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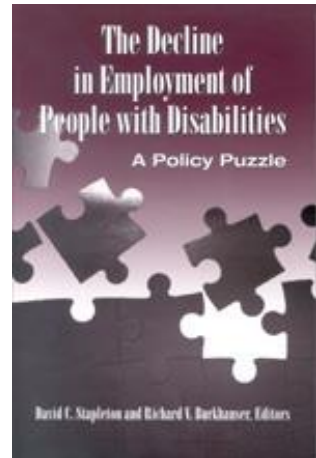
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# A Review of the Evidence and Its Implications for Policy Change

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# 11

## A Review of the Evidence and Its Implications for Policy Change

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Despite the promise of the Americans with Disabilities Act (ADA) of 1990, eight years of uninterrupted economic growth, and a series of government initiatives to integrate those with disabilities into the workforce, survey data tell us that the employment rates of working-aged men and women with disabilities declined substantially during the 1990s business cycle. In fact, the employment rate of working-aged people with disabilities was lower in 2000, the peak year of the 1990s business cycle, than at the bottom year of that business cycle (1992). At the same time, employment rates of those without disabilities grew. Concomitant with their fall in employment was a decline in their labor earnings, which were primarily offset by an increasing dependence on federal government income support benefits, namely, Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI). Labor earnings of those without disabilities grew markedly at the same time. This disconnect between the employment fortunes of those with disabilities and the rest of the population is in stark contrast to the 1980s business cycle, when the employment and earnings of those with and without disabilities moved in the same direction. What explains this change in employment trends in the 1990s? Did people with disabilities face greater discrimination in the workplace, despite or perhaps because of the ADA? Did workers with disabilities respond to the easing of disability eligibility standards and the increase in relative SSDI and SSI benefits and, forced to make an all or nothing choice, chose to leave the labor force and enter these programs at a greater rate? Or did the medical conditions and functional limitations among

those with disabilities become more severe, making work less of an option for a growing number of them?

The previous chapters attempt to answer four sets of questions regarding the measured change in the employment rates of working-aged people with disabilities in the 1990s. The first two sets of questions focus on measurement issues:

- Did employment rates fall, or is this conclusion simply an artifact of flawed data?
- What population should be used to capture the employment trends of working-aged people with disabilities and evaluate the success of public policies aimed at this population? Should we measure employment for the full spectrum of people with disabilities, only those with disabilities who say they can work, or only those with disabilities who are targeted by the ADA?

The third set of questions focuses on causality:

- What caused these measured declines in the employment rate of working-aged people with disabilities in the 1990s: changes in the basic characteristics of the population with disabilities (sex, age, race, and education); changes in the nature of work that make it more difficult for people with disabilities to compete with others; the growing cost of health care and how it is financed; increases in the average severity of health conditions and impairments of those who have disabilities; unintended consequences of the ADA, which discouraged employers from hiring and, hence, increased discrimination against working-aged people with disabilities; or lowering of eligibility standards for the SSDI and SSI programs, as well as an increase in the relative value of SSDI benefits for low-wage workers, that encouraged a movement out of the labor force and onto the income support rolls?

The final set of questions focuses on what must be done in the light of this evidence:

- As we move into a new century and a new business cycle, what are the implications for public policy of the employment experiences of working-aged people with disabilities documented during the past two decades? Should we focus on inducing employers to employ those with disabilities rather than compel-

ling them to do so via regulation? Should we shift from a predominantly insurance-based disability support system to one that is more work oriented?

In what follows, we present our own answers to each of these questions, drawing on the evidence presented in the earlier chapters. Although we agree with many of the conclusions reached by the authors of individual chapters, we do not agree with them all. Indeed, we cannot agree with them all because some key conclusions are in direct conflict with one another.

Objective interpretation of the evidence provided in this book is difficult because of the emotionally charged nature of some of the issues it raises. On the one hand, those who believe that the social environment is the primary factor in determining the employment of working-aged people with disabilities are uncomfortable believing that the primary reason for the decline in employment in the 1990s was an increase in the severity of the health conditions and functional limitations of this population. Appeals to a medical model of this sort are difficult to accept for those who advocate for the full integration of people with disabilities into the workforce. This is particularly the case when much of the evidence for this view relies on the belief that the response of people with work limitations to a question asking whether they are able to work at all is solely influenced by the severity of their condition, and not by the social environment in which they find themselves.

On the other hand, those who see the ADA as the primary mechanism to more fully integrate people with disabilities into the workforce may fear that evidence to the contrary will lead to abandonment of the rights of this population rather than modifications of the law and its enforcement to more effectively achieve this goal.

Likewise, supporters of SSDI or SSI as mechanisms for providing insurance against lost earnings owing to a disability, or as a guarantee of minimum income support for all Americans with disabilities, might fear the political consequences of evidence showing how expansion of these programs resulted in the decline in the employment of working-aged people with disabilities. Such political consequences might include reforms that will increase the vulnerability of the population with disabilities in the name of improving their employment.

Finally, those who believe that market-based solutions are ultimately the most appropriate way to allocate resources are less than happy with evidence showing the inability of private labor markets to employ all those who are willing and able to work, at a living wage, and including health insurance benefits.

In other words, objective evidence is always controversial to those unwilling to allow their policy hopes to be tempered by reality. When public policy is subject to the scrutiny of social science, the outcome of that research is, by its nature, uncertain. Yet, an unflinchingly objective examination of the evidence is critical if we are to learn from the past and improve the employment opportunities of working-aged people with disabilities while maintaining appropriate income protection for those unable to work.

More controversial than the empirical evidence in this book, however, is the policy changes that it implies. Ultimately, policymakers must make the trade-off between the goal of increased employment and the increased economic independence that employment brings to those with disabilities, and the goal of a safe and secure income level for those with significant health conditions and functional limitations who are unable to work. Policymakers must also decide how to strike a balance between policies that directly intervene in the marketplace, such as regulations and quotas, and those that indirectly affect market outcomes via taxes, subsidies, or public investments to improve the productivity of people with disabilities (e.g., through education, rehabilitation, or job support).

Here, we review the evidence provided in the preceding chapters, weigh the sometimes contradictory nature of that evidence, and provide a first attempt at relating the body of this evidence to policy changes that should be considered by those interested in reversing both the decline in the employment of working-aged people with disabilities and their increasing dependence on government income support programs.

## **DID THE EMPLOYMENT RATE DECLINE?**

All of the authors agree on the following three points:

- 1) The employment rate for working-aged adults with disabilities, broadly defined, has declined during the 1990s, both absolutely and relative to the rate for those without disabilities.
- 2) The proportion of people with disabilities who say they are able to work at all declined during the same period.
- 3) The employment rate for those with disabilities who say they are able to work at all increased.

We briefly discuss each of these points below.

### **The Declining Employment Rate of Working-Aged Adults with Disabilities, Broadly Defined**

Using data from the Current Population Survey (CPS), Houtenville and Daly (Chapter 3) find that the employment rate of working-aged people with self-reported work limitations was 40.8 percent at the peak of the business cycle in 1989. By the peak of the next business cycle, in 2000, it had dropped by 8 percentage points, to 32.8 percent. By comparison, the employment rate of working-aged people without work limitations increased by 1.9 percentage points, from 86.3 percent to 88.1 percent over the same period. Thus, the gap between the employment rates of people with and without work limitations increased, by about 10 percentage points.

The validity of the CPS employment rate measure has been called into question because of the possible sensitivity of the size and composition of the population who consider themselves to have work limitations to changes in the policy and economic environment. Kruse and Schur (Chapter 8) provide an extensive discussion of this issue.

The work limitation measure of the working-aged population with disabilities leaves much to be desired, but Burkhauser and coauthors (Chapter 2) provide convincing evidence that the decline in employment in the CPS data among those reporting a work limitation is real, and not merely an artifact of that data set or the work limitation question. To arrive at this conclusion, they compare employment trends from the CPS with employment trends from the National Health Interview Survey (NHIS) and the Survey of Income and Program Participation (SIPP). NHIS and SIPP support a richer variety of disability definitions, including ones that we would expect to be less sensitive to

the economic and policy environment. Although estimates of the size of the working-aged population with disabilities vary significantly across surveys, and across definitions of disability within surveys, in any given year, the authors find declining employment trends regardless of the survey used, and whether the working-aged population with a disability is defined broadly, based on a self-reported impairment, more narrowly as a limitation in any major activity, still more narrowly as any work limitation, and most narrowly as a work limitation that is reported in each of two interviews, one year apart.

If any doubt remains about whether the declines in the measured employment rates reflect real declines in employment, those doubts have to be dispelled by growth in the share of working-aged adults who receive SSDI or SSI (see Burkhauser et al., Chapter 2, and Goodman and Waidmann, Chapter 10). The tight relationship between the number of working-aged males who are not employed and who report work limitations, and the number of males receiving SSDI benefits, demonstrated by Bound and Waidmann (2002), is particularly compelling evidence that the survey measures are capturing a real phenomenon.

### **The Proportion of People with Disabilities Who Say They Are Able to Work at All Declined**

This finding is perhaps not remarkable given the employment rate decline, but the magnitude of the decline is. For the population with work limitations, the CPS shows a decline in the proportion able to work at all, from 78 percent in 1988 to 73.2 percent in 1993, then, after a break in the series owing to a change in the CPS, an additional drop from 52.8 percent in 1994 to 45.4 percent in 2000. The NHIS shows a decline from 49.8 percent in 1988 to 40.7 percent in 1996, the last year of the data (Burkhauser et al., Chapter 2, Appendix 2C, Table C.4). Kaye (Chapter 6) finds similar declines using slightly different years of data and definitions of the population with disabilities.

### **The Employment Rate for Those with Disabilities Who Say They Are Able to Work at All Increased**

Employment among the CPS male “able to work at all” population fell slightly during the recession, from 54.7 percent in 1989 to 51.7 per-

cent in 1992, but then, after a definitional change in the series, increased from 61.6 percent in 1994 to 64.2 percent in 2000. The employment rate based on a similar measure from the NHIS fell from 85.1 percent in 1989 to 82.8 percent in 1992 and then increased to 86.3 percent in 1996, the last year of the data (Burkhauser et al., Chapter 2, Appendix 2A, Table 2A.5). Kaye (Chapter 6) finds similar increases using slightly different years of data and definitions of the population with disabilities. These increases are comparable to increases in the employment rate for people without work limitations.

### **WHICH MEASURE OF THE EMPLOYMENT RATE SHOULD WE FOCUS ON?**

Although all authors agree that the employment rate of working-aged adults with disabilities, broadly defined, has decreased, and the rate for those who report being “able to work at all” has increased, there is disagreement about which measure is most relevant for purposes of understanding recent history and informing the public policy debate.

If we are interested in measuring the extent to which progress is being made toward the broad goals articulated in the ADA—greater inclusion of people with disabilities in major social activities, including work, and greater economic independence—we should be interested in the employment rate for all people with disabilities, regardless of whether they report they are able to work at all. To do otherwise ignores the aspirations for increased economic independence and social integration of a large share of people with disabilities.

Beyond this, however, is there something to be learned for policy purposes from analysis of the employment rate for only those who say they are able to work at all? Kaye (Chapter 6) argues that the answer depends on why the share of the population with disabilities who report being able to work at all has decreased. If the reason for the decline is an increase in the severity of medical conditions, then, according to Kaye, trends in the employment rate for those who are able to work at all tell us something meaningful about those for whom work is a realistic option. If, on the other hand, reports of inability to work are sensi-



tive to the economic and policy environment, then looking at rates for only those who report being able to work at all misses an important, perhaps definitive, component of the effects of the economic and policy environment on employment (see Burkhauser et al., Chapter 2, and DeLeire, Chapter 7).

Kruse and Schur (Chapter 8) present an argument that is similar to Kaye's, although it is more focused on the ADA. They point out that the ADA was only intended to improve employment opportunities for those who are able to work at all, at least with reasonable accommodation. Therefore, for purposes of assessing the impact of the ADA, they would have us look at a narrower population, one that includes only those who report they are able to work at all.

If we can confidently rule out the hypothesis that change in the economic and policy environment affects the proportion saying they are able to work at all, then we can sharpen our understanding of the effects of the economic and policy environment by examining just those who are affected. But Kaye's evidence does not convince us that the proportion saying they are able to work at all is immune to the economic and policy environment. In fact, our understanding of that environment and reading of the evidence lead us to the opposite conclusion. We discuss why as we consider the evidence presented in this volume.

Concerning arguments that the ADA employment provisions only apply to a subset of the population, we echo the counterargument made by DeLeire (Chapter 7) and Goodman and Waidmann (Chapter 10): there is much ambiguity in the minds of employers, consumers, and courts about who is protected and who is not. Given this, it should not be surprising if the ADA affects employment outcomes for people who are not in its intended target population. We can hardly take comfort in the fact that the employment rate for people with disabilities who say they are able to work at all increased after the ADA unless we can rule out the possibility that the ADA contributed to the significant decline in the proportion of people with disabilities who say they are able to work at all.

In sum, we think it a mistake to rely on the employment rate of people with disabilities who say they are able to work at all as an indicator of the progress being made toward improving employment outcomes for people with disabilities. The evidence convinces us that the

economic and policy environment has had an effect on the proportion of people with disabilities who say they are able to work at all.

## **WHAT CAUSED THE EMPLOYMENT RATE DECLINE?**

The previous chapters consider the following possible explanations of the employment rate decline:

- Changes in the composition of the working-aged population of people with disabilities: Houtenville and Daly (Chapter 3) focus on the demographics and education of the population.
- Changes in the nature of work that affects the ability of people with disabilities to compete with other workers (Stapleton, Goodman, and Houtenville, Chapter 4).
- Growth in health care costs that, given the way health care is financed, make work less attractive for people with disabilities who have chronic, high-cost health conditions (Hill, Livermore, and Houtenville, Chapter 5).
- Increases in the severity of impairments and health conditions among those with disabilities (Kaye, Chapter 6).
- The ADA (DeLeire, Chapter 7; Kruse and Schur, Chapter 8; and Blanck, Schwochau, and Song, Chapter 9).
- Expansions of the SSDI and SSI programs, including both lowering eligibility standards and increasing the relative benefits for low-wage earners (Goodman and Waidmann, Chapter 10).

As we discuss below, the evidence presented by the relevant authors rules out changes in demographics and education as major causes of the decline. It also indicates that the growth in health care costs and changes in the nature of work cannot account for much of the decline, although they might have contributed to the decline for some. We find this evidence compelling.

At least one chapter supports as the single major cause each of the following potential causes of the decline:

- Increases in the severity of impairments and health conditions among those with disabilities (Kaye, Chapter 6);
- The unintended consequences of the passage and implementation of the ADA (DeLeire, Chapter 7); and
- Eligibility and benefit expansions in the SSDI and SSI programs (Goodman and Waidmann, Chapter 10).

In what follows, we summarize the evidence on the potential causes that we agree can be ruled out, and provide a more in-depth and critical review of the evidence on these three remaining potential causes.

### **Demographics and Education**

Houtenville and Daly (Chapter 3) focus on the sex, age, race, and educational composition of the population (aged 25–61) with work limitations. Although there were substantial changes to the age and educational distributions of this population from 1989 to 2000 (mirroring changes in the general population), if anything these changes favored groups of adults with work limitations who have relatively high employment rates: those with at least some college education. Using a standard decomposition technique, they show that the decline of the employment rate for adults with work limitations would have been greater if the age, sex, race, and education composition of the population with work limitations had stayed constant, holding constant the decline within each age, sex, race, and education group.

A second finding from their analysis is that the decline in the employment rate is widespread, crossing all age, sex, race, and education groups, although it is greater for some groups than for others. The decline is particularly high for men. Based on the CPS, the employment rate for men with work limitations fell by 10.9 percentage points, from 44 percent in 1989 to 33.1 percent in 2000, compared with a 4.9 percentage point decline for women, from 37.5 percent to 32.6 percent. The larger decline for men reflects the substantial rise in the employment rate for women relative to men without work limitations. Hence, the size of the decline for men is perhaps a better indicator of the magnitude of the impacts of whatever force(s) caused the decline in the employment rate for people with work limitations than the decline for

men and women together. Further, the smaller decline for women with work limitations is not an indication that the impacts of those forces were smaller for women.

Another notable feature of the decline in the employment rate is that it is greater for young adults (aged 25–44) than for older ones (aged 45–61), regardless of race, sex, or education. This is especially troubling because young adults have many more years than older adults before they would be expected to leave the labor force. We would also expect the decline in the employment rate for the younger group in the last decade to be reflected in future declines in the rate for the older group, as those in the younger group age into it.

The main point, however, is that the employment rate declined for all major demographic and educational groups. Thus, it seems likely that whatever forces have caused the decline are forces that affect all groups, but perhaps have their largest effect on those who are young.

### **The Nature of Work**

Stapleton and coauthors (Chapter 4) consider how changes in the nature of work might have affected the ability of adults with disabilities to compete for jobs with other adults. From their perspective, the decline in the employment rate of people with work limitations relative to that of people without work limitations is viewed as a decline in the proportion of jobs that are filled by people with work limitations. That proportion was remarkably stable from the mid 1980s to the mid 1990s, and declined sharply during the second half of the latter decade.

Although changes in the nature of work are difficult to quantify, the authors provide evidence of some significant changes. In doing so, they distinguish between static job characteristics—those seen in a “snapshot” of a job at a point in time—and dynamic characteristics, particularly the frequency with which workers change jobs. Based on existing research about the nature of changing work, they conclude that changes in static characteristics of jobs are likely to disadvantage some workers with work limitations but be an advantage to others; that is, there is no reason to expect an overall positive or negative effect of changes in static characteristics on the proportion of jobs filled by people with disabilities. On the other hand, they expect that an increase in involuntary job loss is likely to disadvantage many workers with dis-

abilities relative to those without disabilities because of the greater challenges they face in finding and starting a new job.

Although not entirely definitive, the evidence they present shows that changes in the nature of work seen during the 1990s began in the 1980s, if not earlier—and well before the start of the decline in the proportion of jobs filled by workers with limitations. Further, there is no evidence of an acceleration of change that could account for the sharp decline in the proportion of workers with limitations after the mid-1990s. Instead, the changes have been gradual and long-term. They do identify two changes that seem to be making it more difficult for people with disabilities to compete, on average, over the long term: a gradual increase in educational and skill requirements, and a gradual decline in job security, but the magnitude of these gradual changes is too small to contribute much to the decline in the proportion of workers with limitations. The main causes of the decline must lie elsewhere.

### **Health Care Costs**

Hill and coauthors (Chapter 5) examine the effect that increases in health care costs, and concomitant changes in the way health care is financed, have on the employment rate. This explanation has considerable appeal given the rising cost of health care and the higher-than-average health care expenditures of people with disabilities. There is also considerable documentation that people with disabilities frequently cite access to health insurance as a main reason for not working.

The authors present two complementary analyses, and find mixed results. The first, using the 1987 National Medical Expenditure Survey (NMES) and the 1996 and 1997 Medical Expenditure Panel Surveys (MEPS), considers changes in employment rates from 1987 to 1996–1997 for individuals who have chronic conditions, regardless of disability, grouped by the costs of health care for those conditions. They find that the share of the population with high-cost chronic conditions increased over this period, and that the employment rate for those with high-cost conditions fell relative to that for those with lower-cost chronic conditions or without chronic conditions. This evidence is consistent with the hypothesis that growing health care expenditures contributed to the decline in the employment rate, but the authors note that

it is based on all working-aged persons, not just those who report a disability. Comparability issues for the two surveys prevent them from making similar comparisons among those who report disability (e.g., work limitations) only.

They therefore turn to the NHIS. They are able to compare the employment rates of persons with work limitations with and without high-cost chronic conditions in 1984–1987 with those for the same groups in 1993–1996, using the high-cost condition group developed with the MEPS and NMES data. This analysis yields mixed results. For women with work limitations, the employment rate for those with high-cost chronic conditions fell relative to the rate for others, as we would expect if growing health care costs contributed to the employment rate decline. For men with work limitations, however, the employment rate for those with high-cost chronic conditions did not fall relative to others. If growth in health care costs explains the result for women, it is not apparent why the result for men would be any different.

Finally, as was done in some of the earlier chapters, these authors conduct a decomposition exercise. They find that, for both men and women, growth in the prevalence of high-cost chronic conditions combined with changes in the employment rate for those with work limitations who have such conditions, has depressed the employment rate for people with work limitations. The size of this effect, however, was small relative to changes in the employment rates for men and women that were observed during the same period (on the order of 10 percent).

Given the intuitive appeal of the hypothesis the authors have examined, it is perhaps surprising that they, and others, have not found evidence that growth in health care costs, and changes in financing, have contributed more substantially to the decline in the employment rate. Although it could be that data and methodological issues conspire to obscure the effect, another possible reason emerges from their analysis. Although people with work limitations, on average, have higher health care costs than others, those health care costs are concentrated among a very small share of people with work limitations; less than 7 percent of those with work limitations had high-cost chronic conditions in 1993–1996, based on Hill and coauthors' estimates. We suspect that growth in health care costs depressed the employment rate for those with high-cost chronic conditions, but this effect cannot explain much of the

decline in the employment rate for people with work limitations because such a small share of people with work limitations have high-cost chronic conditions.

### **Severity of Health Conditions and Impairments**

Kaye (Chapter 6) argues that changes in the type and severity of underlying health conditions can explain the decline in the proportion of people with disabilities who say they are able to work at all and, thus, the decline in the overall employment rate of working-aged people with disabilities found in the other chapters. All the previous chapters primarily used CPS or NHIS data to examine the employment rate of those who report a work limitation. In contrast, Kaye focuses on a somewhat broader population, those with “any major activity limitation” (including a work limitation). This is not, however, a critical difference; as shown by Burkhauser and coauthors (Chapter 2), the long-term employment rate trends for those with any activity limitation are quite similar to trends for those with work limitations only.

Kaye argues that:

- Responses to condition and impairment questions in the NHIS are not subject to social environmental factors, and, based on these data, the prevalence of conditions that are most commonly indicated as the cause of an activity limitation grew for the working-aged population from 1988 to 1996.
- For the conditions reported, the proportion of individuals with each condition who report an activity limitation, or say they cannot work, remained constant.
- If increases in the overall prevalence of disability or inability to work at all were because of environmental factors, such as disability benefits or the ADA, these proportions would have increased. Because they did not, neither of these two responses is influenced by the social environment. Instead, growth in the inability to work at all rate for those with activity limitations is caused by an increase in the prevalence of conditions that have low rates.

Although we agree that responses to questions about conditions and impairments are less likely to be affected by social environmental

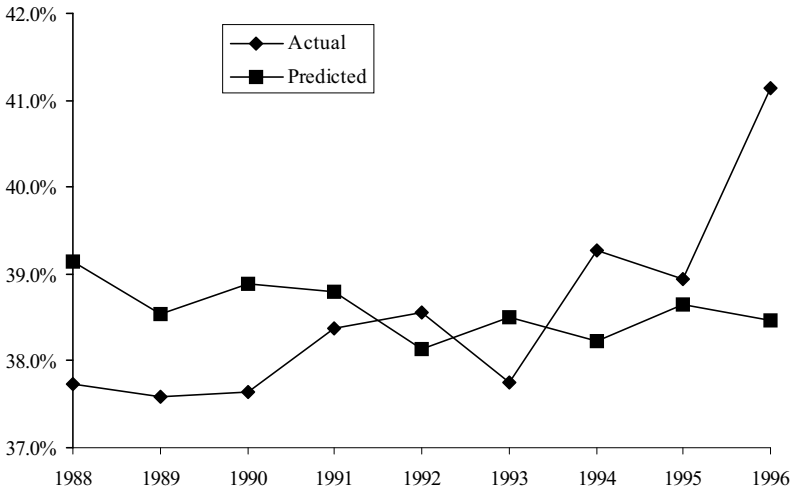
factors and that the prevalence of such conditions increased during part of the 1990s, we do not find the rest of Kaye's argument convincing. Part of the problem is that he focuses on activity limitation and inability to work rates for the working-aged population as a whole, rather than the proportion of those with activity limitations who are unable to work at all. This would be fine if activity limitation prevalence and inability-to-work rates were growing in lock step with each other, but they are not. That fact is not evident from the data unless we directly examine the proportion of those with activity limitations who are unable to work at all.

For the conditions in the NHIS checklist, Kaye provides estimates of overall prevalence, prevalence of activity limitations owing to the conditions, and prevalence of inability to work at all owing to the condition. Data on actual and predicted prevalence of activity limitations and prevalence of inability to work at all owing to these conditions (Chapter 6, Figure 6.15) seem to confirm the second and third points in the list. If, however, one considers the proportion of those with activity limitations owing to one of these conditions who report an inability to work at all, there is evidence of an increase (Figure 11.1), from 37.7 percent in 1988 to 41.1 percent in 1996—a 9.8 percent increase.<sup>1</sup> Further, as illustrated in the figure, Kaye's models for the prevalence of activity limitations and prevalence of inability to work at all do not predict this increase.<sup>2</sup> The increase in the proportion of those unable to work at all among those with activity limitations owing to a checklist condition is very comparable to the increase in the corresponding proportion for all conditions, as reported by Kaye; the proportion for all conditions increased from 39.9 in 1988 to 44.5 in 1996, an 11.5 percent increase.

In sum, growth in the prevalence of activity limitations owing to checklist conditions primarily reflects overall growth in the prevalence of these conditions, but the growth in the proportion of those with activity limitations who say they are unable to work at all is greater than expected, owing to growth in prevalence of these conditions alone. Put differently, Kaye's data are consistent with the following conclusion: it appears that changes in the policy and economic environment have not affected the rate of self-reported activity limitations from checklist conditions, but have increased the proportion of those with activity limitations who say they are unable to work at all.



**Figure 11.1 Percentage of Persons with Affective Disorders Who Report an Activity Limitation or Inability to Work**



SOURCE: Calculations by the authors, using data provided by Kaye (Chapter 6). The actual series is the estimate of the proportion unable to work due to checklist conditions divided by the proportion reporting a major activity limitation due to the same conditions. The predicted series is the ratio of Kaye’s predictions for the same series.

The above applies to the checklist conditions only, and does not apply to one very important condition that is omitted from the checklists: affective disorders (depression and bipolar disorder). Kaye does, however, provide some information on trends in prevalence of the condition, activity limitations owing to the condition, and inability to work at all owing to the condition, based on whether the respondent visited any physician (including psychiatrists, but excluding non-physician providers) because of the disorder in the past two weeks. We agree with Kaye that the 62 percent increase from 1988 to 1996 in this measure of the condition’s prevalence is likely due, in substantial part, to the availability of new pharmacological treatments and a decline in stigma. What is more astonishing is the growth in reported activity limitations and in inability to work at all owing to these conditions, relative to growth in overall prevalence of the condition. Kaye’s evidence

indicates that the proportion of those with affective disorders who report an activity limitation roughly doubled, as did the proportion reporting inability to work at all. The evidence should be treated with caution because those with affective disorders that are most likely to limit their activities are perhaps also most likely to obtain new treatments. We would expect, however, that new treatments would reduce the real proportion of those with affective disorders who report an activity limitation, as well as the proportion reporting inability to work at all. This makes the growth in activity limitations and inability to work at all owing to these conditions even more troubling.

Kaye provides evidence on two possible causes of the increase in the prevalence of disabling conditions: growth in the prevalence of obesity and the recession of 1990–1991. It does seem likely that increased obesity has contributed to both activity limitations and the inability to work at all, although we think further work needs to be done to assess the size of its contribution.<sup>3</sup> We are not surprised that timing of growth in inability to work at all appears to be linked to the recession, but we think the mechanism for the link is probably quite different than the one that Kaye posits. When people lose their jobs in a downturn, they look for alternative sources of income. The SSDI program is a potential income source for people with disabilities, but to qualify, the applicant must claim to be unable to work for at least a year at any job. Although we are willing to accept the argument that job loss does damage the health of some individuals, as some research shows, it is much harder for us to believe that a recession could cause the large and sustained impact on health that Kaye reports.

Kaye's analysis ends in 1996, owing to changes in the NHIS. As Burkhauser and coauthors (Chapter 2) find, the decline in the employment rate for men and women with work limitations continued through 2000. Houtenville and Daly (Chapter 3) conduct an analysis for 1995–2000 that casts further doubt on the hypothesis that increases in the severity of impairments among those with work limitations is the principal cause of the decline in the employment rate. The CPS started to include a health status question in 1995. Houtenville and Daly find that, from 1995 through 2000, there is no trend in the distribution of the health status variable for those with work limitations, and the employment rate decline is as large, if not larger, for those who report relatively good health than for those who report relatively poor health.

Although health status and impairment severity are clearly not synonymous concepts, there is a strong statistical relationship between impairment measures and health status measures in the NHIS and other data sets where measures for both concepts are available. Hence, the findings of Houtenville and Daly would be surprising if the real cause of the employment rate decline among those with work limitations during the last half of the 1990s was an increase in the severity of their impairments.

Hence, we conclude that the main cause of the employment rate decline of working-aged people with disabilities lies elsewhere. Likewise, we conclude that the positive trend in the employment rate of the subset of working-aged people with disabilities who say they are able to work at all is a misleading indicator of the employment outcomes of working-aged people with disabilities because the declining share of this subset of the population is not driven by a purely exogenous decline in their health, but by changes in the social environment that all workers with disabilities face. Below we consider the two most important changes in that social environment in the 1990s.

### **The Americans with Disabilities Act**

Is it possible that the ADA, intended to increase employment opportunities for people with disabilities and reduce their economic dependence, could have had the opposite effect? DeLeire (Chapter 7) would say yes, primarily based on evidence from his own work (DeLeire 2000a, 2000b, and 2001) and that of Acemoglu and Angrist (2001). Kruse and Schur (Chapter 8), however, say no, and Blanck and coauthors (Chapter 9) think it is premature to draw a conclusion.

It appears that the participants in this debate would all agree that the direction of the theoretical impact of the ADA on employment is ambiguous. On the one hand, the cost to employers of potential litigation from discrimination against people with disabilities ought to discourage unjust terminations. However, this same cost can be avoided through increased discrimination in hiring. As the authors point out, most ADA litigation is over termination; discrimination in hiring is much more difficult to detect, let alone prove, and perhaps much less likely to be reported. Therefore, it is possible that the ADA has tipped

the balance against hiring people with disabilities and thus offset any gains from reduced terminations.

The ADA's requirement that employers provide reasonable accommodations increases the cost of employing a worker who needs an accommodation, whether an existing worker or a job applicant, again potentially discouraging employment. Although studies of accommodations have shown that many are inexpensive, as DeLeire (Chapter 7) points out, these studies do not consider the hard-to-measure costs of accommodations, such as flexible schedules, or the cost of accommodations that employers have been unwilling to make.

On the other hand, the implementation of the ADA was accompanied by a substantial effort to educate employers on accommodating workers with disabilities, and it provides some subsidies for that purpose. In general, the ADA advanced the expectation that employers take an objective look at what an individual with a disability can do rather than automatically discount the individual's ability.

As both DeLeire (Chapter 7) and Kruse and Schur (Chapter 8) point out, the consensus among economists is that the Civil Rights Act (CRA) of 1964 increased employment opportunities for African-Americans, and none dispute this conclusion—although, again, the direction of the expected effect was ambiguous. Two features of the ADA make it different from the CRA, however: mandated employer accommodations and the difficulty of determining who qualifies for ADA protection. The latter creates the possibility of lawsuits from many whom the law does not intend to protect.

Ultimately, the question of the ADA's impact on employment of people with disabilities is an empirical issue, and a very difficult one at that. DeLeire and others contend that the decline in the employment rate for people with disabilities, which began at about the time the ADA was passed and implemented, is evidence of a negative impact, just as growth in the employment rate of African-Americans in the latter half of the 1960s was evidence of the positive impact of the CRA. It is very difficult to draw this conclusion because of two other events: the recession that coincided with ADA passage and implementation, and expansions in the SSDI and SSI programs that began as early as 1984. Goodman and Waidmann (Chapter 10) argue that it is the combination of these latter events, rather than the ADA, that caused the

employment rate to decline. Disentangling these competing effects is highly problematic.

Kruse and Schur argue that the evidence that the ADA caused the decline is flawed because the ADA was not intended to target the broad population with work limitations captured by the employment rate measures used by DeLeire and Acemoglu and Angrist (2001). They argue that the relevant group is the subgroup with health conditions or functional limitations that is able to work at all, an argument that is echoed by Blanck and coauthors (Chapter 9), and they find that the employment rate for those able to work at all increased.

DeLeire rejects this line of reasoning because he views disability as the outcome of an interaction between a medical condition and a person's environment. Some of those who consider themselves work-limited or unable to work at all in the absence of an accommodation might not think so when an accommodation becomes available. In fact, Kruse and Schur make this same point. More generally, DeLeire agrees with a point we have made previously: policy changes can, and do, have an impact on the proportion of people with disabilities who report they are unable to work at all. We would also add that the ambiguity of the ADA's disability definition, and its interpretation in the courts, leaves open the question of whether all ADA impacts are limited to its target population. In fact, Kruse and Schur allow for the possibility of this problem, but argue that it can ultimately be dismissed, and do so in their preferred results.

At the same time that we disagree with Kruse and Schur about their use of a narrow subgroup of people with disabilities to assess the impact of the ADA, we agree with their observation that measured compositional changes in those who report work limitations did occur, and that those compositional changes might help discriminate between the hypothesis that the ADA caused the overall decline in the employment rate of working-aged people with disabilities and the hypothesis that it was owing to expansions in the SSDI and SSI programs. We will return to this issue at the end of our discussion of the role played by those programs.

Blanck and coauthors also make a point about the ADA that is worth repeating. The ADA might have had a significant impact on the culture of disability, which could have long-term positive effects on employment. It has probably increased the visibility of people with dis-

abilities who do work. It might have encouraged many people with disabilities to attempt work and to invest in their ability to work. Similarly, it might have encouraged educators, providers, and advocates to see work and independence as a desirable and achievable goal, and it might have encouraged employers and workers without disabilities to look more objectively at the capabilities of workers with disabilities.

### **SSDI and SSI Expansions**

All of the evidence we have seen is consistent with the hypothesis that SSDI and SSI expansions interacted with the recession to cause a long-term reduction in the employment rate of people with disabilities. Goodman and Waidmann (Chapter 10) provide a comprehensive presentation of the evidence, primarily based on articles by Bound and Waidmann (2002) and Autor and Duggan (2003). In short:

- Increases in the SSDI rolls closely tracked the employment rate of those with disabilities who are insured for SSDI.
- Eligibility was primarily expanded by lowering the medical listings for the two impairment groups—musculoskeletal and psychiatric—that also account for a very large share of the increase in reported inability to work at all.
- Because of variation in wage growth and the way benefits are indexed to average wage growth, SSDI replacement rates increased for low-wage workers, and growth in the number of such workers on the SSDI rolls was much greater than for others.
- SSDI applications have become more sensitive to the business cycle, which is what we would expect from an expansion in eligibility. This is because eligibility expansion creates more “conditional applicants,” that is, workers who might qualify if not working, and who seek benefits when they lose their job during a downturn. Benefit expansions for those with low wages also encourage them to apply (Autor and Dugan 2003).

Skeptics, however, offer two arguments. First, they argue that the timing is off—eligibility expansions occurred too early relative to the employment rate decline and growth in program participation. Second,

they argue that the employment rate for workers with disabilities declined for some other reason, and SSDI and SSI participation increased as a response, as those who could not work or find jobs sought income support.

The timing argument reflects a lack of understanding about the nature of the expansions and how their impact on employment and program participation is related to the business cycle. As described more fully by Goodman and Waidmann (Chapter 10), although the eligibility expansion began in 1984, it continued for many years as regulations were developed and important cases worked their way through the courts. This is a well-documented fact, and is well known by program administrators. Further, strong economic growth during the late 1980s meant that many new conditional applicants had no need to apply for benefits until the recession of 1990–1991. Perhaps the strongest indicator of the eligibility expansion is that the allowance rate remained unchanged, or even increased, as the number of applicants grew rapidly. If an external force drove the rapid growth in applications, we would expect a decline in the allowance rate, as individuals with less serious impairments sought benefits. We find this evidence convincing.

It is more difficult to rule out the possibility that some external force caused both the decline in the employment rate and the increase in SSDI and SSI program participation. The two candidates for such an external force that are promoted by authors in this book are growth in the severity of impairments (Kaye, Chapter 6) and the ADA (DeLeire, Chapter 7). For reasons discussed above, we conclude that the evidence rules out increase in the severity of impairments as the cause. It is more difficult to discount the evidence for the ADA. Kruse and Schur (Chapter 8) and Blanck and coauthors (Chapter 9) argue that we should look only at the subgroup of the population targeted by the ADA. We are convinced, however, that the sensitivity to the social environment of self-reported inability to work at all, and the more overriding public policy perspective of considering the employment and economic well-being of all working-aged people with disabilities, requires us to focus on the broader population.

Hence, we are left with the question: Is the wide variety of evidence that appears in this volume more consistent with the ADA hypothesis or the SSDI and SSI hypothesis? Unfortunately, much of it

is consistent with both. We agree with Goodman and Waidmann (Chapter 10) that some facts appear to favor the SSDI and SSI hypothesis. The three we find of greatest significance are:

- 1) The increase in the SSDI and SSI allowance rates. Eligibility expansions are expected to increase allowance rates, at least initially. If an external force such as the ADA induces SSDI and SSI applications, we would expect the average induced applicant to have a lower chance of allowance than the average applicant who would have applied anyway.
- 2) The decline in the employment rate is greatest for those with musculoskeletal or psychiatric impairments. These are the disorders for which SSDI and SSI eligibility standards are most relevant. We see no reason why the ADA would have its greatest impact on the employment of those with these disorders.
- 3) Employment rate reductions were highest among those with low earnings (Autor and Duggan 2003). This is the group that experienced a substantial expansion of their SSDI replacement rate. There is no apparent reason why the ADA would adversely affect this group more than others.

However, DeLeire points out three facts that appear to favor the ADA explanation:

- 1) Employment declines for workers with disabilities were greater in medium-sized firms than in small or large firms (Acemoglu and Angrist 2001). Small firms are exempt from ADA accommodation requirements, and there is good reason to believe that medium-sized firms would find ADA compliance more difficult than large ones. There is no apparent reason to think that SSDI and SSI expansions would reduce employment of people with disabilities at medium-sized firms relative to others.
- 2) Acemoglu and Angrist (2001) conclude that state employment rate declines for people with disabilities post-ADA are positively related to the number of Equal Employment Opportunity Commission (EEOC) charges in the state.



- 3) Acemoglu and Angrist (2001) find employment rate declines associated with the ADA's implementation even after omitting SSDI beneficiaries from their samples.

To date, proponents of one or the other of these public policies as the more important in explaining the decline in employment of working-aged people with disabilities in the 1990s have failed to reconcile the conflicts in the above evidence. Difficult questions that need to be addressed include:

- Are there reasons why the ADA would increase SSDI and SSI allowance rates?
- Are there reasons why the ADA would reduce the employment of people with musculoskeletal or psychiatric impairments more than those with other conditions?
- Are there reasons why the ADA would reduce the employment of those with low skills more than others?
- Are there reasons why SSDI and SSI eligibility expansions would reduce the employment of workers with disabilities in medium-sized firms more than in large or small ones?
- Does the cross-state association between EEOC charges and the employment rate decline remain after controlling for the cross-state variability in the effects of SSDI and SSI eligibility expansions in combination with the 1990 recession?
- How can we reconcile the Acemoglu and Angrist (2001) finding that the employment rate decline associated with the ADA remains even after omitting SSDI beneficiaries from the sample with the finding that the proportion of men who are unable to work at all owing to a health condition tracks very tightly with the number of male SSDI beneficiaries (Bound and Waidmann 2002)?

We do not have satisfactory answers to any of these questions, and it is not obvious that they will ever be answered to anybody's complete satisfaction.<sup>4</sup> Although our judgment to date is that the weight of the evidence favors the SSDI-SSI expansion explanation over the ADA explanation, our comfort level with that conclusion is not as high as we would like it to be.

We are convinced, however, that there has been a real, and substantial, decline in the employment rate of people with disabilities, and that it was caused by a change in public policy. If there were some other cause, why would the effect be observed across all demographic, education, and health groups? One possible answer to this question is growth in the severity of disabling physical and mental conditions, but, as discussed earlier, the evidence does not support this explanation. It seems very unlikely that several different factors coincidentally caused a substantial decline in the employment rate for people with disabilities that spanned all groups.

It is unlikely that there is some other major cause of the employment rate decline that we have somehow overlooked, although one has been suggested by Kruse and Schur: the tightening of workers' compensation eligibility and payment rules in response to the rapid growth in workers' compensation costs during the previous two decades. This is an intriguing suggestion, and one that is worth looking into further. It is possible that tightening of state workers' compensation programs induced more injured workers to leave their jobs and obtain SSDI benefits for lack of temporary or permanent-partial support. Tightening could also lead to the opposite effect, however, with injured workers returning to work earlier to support themselves and their families. We would be surprised if tightening of workers' compensation programs is *the* explanation for the employment rate decline, but perhaps it made a contribution. If so, however, we are still left with the conclusion that changes in public policy caused the decline. This explanation would also reinforce perhaps the most important finding from decades of research on the SSDI and SSI programs: the structure of income supports for people with disabilities has a substantial impact on their employment.

## **POLICY IMPLICATIONS**

As discussed above, the evidence indicates that the widespread employment rate decline for people with disabilities is a consequence of public policies that were implemented in the late 1980s and early 1990s. The most important implication of this finding is that we are

very unlikely to see substantial improvement in employment outcomes for people with disabilities in the near future unless we change public policy in very significant ways.

We are convinced that expansions of the SSDI and SSI programs played a significant role in the employment rate decline. Those expansions include both eligibility expansions and expansion in the value of benefits relative to wages for low-wage workers. Although we are not convinced that the ADA had a significantly negative effect on employment of working-aged people with disabilities, we also find no unambiguous evidence that it had a significant positive effect. At best, it may have increased the employment of the decreasing share of that population who report being able to work at all. This does not mean that we should roll back the clock to the policies that were in place before these changes. These changes were intended to address real, and serious, problems. Many people with severe disabilities were being denied SSDI and SSI benefits, in part because eligibility standards were increased from 1979 to 1981, before being lowered again in 1984. Similarly, the ADA was passed to address real discrimination in the workplace and elsewhere against people with disabilities. Many states did not have laws against such discrimination, and others found such laws difficult to enforce.

What the findings in this book lead us to recognize is that attempts to improve insurance protection against work loss owing to disability or to reduce discrimination in employment can have the unintended consequence of reducing employment. Hence, if we are to improve employment outcomes, we must make changes in the way we provide support for people with disabilities, and the way we protect their rights, that will minimize the negative employment effects, or, better, encourage employment, while maintaining a reasonable level of income protection and protection against discrimination.

### **Civil Rights**

As discussed by DeLeire (Chapter 7), evidence of the positive impact of the 1964 Civil Rights Act on employment of African-Americans makes it clear that Civil Rights legislation can have a positive impact on employment. We think that the ability of Civil Rights legislation to induce employers to increase their hiring and retention of a

protected class of workers critically depends on their assessment of the costs and benefits of compliance. Regardless of what the impact of the ADA has been on the employment of people with disabilities to date, policy changes that increase the benefits of compliance or reduce the costs for employers will improve the employment outcomes for people with disabilities.

Before considering how public policy changes could encourage compliance and improve employment outcomes, it is helpful to review how the employer's calculus of costs and benefits differs for existing employees and job applicants. With respect to existing employees, the main benefit of compliance is avoiding the cost of litigation and penalties from lawsuits over termination and other issues ("retention benefit"), and the main compliance cost is accommodation. With respect to potential employees (i.e., job applicants), the main benefit of compliance for employers is avoiding the cost of litigation and penalties from lawsuits over hiring issues. There are two components of an employer's compliance costs with respect to potential employees: accommodation costs, and the expected costs of lawsuits over future termination and other issues ("termination cost").

A critical feature of this calculus is that the litigation costs create a benefit for employers who comply in the case of existing employees (the retention benefit), but create a cost to employers who comply in the case of job applicants (the termination cost). Thus, if policy changes increase the employer's costs via lawsuits over termination, they will encourage employers to retain their current workers but discourage them from hiring new ones. Some of the evidence that the ADA reduced employment suggests that the reason is reduced hiring, not increased terminations (Acemoglu and Angrist 2001). The conflicting incentives created by the substantial numbers of lawsuits from existing employees, and the relative rarity of lawsuits from job applicants, could explain why.

Within this framework, the following three approaches to both improving ADA compliance and employment outcomes have considerable appeal:

- 1) Reduce the cost of employer accommodations through subsidies or technical support (e.g., providing better information about efficient accommodations),

- 2) Increase efforts to enforce compliance in hiring, and
- 3) Clarify who is protected, under which circumstances they are protected, and what constitutes reasonable accommodation.

We consider each of these approaches below.

Reducing the cost of employer accommodations through subsidies or technical support would reduce the employer's cost of ADA compliance for both existing employees and job applicants. As others have pointed out, accommodation provisions of the ADA are a feature that distinguishes it from the Civil Rights Act, and the compliance costs that these provisions impose on employers is an important reason why the two acts might have had opposite effects on the employment of their protected classes. The ADA uses a stick to encourage employers to hire people with disabilities. Although we consider how to increase the size of this stick (see below), we also consider some carrots to better achieve the goal of fully integrating working-aged people with disabilities into employment.

Increasing efforts to enforce compliance in hiring would increase the hiring of applicants with disabilities by increasing the benefit to an employer of compliance. Lawsuits concerning discrimination in hiring are relatively rare, for a variety of possible reasons. The first is that it can be very difficult for job applicants to detect discrimination, as they do not know how their abilities compare with those of competing applicants, and employers can usually offer plausible, seemingly legitimate explanations for not hiring any given individual. The second is that it is harder to establish that an applicant is capable of performing the required work than to establish that an existing employee can, because the latter is less likely to have performed it previously. The third is that the typical applicant who has been the victim of discrimination probably has less incentive to pursue a lawsuit than the typical victim who is an existing employee, for a variety of reasons (less chance of success, a desire to focus their energy on searching for other jobs, fear of creating a negative reputation for themselves, lack of support from fellow employees or employee organizations, and perhaps others). Clarifying who is protected, under what circumstances they are protected, and what constitutes reasonable accommodation would reduce the costs to employers of lawsuits from existing employees in a way that might significantly reduce their compliance cost for job appli-

cants, without greatly reducing their compliance benefit for existing employees. The reason is that the costs associated with nonmeritorious lawsuits are likely to have a minimal effect on ADA compliance for existing employees. They do impose costs, and employers likely take actions to avoid those costs (e.g., retain an employee whom they have legitimate reasons to terminate), but those actions do not necessarily improve compliance, and could potentially harm it.

The main effect of nonmeritorious lawsuits might be to discourage the employer from hiring people who might bring such future lawsuits. Another potentially important effect is to undermine both employer and political support for the ADA in general. Of course, efforts to clarify these issues are already under way, through the judicial process, and it is possible that recent court decisions will have a significant impact on ADA compliance and employment outcomes for people with disabilities. There are significant problems with the court process, however. It is slow, expensive, and often haphazard. Legislative or regulatory changes might be less expensive, speed up the process, and lead to more desirable results. We believe, however, that successful efforts to clarify whom the ADA protects, under what circumstances, and what constitutes reasonable accommodation will significantly reduce ADA compliance costs and increase the employment of people with disabilities who are determined to be protected under the law—especially through new hires.

In this regard, it is important to note that the empirical evidence about the impact of the ADA on the employment of people with disabilities has focused on the period immediately before and immediately after its creation (DeLeire 2001) or implementation (Acemoglu and Angrist 2001). After more than a decade of judicial experience with the act, most scholars would argue that, although we now have a much clearer idea of who is protected by the act, the protected class has been much more narrowly defined than might have been expected at the time of its passage. (See Krieger 2000 for a fuller discussion of this point and the major court decisions that have shaped the current protected class under the ADA.) This suggests that the net effect of the ADA on the overall employment of working-aged people with disabilities, whether positive or negative, is likely to be much less than its impact as measured immediately after its passage, when the protected class was considered by employers and employees alike to be larger.

This judicial history has important implications for those who, in 1990, hoped that the ADA would have a dramatic effect on the overall employment of working-aged people with disabilities, and it returns us to a major point of disagreement with respect to the success parameters advocated by various authors in this book.

As ADA's protected class has been more clearly, but more narrowly, defined by the courts, it is possible that the employment rate of this narrowly defined class has increased over time, while at the same time the ADA has had a smaller impact on the overall employment rate of working-aged people with disabilities. The logic is the same as that of the success of the similarly shrinking population with disabilities that is able to work at all. This plausible scenario further adds to our concerns about the view that measures of the ADA success on employment should be confined to the population with disabilities that is covered by the law, most forcefully espoused by Blanck and coauthors (Chapter 9). More important, it suggests that the ADA as currently interpreted by the courts is unlikely to be the major vehicle for integrating working-aged people with disabilities into the labor market.

### **Pro-Work Support Policies**

Historically, the federal government's approach to providing economic security for people with disabilities has been dominated by a caretaker approach, reflecting the outdated view that disability is solely a medical issue. A main premise of this model is that people with severe medical conditions are unable to work, and therefore cannot contribute to their own economic security. The government, at the insistence of advocates and others, has launched a multifaceted effort to change that, epitomized by the passage of the ADA, but also reflected in other legislation, such as the 1998 Individuals with Disabilities Education Act (IDEA), the 1999 Ticket to Work and Work Incentives Improvement Act (TW&WIIA), and in administration initiatives, such as the Clinton administration's Presidential Task Force on the Employment of Adults with Disabilities, and the Bush administration's New Freedom Initiative (NFI).

A glance at federal budgets, however, shows that we have a long way to go. Expenditures to support work as means to achieve economic security are paltry when compared with expenditures for income sup-

port and medical assistance. In fiscal year 2000, the federal and state governments combined spent \$81 billion for income support (SSDI and SSI) and more than \$84 billion for medical care (Medicare and Medicaid) for working-aged adults with disabilities—more than \$165 billion in total.<sup>5</sup> In contrast, the federal appropriation for the Rehabilitation Services Administration in fiscal year 2000 was under \$3 billion, and the appropriation for all Special Education programs was \$6 billion.<sup>6</sup>

Much of the emphasis in the new pro-work policy initiatives is on increasing the investment in the “human capital” of people with disabilities (i.e., the skills they have), or in breaking down physical and institutional barriers to the use of their existing human capital. Increased investment in the human capital of children with disabilities, through increased educational opportunities, is a main thrust of IDEA, and most of the efforts encompassed by NFI could be reasonably characterized as either promoting human capital, or addressing physical barriers to use of existing human capital (e.g., through transportation initiatives and increased access to technology). The ADA also attempts to break down physical barriers to use of existing human capital, by addressing the problems of labor market discrimination and employer accommodation.

Increasing the investment in the human capital of people with disabilities and reducing physical barriers seem like sensible approaches to increasing the employment of people with disabilities and reducing their dependence on government benefits.<sup>7</sup> If the new policies succeed in increasing human capital and reducing the physical barriers to its use, they will likely result in some increase in the employment and economic independence of this population.

An important lesson from the evidence in this book, however, is that pro-work support policies will be much more successful if they go beyond investments in human capital. The decline in the employment rate of people with disabilities was not caused by less investment in their human capital or through the creation or reinforcement of physical barriers to its use; indeed, the opposite has occurred. Instead, the decline occurred because of changes in the social environment—reductions in individuals’ incentives to work and reductions in employer incentives to hire them. We addressed the issue of employer incentives



in the previous section. We now turn to incentives for people with disabilities.

Current income support policies, as well as many in-kind support policies, continue to be strongly conditioned on earnings; the more you earn, the less likely you are to be eligible for benefits, or the lower your benefit payments. The message these programs send to people with disabilities who can work is that “we will help you as long as you don’t help yourself.” That message must be changed to one of “we will help you, but we also expect you to help yourself as best you can, and we will reward you for doing so.” If we are serious about changing the approach to economic security for people with disabilities to one that emphasizes using their abilities through employment, we need major changes in support policies. Support policies must create incentives rather than disincentives to work, and they must provide the supports needed to achieve greater independence. Instead, current support policies force people with disabilities to choose between a reliable monthly benefit check and other services, on the one hand, and supporting themselves through work that might generate more income, but that carries with it many challenges and risks, on the other.

TW&WIIA has several features intended to mitigate the work disincentives embodied in the SSI and SSDI programs and their links to Medicaid and Medicare. The Ticket to Work itself is intended to provide beneficiaries with more resources, and more control over resources, needed to return to work and become financially independent. It is also intended to give providers a stronger incentive to help beneficiaries do so. Expansion of the Medicaid buy-in program for people with disabilities and an extended period of eligibility for Medicare under the SSDI program are intended to weaken the link between access to these programs and earnings. The easy-return provision is intended to make it less risky for beneficiaries to give up their benefits in favor of employment. The legislation also includes provisions for SSA to experiment with other changes that would reduce disincentives to work, most notably the \$1 for \$2 SSDI benefit offset, under which beneficiaries would lose one dollar of SSDI benefits for each \$2 earned above some threshold, rather than retain all benefits for as long as earnings are below the substantial gainful activity (SGA) level, then lose them all when their earnings exceed SGA by even a dollar.

Although TW&WIIA seems like a step in the right direction, it will only reduce, not eliminate the work disincentives associated with support programs. The \$1 for \$2 SSDI benefit offset makes this obvious. Even if it were implemented nationwide, rather than as a demonstration, beneficiaries would still face an implicit 50 percent tax on their earnings, as do current SSI recipients and as did Social Security retirement beneficiaries under age 70 until that long-standing feature of the retirement program was finally repealed in 2000.<sup>8</sup>

Although TW&WIIA seems like a major effort to address the incentive issue, it also seems small in comparison with the sweeping changes to welfare policy that were made in the 1990s, with a similar purpose: to encourage parents, especially single mothers, to support themselves and their families through work rather than welfare benefits. Although we think it is important not to take this analogy too far in its application to disability policy, it is also important to draw on the lessons of welfare reform to the extent that we can. Welfare reform has not been a universal success, but it has been much more successful than its early critics thought possible. There has been a clear increase in the employment, earnings, and economic independence of single-parent families, and the increase seems to be surviving the current economic slowdown. Most observers of welfare reform appear to agree that three features of the reforms have been critical.<sup>9</sup> One is early intervention—providing parents with emergency assistance when they have employment or other crises so that they can maintain an existing job, or find a new one, rather than become dependent on benefits. A second is the substantial expansion of the Earned Income Tax Credit (EITC). For those parents with low earnings, the EITC makes an additional dollar of earnings add substantially more than a dollar to income. A third is a change in expectations. Most parents are now expected to support themselves through work, and the government is expected to facilitate that effort.

The apparent successes of welfare reform are all the more remarkable when contrasted with the lack of success from earlier reforms. Earlier reforms emphasized investment in human capital, through education and a series of employment and training programs. However, whatever improvements in human capital were achieved were not converted into greater earnings and economic independence. The success of the more recent reforms suggests that the likely reason for the failure

of earlier reforms is that welfare recipients did not have strong enough incentives to invest in, and use, their own human capital.

Perhaps we need a similar three-pronged change for people with disabilities: more assistance to help them stay in their current job, or find a new job when they lose it;<sup>10</sup> an earned income tax credit for those who work but have very low earnings;<sup>11</sup> and for at least a substantial share, an expectation that they will work and that government's role is to help them support themselves through work—an expectation that seems in line with the intent of the ADA.

Such a policy would complement efforts to increase the human capital of people with disabilities and break down physical barriers to its use. It not only would help ensure that increased human capital and reductions in barriers to its use would actually increase employment and reduce economic dependence, but would also create incentives for people with disabilities to invest more in themselves.

There are significant challenges to developing such policies, however. One is the “woodwork effect”: workers who meet medical eligibility criteria for support, but do not rely on support, will have more incentive to seek support if they can obtain it without reducing their earnings. Although one might argue that these individuals are worthy of at least some support, the effect would be to increase program costs, perhaps substantially. A second challenge is determining who should be expected to work and who should not. Even if conceptual agreement can be reached, the practical problem of making actual determinations is enormous. A third challenge is determining how to provide support for work, and how much support to provide. The target population is a very heterogeneous one, as is their need for support. One size will not fit all. We are a long way from devising public policies that will simultaneously provide a reasonable safety net for people with disabilities, encourage employment, and provide sufficient job support to assure that those who are able to work are integrated into the workforce. We are convinced that such policies should be our goal, but policy change must go well beyond current initiatives if substantial progress is to be achieved. The first step in achieving these policy changes is recognizing that there is a problem with current policies. The bottom line of this book is that the unprecedented fall in the employment rate of working-aged people with disabilities in the 1990s was a direct effect of the unintended consequences of public policies. To better integrate work-

ing-aged people with disabilities into the workforce, increase their employment, and reduce their dependence on SSDI and SSI will require changes in these policies that make providing jobs less costly for employers and the relative gains from work over disability income supports greater for those with disabilities.

## Notes

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1. Kaye provides data on both the prevalence of disability and the prevalence of inability to work at all owing to just one of the individual conditions on the checklist: back problems (Figure 6.11). For that condition, inability to work increases from 10.3 percent of the former in 1988 to 11.4 percent in 2000, a 10.6 percent increase. This increase is not evident in the figure, which plots the two series separately, rather than plotting the ratio. It is apparent from the full series for the ratio that this change represents a trend, rather than just sampling error.
2. The relative change is missed when looking at Figure 6.15 because of the scale: Kaye shows two rates that are both very small and appear to move in parallel, but in fact they do not. Further, Figure 6.15 suggests that the two predicted series fit the actual series very well. They do when considered independently, but there is evidence of serial correlation in the prediction errors and an apparent negative relationship between the errors for the two models. In the early years, the errors for inability to work tend to be positive, while the errors for disability tend to be negative, and in the latter years the opposite is true.
3. The concern we have is that Kaye assumes a constant relationship between body mass index and work limitations. We think this relationship might have shifted because sources of growth in obesity are likely different from sources of cross-section variation in obesity. For instance, if reduced smoking has contributed to growth in obesity, the prevalence of inability to work among those with a BMI in the obese range might have declined.
4. One possible answer to the last question is that the application process takes months, and even years. During this period, there was a large surge in applicants, as reported by Goodman and Waidmann (Chapter 10). Therefore, even after excluding beneficiaries, the Acemoglu and Angrist (2001) sample likely includes

- a large number of people who reported work limitations and were in the SSDI application process.
5. *Social Security Bulletin: 2001 Annual Statistical Supplement*, Washington, DC: Social Security Administration. In fiscal year 2000, the SSA spent \$55 billion for SSDI and \$26 billion for SSI. In fiscal year 1998, the Medicare program paid providers \$24 billion for services provided to SSDI beneficiaries, and the federal-state Medicaid program paid \$60 billion for services provided to working-aged SSI recipients.
  6. U.S. Department of Education, Budget History Table. Available at: <<http://www.ed.gov/offices/OUS/BudgetHistory/index.html>>.
  7. Intriguingly, evidence from a survey of private and government employers shows that lack of training and lack of related experience are the main barriers to employment and advancement of people with disabilities, not accommodation costs (Bruyère 2000).
  8. See Song (2002) for evidence on the positive impact of this change on the earnings of persons aged 65–69.
  9. See, for instance, Moffitt (2002) and Hotz and Scholz (forthcoming).
  10. TW&WIIA includes provisions for SSA to develop and test early intervention strategies.
  11. See Burkhauser and Wittenburg (1996) for a detailed discussion of the implicit taxes that disability income recipients face on their earnings, and how an earned income tax credit could offset those taxes.

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