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# **Spatial implications of using firm level quota to employ low productive workers**

Arjen J.E. Edzes, Richard Rijnks en Jouke van Dijk.

## **Abstract**

Many western countries struggle with the realization of an inclusive labor market: a labor market in which everyone can participate and disabled or otherwise vulnerable, disadvantaged and low productive people can participate in the real labor market up to the best of their possibilities. Following countries like Germany and Austria, the latest Dutch policy proposal is to introduce a mandatory quota for employers with more than 25 employees to create job openings for disabled for 5 percent of their workforce. A first calculation of possible job openings shows that from a national perspective a mandatory quota seems promising. However due to differences in the regional economic structure the arrangement will not be sufficient to solve spatial inequalities in regional exclusion of disabled at the level of municipalities and also not for larger regions at the NUTS-1 level like the North of the Netherlands. We conclude more attention should be paid to the spatial variation in impact when the national government decides to decentralize the implementation of national policy measures to municipalities.

## **Keywords**

Working-age disability, labour participation, quota, labour market policy

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## Introduction

The aim of the paper is to explore the labour market potential of a mandatory quota arrangement for employers to solve local problems of working-age disability. According to the OECD (2010) avoiding social exclusion for low productive workers due to physical or mental disabilities is today one of the biggest social and labour market challenges for policy makers. This group of workers which we call working-age disabled has hardly access to jobs in the regular labour market. This is especially the case in times of a long-lasting economic recession as we are facing now. In addition to that there is a tendency of increasing knowledge intensity in the economy and this goes together with increasing education and skill requirements for workers which lowers the chances for low educated to become employed. Often disability arrangements function as a last resort for this group of workers. Besides that, it also becomes in the short run a more and more increasing financial burden for the government and in the end for the tax payer. And in the long run perspective of an ageing society there is a need to ensure that all available skills and productive capacity of the labour force can be used effectively when the economic crisis is over so that no investments are wasted (OECD, 2012). So, there is an urgent need to realize what is called an inclusive labour market: a labor market in which everyone can participate including disabled or otherwise vulnerable, disadvantaged and low productive people up to the best of their possibilities. The Dutch government is also facing this problem and several policy initiatives are developed to cope with this problem (Ministry of Social Affairs, 2012). One of this is the in 2012 proposed decentralization of creating employment opportunities for young disabled persons to municipalities who already are responsible for social assistance benefits and sheltered employment, including the financial risk for the payments of social security benefits. A crucial issue in this respect is the extent to which municipalities and the surrounding regions have enough firms which can offer suitable jobs for low productive workers for whom it is hard to find a job. Therefore, a recent policy plan was initiated to force employers with more than 25 employees to employ disabled to a minimum of 5% of their workforce. So the question we ask ourselves is to what extent a mandatory quota arrangement creates sufficient job openings for working-age disabled at the local level.

## Labour involvement of working-age disability

The definition of disability is complex and seldom absolute, because it refers to certain norms like levels of productivity that someone cannot meet (Echtelt Versantvoort, 2012; OECD, 2010; Tsiachristas, 2008). A distinction can be made between a subjective and objective measurement. The subjective self-assessed status is generally based on answers to questions concerning the 'existence of long-lasting health problems or disability which limits daily life activities' (OECD, 2010: 42). The more objective measurement concerns legal criteria and administrative rules such as the eligibility for entering disability benefits. Although a thorough consideration on both measurements is beyond the scope of this paper, we note that from an OECD-perspective the Netherlands score relatively high on the subjective self-assessed status as well as on the (objectively measured) share of disability benefits in the total labour force (Echtelt Versantvoort, 2012; OECD, 2010). In terms of expenditures on disability benefits the Netherlands score at the highest of all OECD-countries in 2009. Although a moderate share of disabled participates in some way or another in the labour market, the share of working hours in total employment is one of the lowest in all of the OECD-area (Echtelt Versantvoort, 2012). In terms of welfare regime, the Netherlands can be characterized by the relatively high generosity and easy access to these arrangements. Together with other Scandinavian countries with this policy mix The Netherlands can be labeled as belonging to the so-called socio-democratic model (Echtelt Versantvoort, 2012; OECD, 2010, Vrooman, 2009).

The difficulty in measuring working-age disability causes problems in the administrative allocation of this group of disabled for unemployment and disability arrangements and eligibility for instruments like sheltered employment. Due to differences in generosity some arrangements are more favorable for individuals than others en due to differences in executive and financial risks local governments may also have a preference in order to label persons in their own interest. Research shows that there is a close link between unemployment and disability.

Local variations in unemployment are important in explaining disability benefit dependency. In regions and periods of above-average unemployment the total inflow into disability rolls is higher and the total outflow is lower causing higher total enrolments (Bratsberg et al, 2010; Benítez-Silva et al., 2010). In the Netherlands the success, i.e. decline in recipients, of the decentralization of social assistance arrangements to municipalities can partly be explained by a higher inflow in disability arrangements for young adults for which municipalities bear no financial risks, because this type of benefits are paid by the central government (Van Vuren et al., 2011; Broersma et al., 2011; Edzes, 2011).

To avoid that local governments allocate disabled to arrangements paid by the central government, the in 2012 proposed Participation Law merges several last resort income and work arrangements and these will all be brought under the full financial responsibility of municipalities. Together with severe budget cuts the aim is to restrict access to municipal social security arrangements, to promote labour market participation and to prevent substitution between arrangements. The new instrument combines two new features. The first is the wage dispensation principle to compensate employers who hire disabled for the lower level of productivity of workers suffering from occupational disability. That changed the definition of disability in gradual productivity criteria in which disability is measured as a percentage of the productivity of healthy and otherwise equal persons. The second is the replacement of voluntary commitments of employers by a legal obligation to employ disabled, following other OECD countries like Germany and Austria (Lalive et al., 2012; Wuellrich, 2010; OECD, 2010). It is the intention that companies with more than 25 employees are required from 2016 onwards in six years' time to employ disabled to a minimum of 5% of their workforce (Ministry of Social Affairs, 2012). The aim of this paper is to explore the labour market potential of this mandatory quota arrangement for employers to solve local dependency of working-age disability arrangements and hence the budget problems for municipalities. Therefore we confront the spatial distribution of the target group of low productive disabled workers with the spatial distribution of the jobs that become available via quota.

### The local responsibility

Table 1 gives an overview of the main unemployment and disability arrangements in the Netherlands for which the national government and the municipalities are responsible, including estimates of the share of recipients that are at work. There is no information available on the amount of working hours that recipients of these arrangements work although it is clear that in general these are low (UWV, 2012; Echtelt Versantvoort, 2012).

Table 1: *Main unemployment and disability arrangements in the Netherlands. Source: UWV/Statistics Netherlands*

	Responsibility	Recipients Ultimo 2011 (X1000)	Share of recipients that work in 2011 (X1000)
Disablement Benefits Act (WAO)/ Work and Income according to Labour Capacity Act (WIA)	Employee Insurance Schemes Implementing Body (UWV)	575	146
Unemployment Benefit	Employee Insurance Schemes Implementing Body (UWV)	239	
Invalidity Insurance Act for Young Disabled Persons (WAJONG),	Now Employee Insurance Schemes Implementing Body (UWV), from 2014 Municipalities	216	54 29 (by employers) 25 (in Public Sheltered Companies)
Work and Social Assistance Act (WWB)	Municipalities	321	
Sheltered Employment Act' (WSW) organized by Public Sheltered Companies (WSW-companies)	Municipalities	103	103 71 (in company) 26 (detached) 6 (under contract of employer)

A substantial part of the total amount of recipients of working-age disability and last resort social assistance arrangements with at least some potential to work is now the responsibility of the 408 municipalities. Since 2004,

Dutch municipalities execute the decentralized Work and Social Assistance Act (WWB), a last resort benefit providing a minimum income to anyone staying in the Netherlands legitimately and without sufficient means to earn enough income for the own household to pay for the necessary costs of living. Recent estimates show that from the 321.000 persons that in 2011 receive a WWB-payment almost 40% have an 'unbridgeable' distance to the labour market (Edzes, 2011; Edzes and Van Dijk, 2011) and will therefore be at the expense of the municipalities forever. The Dutch municipalities also execute the 'Sheltered Employment Act' (WSW) which provides sheltered employment for people who cannot find a 'regular' job because of their physical, psychological and/or mental restrictions. WSW-beneficiaries receive a wage which is partly paid by national subsidies and productive revenues. Today the WSW is considered a generous arrangement for a privileged target group that locked in beneficiaries instead of placing them by regular employers because their income is higher than the minimum subsistence benefits (Commissie Toekomst en Transitie Sociale Werkvoorziening, 2011). The sheltered employment is organized in 90 Public Sheltered Companies, administrated by cooperating municipalities with in 2011 a total turnover of € 3.1 bln. (Cedris, 2012). The latest proposals launched in 2012 aim at restricting access and slim the Sheltered Employment Act to a maximum of 30.000 disabled, by restricting national subsidies implying that 60.000 of this group needs to find a job with a regular employer via the mandatory quota. In 2014 Municipalities become also responsible for the Invalidity Insurance Act for Young Disabled Persons (Wajong-act). The Wajong offers income and guidance support to young people and students who have become handicapped while being a student in finding and keeping a job with an ordinary employer.

### **Regional differences in working-age disability**

The mandatory quota arrangement aims at creating jobs by regular employers for the Wajong and WSW-target group (Ministerie van Sociale Zaken, 2012). In 2010<sup>1</sup> 97.000 people are working in sheltered employment WSW (excl. work under contract by employers). The Wajong counts ultimo 2010 more than 215.000 recipients from whom a quarter is working but for too little hours to earn a full income to exit the benefit. Taken together that leads to a target group of about 312.000 workers suffering from occupational disability. We calculate on the basis of administrative counts and estimates from professionals that 65% of this target group should be capable to do productive work in regular working conditions, i.e. have a productive capacity of more than 20% of the minimum wage (Edzes, 2011; Edzes and Van Dijk, 2011). We call this the quota target group. The 65% seems a reasonable estimate since research by municipalities in 2012 come to a comparable share of 68% (SGBO/Stimulansz, 2012). Therefore, we assume that 65% of the disabled is capable of doing productive work and therefore to provide sufficient jobs for this group the total number of job openings created via the quota should about 203.000 at the national level. We call this the quota target.

It is well-known for a long time that in the Netherlands there are substantial regional differences in benefit dependency. These differences are historically determined and have a relationship with socio-economic characteristics of the region (Van Vuren et al, 2011; Edzes, 2010). The historical component lies among else in the demise of important industrial sectors (like strawboard industry in East-Groningen and mining industry in Limburg) and the subsequently use of in that time generous disability income-arrangements. Furthermore, Heijman et al (2012) showed that regional growth of income and employment in the period 1997-2007 was significantly different from the national average. On the basis of a shift-share analysis they concluded that the specific regional circumstances like demographics, educational levels, physical assets and area-based characteristics and so on explain most of the difference and not so much the regional economic structure.

Figure 1 shows the sum of Wajong- and WSW-beneficiaries expressed as the ratio of the number of persons in the age group of 15-65 years. Figure 2 shows the sum of social assistance beneficiaries as a ratio of the number

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<sup>1</sup> For reasons of comparison with our employment data we use the figures of ultimo 2010 to calculate the potential labour market potential of a quota arrangement.

of persons in the age of 15-65 years. Both figures show strong differences between municipalities where (rural) municipalities on the edges of Netherlands in the North, East and South show the highest shares of benefit dependency.

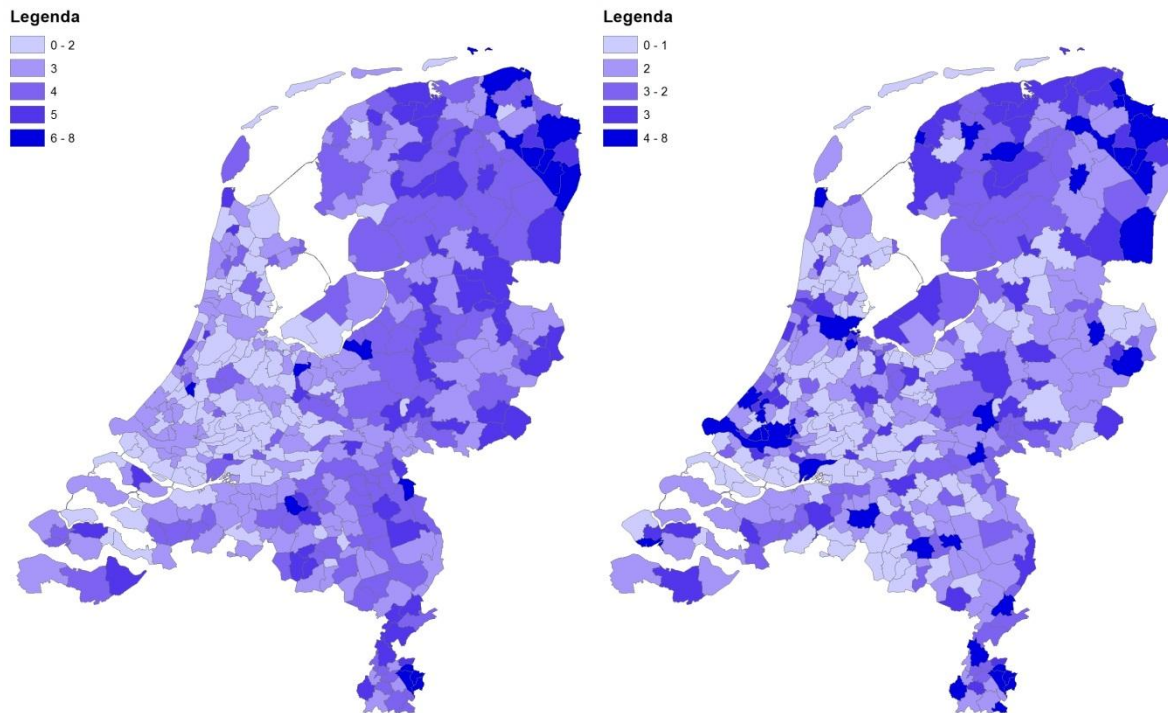


Figure 1 (left) Share of WSW and WAJONG per 100 persons in the age of 15-65 years by municipality, 2010. Source: CBS, UWV and SZW/POR.

Figure 2 (right) Share of WWB per 100 persons in the age of 15-65 years by municipality, 2010. Source: CBS, UWV and SZW/POR

### Regional implications of quota arrangement

The question is to what extent a mandatory quota arrangement is able to create a sufficient number of jobs for the target group within each municipality. This is of crucial importance for municipalities because of their (financial) responsibility for labour market policy. Reducing the number of benefit recipients is the only way to avoid severe budget cuts on other spending departments. The Netherlands counts in 2010 on the basis of the LISA-registry over 6.8 mln. fulltime jobs. When we restrict this to fulltime jobs in companies with more than 25 employees only, then 4.3 mln. jobs remain. Assuming that 5% of these jobs become available for the quota target group a total of 219.000 job openings can be created. This is close to the size of the target group that we estimated before at about 203.000.

As the next step we calculated this number for each municipality. Figure 3 show the share of quota jobs per municipality. To get insight in the match between the target group and the quota jobs we need to compare Figure 1 and 3. Then we can conclude that the share of WSW and Wajong is high in regions where there is a low density of middle sized and larger companies implying a spatial mismatch in the location of the quota target jobs and quota target group. When the absolute numbers of the quota target jobs and the quota target group per municipality are subtracted figure 4 results. It shows in absolute terms that especially in the center and urban regions there will be a surplus of quota job openings, but most municipalities will have shortages. By means of cooperation between neighboring municipalities this problem can be mitigated to a large extent. However, in the more peripheral regions a deficiency of job openings will exist also at a larger spatial scale, because the target group is relatively large and the number of medium and large size firms is rather limited. For instance, in the

larger NUTS-1 region of the North of the Netherlands only the municipalities Groningen and Leeuwarden have a surplus of job openings based on the quota for the target groups, but not enough to compensate for the deficit of the other municipalities.

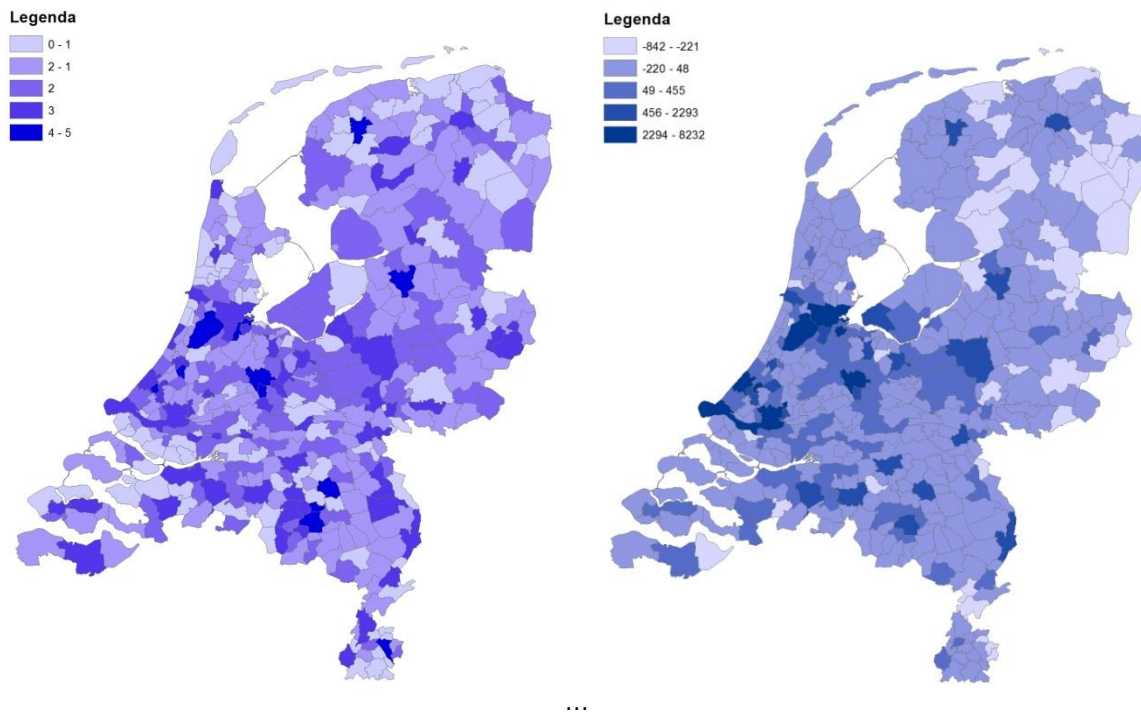


Figure 3: (left) Share of quota target jobs (fulltime jobs) per 100 persons in the age of 15-65 years, 2010. Source: LISA/own calculation.

Figure 4: (right) Absolute difference in size of quota target jobs and quota target group (65% the size Wsw and WAJONG) per municipality. Source: CBS, LISA, own calculation

### Quota target by sector

In addition to an unequal distribution of middle sized and large companies across sectors also the spatial distribution is uneven over the Netherlands. Partly this is because the regional distribution of industrial sectors is also unequal. The consequence is that also the spatial distribution of quota jobs shows substantial variation. The municipal divisions of the quota targets as a share of the potential labour force in figure 3 shows this clearly.

Table 2 shows the potential number of job openings by industrial sector that becomes available via a quota target, based on the amount of fulltime jobs in 2010. The quota target (column 4) comprises 3.2% of total employment of fulltime jobs, but the differences between the industrial sectors are huge. The reasons for these differences are due to the fact that the share of large companies differs substantially per industrial sector. Column 4 shows us that especially the public sector, the health sector and the energy sector consist of relatively many middle sized and large companies. When looking at the dispersion of the quota target only column 5 shows that the lion's share of the quota target is expected to be created in the health sector, industry, retail and trade, public administration and education.

Table 2: Employment characteristics by industrial sectors and meaning of quota target (QT), fulltime jobs<sup>1</sup>. Source: LISA

	(1) Total size employment (x 1000)	(2) Total size employment in establishments >25 employees (x 1000)	(3) Quota target (QT) (5%) (x 1000)	(4) Share employment QT of total employment	(5) Share employment QT of total QT employment
Agriculture, forestry and fisheries	204	22	1	0,5%	0,5%
Mining and quarrying	6	5	0	4,1%	0,1%
Industry	784	537	27	3,4%	12,2%
Production and distribution and trade services of electricity natural gas steam and air conditioning supply	31	30	1	4,9%	0,7%
Extraction and distribution of waste-water and waste water management and remediation	36	29	1	4,0%	0,7%
Construction	475	216	11	2,3%	4,9%
Wholesale and retail trade	1.085	479	24	2,2%	10,9%
Transport and storage	364	308	15	4,2%	7,0%
Guest accommodation-meal and beverage dispensing	210	72	4	1,7%	1,6%
Information and communication	236	140	7	3,0%	3,2%
Financial institutions	235	183	9	3,9%	4,2%
Rental/commercial real estate	65	32	2	2,5%	0,7%
Advice research and other specialist business services	613	282	14	2,3%	6,4%
Movable property and other business services	313	223	11	3,6%	5,1%
Public administration/government services	435	432	22	5,0%	9,8%
Education	482	364	18	3,8%	8,3%
Health and welfare services	1.039	942	47	4,5%	21,4%
Culture sports and leisure activities	129	50	3	1,9%	1,1%
Other services	140	40	2	1,4%	0,9%
Extra-territorial organizations	5	4	0	4,0%	0,1%
Total	6.887	4.390	219	3,2%	100,0%

<sup>1</sup> To prevent noise, employment in Public Sheltered Companies as far as can be traced in the employment data are excluded in the calculations

## Conclusion

Based on the foregoing we conclude that at the national level the number of jobs that becomes available when all employers with more than 25 employees create 5% extra job openings, this creates enough jobs for the quota target group of working-age disabled. However, when we take into account the uneven spatial distribution of the quota target group as well as the uneven location of quota job openings there is severe spatial mismatch. By means of regional cooperation between municipalities surrounding cities with many jobs and public sheltered companies, part of this problem can be solved and financial risks can be shared. But in regions with a relatively high number of people in the quota target group and a low share of medium and large sized companies, like peripheral Dutch regions, the budget problem cannot be solved by means of cooperation of municipalities within the region. This implies that a substantial number of municipalities face even the risk to go bankrupt when the policy proposal for the Participation Law together with the 5% quota arrangements becomes effective. This problem becomes even more severe when a substantial part of the firms with more than 25 employees creates less than 5% new jobs for the target group. A more general conclusion of our analysis is that it shows that national governments should pay more attention to the spatial implications when policy measures that seem to solve a problem at the national level are decentralized to lower spatial levels like municipalities without taking into account the spatial variation. Until now new government plans are often only evaluated on the macro-economic consequences by CPB Netherlands Bureau for Economic Policy Analysis. We recommend that when national policy measures are decentralized to municipalities also the spatial variation in outcomes should be analyzed e.g. by CPB together with PBL Netherlands Environmental Assessment Agency for the spatial implications.



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