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“Wage Insurance”

Gregg Amendment Would Strike Democrats’ Sweetheart Deal for Lawyers and CEOs

The proposed Trade Adjustment Assistance (TAA) package offered by Senator Baucus (amendment #3401 to H.R. 3009) would create a dangerous and discriminatory new entitlement program that would rob taxpayers to pay a select few. What is dressed up as “wage insurance” is in fact a transfer payment from poor to rich; blatant discrimination against hardworking Americans; a bundle of perverse and harmful incentives; an invitation to fraud and abuse; and a dangerous step toward government wage controls.

Under this proposal, workers aged 50 or older who lose their jobs to foreign competition would be entitled to a portion of their fellow taxpayers’ wages. Those re-employed and earning less than \$40,000 per year would receive 50 percent of the difference between their old and new wage; those earning between \$40,000 and \$50,000 would get 25 percent of the difference. Eligible workers could receive as much as \$10,000 over two years. The cost of the entitlement proposal *initially* would be capped at \$100 million over two years. The dangers and inequities of this proposal are manifold.

A Golden Parachute for Inept Management

The Democrat “entitlement to your neighbor’s wages” would create a number of perverse situations. For example, the entitlement would extend to anyone who lost his job due to foreign competition, regardless of prior income or accumulated wealth.

- After running his company into the ground, an inept CEO who had “earned” a seven-figure salary could take a \$50,000-a-year job in the Florida Keys and collect \$10,000 in “wage insurance” from his fellow taxpayers – enough to install an entertainment center on his yacht. **Although his incompetence cost thousands of workers their jobs, many of them would not be eligible for the Democrat “wage insurance.” In fact, their taxes would finance their former boss’ golden parachute.**

- Corporate attorneys with large inheritances who made six-figure salaries at a now-defunct company could get \$10,000 golden parachutes that would help them litigate for various causes, including right-wing causes like school choice or the right to carry handguns.

However, this proposal's evils do not end with allowing the rich to steal from the poor.

Shameful Discrimination Against Workers and the Unemployed

The Democrat wage transfer entitlement would discriminate unfairly against current workers and those seeking work.

- Under this proposal, two colleagues would work the same job at the same salary, but the second one would “earn” an extra \$10,000 over two years simply because he lost a prior job to trade competition. **This proposal effectively would transfer wages from the first worker to the second worker.**
- This “wage insurance” would give select workers an unfair advantage when looking for a job. A 50-year-old with no dependents and 45-year-old with a wife and three kids both lose their jobs to foreign competition. When applying for the same job, the older man can offer to work for less than the younger man because he knows he is entitled to “wage insurance.” **Eligible workers could – and would – use the entitlement to give themselves an unfair advantage over any ineligible workers.**
- **Younger workers – and even some older workers – would lose their jobs to make room for this proposal’s preferred class of workers.** Democrats make no attempt to aid workers who would lose their jobs due to this “wage insurance” proposal.

What right does the federal government have to say that an employer should hire one person because he lost his previous job to foreign competition and not another who lost her job to domestic competition?

Paying People to Work Less

Since welfare reform passed in 1996, America has been reminded of the importance of rewarding work. Instead of rewarding work, the Democrat “entitlement to your neighbor’s wages” would pay workers to work less.

- A factory worker who lost his \$25/hour job to foreign competition goes looking for work. He is offered a similar job at \$25/hour and another job at \$19/hour. **Even though he could take a job almost identical to the one he lost, he still would be eligible for “wage insurance” if he chose the lower-paying job.** In effect, this proposal would pay him to be less productive.

True, some workers may not be able to find jobs that fully tap their capacity. But the Democrat proposal would subsidize both those who are trying earnestly to be more productive and those trying earnestly to be less productive.

Paying People to Avoid Training

The premise behind TAA has always been that displaced workers should be given training to help them land one of the many better jobs created by lowering trade barriers. The Democrat “wage insurance” proposal subverts TAA’s emphasis on training. Instead, it rewards workers who forego training. By paying workers to take lower-paying jobs and skip training, it would set back the career advancement of participating workers by years.

A Bonanza of Fraud and Abuse

An employer who knows a worker is eligible for “wage insurance” would have an incentive to lower that worker’s wage because he knows taxpayers will make up the difference. Employers and workers also could manipulate wages to take advantage of the entitlement. For example, employers could shift a portion of an employee’s wages to informal or off-ledger benefits (free meals, *etc.*) in order to increase the worker’s transfer payment. Further, friends or family members could create bogus jobs to allow eligible workers to cash in on “wage insurance” without doing any actual work. The proposal contains no provisions to prevent such abuse.

Coming Soon: Draconian Wage Controls

Though proponents may tweak the proposal to remedy some or other of the above-mentioned effects, it would still deserve defeat because its premise is thoroughly corrupt. Wages should be set by what consumers are willing to pay for a worker’s effort – in other words, by supply and demand, not by politics. Interfering with supply and demand, as the Democrat “entitlement to other workers’ wages” would do, encourages workers to game the system rather than dedicate themselves to serving their fellow citizens.

The Democrat “wage insurance” proposal is a dangerous foot in the door for draconian wage controls. Should this proposal become law, other constituencies soon will demand their own form of “wage insurance,” whether subsidies or other wage controls. It will be difficult to say no to these groups, given how unjustified is the proposal now before the Senate. Soon entire populations would come to believe they are entitled to a certain wage not because they have made themselves useful to their fellow citizens, but for as many other reasons as can be imagined. The cost of these controls would climb well beyond the \$100 million in this proposal, and would be measured both in tax dollars and the hidden tax of dampened economic growth.

The Gregg Amendment to Strike

Senator Gregg has introduced an amendment (#3427 to H.R. 3009) to strike the proposed Democrat “entitlement to your neighbor’s wages.” The Gregg amendment deserves 100 votes.

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