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Policy Brief

The Future of Hours of Work?

By John Pencavel

Earlier this year, a remarkable agreement was reached in Europe that will affect the well-being of many workers. It received little attention in this country although it may be an issue that, in due course, will concern American employers and employees.

In February 2018, following three 24-hour strikes at companies including Daimler, Siemens, and Airbus, Europe's largest industrial labor union, IG Metall, in an agreement with employers, secured for each German metal worker the right to work less than the standard weekly hours of 35 and as few as 28 hours a week, if a worker so chooses. Those who work fewer hours will be paid only for hours worked, so they will see their weekly earnings fall below those who work longer.

This arrangement comes into effect in January 2019 and will be revisited and perhaps revised in two years when the agreement comes to an end. Some newspaper reports claim that the union turned down a 6.8 percent pay increase to achieve its goal of obtaining for workers a wider choice in their working hours. For their part, employers won the right to offer more workers longer 40-hour contracts. Workers are not required to accept longer hours. In short, both employers and employees have secured greater flexibility in their choice of working hours. This change in work schedules in Germany has been preceded by experiments with shorter hours in Sweden and with calls from workers in Britain for a standard four-day working week.

German workers already work substantially fewer hours than the typical American worker. Their standard workweek is 35 hours and their vacations are weeks longer than those of American workers. By law, full-time German employees are currently entitled to a minimum of four weeks of paid vacation in addition to a number of public holidays, the precise number varying from one state to another; there is no such legal right for American employees. Consequently, one estimate from the Organisation for Economic Co-operation and Development (OECD) is that the average annual hours of work of the typical German worker are about 400 hours fewer than those of the American worker — or about 10 weeks shorter based on a 40-hour workweek.

An objective of IG Metall was to provide their members with more of an opportunity to attend to family responsibilities without sacrificing their connection to the workplace. The same aspiration has been expressed by some American workers — especially women who now constitute almost one-half of the labor force. Conventionally, in a

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market economy, individuals search for the working hours that balance home duties with the requirements of the job by moving from the employer who specifies long and strict work schedules to another with more accommodating work arrangements, a movement that may entail costs for both workers and employers. If more employers offered shorter and more flexible hours, the requirement for workers to switch employers to achieve their particular balance between home work and market work would be less compelling.

If American workers emulate these German workers, the current occasional calls in this country for shorter and more accommodating work hours will become more insistent and extensive. How will employers respond? If the history of work hours is repeated, most employers will resist these pressures to reduce hours of work and to make hours more flexible. These employers will claim that shorter hours will sharply reduce output and burden management. If employers disregard calls from their employees for different work schedules, this may cause workers to turn to collective organizations, such as labor unions, that are able to exert more effective pressure on employers, as teachers' unions have done recently. It is meaningful that it has taken a powerful union, IG Metall, to effect the change in hours in Europe.

A few employers will recognize there are benefits to them of benevolence and will not oppose efforts to reduce working hours. They will recognize opportunities to substitute more workers for shorter hours per worker. These employers will enjoy higher productivity (output per worker hour) with a more contented and effective labor force working the hours that come closer to their preferences. In time, new norms will be established to which many employers will subscribe. They will find that the new arrangements are not as onerous as they had feared because effective hours of work are not the same as nominal hours of work: The law of diminishing (marginal) returns states that, after a point and with other things unchanged, in the typical workplace one more hour of work after having worked 30 hours generates more output than one more hour of work after having worked 40 hours.

If this should happen, a historical trend will have been restored. That is, for over a century, workers agitated for shorter hours and employers' resistance inspired the growth of labor unions that placed more substantial pressure on employers. There were a few employers who adopted shorter hours and their commercial success indicated that shorter hours were not as disastrous as other employers feared. In this way, what at one moment was seen as a radical change in work schedules became accepted as the normal way of doing things.

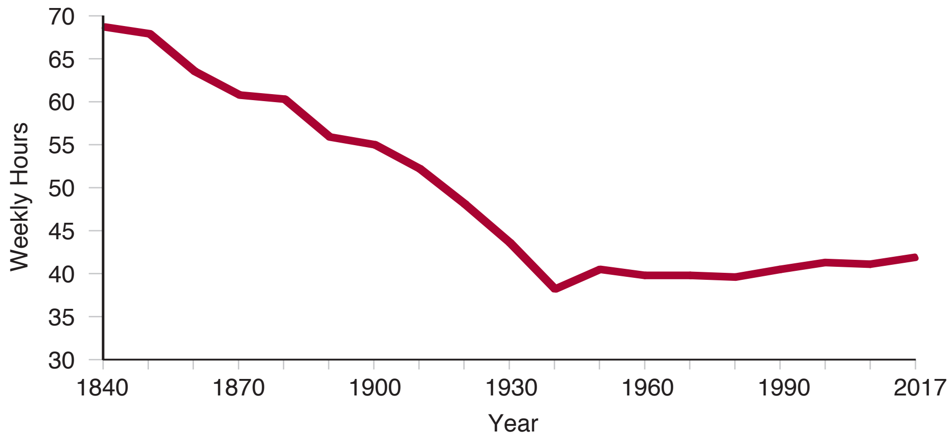
Figure 1 plots from 1840 to the present the average weekly hours of a specific group of American workers: production and non-supervisory workers in manufacturing industry. These are the workers whose German equivalents achieved a few months ago the right to work 28 weekly hours. From 1840, when the weekly hours of these American manufacturing workers averaged almost 70 hours, their hours fell over time until the Second World War. In 1950, they were 40.5 hours and observers forecast this downward trend in the length of the working week for the typical worker would extend into the future. Thus one economist, Lloyd Reynolds, wrote in the early 1950s that "reductions in hours will doubtless continue" and he guessed that, for workers such as those whose hours are graphed below, "weekly hours will fall to thirty or less."[1] This trend was seen as a natural outcome of the workings of labor markets: The benefits of productivity growth were viewed as being shared with workers in the form of both rising real hourly earnings and falling working hours.

In fact, in 1950, hours for these workers had reached a level below which they did not fall: In 1990, the working week of these workers was also 40.5 hours and by 2017 these manufacturing production workers averaged 41.9 weekly hours. The reason for the end of this century-long downward trend in hours is not obvious. It precedes the corrosion of unionism. Moreover, the manufacturing workers whose hours are graphed were working in an industry in which, in the 1950s and 1960s, the demand for labor was growing, as is evident in the increase in manufacturing employment (until the late 1970s).

The graph showing the evolution of the average weekly hours of work of production workers in manufacturing industry traces workers over time who, along some dimensions, typified the American worker. More

Figure 1

Average Weekly Hours of Work of Production Workers in Manufacturing Industry, 1840-2017



representative today of the American worker is the college-educated, white-collar worker: Two-thirds of today's labor force have at least some college education.[2] What is known about changes in the working hours of these workers?

One study reports that the fraction of men who usually work 50 or more weekly hours increased between 1979 and 2006 — the increase greatest for college graduates and salaried workers: The fraction of men in the top hourly earnings quintile who usually work 50 or more hours increased from 15 percent in 1979 to 27 percent in 2006.[3]Whereas a century ago, the lowest-paid workers worked the longest hours, today the longest hours are worked by the top 10 percentile of earners. This conforms to the perception that, in some sectors, a culture of long working hours has emerged where an individual's long hours are a rite of passage into the upper echelons of a company's hierarchy. Insofar as it is those at the top of the earnings distribution who set society's agenda, will we hear more agitation for a shorter workweek and more flexible work schedules over the next decade?

If the future of shorter hours for many workers comes to pass, will

1 Lloyd G. Reynolds, *Labor Economics and Labor Relations*, Prentice-Hall, New York, second edition 1954, p. 258-59 and p. 708.

2 See Vernon Brundage, Jr., Profile of the Labor Force by Educational Attainment, August 2017, BLS Spotlight on Statistics.

3 Peter Kuhn and Fernando Lozano, "The Expanding Workweek? Understanding Trends in Long Work Hours among U.S. Men, 1979-2006," *Journal of Labor Economics*, 26 (2) April 2008:311-43.

the structure of earnings be affected? It is well known that those who work longer hours tend to have higher hourly earnings than those working shorter hours. In part, this is the consequence of federal and state regulations that mandate higher hourly earnings for each hour worked beyond a threshold. In the federal regulations, for the workers covered by this regulation, currently the threshold is 40 weekly hours. Independent of these regulations, the market tends to reward those working longer hours with higher hourly rates of pay, an example of wage differentials that compensate workers for diverting hours away from more pleasing activities to those at the workplace.

If these patterns persist in an economy with many more working shorter hours, then, other things constant, we should expect these earnings differentials to persist if not become larger. Currently women and younger people are more likely to work shorter hours in the workplace than men and older people. Hence an economy with more working shorter hours will result in weekly and annual earnings differentials between women and men and between younger and older workers to remain if not increase.

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