

Nils Braakmann

Effects of the obligation to employ severely disabled workers – findings from the introduction of the “Law to Combat Unemployment among Severely Disabled People”

In Germany, employers with a workforce above a certain size threshold are legally required to employ a certain share of severely disabled workers. This study is concerned with the effect of a legal change in this employment quota. More specifically, we look at the reduction of the quota through the Law to Combat Unemployment among Severely Disabled People (“Gesetz zur Bekämpfung der Arbeitslosigkeit Schwerbehinderter” (SchwbBAG)) on January 1st, 2001.

After the SchwbBAG came into effect, the quota was lowered from 6% to 5% and exempted employers with fewer than 5 employees from the requirement to employ disabled workers. For employers with fewer than 60 employees, special rules led to a reduction in the number of places to be filled. A consequence of this change in the quota was a reduction in the number of employers subject to the law by a fifth from 187,437 in 1999 to 151,595 in 2001. While this reduced the number of jobs covered by the quota only slightly from 20,444,495 to 20,414,003, the number of jobs that should be filled with severely disabled workers was reduced by 205,970.

At the same time, the compensatory levy that has to be paid by every employer who does not meet the quota was tied to the extent to which the quota was met. Under the new rule, an employer with more than 60 workers of whom less than 2% are severely disabled has to pay a levy of 260 Euros per vacant position and month. This payment is reduced to 180 Euros if the share of disabled workers is between 2 and 3% and to 105 Euros if the share is between 3 and 5%. Employers with fewer than 40 employees have to pay 105 Euros if they employ no disabled workers. For those with between 40 and 50 employees the levy is 105 Euros if they employ fewer than two disabled workers and 180 Euros if they employ less than one.

In economic terms, the law has two different effects: on the one hand, the reduction in the number of jobs that have to be filled with disabled workers should worsen the job prospects of this group. On the other hand, the higher monetary penalties if the quota is not met might create an incentive for employers to hire disabled workers. The central aim of this study is to determine which of these effects dominates empirically.

To achieve this aim, we use data from the administrative processes of the German Federal Employment Agency, more specifically unemployment registrations taken from the Integrated Employment Biographies Sample, IEBS. We treat the change in the legislation as a natural experiment and model its effects via a difference-in-differences estimator. This approach compares the development of the employment prospects among the severely disabled before and after the legislative change with the development among the non-disabled who are not influenced by the legislative change during the same period, hereby controlling for both time-invariant differences between these groups and a common trend in both groups. Additionally, we use a regression-adjusted variant of the estimator that also controls for time-varying differences in observable variables like education or age.

The great hopes associated with the SchwbBAG seemed to be matched by its apparent success: the SchwbBAG was intended to reduce unemployment among the disabled by 25% by October 2002. At first glance, these hopes seem to have been fulfilled. Looking at the overall number of unemployed disabled, one notices a reduction from 189,766 in October 1999 to 144,292 in October 2002. However, the reduction was strongest among those between 55 and 60 years of age, which may be taken as a sign that the reduction was related to early retirements rather than better employment prospects.

The results from this study imply that the employment prospects of the disabled have been neither worsened nor enhanced by the change in the employment quota. At a descriptive level, one notices that the entry rates into, as well as the exit rates out of unemployment for both the disabled and non-disabled are almost the same before and after the change in the legislation. This is confirmed by the econometric estimation relying on more than 300,000 observations, which shows that the change in the employment quota only caused a small and statistically insignificant change in disabled workers' probability of becoming employed.

The apparent non-effectiveness of the legislative change that was also found in an earlier study conducted by Verick in 2004 might be related to the fact that the legislative change under study was a reduction in the employment quota. Better employment prospects for the disabled could consequently only be caused by the higher cost of not meeting the quota due to the higher levy payments. These, however, could be negated by the costs that might arise for necessary technical adjustments in the firm in order to accommodate disabled workers. Poorer employment prospects for the disabled could in principle be caused by changes in the hiring behavior of employers. This, however, does not seem to have happened in the present case.