

A comprehensive view of disability policy

The disablement of a breadwinner is inevitably a disaster for that person and his or her family. From an economic standpoint, disability can be even more devastating than death, since it often entails not only loss of income but added costs to provide care and medical treatment for the handicapped family member. In advanced industrial countries, therefore, a strong moral commitment exists to assist the disabled. This willingness to share the costs of disability takes different forms in different countries and has broad social and economic ramifications. But regardless of their different approaches to the problem, Western nations have in common that over the decade 1968–78 the cost of disability policy rose dramatically, as the number of recipients, the generosity of benefits, and, hence, total spending grew. Many countries experienced rates of growth in expenditures in real terms over the period of over 10 percent per year (see Table 1).

In the era of slowed economic growth and high unemployment of the 1980s, policy debates have begun to question the existing approach to disability policy. To what extent is society willing to share the costs of disability or undertake investments to reduce those costs? And what configuration of policies will achieve the results in the most efficient and equitable manner?

Two books now available throw light on the complicated public systems that serve the disabled. *Disability and Work: The Economics of American Policy*, by Richard V. Burkhauser and Robert H. Haveman,¹ described and analyzed the programs serving the disabled in the United States. Now, in *Public Policy toward Disabled Workers: Cross-National Analyses of Economic Impacts*, Burkhauser and Haveman are joined by Victor Halberstadt² in analyzing the systems in seven industrialized countries—West Germany, France, Israel, Italy, the Netherlands, Sweden, and the United Kingdom (see box, p. 18). The authors compare the systems to one another and to U.S. policy, and, within an economic framework, assess how well they work.

The size of the problem

The term “disability” represents a range of conditions differently measured not only from country to country but from program to program within a country. Yet the general characteristics of the disabled are remarkably similar overall. They tend to be the older workers and those with relatively low educational levels and occupational status. When a country has a racial or national minority, members of the minority are more likely to be disabled than members of the majority population. Except in the aftermath of war, women

have a higher incidence of disability than do men. The disabled are more likely to be unmarried and live alone than others in the working-aged population.

The size of the disabled population—from 5 to 10 percent of the working-age group—leads to an estimate that the output loss from their disabilities results in a reduction of between 3 and 7 percent in national income, not including the lost productivity from resources diverted to provide training and other services to the disabled or the reduction in work effort of those required to finance income transfers or services (reductions implicit in every tax program). All in all the loss is estimated to total as much as 6 to 8 percent of national income.

Table 1
Growth of Expenditures for Disability Programs Providing Income Support, Eight Countries, 1968–1978

	Percentage of National Government Expenditure		Annual Rate of Real Growth ca. 1968–78
	1968	1978	
Federal Republic of Germany	12.9	15.7	5.3
France (1974–77)	12.3	6.6	6.7
Israel	1.6	2.9	23.7
Italy	10.4	25.6	12.7
Netherlands	5.8	13.6	18.6
Sweden	2.6	4.3	11.7
United Kingdom	3.8	2.9	.5
United States	5.8	8.0	6.3

Source: Haveman, Halberstadt, and Burkhauser, *Public Policy toward Disabled Workers*, Table 5.1, pp. 84–85.

Note: In some cases, program data are taken from reports for years slightly earlier or later than 1968 and 1978. Data limitations for France made it necessary to use the four-year period 1974–77.

Types of policies employed

The authors classify disability policies into three groups: ameliorative, corrective, and preventive. *Public Policy toward Disabled Workers* examines the first two.

Ameliorative policies are those aimed at easing the burden of impairments on, and the loss of income by, handicapped people. They consist for the most part of income transfer programs, but include in-kind transfers such as housing allowances and subsidized health care. They may also include such adaptive devices as wheelchairs and specially designed automobiles.

Corrective policies are those which attempt to remove or reduce the effects of the handicap or alter the conditions under which the disabled person functions. The goal of such policies is generally to promote a return to work. Rehabilitation programs which retrain a person who can no longer engage in his or her previous work, sheltered workshops, public service employment, hiring quotas, jobs reserved for the handicapped, equal-access regulations, which mandate modification of public buildings, sidewalks, etc., and subsidies to those who hire the handicapped are all considered corrective measures.

The authors find that the countries studied tend to select a mix of programs that reflects their culture and tradition. The Netherlands, for example, has very generous transfer programs for large numbers of recipients. France, on the other hand, has only recently supplemented family responsibility with somewhat meager income transfer programs. The United Kingdom and Israel rely heavily on in-kind transfers to the disabled, emphasizing medical care, housing, and mobility. Sweden and the Federal Republic of Germany show the greatest commitment to reintegrating the disabled into the work force. They stress testing, training, rehabilitation, and direct work provision. The United States, with its commitment to providing opportunity for all, has been the only country to embrace the concept of equal access to public facilities.

In general, all the countries studied have an enormous array of programs, some well and some less well integrated. The authors divide the nations into two groups according to the degree to which their transfer, rehabilitation, and work programs are coordinated. But "well-integrated" here is clearly a relative term. In the United States, whose disability system the authors describe as "mature and developed," there are over fifty different programs that deal with the disabled.

How well do disability programs work?

The authors then attempt to evaluate the effectiveness of the two approaches, ameliorative and corrective.

Ameliorative remedies are examined in terms of their "adequacy," based on the median income of each country. In terms of program generosity, the Netherlands, Israel, Swe-

PUBLIC POLICY TOWARD DISABLED WORKERS: CROSS-NATIONAL ANALYSES OF ECONOMIC IMPACTS

by

Robert H. Haveman
Victor Halberstadt
Richard V. Burkhauser

Cornell University Press, 1984
124 Roberts Place
Ithaca, NY 14850

\$34.95

den, and Italy rank high. Next comes the United Kingdom. France, the United States, and the Federal Republic of Germany rank low. In assessing the benefit levels in the United States, the authors find, however, that most workers who are sufficiently disabled to be eligible for some combination of Social Security Disability Insurance, Supplemental Security Income, and Workers' Compensation are likely to have incomes above the poverty line. Those ineligible for major disability programs are more likely to be in poverty.

Corrective programs, which are designed to increase the work and earnings of the disabled and can therefore be expected to reduce the costs to society of disability, are subjected by the authors to cost-benefit analysis.

Application of such analyses has produced mixed results. Vocational training programs in the United States appear to be cost effective, at least when efforts are concentrated on those with the best chances of returning to work. Studies of sheltered workshops show them to be less effective. The authors judge that "the unmeasured benefits to society (for example, the social and psychological well-being of workers or the freeing of care time of other family members) must be substantial in order to compensate for the measured net social costs attributed to the enterprise activities" (p. 163). And some of the corrective policies entailing equal access to public facilities seem quite impractical. It has been estimated, for example, that modifying the nation's buses to accommodate wheelchairs—which would serve only 7 per-

cent of the handicapped population—would average out to a general cost of \$38 per trip, whereas bus rides by the general public cost \$.85 per trip.

Evaluations of such measures as employment subsidies and public programs also yield mixed results. The authors draw the conclusion that there is not a strong case to be made for corrective measures as opposed to ameliorative ones, especially in a period of high unemployment.

Disability benefits and labor supply

The relationship between the growth of disability benefits and the decline in the labor supply of older working-age men

Institute Publications on Disability

Robert H. Haveman and Barbara Wolfe, "Disability Transfers, Health Status, and Economic Behavior." IRP Discussion Paper no. 767-84.

Robert H. Haveman and Barbara Wolfe, "Disability Status as an Unobservable: Estimates from a Structural Model." IRP Discussion Paper no. 775-84.

Victor Halberstadt and Robert H. Haveman, *Public Policies for Disabled Workers*. IRP Reprint no. 435. 1981.

Robert H. Haveman and Barbara Wolfe, *Disability and Work Effort: A Probabilistic Choice Analysis of the Labor Supply Decisions of Older Men*. IRP Reprint no. 479. 1983.

Robert H. Haveman, Barbara Wolfe, and Jennifer Warlick, *Disability Transfers, Early Retirement, and Retrenchment*. IRP Reprint no. 489. 1984.

Robert H. Haveman and Barbara Wolfe, *Disability Transfers and Early Retirement: A Causal Relationship?* IRP Reprint no. 499. 1984.

Robert H. Haveman, Barbara Wolfe, and Donald Parsons, *Disability Insurance and the Decline in Male Labor Force Participation: Comment and Reply*. IRP Reprint no. 500. 1984.

Barbara Wolfe, *Cutbacks in Disability Transfer Programs*. IRP Reprint no. 524. 1985.

Robert H. Haveman and Barbara Wolfe, *Income, Inequality, and Uncertainty: Differences between the Disabled and Nondisabled*. IRP Reprint no. 527. 1985.

is explored (see box for additional work on this topic). Models of this linkage have been tested empirically in the United States, where it is estimated that one-quarter of the decline in the labor force participation rate of older workers between 1968 and 1978 (which dropped 2.2 percent a year) is attributable to the increased generosity of disability benefits.³

Data from other countries reveal the same pattern. The authors suggest that as economic growth slowed, older workers and those with impairments were laid off and found it increasingly difficult to obtain work. Public policy in all the countries studied responded by relaxing eligibility requirements for disability programs and increasing benefits. Disability income support programs became, therefore, a means for coping with unemployment by encouraging early retirement. The effect of this policy was to increase the tax burden on the working population as the ratio of the disabled receiving benefits to the employed population increased.

The extremes to which this policy has been carried are evident from data provided in the late 1970s by Victor Halberstadt. He pointed out that 10 percent of the working-age population of the Netherlands received disability benefits in 1977; that over half of male workers over the age of 57 received disability or similar benefits, and transfers provided 26.6 percent of disposable income. He said, "The growth rate of beneficiaries of disability benefits is slightly astonishing. To a large extent this is nothing more than an expensive way of providing unemployment benefits and of retiring people at an early age."⁴

Issues to resolve

All countries in this study are engaged in reevaluating their disability policies in the context of rising costs and limited resources. According to Haveman, Halberstadt, and Burkhauser, they will have to address a number of crucial issues:

- What is the appropriate level of publicly borne costs on behalf of the disabled, and how should they be allocated? Choices must be made about each system's eligibility criteria, the breadth of protection, tax and benefit structure, and administration.
- What is the appropriate corrective response for disability policy within the context of general employment policy?
- To what extent should a society attempt to alter its socio-economic structure to make impairments more or less irrelevant to normal functioning? What does "equal access" entail?
- How should disability policy programs relate to programs targeted at other distressed groups, such as the long-term unemployed? Should the disabled receive more generous treatment than other groups among the needy?
- To what extent is there a danger that countries and other political jurisdictions will reduce their benefits to discourage immigration from those jurisdictions with lower benefits?

The authors provide the framework within which to make these choices, but they warn that the choices are difficult ones, and cost-effectiveness considerations provide only part of the answer. The final mix of programs within each country will depend upon a social judgment which takes into account moral commitments, economic conditions, and the well-being of all its citizens. ■

¹ The Johns Hopkins University Press, 1982. Richard V. Burkhauser and Robert H. Haveman are both affiliates of the Institute for Research on Poverty. Burkhauser is an associate professor at Vanderbilt University; Haveman, a former director of IRP, is a professor at the University of Wisconsin-Madison.

² Victor Halberstadt is Professor of Public Finance, Center for Research in Public Economics, at Leyden University. Contributors to the book who describe the disability policy for each country are as follows: Martin Pfaff and Walter Huber, West Germany; Beatrice Majnoni d'Intignano and Jacqueline Repellin, France; Jack Habib, Haim Factor, and Vincent Mor, Israel; Lucia Vitali, Italy; Han Emanuel, Victor Halberstadt, and Carel Petersen, the Netherlands; Eskil Wadensjö, Sweden; and M. J. McCrostie and Alan Peacock, the United Kingdom.

³ Haveman and Barbara Wolfe have recently completed a project, "Research on Disability and Poverty," supported by the Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services. The final report consists of four papers: "Disability Status as an Unobservable: Estimates from a Structural Model," available as IRP Discussion Paper no. 775-84; "Income, Inequality, and Uncertainty: Differences between the Disabled and Nondisabled," available as IRP Reprint no. 527; "Disability Transfers and Older Women's Work," by Haveman, Wolfe, and Phillip de Jong, forthcoming as an IRP Discussion Paper; and "Measuring the Economic Costs of Disability," by David M. Betson and Jennifer L. Warlick.

⁴ "Discussion" of Robert H. Haveman, "The Dutch Social Employment Program," in John L. Palmer, ed., *Creating Jobs: Public Employment Programs and Wage Subsidies* (Washington, D.C.: Brookings Institution, 1978), pp. 273-274.

Institute Publications on the Economic Circumstances of the Elderly

Kathryn Anderson, Richard Burkhauser, and J. S. Butler, "Work after Retirement: A Hazard Model of Reentry." IRP Discussion Paper no. 768-84.

Kathryn Anderson, Richard Burkhauser, and Joseph Quinn, "Do Retirement Dreams Come True? The Effects of Unexpected Events on Retirement Age." IRP Discussion Paper no. 750-84.

Sheldon Danziger, Jacques van der Gaag, Eugene Smolensky, and Michael Taussig, *Implications of the Relative Economic Status of the Elderly for Transfer Policy*. 1984. IRP Reprint no. 491.

Sheldon Danziger, Jacques van der Gaag, Eugene Smolensky, and Michael Taussig, *Income Transfers and the Economic Status of the Elderly*. 1984. IRP Reprint no. 498.

Karen Holden, Richard Burkhauser, and Daniel Myers, "The Dynamics of Poverty among the Elderly: Income Transitions at Older Stages of Life." IRP Discussion Paper no. 774-84.

Karen Holden, Richard Burkhauser, and Daniel Myers, "Marital Disruption and Poverty: The Role of Survey Procedures in Artificially Creating Poverty." IRP Discussion Paper no. 781-85.

Karen Holden and Richard Burkhauser, "Pensioners' Annuity Choice: Is the Well-Being of Their Widows Considered?" IRP Discussion Paper no. 802-85.

Christine Ross, "Income Transfers to the Elderly, 1967, 1974, and 1981." IRP Discussion Paper no. 760-84.

Christine Ross, Sheldon Danziger, and Eugene Smolensky, "Social Security, Work Effort, and Poverty among Elderly Men, 1939-1979." IRP Discussion Paper no. 785-85.

Jennifer Warlick, "How Effectively Does SSI Guarantee Minimum Income for the Low-Income Aged?" IRP Discussion Paper no. 751-84.
