

## Economic Considerations Regarding Removal of Public Holidays

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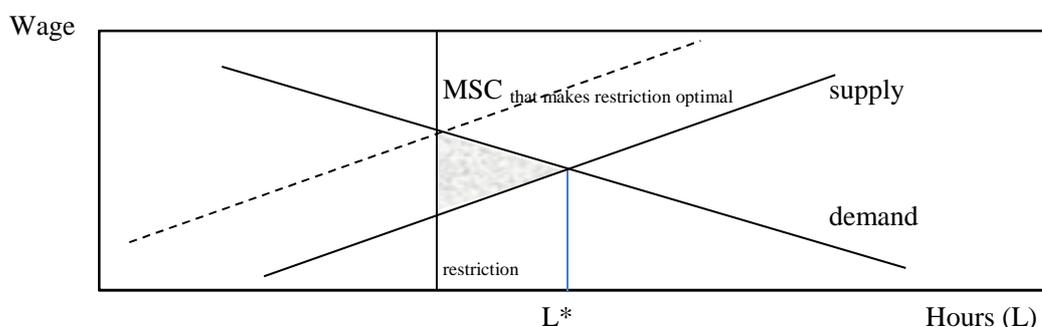
This submission relates to the economics pros and cons of public holidays, where that term is understood as non- or restricted-retail-trade days. The arguments made are economic, and need to be set alongside other considerations of culture, religion and society.

### Holidays

One key matter is the coordination required for groups of people to arrange holidays. Coordination failures are increasingly likely in a social environment where the numbers of persons working in any given household is higher than in previous decades, and, with the increased prevalence of blended families, which require more 'visiting time coordination'. Public holidays with limited retail trading provide a focal point where groups (not necessarily families) can arrange break times from work.

### Economic Efficiency

The economic argument against restrictions on labour supply is based on losses in efficiency. In the diagram below, the shaded area represents a deadweight loss, unless the dashed line is the marginal social cost (MSC) – private costs plus an accounting for externalities.



Thus, for any restriction on trading hours there is an accounting of external costs which would make the restriction optimal. It is difficult to know whether any particular restriction on labour supply (including the tax on labour that makes up the PAYG revenue system) properly accounts for these external costs. However, we can be confident that low paid workers, who may even be below the tax free threshold, are more likely to be supplying 'too much' labour, in the sense that they may not be internalizing some of the externalities of their choice. For workers who are highly taxed, this is less likely to be the case, and they may even be supplying 'too little' labour, measured against the social optimum. Retail trade is staffed by many low paid workers, so this is a relevant observation for the Inquiry.

### The Envelope Theorem

A recent debate about further tariff reductions from a very low level is also relevant for the Inquiry. Over several decades, tariffs have been lowered successively, enhancing the efficiency of the Australian economy. In a recent debate, one of the proponents of tariff reductions, Prof Peter Dixon (Centre of Policy Studies) has argued that the optimality of further reductions is doubtful when the levels are already low. Essentially, these kinds of arguments can be put in terms of the envelope theorem.<sup>1</sup> In the figure above, Marginal Net Benefits (the vertical difference between demand and supply) in a negative linear relationship in  $L$ . Assuming there were no externalities, so that the shaded area really was an efficiency loss, the size of the triangle is quadratic in departures of  $L$  from the optimum  $L^*$  which maximizes Net Benefits. The envelope theorem asserts that tiny movements away from the optimum are second order small (that is, for small  $DL=(L-L^*)$ ,  $DL^2$  is negligible). That is, given the already high degree of deregulation in retail hours, they are likely to be close to optimal, and so retaining small restrictions are not very costly even if any assessment made about externalities is incorrect. The same result applies to the economic welfare gains from increased shopping hours, given that shopping is already heavily deregulated.

<sup>1</sup> See especially Box 1 in [http://www.lateraleconomics.com.au/outputs/LE\\_Automotive\\_Report\\_Final.pdf](http://www.lateraleconomics.com.au/outputs/LE_Automotive_Report_Final.pdf) and, Dixon and Rimmer, (2008), 'Welfare effects of unilateral changes in tariffs: the case of Motor vehicles and parts in Australia', Centre of Policy Studies, General Paper No. G-177 September 2008