

Wage insurance: A promising policy for displaced workers

May 21 2024



Credit: Unsplash/CC0 Public Domain

Each year, millions of workers are displaced due to technological advancements, international competition, offshoring, and regulatory changes. These shifts can devastate workers, particularly those with

specialized skills and long tenures. An innovative social policy—wage insurance—shows significant promise in mitigating the adverse effects of job loss, in ways traditional unemployment insurance cannot, finds a new working paper from UC Berkeley's Goldman School of Public Policy, Carnegie Mellon University's Heinz College of Information Systems and Public Policy, and the Federal Reserve Bank of New York.

Understanding the challenge of worker displacement

Industrial transformations and economic downturns frequently lead to prolonged unemployment, especially in cyclical industries like automobile manufacturing or textiles. Displaced workers often face severe repercussions, including financial instability and long-term career setbacks. Research also links job displacement to broader societal problems, including reduced [educational attainment](#) for children, increased political polarization, and higher mortality rates.

Traditional support mechanisms like unemployment [insurance](#) cushion the impact of job loss, and retraining programs aim to equip workers with new skills. However, these measures often fall short of fully addressing the needs of displaced workers, particularly as emerging technologies, including AI and decarbonization, continue to disrupt labor markets.

The promise of wage insurance

Wage insurance provides [additional income](#) to workers who find new employment at lower wages, bridging the gap between their previous and current earnings. The [recent study](#) by Hyman, Kovak, and Leive focuses on the [wage](#) insurance provisions of the Trade Adjustment Assistance (TAA) program, which aids workers displaced by international trade.

Under the TAA program, displaced workers engage in mandatory job training and receive extended unemployment benefits. Workers aged 50 and older are eligible for Reemployment Trade Adjustment Assistance (RTAA), a wage insurance program that offers a subsidy of up to half the difference between their old and new wages for up to two years. This subsidy makes re-employment more attractive, particularly in lower-wage jobs, and provides substantial support to those who suffer the greatest wage declines.

The study combined administrative data on TAA petitions with the U.S. Census Bureau's Longitudinal Employer-Household Dynamics dataset, tracking the employment and earnings of 76,500 workers from approximately 1,000 TAA-petitioning firms. These workers, characterized by older age, longer tenure, and lower educational attainment, represent a group particularly vulnerable to the impacts of job loss.

Key findings from the research include:

- **Increased employment rates: Wage insurance eligibility boosted employment rates by 8 to 17 percentage points in the two years following displacement, although the effect faded after four years.**
- **Higher earnings: Eligible workers saw a 10% increase in their pre-displacement earnings, amounting to over \$18,000, or a 26% increase, over four years.**
- **Quicker re-employment: Wage insurance led to shorter unemployment spells, which drove positive earnings outcomes.**
- **Cost-effectiveness: The program was self-financing, with**

increased tax receipts and reduced unemployment insurance payments fully offsetting its costs.

Broader implications and future directions

While the current wage insurance program is limited to workers affected by international trade, its success suggests potential broader applications. The program's reach includes service sectors and extends beyond narrow industries and [geographic areas](#), indicating its viability for a wider array of displaced workers.

Further research is needed to explore the broader impacts of wage insurance. For instance, understanding its effects on critical outcomes like mortality rates and potential employer responses to large-scale implementation is essential.

More information: Benjamin Hyman et al, [Wage Insurance for Displaced Workers](#), (2024). DOI: [10.3386/w32464](#)

Provided by Carnegie Mellon University

Citation: Wage insurance: A promising policy for displaced workers (2024, May 21) retrieved 6 July 2024 from <https://phys.org/news/2024-05-wage-policy-displaced-workers.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--