

The many dimensions of work, leisure, and employment. Thoughts at the end of the conference

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As always at this annual conference, there is a lot to digest in the two papers that have been presented and discussed. Let me organize my comments around two themes.

1. The complexity of labor markets (even just for macro purposes).

In comparing labor markets either across countries or over time, we often end up focusing on differences in unemployment rates. Thinking of only two states, employment or unemployment, is indeed convenient. But it is only a convenient fiction.

Both papers make clear that, even if our goal is to understand the macroeconomic performance of an economy, it is essential to (1) decompose time in many more categories: maintenance (sleep,...); leisure ; home work; search for market work (unemployment); and finally market work, and (2) take into account that people make choices among those categories, both at high frequency (market hours per week, number of weeks of vacation), and at low frequency (retirement age). Only by decomposing between these categories, and looking at the many dimensions of choice, can one hope to disentangle the role of preferences versus institutions in determining choices between work and leisure.

In the context of the comparison between Europe and the United States, recent debates have focused on the relative importance of leisure, home work, and

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market work in the two economies. An important contribution of the first paper is to give us carefully constructed basic facts. One way of summarizing the very rich findings of Table 1 of that paper is to ignore “maintenance” (and unemployment?) and derive the proportions of the remaining time spent in leisure, home work, and market work. The numbers look as follows:

	US	Germany	Italy	Netherlands
Leisure	0.42	0.43	0.47	0.49
Home work	0.26	0.31	0.28	0.27
Market work	0.31	0.25	0.24	0.24
Total work	0.58	0.57	0.52	0.51

In words:

- People enjoy less leisure in the United States than in Europe.
- People spend less time in home work in the United States than in Europe.
- People spend more time in market work in the United States than in Europe.

Put another way, the facts show that neither the pure “Blanchard-Prescott” description of facts (less market work in Europe fully reflected in higher leisure in Europe) nor the pure “Freeman-Schettkat” description of facts (less market work in Europe fully reflected in higher home work in Europe) are correct. The reality is in between.

Given these facts, it is tempting to take a gigantic leap and guess how GDP statistics would look for the four countries above if GDP also included—as in principle it should—the value of home work, or even the value of home work plus the value of leisure.

The first line of the table below gives PPP GDP per capita, using the conventional measure, i.e. the value of market work, with the US value normalized to one (the original numbers come from the OECD). As is well known, PPP GDP per capita is 20% to 25% higher in the United States, reflecting mostly the higher proportion of market work in the United States.

The second line gives relative PPP GDP per capita, when both market and home work are included. The crucial ingredient here is the relative price of home work in terms of market work. This relative price is surely less than 1,

reflecting the tax wedge between home and market work—coming from consumption taxes, income and payroll taxes. I use a relative price of 0.8. Because of the higher proportion of home work in total work in Europe, the differences between the United States and the three European countries are much smaller than for the standard measure. The differences become even smaller in the third line, in which I include leisure, assuming the relative price of leisure as being the same as for home work. These computations should be taken with more than a grain of salt, but they show the importance of taking into account home work, and the need for a better understanding of the determinants of market versus home work.

	US	Germany	Italy	Netherlands
GDP (market work)	1	0.77	0.81	0.74
GDP (total work)	1	0.93	0.89	0.85
GDP (including leisure)	1	0.95	0.97	0.95

2. Leisure, home work, market work: Preferences versus institutions and distortions?

The Prescott side of the debate about the respective evolutions of work and leisure in the United States and Europe (the debate that triggered this conference) has proceeded under two maintained assumptions, (1) that preferences were similar across countries, and (2) that preferences were such that there was no trend in labor supply as productivity increased (with income and substitution effects canceling each other along the balanced growth path).

This should clearly be the starting point. But my reading of the evidence is that it cannot be the ending point. I shall give two pieces of evidence in favor of my argument.

The first is a piece of time-series evidence, on hours worked per week in manufacturing in the United States for various years between 1909 and 1940. I choose that period because it predates most of the growth of the tax wedge between leisure and work, which plays a central role in Prescott’s interpretation of the leisure/work choice. The numbers are given in the table below. The evidence is striking. In 1909, only 8% of workers worked less than 48 hours. In 1929, the proportion had increased to 46%, and in 1940 it had reached 92%. It is hard

not to see a strong income effect at work, and it is surely impossible to blame the tax wedge for this evolution.

Hours	1909	1919	1929	(1940)
≤ 48	7.9	48.6	46.0	(92.1)
49-59	52.9	39.3	46.5	(4.9)
≥ 60	39.2	12.1	7.5	(3.0)

Source: *Historical Statistics of the United States*

The second relies on cross-country evidence, and comes from the paper we saw this afternoon, and the survey answers about Dutch attitudes towards the division of work between husbands and wives, about child rearing, and about child care. The answers to some of the questions are likely to reflect both preferences and institutions, and thus do not shed light on the issue at hand (differences between preferences across countries). The question which seems best suited for our purposes is the question asked in their table 4, on “the degree of agreement that a working mother can establish just as warm and secure a relationship with her children as a mother who does not work”. The percentage of those who agree strongly with the statement is substantially lower in the Netherlands (and Germany) than in France, Denmark, and Sweden. I am sure that these apparent differences in preferences can in turn be explained by history, religion, and so on. But this does not matter: Today, preferences are different in the Netherlands than elsewhere in Europe. Thus, choices between leisure, home work, and market work, are likely to differ, even with the same institutions and tax rates.

Even those (like me) who believe that preferences differ across countries, also believe that institutions and distortions play an important role. The question is which ones. Let me make a number of remarks and guesses here.

- The tax wedge, on which Prescott focuses, is likely to be more relevant for the choice between home and market work than for the choice between market work and leisure.
The reason is a simple one: In the second case, the substitution effect is potentially undone by the income effect. In the first, there is, to a first approximation, no income effect to cancel the substitution effect.

- The effect of the tax wedge and other programs depends on the shape of the home production function and the degree of substitutability between market and home produced goods.

The evidence from the work by Jon Gruber on (nearly) free child care in Quebec is useful in giving us a sense of magnitudes here. (The fact that this program was introduced in Quebec but not in other Canadian provinces provides a nearly natural experiment.) Jon finds that the effect of the program was to increase the participation of women with children between 0 and 4 years of age by seven percentage points. Whether this is large or small is not obvious. Jon concludes that it is large. I find it small, showing that a large subsidy is still not enough to induce most women to rely on child care.

- The choice between market and home work is likely to depend on many institutional factors beyond the tax wedge. To take the example in the previous paragraph, free child care may be the most important factor for women with young children. But other institutions matter in less obvious ways. Whether or not one decides to take care of one's garden depends on the price of gardeners and gardening service firms. The minimum wage is likely to play an important role. So is employment protection, which very much affects the cost of running small firms and thus the price of gardening services.
- One may have a relatively benign view of the shift from market to home work. The image is of a woman who decides to interrupt her career to stay home with her children, or of the man who decides to cut the grass rather than hire a gardener. But there may be more to the story. The woman who used to provide child care may have few other skills, and the same may be true of the gardener. Minimum wage or other constraints on the wage may lead them to become and remain unemployed. The result in this case is less market work, more home work, and more unemployment.
- Distortions may come not so much from taxes and subsidies, than from the complexity of the regulations. This remark is triggered by the dramatic differences, described in the second paper, between the introduction of "work sharing" in the Netherlands and in France. In the Netherlands, the change in regulations to allow for an increase in part time work appears to have been worked out with the various social partners, so as to allow maximum flexibility for firms and for women. In France, nearly the

opposite is true: The introduction of the 35 hour week has come with a Kafkaesque complexity, requiring all the knowledge of a Francis Kramarz to explain it to us in the second paper (it seems inconceivable that any firm understands the legislation...) The complexity of regulation is hard to measure; I am sure however it has major deadweight costs.