## INTRODUCTION

This volume is a collection of seven essays presented at a conference at the National Bureau of Economic Research (NBER) in April 2023 and subsequently revised from discussion at the conference and comments from reviewers. Sponsored by the NBER, Boston University, Princeton University, the University of California at Los Angeles, and Vanderbilt University, the conference was entitled "Historical Labor Markets and Inequality." This Introduction provides the context for the volume and summarizes its contributions.<sup>1</sup>

The core motivation for the NBER conference and its papers is straightforward: The measurement of economic inequality over the long run is essential to understanding the development of the American economy and the well-being of its population. Measures and interpretations of economic inequality deepen our understanding of how the economy operates and who benefits from economic shocks and policies. Economic inequality manifests itself in people's lives in various ways, including access to resources and security; choices about education, migration, and family formation; and hopes for the future. In this context, people and policymakers often reference some earlier historical period as a benchmark for comparison or as a guide for policy prescriptions—but the past itself requires careful interpretation. At a fundamental level, different kinds of data become available in different periods, each with its own strengths and weaknesses, often complicating overarching stories. We convened this conference to discuss and refine new research on the economic history of American inequality with the broad goal of illuminating the past in a way that also sheds light on the present.

<sup>&</sup>lt;sup>1</sup> The conference coincided with a dinner and evening event celebrating the academic career of Robert A. Margo, whose research and teaching has long shaped the scholarly debate on the subject matter of the volume. Funding for the dinner and event was contributed to by the College of Arts and Science at Boston University.

#### **Opening Remarks**

Since Alexis de Tocqueville documented the living conditions he observed during his travels through the American countryside in the 1830s, there has been strong interest in understanding the patterns, sources, and consequences of income inequality in the United States. Given the dearth of data on wages and incomes from the early 19<sup>th</sup> century, historians have turned to de Tocqueville's comments as one clue about economic inequality at the time. In comparison to Europe, de Tocqueville found American society – at least among white men in the North – to be highly equal, extolling that "among a democratic people, where there is no hereditary wealth, every man works to earn a living."<sup>2</sup>

If one were to draw a straight line from de Tocqueville's impressions in the 1830s to the high levels of income inequality today, one would infer that economic development in the United States over the past two centuries has been accompanied by a shift from a relatively equal distribution of resources to one of growing inequality. But these endpoints alone do not provide enough information to judge when and how the level and distribution of income changed, nor do they shed light on what might have caused these changes.

Filling in the gaps between these endpoints is where the painstaking work of economic historians comes in. Economic historians' work has focused largely on documenting and understanding changes in wage and income inequality. Income underpins consumption, builds wealth, and confers status. For most people, it derives primarily from the work they supply in labor markets or through self-employment. For the wealthy, income from rent, interest, dividends, and capital gains is also important. The ability to measure and analyze long-run changes in the income distribution depends first on the large-scale, systematic collection of data on wages and other sources of income, often by government entities, and then on scholars' ability to digitize, combine, and analyze this information.

<sup>&</sup>lt;sup>2</sup> de Tocqueville condemned the inequities of slavery in the South, writing: "At the present time the descendants of the Europeans are the sole owners of the land and the absolute masters of all labor; they alone possess wealth, knowledge, and arms. The black is destitute of all these advantages, but can subsist without them because he is a slave."

Robert Margo's Wages and Labor Markets in the United States, 1820-1860, published in 1999, is an important milestone on our path to understanding trends in American wages and inequality in the first half of the 19<sup>th</sup> century. Margo brought two historical data sources to bear on fundamental questions about the antebellum economy. From the Reports of Persons and Articles Hired, he compiled thousands of observations on civilians' wages paid by the Army throughout the country. He gathered additional evidence from the 1850 and 1860 manuscripts of the Census of Social Statistics, including information on local average wages for various occupations and the cost of board. Through careful examination of these data, Margo illuminated nominal and real wage differences across regions, between occupations, and over time. He showed that workers' real wages increased at about the same pace as GDP per worker throughout the first half of the 19<sup>th</sup> century. But these gains did not accrue continuously or evenly: some periods entailed real wage declines; regional wage gaps between the South and North emerged; and highly educated workers gained ground faster than both artisans and unskilled laborers, with artisans having the slowest gains. This study placed our knowledge of antebellum wages and labor markets on firmer ground, which in turn has supported the development of a more nuanced narrative of long-run American economic development and its implications for workers and families.

For a view of the late nineteenth and early twentieth centuries, more data sources are available to scholars. In large part this reflects the federal and state governments' increasing interest in labor markets and their resulting efforts to collect more data on employment and wages. Lebergott's *Manpower in Economic Growth* (1964) compiles, evaluates, and summarizes much of this evidence with references to the various original sources.<sup>3</sup> Because scholars do not have information on the full distribution of wages or income, they have often relied on comparisons of wages by occupation to capture trends in skill differentials and earnings inequality. These do not reveal a strong trend in the later part of the nineteenth century. Instead, "the best available evidence suggests slight upward trends in the wages of skilled artisans and white-collar workers

<sup>&</sup>lt;sup>3</sup> The Aldrich and Weeks reports are prominent sources in studies of late 19<sup>th</sup> century wage trends. Each report compiled retrospective wage data from manufacturing firms' payroll records, reaching back from 1880 (Weeks) or the early 1890s (Aldrich). See Margo (2006) for further description. The census of manufactures also routinely inquired about wages and the number of production workers. Establishment-level samples of these data are available from Atack, Bateman, and Weiss (2006).

relative to common labor from 1860 to 1900" (Margo 2000, p. 227).<sup>4</sup> Evidence from *within* the manufacturing sector, which underwent rapid changes in this period, reveals rising wage inequality across establishments (Atack, Bateman, Margo 2004), a topic that Atack, Margo, and Rhode revisit in chapter 1 of this volume.

For studies of the early twentieth century, federal income tax return data and the earliest microlevel income datasets shed light on new dimensions of American income inequality. With these sources, scholars rely less heavily on occupational income series or snapshots specific to the manufacturing sector, though such perspectives remain valuable and informative. Simon Kuznets used income tax returns to characterize trends in income shares accruing to the highest-earning households (Kuznets and Jenks 1953). Piketty and Saez (2003) extended this approach to the late 20<sup>th</sup> century. In their series, inequality in the 20<sup>th</sup> century started at and maintained a high level through the 1920s, declined in the mid-century decades, and then resurged in the late 20<sup>th</sup> century. Interpreting income tax data—given the incentive to under-report taxable income and sizable amounts of non-taxed income—requires great care, and debates are ongoing regarding the magnitude of shifts in inequality when viewed through this lens.<sup>5</sup>

An alternative and complementary view comes from census-based sources. Goldin and Katz (2008), for instance, collected micro-level data from Iowa's state census of 1915, one of the earliest to gather information on both income and education. They associated earnings differentials with varying levels of educational attainment, a form of human capital investment, because the market "returns to education" are a key component of overall wage inequality. After calculating educational earnings premia in Iowa in 1915, they compared these premia to those estimated in later federal censuses. They found a decline in the returns to high school and college attainment from 1915 to 1940, which they attribute to changes in the supply of better educated workers, which was driven largely by the high school movement. Evidence from occupational differentials, in which a notable decline in the skill premium occurs before the early 1920s, offers

<sup>&</sup>lt;sup>4</sup> See also Lindert and Willamson (2016), which updates Williamson and Lindert (1980), and who summarize estimates of income shares accruing to top percentiles of the distribution circa 1870 and 1910. Their interpretation points to a "modest and mixed" rise in inequality but the evidence is "tentative" (p. 173).

<sup>&</sup>lt;sup>5</sup> See Auten and Splinter (2023) and Piketty, Saez, and Zucman's reply (2023).

additional support to the view that wage inequality declined in the early decades of the twentieth century.<sup>6</sup>

The federal census of population in 1940 brought a major expansion in the sources available for the study of inequality. Following the economic collapse of the Great Depression, it was the first federal census that collected individual wage and salary data for every individual in the United States (although it did not cover self-employment earnings or other non-wage income from sources like agriculture). This enabled scholars to characterize the full distribution of wage earnings and to track changes in the cross-sectional distribution over time. By mid-century, the "size distribution of income" was well established as an important object of measurement and research interest.<sup>7</sup>

As computing power increased, microdata samples from the censuses and comparable samples from the Current Population Survey and, more recently, the American Community Surveys, formed the basis for a new literature in labor economics that documented changes in wage inequality and formulated explanations for those changes. A key advantage of the microdata samples is that individual scholars could partition the labor force by age, education, region, race, sex, and other characteristics, depending on their specific research questions. Goldin and Margo's paper, "The Great Compression: The Wage Structure in the United States at Mid-Century," (1992) was the first to use mid-century microdata samples to offer a rich view of the earnings distribution in 1940 compared with later periods (1950-1990). They documented and decomposed a large decline in income inequality in the 1940s, the decade of World War II, which they named the "Great Compression." For three decades, income inequality remained low, anchored by institutional features of the mid-century labor market and an increasing supply of educated workers (Goldin and Katz 2008, Collins and Niemesh 2019, Farber et al. 2021). But since

<sup>&</sup>lt;sup>6</sup> Goldin and Katz (2008, chapter 2) review and refine much of this evidence and present new estimates for the manufacturing sector in 1890 and 1940.

<sup>&</sup>lt;sup>7</sup> See for instance the essays in the NBER's *An Appraisal of the 1950 Census Income Data* (1958) and Goldsmith et al. (1954).

the 1970s, inequality has risen to and surpassed the level observed prior to the Great Compression.

In connecting the dots between the various data sources, economic historians have collectively pieced together a story of income inequality in the US over the past two centuries. This nowstandard narrative is that earnings inequality within the free population of the US was comparatively low in de Tocqueville's day but likely rose over the 19<sup>th</sup> century, as revealed by growing antebellum wage gaps between workers in jobs that required high levels of formal education and workers in other jobs. This pattern follows the classic "Kuznets curve," whereby economic development and technological change shift the population from relatively homogeneous and equal rural areas dominated by agricultural activity to more heterogeneous and unequal urban areas, where manufacturing and service jobs dominated. Within the manufacturing sector, the transition from artisan shops to steam-powered and later electrified factories resulted in the emergence of larger enterprises with a finer division of labor, more specialization and mechanization, and a larger role for management. As the divide between skilled and unskilled jobs in the labor force became ever more pronounced, so too did the gap in their respective wages. Workers in skilled and white-collar positions enjoyed relatively high pay around the turn of the century, and their status in the labor market was further cemented by the increase in managerial training provided to them during World War II (Giorcelli 2023).

Income inequality then fell in the early 20<sup>th</sup> century from this high point as parents encouraged children to spend more years in school, rather than working on farms or in factories, and as localities invested in building public schools to prepare them for these more skilled jobs. The decline in inequality was particularly rapid in the 1940s given various policy features of the wartime economy. After World War II ended, veterans returned to a society transformed by federal activity, including programs rooted in the New Deal era, widespread unionization, and the GI Bill. Wage inequality remained low from 1950 to around 1970. At that point, inequality began rising again alongside tax cuts and changing compensation for executives, the decline of unions and the real minimum wage, as well as the spread of computerization, which made skilled labor even more productive. Particularly given the sharp rise in college tuition, parents' income

became an increasingly important determinant of college enrollment, and many talented prospective students did not enter or complete college. Since the 1980s, the skill levels in the population have not kept pace with changes in technology. The college-to-non-college wage ratio, one measure of inequality, has continued to rise, driven primarily by income gains at the very top of the distribution.

Income inequality has been described by various U-shaped patterns over specific periods of time: as an inverted-U from 1850-1950 (rising and then falling, as associated with a traditional Kuznets curve) or as a U-shape from 1920-2020 (falling and then rising again, what Piketty and Saez have called a second Kuznets curve). With a two-hundred-year bird's eye view, the trajectory of inequality has had multiple peaks and valleys. The pattern of inequality in America has been a roller coaster, with inequality first rising in the 19<sup>th</sup> century, then falling in the early to mid-20<sup>th</sup> century, and then rising again more recently.

## This Volume and Its Contributions

The chapters in this volume refine and extend the economic history literature on income inequality in the United States. Chapters in the first section provide fresh evidence about the income distribution during the 19th and early 20th centuries using new data on wages and prices. The second set of chapters extends our thinking about inequality beyond wage and salary income to other dimensions of well-being. The third section considers the consequences of income inequality, beyond the effects on relative economic well-being. The volume concludes with an intellectual history of "human capital," a core concept in economists' thinking about the underpinnings of labor market inequality.

New Evidence on Historical Wage Inequality

The first contributions of this volume are the introduction of new wage data from the 19<sup>th</sup> and early 20<sup>th</sup> century and new data on price levels faced by households at different points of the income distribution over the 1940s.

In Chapter 1, Jeremy Atack, Robert A. Margo and Paul W. Rhode provide new data, adding richness and further evidence supporting the consensus view that wage inequality in American manufacturing increased over the nineteenth century and then decreased through 1940, following the canonical inverted-U shape. For the first half of this period, the chapter draws on new data from the U.S. Department of Labor's 1899 "Hand and Machine Labor" study to argue that wage inequality within manufacturing establishments rose over the nineteenth century, primarily because of the increasing division of labor. A second data source from Massachusetts state reports allows the authors to extend their analysis to the 1930s. The new time series shows that wage inequality among production workers declined from the early 1890s to the late 1930s, mainly because of rising wages for the lowest earning workers. The compression of the lower tail of the wage distribution in manufacturing is particularly strong in industries that adopted electrification, which facilitated the move into mass production.

The 1940s stand out as a unique period of substantive compression in wage inequality in the US. In their seminal paper, Goldin and Margo (1992) document a significant narrowing in nominal wage differences across the board—by education, job experience, and occupation. However, during this decade, the American economy also experienced unusually high inflation, which may have affected different types of households in markedly different ways. Consequently, it is important to consider how shifts in real wage inequality might have differed from shifts in nominal wage inequality during this period. In Chapter 2, Carola Frydman and Raven Molloy calculate inflation rates for different groups of households during the 1940s to estimate changes in the distribution of real wage earnings. Using micro-level data from the 1935-1936 Consumer Expenditure Survey for a sample of about 2,000 urban families, they construct consumption baskets by education, occupation, and income. Then, they compute group-specific price indexes by matching the spending shares to price indexes for specific items published in various historical reports. Differences in inflation across groups in the 1940s turn out to be small because spending

shares were similar across groups. Therefore, the real wage distribution compressed by about the same amount as the nominal wage distribution. In short, the Great Compression was "real" after all.

These contributions join a growing trend toward revising the first generation of data collection on income inequality. Some of these revisions aim to change important aspects of the broader narrative, while others refine and reinforce earlier interpretations. Getting the data right can have important implications for our understanding of key historical events. For example, Geloso et al. (2022) revise Piketty-Saez's data on the share of income earned by the top 10% of the distribution. These revisions, which are based on applying alternative assumptions for how to fill in inherent gaps and missing data in the income tax series, imply that inequality may not have been as high as we thought in the early 20<sup>th</sup> century, and thus, the decline in inequality was perhaps not as pronounced at mid-century. Work to sort out these questions is ongoing and underscores the challenges of measurement and the importance of clear and well-grounded assumptions.

Understanding how the prices of consumption baskets may vary across the income distribution can likewise change our interpretation of wage inequality. Moretti (2013) argues that the rise in inequality after 1980 is not as extreme as often feared. Yes, high-skilled workers have enjoyed rising nominal pay, but they also tend to live in coastal cities that have been plagued by rising housing prices and costs-of-living increases. An alternative view of these rising coastal housing costs is that highly-paid skilled workers are simply choosing to spend their expanding incomes on living in an attractive city with a wide basket of local amenities (Diamond 2016). In this view, high housing costs paid by the highly educated simply reflect the choice of the rich to buy luxury products. Jaravel (2021) summarizes a wider literature on inflation inequality for the full basket of consumer goods. In the modern data, prices are rising more slowly for basic consumer products purchased by the poor, whereas prices for luxury items are rising more rapidly.

Measuring Inequality in Well-being beyond Income

Cross-sectional data provide a snapshot of the level and dispersion of income at a given point in time. Repeated cross-sections, when the data are sufficiently comparable, provide a sense of how the income distribution has trended over time. Yet these snapshots of income provide a limited understanding of differences and changes in lifetime resources, wealth, or intergenerational mobility. They also provide a narrow window on the population's economic security, the causes and consequences of household formation, and non-wage sources of income and wealth. The second contribution of the volume is, therefore, to move beyond economists' standard focus on wage and income inequality and shift attention to other dimensions of well-being and inequality.

In chapter 3, William J. Collins and Gregory T. Niemesh highlight the connection between changes in income during the Great Compression era and the unprecedented increase in home ownership rates between 1940 and 1960. This era was characterized by a narrowing of the income distribution and, just as importantly, a sharp increase in real wage levels across the distribution. Collins and Niemesh show that post-1940 wage changes varied substantially across space, and that these differential changes in wages were strongly positively correlated with subsequent changes in home ownership. Economic theory, multiple specification checks, and an instrumental-variables approach harnessing variation in local income distributions before 1940 suggest that rising income causally affected home ownership. The chapter concludes that between one-third and one-half of the home ownership gains between 1940 and 1960 were attributable to the strong growth in income, complementing other changes in housing and financial markets that supported increases in home ownership. This relationship is vital to understanding American inequality because land and home ownership have long been the primary component of most families' asset holdings, and, for some, it has supported the accumulation of additional net wealth. Moreover, housing consumption—both in terms of a housing unit's intrinsic quality and the access it provides to nearby goods, services, schools, and amenities—is a core aspect of material well-being and environmental conditions for adults and children.

In chapter 4, Laura Salisbury examines widows' participation in the US's first major income support program: the pensions offered to Union Army veterans and their families. Standard

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wage-based measures of inequality tend to look only at income received for market work, which misses income that comes from rising government transfers, most famously with the advent of Social Security in the 1930s and other means-tested transfer programs.<sup>8</sup> Focusing on market work also tends to leave women outside the frame of study, reflecting married women's historically low labor market participation rates. Salisbury's chapter brings widowed women into the story of inequality in the postbellum period and assesses their take-up rate of pension benefits in an era when labor-market opportunities for women were sharply limited. She shows that although the pension program was well publicized and eligibility criteria were straightforward, the take-up rate was around 50 percent—low but similar to take-up rates for modern income support programs. The far-from-universal take-up rate reflected the high administrative cost of applying for the program, including travel to appear in court and the assistance of an attorney. The take-up rate varied with the widow's age and number of children, likely reflecting opportunities for remarriage, which would terminate the pension benefit and thus reduce the expected benefit of applying. Providing income support for families that might otherwise be impoverished, especially when the heads of such families were viewed as "deserving" of public assistance, eventually became a core function of the federal government. By reducing poverty, these programs ameliorated inequality of material well-being in ways that snapshots of labor market earnings do not capture.

In chapter 5, Martha J. Bailey and Peter Z. Lin explore changes in well-being during the 19th and early 20th century U.S. through the lens of marriage. Scholars have long noted that the dissimilarity of husbands and wives in terms of age, nativity, education, and family socioeconomic status strongly determines gender equity, bargaining power, and the allocation of resources within households (Kremer, 1997; Fernandez and Rogerson, 2001; Greenwood et al., 2014; Eika et al., 2019; Ciscato and Weber, 2020; Calvo et al., 2024). Processes governing marital matching determines the intergenerational mobility of women and the level of investments made in children (Aiyagari et al., 2000; Chadwick and Solon, 2002; Ermisch et al., 2006; Currie and Almond, 2011). Bailey and Lin find that age homogamy changed very little for women born

<sup>&</sup>lt;sup>8</sup> Auten and Splinter (2023) and Meyer and Sullivan (2023) emphasize how our understanding of the income distribution changes when we include income from transfer programs.

in the 19th century, making the rapid transition to smaller within-couple age gaps in the 20th century a stark departure from the 100-year trend. In addition, they find that intercultural marriage (the likelihood that a woman had a father-in-law who was of different nativity to her father) increased and helped stir the U.S. melting pot. As mass public education grew in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries, assortative matching on education changed little, but women's relative intergenerational mobility increased between 1900 and 1940. They conclude that, even as the importance of father's heritage and occupational standing fell, women's own educational attainment remained a powerful force in shaping their socioeconomic status. Bailey and Lin's wider approach to conceptualizing and measuring well-being and inequality complements a modern literature that is increasingly focused on the distribution of wealth, the importance of transfer income, and the central role of household structure.

## Consequences of Inequality

The third contribution of the volume is to consider the *consequences* of shifts in income inequality. There is mounting evidence in modern settings that income inequality can have deleterious effects on the political process, on social attitudes, and on health, stress and selfworth (Voorheis, McCarty and Shor 2015, Buttrick and Oishi 2017, Patel, et al. 2018).

In Chapter 6, Leah Boustan, Jiwon Choi and David Clingingsmith take a first step at studying the effects of rising inequality on social outcomes. They focus on a specific episode: rising inequality in the late 20<sup>th</sup> century due to factory computerization. One such technology – computer numerical control (CNC) –used programmable motors and sensors to automate a significant part of the machining tasks in metal manufacturing. The diffusion of CNC machine tools encouraged manufacturing firms to shed workers on the production floor, particularly in the non-unionized sector. In this volume, Boustan, Choi, and Clingingsmith trace out the effect of this new technology on trust in institutions and political partisanship. Since the late 1960s, Americans have been losing confidence in political and elite social institutions, and certain regional and demographic groups have turned away from the previously dominant Democratic party. Scholars

have highlighted the role of cultural factors in explaining these shifts. The chapter documents that workers who were more exposed to CNC technology reported declining confidence in American institutions and weakened identification with the Democratic party. Exposure to the CNC shock at the commuting zone level reduced vote share for Democratic candidates in the South and decreased voter participation outside of the South.

#### The Human Capital Paradigm

The concluding chapter considers the broader underpinnings of inequality in the United States. Inequality in income, earnings, and other dimensions is to a significant extent determined by differences in human capital—the investment in human beings at a point in time in the form of education, training, health, job search, migration, or anything else that affects future productivity—and by the "returns" to these investments. This framework has guided research on the economic history of American inequality for decades, including applications to eras that long pre-date the concept's modern definition, as in landmark work like Margo's *Race and Schooling in the South* (1990) and others.

In Chapter 7, Claudia Goldin and Lawrence Katz trace the emergence of the insights of human capital theory and the role of the National Bureau of Economic Research (NBER) in promoting this paradigm in economics today. Although the concept has roots going back to Adam Smith, the phrase "human capital" sparked some scholarly controversy when it first started to gain wide circulation. When Gary Becker published his influential volume *Human Capital* in 1964, he described his hesitation using the term as the title, as it equated people with property. This intellectual history describes how the work of Gary Becker, Jacob Mincer, Theodore Schultz, and others played an important role in incubating human capital research during the 1950s and 1960s, followed by its stark ascendance in the 1970s and dominance as a paradigm in the decades beyond. With the explosion in the availability of micro-data and the ability of human capital as a concept to link together macro- and micro-economists' approaches, today over 25 percent of NBER working papers and 20 percent of all economics papers reference human capital.

## **Closing Remarks**

The chapters in this volume, though varying in their focus, data, and methods, all point to economic historians' resourcefulness and determination in tracing out the path of American inequality and understanding its increases and declines. Ongoing debates and missing pieces of the story show both the limits of our knowledge and the possibilities for improvement and extension in light of better data and new theoretical and econometric perspectives. Generations of economic historians have engaged these important issues—some have done so for decades and trained others to do the same. We see this volume as evidence of that intergenerational transfer of insight and motivation, and as encouragement for future cohorts of scholars.

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