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Enforcing fire safety in the catering industry : an economic analysis

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An economic analysis

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On New Year's Eve 2001, fourteen youngsters were killed and more than two hundred got injured by a fire in a bar in the municipality of Volendam in the Netherlands. After this tragic event, the Dutch government intensified the administrative law enforcement of the fire safety regulation, especially in the catering industry. From an economic and social perspective important questions can be raised on this response to the 'Volendam disaster'. Are the costs and benefits of enforcement properly balanced? What effects on compliance can be expected from administrative law enforcement? Is private enforcement by liability claims of victims considered as an alternative?

The main question of this thesis is: What is an effective and efficient enforcement policy for fire safety in the catering industry? In particular, this thesis discusses whether the use of informal, cooperative enforcement through warnings, persuasion and advice (a so called compliance strategy) is effective in inducing compliance with the fire safety regulation. The standard economic model of compliance and enforcement stresses the importance of immediately punishing individuals and firms for non-compliance (a deterrence strategy). In practice many administrative law enforcement officials do not impose the strict sanctions economists promote.

Part I of this thesis analyzes the economic literature to discuss whether and when a compliance strategy can be beneficial. It discusses which enforcement method (private, administrative or criminal) is effective and efficient to enforce safety standards. Definite conclusions on the optimal enforcement policy can only be drawn by analyzing the actual data. Therefore, part II of this thesis analyzes which enforcement policy is effective and efficient for the case of fire safety in the catering industry in the Netherlands. Enforcement officials have been interviewed to examine the use of a compliance strategy. The benefits and costs of the enforcement efforts after the Volendam disaster are estimated to see whether these efforts have been a desirable investment. Also, the compensation of the victims of the Volendam disaster is investigated to analyze the incentive to take precautions. Finally, a simulation of different enforcement policies in a representative municipality examines which policy is efficient.

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