Contents

LIST OF ILLUSTRATIONS ix
PREFACE xi
INTRODUCTION 1

1. LABOR TAXES AND HOURS OF WORK: SOME THEORY 10
   The Textbook Model of Labor Supply 11
   A Diagrammatic Representation of the Consumption-
   Leisure Trade-Off 14
   Income and Substitution Effects 16
   Analyzing Tax Policy 18
   The Social Cost of Higher Taxes 22
   The Laffer Curve 23
   Additional Tax Instruments 24
   Additional Spending Policies 26
   Summary 27

2. LABOR TAXES AND HOURS OF WORK: WHERE TO LOOK FOR EVIDENCE? 28
   How Do We Know What We Think We Know? 28
   Experimental Data from the Economy 32
   Summary 35

3. TAXES, GOVERNMENT SPENDING, AND HOURS OF WORK IN THE UNITED STATES 36
   U.S. Tax Rates on Labor 36
   Properties of Government Spending in the United States 43
   Hours of Work in the United States 46
   Summary 50
4. **WHAT WE LEARN FROM THE U.S. EXPERIENCE** 51
   - The Missing Factor 52
   - Home Production and Labor Supply 54
   - Changes in Home and Market Work 57
   - Reassessing the Relationship between Labor Taxes and Market Work 62
   - Summary 64

5. **WHAT WE LEARN FROM THE EXPERIENCE OF OTHER COUNTRIES** 65
   - Labor Taxes in the OECD 65
   - Hours Worked in the OECD 67
   - Changes in Taxes and Changes in Hours of Work 68
   - Cultural Differences 71
   - Other Explanations for Differences in Hours Worked 72
   - Supporting Evidence: Home versus Market Production 80
   - The Netherlands 82
   - Summary 84

6. **UNDERSTANDING SCANDINAVIA** 86
   - The Importance of How the Government Spends 87
   - Summary 93

**CONCLUSION** 94

**APPENDIX** 98

**NOTES** 105

**REFERENCES** 109

**ABOUT THE AUTHOR** 113