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Safety through Markets

W. Kip Viscusi

Throughout this century, we have seen a steady decline in all kinds of risks that we face. Accident rates from falls, drownings, products, and job injuries have all declined. These safety improvements antedate the establishment of the set of risk regulation agencies in the early 1970s. As Aaron Wildavsky correctly observes, these improvements can be traced to the operation of markets. Society's increased wealth has led to a demand for greater safety. In addition, technological improvements have decreased the cost of providing safety, leading to improved safety outcomes.

The greater valuation of safety stemming from rising societal wealth has also led to a demand for societal intervention to foster improvements of safety. Almost two decades ago we witnessed the emergence of a number of government agencies whose mission was to promote health, safety and environmental quality. The strategies they adopted to obtain these improvements might well be characterized as brute force. In each case, the agencies opted for command and control regulations, imposing a variety of engineering requirements on the design of automobiles, the specification of stepladders, and the permissible forms of pollution abatement. These technological solutions were often coupled with highly optimistic projections of dramatic improvements in safety. It is also noteworthy that the price tag for these improvements ran in the billions, since in many cases the legislation for the agencies prohibited cost considerations from being taken into account.

Setbacks and Successes

Although the early safety and environmental efforts aroused substantial controversy, to date we have very little to show for these efforts, and by almost any standard their performance has been disappointing. Early estimates indicated that occupa-

tional health and safety regulation had no statistically significant beneficial effect on safety. More recently, there is evidence of a modest favorable impact. Much the same result has been found for automobile safety regulation and product safety regulation.

Regulation has had its most dramatic successes in the environmental area, where a few regulations have been effectively enforced. Water pollution standards for conventional pollutants, for example, have had much greater success than have policies directed at more widely publicized hazards, such as toxic pollutants and hazardous wastes. On balance, environmental regulations have enhanced environmental quality, perhaps because in this area there can be no voluntary market transactions between firms and pollution victims. In such situations, regulation can be extremely effective.

Implications

What can we learn from this? First, our disappointment with the public interventions may reflect the fact that when market systems are in place they can play a constructive role in promoting health and safety. In the case of job safety and product safety, health and safety levels are the direct result of market transactions between worker and company and consumers and business. To the extent that individuals are aware of risks, they will have an incentive to ensure that their welfare is being adequately protected by the company.

The second lesson is that the public interventions have suffered from a substantial lack of balance. Regulatory costs have run higher than \$100 million per expected life saved, which is out of line with any reasonable estimate of the appropriate allocation of funds to such efforts. Once again, the operation of the market provides a useful yardstick for the appropriate valuation of safety. My most recent estimates of the effect of fatal job risks on worker wages

indicate that each statistical death leads to additional wage compensation of workers in excess of \$5 million. Yardsticks such as this serve as the value-of-life reference point for government programs in ascertaining the degree to which we should push our safety-enhancing efforts. Health and safety are laudable objectives, but at some point they may not be pursued because they are not perceived as being sufficiently important, although they may be very efficient means of enhancing safety. What matters is the risk-dollar trade-off—the price we are paying for the safety gains that are being achieved. Over time there has been increased effort on the part of government officials to achieve such balance, and this trend should be encouraged.

Information Networks

The most optimistic development has been the increased reliance on informational alternatives to direct regulation. Rather than attempt to control health and safety through technological means, there has been a proliferation of warning programs, such as the comprehensive hazard communication program OSHA (the Occupational Safety and Health Administration) has set in place for chemical hazards in all U.S. workplaces. Unlike command and control regulations, these information efforts work through the market to enable individuals to be informed of the risks that they face and to forego those activities that are unduly risky. Although informational efforts clearly cannot remedy problems that do not work through markets, such as broadly based environmental hazards, they can be of substantial benefit in many other contexts.

It is the market that remains the main force for promoting health and safety in our economy. There is, however, a legitimate role for government intervention, but in designing this intervention it is important to make the same kinds of trade-offs that the market makes implicitly every time a worker accepts a risky job or a consumer buys a potentially hazardous product.

A risk-free society simply is not attainable; nor should that be our objective. More balanced health and environmental policies do, however, have an important role to play. When designing such efforts, policymakers should attempt to work through existing market forces rather than supercede them. Informational efforts that respect the integrity of market operation and which operate by improving the way in which these market mechanisms operate should become a more prominent part of our policy approach.

READINGS SUGGESTED BY THE AUTHOR:

Viscusi, W. Kip. *Risk by Choice: Regulating Health and Safety in the Workplace*. Cambridge: Harvard University Press, 1983.

W. Kip Viscusi is the George G. Allen Professor of Economics at Duke University. His work on the economics of health, safety, and environmental risks includes Risk by Choice, Employment Hazards, and Learning About Risk (with Wesley A. Magat). His most recent book, Compensation Mechanisms for Job Risks (with Michael J. Moore) will be published by Princeton University Press in January, 1990.

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