

*WAGES AND LABOR MARKETS IN THE UNITED STATES, 1820-1860.* BY ROBERT A. MARGO. CHICAGO: UNIVERSITY OF CHICAGO PRESS, 2000

For the past century or so, a persistent theme among some leftish economists and economic historians has been that wages showed virtually no growth from 1820-1860, during the formative stages of American industrialization. Even though output rose by 60 percent or so per capita, the “pessimist” historians have told us workers merely held their own. Under those assumptions, the worker share of the national income must have fallen dramatically, from, say, 60 percent to perhaps 38 percent. Yet there is little or no evidence that such a dramatic shift in income distribution or factor shares occurred.

Enter Robert Margo. In his new statistics-laden tome for the National Bureau of Economic Research, *Wages and Labor in the United States, 1820-1860*, Margo concludes what Austrian economists have surmised all along, namely that the rise in real wages during this period very closely approximated the rise in worker productivity (both grew about 1 percent a year). Moreover, on balance, Margo thinks markets worked pretty well in several other respects, most importantly in reallocating labor from agricultural to nonagricultural pursuits. There was essentially no differential in real wages between farm workers and those doing comparable non-farm labor by 1860, for example.

The major bottom-line conclusions arising from Margo’s exercise are congenial with Austrian—and, for that matter, neoclassical—economic theory, and they generally are carried out thoroughly and with apparent objectivity and care. Nonetheless, the work reinforces Austrian suspicions about excessive reliance on statistics derived from aggregating data from multiple economic agents. A few examples will suffice.

First, the major source of wage data Margo uses is monthly payroll records of civilian workers at U.S. Army posts. Putting aside the very real issue of whether the federal government truly paid local market wages then (they are not particularly prone to do so now), the sixty-two thousand observations in

the sample over a forty-year period are heavily skewed toward frontier areas that may not be representative of national or even regional trends. (Margo uses four broad regions in discussing wage changes.) For example, we learn (p. 51) that from 1820 to 1860, real wages of artisans in the Northeast rose fairly sharply (1.18 percent a year), while they actually fell slightly in the Midwest. (This naturally raises the question: Why was there mass migration from the Northeast to the Midwest?) Yet it turns out that nearly two-thirds of the Midwestern artisans, and about one-fourth of those in the nationwide sample, worked in the single state of Kansas, at a time when Kansas, even in 1860, had only about 0.35 percent of the national population. There was no representation from vastly more populous states, such as Illinois and Indiana. Similarly, a majority of the observations from the South Atlantic states came from Florida, a smallish and generally unrepresentative Southern state before 1860. More than 40 percent of the entire U.S. sample, then, came from Kansas and Florida, states that collectively comprised well under 1 percent of the U.S. population even at the end of this time span.

This is not the only reason to be somewhat suspicious of some observed regional variations in wage patterns, however. Margo would have us believe (p. 72) that in the single year 1829, real wages for artisans fell 13 percent in the Midwest, while they rose an extraordinary 12 percent in the South Atlantic states. Yet the reason for this, Margo's data (p. 70) show, was that prices were rising over 14 percent in the Midwest, while they were actually falling in the South Atlantic states. Conventional wisdom, even among mainstream economists, is that today's consumer price index significantly misstates inflation. The price aggregation problem of today is multiplied several fold if one tries to use regional instead of national data, not to mention the use of limited data that are computed more than one hundred years after the fact. Moreover, Margo's nineteenth-century price indices are, out of necessity, almost entirely based on the value of food prices, excluding significant items that people then and now spend money on, such as housing. They also assume away any intraregional price variation.

In Margo's defense, he is trying to derive historical facts from limited, imperfect data, and he labors with great skill and diligence in carrying out the tedious task. And, for all of their limitations, over the longer run, the conclusions Margo reaches sound reasonable and consistent with what was market-driven behavior in a largely laissez-faire society. Yet, given the real hazards associated with constructing wage and price indices for the period, Margo sometimes does not adequately qualify conclusions that inevitably must be somewhat speculative. By concluding that, by and large, "markets worked," however, Margo perhaps moves more economists toward accepting conclusions consistent with Austrian economic theory, if not epistemology.

Reading Margo left me with a horrifying thought. Some late twenty-first-century or even twenty-second-century cliometrician might evaluate the modern

era much like the twentieth-century pessimists commenting on the early-nineteenth century. Going to the 2000 edition of the *Economic Report of the President*, page 360, reveals that real weekly earnings were lower in 1999 than in 1962. Yet the data on page 341 show that real GDP per capita more than doubled in the same time span. From this, it is concluded that workers were relentlessly exploited and had stagnating living standards, while capitalists flourished, ignoring other tables which show that corporate profits did not rise as a proportion of personal income (p. 338), or that real per-capita consumption spending more than doubled (p. 341).

The data showing no rise in real wages are, quite simply, wrong, and for numerous reasons, including the problems of aggregating prices (the overstatement of inflation with the CPI), the failure to include fringe benefits, and the lack of adjustment for the better and safer working conditions in today's work environment. The problems with today's data are not new, as Bob Margo's well-done scholarly exercise demonstrates. In trying to unravel the truth about our past, Margo supports some basic truths about the efficacy of markets. He does not fully convince us, however, on some of the details of economic progress during America's drive to industrial preeminence.

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