

FUNDAMENTALS

Going Dutch: the prospects for and implications of a four-day working week

A future in which there is less work to be done will radically reshape the economy, with important consequences for investors – including some contrarian implications for the consumer and real-estate sectors.



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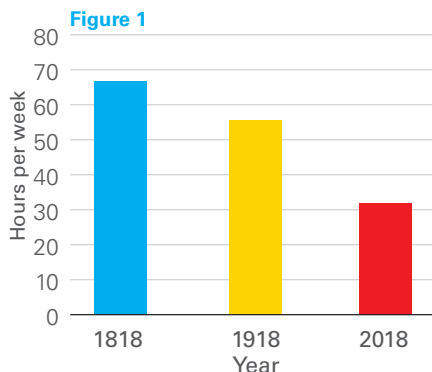
As many as one in three of you may see your job disappear within the course of the next decade. That is the alarming conclusion from one of a host of recent reports warning that automation will wipe out millions of jobs.¹ Just as the rise of robotics has squeezed employment in the manufacturing sector, artificial intelligence is set to erode

employment in the services sector.

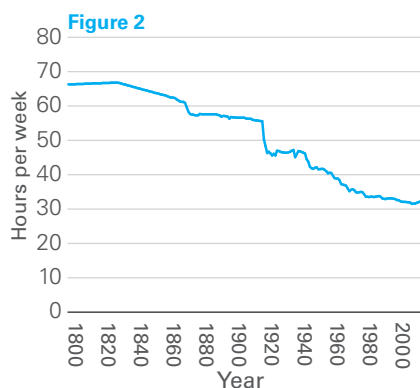
The associated economic and social transformation will be challenging, but it does not necessarily imply a bleak dystopian future. In fact, one not-so-obvious answer to the challenges of demographic and technological change may be welcomed by those affected: a four-day working week.

The employment model in the Netherlands is already based around a typical working week that is substantially shorter than in the UK. A shorter working week makes the economy more productive (defined on an output per hour basis), provides more leisure time for all, and generates higher pay per hour. What's not to like?

The working week has been getting progressively shorter through the past 200 years



Average weekly hours in the UK, adjusted for part-time work, sickness, holidays and stoppages. Source: Bank of England



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THE SHRINKING WORKING WEEK

Averaged over the course of a year, the typical British employee now works for just 32 hours per week. That figure has fallen precipitously from nearly 70 hours per week 200 years ago and 55 hours 100 years ago (see figures 1 & 2).

¹ <https://www.pwc.co.uk/services/economics-policy/insights/the-impact-of-automation-on-jobs.html>

The key developments that have facilitated this decrease are the steady expansion of workers' statutory rights to leisure and the rise of part-time work. Collectively, Britons have simply opted to work less as they have become wealthier.

The "32 hours" headline is nevertheless striking and might make us think that the four-day working week is already here.

However, that includes the pro rata effect of absence due to holiday, sickness and stoppages. Excluding those effects, the typical working week is still around 37 hours (so-called "average usual hours").

We should also not think of a four-day working week as some distant socialist pipedream. Even hardened conservatives have discussed or experimented with a shortened

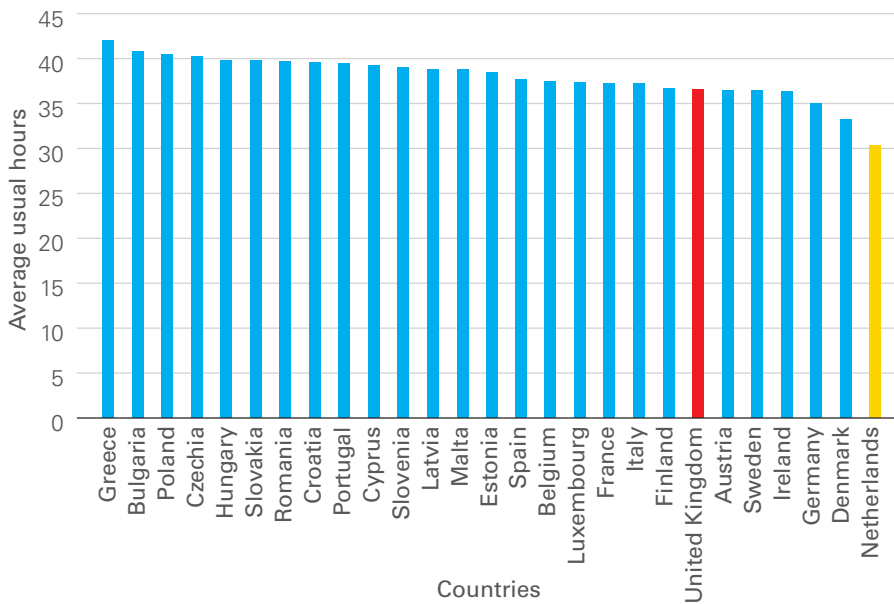
working week. In 1956, Richard Nixon (hardly a darling of left-wing progressives) argued that "the four-day work week is inevitable." From 2007-2011, the US state of Utah – under Republican politicians – redefined the working week for state employees as Monday-Thursday.

The downward trend in average hours is a phenomenon that we have seen across the developed world, and in some countries it has already been taken much further than in the UK.

Figure 3 shows average usual hours for all members² of the European Union: the typical Dutch working week is just 30 hours long, with 50% of people working on a part-time basis.

The Netherlands is one of the UK's closest trading partners, with a similar economic structure. Depending on how you measure it, Dutch income per head is some 20-25% higher than British income per head. But they achieve this by working substantially less.

Figure 3: The Netherlands has a shorter average working week than the UK, but higher incomes per head



Average number of usual hours in main job, 2017. Source: Eurostat

LESSONS FROM HISTORY

Until the start of the 20th century, a six-day working week was the norm. The Amalgamated Clothing Workers of America is the union credited with pushing the hardest to change working practices in the 1920s. It is for good reason that the US labour movement describes itself as "the folks who brought you the weekend"

The parallels with modern efforts to reduce working hours are striking. At the start of the 20th century, workers in the US clothing industry "were willing to give up wages or postpone wage demands for progress towards the 40-hour week... primarily as a way to counter the threat of technological unemployment"³ That angst about automation and robotics should sound familiar.

At the start of the 21st century, workers in the German metal industry were willing to trade wage demands for progress towards the 28-hour week.⁴ In the UK, the head of the Trades Union Congress stated plainly in 2018, "I believe that in this century, we can win a four-day working week"⁵

² At time of writing!
³ "Work Without End: Abandoning Shorter Hours for the Right to Work," Hunnicutt (1988), Temple University Press, p.74
⁴ <https://www.ft.com/content/e7f0490e-0b1c-11e8-8eb7-42f857ea9f09>
⁵ <https://www.economist.com/the-economist-explains/2018/09/21/why-the-weekend-isnt-longer>

IS A SHORTER WORKING WEEK MASKING UNEMPLOYMENT?

A shorter working week is not necessarily a good thing. Furloughed workers, for example, find themselves working fewer hours as a substitute for job losses during an economic downturn. In general, the International Labour Organization is right to remind us that “non-standard employment (including part-time work) poses risk for workers, firms, labour markets and society”⁶

Notwithstanding those worries, the evidence suggests that the rise of part-time work is overwhelmingly a voluntary phenomenon. In the UK, just 10% of part-time workers report that they are working reduced hours because they could not find

Figure 4: No evidence of an increase in involuntary part-timers



Source: ONS

a full-time job. That proportion fluctuates with the economic cycle (i.e. it rises in recessions), but there is no indication of a structural

increase in involuntary part-timers while average hours worked have been falling in the past 25 years (see figure 4).

Looking ahead, there are good reasons to expect demand for part-time work to increase steadily. First, the demographic trends are clear: over 55s (who tend to work shorter hours) are making up a growing share of the workforce. Second, the cultural shift to value “experiences” over “things” is also consistent with a shift in society’s optimal work/leisure trade-off.

Third, and probably most important over the medium term, more part-time work is likely to be an effective way to combat worries about steadily increasing automation.

FIRST-ORDER IMPLICATIONS OF “GOING DUTCH”

As a thought experiment, we can ask what would happen if a new government mandated a four-day

working week and thus intentionally cut the labour supply by 20% overnight. That’s a deliberately exaggerated change (not least because there are already so many voluntary part-time workers), but it is hopefully useful for thinking about the issues involved.

The first-order impact would be a cut in everyone’s take-home pay. But, as almost any economist would argue, that cut in pay would be less than 20% – outside a few sectors, people’s wages generally aren’t linearly linked to the specific number of hours they work. The second-order impact is therefore likely to be an increase in rates of hourly pay. Why is that?

It is partly because labour would become a (relatively) scarce

resource. With the total number of hours available to work dropping, companies would compete to bid up the price of that suddenly precious commodity: employees’ time.

But it is also because output per hour (or productivity) is likely to increase. We can argue this from first principles. Economic output is produced by blending capital and labour. Reducing the labour supply by 20% does not affect the size of the capital stock. The capital stock per hour worked therefore increases, implying output and pay per hour worked also rise. A deeper capital pool and productivity improvements are likely to drive up hourly rates of pay.

⁶ http://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/@publ/documents/publication/wcms_534326-2.pdf

That logic is supported by anecdotal evidence. In March 2018, a New Zealand company trialled a four-day working week in association with the University of Auckland. Employee engagement soared and there was no negative impact on the firm’s overall output.⁷ That’s consistent with the experience of part-time employees frequently reporting a need to “squeeze five days’ work into four”.

Dropping to a four-day working week is therefore likely to make the economy more productive (defined by output per hour), provide more leisure time for all, and generate higher pay per hour.

If it is accompanied by technological improvement and capital deepening due to automation, then the impact on total pay will be entirely offset. That is the story of the past century: average hours worked have fallen, but real incomes have nonetheless risen dramatically. A time traveller from 1918 would have found themselves working 40% less in 2018, but earning 550% more.

Put another way, to maintain their standard of living, they would have to work a grand total of just four hours per week.

SECOND-ORDER IMPLICATIONS OF “GOING DUTCH”

It is highly unlikely that a shorter working week implies a longer traditional weekend for all. 31% of employees in the UK already report usually working on either Saturdays or Sundays. The line between weekends and the working week is likely to become increasingly blurred as working hours decrease.

That has important implications for our existing infrastructure and real-estate assets that have been built with more regular working patterns in mind.

To take one simple example, the financial projections of Transport for London are predicated on passenger journeys increasing in line with London’s population.

But there has now been a fall in journey numbers across the core network for each of the past four years without an equivalent decline in the city’s population.⁸ To the extent that has been driven by shorter working weeks, the trend is likely to be persistent. As a near-monopoly provider of transport services in London, TfL can always offset the revenue impact by raising prices. That luxury is unlikely to be available to other organisations facing similar trends.

The broader point is that infrastructure and real-estate projects are based on projected cashflows over multiple decades. Those are exactly the kinds of assets most vulnerable to disruption from a move towards a shorter working week.

Figure 5: Londoners are commuting less than they used to



*Bus, underground, DLR & tram only; 2018-19 based on the first 10 months of the financial year
Source: TfL

7 <https://www.4dayweek.co.nz/four-day-week-trial>
8 https://www.london.gov.uk/sites/default/files/tfl_finances_-_final.pdf

On the flip-side, shorter working weeks are likely to be associated with an increasing appetite for leisure services. There has been a steady drift higher in the proportion of UK household expenditures on services over time. There are many potential explanations for this shift, but more leisure time is likely to be one important factor.

According to Gallup’s daily monitoring of spending habits, Americans typically spend around 17% more each day at the weekend than during the working week. Any shift to greater leisure time is therefore likely to put downward pressure on savings as income is squeezed lower and spending is pushed higher.

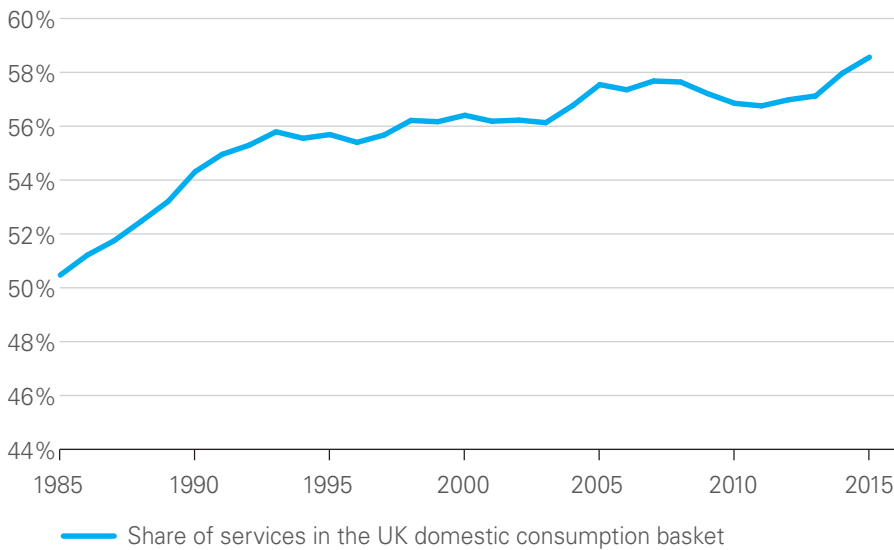
A 15-HOUR WEEK NEXT?

In 1930, John Maynard Keynes wrote an essay on the “Economic Possibilities for Our Grandchildren”. He argued that as society became wealthier, people would choose to spend less time working and more time at leisure. A 15-hour working week beckoned as productivity improvements allowed society to produce the same output with fewer inputs. We are not quite down to 15 hours per week (yet), but the trend is clear.

A shorter working week makes the economy more productive, provides more leisure time for all, and generates higher pay per hour. In the words of the Dutch economist Rutger Bregman, it is “the solution to just about everything”⁹

We wouldn’t go quite that far. Instead, we argue that it is a perfectly logical response to ongoing demographic and technological challenges – but does have important implications for investors in sectors from real estate to retail. The Dutch model is one to follow. The future’s bright, the future’s orange!

Figure 6: UK households are spending more on services



Source: ONS Consumer Trends

9 <https://thecorrespondent.com/4373/the-solution-to-just-about-everything-working-less/168119985-db3d3c10>

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