

## 7 REDUCED CAPACITY TO WORK, DISABILITY, REHABILITATION

### 7.1 EMPLOYMENT OF THE DISABLED POPULATION AND DEMAND-SIDE POLICY MEASURES\*

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#### The employment of the disabled population

Internationally, there is a growing recognition that a large proportion of people with reduced work capacity may be integrated into the labour market through appropriate support and this is beneficial to everyone. Employment may improve the physical and mental health of those involved, reduces the risk of poverty, eases the budgetary burden associated with the allowances provided for them and is conducive to economic growth through higher employment rates (*OECD*, 2010).

The below average employment of working age people with disabilities (i.e. with reduced work capacity) depends on supply and demand factors. In the standard labour economics model, individuals basically decide on taking up employment based on the value of leisure and consumption.<sup>1</sup> This simplified decision is also influenced by personal preferences, the available wage levels, commuting costs, welfare benefits as well as the preferences of family members. In the case of people with reduced work capacity, these factors usually work against taking up employment, since their expected wages are lower, commuting costs are often higher, they may need more rest because of their age or disability and many of them receive some kind of disability benefit. Welfare benefits reduce the supply of labour (since they make minimum consumption levels attainable); they have an even more negative effect if disabled people lose their eligibility after taking up employment (for example *Bound-Burkhauser*, 1999). In this case they have to give up both their free time and welfare benefits (which represent a stable income).

It should be taken into account that work, as a source of self-expression and social contacts, may also give pleasure, therefore the time spent working reduces utility in proportion to the free time lost but not at a one-to-one rate. This may affect the decisions of people with disabilities in two opposing ways: if the workplace is inclusive and tolerant, the relationships established may be more important for them than to their non-disabled colleagues (especially if they live in isolation because of their disability); and conversely, if the workplace is (seemingly) not inclusive, it may discourage taking up employment.

Labour demand primarily depends on what price a firm is able to sell its products for, how high the wages are and how productive the employees are.<sup>2</sup> However, employers are not always able to measure labour productivity and

\* This subchapter was prepared using datasets from the Labour Force Survey of the Central Statistical Office. The calculations and their outcomes are the intellectual products owned by the authors Judit Krekó and Ágota Scharle exclusively.

1 If they work, they will have less free time but they can spend the wages received in exchange for work on consumption: according to the model, every employee considers this; however, individuals vary in their preferences for free time and consumption (*Ehrenberg-Smith*, 2017).

2 For the derivation of the labour demand curve see for example *Ehrenberg-Smith* (2017).

they often assume that the productivity of employees with disabilities is lower than that of their non-disabled colleagues: for example they work more slowly, make more mistakes or are on sick leave more often. This assumption is sometimes based on earlier experience but may also be based on prejudice.<sup>3</sup> Another factor may reduce demand: when the costs of hiring (for example due to a need to improve accessibility or reallocate tasks across positions) or working (for example support staff is needed) are higher. Prejudices attributed to colleagues or clients may also lead to discrimination (*Lovász-Telegdy, 2010*).

The supportive and encouraging interventions of governments are especially justified in the employment of people with reduced work capacity. On the one hand, the government is responsible for appropriately regulating access to cash benefits, in a way to avoid disincentives to labour supply. On the other hand, neither rehabilitation services, nor anti-discrimination can be entrusted to market players partly because of limited information and partly due to the welfare benefits that go beyond individual interests (*OECD, 2010*).

The evaluation of the employment of people with reduced work capacity is encumbered by the lack of a common definition and clearly defined measurement methods and thus the comparability of data from various surveys is limited (for more details see *Box K7.2*).

In the following, we mainly rely on data from the Labour Force Survey (LFS) of the Central Statistical Office (CSO) to assess the employment of the population with disabilities. Based on the definition of the LFS, a person with a disability is someone who has suffered a long-term health or mental problem for at least six months that restricts him or her in an aspect of work (duration or nature of work or commuting). It is important to note that the LFS is based on the self-assessment of respondents and it does not mean that their disability (reduced work capacity) has been officially confirmed.

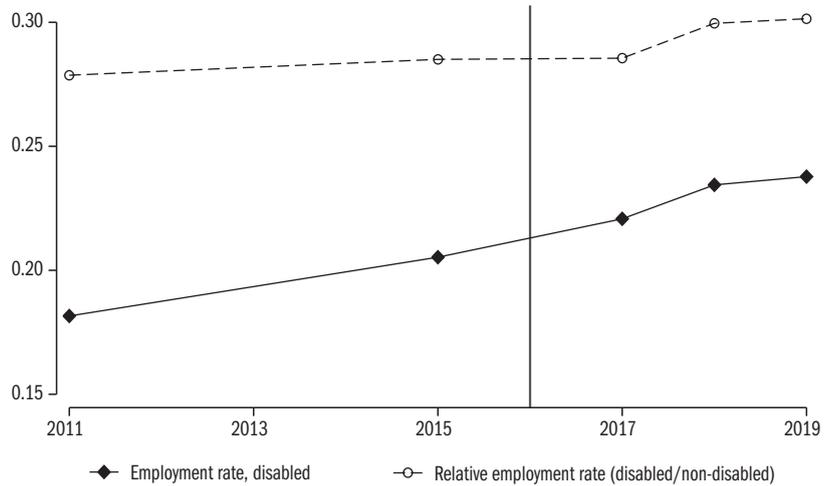
Since the question in the LFS concerning health condition was altered in 2017, compared to the surveys conducted in 2011 and 2015, the share of those with disabilities is not comparable to data from 2017–2019.<sup>4</sup> Based on the above definition, 8 per cent of the population aged 19–64 may be regarded as disabled in the LFS in 2019: because of the change in the definition, this proportion is considerably lower than the 11.2 per cent observed in 2011.

The employment situation of the population with reduced work capacity is described by the absolute and relative employment rates. The latter measures the employment rate of the population with disabilities relative to the employment rate of the non-disabled population. *Figure 7.1.1* shows that only less than a quarter of the population with disabilities (23 per cent) worked in 2019, which is barely a third of the employment rate of the non-disabled population. This relative indicator hardly changed between 2011 and 2015 as employment also grew speedily in the entire population. However, between 2017 and 2019 both the relative and the absolute employment rates increased slowly.

<sup>3</sup> Nearly two-thirds of employees with reduced work capacity have already experienced discrimination during job search (*CSO, 2015*).

<sup>4</sup> In the 2011 and 2015 surveys, the question “Have you got a long-term health problem?” was followed by the list of potential conditions and there was also an “other” category for respondents. However, since 2017 only yes/no answers are possible to give, therefore it is possible that respondents do not think of a health problem which would be on the list. Someone can only be regarded as a person with reduced work capacity if they gave an affirmative response to this question and their long-term illness poses an obstacle to employment.

**Figure 7.1.1: The absolute and relative employment rates of the population with reduced work capacity aged 19–64**



Note: The vertical line indicates the change in the question about reduced work capacity in the LFS survey.  
 Source: LFS, CSO.

In the following we will explore what role the different composition of the population with reduced work capacity plays in the employment gap. As seen in *Figure 7.1.2*, the average age of this group (also within the age group 19–64) is considerably higher than that of the healthy population, since a large proportion of long-term health problems are diseases developed over one’s life. In addition, the average educational attainment of the group with reduced work capacity is substantially lower, for several reasons. On the one hand, disabilities present or acquired in childhood reduce the chances of school attendance and further studies (see *Subchapter 8.1.* and *Box K8.1*). On the other hand, those with low educational attainment are more likely to work in manual jobs, which involves a higher risk of deterioration of work capacity (see *Subchapter 3.3*).

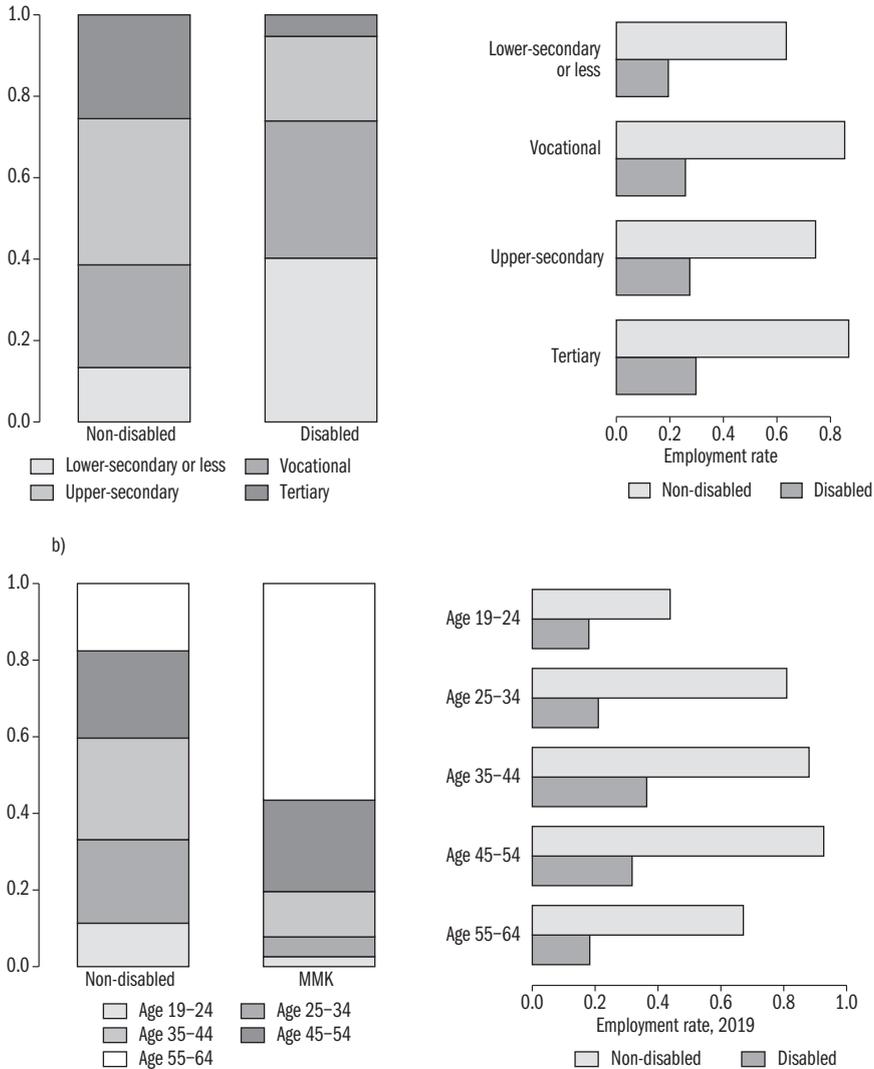
However, the figures also reveal that among those over 55 and those with a lower-secondary qualification the employment rate of the healthy population is also lower.<sup>5</sup> In order to assess the effect of the different composition, the Oaxaca–Blinder decomposition method was used: we divided the difference (in percentage points) between the employment rate of the healthy and reduced work capacity population aged 19–64. The results are summarised in *Table 7.1.1*. The composition effect indicates to what extent the dissimilar characteristics of the two groups (educational attainment, age, gender, regional distribution and urban or rural residence) explain the difference in employment rates.<sup>6</sup> The parameter effect shows the effect of disability, while the (negligible) interaction component describes that the same

5 The distribution of the population with reduced work capacity by age and educational attainment is similar during the years between 2011 and 2018.

6 The role of age was assessed based on the following categories: 19–24, 25–34, 35–44, 45–54, 55–64. Educational attainment was broken down by the four categories of lower-secondary, vocational school, upper-secondary ending in a Matura and tertiary education qualification.

characteristics differently affect the employment chances of the two groups. The results indicate that the dissimilar composition of the population with disabilities explains less than one-fifth of the differences in employment; the majority of the employment gap (about 46 percentage points) is due to reduced work capacity.

**Figure 7.1.2: The educational attainment and employment rate of the population with and without disabilities in 2019, broken down by educational attainment (a) and age (b)**



Source: LFS, CSO.

**Table 7.1.1: Difference between the employment rates of populations with and without disabilities aged 19–64, broken down by factors, 2017–2019**

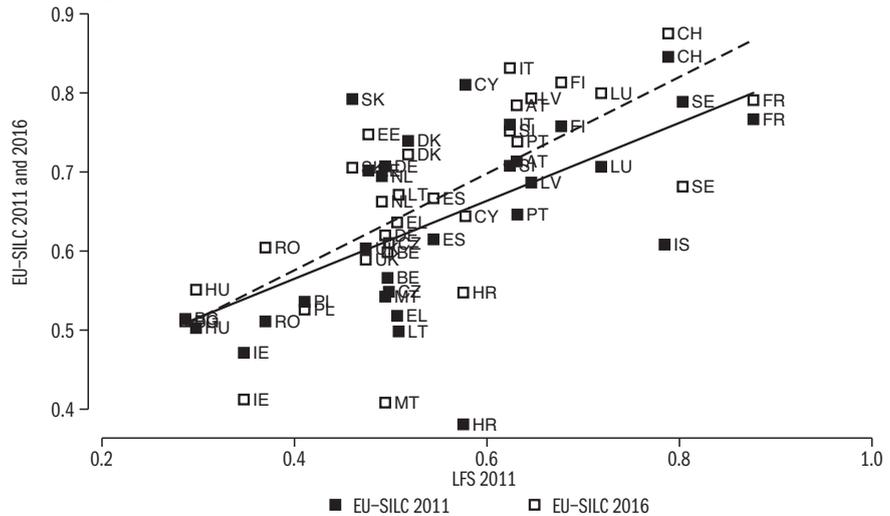
	2017	2018	2019
Non-disabled	0.773	0.783	0.789
Disabled	0.221	0.234	0.238
Total difference	0.552***	0.548***	0.551***
Composition effect	0.105***	0.098***	0.062***
Parameter effect	0.460***	0.463***	0.472***
Interaction	-0.012	-0.013	0.017

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ .

Source: Authors' calculation, based on LFS data from 2017–2019, using the Oaxaca–Blinder decomposition method.

The labour market situation of the Hungarian population with reduced work capacity does not compare favourably internationally either. The Labour Force Survey (LFS), covering all the countries of the European Union last included a question about disability in 2011. According to this survey, Hungary is at the back of the pack of European countries: the relative employment rate (30 per cent) hardly exceeded one half of the EU average (56 per cent) and the indicator was lower only in Bulgaria (Figure 7.1.3).

**Figure 7.1.3: The relative employment rate in the LFS and the EU–SILC surveys**



Country codes: AT – Austria, BE – Belgium, CH – Switzerland, CY – Cyprus, CZ – Czech Republic, DK – Denmark, DE – Germany, EE – Estonia, EL – Greece, ES – Spain, FI – Finland, FR – France, HR – Croatia, IE – Ireland, IS – Iceland, IT – Italy, LT – Lithuania, LU – Luxembourg, LV – Latvia, HU – Hungary, NL – Netherlands, PL – Poland, PT – Portugal, RO – Romania, SI – Slovenia, SK – Slovakia, SE – Sweden, UK – United Kingdom.

Note: The calculations and the figure was prepared by *Boldmaa Bat-Erdene*. The relative employment rate is the ratio of the employment rates of the reduced work capacity and the healthy populations aged 15–64.

Source: *Eurostat* (EU-SILC and LFS).

The relative employment rate is also low by international comparison according to another European questionnaire survey, EU–SILC, which relies on a broader definition. It reveals that although the employment gap of the population with reduced work capacity compared to the EU average has decreased since 2011, in 2016 it was still significant (see *Box K7.2* for more details about the comparison of EU–SILC and LFS).

### Policy measures

On the demand side of the labour market, the most important financial incentives for employing people with reduced work capacity include wage subsidies, tax allowances, obligatory employment quotas and grants for improving the accessibility of workplaces. What these measures have in common is the reduction of the relative costs of employing disabled workers relative to non-disabled workers and in this way diverting demand in their direction in the open labour market. Based on international experience, these financial incentives have a positive but typically modest impact (for example *Datta Gupta et al*, 2015, *Scharle–Csillag*, 2016). In addition to financial incentives, awareness-raising campaigns and training that reduce discrimination and improve their inclusion also boost demand for employees with reduced work capacity (*Phillips et al*, 2015, *McDonnall–Antonelli*, 2020).

In Hungary, demand-side measures strongly encourage employers to employ disabled individuals. One of the most important measures boosting labour demand for people with reduced work capacity is the obligatory employment quota, widely used across countries, which requires the employment of a certain number of workers with disabilities or, failing that, the payment of a punitive tax. In Hungary, all employers with over 25 employees (including public sector and non-profit organisations) have to pay a so called ‘rehabilitation contribution’ if the share of employees with disabilities does not reach the obligatory employment rate, which is 5 per cent of the headcount. The contribution is significant: it was HUF 1,449 thousand/per person in 2020, which is 63 per cent of the annual amount of the minimum wage and the related contributions or nine times the monthly amount of the minimum wage. The obligatory employment rate can only include employees confirmed as individuals with reduced work capacity by the complex assessment of a rehabilitation committee and who at the same work at least four hours a day.<sup>7</sup> The obligatory employment quota of employees with reduced work capacity is widely adopted in other countries; however, the associated rehabilitation contribution (a punitive tax) is high in Hungary by international comparison (*OECD*, 2010, *Lalive et al*, 2013). (Regarding its impact see *Box K7.1*).

The significant tax allowance offered for employers when employing disabled people may also increase demand: employers are entirely exempt from paying social contribution tax on wages amounting up to twice the minimum wage,<sup>8</sup>

<sup>7</sup> See *Act CXCI of 2011* on the benefits provided for persons with reduced work capacity and on the amendment of certain acts.

<sup>8</sup> The allowance was introduced on 1 January 2019 (*Act LII of 2018*). It replaced the rehabilitation card, which was possible to claim by people with reduced work capacity and which also provided substantial allowances.

9 See [Act LXXXI of 1996](#). The maximum company size was not raised in line with the increase in the minimum company size pertaining to rehabilitation contribution from 20 to 25, therefore firms with employee numbers between 20 and 25 are not subject to either the corporate tax relief or the quota.

10 In principle, rehabilitation also takes place at these workplaces: about one-fourth of employees with reduced work capacity are in transitional employment, which means that they are supposed to find employment in the open labour market in three years with the help of their employers. However, we were unable to obtain information on the actual compliance with this regulation.

and for firms with fewer than 20 employees the wages of employees with reduced work capacity (up to the minimum wage) are deductible from the corporate tax base.<sup>9</sup> Nevertheless, disabled employees are entitled to additional five days annual paid leave, which increases labour costs. Besides incentives for employment in the open labour market, substantial government funding is granted for accredited employers, who provide secure (sheltered) but segregated jobs for 30 thousand persons. According to international experience, this is considerably less efficient in terms of rehabilitation than support granted for employment in the open labour market (see for example *Scharle–Csillag*, 2016).<sup>10</sup>

On the supply side, the extent and accessibility of cash benefits as well as rehabilitation services for restoring work capacity (assessment of existing skills, motivating, reskilling, coaching) and job placement are the most significant policy measures (for more details see *Subchapter 7.2*).

As shown in *Box K7.1* in more detail, the rehabilitation contribution demonstrably increases the employment of people with disabilities in the open labour market. However, the low uptake of the quota, which has not been improving over recent years, and the considerable employment gap of the population with disabilities indicates that the substantial financial incentives alone are not sufficient to integrate people with disabilities in the labour market.

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