

Unemployment Policy and the Measurement of Unemployment in Finland during the Great Depression of the 1930s. The Case of Construction Workers in Helsinki

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Abstract

The main objective of the paper is to analyse the labour market of the construction industry in Helsinki during the Great Depression of the 1930s. In this study a new personal and longitudinal data has been collected from the archive of the Municipal Labour Exchange Office. This study presents the systematic information on the flows into and out of unemployment, unemployment durations, the rate of unemployment, and real wages during the Depression. In contrast to previous studies in Finland, relief workers are counted as being employed. For all the construction workers, the unemployment rate was at its highest approximately 45 per cent in spite of extensive relief work organised by local and central government. This level of unemployment was high from both a national and an international perspective. At the same time, real hourly wages commonly dropped 25–35 per cent and 40–60 per cent in piecework respectively, which was an even more exceptional phenomenon. Difficulties to finance construction work, the weakness of trade union and the lack of unemployment benefits explained these phenomena during the Depression.

1. Introduction

In historical studies of the labour market one of the most extensively debated subjects has been unemployment during the Great Depression of the 1930s. At that time unemployment was unparalleled problem for many countries and it caused suffering for millions of people. In addition, when unemployment was high real wages still rose in many countries and industries. For that reason, since the 1930s the intense discussion has concerned the factors that were the most relevant in describing the weakness of self-equilibrating mechanisms when rapid changes occurred in the demand for labour.¹

In discussing unemployment in interwar Finland, the common result has been that the unemployment rate was lower in Finland than in many other countries. According to the Governmental Unemployment Committee, the actual number of unemployed persons was between 110,000 and 120,000 in 1931 (approximately 7% of the economically active population). Using the figures by Angus Maddison the highest rate of unemployment in Finland was 6.2% and by Jarmo Peltola 8.4% during the Great Depression.² However, it is important to take into account the many differences between countries, as well as the inaccuracies included in these and other figures on unemployment.

Moreover, it is important to keep in mind that Finland was long time predominantly an agricultural economy. In 1900 the employment share of primary production was 70%, in 1930 53% and in 1950 still 39%.³ It is highly controversial to use the concept of unemployment to describe the livelihood problems of those people who obtained their living mainly from agriculture. In rural economies, different kinds of “multi-employment” and various forms of ‘self-employment’ were common.⁴ Overall, during interwar years workers’ status is not easy to divide two components, ‘employed’ and ‘unemployed’.⁵

This paper analyses the labour market of the construction industry in Helsinki during the Great Depression of the 1930s. Construction was a big industry in the fast growing city employing over 10,000 workers in the late 1920s. However, there was a serious unemploy-

¹ Boyer 2003; Dimsdale & Horsewood 2002; Hart 2001; Fleck 1999; Grytten 1995; Hatton 1994; Margo 1993 & 1991; Garside 1990; Crafts 1989 & 1987; Wallis 1989; Eichengreen & Hatton 1988; Thomas 1988; Baily 1983; Smiley 1983; Fürth 1979; Darby 1976; Coen 1973; Bakke 1940; Keynes 1936; Jahoda, Lazarsfeld & Zeisel 1933.

² Peltola 1998; Maddison 1991; Kahra 1938.

³ Hjerpe 1989, 61–68.

⁴ Heikkinen 1997.

⁵ Whiteside & Gillespie 1991, 665–682.

ment problem, which lasted from 1929 until 1934. During the Depression wages were flexible but unemployment did not decrease in many years.

The point of departure in this paper is that it should regard unemployment as the concept of an industrialised and urban wage-work society. Moreover, in order to understand the workings of the labour market we need micro data of unemployment and more microeconomic analysis, which takes into account the development in society in general and the system of unemployment assistance in particular. The picture of unemployment is unbalanced, especially in Finland, if we analyse the labour market only in the aggregate level. Therefore, the purpose here is to determine how the urban labour market in the rural dominated society responded to the collapse of the world economy.

The results presented here are based on a new personal and longitudinal monthly data collected in this research from the archive of the Municipal Labour Exchange Office in Helsinki. The new longitudinal data analyses the years from 1928 until the spring of 1934 – including 3,467 people – working as construction workers in Helsinki. Advanced utilisation of the new panel data requires redefining of some traditional concepts on unemployment. This is also necessary when taking into account features of construction work where irregular employment and seasonal work were also common during ‘normal’ years.

This paper continues as follows. Next chapter provides the short overview of the economic development in Finland and unemployment in Helsinki during interwar years. Chapter three deals with the formation of unemployment, and it presents the results of the new data collected in this research. The role of trade union and the issue of flexible wages are analysed in chapter four. The final chapter concludes.

2. The Great Depression and Seasonal Unemployment

Partly due to old ideologies and practices, such as the gold standard, the whole period from the start of the First World War until the end of Second World War manifested instability in world politics and in the world economy.⁶ The economic development was not stable either in Finland. However, many studies conducted in Finland have construed the Great Depression of the 1930s first and foremost as a temporary interruption in an upward curve of development. From the viewpoint of the whole economy, these approaches have appeared to be appropriate.

From 1929 until 1932, the volume of the GDP fell by more than 4% and the GDP at the current prices fell by 22%. The Finnish economy started to recover after the devaluation of currency in October of 1931. The average rate of growth was 4.1% from 1920 until 1938 because of the fast growth both the end of the 1920s and the 1930s.⁷

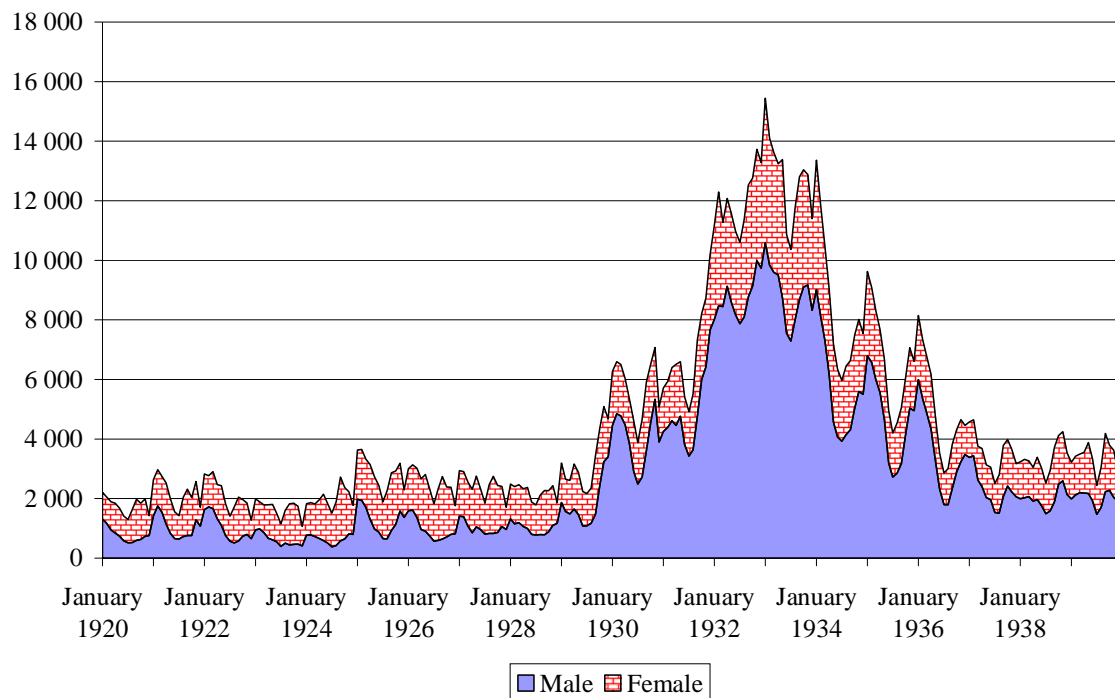


Figure 1. The Monthly Number of Applicants in the Labour Exchange in Helsinki, 1920–1939.

Source: Statistical Yearbook of the City of Helsinki, 1921–1940/41.

Employment varied considerably in Finland and in Helsinki during the interwar years (Figure 1). In the beginning of the 1920s, employment started to improve, and later unemployment was mainly the result of seasonal variation, the characteristic phenomenon of a northern climate. Visible unemployment was modest in the late 1920s. The reasons for this were good employment and the possible inaccuracies of figures; there were no significant incentives to register in the labour exchange during the boom period. Therefore, changes in the number of applicants in the labour exchange do not present actual unemployment in the 1920s. However, there was a serious shortage of skilled workers in Helsinki in the middle of the 1920s. When the economic

⁶ Temin 1989.

⁷ Hjerpe 2004 & 1989, 100–103; Böckerman & Kiander 2002, 57–60.

boom started, thousands of workers moved to Helsinki from other parts of the country. From 1926 to 1928, employment was exceptionally good in Helsinki as well as in other parts of Finland. Nevertheless, a seasonal character remained in employment, and hence, lack of work was a problem for many workers during the winter months.

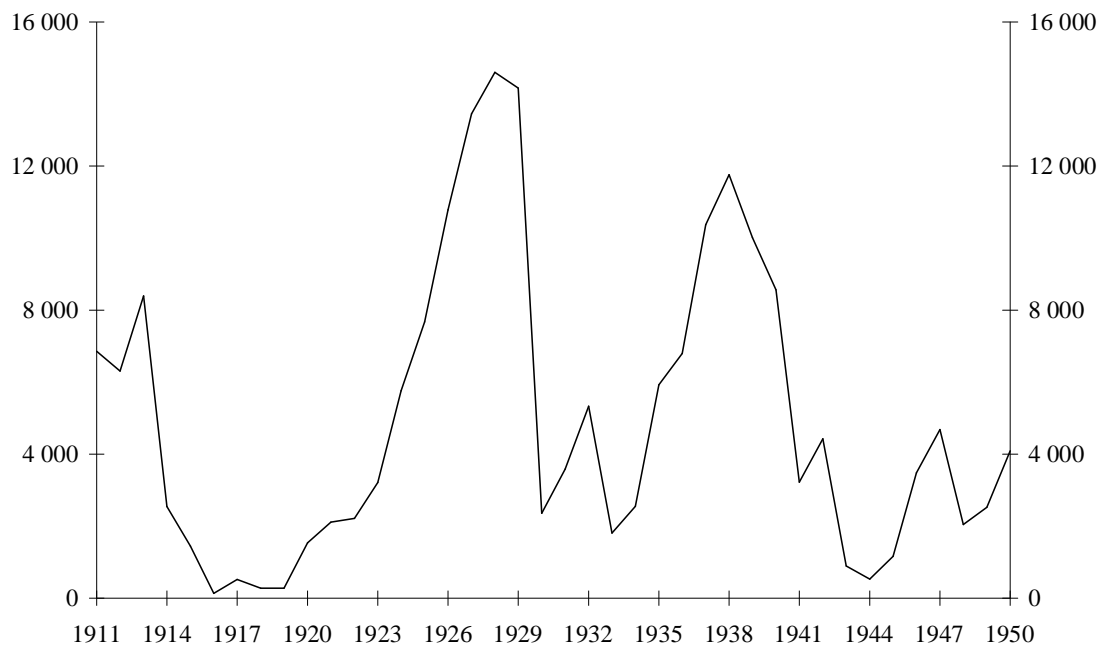


Figure 2. Rooms Completed in Dwellings in Helsinki, 1911–1950.

Source: Statistical Yearbook of the City of Helsinki 1912–1940/41.

In some industries the collapse during the Depression of the 1930s was much larger than in economy as a whole. In the construction industry booms and downturns followed international and domestic development during the early years of the 20th century (Figure 2). Thus, the boom in the second half of the 1920s was also related to the earlier crises, the First World War and the Finnish Civil War in 1918. As a consequence of these political crises, there was a shortage of dwellings in bigger cities in the early 1920s. When the economic circumstances became favourable in the middle of the 1920s, the preconditions for a boom existed. Furthermore, when the balance of payments worsened in 1928, that affected the building sector immediately through the financing activities of the banks. In the construction industry the Depression years lasted from 1929 until 1934. The number of rooms completed in dwellings in Helsinki was in 1933 only 17 per cent of the level of 1928.

When building activities decreased, unemployment started to increase. At the same time employment also diminished in the other important branches in Helsinki, in the metal industry and in the harbours. During the winter months of the years 1930–1934, the number of applicants in the labour exchange climbed to an unprecedented level, although the municipal authorities organised relief work on an outstanding scale. In discussing the differences in the absolute number of applicants between trades and occupations, the largest part can be explained by the total number of workers in these trades in Helsinki.

The Finnish economy started gradually to recover after the devaluation of currency in October of 1931. However, the construction industry in Helsinki did not begin to recover until the summer of 1934. At that time building activities increased rapidly, but there was still seasonal unemployment among construction workers during the winter months. In the late of 1930s the big building projects for the Olympic Games of 1940 already increased working opportunities⁸. Just before the Second World War, Helsinki had a modest boom with good employment which also occurred throughout the whole country.

3. The Formation of Unemployment

Data

The most appropriate data on unemployment in Helsinki during the Great Depression of the 1930s can be collected from the archive of the Municipal Labour Exchange Office. In this study, the new longitudinal personal data analyses the years from 1928 until the spring of 1934 – including 3,467 people – working as construction workers in Helsinki.⁹ The sample is approximately 25 per cent of all construction workers who submitted an application during 1928–1934. Approximately 10 per cent of construction workers were women.

The collecting method was that every person whose surname began with the letters L or S was included in the data. Every time person who registered in the labour exchange office was recorded in the data. Some of them submitted applications only once, whereas others applied many times almost in every month from 1928 until 1934. Unfortunately, because of

⁸ As a consequence of the war the Olympics was organised in Helsinki until 1952.

⁹ The new unemployment data has been collected from “Mies- ja naisosaston työnhakemuskortit, työnvälitystoimiston arkisto, Helsingin kaupunginarkisto”.

changes in bureaucratic practices, the most useful labour exchange data turns out to be in 1934 and in practise, in many longitudinal examinations consider the year 1933 to be the last reliable point of time. Nevertheless, the *statistics* of the labour exchange are available, including the entire interwar period. Because of the changes in legislation the labour exchange statistics did not represent exactly the same phenomenon from 1937 onwards than before.

Labour turnover and unemployment duration

A deeper understanding of unemployment requires more information on the flows into and out of unemployment. The turnover figures of the labour exchange mean that we compare the numbers of

- 1) “new” applicants in the labour exchange to the “potential unemployed” i.e. to all construction workers in Helsinki who are not currently registered as an applicant in the labour exchange (the inflow rate).
- 2) “old” applicants who did not register in the labour exchange during “the next” month (t_1) to all currently (t_0) registered applicants (the outflow rate).

Therefore, the following equations can be derived to present turnover in the labour exchange:

the inflow rate of labour exchange:

$$IRLE_m = \frac{NA_m}{(TW_{1930} - A_{m-1})} \times 100$$

the outflow rate of labour exchange:

$$ORLE_m = \frac{EA_m}{A_m} \times 100$$

where

$A_m = A_{m-1} - EA_{m-1} + NA_m$ = applicants in the labour exchange
 NA = new applicants who are registered in the labour exchange in month but not in month-1
 EA = exit applicants who are registered in the labour exchange in month but not in month-1
 TW = the total number of construction workers in Helsinki
 m = month

Movements in the number of the labour force may possibly to some degree reflect labour market conditions, i.e. the discouraged-worker effect can emerge when unemployment grows.¹⁰ However, total amount of employees and construction workers in Helsinki is available only in the population census of 1930. According to calculations done in this research the labour force was 10,540 persons in the construction industry in Helsinki in November 1930.¹¹ It is supposed that the number of the labour force was constant during 1928–1933. In all likelihood this was not a reality, but there are not any other reliable sources to quantify possible annual changes in the labour force.

Moreover, the new data collected for this research has also shortcomings. It possibly misrepresents labour turnover to some extent, since registration in the labour exchange did not correlate exactly with hiring and firing in firms. For instance, a person might have been out of work without registration as an applicant in the labour exchange. Thus, some of the unemployed tried to find work without the help of the authorities, while other people found their way labour exchange and to relief work. This kind of hidden unemployment is always a problem in unemployment research. In addition, the analysis concerns only male workers. However, this kind of systematic, monthly, information on the Depression years of the 1930s in Finland is available for the first time in this study and it is also rather exceptional in the comparative perspective.¹²

¹⁰ Boyer & Hatton 2002, 650–651; Smiley 1983, 487–491; Coen 1973, 46–55.

¹¹ Hannikainen 2004, 42–45.

¹² For Britain Thomas 1988, 98–115.

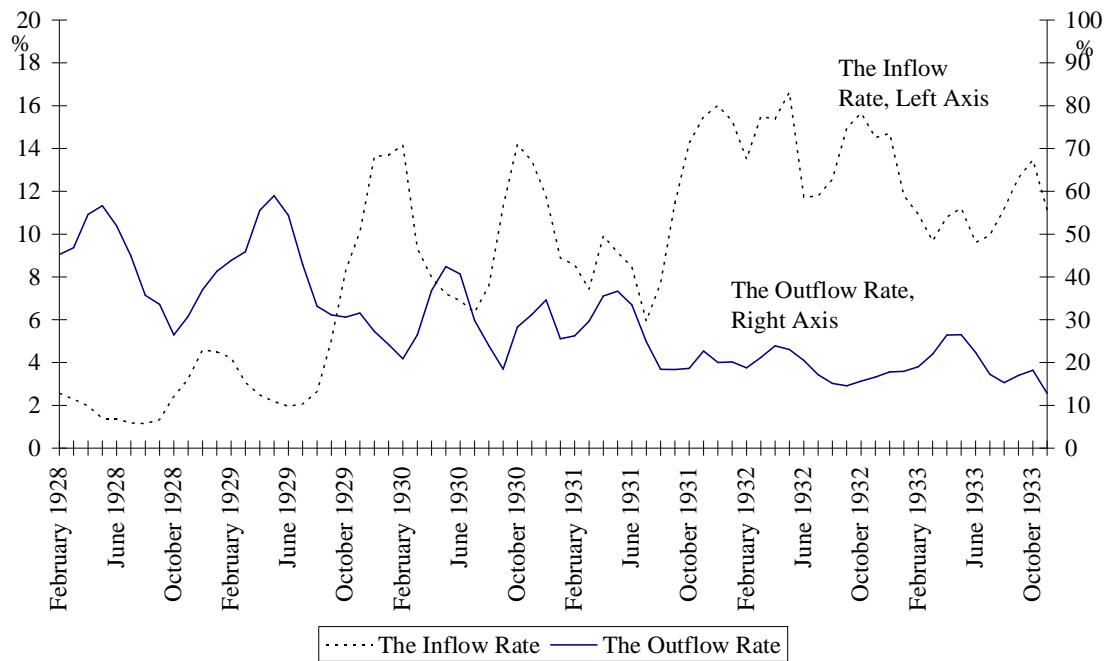


Figure 3. The Inflow and Outflow Rate of Male Construction Workers in the Labour Exchange in Helsinki, 1928–1933, 3 months moving average.

Source: Appendix table 1.

Seasonal variation in unemployment decreased during the Depression. The essential feature was the concurrent increase in the inflow rate and a decrease in the outflow rate. The result was an increase in the number of applicants in the labour exchange. The pro-cyclical and downward sloping outflow curve denote that a smaller portion of the unemployed got work when the stock of the unemployed increased. This phenomenon can be explained by the fact that summer-months relief work decreased dramatically (Figure 5). The private sector was not able to employ a sufficiency number of unemployed workers who registered in the labour exchange. However, as a consequence of lowered wages (Figure 7) renovation works employed many painters in Helsinki. The biggest decline in the outflow rate in the labour exchange was concentrated to unskilled, often relatively young workers.

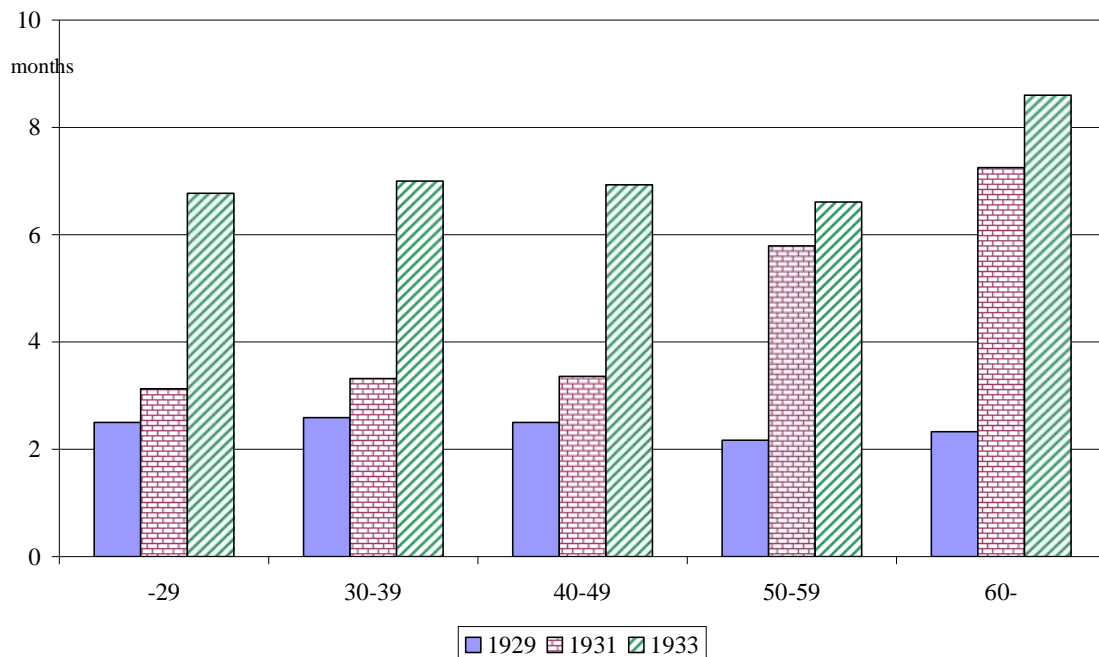


Figure 4. Age and the Duration of Uninterrupted Registration (months) among Male Construction Workers in the Labour Exchange in Helsinki, 1928–1933.

Note: The duration of unemployment denotes how many months without interruption applicants registered – at least one time per month – in the labour exchange. It is probable that a person who registered only once in a month had, at least, a temporary job during a month, the typical phenomenon for outdoor workers.

Source: The data collected from the archive of the Municipal Labour Exchange Office in Helsinki.

Besides the changes in the turnover rates in the labour exchange, one significant aspect of unemployment during the Great Depression of the 1930s was an increase in unemployment duration. In fact, the concurrent increase in the inflow rate and decrease in the outflow rate implies longer spells of unemployment duration (or registration in the labour exchange). The increase in registration durations in the labour exchange was the shortest among younger and skilled construction workers. Instead, it is not possible to find reliable evidence of the duration-dependence of unemployment.

According to data used in this study, the employability of the labour force on average decreased during the Depression of the 1930s. Many elderly workers had especially low but constant re-employment probabilities.¹³ Therefore, it seems that the long-term unemployment –

¹³ Hannikainen 2004, 99–104.

in the modern sense of the word¹⁴ – and its consequences were not common phenomena among the construction workers under the age of 60 years. The obvious reasons were good employment in the late 1920s and 1930s and the system of relief work during the Depression. However, especially the unskilled labour often lived at the minimum level of livelihood, where a fairly short period out of work placed them at the ‘poverty level’.

Relief Work and Food Assistance

Until the 1960s the public unemployment benefits did not exist in Finland. The most important public system of unemployment measures consisted of relief work and poor relief, which included food assistance. Relief works and food assistance had also an impact on registration in the labour exchange. In Helsinki, jobless persons were right to food assistance from the November of 1931 until the summer of 1933 if they registered in the labour exchange. Similar practice also existed in the other bigger cities in Finland. As a consequence, this practice created a notable incentive to registration in the labour exchange.

The status of relief workers raises important issues in quantifying unemployment. For instance in the United States, in standard unemployment estimates (The Lebergott series¹⁵) emergency workers in various New Deal programs have often been counted as unemployed. Instead, according to Michael R. Darby, “both modern search and Keynesian theory require that contracyclical government employment not be counted as unemployment”. Although Darby did not include New Deal workers as unemployed, he, still, counted state and local work-relief employees as unemployed from 1930 through 1933.¹⁶

In Finland, relief work was a low-paying and temporary job organised by local and central government. During the Great Depression, to obtain the right to work-relief, jobs applicants in the labour exchange were required to be without work, employable, willing to work (i.e. searching for a job) and approved by the municipal authorities as being in need of relief. Applicants in the labour exchange who were officially designated as unemployed had the right to relief jobs. The duration of a work-relief period was often six months, and in many cases it

¹⁴ Long-term unemployment is always an administrative conception. For instance, until 1968 OECD defined long-term unemployment for 6 months or more. According to Nicholas Crafts, an increase in long-term unemployment was also an essential feature in Britain in the 1930s. Crafts used a criterion for long-term unemployment of 12 months or more. Crafts 1987, 418–432.

¹⁵ Lebergott 1964.

¹⁶ Darby 1976, 1–16.

was possible to get extra time or to get a job on another work-relief site. This was a relatively long working period for urban outdoor workers. However, there were, too, many persons who stayed at work-relief sites a shorter time than a half-year, in some cases only few days.

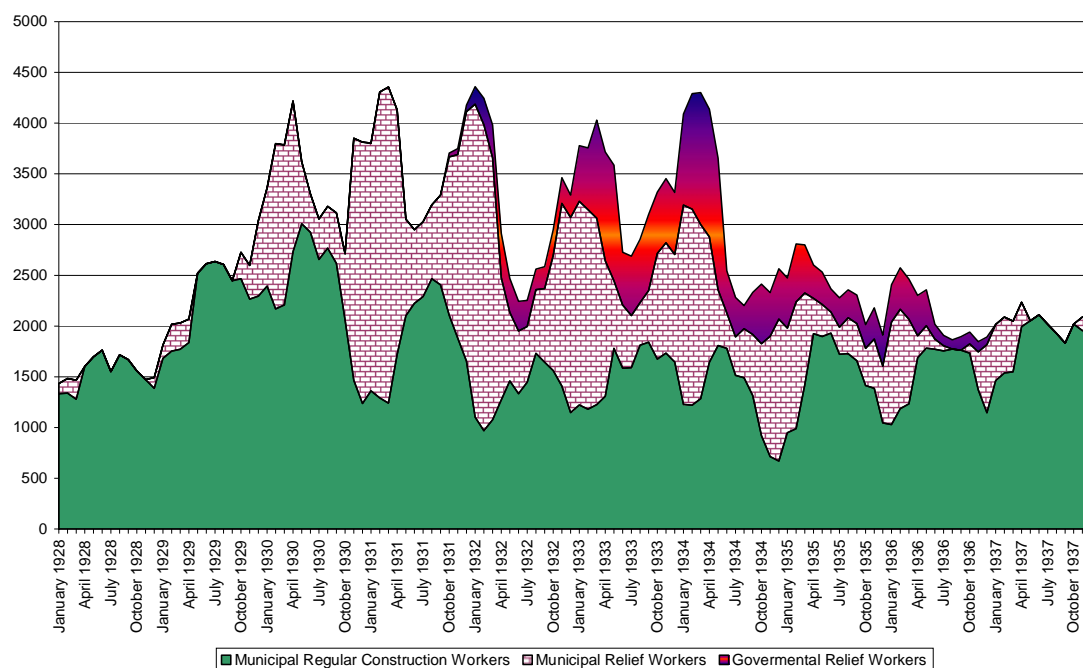


Figure 5. The Monthly Number of Workers in Municipal Regular Construction Work and in Relief Work in Helsinki organised by the Local and Central Government, 1928–1937.

Source: Statistical Yearbook of the City of Helsinki 1929–1938.

A major conceptual error is that only those people who held the title of being official unemployed i.e. they had gained the right to work-relief, are counted as being unemployed. During the Depression hidden unemployment became visible, because relief work and food assistance were connected to registration in the labour exchange. When the likelihood of finding a job in the private sector decreased and wages fell, the probability of survival without public assistance decreased. Relief work increased the incentives to register in the labour exchange, but by the same token, it diminished the number of applicants because relief work increased employment. Therefore, it is legitimate to argue that relief workers should be regarded as employed although it would seem to be faulty reasoning to claim that relief measures in Finland were first and foremost planned to be counter-cyclical governmental or local projects.

Unemployment Rate

According to previous studies unemployment was lower in Finland than in many other countries. For instance, the labour input decreased about 10% between 1928 and 1931.¹⁷ Angus Maddison has presented that the unemployment rate was most 6.2 per cent in Finland in 1933.¹⁸ His figures based on the total amount of those persons who applied for a job in the labour exchanges during the year but did not get work by this route. However, Maddison's figures included some misinterpretations of labour exchange statistics. Using the figures suggested by Jarmo Peltola, the annual average rate of "open" unemployment in Finland was nonetheless the same, but the highest rate was in 1932. According to Peltola the highest peak of unemployment rate was 8.4%. Peltola connected the statistics of labour exchanges with the register maintained by the municipal unemployment boards and he also tried to take into account the cyclical changes in the labour force. In addition, he counted relief workers as unemployed.¹⁹

More or less equal figures have been presented already during the Depression. For example, the Governmental Unemployment Committee (Työttömyyskomitea) estimated that the actual number of unemployed people in Finland was between 110,000 and 120,000 in 1931 (or approximately 7 per cent of the labour force). Likewise, the register maintained by the unemployment boards of local governments included approximately 92,000 persons in February 1932.²⁰ However, the latter figure meant only those persons who held the title of being official unemployed, i.e. they had in need of relief and gained the right to work-relief. In addition, 25 per cent of all municipalities did not report their unemployment at all. Thus, Raimo Parikka has estimated – analysing unemployment mainly in Helsinki – that the total amount of unemployed had to be much higher in Finland from 1931 until 1934, even 200,000–250,000 persons, approximately 15 per cent of the labour force.²¹

Many previous estimates on unemployment in Finland include some inaccuracies and misunderstandings of unemployment figures. It has been difficult to define unemployment in such a way that the definition would apply to different historical situations and institutional en-

¹⁷ Böckerman & Kiander 2002, 55–70; Hjerpe 1989, 101–103.

¹⁸ Maddison 1991, 254, 260.

¹⁹ The problems of Maddison figures are attributed to the statistics compiled by Kaarina Vattula for Suomen taloushistoria 3, Historiallinen tilasto [Economic History of Finland 3, Historical Statistics], Table 12.1. Häkkinen & Peltola 2001, 320–327; Peltola 1998, 211–212.

²⁰ Kahra 1938, 9.

²¹ Parikka 1994, 208–250.

vironments. It has complicated comparisons between different countries, industries and time periods. In this research has been made the following definition of unemployed when estimating unemployment rate: *A person who was currently applicant in the labour exchange including those persons who had the title of official unemployed i.e. they had gained the right to work-relief but not actually worked in relief jobs. When an official unemployed started to work in a relief site, he or she became employed.*

Moreover, it should not calculate all applicants who registered during a month as belonging to the stock of unemployed because some of them got work or stopped registering for other reasons. Temporary and short-term jobs were also common during the Depression years. Hence, an alternative definition has been applied here: one registration denoted one-week unemployment. The average of these two definitions – one registration denotes one-month unemployment and one registration denotes one-week unemployment – represents real unemployment more accurately. Therefore, the following equation can be derived to present the rate of unemployment:

$$U_m = \frac{\left[A_m + \sum_i (RT_i^m / 4) \right] / 2}{TW_{1930}} \times 100$$

where

A_m = applicants in the labour exchange

RT_m registration times per month, if $RT > 4$ then $RT = 4$

TW = the total number of construction workers in Helsinki

m = month

The definition above deviates from previous studies concerning interwar unemployment in Finland. However, it reflects prevailed practices in the interwar labour market, and it is consistent with the present-day definition of unemployment. Unemployment in the modern sense can be defined as follows: the unemployed are willing and capable to work, searching for jobs but unable to find them, and they are counted as part of the labour force. This definition should also be the point of departure in historical studies of the labour market.

For all construction workers in Helsinki, the unemployment rate was at its height at approximately 45 per cent in November of 1932 in spite of extensive relief work. Moreover, it is important to take into account that in building sites employees in different trade and occupation worked at different times. This phenomenon decreased the highest peak of unemployment

rate compared to the situation that all employees would have worked at the same time. For female construction workers the unemployment rate was 47 per cent in January 1933. Among female workers - 10 per cent of all construction workers - effects of relief works on unemployment were modest. Most relief work was planned for male outdoor workers, although local authorities did organise sewing courses for female applicants at the labour exchange.²² It is probable that labour exchange data do not represent female unemployment as accurately as male unemployment for the reason that the motivation for women to register was smaller and the discouraged-worker effect was bigger.

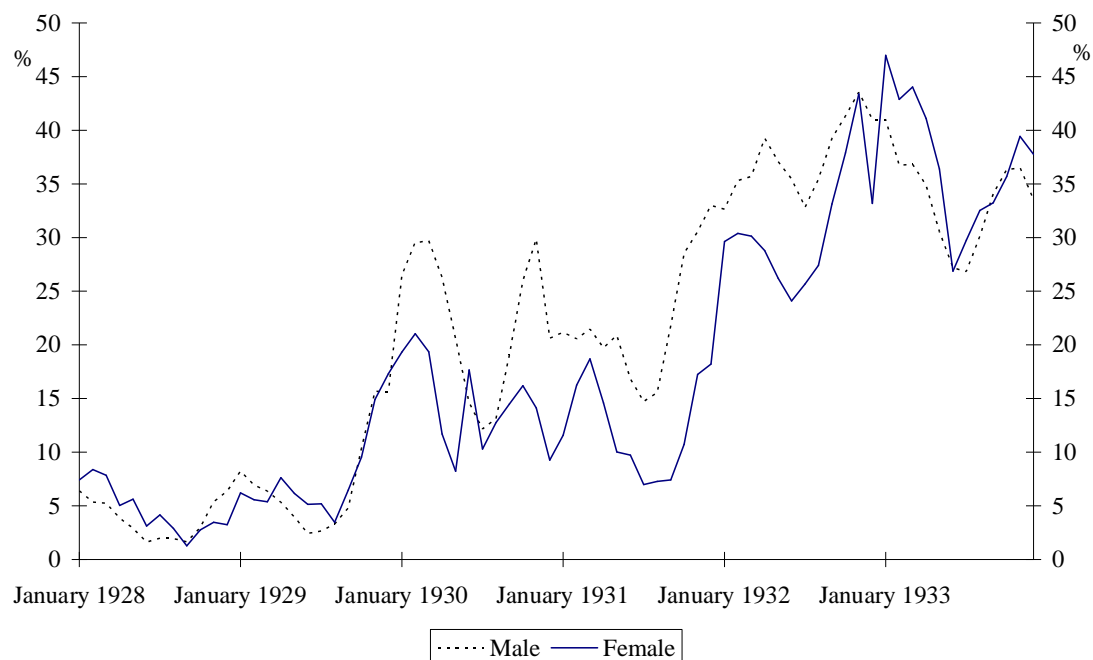


Figure 6. The Monthly Rates of Unemployment among Construction Workers in Helsinki, 1928–1933.

Source: Appendix table 1.

The unemployment figures presented here are certainly much higher than on average in the Finnish labour market, but they are lower than previously estimated for construction workers in Helsinki. Raimo Parikka has calculated that the unemployment rate should be among construction workers in Helsinki between 50 to 60 per cent in the winter 1930. Parikka, as well as

²² Rahikainen 2001.

Peltola, counted – otherwise in this paper – relief workers as unemployed and Parikka used mainly the population census of 1930 in order to calculate unemployment rate. Moreover, Parikka did not sufficiently take into account changes that occurred in motives to register as an applicant in the labour exchange. Hence, it is probable that he overestimated the number of those “unemployed” who did not registered in the labour exchange.²³

When quantifying unemployment it is important to take into account what kind of differences occurred in motives to register as an applicant in the labour exchange office during the Depression years. As mentioned above, relief work and food assistance were connected to registration in the labour exchange. As a consequence, this practice created a notable incentive to registration. Outside the labour exchange records there were not a significant number of unemployed – i.e. without work, employable, willing to work and searching a job – persons during 1932–1933. The labour exchange data collected in this research provide the most reliable picture of unemployment precisely during the Depression; at that time, hidden unemployment became visible. For the previous years the figures calculated in this research may underestimate the real unemployment rate to some extent. During the boom of the late of 1920s, the labour exchange figures on unemployment were not representative enough because the workers had little incentive to register in the labour exchange.

4. Trade Union, Unemployment and Flexibility of Wages

One important research issue has been the relevance of trade union records when measuring unemployment. For instance in many Scandinavian countries, trade union records have been a main source to study unemployment in the interwar period. However, according to Ola Grytten trade union records overrate unemployment because unemployment insurance was more common among those workers who had the biggest unemployment risk.²⁴ Instead in Britain, the unemployment insurance system was connected to a labour exchange and, thus, the records of public benefit system have been a reliable register for the unemployment.²⁵

Another intense discussion in the literature has concerned the factors that were the most relevant in describing the weakness of self-equilibrating mechanisms when rapid changes oc-

²³ Parikka 1994, 217–20.

²⁴ Grytten 1995, 226–250.

²⁵ Boyer & Hatton 2002, 643–675.

curred in the demand for labour. At the same time when high unemployment was a common problem real wages rose in almost every European country (except in Germany) as well as in Australia, Canada, Japan, and in the United States in the beginning of the 1930s. In those countries prices fell more than nominal wages.²⁶

Benefits from the trade union did not play an important role in Finland during the Great Depression. The most important explanation can be found from the Finnish political history. The political arena and the labour market were unstable during the interwar years. The Russian Revolution and the Finnish Civil War in 1918 also caused a rupture in the institutional development of the Finnish labour market. Trade unions had a close relationship with the political left, and they lost some of their strength when the workers' side was defeated in the Civil War. After the war the previously unified labour party SDP split into Social Democrats and Communists. Because the activities of the Communists were constrained in the political arena in the 1920s, the rivalry between them and the Social Democrats was especially intense within the trade unions.²⁷

Unionising was common in Finland during the interwar years in those industries, where the need for skill and co-operation and cyclical and seasonal fluctuations improved the workers' position. Union density was exceptional high among construction workers compared to many other industries in Finland in the 1920s. It usually varied between 50–95 per cent depending on occupation and the stage of a business cycle. However, workers' payments for and from their unemployment benefit society were more uncommon and irregular. For instance, bricklayers and plasterers, in their own trade union, had no unemployment benefit society at all.

The long tradition of the guild system made easier to restrict the supply of labour in the construction industry. Moreover, the union members often denied collaborating with entrants or newcomers if they broke the collective labour agreement by accepting lower wages. Greater difficulties were encountered in finding workers with appropriate skills during the economic boom than the depression time. Therefore, employers' organisations in the construction industry also supported collective labour agreements in the boom period of the late 1920s. The trade union and the collective labour agreements helped to maintain industrial peace.²⁸

²⁶ Dimsdale & Horsewood 2002, 388–405; Hart 2001, 478–502; Margo 1993, 41–59; Baily 1983, 21–62.

²⁷ For political development and unionising in Finland Kettunen 1986, 442–458; Kalela 1994, 145–172; Berg-holm 2003, 18–30.

²⁸ Hannikainen 2004, 132–140.

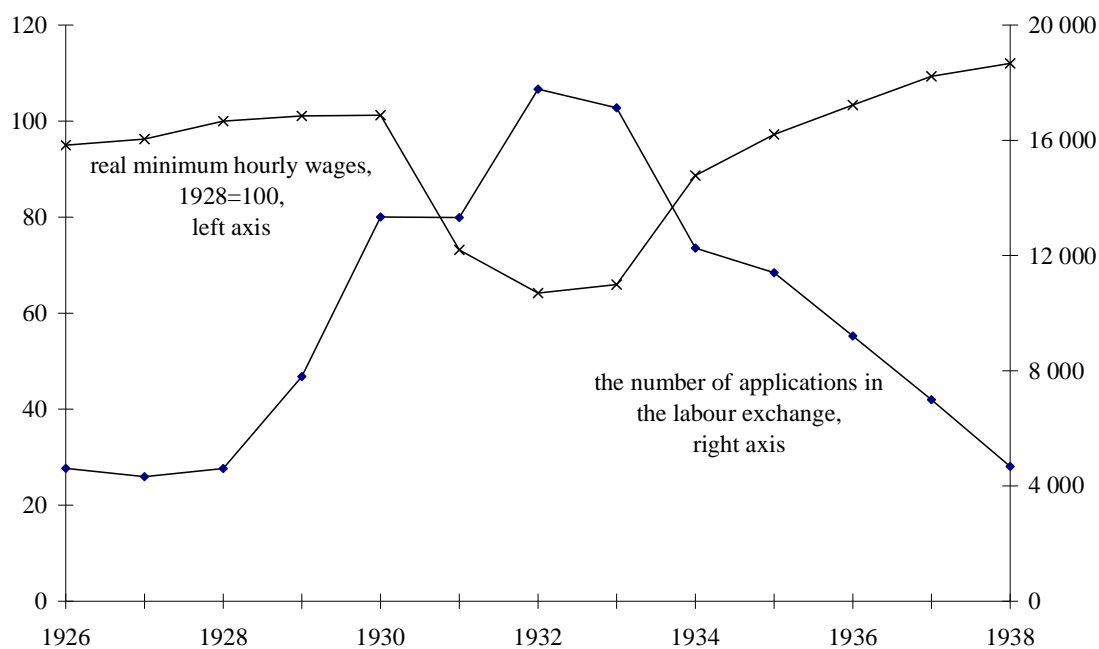


Figure 7. Real Minimum Hourly Wages and the Number of Applications in the Labour Exchange in the Construction Industry in Helsinki, 1926–1938.

Source: Methods and sources on the new wage data and the new cost-of-living index see Hannikainen 2004, appendix tables 12–16.; the Municipal Labour Exchange Office in Helsinki.

The situation changed dramatically in the eve of the Depression. In 1929 and 1930 the contention between Communists and Social Democrats reached an acute phase, while the Lapua Movement, an extreme right-wing association, entered the Finnish political stage. The trade unions' central organisation, the Finnish Federation of Trade Unions (SAJ) was dissolved in the political turmoil, and the new trade union central organisation – the Confederation of Finnish Trade Unions (Suomen Ammattiyhdistysten Keskusliitto, SAK) and its member organisations – remained weak in the first half of the 1930s.

The level of nominal wages perceived to be fair did not change as rapidly as the exogenous aggregate demand shock arose. In the early stage of the Depression, wage-cutting was considered unfair, especially because employees thought that the one benefited and another lost when compared to the previous years. This phenomenon has often been interpreted to maintain the wage-level in many countries and recessions.²⁹ However, formal co-operation between em-

²⁹ Akerlof & Yellen 1990; Sundstrom 1990; Baily 1983; Keynes 1936.

employers' and employees' organisations ended and the trade union dissolved in Finland. Therefore, workers had overwhelming difficulties to maintain the insider status³⁰ and fair treatment in the payment policy, and the consequence was an extreme lack of trust between employers and employees and free fall of the wage-level which was intensified by high unemployment and the low wages in relief work. For this reason, too, records other than those of the trade union are needed to study unemployment.

In the construction industry in Helsinki nominal hourly wages fell almost 40–50 per cent during the Depression as compared to the wage-rate defined in the collective labour agreement in 1928. For piecework, the breakdown was even higher, 50–70 per cent. There was not a big difference in changes in wages between female and male workers. However, it seems probable that decrease in bricklayers' and male unskilled workers' wages was bigger than in female workers' wages. One important reason for this was obvious: it was easier to decrease men's wages more than women's because men's wages were higher before the Depression.

Furthermore, as prices were also very flexible, real changes in wages were smaller. Real hourly wages dropped commonly 25–35 per cent and in piecework 40–60 per cent, respectively. After the depression wages rose, and in the late 1930s, real wages exceeded 10–20 per cent of the level prior to the Depression. Although decrease in real wages was remarkable during the Depression, the changes did not completely deviate from all other branches in Finland. For instance, in logging and floating work – the most important wage-work in the countryside – the average real wages dropped similarly.³¹

However, flexible wages did not increase employment in the construction industry in contrast to the manufacturing industry.³² From the employment point of view more important was that it was difficult to get finance to private construction industry during the Depression. Furthermore, demand for dwellings decreased dramatically, partly due to serious unemployment problem and workers' lowered wages. This phenomenon was intensified by the fact that many entrepreneurs who had built houses during the boom period of the late 1920s experienced many bankruptcies, because average prices and rents of dwellings dropped 20–30 per

³⁰ Crafts 1989; Lindbeck & Snower 1988; Blanchard & Summers 1986.

³¹ Helelä 1963, 133; Waris 1945, 101–105 & appendix tables; Tamminen 1935, 247–282.

³² Böckerman & Kiander 2002, 66–68; Heikkinen & Kuusterä 2001, 33–35; Montgomery 1936 & (1972) [1938].

cent in Helsinki during the Depression. There was no incentive to private building activities until the middle of the 1930s.³³

5. Conclusion

In the recent decades several new approaches have been developed to analyse the labour market adjustment in the circumstances of exogenous labour demand shocks. It is important because unemployment induces enormous economic losses and human suffering. Therefore, one important challenge is still to produce more facts both about the workings of the labour market and the formation of unemployment. Current interest concentrates more and more to utilise panel data, such as in this study. By using this kind of data it is possible to produce multifaceted figures on unemployment.

This paper presented the systematic information on the flows into and out of unemployment, unemployment durations, the rate of unemployment, and real wages during the Great Depression of the 1930s. Estimating the rate of unemployment in the construction industry during interwar years the personal and longitudinal data as collected in this research has turned out to be useful because it is possible to take into account irregular and short-term employment. In contrast to previous studies in Finland, relief workers were counted as being employed. For all the construction workers, the unemployment rate was at its highest approximately 45 per cent in spite of extensive relief work. This level of unemployment was high from both a national and an international perspective. At the same time, real hourly wages commonly dropped 25–35 per cent and 40–60 per cent in piecework respectively, which was an even more exceptional phenomenon.

Explanations for the development in Finland in general and in the construction industry in particular can be found from the political development and the labour market institutions. Until the Second World War, the labour market was characterised in Finland by flexibility and the domination of the employers. In the manufacturing industry, employers generally refused to enter into collective labour agreements with the trade unions. Instead, in the handicrafts and especially in the construction industry employers and employees collaborated in the 1920s, and the employees were able to influence many labour market practices. The situation changed dramatically in the early 1930s when unemployment increased and the trade union dissolved at

³³ Hannikainen 2004, 30–36.

the same time. The consequence was the enormous fall in the wage-level. Therefore, both employment and wages were flexible downwards. In addition to the weak position of the trade union, another important reason for labour market flexibility was the lack of unemployment benefits in Finland.

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Appendix Table 1. The Monthly Rates of Unemployment among Construction Workers and the Inflow and Outflow Rate of Male Construction Workers in the Labour Exchange in Helsinki, 1928–1933.

	Unemployment Rate			Inflow Rate	Outflow Rate
	All	Male	Female	Male	Male
	%	%	%		%
1928 January	6,5	6,4	7,4	..	42,6
February	5,7	5,3	8,4	2,3	43,8
March	5,5	5,2	7,8	2,8	49,2
April	4,0	3,9	5,0	1,7	47,5
May	3,2	2,9	5,6	1,4	67,1
June	1,8	1,6	3,1	1,1	55,3
July	2,2	2,0	4,2	1,7	33,3
August	2,0	1,9	2,9	0,8	46,2
September	1,6	1,7	1,3	1,0	27,7
October	3,0	3,0	2,8	2,2	26,9
November	5,2	5,4	3,5	4,1	24,8
December	6,0	6,4	3,2	3,5	40,6
1929 January	8,0	8,2	6,2	6,2	45,6
February	6,8	6,9	5,6	3,8	37,6
March	6,3	6,4	5,4	2,6	48,3
April	5,6	5,3	7,6	2,8	51,6
May	4,2	3,9	6,2	2,0	66,7
June	2,7	2,4	5,1	1,7	58,7
July	2,9	2,7	5,2	2,2	37,8
August	3,3	3,3	3,5	2,3	32,4
September	5,0	4,8	6,5	3,4	29,4
October	10,3	10,4	9,5	9,4	31,7
November	15,6	15,7	14,9	12,0	30,8
December	15,8	15,6	17,3	8,9	32,2
1930 January	25,7	26,5	19,3	20,0	18,9
February	28,6	29,5	21,0	12,2	21,5
March	28,6	29,7	19,3	10,3	22,3
April	24,7	26,3	11,7	5,5	35,5
May	19,2	20,6	8,2	8,1	52,6
June	14,9	14,6	17,7	8,0	39,0
July	12,0	12,2	10,3	4,5	30,4
August	13,1	13,1	12,8	6,5	20,1
September	18,6	19,1	14,5	11,7	21,3
October	25,0	26,0	16,2	15,6	13,9
November	28,2	29,9	14,1	15,2	49,6
December	19,4	20,6	9,3	9,4	30,2
1931 January	20,1	21,2	11,6	10,7	24,1
February	20,1	20,6	16,3	6,6	22,3
March	21,2	21,5	18,7	8,4	32,3
April	19,2	19,7	14,6	7,3	34,4
May	19,7	20,9	10,0	14,0	40,0
June	16,1	16,8	9,7	6,1	35,7
July	13,9	14,7	7,0	5,3	24,7
August	14,7	15,6	7,3	6,4	14,1
September	20,2	21,8	7,4	11,4	16,4
October	26,6	28,5	10,7	16,5	24,6
November	29,1	30,6	17,2	14,8	14,9
December	31,4	33,0	18,2	15,1	28,6

	Unemployment Rate			Inflow Rate	Outflow Rate
	All	Male	Female	Male	Male
	%	%	%		%
1932 January	32,3	32,7	29,6	18,1	16,6
February	34,8	35,3	30,4	12,6	15,3
March	35,1	35,7	30,1	9,8	24,4
April	38,1	39,2	28,8	24,1	23,9
May	35,9	37,1	26,2	12,3	23,4
June	34,2	35,4	24,1	13,5	21,8
July	32,1	32,8	25,7	9,4	16,3
August	34,6	35,4	27,4	12,4	13,5
September	38,6	39,2	33,1	15,9	15,6
October	41,0	41,3	37,9	16,6	14,6
November	43,5	43,5	43,4	14,5	16,7
December	40,2	41,0	33,2	12,4	18,5
1933 January	41,6	41,0	47,0	17,2	18,2
February	37,4	36,8	42,9	5,8	17,1
March	37,6	36,8	44,0	9,7	21,7
April	35,5	34,9	41,1	13,5	27,1
May	31,2	30,6	36,4	9,1	30,4
June	27,2	27,2	26,9	11,0	22,1
July	27,1	26,8	29,7	8,7	14,6
August	30,4	30,1	32,5	10,2	15,1
September	34,0	34,1	33,2	14,7	16,3
October	36,3	36,3	35,7	13,0	19,6
November	36,8	36,5	39,4	12,7	18,7
December	34,0	33,5	37,8	7,7	..

Source: The LE-data, collected from the archive of the Municipal Labour Exchange Office in Helsinki; Population Census in Helsinki 1930, SVT VI, Väestötilastoa 71:1.