.....	1.6	5.2	2.5
135-139.9.....	2.6	5.0	2.2
140-144.9.....	3.8	6.6	1.8
145-149.9.....	7.6	9.9	1.7
150-154.9.....	11.4	8.6	2.2
155-159.9.....	27.7	8.5	.8
160-164.9.....	13.3	6.7	.9 <sup>3</sup>
165-169.9.....	9.2	5.0	....
170-174.9.....	6.0	6.0	....
175-179.9.....	2.4	3.6	....
180-184.9.....	2.5	3.3	....
185-189.9.....	2.2	2.8	....
190-194.9.....	2.7	2.4	....
195-199.9.....	1.8	2.7	....
200 and over.....	4.5	8.2	....
Total.....	100.0	100.0	100.0
Number of workers.....	428,563	290,769	29,696
Straight-time average hourly earnings.....	\$1.63	\$1.57	\$0.97

<sup>1</sup> Establishments primarily engaged in making passenger cars.

<sup>2</sup> Less than 0.05 of 1 percent.

<sup>3</sup> Figure includes all workers over the amount.

SOURCE: U. S. Department of Labor, Bureau of Labor Statistics.

below this rate was negligible. On the other hand, the proportion of workers earning \$2.00 or more was greater in automotive parts than in vehicle manufacture.

These differences in the distribution of workers by wage rates in two industries with broadly similar wage levels may reflect a whole range of factors—differences in the extent to which incentive methods of pay are used, differences in occupational composition, differences in size of establishment, location, and collective bargaining arrangements. Differences in rates of pay for comparable work were not significant as between these particular industries.

The fertilizer distribution is characterized by the marked concentration of workers at the 75-cent interval. This was one of the industries substantially affected by the 75-cent minimum rate effective in January 1950 under the Fair Labor Standards Act. In the absence of this legal minimum, the fertilizer distribution would have resembled (but on a much lower level) the distribution for automotive parts.

It is extremely important in analyzing wage levels or wage distributions to realize that differences among establishments or industries may be due to many factors. Differences in rates of pay for comparable work is only one factor. The fertilizer industry, for example, employs a much larger proportion of unskilled workers than motor vehicles. Even if all other factors were equal, wage levels in the two industries would differ appreciably because of this fact.

### 3. THE TREND OF FACTORY WAGES

Despite occasional downswings, and some periods of stability, the general trend in the level of money wages in the United States has been upward. Because of the substantial decline over the years in the length of the workweek, hourly wages have increased more markedly than weekly earnings. These facts can be illustrated by reference to factory wages.

The level of hourly earnings in manufacturing increased from about 19 cents in 1909 to approximately \$1.46 in 1950, an advance of substantially more than 600 percent. During the same period, average weekly earn-

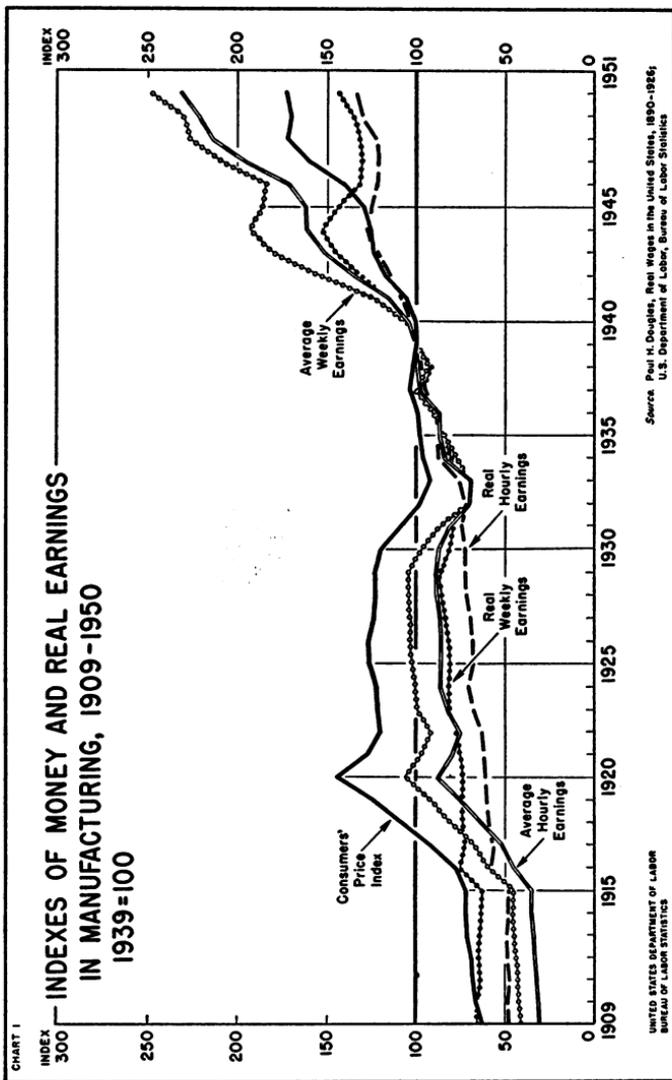
TABLE 3  
INDEXES OF MONEY AND REAL EARNINGS IN MANUFACTURING, 1909-1950  
(1939 = 100)

Year	Consumer price index	Average hourly earnings	Average weekly earnings	Real hourly earnings	Real weekly earnings
1909.....	63	31	41	49	66
1910.....	66	32	43	48	65
1911.....	68	32	43	47	64
1912.....	69	34	45	49	65
1913.....	71	35	46	49	65
1914.....	72	35	46	49	64
1915.....	73	35	46	48	63
1916.....	78	46	60	58	76
1917.....	92	52	67	56	73
1918.....	108	64	81	59	75
1919.....	125	75	93	61	74

Year	Consumer price index	Average hourly earnings	Average weekly earnings	Real hourly earnings	Real weekly earnings
1920.....	144	88	107	61	74
1921.....	129	81	97	63	76
1922.....	120	77	93	64	77
1923.....	123	83	100	67	81
1924.....	123	86	100	70	82
1925.....	126	86	102	69	81
1926.....	127	87	103	68	81
1927.....	125	87	104	70	83
1928.....	123	89	105	72	85
1929.....	123	89	105	73	85
1930.....	120	87	97	73	81
1931.....	109	81	88	74	80
1932.....	98	71	72	72	73
1933.....	93	70	70	75	75
1934.....	96	84	77	87	80
1935.....	99	87	84	88	86
1936.....	100	88	91	88	92
1937.....	103	99	101	96	98
1938.....	101	99	94	98	92
1939.....	100	100	100	100	100
1940.....	101	104	106	104	105
1941.....	106	115	104	109	117
1942.....	117	135	154	115	131
1943.....	124	152	181	122	146
1944.....	126	161	193	128	153
1945.....	129	162	186	125	144
1946.....	140	172	184	123	131
1947.....	160	195	209	122	131
1948.....	172	213	227	124	132
1949.....	170	221	230	130	135
1950 <sup>1</sup> .....	173	231	248	134	143

<sup>1</sup> Partly estimated.

Source: Paul H. Douglas, *Real Wages in the United States, 1890-1986*; U. S. Department of Labor, Bureau of Labor Statistics.



**CHART 1. Indexes of Money and Real Earnings in Manufacturing, 1909-1950**

ings increased from \$9.84 to \$59.27, or by slightly more than 500 percent.

These large increases in the level of money wages reflect, in the main, the inflationary consequences of two World Wars. Hourly earnings increased by one and a half times between 1914 and 1920, and more than doubled between 1939 and 1950.

The movement of hourly and weekly earnings in manufacturing for the 1909-1950 period is shown in Table 3 and Chart 1, which also contain indexes of living costs and of real earnings. In terms of worker welfare, of course, changes in real wages are much more important than changes in money wages.

Over the 41-year period, the purchasing power of average earnings per hour increased by about 173 percent; the advance in the level of real weekly earnings was approximately 118 percent.

These figures provide a rough approximation of the rise in living standards achieved by the average factory worker in the four decades since 1909. The gain is impressive. It was made possible largely by parallel advances in output per man-hour, based on new and improved technology, by larger capital investment per worker, by greater or more effective labor effort, and by improvements in management.

Part of the advance in living standards during this period is represented by a sharp gain in leisure. The average workweek in manufacturing in 1909 was 51

hours; many wage earners worked 60 hours or more. The average workweek in 1950 was 40.5 hours. The quality and variety of goods available for consumption, of course, increased greatly over these decades.

## V. Wage Differentials

**T**OO**L** **M**A**K**E**R**S in the machine shop of a metal fabricating firm will typically receive higher wage rates than punch press operators; cotton weavers in New England mills tend to receive higher rates than weavers in southern mills; rates for union carpenters in the building trades will tend to be higher in Chicago than in Peoria.

These are examples of wage differentials. Wages in the United States are characterized by a whole series of differentials related to differences in the kinds of work performed by individuals within establishments or industries, to differences in industry location, to variations in size of firm. They also reflect differences among firms or industries in wage policy or in the ability to pay wages, differences in the incidence of unionization, and other factors.

Differentials are sometimes difficult to explain in rational terms. Once established, differentials often tend to persist long after their original justification has vanished. Several of the more important types of wage differentials are examined briefly below.

### I. OCCUPATIONAL DIFFERENTIALS

Occupational wage differentials exist wherever production is subdivided into tasks that differ in the training,

education, experience, and ability required for their performance.

Increasing attention has been given in recent years to the problem of proper pay differentials among jobs. This fact helps partly to explain the development of job evaluation, which was discussed at an earlier point. Differentials that appear fair and equitable to workers and management are usually related in some fashion to wage rates for comparable work in the labor market or in the industry of which an establishment is a part.

In recent decades, there has been a tendency for occupational differentials, at least in percentage terms, to decline. A study by the Bureau of Labor Statistics indicates that in 1907, on the average, wage rates for skilled factory workers were about double those for unskilled; in 1945-47, the rates for skilled workers averaged only about 55 percent more than rates for unskilled factory labor. These are average relationships, of course, and substantial differences will be found in particular firms and industries.

The tendency for occupational differentials to narrow is also evident from the behavior of union rates in the building trades. Thus, average union scales for journeymen exceeded those for laborers and helpers by 85 percent in 1907 and by 51 percent in 1949.

Undoubtedly, these sharp contractions in occupational differentials were influenced by the nature of wage control during World War II, which permitted larger per-

centage increases to many groups of relatively unskilled, low-wage workers. High-level employment during the war and immediate postwar years was also a factor, since no reserve of unemployed workers existed to depress rates at the lower end of the wage structure. In addition, however, there are long-run factors calculated to produce a narrowing of occupational wage differentials. The labor supply is no longer fed, as it was before 1920, by large streams of immigrant labor. The character of "unskilled" work is changing as technology revolutionizes such tasks as loading, unloading, stacking, materials movement, excavating, and others. Finally, collective bargaining, at least when on an industrial basis, may focus greater attention on the wages of workers in the less skilled occupations.

## 2. REGIONAL AND AREA DIFFERENTIALS

In general, wage rates for comparable jobs tend to be lower in the South and higher on the West Coast than in other parts of the nation. In 1945-46, according to a Bureau of Labor Statistics study, the level of wage rates in manufacturing was about 35 percent higher on the West Coast than in the South and about 15 percent higher than in the Northeast or Middle West.

These figures, of course, relate to four very broad regions and are to be understood to indicate only the most

general regional wage relationships. There are many area differentials within each region, and the relationship among regions of rates in particular occupations or industries will often differ significantly from the averages shown above.

However, the relatively high level of wage rates on the West Coast is almost always confirmed by more detailed studies. Thus, an analysis of rates in machinery manufacture in 1946 in 21 large cities gives first place to Detroit, followed closely by San Francisco and Seattle, with Portland and Los Angeles ranked fifth and sixth, respectively. The same four West Coast cities ranked among the top seven in rates for ferrous foundries. Los Angeles had the highest wage level among 22 cities for automobile repair shops and San Francisco ranked first with respect to power laundries.

Table 4 and the accompanying chart show the relationship of weekly salaries in selected office occupations among 11 cities surveyed by the Bureau of Labor Statistics during the first half of 1950. For all jobs combined, Los Angeles ranked first, followed by Detroit, Chicago, and New York. The Los Angeles salary level exceeded that for New York by about 7 percent and for Providence by about 24 percent. The two southern cities ranked somewhat above three cities in other parts of the country.

Regional and area wage differentials reflect, at least to some extent, basic labor supply factors. It has long been observed that the differential between the South and

other parts of the country is greatest in the unskilled occupations. These occupations draw directly on the abundant supply of untrained labor in the rural South. The differential tends to narrow, and in some instances to

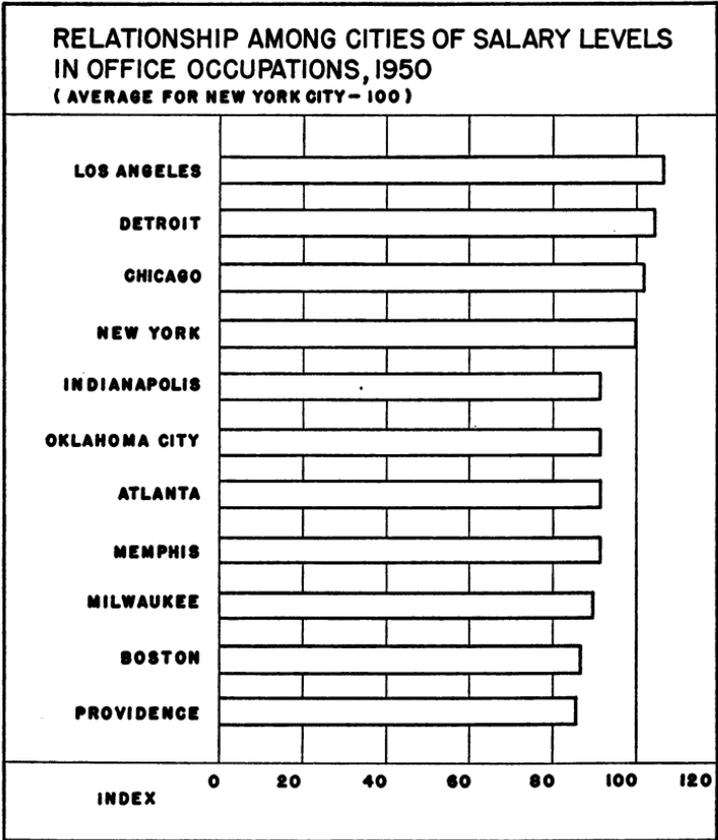
TABLE 4  
RELATIONSHIP OF WEEKLY SALARIES IN SELECTED OFFICE OCCUPATIONS  
AMONG 11 LARGE CITIES, JANUARY-JUNE 1950

City	Indexes of weekly salaries (Average for New York City = 100)		
	Total (23 selected jobs)	Men (5 selected jobs)	Women (18 selected jobs)
Los Angeles.....	107	111	106
Detroit.....	105	113	103
Chicago.....	102	103	101
New York.....	100	100	100
Indianapolis.....	92	92	92
Oklahoma City.....	92	95	91
Atlanta.....	92	94	91
Memphis.....	92	98	90
Milwaukee.....	90	96	89
Boston.....	87	93	85
Providence.....	86	92	85

SOURCE: U. S. Department of Labor, Bureau of Labor Statistics.

disappear entirely, when comparisons are made between more skilled occupations.

Among particular labor market areas (that is, cities and their industrial peripheries), size of community appears to play a role. For reasons that are not entirely clear, wages for comparable jobs appear generally to be



lower in small than in large communities within the same broad regions. To some extent, the existence of particular industry concentrations may exert influence. For example, the high level of office salaries in Los Angeles is affected by the location of the motion picture industry

in the area. The basic steel industry in the Birmingham, Alabama area probably exerts some upward pull on wages there.

Regional and area wage differentials are not static. They respond to changing economic circumstances. Over the years, the differential in cotton textile wages between New England and the South has narrowed substantially. The level of West Coast wages is not relatively as high today as it was 40 years ago.

### 3. INDUSTRY DIFFERENTIALS

Wage rate differentials among industries are difficult to identify and measure. It was pointed out earlier that differences in industry wage levels (average rates or average hourly earnings) fail to provide a reliable clue to wage rate differentials for comparable work. The reason is that these levels are affected by differences in occupational composition and other factors.

A simple example will serve to illustrate some of the problems involved in dealing with industry differentials. Both full-fashioned and seamless hosiery are manufactured in Reading, Pennsylvania. There are broad differences between the two industries in terms of product, machinery, the level of skill required of the work force, and other characteristics. The general level of wages in full-fashioned mills in Reading in early 1946 was \$1.13 an hour; in seamless mills, 65 cents.

Clearly this difference in wage level of 74 percent cannot properly be attributed to a difference in wage rates for comparable work. It plainly reflects, at least in part, the higher skill requirements in the full-fashioned branch of hosiery manufacture. If we look at occupations that appear closely comparable, we get a much smaller difference in wages. Watchmen, for instance, averaged 63 cents an hour in full-fashioned hosiery and 52 cents in seamless. This is a difference of 21 percent, and appears to represent a real difference in wage rates for comparable work between these two industries in the Reading area.

It would be dangerous to conclude, however, that there was a general differential based purely on industry of about 21 percent in favor of full-fashioned hosiery workers. The differential between full-fashioned and seamless knitters, for example, may accurately reflect differences in skill, responsibility, productivity, and other factors. No part of the differential for knitters may reflect industry status alone. The only statement that can be made with reasonable confidence is that workers in some occupations (watchmen and some others) were paid higher rates because they were attached to the one industry rather than the other.

Industry differentials in wage rates may be an outgrowth, in part, of differences in general wage levels. That is, watchmen in full-fashioned hosiery mills may be higher paid than in seamless simply because of the higher

general level of rates in the former industry. Undoubtedly, there is more to the matter than this, and any comprehensive analysis would have to take other factors into account. Industries differ with respect to their competitive positions, the relative importance of labor costs, degree of unionization, and so on. These differences may result in industry rate differentials.

Enough has been said about wage differentials to indicate their importance and their complexity. Even so, no attention has been given to some types of differentials—for example, those arising out of method of wage payment or unionization.

Actually, it is frequently difficult to measure the specific influence of all of the factors that impinge on wages. It is important, however, to be aware of these factors.

## VI. Labor's Share of National Income

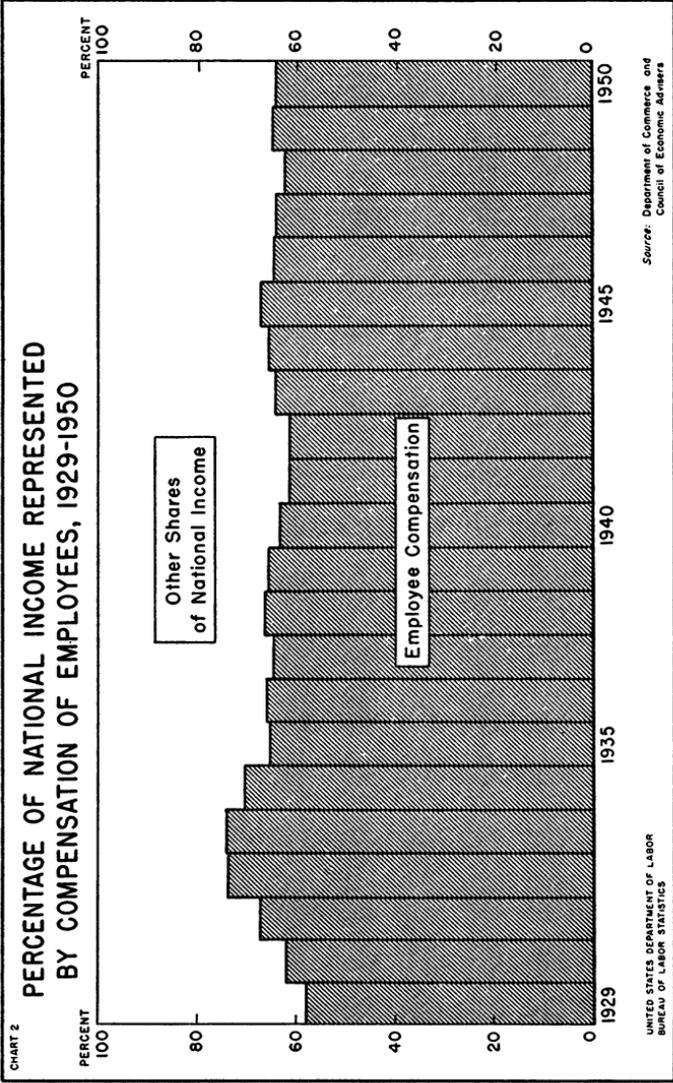
**T**HE NATIONAL INCOME for any year may be defined roughly as the total *net* income earned in production by individuals and business firms. It is, again roughly, the income flowing from the national output of goods and services, less the amount needed to maintain the nation's stock of machines and other durable capital goods.

The wages and related compensation of employees can be looked upon as a "share" in total national income. How large has this share been in recent years in comparison with other income shares? In view of the great wage movements since 1945, has the wage share increased?

In 1950, when the national income approximated 236 billion dollars, the compensation of employees amounted to about 152 billion, or 64.4 percent of the total. The remainder—35.6 percent—was accounted for by the income of unincorporated business enterprises, the income of farm proprietors, rents, corporate profits, and interest.

The compensation of employees includes, in addition to wages and salaries, employer contributions to private pension and welfare funds, and certain other items.

Chart 2 shows the proportion that employee com-



**CHART 2. Percentage of National Income Represented by Compensation of Employees, 1929-1950**

pensation represented of national income for each year of the period 1929–1950. Students of the subject have long observed that labor's relative share in national income exhibits considerable stability over comparatively long periods. Short-run fluctuations are closely associated with changes in the general level of business activity. The relationship is inverse. Thus, labor's share increased to 74 percent in the deep depression years of 1932 and 1933, when corporate profits were negative. With returning prosperity, labor's relative share began to decline, reaching approximately 62 percent in 1941 and 1942.

The war years, 1943–1945, were somewhat exceptional. The increase in labor's share in national income during these years was probably partly at the expense of rent and interest recipients and partly due to the fact that labor income, after allowance for increases in basic rates, expanded more rapidly than hours worked because of premium pay for overtime and other factors.

During the five postwar years, 1946–1950, labor's share fluctuated in the narrow range of from 62.7 to 64.9 percent. An intriguing question that cannot be dealt with here is whether the relative share of the national income accruing to labor can be increased through collective bargaining.

## VII. Unionism and Wages

WHATEVER ITS EFFECT on labor's share in national income, trade unionism and collective bargaining do strongly influence the level and structure of money wage rates in the United States. The growth of union power over the past 15 years is one of the genuinely significant developments of our time. Unionism as an institution has become firmly rooted in many basic sectors of the economy. Its influence often extends beyond the boundaries of its organized strength.

There are important reasons of a noneconomic nature, relating essentially to the status of wage earners as citizens of industry, for the growth of trade unionism. One of its principal purposes, however, is to improve the standard of life of its members. Collective bargaining is a means to this end. Through collective bargaining, worker representatives achieve a voice in the establishment of wages, hours, and other conditions of employment.

As suggested earlier, wages have become increasingly complex. Although wage rates remain of basic importance, various forms of benefits supplemental to wages now enter into collective bargaining, and, of course, into the calculations of nonunion employers. Moreover, the way in which wage structures are organized and administered is also important.

Unions are thus concerned with at least the following aspects of wages: (1) the general level of wage rates, (2) the structure of wage rates (that is, differentials among occupations), (3) premiums and supplementary benefits, (4) the administration of wages. Wage administration involves such problems as the establishment of rates for new jobs, the advancement of workers within rate ranges, incentive rate adjustment when technical changes affecting a job occur, and a host of others.

Collective bargaining may take place between a union or a number of unions and a single plant or a single company. It may be conducted through a union (or a group of unions) and an association representing some or all of the employers in an industry in an area, a region, or nationally. Nation-wide industry bargaining is comparatively rare in the United States. Area or regional bargaining is more common. Single plant or company bargaining, of course, is widespread. Even where bargaining is on a multiplant or multicompany basis, many issues often are left for determination at local levels.

Unionism serves generally to increase the bargaining strength of workers. It serves as a device by which the collective interests and outlook of workers can be formulated and expressed. In these ways, unionism represents an independent force in wage determination.

But collective bargaining as such is simply a mechanism by which wages are established. The agreements actually arrived at reflect the play of many forces. Union-

ism is only one factor. Variations in regional and local area labor market conditions, in methods of wage payment, in establishment size, in the technical efficiency of firms, in general business conditions, in company wage policies—these and other factors, in conjunction with union wage policy and union power, help to determine the structure and level of money wages.

The influence of unionism on wages cannot be measured adequately by a comparison of union and nonunion rates of pay for comparable work in the same industry or the same labor market. The principal reasons have already been suggested. First, wages are determined by a variety of factors, of which unionism is only one. Second, union action is likely, directly or indirectly, to affect wages in nonunion situations as well. Efforts to measure statistically the influence of unionism on wages over periods of time are likely to be inconclusive for the same reasons.

The difficulty of statistical measurement, however, does not dispose of the question of union influence. In any historical view, unionism clearly has improved the economic status of workers. This is plain from the history of protective legislation, from the long struggle over hours of labor, and from the role of unionism in general wage movements and wage administration. Particular union actions, of course, may not be advantageous either to the workers directly involved or more generally. Moreover, the increase in union power in recent years has

raised a host of controversial questions as to its long-run impact on the economy.

In the next section, some standards of wage determination are briefly examined. These have relevance, of course, to nonunion as well as union situations.

## VIII. Some Standards of Wage Determination

### WHY DO MONEY WAGE RATES change?

The answer cannot be given with as much precision as one might wish. However, some of the important factors in wage change can be indicated.

#### I. GENERAL CONSIDERATIONS

Neither employers nor unions (nor individual workers) can long afford to be arbitrary or capricious where wages are concerned.

Wages represent cost to employers. Employers have to pay close attention to the wage and other costs of doing business. The best-intentioned employer cannot indefinitely pay wages that raise his costs significantly above those of his competitors. Some employers are more efficient than others, and hence may have more leeway with respect to wages. Some firms have stronger positions than others in the market for their product, and this situation may be reflected in wage policy. Wages as a proportion of total costs are much smaller in some industries than in others. At any particular time, however, every employer presumably has some upper limit beyond which he will not go in adjusting wage levels. This

limit is determined with reference to costs, prices, and output.

At the same time, there is a lower limit to what an employer can pay. A metalworking plant in Los Angeles might want to pay engine-lathe operators one dollar an hour. In early 1951, however, no qualified workers could be recruited for this wage. Employers, therefore, have to offer wages at least high enough to attract the necessary labor supply. In order to prevent excessive employee turnover and to maintain morale, many employers may want to pay somewhat above the lowest wage that will attract the labor they need.

There are also limits when the problem is viewed from the standpoint of labor. Ordinarily, a union will not press for a wage level so high as to threaten the employment of any substantial part of its membership. The upper limit for labor, therefore, tends to be the highest wage level compatible with continuing employment. There is abundant evidence of the fact that labor takes general economic conditions, and the conditions of particular firms and industries, into account in its wage strategy.

The lower limit for labor—the wage below which labor will not work—is, in a practical sense, the prevailing wage, or perhaps slightly below this wage, for the work in question in the community or in the industry at any particular time.

It is broadly within these limits that wages are established or agreed upon. Most union-management agree-

ments over wages are concluded peacefully. Sometimes, however, no agreement can be achieved and work stoppages occur. Ultimately, one side or the other will back down or a compromise will be reached. The strike or lockout is a means of forcing agreement where prior discussion has failed.

The initiative for wage changes can come from unions, employer associations, or, in a real sense, from the behavior of individual workers and employers. When housewives, for example, experience difficulty in getting or retaining domestic servants, they begin to bid up wages for such work. A union, sensing that conditions are favorable, will ask for a wage increase. An employer, losing workers to other firms, may take the initiative in granting an increase. Under adverse conditions, an employer may institute or propose a wage cut. Some of the standards of reference in wage decisions are outlined below.

## 2. COST OF LIVING

When the prices of consumer goods and services are rising, workers demand wage rate increases to protect their standard of life; businessmen often demand rate reductions when prices are falling to protect the solvency of their enterprises. In either case, the intensity of the pressure for wage change depends partly upon the rapidity of the price movement.

In periods of sharp inflation, such as 1945–1948, sweep-

ing upward wage movements are certain to develop. In periods of sharp deflation, such as 1930–1932, widespread wage reductions are likely to occur. When the level of consumer prices is relatively stable, as in 1949, the wage rates of large groups of workers will remain unchanged. Such changes as do occur will exhibit great diversity.

Stability in the purchasing power of money wage rates in periods of rapid price level changes has been sought by some unions and employers through the use of cost-of-living escalator clauses. Such clauses, recently written into a considerable number of union contracts, generally provide that wage rates shall be adjusted automatically for the duration of the contract in accordance with changes in an index of consumers' prices. Other unions prefer short-term contracts, or provisions for reopening the contract at comparatively short intervals for wage discussions.

Unions have been reluctant to tie wages to changes in the cost of living on the ground that their function is to improve and not to stabilize real wages. Such clauses, however, began to spread rapidly in the United States with the new inflationary threat that accompanied the beginning of the Korean emergency in June, 1950. Many of these contracts, as noted below, also provided for specified annual increases in addition to such adjustments as may be made on a cost-of-living basis. By early 1951, some 2,500,000 union workers were covered by contracts with escalator provisions.

### 3. PRODUCTIVITY

As pointed out earlier, gains in real wages depend largely on increasing output per hour of work. Claims for increases in money wages are frequently made, at least in part, on the basis of productivity increases.

Productivity gains in an enterprise can be distributed to workers in higher money wages, to business owners in higher profits, to consumers generally in lower prices, or in some combination of these ways.

In general, the wisdom of a policy of raising money wages to reflect fully productivity increases in particular firms has been widely questioned. First, productivity advances are very unequal among firms and industries. Second, productivity gains usually result primarily from improvements in technology, although improvements in both worker and managerial performance undoubtedly play a part in many situations. Third, it is frequently difficult to measure productivity changes in a firm or industry, especially over short periods. Fourth, if productivity increases were converted fully into wage increases, the incentive to invest would be seriously weakened. Fifth, productivity may fluctuate from time to time as volume of output or other factors change.

Actually, as experience in coal mining and other situations show, gains in productivity (or prospective gains) in particular firms or industries do constitute an important bargaining point for labor. Such gains are often re-

flected in some measure in higher money rates. Part of the gain may be expected to accrue, at least until the improved production methods spread, to business owners. The operation of competitive forces may, sooner or later, distribute the bulk of the productivity increase to consumers through lower prices, goods of better quality, or in both ways.

An important instance of the explicit use of general productivity considerations is found in the contract concluded by General Motors and the United Automobile Workers-CIO in 1948. The contract called for an annual increase of 3 cents an hour (raised to 4 cents in 1950) "to provide for improvement in the standard of living" of G. M. workers. A cost-of-living escalator clause was also inserted in the contract. Under this contract, G. M. workers could look forward to steady improvement in their real wage rates.

After the beginning of the Korean emergency, the G.M.-type contract spread rapidly in the automobile and related industries. By the end of 1950, upwards of 800,000 workers were covered by contracts embodying both the "annual improvement factor" and the cost-of-living escalator features.

#### 4. WAGE COMPARISONS

Many claims for wage adjustment are based upon some form of wage comparison. The possible comparisons are numerous.

One type of comparison is between rates in different plants of the same company. If rates differ for comparable jobs, workers in plants with the lower wage scales are likely to demand upward adjustments. Another type of comparison involves different companies or segments of an industry. An employer, for example, may demand a wage reduction, or resist an increase, on the ground that his competitors pay lower rates. A union may use rates for other companies to argue that scales in a particular company are too low.

Comparisons frequently involve wages in particular labor markets. Many employers and unions are concerned with keeping wages in line with levels existing in the area. For some types of jobs—for example, office clerical—community-wide rate levels and distributions are likely to be of most interest. For other jobs, rates in particular industries within the area are most relevant. The wage scales of important groups of Federal, and of many State and local, employees are determined on the basis of prevailing rates in the areas in which they work.

## 5. SUBSTANDARDS OF LIVING

Considerations relating to the wage rate needed to maintain some minimum standard of living are often raised in wage discussions. This factor, of course, is basic in minimum wage legislation. It is also frequently taken into account in the determination of the lowest rate that shall be paid in a particular company or industry.

One difficulty in the use of substandards of living is to secure agreement on what goods and services should go into the minimum budget. Another is that the cost of the budget—and to some extent its nature—will obviously differ, for example, as between a single person and family of four. Whose expenditures should be taken into account in determining the minimum rate? Despite these difficulties, the idea of a minimum standard of life, whether for an individual or a family unit, has some importance and relevance in wage determination, at least in terms of a target toward which minimum wages should move.

## 6. OTHER FACTORS

Some other factors in wage determination should be mentioned. In times of prosperity, unions often point to employer profits as evidence of ability to pay higher wages. Employers tend to deprecate the use of ability-to-pay as a wage criterion in such periods; they will frequently urge, however, that it has relevance in periods of low profitability.

Especially in periods when profitability is high, unions may contend generally that mass purchasing power must be raised through wage increases to maintain prosperity. This was the burden of the argument in the analysis of wage policy prepared for the CIO by Robert R. Nathan and Oscar Gass in 1947. The purchasing power argument

is also used against any reduction in wages when business recession threatens.

In situations in which a reduction in the standard workweek is at issue, unions will often argue that take-home pay should be maintained. This contention was widely voiced at the end of World War II, when hours in many industries were reduced from high wartime levels. The issue was of great importance in the case of non-operating railroad employees (decided in March, 1949) and of certain categories of operating railroad employees whose case had not been settled in early 1951.

Another consideration of some importance, particularly in inflationary periods, is what other workers or unions have gotten. One union may try to get terms at least as favorable as another union has received, and in this way a "pattern" of wage increases may be established. Such patterns emerged, for example, in 1946, 1947, and 1948, as the result of settlements in a few major situations. Although the uniformity of wage increases in these years was not nearly as great as generally supposed, the influence of important settlements in periods of general wage movement is considerable.

# IX. Wage Legislation

**W**AGE DETERMINATION in the United States, except in World War II and in the 1950 defense emergency, has been left largely to collective bargaining or employer personnel administration.

Governmental intervention at the Federal level in wage determination has taken two forms: (1) minimum wage legislation of broad application, (2) legislation relating to wages to be paid for work done for the government by private firms.

## 1. FAIR LABOR STANDARDS ACT

The Federal Fair Labor Standards Act (Wage and Hour Law) was passed in 1938; on January 25, 1950, a whole series of important amendments to the Act became effective. The law now requires the payment of a minimum wage of 75 cents an hour (except in Puerto Rico and the Virgin Islands) to all covered workers. However, subminimum rates under certain circumstances may be paid to learners, messengers, apprentices, and handicapped workers.

Except for some specific exemptions, the Act covers all workers engaged in interstate commerce or in the production of goods for interstate commerce. It is estimated that more than 22 million workers are subject to the mini-

imum wage provisions of the law. The Act also requires the payment of time and one-half the worker's regular rate for hours worked in excess of 40 per week, and establishes standards for the employment of children.

Minimum wage legislation is designed, of course, to eliminate unduly low wages in industry. Such legislation reflects both an economic and a social judgment as to the lowest wage rate for which labor should be hired. When properly established, a minimum wage is beneficial not only to the employees directly affected, but to most employers as well. A minimum rate should not be established capriciously. A rate high enough to result in substantial curtailment of employment clearly would appear undesirable in most situations.

In addition to the Fair Labor Standards Act, minimum wage legislation is found in many States and in the District of Columbia. State minimum wage laws, for the most part, cover only women and minors; they are applied principally to industries engaged mainly in intrastate trade, such as retailing.

## 2. PUBLIC CONTRACTS ACT

This Act (often called the Walsh-Healey Act) was originally passed by the Congress in 1936. It authorizes the Secretary of Labor to determine prevailing minimum wages in an industry. In industries for which such determinations have been made, employers must pay not less

than the appropriate minimum rate on United States government contracts exceeding \$10,000 in value for materials, articles, supplies, equipment, or naval vessels.

Among the prevailing minimum wage determinations made by the Secretary of Labor during 1950 or early 1951 are those for aircraft (\$1.05), men's hats and caps (\$0.85), soap (\$0.95), heavy footwear (\$0.85), and chemicals (\$0.85-\$1.40, depending on area and branch of industry).

### 3. DAVIS-BACON ACT

The Davis-Bacon Act, passed in 1931, relates to wage rates to be paid by contractors or subcontractors for work performed for the Federal government or the District of Columbia on the construction, alteration, or repair of public buildings or public works. On such work, employers must pay wage rates (to carpenters, electricians, etc.) determined by the Secretary of Labor to be prevailing in the locality in which the work is carried on.

It should be noted that the Davis-Bacon Act does not provide for the determination of any general minimum wage for the construction work on public projects. On the contrary, the Secretary of Labor must determine prevailing wage rates by craft or occupation.

## X. Conclusion

**T**HIS PAMPHLET has sought to deal briefly with some wage concepts and to illustrate some of the more important types of wage statistics. It should be considered, at best, as a bare introduction to a large and complex subject.

No specific attention has been given to the theory of wages. Moreover, many current wage problems have been referred to obliquely or not at all. For example, the growth of union power has raised a host of important issues. Again, economic intervention by government to maintain employment at a high level raises basic questions with respect to wages and their determination. No attempt has been made to analyze the reasons for governmental control over wage changes in World War II or in the defense emergency beginning in 1950.

The pamphlet will have served its purpose, however, if it helps to clarify wage terminology, points to the need for caution and discrimination in the use of wage statistics, and stimulates additional reading in the field.

## XI. Suggestions for Further Reading

THE BUREAU OF LABOR STATISTICS of the U. S. Department of Labor serves as an important source of public information on wages and collective bargaining practices. Current reports on earnings by industry and on occupational wages, together with occasional analytical articles, appear in the *Monthly Labor Review*. More detailed information is frequently available in bulletins of the Bureau. The California Department of Industrial Relations and similar agencies in some other States also publish valuable material on earnings by industry and collective bargaining practices.

A useful compilation of wage terms is contained in the *Glossary of Currently Used Wage Terms* (BLS Bulletin No. 983, Washington: Government Printing Office, 1950). For an analysis of the prevalence of selected forms of premium pay and supplementary benefits in American industry, see *Supplementary Wage Practices in American Industry, 1945-1946* (BLS Bulletin No. 939, Washington: Government Printing Office, 1948). *Wage Supplements: The Nonwage Labor Costs of Doing Business* (Washington: U. S. Chamber of Commerce, 1950) contains the results of a survey of the costs of supplementary benefits.

A well-balanced account of job evaluation is found in John A. Patton and Reynold S. Smith, Jr., *Job Evaluation* (Chicago: Irwin, 1950). See also, William Gomberg, *A Labor Union Manual on Job Evaluation* (Chicago: Roosevelt College, 1947). Much of the literature on wage incentives has been prepared by industrial engineers for trade and professional publications. Although excessively technical, the standard book in the field is probably Charles W. Lytle, *Wage Incentive Methods* (New York: Ronald, 1942). For union attitudes, see Van Dusen Kennedy, *Union Policy and Incentive Wage Methods* (New York: Columbia University Press, 1945). For examples of current clauses in labor-management agreements relating to wage incentives, see *Collective Bargaining Provisions* (BLS Bulletin No. 908-3, Washington: Government Printing Office, 1948).

On wage trends and levels, a basic source is Paul H. Douglas, *Real Wages in the United States, 1890-1926* (Boston: Houghton Mifflin, 1930). See also Paul F. Brisenden, *Earnings of Factory Workers, 1899 to 1927* (Census Monograph X, Washington: Government Printing Office, 1929). W. S. Woytinsky and Associates, *Wages and Employment in the United States* (New York: Twentieth Century Fund, 1951) contains an excellent chapter on wage trends, together with much valuable material on other aspects of wages. The decade 1939-1949 is described by Lily Mary David and Ruth W. Benny, "Wage Movements—An Analysis of 1939-49 Experience,"

*Monthly Labor Review*, January 1951. Wage trends in California since 1940 have been analyzed by Nedra Bartlett Belloc, *Wages in California: War and Postwar Changes* (Berkeley: University of California Press, 1948). A 1950 Supplement to this study has also been published.

On wage differentials and many other aspects of wages, an interesting study is *Wages: General Report* (Geneva: International Labor Office, 1948). Among other recent studies are those by Harry Ober, "Occupational Wage Differentials, 1907-1947," *Monthly Labor Review*, August 1948; and Joseph W. Bloch, "Trends in Regional Wage Differentials in Manufacturing, 1907-46," *Monthly Labor Review*, April 1948. See also Carrie Glasser, *Wage Differentials: The Case of the Unskilled* (New York: Columbia University Press, 1940).

Much has been written in recent years on unionism and wages. Arthur M. Ross, *Trade Union Wage Policy* (Berkeley: University of California Press, 1948) has provoked wide discussion and some critical reaction. For an example of the latter, see George P. Shultz and Charles A. Myers, "Union Wage Decisions and Employment," *American Economic Review*, June 1950. John T. Dunlop's *Wage Determination Under Trade Unions* (New York: Macmillan, 1944) is useful. A powerful attack on union wage action is found in Henry C. Simons, "Some Reflections on Syndicalism," *Journal of Political Economy*, March 1944.

An excellent account of some of the factors in wage settlements is contained in John T. Dunlop, "The Economics of Wage-Dispute Settlement," *Law and Contemporary Problems*, Spring, 1947. A most informative handbook on the major criteria for wage decisions has been prepared by Ernest Dale, *Sources of Economic Information for Collective Bargaining* (New York: American Management Association, 1950). The recent growth of cost-of-living escalator clauses is described by Lucy M. Kramer and James Nix in "Wage Escalators and the Adjusted CPI," *Monthly Labor Review*, May 1951. The elements of a wage policy based on the general trend in productivity are suggested by John C. Davis and Thomas K. Hitch in "Wages and Productivity," *Review of Economics and Statistics*, November 1949.

On Federal wage legislation, a useful compilation is *Federal Labor Laws and Agencies* (U. S. Department of Labor, Bureau of Labor Standards, Bulletin No. 123, Washington: Government Printing Office, 1950). See also, *State Minimum Wage Laws and Orders* (U. S. Department of Labor, Women's Bureau, Bulletin No. 227, revised, Washington: Government Printing Office, 1950).

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