



The High Cost of Regulatory Compliance for U.S. Manufacturers

by Amy K. Frantz

W. Mark Crain and Joseph M. Johnson of the Regulatory Studies Program at George Mason University's Mercatus Center recently surveyed 100 manufacturers in the United States about the costs those manufacturers face to comply with the many workplace regulations promulgated by the federal government. Dr. Crain and Dr. Johnson concluded that complying with workplace regulations costs an average of \$2.2 million per manufacturing firm or about \$1,700 per employee.¹

Crain and Johnson mailed their survey to members of the National Association of Manufacturers and received responses from 100 firms. The size of the firms responding ranged from 7 employees to 65,400, and they had annual receipts from \$600,000 to \$15 billion.²

The average cost per employee of complying with all workplace regulations is \$1,724.³ This figure includes recurring costs and one-time expenses, such as the settlement of lawsuits. The compliance cost per employee differs with the size of the firm, as can be seen in Figure 1.

Figure 1.

| Size of Firm | Cost per employee |
|---------------------------------------|-------------------|
| All firms | 1,724 |
| Small firms (less than 100 employees) | 2,573 |
| Mid-size firms (100 to 499 employees) | 1,361 |
| Large firms (500 or more employees) | 1,530 |

Source: "Compliance Costs of Federal Workplace Regulations: Survey Results for U.S. Manufacturers," by W. Mark Crain and Joseph M. Johnson, Regulatory Studies Program, Mercatus Center, George Mason University, p. 2.

If these amounts are extrapolated to all manufacturing firms in the United States, the total cost of complying with workplace regulations for the entire manufacturing sector in 2000 would be approximately \$32 billion.⁴ If only the recurring costs of compliance are included, the total cost of complying with workplace regulations still amounts to about \$28 billion.⁵

The survey by Crain and Johnson then separated federal workplace regulations into six categories and asked the respondents to indicate the portion of their regulatory compliance costs devoted to each category. The results for all firms, and for firms by size, that participated in the survey are in Figure 2.

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Figure 2.

| Category | All Firms | Small Firms | Mid-Size | Large |
|----------------------------|-----------|-------------|----------|-------|
| Worker Health and Safety | 33% | 42% | 35% | 21% |
| Employee Benefits | 27% | 28% | 24% | 31% |
| Civil Rights | 13% | 9% | 11% | 20% |
| Labor Standards | 11% | 9% | 11% | 11% |
| Labor-Management Relations | 10% | 9% | 12% | 9% |
| Employment Decision Laws | 6% | 3% | 6% | 8% |

Source: "Compliance Costs of Federal Workplace Regulations: Survey Results for U.S. Manufacturers," by W. Mark Crain and Joseph M. Johnson, Regulatory Studies Program, Mercatus Center, George Mason University, p.13.

For all firms, regulations that fall within the Worker Health and Safety category account for one-third of the costs of complying with federal workplace regulations.⁶ This category includes regulations promulgated by the Occupational Safety and Health Administration (OSHA) and Workers' Compensation laws.⁷

The cost of complying with these federal workplace regulations is like a hidden tax on manufacturers, increasing the cost of business and as a result, the cost of the products they manufacture. As the authors of the survey state:

The costs of complying with workplace regulations equaled 1.6 percent of gross receipts in the typical manufacturer. To place this burden in perspective, the impact of federal workplace regulations on employment, pricing, and output decisions is roughly equivalent to a 1.6 percent excise tax on products manufactured in the U.S. This regulatory burden hinders the international competitiveness of U.S. manufactured products, and constrains the demand for workers in U.S. facilities.⁸

If our elected officials are searching for ways to boost the United States' economy, they should reduce the regulatory burden on U.S. manufacturers.

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Endnotes:

¹W. Mark Crain and Joseph M. Johnson, "Compliance Costs of Federal Workplace Regulations: Survey Results for U.S. Manufacturers," Regulatory Studies Program, Mercatus Center, George Mason University, Arlington, Virginia, December 2001, Executive Summary.

²Ibid., p. 1.

³Ibid.

⁴Ibid., p. 2.

⁵Ibid., p. 5

⁶Ibid., p. 13.

⁷Ibid., p. 20.

⁸Ibid., Executive Summary.

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