



Wage Insurance: Paycheck Socialism

Following the adoption of the \$15 minimum wage in Seattle and numerous other cities, and with presidential candidate Bernie Sanders calling for an \$18-trillion explosion of “democratic socialism” upon the United States, alarms bells are sounding loudly over the direction of the country. If President Obama has his way (and presumably Hillary Clinton as well), another phase of the advancement of socialism in America may soon come to fruition: wage insurance.



What Is Wage Insurance?

Simply put, wage insurance is payment by the government to workers who take jobs that pay less than their previous employment. Obama explained the idea in his State of the Union address last January:

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.

There would be limits to both dollars paid and the number of years in which payments could be received, but the effect is chilling: Obama is proposing that the United States take a headfirst plunge into socialism by paying *fully employed workers taxpayer dollars simply for taking lesser employment*. Income redistribution doesn’t get more obvious.

Socialism in the United States

Proponents like to point out that socialism is already ingrained into the fabric of our economy. Case in point: unemployment insurance. Payroll taxes are deducted from an employee’s paychecks so that if said individual were to become unemployed, a reservoir of funds is available from which to draw upon until a new job is secured. Other so-called examples of socialism include Social Security, government agencies, public schools, roads/bridges, police and fire departments, garbage collection, public libraries, the military, and the prison system.

For the most part, these examples are red herrings. Government services are provided to the collective out of sheer necessity, as there is no easy way to run a government without government services, garbage collection, prisons, and the like. Social safety net programs such as unemployment insurance may be an exception, but they are means-tested and designed to provide an economic floor to stave off financial disaster.

Wage Insurance Already Exists in the United States

Those unwilling to believe that the United States would consider taking such a drastic step have likely never heard of the Reemployment Trade Adjustment Assistance program, which was quietly written into the Trade Act of 2009. The program allows workers 50 years old and older, who have been adversely affected by trade-related job displacement, government benefits up to 50 percent of the difference



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between the worker's previous salary and their current income, with various restrictions and limitations.

Obama's proposal goes much further. *Anyone* accepting a lower-paid job would be eligible for government benefits.

How Does It Differ From Unemployment Insurance?

Wage insurance differs from unemployment insurance in one major respect: The government would pay workers already gainfully employed simply because they willingly took a job that did not pay as much as their previous employment.

Brookings economist and wage insurance advocate Gary Burtless explains the concept as follows: "[Wage insurance] would provide experienced, laid-off workers with monthly or quarterly earnings supplements, compensating them for a portion of their lost wages."

To date, the various iterations of the program would have dollar limitations as well as a cap on the number of years. Obama's proposal was for a \$10,000 wage subsidy per year over a two-year period. Others have called for maximum outlays as high as \$50,000 per worker.

Wage Insurance Has Already Been Tried in Canada

Obama's proposal has been tried — unsuccessfully — in Canada. The Canadian Earnings Supplement Project was initiated in the mid-1990s and was tested on two groups of 5,912 displaced workers in 1995 and 1996. It was also even more generous than the system proposed by Obama, supplementing reduced wages at a 75 percent rate.

The net results:

- Unemployment durations were reduced slightly, but not significantly.
- The program had almost no effect on overall unemployment benefits received.
- Wage insurance could prompt longer unemployment in certain cases.

If Canada's attempt at wage insurance provided few tangible benefits despite an even more generous supplement, it's likely that such an effort in the United States would suffer a similar fate.

A Simple Cost/Benefit Analysis Points Out the Folly of Wage Insurance

Most Americans desire basic social safety net programs. A Fox News poll in 2014 revealed that 69 percent of respondents felt unemployment insurance should be available for at least a year — twice as long as the current authorized period of 26 weeks.

However, Obama's wage insurance proposal rewards workers for quickly taking lower-paying jobs. It would also come with a hefty price tag — in 2007, it was estimated that the program could cost up to \$4 billion per year. Given that the U.S. population has grown by more than 20 million over the past nine years, and after factoring in inflation, it's probable that the cost would now be well north of \$5 billion. With an already-strained federal budget, an overtaxed populace should have little desire to foot the bill for yet another unnecessary government program.

Lastly, FreedomWorks points out socialism's fatal flaw — the elimination of incentives — as a key reason why wage insurance is a spectacularly bad idea:

If employers know that the government will be chipping in part of the pay for their new hires, they will quickly realize that they can get away with paying these people less. Eventually, take home pay



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will level off at where it was before the subsidy, and workers will experience no benefit from the insurance at all. In this way, Obama's proposal is self-defeating.

The Free Market Should Reign Supreme

During this election cycle, populist economics have become a front-and-center grab bag by the candidates for both parties. Despite the promises, pronouncements, and braggadocio, little of what any of the candidates have espoused is likely to be enacted by Congress.

Wage insurance is an example of an idea that should forever remain on the drawing board. Although America has slowly edged toward socialism, the sooner incentive is removed from the economy, the quicker the demise of the American Dream will be at hand. That's the cost an overzealous federal government should never ask us to pay.



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