

The double dividend

An analysis of the job creation potential of purchasing additional holiday leave

Summary

While unemployment has been falling in recent years there are still more than 620,000 unemployed people in Australia and an estimated 589,000 underemployed workers. A lack of work therefore remains a major financial problem for more than one million Australians and imposes social costs on their families and communities.

Data collected for The Australia Institute by Newspoll suggests that 52 per cent of full-time employees would be willing to forgo a four per cent pay rise in order to purchase an additional two weeks of annual leave. If workers were in a position to act on their preferences the additional leave taken by existing full-time employees would create the equivalent of 146,000 additional full-time jobs.

Such a redistribution of work would also achieve a significant redistribution of income from people who have too much work to people who have too little income. There would also be spillover economic benefits, with the domestic tourism industry the most likely to benefit.

Background

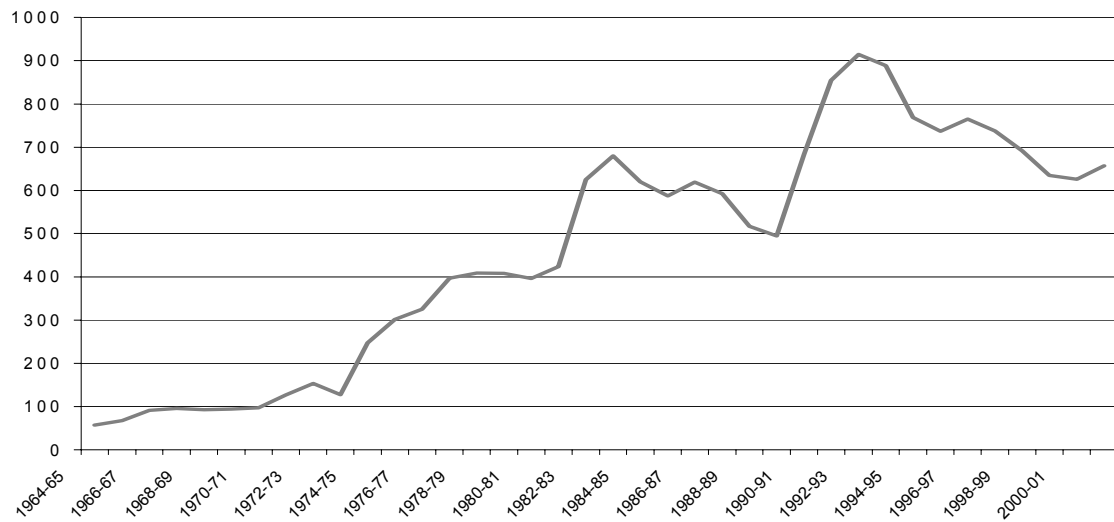
Despite ten years of economic growth, unemployment in Australia remains high. In June 2003, 620,000 people were reported to be unemployed (ABS 2003). In addition large numbers of people are underemployed, an estimated 589,800 in September 2002 (ABS 2000), thus bringing the total of those looking for work to more than 1 million. Unemployment is the number one cause of poverty for Australian families (Saunders 2002) and the proportion of Australian children living in jobless households is the third highest in the OECD (Nevile 2003). Unemployment rates over the period 1964-65 to 2001-02 are shown in Figure 1.

The most significant response to unemployment by the Commonwealth Government has been an attempt to make the labour market more flexible. For example, the Minister for Employment, Tony Abbott, has stated that 'greater workplace flexibility permits employers and employees to agree to conditions that add to the efficiency of business and foster employment' (Abbott 2002).

Government policies with respect to labour market flexibility have resulted in both the removal of barriers to the reorganisation of work by employers and a fall in job security. In order to achieve more flexibility, the Government is currently seeking to abolish unfair dismissal legislation for small business. As Minister Abbott has stated:

The Howard Government has created approximately 972,000 new jobs since coming to government in 1996 and greater improvements could be achieved if the current unfair dismissal laws were abolished (Abbott 2003).

Figure 1 Unemployed persons, original, 000's, 1964-65 to 2001-02



Source: ABS 6202.0, ABS 6203.0

But labour market flexibility has not solved unemployment. Although it has produced new opportunities for those seeking part-time employment, it has also created a range of new labour market problems, particularly the phenomenon of 'precarious employment'. Precarious employment refers to the situation where people work in jobs that lack security of tenure or standard conditions of employment such as sick pay and holiday pay (Burgess and Campbell 1998).

A further result of the attempt to increase employment by deregulating the labour market has resulted in a mal-distribution of work. A great deal of work has been created for some individuals but there has been no attempt by policy makers to re-direct this over-abundance towards those who have little or no work at all. The average full-time male employee now works around 43 hours per week compared to around 39 hours per week in 1982 (ABS 2003b). Similarly, the proportion of employees working more than 45 hours per week is significantly higher than it was when the labour market was less flexible.

The Australia Institute suggests that an alternate notion of flexibility, one based on the voluntary reallocation of work hours, is likely to deliver better employment outcomes than government changes designed to make dismissal easier.

Holiday leave in Australia

Full-time employees in Australia are entitled to a standard four weeks paid holiday leave per year. This contrasts with paid holiday entitlements in the European Union where five weeks is the norm (Denniss 2003).

According to the results of a Newspan survey conducted for The Australia Institute, only 39 per cent of full-time employees took all of the annual leave to which they were entitled in 2002 (Denniss 2003). Forty two percent of those who did not take their full entitlement blamed the inflexibility of workplaces for this failure, stating that they were either too busy at work to take time off or that their employers would not permit them to take holidays at a time convenient for them. However, despite the

difficulties of accessing existing leave entitlements, the majority of full-time employees expressed a preference for an additional two weeks of annual leave over a four per cent pay rise. Willingness to purchase additional leave, by gender and age, is shown in Table 1 where it is clear that more than half (52 per cent) of full-time employees would prefer to receive an additional two weeks paid leave than a four per cent increase in pay.

Table 1 Preferences for a four per cent pay rise or an additional two weeks paid leave, by gender and age (%)

	Total	Men	Women	25-34	35-49	50-59
4 per cent pay rise	45	45	44	40	47	49
Additional 2 weeks holiday leave	52	53	49	57	49	48

Source: Newspann

The higher preference for additional leave expressed by younger people is interesting given that average incomes rise with age. This could reflect either a generational preference for leisure over income or age specific factors such as the higher likelihood that respondents aged 25-34 have young families.

The potential to redistribute work

A method of redistributing work away from those who are doing too much to those who are looking for more involves encouraging employees first of all to take all their existing leave and then to purchase additional leave. In May 2003 there were 6,765,500 full-time employees. If, as the Newspann survey suggests, 52 per cent of these are willing to forgo a four per cent pay rise in order to purchase an additional two weeks annual leave, the number of hours forgone would be equivalent to 146,586 full-time jobs. This calculation is summarised in Table 2.

Table 2 Estimate of full-time equivalent jobs that could be created through redistribution of work

Full-time employees (May 2003)	6,765,500
Average hours of full-time work per week	41
Proportion of full-time employees preferring additional holidays	52%
Hours of new work created by additional holiday uptake (annual)	288,480,920
Full-time equivalent jobs created by additional holiday uptake	146,586

As Table 2 shows, once the changes worked their way through the labour market, it is possible to create the equivalent of more than 146,000 full-time jobs by redistributing work from those who would prefer to take additional holidays to those who are seeking additional work. Such an increase in employment would have reduced the unemployment rate in June 2003 from 6.1 per cent to 4.7 per cent. That is, if the

labour market were flexible enough to accommodate the preferences of employees there would be a significant increase in the wellbeing of both employed and unemployed Australians.

The benefits of work redistribution

Increased working hours have been shown to cause of a wide range of physical and mental health problems and to place stress on families and communities (Dawson et al. 2001; Uehata 1991; Bent 1998; Pocock et al. 2001; Pocock 2003). Easier access to existing leave entitlements and the ability to purchase additional holiday leave has the capacity to improve the work-life balance of many full-time employees significantly.

Similarly, unemployment has been shown to inflict a wide range of physical and mental health costs on the unemployed and their families (Winkleman and Winkleman 1998; Nevile and Kriesler 2000) as well as imposing direct financial costs and broader social costs on the economy (Junankar 1987; Hamilton and Denniss 2000).

A major redistribution of work in the form of additional holidays would produce a range of beneficial macroeconomic benefits. For example:

- The purchase of additional leave resulting in lower wages and the creation of new jobs would increase the incomes of those seeking work. The net effect would be to improve the distribution of income across society. While such an improvement is a benefit in itself, it is also likely to deliver positive economic benefits including reduced welfare payment.
- A positive consequence of extra holidays and a more even distribution of income is a likely stimulus for the local tourism industry. If individuals have more time and slightly less income, then demand for domestic holidays is likely to increase.
- As some income would be redistributed from people with full-time jobs to people currently without jobs, it is possible that the demand for imported goods would decline slightly. Increased time with families might be substituted for the current high expenditure on expensive consumer goods.

Broader implications

In addition to the economic benefits of lower unemployment, a stronger domestic tourism industry and a lower propensity to import, the pursuit of additional holidays instead of additional income has the potential to deliver a broad range of social and environmental benefits.

Following the resource boom of the 1970s, policy makers in Australia began to concern themselves with how society would cope with the additional leisure time expected to flow from the continued improvement in labour productivity. While the expected increases in labour productivity occurred, the boom in leisure time was transferred instead into higher real wages, a longer working week and a rise in material consumption.

In recent years, however, the desire of individuals to pursue lifestyle benefits rather than income alone has re-emerged. A recent analysis of 'downshifting' in Australia found that 23 per cent of Australians aged 30-59 had voluntarily decided to reduce their levels of income and consumption in order to re-balance their lives (Hamilton and Mail 2003).

The fact that more than 50 per cent of full-time employees would prefer to forgo a four per cent pay rise to purchase additional holiday leave suggests that money is not the sole yardstick for measuring wellbeing amongst Australians. The finding that such a significant proportion of Australian workers would prefer additional leisure to additional income provides policy makers with a range of opportunities to improve the lives of large numbers of Australians. At no cost to the government, millions of Australians could gain more time to spend with their friends and families while employment opportunities could be created for hundreds of thousands of those Australians who are less well off. In order to achieve this serendipitous state of affairs, however, policy makers in Australia must first accept that incomes are only part of the policy mix necessary to increase the wellbeing of citizens.

Conclusions

After 15 years of deregulation the labour market is not yet sufficiently flexible to provide jobs that meet the preferences of Australian workers. Despite the fact that a significant proportion of full-time employees were discouraged from taking their full holiday leave entitlement in 2002 due to workplace rigidities, the majority expressed a willingness to forgo a four per cent pay rise to purchase an additional two weeks of annual leave.

Policy makers typically focus on maximising the rate of economic growth. They assume that the wellbeing of citizens can only be increased through the greater provision of additional goods and services. The Commonwealth Government has repeatedly stated its intention to increase the flexibility of the labour force to achieve greater economic benefits but it has done little to discover the preferences of Australian employees. Without an understanding of these, it is impossible to determine the effectiveness of labour market deregulation in delivering appropriate workplace flexibility. The voluntary redistribution of work and income has the potential to increase the wellbeing of many Australians significantly.

Richard Denniss, July 2003

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