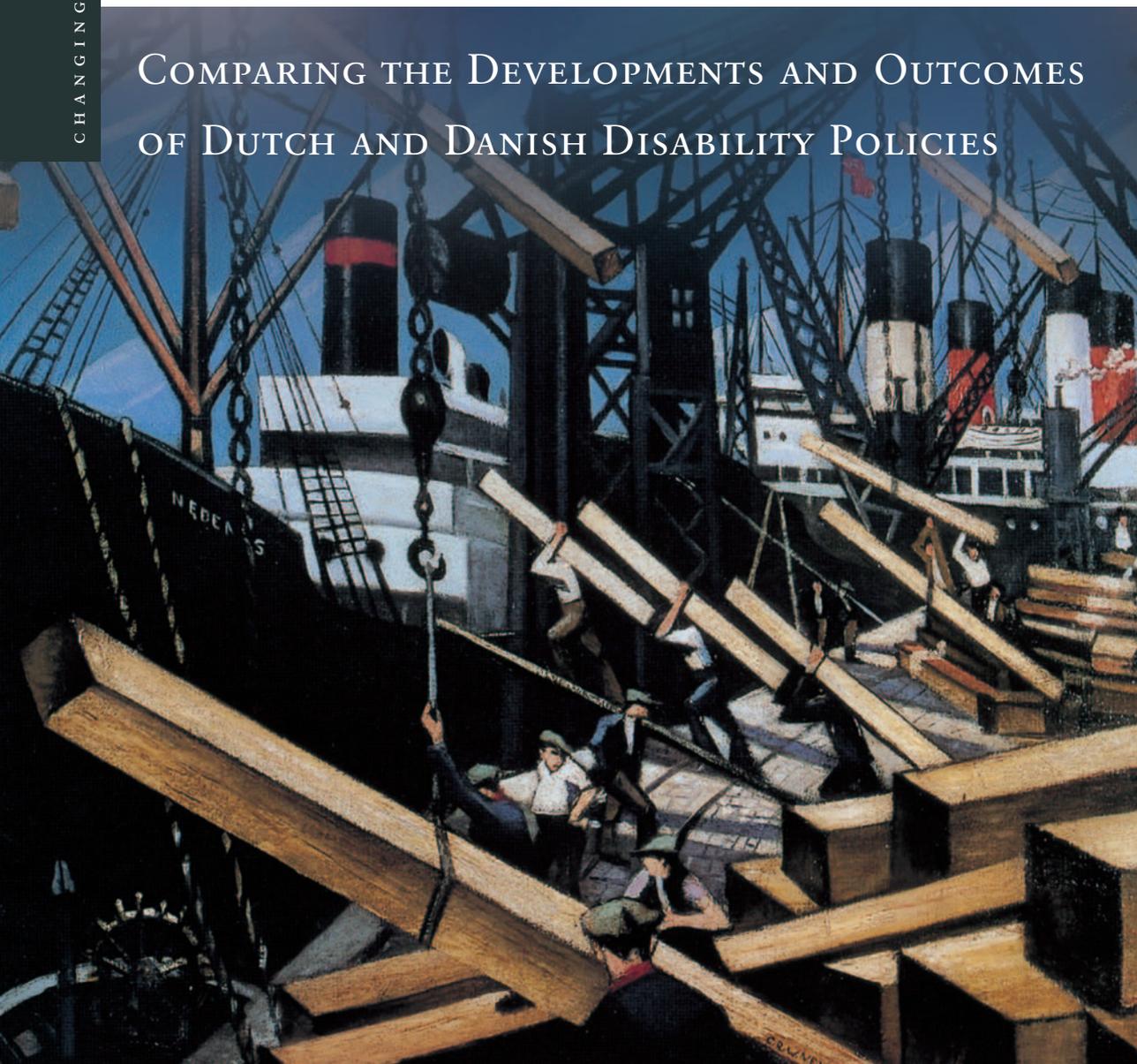


Jan Høgelund

CHANGING WELFARE STATES

# In Search of Effective Disability Policy

COMPARING THE DEVELOPMENTS AND OUTCOMES  
OF DUTCH AND DANISH DISABILITY POLICIES



AMSTERDAM UNIVERSITY PRESS

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## 1 Disability Policies Under Pressure

Effective disability policies are increasingly important for the sustainability of modern welfare states. How policies influence employers and disabled people is crucial for nations succeed in integrating disabled people into the labour market. Policies may motivate disabled people to participate actively in the labour market and provide them with skills and abilities that increase their employability. Policies also, in different ways and to varying degrees, motivate employers to employ disabled people. This may happen by demanding that employers have a certain number of disabled people in their staff, by forbidding the dismissal of sick-listed workers or by making it economically attractive to employ people with disabilities. By putting the focus on this last aspect, this book adds to the existing knowledge about the consequences of different disability policies. It outlines some of the different ways that disability policies influence employers, and how this in turn has important implications for the labour market attachment of disabled people.

Dutch and Danish disability policies are examples of two policies that rest on very different principles. In the Netherlands the responsibility for the integration of disabled people rests to a large extent on the individual employer. The policy not only gives employers huge incentives to limit work disability, it also legally requires employers to take on a considerable responsibility for the employment of disabled people. In Denmark employers are a protected species; they have almost no formal or economic responsibility for the integration of disabled people. Instead this responsibility rests with public authorities. This book analyses how differences in employers' responsibilities translate into differences in employers' costs, which in turn influences both how the integration of disabled people takes place and the chances for disabled people in the labour market. The main conclusion is that the Dutch policy reinforces the division between insiders and outsiders; it promotes the reintegration of sick-listed workers, but counteracts the integration of people without attachment to an employer. In contrast, the Danish policy facilitates the integration of disabled people without prior labour market attachment, but does not sufficiently support the reintegration in

work of sick-listed workers. It is therefore argued that there is scope for improvement in both nations' disability policies and thus that more disabled people could participate in working life.

The need for welfare states to increase the labour market participation of people with health problems may become an even more greatly contested issue in the future than today. Globalisation, changing family patterns and labour market structures seem to make the 'average citizen' more exposed to social risks and labour market exclusion, while ageing populations at the same time make it increasingly important that people remain in the labour market during their adult working years. The analyses provided in this book indicate that the ability of national disability policies to cope with these pressures depends on how they define the responsibilities of employers. In this respect, the Dutch disability policy appears to be more vulnerable to future welfare state challenges than the Danish policy.

### **The welfare state under pressure**

In the 1970s and 1980s the pressure on the modern welfare state was caused directly by economic problems. Reduced economic growth hampered nations' ability to increase employment and, coupled with an increasing labour supply, unemployment figures soared. As a consequence, governments' budgets became overloaded giving rise first to expansive Keynesian policies and later to retrenchment in order to limit social expenditure.

While the problems caused by persistent unemployment continued into the 1990s and the beginning of the 21st century, observers stress that the welfare state increasingly has to deal with other pressures. The most commonly cited pressures are increasing interdependency between nations and globalisation, changing social risks structures, and ageing populations. These pressures are qualitatively different from those experienced in the 1970s and 1980s. Whereas the pressures in the 1970s and 1980s were related to the welfare state itself, the present pressures are said to be exogenous. They are forced upon the welfare state from the outside and related to malfunctioning in the market and the family (e.g. Esping-Andersen, 1999).

### **Globalisation**

Globalisation, which often refers to the increasing internationalisation of capital and trade and the deregulation of capital and currency markets, exerts pressure in several ways. Firstly, it is argued that in order to avoid capital

fleet and currency speculation, nations to a certain extent have to abandon Keynesian demand policies that aim to stimulate employment and reduce income inequalities (Thompson, 1997; Esping-Andersen, 1996a; Standing, 1999).

Secondly, it is argued that the internationalisation of capital increases the power of capital relatively to that of labour eroding the 'social contract' between capital and labour, where wage retainment is exchanged for economic growth (Rhodes, 1997). The capability of the corporatist welfare state to maximise employment and social security may therefore be hampered.

Thirdly, the increasing mobility of goods intensifies the competition from low wage nations able to produce industrial goods at much lower cost than developed countries. This competition drives up the unemployment rate of unskilled workers and eventually also of skilled workers. Western welfare states will in turn be forced to accept greater (wage) inequalities between unskilled workers and certain groups of skilled workers, on the one hand, and professionals and other groups of skilled workers, on the other hand (Rhodes, 1997; Esping-Andersen, 1996a; Navarro, 1998). In other words, the mobility of goods will reinforce unemployment problems and increase wage inequalities in the advanced welfare states.

### Changing risk structures

The today's post-industrial society increasingly involves social risks that our social security systems have not been designed to alleviate. The social security programmes, as we know them today, were devised in a period of relatively high economic growth, low unemployment and stable family and labour market patterns. During the 1960s and 1970s it could be expected that a male worker would be in stable employment, and thus contributing to the financing of public expenditure, from the age of 18 to 65. It could also be expected that his wife would care for their children. Today, the typical employment pattern is considerably shorter because education is completed later and retirement begins earlier (Navarro, 1999). In addition, the labour market is increasingly demanding flexible manpower, which makes periods of unemployment during the working years a more common event. A typical worker has therefore fewer productive years, more passive years that require financial support, and suffers a higher risk of becoming marginalised from the labour market. At the same time the female labour force participation is much higher than just a decade ago, resulting in an increased need for day care services.

Family patterns are also different today. On the one hand, the increasing

female labour force participation means that the dual-income family is becoming more widespread. On the other hand, marriage is declining while divorce and separation are rising, indicating that single motherhood is becoming more and more common (cf. figure 6.3 in Hatland, 2001). This raises the demand for social security because single households and especially single parents are more vulnerable to poverty than the nuclear family. In other words, employment and family patterns are becoming less and less standard whereby new social needs arise, which undermine the foundation for the existing social security systems (e.g. European Commission, 1993; Hatland, 2001).

### Ageing

While it might be difficult to forecast future developments in globalisation, employment and family patterns, the development in age distribution is less uncertain: within the next few decades the number of old people will significantly increase relative to the number of people of working age. For every person above the age of 65 today within the OECD nations there are between four and five people aged between 20 and 64 years. This ratio will on average nearly double in 2050 (OECD, 2001a). This development, which is caused by increased life expectancy and low fertility rates, is costly in terms of old age pensions, health care and social services. It is estimated that age-related expenditures as a percentage of GDP will increase around 45 percent between 2000 and 2050 (ibid., table 4). In other words, an increasing dependency ratio will burden the welfare state.

### Similar pressures – different problems

Although the pressures hit all modern nations, they may affect nations differently. It is persuading argued that welfare states cluster into (three or four) different regimes reflecting how the state, market and civil society interact (e.g. Esping-Andersen, 1990; 1996b; 1999; Rhodes, 1996).<sup>1</sup> Within each regime, welfare is produced, financed and distributed differently and exogenous pressures therefore crystallize into different problems.

#### Problems in the Liberal welfare state regime

In the Liberal welfare state regime, which comprises the Anglo-Saxon nations, the state plays a relatively limited role. Social security programmes

cover only a limited number of social risks and programmes are either universal with modest benefits or means tested, targeted at the most needy people. Instead coverage of social risks is very much left to market solutions in terms of private insurance and occupational benefit plans. The residual social security policy has its counterpart in a deregulated labour market with a very differentiated wage structure.

These features seem to cause both strengths and weaknesses with respect to the future challenges. On the one hand, the differentiated wage structure means that many low wage jobs are created, especially in the service sector. This seems to be good medicine for the malaise that may follow from increased competition from low-wage nations and the expulsion caused by changing labour market structures. Yet there are problems. The combination of low wages and the residual social security system means that a considerable number of workers have an income below the poverty line, so while the Liberal welfare state may avoid problems with too much inequality between people inside and outside the labour market, it may have problems with inequality between groups of wage earners within the labour market.

Furthermore, the low wage level for unskilled workers and negative income taxes make it more profitable for employers to hire more workers than to invest in capital and human resources. Consequently, the Liberal welfare state tends to end up in a low wage/low skill equilibrium which, in turn, makes the Liberal welfare state even more vulnerable to competition from nations with low-wage and low-technology production.

The residual nature of the Liberal welfare state may also be problematic in respect of changing family patterns. As day care is bought under market conditions without public subsidies many single mothers cannot afford it. Consequently, when the number of single mothers increases, poverty will rise.

#### Problems in the Conservative welfare state regime

The Conservative or Continental European regime is characterised by policies that favour familialization and status segmentation. Family benefits such as day care provisions and maternity benefits are limited in scope, which makes the family the primary provider of care for children (and the elderly) whilst also limiting female labour supply. The Conservative welfare state therefore favours a single-income female-care family. The public cash benefit programmes foster status segmentation because many programmes are organised according to occupation, and benefits are dependent on con-

tributions. This is mirrored in a highly regulated labour market with a compressed wage structure and high job security. As a consequence, the predominantly male insiders enjoy high wages, good income protection and high job security, whereas the outsiders often have difficulty entering the labour market.

The Conservative welfare states seem to be ill-equipped to meet the challenges that may arise from globalisation, changing risk structures and ageing populations. The high wages for unskilled workers make it difficult to create jobs in the service sector. This seems to be fortified by the widespread single-income female-care family that can produce service sector goods much more cheaply than they can be bought under market conditions. Hence it follows that globalisation and increased competition from low-wage nations may put the Conservative welfare states under extreme pressure.

Changing labour market structures seem also to be a serious problem for Conservative welfare states. The segregation between insiders and outsiders makes it difficult for weak groups to enter the labour market, and increasing risk of unemployment may therefore cause extensive expulsion from the labour market. In addition, increased female labour force participation may give rise to problems because a limited supply of public day care arrangements makes it difficult to reconcile family and working life. This is reflected in a record low fertility rate of 1.45 compared to 1.70 in the Scandinavian nations (own calculation based on table 1 in OECD, 2001a). The pressure of ageing populations is therefore a more serious problem for Conservative welfare states than it is for the Liberal and Social Democratic welfare states.

#### Problems in the Social Democratic welfare state regime

The Social Democratic welfare state regime that includes the Nordic nations is characterised by publicly financed and administered universal social security schemes with quite generous benefits. Benefits in-kind in terms of extensive public day care coverage promote female labour force participation. High labour force participation rates for both women and men are also promoted by an active labour market policy where the receipt of social benefits is conditional upon participation in supported job training or education. At the same time a large part of the workforce, mainly unskilled female workers, is employed in public service jobs.

The Social Democratic model also cannot easily solve the problems that may follow from increased globalisation. Like the Continental European nations, the Scandinavian nations are characterised by a flat wage structure, which, in combination with the comprehensive public service sector em-

ployment, gives rise to problems. On the one hand, the tax burden of a comprehensive public sector hinders further expansion of public service sector employment. On the other hand, a compressed wage structure excludes an expansion of service jobs in the private sector.

The Scandinavian nations seem, however, to have the potential to alleviate the negative consequences in terms of marginalization, that may follow globalisation and changing labour market structures. The Scandinavian policies promote a flexible labour market, while workers hit by unemployment are covered by generous benefits (Esping-Andersen, 1999). At the same time, active labour market measures recycle redundant labour, thus equalising the burden of unemployment. In addition, active labour market policies, high day-care coverage, and female public sector employment mean that the dual-income family is the norm, and this family group is less harmed than the single-income family when one of the adults is hit by unemployment.

The Scandinavian nations also seem to face less serious problems than other nations with regard to changing family patterns and the increasing risk of single motherhood. Comprehensive day care provision, active labour market policies and frequent female public employment mean that the employment rate of single mothers is high and close to that of other groups. And, if single mothers are affected by unemployment, generous unemployment benefits prevent them from suffering from poverty.

The problem of ageing populations is related to too low fertility rates, which in turn are related to how women manage to reconcile work and family obligations. In the Scandinavian nations, public day care facilities and generous maternity leave schemes imply that women can manage both.

In summary, problems in the Liberal welfare state are related to deregulated markets and a residual social security policy that creates a stratum of working poor and underinvestment in skills. In the Conservative welfare states exogenous pressures will fortify the problems associated with the single-income family, the insider-outsider divide and a compressed wage distribution. The latter also seems to be a central problem for the Social Democratic welfare state.

In other words, exogenous pressures and how they crystallize into different loads on the welfare states depends on, and involves, the entire institutional context of the welfare state and its policy areas. This book focuses on one policy area, disability policy, and seeks to shed light on how different policy responses to pressures within this area result in a different outcome in terms of inclusion and exclusion from the labour market.

## Welfare states and disability programmes

Historical evidence tells us that disability policies are affected when welfare states are under pressure. During the second half of the 1970s until the mid-1990s the disability rolls kept growing in many western nations (Aarts, Burkhauser and de Jong, 1996). This development has been linked to pressures such as stagnating economic growth and an increasing supply of mainly female labour (Haveman, Halberstadt and Burkhauser, 1984; Aarts, Burkhauser and de Jong, 1996). Apparently the consequences of these pressures have varied across nations. For example, Germany experienced almost no growth in the number of disability beneficiaries, whereas the Netherlands was hit by soaring disability rolls (Aarts, Burkhauser and de Jong, 1996). What are the mechanisms through which exogenous pressures translate into an increasing number of disability beneficiaries? In what ways do political strategies and institutional structures make a difference with respect to the consequences of exogenous pressures? Before these questions are addressed, it is fruitful to place disability programmes in the context of welfare state policies.

Cash benefit programmes may be considered as different pathways that can be used to withdraw, temporarily or permanently, from the labour market (Kohli and Rein, 1991; de Vroom and Naschold, 1993; Aarts, Burkhauser and de Jong, 1996; Burkhauser, 1998). In a very simplistic way, the main pathways are shown in Figure 1.1. The normal pathway out of the labour force, the work pathway, is used when workers pass a certain age-limit and thereby become entitled to old age pension. The other exit pathways all involve receipt of social security benefits.

The majority of workers experience shorter or longer periods of unemployment (receiving either unemployment benefit or social assistance) and sickness absence during their working ages. In most cases they return to work and thus remain on the work pathway. Some workers do however leave the work force prematurely through one of the exit pathways. These may be old workers who retire after being unemployed, or workers with lasting health problems who after periods of sick leave enter the disability benefit scheme.

Active labour market policies aim to reverse the flow of people out of the labour force, cf. the dot-and-dash arrows in Figure 1.1. Active employment policies concern the provision of active measures such as subsidised job training programmes, subsidised education, job search courses and so forth. In addition, other market interventions such as job protection legislation, quota jobs and wage-subsidised jobs may limit the outflow from the labour force.

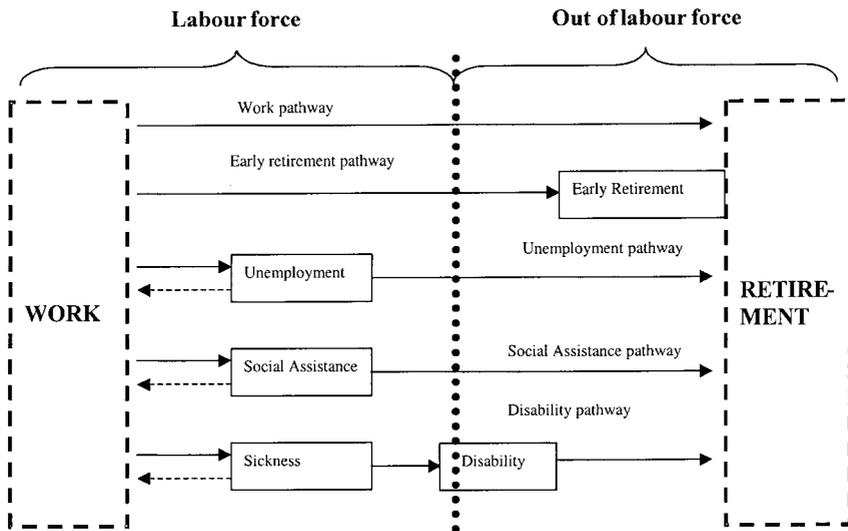


Figure 1.1 Exit pathways from the labour force.

Source: adapted from Aarts, Burkhauser and de Jong (1996)

The model in Figure 1.1 suggests that the load on the different pathways depends on the labour market on the one hand and the social security programmes on the other. Consequently, the analysis of exogenous pressures and labour market exclusions through the disability pathway must take account of labour market conditions related to institutional settings, labour market policies and disability policies.

### The labour market and the disability pathway

#### Push factors

Pressures on the disability pathway caused by developments related to the labour market are often referred to as ‘push factors’, ‘demand factors’, or ‘the exclusion model’ (e.g. Marklund, 1995; Rupp and Stapleton, 1998; Stattin, 1998). Push factors include stagnating economic growth, rising unemployment, poor working conditions, increasing demand for flexible workers and changing labour market structures, e.g. where some economic sectors are declining while others are growing. Such conditions foster exclusion from the labour market either because it involves a decrease in the demand for certain groups of workers or because certain groups of workers cannot meet the demands of the labour market. For instance, rising unem-