

DRAFT

Do not cite
Or circulate

**State trends in unemployment
insurance eligibility, benefits,
and take-up,
1990-2000**

Jeffrey B. Wenger
Economic Policy Institute

May 4, 2001

The author would like to thank the Ford Foundation for support of this project. Excellent research assistance was provided by Matthew Walters. The author also benefited from conversations with Eileen Appelbaum, Maurice Emsellem, Rick McHugh, Becki Smith, Mark Baldwin, John Schmitt, and Chirag Mehta.

Introduction

The unemployment insurance systems of the United States need an overhaul. Since 1935 the UI system has operated as the main line of defense for workers who lose their jobs through no fault of their own. But changes in the organization of work, the increase in women in the workplace, and recent calls for balancing work and family responsibilities have been met with few changes in the way workers qualify for benefits. Consequently, the system is now less relevant for those unemployed, fewer than half of whom apply for benefits.

The United States has 51 unemployment insurance systems. Each state establishes its own rules governing unemployment insurance policy, generosity, eligibility, and revenue. Consequently the variation in state UI policy is considerable. While the development of state-level programs of unemployment insurance is overseen by the federal government, a wide range of practices is acceptable.

In this analysis we focus on both policy changes throughout the 1990s and state-to-state differences in UI policy. (Details by state are presented in two appendix tables.) We pay particular attention to those factors that are likely to impact low-wage workers, part-time workers, and workers with interrupted or limited labor market experience. From 1990-2000 we analyze changes in (1) eligibility requirements, (2) benefit amounts, and (3) the percentage of unemployed workers applying for benefits, referred to as insured unemployment.

We find that, while most states made it easier to qualify for benefits and most states increased their benefit maximums, a smaller percentage of unemployed workers applied for and received benefits. This contradiction is partly explained by the reduction in union employment and migration of manufacturing from high-benefit states to low-benefit states. It is likely that low levels of unionization raise the likelihood of workers being unaware of their benefits. Migration into less generous states makes applying for benefits less remunerative. Additionally, we find an important effect of the minimum wage on insured unemployment. We estimate that a \$1 increase in the minimum wage raises the percentage of workers filing unemployment insurance claims by 3.1%. This is likely due to minimum wage increases enabling more workers to earn enough to qualify for benefits, and raising the weekly benefit amount.

State-to-state variation

A comparison of some of the key facets of the states' UI programs illustrates their differences.¹ Perhaps the most telling variation is in the maximum allowable benefits.

Table 1 lists the five states with the lowest and highest maximum allowable benefits.

The difference in maximum weekly benefits between Massachusetts and Alabama is striking. In addition to these differences are eligibility requirements that also vary from state to state. To qualify for the maximum benefit in Alabama a worker had to earn a

¹ All data taken from Comparison of State Unemployment Insurance Laws (2000). U.S. Department of Labor.

TABLE 1. Maximum weekly benefits, lowest- and highest-paying states, 2000

<i>Lowest paying</i>	<i>Weekly benefit (max)</i>	<i>Highest paying</i>	<i>Weekly benefit (max)</i>
Alabama	\$190	Massachusetts	\$477
Mississippi	190	Washington	441
Arizona	205	Pennsylvania	430
South Dakota	224	New Jersey	429
California	230	New York	405

minimum of \$4,560 in one 12-week period (quarter) *and* have earned \$9,120 in the base period (usually the first four of the last five completed quarters). Additionally, the worker must have been employed by a covered industry, must not have been self-employed, and must not have been fired for cause or have quit. In Massachusetts, to qualify for the maximum benefits, the worker must meet a minimum earnings requirement of \$12,402 in one quarter, and \$14,310 in the base period; this will qualify the worker to receive the maximum base of \$477. Massachusetts also has a provision for dependents (called a dependents' allowance), and it pays an additional \$25 per week per child under the age of 18 up to a maximum of \$215 per week.

Vroman's (1991) research into the complexity of the unemployment insurance systems reveals that many workers find the system daunting. The most common reason for not applying for unemployment insurance benefits is that workers do not think they are eligible; nearly 53% of all non-applicants believed they were not eligible for benefits (Vroman 1991, 25). A very small number of unemployed workers reported that "too much hassle" and "too much like charity" were the main reasons for not applying; these reasons combined to 5.3% of all non-applicant responses.

The complexity of the unemployment insurance system can be an analytic boon to researchers. By using state-level variation to examine unemployment insurance policies, researchers have 50 state-level quasi-experiments to compare the effects of specific unemployment insurance policies. Perhaps because quantifying the differences between the states' UI programs is painstaking, few researchers use the differences in state-level unemployment insurance policy to analyze changes in insured unemployment. Blank and Card (1991) and Baldwin and McHugh (1992) are two notable exceptions.

Atkinson and Micklewright (1991) point out the many shortcomings in previous research on unemployment insurance. In particular, they note that researchers regularly make assumptions about the provision of unemployment insurance that they know to be *false*. For example, many researchers assume wrongly that benefits are paid regardless of the reason for unemployment. Other analysts assume that benefits are available for the full unemployment spell – without a waiting period. Some research does not consider that job search is a requirement to receive benefits. Confusion about the duration and calculation of benefits abounds. Finally, most analysts assume that if benefits were not received then they played no part in decisions about employment or unemployment.

Thus, only those who receive benefits are thought to be influenced by the provision of benefits. In every instance these assumptions are likely to be incorrect and in most cases provide analysts and policy makers with spurious results.

Taken *in toto* these assumptions draw a very inaccurate portrait of the U.S. unemployment system. In the U.S., benefits are not paid to those who quit or are fired with cause; benefits are paid only after a waiting period (usually one to two weeks); eligibility requires evidence of a current job search; refusal of a job offer often results in ending benefit payments; workers must have made minimal contributions to the unemployment insurance system; benefits are paid on a sliding scale based on total earnings; and benefits are limited to a maximum of 26 weeks in most states. Because of the myriad rules, regulations and policies established by the many states, assuming a standardized form for unemployment insurance may result in serious specification issues and erroneous policy prescriptions.

To circumvent the types of problems described by Atkinson and Micklewright (1991), we take into consideration the specifics of the program, by state, when modeling decisions to apply for unemployment insurance. By doing this, we achieve a more complete picture of the labor market effects of unemployment insurance.

The next section of this paper discusses the role of eligibility requirements. Section II examines annual and state-to-state differences in eligibility requirements; Section III examines the benefit provisions of the states' UI systems; Section IV analyzes the decline in the percentage of unemployed applying for benefits; and Section V highlights best practice.

I. The purpose of eligibility requirements

Unemployment insurance eligibility is built around a single premise: labor force attachment. Both monetary and non-monetary eligibility requirements focus on the worker's attachment to the labor force. If the worker is "casually" attached to the labor force, then he or she is likely to be denied benefits. Casual attachment occurs when earnings fail to meet minimum requirements (in a base year), if the worker does not work in consecutive quarters, or if the worker's peak quarterly earnings in a base year do not meet a minimum requirement. Additionally there are non-monetary eligibility requirements which further restrict an employee's ability to collect unemployment insurance compensation. The three most common reasons for ineligibility are: the worker is unemployed as a result of a labor dispute (strike, walkout, etc.), the worker left the job without "good cause," or the worker was discharged due to "misconduct."

While it has been argued that the complexity of the states' current unemployment insurance systems exist due to institutional or historic reasons, the UI eligibility rules nevertheless serve an important purpose: to separate the "deserving" from the "undeserving." Thus, eligibility rules limit who may receive monetary benefits by distinguishing those who deserve them from those who do not.

Those deserving unemployment insurance benefits are thought to be those who have “paid” for them. That is, once significant contributions to the UI system have been made the worker is eligible for benefits. If a worker does not make a substantial contribution to UI then he or she is not eligible. In most states, the basic eligibility rules have the following components: workers must be employed for a prescribed number of weeks during the year, must earn a prescribed amount, must have separated from employment through no fault of their own, and must be unemployed (actively looking for work) rather than leaving the labor force. These combined factors are thought to measure a worker’s labor force attachment.

Many of the eligibility requirements bias the unemployment insurance policy against low-income workers, women, and contingent laborers. Workers must earn both the minimum earnings in the base year and the minimum in the peak quarter. It may be difficult for low-income workers to meet this criteria. For example full-time, full-year workers earning the minimum wage (\$5.15) in 2000 would qualify for UI in all 50 states and D.C., but half-time, half-year workers with the same hourly wage would fail to qualify in 8 states.² Additionally, employees who quit work due to employer initiated schedule changes are ineligible for UI in 13 states; depending on the circumstances, they may be ineligible in another 25 states. For women these unanticipated changes in schedule can be especially problematic if primary child care responsibilities lie in their hands. Workers exclusively pursuing part-time work are deemed ineligible for UI in at least 30 states,³ since they are considered “unavailable” for full-time work. Finally, temporary workers are considered ineligible in 20 states if they refuse any subsequent assignments.

As previously discussed, workers who are strongly attached to the labor force are likely to be eligible for unemployment insurance. Early framers of unemployment insurance law believed that workers with a strong labor force attachment would re-enter the labor force with a minimal delay and wrote eligibility rules to favor these workers. Nevertheless, a consistent and robust finding in unemployment insurance research is that unemployment insurance benefits prolong spells of unemployment (Stigler, 1962; McCall, 1970, Mortenson, 1970). Yet these effects appear quite small. Moffitt and Nicholson (1982) find that an increase in the benefit replacement rate of 10 percentage points (in other words move from replacing 40% of lost income to 50% of lost income) would result in only one additional week of job search. Additionally, Atkinson et al. (1984) and Atkinson & Micklewright (1985) call into question the robustness of this finding. Finally, more recent work by Acemoglu and Shimer (1999) finds that a “decrease in the generosity of UI from its current U.S. level would not only decrease welfare but also reduce the level of output.” Consequently, we can conclude the negative

² Unless otherwise noted we use the higher of the state-specified minimum wage or the federal minimum wage in each state.

³ Estimate from the GAO, 2000. The National Employment Law Project estimates that 39 states would make an ineligible determination if a worker sought part-time work exclusively.

impacts of unemployment insurance benefits are small and questionable while the welfare benefits are significant.

While some researchers view unemployment insurance benefits as an unproductive subsidy for the unemployed, many others see unemployment insurance as improving the quality of the job search conducted by the unemployed worker, apart from the necessary purpose of income support during time of hardship. To the extent that unemployment insurance subsidizes job search, it may influence the quality of the job match. Hence, improvements in unemployment insurance availability and benefits levels may result in increasing high-quality employer/employee matches, thereby reducing subsequent employment turnover and spells of insured unemployment.

Unemployment insurance is the most suitable policy available to cover the increasing flow of contingent workers into and out of jobs. The system is already in place, has successfully provided a safety net for other displaced workers, and requires potentially minor changes to make it more amenable to alternative work forms or contingent work. Other researchers have proposed more dramatic policy changes such as “adopt[ing] measures that attempt to limit the creation of temporary jobs to a level that accommodates the worker’s need for flexible annual work schedules.” (Golden and Appelbaum, 1992) or reducing the costs unions currently face in organizing contingent workers by allowing sectoral bargaining for unions, or making legislative provisions for comparable pay and benefits schedules for regular full-time workers (duRivage, Carré, and Tilly, 1999:273,278). One doubts the political feasibility of such far-reaching policies; they are not likely to be enacted given their sheer scope, magnitude and spillover effects. The more modest proposals presented in this research report address Blank’s (1998) concern that “the unavailability of unemployment insurance to self-employed contractors and to many part-time or temporary workers who work limited hours or switch jobs frequently may exacerbate the economic uncertainty associated with contingent work.” Regardless of the employment relationship, low-income, temporary or part-time, all workers should be equally protected by employment policies such as UI.

II. Examination of eligibility

Base period

Determining eligibility for a recently laid-off worker begins with an examination of previous employment. In most states only the most recent labor market experience is counted in making this determination. The period used to determine eligibility is often referred to as the base period. Most states have a base period that is the first 4 of 5 completed calendar quarters. In these states only wages and hours accrued in the *first 4* out of 5 *completed* quarters are counted toward eligibility. This means that the most recently completed quarter is not counted nor is any portion of the current quarter. For a worker who filed an unemployment claim on April 1, 2001 the base period would be January 1 through December 31, 2000. Wages earned and hours worked between January 1 and March 31, 2000 would not be used to determine eligibility. The worst case occurs

when a worker is unemployed a week before the end of a quarter. In this case 25 weeks worth of earnings would be disregarded for the purposes of eligibility.⁴ For workers living in states that using a “standard” base period, between 13 and 25 weeks worth of earnings are not counted toward eligibility. As of 2000, 39 states use this standard 4 of 5 base period.

Calculating the base period in this way clearly hurts workers who have limited or interrupted work histories. Additionally, low-wage workers who may need all their earnings to qualify are more likely to be ineligible for benefits. Twelve states recognize that this system penalizes workers with low earning as a consequence they have adopted alternate base periods. In these states,⁵ if a worker fails to qualify for unemployment insurance benefits using the standard base period then an alternate base period is used. In the alternate base period the last four completed calendar quarters are used to determine monetary eligibility, not the first 4 of 5 completed quarters. This effectively reduces the number of weeks of earnings that is disallowed. Under an alternate base period a minimum of 0 weeks to a maximum of 11 weeks is not counted toward eligibility.

Earnings requirements

To qualify for unemployment insurance benefits workers must have earned a minimum dollar amount during their state’s base period (49 states). Additionally many states have quarterly earnings requirements. Our analysis is concerned with the changes in earnings requirements from 1990 to 2000. From 1990 to 2000 ten states and the District of Columbia raised their minimum earnings requirements.⁶ By raising their minimum earnings requirements these states made it was harder for low wage workers to qualify for UI benefits.

To further examine the effects of these earnings requirements we compare changes in median wages to changes in earnings requirements for each state.⁷ We break our analysis into two time periods 1990-95 and 1995-2000. In the first part of the 1990’s median real wage growth across the states was negative while the latter half of the 1990’s saw rising real wages (see Mishel et al. 2000 for a discussion of median wage trends). If we examine median wage changes by state⁸ we see that median wages fell by 2.2% from 1990-1995. Fortunately for many workers, UI earnings requirements declined by 8.8%. Thus, the median earner in many states had an easier time qualifying for UI benefits in the late 1990’s than in the early 1990s.

⁴ In this case we have 12 weeks for the quarter most recently completed and another 11 weeks for the nearly completed quarter.

⁵ The 12 states with alternate base periods in 2000 are NJ, NY, OH, ME, MA, NH, VT, RI, MI, NC, WI, and WA.

⁶ These states include Alabama, Colorado, Florida, Maine, Massachusetts, Michigan, Nebraska, New Mexico, New York, Ohio, Utah.

⁷ All amount are 2000 dollars, inflated by the CPI-U.

⁸ Note that the unit of analysis is the state (unweighted), not the individual.

TABLE 2. Changes in UI earnings requirements and median wages

<i>State</i>	<i>Change in Earnings Requirements</i>	<i>Change in Median Wages</i>
<u>1990-1995</u>		
1. District of Columbia	85.8%	1.3%
2. Massachusetts	42.9%	-3.0%
3. Ohio	33.0%	-6.0%
4. Maine	16.8%	-9.0%
5. Iowa	3.2%	-5.0%
6. Utah	2.9%	-4.5%
7. New Mexico	2.7%	1.3%
8. Kansas	1.4%	-6.4%
9. Wyoming	-2.8%	-6.8%
<u>1995-2000</u>		
1. Florida	87.1%	6.1%
2. Colorado	56.3%	13.0%
3. Alabama	47.2%	12.2%
4. Michigan	27.5%	5.5%
5. Georgia	21.2%	5.9%
6. Nebraska	18.0%	5.1%

Author's Analysis of State UI Data, Median Wages CPS-ORG (SWA sample)

Despite this there were nine states that raised their minimum earnings requirements faster than median wages. These states and their percentage changes and UI earnings requirements and median wages are listed in **Table 2**.

Since median wages are indicative of the wage distribution,⁹ many workers are likely to have experienced increased difficulty in qualifying for UI benefits in these states. Particularly daunting were the changes in Massachusetts, Ohio and Maine; these states raised their earnings requirements considerably during a time when median wages were *falling*.

The period from 1995-2000 tells a somewhat different story. During this time state median wages increased by 7.3% while UI earnings requirements declined by 1%. Although this is likely to make UI eligibility easier in most states, 6 states raised their earnings eligibility requirements faster than the median wage. Interestingly, none of the states that raised their earnings requirements disproportionate to the wage in the 1990-95 period did so again in the 1995-2000 period.

⁹ An analysis of the 20th wage percentile provides the exact same results. It appears that 9 states in 1990-95 period raised their earnings requirements faster than 20th percentile wages; while 8 states raised their earnings requirements faster than the growth in the 20th percentile wages during the 1995-2000 period.

Another significant portion of the eligibility rules relates to a worker's quarterly earnings. Most states (33 in 2000) have quarterly earning requirements. To satisfy these requirements workers must earn a state-determined minimum amount in at least one quarter of the base period. For example Florida requires total earnings of \$3400 in the base period to qualify for minimum UI benefit; additionally, workers must earn \$2266 in their highest earning quarter. In other words, a worker who qualifies for a minimum benefits must earn two-thirds of their earnings in one quarter. This requirement is typically known as the "high-quarter" earnings requirement.

Our analysis indicates that in the 1990-95 period 5 states raised their high quarter earnings requirements faster than their state's median wage. From 1995-2000 this occurred in 3 states. Overall, while the high quarter earnings requirements presents a more difficult eligibility hurdle, fewer states raised high quarter requirements (than total earnings requirements) relative to earnings in the 1990's. Nevertheless, seven states¹⁰ and the District of Columbia had real quarterly earnings requirements that were higher in 2000 than in 1990.

Weeks and hours

While most states have minimum earnings requirements, a few states require that an individual work a specified number of weeks. Typically, only those weeks in which a minimum weekly earnings threshold is exceeded are counted as weeks worked. This system has embedded within it the same inequities as state systems that use earnings as requirements for eligibility – workers who earn less per hour must work more in order to qualify for benefits. Over time, the number of states with this requirement has declined. In 1990, nine states had minimum weeks requirements, by 2000 that number had decline to 3. We should not be deceived by these weeks requirements. They are really earnings requirements that double as distribution requirements. For example, a worker must work 20 weeks to qualify for UI in New Jersey in 2000. Only those weeks in which a worker earned 20% of the state's average weekly wage are counted toward fulfilling this requirement.

The only state that does not explicitly tie UI eligibility to prior earnings is Washington state. In Washington a worker qualifies for UI once she works 680 hours in the base period. Washington also has an alternate base period allowing the worker to count hours of work in the current calendar quarter. While Washington does not tie earnings to eligibility requirements the *de facto* earnings requirement is 680 hours at the minimum wage. With Washington state's minimum wage currently at \$6.50 this means that to qualify for UI most workers¹¹ must have a minimum earnings of \$4,420. This is \$2,020 more than the next highest state, Florida. While Washington's eligibility requirements are simple and easy to understand, the *de facto* earnings requirements are the highest in the country.

¹⁰ Alabama, Florida, Oregon, Nebraska, New Mexico, New York, Utah

¹¹ Training wages and minimum wage exemptions will lower the earnings requirements.

The role of minimum wages on eligibility

There is a direct link between minimum wages and UI eligibility: increases in statutory minimum wages reduce the number of states where minimum wage workers are ineligible to receive UI benefits.

In 1989 the federal minimum wage was \$3.35 (unadjusted for inflation). On four separate occasions in the 1990's the federal government increased minimum wages; by 1998 the federal minimum wage was to \$5.15. Also, throughout the 1990's, many states raised their minimum wages above the federally mandated minimums. By 2000 ten states (including the District of Columbia) had minimum wages above the federal requirement.

In this state-level analysis we consider each state's statutory minimum wage in determining UI eligibility. The results are summarized in **Table 3**. In each case we examine the eligibility status of workers employed for 26 weeks at 20 hours per week during the base period.

In 1990, minimum wage workers working half-time for half the year failed to meet the monetary eligibility requirements in 16 states. The minimum wage increase of 1991 meant that in six more states, these low wage workers would qualify for UI benefits. Other minimum wage increases had similar effects. For example, had the minimum wage not been raised in 1996, the number of states in which these low wage workers were ineligible to collect UI benefits would have increased from 10 to 13. Similarly, the minimum wage increase in 1998 reduced the number of states determining ineligibility for low-wage workers, from 10 to 8.

Further evidence can be seen when we consider periods when the minimum wage was not increased. From 1991 through 1996 there were no federally mandated increases in the minimum wage. During this period a gradual increase in the number of states determining that half-year, half-time minimum wage workers were ineligible for benefits occurred. In 1991, ten states determined that these workers were ineligible for UI benefits. In 1992 that number increased to twelve, by 1993 we have fifteen, in 1994 twelve, and by 1995 we are back to ten.

Of course this is not conclusive evidence (we saw an increase and decline in the number of states determining that these workers are ineligible) but by the middle of the 1990's half-time minimum wage workers was no more likely to be eligible for UI benefits than in 1991. Additionally, it is possible that states respond to increases in the minimum wages by raising their earnings requirements.

Finally, we should note that our estimates of eligibility in Table 3 may be overly generous. We assume that all of the previous earning are "counted" when determining eligibility. In most states this is not the case; these states disallow a portion of a worker's most current earnings. For example in 2000, 40 states have base periods that disallow as much as three months of recent earnings. This implies that a recent labor market entrant who worked 20 weeks prior to being laid-off would have 13 weeks of work not used in calculating benefits. At minimum wages even a full-time worker would fail to qualify for benefits under these circumstances in 19 states.

TABLE 3. Minimum wage worker employed 26 weeks, 20 hours per week

<i>Year</i>	<i>Federal minimum wage</i>	<i>Number of states where worker is ineligible</i>	<i>State</i>
1990	\$3.80	16	AZ, ID, IN, LA, MI, MO, NH, NJ, NC, ND, OK, VA, WA, WV, WI
1991	\$4.25	10	ID, IN, ME, MT, NH, NC, ND, OK, VT, WA
1992	\$4.25	12	ID, IN, ME, MT, NH, NC, ND, OK, VT, VA, WA, WI
1993	\$4.25	15	DC, ID, IN, MA, ME, MT, NH, NC, ND, OK, UT, VT, VA, WA, WI
1994	\$4.25	12	ID, IN, ME, NH, NC, ND, OH, OK, VT, VA, WA, WI
1995	\$4.25	10	ID, IN, ME, NH, NC, ND, OH, VA, WA, WI
1996	\$4.75	10	FL, IN, ME, NH, NC, ND, OH, VA, WA, WI
1997	\$4.75	10	FL, IN, ME, NH, NC, ND, OH, VA, WA, WI
1998	\$5.15	8	FL, IN, ME, NH, NC, ND, VA, WA
1999	\$5.15	8	FL, IN, ME, NH, NC, ND, VA, WA
2000	\$5.15	8	FL, IN, ME, MI, NH, NY, ND, WA

Eligibility and TANF recipients

Recent research indicates that previous welfare recipients are among those most likely to be affected by the minimum wage policies and alternative base periods in determining UI eligibility (Holzer, 2000; Um'rani & Lovell, 2000; Gustafson & Levine, 1998). Many previous welfare recipients have a limited work history, making UI eligibility difficult to achieve. Even for those who work consistently the base periods adopted by many states make qualifying for UI difficult. In many cases these base periods disallow current

earnings penalizing workers whose employment history is recent, limited or sporadic. TANF recipients are very likely to fall into this category. Analysis of the 1993-96 Survey of Income and Program Participation (SIPP) indicates that about 5% of previous welfare recipients report receiving UI benefits. Most welfare (AFDC) recipients report receiving UI benefits *before* going on welfare. *For those workers who received both welfare and UI*, more than two-thirds report receiving UI prior to receiving AFDC. It is possible that these workers exhausted their unemployment insurance benefits and were then forced to apply for welfare. By contrast only one-third of welfare recipients, who received both UI and welfare, report receiving unemployment benefits after receiving welfare. It is difficult to make any generalizations from such small percentages recall that only 5% of welfare recipients report receiving UI benefits, nevertheless, this suggests that qualifying for UI benefits after a spell of welfare receipt is considerably more difficult than getting UI benefits before hand.

Recent analysis by Vroman (1998) concludes that no more than 20% of unemployed welfare recipients would be eligible for UI in a recession. This is far below the national average of 37.4% of the unemployed applying for UI benefits. Additionally, we can find no evidence that states have made an effort to reform their UI systems in light of the new work requirements set out by the “Personal Responsibility Work Opportunity Reconciliation Act” in 1996. Between 1996 and 1997, 11 states increased their minimum earnings requirements necessary to qualify for UI. On average these 11 states raised their minimum earnings requirements by nearly 14%. Some states such as Alabama more than doubled their minimum earnings requirements necessary to qualify for UI benefits between 1996 and 1997. These increases create significant barriers to eligibility for previous welfare recipients.

III. Other major provisions

Benefit levels

Once eligible for benefits, the next question that naturally arises is the adequacy of the benefit amount. Typically this is measured in terms of wage replacement. Previous research on UI generosity typically examines the ratio of previous wages to UI benefits. Vroman (1980) indicates that this measure is sensitive to the business cycle. During periods of economic recession the pool of unemployed workers contains more high wage workers than during times of economic expansion. As a consequence wage replacement ratios are driven down during times of recession. Rather than examine individual wage replacement ratios we first examine the real value of unemployment insurance benefits. We then examine the relationship between median wage growth in the state and maximum benefit amounts.

In 12 states, real maximum benefit amounts were lower in 2000 than in 1990.¹² On average maximum benefits amounts in these states fell by \$23.40 per week (8%). In DC and California real maximum allowable benefits fell by \$46.68 and \$77.03 respectively.

Overall, 39 states raised their real maximum weekly benefit from 1990-2000. In these states the average maximum benefit increased by 15%. Leading the way were Indiana, Washington and Massachusetts; these states increased their maximum allowable benefit \$161.52, \$116.89, and \$105.46 respectively. Thus most state UI systems in the 1990's were generous to middle income workers. In fact, the median wage worker employed full-time was below the 50% wage replacement rate in only 6 states. This means that in most states workers earning the median wage had not yet reached the maximum benefit cap.

Analyzing maximum benefit amounts is a straightforward exercise. As benefits increase, fewer workers run into the cap set by the maximum allowable benefit. Minimum benefit amounts are not as straightforward to analyze. Minimum benefits reflect two aspects of each state's UI system: eligibility and generosity. The minimum amounts are calculated based on the minimum earnings requirements for eligibility; therefore it is typically the case that lower minimum benefits indicate lower eligibility thresholds. At the same time lower minimum benefit amounts are a direct measure of a UI system's generosity. While maximum benefits indicate a benefit ceiling limiting the amount of money a worker can collect, minimum benefit levels indicate a benefit floor. Unfortunately for many workers this benefit floor declined in most states. From 1990-2000, 32 states lowered their minimum benefit amounts. While the may sound problematic, careful interpretation indicates that in fact this may benefit low income workers. Lower minimum benefit amounts usually imply easier eligibility. Since the minimum benefit amount is calculated from the minimum earnings requirements, lower weekly benefit minimums imply reduced barriers to eligibility. Unfortunately these low minimum benefits provide inadequate temporary income during job loss.

Benefit generosity and ease of eligibility

As alluded to in our previous discussion, determining state generosity is a difficult task. Some states may have relatively high maximum benefits levels, but make it difficult for workers to satisfy earnings requirements. Other states have relatively low earnings requirements, making it easy for an unemployed worker to qualify, but inadequate benefit levels. If states with higher benefits make eligibility more difficult, then this mitigates the generosity of these states. Conversely, states with lower eligibility requirements may be less generous. To begin to disentangle this relationship we analyze the minimum earnings requirements for eligibility and the maximum weekly benefits in the 1990s.

A U.S.-wide analysis of the relationship between benefit levels and ease of eligibility indicates that there are small negative correlation between these two measures.

¹² These states include Alabama, Alaska, Arizona, California, District of Columbia, Florida, Maryland, Michigan, Minnesota, Mississippi, Texas, and West Virginia.

TABLE 4. Correlation between state-level minimum earnings requirements and maximum weekly benefits 1990-2000

Census Region		
1	New England (CT, ME, MA, NH, RI, VT)	-0.5874 **
2	Middle Atlantic (NJ, NY, PA)	0.1403
3	East North Central (IL, IN, MI, OH, WI)	-0.5827 **
4	West North Central (IA, KS, MN, MO, NE, ND, SD)	0.1751
5	South Atlantic (DC, FL, GA, MD, NC, SC, VA, WV)	0.0878
6	East South Central (AL, KY, MS, TN)	0.2002
7	West South Central (AR, LA, OK, TX)	0.0731
8	Mountain (AZ, CO, ID, MT, NV, NM, UT, WY)	-0.037
9	Pacific (AK, CA, HI, OR)	-0.7511 **

** indicates significant at the 1% level

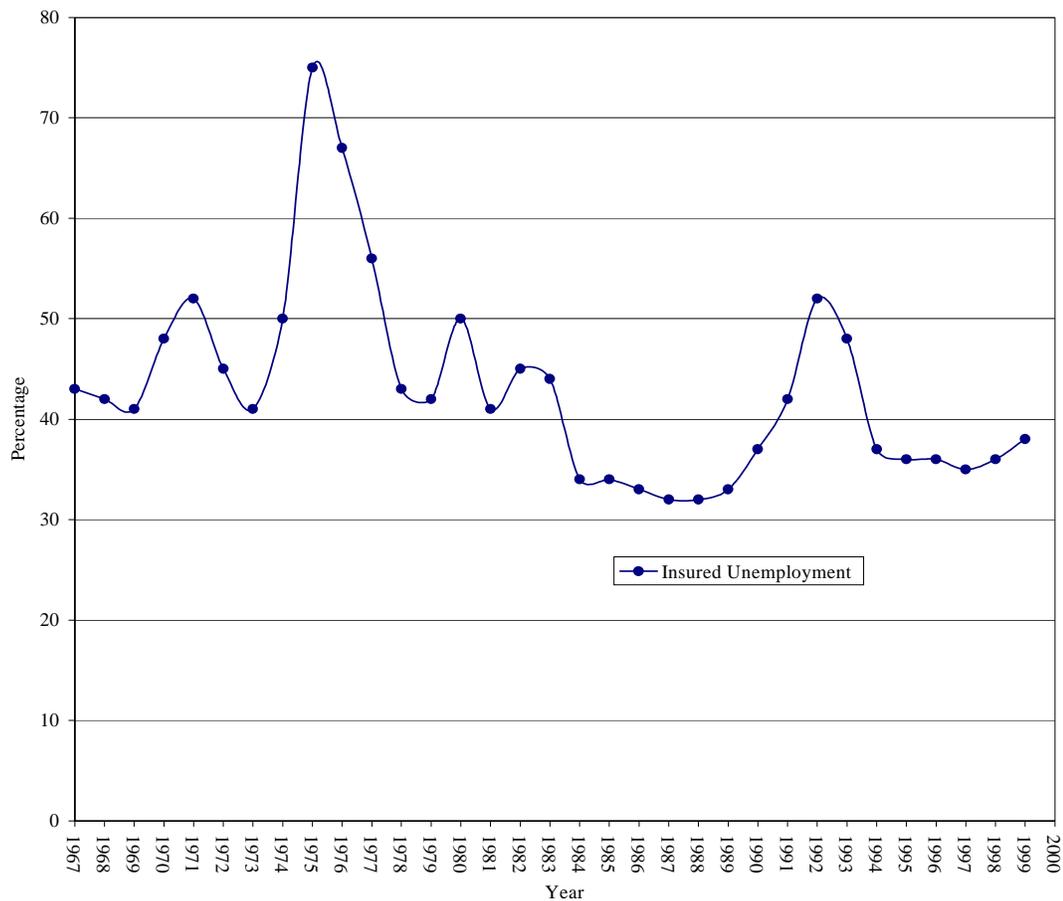
Note: WA and DE are omitted since they do not have earnings requirements

This implies that states with lower earnings requirements tend to have *higher* maximum benefit levels. The correlation between minimum earnings requirements and maximum weekly benefits is -0.07 and is significant at the 10% level. Nevertheless, this national analysis masks strong regional differences. In general, the negative relationship that we saw nationally, was driven by large negative correlations in New England, the East North Central region, and Pacific region.

Most of the other regional correlations are small and positive (with the exception of the Mountain region). Indicating that those states with lower (higher) eligibility requirements also have lower (higher) benefit levels. It is likely that the Middle Atlantic states have positive correlations due to generous benefits being associated with higher earnings thresholds while East South Central is more likely to have lower minimum thresholds associated with lower maximum payments. A full-fledged multivariate analysis is necessary to determine which the factors that are driving these differences.

IV. Declining insured unemployment

In the 1980s the unemployment system received considerable attention from academic and government researchers. In 1980 insured unemployment was 50%; by the end of the 1980's insured unemployment had fallen to 33%. Research by Burtless and Saks (1984), Vroman (1991), and Baldwin and McHugh (1992) suggests that a substantial portion of the decline was driven by policy changes. In particular, Baldwin and McHugh find that policy changes account for 55% of the decline in UI reciprocity . By contrast, Blank and Card (1991) find that UI policy changes had little effect on UI reciprocity. Rather, they find that population shifts from historically generous states to less generous states had driven the national decline. By 1992, insured unemployment had increased and its level



had surpassed the 1980 level, but by 1995 the national rate for insured unemployment had dropped 16%. This raises an important question about the cyclical nature of the unemployment insurance system.

These national averages mask a considerable amount of state-to-state variation in insured unemployment. While the national average for insured unemployment was 38% in 2000, South Dakota and Georgia had insured unemployment rates of 18% and 20% respectively. By contrast Rhode Island, Massachusetts and Alaska had insured unemployment above 62%.

In this analysis we focus on the increase and eventual decline of insured unemployment in the 1990s. This research builds on hypotheses developed by previous authors. We identify five hypotheses that led to changes in insured unemployment.

1. Changes in national policy
2. Changes in state policy
3. Between-state Migration
4. Declining Unionization
5. Declining Manufacturing

Changes in national policy

Most of the policy-specific changes in national policy occurred in the 1980's and served to limit the value of benefits and to increase eligibility requirements. In 1979 UI benefits were partially taxed and in 1986 this was changed to subject all UI benefit to taxation.

Additionally, the federal government ceased making zero interest loans to states with insolvent UI trust funds in 1982. This raised the costs of borrowing and effectively forced the states to reduce spending on UI.

The role of Federal UI policy in the 1990's has sought to expand the role of UI. Currently there is an effort underway that would enable parents to receive UI benefits during a stint of unemployment that arises as a result of a birth or adoption. This policy is known as BAA-UC (Birth and Adoption Unemployment Compensation). Additionally efforts are being made to expand UI to workers who work fewer than 35 hours per week. Workers who search for part-time jobs exclusively are not eligible for UI benefits in most states. According to the National Employment Law Project nine states have statutes that limit UI eligibility for part-time workers, nine states have agency rules or regulations limiting access, and 19 states have conflicting rules limiting the UI eligibility for part-time workers. The remaining 12 states have no statutory, agency or regulatory decision on the eligibility of part-time workers. These results are similar to (although less encouraging than) the GAO (2000) finding that 30 states limit UI eligibility for part-time workers searching for part-time work. While nearly 20% of the U.S. labor force hold part-time jobs, it is unlikely that these workers have had much of an effect on changes in insured unemployment. This is largely due to the stability of part-time employment during the 1990's. Inasmuch as increases in part-time work have occurred we expect them to exert a downward pressure on insured unemployment.

An important and often overlooked national policy contributing to UI eligibility is the minimum wage. As our previous analysis showed increases in the federal and state minimum wages resulted in increased eligibility. We hypothesize that the minimum wage will have a similar positive effect on insured unemployment.

Changes in state policy

Among the most important changes in state policy are the changes in minimum earnings requirements and the introduction of an alternate base period. It should be obvious that in order to collect benefits, unemployed workers must first be eligible. The minimum earnings requirements and alternate base periods measure ease of eligibility. We expect that higher earnings requirements will lead to lower insured unemployment and that states with alternate base periods have higher insured unemployment.

Once eligible for UI, an unemployed worker must decide if applying for benefits is worthwhile. This is related to the expected unemployment duration, and the value of benefits. To examine these relationships we include the exhaustion rate - the percentage of UI recipients who exhaust benefits, maximum weekly benefit, and the percentage of wages replaced by benefits. We expect that exhaustion rates will have a negative impact on insured unemployment, while higher benefits and replacement rate will have a positive effect.

State policies may also influence insured unemployment in ways that go beyond statutes and regulations. In particular a state administration can choose the level of enforcement it wishes to pursue. Enforcement varies considerably and we suspect that enforcement stringency is loosely tied to trust fund solvency. We hypothesize that states

with larger trust funds (per worker) are likely to have higher insured unemployment. Of course, states with more stringent enforcement regimes may have larger trust funds. Since this relationship is at best ambiguous and may have causality running in both directions we do not include any measure of trust fund adequacy in the regression results.

Migration, manufacturing, and unionization

While manufacturing employment has been on the wane nationally throughout the 1990's, 24 states saw manufacturing employment increase from 1990-2000. These states were located predominately in the South, Midwest and the West.¹³ This implies that the correlation between manufacturing employment and IU take-up rates may be negative if states with the least generous and lowest IU take-up rates also saw the largest increases in manufacturing. These shifts in manufacturing enable us to determine the extent to which employment shifts across the country have been from states with more generous UI systems to states with less generous UI systems. We hypothesized that increases in manufacturing are negatively correlated with insured unemployment based on the location of increased manufacturing employment.

Since 1950 the percent of workers who are members of a union has fallen considerably. Between 1990 and 2000 unionization rates fell from 13.3% to 11.5 %. Unions typically provide considerable information to workers regarding their workplace rights. Because union members are more likely to be more conscious of their rights we hypothesize that states with higher unionization rates will have higher insured unemployment rates.

Table 5 shows the results of a panel regression of the states' insured unemployment. The dependent variable in all regressions is the percentage of unemployed workers currently filing for and those continuing to receive UI benefits [(initial claims + continuing claims)/ total unemployed]. Since we are examining annual data the dependent variable is the state annual average. This is the variable most commonly analyzed in the literature. Some authors have highlighted problems with this dependent variable. In particular the IU/TU ratio is thought to overcount the number of UI recipients since as many as 10-15% of initial claimants will be denied benefits. (Bassi & McMurrer 1997). We believe that including filers who are ultimately denied is a better measure of how individuals respond to changes in UI policy and have consequently included them in the analysis.

Table 5 includes results from four models with state-specific fixed-effects. The first model assumes that the errors are independent and identically distributed (i.i.d.). The second model corrects the standard errors for panel data. The third and fourth models assume that errors are contemporaneously correlated over time and heteroskedastic between panels. A fifth model uses the Arellano-Bond generalized method of moments estimator for dynamic panel data, these results are presented in Appendix D. None of the

¹³ States that increased the number of manufacturing jobs include NH, VT, IN, MI, WI, MN, IA, ND, SD, NE, KS, GA, KY, AR, OK, TX, MT, ID, WY, CO, AZ, UT, NV and OR.

**TABLE 5. Panel regression: percentage of unemployment insurance claimants
(alternate estimators)**

		<i>State-specific Fixed Effects Models 1990-1999</i>			
		Prais-Winsten			
		Panel Corrected Standard Errors			
	OLS	AR(0)	AR(1)	Panel	
				AR(1)	
	<i>Mean</i>	(1)	(2)	(3)	(4)
Minimum Earnings Requirement (\$)	1897.34	-0.0007 (0.0004) <i>-1.89</i>	-0.0007 (0.0003) <i>-2.26</i>	-0.0007 (0.0004) <i>-2.03</i>	-0.0006 (0.0003) <i>-2.04</i>
Maximum Weekly Benefit (\$)	287.36	0.0331 (0.0119) <i>2.77</i>	0.0331 (0.0124) <i>2.67</i>	0.0300 (0.0147) <i>2.05</i>	0.0321 (0.0154) <i>2.08</i>
Alternate Base Period (1=yes)	0.19	-0.6679 (1.0917) <i>-0.61</i>	-0.6679 (1.0327) <i>-0.65</i>	-0.8264 (1.0719) <i>-0.77</i>	-0.9677 (1.2188) <i>-0.79</i>
Percent Employed in Manufacturing	13.27	-0.6361 (0.3238) <i>-1.96</i>	-0.6361 (0.3905) <i>-1.63</i>	-0.6593 (0.5270) <i>-1.25</i>	-0.5712 (0.4553) <i>-1.25</i>
Percent of Unemployed Exhausting Benefits	31.09	-0.1986 (0.0518) <i>-3.84</i>	-0.1986 (0.0898) <i>-2.21</i>	-0.1608 (0.1008) <i>-1.60</i>	-0.1176 (0.0905) <i>-1.30</i>
Percent Unionized	11.36	0.3490 (0.2326) <i>1.50</i>	0.3490 (0.2067) <i>1.69</i>	0.3583 (0.2445) <i>1.47</i>	0.4249 (0.2368) <i>1.79</i>
Minimum Wage (\$)	5.23	2.0671 (0.9039) <i>2.29</i>	2.0671 (1.2685) <i>1.63</i>	2.6340 (1.4798) <i>1.78</i>	2.1421 (1.3582) <i>1.58</i>
Recession (1990-1992 = 1)	0.30	1.6472 (0.5632) <i>2.92</i>	1.6472 (1.0199) <i>1.62</i>	1.5649 (1.2837) <i>1.22</i>	1.5720 (1.1433) <i>1.38</i>
Labor Force Participation Rate	51.04	-0.3118 (0.1998) <i>-1.56</i>	-0.3118 (0.2413) <i>-1.29</i>	-0.4263 (0.2829) <i>-1.51</i>	-0.4343 (0.2611) <i>-1.66</i>
Percent Working Part-time	16.83	-0.2780 (0.1982) <i>-1.40</i>	-0.2780 (0.2048) <i>-1.36</i>	-0.1135 (0.2099) <i>-0.54</i>	-0.0494 (0.1907) <i>-0.26</i>
State-specific Median Wage (\$)	11.52	1.3003 (0.5437) <i>2.39</i>	1.3003 (0.5841) <i>2.23</i>	1.2676 (0.6971) <i>1.82</i>	1.3120 (0.6350) <i>2.07</i>
Constant		31.5672 (15.3130) <i>2.06</i>	43.9349 (18.6180) <i>2.36</i>	44.0120 (23.2333) <i>1.89</i>	40.8868 (21.2868) <i>1.92</i>

N=508

coefficients in **bold**

standard errors in parentheses

t-score in italic

regression results are weighted.¹⁴ In models 2 and 3 the errors are correlated over time (autocorrelated) and the parameter estimates are conditional on the estimates of the autocorrelation parameter(s). In the second model we assume that the autocorrelation structure is similar for all states, in the third model we allow each state to have an independent error correlation. Models 2 and 3 assume a first-order autocorrelation (AR 1) structure. Models 2 and 3 assume that each state has a heteroscedastic and contemporaneously correlated error. This is likely to be the case if states experience regional shocks such as energy costs or industry-wide demand shocks in similar ways. Consequently assuming each state as independent is likely to result in non-spherical error structures and biased estimates. Because we believe that states are likely to have error correlations that are state-specific we focus on the results in the column (3). Because these estimates are from the population the interpretation of standard errors and t/z-scores is ambiguous. In the Arellano-Bond GMM estimator we estimate a difference model with a lagged endogenous variable. The presence of first order autocorrelation in the differenced residuals does not imply that the estimates are inconsistent (Arellano-Bond: 281-82). We present the results from Arellano-Bond estimator in appendix 4.

The results in Table 5 lend support to most of the hypotheses advanced in the previous section. Particularly interesting is the effect of the minimum wage; a \$1 increase in the minimum wage results in 2.0 – 2.6 percentage point increase in insured unemployment. State policies yield substantively small impacts on insured unemployment; an increase of \$1000 in minimum earnings requirement reduced insured unemployment by only 0.7%. Maximum benefits and the benefit replacement rate have substantively important results; an increase in the maximum weekly benefit of \$100 yields an increase in insured unemployment between 1-3%. The percentage of weekly earnings replaced by benefits shows an even stronger positive relationship. A one percent increase in the benefit replacement ratio yields a 0.35% increase in insured unemployment. Percent union also had the expected impact – higher unionization rates result in higher percentage of unemployed workers filing for benefits.

Two unexpected relationships are also evident. The negative effects of manufacturing and alternate base periods on insured unemployment. It is likely that the Blank and Card (1991) mobility result describes the negative coefficient on manufacturing. This may occur if states that have shown an increase in manufacturing employment have also had historically lower UI application rates. Thus as we alluded to earlier out-migration of manufacturing jobs from high insured unemployment and in-migration to states where insured unemployment is lower may explain the negative effect of manufacturing employment in the 1990's. The negative coefficient on alternate base period is more difficult to explain. Easing eligibility for lower income workers, especially recent entrants and those with intermittent employment histories should increase the application rates for these types of workers. The negative effect of alternate base periods

¹⁴ Weighted regression results available from the author on request. In general these results are similar to results presented in table 5 column 1, the only important difference is that the coefficient estimate is not statistically different from zero.

TABLE 6. Panel regression: percentage of unemployment insurance claimants (alternate specifications)

		<i>State-Specific Fixed Effects Models 1990-1999</i>		
		Prais-Winsten Regression		
		Panel Corrected Std Errs – AR(1)		
	<i>Mean</i>	(1)	(2)	(3)
Minimum Earnings Requirement (\$)	<i>1884.92</i>	-0.0008 (0.0004)	-0.0008 (0.0004)	-0.0007 (0.0004)
		<i>-1.99</i>	<i>-1.92</i>	<i>-2.03</i>
Maximum Weekly Benefit (\$)	<i>289.03</i>	0.0115 (0.0200)	0.0143 (0.0202)	0.0300 (0.0147)
		<i>0.57</i>	<i>0.70</i>	<i>2.05</i>
Alternate Base Period (1=yes)	<i>0.20</i>	-0.7901 (1.0717)	-0.7614 (1.0755)	-0.8264 (1.0719)
		<i>-0.74</i>	<i>-0.71</i>	<i>-0.77</i>
Percent Employed in Manufacturing	<i>13.21</i>	-0.8266 (0.5811)	-0.8359 (0.5823)	-0.6593 (0.5270)
		<i>-1.42</i>	<i>-1.44</i>	<i>-1.25</i>
Percent of Unemployed Exhausting Benefits	<i>30.86</i>	-0.1474 (0.0952)	-0.1551 (0.0950)	-0.1608 (0.1008)
		<i>-1.55</i>	<i>-1.63</i>	<i>-1.60</i>
Percent Unionized	<i>11.29</i>	0.5988 (0.2289)	0.6141 (0.2270)	0.3583 (0.2445)
		<i>2.62</i>	<i>2.71</i>	<i>1.47</i>
Minimum Wage (\$)	<i>5.24</i>	3.1059 (1.5418)	3.3341 (1.5678)	2.6340 (1.4798)
		<i>2.01</i>	<i>2.13</i>	<i>1.78</i>
Recession (1990-1992 = 1)	<i>0.27</i>	1.5825 (1.2244)	1.6352 (1.2219)	1.5649 (1.2837)
		<i>1.29</i>	<i>1.34</i>	<i>1.22</i>
Labor Force Participation Rate	<i>51.00</i>	-0.1514 (0.2719)	-0.1184 (0.2635)	-0.4263 (0.2829)
		<i>-0.56</i>	<i>-0.45</i>	<i>-1.51</i>
Percent Working Part-time	<i>16.73</i>	-0.0917 (0.2083)	-0.1371 (0.2114)	-0.1135 (0.2099)
		<i>-0.44</i>	<i>-0.65</i>	<i>-0.54</i>
State-specific Median Wage (\$)	<i>11.58</i>	0.7625 (0.7747)		1.2676 (0.6971)
		<i>0.98</i>		<i>1.82</i>
Ratio of Avg. UI Benefit to Avg. Wage	<i>36.59</i>	0.3491 (0.1885)	0.3534 (0.1889)	
		<i>1.85</i>	<i>1.87</i>	
Constant		22.6909 (22.5310)	28.2768 (20.9155)	44.0120 (23.2333)
		<i>1.01</i>	<i>1.35</i>	<i>1.89</i>

N=508

coefficients in **bold**

standard errors in parentheses

t-score in italics

TABLE 7. Effect on unemployment insurance claims from policy changes or structural shifts*

Variable	Policy Change	Effect on UI Claims		
		Mean	90% Confidence Interval	
			Min	Max
Minimum Wage	\$1 increase	3.11%	0.57%	5.64%
Minimum Earnings Requirements	\$1000 increase	-0.79%	-1.44%	-0.14%
Maximum Weekly Benefit	\$100 increase	1.15%	-2.15%	4.44%
Manufacturing Employment	1% increase	-0.83%	-1.78%	0.13%
Union Employment	1% increase	0.60%	0.22%	0.98%
Ratio of Avg. UI Benefit to Avg. Wage	1% increase	0.35%	0.04%	0.66%

*Estimates Based in Preferred Specification - Table 6, column 1

on insured unemployment is not statistically significant indicating that the effect is at best is zero.

The effects from the preferred specification indicate that we would expect a 3 percentage point increase in the number of unemployed workers claiming benefits if the minimum wage were increased by \$1. Additionally, we are 90% certain that this effect is at a least .57% and could be as large as 5.64%. Again since minimum wage increases act to both raise eligibility and benefit levels this effect does not seem overly large. Similarly the mean effect of raising the benefit to wage ratio by one percent is to increase the percentage of unemployed workers claiming UI benefit by .35%. Again, we are 90% certain that the true effect lies between .04% and .66%.

V. Best practice / model state provisions

Because so many components of a state’s unemployment insurance system are intertwined, it is extremely difficult to fashion an ideal program. Our recommendations follow three basic tenants: fairness, simplicity, and adequacy. Unfortunately most states fail on these criteria. Most of the state UI systems are unfair due to the relationship between earnings and eligibility. In these states workers who earn higher hourly wages may work fewer hours and still qualify for UI benefits. For example, a minimum wage (\$5.15/hour) worker in Florida must work 660 hours in order to qualify for the minimum UI benefit of \$32 per week. By contrast a worker employed at \$10 per hour would only have to work 340 hours to qualify for the minimum benefit. Second, the difference between states is dramatic. According to the 2000 Green Book¹⁵ a worker employed at the federal minimum wage for 40 hours per week for 52 weeks would be eligible for \$216 per week in UI benefits in Connecticut and \$81 per week in California.

¹⁵ Committee on Ways and Means, U.S. House of Representatives, Overview of Entitlement Programs, 2000 Green Book.

Our first recommendation would be to de-couple the earnings and eligibility relationship. This would improve fairness within and between the states. Our preferred model is Washington state, whose UI eligibility is based on working 680 hours in the base period – regardless of earnings. Additionally, we strongly encourage more states to adopt base periods that include a worker’s most recent earnings in determining eligibility. With the advent of computers and digital process having a twelve week lag in reporting is unwarranted and unfairly disadvantages those with limited labor market experience.

As much of this report demonstrates the states’ systems of unemployment insurance are far too complicated. Workers cannot make an accurate assessment of eligibility – figuring potential UI benefits is an even more daunting task. We propose that states alter their benefit formulas so that those who are unemployed have a reasonable expectation of their benefits.

Finally we recognize that variation in UI benefits is partly due to regional differences in the cost of living. Nevertheless, we recommend adopting average benefit amounts that exceed the federal poverty level. Our calculation shows that average weekly benefits in 28 states are below the poverty level for a single-parent household with one child.¹⁶ We propose that average weekly benefit amounts be structured so that the unemployed don’t live in poverty while looking for a new job.

Based on these criteria we support the basic structure of Washington state’s UI system. By establishing an hours requirement for eligibility Washington eliminates the inequity between lower- and higher-paid workers, where those with higher wages qualify for UI with less work. Second, Washington state is one of twelve states that has adopted a base period that counts workers’ most recent earnings. The simplicity of these rules are easier for workers to understand and serve to de-mystify the unemployment insurance system. Given Vroman’s (1991) finding that the majority of workers do not apply because they don’t believe they are eligible, clarity and simplicity are likely to be important policy parameters. This is evidenced by the fact that 45.7% of unemployed workers apply for benefits in Washington. This is considerably higher than the 37.4% national figure. It should be noted that insured unemployment is higher despite the state’s steep hours of work requirement. Washington state’s 680 hours requirement is among the most stringent in the U.S. If we convert this to an earnings requirement a worker earning the Washington state minimum wage (\$6.50) would not be eligible for benefits until she had earned \$4,420. This is \$1,020 more than Florida which has the second highest minimum earnings requirement at \$3,400 and an insured unemployment rate of 26.5% - eleven percent below the national average. This implies that creating a system that has straightforward rules and transparent policies could substantially improve the uptake of UI benefits.

¹⁶ U.S. Census poverty level one adult, one child = \$11,869. This number is calculated based on 26 weeks of UI eligibility at the average weekly benefit amount.

Conclusion

In this report we have highlighted the importance of performing state-level analysis in unemployment insurance. While national averages are certainly indicative of general trends, the aggregates often mask considerable differences between states. In general we find that most states eased eligibility requirements and raised both maximum benefit amounts and average weekly benefits. Nevertheless, these averages hide the fact that 13 states bucked the national trend and had declining benefit amounts, while 10 states raised their minimum earnings requirements necessary to qualify for UI.

Other important findings indicate that more states are adopting base periods that count a worker's most recent completed quarter for purposes of eligibility. Finally, we find that increases in the minimum wage both on the state and federal level had an important impact on both eligibility and raising the percentage of unemployed workers applying for benefits.

References

- Acemoglu, D. & R. Shimer. (1999). Productivity Gains from Unemployment Insurance. Journal of Political Economy, 107(5):893-928
- Atkinson, A.B. & J. Micklewright. (1991). Unemployment Compensation and Labor Market Transitions: A Critical Review. Journal of Economic Literature, 29(4): 1679-1727.
- Arellano, M and S. Bond. (1991). Some Tests of Specification for Panel Data: Monte Carlo Evidence and an Application to Employment Data. The Review of Economic Studies, 58:277-97
- Blank, Rebecca M. & David E. Card (1991) Recent Trends in Insured and Uninsured Unemployment: Is There an Explanation?. Quarterly Journal of Economics, 106(4):1157-89
- Clark, Kim B. & Lawrence H. Summers. (1979) Labor Market Dynamics and Unemployment: A Reconsideration. Brookings Papers on Economic Activity, 1:13-72.
- Clark, Kim B. & Lawrence H. Summers. (1982) Unemployment and Labor Market Transitions. in M.N. Baily (ed.), Workers, Jobs and Inflation (pp. 279-323). Washington D.C.: Brookings Institution
- duRivage, Virginia L., Françoise J. Carré & Chris Tilly (1998). Making labor Law Work for Part-Time and Contingent Workers. in K. Barker & K. Christensen (eds.) Contingent Work: American Employment Relations in Transition. Ithaca, NY: ILR Press
- Golden, Lonnie & Eileen Appelbaum. (1992). What Was Driving the 1982-1988 Boom in Temporary Help Employment? American Journal of Economics and Sociology, 51(4): 473-493.
- General Accounting Office. (2000). Unemployment Insurance: Role as Safety Net for Low-Wage Workers Is Limited. GAO-01-181. Washington DC.
- Gustafson, Cynthia .K. & Phillip B. Levine. (1998). Less-Skilled Workers, Welfare Reform and the Unemployment Insurance System. NBER Working Paper 6489. Cambridge MA. NBER
- Holzer, Harry. (2000). Unemployment Insurance and Welfare Recipients: What Happens When the Recession Comes? Series A, No. A-46. December 2000. Washington DC. The Urban Institute.

- Hudson, Kenneth. (1999). No Shortage of 'Nonstandard' Jobs. Economic Policy Institute Briefing Paper. Washington, DC: EPI
- Mortensen, Dale T. (1970). Job Search, the Duration of Unemployment and the Phillips Curve. The American Economic Review, 60(5):847-862.
- U.S. Department of Labor. (various years). Comparison of State Unemployment Insurance Laws. Employment and Training Administration. Washington.
- U.S. Department of Labor. (various years). UI Data Summary. Washington.
- Um'rani, A. & Vicki Lovell. (2000). Unemployment Insurance and Welfare Reform. IWPR Publication #A125. Washington DC. Institute for Women's Policy Research.
- Vroman, Wayne (1980). State Replacement Rates in 1980. Unemployment Insurance Compensation: Studies and Research, Vol. 1. Washington: National Commission on Unemployment Compensation
- Vroman, Wayne. (1991). The Decline in Unemployment Insurance Claims Activity in The 1980's. U.S. Department of Labor, Employment and Training Division. Unemployment Insurance Occasional Paper 91-2.