

**Testimony of
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Before the
U.S. House of Representatives
Committee on Education and Labor**

**“How Effective are Existing Programs in Helping Workers Impacted by
International Trade?”**

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Thank you, Chairman Miller, and members of the Committee, for this opportunity to testify today on behalf of the more than 10 million working men and women of the AFL-CIO on the effectiveness of programs to help workers impacted by international trade. We are very pleased to have the opportunity to discuss ways to strengthen, reform, and effectively fund these programs, which are so important to American workers. However, we also wish to note that these programs are not a substitute for good trade policies that create and retain good jobs in the United States.

We would like to address three specific programs in today’s testimony: Trade Adjustment Assistance (including the Health Coverage Tax Credit), Unemployment Insurance, and Wage Insurance.

TRADE ADJUSTMENT ASSISTANCE

The TAA program should honor the promise made to workers since 1962: that the federal government will provide retraining, reemployment assistance, and income support to workers who have lost their jobs due to federal trade policies.

The Trade Act of 2002 made significant changes to the Trade Adjustment Assistance (TAA) program. TAA provides income protection, a limited health care benefit, and job training for qualified workers who lose their jobs as a result of import competition or certain shifts of production overseas.

Unfortunately, many laid-off workers are still not eligible for benefits, and others do not receive the benefits to which they are entitled. The program must be expanded and improved to ensure that trade-affected workers receive appropriate income support and training to smooth their transitions to new jobs.

TAA should be expanded to cover all workers who lose their jobs due to a shift in production, regardless of where production was shifted. The current convoluted eligibility criteria exclude many workers whose jobs have shifted to countries like

China, with which we do not currently have a free trade agreement or other preference program.

TAA should also cover service and public sector workers who lose their jobs due to trade, and we must ensure that funding is sufficient to help all eligible workers.

Funding Must Be Increased

1. The lack of a dedicated source of funds has caused many problems, including long waiting lists and denial of training to displaced workers.

Workers injured by trade must not be denied benefits because of inadequate funding. Studies have shown that many states exhaust their TAA training funds before the end of each fiscal year, preventing numerous workers from being able to take advantage of training programs to which they are entitled. According to the Government Accountability Office (GAO), 35 states expected that available TAA training funds for FY 2004 would not cover the amount they would obligate and spend for TAA-eligible workers -- 18 states estimated the gap at over \$1 million.¹

2. We must provide full funding for the TAA program -- TAA should be an uncapped entitlement.

TAA training funds are capped at \$220 million per year, while Trade Readjustment Allowances (income support) is an entitlement. Since 2004, TAA training has lost \$32 million in inflation-adjusted funding (a loss of 16%).

3. The Bush Administration's proposed cuts to TAA benefits will impair opportunities for long-term training.

The FY 2008 budget proposes to decrease funding for income support benefits under TAA, assuming that fewer workers will take advantage the program next year. The 2008 budget proposes inflation-adjusted cuts of \$124.7 million in TAA benefits funding compared to 2006.

There appears to be little basis for the Bush Administration's assumption that there will be a reduction in TAA participants of almost 6,000 workers in FY 2008 compared to FY 2006. The number of workers covered by TAA certifications has increased over the past two years. In 2005, 117,904 workers were certified for TAA -- in 2006, there were 120,199 workers certified.² Certainly, the trade deficit, especially in manufactured goods, is trending up for the foreseeable future, given the enormous imbalance between current imports and exports.

4. Income support should not be reduced, but improved.

Currently, eligible trade-injured workers do not begin to receive trade readjustment allowances until their unemployment insurance entitlements have been exhausted.

¹ GAO, *Trade Adjustment Assistance: Reforms Have Accelerated Training Enrollment, but Implementation Challenges Remain*, [GAO-04-1012](#), 9/22/04.

² Congressional Budget Justification Fiscal Year 2008

The amount of their cash benefit is the same as the most recently weekly UI benefit (average \$260/week).

Prior to 1981, workers received weekly cash benefits in the form of trade readjustment allowances and UI combined that were equivalent to 70% of their prior pay, up to a maximum of the average manufacturing wage. Pending improvements in UI for all unemployed workers, restoring the 70% wage replacement benefit as a minimum benefit would significantly remedy this shortcoming. The average weekly earnings of production workers in manufacturing for 2006 were \$690.83. Seventy percent of that is \$483.58.

Program Administration Must be Improved

1. Inadequate administration of TAA denies benefits to eligible workers and causes unnecessary and unwarranted delays in delivery of benefits.

In the past five years, courts have entered numerous orders directing the Department of Labor to reconsider erroneous denials of TAA income and training assistance to hundreds of trade-affected workers. Workers have suffered protracted delays in getting assistance as a result of these errors. Many more become discouraged or lack the resources to pursue appeals.

The Court of International Trade has criticized the Labor Department for relying so heavily on employers, virtually to the exclusion of petitioning workers, for information on TAA petitions. DOL investigators rarely contact petitioning workers to seek additional information, documentation, or clarification.

Judge Delissa Ridgway in an August 2006 opinion states that “investigators seem almost gullible in their willingness to accept at face value virtually *anything* an employer says - typically without even confronting the employer with other, conflicting information provided by petitioning workers (or sometimes the employer itself).”

She goes on to say that “DOL’s persistent failure to verify the accuracy of the information on which it relies -- as well as its pattern of turning a blind eye to obvious inconsistencies and discrepancies in the record before it -- is beginning to verge on contempt for administrative and judicial process, and does a grave disservice to the hardworking men and women of this country.”

“Extrapolating workers’ roughly 90% ‘rate of success’ before the court to the hundreds of TAA petitions that are denied but not appealed every year suggests that the Labor Department’s failure to properly investigate petitions is routinely depriving thousands of U.S. workers of the TAA benefits to which they are legally entitled. The Labor Department should be haunted by that fact.... Those statistics are a scathing indictment of the Labor Department’s administration of the TAA program.”³

³ Judge Delissa A. Ridgway Slip Op. 06-132 UNITED STATES COURT OF INTERNATIONAL TRADE

2. Help for secondary workers is minimal and must be improved

In 2002, the TAA program was expanded to cover secondary workers, such as parts manufacturing workers who lose their jobs when a client-manufacturing firm moves its operations to another country. Poor program design and inadequate guidance to identify affected workers, however, have meant that few secondary workers are receiving benefits.

- Just over 2 percent of workers covered by TAA were secondary workers in FY 2003.
- No state has developed procedures to identify workers who are secondarily affected by a trade-related layoff in another state.⁴

We must enact provisions that ensure full consultation with workers and their unions in the petition process. We must also develop industry-wide certification to streamline the petition process and to ensure that all workers in an affected industry are served.

There Must Be A Key Role for the State Employment Security/ Unemployment Insurance System

1. We must ensure and fund critical outreach, counseling, case management, skill assessment, training referral and support services using state UI agency staff.

In its early evaluation of TAA implementation, Social Policy Research Associates noted that assessment is “usually limited” and “wrap around services are much less common in TAA.”⁵ There are no funds in current TAA to pay for counseling, testing, assessment, and support services that provide workers with the help they need to make informed decisions regarding training. In the past, when Employment Service resources were more substantial, states were expected to use these resources to pay for such services.

2. We should also ensure that the state Unemployment Insurance agency administers the TAA and TRA program using merit (civil service) staff.

This will assure greater access to services for workers, greater accountability to the public and TAA participants, and improve tracking, record keeping and program reporting.

The state Unemployment Insurance agency can identify workers whose jobs are affected by trade and offshoring; ensure that workers receive assistance in filing for the Health Coverage Tax Credit; counsel and refer workers to appropriate training; receive advance notice of a closing or layoff; and help to identify any training shortfalls.

⁴ GAO, Trade Adjustment Assistance: Reforms Have Accelerated Training Enrollment, but Implementation Challenges Remain. GAO 04-1012. 9.22.04.

⁵ Social Policy Research Associates. What’s Up with the National Evaluation of the Trade Adjustment Assistance Program, www.spra.com

3. We must implement timely and accurate reporting.

The Labor Department needs to provide timely, accurate and substantive data on specific TAA programs and services. We must establish a statutory requirement for monthly reporting of:

- Specific geographic locations which are the sources of imports;
- The new locations of companies who have shut down and left the United States;
- Information on the affected company, the location, the number of affected workers as well as union representation;
- State Rapid Response contacts to affected companies, workers and unions;
- Outreach, enrollment, service delivery and outcome information for workers who are eligible for adjustment services;
- Performance measures for adjustment programs that include impacts on pre- and post- program wages, earnings and benefits.

Do Not Expand the Alternative Trade Adjustment Assistance Program

1. Wage insurance is not the best way to help dislocated workers or bolster a national “good jobs” strategy.

- Wage insurance promotes “rapid reemployment” by inducing displaced workers to accept lower-paying jobs with few benefits, thereby promoting downward economic mobility.
- Wage insurance may serve to subsidize low-wage employers and is unlikely to lead to skill development or strong career ladders.

Link Training to the Creation and Retention of Good Jobs.

1. We must support economy-wide strategies that focus on creating and maintaining good jobs.

Our goal should be to create jobs with good wages and benefits; match qualified workers with those jobs; and support the efforts of workers to qualify for those jobs. We must create early intervention and community adjustment programs that involve all stakeholders, including organized labor, in addressing the effects of dislocation.

2. We need to expand programs that promote partnerships between government, employers and labor to support job retention and creation, as well as regional economic and community development.

We must support training that leads to good jobs, including on-the-job training, as well as model labor-management industry/sector initiatives that have proven successful in saving jobs, improving employment outcomes and making industries more competitive.

TAA programs must be closely linked with community economic revitalization and adjustment programs, as well as early intervention efforts, including community economic planning, finance programs, technology development and deployment programs

There are many positive examples of high road labor-management sector partnerships in manufacturing (e.g. the Wisconsin Regional Training Partnership), health care (e.g. AFSCME District Council 1199 upgrade training program in Philadelphia), telecommunications (e.g. “The Alliance” administered jointly by CWA and AT&T) and aerospace (e.g. The Boeing and Machinists Union “Quality Through Training Program”).

Through the collective bargaining process, these partnerships develop plans to assess employer skill needs, analyze the skills gap, and implement programs that create career ladders and train workers in high-growth, high-wage occupations.

We are particularly optimistic about the *Apollo Alliance* – a coalition of labor, business and environmental groups whose focus is on the development of “green collar” jobs that foster sustainable economies, energy independence, and healthier communities. The Alliance is working to create jobs in manufacturing, construction and transportation.

These “green collar jobs” produce environmentally friendly products or services, like construction of green schools, solar panel manufacturing, energy efficiency retrofits of homes, or environmental clean up and restoration. These jobs provide family-supporting wages, skill development, and career ladders.

For example, in Pennsylvania, Governor Rendell is promoting and developing renewable energy to attract wind, solar and battery manufacturing to the state. He has attracted companies that have taken closed steel mills and created good jobs building wind turbines.

Improve the Health Coverage Tax Credit under the TAA Program

The TAA Reform Act of 2002 created the Health Care Tax Credit (HCTC) to assist certain recipients of TAA and Pension Benefit Guaranty Corporation (PBGC) beneficiaries to receive affordable health care. The program provides an advance, refundable tax credit for 65 percent of the cost of qualified insurance. The credit can also be provided when the individual's tax return is filed. The IRS administers specific components of this credit: enrollment, payment and compliance. DOL, through ETA and state workforce agencies, and the PBGC have responsibility for determining eligibility for HCTC.

1. Problems with administration of the HCTC:

- A 2004 report by GAO⁶ found that only a small portion of the workers and retirees identified as potentially eligible receive the HCTC. GAO also addressed the issue of the lag time in coverage as it impacts participation: "health coverage may not be affordable both in terms of an individual's ability to pay the entire premium amount while waiting to receive the advance HCTC and the ability to pay the 35 percent share once payment starts."
- A 2006 GAO⁷ report on five trade-related plant closures stated that no more than 12% of the workers at each site received the credit and that at 4 of the 5 sites fewer than half the workers who visited a one-stop center were even aware of the existence of the health care credit.
- An OMB Program Assessment Rating Tool (PART) assessment of the IRS's administration of the credit gave the program a "NOT PERFORMING: Results Not Demonstrated" rating. The PART cited low participation in the program and the "lack of shared or coordinated performance goals with its main partners, DOL and PBGC." The 2006 program improvement plan recommends that the participating federal agencies work together to develop goals and improve access to the tax credit for eligible workers.
- A December 2006 Urban Institute report⁸ found that only 12 states as of October 2005 had "gap filler" NEG grants (a DOL/ETA program) to help workers pay for COBRA while they waited for their HCTC premiums to be subsidized.

2. Address Gaps in Coverage

Delays in TAA processing and in PBGC pension takeovers can mean laid-off workers and retirees have lapses in coverage that disqualify them from receiving consumer protections necessary to get coverage. The program should address both the requirement that workers and retirees have 3 months of coverage in the months preceding when they seek to enroll in coverage [unclear: with the credit and the HIPAA requirement that individuals have no more than a 63-day lapse in coverage]. To fix this,

⁶ GAO-04-1012. September 2004

⁷ GAO-06-43. January 2006

⁸ Stan Dorn, J.D. Take-Up of Health Coverage Tax Credits: Examples of Success in a Program with Low Enrollment. Urban Institute, December 2006

- Clarify that an individual must have had 3 months coverage immediately prior to the event that gave rise to HCTC eligibility (layoff for TAA, retirement for PBGC);
- Start the 63-day clock upon receipt of HCTC eligibility notice measured five days after the notice is mailed

3. *Increase Affordability*

Studies have found that even with a 65% subsidy, many eligible individuals could not find affordable coverage. The subsidy must be increased and coverage must be available that is affordable both in terms of premiums and out-of-pocket costs.

To do this:

- Increase the subsidy to 90%, or less if coverage option is available that is comprehensive and affordable (e.g., FEHBP-like coverage with rating restrictions; see below);
- Clarify that individual market coverage is allowed only where enrolled in that coverage 30 days prior to layoff. “Arrangement with an insurer” was not intended to open up the individual market, as Administration has interpreted it;
- Provide fallback plan through FEHBP plans (separate pool from federal employees);
- Require community rating of state-based options.

4. *Other needed improvements*

- Spouse coverage -- allow spouse to remain eligible when HCTC recipient qualifies for Medicare;
- Align COBRA with TAA -- extend COBRA coverage to length of HCTC eligibility so that individuals don’t have to change coverage in those states where HCTC eligibility exceeds COBRA’s 19 months;
- Provide WIA National Emergency Grant funding – to ensure interim coverage,
- Workers who lose their jobs often lose health care. As a result, it is important to link eligibility for HCTC directly to eligibility for TAA services and benefits. A TAA eligible worker should be eligible for the HCTC program for the period that they remain eligible for any part of the TAA program, including training, TRA, job search, job relocation or ATAA.

UI MODERNIZATION

As you know, we are strongly supporting Representative McDermott's UI legislation, which would distribute as much as \$7 billion from the federal UI trust funds over five years to encourage states to modernize their UI programs. For many years, the AFL-CIO has advocated for several of the specific items in this legislation, which we believe would make significant progress towards strengthening the UI system.

Under Representative McDermott's proposal, one-third of the maximum grant amount available to each state would be distributed if the state counts workers' most recent wages for purposes of determining UI eligibility. Using such an "alternative base period" would address one of the most significant gaps in UI coverage by expanding eligibility for predominantly low-income workers who have paid into the UI system and earned qualifying wages. The AFL-CIO participated in the Advisory Council on Unemployment Compensation (ACUC), which recommended this particular reform in 1996, and since then we have consistently supported legislation to establish incentives for states to use an alternative base period.

The remainder of the maximum grant amount available to each state would be distributed if a state meets two of three additional conditions: (1) it provides extended unemployment benefits for workers enrolled in state-approved job training; (2) it provides for the UI eligibility of workers seeking part-time work; or (3) it provides for the UI eligibility of workers who quit their jobs due to compelling personal circumstances (domestic violence, caring for a disabled family member, or following a spouse who has been relocated).

First, we believe that providing incentives for states to support workers enrolled in training programs for high-demand occupations is an especially good idea that fits within a broader strategy of helping workers get good jobs. Similar programs in seven states have produced impressive outcomes with regard to employment and wage replacement.

Second, the ACUC also recommended promoting UI eligibility for workers seeking part-time work, and since 1996 the AFL-CIO has consistently supported legislation to establish financial rewards for states that adopt this reform.

Third, providing incentives for states to accommodate workers' compelling personal circumstances recognizes and rewards groundbreaking reforms that are especially important to women with families.

Finally, Representative McDermott's bill would distribute to the states a total of \$100 million per year over five years for the purpose of administering these reforms and making other improvements in the administration of the UI and Employment

Service (ES) system. Since 2001, federal funding for administration of the UI system has been cut by \$305 million in real terms despite increasing demands on the system.

Representative McDermott's proposal correctly rewards states that have been leaders in building a stronger UI system, and incorporates some of the best UI reforms that have been pioneered in the states. We applaud the Representative McDermott for taking this initiative and we look forward to working with him to enact this bill.

While Representative McDermott's proposal is an important step forward, we realize that it does not address all the shortcomings of the UI program. For example, much more needs to be done to restore UI eligibility to a higher percentage of the workforce, to restore higher benefit levels, to repair the dysfunctional extended benefits (EB) program, and to address the severe under-funding of UI and ES administration. The National Association of State Workforce Agencies (NASWA) has recommended a special distribution of \$2.4 billion over three years for administration of the ES/UI system, and this figure does not take into account the additional administrative needs arising from this legislation.

WAGE INSURANCE

Representative McDermott has also asked us to comment on proposed legislation costing approximately \$3.5 billion per year that would create a universal wage insurance program for displaced workers—far larger than the small pilot program within the Trade Adjustment Assistance (TAA) program that is available only to certain workers over 50 years of age who lose their jobs because of trade. There are three main points I would like to make about this proposal.

1. Wage insurance does not fit within a “good jobs” strategy.

America is hemorrhaging good jobs, wages are stagnating, and the system of employer-provided health and pension benefits is being eroded. America is in dire need of a good jobs strategy. Such a strategy should strive to create good new jobs; to transform bad jobs into good jobs; to improve the effectiveness of programs that connect workers with the good jobs that are available; and to improve the effectiveness of job training and education programs that help workers qualify for those good jobs.

A strategy to ensure that good jobs are available in the first place must include (1) balanced monetary and fiscal policies to promote full employment; (2) robust investments in communications and transportation infrastructure; (3) a national strategy to revive the manufacturing sector, including investments in technology development and dissemination, currency policy reform, and repeal of tax subsidies that encourage off-shoring of manufacturing jobs; (4) trade policies that discourage downward competition in wages and benefits and the off-shoring of good jobs; (5) sectoral strategies in emerging sectors of the economy, such as renewable energy

technologies, building on successful labor-management models in manufacturing, hospitality, telecommunications, and health care; (6) economic development initiatives; and (7) policies that promote worker rights and collective bargaining, higher wages, and improved health care and retirement security.

Wage insurance does not help workers get good jobs. On the contrary, the most frequently invoked rationale for wage insurance is that it promotes “rapid reemployment” by encouraging workers to look for, consider, and accept lower-paying jobs they would not otherwise take.⁹ Getting workers to take bad jobs does not fit within any good jobs strategy we would propose.

In fact, getting workers to take bad jobs is not a worthy objective at all. Our national focus cannot be rapid reemployment to the exclusion of job quality, because this would argue for the elimination of all assistance for displaced workers. It is undoubtedly true that eliminating all assistance for displaced workers would result in more higher-skilled workers finding reemployment more quickly at Wal-Mart and McDonald’s, but this would hardly be a desirable outcome for higher-skilled workers, for the lower-skilled workers they displace, or for the economy as a whole.

Helping workers find rapid reemployment in good jobs is a worthy objective, but our priority should be job quality. It is possible to reconcile job quality with rapid reemployment: for example, the Clinton administration created a grant program to provide reemployment services for UI claimants, but the Bush administration defunded the program in its FY 2006 budget. In addition, the Employment Service (ES) provides workers with information they need to find good jobs that match their skills, and in 2000 the Labor Department noted that every \$1 spent on reemployment services produces \$2.15 in savings to the UI trust funds.¹⁰ But the Bush administration cut ES funding by \$256 million in real terms between 2001 and 2007.

To the extent that a wage insurance program diverts resources away from ongoing efforts to help workers get good jobs, or to improve that assistance, it amounts to giving up on workers. Even if wage insurance is funded with new revenues, this is money that could be used to create good jobs and help displaced workers get those jobs.

Proponents of wage insurance sometimes argue that the existing job training programs do not work. It is true that some job training programs – particularly the less costly shorter-term training promoted under the Workforce Investment Act

⁹ *See, e.g.*, Howard Rosen, Testimony Before the Ways and Means Subcommittee on Human Resources (May 4, 2006) (“Wage insurance is specifically designed to encourage people to return to work sooner than they might have otherwise”); Robert Litan, Lael Brainard, and Nicholas Warren, “A Fairer Deal for America’s Workers in a New Era of Offshoring,” Brookings Institution (May 2005) (“A main purpose of wage insurance is to accelerate the pace at which permanently displaced workers are reemployed”).

¹⁰ Stephen Wander and Jon Messenger, *Worker Profiling and Reemployment Services Policy Workgroup: Final Report and Recommendations*, U.S. Department of Labor (2000).

(WIA) – are less effective than others, but there are also many examples of effective training programs. The answer is to improve the effectiveness of job training programs, not to encourage workers to forego job training.

Proponents of wage insurance routinely argue that wage-subsidized workers would receive on-the-job training of a higher quality than that provided by training programs.¹¹ We know of no basis for this argument. In fact, lower-wage employers are the least likely to offer on-the-job training that provides transferable skills.

Research has established that the probability of workers receiving workplace education is directly proportional to their wage and education levels. Workers with the highest wages and the most formal education receive the most extensive workplace education, while workers with the lowest wages and least education receive the least extensive workplace education.¹²

Workers who accept lower-wage employment because of wage insurance are likely to be no better off at the end of their eligibility period. They will have foregone any opportunities to engage in a more fruitful search for a good job or to improve their skills or education level to qualify for a good job. As a result, we are concerned that the earnings potential of many participants could be negatively affected. Oddly enough, it is often the proponents of wage insurance who emphasize that education and training are the key to ensuring that the gains from economic growth are shared more broadly.¹³

2. Advocates of wage insurance have proposed diverting resources from already under-funded programs serving displaced workers.

¹¹ *See, e.g.*, Lael Brainard, Testimony Before the Joint Economic Committee (February 28, 2007) (“The retraining that a displaced worker receives on a new job 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”); Howard Rosen, Testimony Before the Ways and Means Subcommittee on Human Resources (May 4, 2006) (“In addition, it is hoped that the new employer will provide on-the-job training, which has proven to be the most effective form of training”); Robert Litan, Lael Brainard, and Nicholas Warren, “A Fairer Deal for America’s Workers in a New Era of Offshoring,” Brookings Institution (May 2005) (“The retraining that displaced workers receive on a new job is the best kind...in sharp contrast to generalized training programs such as those available under TAA”).

¹² *See* Ahlstrand, Bassi, and McMurrer, *Workplace Education for Low-Wage Workers*, W.E. Upjohn Institute for Employment Research (2003).

¹³ *See, e.g.*, Prof. Lawrence Summers, Testimony Before the Senate Finance Committee (March 8, 2007) (“It is particularly important that investments [in education] be made to ensure all of our citizens have a chance to fully participate and share in our prosperity...I believe it is also appropriate that consideration be given to thinking about methods of wage insurance”); Deputy Assistant Secretary of Labor Mason Bishop, Testimony Before the Ways and Means Subcommittee on Human Resources (May 4, 2006) (“the data...shows the gap that is emerging in our country between those that have post secondary educational attainment. That is not just 4-year degrees. It may be 2-year degrees, industry-recognized certifications, licenses, et cetera, apprenticeship programs...That is how people's wages are going to rise...We have many, many individuals who, with better access to post secondary education and training, could get higher wages”).

We understand that Representative McDermott has no intention of substituting wage insurance for existing programs that assist displaced workers. However, this is precisely what other advocates of wage insurance have proposed.

Wage insurance has repeatedly been proposed as a substitute for the UI program.¹⁴ At a May 4, 2006 hearing of this subcommittee, the Bush administration proposed legislation that would permit the diversion, without limitation, of state UI trust funds to pay for wage insurance.¹⁵ In fact Representative Weller has introduced legislation, H.R. 1513, that would do just that.

Then last September a paper commissioned by the Hamilton Project proposed diverting two-thirds of aggregate UI funding to pay for wage insurance.¹⁶ And just last month the Bush administration again included the same legislative proposal in its FY 2008 budget.¹⁷

Wage insurance has also been proposed as a substitute for the TAA program. The conservative Heritage Foundation has proposed replacing the TAA program in its entirety with wage insurance.¹⁸ Sen. Baucus (D-MT) alluded to such proposals in May 2002: “There are those who would like to abandon traditional TAA entirely in favor of wage insurance. If this experiment [the TAA pilot program] succeeds, that may be just the course we decide to take in a few years.”¹⁹

¹⁴ *See, e.g.*, Robert Reich, “Despite the U.S. Boom, Free Trade Is Off Track,” *Los Angeles Times* (online) (June 18, 1999) (“Turn unemployment insurance into wage insurance. Unemployment insurance was originally intended as temporary income support during economic downturns, until the old jobs returned. But it is less relevant today, when most workers who lose their jobs never get them back. Their major worry is that the new job will pay less”); Timothy Kane, Heritage Foundation, Transcript of Hearing of the Ways and Means Subcommittee on Human Resources (May 4, 2006) (“I would want to encourage the states to experiment with radical freedom on how they do UI and wage insurance”).

¹⁵ Unemployment Compensation Program Integrity Act of 2006 (May 3, 2006) (“The Secretary of Labor may waive the requirements of...the Social Security Act to permit an exception to the requirement that money withdrawn from the unemployment fund of the state be used solely for the payment of unemployment compensation” if the waiver will assist in “accelerating the reemployment of individuals who establish initial eligibility for unemployment compensation”); “Administration Wants UI Income Maintenance Strategy Waivers,” *Employment and Training Reporter* (May 15, 2006) (“The Bush administration is asking Congress for authority to grant waivers of federal unemployment insurance policies that would allow states to implement novel strategies aimed at accelerating claimant reemployment...Deputy Assistant Secretary for Employment and Training Mason Bishop told the subcommittee...‘Perhaps states would subsidize new-hire wages through wage insurance,’ he said”).

¹⁶ Jeffrey Kling, “Fundamental Restructuring of Unemployment Insurance,” The Hamilton Project (September 2006).

¹⁷ U.S. Department of Labor, “FY 2008 Budget Justification of Appropriation Estimates for Committee on Appropriations,” (February 2007), at SUIESO 25-26.

¹⁸ Denise Froning, “Trade Adjustment Assistance: A Flawed Program,” The Heritage Foundation (July 31, 2001) (“The current TAA program has failed to provide effective assistance, one of the crucial factors for a successful adjustment program. 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”).

¹⁹ Sen. Baucus, *Congressional Record* (May 2, 2002), at S3795.

We are concerned that resources may be diverted away from TAA and the UI-WIA system if workers' choices are structured so that they "choose" wage insurance over alternative forms of assistance. This choice will not be a meaningful reflection of worker preferences, however, if the alternatives to wage insurance are rendered unattractive or inaccessible. Already, workers who want to enroll in TAA job training are being denied access due to funding shortfalls, and the Bush administration's proposed TAA regulations would restrict access even further. Funding shortfalls and the Bush administration's emphasis on rapid reemployment are already limiting access for non-trade-affected workers who want to enroll in quality WIA job training, and the administration's proposed WIA regulations would restrict access even further.

The supposed cost advantages of wage insurance would create an incentive to structure workers' choices in this way. Some advocates of wage insurance argue that it would be less costly per worker than TAA.²⁰ Others conclude that wage insurance would be less costly per worker than UI.²¹

We are especially concerned that workers' choices would be structured in this way because of the known philosophical preference, on the part of some, for promoting rapid reemployment without any consideration of job quality. Critics of the UI-WIA system and TAA have traditionally argued that the availability of income support and job training creates a "moral hazard" that encourages workers to stay unemployed longer. By contrast, the leading argument for wage insurance is that it would counter this "moral hazard" by encouraging workers to take lower-paying jobs that they would not otherwise search for, consider, or accept, and thereby reduce the duration of their unemployment spell.²²

²⁰ Lael Brainerd, Testimony Before the Joint Economic Committee (February 28, 2007) ("On a per worker basis, this cost falls midway between the current unemployment and retraining benefits available under UI and Worker Investment Act (WIA) programs and the comprehensive costs of TAA benefits"); *see also* Sen. Baucus, *Congressional Record* (January 4, 2007) ("Wage insurance...can even save money over traditional Trade Adjustment Assistance.")

²¹ Howard Rosen, Testimony Before the Ways and Means Subcommittee on Human Resources (May 4, 2006) ("Wage insurance is also a less expensive form of assistance than unemployment insurance").

²² *See, e.g.*, Lori Kletzer, "Hamilton Project Media Call on Income Stability Among American Families" (September 12, 2006) ("Part of its genesis came around in thinking about unemployment insurance itself. That is, unemployment insurance has a recognized distortion in the sense that you only collect UI if you remain unemployed. So there's a whole labor supply disincentive. Well, if one becomes eligible for wage loss insurance, only when you become reemployed, then there's a counter to that distraction...So it can counter the disincentive...More jobs look interesting or possible in the presence of wage insurance because if somebody who is making under \$50,000 a year has to think about going from a job with tenure to a reentry job, with wage insurance, those jobs start to look a little more attractive. Jobs that were spurned won't be so spurned...it's a program that actually addresses in very important ways some issues that are out there regarding unemployment durations and job search"); Howard Rosen and Lori Kletzer, "Reforming Unemployment Insurance for the 21st Century Workforce," The Hamilton Project (September 2006) ("Wage-loss insurance has some clear roots in the literature of optimal UI policy design, most clearly as a response to moral hazard concerns arising from a UI-recipient worker's reduced incentive to leave unemployment due to a reduction in the net return to securing a job"); Jeffrey Kling, "Meeting the Challenges of the Global Economy," Brookings Institution Transcript (July 25, 2006) ("Receipt of UI benefits encourages longer unemployment spells...The new system [of wage insurance] would also

The issue of rapid reemployment is certain to arise when Congress next considers extending federal unemployment benefits during a recession. We know exactly what these debates look like. In 2001, 2002, and 2003, opponents of an extension argued that unemployment benefits prolong unemployment, and used inflated numbers to claim that laid-off workers already receive generous amounts of assistance. If this pattern repeats itself, the existence of a wage insurance program designed to promote rapid reemployment will be used as an argument against extending jobless benefits. And if this argument is successful, wage insurance will substitute for, rather than complement, unemployment benefits.

We fully appreciate that Representative McDermott has no intention of financing his wage insurance proposal through the unemployment payroll (FUTA) tax system. Instead, his proposal would be financed through a new dedicated payroll tax of 0.1 percent of wages up to the taxable wage base of the Social Security program, which is currently \$94,000 per year. But if there is bipartisan agreement on the design of a wage insurance program, we question whether it is realistic to expect defenders of the UI system to prevent the diversion of UI resources by insisting on an increase in payroll taxes.

It would be especially unfortunate if wage insurance were financed by revenues from extension of the 0.2 percent FUTA surtax. The FUTA surtax is scheduled to expire in December 2007, but for the last two years the Bush administration has proposed a five-year extension. The surtax generates \$7.4 billion over five years. We believe that any additional revenues from unemployment payroll taxes should be used solely to fund modernization of the UI system, and not for wage insurance.

3. Further study would be necessary to resolve the many unanswered questions about a universal wage insurance program—including potential harm to workers.

There has been remarkably little research into the possible consequences of a universal wage insurance program, and the empirical data on wage insurance is scarce. Our only real experience with wage insurance is with two pilot programs—one a short-lived pilot in Canada and the other an ongoing pilot with the TAA program. Further study would be necessary to resolve the following issues:

To what extent would a universal wage insurance program shorten unemployment spells? Although rapid reemployment is the leading rationale for wage insurance, there has been relatively little study of this question. The Canadian pilot program showed only a small impact on unemployment spells.²³

introduce incentives to reduce unemployment...by creating stronger rewards for finding another job quickly”).

²³ Bloom, et al. “Testing a Reemployment Incentive for Displaced Workers: the Earnings Supplement Project,” Social Research and Demonstration Corporation (May 1999), at 39.

To what extent would a universal wage insurance program induce workers to accept lower-wage employment they might otherwise refuse? In 1995 the Upjohn Institute performed the only economic modeling to date on wage insurance and concluded that it “would induce dislocated workers to search harder for jobs and accept employment that they might otherwise refuse.”²⁴

Would these lower-paying jobs lack benefits such as health insurance? We know that workers who collect unemployment benefits, by contrast, are more likely to find a new job with employer-provided health insurance.²⁵

What portion of wage subsidy recipients would have taken lower-paying jobs even without the subsidy? Some proponents of wage insurance argue that its purpose is to provide income support for workers who would take lower-wage jobs even without the subsidy, while acknowledging that it will induce some workers to take lower-paying jobs.²⁶ However, it is unknown what portion of subsidy recipients would take lower-paying jobs even without the subsidy. The smaller the portion of recipients induced to take bad jobs, the less the potential harm to workers.

To what extent would the employment of wage-subsidized workers displace other workers? The Upjohn Institute’s economic modeling found that the employment gains from wage insurance came almost completely at the expense of employment for other workers.²⁷ If wage insurance turns out to be simply a game of musical chairs, encouraging workers laid off from highly-paid jobs to take lower-paying jobs that would otherwise go to workers with less skill and experience, then it raises serious equity concerns.

To what extent would employers provide subsidized workers with on-the-job training? Proponents of wage insurance regularly argue that wage insurance acts as a subsidy for employers to provide on-the-job training.²⁸ But Representative

²⁴ Carl Davidson and Stephen Woodbury, “Wage-Rate Subsidies for Dislocated Workers,” Upjohn Institute (January 1995).

²⁵ Heather Boushey and Jeffrey Wenger, “Finding the Better Fit,” Economic Policy Institute (April 2005).

²⁶ Jeffrey Kling, “Meeting the Challenges of the Global Economy,” Brookings Institution Transcript (July 25, 2006) (“The new system [of wage insurance] would also introduce incentives to reduce unemployment...by creating stronger rewards for finding another job quickly”).

²⁷ Carl Davidson and Stephen Woodbury, “Wage-Rate Subsidies for Dislocated Workers,” Upjohn Institute (January 1995) (“But the simulations also raise the possibility that the gains for dislocated workers could come at the expense of other groups of workers; that is, other groups of workers could experience small increases in employment duration, and decreases in employment levels, that almost fully offset the gains for dislocated workers”).

²⁸ Joint Economic Committee, “Meeting the Challenge of Household Earnings Instability” (March 2007) (“Perhaps most importantly, wage insurance would subsidize the hiring and training of workers who transition into new jobs or sectors”); Lael Brainard, Testimony Before the Joint Economic Committee (February 28, 2007) (“Wage insurance can act as a subsidy of on-the-job training for the worker’s new employer”); Robert Litan, Lael Brainard, and Nicholas Warren, “A Fairer Deal for America’s Workers in a New Era of Offshoring,” Brookings Institution (May 2005) (“The second critical value of wage insurance is

McDermott's proposal contains no requirement that employers provide any on-the-job training at all. Wage insurance is a particularly poor policy choice for subsidizing on-the-job training. The Job Training Partnership Act (JTPA) required that on-the-job training lead to a progression of job skills and higher wages, with protection against displacement of other workers, and that labor organizations be consulted so that subsidized training met quality standards and linked workers to good jobs.

To what extent would any on-the-job training given by employers provide transferable skills? Again, we know of no basis for the claim that employers of wage-subsidized workers would provide better on-the-job training with transferable skills. Representative McDermott's proposal contains no requirement that on-the-job training lead to a progression of skills or higher wages.

To what extent would a large-scale universal wage insurance program subsidize low-wage employers such as Wal-Mart? If wage insurance advocates are correct that wage insurance acts as a subsidy to employers, recipients of the subsidy would be, by definition, lower-wage employers. And the amount of the subsidy would be greater for employers such as Wal-Mart that pay lower wages than their competitors, such as Costco.

To what extent would employers be able to capture the subsidy by paying subsidized workers less than they would otherwise? Wage insurance can act as a subsidy for employers only if employers are able to pay program participants, or other employees, less than they would otherwise pay. It is sometimes assumed that employers will not know the identity of workers who are eligible for wage insurance, but this assumption is questionable. Any employer would be able to identify former Boeing workers after a Boeing layoff in Seattle, or former Delphi workers in Flint, Michigan, or former employees of any large employer whose layoffs are publicized.

To what extent would wage subsidies lower wages for non-recipients? Subsidized employers might further benefit from a reduction of wages resulting from an increase in the total labor supply²⁹ or from an increase in the number of workers willing to work for lower wages.

To what extent would the availability of a program designed to promote "rapid reemployment" – such as wage insurance – be used as an argument against strengthening programs serving displaced workers that have historically been attacked for prolonging unemployment? To what extent would it enable critics of programs serving displaced workers to make them less accessible or less attractive?

that it acts like a training subsidy for the new employer"); Sen. Baucus, *Congressional Record* (January 4, 2007) ("Wage insurance provides an incentive for employers to hire lower-skilled and older workers and train them on the job").

²⁹ Jeffrey Kling, "Responses to Questions About 'Fundamental Restructuring of Unemployment Insurance'" (September 2006) ("increases in total labor supply from wage-loss insurance may reduce wage levels, in the same manner as any other policy that encourages work").

CONCLUSION

We strongly support Representative McDermott's proposal to strengthen and modernize the UI system, and we look forward to working with him to enact this legislation. We believe available budgetary resources should be dedicated on a priority basis to a good jobs strategy, which includes strengthening the UI program and other severely under-funded programs that provide assistance for displaced workers. But we believe it makes little sense to divert scarce budgetary resources away from a good jobs strategy towards proposals that are specifically designed to induce workers to take lower-paying jobs. And further study would be necessary to determine whether a universal wage insurance program adversely affects workers by promoting downward economic mobility, diverting resources away from severely under-funded programs that serve displaced workers, subsidizing lower-wage employers such as Wal-Mart, and causing job loss for lower-skilled workers.