

Unveiling u^* : A State-level Approach

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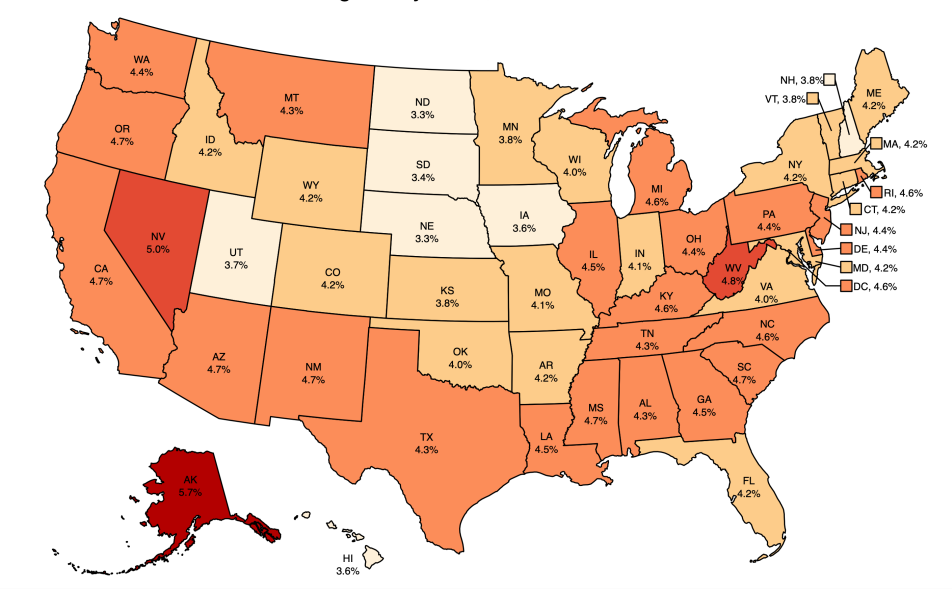
Defining u^* a la Michaillat and Saez 2024

- Full Employment Rate of Unemployment (FERU)

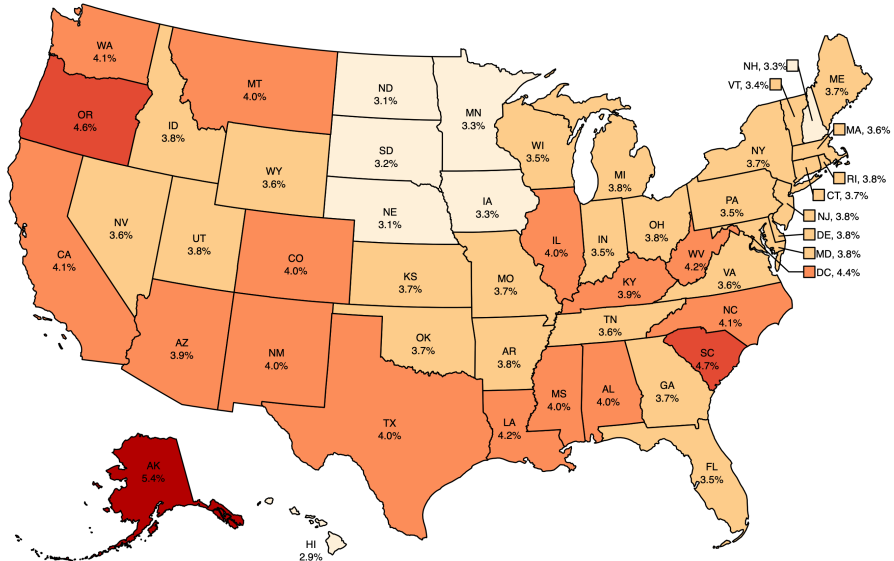
$$u^* = \sqrt{u * v}$$

- Geometric Average of Unemployment and Vacancy Rate
- Key Benefits
 - Derived from Beveridge Curve Logic
 - Data Availability
 - Simplicity
 - Active Role for u^* (Hall and Kudlyak 2024)

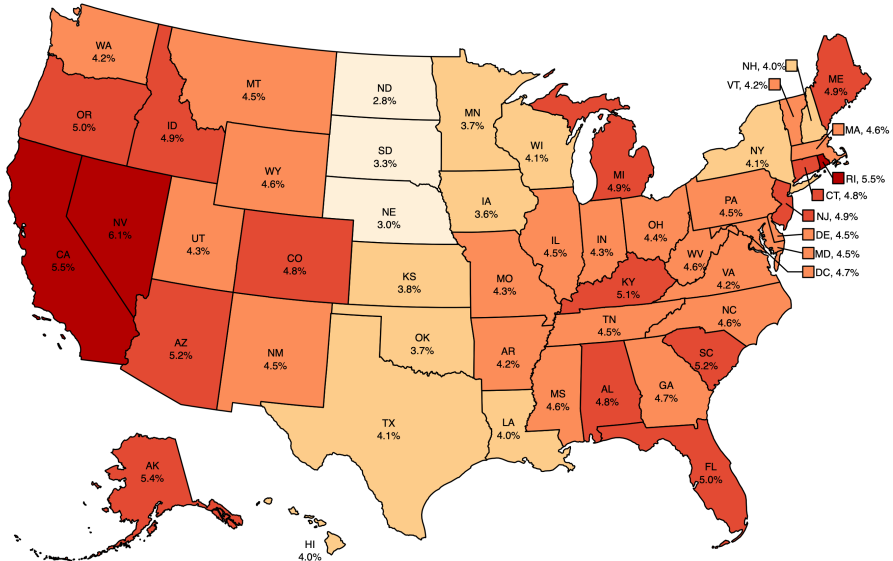
Average u^* by State, 2001m1-2024m9



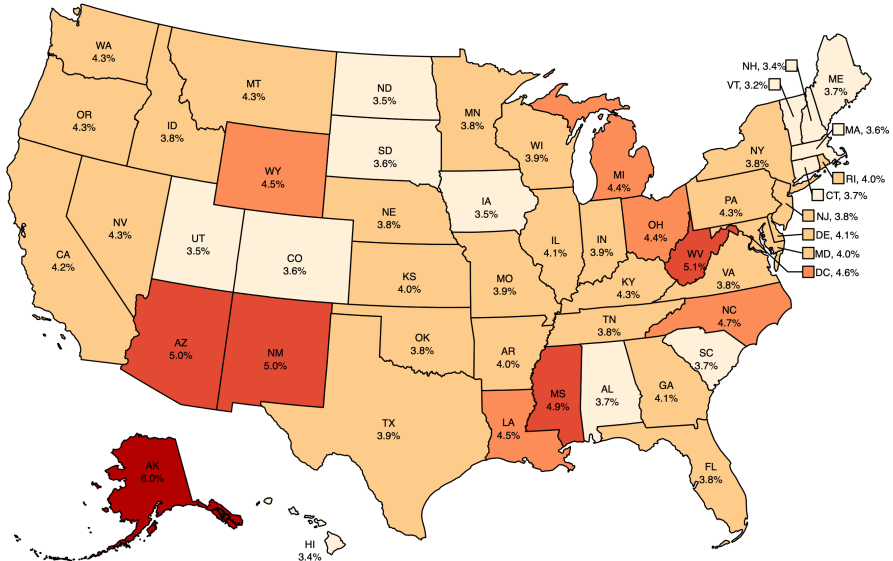
Average u^* by State, 2004



Average u^* by State, 2010



Average u^* by State, 2019



Average u^* by State, 2023

State	Average u^*
WA	4.4%
OR	4.6%
CA	4.7%
NV	5.6%
MT	4.1%
ID	4.1%
WY	4.5%
UT	3.7%
CO	4.5%
AZ	4.7%
NM	4.9%
TX	4.8%
ND	3.5%
SD	3.4%
NE	3.4%
KS	4.0%
OK	4.4%
AR	4.3%
LA	4.8%
MS	4.7%
AL	3.7%
GA	4.7%
FL	4.0%
HI	3.9%
ME	4.0%
NH	3.6%
VT	3.6%
MA	4.3%
RI	4.2%
CT	4.4%
NJ	4.5%
DE	5.3%
MD	3.7%
DC	5.0%
NY	4.3%
PA	4.7%
OH	4.6%
IN	4.1%
MI	4.7%
WI	4.1%
MN	4.3%
IL	5.1%
IA	4.0%
MO	4.0%
KY	4.9%
TN	4.7%
NC	4.7%
SC	4.6%
VA	4.3%
WV	5.1%

Two-Way Fixed Effects Model

- Model Specification:

$$u_{it}^* = \alpha + \beta_1 StateReg_{it} + \beta_2 StateShocks_{it} + \beta_3 \mathbf{C}_{it} + \delta_i + \gamma_t + \epsilon_{it}$$

- $StateReg_{it}$: Labor market regulations
- $StateShocks_{it}$: Sectoral labor share shocks
- \mathbf{C}_{it} : Vector of additional controls, including:
 - State-level Controls
 - National-level Controls
- Fixed Effects: δ_i : State fixed effects; γ_t : Time fixed effects.

Data (2001m1–2023m12)

- Monthly
 - State labor market regulations: minimum wage
 - State sectoral labor share shocks
 - State CEAI
 - National-level controls: inflation, industrial production, sectoral shocks
- Yearly
 - State labor market regulations: count of labor statutes
 - Δ state population

1 Standard Deviation Increase – Standard Deviation Impact on u^*

	(1)	(2)	(3)	(4)	(5)	(6)
Minimum Wage	.13** (.06)	.13** (.06)			.16** (.06)	.16** (.06)
Labor Statutes			.28** (.12)	.28** (.12)	.24* (.13)	.24** (.12)
State Sectoral Shocks	.05 (0.4)	.08 (.18)	-.01 (.19)	.03 (.18)	-.0 (.19)	.04 (.18)
State Controls	✓	✓	✓	✓	✓	✓
National Controls		✓		✓		✓
State FE	✓	✓	✓	✓	✓	✓
Time FE	M	Q	M	Q	M	Q
N	13,069					

Implications

- Significant Variation in u^* by State
- States policy choices significantly impact u^* (+/- 2%)
- One-size fits all policy concerns
- State policy incentives

