When Paternalism Meets Bogus Economics

The New Economics Foundation's *21 hours* Report

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When Paternalism Meets Bogus Economics: The New Economics Foundation's *21 hours* Report

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A New Economics Foundation (NEF) report proposes a gradual reduction of the standard working week to 21 hours within about a decade, to achieve three goals: make society more equal, happier, and drastically reduce carbon emissions. This paper shows that the NEF proposal would not achieve the first two goals at all, and the third one only at tremendous cost. The trade-off that people make between leisure and consumption is an entirely private matter. There is no economic rationale for third party interference.

Introduction

The New Economics Foundation (NEF) has produced a report making the case for a gradual reduction of the standard working week from 40 to 21 hours over the course of about a decade. A drastic reduction in working time, the Foundation argues, would serve to attain three goals: increase people's well-being, reduce social inequalities, and decrease carbon emissions. The report concedes that there will be transition problems, but is optimistic that these can be overcome. Media responses have been largely favourable.[2]

The report can be read at two levels. On the one hand, *21 Hours* attempts to convince the reader of the virtues of a non-materialistic lifestyle, as opposed to a career-centred and consumption-driven one. At the same time, *21 Hours* is a policy paper, advocating government interventions to rectify what the authors, Coote et al., seem to interpret as 'market failures'. This paper will focus exclusively on this second theme of the report. It will not express any opinion on the merits or demerits of any particular lifestyle choice.

As a policy paper, *21 hours* is not about persuading people to *voluntarily* adopt less work-centred lives and more ascetic consumption habits. Initially, the authors emphasise: 'Anyone can disagree and many will do things differently. [...] Let's be clear: there'll be no time police roaming the call centres and coffee bars' (Coote et al, 2010, pp. 5-6). But towards the end, this position is completely reversed:

> 'At government level, regulations will be required to standardise working hours. The EU Working Time Directive is a step in the right direction but a long way from where we want to go. Current standards will have to be reduced steadily over the coming years. They must be designed to exert a strong influence over the actual hours that people work' (ibid., p. 29).

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[2] See BBC News: 'Cut working week to 21 hours, urges think tank', 13 February 2010;
The Guardian: 'Working week should be 21 hours, says New Economic Foundation, 13 February 2010.

The authors' emphasis on the importance of flexibility refers to how people distribute their maximum allotted working time over the course of a year. As far as the total amount is concerned, they demand 'clear limits to the number of hours worked' (ibid.).

It is only with this specification in mind that passages like the following one can be properly understood:

> '[A] shorter working week would reduce the amount of money people can earn. Those on low rates of pay would be hardest hit [...] There is a risk of strong resistance not only from low-paid workers and their trade unions, but also from the middle classes and their unions and professional bodies' (ibid pp. 26-27).

Workless people, overworked people: a market failure?

The NEF argues that when expressed as an average for the total working age population, which includes the workless and the economically inactive, weekly working hours are already quite close to their preferred figure. In this sense, their proposal is not so much about reducing the total number of hours worked in the country, but about distributing them more evenly between the workless and the overworked, rich and poor, as well as men and women. '[R]edistributing paid work will lead to a more equal society' (ibid p. 6).

This is essentially a variant of the idea that the amount of work which is 'required' in an economy is somehow fixed, and has to be distributed 'justly'. It resembles the arguments by Reid (1986) and Drese et al. (1986), who attempted to provide the theoretical underpinnings for 'work-sharing' policies.

The case for work-sharing rests on a number of assumptions. Demand for working hours must be largely fixed; work must be easily divisible; and the work of one person must be a close substitute for the work of another person. When these conditions hold, an employer will be indifferent between employing A for 40 hours, or employing A and B for 20 hours each. But when the conditions are violated, then work-sharing imposes additional costs per working hour, and the quantity of hours demanded can decrease – the 'scale effect'. Scale effects can arise when, for example, B cannot fully match A's skills, or when the splitting of responsibilities entails friction losses. The scale effect can be exacerbated when there is an additional person, C, whose work is not substitutional but complementary to A's work.

In the early 1980s, several countries experimented with work-sharing experiments with disappointing results. In France, the Mitterrand government imposed a mandatory reduction in standard working hours from 40 to 39 hours in 1982, coupled with a reduction in maximum overtime hours and compensatory wage increases for minimum wage earners. Crépon and Kramarz (2002) explored the employment effects empirically and found that:

> 'Changes in the legal standard workweek led to employment losses, contrary to the initial goals of these policies [...] the workers most affected were precisely the minimum-wage workers whom such policies try to protect' (ibid, pp. 1384-1386).

In West Germany, the *IG Metall* union achieved a reduction of the regular working week from 40 to 38.5 hours in 1985, motivated by work-sharing considerations. Due to the system of centralised collective bargaining, this agreement was binding not just for union members but for all workers in the industries under the union's remit. Hunt and Katz (1998) examined the experiment and found 'Existing evidence suggests that employment declines as a result of work-sharing' (ibid., p. 340).

In the Netherlands, work-sharing was a supplementary component of the employment-creation strategies of the 1980s. Riechel (1986) explored the employment effects and concluded: 'The related drop in overall productivity and the accompanying rise in unit labor costs are a strong impediment against the success of work-sharing' (ibid., p. 538).

While these results might be, to some extent, country specific, Booth and Schiantarelli (1987) developed a theoretical model with upper and lower bounds for the chosen parameters to explore a variety of possible scenarios. Their general conclusion was that 'the employment effects of a reduction in hours are ambiguous, and in our view, likely to be negative' (ibid, p. 246).

So what justifies the NEF's hope that this tool, which has performed modestly when tested on a small scale, should be able to transform the unskilled long-term unemployed into high-skilled professionals? Long-term entrenched worklessness is caused by a variety of factors such as the stickiness of the welfare system, misguided interventions in the labour markets, and an education system that fails the low-skilled. It is not caused by a market failure. Demand for labour is not fixed and working hours cannot simply be redistributed.

The consumer society as a prisoner's dilemma

> 'In high-income countries we are consuming [...] in ways that ultimately fail to satisfy us. [...] Those who can afford to participate are never truly satisfied, however much they consume' (p. 5).

> 'A 21-hour week would help get people off the consumer treadmill. [...] What we feel we need and what satisfies our needs are inflated well beyond what is actually required to live a good and satisfying life. We buy much more than enough stuff' (p. 17).

A reader coming from a classical liberal background will perceive such lines as expressions of a conceited authoritarianism. Yet these passages must be read keeping the NEF authors' economic assumptions in mind. NEF economics is arguably a variant of 'Happiness Economics', which holds that 'subjective well-being' (SWB) can be measured and consciously promoted by government. The central tenet is that consumption does not increase SWB, but people strive for it nevertheless, because they feel pressurised to keep up with others. People want to switch to a high-leisure, low-consumption lifestyle, but only if others do so as well:

> 'One of the central findings of the large scientific literature on subjective well-being is that once income levels surpass a minimal absolute threshold, average satisfaction levels within a given country tend to be highly stable over time, even in the face of significant economic growth' (Frank, 1999, p. 72).
>
> 'When I earn more and adopt a more expensive lifestyle, this puts pressure on others to keep up – my action raises the norm and makes them less satisfied with what they have. I am like the factory owner who pours out his soot on to the neighbours' laundry. And the classic economic remedy for pollution is to make the polluters pay' (Layard, 2005, pp. 15-16).

For readers not familiar with this set of assumptions, it may be helpful to think of the 'consumer society' as a gigantic prisoners' dilemma with the following payout structure:[3]

Player 2 → **Player 1 ↓**	**Overconsume**	**Don't overconsume**
Overconsume	5, 5	11, 0
Don't overconsume	0, 11	10, 10

Solving the exercise shows that overconsumption is the dominant strategy for both players, who therefore get stuck in a suboptimal equilibrium, which they cannot break out of without external help. Frank and Layard recommended high taxes on labour as a solution, but Alvarez-Cuadrado (2007) shows that an upper limit on working hours is a feasible equivalent. Thinking within these assumptions for a moment may explain why Coote et al. are so confident that their proposal would be hugely popular once adopted (see p. 32), while provoking strong resistance during the implementation phase (p. 27).

But what if these assumptions themselves are wrong? Proponents of this branch of Happiness Economics have simply observed a data pattern and constructed a theory around it. As Stevenson and Wolfers (2008) have shown, much of these data were themselves limited and inadequate. Correcting for measurement shortcomings, Stevenson and Wolfers show that many conclusions from earlier SWB-studies had been premature. There is a fairly robust, positive association between absolute wealth and well-being. Consumption may be a status race for

[3] The payout numbers are, of course, entirely arbitrary.

some segments of society, but most people work and consume simply because they want to. The NEF authors' exaggerated confidence in their ability to judge what makes other people happy stands on very thin ice.

Abundance of leisure in the do-it-yourself economy?

21 hours describes, in colourful terms, the opportunities opened up by a leisure-abundant life, and its beneficial character-moulding effects. But it also extols the virtues of 'making more things ourselves' instead of buying them (pp. 17 and 31), without realising that this is a contradiction in terms. Whether or not a mandatory reduction in formal working hours leads to an increase in leisure depends on the extent to which people try to compensate for the income loss through increased in-house production. Paid work that serves the purpose of affording a washing machine, clothes and furniture could at least partially be substituted by washing by hand, knitting clothes and making furniture. If the NEF-proposal was implemented, we could end up with decreased living standards and *fewer* leisure hours, due to the efficiency losses that would result from rolling back the division of labour. The NEF-authors provide no reason for their implicit assertions that self-supply is morally superior to working for pay, and per se more conducive to SWB.

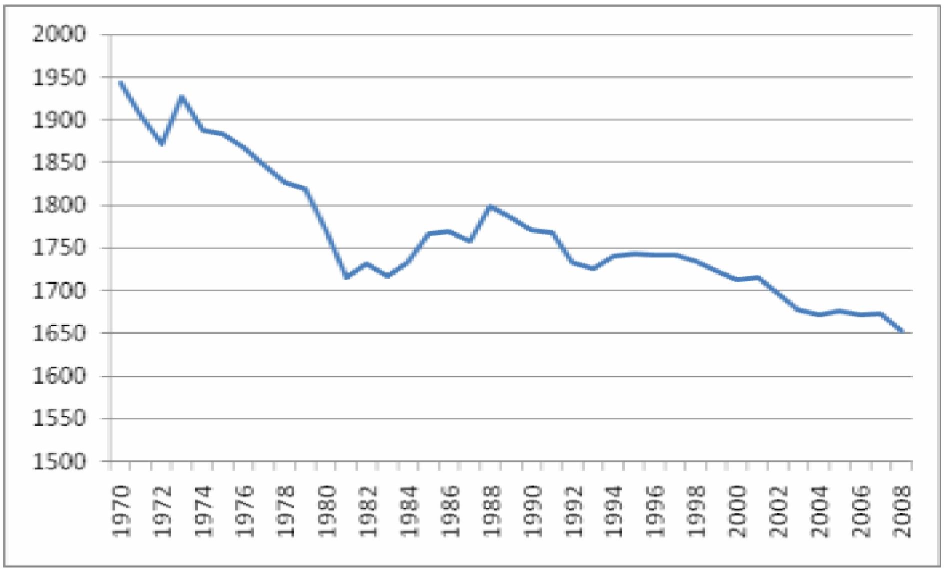
The third goal the NEF proposal is meant to deliver is a drastic reduction in carbon emissions, and by causing a sharp contraction of economic output it would probably achieve this goal. But of all the possible carbon reduction strategies, this is almost certainly the one with the highest cost per avoided unit of CO_2. An across-the-board cut in working hours would affect carbon-intensive and low-carbon industries alike, and provide no incentives for the former to search for ways to cut carbon emissions.

Conclusion

The NEF proposes a gradual but deep cut in working hours to achieve three goals: make society more equal, happier, and reduce carbon emissions. This paper has shown that with the NEF proposal, the first two goals will not be achieved at all, and the third one only at a tremendous unnecessary cost. The trade-off people choose to make between leisure and consumption is an entirely private matter. It is nobody else's business, and there is no economic justification for government interference.

What governments can do, however, is establish a framework within which people can attain high levels of both leisure and consumption. 'Old Economics' suggests that in the long run, the amount of hours worked falls as labour productivity rises. Increasing real wages give rise to a substitution effect (the opportunity cost of leisure increases) and an income effect (people can afford more leisure for any given level of consumption). The substitution effect usually dominates in the short run – which is why labour supply often increases after a cut in income tax – while the income effect dominates in the long run. Even though the NEF suggests otherwise, the UK has been no exception (see Figure 1).

Figure 1: Average hours worked per person and year in the UK, 1970-2008



OECD Stat Extracts, accessed 21 February 2010

The major driver of the long-term fall in working hours is precisely the force which the NEF seems to be vehemently opposed to and eager to see eradicated: economic growth.

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