

Chapter 5

Full Employment and Full Enjoyment

Choice of work hours obviously should make people's lives more satisfying, since people would choose shorter hours only if they thought that they would be better off having more free time rather than more income. Economic theory has always said that people should have a free choice among different products, so they can choose the combination of products that gives them the most satisfaction—and people should be able to choose between having more income and having more free time for exactly the same reason, so they can choose the combination of income and free time that gives them the most satisfaction.

Americans have harder lives because we have focused on increasing production rather than free time since the mid twentieth century. Because many more women entered the workforce during this period, families often face a time famine. One-quarter of all Americans say that they constantly feel rushed, and another one-half say they often feel rushed, leaving only one-quarter who say they have enough time.³⁰

It stands to reason that being able to choose shorter work hours would improve people's lives by letting them make the choice they prefer. And, as we will see in this chapter, there is also empirical evidence supporting this idea.

GDP and Well-Being

Poorer nations obviously need economic growth, but the evidence shows that economic growth in itself does little or nothing to increase well-being after a nation reaches the level of middle-class economic comfort that America reached decades ago.

In 1974, the economist Richard Easterlin was the first to notice that surveys showed Americans had not become any happier since the 1950s, despite decades of growth and rising income across all economic classes. This finding still holds up today: American's self-reported happiness peaked in 1958, and it has jogged up and down a bit but has never reached that peak again. Our per capita GDP has more than tripled since the 1950s, but we are no happier than we were then. In other developed countries, also, Easterlin has found that economic growth does not increase happiness over the long term.³¹

International comparisons let us see the income level where economic growth stops increasing happiness significantly. Beginning in 1990, the World Values Survey asked people in many nations how happy they are and how satisfying their lives are, and Gallup began asking a similar question in 2012. Figure 4 compares the results of recent Gallup surveys with the per capita GDP of each nation. We can see that, in lower income countries, the happiness rating generally increases as income increases: there is a strong increase when per capita GDP is less than \$20,000 per year and a modest increase between \$20,000 and \$40,000 per year. But above \$40,000 per year or so, happiness does not increase significantly as per capita GDP increases. There are still

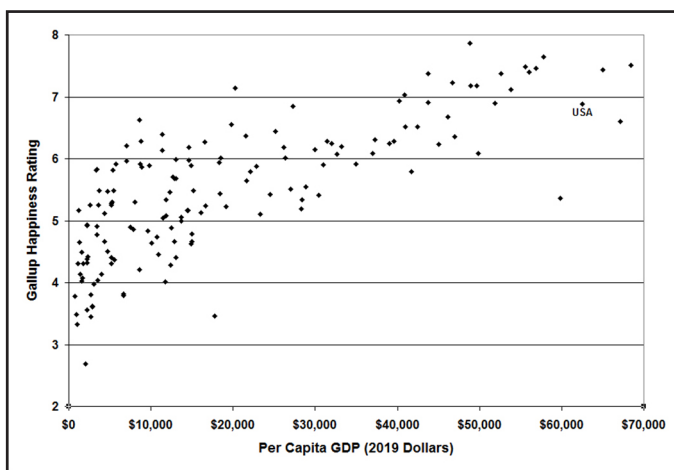


Figure 4: Per Capita GDP and Happiness

very small increases of happiness at these high income levels, and some economists have used mathematical tricks to make them visible,³² but they are so small that we cannot see them at all on an ordinary graph like this one. After people reach this point, it seems plausible that they could increase their happiness more by increasing their free time than by increasing their income. It also seems plausible that the very small benefit that growth provides would be outweighed by the environmental costs of growth.

This result is not surprising. In poor countries, more income is needed to provide people with decent housing, food, education, health care, and other essentials; it makes sense that people will become happier as they can afford more of the necessities and basic comforts of life. But when nations reach about two-thirds of America's per capita GDP, people generally have enough to make them comfortable, and there is relatively little benefit to consuming even more.

Happiness is subjective, of course, but the same pattern is clear when we look at more objective measures of well-being. Life expectancy and infant mortality give us a rough measure of nations' health. Figure 5 shows that increased wealth improves life expectancy dramatically when per capita GDP is below \$20,000, modestly between \$20,000 and \$40,000, and not at all above \$40,000. Figure 6 shows that increased GDP does not improve infant mortality at all above \$35,000. In both, we see the same pattern: large benefits at the lowest income levels, small benefits at moderate income levels, and no benefit at high income levels.

We will look at one more indicator of well-being, educational achievement. The Organization for Economic Cooperation and Development (OECD) tests fifteen year olds in many nations on their reading, mathematics, and science skills in its Programme for International Student Assessment (PISA). Figure 7 shows nations' per capita GDP and the average of their scores in these three tests. The OECD does not include many of the poor nations of the world, so the lowest incomes are left out of this chart, but the trend is very clear. At moderate income levels, greater per capita GDP increases test scores, but at higher income levels, there is no improvement.

There is one nation that is conspicuous for being outside of this trend, represented by the isolated mark in the upper left of

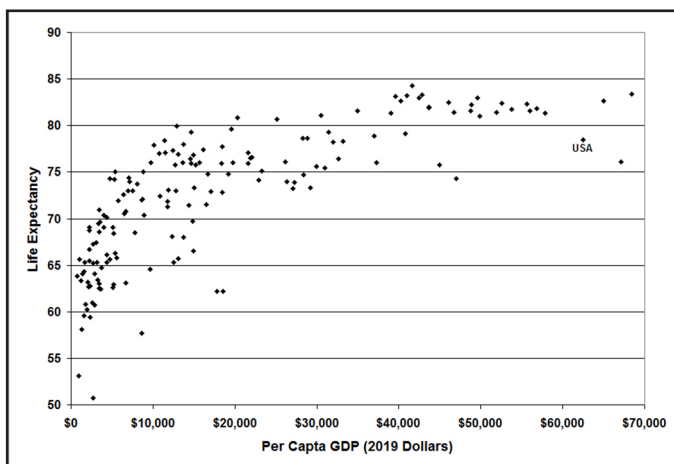


Figure 5: Per Capita GDP and Life Expectancy

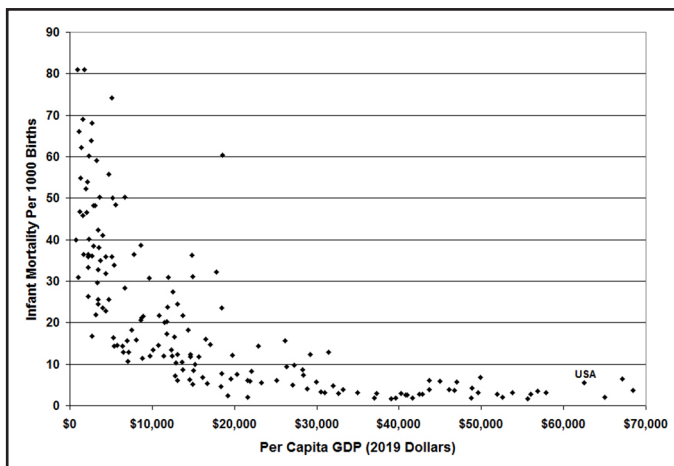


Figure 6: Per Capita GDP and Infant Mortality

the chart showing that it has the highest test scores in the world despite its low per capita GDP. That is China.

All of these graphs show the same thing. Economic growth improves well-being at lower income levels, and stops improving

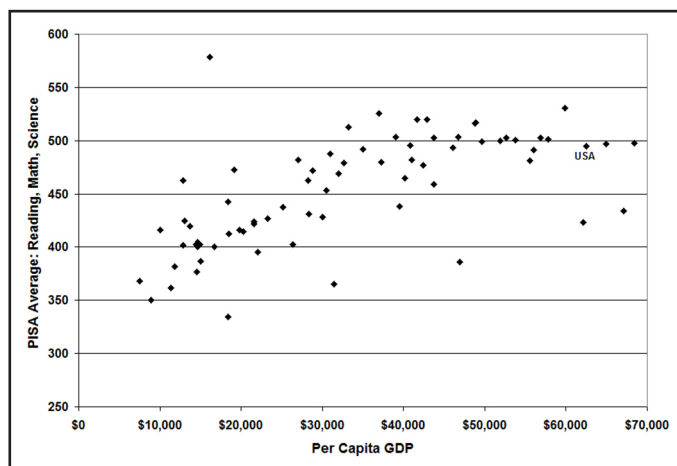


Figure 7: Per Capita GDP and Educational Achievement

well-being significantly at higher income levels. And the point where improvement stops is roughly two-thirds of the United States' current per capita GDP.

It seems that, once you have enough income for the basic elements of a good life, such as good food, housing, health care, and education, and also for some luxuries, such as music, books, and travel, you do not get a real benefit from consuming even more.

But consuming more does create real costs. Growth continues to create significant environmental costs even after it stops bringing significant improvements in well-being.

Europe and the United States

Unlike the United States, many European countries have used their prosperity to reduce work time as well as to increase consumption. We have seen that the Netherlands and Germany have laws allowing employees to choose part-time work, and their work hours have declined both because of this choice and because their full-time work hours have become shorter.

In Figure 8, which shows the average hours of all workers, both full-time and part-time, we can see that work hours have declined

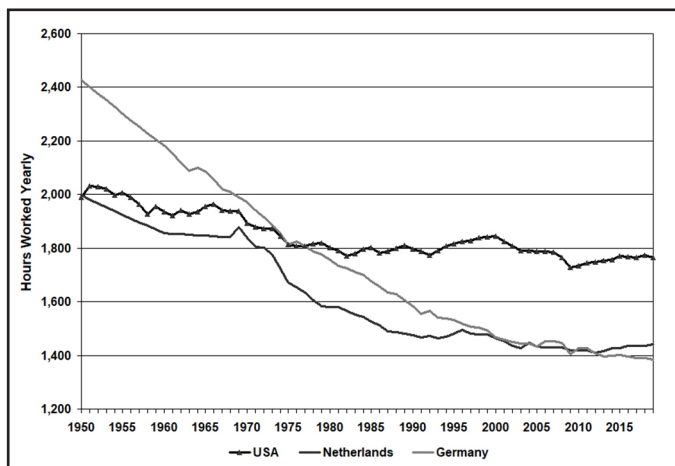


Figure 8: Average Work Hours: US, Netherlands, and Germany

sharply in Germany and the Netherlands since 1950 (as they have in many of the most prosperous European nations) but have declined much less in the United States. The Netherlands' work hours went down dramatically when it began promoting part-time work with policies that we looked at in the previous chapter, but its hours have stagnated recently, and now Germany's hours are slightly lower. (Incidentally, France has a reputation for short work hours and Germans have a reputation for being hard-working, but Germany actually has shorter hours than France. The numbers in 2019 were 1386 hours per year in Germany and 1505 in France.)

Unlike the chart of work hours in manufacturing, this chart shows work hours in the entire economy, including part-time workers. Work time in the United States seems to have declined in the postwar decades and to have declined a small bit since the late 1970s, but this appearance is deceptive because:

- Women entered the workforce en masse beginning in the 1960s and 1970s, which increased the total number of hours worked by all adults but reduced the average number of hours worked per employee, since women are more likely to work part-time.
- These international comparisons use surveys that ask

employers how many hours their employees work, hiding the fact that more Americans have had to take two jobs since the 1970s. For example, if a worker has a full-time job plus an additional half-time job, a survey of employers would find there are two jobs, one 40 hours and one 20 hours, but a survey of employees would show that it is actually one person working 60 hours.

- In employer surveys, full-time salaried workers are counted as working 40 hours regardless of how much they actually work. Employee surveys show that salaried workers have actually been working longer hours since the 1970s.

A different study, using data from employee surveys, found that American work hours have increased since the 1970s, as shown in Figure 9. The average American employee worked 1679 hours a year in 1973 and 1815 hours in 2010,³³ an increase of about 8%. Though there is less data from employee surveys than from employer surveys, there is enough to show us that the decline in American work hours in Figure 8 is deceptive, and American work hours actually increased after 1973.

If we compare the United States with the Netherlands and Germany, we can see that we have moved beyond the point



Figure 9: Average Yearly Work Hours in the US, Employee Surveys

	Germany	Netherlands	USA
Per Capita GDP (2019 Dollars)	\$53,785	56,849	\$62,530
Productivity: Output per Worker Hour (2019 Dollars)	\$103.10	\$99.70	\$102.40
Annual Hours per Worker (Employer Surveys)	1,386	1,440	1,765
Inequality (GINI Index)	31.7	28.2	41.5
Happiness (Gallup Index)	7.12	7.46	6.88
Life Expectancy at Birth (Years)	81.7	81.8	78.5
Infant Mortality (Deaths per 1000 Live Births)	3.2	3.5	5.6
Educational Achievement (Average PISA score 2018)	500.33	502.33	495

Figure 10: GDP and Well-Being in the US, Netherlands and Germany

where growth increases well-being. The first four rows of Figure 10 show that these two European countries produce about as much per hour as the United States, with the Netherlands a bit lower and Germany a tiny bit higher. They also have less inequality than the United States, spreading their prosperity more widely. They have a lower per capita GDP largely because they work shorter hours: Americans work 27% longer hours than the Germans and 22.5% longer hours than the Dutch, even using figures from employer-based surveys, which understate American work hours—but we do not seem to benefit from that extra work.

If GDP really measured well-being, we would expect Americans to be better off than the Dutch and Germans, but the next four rows show that the Dutch and Germans do better on happiness, health and educational achievement.

Germany and the Netherlands have lower incomes because they work less, but they work less because they prefer shorter work hours, more free time and longer vacations. Despite choosing shorter hours, they are successful economically—Germany is often called the “economic powerhouse” of the European Union—and they do better than the United States on the measurable aspects of well-being.

This comparison shows that the Dutch and German model of shorter work hours, lower inequality, and lower GDP provides a better way of life than the American model of long work hours, high inequality and higher GDP. We Americans work much more but are not as well off.

The Need for Individual Choice

Currently, our economic planning focuses on controlling inflation and unemployment. With choice of work hours, we would still need fiscal and monetary planning to fine-tune the economy in order to control these problems, and if there were a mass movement to shorter hours, we would also need new methods of planning to fine-tune the economy in an era of slower growth.

In one example of the sort of planning we might need, the Canadian economist, Peter Victor, created a computer model that lets him study how that country's economy would react to slower growth or to no growth. The results of running the model differ dramatically as he changes the values for macroeconomic variables such as the savings rate, the rates of public and private investment, and the length of the work week. In one run, the end of growth brings economic instability, high unemployment, and rising poverty. In another run with different values for these variables, the end of growth brings economic stability, reduces both poverty and unemployment by 50%, and reduces the ratio of debt to GDP by 75%. The key variables that are different in the second scenario are a higher savings rate, a lower rate of private investment, a higher rate of public investment, and shorter work hours to avoid unemployment.³⁴

There are very few macroeconomic studies of this sort, and more would be needed to help us develop policies to accommodate the slower growth that widespread work-time choice could bring.

But the key difference would be this. Today, we try to create economic growth rapid enough to give most people standard 40-hour jobs. With work-time choice, we would try to create growth rapid enough to give people the number of work hours that they actually want.

Today, the economy must grow rapidly, whether or not people want all the products, purely to create more 40-hour jobs. With work-time choice, people would work enough to buy the products they want, and the economy would grow enough to provide this amount of work.

Our economic planning focuses on inflation, unemployment, and other technical questions that only economists understand completely. We also need to ask the underlying human question: what is the economy for?³⁵

The purpose of the economy obviously is to produce things that people actually want.

Everyone realizes this when they talk about production for our own use, work that we do for ourselves. For example, we do the work of mowing the lawn when the grass is overgrown, and we are happy to stop when the job is complete. We do not plant extra-fast-growing grass that needs to be mown more frequently in order to create more jobs for ourselves.

But when we think about the formal economy, we become totally mystified. Instead of working to produce the things we want, we believe we must produce more things, whether we want them or not, to create jobs.

If we thought about the human purpose of the economy, we would realize that in the formal economy, as in production for our own use, we should work enough to produce what we want and then stop.

Economists have expert knowledge that helps them deal with inflation, unemployment and other technical economic problems, but ordinary people are the ones who should decide what sort of lives they want to lead. The technical questions about inflation and unemployment, which economists can answer, should be subordinate to the human question about what balance of work and free time gives us the most satisfying life, which people should answer for themselves, choosing their own work hours based on their own desire for income and free time.

Because we ignore this underlying human question, we let the economic planners who understand the technical questions control our lives.