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“Take Some Time Off”

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It's August, and while many of us are trying to squeeze in one more weekend getaway before the end of summer, in Europe they're hanging out closed signs for a good part of the month. Economist Lester Thurow once explained the difference between European and American approaches to work and leisure by musing that “Americans like capital-intensive leisure.” He surmised that, given a choice between a month in a canoe or a weekend in a power boat, Americans work extra hours to get the power boat, while Europeans are more likely to be found lolling in the canoe.

Indeed, the European penchant for time off extends beyond the traditional August holiday. Perhaps no other difference between Europe and America is as startling as the gap in hours worked per person over the course of a year. As the table shows, French and German workers spent almost 400 fewer hours on the job than Americans in 2004. Depending upon one's point of view, such data can confirm beliefs either that Europeans are laggards or that Americans are workaholics.

It hasn't always been this way. As the table also shows, in 1970 Americans and Europeans worked about the same amount. What happened?

As Economics is the science of social choice, the economist's natural inclination is to view these statistics as a result of choices and different preferences. The standard story goes like this. Both Europeans and Americans have become tremendously more productive over the previous three or four decades. Increased productivity presents people or societies with improved choices. They can continue to work as much as before and use that increased productivity to consume more stuff, or they can continue to consume at the same level with less work – essentially using their increased productivity to buy more time off. Many economists believe that Americans generally have chosen the first option, Europeans the second. Thurow's explanation was a creative version of this view.

Generally, such an interpretation leads people to view statistics such as those in the table as evidence that Americans and Europeans are intrinsically different in terms of work ethic and consumption habits. But is this really the case, or are

we more similar than we think? Might the differences in time off instead be attributable to Americans and Europeans having faced fundamentally different tradeoffs? This is the view espoused by Nobel laureate Edward Prescott, who thinks there is more to the story than Americans and Europeans having grown up to be different people. He thinks a better explanation for the differences we observe centers on the different tax rates Americans and Europeans have faced since the 1980s.

Prescott begins with the observation, already noted, that the divergence in work habits began to accelerate in the 1980s, coinciding with a period when our federal government began to reduce and compress marginal income tax rates. Prescott's argument is quite simple – since the early 1980s, Americans have chosen to work more because their after-tax payoff from working more is greater than for Europeans.

In Prescott's view, these differences have emerged over time not so much because Americans and Europeans are different, but because they are responding to different incentives to work. His research leads him to conclude that “people are remarkably similar across countries.” He admits the novelty of his explanation, expressing surprise “that virtually all the large differences between the U.S. labor supply and those of Germany and France are due to differences in tax systems.”

But this is what good economic analysis sometimes does. It surprises us and sometimes leads us to reconsider widely held beliefs. It's easy to attribute differences such as those in the table to the workaholic nature of Americans or to the less materialistic impulses of Europeans. Prescott's analysis forces us to admit that there might be more to the story.

Average Hours Worked per Worker per Year

Country	1970	2004
U.S.	1,936	1,824
France	1,902	1,441
Germany	1,956	1,430
Italy	1,868	1,585
Great Britain	1,939	1,669
Norway	1,784	1,363
Sweden	1,730	1,585

Source: OECD, <http://www.oecd.org>