

Abstract

This paper investigates the effects of the Japanese disability employment policy, a quota system, on the adjustment costs of regular full-time workers. Using firm-level panel data, we estimate a dynamic labor demand function by using the system generalized method of moments. The results indicate that (1) the quota system decreases the speed of adjustments in employment for regular workers toward the equilibrium level, and that (2) own-wage elasticity for regular workers is lower for firms achieving the legal employment rate than for firms that not meeting the required disability employment rate.