Labor and Labor Markets in the 1930s

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1 Labor and Labor Markets in the 1930s

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This essay surveys recent research on labor and labor markets during the Great Depression. Fascinated by an economy in which unemployment reached nearly a quarter of the labor force and unemployment rates hovered in double digits for a decade, economists have been studying the Great Depression ever since it occurred. For the most part, the perspective taken has been an aggregate one, as befits the most important macroeconomic event of the century. However, much of the most interesting current research has delved into the “black box” of aggregate statistics by examining microeconomic evidence. Such evidence has highlighted important features of labor market behavior that were masked in aggregate data. It has also altered conventional interpretations of various government policies adopted in the 1930s, such as work relief, that were aimed at combatting high unemployment. While my primary objective is to survey this research, I also attempt to add to it by presenting some preliminary findings on patterns of self-employment in the late 1930s.

LABOR AT THE MACRO LEVEL

Although this survey is centered on recent microeconomic research, it is appropriate to begin by reviewing some of the basic aggregate statistics. These are shown in Table 1, which gives two series of unemployment rates along with a “real wage” index.

The aggregate statistics tell a familiar story. According to the first unemployment series, labeled “Lebergott,” unemployment rose to unprecedented levels between 1929 and 1933, peaking at nearly 25 percent of the labor force. Moreover, the rate of unemployment
remained very high through the decade, although it did decline (except during the recession of 1938). On the eve of World War II, fully 14.6 percent of the labor force was out of, and looking for, work. By American standards these rates are extraordinarily high, although recent experience in Western Europe (particularly Spain) makes them seem somewhat less unusual.

The second unemployment series, labeled “Darby,” tells a rather different story. The run-up in unemployment between 1929 and 1932 is still present, but the series diverge sharply afterwards. The Darby series is different because it considers anyone who had a “work-relief” job as no different from anyone who had a regular job. This assumption is certainly debatable (see, for example, Kesselman and Savin 1978), and I will return to this point later.

Aside from the levels of unemployment, the duration of unemployment was also severe in the 1930s. Prior to the 1930s, the “incidence” of unemployment—the fraction of the nonfarm labor force experiencing unemployment in a given year—was relatively high. Using census

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Table 1 Unemployment and Real Wages in the 1930s

<table>
<thead>
<tr>
<th>Year</th>
<th>Lebergott</th>
<th>Darby</th>
<th>Real wage index (1940 = 100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>3.2</td>
<td>3.2</td>
<td>69.4</td>
</tr>
<tr>
<td>1930</td>
<td>8.7</td>
<td>8.7</td>
<td>75.7</td>
</tr>
<tr>
<td>1931</td>
<td>15.9</td>
<td>15.3</td>
<td>83.2</td>
</tr>
<tr>
<td>1932</td>
<td>23.6</td>
<td>22.9</td>
<td>80.8</td>
</tr>
<tr>
<td>1933</td>
<td>24.9</td>
<td>20.6</td>
<td>79.5</td>
</tr>
<tr>
<td>1934</td>
<td>21.7</td>
<td>16.0</td>
<td>84.3</td>
</tr>
<tr>
<td>1935</td>
<td>20.1</td>
<td>14.2</td>
<td>80.4</td>
</tr>
<tr>
<td>1936</td>
<td>16.9</td>
<td>9.9</td>
<td>81.1</td>
</tr>
<tr>
<td>1937</td>
<td>14.3</td>
<td>9.1</td>
<td>85.5</td>
</tr>
<tr>
<td>1938</td>
<td>19.0</td>
<td>12.5</td>
<td>93.9</td>
</tr>
<tr>
<td>1939</td>
<td>17.2</td>
<td>11.3</td>
<td>97.3</td>
</tr>
<tr>
<td>1940</td>
<td>14.6</td>
<td>9.5</td>
<td>100.0</td>
</tr>
</tbody>
</table>

data for 1910, I have estimated that approximately 19 percent of the nonfarm labor force experienced unemployment during a year’s time, compared with roughly 14 percent in the late 1970s (Margo 1990a). In 1910 and in the late 1970s, the aggregate unemployment rate was approximately the same (4.8 percent). The implication is that the “duration” of unemployment was much briefer in 1910 than in the late 1970s, while the probability of becoming unemployed was higher.

The probability of becoming unemployed was certainly very high for the average worker in the early 1930s, but what changed was the duration of unemployment. Many people who lost jobs in the 1930s remained unemployed for long periods of time. According to the Massachusetts state census of 1934, fully 63 percent of the currently unemployed had been out of work for a year or longer (Margo 1991). These percentages fell as the decade progressed, but even in 1940, fully 41 percent of unemployed adult males in the nonfarm labor force had been out of work for over a year.1

Exactly why the average duration of unemployment increased in the 1930s is unclear, since the obvious institutional mechanisms that produce such outcomes today were not yet in place. For example, long-term unemployment is high in Europe today partly because European welfare states have a dizzying array of policies that subsidize it. “Insider-outsider” models, popular among neo-Keynesians, are difficult to apply to the 1930s because the internal labor markets that produce outsiders were largely (although not wholly) irrelevant. Later I will suggest that excess duration may have been an unintended by-product of the New Deal, in particular, the work-relief programs.

The final column in Table 1 gives the standard “real wage” series for the 1930s—average hourly earnings of production workers in manufacturing. In 1930, when unemployment was 8.7 percent, the index stood at 75.7 (relative to a base of 100 in 1940). In 1933, when unemployment peaked at 24.9 percent, the index was higher—79.5 percent. Moreover, the unemployment rate understates the depressed level of labor utilization, since weekly hours of work also fell between 1929 and 1933. After 1933, real wages continued to rise, despite double-digit unemployment. The total increase over the decade is about 25 index points, pretty good performance in light of labor market conditions.
There are a number of possible interpretations of Table 1. Unless one is prepared to argue that labor supply schedules shifted inward from 1929 to 1933, it is difficult to come up with a convincing equilibrium explanation of why labor utilization fell but real wages increased. Disequilibrium stories are easier to fashion. The first, and most common, is wage rigidity. Labor demand sloped downward, but for reasons that are not fully clear, wages were rigid downward, producing unemployment. Some developments in modern macroeconomics have filtered into this interpretation. Martin Baily (1983) argues that “aggressive” wage cutting would have lowered worker morale, even in the 1930s. Others, such as Richard Jensen (1989), suggest that firms had been adopting “efficiency-wage” policies for some time prior to the 1930s, and these mitigated against wage cuts. Peter Temin (1990) has pointed out that wages were apparently less rigid downward in Germany, and this may be a key reason why German employment rose smartly after the initial downturn in that country (although others attribute the recovery to Nazi tinkering with employment statistics). Anthony O’Brien (1989) suggests that business leaders in the early 1930s firmly believed that wage cuts in the early 1920s had exacerbated the post-World War I recession, and therefore, they were reluctant to cut wages in the 1930s.

Still others point the finger at the New Deal, specifically the National Recovery Act (or NRA). In an influential book, Michael Weinstein (1980) argues that the NRA substantially raised wages above what they would otherwise have been, particularly for unskilled labor (which dominates the series in Table 1). However, in a recent study that (in my opinion) took great care econometrically, Ben Bernanke (1986) found much smaller effects of the NRA. Bernanke’s study is also noteworthy because it investigated the interaction between wage rigidity and “work-sharing.” Work-sharing occurs when firms cut weekly (scheduled) hours instead of employment. Bernanke argues that, beyond a certain point, it paid to reduce hours more at the margin than employment. However, hours reductions came at a price—workers would accept further reductions in hours only if their hourly wages did not decline (since this would make their weekly earnings fall less than their weekly hours).

An alternative explanation is that the wage series in the final column overstates the extent of rigidity. The idea here, which is familiar
from recent studies of wage changes over the business cycle, is that the employed are not a random sample of the labor force (and are less so during downturns). In particular, if low-productivity (and hence low-wage) workers are laid off first, then the wages of employed workers may look more rigid downward than they actually are. Some evidence that this is the case has recently been put forth by Stanley Lebergott (1989). Lebergott has looked at wages at the firm level (General Electric and Westinghouse—both of which are included in the series), finding that wages fell by 10 percent from 1929 to 1931 yet the industry average did not. In effect, Lebergott is arguing that the aggregate data are misleading about actual labor market outcomes in the 1930s, a point of view that is consistent with evidence on the heterogeneity of unemployment.

THE MICROECONOMICS OF DEPRESSION UNEMPLOYMENT

A great deal of research on the Depression by labor economists has proceeded as if the statistics in Table 1 applied to a representative worker, implying that the behavior of the representative worker tells us everything we need to know. This is more than a little odd because, even at its worst, 75 percent of the labor force was employed during the Depression—the average employed worker could not have been, almost by definition, the same as the average unemployed worker.

Heterogeneity has come back into fashion in macroeconomics. We know that heterogeneity can inform about the nature of both supply and demand in the labor market. Investigation of heterogeneity in the 1930s is at an early stage, but it has proceeded far enough to report to a wider audience.

The heterogeneity of unemployment has received the most attention, primarily because of the availability of the 1940 public use micro-data sample (PUMS), a large random sample of the original responses given to census enumerators. The great advantage here is the availability of individual level responses—we can, in other words, study what happened to individuals during the 1930s as individuals, not as repre-
sentative "agents." It is true that 1940 is not 1933, but there are other sources—albeit none as good as the 1940 PUMS—to investigate.

The 1940 census is one of the great documents of American statistical history. The census was the first to ask about many things, including income, educational attainment, and weeks worked. It also included questions on unemployment that, because of various quirks, allow the investigation of many questions relating to the operation of the New Deal work-relief programs, a point that I will return to shortly.

Analysis of the 1940 PUMS reveals that the unemployed were disproportionately young or older and tended to have fewer skills and less education than employed persons. These differences were starker comparing the employed with the long-term unemployed (those out of work for more than a year) or (in certain respects, such as race) with persons on work relief (Margo 1988, 1991). Although it is an overstatement to claim that unemployment before the 1930s was "egalitarian," it is true that the unemployed were less distinctive in their (observable) personal characteristics before, as opposed to after, the Great Depression (Margo 1990b).

One important implication of heterogeneity concerns wage rigidity. The fact that the unemployed were a nonrandom sample of the labor force means that aggregate wage series, such as in Table 1, are biased. It is likely that the evolution of the characteristics of the unemployed over the 1930s is such that the standard aggregate wage index overstates the degree of wage rigidity, although the extent of such overstatement is open to question.

Although the 1940 PUMS is useful for examining the heterogeneity of unemployment, it is even more useful for what it reveals about New Deal work-relief programs. As the Depression unraveled, it became painfully evident that old-style "relief," primarily the work of private agencies and churches, was inadequate to deal with the volume of unemployment. As a result, public relief was expanded, and work relief—literally, the combination of welfare and work—became an important mode of delivering assistance to the unemployed. (Unemployment insurance, another form of relief, was also adopted in the 1930s, after several decades of relative inaction.) The best known work-relief program was that undertaken by the Work Projects Administration (WPA), although there were many others (such as the Civilian Conservation Corps [CCC]).
By design, and also by a strange statistical quirk, the 1940 PUMS contains a great deal of information about work relief. I say, "by design," because the census permitted "work relief" to be one of the answers to its question on labor force status. At the time, persons with work-relief jobs were counted as "unemployed," and this convention was accepted by Stanley Lebergott (1964) when he constructed his now-famous unemployment series. In an equally famous paper, Michael Darby (1976) argued that persons working for the WPA were, in fact, "employed." Treating them as such has a dramatic effect on the aggregate unemployment rate, as Table 1 demonstrates.

Like many questions in macroeconomics, deciding which of these two points of view is "right" is basically a theological matter. In a series of papers (Margo 1988, 1991, 1993), I have tried to redirect attention away from the metaphysical question of "who is employed" to a different question: Did the WPA affect labor supply (or labor demand)? The conventional wisdom among economists is that the unemployed of the 1930s were simply that—unemployed, with zero opportunity cost. Indeed, the very concept of the fiscal multiplier of Keynesian lore is predicated on the point of view that the opportunity cost of unemployed labor is zero.

The first piece of evidence I uncovered is more tantalizing than a "smoking gun." Table 2 shows the distribution of weeks of unemployment among those currently unemployed (but not on work relief) in March of 1940 (the census week) and the distribution of weeks of unemployment among those on work relief. Recall that the census (and later, Lebergott) considered those on work relief as unemployed, so they asked a question: When was your last private sector job of one month or more? Note that the two distributions differ quite radically, in that persons on work relief were vastly more likely to have been out of work for over a year.

By itself this is not a particularly novel finding. The WPA knew that its "workers" were disproportionately the long-term unemployed. However, there are two interpretations of this result. The first, a benign one for the "zero opportunity" cost model, is that work relief was a "last resort," chosen after an exhaustive but fruitless search for a real job. The second, potentially not so benign, is that people remained with the WPA for a long time.
Because of a quirk it is possible to use the 1940 PUMS to see which interpretation is correct. The census asked people how many weeks they worked in 1939, treating weeks with the WPA the same as weeks in a regular job. Thus, for example, it is possible to find people in the 1940 census who were (a) on work relief in March of 1940, and (b) reported that they had been unemployed for 65 weeks (all of 1939 and the first quarter of 1940) but who had worked 39 to 52 weeks in 1939. These are people who could only have been “employed” on work relief (assuming they answered the census questions correctly), essentially full time.

As it happens, approximately 50 percent of all persons on work relief in March of 1940 and “unemployed” 65 weeks or more actually worked 39 weeks or more in 1939. It is but a small step to infer that full-time employment on work relief reduced job search activity and that, perhaps more controversially, work relief was “preferred” to the next best alternative.

Why might work relief have been preferred? First, while work-relief jobs were low-paying, there were private sector workers making less per hour. The exact percentages are hard to determine, but 25 percent is a good round number (Finegan and Margo 1994, p. 67). Second, and perhaps more important, work relief was a pretty steady job. This seems surprising, because the WPA was always ending projects, and turnover from project employment was always quite high. But project employment was not the same as WPA employment, as some

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**Table 2 Distribution of Weeks Unemployed among the Currently Unemployed, March 1940**

<table>
<thead>
<tr>
<th>Weeks</th>
<th>Not on PEW</th>
<th>On PEW</th>
<th>All unemployed</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 ≤ x &lt; 13</td>
<td>28.1</td>
<td>9.5</td>
<td>20.8</td>
</tr>
<tr>
<td>13 ≤ x &lt; 26</td>
<td>22.7</td>
<td>16.3</td>
<td>20.2</td>
</tr>
<tr>
<td>26 ≤ x &lt; 39</td>
<td>9.2</td>
<td>10.2</td>
<td>9.6</td>
</tr>
<tr>
<td>39 ≤ x &lt; 52</td>
<td>8.3</td>
<td>7.7</td>
<td>8.0</td>
</tr>
<tr>
<td>52 ≤ x</td>
<td>31.6</td>
<td>56.3</td>
<td>41.5</td>
</tr>
</tbody>
</table>


*PEW = public emergency work relief.*
workers simply rolled over into a new project, albeit with a few weeks of vacation.

Some "smoking gun" evidence that work relief affected labor supply directly is provided in a paper by T. Aldrich Finegan and myself (1994), which reexamines an old chestnut of labor economics—the famous debate between W.S. Woytinsky and Clarence Long over the relative sizes of the added-worker and discouraged-worker effects in the late 1930s. The added-worker effect is the idea that other family members have an incentive to seek employment when the head of the household becomes unemployed. The discouraged-worker effect is the idea that persons without jobs are discouraged from looking for work when the unemployment rate is high. Woytinsky (1942) believed that there were large numbers of added workers who would withdraw from the labor force once conditions improved. Long (1958) thought Woytinsky was wrong and had a table from the published 1940 census to prove it, or so he thought. The table showed the labor force participation rates of married women cross-classified by their husband's employment status. If Woytinsky was right, reasoned Long, the labor force participation rate of women with unemployed husbands should exceed the participation rate of women with employed husbands. In fact, according to Long's table, there was no such difference in 1940—if anything, the participation rate of women with unemployed husbands was slightly lower than the participation rate of women with employed husbands. The added-worker effect, in other words, appeared to be negative.

Subsequent generations of labor economists (including Professor Finegan) were taught that Long was right. However, Long was wrong, and for an interesting reason: the WPA actually reduced the incentive for "secondary" workers to enter the labor force.

Table 3 gives the labor force participation rate of married women by their husband's employment status, as computed from the 1940 PUMS. Note that, if the husband was on work relief, the labor force participation rate was very low (about 6.6 percent), while if the husband had a regular job, the participation rate was 16.1 percent. However, if the husband was unemployed but not on work relief, the participation rate was 22.8 percent—a clear added-worker effect.

The table from the published 1940 census that convinced Long was quite different from the evidence in Table 3, in that Long's table
Table 3 Labor Force Participation Rates of Married Women, by Husband’s Employment Status, March 1940

<table>
<thead>
<tr>
<th>Husband’s status</th>
<th>N^a</th>
<th>LFPR^b (%)</th>
<th>Employed^c</th>
<th>On PEW</th>
<th>Unemployed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed in 1940</td>
<td>100,499</td>
<td>16.1</td>
<td>96.7</td>
<td>0.5</td>
<td>2.8</td>
</tr>
<tr>
<td>On PEW in 1940</td>
<td>7,714</td>
<td>6.6</td>
<td>80.5</td>
<td>3.1</td>
<td>16.4</td>
</tr>
<tr>
<td>Unemployed in 1940</td>
<td>8,172</td>
<td>22.8</td>
<td>85.9</td>
<td>3.6</td>
<td>10.5</td>
</tr>
<tr>
<td>On PEW in 1939^d</td>
<td>1,112</td>
<td>16.8</td>
<td>89.3</td>
<td>3.7</td>
<td>7.0</td>
</tr>
<tr>
<td>Not on PEW in 1939</td>
<td>7,060</td>
<td>23.8</td>
<td>85.5</td>
<td>3.6</td>
<td>10.9</td>
</tr>
<tr>
<td>Out of labor force</td>
<td>5,439</td>
<td>24.5</td>
<td>76.1</td>
<td>16.8</td>
<td>7.1</td>
</tr>
<tr>
<td>Total</td>
<td>121,824</td>
<td>16.3</td>
<td>93.8</td>
<td>2.0</td>
<td>4.2</td>
</tr>
</tbody>
</table>


^a N is the sample size.
^b LFPR is the labor force participation rate, the proportion of women in the sample who were employed, on public emergency work relief (PEW), or unemployed, during the census week (March 24–30, 1940).
^c “Employed” means employed in a private sector or non-PEW job.
^d “On PEW in 1939” identifies husbands who were unemployed in the census week and who held a PEW job at some time in 1939.

Lumped unemployed husbands and husbands with work-relief jobs together in a single category. (We know this from a note in very tiny print elsewhere in the volume that Long cited.) If we replicate the census procedure in Table 3, the labor force participation rate of married women with unemployed husbands (now counting the ones with work-relief jobs as unemployed) is 14.9 percent. As far as Finegan and I know, Long’s mistake was inadvertent—he had no way of knowing of the association between work relief and the added-worker effect.

Why would the WPA have inhibited the added-worker effect? Finegan and I think eligibility requirements are the key. Not just any unemployed worker was eligible for a work-relief job; the family had to pass a means test, and the earnings of other family members (to varying degrees) were counted. Although wages on WPA projects were relatively low, they were better than what many married women
could command in the labor market. Thus for many couples, a job with the WPA for the husband with his wife at home was better than no job and his wife working. We reinforce this conclusion in our paper by showing that labor force participation by married women jumped when their husbands left work relief but had not found a regular job by the census week.

Finegan and I think the importance of this work is not the resolution of a crusty old debate between two deceased labor economists, but rather that, even under extremely trying macroeconomic circumstances, incentives “mattered.” Had the WPA been smaller, it is possible that the unemployment rate among adult males would have been higher, but our results suggest that more married women would have entered the labor force. In designing welfare programs, there is always a tradeoff between the desire to help those in need and the desire to minimize deadweight loss. The architects of Roosevelt’s New Deal could not avoid this tradeoff any more than their modern day counterparts have been able to do under much less trying macroeconomic circumstances.

THE GREAT DEPRESSION AND THE GREAT COMPRESSION

One of the central policy issues of the last 25 years has been the surge in wage inequality. Simply put, the earnings of college graduates relative to high school graduates are far higher today than they were ca. 1970. Wage differences within labor market groups—for example, the dispersion in wages among college graduates—are also much higher. The increase in wage inequality has taken place against a backdrop of very little aggregate real wage growth, so that for some population groups (such as the bottom 40 percent of high school graduates), real wages are lower today than in the early 1970s.

Much has been made by the popular media (not to mention in the political arena) of the alleged uniqueness of this recent episode in the history of American inequality. It is believed that the long-run trend in wage inequality—“long-run” here meaning since the turn of the 20th century—has been distinctly downward, and recent changes are a
reversal of that trend. In particular, the benchmark most in use is inequality in the period 1950 to 1970.

Until recently it was widely believed that the Great Depression helped produce a more egalitarian income distribution (Williamson and Lindert 1980). The Great Depression was a great “leveller”—that is, the distribution of income became much more equal in the 1930s, continued to do so in the 1940s, and then stayed that way for some time. Recent research on American wage history, however, has modified this view (Goldin and Margo 1992).

Exactly what happened to the distribution of wages in the 1930s is still in the process of reconstruction. What appears to have happened is that wage differentials between skilled and unskilled labor widened in the early years of the Depression. The extent of widening was considerably greater in the case of weekly wages than hourly wages, because there were substantial declines in weekly hours worked in the early 1930s, and the decline in weekly hours was greater among the unskilled. The wage structure snapped back, however, and by 1939 it appears to have been little different from its counterpart in the late 1920s. This is a little surprising, since unemployment was far higher in 1939 than in 1929. As already mentioned, unemployment in the 1930s was far worse among the less-skilled and less-educated. We might have expected the vast reserve army of unemployed and underemployed among the less-skilled and less-educated to have bid down their relative wages, but it did not happen, perhaps because various New Deal policies (such as work relief) propped up wages in the lower tail of the distribution.

If the Great Depression did not usher in any vast changes in wage distributions, what did? The answer: the “Great Compression,” which occurred in the 1940s and produced a substantial narrowing in wage inequality.

What is remarkable about the Great Compression is that the quantitative dimensions of change were nearly the mirror image of recent experience. The gap between the 10th and 90th percentiles in weekly wages declined by nearly 25 percent between 1940 and 1950, approximately the same percentage as the increase that occurred between 1970 and 1985. The narrowing in wage inequality took place at both tails of the wage distribution. The gap between the median wage and the 90th percentile fell by 14 percent, and the gap between the 10th percentile
and the median decreased by 11 percent. Consistent with these changes, the earnings of skilled and educated workers fell relative to the earnings of less-skilled and less-educated workers between 1940 and 1950. Relative to the nonfarm average, the weekly earnings of white-collar workers declined between 1940 and 1950, while the relative earnings of factory operatives, personal service workers, and unskilled laborers increased.

Like the surge in earnings inequality that has occurred recently, the Great Compression was not solely, or even mostly, a narrowing of wage differentials between groups. Wage compression also occurred within groups, as defined by educational attainment, labor market experience, and occupation. One (very important) point of difference between the Great Compression and recent experience is that during the 1940s, real wages for everybody rose substantially. Redistribution was not achieved at the expense of declining real wages for some occupation or educational group, as is the case recently: rising inequality in the past 20 years has occurred against a backdrop of stagnant or barely rising real wages for the average worker. The increased dispersal of wages around the average implies that some groups have gained purchasing power in absolute terms, while others have lost absolutely. From a political economy perspective, redistribution is less a "problem" when living standards are generally rising than when they are not.

Although their relative significance is a matter of debate, the factors behind the Great Compression are not difficult to identify. Some portion of the Compression occurred early in the decade as a direct result of wartime shifts in labor demand and of government regulation of the wartime economy. Various bits of data suggest that the industries that expanded output during World War II were disproportionately employers of less-skilled and less-educated labor. Federal government policy also played a role. The National War Labor Board (NWLB), established in 1942, was responsible for approving all wage increases. Given the volume of cases under its purview, the NWLB reached decisions using various rules of thumb, several of which undeniably compressed the wage structure at its left tail.³

World War II eventually ended and the NWLB went out of business. With respect to the immediate postwar period, three factors maintaining wage compression were an unexpectedly large increase in the relative supply of educated workers (partly a consequence of the GI Bill
of Rights, which subsidized college attendance by veterans); increases in the level and coverage of the federal minimum wage; and a robust union movement. Only the latter two factors can be traced to the Great Depression: the federal minimum wage was first enacted in the 1930s, and the Wagner Act enhanced the ability of unions to organize.

The Great Compression was not to last much past 1950. By the early 1950s, there is evidence of a shift in relative demand towards better-educated workers. By 1960, the Great Compression had been partly reversed, evidently because the increase in relative supply of educated labor in the 1950s simply did not keep pace with the increase in relative demand. Still, the wage distribution on the eve of the Kennedy administration was far more equal than it had been 30 years earlier or than it would become a quarter century later.

SELF-EMPLOYMENT IN THE 1930s

All of the research I have reviewed thus far is of the published variety. I would like to take a few moments to talk about some work in progress involving self-employment in the 1930s.

One of Herbert Hoover’s more infamous quotes concerned the unemployed. In the early 1930s, Hoover remarked that “[m]any (unemployed) persons [have] left their jobs for the more profitable one of selling apples on streetcorners.” If selling apples was so profitable, why create make-work government jobs when the unemployed could, so to speak, do it on their own?

The self-employment option is an interesting one, since it is, apparently, always available. If the unemployed choose to look for a job with someone else, as opposed to self-employment, it is hard to argue that unemployment is “involuntary” because the self-employed are, by definition, employed. For most of the 20th century, self-employment was in decline in the United States, although in recent decades it has been on the upswing. During the recent recession, self-employment was widely reported on in the press, as downsized managers, frustrated by their lack of success in the conventional job market, hung shingles outside their bedrooms and called themselves “consultants.”
Table 4 shows the aggregate non-farm self-employment rate in the United States—that is, the number of self-employed in the non-farm sector as a fraction of the total nonfarm labor force—over the 1930s, with 1920 and 1950 as benchmarks. It is traditional to look at the nonfarm labor force, since the great majority of farm labor was self-employed and the farm labor force has been declining in proportion for two centuries. Note that the self-employment rate fell in the early 1930s and was otherwise stable during the decade. On the basis of the aggregate data, it does not appear that self-employment was much of an option at all for the unemployed.

However, the aggregate self-employment rate is a function of an entry “hazard” rate and an exit “hazard” rate. The entry hazard is the probability of entering self-employment from some other labor market status, while the exit hazard is the probability of leaving self-employment (the business goes bust, for example). These flows could have been rather substantial and yet the aggregate self-employment rate quite stable.

Table 5 provides some preliminary evidence on the flow into self-employment. It is based on the 1940 PUMS: the sample consists of non-farm adult men, ages 30–49, who did no work (for pay or profit) in 1939 but who were in the labor force in March of 1940 (there are a few other restrictions on the sample). The table shows what these men were doing during the census week, one possibility being self-employment. Not very surprisingly, the majority were unemployed as of the census date. As already suggested, flows into work relief were relatively small. The big surprise is the relative importance of self-employment, which captured a bigger share of the flow into employment than wage and salary
Table 5  Self-Employment in the Late 1930s

<table>
<thead>
<tr>
<th>Self-employment, total</th>
<th>N</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietors, etc.</td>
<td>227</td>
<td>51.2b</td>
</tr>
<tr>
<td>Proprietors in wholesale-retail trade</td>
<td>170</td>
<td>38.4b</td>
</tr>
<tr>
<td>Work relief</td>
<td>137</td>
<td>6.2</td>
</tr>
<tr>
<td>Nonrelief wage and salary work</td>
<td>366</td>
<td>16.7</td>
</tr>
<tr>
<td>Unemployment</td>
<td>1,251</td>
<td>56.9</td>
</tr>
<tr>
<td>Total</td>
<td>2,197</td>
<td></td>
</tr>
</tbody>
</table>

SOURCE: 50 percent random sample of the 1940 PUMS.

a Sample consists of males, ages 30-49 who did no work in 1939 but who were in the labor force in March of 1940. Farm workers are excluded, as are professionals and unpaid family labor.
b Percentages among self-employed (e.g., proprietors in wholesale-retail trade account for 38.4 percent = 170/443, of all self-employed).

work. (I note, in passing, that the absolute percentages would decline if the sample were expanded to include persons out of the labor force, but not the relative shares.) Furthermore, fully half of the flow into self-employment was accounted for by “proprietors” in general, and nearly 40 percent by proprietors in wholesale and retail trade (of which food dealers were by far the biggest category). Although there is much more work to be done, clearly it seems that self-employment was an option for many of the jobless, as Hoover seemed to think.

CONCLUSION

Let me conclude by mentioning a few other topics that I have not had space to cover. I have skipped over the effects of the Great Depression on women and African Americans, but these were certainly substantial. Claudia Goldin (1990) has demonstrated that “marriage bars”—employment policies adopted by firms and governments that restricted job opportunities for married women—became more prevalent in the 1930s. We know from the work of James Smith (1984; see also Margo 1990c and Sundstrom 1992) that the Depression derailed
economic progress for African Americans; the black-to-white income ratio in 1940 was no higher than in 1930. Other important topics not addressed concern the impact of the Depression on the subsequent economic behavior of those who lived through it (such as savings rates and labor supply at older ages), and the political economy of New Deal labor legislation.

I have also highlighted the 1940 PUMS in this lecture. There are, however, many untapped data sources from the 1930s, some of which refer to individuals, others that shed light on geographic variation in labor market outcomes, which was also considerable. There is much still to learn about labor and labor markets in the 1930s and, fortunately, a good deal of microeconomic evidence to guide our analysis.

Notes

1. “Out of work” here, as is traditional, counts those with work-relief jobs as unemployed. If persons on relief are counted as employed, the percentage falls to 32 percent (see Margo 1991).

2. One (rather far-fetched) argument goes as follows. Suppose that workers rationally expected that demand for their labor would rise substantially in the late 1930s and early 1940s with the onset of World War II. Then, more leisure would presumably be desired early in the 1930s—an intertemporal substitution effect. For the argument to make any sense, one would have to believe that World War II would have occurred even if the Great Depression had not. Alternatively, if one believes that real interest rates were expected to increase in the early 1930s (relative to the rate of time preference), one could also rationalize an inward shift in labor supply (as the outcome of a dynamic optimization on the part of workers).

3. For example, employers could raise wages to 40 cents per hour without NWLB approval; occupational wage “brackets” were established in each region, and wages could be increased to the lower end of the bracket. Exceptions to wage controls were frequently granted if the NWLB judged that the employer in question was previously paying “substandard” wages.


References


