These same studies prepared by the Economic Section and received in evidence at the hearing indicate that approximately 16.3 percent of all the employees in the industry are receiving less than 40 cents an hour.16/ Employees earning less than 40 cents an hour are normally engaged in unskilled occupations.17/ The majority of these employees whose wages will be increased are employed in firms with average wages well above the 40-cent minimum.18/ The increase in operating cost of such firms resulting from increasing the wages of these workers to 40 cents an hour will be almost negligible.

It was contended at the hearing that the establishment of a 40-cent minimum would indirectly affect the wage structure of the industry by increasing the wages of those workers already earning more than the

16/ Industry Committee Exhibit 3, Table II; see also R. p. 40 et seq. Since Section 14 of the Act provides that the Administrator shall permit the employment of learners, apprentices, and handicapped workers at wages less than the minimum wage when necessary to prevent curtailment of opportunities of employment, the number of persons affected by a 40-cent minimum would be somewhat reduced. R. pp. 138, 338 et seq., and 546.

17/ The bulk of the skilled employees are either blockers, trimmers, or operators, according to the tables compiled by the Economic Section of the Wage and Hour Division, which estimates "other workers" to represent 21 percent of the total number of employees in the industry. See Industry Committee Exhibit 3, Appendix A, Tables A, B, C, D, E, F, G, and H.

18/ See footnote 6, supra. See also Industry Committee Exhibit 1, Table XXVII, and Industry Committee Exhibit 3, p. 20. The average hourly wage in New York City is 97.5 cents; in Massachusetts, 49.5 cents; in Northern New Jersey, 68.6 cents; in Texas, 37.8 cents; in Illinois, 73.5 cents; in Cleveland, Detroit and Milwaukee, 64.3 cents; in Missouri, 66.8 cents; in San Francisco, 53.9 cents; in Philadelphia and Trenton, 72.4 cents; and in the South Atlantic area, 46.1 cents.

recommended minimum.[19] More than 80 percent of the skilled or "productive" workers, however, are members of labor organizations and over 75 percent of such employees are covered by union agreements providing for wage rates greatly in excess of the recommended minimum.[20]

In determining the effect of the proposed minimum on wage rates above the minimum, Mr. Thomas O'Keefe, who qualified as an expert on the millinery industry, testified that, in reaching the conclusion that the 40 cent minimum would not affect wage rates above the minimum, he not only considered the fact that most of the industry was covered by union agreements, but also weighed certain other factors. He stated that on the basis of N.R.A. experience, any increases which may occur will be spread over a period of time, and that management and trade union policy, wage policies and

19/ Mr. Sherman testified that "the real danger to the future of the business lies, not in this particular payroll increase, but in the effect this increase in the earnings of unskilled workers will have on the productive help." He further stated that "42 hours per week is not sufficient for this type of help, as they must clean the factory after working hours, check in the work after the productive help has departed, and prepare work for the next morning. This means that this particular help will have to be paid at the rate of 60 cents an hour for all time put in over 40 hours." R. p. 340.
Mr. Grossman testified that the indirect effect of the 40-cent rate "would be very slight, if at all." R. p. 251.

20/ R., p. 43, et seq., 897 and 906. The wage rates provided in the agreements ranged from 47 cents to as high as $2.75 an hour. R., p. 43.

standards of other industries in the same area, and business conditions will determine whether, and to what extent, increases above the minimum will occur.[21/] Furthermore, it was estimated by other proponents of the recommendation, on the basis of the studies introduced in evidence by counsel for the Committee, that the 40-cent minimum rate in the millinery industry would have a negligible effect upon the wage structure of the industry.[22/] Accordingly, upon all the evidence, I find that the indirect effect of the recommended minimum upon workers already earning in excess of 40 cents will not cause any substantial increase in operating costs in the industry.

The record establishes many methods of absorbing cost increases. Style, not price or quality, is the principal stimulant to consumer demand in the millinery industry and a slight variation in decoration or the use of cheaper raw materials can be achieved to offset small increases in cost.[23/]

21/ R., pp. 43-45.

22/ See the testimony of Mr. O'Keefe, Mr. Keating, Mr. Zaritsky, Mr. Grossman, Mr. Baum, and Mr. Marks. R., pp. 22, 58, 165, 655, 874, 256, 307, and 317.

23/ One employer witness testified that "millinery is sold more basically on style than on price . . ." R., p. 320.

Absorption of the increased cost out of profits,[24] in marketing processes from manufacturer to retailer, and increased managerial efficiency are other methods of offsetting the added operating costs.[25] It is predicted that the labor cost increases will be nullified over a period of time by increased labor efficiency.[26] I find that these methods of cost absorption will more than offset any increases in operating costs which will result directly or indirectly from the proposed minimum of 40 cents an hour.

24/ Upon information obtained from 458 of 659 firms in business at least 11 months of 1937 and still in business in the spring of 1938, 89 percent realized a profit which averaged 4.9 percent. See footnote 7, supra. By profit is meant the amount available for distribution to the owners of a business, either as salaries or dividends, after all expenses and costs of operation are paid. R., pp. 680-681. Evidence was introduced to show that profits from the sale of millinery in department stores were considerably in excess of profits realized from other sales in such stores. See Industry Committee Exhibit 1, Table XLII. Department and specialty stores, to whom a large portion of millinery products are sold, having a sales volume of over $500,000 per year, showed a profit for the years 1935, 1936, 1937 and 1938 of 2.5 percent, 4.4 percent, 4.2 percent and 3.2 percent of sales respectively as compared to the total main store profits of 1.4, 2.6, 1.9 and 0.7 percent for the corresponding years. See Industry Committee Exhibit 6; R., 680-686.

25/ R., p. 679. A further method of offsetting the increased cost resulting from the proposed minimum was enunciated by the Industry Committee in its report, wherein it stated that the plant capacity is not fully utilized throughout the year because of the seasonal nature of the demand for hats. Accordingly, it reasoned, if a demand could be created during off-season periods, the fuller use of capital and equipment would more than cushion the slight increase in labor and operating cost introduced by the proposed minimum. See Administrator's Exhibit 6.

26/ Ibid. This has to do with efficiency of the individual employee and has no reference to technological improvements and their effect upon labor efficiency.

That an increase in operating costs substantially greater than the increases urged here will not necessarily result in a curtailment of employment in the industry as a whole is demonstrated by experience under the National Industrial Recovery Act.[27/] Furthermore, wage orders have been promulgated under the Act in the Hosiery (Seamless Branch) and Textile Industries wherein wage minima were fixed resulting in a 7.3 percent and a 4 percent increase respectively in labor costs. The respective increases in operating costs are 2.4 percent and 1.4 percent. The Administrator found that these minima would not substantially curtail employment in the industries.[28/]

In conclusion, having considered all factors relating to the effect of a 40-cent minimum wage rate upon aggregate employment in the millinery industry, I find that, having due regard to economic and competitive conditions, this rate will not substantially curtail aggregate employment in the millinery industry.

27/ In the first ten months of the N.R.A. code (January to October, 1934) wages in the millinery industry increased 17.2 percent as compared with the same period of 1933, and employment rose 5.7 percent and sales increased 4.2 percent by units and 11.4 percent by dollar value. See R., p. 914, and source references.

28/ In the hosiery industry, the minimum wage established affected 48.8 percent of the employees in the seamless branch and 19.4 percent of the employees in the full-fashioned branch. In the textile industry, 26.9 percent of the employees were affected by the minimum. In the millinery industry, only 16.3 percent of the employees would be affected by the recommended minimum. See R., pp. 885-886. See also matter of recommendation of Industry Committee No. 3 for minimum wage rates in the hosiery industry and matter of the recommendation of Industry Committee No. 1 for the minimum wage rates in the textile industry.

B. Dislocation of Employment in the Industry -- Effect of the minimum wage rate on firms in low wage areas and their capacity to absorb increased costs.

Of the areas in which the millinery industry is carried on, an average hourly wage level of less than 40 cents is found only in the case of Texas, where the average is 37.8 cents. 29/ Establishments in this area will sustain the greatest increase in labor costs should a 40 cent minimum be established. Texas has 22, or 3.3 percent, of the total number of millinery firms, employing 561, or 2.7 percent, of the total number of employees, and making 2.8 percent of the total net sales. 30/ It was estimated that a 40-cent minimum would increase the average hourly wage 15.75 percent over the 25-cent minimum to 43.8 cents. 31/ The operating cost increase would range from 2.9 percent to 3.62 percent, depending upon the price of the hat manufactured. 32/ The increase in operating cost, after due allowance is made for all possible increases which might result from the indirect effect of the proposed minimum on wages in excess of 40 cents,

29/ Industry Committee Exhibit 9. Since this average was computed on the basis of the 25 cent minimum, the average is somewhat higher now that the 30 cent minimum is in effect.

30/ Industry Committee Exhibit 2, Table II, p. 14.

31/ Industry Committee Exhibit 9.

32/ Industry Committee Exhibit 3, Table XVI, p. 26(a).