How Flexible was the Works Progress Administration in Responding to Unemployment during the Great Depression?

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Abstract

Given the renewed interest in the government as employer during the recent Great Recession, we revisit how the Works Progress Administration (1935-1943) - the only time in US history that the federal government acted as employer-of-last-resort - performed as fiscal policy, employment policy, and relief policy and how the WPA met its competing needs of paying a "prevailing wage" yet not crowding-out private employment. We find that the economics of the WPA cannot be separated from the politics of the Roosevelt-era, confirm previous findings that the WPA experience was one of political pragmatism , yet was flexible to changing employment conditions.

Keywords: employer-of-last-resort, Works Progress Administration, Great Depression, Labor policies, political pragmatism

JEL: P11, N3, J08

INTRODUCTION

In the 1932 American presidential election campaign challenger Franklin Delano Roosevelt blamed incumbent Herbert Hoover for the economic crisis and stated that the Hoover Administration was overly-centralized and "committed to the idea that we ought to center control of everything in Washington as rapidly as possible."[1] Roosevelt also said Hoover was profligate[2] and stated publically that, "I regard reduction in Federal spending as one of the most important issues in this campaign".[3] Yet by 1935, when the unemployment rate was still above 16% after its 1933 peak of almost 25%, then-President Roosevelt called for the Federal government to act as qualified employer of last resort and stated, "Of course we will provide useful work for the needy unemployed". [4] The main work-relief program of Roosevelt's New Deal was the Works Progress Administration (1935-1943). During the WPA's 8 year life-of-project nearly 25% of all American families received income from the WPA.[5]

It is generally accepted that there were at least two New Deals, the first (1933) being an attempt at economic recovery using such legislation as the Agriculture Adjustment Act (AAA) and the National Industrial Recovery Act (NIRA), the second (1935-1936) being one of social reform with the National Labor Relations Act, the Social Security Act, and then the creation of the Works Progress Administration to act as a buffer against continued unemployment. When President Roosevelt requested and received authorization to use Federal Emergency Relief Act (FERA) monies for the Works Progress Administration in the spring of 1935 it was to be the largest peacetime program in the U.S.'s history, the initial appropriation representing $4.9 billion or almost 7% of national income.[6] Edwin Amenta and Drew Halfmann [2001] write that, "By the end of the 1930s, largely because of spending for the Works Program, the United States jumped to world leadership in social policy effort".[7]

The purpose of the FERA monies was to provide federal employment to those who were deemed eligible for relief by the states. When we study the history of the WPA and try to determine whether or not the program met its intended purposes we find it not an easy task. There were many contradictory policies placed on the WPA throughout its history and the program was implemented in a highly decentralized manner, plus its purpose was never clearly defined other than to provide relief employment. Finally in the end, Roosevelt faced an oppositional Congress in 1938 which curtailed the growth of both the WPA and Roosevelt-era reforms. In December 1942 with the United States engaged in the Second World War and unemployment down to less than 5%, President Roosevelt declared that "a national work relief program is no longer necessary" and asked that the WPA be liquidated.[8]

MOTIVATION, PURPOSE AND METHODOLOGY OF THIS RESEARCH

Despite the many ambiguities surrounding its *raison d'être* the WPA makes for a rewarding case study for those interested in political economy because of it auspicious beginnings; the WPA was the first and only time that the US Government has acted as an employer of last resort. The first part of this paper describes the WPA and summarizes some relevant economic and political research on the New Deal and the Great Depression as well as some scholarship on the WPA itself to illustrate how difficult it is to *generalize* about the success or failure of the WPA experiment. In the second part of the paper we use actual labor market trends during the Great Depression to evaluate how the WPA experiment actually unfolded compared to the rest of the economy. The main research question to be answered is, *How flexible was the WPA in responding to unemployment?* This study of the WPA within the larger labor market trends in the U.S. economy during the Depression will allow us to raise relevant questions for any planned employer of last resort programs in the future.

THE PHYSICAL (AND CULTURAL) RESULTS OF THE WPA

Probably the most lasting legacy of the Works Progress Administration was the actual public works projects themselves, the result of over 3.7 billion hours of labor.[9] The WPA, operating in all 48 states, built approximately 480 airports, 78,000 bridges 40,000 public buildings, 67,000 miles of city streets, 24,000 miles of sidewalks, 24,000 miles of sewer lines, 19,700 miles of water mains, 500 water treatment facilities and 572,000 miles of rural highways.[10] In addition following the philosophy of pragmatism in vogue at the time, most notably the teachings of John Dewey, 'art as experience' was an important part of the New Deal project. Under the WPA's Federal Art Project there were 100 federal government cultural centers created throughout the United States, at least one in every state, which gave art classes to people of all ages as well as continuous series of exhibits both at the cultural centers and at other public and private spaces. The FAP artists created more than 2 million prints supporting New Deal programs.[11] It is this vast *volume* of WPA activity which has lead some political scientists and economic historians to write that the WPA's actual physical presence in the American people's lives helped create the cultural change allowing a larger role for the US Government itself in the American people's lives.[12]

THE WPA AS POLITICAL PRAGMATISM

The WPA was founded initially in 1935 to provide a relief wage, a "security wage" which was deemed low enough not to crowd-out the demand for private sector employment. However due to union agitation by September 1936 the WPA wage policy was changed to a "prevailing wage." In addition although FERA monies required that workers be certified as relief-eligible[13] by the states, until a Congressionally-mandated reorganization in 1939 exemptions to this requirement allowed non-relief workers on specific projects to range from 10% to 25% of a project as long as total state WPA employment was 90% to 95% relief-eligible. These exemptions in turn varied over time and varied on a state-by-state basis. State WPA administrators were also given latitude in wage and hour setting.[14] Because the WPA pay-rates were determined as a monthly total maximum by skill category and geographic region, this state administrator latitude allowed workers to receive varying real hourly earnings.[15] Finally and perhaps most importantly, it has been shown that the most important determinant for determining where WPA spending was located was politics. WPA spending was placed where it would gain the most votes for President Roosevelt and his allies, not where poverty was the greatest.[16] Perhaps it was for this reason too that in 1939 Congress required that after 18 months on the WPA payroll workers were to be dismissed and had to re-apply for both state relief eligibility and WPA reemployment.

THE WPA AS FISCAL POLICY

It is safe to say that President Roosevelt did not use fiscal policy activism to grow the economy during the Depression. The government debt as a percentage of the economy remained approximately 40% during the duration of Roosevelt's terms in office after jumping from approximately 20% to 40% during the Hoover administration.[17] We also find from Table 1 below that despite the initial high appropriation in 1935 for the FERA and the WPA of almost 7% of national income, the actual expenditures for the WPA during its duration never exceeded a peak of just over 3% of the economy in 1936. The next peak, again around 3% of national income, occurred in 1938 coinciding with the "recession within the depression" of 1937-1939.[18] The run-up of WPA expenditures and employment (see Table 1 and Figure 2) during 1938 also coincides with the political cycle of the 1938 Congressional elections in which opposition to Roosevelt's New Deal was growing. Given the Amenta and Poulsen [1999] findings showing that social expenditures were politically-based, then, we are not able to definitely differentiate the reason for the increase in WPA expenditures of 1938. Were wage increases relief-based or were they politically-based?

Table 1. WPA expenditures and national income

	1935	1936	1937	1938	1939	1940	1941	1942	1943
WPA expenditures ($ millions)	251.1	1987.4	1446.9	1997.5	1804.3	1440.1	135.2	618.4	69.5
National income ($ billions)	57.9	65.8	74.0	67.4	72.9	81.1	104.3	137.6	171.4
WPA expenditures as % of income	0.43%	3.02%	1.96%	2.96%	2.48%	1.78%	0.13%	0.45%	0.04%

Notes: WPA expenditures from *Final Report* [1947, p. 99], National Income Data from Carter et al [2006, pp. 3-29], calculations by author.

Given that in the end the WPA expenditures never exceeded anything but just over 3% of national income, we cannot determine that the WPA was used a tool for fiscal stimulus.[19] Finally, in hindsight, whatever its intent, the WPA cannot be seen as a successful *fiscal* (whatever its merit as a *relief*) program, Christina Romer [1992] writes "Fiscal policy, in contrast [to monetary policy], contributed almost nothing to the recovery before 1942".[20]

THE WPA AS EMPLOYER

There were two main wage schedules for the WPA life-of-project. The first wage schedule was set unilaterally by the Administration for July 1935 through June 1938 and the second wage schedule, with the rates being effective for September 1939 through June 1943, was set by an independent commission established by the newly-oppositional Congress elected in 1938. (In 1939 the new Congress also re-organized the WPA and five other work relief programs into the U.S. Federal Works Agency.[21]) Both wage schedules divided the WPA labor force into unskilled, intermediate, skilled, and professional and technical labor categories, with increasing maximum monthly wages for each category. The wage schedules further divided the country into 4 (and then 3) "Wage Regions" from the South to the Midwest and the North, and from rural to urbanized areas, again with increasing wages maximums per skill category depending on population size and geographic region.[22]

People who worked for the WPA were paid by the Federal government however a WPA project had to have a state or local government sponsor who contributed either in-kind or budgetary support to the project. These local contributions (21.7% of total WPA funds throughout the life-of-project) projects were not subject to the WPA wage schedules. Despite the many changes and exceptions in policy for hourly wages, the overall spending for monthly wages was within administrative and congressional legal requirements.[23]

It was well recognized both in society-at-large during the time and within the Roosevelt Administration itself that means-testing eligibility for WPA employment was a normative issue. Donald S. Howard in his definitive case study of the WPA published in 1943 states, "This requirement, among the earliest prescribed for WPA, has probably given rise to more criticism, difference of opinion, administrative and legislative changes in policy, and divergence in practice, than any other aspect of the WPA program."[24] One of the goals of the WPA was to prevent de-skilling of the structurally unemployed, yet at the same time, given the Roosevelt Administration's avowed peace-time fiscal conservatism and thus limited resources, it was acknowledged that relief funds should be given to those most in need. Howard [1943] also writes that policy-makers acknowledged that one of the unintended consequences of a needs-based requirement is that workers and families would be discouraged from accumulating assets and seeking private employment in order to qualify for WPA jobs. This of course is juxtaposed with the desire that funds be given to those that were most likely to spend them in order to create demand.[25] As stated above, in order to balance these competing needs, local WPA administrators were given discretion in hiring decisions for specific projects during the WPA's life.

In Table 2 below we can see that during the life of the WPA until the US entered World War Two the WPA was a not an insignificant employer, hiring between 3% and 5% of the workforce in any given year. And as mentioned already at one time or another almost 25% of all American families received income from the WPA.[26] This confirms those findings which show that the WPA played an important role in accumulating culturally a role for the federal government in peoples' lives during the New Deal.

Table 2. National workforce and employed by WPA

	1935	1936	1937	1938	1939	1940	1941	1942	1943
Workforce (000's)	53,140	53,740	54,320	54,950	55,600	56,180	57,530	60,380	64,560
Employed by the WPA (000's)	2,667	2,267	1,738	2,956	2,351	1,808	1,232	518	42
WPA employment as % of workforce	5.02%	4.22%	3.20%	5.38%	4.23%	3.22%	2.14%	0.86%	0.07%

Notes: WPA figures from *Final Report* [1947, pp. 106-109], author converted WPA Fiscal Year data to calendar year to allow comparison; workforce figures from Bureau of Labor Statistics.

From Figure 1 below we can view how the WPA wage tracks that of the wage rate across the entire US economy during the period in question. First off we find that indeed the WPA wage does not crowd-out the private sector wage. The WPA wage remains below that of the private sector, even after the 1936 change in policy from "security wage" to "prevailing wage". We also find that during the 1935-1938 period the WPA wage 'trends' the private sector wage; the WPA rate of pay increases concurrently with private pay. Those receiving their income from the WPA do not lose ground relative to the rest of the economy during the early years of the WPA program.

Most fundamentally however we can see that the average wage in the economy starts to take-off after the end of the 1937-1938 "recession within the depression" while the WPA wage decreases. Again any attempt to *generalize* this trend proves inconclusive. From Table 1 we find that total WPA expenditures did not drop between 1938 and 1939 as much as the WPA wage decrease would anticipate, this implies that the wage drop was not due to lack of funding. We do note that in 1939 the new Congress had set new maximum monthly wages for the WPA (as opposed to the previous set of wage schedules which were set by the Administration), so we might conclude that new wage schedules are the reason for the decrease in WPA wages relative to the US economy after 1938. This would mean that the "prevailing wage" is no longer the wage used to guide decentralized decision-making for each WPA project locally, or, that the new wage schedules preclude the use of prevailing (market) wages locally.

However we cannot generalize that the new maximum *monthly* wage schedules enforce a lower *hourly* wage due to the ability of local WPA project administrators to set the number of hours per month unilaterally and decentrally. We might conclude based on a theory of political pragmatism that local WPA administrators working for the New Deal no longer find it necessary to support high WPA hourly wages to earn votes after the 1938 Congressional election and mid-way through Roosevelt's second four-year term in office. In addition we find that the average WPA wage increases during 1941 after Roosevelt wins his third term in office; the same wage schedules were in place in 1941 during the wage increases as during the wage decreases in 1938 through 1940. After an oppositional Congress is elected the WPA wage goes down, after Roosevelt is re-elected the WPA wage goes up.

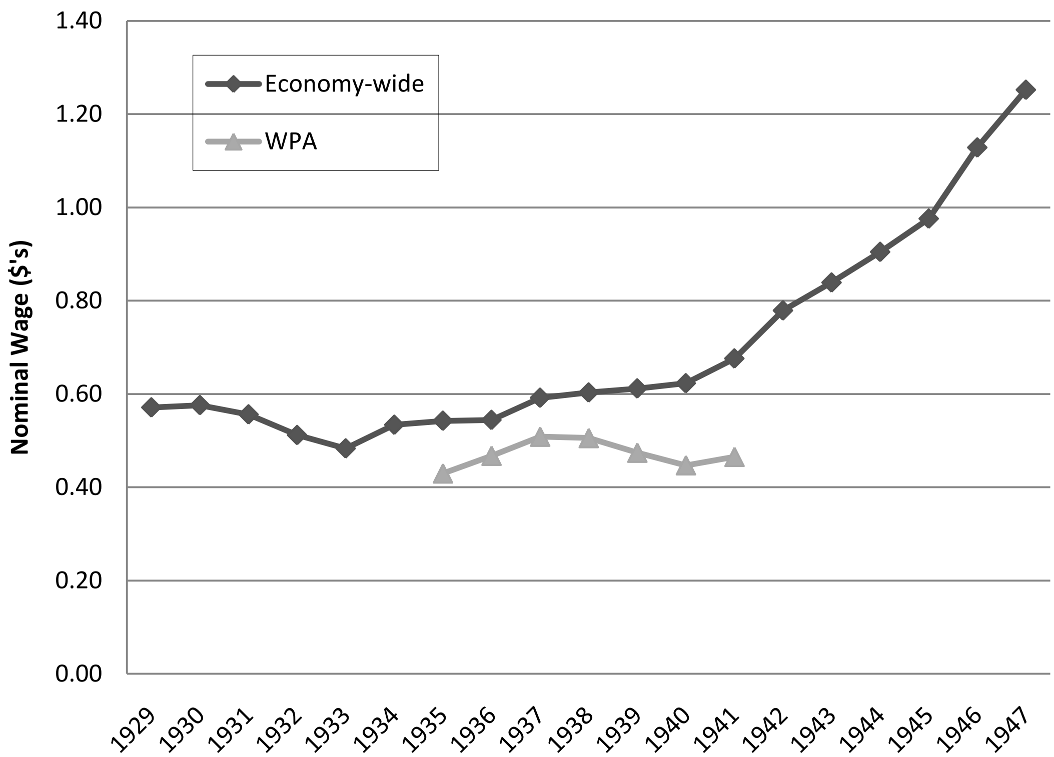

Figure 1. Average hourly nominal wages

WPA AS RELIEF AGAINST UNEMPLOYMENT

Thus far we have shown that there are political factors which prevented a coherent nation-wide wage policy for the WPA. However perhaps what is most important, given that the WPA monies were intended as "relief", is how well the WPA was able to react to changing employment conditions. From Figure 2 we can view that the WPA indeed was able to 'trend' the economy as needed.[27] While unemployment was falling from 1935 to 1937, the level of WPA relief employment was also falling. During the 1937-1938 "recession within the depression" while unemployment was increasing, WPA relief was also increasing. Then after the recovery from the recession as employment was increasing, WPA relief employment also decreased. We do note however than after the United States entered World War One in 1941, unemployment deceased rapidly whereas the WPA program did not respond (decrease relief employment) as rapidly.

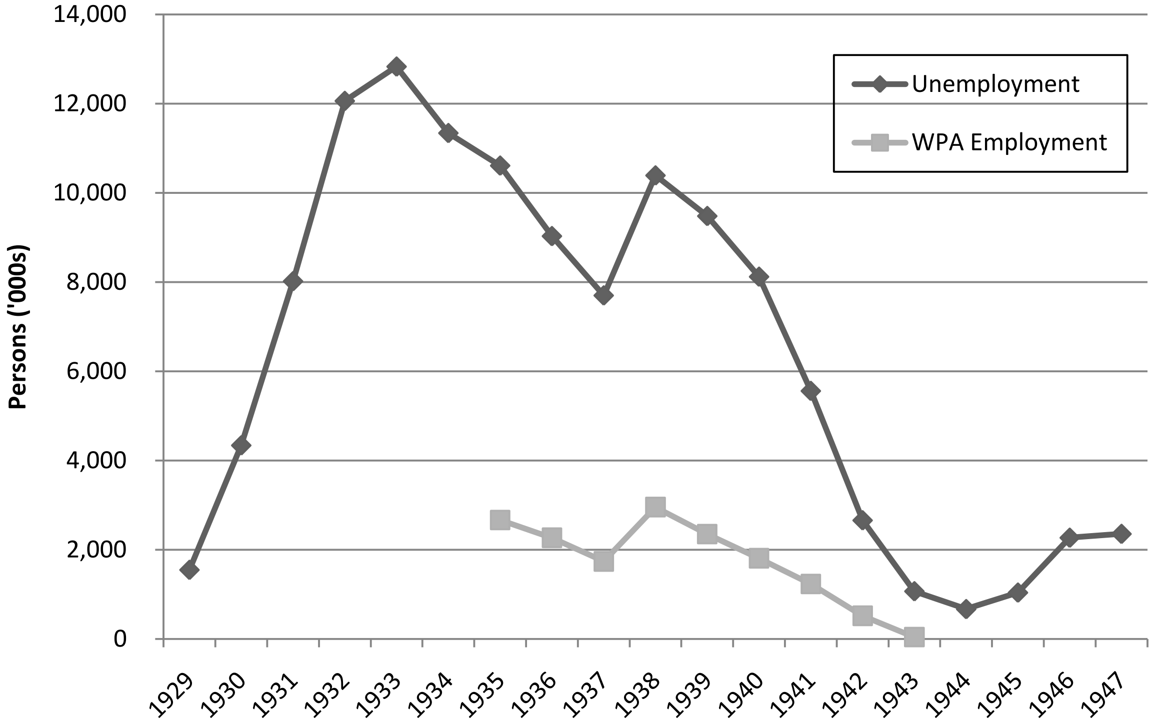

Figure 2. Unemployment and WPA relief

SUMMARY AND A FEW UNANSWERED (AND UNSWERABLE?) QUESTIONS

In this paper we have tried to show that it is hard to separate any larger political issues occurring in the United States during the Great Depression from how the WPA was actually implemented. It is perhaps inevitable that any discretionary government spending be politically-influenced. It is because of this reason (political pragmatism) that it is difficult to view the WPA in purely economic terms. Despite this limitation we have tried to analyze how the WPA *actually played-out* relative to the rest of the economy, using both political and economic events contemporary with the WPA during the 1930s. In the end, we are left asking perhaps unanswerable questions, but questions which might be noted by any other government officials considering the use of government as an "employer of last resort" during times of economic hardship.

During the first few years of the WPA the hourly wages paid by the WPA kept-up with, but did not crowd-out, private sector wages. Yet we are left to ask, if, after 1936, the WPA was to pay prevailing wages as opposed to a security wage should not the disparity between the WPA wage and the economy-wide wage have been less large? We also find in the later years, after an oppositional Congress was elected in 1938 and after the end of the "recession within the depression" of 1937-1938, that WPA wages did not keep-up with the growth in private sector wages until a final growth in WPA wages in 1941 coinciding with a new Presidential term. If the WPA was intended to provide indeed even a "security wage" should not WPA wages have kept up with private sector wages during the period? This again reconfirms the Amenta and Poulsen 1996 findings that New Deal social spending was more political pragmatism and less social safety net.

A final, and again perhaps unanswerable question, is one that has not yet been addressed. At its peak in November 1938 there were 3.3 million employed by the WPA out of a total workforce of 54 million, and, in total, the WPA employed 8 million people whose income supported 30 million dependents.[28] The concept of federal government employment was deeply permeated throughout the American populace during the Great Depression. To what extent did the 'status quo bias' of this employment with the WPA prevent those getting relief from having the incentive to find private employment and accumulating assets which would have in the end left them ineligible for WPA employment in the future, and, to what extent did this relief prevent the reduction in private sector unemployment during the Great Depression?[29]

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Notes

1. Roosevelt [1945, p.761], "Campaign Address, Sioux City."

2. Federal government spending increased from around 20% of the GDP in 1929, Hoover's first year in office, to around 40% in 1933, his last year in office. Government spending remained around 40% of the economy during successive Roosevelt Administrations until the USA entered the Second World War in 1941 [Carter, et al 2006].

3. Roosevelt [1945, pp. 108-109], "Campaign Address, Pittsburg."

4. *New York Times*, November 1, 1936. Unemployment data from the U.S. Bureau of Labor Statistics. The reason that I say that the WPA was meant as a "qualified" employer of last resort is that most of those receiving jobs funded by the Federal Emergency Relief Act (FERA) monies had to be certified as eligible for receiving relief from the states. Ben Shahn who was employed by the WPA as an artist called this a "poverty oath".

5. U.S. Federal Works Agency [1947, p. iii].

6. Smith [2008, p. 524].

7. Amenta and Halfmann [2001, p. 251]. Social policy effort is understood to be the amount of spending on social programs relative to national income.

8. U.S. Federal Works Agency [1947, p. v].

9. U.S. Federal Works Agency [1947, p. 116].

10. Smith [2007, various pages], numbers rounded by present author for narrative clarity.

11. O'Connor [1973, various pages].

12. See Smith [2008] and Flanagan [1999] who take this view of a cultural shift in American federalism.

13. “Means-testing” in today’s vernacular.

14. Howard [1947, p. 444] writes, “Efforts to limit WPA employment to workers who continued to be in need were greatly accelerated in 1938 when Congress suddenly became aware of the extent to which WPA workers were being permitted to supplement their WPA pay by working at other jobs in their free time.”

15. See Howard [1947, pp. 158-266], for a discussion of the political economy of the WPA wage-determining process.

16. Amenta and Poulsen [1996, p. 53] state, “We find that the spatial distribution of U.S. public social provision at the end of the 1930s corresponds to the expectations of the institutional politics theory, which combines structural institutional conditions and the efforts of pro-spending actors.”

17. Carter et al. [2006].

18. The Great Depression in the USA is most commonly presented as the years 1929–1941. In addition it has become popular to categorize the Depression into three stages, the Great Contraction (1929-1933), the Great Duration (1933-1941) – which also contains the “recession within the depression” (1937-1938) - and the Great Escape (1941).

19. For example, the $789 billion “stimulus bill” (American Recovery and Reinvestment Act) signed by President Obama in February 2009 represents approximately 5.6% of 2008’s national income of $14.2 trillion, almost double the WPA’s percentage of the economy during its peak years of outlay.

20. Romer [1992, p. 781].

21. The other FERA-funded work relief programs, which en toto were only 20% of WPA employment, are the Public Works Agency, the Public Buildings Branch of the Treasury Department, the Bureau of Public Roads, and the youth employment programs; the Civilian Conservation Corps and the National Youth Administration. Calculation by author with data from Carter et al. [2006] and U.S. Federal Works Agency [1947].

22. See U.S. Federal Works Agency [1947, pp. 23-24] and Howard [1943, pp. 158-266] for wage schedules and discussion of the WPA wage-determining process.

23. U.S. Federal Works Agency [1947, p. 26] provides a table “Average Labor Costs per Worker on Projects Operated by the WPA” which shows that the monthly averages do not exceed the relevant schedules for the life-of-project despite the decentralized project administration.

24. Howard [1943, p. 351]. Also see pages 351-513 for a detailed discussion of the political economy surrounding the needs requirement for the WPA and its various proponents and opponents.

25. The US economy experienced positive economy growth upon pulling-out of the Gold Standard in 1933 until the “recession within the depression” of 1937-1938. It was persistent unemployment, averaging 17% between 1930 and 1940, which has given the period its sobriquet of the Great Depression.

26. We can find in Table 2 that 1938 saw a resurgence in WPA employment, which confirms the resurgence of fiscal outlays found in Table 2. Note however that the employment figures for 1935 in Table 2 are far greater than which the outlay figures in Table 1 would suggest could be supported. This is because the employment figures for 1935 are for the end of the year. WPA employment increased from 0 to 2.7 million persons in the last 4 months of 1935.

27. Thus a “decentralized” approach to the management of WPA projects seems to have enabled sensitivity to local labor market (unemployment) conditions and thus, when aggregated nationally, to national trends as shown in Figure 2.

28. U.S. Federal Works Agency [1947, p. v].

29. Prescott [1999, p.31] finds that there were institutional reasons accounting for a 20% decrease in average hours worked per worker in the United States during the Great Depression but he admits that he does not know what, exactly, were these institutional changes. “Exactly what changes in market institutions and industrial policies gave rise to the large decline in normal market hours is not clear….In the 1930s, there was an important change in the economic game.”

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