Next Social Contract Initiative Policy Brief

Economic Security Through Employment Assurance:

The Missing Link in the American Welfare State

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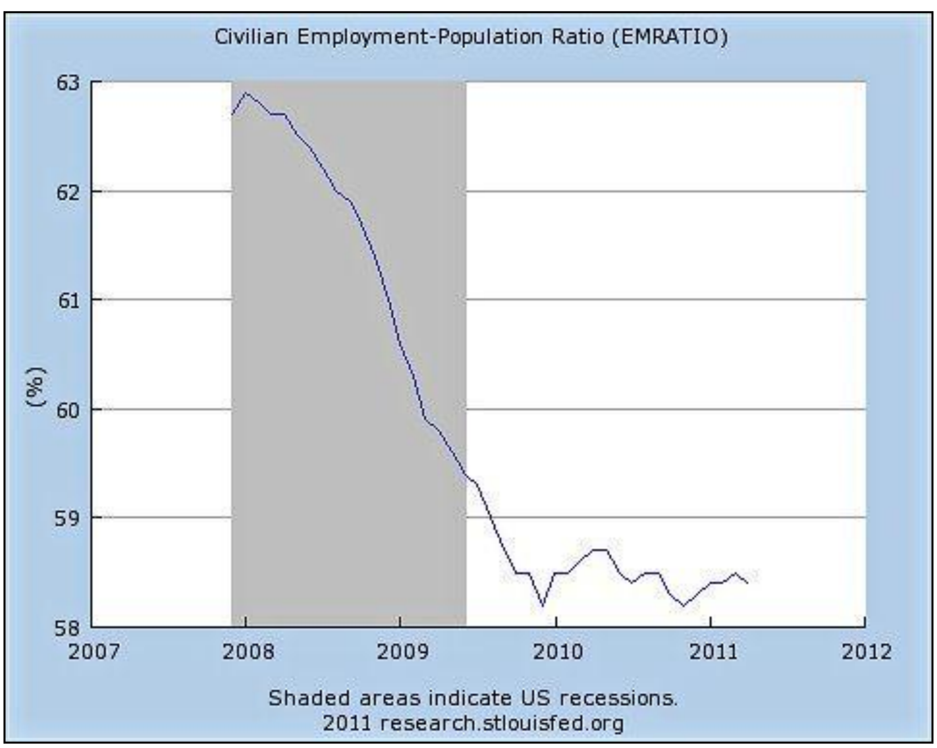
Introduction

There are many reasons why America's system of economic security is not working.[1] Chief among them is a common factor in almost all of our social policies: they are designed with the assumption that people are constantly employed. For example, most social insurance programs, from Social Security to Unemployment Insurance to Medicare, require people to build up years of contributions before they can access benefits.

The problem is that the American economy is increasingly shifting towards higher and higher levels of employment insecurity. Several years into an economic recovery, the unemployment rate is at 8.5 percent, the underemployment rate is at 17.2% percent, and the proportion of the population that is working is stuck well below pre-recession levels.[2]



Even those numbers understate the extent of employment insecurity. Between 2004 and 2007, a period of strong economic growth, 43 million workers (nearly a third of the workforce) experienced a spell of unemployment, with the average worker experiencing 1.5 periods of unemployment lasting for more than two months.[3]

Despite this gaping hole in our social safety net, the U.S. has no policy to keep people from losing their jobs or getting them work when they lose their jobs. If we want to keep our social contract intact, we have to establish new policies to ensure that Americans who want to work have jobs.

Historical Background

When the architects of the Social Security system were designing the Unemployment Insurance (UI) part of their overall plan, they hit a stumbling block: what would UI do for the 7.5 million workers who were unemployed in 1935 and who had never paid into the system, and what would be done to protect the majority of workers who were not covered by the new system? The Committee on Economic Security concluded that "since most people must live by work… we suggest employment assurance—the stimulation of private employment and the provision of public employment for those able-bodied workers whom industry cannot employ at a given time."[4]

Within the Committee Emerson Ross was the chief research director of the Federal Emergency Relief Administration and future Assistant Administrator of the Works Progress Administration. Ross proposed three models for how this system of 'employment assurance' could work:

- The first model "contemplated wages on a work program as a means of paying all unemployment benefits." A form of "job insurance" would replace Unemployment Insurance as the dominant form of public provision against destitution, guaranteed as "a matter of contractual right to…wages paid for work performed."

- The second envisioned a system of mixed job insurance, whereby "contributions for protection against unemployment for a work program" would be added to General Fund revenue to provide work for all of the unemployed, regardless of their contributions.

- The third proposed two parallel systems; the Unemployment Insurance we know today and then a work program which would kick in "after the right to cash benefits under an unemployment insurance scheme becomes exhausted." In this model, work would replace extended UI benefits after 14 weeks.[5]

In shaping an Employment Assurance system for the 21st century, we have the advantage of seventy-five years of policy learning throughout the world. **Broadly speaking, an Employment Assurance system should rest on two kinds of policies: policies designed to keep people from losing their jobs, and policies designed to create new jobs when recessions overwhelm our first line of defense.**

Employment Assurance - Keeping People on the Job

In the same sense that preventive medicine is always preferable to curative medicine, preventing job loss is always preferable to trying to lift the jobless out of unemployment. In addition to the immediate income shock of losing one's job, unemployment has major long-term consequences: 55 percent of displaced workers end up taking jobs that pay a lower wage than their previous employment; 36 percent of them suffering wage losses of 20 percent or more.[6]

Expanding and improving the WARN Act, which requires 60-day notice of job losses at large employers, could serve as a foundation for a system in which the government works with employers to forestall layoffs, instead of waiting until afterwards to offer assistance.[7] In other countries, this and similar measures are called "active labor market policy."

There are models for active labor market policies that have been used successfully in OECD countries to keep unemployment rates from skyrocketing in recessions, they can be financed by letting workers tap into a portion of the UI benefits or (as was the case with the HIRE Act of 2010) by offering a payroll tax credit to participating employers:[8]

- **Work-Sharing**: In Germany and the Netherlands, employers who reduce their workers hours instead of laying off workers get tax credits to provide wage subsidies to their workers to offset the loss of pay. While 17 states in the U.S. participate in work-share programs, most states lack the wherewithal to help more than a fraction of employers – a Federal work-sharing program could put some real muscle behind this program.
- **Education and Training:** Sweden offers a similar subsidy to employers who refrain from layoffs, but instead of cutting hours for all workers, it provides funding for workers who would otherwise be laid off to get a degree or go through an apprenticeship or training program. While this method does not spread out the effects of a recession in the same way that work-sharing does, it has the advantage of increasing productivity in the long-term.

Either of these strategies would be preferable to current U.S. policy. It is far better to spend some money up front, either through partial UI or tax credits, than to lose even more in the long-term by enduring unnecessary unemployment, future wage losses, and prolonged recessions.

Employment Assurance – Job Insurance to Create New Jobs in Recessions

Employment maintenance policies like the ones described above are at their best in pushing employers away from turning mild recessions into sudden downward spirals through mass layoffs. However, in the case of severe recessions, even public subsidies may not be enough to avoid sharp increases in unemployment. In these cases, direct job creation efforts along the lines of the Local Jobs for America Act are necessary to counter-act big swings in the unemployment rate. And yet, as we have seen with the stimulus bill and Obama's recent American Jobs Act proposal, it is extremely difficult to get job creation measures of a significant size through Congress in a timely basis.[9]

One option that could avoid this institutional gridlock would be to create a permanent institution for job creation – a Job Insurance system – to keep people working in recessions. With a permanent program with its own revenue source and reserves and the capacity to develop a “shelf” of “shovel-ready” work projects, Congress would not have to reinvent the wheel during each recession.

A further advantage to direct job creation is its speed and flexibility. By suddenly countering mass layoffs, a job insurance program would powerfully shift the expectations of employers about future consumer spending and revenue, preventing the spiral effect where layoffs convince other employers to cut back on their workforce ahead of declining demand.

The equivalent of a 1 percent payroll tax would bring in enough revenue to hire a million workers for a year.[10] A few years of normal economic growth would build up a reserve fund capable of putting the unemployed back to work on a mass scale, even in the worst of recessions. Providing people with a job at a decent wage has two main economic advantages over Unemployment Insurance. First, it would prevent unemployment from turning into poverty (which Unemployment Insurance does not do today). Second, it would mean that the economy would recoup some of the $109,000 in output per worker that is lost when workers are unemployed.[11]

In dealing with the social and psychological impact of unemployment, a job insurance system is infinitely preferable to the status quo. In 1944, William Beveridge wrote that “The worst thing we can do to an unemployed man is to heap indignity upon indignity, because the loss of work in itself is a bad thing. I have seen fine, brave men reduced by continuous, enforced unemployment to a state in which they feel they are forgotten, unwanted, thrown on the scrap heap.”[12] In our current recession, despite the existence of UI, rates of clinical depression have increased by 36%, in part due to the fact that 79% of long-term unemployed workers report increased mental stress due to job loss.[13] Regardless of whether workers have access to Unemployment Insurance or not, denying them the opportunity to earn their living and to contribute to society is wrong.

Employment Assurance is an example of one of those rare cases in which, in the words of Benjamin Franklin, we can do well by doing good. By reducing the number of people who become unemployed during recessions, we both reduce the drain on our UI system and ensure the maximum number of payees per beneficiary. At the same time, we ensure that workers do not fall through the cracks and that workers are given an alternative to benefit checks, while reaping the social gains of increased consumption and production that would not have occurred if workers had been left on UI.

Endnotes

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[13] http://www.thefiscaltimes.com/Articles/2011/09/23/The-Recessions-Silent-Mental-Health-Epidemic.aspx#page1

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