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Working Hours and Job Sharing in the EU and USA

Are Europeans Lazy?
Or Americans Crazy?

Edited by
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With
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Understanding Transatlantic Differences in Working Hours

Tito Boeri

Introduction

In the last fifty years the gap in labor productivity between Europe and the USA has narrowed considerably. Hourly labor productivity in manufacturing was about 50 percent of US productivity at the end of the 1950s according to the statistics assembled by the Groningen Growth and Development Centre. By 2005, the EU–US labor productivity gap had declined to about 5 percent. Yet, average per capita income in the EU is still about 30 percent lower than in the USA. As income per capita is given by the product of hourly labor productivity and the number of hours worked per person, the persistent gap in income per capita can be almost entirely explained by Europeans working less than Americans. In Europe there are indeed both relatively fewer people at work (a lower employment to population ratio) and fewer hours worked per worker than in the USA.

Why do Europeans work so little? What do they do with the spare time they have from paid work? Can they be persuaded to work more without reducing labor productivity? If so, how? And would well-being increase when policies rewarding paid work with respect to other potentially socially valuable activities, like childbearing, are adopted? More broadly, should the state interfere at all between employer and employee or in family bargaining over working hours?

The extensive literature on transatlantic differences in labor market outcomes can only partly address these issues as it has devoted most of its attention to US–Europe unemployment differentials and adjustments to labor force participation rather than a variation in working hours. However, a key difference in the evolution of hours per capita between the USA and Europe is related to the changing of hours per worker, which have been falling
dramatically in Europe since the 1950s, outpacing developments in the USA. Even in the early postwar period, per capita hours in Europe fell more quickly than in the USA. For instance, the pace of yearly hour reductions per worker over the 1950–75 period was twice as large in the UK (averaging –11 hours per year) as in the USA (–5.5).

The purpose of this volume is to address these differences in the number of hours worked per person in employment, investigating the allocation of time between paid and unpaid activities, as well as the effects of policies which have imposed working hours reductions in many European countries. As in previous books for the Fondazione Rodolfo DeBenedetti, this volume brings together contributions from two teams of leading scholars in the field. Part I presents the contribution of the first team, which was coordinated by Michael Burda and included Daniel Hamermesh and Philippe Weil. Part II presents the report of the second team, led by Francis Kramarz and including Pierre Cahuc, Bruno Crépon, Oskar Nordström Skans, Thorsten Schank, Gijsbert van Lomwul, and André Zylberberg.

The first part of the book focuses on time use, notably on the borders between market and household production. It documents cross-country and cross-gender differences in time allocation and provides explanations for this heterogeneity in terms of culture and social norms. The second part of the book dwells on the collective dimensions of working hours reductions, notably on the effects of mandatory reductions in hours of work introduced in Europe in the 1970s and 1980s. It suggests that these policies contribute to explaining not only the widening US–Europe gap in hours per worker, but also the differences in employment to population ratios as mandatory reductions in working hours are found to be responsible for the destruction of many jobs.

The final section of the volume addresses, in light of this evidence, the more fundamental issue of whether the state should interfere at all with time allocation, by imposing restrictions on working hours.

This introduction offers a brief literature review enabling the reader to better connect the two parts to previous work in this area.

Are Europeans Lazy?

Various explanations have been provided for US–European differences in hours worked.

An influential paper by Olivier Blanchard (2004) suggested that Europeans choose to work less than Americans because they value leisure time much more than their counterparts on the other side of the Atlantic. According to this view, it is a matter of taste or preferences: Europeans are just lazier than Americans. As they attach a higher value to leisure, they are willing to trade income for leisure time.

Or are Americans Crazy?

An important contribution offered by the first part of this volume does indeed go beyond the leisure/work trade-off framed by Blanchard and Prescott. When not involved in market paid work, individuals, in addition to spending time in leisure, can carry out a number of secondary activities (or contract out third parties to do this work on their behalf) or even tertiary activities, which
can improve upon—or deviate from—given what all others are doing. As pointed out by BHW, social norms and other externalities may push the market equilibrium substantially away from the social optimum.

Collective versus Individual Choices

Overall, neither the pure Panglossian, lazy Europeans, view of transatlantic labor market differences, nor the pure tax on market work interpretation offered by Prescott survives a careful reading of the new data on the allocation of time, analyzed in detail in the first part of this volume.

In order to explain differences in hours worked, one should perhaps extend the standard neoclassical labor supply model to uncharted lands. Not only is it necessary to account for home production and tertiary activities, but also for the fact that there is a collective dimension to decisions about the number of hours people work. Taxes themselves, after all, are set within a collective choice mechanism: even if we accept Prescott’s story, it doesn’t address the issue of why Europeans choose to pay such high taxes on their labor.

More importantly still, in Europe it is not the individual who decides how many hours to allocate to market work per week. In most of cases, it is possible to choose whether or not to work, rather than how much time to devote to work. In contrast to the USA, in most European countries there are legal limits to the total amount of work (normal plus overtime hours) and working time is tightly regulated rather than settled in the context of plant-level or individual bargaining.

The importance of collective choice mechanisms in explaining transatlantic differences in hours worked can be illustrated by analyzing the subcomponent of the labor force who can freely choose how many hours to work per day, namely the self-employed. While employees work substantially less in the EU-15 than in the USA, the asymmetry goes in the opposite direction when we concentrate on the self-employed. This fact may be affected by self-selection: it is possible that all workaholic Europeans are forced to be self-employed by working time regulations setting legal limits on working hours. Yet, the findings that in Europe the self-employed work longer than their counterparts in the USA survives after controlling for a number of individual characteristics (gender, age, educational attainment) which are likely to be correlated with preferences about working time.

Another (and more compelling) indication that working hours are driven by collective decisions comes from the participation of women in the labor force. Women experience a higher incidence of part-time work in Europe. In fact, the decline in hours per worker that occurred in some European countries in the 1990s—for example, the Netherlands, Ireland, and Germany—reflects
increased participation by women. Before the spread of part-time work, working mothers were often forced outside paid market work in countries where the supply of childcare remains essentially the responsibility of the individual household. This is still the case in some countries: while in Germany the overall employment rates of women are comparable to those in the USA, German mothers have significantly lower employment rates than their American counterparts.

An indication of the fact that collective decisions do not yet adequately take into account the needs and aspirations of women is the fact that they “all-work” more than men in Southern Europe. Put another way, if they were allowed to choose the amount of market work, they would probably work less to compensate for the time-consuming activities that they carry out at home. Another interpretation of these gender differences is that women have a low bargaining power within the household and hence work to work more than their husbands. However, Burda, Hamermesh, and Weil show that in Italy not only married women, but also unmarried women, work more than men. All these facts suggest that European peculiarities have much more to do with public policies than with free individual choices. What type of collective decision-making process is taking place in Europe on working time?

In many cases it has been the collective bargaining system which has imposed reductions in working time. As documented by Booth (1995), stronger union membership historically has gone hand in hand with lower working hours. This suggests that stronger bargaining power of workers has paid out not only in terms of higher wages, but also in fewer hours per worker.

In other cases, it has been government that has introduced mandatory restrictions to working time, either by extending *erga omnes* the coverage of collective agreements on working hours, or ruling independently of collective agreements, sometimes even against the wishes of the unions.

### Legislated Reductions in Working Time

Part II of this volume reviews evidence on the effects of these legislated reductions in working hours. It initially provides a simple, but sufficiently flexible, framework to analyze the effects of legislated working time reductions on employment, wages, and labor productivity, and then uses this analytical framework in reviewing evidence on working time reductions in France, Germany, the Netherlands, and Sweden.

The main finding of this part of the report is that work-sharing is rarely good for employment as hourly wages tend to increase (as in Germany and the Netherlands) after working week reductions, in order to preserve monthly wages. Even when wage subsidies and other incentives for working time reductions were offered (as in the very complicated 35-hour regimes introduced by Martine Aubry in France), the increase in hourly wages always prevented any potential (short-term) positive effect of hours reduction on employment headcounts.

Yet, in several countries there are still forces pushing for some form of working time reduction. There can indeed be good reasons for reducing working time, even though it does not create jobs. Retraining, raising children, planning the startup of your own business, are all worthwhile activities that cannot be done under very rigid working time regulations for dependent employment. As our lives are getting longer, it may also be a good idea not to concentrate everything—career plans and family responsibility—in the central period of our lives. One may wish to take a break from work and then come back to it with renewed human capital and enthusiasm.

But all of these reasons are clearly dependent on personal circumstances. Some workers may need a break from work for one hour, while others may need one month or even one year. This heterogeneity in preferences about working time reductions makes a centralized, collective decision-making process untenable in implementing changes in working time. As documented by the country case studies collected by Kramarz, Cahuc, Crépon, Nordström Skans, Schank, van Lomwel, and Zylberberg, working time reductions have fewer unintended consequences when they follow a negotiated, evaluated, and consensual route at the decentralized level.

Also increases in working time are likely to be more successful in preserving headcount employment levels and avoiding large falls in labor productivity when introduced in the context of firm-level bargaining (as in the cases of the Daimler Chrysler and VW agreements, reviewed in Chapter 9). All grand strategies are doomed to failure or, at least, they entail large risks of reshuffling the economic welfare of large portions of the population in totally unpredictable and unintended directions.

### Do We Need Regulations on Working Time then?

To sum up, Europeans work less than Americans mainly because there are institutions inducing or actually forcing them to do so. If this is true, then Europeans can be induced to work more or less by reforming these institutions. Whether this is good or bad cannot be established a priori, as some working time reductions or, at least, more flexibility in the allocation of time over a lifetime, can leave room for a number of worthwhile activities,
including the retraining required to preserve our human capital for longer. For this reason, it is not a good idea to implement working time reductions uniformly across the board in a centralized fashion since there is a large and increasing heterogeneity in the way in which individuals would react to such changes and, more generally, would like to allocate their time outside market work. By imposing the same allocation on everybody there is a high risk of obtaining unintended consequences and raising unemployment. And, as suggested by the regressions performed in the last section of this volume by Guido Tabellini, unemployment is a better predictor of individual happiness than market work.

Does this suggest then that there is no role whatsoever for governments in working time arrangements? There may still be a role for government when private negotiations between firms and unions do not provide adequate representation of the preferences of the average citizen. For instance unions have often opposed the spread of part-time work, de facto excluding many women from labor force participation. Under these conditions, policies encouraging the use of part-time work can be rather effective in providing representation to marginal groups. To the extent that these groups will find a job, they may also get stronger representation among workers’ organizations, as happened in Dutch unions, where women are currently more influential. Thus, public policies may have a temporary role to play while the interests that were initially poorly represented at the bargaining table find their voice.

In any event, public policies should try as much as possible to promote rather than hinder flexibility in working time arrangements. One way to achieve this result is to change regulations on normal hours and overtime by defining them over a longer time span, i.e., a year rather than a week, acknowledging problems in measuring annual hours worked for highly mobile, low-skilled workers (Hamermesh, 2006). After all, we are living longer and we should also have longer working lives. More flexibility in adjusting working hours is essential not only to accommodate an older workforce, but also to allow younger workers to prepare for longer effective working lives by maintaining their own human capital, thereby stimulating lifelong learning in firms.

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