

Leave trading: the pitfalls for workers

by

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Plans to allow workers to cash in their leave aren't as simple as they sound.

One of the seemingly least controversial aspects of the Federal Government's upcoming IR reforms is the proposal to allow employees to trade their annual leave entitlements. Specifically, employees will be able to trade away 2 weeks of their 4 weeks of annual leave. The argument in favour of this reform is simple: no employee will be compelled to sell their entitlement and will only do so if they would prefer the money to the leisure. Surely, no worker can be worse off by allowing this?

Sadly, this simple suggestion – albeit seemingly grounded in economics – neglects the realities of the labour marketplace. Specifically, it neglects to account for the way in which competition for jobs can increase the pressure on a worker to work more of the year.

To begin, we have to be careful about the accounting of a buy-back. If you earn \$500 per week, then you might think that a payment of \$1000 for 2 weeks of leave would be fair. However, in reality, that \$500 per week is paid for each and every week of the year, regardless of whether you are working or on leave. Put another way, each week that you work not only earns you \$500, but also 1/12 of a week of paid leave. So a fair buy-back payment is really \$541.67. In terms of annual income, if you earn \$26,000 before a buy-back, you will only be at least as well off in monetary terms if your annual income rises to \$27,083.34 or about \$521 per week; a pay rise of over 4 percent per annum.

What this all means for workers is that if the government is proposing that the buy-back be at the award rate, workers will be shortchanged.

What would happen if each employee were free to negotiate a better deal for the buy-back? While this might seem to free up both employees and the firm to make one and other better off, this will not necessarily be the case. If you are a person who would prefer not to take a pay increase for reduced leave (say, you have children and do not want to sacrifice that time or cannot obtain school holiday care), the security of your job will be undermined in that you now face stronger competition from those who are more willing to make the trade-off. In other words, your job is vulnerable to those who seek money over leave. In a competitive labour market, the result may be lower effective weekly wages and/or longer work years.

Of course, competition for your job cannot reduce your pay if it is already at the award rate or minimum wage. But that may make competition more of a problem. Rather than

competing with workers more willing to trade away two weeks of leave, you now compete more intensively with workers who are happy to accept an award wage job with a longer work year. So even if the value of increased productivity to a firm for that two weeks is less than the value *all* workers place on taking that annual leave, the outcome could be that the firm gets to buy-back that leave anyway. From the firm's point of view that is a great deal but for society it is a poor one indeed.

On the face of it, giving employees the right to trade entitlements might seem like a good thing: a free option. The economic reality may be very different. Workers compete with one and other for jobs, and allowing workers to vie for those jobs by offering to work for more of the year will advantage some workers while harming others. If this is the Government's intention, and the government is not concerned by the fact that its reforms will systematically disadvantage workers with families or other preferences for holding on to their leave, then the proposed reforms will likely achieve the government's aims.

But if the Government is concerned about family culture, parental interaction and facilitating a richer life beyond work, then this option is not free at all. Simple economic logic is not going to sell it and far more caution and, indeed, controversy is warranted.

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