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## Not Taking Annual Leave: What Could it Cost Australia?

# Not Taking Annual Leave: What Could it Cost Australia?

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## Abstract

*Australians work longer hours than all other OECD nations and generally do not use their full annual leave entitlement. According to National Occupational Health and Safety Commission (NOHSC) figures, workplace accidents and diseases may cost the Australian economy \$37 billion. However, this figure may be an underestimate. This is because the costs of workplace stress are not included in these figures. It has been established that organisations that do not overwork their employees and offer hours of work that are more sociable tend to be more productive. It has also been established that taking holidays over a period of 20 days or more is helpful in reducing workplace and other stress. This paper considers these issues and suggests an agenda for future research to increase our understanding of the importance of taking annual leave for a holiday to workers and the Australian economy. The research findings of this research suggest both policy makers and employee relations practitioners need to consider the importance of work-family balance, health economics and employee wellbeing.*

## Introduction

Australia is known as 'the lucky country,' a title that suggests, among other things, unbound riches, promise and a great lifestyle. For many 'a great lifestyle' would mean a place where work and broader life needs are balanced and harmonious. Yet, in spite of this image, figures show that today Australians who work in full-time positions are increasingly working longer hours than most

other OECD nations (see Campbell 2002; Callus 2002; Buchanan & van Wannerooy 2001; ILO 1995), and while they are working increasing hours, they are also simultaneously taking less and less of their annual leave entitlements (Wooden 2003; Woolcot 2002).

This paper has four major sections. Firstly the forces that are behind this development are examined, including the history and arguments behind the annual leave legalisation. The potential costs of a continuing disinclination to take full annual leave holiday entitlements is assessed and, finally, the associated challenges for policy makers are discussed.

In today's globalised world organisations have to contend with a growing number of internal and external influences that impinge on their competitiveness and efficiency. The need for organisations to address this concern has meant that in an uncertain labour market, employees are increasingly being called on 'to go the extra mile.' Workplace or occupational stress, something that can be caused by a number of factors such as the introduction of new technology, workplace change and long working-hours, is but one possible outcome of this trend (Dollard 2001; Savery & Luks 2000).

Workplace stress can lead to headaches, increased anxiety, high blood pressure, depression, increased drinking and reduced work performance and productivity (NOHSC 2002). As a result, workplace stress is now recognised as a major issue which has caused a number of countries in Europe to pass legislation designed to encourage recognised work stress prevention programmes. Among these programmes are strategies such as job redesign, job rotation and employee empowerment. Another area that is acknowledged as helping reduce workplace stress is the utilisation of holidays and annual leave. In fact, the Australian Medical Association (AMA) strongly believes that 'spending time with family and friends, practising relaxation and taking regular breaks and time away from work are among the best ways to reduce stress' (AMA 2001, p. 1).

A number of international studies have been undertaken on the value of a holiday with findings indicating improved well-being and productivity (see Etzion 2003; Gilbert & Abdullah 2002). In spite of this belief, very little research, by academics, employer bodies and unions, has been undertaken on the possible influence that the full use of annual leave entitlements may have on individual health, the tourism industry, organisational productivity and for the economy in Australia. This apparent lack of interest is odd given that the benefits of holidays and the taking of annual leave have been recognised for some time now in Australia.

## **Four Weeks Annual Leave – a Brief History**

The hard-won historical reduction in working time has had clear repercussions for leisure activities. Lynch and Veal (1996) show that as the long working hours of the industrial revolution began to be replaced, firstly by the five-day week and then by the 40-hour week, the uptake in the use of leisure activities became more pronounced. The advent of a key working time change, the annual holiday entitlement, or annual leave as it is more commonly known, increased the market for the use of recreation services, giving birth to many new industries (Weaver & Opperman 2000).

Annual leave can be defined 'as paid leave for the purpose of recreation to which employees become entitled after a period of qualifying service or employment with a particular employer' (Workplace Info 2002). In Australia it is accrued at approximately 0.4 days leave for each week worked, or four weeks per year (Workplace Info 2002). Employers do have some discretion as to when employees can take this leave and there are a number of conditions associated with the taking of annual leave. The most stringent of these is the fact that money cannot be taken in lieu of annual leave unless employment is terminated, thereby explicitly admitting that employees need a four-week period of rest from their work.

The principle that employees need four week's rest and recuperation took a long time to become recognised in Australia. Indeed four week's annual leave is something many working Australian's now take for granted with little thought being given as to how and why it came about. Yet the advent of annual leave is, in historical terms, a relatively recent phenomenon. It has resulted from concerted campaigns largely run by unions and employee representatives over a period of almost forty years from the mid-1930s until 1974 (Victorian Trades Hall Council 2002).

Although most of the pressure for increased leave did come from the trade union movement, a small number of industry groups also supported the push for more holidays, particularly the four-week campaign in the 1970s. The industry groups that supported this campaign, although not representative of any organisations or services that stood to benefit from increased leave, realised that consumption was becoming as important as productivity for organisational profitability (Lynch & Veal 1996).

The first example of annual leave becoming an employment entitlement was in the middle of the great depression in 1936. This was when 'a week of annual leave was included in an award for the first time' and 'a principle was established that leave should be granted in reasonably prosperous industries' (Australian Trade Union Archives 2002). The unions argued that workers would be far more productive if they were properly rested after a period of time longer than just the standard one or two day break on the weekend. This was a very similar argument to the one that the ACTU ran in their campaign for the forty-hour week in 1936. It was to be repeated in the future when campaigns were run to increase the annual leave entitlements of employees.

However, despite the initial introduction in 1936, it was to be another five years before annual leave was achieved as an entitlement for all Australian employees when, during World War II in 1941, all workers were given one week's annual leave for the first time. The then Labor (ALP) federal government legislated the change for its own public servants and for private sector employees covered by federal awards. State governments then followed with similar legislation for their own employees and private sector employees used these precedents to win the same entitlements through cases taken to the various state Industrial Relations Commissions.

In 1945, two week's paid annual leave came into force when the Commonwealth Arbitration Court made an award of two weeks to metal trades employees which soon flowed on to other workers in the private and public sectors. This came shortly after the New South Wales Annual Holidays Act was passed which provided two weeks to all workers in the state who were not covered by a federal award (Australian Trade Union Archives 2002). In 1958 in New South Wales and a number of other states, paid annual leave entitlements were then increased to three week's leave per annum.

Three week's annual leave remained the paid holiday right for most employees until 1974 when the four-week leave case was run by unions and accepted as an entitlement by the Whitlam Labor Government for federal public service employees. Soon after the Australian Council of Trade Unions (ACTU) conducted a number of successful court cases at state level to increase paid annual leave to four weeks per annum for all Australian employees irrespective of their union membership status (Leiper 1995; Australian Industrial Law Review 1974).

Trade unions believed that in the 1970s technological progress meant growing productivity was something which should be shared equally by all, not just by

'where the benefits fell, namely the employers' (Hagan 1977, p. 70). It was this philosophy that was the 'main driver' behind the ACTU's four-week annual leave campaign in the early-1970s. The 1974 campaign by the ACTU was somewhat contentious at the time with the vast majority of employer associations opposing the change, as indeed many had when the previous annual leave changes had been suggested.

The Australian Industrial Law Review (AILR) (1974, p. 3) reports that the NSW Industrial Relations Commission stated:

employers say that, if we grant additional holidays, we will add to inflationary pressures and also that they cannot get enough workers to meet their present needs let alone an addition of 2 percent in their workforce which they claim will be necessary to make up time lost to them from the an extra week's holiday. We think what the employers say is correct.

Among the employer groups to oppose the ACTU's four-week leave case were some that, as has already been alluded to, arguably would benefit from employees attaining increased rest and recreation time. Among the employer groups opposing the ACTU's court case, for example, were those representing the tourism and hospitality organisations who collectively opposed the ACTU proposal. 'This was despite the apparent benefits for tourism markets and industries if the ACTU won and all employees gained an extra week of annual leave' (Leiper 1995, p. 77), a fact backed up by overseas studies which showed that when minimum leave entitlements increased, a quantum growth in demand for tourism and hospitality services and products could be expected (Leiper 1995).

Nevertheless, in spite of employer association opposition, the four-week annual leave case was accepted by Australia's various industrial relations tribunals and commissions. For example, despite agreeing with some aspects of the employer's case, the NSW Industrial Relations Commission agreed with the principle of four week's annual leave because they did not believe that the employers' view was decisive. The NSW Commission stated in their ruling that four weeks had become the norm at federal level and in most other states, and as an industrial relations commission they had to be influenced by the need to ensure NSW employees' terms and conditions were equitable with other Australian employees (AILR 1974).

In essence, employee organisations have largely argued that there are two main reasons for giving employees increased paid leave. First, increased productivity,

resulting from efficiencies in new technology and new ways of working, should be redistributed to all those who helped attain it, not just the owners of capital. Increased leave is but one way of attaining this. Secondly, unions argued strongly that workers delivered better productivity if they had reasonable rest and recreation breaks.

Employer associations on the other hand largely, but not universally, opposed any improvements to paid leave provisions for employees because of the perceived increased costs and the pressure this would place on inflation and economic growth.

Very little thought was given by either employer or employee representatives as to what the changes from a largely manufacturing base to a largely services base would mean for purchasing patterns and to the growing importance of leisure. This issue looks set to dominate the debate about working time and the way people use their leisure time because people have to utilise the ever-increasing fruits of their labour.

The entertainment and tourism and hospitality industries, in particular, are not going to be able to continue to grow if ordinary people do not have both the time and income to consume their products. Because domestic visitations in Australia amounted to 74.5 million in 2001 while international visitors were 4.4 million, the tourism and hospitality industry is reliant on a buoyant domestic sector to provide security and growth in times when international events adversely effect inbound visitor numbers (Bureau of Tourism Research 2004), and although tourism and hospitality has a strong international and domestic retiree market it is still very reliant on working couples and their families, a fact recognised by the peak domestic tourism organisation, See Australia, when it used Woolcot Research (2002) to study Australians' use of annual leave.

Australia will eventually have to address the impact of changes to the makeup of the economy for working hours and ultimately what they will mean for the consumption of leisure products. Many other countries have started to do.

## **Annual Leave: A Comparison of Australia and the Rest of the World**

Australia was one of the very first countries to adopt four week's annual leave it has remained the universal entitlement for employees since 1974. According to

the ACTU 'the conventional wisdom is that Australia is a nation of bludgers getting long holidays and a 17.5 percent loading while other nations' workers enjoy no such luxuries' (1994, p. 41). Given this perception, it is interesting to compare the annual leave entitlement of Australian workers to what has become the standard in other countries since 1974. Table 1 below shows the annual leave entitlement in selected countries and also looks at any leave loading/bonus that is also paid.

**Table 1: International Comparisons of Annual Leave and Leave Loadings**

Country	Leave Entitlement	Leave Loading/Bonus
Australia	4 weeks	17.5% loading
Belgium	20 days minimum, 28 days by agreement	89.75% by national agreement, may receive 13 <sup>th</sup> month of salary at year's end.
Canada	2 weeks (usually by provincial law) or 4% of annual income, 3 weeks by agreement after 5-6 years of continuous service.	Leave can be taken as cash, 4% of annual income, and 6% after 5-6 year's service.
Denmark	5 weeks by law longer by agreement	12.5% loading
France	5 weeks by law longer by agreement	10% of annual pay
Germany	15–18 days by law, up to 30 days in collective	60%-100% of one months salary
Greece	5 weeks	50% weekly pay bonus
Japan	10 days statutory minimum. Govt encouraging employers to offer 3 weeks for those with 1 year's service and an 80% attendance record	No official loading. But sometimes bonuses paid.
New Zealand	3 weeks statutory minimum, 4 weeks by agreement. Moving to 4 weeks in 2007.	Currently negotiable on an enterprise basis
United Kingdom	No legal minimum, 4-5 weeks by agreement.	No standards – negotiable on enterprise basis.
United States	No legal minimum. 2 weeks is usual, up to 4 weeks with length of service	No standards. Some companies pay bonuses.

Sources: ILO 1995; ACTU 1994.

Given the data in Table 1 it is debatable that Australia 'is a nation of bludgers'. As Table 1 shows, Australia's leave entitlements and loading standards are not all that exceptional, with a number of European countries offering longer leave times and sizeable bonuses or loadings. It is also important to consider that the leave figures outlined here are full entitlements which, in a number of cases, such as in Japan and Australia, many employees do not take. For example, in Australia 58 percent of employees do not take their full entitlements (Dennis 2003).

There are a number of reasons why employees do not take their full annual leave entitlements, such as insecurity of tenure, returning to 'a pile of work', feelings of guilt, and the cost of going away on holidays. Nevertheless, it needs to be remembered that if an employee forgoes all of their four weeks annual leave, the net effect is a noticeable one. It is equivalent to them working an additional three hours per week or 156 hours per year (Dennis 2003). This is exacerbating the fact that Australians already work longer hours than any other OECD country (Tiffen & Gittins 2004), an issue that is considered later in this paper.

Table 1 does give some credence to is that since the onset of the information age, the 'play in order to work philosophy' has started to supersede the 'work in order to play philosophy' in a number of industrialised and emerging economies in particular. This means that more weight is being given to the importance of employees as consumers rather than just purely as units of production. Clearly the argument that employees are better at their jobs if they are given adequate time to rest and recuperate has now been widely accepted although the debate still remains as to just how much holiday time is appropriate. This leads to what the future holds for annual leave and paid holidays in Australia.

## **Annual Leave and Paid Holidays in Australia – the Future**

The future of increased annual leave entitlements in Australia will rely on a number of factors. In the past the changes to leave have largely relied on statutory changes at governmental level. This has meant Industrial Relations Commissions following the lead set by governments at state and federal level.

However, in an era when neoliberal supply-side economic theory has a strong influence on policy makers in Australia and other Anglo-American nations, and when industrial relations regulations are based on a unitarist decentralising

philosophy, a simple reliance on statutory changes to annual leave entitlements is optimistic. It is optimistic unless it can be established that taking one's full annual leave entitlement has some economic benefit to the bottom line of organisations and the economy as a whole.

It is highly debatable that changes to annual leave entitlements will occur as the result of government legislation in the near future. This is because the neoliberal proponents of labour market liberalisation and enterprise bargaining insisted increased productivity and flexibility would be achieved through the re-regulation and decentralisation of the industrial relations system. Their views soon came to be embraced, to differing degrees, by most of the major political and industrial players in Australia from the early 1990s. As a result of re-regulation most parties central to the employment relationship, both political and industrial, have spoken in favour of enterprise bargaining. However, they have varied as to the extent to which negotiation should be free of any centralised restraint by industrial relations commissions (Grozier 2001). This means that annual leave entitlements may change at an enterprise level. However, this will probably happen only in those industries where there are skill and labour shortages and where unions still have a strong enough presence to negotiate improvements on an enterprise by enterprise basis. Change may also occur in industries, such as the construction industry, where unions have effectively 'pattern bargained' to obtain working time improvements (Cairncross & Buultjens 2002). Whatever the arguments for and against enterprise bargaining it is clear few enterprise agreements have resulted in increases or changes to the four-week annual leave entitlement (Dennis 2003).

However, until such time as there is a major shift in attitude, particularly by one of the major political parties towards the primacy of enterprise bargaining in its current format, it remains problematical that an increase in annual leave entitlements will be legislated for or be seen as a priority. This will remain the case unless some compelling argument is made for the economic and social benefits of the nation.

## **Implications of Longer Hours and Shorter Holidays**

While a number of developed countries have been reducing working hours via regulatory initiatives, Australia is one of the few countries to buck the trend, and, along with USA and Britain, has experienced a reversal in the long-term trend to reducing working time (Campbell 2001).

Australian employees and their families are experiencing serious problems as a result of changes in their hours of work. The problems relate to:

- Unfair *distribution* of hours.
- Unsatisfactory *duration* of hours.
- Increasingly *unpredictable, irregular and insecure* hours – over one employee in four is now casual and they have no access to annual leave entitlements.
- *Job insecurity* with research showing that Australians are increasingly starting to feel guilty about taking holidays with many apprehensive that employers see it as a sign of weakness.
- Rising *intensity* of hours, and a
- Weakening *connection between hours worked and earnings* – about 60 percent of those who currently work overtime do so for free (Woolcot 2002; ACIRRT 1998).

These issues have contributed to Australians taking less annual leave than in the past (Wooden 2003). It has been argued that this has led to Australians forgetting 'the role and value of holidays in terms of re-energising and re-charging their batteries to be better able to cope with the pressures and pace of life in the 21st century' (Woolcot Research 2002). The effects of overwork and the importance of holidays will be considered soon, particularly as they relate to their effects on occupational health and safety costs, but there is a wealth of research which shows that overwork increases the likelihood of heart attacks, alcoholism and obesity (Dennis 2004; Pocock 2001). Psychological effects are also apparent, for example, Bent (1998) found that those who regularly worked 50 hours a week or more were increasingly susceptible to certain mental disorders. The net outcome of these long working hours, other than in physical and psychological costs, is that some Australians are suffering what is termed 'time poverty' (Goodin et al. 2002).

It has been argued 'time poverty' has resulted in Australians hoarding, rather than taking, their holiday entitlements possibly because they see accrued leave as 'insurance' if they lose their job or have to resign (Woolcot 2002). The concept of 'time poverty' is, however, open to vigorous debate, however, with a number of commentators arguing that 'time poverty' and 'time pressure' are an illusion Goodin et al. (2002) contend that much of the time people devote to paid and unpaid tasks is over and above that which is strictly necessary. These commentators contend that this is because people work extra jobs and hours in

order to gain material possessions so that they can 'keep up with the Joneses'. This is a trend that appears to be specific to the childless and two-earner couples (Goodin et al. 2002). Nevertheless, the issues identified by Tiffen and Gittens (2004), Woolcot (2002) and ACIIRT (1998) are not uniformly disputed and Goodin et al. (2002) agree that for many people they are very real.

There is evidence to show that organisations that do not overwork their employees and offer them more sociable hours and better than average leave periods tend to be more productive and successful (Buchanan & Van Wanneroy 2001). France's recently introduced 35-hour week may offer some options too. Paid annual leave does not just have to be paid out as it is currently. Hours worked above 35 hours per week and not used for rostered days off could accrue in an 'hours bank'. This is a mechanism wherein everyone who works above the 35 hours per week then takes some of those hours as leave, either separately or together.

It is this type of data and these types of innovative working-hours policies that may be of help when considering the benefits of increased annual leave or improved working hours and practices. An area that has not been researched in any depth is now considered. Namely, if taking annual leave for holidays could benefit both employees and the Australian economy as a whole through potentially reduced medical and other expenditure arising from workplace stress and accidents.

## **Occupational Health and Safety Issues**

Outlays arising from workplace related injuries and illnesses are estimated to cost the Australian economy '\$15 billion per year, but by using a frequently quoted 'compromise' measure of 4:1' to account for hidden on-costs and lost productivity, 'total annual costs could range up to \$37 billion' (National Occupational Health and Safety Commission 2002). The 4.1 figure used by the NOHSC includes 'hidden costs' such as down time, lost productivity, medical and legal costs, replacement staff and accident reporting costs. However, there is research to show that even a figure as large as \$37 billion may understate matters because in Australia occupational disease data continues to have important shortcomings and the actual data relating to the drivers of OH&S injuries is inaccurate (Mandryk et al. 2001).

The deficiencies in the data that Mandryk et al. (2001) alludes to is an important consideration because, although there are many different reasons why workplace accidents and illnesses occur, one major identified cause for workplace illness is occupational stress (Peterson 1999). Stress is a major problem that may be costly to business in the short term and to the economy in the long term. Yet in many organisations it is still regarded as contentious because there is little agreement between employees and management over its origins, symptoms, effects and how it can be successfully corrected (Peterson 1999).

It has been recognised that workplace stress can be caused by a number of factors (Savery & Luks 2000; Peterson 1999). One major factor is the dichotomy between the already mentioned needs of the globalised commercial world and the needs of people to be people. This can have an economic downside. The aforementioned 'compromise' measure of total annual costs of \$37 billion for OH&S injuries and diseases does not include a large component of stress claims (National Occupational Health and Safety Commission 2002; Peterson, 1999). Stress compensation claims are now growing by 20 percent a year (Peterson 1999), so it is fair to assume that the cost of OH&S injuries and diseases is actually much higher.

Given the National Occupational Health and Safety Commission (NOHSC) (2002) estimates that workplace accidents and diseases cost the Australian economy \$37 billion, in 1995/96 dollar terms, the cost in 2003, (allowing for a conservative 2 percent per annum increase in inflation), would be \$41.7 billion per annum. However, this figure does not account for the increase in recognised stress claims which accounted for 27 percent of all compensatable claims in 1994-95 but were increasing on average by 20 percent a year (Peterson 1999). When these increases are taken into account the total potential cost to the Australian economy of OH&S accidents and diseases including compensatable stress claims in 1997-98 dollar terms, is possibly \$49.1 billion dollars a year.

This means OH&S accident and disease costs may be as high as a billion dollar a week impost on the Australian economy. In addition, payable stress claims amount to a potential \$12-15 billion dollar a year (Peterson 1999). Although these figures appear astronomical it is important to remember they do not include the many workplace injuries and diseases, including stress and anxiety, that are not claimed. Therefore the real cost may be far higher.

In light of the data pertaining to the impost on the Australian economy of workplace accidents and occupational stress, it is currently guesswork to

surmise what the benefits may be of holidays in terms of increased productivity and decreased accident and illness costs in Australia. However, it is reasonable to assume given the value of a holiday to the tourism and hospitality industry (Bureau of Tourism Research), and the physical (Dennis 2003) and psychological costs of long working hours (Bent 1998) together with the value of a holiday in reducing stress (Etzion 2003), there is value in further research establishing the true economic value of taking full annual leave entitlement each year.

## **Implications for Policy**

Increasingly policy makers, and those capable of influencing policy, need to address the issues of work and health, happiness, well-being and stress since they all interrelate. People, and the quality of their lives, are core issues for government and business. If the results of increased workloads, and the associated decreased uptake of respite measures such as annual leave, are increasing health and safety costs, and possibly decreasing productivity, then governments and organisations must make greater efforts to re-model their practices and policies or they will suffer potentially long-term increased health and other expenditure that could make the costs associated with the ageing population even worse. In a competitive world quality is not delivered by working harder but by working smarter and people who have had a genuine respite break are more capable of doing this (Etzion 2003).

Longer holidays themselves are something employees now seem to want. A survey by Dennis (2003) shows that an additional two week's annual leave was preferred to a four percent wage increase by 52 percent of respondents. This is in spite of the fact 58 percent of respondents to the same survey did not take their full annual leave entitlement. It is estimated that two week's annual leave is equivalent to a four percent wage increase. The finding is interesting because it shows employees do appreciate the value of a 'decent holiday break' and that 40 percent could not take their full current entitlement because they were either too busy at work or could not get suitable time off.

When one takes into account the fact that 22 percent of the 28 percent of the workforce who work part-time and casual in the labour force wanted to work more hours, and that many full-time workers would prefer to work less hours (Dennis 2003), it is obvious that attention needs to be given to training and

career enhancement for casuals and to adopting policies such as job sharing and hours limitation that may help balance work and family life.

In addition, we need to consider that approximately 2000 Australians per year, more than those who die on the roads each year, are likely to die as a result of workplace accidents and illnesses. In addition, policy makers need to further consider that workplace health and safety costs may be a billion dollars a week. Both these situations are twice as bad as the ILO's best performer, Sweden, so it is imperative that policy makers must ask themselves these questions; 'Do we, as a society, really care enough about OH&S to demand change? Are we outraged at the current state of affairs?' (Ellis 2004).

Part of that questioning process must be an analysis of the value of a holiday in helping reduce the country's poor workplace health and safety record, and the opportunity cost for other industries if Australians are encouraged to take a reasonable slice of their annual leave entitlements. Given the research by Etzion (2003) showing that there is a link between holiday-taking and reduced workplace stress, and Gilbert and Abdullah's study (2002) showing holidays lead to increased personal happiness, policy makers would be remiss not to do so.

## **Conclusion**

The examination of the literature suggests that in-depth research is required into the psychological and economic reasons for Australians not taking their holidays Etzion (2003), for example, has established that people who take their leave are more productive and exhibit fewer symptoms of workplace stress. The potential social and physical cost to individuals and the potential cost to the economy of the current low uptake of annual leave makes it imperative to see if a lower workplace accident rate can be obtained by those employees who do have a reasonable holiday break each year. If this is the case then it may be that there is some value in compulsory leave clauses being negotiated into employment instruments.

It would be of real value to employers, unions, and industries such as the tourism industry, to see if the taking of a reasonable block of annual leave reduces workplace accidents and illnesses.

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