Discussion of “On the Allocation of Time – A Quantitative Analysis of the US and France”

Duernecker & Herrendorf

Franck Portier

CMMSG, McMaster University, Hamilton
Nov. 7, 2014
Roadmap

1. A Fact and its popular explanation
2. Prescott 2004
3. Duernecker & Herrendorf 2014
4. Comments
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1. A Fact and its popular explanation
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1. A Fact and its popular explanation

A Fact

Table 1: Fraction of total available time devoted to work

<table>
<thead>
<tr>
<th></th>
<th>1965</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>35%</td>
<td>30%</td>
</tr>
<tr>
<td>France</td>
<td>36%</td>
<td>22%</td>
</tr>
</tbody>
</table>
1. A Fact and its popular explanation

Popular “cultural” explanation (Kehoe [2014])
1. A Fact and its popular explanation

Popular “cultural” explanation

- The French are lazy,
- *N’est-ce pas?*
1. A Fact and its popular explanation

Popular “cultural” explanation

- The French are lazy,
- *N’est-ce pas?*
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2. Prescott 2004

- Take a bunch of rich countries
- Assume same technology, possibly different TFP and same preferences
- Assume (marginal) tax rates are at their “observed” level.
- Take $c/y$ at their “observed” level.
- Then differences in taxes explain much of the difference in market activities.
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Then differences in taxes explain much of the difference in market activities.

![Graph showing the relationship between marginal tax rate and hours worked per week for different countries and time periods.](image)

- Germany
- France
- Italy
- Canada
- UK
- Japan
- USA

- 1970–74
- 1990–93

<table>
<thead>
<tr>
<th>Country</th>
<th>Hours Worked per Week</th>
<th>Marginal Tax Rate</th>
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<tbody>
<tr>
<td>Germany</td>
<td>0.65</td>
<td>30</td>
</tr>
<tr>
<td>France</td>
<td>0.60</td>
<td>28</td>
</tr>
<tr>
<td>Italy</td>
<td>0.55</td>
<td>26</td>
</tr>
<tr>
<td>Canada</td>
<td>0.50</td>
<td>24</td>
</tr>
<tr>
<td>UK</td>
<td>0.45</td>
<td>22</td>
</tr>
<tr>
<td>Japan</td>
<td>0.40</td>
<td>20</td>
</tr>
<tr>
<td>USA</td>
<td>0.35</td>
<td>18</td>
</tr>
</tbody>
</table>

0.25 0.3 0.35 0.4 0.45 0.5 0.55 0.6 0.65

Marginal Tax Rate

Hours Worked per Week
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This theory suggests that French must work harder at home than Americans.
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- Exploit Time Use Surveys
- Split time between
  - (market) working time
  - (domestic) working time
  - leisure
- Take the US and France
- Market hours went down in France (we knew it already)
- Home production stays flat everywhere
- Leisure hours went up in France
3. Duernecker & Herrendorf 2014

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% Home Hours
- USA
- France


%
3. Duernecker & Herrendorf 2014

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![Leisure Hours Graph](image-url)

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<td>1960</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>1970</td>
<td>40%</td>
<td>45%</td>
</tr>
<tr>
<td>1980</td>
<td>45%</td>
<td>50%</td>
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<td></td>
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Unless preferences are non homothetic:
- Income elasticity of consumption is smaller than one
- Income elasticity of leisure is larger than one

TFP are different in levels and growth rates:
- In the US and in France
- In the home sector and in the market one
- In the production of consumption or investment goods

Georg and Berthed carefully construct value added estimates of home production and derive evolutions of productivities and capital/labour ratios in the US and France.

Then simulate a model by feeding those estimates and observed taxes.
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Figure 1: Market Hours

Figure 3: Time Allocation Predicted by the Model
3. Duernecker & Herrendorf 2014

Figure 2: Home Hours

![Home Hours Graph]

Figure 3: Time Allocation Predicted by the Model
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Figure 3: Leisure Hours

- **USA Data**
- **FRA Data**

Graph showing the trend of leisure hours from 1970 to 2005 for both USA and FRA, with leisure time increasing over the years.
3. Duernecker & Herrendorf 2014

- **Main mechanism at work**
  - More taxes in France $\leadsto$ market hours went down
  - French income filled part of the gap wrt US one $\leadsto$ income growth was proportionally more directed toward leisure than consumption
  - French labor productivity at home grew fast in France $\leadsto$ wealth effect towards more leisure and less home hours

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  - Why don’t we see a drop in market hours in France in 2000 when the 35 hours regulation is implemented?
  - Why doing a year-to-year simulations while we have only 3 observations for the Time Use Survey in France (1965, 1974, 1998)
  - Simulations between 1998 and 2005 are useless: “Assume that time shares are constant during the period from 1998 to 2005.”
  - Taxes are only distortives. What about differential public provision of consumption goods?
  - Why not assuming that the home “wage” is not the average average market wage (as the model suggests)
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  - Simulations assume perfect foresight
    - The tax rates and productivity levels of 2005 impact the choices of 1970.
    - Can we have a sense of how big is that anticipation effect?
    - What if one assumes some distribution of probabilities on future events?
  - As far as home production is concerned, gender matters big time
    - Female Labor market participation is quite different among countries
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Figure 4: Female Labor Market Participation

The Netherlands had the highest percentage of women working less than 30 hours a week in 1997—55 percent—followed by the United Kingdom and Australia at 40 percent each. The United States, Italy, and Sweden had the lowest rates of women working part-time: 20, 24, and 25 percent, respectively (OECD in Figures, 1999). Among men, the highest part-time rates in 1997 were in Australia, Japan, and the Netherlands—4, 13, and 11 percent, respectively—and the lowest in Germany, Italy, and France—3, 5, and 6 percent, respectively.

The types of jobs held by women also vary widely. Occupational segregation is higher in the Nordic countries than in other OECD countries. In the Nordic countries, women are mainly employed in education, health care, child day care, and social services, all of which are monopolized by the state. In these countries, the public sector accounted for 58 percent of total female employment in 1992 (Melkas and Anker, 1998). Occupational segregation is lowest in the United States (Anker, 1998, p. 176). Women's shares of administrative and managerial jobs in 1994–95 (jobs that range from the chief executive of a major corporation to the manager of...
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    - Many reasons that determines FLMP
    - In a representative agent model, those reasons would show up as changes in preferences
    - Although we do not like changes in preferences, isn’t it a case where it is reasonable to assume such changes in a RA framework?
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4. Comments

- Two comments:
  - Simulations assume perfect foresight
    - The tax rates and productivity levels of 2005 impact the choices of 1970.
    - Can we have a sense of how big is that anticipation effect?
    - What if one assumes some distribution of probabilities on future events?
  - As far as home production is concerned, gender matters big time
    - Female Labor Market Participation is quite different among countries
    - Many reasons that determines FLMP
    - In a representative agent model, those reasons would show up as changes in preferences
    - Although we do not like changes in preferences, isn’t it a case where it is reasonable to assume such changes in a RA framework?
To conclude

- Stimulating paper
- I appreciate the punchline “French are not lazy”
- Nice contribution to the Franco-German Friendship
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