

Counting the costs

With Ronald Reagan's presidency of the United States in 1981, costing became a big gun rolled out by diehard deregulators¹. At the very start of his term, President Reagan set up a Task Force on Regulatory Relief, whose output had a great influence on the international debates. Government and industry calculations are often more like a game of Poker Bluff. A figure is put out, taken up by the press and trotted out in political debates as if it were provable fact. A critical look at the assessed cost of occupational health legislation makes for informative reading.

A broad definition of administrative costs

The Dutch government put a figure of 1.15 billion euros on the annual administrative cost burden of occupational health legislation to business. How did it come up with that figure?

"Administrative costs" means the cost of all management operations in any way connected with statutory health at work requirements. A catch-all definition like that allows 90 different activities to be treated as "administrative costs". These range from recording work injuries through checking electrical systems, putting danger zone warning signs in workplaces, and choosing work equipment to keeping lists of workers exposed to asbestos. Looking at all the operations concerned, it is clear that any kind of communication - written, oral or signs - and any kind of instruction directly or indirectly related to occupational health is caught in the net.

Having compiled such a long list, the cost estimates are based on the following assumptions:

- That all employers will apply the legislation in full.
- Mixed operations - i.e., those that partly address health and safety and partly the firm's operational requirements - are classed as exclusively "administrative costs" of health and safety.
- Any benefits that a firm may derive from an operation are to be discounted from the calculations.
- A duration is allocated to each operation. The corresponding wage cost for that time is calculated using the average wages for the skill level required. If the operation is repeated several times a year, the cost is multiplied by the number of annual operations.
- The calculated duration is the same for all firms in the same size class, and corresponds to a sample-derived average.

Each of these methodological principles is open to discussion. Taken together, they reflect a political will to play the situation up into a scare story and portray the management of occupational health as an intolerable burden to firms.

Unverifiable average costs

Estimating an average duration per firm is among the most ridiculous aspects of the methodology. It is quite clear that a risk assessment or choosing personal protective equipment are not at all the same thing for a commercial firm and a petrochemicals factory, even if they fall in the same category by size of workforce. The methodology could be defensible in other areas where an approximate average cost can be suggested. Where a firm has to serve notice of dismissal on a worker by registered letter, for example, the average administrative cost of a dismissal can be approximated.

The sample deemed capable of yielding an average estimate comprises just 56 firms, 34 of which were visited, and 22 contacted by phone. These firms are of varying levels of risk and size. Also, 26 specialists were interviewed (11 during visits, 15 by telephone).

The firms were then split into four groups by size of workforce. By way of example, the calculation for the risk assessment considered as the main "administrative cost" for firms, because it represents over half the total cost attributed to health and safety legislation, is shown on p. 29.

On a side note, it is interesting that the costs calculated for small firms are quite low, giving the lie to the argument often brandished by right-wing politicians that the "administrative cost" burden of occupational health will weigh heaviest on small firms.

The Dutch Ministry for Work's cost draftsmen themselves admit that the complexity and extreme variability of health and safety tasks makes any form of averaging highly uncertain. The sample used is so small as to completely exclude some sectors. Even so, the authors optimistically predict an error margin of approximately 20%, but offer no detailed substantiation.

The enemy from without

60% of the costs are claimed to arise from international sources (chiefly Community directives,

¹ Cf. McCaffrey, David, *OSHA and the Politics of Health Regulation*, New York, Plenum Press, 1982.

Estimated cost of risk assessment to business

Group	Administrative costs per firm in euros	Number of firms	Aggregated administrative costs for the group (millions of euros)
Large firm (over 100 FTE workers*)	26 422	6 630	175
Medium-sized firm (from 10 to 100 FTE workers)	3 570	54 450	194
Small firms I (from 1 to 10 FTE workers)	755	184 355	139
Small firms II (less than 1 FTE worker)	254	107 135	27
Total		352 570	535

* FTE : full-time equivalent

Source: SZW, 2002 , p. 34

but also 7 International Labour Organization Conventions), 15% from mixed sources and 25% from exclusively Dutch sources.

The method used for this calculation is no more persuasive than the rest of the exercise. Generally, a requirement laid down by a Community directive is treated as an administrative cost of Community origin. Where the Community provision is supplemented by a more exacting requirement in Dutch legislation, it is treated as "mixed". Where the requirement arises exclusively under Dutch legislation, it is treated as "national". This method of classification is flawed in two respects:

- Many Community requirements merely overlay provisions that already exist in Dutch law. Regular checks on dangerous machinery or hoisting equipment are cases in point.
- Workplace prevention activities do not distinguish between the paper origins of existing rules. An employer who performs a risk assessment does not do so just to address the requirements of the Framework Directive, it is also essential to comply with Dutch regulatory requirements. For example, the cost of providing information to workers (section 8, Arboret) is assigned in full to the Community directives, when it is clear that the content of that information deals with risks governed by national regulations as much as by the Community directives. A magic stopwatch would be needed to measure prevention activities by distinguishing "international source" minutes from "national source" minutes.

Need it be said that the estimates made on such questionable methodological bases have not been third-party validated? They are purely Dutch government estimates, and no independent specialist has been asked for an opinion on the methodology and results.

Three-thousandths of national wealth

The bottom-line figure of 1.15 billion euros might seem a clinching argument in the rough-and-tumble of an electoral debate or a TV show, but actually

represents less than 0.3% of gross domestic product. There is nothing outrageous in employers having to spend about 3 thousandths of the country's total generated wealth to protect the lives of its wealth-creators, anything but. The temptation is to say "is that all!". But the Dutch government has set the target of cutting the total administrative cost burden on business by 25% in the period 2003-2007. The grounds for such an arbitrary requirement are not known. Each Ministry had to set up a specialized cost-cutting task force. The Ministry of Work and Social Affairs is the third biggest source of the costs to business (after the Ministry of Finance and Ministry of Health).

This evaluation of "administrative costs" illustrates the bluffing that generally typifies costing exercises. Often, it is enough to ask "who is paying for the evaluation?" to know ahead of time what the findings will be. A first-class review of evaluations produced by the chemicals industry to fend off environmental protection can be found in the Chemical Secretariat publication *Cry Wolf* (April 2004)². ■

Sources:

- Dutch Ministry of Social Affairs and Work (SZW), *Administratieve lasten Arboret- en regelgeving*, May 2002.
- SZW, *Rapportage over de internationale component van de administratieve lasten voor het bedrijfsleven*, January 2004.
- Correspondence with Mr Fekkes of the Dutch Ministry of Work in October and November 2004.
- More information (or propaganda?) can be found on the Dutch Ministry of Finance website: <http://www.administratievelasten.nl>.

² *Cry Wolf* is available for downloading from the TUTB website: <http://tutb.etuc.org/uk/files/lines/wolf.pdf>.

Dickens on deregulators

Charles Dickens' book *Hard Times* gives an ironic statement of the deregulator's case. Little, it seems, has changed since 1854.

"The wonder was, it was there at all. It had been ruined so often, that it was amazing how it had borne so many shocks. Surely there never was such fragile china-ware as that of which the millers of Coketown were made. Handle them never so lightly, and they fell to pieces with such ease that you might suspect them of having been flawed before. They were ruined, when they were required to send labouring children to school; they were ruined when inspectors were appointed to look into their works; they were ruined, when such inspectors considered it doubtful whether they were quite justified in chopping people up with their machinery; they were utterly undone, when it was hinted that perhaps they need not

always make quite so much smoke. Besides Mr. Bounderby's gold spoon which was generally received in Coketown, another prevalent fiction was very popular there. It took the form of a threat. Whenever a Coketowner felt he was ill-used - that is to say, whenever he was not left entirely alone, and it was proposed to hold him accountable for the consequences of any of his acts - he was sure to come out with the awful menace, that he would 'sooner pitch his property into the Atlantic.' This had terrified the Home Secretary within an inch of his life, on several occasions.

However, the Coketowners were so patriotic after all, that they never had pitched their property into the Atlantic yet, but, on the contrary, had been kind enough to take mighty good care of it. So there it was, in the haze yonder; and it increased and multiplied." (Dickens, *Hard Times*)