

## Some economic issues affecting public policy on disability

Verna Smith\*

*Economic perspectives of current public policy issues on disability are reviewed. The participation of people with disabilities in the labour market is discussed, with particular reference to the problem of information inadequacy. Different policy responses including equal employment opportunities, transitional and supported employment schemes, and deregulation of the labour market are considered. Income maintenance strategies, their adequacy and effect on vocational opportunity are reviewed. The role of insurance schemes in reducing the costs of disability is considered. Collective responses to the costs of disability are discussed.*

### 1. Introduction

This paper will review recent economic research on public policy issues arising out of disability, and will look in particular at policies which seek to increase the participation of people with disabilities in the labour market. The paper is mainly concerned with the issues surrounding permanent disability rather than temporary disability.

Haveman *et al.* comment that:

The presence of an impairment generates costs in the form of losses of economic welfare. These losses are experienced by both the disabled person and those who are, somehow, affected by his or her impairment. The total cost of disability is the sum of all welfare losses experienced by all of the members of society in response to the stock of impairments present in society (Haveman *et al.*, 1984, p.31).

and go on to identify "externality, public good and informational problems surrounding disability" (Haveman *et al.*, 1984, p.37). These include the non-optimal behaviour of people in their workplace and leisure activities which increases the likelihood - and cost to society - of the occurrence of accidental or illness-related disability and causes withdrawal of the individual, either temporarily or permanently, from the labour market. Added to these, is the lack of information about disability which leads to discrimination and prejudice in the employment market against people with disabilities.

Also included are the issues related to the costs of income maintenance or rehabilitation programmes for people with disabilities such as the work incentives and disincentives associated with benefits; the costs of disability to firms, and the effect of these costs on an industry's demand for labour; the efficiency of government expenditure on transitional or supported employment programmes and their impact on the total labour market; the regulatory effects of disability legislation on the freedom of firms, and, most particularly, the costs of disability programmes, both in transfer payments and medical and rehabilitation costs, as a percentage of gross national product (Berkowitz and Hill,

\* Royal New Zealand Foundation for the Blind.

1989). Finally, there are the inefficiencies of one-off charitable giving as opposed to collective action to support people with disabilities.

Of particular importance in the field of disability policy, however, is the need to identify the trade-offs between efficiency and equity. The public policies designed to resolve these problems are concerned with cost-bearing and cost-reducing issues. That is, who does bear and who should bear the costs of disability - the individual, the family, the taxpayer, or the employer - and how can these costs be reduced - through avoidance of disability or through the rehabilitation and the return of the person with the disability to their chosen vocation. Policies fall into the category of cash transfers, medical care programmes, direct service programmes (which can include rehabilitation services and employment assistance programmes) and legislative programmes including anti-discriminatory legislation (Berkowitz and Hill, 1989). This paper will review recent work in some of these fields and raise contemporary concerns which must now be faced by policy makers in the country.

## 2. Participation of people with disabilities in the labour market

The first of these issues is efficiency. If people with disabilities who could be employed are not, there is a loss of economic efficiency - "that is the loss of the goods and services that could be available to society as a whole if disabled persons were employed productively" (Thornton and Maynard, 1989, p.143). As an example, studies completed in New Zealand reveal that only 40 percent of working age people with a visual impairment (according to the World Health Organization definitions of moderate low vision to total blindness) have a job. Moreover, it is likely to be both low income and low status. Even where educational levels of blind people are higher than the average levels of all New Zealanders, their unemployment rate has been shown to be double the New Zealand average.

However, today there are very few jobs which people with a visual impairment cannot do. Their low employment status has continued despite the fact that technological change in the last decade has revolutionized the employment opportunities of people with a visual impairment. Talking computers are perhaps the most significant development in the lives of blind people since braille was invented. Most western countries now have well-established medical and rehabilitative programmes designed to maximize the employment chances of people with a visual impairment.

People with disabilities are clearly placed, unnecessarily, at a major disadvantage within the competitive marketplace for a number of different reasons. The major one of these is information inadequacy. Evidence shows that employers do not have adequate information to enable them to make reasonable judgements about the work skills of a person with a disability, and so will fail to hire them. This may be because of a prejudice or because they believe, wrongly, that people with a disability are statistically more likely to, for instance, require expensive alterations to the workplace, more time off for illness, more training or higher insurance and fringe benefit costs. Thus employers will tend to hire only non-disabled workers. Johnson (1989) confirms this:

Studies of hiring decisions suggest that employers believe that all impairments limit productivity and that they evaluate impaired workers by reference to stereotypes. Employers believe, for instance, that it is difficult to shift impaired workers among jobs; that the costs of supervision and training are higher for impaired workers, and that impairments increase the costs of insurance and other fringe benefits ... Employers also tend to overstate the limiting effects of impairment ... Employers' rankings of impairments by expected productivity tend to agree with the rankings of the same impairments by intensity or prejudice, suggesting that employers are prejudiced or are misinformed by the conventional (prejudiced) wisdom (Johnson, 1989, p.247).

To illustrate this problem in a New Zealand context, a survey of employers in Hamilton, undertaken by the New Zealand Employment Service in 1989, showed that 90 percent of employers would refuse to consider employing a person who is blind, although they would be more ready to consider a worker with low vision. A presumption that the safety in the workplace could not be guaranteed for a blind person was the main reason given for their attitude.

Lack of information results, therefore, in both prejudice and discrimination in the labour market. An American commentator claims that employer attitudes to people with disabilities are "less favourable than those towards elderly individuals, minority group members, ex-convicts and student radicals" (Bowe, 1978). More American research, looking at the wage differentials between disabled and able-bodied workers, has attributed up to one-third of the differential in wages for men with disabilities, and up to one-half of that in women, to the discriminatory attitudes of employers (Bowe, 1978).

### 3. Policy options for equal employment opportunities

There have been different policy responses to this problem. One of these has been the call for legislation to require employers to develop equal employment opportunities policies. These are designed to increase the level of understanding about disability and eliminate restrictions which may exist in open employment for people with disabilities. The Employment Equity Act 1990 which was passed by the Fourth Labour Government is an example of such legislation. More generally, many countries have introduced civil rights legislation to prohibit discrimination, either direct or indirect, against people with disabilities. The Rehabilitation Act which was introduced in the United States in 1973 was designed to ensure the accessibility of all federal buildings for people with disabilities, required affirmative action programmes to be operated by certain contractors for federal services, and limited job screening and testing where it constituted a barrier to people with disabilities and was not related to business necessity and safety at work (Johnson, 1989).

Johnson identifies the substantial problems encountered by the judiciary in enforcing the American Rehabilitation Act, which is designed to protect people with disabilities against these imperfections. These difficulties relate to the problems of establishing the effect of an impairment on the ability to work except on a case-by-case basis, and the definitional challenges raised by the concept of "reasonable accommodation" of the workplace for a person with a disability. He concludes that:

Insofar as the goal of antidiscrimination laws is to increase the efficiency with which we use labor, the current process raises serious doubts about whether the benefits of legislation outweigh its costs (Johnson, 1989, p.261).

We can see the debate over the scope and effectiveness of the Human Rights Commission Amendment Bill, which introduced draft legislation last year to offer protection against discrimination in the workplace and elsewhere for people with disabilities, as reflecting these same concerns. It should be pointed out, however, that this policy proposal did not rely upon expensive litigation so much as informed mediation to resolve complaints of discrimination.

An alternative view is that the market will, if left to function efficiently, provide equality of opportunity. Brook believes that: "competition ... creates the conditions for both efficiency and fair treatment in employment relationships" (1990, p.50). She quotes Gray (1989) in support: "It is only the institutions of the market that accord full respect to human agency, while efforts to 'empower' people through government intervention typically turn them into passive consumers of impersonal bureaucracies" (Gray, 1989, p.34-35). Finally, she trades off civil and economic liberties: "Civil liberties, and the

associated emphasis on 'rights' to particular outcomes, cannot, however, compensate for lost economic liberties ... No amount of compassionate rhetoric can substitute for freedom" (Brook, 1990, p.xi).

It must be assumed that these views were shared by the current National Government which, shortly after taking office in 1990, repealed the Employment Equity Act, preferring instead to rely on voluntary employer compliance with equal employment principles. At the same time, the labour market was substantially deregulated, through the passage of the Employment Contracts Act, in order to achieve the increased competition and the freedom of employers and employees which Brook identifies as the best hope for efficiency and equity in employment.

Direct service programmes which offer assistance in obtaining employment are a common policy response to these problems in the market, and to the failure of the market to provide ameliorative goods and services such as training programmes. The costs of these publicly provided programmes, both to firms and to government, as measured against their success in raising the levels of labour force participation for people with disabilities, is an issue of prime concern. The focus of the specialist agency, Workbridge, on people with disabilities is an example of such a programme.

Increasingly, there is concern that, given high levels of unemployment generally, proactive policies which put people with disabilities into open employment will displace other workers. But direct employment schemes have been seen to be a politically more desirable solution to low levels of employment amongst people with disabilities, conveying as they do a *quid pro quo* for government subsidy, and coinciding with the desire of the person with a disability to gain self esteem through productive employment - if it is productive.

Thornton and Maynard (1989) have examined the effects of transitional employment and supported employment programmes in the US from the viewpoint of economic efficiency and equity. To do so, they traverse the impact of general unemployment, work disincentives created by the benefit system for people with disabilities, discrimination or ignorance amongst employers, market failure and the work attitudes of disabled people. Their conclusion is that:

Transitional and supported employment address several of the factors that induce low levels of job-holding among persons with physically or mentally limiting conditions. They provide a forum for dissemination of information to employers about the capabilities of such workers; they help overcome the market imperfections that inhibit an adequate supply of training services; they help persons who are not employed productively in the competitive labour market at or above the minimum wage; and they help maintain positive attitudes towards work by increasing the employment opportunities available to students who are graduating from school. However, they can do little about either general unemployment levels or the disincentives created by income support programmes (Thornton and Maynard, 1989, p.155).

The researchers conclude that the evidence on the cost/benefit comparisons of the programmes is limited as a result of poor evaluation data but find that transitional employment programmes in particular have had some demonstrated success in excess of their costs.

There is a major problem if only a few employers make provision for the employment of workers with disabilities but continue to pay below the level of the worker's productivity. "If other employers are prejudiced, the non-prejudiced firm can pay handicapped workers more than the discriminatory market wage but less than the workers' productivity" (Johnson, 1989, p.248). Firms will be able to do this because there is little choice for disabled workers in a market which presents so many barriers to them, other than to take the wages offered. Perhaps one can see the sheltered workshops of the recent past as an example of this.

#### 4. Income maintenance and vocational opportunity

When the labour market fails to offer work of an appropriate kind, or the person with the disability cannot work, income maintenance policies provide an essential policy response to people with disabilities. One problem however is the issue of work disincentives associated with benefit payments to people with a disability. It is hypothesized that a person who finds greater economic returns to disability than to work may not struggle so hard to work - not because of fraud or dissembling, but merely because they are adapting to given incentives (Leonard, 1989). Some research confirms this phenomenon, acknowledging that disability is not just a medical issue but an economic, social and psychological one for the individual.

The sharply decreased probability of becoming a beneficiary when past wages are at or above the ceiling (on social security taxable earnings) may reflect the fact that a disabled white collar worker can often continue working while an identically disabled blue collar worker cannot, due to the physical demands of the job (Leonard, 1989).

The debate about whether high rates of benefits provide work disincentives applies to all beneficiaries. Current policies seek to resolve this debate by widening the gap between the rate of benefits relative to wage rates. This is resulting in ever-decreasing rates of benefits. However income maintenance policies for people with disabilities, if they are to be effective, must also take into account the substantial costs of the particular disability itself.

It has been calculated that the average weekly costs incurred by a totally blind person in full time employment, including transport, home help and personal assistance and specialist equipment costs, range from \$180 to \$220. While in the case of some blind people without spouses who earn their own income, Invalids Benefit is payable in addition to their wages, the maximum disability allowance for all other claimants is payable at only \$40 per week.

If provision to meet the actual costs of disability is not made, either through the incorporation of the costs of the disability in the benefit rate, or in a supplement to wages, then these costs will be borne largely by the individual and his or her family, and will provide further disincentives to work. Both efficiency and equity losses are apparent in this problem.

#### 5. Insuring against and avoiding disability

There are of course many ways in which society seeks to insure against the costs of disability, including both medical care and cash transfer costs. Much disability, especially where it is accidentally induced or occurs through life-style choices which involve risks to health, can be avoided. Much cannot, because its origins are in unavoidable illness, age-related conditions or genetic circumstances.

In theory, individuals could insure themselves against accidents which lead to disability. However, individuals do not usually have sufficient information about the risk of becoming disabled to make appropriate judgements about protecting themselves. They are likely to remain uninsured or underinsured, especially for major accidents which result in serious disability.

The failure of the market in insurance provision is well documented. Private insurance for the full costs of disablement - including social and psychological costs - is unavailable. Moreover, many individuals could not purchase insurance cover because of financial constraints and coverage among low-income families would be very low (Haveman *et al.*, 1984).

This provides a useful demonstration of the complexity involved in producing policies which are both efficient and equitable from a cost-bearing and cost-reducing analysis. Until 1984, compensation for disability arising through injury was available in

New Zealand through the right of the individual to take a common law action for damages against a person who was thought to be liable for the injury. This system had many weaknesses, however. Obtaining compensation through the courts was expensive, infrequent, and more related to the ability of the defendant to pay than the need of the plaintiff. In addition, worker compensation schemes provided limited cover for some workers covered by the schemes.

In 1974, workers' compensation schemes and the right to sue for damages through the courts in New Zealand were replaced with the Accident Compensation Scheme which covered work injuries, motor vehicle injuries and non-work injuries to earners. The costs of injuries to workers were met from a levy upon employers, those arising from motor vehicle accidents through a vehicle registration and an annual licensing levy and, for non-earners, through a transfer of government funds to the scheme. Health care costs were met from Vote: Health.

In 1990, 70 percent of the costs of all injuries were met by employers, although statistics produced by the Accident Compensation Corporation showed that less than 40 percent of those payments were for accidents on the job. Economists have been concerned with identifying where the real costs to employers lie, and with the economic implications of these costs. One concern (Lambrinos and Appel, 1989) is that employers absorb the costs of these schemes and pass them on to consumers in higher product prices, or to the workforce generally in reductions in size of their labour force. (It can also be contended that in fact employees accept the advantages of a workers compensation scheme as a part of their wage or salary package, thus reducing their wage demands and effectively bearing its costs themselves.)

One way of resolving the problem of employers paying for non-work injuries is to shift the burden of these levies away from employers and onto individuals, as has been proposed in the reform of the Accident Compensation Scheme announced in the 1991 Budget. This raises difficult equity issues of another kind, however. In the future, all earners will be paying a premium for non-workplace accident compensation. The records of past claims for compensation show that the benefits of the system are very unevenly claimed among the general population. Of non-vehicle accidents which occur to earners outside the workplace, a high proportion occur on the rugby field and in other sporting activity. Yet the majority of earners do not participate in these "risky" activities at all. The costs of insurance against these risks will therefore be shared among many people who are never likely to incur these risks. This can be seen to be inappropriate for a number of reasons, not least because the true costs of the risk will not be levied on those individuals - the rugby players, for instance - who are incurring it. There may therefore be more limited incentive amongst those people to reduce their own risk of injury. The introduction of "experience ratings" for employers, earners and vehicle owners, which operate in a similar way to no-claims bonuses, is being considered as a strategy to overcome a part of this problem.

The introduction of such a public insurance scheme was a recognition that markets cannot be relied upon in this important area. However, the public policies being designed are also imperfect instruments of efficiency and equity. In addition to the problems with policy identified above, it should be remembered that the current Accident Compensation system, which provides benefits only to those of working age who are disabled by accident, is a highly limited disability policy scheme. There is the charge that it overcompensates for minor disability and undercompensates for serious disability, and the scheme is only just beginning to move from its compensation orientation to a focus on the rehabilitation of disabled people. Until the inequities in treatment of people with illness-based and accidental disability are removed, it will remain an imperfect instrument of policy.

A final area of concern is the total costs to the government of disability as a percentage of Gross National Product. These costs include medical care, rehabilitation, compensation and income maintenance, as well as taxation revenue foregone while people

are out of the workforce as a result of disability. There is no doubt that these costs are increasing in most western economies. The choices made by governments in controlling or permitting these expenditure increases will depend on a range of economic policy issues and, in particular, current fiscal policy.

These costs represent collective action to deal with the problem of disability. But it is not only the government which meets the costs of disability services. Many disability service programmes are provided by charitable trusts which are predominantly funded from public donations. While people are willing to contribute to charities which assist people with disabilities, "an individual's voluntary contributions to charity are likely to be larger if one realises that his or her contribution is being made jointly with those of numerous other people" (Haveman, 1989, p.33). This provides a strong rationale for the intervention of the public sector to coordinate the funding of disability services.

However, government policies of fiscal restraint, which cut expenditure in public programmes, or reduce transfer payments for people with disabilities, will result in greater dependence on charitable giving as a source of finance for disability service programmes. Many economists would argue that this will entail a loss of efficiency in the funding of disability service programmes. Whatever the source of funding, however, there is concern that the efficiency and equity issues which are internal to the disability policies themselves (some of which have been raised above) are evaluated in any strategy to obtain better value for these rising costs of disability.

Researchers have considered the breakdown of total disability-related expenditure into its various programmes, with some interesting results. Haveman (1989) found that, in 1986 in the United States, transfer payments accounted for nearly two-thirds of total costs, medical care one-third, and direct services, which include rehabilitation and job-finding schemes, only 2 percent. There seems to be a *prima facie* case for increased funding of those latter programmes which build new vocational opportunities and independence for people with disabilities, and bring with them a reduced dependence upon transfer payments and medical care.

## 7. Conclusion

This paper has provided a necessarily brief review of disability issues on which a few economists are working. There is too little work being done on these important issues, either in New Zealand or elsewhere, and it is the hope of the author that the paper may raise interest and encourage further research on the economics of disability policy in this country.

## References

- Berkowitz, M. and Hill, M.A. (1989) Disability and the labour market: an overview. In M. Berkowitz and M.A. Hill (eds.) *Disability and the labour market*. New York, ILR Press.
- Bowe, F. (1978) *Handicapping America*. New York, Harper and Row.
- Brook, P. (1990) *Freedom at work*. Auckland, Oxford University Press.
- Gray, J. (1989) *Limited government: a positive agenda*. London, Institute of Economic Affairs.
- Haveman, R.H., Halberstadt, V. and Burkhausen, R.V. (1984) *Public policy towards disabled workers*. Ithaca, Cornell University Press.

Johnson, W.G. (1989) The Rehabilitation Act and discrimination against handicapped workers: does the cure fit the disease? In M. Berkowitz and M.A. Hill (eds.) *Disability and the labour market*, New York, ILR Press.

Lambrinos, J. and Appel, D. (1989) Workers' compensation and employment in an industry analysis. In M. Berkowitz and M.A. Hill (eds.) *Disability and the labour market*, New York, ILR Press.

Leonard, J.S. (1989) Labour supply incentives and disincentives for disabled persons. In M. Berkowitz and M.A. Hill (eds.) *Disability and the labour market*, New York, ILR Press.

Thornton, C. and Maynard, R. (1989) The economics of transitional employment and supported employment. In M. Berkowitz and M.A. Hill (eds.) *Disability and the labour market*, New York, ILR Press.