



## National economics and occupational safety and health

Governments, their regulators and agencies aim to improve occupational safety and health (OSH) to reduce the cost to society of injury and illness, while at the same time improving competitiveness and national efficiency. OSH can improve productivity by:

- reducing the number of people who retire early or who are unavailable for work due to injury and illness,
- cutting the healthcare and social costs of injury and illness,
- increasing the ability of people to work by improving their health, and
- improving productivity by stimulating more efficient working methods and technologies.

The intuitive and observed evidence is that both healthy individuals and society as a whole are more productive. In a German labour market study it was found that ill health reduces the probability of a person remaining in full employment by 6 %, and doubles the chances of him or her dropping out of the labour force altogether.

A study by the Directorate-General for Health and Consumer Protection (1) found that:

*'If all other conditions are equal, a five-year advantage in life expectancy will give a country a 0.3–0.5 % higher annual growth of GDP.'*

The study 'Employment of disabled people in Europe in 2002' (2) found that the cause of long-standing health problems or disability is work-related for 18.4 % of people.

There is a large body of research and business case studies to indicate that OSH can stimulate productivity in a number of ways, by:

- improving resource productivity through less wastage, less down time, higher process yield, etc.,
- producing higher quality products,
- prompting firms to discover more productive working methods due to the need to stop old practices, and
- promoting replacement of older and less productive technology and equipment.

Countries with less developed OSH systems spend a far higher percentage of GDP on work-related injury and illness — taking resources away from more productive activities

The ILO estimates that work-related illness and accidents cost up to 10 % of GDP in Latin America, compared with just 2.6 % to 3.8 % in the EU.

The International Labour Organisation has plotted competitiveness rankings (based on the Lausanne Institute for Management Development rankings) with its occupational OSH ratings — see graph below (3). It found that more competitive countries have superior OSH ratings. At the very least this indicates that economies with lower OSH standards are not more competitive, and that

investment in OSH is not made at the expense of competitiveness.

### National cost-benefit analysis

Cost-benefit analysis (CBA) is often used to help ensure that any action taken achieves an appropriate balance between implementation costs and benefits. CBA is defined as:

*'A technique for evaluating the total costs and benefits in monetary units at the level of society or of a specific project... a tool that makes economic consequences visible, which may in turn contribute to political discussions.'* (4)

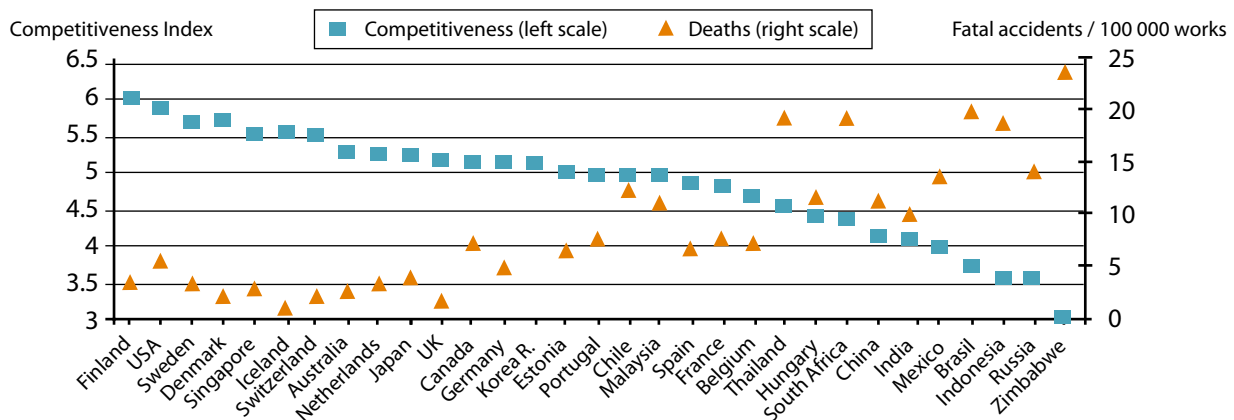


Figure: Competitiveness and safety (World Economic Forum, ILO/SafeWork).

(1) The contribution of health to the economy in the European Union ([http://ec.europa.eu/health/ph\\_overview/Documents/health\\_economy\\_en.pdf](http://ec.europa.eu/health/ph_overview/Documents/health_economy_en.pdf)).

(2) For more information, see the Internet: ([http://epp.eurostat.ec.eu.int/cache/ITY\\_OFFPUB/KS-NK-03-026/EN/KS-NK-03-026-EN.PDF](http://epp.eurostat.ec.eu.int/cache/ITY_OFFPUB/KS-NK-03-026/EN/KS-NK-03-026-EN.PDF)).

(3) Graph reproduced from 'Safety in numbers', ILO ([http://www.ilo.org/public/english/protection/safework/worldday/report\\_eng.pdf](http://www.ilo.org/public/english/protection/safework/worldday/report_eng.pdf)).

The benefits of CBA include:

- comparing options to discover which one achieves the most benefit at least cost,
- identifying the most significant compliance costs so they can be reduced (without diminishing OSH),
- demonstrating the benefits of the regulation,
- guiding decisions by Member States on the relative importance of interventions, and
- ensuring an open and transparent decision-making process.

The ultimate aim of CBA, as applied by regulators and Member States, is to improve the quality of regulatory decision-making. The use of monetary values helps to make decisions transparent and consistent.

But it must be recognised that CBA has limitations. According to the UK's Health and Safety Executive:

*'CBA is an effective tool to inform policy decisions, but we should not pretend to a greater precision than the available information allows.'* <sup>(4)</sup>

CBA calculations are subject to uncertainties and can form only part of the decision-making process.

## Incentives for enterprises

There is widespread interest in using incentives to encourage enterprises to improve OSH. The research shows that the key business factors that motivate enterprises are to:

- promote themselves as socially responsible and well-managed organisations,
- meet the OSH expectations of customers,
- reduce the cost of insurance,
- maintain productivity, morale and boost their ability to recruit and retain skilled workers, and
- reduce sickness absence.

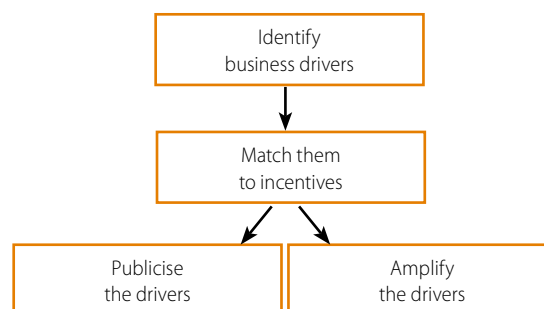
This has led to the launch of a range of initiatives aimed at convincing enterprises of the 'business case' for OSH, and at creating a clearer link between OSH and business performance. These initiatives have a variety of aims.

### 1. Increasing awareness of the benefits of OSH

Enterprises tend to rely on 'sound judgement' when considering the 'business case' for OSH. There is little evidence that they seek a numerical CBA as the primary proof of the case for OSH. Accordingly, a number of initiatives are designed to highlight the OSH-related business success factors, such as reputation, supply chain demands, cost control (for example, the cost of insurance) and staff motivation. Because many of these factors are hard to measure (especially in small enterprises), this reinforces the focus on promoting the business case qualitatively rather than using a numerical CBA.

### 2. Linking OSH performance to business rewards

A number of considerations shape the design, nature and scope of incentives.



First, the incentives need to relate to those business success factors identified as motivations for enterprises, the key ones being reputation, the supply chain, insurance, productivity and staff morale.

Secondly, a key aim is to maximise the link between the OSH performance of enterprises and these incentives. Enterprises need to believe that the level of reward will reflect their OSH performance.

Thirdly, the incentives to improve OSH can be increased. For example, the government can demand that contractors meet certain OSH standards.

Finally, the extent to which these incentives influence enterprises varies between enterprises according to their size and sector. For example, construction firms may be more influenced by demands from their clients than, for example, small retailers.

Common incentives include:

- recognising good and poor OSH performance by awards and publicity,
- encouraging public reporting of OSH performance,
- linking insurance costs to OSH performance,
- including OSH criteria in contractor selection, and
- encouraging investor interest.

### 3. Providing financial support and OSH support

The cost of OSH improvements and the lack of OSH expertise within enterprises can deter improvements. Therefore, some incentives take the form of reducing or offsetting the cost of OSH and providing access to low-cost or free advice. Actions that come under this heading include tax incentives, small enterprise subsidies and grants, and low-cost advice and support.

More information on OSH and economic performance is available at <http://osha.europa.eu/topics/business/performance>

More information on OSH and economic performance in Ireland, Malta and the UK is available at: [www.hsa.ie](http://www.hsa.ie), [www.ohsa.org.mt](http://www.ohsa.org.mt) and <http://www.hse.gov.uk/economics/index.htm>

<sup>(4)</sup> 'The costs and benefits of occupational safety and health' (<http://www.eurofound.eu.int/publications/files/EF9844EN.pdf>).

<sup>(5)</sup> N. Hallet, 'The UK experience', *Magazine of the European Agency for Safety and Health at work*, N° 1, 1999.