

Wage Insurance Could Anchor “Middle Class Economics,” Brookings’ Litan Asserts

Providing wage supplements to laid-off workers taking lower paying jobs

One potentially bipartisan way to help the middle class would be to offer wage insurance - a government payment that helps supplement the earnings of laid-off workers who take jobs that pay less than the last, according to Brookings Nonresident Senior Fellow Robert Litan. The idea would be to help keep workers in the labor force and tie their payments to the level of the income loss, and would augment the automatic income stabilizing feature of the unemployment insurance program.

In “[Wage insurance: A potentially bipartisan way to help the middle class](#),” Litan notes that it is difficult to overcome long-term joblessness, and that many laid-off workers suffer a permanent loss in lifetime income if the new job they take pays less than the one they lost. “In effect, these workers fall a step down the economic ladder and may never fully climb back to their place in the workforce income structure, or if they do, it can take many years to do so. The cumulative income losses from job downshifting can easily swamp the temporary loss of income while they are without a job,” he writes.

To combat that slippage, Litan suggests a wage insurance program, paid for by a small addition to the federal unemployment insurance tax, that would only provide payments once an unemployed worker obtains a job and then for two years from the date of unemployment. Even in weak labor markets, the availability of wage insurance would help to protect unemployed workers from downside risk when taking a new lower paying job, for the same reason make them more willing to accept such a job rather than continue to collect unemployment insurance or dropping out of the labor force altogether, as many have done, he writes. If more workers had wage insurance, they would be willing to accept new jobs at lower pay if firms would train them. This wage insurance incentive would entice laid off workers to search aggressively for a new job, and if necessary, also to be willing to take a short-term pay cut as the price for being trained in new skills at a new job.

Litan notes that in the absence of a major career change, the best way to get new training is on the job rather than through some government training program, where job prospects are highly uncertain after completion. “In effect, wage insurance acts as a subsidy for employers to help pay the cost of training new hires, while cushioning the economic pain suffered when unemployed workers take new jobs paying less than what they were earning before their layoffs,” he writes.

Because wage insurance payments would be tied to the level of income loss, the program would not offer much protection to workers who are steadily or erratically employed in low-wage jobs, although some low wage workers could benefit modestly. For that reason, he says education and training programs are necessary for giving these workers the skills they need to land higher paying jobs, which if they lose, would entitle them under a wage insurance system to more protection when looking for other such jobs.

Although not “a silver bullet that will magically ensure continued rapid wage growth of middle class workers and their families in the future,” Litan believes wage insurance could be one important element that could help advance “middle class economics,” along with improvements in the delivery and financing of education of current and future workers that better equips with them with skills they will need to realize continued income gains.

Wage insurance may be a ripe issue, given that the Great Recession has changed the calculus for both parties, Litan believes. “Members of both parties now are interested in helping the middle class. Many Democrats should realize that with continuing technological change, many laid off workers have no chance of returning to their former jobs, or to new jobs paying what their previous ones did. Wage insurance helps address that problem, by getting workers back on a new earnings path quickly, while cushioning the pain from having to take a lower paying job. Many Republicans, though still committed to deficit reduction, must realize that addressing concerns of the middle class will cost money, whether through tax cuts or better safety nets. The particular advantage of wage insurance for Republicans is that it is targeted and inexpensive, and consistent with their party’s emphasis on self-improvement,” he concludes.