FRESH PERSPECTIVE SERIES

Wage insurance in an era of non-traditional work

THE ASPEN INSTITUTE
FUTURE OF WORK INITIATIVE

By Susan R. Holmberg and Felicia Wong, The Roosevelt Institute

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FUTURE OF WORK INITIATIVE

THE FUTURE OF WORK INITIATIVE is a year-long nonpartisan effort to identify concrete ways to strengthen the social contract in the midst of sweeping changes in the 21st-century workplace and workforce. The Initiative will focus is focused on two key challenges in particular: first, how best to advance and protect the economic interests of Americans in the rapidly growing economy of shared goods and services; and second, how best to inspire a 21st-century capitalism for a 21st-century workforce by incenting employers to help workers get ahead. The Initiative is driven by the leadership of Honorary Co-Chairs Senator Mark Warner and Purdue University President Mitch Daniels with Co-Chairs John Bridgeland and Bruce Reed. For more information visit as.pn/futureofwork.

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ABOUT THE FRESH PERSPECTIVE SERIES

THE FRESH PERSPECTIVE SERIES is a collection of independent works from expert authors across the ideological spectrum, each presenting new ideas for how various aspects of the social safety net could be updated to better meet the needs of our 21st century workforce. The economic landscape is changing far faster than our system of workplace protections and benefits has been able to keep pace – requiring fresh ideas for how to revitalize our social contract and restore the promise of work. The Future of Work Initiative is committed to the goals of promoting new and creative thinking, sparking bipartisan policy discussion, and working together to help create a healthier economic climate for all stakeholders. The ideas and proposals included are those of the authors, with editorial support from Future of Work Initiative staff.

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AS INEQUALITY HAS MARKEDLY RISEN over the past few decades, so has economic volatility.

Abundant research demonstrates that both individuals and households have faced much greater instability in income since the 1970s[1] – a trend dubbed by Jacob Hacker as the "Great Risk Shift."[2] Income insecurity can lead to problems and crises like bad credit and losing one's home, which then further exacerbate a family's economic vulnerability. As the market restructures, relying on more independent contract work than ever before, we expect these vulnerabilities to be exacerbated even further.

The moniker "1099 economy" refers to the trend in the American labor market in which companies are contracting independent workers for short-term arrangements rather than hiring full-time workers. Jobs aren't just being replaced with lower paying jobs, but instead are being replaced with what are essentially non-jobs – contracts that come with no tenure, security or safety net

As our economy endures seismic changes, policymakers are beginning to explore compelling ideas to help Americans adjust to the 1099 economy. After President Obama elevated the idea in his last State of the Union address, wage insurance has attracted the attention of policy wonks, who believe it could help displaced workers transition quickly back into the job market. But is wage insurance a useful policy idea for a job market that is increasingly reliant on 1099 employment?

This paper argues that while wage insurance may not be suitable as a long-term support system for 1099 workers, it could be extraordinarily helpful as transitional assistance to workers who have lost their full-time jobs and are moving into 1099 work. Ultimately, a full safety net for 1099 workers will require the development of a number of new protections and programs, such as universal portable benefits. We recommend further research and exploration of wage insurance as part of a potential suite of policy options for helping the 1099 worker develop and maintain economic security in the new economy.

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1 Dynan, Karen E., Douglas W. Elmendorf, and Daniel E. Sichel. "The Evolution of Household Income Volatility."SSRN Electronic Journal (2007): n. pag. Oct. 2007. Web. http://www.federalreserve.gov/pubs/feds/2007/200761/200761pap.pdf

2 Hacker, Jacob S. "The Great Risk Shift: The New Economic Insecurity and the Decline of the American Dream." Oxford University Press, 2008. https://global.oup.com/academic/product/the-great-risk-shift-9780195335347?c-c=us&lang=en&

INTRODUCTION

THE AMERICAN ECONOMY is undergoing a profound sea change. The Great Recession and its anemic recovery, coupled with the continuation of longstanding trends in global competition and technological innovation, have calcified into a new normal of income volatility and worker anxiety. Will there be jobs? Will they pay enough? In what sectors and industries can people find work? Will robots ultimately replace us? No one knows exactly what the future economy will look like, but it is clear that some workers will be displaced.

Wage insurance is a social insurance program designed to help displaced workers transition quickly into their next job with minimal economic disruption. By supplementing income loss for low and middle-income workers who have lost one job and are taking another at lower pay, wage insurance can help alleviate the effects of "income downsizing" that can have long-term effects on workers' economic security.[3] Wage insurance can also alleviate the disincentive effects of unemployment insurance and soften the macroeconomic effects of aggregate job loss.

In his final State of the Union address, President Obama called for expanding the social safety net to include wage insurance:

> *Say a hardworking American loses his job—we shouldn't just make sure he can get unemployment insurance; we should make sure that program encourages him to retrain for a business that's ready to hire him. If that new job doesn't pay as much, there should be a system of wage insurance in place so that he can still pay his bills.*
>
> — President Obama, State of the Union 2016

President Obama's elevation of the wage insurance idea for the new economy – in not only the State of the Union but also his final budget – led to a flurry of commentary by journalists and policy wonks. ***Time*** magazine called it "the most unorthodox idea from the State of the Union" and a "curveball."[4] Robert Schiller, in the ***New York Times,*** said "At a time of rising economic inequality and job dislocation, wage insurance makes a great deal of sense."[5] Andrew Stettner of the Century Foundation called it "the most provocative of the president's proposals."[6]

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3 While it technically serves as an income supplement, it's called wage insurance because the source of funds is a social insurance program rather than a transfer program (Wander 2016).
4 Sweetland Edwards, Haley. "Here's the Most Unorthodox Idea from the State of the Union." Time. Time Inc., 12 Jan. 2016. Web. http://time.com/4178408/state-union-wage-insurance/
5 Shiller, Robert J. "How Wage Insurance Could Ease Economic Inequality."New York Times. The New York Times Company, 11 Mar. 2016. Web. www.nytimes.com/2016/03/13/upshot/how-wage-insurance-could-ease-economic-inequality.html?_r=0
6 Stettner, Andrew. "Wage Insurance for Job Loss-Not a Silver Bullet." The Century Foundation. The Century Foundation, 20 Jan. 2016. Web. https://tcf.org/content/commentary/wage-insurance-for-job-loss-not-a-silver-bullet/

The earlier wage insurance discussion of the 1990s was borne as a response to worker displacement due to trade globalization and the rapid trend of outsourcing jobs abroad. Along with those trends, today's discussions of worker displacement include how products are manufactured and services are provided in a new, rapid fire digital economy that is transforming everything from the way we shop for groceries to how we access transportation and manage our finances.

What is problematic about the current, technology-based discussion of wage insurance is that it does not recognize the fact that the very definition of jobs is changing. Wage insurance is very specifically tailored to helping workers transition from a higher paying job to a lower one. Yet, one of the most striking effects of the technological changes we are seeing (though technology is not the only cause) is that it is propelling us toward an entirely new landscape of work arrangements and relationships between workers and employees, a landscape that does not necessarily consist of the traditional jobs that are the basis of wage insurance proposals. In other words, what is not being addressed in the current wage insurance discussion is the looming specter of the "gig" or "1099" economy.

The term "gig economy" refers to the host of short-term jobs that are arising, all coordinated by a mobile app. The 1099 economy is a similar idea but has a wider scope; it refers to the trend in the American labor market in which companies are contracting independent workers for short-term arrangements rather than hiring workers as regular employees. Jobs aren't just being replaced with lower paying jobs, which is what wage insurance is designed to respond to; they are being replaced with what are essentially non-jobs, as workers are hired through contracts that come with no tenure, security or safety net.

"Jobs aren't just being replaced with lower paying jobs, which is what wage insurance is designed to respond to; they are being replaced with what are essentially non-jobs, as workers are hired through contracts that come with no tenure, security, or safety net."

Proponents of these contractual work arrangements argue that these arrangements allow more flexibility and free employees from the company-specific labor markets where advancement depends on internal company dynamics, instead allowing employees to face competitive bidding amongst different businesses for one's services. With ever broadening technological access, proponents argue, more and more Americans can loosen the shackles of the traditional job market by becoming entrepreneurs.[7, 8]

To critics and those concerned about the 1099 trajectory in the American labor market, this trend is less an exciting moment of technological and market innovation and more a function of companies finding ways to minimize their costs, another step in a long history of weakening worker bargaining power. A shift to a U.S. labor force made up of a majority 1099 jobs would create much greater economic insecurity for

7 Kaufman, Micha. "The Gig Economy: The Force That Could Save the American Worker?" Wired. Web. http://www.wired.com/insights/2013/09/the-gig-economy-the-force-that-could-save-the-american-worker/
8 Friedman, Gerald. "The Rise of the Gig Economy." March/April 2014. Web. http://dollarsandsense.org/archives/2014/0314friedman.html

American families, who would be left unable to penetrate the existing system of social insurance primarily offered through traditional job settings.

Just how many people are currently impacted by the 1099 economy? While estimates vary, economists Lawrence Katz and Alan Krueger found that the percentage of workers engaged in alternative work arrangements – both 1099 relationships and certain contingent W2 relationships – rose from 10.1% in 2005 to 15.8% in 2015, which is a jump of over 56% in ten years and represents an increase of 9.4 million workers.[9] This trend means that more and more workers are losing out on a host of social benefits often tied to full-time employment – medical benefits, retirement savings, paid days off for vacation and illnesses, and workers compensation.

As we consider both wage insurance and the broad transformation of the American economy, we should ask ourselves whether wage insurance would be a useful policy to help 1099 workers. That is the objective of this policy note – to explore whether wage insurance could provide social insurance in the 1099 economy.

We find that, while wage insurance may not be suitable as a long-term support system for 1099 workers, it could be extraordinarily helpful as transitional assistance to workers who have lost their full-time jobs and are moving into 1099 work. Ultimately, a full safety net for 1099 workers will require development of a number of new protections and programs such as universal portable benefits. We recommend further research and exploration of wage insurance as part of a suite of potential policy options for helping the 1099 worker develop and maintain economic security in the new economy.

"We find that, while wage insurance may not be suitable as a long-term support system for 1099 workers, it could be extraordinarily helpful as transitional assistance to workers who have lost their full-time jobs and are moving into 1099 work."

OUR ANALYSIS CONSISTS OF THE FOLLOWING SECTIONS:

- The first section, The Case for Universal Benefits, describes the insecurity and volatility associated with working in the 1099 economy, while providing some examples of policy solutions being proposed to deal with these trends;
- The second section, Have We Tried Wage Insurance Before?, details two instances in which Canada and the U.S. designed wage-insurance policies, and draws conclusions about the efficacy of those programs;
- The third section, Past and Present Wage Insurance Proposals, describes the basic specifications of the current wage insurance proposals being circulated;

9 Krueger, Alan B., and Lawrence F. Katz. The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015. Working paper. Princeton University, 29 Mar. 2016. Web. https://krueger.princeton.edu/sites/default/files/akrueger/files/katz_krueger_cws_-_march_29_20165.pdf

- The fourth section, Applying Wage Insurance to the 1099 Economy, applies the concept of wage insurance to the contract jobs landscape – an idea we call "income insurance." We also discuss the limitations of the income insurance idea, concluding that, because of the problematic disincentive effects, it is likely not a beneficial policy choice for 1099 jobs;

- The final section, The Right Fit for Wage Insurance, concludes that wage insurance can be a powerful tool to help workers transition from traditional jobs to a 1099 work life. We believe the transitional wage insurance that we prescribe for the 1099 economy would not provide a consistent, long-term income smoothing device over a potential career of contract jobs, but it could be a crucial means for transitioning into the disruption of contingent work and should therefore be considered and explored in the policy debate on the 1099 economy.

1 THE CASE FOR UNIVERSAL BENEFITS

THE 1099 ECONOMY HAS DEVELOPED in the midst of – and is connected to – our economic inequality crisis. According to economists Thomas Piketty, Emmanuel Saez, and their colleagues, we have almost as much economic inequality now as just before the Great Depression.[10] Not only does this mean that we're experiencing vast disparities in wealth and income, but that also means Americans are feeling a sense of economic insecurity, of not knowing whether forthcoming income will be steady and consistent.

As inequality has markedly risen over the past few decades, so has income volatility. Abundant research demonstrates that both individuals and households have faced much greater instability in income since the 1970s[11] – a trend dubbed by Jacob Hacker as the "Great Risk Shift."[12] According to Hacker, family incomes (of working ages 25 to 61) have become over twice as unstable since the 1970s. Volatility is highest for women, for African-Americans, and for those who hold less education.[13] Income insecurity can lead to problems and crises like bad credit and losing one's home, which then further exacerbate a family's economic vulnerability.

As the market restructures, including more independent contract work than ever before, we expect these vulnerabilities to be exacerbated even further. The Bureau of Labor Statistics has not conducted the Contingent Worker Supplement to the Current Population Survey (CWS) since 2005 – more than a decade's gap in the agency's primary data source for tracking contingent work arrangements in the U.S. However, economists Lawrence Katz and Alan Krueger recently conducted the RAND-Princeton Contingent Worker Survey (RPCWS) – effectively a version of the CWS that offers data which can be compared to the 2005 BLS data. Their 2016 paper presents the results of this survey, documenting a notable rise in the number of what they call alternative work arrangements, defined as temporary help agency workers, on-call workers, contract workers, and independent contractors or freelancers.[14] Katz and Krueger found that the percentage of workers engaged in these alternative work ar-

"Not only does this mean that we're experiencing vast disparities in wealth and income, but it also means Americans are feeling a sense of economic insecurity, of not knowing whether forthcoming income will be steady and consistent."

10 Alvaredo, Facundo, Anthony B. Atkinson, Thomas Piketty, and Emmanuel Saez. 2013. "The Top 1 Percent in International and Historical Perspective." Journal of Economic Perspectives 27(3):3-20.
11 Dynan, Karen E., Douglas W. Elmendorf, and Daniel E. Sichel. "The Evolution of Household Income Volatility."SSRN Electronic Journal (2007): n. pag. Oct. 2007. Web. http://www.federalreserve.gov/pubs/feds/2007/200761/200761pap.pdf
12 Hacker, Jacob S. "The Great Risk Shift: The New Economic Insecurity and the Decline of the American Dream." Oxford University Press, 2008. https://global.oup.com/academic/product/the-great-risk-shift-9780195335347?cc=us&lang=en&
13 Hacker, Jacob S. Universal Insurance: Enhancing Economic Security to Promote Opportunity. Publication no. 2006-07. The Brookings Institution, Sept. 2006. Web. http://www.hamiltonproject.org/assets/legacy/files/downloads_and_links/Universal_Insurance_Enhancing_Economic_Security_to_Promote_Opportunity.pdf
14 Krueger, Alan B., and Lawrence F. Katz. The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015. Working paper. Princeton University, 29 Mar. 2016. Web. http://krueger.princeton.edu/sites/default/files/akrueger/files/katz_krueger_cws_-_march_29_20165.pdf

rangements rose from 10.1% in 2005 to 15.8% in 2015, a jump of over 56% in ten years, representing an increase of 9.4 million workers.[15] Additionally, it should be noted that they find that only a small number – 0.5% – of these workers accessed work through an online app such as Uber or Task Rabbit, suggesting that we are seeing more of a 1099 economy than simply a gig economy.

What this trend means is that more and more workers, because they are legally classified as independent contractors rather than employees or because they face other arms-length contingent employment relationships, are losing out on a host of social benefits, such as medical benefits, retirement savings, paid days off for vacation and illnesses, and workers compensation. This only exacerbates the economic risks that individuals and families are personally absorbing in an economy that is increasingly unequal and insecure. These arrangements suggest the need for an urgent conversation about how to retrofit our existing safety net system – which relies so heavily on employer support - for a more transient and insecure workforce.

What would this kind of safety net entail? The developing conversation prescribes "portable benefits" for workers, which are available to all workers and can be carried with them from job to job, including when workers hold multiple jobs at once. Shayna Strom and Mark Schmitt categorize portable benefits as benefits "not connected to work or the employer at all; or through programs that involve employers but establish benefits that can be provided across employers."[16]

"These arrangements suggest the need for an urgent conversation about how to retrofit our existing safety net system - which relies so."

The most familiar example of a portable benefit established without employers, through the state, is the Affordable Care Act. Economist Dean Baker argues that the Affordable Care Act has spurred a voluntary uptick in part-time employment allowing those who did not want to be tied to their full-time jobs for the sole purpose of health care benefits the flexibility to work elsewhere and for less time.[17] Other examples include proposals for creating publicly funded and distributed 401k plans, and the more radical universal basic income (UBI), which would provide every American citizen with a regular sum of money with which to supplement their income.

Other portable benefits tie protections to work by either encouraging or requiring multiple different businesses to pay a part of the cost of the benefits provided for their workers. This is more akin to traditional employer-provided or -funded benefits, but administered across multiple employers rather than a single employer. The construction sector provides us one example, as construction workers often have several jobs over the course of the year, sometimes simultaneously, for multiple different employers. Through unions as a conduit, construction workers earn a mul-

15 From 14.2 million in 2005 to 23.6 million in 2015.
16 Schmitt, Mark, and Shayna Strom. Protecting Workers in a Patchwork Economy. Rep. The Century Foundation, 7 Apr. 2016. Web.
https://tcf.org/content/report/protecting-workers-patchwork-economy/
17 Verhage, Julie. "Dean Baker: There's A Big Economic Benefit to Obamacare That Isn't Getting Much Attention." Bloomberg. Bloomberg L.P., 17 Aug. 2015. Web.
http://www.bloomberg.com/news/articles/2015-08-07/dean-baker-there-s-a-big-economic-benefit-to-obamacare-that-isn-t-getting-much-attention

tiemployer plan that offers them comprehensive benefits. Generally, participating employers pay a certain amount for each worker they hire, based on an "hour bank" system that pro-rates contributions depending on how many hours a worker puts in. The amount paid by the employer is established in the labor contract, usually $3 to $4 per hour for each hour of each employee. Through payroll deductions, the amount is allocated into a fund for each worker, which is governed by a board of trustees comprised of both labor representation and management.[18] Multiemployer plans must be collectively bargained by a union, and independent contractors generally do not have the ability to collectively bargain – but this could still serve as a model for how contributions could be collected across multiple employers.

These examples showcase some of the interesting ideas being generated in the policy space about how to fill the gaps that contract jobs leave wide open. In order to answer the main questions of this paper – could wage insurance work for those in the 1099 economy – we turn to the two main examples of wage insurance, in the United States and in Canada, and the conclusions we can draw from their results.

18 Hill, Steven. "The Future of Work in the Uber Economy." The Future of Work in the Uber Economy. Boston Review, 22 July 2015. Web. http://bostonreview.net/us/steven-hill-uber-economy-individual-security-accounts

2 HAVE WE TRIED WAGE INSURANCE BEFORE?

Economists first put forth the idea of wage insurance a few decades ago in response to their concern about the potential disincentive effects of unemployment insurance. In other words, they argued, getting a new job ultimately means having to forego unemployment checks, which can discourage job searchers from taking a lower paying job.[19]

Fifteen years ago, Dr. Lori Kletzer and others brought the idea back in the context of intensifying globalization, the accompanying loss of manufacturing jobs, and the anxiety of workers who were unequipped to take advantage of well-paid service jobs. By supplementing income loss for low and middle-income workers who have lost one job and are taking another at lower pay, wage insurance can help alleviate the effects of "income downsizing" that can have long-term effects on workers' economic security.[20] According to Kletzer "Research over the past 15 years shows that lower earnings after a worker regains employment are potentially far more serious and consequential for workers and families than the period in between jobs."[21]

Yet the consequences for that loss of income between jobs are also important. Research by the Hamilton Project showed that workers who lost their jobs between 2007 and 2009 were estimated to lose a total of $774 billion in income over the next 25 years, even if those get new employment.[22] The Pew Research Center found that, controlling for a variety of factors, families who experienced job loss between 1999 and 2009 were 1.3 times more likely to lose wealth during that timeframe than other families.[23]

These effects are only compounded by the spillover effects of income loss. In other words, aggregate job losses ultimately lead to consumer spending shocks that then lead to further losses in terms of investment, job creation, tax revenue, and more. Wage insurance, by acting to smooth income, can potentially soften these macroeconomic effects and make the economy more resilient.

There are only two main examples of de facto wage insurance programs, albeit

"In other words, aggregate job losses ultimately lead to consumer spending shocks that then lead to further losses in terms of investment, job creation, tax revenue, and more. Wage insurance, by acting to smooth income, can potentially soften these macroeconomic effects and make the economy more resilient."

19 Kletzer, Lori G. "Why the U.S. Needs Wage Insurance." Harvard Business Review. Harvard Business School Publishing, 25 Jan. 2016. Web. https://hbr.org/2016/01/why-the-u-s-needs-wage-insurance
20 While it technically serves as an income supplement, it's called wage insurance because the source of funds is a social insurance program rather than a transfer program (Wander 2016).
21 Kletzer, Lori G. "Why the U.S. Needs Wage Insurance." Harvard Business Review. Jan. 2016. Web. https://hbr.org/2016/01/why-the-u-s-needs-wage-insurance
20 Greenstone, Michael and Adam Looney. "Unemployment and Earnings Losses: The Long-Term Impacts of The Great Recession on American Workers." The Hamilton Project. Nov. 2011. Web. http://www.hamiltonproject.org/papers/unemployment_and_earnings_losses_a_look_at_long-term_impacts_of_the_gr/
23 "Hard Choices: Navigating the Economic Shock of Unemployment." Pew Charitable Trusts. April 2013. Web. http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs_assets/2013/empreporthardchoicesnavigatingtheeconomicshockofunemploymentpdf.pdf

very limited in their scale and, thus, limited in their impact. The first is a more targeted U.S. policy – focused solely on workers displaced by trade globalization – that is a direct result of advocacy by Kletzer and others. The second is a Canadian demonstration project instituted for two years in the 1990s. Both programs have had mixed results.

TRADE INSURANCE

In 2002, the Bush administration established the Alternative Trade Adjustment Assistance (ATAA) program, a trade-related wage supplement demonstration program that continues to be funded. If workers are eligible for the broader Trade Adjustment Assistance (TAA) program, then the ATAA, which is funded by TAA funds, will help workers who lost their jobs due to international trade.

Workers age 50 or older are eligible for this wage subsidy if they obtain full-time jobs that pay $50,000 or less, earn a smaller income than they did at their prior job, and find their new job within 26 weeks of becoming unemployed. The wage subsidy is equal to 50 percent of the difference between the old and new wage for up to $10,000 and a total of two years.

In 2006, the ATAA program paid out approximately $15 million in wage subsidies. If the program were expanded to all displaced workers, as many proposals have suggested, then the estimated cost would range from $3 billion to $20 billion each year. In the same year, the ATAA program had 3,200 recipients, while a program available to all displaced workers in 2006 would have likely made payments of up to $2 million.[24]

CANADIAN WAGE INSURANCE – A TRIAL

In 1995 and 1996, Canada tested the wage insurance idea through the Earnings Supplement Project (ESP) as an experiment to shorten duration of unemployment and compensate workers for lost income. However, instead of labeling the program as a form of insurance, they labeled it a supplement. According to Stephen Wandner, "this different title was not an idle change; the Canadians did not need to sell this concept as 'insurance,' and they were willing to make the supplements much more generous, reflecting greater concern about equity."[25]

ESP was a trial project, tested on a group of displaced workers from 5 different cities. Unlike the ATAA, benefits extended to all displaced workers, not just those displaced by trade. The program was funded by Human Resources Development Canada and administered by Social Research and Demonstration Corporation (SRDC), a Canadian non-profit organization that develops and evaluates these types of govern-

24 Wandner, Stephen. Wage Insurance as a Policy Option in the United States. Working paper. W.E. Upjohn Institute, 17 Jan. 2016. Web. http://www.upjohn.org/sites/default/files/pdf/wage-insurance.pdf

25 Wandner, Stephen. Wage Insurance as a Policy Option in the United States. Working paper. W.E. Upjohn Institute, 17 Jan. 2016. Web. <http://www.upjohn.org/sites/default/files/pdf/wage-insurance.pdf>.

ment programs.[26]

The ESP measured the effect of the wage insurance program by conducting a randomized experiment. Applicants who were eligible for the program were placed in one of two groups: a control group and a "supplement" group, both of which were essentially identical during start of the program in that they represented a similar variety of workers and market characteristics.[27] Participants in the supplement group were offered the supplement in addition to all Canadian unemployment benefits.

The supplement was provided to displaced workers who took new, full-time jobs (minimum of 30 hours a week) within 26 weeks of losing their prior job, and who were paid less in the new position. The supplement paid the recipient an amount equal to 75% of the loss in earnings, up to a maximum of $250 per week, for up to two years. The maximum total benefit for the two-year period was $13,000.[28]

In 1999, the SRDC published their research evaluation of the ESP. The following is a highlight of their conclusions.[29]

Approximately 20% of displaced workers placed in the supplement group received payments. The biggest reason for not using the supplement (57.6%) was displaced workers did not find a full-time job in time to qualify.

70% of qualified workers in the supplement group signed up and received payments. The workers who were expecting more money were more likely to make a request for the supplement.

In terms of effects on employment, at the end of the sixth-month eligibility period, there was a slight increase in full-time employment among displaced workers in the supplement group compared to those in the control group – by 4.4%. About 50% came from a shift from part-time to full-time employment and another 50% to an increase in overall employment.

The average payment was $8,705 for 64 weeks during the two-year period and recipients felt that the supplement program was an important source of income for them over this time period. In fact, over 90% of recipients interviewed said that it made "at least a fair or big bit of difference to total income."[30]

The program may have motivated some workers to take jobs with lower wages than they would have without the supplement; average earnings were 4.6% lower than had the recipients been paid their former wages.

26 Bloom, Howard, Saul Schwartz, Susanna Lui-Gurr, Jason Peng, and Wendy Bancroft. Earnings Supplement Project: Testing a Re-employment Incentive for Displaced Workers. Rep. Social Research and Demonstration Corporation, May 1999. Web. <http://www.srdc.org/media/195754/testing.pdf>.

27 De Raaf, Shawn, Anne Motte, and Carole Vincent. Understanding Employment Insurance Claim Patterns: The Final Report of the Earnings Supplement Project. Rep. Social Research and Demonstration Corporation, Mar. 2004. Web. <http://www.srdc.org/media/8850/esp_final_report.pdf>.

28 Brainard, Lael, Robert E. Litan, and Nicholas Warren. A Fairer Deal for America's Workers in a New Era of Offshoring. Rep. The Brookings Institution, 14 Sept. 2005. Web. <http://www.brookings.edu/~/media/research/files/papers/2005/5/macroeconomics%20brainard/2005btf_brainard.pdf>.

29 Tattrie, Doug. A Financial Incentive to Encourage Employment among Repeat Users of Employment Insurance: The Earnings Supplement Project. Rep. Social Research and Demonstration Corporation, May 1999. Web. <http://www.srdc.org/media/9003/fin_inc_to_encourage_empl.pdf>.

30 Kletzer, Lori. Trade-related Job Loss and Wage Insurance: A Synthetic Review. Rep. University of California, Santa Cruz, June 2003. Web.

In other words, the Canadian experience shows that wage insurance can have a small but noticeable impact on moving displaced workers back into the labor market. The evaluators concluded that this effect on its own was not large enough to make the cost of wage insurance worthwhile. However, they did not measure or consider other potential benefits of wage insurance, such as mitigating the negative long-term effects that income downsizing has on workers and making the economy more resilient by smoothing consumer spending during macroeconomic shocks.

We believe that wage insurance is worth exploring for contract workers of the 1099 economy. But before we delve into thinking about how wage insurance might be designed for the 1099 economy, the next section discusses the specific wage insurance proposals that are currently in circulation.

3 PAST AND PRESENT WAGE INSURANCE PROPOSALS

IN ADDITION TO INCLUDING WAGE insurance in his last State of the Union, President Obama also laid out details of this idea in his 2016 budget. Specifically, he proposed establishing wage insurance for all workers who had been at their last job for at least three years, who are laid off and are hired for a lower-paying job at less than $50,000 per year. The wage insurance in this plan would pay half of the difference between the previous earnings and the new earnings, up to $10,000 a year (about $200 a week) for a maximum of two years. For example, a displaced worker who was making $45,000 a year and took a new job for $35,000 would receive $5,000 annually for two years.

This is essentially identical to the proposal sponsored by Congressman Jim McDermott in 2007, except that McDermott's was focused on trade-related jobs specifically while the President's proposal would cover all displaced workers. Still, McDermott's proposal was on a grander scale than the ATAA program. The estimated budget for McDermott's proposed wage insurance plan was $3.5 billion annually, whereas in 2006, the ATAA program paid out only $15 million, which was focused specifically on manufacturing jobs for 50 year old workers and older.[31]

Most of the U.S. wage insurance proposals that have circulated over the last few decades follow this basic pattern:

- Benefits for two years starting from the date of unemployment
- Maximum salary earned — $50,000
- Maximum benefits over two years — $10,000
- Benefits 50% of difference between two salaries

The space where different wage insurance policy ideas would likely diverge is how these programs are financed. The Canadian program was only a 2-year pilot project and paid for with tax revenues. The U.S.'s Alternative Trade Adjustment Assistance was paid for with Trade Adjustment Assistance program funds.

Lori Kletzner, a labor economist who specializes in wage insurance, proposes that a fully fledged wage insurance program, which would come with a net annual cost

31 Andrews, Edmund L. "Why Wage Insurance Is Dividing Democrats." The New York Times. The New York Times Company, 17 Mar. 2007. Web. <http://www.nytimes.com/2007/03/18/business/yourmoney/18view.html?ex=1331870400&en=3d577368295b456e&ei=5124&partner=permalink&exprod=permalink&_r=1>.

of several billion per year, could be financed with a small addition to the federal unemployment insurance tax paid by employers.[32] This is Brookings Institute Robert Litan's contention as well.[33] Alternatively, Republican Congressman Jerry Weller (IL) argued that Congressman McDermott's 2007 proposal could be funded by cutting back on traditional unemployment insurance and on Trade Adjustment Assistance.[34] Indeed, this is one of the labor movement's objections to wage insurance as a policy idea – that to make a wage insurance program politically and fiscally viable, it might require cuts to other, more impactful safety net programs.

The next section of this paper seeks to explore how these ideas can be utilized in the 1099 economy. Given wage insurance proposals for traditional jobs, how might this policy idea apply to contingent workers?

32 Kletzer, Lori G. "Why the U.S. Needs Wage Insurance." Harvard Business Review. Harvard Business School Publishing, 25 Jan. 2016. Web. https://hbr.org/2016/01/why-the-u-s-needs-wage-insurance

33 Litan, Robert. Wage Insurance: A Potentially Bipartisan Way to Help the Middle Class. Rep. Brookings Institution, n.d. Web. <http://www.brookings.edu/~/media/Research/Files/Papers/2015/02/24-wage-insurance-litan/

34 Andrews, Edmund L. "Why Wage Insurance Is Dividing Democrats." The New York Times. The New York Times Company, 17 Mar. 2007. Web. <http://www.nytimes.com/2007/03/18/business/yourmoney/18view.html?ex=1331870400&en=3d577368295b456e&ei=5124&partner=permalink&exprod=permalink&_r=0>

4 APPLYING WAGE INSURANCE TO THE 1099 ECONOMY

ONE DIFFICULTY WITH THE APPLICATION of wage insurance in the forms discussed in the previous section is that contract workers face both the potential for income downsizing and the potential for unemployment. Any proposal involving wage insurance would have to be a hybrid of sorts between wage insurance and unemployment insurance. We would need a policy that addressed both of these issues. How would this work? For the sake of this thought experiment, we will call this hybrid "income insurance."

Wage insurance proposals start from a baseline income from which to measure the decline in income when a worker moves from one job to another. That baseline income is the wage or salary from the former job. In order to implement an income insurance for 1099 workers, we would also need a baseline income, which is more difficult to identify. It could be what workers were making at their regular job before moving to only contract work. It could be an average income over the past 3 to 5 years. Finding the right baseline is possibly the trickiest aspect of this idea.

Once we have a baseline income determined, the logical extension of wage insurance for 1099 would be that when a worker's annual income dips below that original, baseline income, the following year the worker will receive an income supplement payment of 50% of the difference. Following the standard proposals for wage insurance, the maximum baseline income could be at $50,000. If a contract worker's annual earnings were above the baseline amount, then she receives no supplement.

As an example, if a 1099 worker's baseline income is determined to be $45,000 and she made $35,000 in a subsequent year, the following year she would be provided a supplement of $5,000. This might be in one lump sum, such as a tax credit, or it could be distributed quarterly.

How would funding of this income insurance work? In the framework that Strom and Schmitt suggest for portable benefits,[35] this program could be implemented and the funds distributed either apart from work places (a public option), or through them with the help of unions.

State governments generally fund unemployment benefits with predominantly state and federal payroll taxes paid for by employers. Lori Kletzner argues that a fully scaled wage insurance program could be financed with a small addition to the federal

35 Schmitt, Mark, and Shayna Strom. Protecting Workers in a Patchwork Economy. Rep. The Century Foundation, 7 Apr. 2016. Web. https://tcf.org/content/report/protecting-workers-patchwork-economy/

unemployment insurance tax paid by employers.[36] The same logic could apply to a federal income insurance program, whereby the federal government could collect a tax paid by contract "employers" of 1099 workers, and distribute the funds.

Another possibility is for income insurance to be funded and distributed directly through contract "employers" and a third party similar to a union, such as a guild. It could follow the same multiemployer model as the construction worker example; the main differences would be the benefits provided, and the ability for independent contractors to access such a plan.[37] As review, through unions as a conduit, construction workers are often able to access multiemployer plans that offer comprehensive benefits. Generally, the employer pays a certain amount for each worker, based on an "hour bank" system or how many hours a worker puts in. The amount paid by the employer is established in the labor contract, usually $3 to $4 per hour for each hour of each employee. Through payroll deductions, the amount is allocated into a fund for each worker, which is governed by a board of trustees comprised of both labor representation and management.[38] The main difference between the construction workers multiemployer plans and the way an income insurance model could be administered is the nature of what those workers receive, and the ability for independent contractors who are unable to unionize to access such a plan. The multi-employment plan provides comprehensive benefits typically offered through traditional employers. The income insurance policy would be distributing the income insurance supplement described above.

LIMITATIONS OF THE INCOME INSURANCE IDEA

What are some of the problems that might arise from this idea of income insurance? As mentioned, the most difficult issue to resolve is how to avoid structuring the plan with a baseline income that seems entirely arbitrary. It is also important to think of the disincentive effects. Say the same worker with a baseline income of $45,000, was nearing the end of the year with a salary of $35,000. She was offered another job for $10,000, with take home pay of $7500. It is possible to likely she would decline the job with the expectation that she was would rather not work and get $5,000 from her income insurance.

Another issue in designing policy is that the situations that income insurance would be helping to smooth could be so wildly different. For example, someone who earned $35,000 for several years and accepted a job paying $25,000 would receive a significant benefit. Alternatively, someone who had been earning $25,000 throughout the same period would get no supplement.

36 Kletzer, Lori G. "Why the U.S. Needs Wage Insurance." Harvard Business Review. Harvard Business School Publishing, 25 Jan. 2016. Web. https://hbr.org/2016/01/why-the-u-s-needs-wage-insurance
37 Independent contractors cannot currently access multiemployer plans.
38 Hill, Steven. "The Future of Work in the Uber Economy." The Future of Work in the Uber Economy. Boston Review, 22 July 2015. Web. http://bostonreview.net/us/steven-hill-uber-economy-individual-security-accounts

There is also the issue of cost. Lori Kletzner says that a traditional wage insurance program, which would provide income supplements for dislocated workers for two years, would cost several billion dollars per year.[39] But the income insurance we described would be a continuous program for a newly structured, contract-based labor market, implying that the costs would be much higher.

It also may be helpful to look at the criticisms of wage insurance as it pertains to the labor market to think through problems for the 1099 economy. During the U.S. debate on wage insurance a decade ago, several organizers on the Left opposed the idea. Labor leaders argued that it would aid companies in promoting downward mobility by subsidizing low wages. Thea Lee from the AFL-CIO argued at the time that it encourages workers to take bad jobs quickly rather than wait for something that pays better.[40] More recently, Andrew Stettner at the Century Foundation argued that companies should be held accountable for paying their workers a livable wage and benefits, and wage insurance gives them an out.[41]

Labor activists would likely make a similar argument for an income insurance. In other words, income insurance would only make it easier for companies to eliminate traditional jobs in favor of contract jobs. Conversely, if employers were required to pay a tax or percentage based on workers' hours, employers would have "skin in the game."

As mentioned earlier, a hesitation about wage insurance is that, while it is the type of policy that is likely to attract votes because of the emphasis on returning to work over collecting unemployment benefits, there will be legislators who are likely to propose using unemployment benefit funds to pay for a broad sweeping wage insurance program. Proponents of wage insurance often assert that it is not a silver bullet and should be one component of a broader agenda to ensure middle class wage growth, but there is concern that policymakers will treat them as substitutes rather than complements.

Again, this raises a similar issue for income insurance. Will this idea be used to draw resources from our traditional unemployment insurance and, further, will it distract us from a broader conversation about the policy infrastructure we need for a 1099 economy, policies that would have much more effect than an income smoothing insurance? We need policy options that provide safety-net benefits to 1099 workers who do not receive the traditional health insurance, pension contributions or any contribution to unemployment insurance and workers compensation insurance.

"Proponents of wage insurance often assert that it is not a silver bullet and should be one component of a broader agenda to ensure middle class wage growth, but there is concern that policymakers will treat them as substitutes rather than complements."

39 Kletzer, Lori G. "Why the U.S. Needs Wage Insurance." Harvard Business Review. Harvard Business School Publishing, 25 Jan. 2016. Web. https://hbr.org/2016/01/why-the-u-s-needs-wage-insurance

40 How Effective Are Existing Programs in Helping Workers Impacted by International Trade?, U.S. House of Representatives Committee on Education and Labor Cong. (2007) (testimony of Thea Mei Lee). Print. https://democrats-edworkforce.house.gov/imo/media/doc/032607TheaLeetestimony.pdf

41 Stettner, Andrew. "Wage Insurance for Job Loss-Not a Silver Bullet." The Century Foundation. The Century Foundation, 20 Jan. 2016. Web. https://tcf.org/content/commentary/wage-insurance-for-job-loss-not-a-silver-bullet/

5 THE RIGHT FIT FOR WAGE INSURANCE

GIVEN THE ISSUES WITH LONG-TERM income insurance as applied to 1099 work, perhaps the best way to apply wage insurance to 1099 workers is to design it to soften the transition for workers who are displaced from their traditional jobs and are moving into 1099 work.

The set up could be very similar to typical wage insurance proposals:

- Benefits for two years starting from the date of unemployment and /or subsequent shift into contract work
- Maximum salary earned – $50,000
- Maximum benefits over two years –$10,000
- Benefits 50% of difference between two incomes: the traditional job salary or wage and the total income from contract work.

This is similar to the partial unemployment benefits for people who are working part-time due to their inability to find a full-time job, the difference being it would last longer as its intention is to soften the blow for workers of moving into contract work.

The same funding logic as conceived for income insurance could be applied here. It could be implemented and the funds distributed as either apart from work places (a public option), or through them, with the help of a union-like third party.

Some of the problems we described above, particularly the political and budget issues, would certainly apply to this form of wage insurance, but the cost would be significantly less than the income insurance idea (given wage insurance is a more targeted, short-term solution), there would be some but certainly less disincentive effects to not work, and the problem of finding a baseline income would be alleviated because we would be starting at the same place as with traditional wage insurance – the traditional job that the contingent worker had lost before moving into contract work. Using this model of wage insurance to expand the wage insurance plans being circulated to include 1099 workers may also give them some additional political heft as it is being debated in Congress.

Of course, this type of wage insurance should be thought of as one component of a suite of policy options that must be considered to provide support for workers in a 1099 economy. Wage insurance is not a silver bullet. Workers also need universal portable benefits that offer the same type of security provided through traditional employment. The transitional wage insurance that we prescribe for the 1099 economy would not provide a consistent, long-term income smoothing device over a potential career of contract jobs, but it could be a crucial means for transitioning into the disruption of contingent work and should therefore be considered and explored in the policy debate on the 1099 economy.

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