



BANK OF ENGLAND

Speech

Are Europeans Lazy? Or Americans Crazy?

Remarks given by

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[Accompanying paper](#)

Patterns of Market Work: Some Facts

In the light of the provocative title of this Conference, it may be a good idea to rehearse some of the relevant facts. Before plunging in to the data, it is important to recognise that these have been built up from a variety of sources which may not be wholly suited to making cross-country comparisons. They do, however, give us a flavour of the story.

In Table 1, we present a measure of the total market labour input per person of working age. We also see how this divides into employment per person and hours per employed individual. Looking first at the total measure, we see huge variations across countries. Some broad groupings stand out. The Anglo-Saxon countries (excluding Ireland) have the highest labour input and Japan slots into this grouping. The Scandinavian countries (excluding Norway) are the next highest group and Switzerland fits into this group. The “Big Three” of Continental Europe, France, Germany and Italy, are right at the bottom. The Anglo-Saxon countries provide around 39% more market work than the Big Three and the Scandinavian group around 27% more. So the Scandinavians are much closer to the Anglo-Saxons than to the Big Three. This immediately suggests that looking at these matters in a “Europe versus US” framework is a hopeless strategy.

Looking at the hours/employment rate breakdown, the Scandinavian countries have the highest employment rates and the Anglo-Saxon countries have the highest numbers of hours worked per year by those in work. The Big Three have low levels of both, although the Netherlands and Norway stand out as having the lowest hours worked, in the former case because of the large numbers of part-timers as analysed in the

Netherlands chapter (Kramarz et al., 2006, Chapter 5). In Table 2 we see how the annual hours data break down into hours per week and weeks per year. The latter tend to exhibit more variation than the former. For example, Americans tend to work over 14 per cent more weeks per year than the French and Germans but only 8 per cent more hours per week. Overall, weekly hours worked by those in work contribute less than one quarter of the total difference in market labour input per capita between the United States and France and Germany.

It is interesting to compare these data with the time-use data reported in Burda et al. (2006). In Table 3, we see that the market work numbers generated by the time-use data are larger than those in Table 1, mainly because the time-use data do not fully capture vacations and holidays. Nevertheless, the correlation between the two measures of market work is 0.76 and the correlation between the measure of market work in Table 1 and all work (market work plus home work) in Table 3 is 0.55. So the two data sources are telling similar stories.

The History of Work Patterns

In Table 4, we present the history of total market labour input per capita. Back in the early 1970s, the Anglo-Saxon countries, the Scandinavian countries and two of the Big Three, France and Germany, all had the same level of market labour input per capita at around 24 hours per week. By contrast, total labour input in Italy and the Netherlands was far lower at around 19 hours per week. Since then, labour input in the Anglo-Saxon countries has hardly changed, in the Scandinavian countries it has fallen a little (except Norway) and in France and Germany the fall has been substantial.

Looking just at the employment/population rate, we see in Table 5 that the employment rate in Scandinavia has always been high because of high participation rates among women. In France and Germany, in the early 1970s, employment rates were comparable with the Anglo-Saxon economies and they were low in Italy and the Netherlands because of low female participation. Since then, there have been some changes but the overall picture is one of rising female participation along with some fall in the participation of men.

Turning to hours per year, we see in Table 6 that there have been some significant changes in the last three decades. In the early 1970s, hours per year were much the same in all the countries although the numbers in Norway and Sweden were lower than average despite their extremely buoyant labour markets. Since then, the falls in hours per year have been very different in the various countries. France, Germany, and the Netherlands have seen falls of around 500 hours, Norway and Japan falls of around 400 hours and Ireland and the UK declines of around 300 hours. By contrast, the falls in Sweden, Australia, Canada and the US have only been around 100 to 150 hours.

Some Important Features of these Changes¹

Prime-age men (25-54)

In this group, non-employment has risen almost everywhere, mainly due to increasing inactivity. Today, those countries with prime-age male inactivity above 9% are Finland, Norway, Sweden, the UK, Australia and the US. This is a somewhat curious collection because these are nearly all countries with high levels of total labour input per capita. By contrast, for example, the European Union average level of prime-age male inactivity is 7.6%. A significant proportion of the increase in inactivity

since the early 1970s may be attributed to the operation of the disability benefit system. So we find that among inactive prime-age men in the high level countries, a good proportion are categorised as long-term sick or disabled.

Older men (55-64)

In the early 1970s, inactivity rates in this group were nearly all below 25%. Italy was the outstanding exception at over 40% because even then, the official retirement age was only 60. By 2004, inactivity rates in this group were nearly all above 25%. But there are big variations. In the Big Three and Belgium, the inactivity rate exceeds 50%. In most of Scandinavia (except Finland) it remains around 25% with the Anglo-Saxon countries around 32%. The big changes were basically down to early retirement incentives typically introduced on the back of the work-sharing arguments discussed extensively in Kramarz et al. (2006).

Prime-age women (25-54)

Inactivity rates among prime-age women have generally come down since the early 1970s, in some cases hugely, such as in the Netherlands. It still remains fairly high (over 30%) in Spain and Italy. And this is not because women there are looking after children. Indeed, these two countries now have the lowest fertility rates in the OECD and, more generally, fertility rates and female participation rates are now positively correlated across European countries. As well as tax structures and employment protection rules, barriers to, and preferences about, part-time work are important here. For example, in Finland and Spain, few women work part-time and most of these would rather not. By contrast, in the Netherlands most women work part-time and the majority of these do not want a full-time job.

Vacations and holidays

One of the interesting features of the data on annual working hours is that almost all countries except the US have legal minima on paid annual vacations in excess of four weeks. With national holidays adding an extra two weeks or so, most workers in the OECD get at least six weeks holiday per year. In the US, the average is a little below four weeks. Furthermore, these legal minima have risen steadily since the early 1970s, at different rates in different countries.

Sickness absence and maternity leave

There are significant variations in the extent of annual weeks of short-term sickness absence and maternity leave, much of which can be explained by variations in the benefit systems across countries as well as the behaviour of general practitioners. The benefit systems tend to be most generous in Scandinavia and least generous in the Anglo-Saxon countries.

Overall hours per year

As well as the negative effects of taxes and employment protection rules, a significant factor which is strongly positively related to annual hours is the extent of earnings dispersion. Bowles and Park (2005) argue that this arises because of the “Veblen effect”. Based on the ideas in Veblen (1934), the argument is that households consume goods not only for their own sake but to impress the neighbours. With more dispersed earnings, additional work effort is required to make the appropriate impression. By contrast, Bell and Freeman (2001) argue that increased earnings dispersion induces longer hours because it raises the incentives to work harder in order to move up the earnings ranking.

Some Overall Conclusions

Some of the stories which have been proposed to explain variations in market work are as follows. The first, which is frequently used to explain cross-country variations in labour input, is based on labour taxes, a recent example being Prescott (2004). The evidence we possess indicates that taxes cannot be the whole story. The tax story is inconsistent with the small tax effects on labour inputs generated by microeconomic studies (Alesina et al. 2005) and those generated by cross-country studies (Nickell, 2003).

A second story is in the same spirit as the tax story but adds in all the other elements of the social security system including early retirement benefits, sickness and disability benefits, unemployment benefits and so on. These are certainly good at explaining the changes in some aspects of the labour input, notably inactivity among men, both prime age and old, as well as a part of the changes in unemployment and female participation. But shifts in annual working hours are a major part of the story and here, while labour taxes have a significant impact, they explain only little of the overall picture (see Faggio and Nickell, 2006).

A third story is that favoured by Alesina et al. (2005) who argue that the nexus of strong unions, generous welfare benefits and social democratic governments imply both high taxes and direct pressure towards less work. This latter is partly driven by work-sharing in response to adverse shocks and partly by the not unreasonable belief that long holidays are a good thing for workers, hence laws governing minimum levels of paid annual leave. In practice, all developed OECD countries bar the US have such laws, even those such as New Zealand and the UK where unionisation

has collapsed. However, as we have seen in the relevant chapters of Kramarz et al. (2006), the work-sharing story applies clearly to Germany and particularly France, where incentives to reduce labour supply have consistently been applied in response to increases in unemployment, culminating in the imposition of the 35-hour week in France in the late 1990s.

However, as the relevant chapter in Kramarz et al. (2006) makes clear, it is hard to see how the work-sharing story applies to Sweden which has stronger unions, more generous welfare benefits, higher taxes and more social democratic governments than either France or Germany. Yet it has one of the highest employment rates in the OECD and only a small fall in labour input since the early 1970s. Thus, overall labour input in Sweden was 3% below that in France and Germany (average) in 1970 and 26% above in 2004. Both Italy and the Netherlands also had only small falls in labour input from 1973 to 2004, but for very different reasons. In both countries, labour input in 1973 was exceptionally low. In Italy this was because female participation was very low, with an employment rate of around 30%. Furthermore, the retirement age was 60 for men and 55 for women, at least five years younger than in any other European country. For example, it was 67 for both men and women in Denmark and Sweden. So it is no surprise that in 1973 and, indeed, even in the 1960s, Italy had the lowest employment rate in the OECD. And it still does. Add in only a modest fall in annual hours and we find only a small fall in overall labour input. There is no strong element of work-sharing here. Indeed, the Italian labour market model, with minimal welfare benefits and very strong employment protection, places a great deal of weight on the position of the male head of household, which is not to be undermined either by the presence of a high earning wife or by the loss of a job. Thus

the unemployment rate of husbands at 2% was, in 1992, among the lowest in the OECD (see OECD, 1994, Table 1.19). While the labour input in the Netherlands was also exceptionally low in 1973, the subsequent history is completely different. The employment rate of women in 1973 was extraordinarily low in the Netherlands at 28.6% but by 2004 it had risen to 65.7%. As a consequence the overall employment rate had risen by 17 percentage points, by far the largest increase in the OECD. But the majority of women in employment in the Netherlands work part-time, so average annual hours fell dramatically. The overall consequence of this was that the total labour input had barely changed by 2004, although it has increased by around 20 per cent since the Wassenaar agreement of the early 1980s.

From all these different histories, it is clear that there is no simple story which can explain what is going on. If we take groups of apparently similar countries, even then we find considerable within group variations. For example, in the “Anglo-Saxon” group, Australia, Canada, New Zealand, UK, US, all have a high level of labour input at present. Yet while Australia and Canada continue to have a strong union presence and Canadian labour taxes have risen significantly, their labour input has risen whereas, in the UK, union membership has collapsed since the 1970s and labour taxes have not increased, yet labour input has fallen by nearly 12% since 1973. Compared to this group, the Scandinavian group (Denmark, Finland, Sweden) has, and always has had, very high employment rates, very strong unions and very rapid increases in labour taxes. Yet their labour inputs have not fallen rapidly and are only around 10 per cent lower than in the Anglo-Saxon group. By contrast, the major countries of Continental Europe, France and Germany, where unions are weaker and taxes have risen less rapidly, work-sharing strategies have

been embraced wholeheartedly and labour inputs have fallen dramatically in the last thirty years.

The upshot of this is that there is no clear, simple story which will explain the cross-country pattern of market labour inputs over the last forty years. The incentives embedded in the tax and social security systems of the different countries are clearly important and explain many features of the pattern. But they are far from being the whole story. Trade unions, and indeed the population at large, have embraced work-sharing strategies in response to adverse shocks in France and Germany. This has helped to drive down annual working hours by around 500 since the early 1970s. This liking for work-sharing strategies is not, however, shared in the more corporatist societies of Denmark, Sweden and Finland perhaps because they have a different view of how the economy works (see Saint-Paul, 2004). Here the tax/legal framework is used to enhance work/life balance, with very high labour force participation and relatively stable annual hours, which have fallen little over the last thirty years despite numerous adverse shocks.

Broadly speaking, we can discern three groups of countries, Anglo-Saxon, France/Germany, Scandinavia where there is some sort of coherent story to be told about their patterns of market labour input and the role of taxes, benefits, unions and other labour market institutions. But further countries, such as Italy and the Netherlands, do not fit into any of these three groups, and different explanations of their labour input patterns are required. Overall, while it is plain that the tax/benefit system and unions and other labour market institutions are important in explaining labour input patterns across the OECD, other factors are

involved which are not easy to identify but lead to substantial differences from one country to another.

Table 1
Hours per Working Age Person Per Week and its Components (2002)

	1	2	3
	Weekly hours worked per person of working age ($2 \times 3 \div 100$)	Employment/ Population of working age (%)	Annual hours actually worked by workers $\div 52$
Austria	20.5	68.2	30.1
Belgium	17.8	59.7	29.8
Denmark	21.5	76.4	28.1
Finland	22.5	67.7	33.2
France	17.5	62.2	28.1
Germany	18.2	65.3	27.8
Ireland	20.8	65.0	32.0
Italy	17.1	55.6	30.8
Netherlands	19.1	74.5	25.7
Norway	19.9	77.1	25.8
Portugal	22.2	68.1	32.6
Spain	20.8	59.5	34.9
Sweden	22.8	74.9	30.4
Switzerland	22.9	78.9	29.0
UK	23.6	72.7	32.5
Australia	24.3	69.2	35.1
Canada	23.8	71.5	33.3
Japan	23.6	68.2	34.6
NZ	25.3	72.4	34.9
US	24.9	71.9	34.6

Sources:

Employment/Population: OECD Employment Outlook, 2004, Table B.

Annual Hours: OECD Employment Outlook, 2004, Table F.

Col. 1 is the total number of hours worked by the population of working age in 2002 divided by 52 x the population of working age.

Table 3
Comparisons with Labour Inputs Derived from Time Use Studies

Average hours per week per capita

	Time Use Data (Age 20-70)				Table 1 (Working age)
	Market Work 1.	Home Work 2.	All Work 3.	Leisure 4.	Market Work 5.
Belgium	21.9	25.1	47.0	42.4	17.7
Denmark	31.8	21.8	53.6	39.8	21.3
Finland	25.0	21.9	46.9	46.4	22.4
France	23.6	24.6	48.2	35.2	17.4
Germany	23.1	28.4	51.5	39.1	18.0
Italy	24.1	27.7	51.9	46.8	17.5
Netherlands	22.1	24.0	46.1	46.4	18.4
Norway	27.9	21.9	48.9	48.0	19.8
Sweden	28.1	24.7	52.8	41.8	22.4
UK	26.5	22.8	49.3	42.8	23.3
Canada	29.8	24.9	54.7	38.3	24.4
US	29.9	25.4	55.3	39.4	25.0

Notes

The time use data are derived from Burda et al. (2006), Tables 1.1, 1.4. The market work numbers in the time use data are larger than those in Table 1 because they do not typically include vacations and holidays.

Correlations

Cols. 5. and 1., 0.76. Cols. 5. and 2., -0.33.

Cols. 5. and 3., 0.55. Cols 5. and 4., -0.15.

Table 4

Total Labour Input

Weekly hours worked per person of working age

	1964	1970	1973	1983	1990	2004	% change from 1983 (1973)
Austria						19.8	
Belgium				17.8	17.7	17.7	-0.6
Denmark				22.0	21.1	21.3	-1.5
Finland	28.8	26.8	25.8	25.7	25.2	22.4	-12.8 (-13.2)
France		24.4	23.4	19.4	18.8	17.4	-10.3 (-25.6)
Germany		25.2	24.7	20.2	19.3	18.0	-10.9 (-27.1)
Ireland				19.1	19.1	20.7	8.4
Italy		18.7	18.9	17.4	16.8	17.5	0.6 (-7.4)
Netherlands			18.7	15.3	16.8	18.4	20.3 (-1.6)
Norway			22.3	21.1	20.1	19.8	-6.2 (11.2)
Portugal					24.0	22.1	
Spain				17.3	18.2	21.4	23.7
Sweden	25.2	24.1	23.2	23.1	24.9	22.4	-3.0 (-3.4)
Switzerland						23.2	
UK			26.4	21.2	24.6	23.3	9.9 (-11.7)
Australia				22.3	24.4	24.3	9.0
Canada			22.6	21.4	23.8	24.4	14.0 (8.0)
Japan			30.0	28.6	26.8	23.6	-17.5 (-21.3)
NZ					23.5	25.8	
US	24.0	23.8	24.1	23.6	25.8	25.0	5.9 (3.7)

Source: Based on Tables 5 and 6. Annual hours ÷ 52 x employment rate.

TABLE 5
Total Employment Rate (Women in brackets) %

	1964	1970	1973	1983	1990	2004
Austria			64.4 (47.7)	62.9 (47.1)		66.5 (60.1)
Belgium			60.7 (39.9)	54.6 (47.1)	54.4 (40.8)	60.5 (53.0)
Denmark			75.2 (61.2)	71.1 (65.0)	75.4 (70.6)	76.0 (72.0)
Finland	72.2 (61.4)	70.4 (61.5)	70.0 (62.3)	73.2 (69.0)	74.1 (71.5)	67.2 (65.5)
France		66.6 (46.4)	65.9 (47.9)	60.8 (48.3)	60.8 (50.9)	62.8 (56.9)
Germany		66.9 (46.3)	68.7 (49.7)	62.2 (47.8)	64.1 (52.2)	65.5 (59.9)
Ireland			59.9 (32.8)	53.9 (33.6)	52.1 (36.6)	65.5 (55.8)
Italy		52.0 (27.4)	55.1 (29.9)	54.5 (34.2)	52.6 (36.2)	57.4 (45.2)
Netherlands			56.3 (28.6)	52.1 (34.7)	61.1 (46.7)	73.1 (65.7)
Norway			67.7 (49.3)	73.9 (63.0)	73.0 (67.2)	75.6 (72.7)
Portugal			62.4 (30.5)	65.8 (49.8)	67.4 (55.4)	67.8 (61.7)
Spain			61.0 (32.5)	47.0 (26.4)	51.8 (31.8)	62.0 (49.0)
Sweden	70.8 (53.0)	72.3 (58.3)	73.6 (60.8)	78.5 (73.9)	83.1 (81.0)	73.5 (71.8)
Switzerland			77.7 (54.1)	73.8 (54.7)	78.2 (66.4)	77.4 (70.3)
UK			71.4 (52.7)	64.3 (52.6)	72.5 (62.8)	72.7 (66.6)
Australia			68.5 (46.4)	62.5 (47.0)	67.9 (57.1)	69.5 (62.6)
Canada			63.1 (44.1)	63.8 (53.1)	70.3 (62.7)	72.6 (68.4)
Japan		67.9 (52.8)	70.8 (53.4)	71.1 (55.7)	68.6 (55.8)	68.7 (57.4)
NZ			64.4 (39.1)	61.6 (42.8)	67.5 (58.6)	73.5 (66.5)
US	62.1 (40.6)	64.0 (46.3)	65.1 (48.0)	66.2 (56.1)	72.2 (64.0)	71.2 (65.4)

Source: OECD Employment Outlook, 1995, Table A; 2005, Table B and OECD Labour Market Statistics

Note: Vertical lines reflect breaks in the series

Definition: Total employment ÷ population of working age (15-64)

TABLE 6
Average Annual Hours Worked Per Person in Employment

	1964	1970	1973	1979	1983	1990	1995	2004
Austria								1550 ³
Belgium					1696	1690		1522
Denmark					1597	1452		1454
Finland	2075	1982	1915	1870	1823	1771		1736
France	1939 ¹	1902	1846	1755	1663	1610	1558	1441
Germany²	2081	1956	1869	1758	1692	1566	1494	1426
Ireland					1902	1911	1823	1642
Italy	1908	1868	1788	1697	1674	1656	1616	1585
Netherlands¹		1830	1724	1591	1530	1433	1359	1312
Norway	1954	1784	1712	1514	1485	1432	1414	1363
Portugal						1858	1799	1694
Spain				2022	1912	1824	1815	1799
Sweden	1852	1730	1642	1530	1532	1561	1626	1585
Switzerland							1640	1556 ³
UK		1939	1923	1815	1713	1767	1734	1669
Australia				1904	1853	1866	1872	1816
Canada	2000	1892	1860	1800	1745	1757	1744	1751
Japan			2201	2126	2095	2031	1884	1789
NZ						1810	1842	1826
US	2013	1936	1922	1861	1851	1861	1873	1824

¹ Dependent Employment

² West Germany

³ 2003

Source: OECD Labour Market Statistics

Footnotes

1. See Faggio and Nickell (2006) for more detail.

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