Testimony of
Maurice Emsellem
National Employment Law Project

Hearing Before the
U.S. Congress
Joint Economic Committee

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Chairman and members of the Committee, thank you for this opportunity to testify today on the critical subject of economic insecurity in the United States and offer our perspective on proposals to create a new program of wage insurance and other options for federal reforms.

My name is Maurice Emsellem, and I am the Policy Director for the National Employment Law Project (NELP), a non-profit research and advocacy organization that specializes in economic security programs, including unemployment insurance, Trade Adjustment Assistance (TAA) and the workforce development system. Our organization has worked in the states and with Congress to protect the nation's economic security programs against serious attacks in recent years and successfully promote reforms that deliver on the nation's promise of economic opportunity.

We worked with members of Congress to advocate for the extension of unemployment benefits during the last recession and for major improvements in the federal program of benefits provided to the families left jobless by Hurricanes Katrina and Rita. We also have a special project working with state officials in the Midwest to help those workers laid-off from the auto industry to better access trade act benefits and other programs. Thus, we have a long-standing interest and commitment to policies that serve the interests of families hardest hit by economic downturns in the U.S. and the fallout from globalization.

Today, we hope to call attention to some key unanswered questions about wage insurance given the interest in possible federal legislation. Like the AFL-CIO and several unions that have expressed concerns with wage insurance,[1] we believe that there are important questions that remain unanswered given the limited experience with the program. We are especially concerned that wage insurance will also promote more downward mobility, not good jobs, by subsidizing mostly low-wage employment. If adopted in the U.S., wage insurance could also undermine funding and support for existing economic security programs, including unemployment insurance and Trade Readjustment Assistance.

As described below, there are other immediate federal priorities, including reform of the TAA program and an expansion of the unemployment insurance system, which could go a long way to promote economic opportunity and support the families hardest hit by long-term layoffs. In conclusion, we also highlight some of the most promising state innovations that could be incorporated into federal law to protect working families against major economic hardship and help rebuild their communities.

[1] Testimony of Bill Samuel, AFL-CIO Legislative Director, Hearing on Unemployment Compensation Aspects of U.S. Department of Labor Fiscal Year 2007 Budget: Hearing Before the House Ways & Means Committee, Subcommittee on Income Security and Family Support, 109 Cong. (2006).

A. Key Wage Insurance Questions

1. Does Wage Insurance Promote More Downward Mobility?

By definition, wage insurance compensates workers who take lesser paying jobs, which are the same jobs that are less likely to pay benefits, like health insurance, that are critical to working families in today's unstable economy. Most economists who support wage insurance also argue that it creates an incentive for workers to be re-employed faster and thus reduces the period they collect their unemployment benefits.

We are especially concerned that wage insurance promotes more downward economic mobility rather than new labor market policies that support quality jobs with benefits. In other words, wage insurance is not merely added income to help families get by during hard times. Nor is it like "universal insurance" promoted by Professor Jacob Hacker, which provides compensation to those who suffer major economic hardships. Instead, wage insurance is expressly contingent upon the worker accepting a lesser-paying job.

If the goal is to support reform of low-road jobs that increasingly dominate the economy, then our reemployment strategies should do everything possible to promote good jobs. Federal policy can play a critical role but first Congress must not to endorse "rapid reemployment" proposals like wage insurance that encourage more low-road employment, or at least fail to distinguish between good and bad employment outcomes.

2. Does the Available Research Make A Convincing Case for Wage Insurance?

Despite all the attention generated in support of wage insurance by economists and others, there has been remarkably limited scrutiny of the research on wage insurance. We believe the available evidence raises fundamental questions about the merits of wage insurance that should be more closely evaluated before pursuing federal legislation.

First, other than two pilot programs -- one in Canada that produce limited results and another in the U.S. that is still pending -- wage insurance is not a program that has existed on any large scale. Indeed, we question whether it is premature to create a new national program of wage insurance in the U.S. when the 2003 pilot, the Alternative Trade Adjustment Assistance (ATAA) program, has not yet issued its final findings. If it turns out that wage insurance is not working for the targeted group of trade impacted workers age 50 and over who are having the hardest time finding a new job at comparable pay, then why expand the program to those younger than 50 and to all dislocated workers as some have proposed?

Second, what do we know about the impact of wage insurance on others who will be competing for the same lesser-paying jobs with those who are collecting wage insurance? According to a leading Upjohn Institute researcher who simulated the impact of a two-year wage insurance program covering dislocated workers at half their prior pay, "virtually all the employment gains experienced by dislocated workers as a result of the wage subsidy come at the expense of other workers."[2] Will this "crowding out" effect be even more severe in communities hardest hit by job losses, as in the Midwest, where large concentrations of dislocated workers are now competing with other workers for the same jobs?

Third, if wage insurance encourages workers to take a job sooner, will they also end up taking lower paying jobs than they could have found if they kept looking for work with the help of their unemployment benefits? This gets at the critical trade-off that laid-off workers constantly have to make, which is whether to take a lesser paying job or collect unemployment benefits and continue looking for a better job that will also increase their productivity. We know, for example, that workers who collect UI have an increased likelihood of finding a new job that will have employer-sponsored health insurance.[3] In addition, at least one study has found that workers who receive unemployment benefits receive higher pay as well by a factor of $240 a month compared to those who do not collect UI benefits.[4]

Fourth, will workers who take lesser paying jobs with wage insurance benefit from any training that will improve their long-term productivity or would they be better off pursuing other forms of education and training? While some have argued that wage insurance leads to valuable training,[5] we are not aware of any empirical evidence suggesting that workers who find jobs at half their prior pay are likely to receive substantial training that will significantly increase their earnings potential. In fact, wage insurance will often interfere with valuable education and training, including some community college programs that have produced major gains in income.[6] Notably, the ATAA pilot program precludes the workers from collecting wage insurance while participating in training.

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[2] Davidson, Woodbury, "Wage –Rate Subsidies for Dislocated Workers" (Upjohn Institute Staff Working Paper 95-31, January 1995), at page 22.

[3] Boushey, Wenger, "Finding the Better Fit: Receiving Unemployment Insurance Increases Likelihood of Re-Employment with Health Insurance" (Economic Policy Institute: April 2005).

[4] Kiefer, Neumann, "An Empirical Job Search Model with a Test Constant Reservation Wage Hypothesis," *Journal of Political Economy*, Vol. 87, No. 1, 89-107.

[5] Brainard, Litan, Warren, "Insuring America's Workers in a New Era of Offshoring" (Brookings Institution, Policy Brief #143, 2005), at page 3 ("Wage insurance also serves as a training subsidy for the worker's new employer. Generalized retraining programs not only fail to guarantee a worker a job but also cost the worker the wages that he or she could earn by accepting new employment sooner. The retraining that a displaced worker receives on a new job is the best kind: it provides new skills that contribute directly to his or her performance in the new job and is thus directly useful not only to the worker but also to the new employer. ")

[6] Trutko, Barnow, Farrell, Glosser, *Final Report: Earnings Replacement Outcomes for Dislocated Workers: Extent of Variation and Factors Accounting for Variation in Earnings Replacement Outcomes Across State and Local Workforce Investment Boards* (Capital Research Corporation: March 2005), at page A-8 (summarizing the results of various community college programs on dislocated worker post-displacement earnings, including Pennsylvania where men earned $1,047 more per quarter by attending community college and woman earned $812 more.)

Finally, what are the major lessons learned from the only empirical experience with wage insurance, the Canadian pilot program of the 1990s? The Canadian program, called the Earnings Supplement Project, was evaluated by a leading research organization in a random assignment study (comparing a group that could collect wage insurance replacing up to 75% of their prior wages with a control group that could not). On nearly every measure they evaluated, focusing on the impact on employment and unemployment benefits, wage insurance fell far short of expectations. Thus, the Canadians did not continue the program.

Of special significance to the U.S., the study found that of those assigned to the group who could collect wage insurance, only about 2 out of 10 actually did so. When follow-up interviews were conducted to better understand this result, the researchers found that "one of the most striking findings from the non-recipient groups was the limited perceived relevance of the supplement offer . . ."[7] Quoting one participant that typified the concerns they found, "It [the supplement] was secondary. It was a not a priority. The priority was to get a job. I would like a good fit considering my background and my education so I wasn't willing to settle. It wasn't a money issue really." It may be that the low take-up rate in the ATAA program reflects a similar concern with wage insurance.

The results of the Canadian program also showed "virtually no difference in the duration of [UI] benefits paid to recipients (22.1 weeks for supplement group members versus 21.9 weeks for control group members)."[8] This finding conflicts with the claims of some researchers that wage insurance in the U.S. will produce savings based on reduced reliance on UI benefits. Late into the period when the workers started collecting UI, there was a modest impact on how many more workers found full-time work when they collected wage insurance. However, that impact was reduced in half when the study counted those in the control group who found part-time work (bringing the employment rate to 50.7% for those who could collect wage insurance compared to 48.4% for the control group).[9]

3. Will Wage Insurance Undermine Existing Economic Security Programs?

We are also concerned that a new national program of wage insurance for dislocated workers could undermine funding and support for necessary reforms of existing economic security programs, especially unemployment insurance and Trade Adjustment Assistance. At a time when economic security is a growing reality for working families from all walks of life, the existing economic security programs are struggling from limited resources and years of neglect and hostile oversight by the Bush Administration.

Take the case of the unemployment insurance program. Today, only 36% of unemployed workers collect jobless benefits due in large part to the major gaps in the

[7] Bloom, et al., *Testing a Re-employment Incentive for Displaced Workers: The Earnings Supplement Project* (Social Research & Demonstration Corporation: May 1999), at page 39.
[8] Id. at page 53.
[9] Id.

program that leave out large numbers of low-wage, part-time and women workers. Meanwhile, federal funding for administration of the program has declined compared to the increased demand for services, which has caused states to severely cut back on UI services. The states have also cut UI payroll taxes to record low levels, creating more pressure to deny benefits and take out loans from the federal UI trust funds. Despite the new pressures on the federal trust funds, Congress has also failed to increase the $7,000 tax base on federal UI payroll taxes for nearly 25 years.

The Trade Adjustment Assistance (TAA) program serving trade impacted workers has also been severely compromised, both by the Bush Administration's attacks on the program and by limited funding and program restrictions imposed by Congress. Despite the record trade deficit and major manufacturing layoffs, Congress has capped TAA training funds at just $220 million, thus providing training to fewer than 38,000 workers in 2005. As a result of the funding limits, 19 states also suspended enrollment in training at some point between Fiscal Years 2001 and 2003.[10] And this Fiscal Year, Michigan has already been forced to suspend enrollment in TAA training despite devastating layoffs in the auto industry.

Given these sobering realities, our concern is that the funding (estimated at $3.5 billion) and support for wage insurance will take precedence over long-overdue reforms of the TAA and UI programs. Whatever the ultimate source of revenue to pay for wage insurance, whether it is generated from increased federal UI payroll taxes or new employer taxes (some have also suggested that employee taxes help pay for the program), it will effectively compete with funding for the UI program. And if the Canadian experience holds true in the United States, that wage insurance did not result in reductions in UI benefits, then the funding constraints will be even more severe.

In addition to the funding threat, there is a potential substantive threat to existing economic security programs created by wage insurance. Specifically, wage insurance promotes the "work first" agenda of the Heritage Foundation and other groups that are working hard to dismantle the TAA program. According to the Heritage Foundation, "If the aim of such programs is to help workers find new jobs, then the TAA should be eliminated over time and replaced by a program that provides incentives, not disincentives, for workers to do just that. Wage insurance is one such proposal that has won widespread support."[11]

B. Federal Economic Security Proposals

These are tough times for many more working families, full of concern that they will not share in the promise of the American dream, or worse, that they will end up

[10] U.S. General Accountability Office, *Reforms Accelerated Training Enrollment, But Implementation Challenges Remain* (GAO-04-1012), September 2004, at page 32.
Insert GAO report.

[11] Denise Fronig, "Trade Adjustment Assistance: A Flawed Program" (The Heritage Foundation: July 31 2001).

destitute despite a lifetime of hard work. What follows are several proposals for federal policies that we believe will help create a reemployment system driven by the creation of quality jobs that will also restore confidence in the nation's workers that their government is there to support them and create new opportunities especially in times of special financial need.[12]

1. Honor the Promise of Economic Security to Trade-Impacted Workers

The first priority of the 110th Congress should be to fulfill the promise of economic security to the nation's workers and their communities that have suffered major job losses due to federal trade policies. Given the record trade deficits and the devastating loss of good-paying manufacturing jobs resulting from federal trade policies, Congress should move boldly to create a more robust TAA program.

Congress should start by establishing an entitlement to TAA training, thus removing the $220 million cap on funding that now deprives training to thousands of deserving workers who have been certified as TAA eligible. The entire TAA program is funded at $1 billion a year, which compares with the $3.5 billion in funding being proposed to create a new wage insurance initiative. A serious new investment of funding in the TAA program could also pay for coverage of service workers, a new system of TAA certification that applies to whole industries and regions suffering dislocations due to trade, and other necessary reforms.

2. Modernize and Expand the Unemployment Insurance System

Recognizing the changing nature of unemployment in today's economy, with far more long-term joblessness and increasing turnover of low-paying service sector jobs, it is also time to modernize and expand the nation's unemployment insurance system.

The 110th Congress should make federal incentive funds available to the states to support innovative reforms that fill the gaps in the program that deny benefits to low-wage, part-time and woman workers. Federal funding should also target states that support training and education with the help of extended unemployment benefits and that increase the duration of unemployment benefits recognizing the new realities of long-term unemployment.

In addition, the states should be more adequately compensated for the administration of their UI programs and federal standards should be created to promote the solvency of state UI trust funds. Equally significant, the federal system should be better prepared to provide far more adequate benefits in times of recession, major disasters like Hurricane Katrina and terrorist events like the September 11th attacks, which produce widespread devastation and threaten the nation's economy.

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[12] For more detail on these and other federal proposals, see Emsellem, "Innovative State Reforms Shape New National Economic Security Plan for the 21st Century" (National Employment Law Project: December 2006).

3. Model New Federal Policies on Innovative State Reforms

Over the past decade, many states have been at the forefront of new economic security reforms that could help shape bold new federal policies.

Of special note, in response to the record rates of foreclosures, some states have created "home protection funds" providing revolving loans that save homes from foreclose and preserve the fabric of their communities. Others have created special training funds created from an offset of their UI payroll tax, often designed to make local and regional industries more globally competitive. One state has taken the lead in creating broad health care coverage for jobless families. And perhaps most significant, California has recently established the nation's first program of paid family and medical leave running along side the state unemployment insurance system.

Congress can play a critical role supporting innovative state reforms by creating new financial incentives and providing pilot program funding to expand these and other initiatives. The more the states are successful in creating and sustaining such programs, the stronger the case that can be made in Congress that these innovative state reforms should make their way into federal law and policy.