How Do Laws and Nudges Affect Compliance with Disability Employment Quotas?

Chile’s Law 21.015, enforcing a 1% employment quota for people with disabilities (PwD) in larger firms, led to a 15.8% increase in PwD employment and 3.6% more eligible firms employing PwD.

Informational letters sent to eligible firms increased PwD employment by 0.13 worker. This cost-effective approach has a significant impact with minimal implementation costs.

The results are hindered by the fact that a large fraction of the increase is explained by the reclassification of incumbent workers, thus not representing true labor inclusion. This is particularly the case when firms are nudged to comply.

People with disabilities (PwD) encounter significant challenges in labor market inclusion, facing lower employment rates and wages due to education gaps and workplace barriers. Affirmative action policies, including hiring quotas, have been implemented globally, though their effectiveness varies. In Chile, despite several efforts, PwD still face a 19% participation gap and a 21% wage gap.

Chile enacted Law 21.015 in 2017, mandating companies with 100 or more employees to maintain a 1% employment quota for PwD by 2019. Workers need registry inclusion for benefits, incentivizing registration despite existing barriers. There are also alternative compliance methods, overseen by the Labor Department (Dirección del Trabajo, DT).

The research project employed a difference-in-differences (DiD) methodology to assess the impact of Chile’s labor inclusion quotas. Firms with 83-158 employees, around the 100 workers threshold, were analyzed pre- and post-implementation using a combination of threshold crossing and quotas phase-in for identification.

Additionally, the project conducted an experiment involving informational letters sent to quota-eligible firms, utilizing a DiD strategy to measure their impact on compliance and PwD employment. These letters contained information on relevant aspects of the labor inclusion law, and in May 2018 they were sent by the Labor Department (Dirección del Trabajo) to firms subject to quotas.
RESULTS

Threshold crossing after the quotas phase-in increased the number of PwD at the firm by 0.08, with this result being significant at the 1% level, representing a 15.8% increase. We also found that firms were now 3.6% more likely to have at least one PwD worker. In comparison, the average number of PwD working at firms above the threshold was 0.49 before the quotas phase-in, while 53% percent of firms had at least one PwD worker.

There are two channels explaining this higher labor inclusion, hiring of PwD workers and reclassification of incumbent workers (by means of their registration with Chile’s National Disability Registry [Registro Nacional de Discapacidad, RND] or payment of disability pensions). While both these channels saw significant growth—with an estimated additional 0.049 new hires and 0.034 reclassified workers—reclassifications increased by a much larger margin with respect to pre-phase-in levels, where on averagehirings were 0.45 and reclassifications were 0.039 for quota eligible firms.

We also found that the quotas phase-in did not have detrimental effects on the firm’s overall productivity, as measured in their likelihood of survival, number of workers, wage bill, average wages, and ability to hire workers on a permanent rather than temporary basis.

POLICY IMPLICATIONS

Increasing the number of workers with disabilities through reclassifying current workers as workers with disabilities, as many firms currently do, might not comport with the spirit of the law. It is possible that this mechanism will decrease over time, both because there should be a fixed number of possible workers to reclassify and because firms might decrease their bias against workers with disabilities if they have had a positive experience with them.

The results from the experiment reveal information as a cost-effective tool. Our study cannot disentangle if letters are effective because firms are not informed about the law or if it is because its content is treated as an audit threat. However, the significance of the impacts with the minimal cost of the intervention is a pathway towards designing efficient policies.

The Labor Department reports a small number of scheduled audits—only 100 and 200 in 2019 and 2020, respectively—underscoring the need for more credible audit threats to improve compliance.

Regarding the effects of the letters, our results were consistent with the evidence from the quotas impact, finding that treatment created an additional 0.13 PwD worker, with this effect driven by the informational treatment. The mechanism behind this result was the reclassification of incumbent workers, with treatment related to a 0.08 increase in the number of workers reclassified.
FIGURE 1. Impact of Quotas

Note: Firms below threshold have between 83 and 99 workers. Firms above threshold have between 100 and 158 workers. Periods before phase-in are years 2016 to 2018. Periods after phase-in are years 2019 to 2020. Y-axis is in number of workers at the firm level. Number of PwD is the average number of workers with a disability at the firm level. Hiring is the number of workers with a disability hired by the firm after they registered at RND or started receiving a disability pension. Reclassifications is the numbers of workers at the firm that registered at RND or started receiving a disability pension during the current job spell.

FULL STUDY

Department of Research and Chief Economist

The Department of Research and Chief Economist generates new ideas to enrich the knowledge base that supports the policy agenda of the Inter-American Development Bank (IDB) and its member countries for achieving sustainable and equitable development in the region. To maximize the impact of its research, the Research Department carries out activities that serve as inputs to other IDB departments, governments, the academic community and public opinion in the region.

Copyright © 2024 This work is subject to a Creative Commons license CC BY 3.0 IGO (https://creativecommons.org/licenses/by/3.0/igo/legalcode). The terms and conditions indicated in the URL link must be met and the respective recognition must be granted to the IDB.

Further to section 8 of the above license, any mediation relating to disputes arising under such license shall be conducted in accordance with the WIPO Mediation Rules. Any dispute related to the use of the works of the IDB that cannot be settled amicably shall be submitted to arbitration pursuant to the United Nations Commission on International Trade Law (UNCITRAL) rules. The use of the IDB’s name for any purpose other than for attribution, and the use of IDB’s logo shall be subject to a separate written license agreement between the IDB and the user and is not authorized as part of this license.

Note that the URL link includes terms and conditions that are an integral part of this license.

The opinions expressed in this work are those of the authors and do not necessarily reflect the views of the Inter-American Development Bank, its Board of Directors, or the countries they represent.