Labor Supply in the Past, Present, and Future: A Balanced-Growth Perspective

Timo Boppart

Institute for International Economic Studies and Center for Economic and Policy Research

Per Krusell

Institute for International Economic Studies, University of Gothenburg, National Bureau of Economic Research, and Center for Economic and Policy Research

The absence of a trend in hours worked in the postwar United States is an exception: across countries and historically, hours fall steadily by a little below 0.5% per year. Are steadily falling hours consistent with a stable utility function over consumption and leisure under balanced growth of the macroeconomic aggregates? Yes. We fully characterize the class of such functions and thus generalize the well-known "balanced-growth preferences" that demand constant (as opposed to falling) long-run hours. Key to falling hours is an income effect (of steady productivity growth on hours) that slightly outweighs the substitution effect.

I. Introduction

We propose a choice- and technology-based theory for the long-run behavior of the main macroeconomic aggregates. Such a theory—standard

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