More on Why Americans Work Harder

\[ U = \sum_{i=1}^{\infty} \gamma_i \left[ \log c_i + \theta \log(100 - h_i) \right] \]

GDP and Hours Worked, G7

<table>
<thead>
<tr>
<th>Country</th>
<th>Hours Per Week Person 15-64</th>
<th>GDP Per Hour (US=100)</th>
<th>GDP Per Person 15-64 (US =100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>19.3</td>
<td>89</td>
<td>74</td>
</tr>
<tr>
<td>France</td>
<td>17.5</td>
<td>110</td>
<td>74</td>
</tr>
<tr>
<td>Italy</td>
<td>16.5</td>
<td>90</td>
<td>57</td>
</tr>
<tr>
<td>Canada</td>
<td>22.9</td>
<td>89</td>
<td>79</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>22.8</td>
<td>76</td>
<td>67</td>
</tr>
<tr>
<td>Japan</td>
<td>27.0</td>
<td>74</td>
<td>78</td>
</tr>
<tr>
<td>United States</td>
<td>25.9</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Senator Mustard’s Plan

- We will raise everyone’s value of \( \tau_w^* \), using the money to give everyone $1,000 in food stamps.
- A wash item for most people: we all spend more than $1,000 a year on food.

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\[ h_{it} = \frac{1 - \alpha}{1 - \alpha + \frac{c}{y} \frac{\theta}{1 - \tau_w^*}} \]
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**The Argument**

- If we were all exactly equal, this would be a lose-lose plan with hours of work declining and a government bureaucracy set up to get us just back where we started.
- Of course, we are all not equally well off and there would be some beneficiaries.
- But there is an important element of truth in this plan, for most of the money would go back to the people who paid the taxes.
- Perhaps this is just a cost of redistribution.

**The Alternative**

- Lets suppose we “means tested” the program.
  - Individuals earning less than (say) $15,000 a year would not get the benefits.
  - The cost is less, and the disincentive effects are fewer.

**The Dilemma**

- There are lots of similar programs: housing, education, medical care, food stamps, etc.
- Suppose the benefits total $18,000 a year.
The Dilemma

- There are lots of similar programs: housing, education, medical care, food stamps, etc.

John Smith is making $12,000 a year. What incentive does he have to work harder?

Sally Jones is earning $25,000 a year. Maybe she should just quit and take the $18,000 package.

End