Politics, Economics and the Duration of Unemployment Insurance

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Abstract

The purpose of this study is to explain the variation in the duration of people on unemployment insurance across U.S. states. I test how economic and political variables including divided government and state ideology affect the number of weeks people receive unemployment insurance. My findings suggest that unemployment rate, population, state ideology, and the popular vote percentage for Democrats are statistically significant in determining the length of unemployment insurance.

Introduction

The United States currently funds 126 different welfare programs totaling 668.2 billion dollars (Tanner and Hughes 2013). On top of that, each state has their own programs to combat poverty averaging around 200 million dollars (Tanner and Hughes 2013). Some programs use a combination of state and federal funds. One such program is the Unemployment Insurance (henceforth UI) program, which is designed “to help workers who have temporarily lost their jobs by replacing part of their wages while they look for work” (Stone and Chen 2013) as well as help stabilize the economy when experiencing downturns (Gould-Werth and Shaefer 2012). There are different types of UI with the most basic type providing up to 26 weeks of benefits for unemployed workers. Other types of UI include Extended Benefits (EB), which provides an additional 13-20 weeks, and the most recent Emergency Unemployment Compensation (EUC). Because each state contributes in funding, different states may offer more or less choices; however, who may apply for
these benefits is subject to limitations held constant across all states.

In order to be deemed eligible for benefits, a worker must meet three criteria. Firstly, the worker must have earned a certain amount of money during what is called a “base period” (Stone and Chen 2013). Secondly, the worker must have demonstrated an ability and willingness to actively seek and accept suitable employment (Stone and Chen 2013). Thirdly, the cause for termination must not be the fault of the worker (Stone and Chen 2013). For example, a worker laid off from companies experiencing downsizing is eligible, but a worker whose employment was terminated due to habitual tardiness is not. States are allowed to establish their own programs within the limits set forth by the Federal government. Even though workers may be eligible to receive UI for a certain amount of weeks, that does not mean they actually do. Some of these workers spend more time receiving UI than others. While this is generally viewed as a topic for economics, I thought political factors could also be at play.

This paper analyzes the following question: What political factors affect the number of weeks spent on unemployment insurance across U.S. states? While UI benefits replace wages for workers temporarily unemployed, the main goal of the program is to get workers back into the work force. By understanding the cause of this variation, we may be able to achieve this goal in a more efficient manner. In addition to this, we would be in a position that would allow us to better predict who will be receiving UI for extended periods of time and may therefore update or implement programs designed to train these workers with skills employers are seeking.
Similar studies have been done in the past by analyzing basic demographic and economic variables, but this study will expand prior work by including political variables. These variables are important because politics will influence policy decisions and therefore affect potential new regulations regarding UI. In addition to this, UI is topical as state administrations are aiming to reduce the amount of time spent on UI in upcoming months. The findings of this study drive the discussion in a political direction that determines future policy decisions. The dependent variable analyzed in this study is the average duration of weeks spent on UI. The independent variables are as follows: minimum wage, unemployment rate, median household income, state spending per capita, population, state ideology, governor party, party control of the State House, party control of the State Senate, divided government, and popular vote percentage for Democratic presidential candidates. By adding political variables to economic variables, this study contributes something new to the field of unemployment insurance. The findings of this study suggest the political variables of state ideology and popular vote percentage for Democratic presidential candidates are statistically significant, and the economic variables of unemployment rate, population, and state spending per capita are statistically significant.

**Literature Review**

There is a significant amount of work done in the field of unemployment insurance. This paper will discuss literature pertaining to the variables afore mentioned.

One major theme present throughout the literature was minimum wage and
how it correlates to UI. In a recent study done by the CATO Institute, Michael Tanner and Charles Hughes state that UI benefits pay more than minimum wage in 35 states effectively acting as a de-incentive for people to go out and find jobs. Because of this, it is actually in a person’s best interest to remain on UI rather than take a pay cut by getting an “entry level job a typical UI recipient can expect to find” (Zoellner-Hogland 2013). In Missouri for example, minimum wage is set at $7.35 an hour while UI is set at $12.90 an hour (Zoellner-Hogland 2013). In addition to this, UI is tax-free while wages are not. This further incentivizes workers to remain on UI. Minimum wage fits in with this study because states have varying wage rates thereby being a potential cause for variation.

According to an article written by Chad Stone and William Chen, UI is a program that is dually funded by the federal and state governments alike. The U.S. Department of Labor goes on to say that the state’s portion comes solely from taxes imposed on employers. They do note there are 3 exceptions in which employees contribute minimally to the overall cost. The federal government taxes 6% of employer wages and state taxes vary based on that particular state’s law (U.S. Department of Labor 2013). Because the state provides most of the funding (Stone and Chen 2013), state budget is relevant to the study. This is because states are free to set their own tax standards, which would cause some to collect more in revenue than others. The more a state receives in tax revenue, the more they would be able to contribute to unemployment insurance and thus sustain the program for a longer period of time. For the purposes of this study, state budget is defined as the total amount of resources the state has to spend.
Another theme present was unemployment rate. It is necessary to explain how the unemployment rate is calculated. “A person is considered to be unemployed if they did not work in the previous week, but were available for work and had actively looked for work at some time during the previous four weeks” (Hubbard and O’Brien 2006). The formula to calculate the unemployment rate is as follows: the number of unemployed people divided by the labor force and then multiplied by 100. The labor force consists of the sum of the employed and the unemployed (Hubbard and O’Brien 2006). However, not everybody is included in the labor force. These exceptions are “people who do not have a job and who are not actively looking for a job, the institutionalized, and retirees” (Hubbard and O’Brien 2006). According to the Department of Bureau of Labor Statistics and the Associated Press, the higher the unemployment rate in a state, the more weeks that state offered UI. This is applicable to the study because not every state exhibits the same unemployment rate, therefore potentially accounting for some of the variation. For example, Nevada and Illinois exhibited unemployment rates nearing 10%, a rate that is considered to be quite high. Because of this, these states offered up to 73 and 70 weeks respectively on UI, with the maximum number any state can receive without extended benefits being 73 weeks in 2013 (Center on Budget and Policy Priorities 2013).

This leads to some of the literature regarding population. States that have high populations also experience a higher unemployment (Hagenbaugh 2009). These states may collect more in tax revenue due to their increased population size, but there is also a greater likelihood that more of these people would need to receive UI.
In addition, it may take them a longer period of time to be able to find a job due to the increased competition that is caused by more bodies. But due to the limitation in budget, the state could quickly run out of funding for UI. Because of this, states that exhibit a higher population will have people receiving UI for a shorter period of time in order to accommodate as many people as possible.

Another theme in the literature was age. It is suggested that older workers, individuals aged 50 and over, experienced steep wage losses and were one-fifth less likely to become re-employed than their younger counterparts (Johnson and Butrica 2012). Those that did manage to gain new employment received wages that were about 21% lower than that of their previous job (Johnson and Butrica 2012). This deficit could be the result of a combination of employer reluctance to hire older workers and said workers possessing outdated skills. For those that do not, or have a more difficult time, breaking back in to the work force are told they are “over-qualified” for the available positions (Kurtz 2013). This is relevant to the study because if these workers cannot break back in to the workforce, they would be forced to apply for UI in order to cover the costs of living. The longer it takes them to find a job, the longer they may be receiving UI.

To make this a more political paper, I looked at political factors that influence policy decisions regarding UI. It is widely publicized in various news forums that Republicans favor cuts to benefits for the unemployed in an effort to redirect state spending. Basically, their position is that the money states are spending on unemployment could be better put to use in another area of state spending (Casselman 2012). Republican elected officials at the state and federal levels are
advocating to reduce the amount spent on benefits where unemployment has fallen or has been stable over the past few years (Casselman 2012). By cutting these benefits, workers will be forced to move back into the work force and those funds can be redirected by the state for whatever they deem necessary. Democrats, on the other hand, vehemently oppose this. This is because they view the Republican position as a form of punishment for being unemployed. In addition to this, Democrats believe that keeping UI will create 300,000 new jobs and promote economic growth (Needham 2013).

Because of the polarization among the political parties, conditional party government is an applicable theory. “The theory of conditional party government begins with the policy preferences members bring with them to the House and Senate which they would choose to reveal in voting and other policy-making actions” (Aldrich and Rohde 2005). These policy preferences come from the political party with which members identify. Because of this, these members will vote along the lines of their party in order to further advance their own careers because they are motivated by re-election (Mayhew 1991). As noted in Fight Club Politics by Juliet Eilperin, voting against party lines is punishable by the potential loss of party support, without which chances of re-election are diminished. This fuels the polarization of the political parties and the views associated with each.

In David Mayhew’s Divided We Govern, he writes, “significant lawmaking can be expected to fall off when party control is divided.” Unified governments have a better chance of passing legislation (Mayhew 1991). Divided governments tend to encounter gridlock more often than unified governments, which in turn affects their
ability to pass legislation. Because of this, it was necessary to make the divided
government variable that is later mentioned.

**Hypotheses**

H1: States that have a higher unemployment rate have a longer duration of people receiving UI.

This hypothesis, the unemployment hypothesis, predicts that states where the economy is particularly bad have a higher unemployment rate and a higher cost of living, thus causing the lower income individuals to require government assistance for a longer period of time (Center on Budget and Policy Priorities 2013).

H2: States that have a higher minimum wage rate have a longer duration of people receiving UI.

According to the literature, there are currently 35 states that pay workers more to be unemployed than to be employed. The minimum wage hypothesis predicts that these large payments act as a de-incentive for the people receiving unemployment to get a job, therefore maximizing the amount of time spent receiving benefits (Tanner and Hughes 2013).

H3: States that have a high population will have people receiving UI for a shorter period of time.

This hypothesis predicts that states with a relatively large population will have people receiving unemployment insurance for a shorter period of time. This is due to a larger portion of the population in need and limited resources to fill those needs (Hagenbaugh 2009).

H4: States with a higher median household income will have people receive UI for a
shorter period of time.

This hypothesis predicts states with a higher median household income will generally have people receive unemployment insurance for a shorter period of time. States that exhibit a higher average salary will tend to have better economies and thus less incentive to stay on UI (Tanner and Hughes 2013).

H5: States that exhibit a Democratic ideology will have people receive UI for a longer period of time.

Because President Obama has been advocating for the extension of unemployment insurance, states that exhibit a Democratic ideology will also push for extensions to exemplify party support and follow political climate. This is because members of the same party advocate and vote along the party lines as a whole due to conditional party government (Aldrich and Rohde 2005).

H6: States that have a higher popular vote percentage for Democratic presidential candidates will have people receive UI for a longer period of time.

It is widely publicized in different news forums that Republicans oppose the extension of unemployment insurance while Democrats remain in favor of extension. Because of this well-known fact, this hypothesis predicts states that exhibited a larger percentage of their popular vote for Democratic candidates rather than Republican candidates in presidential elections will receive unemployment insurance for a longer duration of time.

Data

For the study, the dependent variable is the average number of weeks spent on unemployment insurance by each state and covers the years 2000-2012. This data
comes from the Bureau of Labor Statistics and is averaged annually from quarterly data. This variable is the measurement by which other variables are regressed within the linear regression model.

The first independent in this study is minimum wage by state and comes from the United States Department of Labor. This data measures federal minimum wage as implemented by state from 2000-2012. This is considered an interval variable.

The second independent variable used in this study is unemployment rate for each state that covers the same span of years. The variable information comes from the Bureau of Labor Statistics and was also averaged annually from monthly data.

The third independent variable used in this study is the median household income for each state. It is taken from the United States Census Bureau.

The fourth independent variable used in this study is population, and it is also taken from the United States Census Bureau. In order to better show the changes in the model, I took the natural log of this variable. This simply makes it more comparable to the other variables, but it is interpreted differently. A logged variable is interpreted as follows: the change in $Y = \frac{\text{Coefficient divided by 100}}{100} = \text{percent change in } X$, where $Y$ is the dependent variable and $X$ is the independent variable.

For example, if the coefficient of the logged variable is 10, it then becomes 10 divided by 100, or $1/10^{10}$ of 1%. So for every one unit increase in the logged variable, there is a $1/10^{10}$ of a 1% increase in $Y$.

The fifth independent variable is state spending per capita. In order to find this variable, I took each state’s budget from NASBO, the National Association of State Budget Offices, and divided it by the corresponding population. I considered the
The budget of each state to be the total amount of resources the state had to spend. This is found in the actual, as opposed to the estimated, state general fund for each corresponding fiscal year. This is considered to be an interval variable.

The sixth independent variable is state ideology. This data is taken from the corresponding date set of the research paper *Updated Measures of Citizen and Government Ideology* by Richard C. Fording. In Fording’s data set, there were two measurements of state ideology, a nominate and an interest group measurement. I used the nominate ideology score because it has a stronger performance in validity tests than the interest group score. In addition, I only used the nominate score instead of both due to collinearity issues.

The seventh independent variable in this study is the percent of the popular vote that went to Democratic candidates in the last four Presidential elections. This data is taken from the American Presidency Project and indicates a specific percentage given to each party candidate by state. Due to collinearity issues, I used the percentage given to Democratic candidates as opposed to Republican candidates.

The next three independent variables in this study are used to calculate the final independent variable. The first of these variables is governor party, which is taken from the National Governors Association. I coded this variable as follows: Democrat=0, Republican=1, Other=2. The next independent variables are party control of the State House and party control of the State Senate. Both of the information for these variables is taken from the United States Census Bureau, specifically, the Gubernatorial and State Legislature data set. Both of these variables
are coded in the same manner as the governor party variable. Based on the results from these variables, I was able to create the final independent variable used in this study, which is divided government. In order to do this, I asked the question “Do the governor party, party control of the State House, and party control of the State Senate match?” If all three variables were of the same political party, then that state did have a unified government; however, if at least one political party was different, then that state has a divided government. I coded this variable as follows: Divided=0 and Unified=1.

**Methods**

For the purposes of this study, I utilized data from a variety of sources including the American Presidency Project, the Updated Measures of Citizen and Government Ideology, the Bureau of Labor Statistics, the NASBO publications for state budget, the U.S. Census Bureau, the Federal Reserve for Economic Data, and the National Governors Association. Data used covers years 2000-2012. Due to the nature of the data, it was necessary to account for time by using a cross sectional time series regression model.

**Analysis and Discussion**

In this study, I tested a total of eleven variables to measure how they affected the number of weeks spent receiving unemployment insurance, with five of them reaching statistical significance. These variables were unemployment rate, population, state spending per capita, state ideology, and the popular vote percentage for Democratic candidates. While not all variables were statistically significant, the model indicated there were relationships present by having an R
squared of .574, which means that 57.4% of the variation is explained. This may be seen in Figure 1 below.

Figure 1: Variables and their significance

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>COEFFICIENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment Rate</td>
<td>.662*** (.000)</td>
</tr>
<tr>
<td>Population</td>
<td>.189** (.031)</td>
</tr>
<tr>
<td>State Spending Per Capita</td>
<td>.000** (.014)</td>
</tr>
<tr>
<td>State Ideology</td>
<td>.0158** (.015)</td>
</tr>
<tr>
<td>Popular Vote Percent Dem</td>
<td>4.341*** (.005)</td>
</tr>
<tr>
<td>Minimum Wage</td>
<td>.083 (.422)</td>
</tr>
<tr>
<td>Median Household Income</td>
<td>1.094 (.126)</td>
</tr>
<tr>
<td>Governor Party</td>
<td>.249 (.176)</td>
</tr>
<tr>
<td>Party Control State House</td>
<td>.121 (.587)</td>
</tr>
<tr>
<td>Party Control State Senate</td>
<td>.183 (.360)</td>
</tr>
<tr>
<td>Divided Government</td>
<td>.269 (.127)</td>
</tr>
<tr>
<td>Constant</td>
<td>-8.163 (.274)</td>
</tr>
</tbody>
</table>

N 429  R^2  .5740
*<.10  **<.05  ***<.01

Unemployment rate was statistically significant at the 99th percent level. This finding supports the first hypothesis because for every ten unit increases in unemployment rate there is a 6.62 increase in weeks spent receiving unemployment
insurance.

Population was statistically significant to the 95\textsuperscript{th} percent level. This finding rejects the third hypothesis because for every ten unit increases in population there is an increase of 1.897 of 1\% in weeks spent receiving unemployment insurance. Because the variable is logged, it is analyzed as the change in $Y = \text{Coefficient}/100 = \%$ change in $X$, where $Y$ is the dependent variable and $X$ is the independent variable.

The percent of the popular vote that went to Democratic candidates in the Presidential elections was statistically significant to the 99\textsuperscript{th} percent level. This finding supports the sixth hypothesis because for every one unit increase there is a 4.340 increase in weeks spent on unemployment insurance.

States spending per capita and state ideology were statistically significant to the 95\textsuperscript{th} percent level. Because of the significance of state ideology, the fifth hypothesis is supported. For every 10 unit increases in state ideology there is a 1.58 increase in the number of weeks spent receiving unemployment insurance.

When discussing the topic of unemployment insurance, economic variables seem to dominate the literature. This study fits in with that literature because it tests some of those economic variables, but also adds something new by incorporating political variables such as state ideology. The findings of this study suggest there is a relationship present that could potentially drive discussions on unemployment insurance towards implementing new policy decisions in the upcoming years.
Works Cited


