Unemployment Insurance and Strikes*

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In several states workers who are unemployed because of a labor dispute can collect unemployment benefits. Due to imperfect experience rating, such policies can create a public subsidy to strikes. This study examines whether these policies affect strike activity. In particular, both cross-sectional and fixed effects models are employed to test whether an increase in the public subsidy inherent in unemployment insurance leads to an increase in strike frequency.

I. Introduction

Since the turn of the century, all levels of government in the United States have experimented with providing welfare and unemployment benefits to strikers. Such experiments are always controversial, with the controversy in part focused on whether the benefits increase strike activity. For example, in Grinnell Corp. v. Hackett, a case involving the payment of unemployment compensation to strikers in Rhode Island, the First Circuit Court said:

[The] present record suffers from a fundamental defect. It provides no support for a causal relationship between the receipt of benefits, which unions obviously desire and often actively seek, and longer, costlier strikes. . . . [The] record lacks even a crude form of what we assume would be the most relevant and probative type of evidence—statistical comparisons of the length and cost of strikes in states granting unemployment benefits (Rhode Island and New York) and the length and cost of strikes of similar size in similar industries in other states not granting such benefits.¹

This paper presents empirical evidence on whether the provision of unemployment insurance to strikers affects strike activity.

Some argue that because government transfers make it easier for strikers to support themselves, it is a truism that such transfers increase strike activity.² There is, however, a logical problem. Although government transfers will almost certainly make it easier for strikers to support themselves, that in itself may not lead to increased strike activity. If government transfers strengthen the bargaining position of the union, then one might expect a rational employer to be more willing to settle without a strike, or, failing that, to settle sooner after a strike has begun rather than later. Arguing this way, one could claim that government transfers will reduce strike activity. Thus, it is not obvious how government transfers affect strike activity and empirical evidence must be used to resolve the issue.
Much of the available evidence is anecdotal and taken from case studies. For example, Thieblot and Cowin (1972) used a case study approach to investigate U.S. strikes in which workers received government transfer payments; Gennard (1977) did the same for Great Britain. More recently, Kennan (1980) used modern statistical methods to analyze the relationship between strike duration and unemployment insurance policies in New York and Rhode Island. Finally, our monograph (Hutchens, Lipsky, and Stern, 1989) analyzed links between strike activity and a broad range of government welfare and unemployment insurance policies. In that work, however, we did not test hypotheses on the effect of experience rating, under which a firm pays taxes that reflect the cost of the unemployment insurance benefits received by its employees. This study summarizes and extends that work by presenting new results on links between experience rating and strike activity.

The second section of this paper describes current policies for paying unemployment benefits to strikers. There is considerable confusion surrounding this issue. It is widely believed that only two states—New York and Rhode Island—routinely permit strikers to collect unemployment benefits. Although these two states do allow strikers to collect benefits (in New York after an eight-week waiting period and in Rhode Island after a seven-week period), a majority of other states allow workers unemployed because of a labor dispute to collect unemployment benefits under specific (but not unusual) conditions.

In the third section we use a joint cost theory of strikes to develop testable hypotheses linking unemployment insurance policies to strike activity. The fundamental proposition of joint cost theory is that strike activity is a decreasing function of the combined (union plus management) cost of strikes. To the extent that the provisions of state unemployment insurance laws reduce this combined cost, they will increase strike activity.

The fourth section tests hypotheses using state level data on strike activity. Since unemployment insurance laws vary across—but not within—states, their effects should be revealed through interstate differences in the level of strike activity. Using both cross-sectional and fixed-effects models, we find solid evidence of a link between the provisions of state unemployment insurance laws and strike activity.

II. Current Practice

The Social Security Act of 1935, which established the unemployment insurance system, grants the states considerable autonomy in establishing rules governing claimant eligibility for unemployment benefits. For example, each state can determine whether, and under what conditions, workers unemployed because of a labor dispute can collect unemployment insurance benefits. Federal tolerance of state autonomy on this issue, reinforced by several key Supreme Court decisions, results in considerable diversity in the unemployment insurance eligibility rules that affect strikers. We focus on three rules that are of particular empirical importance: the stoppage of work rule, the innocent bystander rule, and the New York-Rhode Island rule.