
Notes on Brief Reports

Social Security Abroad

Mandatory Employment of the Handicapped *

In the United States, increases in the number of beneficiaries and expenditures under the social security disability insurance program have generated much concern in recent years. One of the possible reasons for these rises is changes in economic conditions since the beginning of the decade. Economic conditions often affect the handicapped worker more severely than the worker who is fit. For the handicapped, a recession may bring not only loss of job but increased difficulty in finding another.

One way to deal with this problem is to introduce mandatory employment of the handicapped. Attention has therefore been directed to the experience of those foreign countries that have had this type of legislation for a number of years.

In several West European countries, firms of a designated size are legally obliged to employ a certain number of handicapped workers. This obligation is satisfied by means of a "quota system." Among the countries having quota systems are the Federal Republic of Germany, France, Italy, Luxembourg, the Netherlands, and the United Kingdom.

The quota system is generally employed in conjunction with a variety of other programs and policies, such as job counseling, the subsidization of employers, and the creation of special jobs. These measures are aimed at reintegrating handicapped workers and other hard-to-employ persons into the labor force.¹

The success of quota systems, as measured by the number of quota jobs occupied by handicapped workers, is not clear-cut. Before the economic slowdown of the mid-1970's, all the countries with quota systems except

Italy experienced labor shortages. As a result, employers were more willing to comply with the quota and possibly would have hired handicapped workers even if that course of action had not been obligatory. When the 1974-75 economic reversal triggered marked unemployment, however, one of the categories of workers most acutely affected was the handicapped.

Quota systems nevertheless represent a legal method of dealing with job discrimination against the handicapped and help affirm society's commitment to such persons. Furthermore, for the handicapped worker who may not otherwise have had the opportunity to work, the quota systems help alleviate feelings of social uselessness.

This note focuses on experience with quota system legislation in the United Kingdom and the Federal Republic of Germany. These countries were selected for study primarily because of the availability of data and the fact that their two systems exemplify different approaches.

Background

The idea of guaranteeing employment for a specified number of handicapped workers gained acceptance during and immediately following World War I in several West European countries.² Two principal factors apparently account for its development at that time. First, the war left many disabled ex-servicemen in its wake. When they entered a labor market that was already depressed, these veterans, because of their handicaps, encountered even greater difficulties than others in securing and holding suitable employment. As a gesture of gratitude for their service, government job vacancies were often reserved for them. The number of such persons soon increased to the point that the supply of suitable government jobs no longer sufficed. To cope with this problem, the International Labor Organization and national veterans' organizations in several countries began advocating that all em-

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¹ For a thorough analysis of these measures, see Beatrice G. Reubens, *The Hard-to-Employ: European Programs*, Columbia University Press, 1970.

² For historical developments in this field, see "The Legal Obligation to Employ the Disabled," *International Labour Review*, March 1957, pages 246-264.

employers should be legally required to hire a specified proportion of disabled ex-servicemen.

Second, disability programs under the social security systems were then at an early stage of development. Because of their immaturity, benefits were often inadequate to meet the income-maintenance needs of the war-disabled. Furthermore, the systems were not financially able to increase benefits or to expand existing programs or introduce new ones. Job guarantees for the disabled consequently shifted expenditures somewhat from the public to the private sector and, at the same time, helped ensure a livelihood for disabled veterans.

Several European quota systems that placed a legal requirement on employers to hire a designated percentage of disabled persons were instituted in the 1920's. Although at first the quotas applied only to disabled ex-servicemen, they gradually were extended to include the civilian war-disabled, family members of disabled war veterans, and victims of work-connected injuries or illnesses.

After World War II, a movement began to extend guaranteed employment rights to all the handicapped. Its impetus stemmed from a variety of factors, including a heightened sense of social responsibility for all disabled persons and an increased emphasis on rehabilitation and retraining programs and subsequent job placement. Additionally, a quota system was anticipated to help reduce labor-market discrimination against the disabled. Even during the periods of high employment that many European countries experienced following World War II, some employers remained reluctant to hire disabled persons. Under a quota system, it was hoped that employers would fill jobs with those persons who, because of their handicap, might have been otherwise overlooked.

Characteristics of Quota Systems

Typically, the quota system legislation specifies who qualifies as a handicapped worker, which employers must meet the quota, what percentage of staff must be made up of handicapped workers, and the penalties for noncompliance. Other provisions may grant handicapped persons additional paid leave and provide for representatives to look after their rights at work.

Identifying the Handicapped

Assistance to handicapped persons looking for jobs is provided by local employment offices. These offices can also offer the jobseeker a number of rehabilitation services designed to facilitate employment and improve job skills. A person with medical impairments who is experiencing difficulty in finding a job through regular means may apply at this office for job consideration as a handicapped person under the quota system. The

decision to register as a handicapped person is usually voluntary.

Besides being able to work, the applicant must fit the definition of handicapped worker. These definitions are broadly phrased and vary from country to country. Specified in the definition are such qualifying conditions as the cause of incapacity, the expected duration of the disability, complicating vocational factors that reduce opportunities to earn, and the extent of earning loss necessary to qualify the person as a handicapped worker. In addition to meeting the definition, the individual must usually meet a residency requirement.

To satisfy the definition in the Federal Republic of Germany, the person must be severely handicapped by physical or mental impairments to the extent that his or her ability to earn a living has been permanently reduced at least 50 percent. Under special circumstances, however, a person whose ability to earn has declined by at least 30 percent and who is encountering severe difficulty in securing work can be considered handicapped. Workers receiving a miner's disability pension because their impairments prevent them from doing mining work can also be considered handicapped even if their earning capacity has not been reduced.

The definition is applied less stringently in the United Kingdom than in the Federal Republic of Germany. In Britain, a person is determined to be handicapped if, on account of injury, disease, or congenital defect, he or she is substantially handicapped in obtaining or keeping employment or self-employment. Age, experience, and qualifications are considered in making the determination. The incapacity must also be of such a nature that it is likely to last at least 1 year.

Intermesh With Invalidity Pension Program

The Federal Republic of Germany's invalidity (permanent disability) pension program provides different pensions for occupational invalidity and general invalidity. For both types of invalidity, the handicapped person's extent and duration of training, as well as physical and mental capabilities, are considered in determining suitable work.

To meet the definition of occupational invalidity, the worker must be incapable of earning in the usual occupation at least half as much as a physically and mentally healthy person with comparable training and similar skills and education. This definition can be met by someone who has never had to give up work but whose ability to earn a living in his or her job has declined. The thinking behind this definition appears to be that the worker who is forced to switch to a different type of work because of disability deserves some type of financial compensation.

The general invalidity definition specifies that the worker must either be unable to participate in any gainful activity with any degree of regularity (more than 2 hours a day) or incapable of earning more than a negligible amount of money (20 percent of the average wages of a fit worker).

Persons who meet either definition are considered handicapped under the quota legislation in the Federal Republic of Germany. As such, they may not only claim an invalidity pension but also work under the quota system.

The British invalidity pension program provides benefits only for total invalidity. After vocational and medical factors are considered, the applicant must be deemed unable to do any work. Unlike his counterpart in the Federal Republic of Germany, the invalid pensioner in the United Kingdom thus would not qualify as a handicapped person.

Employers Subject to Quota

The quota generally is not applied universally to all firms in the country. Instead, the legislation specifies that firms be of a minimum staff size before they are affected by the quota. In the Federal Republic of Germany, for example, firms employing at least 16 workers must satisfy the quota; in the United Kingdom, the employer must have a staff of 21 or more persons to be affected.

Governments at the national and local level may also have to comply with the provisions of the quota system, even if participation is technically voluntary. The quota system is not legally binding on the Government or on nationalized industries in the United Kingdom, but the tendency of these agencies is nevertheless to follow the spirit of the legislation. In the Federal Republic of Germany, government departments must employ a minimum number of handicapped workers.

Size of Quota

The size of the quota can be either fixed or flexible. Under a fixed quota, covered employers are required to hire a specified proportion of handicapped workers. Economic conditions and the number of handicapped workers in a region, however, can exempt employers from meeting a fixed quota for a limited period of time. The British system illustrates the fixed system: Handicapped workers are generally supposed to account for 3 percent of each staff (0.1 percent of ship's crew) made up of more than 20 workers.

Under a flexible quota, the percentage of handicapped workers varies according to the job needs of handicapped workers. This is the approach followed under the system in the Federal Republic of Germany.

Basically, every employer—public or private—with at least 16 workers must employ handicapped persons in at least 6 percent of the available positions. Among employers, industries, and regions, however, the rate is allowed to range from a 5-percent minimum to a 10-percent maximum. The quota for public employers can be higher. The quota limit is established on the basis of current need for reserved jobs for the handicapped in a particular area and industry. Efforts are made to fix identical quotas for firms carrying out comparable business activity in similar locations.

Calculation of Quota

Generally, each employed handicapped person is counted as one unit for the purpose of calculating an employer's quota percentage. In the United Kingdom, a handicapped person working more than 30 hours a week counts as one staff unit; those working 10–30 hours a week count as a half unit. In the Federal Republic of Germany, the handicapped need only be employed 24 hours a week to be counted as one unit.

The Federal Republic of Germany has introduced an interesting unit-counting technique for special categories of hard-to-employ handicapped workers. This approach was designed to help facilitate the hiring of persons with severe handicaps who ordinarily would have more difficulty than others in being placed in suitable employment. Employers are expected to take on a reasonable number of persons in these special categories. More than one unit can be credited to employers hiring such special categories of workers as persons aged 55 or over, those whose earning capacity has been reduced by at least 80 percent, and those who have been acutely affected by the nature and severity of their impairments. Also, a person employed fewer than 20 hours a week may count as one unit if shorter work hours are necessary because of his particular handicap.

Penalties for Noncompliance

Employers may be required to pay a fine if they fail to employ the defined percentage of handicapped persons. In the Federal Republic of Germany, for example, delinquent firms make a monthly contribution for each job in the quota remaining unfilled.³ These contributions are used to help defray the costs of rehabilitation services, of adapting employers' worksites to accommodate handicapped persons, and of spreading the costs of rehabilitation programs more evenly throughout the country. German firms with fewer than 30

³ The fine is set at 100 Deutsche marks a month, or approximately \$42 in U.S. money.

employees are eligible for a waiver if the number of jobs in the quota remaining unfilled in a particular region exceeds the number of handicapped persons needing employment.

In the United Kingdom, an employer who has not met the quota must not hire a nonhandicapped worker unless a permit to do so is obtained. Employers may appeal if permission to hire a nonhandicapped worker in place of a handicapped one is denied. The local employment office is responsible for reminding employers of their quota obligations and for encouraging them to voluntarily develop company policies on the hiring of handicapped persons. Though the law provides penalties for noncompliance, the system has never been strictly enforced.

Miscellaneous Provisions

The quota-system legislation in the Federal Republic of Germany contains a number of features aimed at promoting the reintegration of handicapped persons into worklife. Employers are encouraged, for example, to provide technical aids or other necessary assistance so that handicapped persons may work and develop their abilities to the fullest extent possible. The costs of such measures are met by financial grants paid in part out of contributions collected for quota noncompliance. Handicapped persons are also entitled to 6 extra days of paid leave a year and are not required to work overtime.

In addition, firms that employ at least five handicapped persons are required to hold an election among these persons to pick one special representative and at least one deputy to act, if necessary, in place of the representative. The special representative speaks in behalf of the interests of handicapped persons in the firm and provides them with assistance and advice. He also encourages management to hire additional handicapped persons.

Evaluation

As indicated earlier, quota systems covering all handicapped workers had their greatest growth while the countries concerned, except for Italy, were experiencing labor shortages. During periods when increased manpower demands were coupled with a decreased supply of fit workers, employers were more willing to fill positions with workers whose functional limitations required special occupational arrangements.

Until the economic slowdown of the mid-1970's, these countries continued to have relatively high levels of employment along with labor shortages. In the Federal Republic of Germany, for example, the tight labor market of the early 1970's caused employers to seek

out handicapped workers at training centers and sign them to employment contracts before their training was even finished.⁴ Many firms also tried to continue the employment of workers injured on the job. These industrially disabled persons count toward meeting the quota. Consequently, whether handicapped persons filling jobs under the quota would have been employed had the obligation not existed is difficult to determine. Beginning with the 1974 recession, unemployment levels in these countries increased sharply, and the handicapped were among the categories of workers most acutely affected.

Furthermore, the quota programs expanded at a time when national social security programs were developing, and when coverage and benefits were, in some cases, inadequate. As the programs matured over the past two decades, however, benefit levels improved and coverage was extended. The option of not working therefore became more attractive. This factor also contributes to the difficulty of measuring the effectiveness of the quota system.

According to a Labor Ministry survey, employers in the Federal Republic of Germany had handicapped workers in only 3.8 percent of the available positions at the end of 1975 (compared with the 6 percent normally required by law). By August 1976, unemployed handicapped persons totaled 38,000, more than double the number at the end of 1974.⁵

In the United Kingdom, far fewer firms have been meeting their quotas in recent years than did so in the early 1960's. In 1961, 61 percent of British firms satisfied the 3-percent quota, but, by 1977, only 37.1 percent met the quota.⁶ These figures are difficult to interpret, however, because (1) many handicapped persons who are not registered as such are employed, and (2) persons once counted as handicapped for quota purposes continue to count even though they are no longer disabled if their firms continue to employ them.⁷

Despite indications of its declining effectiveness, the United Kingdom decided in December 1975 to retain the quota system. A little more than 2 years later, the Government published a report, **Developing Employment and Training Services for Disabled People** (February 1978), which detailed a 5-to-10 year plan to help create more job opportunities for disabled persons and provide them with the extra assistance needed to take

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⁴ **Cash Benefits for the Handicapped: A Selective Study of the Schemes of Some European Countries in Operation**, Department of Health and Social Security, Great Britain, 1972.

⁵ Von Alfred Wendt, "Berufliche Rehabilitation und das Recht der Schwerbehinderten auf Arbeit," **Die Angestelltenversicherung** (Federal Republic of Germany), December 1976, page 432.

⁶ "Disabled," **New Society** (United Kingdom), July 13, 1978, page 77.

⁷ Beatrice G. Reubens, *op. cit.*, page 124.

Table M-7.—Hospital insurance trust fund: Status, 1966-78

[In thousands]

Period	Receipts			Expenditures			Assets at end of period		
	Net contribution income ¹	Transfers from railroad retirement account ²	Reimbursements from general revenues ³	Net interest ⁴	Net hospital and related service benefits ⁵	Administrative expenses ⁶	Invested in U.S. Government securities ⁷	Cash balances ⁸	Total assets
Fiscal year:									
1966	\$908,797			55,970		\$63,564	\$785,758	\$65,446	\$851,204
1967	2,688,684	\$16,200	\$337,850	45,905	\$2,507,773	88,848	1,298,168	45,053	1,343,221
1968	3,514,049	43,613	283,631	61,091	3,736,322	78,647	1,370,276	60,360	1,430,636
1969	4,423,236	53,776	770,968	96,063	4,653,976	104,182	2,001,444	15,078	2,016,521
1970	4,784,789	61,307	628,262	139,423	4,804,242	148,660	2,653,322	24,079	2,677,401
1971	4,897,979	63,255	873,849	183,027	5,442,971	149,434	3,029,856	73,250	3,103,106
1972	5,225,891	63,782	551,351	190,105	6,109,139	166,370	2,883,958	-25,233	2,858,725
1973	7,663,119	61,222	429,415	197,844	6,648,819	192,839	4,222,365	146,301	4,368,666
1974	10,606,551	96,163	498,780	408,273	7,806,687	258,048	7,864,355	49,344	7,913,699
1975	11,296,773	126,749	529,353	614,989	10,355,390	256,134	9,760,883	109,156	9,870,039
1976	12,039,194	130,904	658,430	715,744	12,270,382	308,215	10,942,180	-106,466	10,835,714
1977	13,659,042		944,000	770,966	14,912,370	294,762	10,973,740	140,945	11,114,685
1978 ⁹	16,689,361	196,506	830,938	797,209	17,415,132	417,537	11,757,306	38,725	11,796,031
July-Sept. (transition quarter) ¹⁰									
1977	3,367,940	135,863		11,951	3,315,251	88,408	11,009,482	-61,672	10,947,810
1978									
September	1,284,360			6,951	1,259,228	22,431	10,973,740	140,945	11,114,685
October	875,449			2,327	1,371,761	16,288	10,575,992	28,420	10,604,412
November	1,095,910			1,165	1,409,697	8,975	10,870,208	-587,390	10,282,818
December	1,250,503		142,997	383,019	1,573,898	43,715	11,179,666	-737,942	10,441,724
1978									
January	1,187,638			3,983	1,308,136	9,136	10,123,259	192,815	10,316,074
February	1,402,053			3,262	1,235,395	32,396	10,274,735	178,858	10,453,597
March	1,612,500		687,941	2,879	1,579,806	2,627	11,165,420	9,062	11,174,482
April	1,577,312			4,924	1,424,126	45,177	11,285,904	1,511	11,287,415
May	1,317,114			8,760	1,538,852	34,645	11,037,134	2,658	11,039,792
June	1,807,756	196,506		378,042	1,563,647	44,434	11,854,979	-40,964	11,814,015
July	1,413,915			3,564	1,388,665	48,705	11,762,679	31,444	11,794,123
August	1,470,482			2,175	1,630,544	76,346	11,553,604	6,287	11,559,891
September	1,678,728			3,111	1,390,602	55,097	11,757,306	38,725	11,796,031

¹ Represents amounts appropriated (estimated tax collections with suitable subsequent adjustments), after deductions for refund of estimated amount of employee-tax overpayment, and, beginning July 1973, premiums for coverage of uninsured individuals aged 65 and over.

² Transfers (principal only) from the railroad retirement account with respect to contributions for hospital insurance coverage of railroad workers.

³ Represents Federal Government transfers from general funds appropriations to meet costs of benefits for persons not insured for cash benefits under OASDHI or railroad retirement and for costs of benefits arising from military wage credits.

⁴ Interest and profit on investments after transfers of interest or reimbursed administrative expenses (see footnote 6) and interest on amounts transferred from railroad retirement account (see footnote 3).

⁵ Represents (1) payment vouchers on letters of credit issued to fiscal intermediaries under sec. 1816 and (2) direct payments to providers of services under sec. 1815 of the Social Security Act.

⁶ Subject to subsequent adjustment among all 4 social security trust funds for allocated cost of each operation. Fiscal year 1966 includes "tool-up" period from date of enactment of Social Security Amendments of 1965 (July 20).

⁷ Book value. Includes net unamortized premium and discount, and, when applicable, accrued interest purchased and repayments on account of interest accrued on bonds at time of purchase.

⁸ Minus figures, if any, represent overdrafts that are covered by redemption of securities on first working day of following month.

⁹ Preliminary data.

¹⁰ Between end of fiscal year 1976 (June 30) and start of fiscal year 1977 (Oct. 1, 1976).

Source: Unpublished Treasury monthly reports keyed to **Final Statement of Receipts and Expenditures of U.S. Government**.

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advantage of all employment opportunities. One of the proposed measures in this report places new emphasis on an active approach to the creation of vacancies for disabled persons.⁸ Steps are being taken to visit private and public employers to talk about opening up jobs for the disabled and familiarize them with the grants and aids available to make employment of the disabled

⁸ For a discussion of other measures, see "The New Development Programme for Employing Disabled People," **Department of Employment Gazette** (United Kingdom), March 1978, pages 292-293.

easier. It is hoped that these steps may result in the establishment of company attitudes that eventually will prove to be self-perpetuating. Thus, even though the quota system is to be maintained, compliance is, in effect, to be made voluntary through close cooperation between the Government and the employer.

Regardless of the degree of success of these quota systems in terms of the number of handicapped workers employed, they do represent a permanent commitment to the disabled and help deal with discrimination in this area. For the handicapped worker filling a quota job, they offer a better sense of social standing and self-worth as well as income derived from work.