Discussion of

”Why are Average Hours Worked Lower in Richer Countries? The Roles of Income Effects, Taxes and Structural Change”

by Bick, Fuchs-Schündeln, Lagakos and Tsujiyama

Johanna Wallenius
Stockholm School of Economics

CEPR Macroeconomics and Growth, November 2019

Background

- Bick et al. (2018) document patterns in hours worked over income across and within countries
  - Aggregate hours worked lower in rich countries than in poor
  - Hours-wage gradient negatively sloped in poor countries, but positively in rich
- This paper seeks to understand drivers of these empirical facts and to quantify relative importance of mechanisms

Mechanisms

- Hours worked shaped by three forces
  - Preferences where income effect dominates substitution effect
  - Larger tax and transfer programs in rich countries
  - Structural change with individuals moving from self-employment to market work

Evaluating Mechanisms

- Income effect dominates substitution effect
  - Key driver of decline in market work/increase in leisure over time in US (Kopecky (2011), Boppart and Ngai (2019))
- Larger tax and transfer programs in rich countries
  - Important in accounting for differences in aggregate hours of work between rich countries (Prescott (2004), Ohanian et al (2008), Wallenius (2013), Bick et al. (2018))
- Structural change with individuals moving from self-employment to market work
  - Less standard component

Modeling of Structural Change

- Slightly atypical interpretation of structural change?
- Assumptions
  - Traditional sector features decreasing returns to hours worked
  - Market sector features high fixed utility costs of work

  critical for generating higher hours but lower employment in market sector
- How should we think about the production functions?
  - Rationalize with arguments about seasonality and market size?
  - Would like to see more empirics to back this up

Parameterization of Income Effect

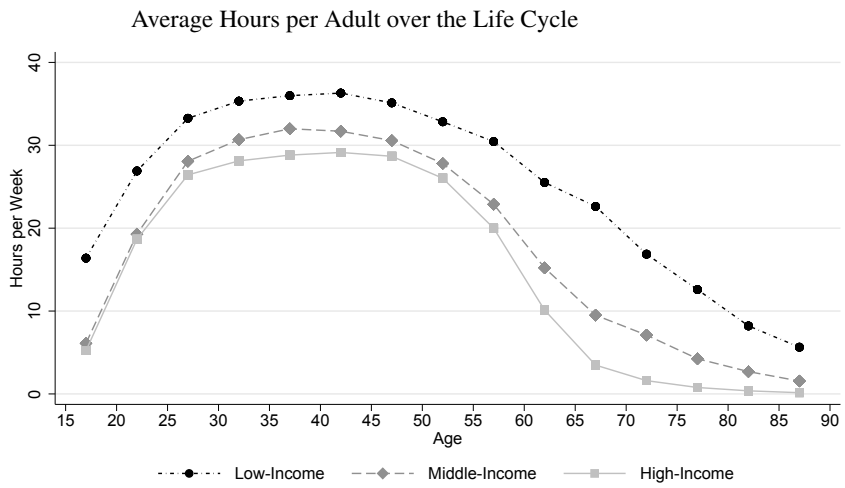
- Pick preference parameters to match poor-rich country differential
- By construction, strength of income effect determined as residual
- Conduct some informative sensitivity analysis?

Demographic Decompositions

- Gender and age
  - Bick et al. (2018)

Average Hours Worked Per Adult by Sex

Sex	Country Income Group		
	Low	Middle	High
All	28.5	21.7	19.0
Women	24.4	16.6	14.4
Men	32.7	27.3	23.8



  - Story consistent with wife staying home once income increases
  - Are mechanisms consistent with biggest decline at older ages?
  - Looking at old, a bit surprised taxes and transfers don't matter more

Related Issues

- Relationship to time series changes in US?
  - Dramatic increase in female employment
  - Decline in male employment, especially at older ages
  - But… US was middle income country already 100 years ago
- Large differences in aggregate hours among rich countries
  - Can’t all be structural change

In sum

- Nice paper!
- Stylized model, clean exercise