

# BULLETIN

## Active Employment Policies and the Labour Market Integration of Disabled People in Great Britain

### Introduction

This *Bulletin*<sup>1</sup> summarises the British evidence for use in a multi-country evaluation of the potential fiscal impact of policies designed to improve the labour market integration of disabled people. The treatment of people with disabilities has been a significant area of policy activity during recent years. The main thrust of change has been towards increasing employment among the disabled rather than compensating them for not being able to work.

In economic terms, it is argued that if those who can work are able to do so, they will achieve levels of income that the state cannot provide given the capacity of the economy to deliver and the capacity of the political system to re-distribute. This, in turn, will make it more feasible for the state to raise above *what they would otherwise be* the incomes of the resulting smaller group of disabled people who are least able to play a full part in economic activity.

### Defining the Disabled Population

The concept of disability is difficult to measure using personal surveys that rely on self-reporting and utilise different definitions of disability. Definitional issues include whether the effect of the disability is on work and/or other activities; whether the effect is long term or not; and how the individual views the seriousness of their

health problem. Cousins et al. (1998) note that disability prevalence rates (amongst the working age population) estimated from personal surveys vary between 12 and 20%<sup>2</sup>. These variations reflect differences in the 'restrictiveness' of definitions utilised.

### Economic Activity of the Disabled: Evidence from the Labour Force Survey

The most important national source of data on the disabled is the Labour Force Survey. From Spring 1997, respondents to the Labour Force Survey have been asked if they have a health problem or disability that is expected to last more than a year. It can be seen from Table 1 that there are 5.2 million people of working age who are suffering from a disability according to the Labour Force Survey definition. This yields a disability prevalence rate of 14% amongst the population of working age.

Whilst 16% of the non-disabled population of working age are economically inactive, almost 60% of the disabled population of working age are economically inactive. Although the disabled have a similar unemployment-population rate to that of the non-disabled, it is clear that, *among those who are in the labour force, the incidence of unemployment is twice that of the non-disabled*. Additional estimates reveal that the disabled in employment earn 15% less than the non-disabled.

<sup>1</sup> This work was undertaken as part of the collaborative study 'Active Employment Policies and Labour Market Integration of Disabled People' led by the Centro de Estudios Economicos of the Fundación Tomillo, Madrid. Further details can be obtained from Robert Lindley ([R.M.Lindley@warwick.ac.uk](mailto:R.M.Lindley@warwick.ac.uk)) or Rhys Davies ([Rhys.Davies@warwick.ac.uk](mailto:Rhys.Davies@warwick.ac.uk)) at IER.

<sup>2</sup> Cousins C., J Jenkins and R Laux. (1998). Disability Data from the LFS: Comparing 1997-98 with the past. *Labour Market Trends*, June, 321-325.

**Table 1: Economic Activity of the Disabled and Non-Disabled Population (millions)**

	LFS Non-Disabled	LFS Disabled
Employment	24.3 (79)	1.9 (37)
Unemployment	1.5 (5)	0.3 (6)
Inactive	4.9 (16)	3.0 (58)
Total	30.7 (100)	5.2 (100)

Note: Percentages in parenthesis.

### Passive Measures for the Disabled

The work of the Department of Social Security is guided by the objectives of the Public Service Agreement (PSA). The third of these objectives aims to provide the disabled with the support and financial security they require in order to lead a fulfilling life with dignity. Eligibility for a variety of benefits will depend upon various criteria such as age, whether the claimant has a sufficient contributory record, and the severity of the disability.

Departmental estimates indicate that real expenditure on benefits for the disabled has increased from £20.4 billion to £24.3 billion between 1993/4 and 1998/9. During this period, support for the disabled as a percentage of total benefit expenditure increased from 21.9% to 25.7%<sup>3</sup>.

Excluding expenditure on Attendance Allowance and War Pensions which will largely be claimed by those over the age of retirement, it is estimated that £19.6bn was spent on passive policies for the non-employed disabled of working age during 1998/9.

### Active Employment Policies for the Disabled

The majority of disabled people seeking employment are assisted into work by mainstream Job Centre services. However, those facing more complex barriers to employment can contact an Employment Service Disability Employment Adviser to receive specialist employment and training advice. Disability Employment Advisers also provide support to employers regarding the recruitment and retention of employees with disabilities.

The New Deal for Disabled People is, at the time of writing, being developed jointly by the Department for Education and Employment and the Department of Social Security.

The New Deal incorporates a Personal Adviser Service, aimed at assisting the disabled to make appropriate choices regarding employment. Personal advisors also provide information regarding other help available to the disabled to find employment. These include:

- *Work Preparation*: provides training for those whose disability prevents them from entering more 'standard' training scheme. Entrants must be considered likely to be capable of taking up employment.
- *Job Introduction Scheme*: provides a grant towards employers' costs for the first six weeks of employment. The grant is paid where there are reservations regarding whether the job is within the capabilities of the disabled person.
- *Access to Work*: provides practical support for disabled people to help find and retain employment. This may include the purchase of special aids or adaptations to premises or existing equipment.

Despite these measures, some disabled people will not be able to enter open employment. The Supported Employment Programme aims to provide job opportunities for people who are unable to be fully productive in work, but who are able to make a significant contribution to the employing organisation. Supported employment can be provided through supported placements with mainstream employers or through jobs in supported factories and businesses alongside other disabled people. Remploy Ltd is the largest single provider of supported employment in the UK.

Differences in the costs of the active employment policies reflect the degree of intervention. Based upon departmental figures for programme expenditure and activity, the Job Introduction Scheme is estimated to cost approximately £250 per assisted person. Access to Employment is estimated to cost £1,200 per person. In contrast, the average cost of supported employment is £9,300 p.a. Unlike measures that lead to places in open employment, supported employment places have to be maintained as long-term jobs for disabled people who may never be able to enter unsupported open employment.

### The Labour Market Integration of the Disabled: Estimates of the Fiscal Benefits

The joint venture between government departments underlying the development of the New Deal for the Disabled highlights the potential fiscal benefits of encouraging the non-employed disabled to enter employment. This section summarises the results of a tentative quantification exercise undertaken to estimate the potential net fiscal benefit of integrating inactive and unemployed disabled people into employment. In

<sup>3</sup> Social Security Departmental Report (Cm 4214) London: DSS. 1999.

**Table 2: The Annual Net Fiscal Benefits of Active Employment Policies (£s per person)**

Ex-ante change in exogenous and endogenous variables	Basic Programme	Intensive Programme	Supported Employment
Increase in earned income	13,700	13,700	13,700
Increase in net disposable income of households	4,640	4,640	4,640
Increase in the expenditure of households	4,170	4,170	4,170
<i>Decrease in Public Expenditure</i>	<i>6,120</i>	<i>6,120</i>	<i>6,120</i>
<i>Increase in Fiscal Income</i>	<i>4,710</i>	<i>4,710</i>	<i>4,710</i>
Social security contributions	1,940	1,940	1,940
Direct taxes	1,960	1,960	1,960
Indirect taxes	810	810	810
<i>Cost of Active Policies</i>	<i>710</i>	<i>2,200</i>	<i>9,430</i>
Total Fiscal Benefit (Cost)	10,110	8,630	1,400

estimating the net fiscal benefits, the quantification exercise considers the following components:

- increase in earned income generated by the employment of the non-employed disabled and accompanying savings in expenditure on passive measures;
- increase in government revenue from direct taxation and social security contributions;
- increases in expenditure as the disabled move into employment and resulting changes in government revenue from indirect taxation;
- the costs of implementing active employment policies for the non-employed disabled.

The earlier discussion outlined the variety of active employment measures available for the disabled. Differences in the costs of these measures reflect the degree of intervention associated with each. In turn, the cost per assisted person of active policy measures will vary due to variations in the type of assistance required. The current coverage of active policies is limited relative to the number of non-employed disabled of working age. Departmental figures indicate that during 1998/9 13,990 were assisted by Work Preparation, 15,000 were assisted by Access to Work and 2,800 were assisted by the Job Introduction Scheme. It is therefore unclear what the pattern of expenditure would be if these measures were applied to all non-employed disabled people of working age. This makes it difficult to estimate a single figure for the average cost of active policies per assisted person.

Therefore, the costs of three active policy scenarios are considered. The first scenario assumes that the non-

employed disabled receive assistance from New Deal and Work Preparation. This ‘basic programme’ concentrates on the supply side and consists of measures to prepare the disabled for employment. The second scenario incorporates New Deal, Work Preparation, Access to Work and Job Introduction. This ‘intensive programme’ extends its focus beyond the individual to incorporate measures that provide financial assistance at the workplace. The third policy scenario incorporates New Deal and Supported Employment. The focus is on providing supported rather than open employment for the disabled. After consultation with a New Deal adviser, the disabled person will enter an appropriate place in supported employment.

The component elements of the quantification exercise for the three active policy scenarios are presented in Table 2. Estimates are expressed in terms of the annual fiscal benefits (or costs) per assisted person. In comparing the costs and benefits of the three active policy scenarios, it is assumed that each package is completely effective in finding employment for those assisted by the schemes. Under this assumption, differences in the estimates of fiscal benefits for the three scenarios are driven by variations in the costs of the active policies. The three active policy options are estimated to yield net fiscal benefits of £10,110, £8,630 and £1,400 per assisted person, respectively.

With the exception of providing supported employment for the disabled population, the estimation of a net fiscal benefit does not depend upon income received from direct and indirect taxation. For both the basic programme and the intensive programme, the cost of active policies is less than the public expenditure on passive measures. It is only in the case of supported employment that the cost of the active policy is greater than expenditure on passive measures. In

**Table 3: Total Fiscal Benefit Under Various Effectiveness Assumptions**

(£s per assisted person)	Effectiveness of Active Policies			
	100%	75%	50%	25%
Basic Programme	10,110	9,870	9,400	7,970
Intensive Programme	8,630	7,890	6,430	2,040
Supported Employment	1,400	-1,740	-8,020	-26,880

this instance, estimation of a net fiscal benefit is therefore dependent upon an increase in fiscal income from taxation and social security contributions.

### Varying Assumptions of Active Policy Insertion and Effectiveness

The estimates in Table 2 assume that the active policy measures are completely effective in finding employment for those assisted by the schemes (a policy effectiveness rate of 100%). These estimates therefore do not consider the proportion of the disabled population who could realistically benefit from active policies. Assuming that the active policy measures are applied to the entire non-employed disabled population of working age (a policy insertion rate of 100%), reductions in the rate of effectiveness will lead to a reduction in estimated fiscal benefits per person.

To consider these issues, Table 3 provides additional estimates of fiscal benefits that incorporate different assumptions regarding the effectiveness of active policies. Under the assumption of a 25% effectiveness rate, there is a one in four chance that a package of active policy measures will lead to employment for those assisted by the schemes. A 25% effectiveness rate is shown to reduce the fiscal benefit of the three active policy scenarios to £7,970, £2,040 and -£26,880 per assisted person, respectively.

Higher rates of participation in active employment policies may be accompanied by lower rates of effectiveness as those non-employed disabled who are easiest to support are integrated into the labour market first. It is, however, unlikely that any single package of active policies will be applied to the entire non-employed disabled population of working age. More realistically, a mixture of active employment policies suited to the needs of the non-employed disabled will be implemented. However, it can be seen that even at low rates of effectiveness, active employment measures leading to open employment provide greater net fiscal benefits than places in supported employment.

Policy makers do need to be very careful though. The apparently large net benefits derived from *average illustrative* figures can be very different from those

estimated at the *margin in reality*. The impact on disabled people as well as public finances in the long term depends crucially on the care with which widening the passive-to-active strategy to cover many more disabled people is carried out.

### Concluding Comments

This Bulletin has provided some provisional estimates of the potential fiscal benefits that may occur from the labour market integration of the disabled. Figures show that there are considerable potential gains to be had from such a strategy, but that the range of possible outcomes could include negative net fiscal benefits as well as positive outcomes. The risk of the former is increased by the potential for increasing diseconomies of scale as those of the unemployed or inactive who are easiest to support are re-integrated into the labour market first and the better quality provision of such support becomes fully extended.

Whilst the effectiveness of active employment policies has been considered, the estimates ignore a variety of displacement and substitution effects. The risk of a negative outcome is greater if there is substantial labour surplus in the economy and the benefits of re-integrating the disabled are more likely to be offset to some degree by the potential negative impact on the employment of other groups. This need not be a major problem in periods of relatively low unemployment, or if the active policy measures work through the marketisation of unmet social need so that the demand for the output of people in the mainstream labour market is not reduced.

These estimates provide a basis for exploring passive-to-active strategies and for identifying which approaches are most likely to be successful. There is considerable scope for improving the methodology employed in the cross-national study of which this exercise was a part. However, the stage has now been reached where it is desirable to adopt the routine monitoring and publication of the net benefits/costs of passive-to-active measures affecting the disabled. This will enable members of the policy and practitioner communities alike to discuss the relative merits of different policies and specific measures on the basis of a common financial analysis.