

Are Bank Holidays Bad for Productivity? Not in the EU it Seems

Vicky Pryce

Amongst concerns about slowing growth prospects and with the war in Ukraine intensifying cost of living pressures, the extra day off for the Queens Platinum Jubilee has reignited the discussion over the economic costs of bank holidays. The worry is that economic output and productivity suffers. In this case of course two bank holidays together mean that the whole week may be lost for some sectors, like manufacturing and construction. Yes, retail and hospitality and tourism may gain but the rest of the economy loses as it is forced to shut down.

Well, let's look first at what happens elsewhere. In England and Wales there are 8 bank holidays in a normal, non- Jubilee year. Scotland gets an extra one in the beginning of January while Northern Ireland manages an extra 2 – St Patrick's day and the anniversary of the Battle of the Boyne. That still makes it just 10 on a normal year. The average in Europe is 11. In a number of countries this is even higher- in Finland for example it is 15.

On the face of it Germany has just 8, as we do. Yet there are extra regional holidays there as well practically everywhere across most the country. On a quick inspection you find that Bavaria, Saarland and Baden- Wuerttemberg all have 12 bank holidays. And yet no one could accuse Germany of low productivity- in fact their output per head is some 25% higher than the UK's on average[i] -and has remained so despite strenuous efforts for decades by the UK to close the gap. Interesting to see that the business body, the CBI, has joined others asking for the day to become permanent too[ii].

Work done by CEBR in 2018 suggested that on bank holidays retail sales are traditionally boosted by 15% on the day, with furniture and gardening products benefiting particularly. DIY, hospitality and catering also get boosted by some 20% compared to a normal weekend. An update of the study in 2020 as we were emerging from Covid and an extra bank holiday was being mooted suggested that the loss in other parts of the economy would be made up within a month or so if there was still spare capacity in the economy- which was certainly the case then and is still the case now, given the slowdown we are experiencing at present[iii].

In addition a study by PWC suggested that earlier government calculations that an extra bank holiday would reduce GDP by £1.5b was an overestimate as it didn't take into account the improvement in well- being which would act as a longer term stimulus to the economy[iv].

Of course not everyone stops working on a bank holiday. What is more, the world of work has changed radically in the last couple of years. We saw even pre-pandemic a substantial increase in the percentage of people who could ask for more flexible working which by 2019 had reached some 54% and now post Covid has probably moved even higher according to CEBR estimates. There are

even current trials of what a 4 day week on full pay may in fact look like as more flexible working is seen by many as helping rather than reducing productivity.

And yet the government seems to be throwing cold water over the notion of extra bank holidays. A DCMS impact study released just before last weeks' consecutive June bank holidays found that the Jubilee bank holiday would reduce GDP in the spring quarter by £2.5b[v]. But one wonders if that was based on outdated historical comparisons. They admit themselves that judging the impact against the 1977 Jubilee would not be appropriate given the changed composition of the economy from the de-industrialisation that has taken place since. They focus instead on the quarter in which the 2002 and 2012 extra bank holidays, taking any impact also in the next quarter and setting them against comparable quarters in the six years closest to get their estimates of divergence from trend.

But are they right? Worth noting that the Jubilee week also fell at half term when many people don't work anyway, taking the week off to be with their families. And in run-up to this year's Jubilee, we have seen serious volatility in quarterly growth against which to compare its impact. And prospects ahead remain uncertain- so what is 'normal' pattern of GDP growth is no longer so easy to assess.

The government assessment itself in fact acknowledges that at least in one of the yearly comparisons the weather over the quarters they looked at was particularly wet putting a dampener on sectors such as construction.

Private assessments are in any case more optimistic . They point out that there would be extra spending on sectors such as hospitality and tourism which were badly affected by the pandemic which can only be a good thing. Analysis from Bloomberg suggested that as some of whatever other spending was withheld from other sectors gets in fact spent in the summer months, , that may allow the UK to avoid a technical recession! [vi] And in any case Federated Hermes [vii] argued that any quarterly loss would be made up in the quarter that followed.

This does not therefore suggest a permanent dent to productivity. Evidence from elsewhere certainly gives little credence to the notion. Let's keep fingers crossed that the final analysis of the Jubilee weekend, when it comes, will agree, and that the UK is able to celebrate an extra yearly bank holiday from here on.

Vicky Pryce is Chief Economic Adviser to the Centre for Economics and Business Research (CEBR) and Visiting Professor at BCU and King's College, London

[i] <https://fullfact.org/economy/productivity-germany/>

[ii] <https://www.thetimes.co.uk/article/bank-holidays-cost-economy-less-than-claimed-say-bosses-96rx6jql2>

[iii] <https://cebr.com/reports/an-october-bank-holiday-may-even-boost-the-economy-but-does-that-mean-we-should-move-to-a-4-day-week/>

[iv] <https://www.consultancy.uk/news/31174/research-government-overestimates-the-cost-of-bank-holidays>

[v]

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1057164/Platinum_Jubilee_Impact_Assessment__web_accessible_.pdf

[vi] <https://www.bloomberg.com/news/articles/2022-05-30/uk-s-jubilee-bank-holiday-may-nudge-economy-into-a-contraction>

[vii] <https://www.bbc.co.uk/sounds/play/m0017tmj>