

More on Why Americans Work Harder

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

GDP and Hours Worked, G7

Country	Hours Per Week Per Person 15-64	GDP Per Hour (US=100)	GDP Per Person 15-64 (US=100)
Germany	19.3	99	74
France	17.5	110	74
Italy	16.5	90	57
Canada	22.9	89	79
United Kingdom	22.8	76	67
Japan	27.0	74	78
United States	25.9	100	100

Hours Worked

$$h_{it} = \frac{1 - \alpha}{1 - \alpha + \frac{c}{y} \frac{\theta}{(1 - \tau_w^*)}}$$

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Hours of work will decline and we will be worse off

The Argument

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- Of course, we are all not equally well off and there would be some beneficiaries.

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- 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.

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- 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

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