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Place-Based Consequences of Person-Based Transfers

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POLICY BRIEF

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Brad J. Hershbein and Bryan A. Stuart

BRIEF HIGHLIGHTS

- *Local labor markets that lose greater shares of employment during recessions suffer persistent relative decreases in earnings per capita.*
- *The social safety net responds, and areas with 5 percent greater employment losses experience per capita government transfers of 2.4 percent higher even a decade later.*
- *These transfers replace about 16 percent of lost earnings in the long term, and much of this is through retirement and disability (Social Security) or health (Medicare and Medicaid).*
- *Harder-hit areas also become relatively older, and these age shifts can explain much of the long-term increases in Social Security and Medicare.*
- *The social safety net thus helps affected places as well as people, but the long-term assistance does little to help with needed skills development or job creation.*

For additional details, see the working paper at https://research.upjohn.org/up_workingpapers/362/.

As the nation continues to recover from the economic recession caused by the COVID-19 pandemic, there is ongoing debate about whether and how to extend the social safety net, even after unprecedented, temporary responses in 2020 and 2021. An important part of the debate is whether government assistance should expand beyond what is traditionally thought of as social insurance—transfers like the Supplemental Nutrition Assistance Program (SNAP, also known as food stamps), Temporary Assistance for Needy Families (TANF), and unemployment insurance (UI)—to also cover programs that increase skills development, such as employment training and tuition-free community college. This matters because previous research has shown that areas that were particularly hard hit during a recession can suffer long-lasting declines in employment rates and per capita earnings relative to areas that escaped the recession unscathed (Hershbein and Stuart 2020). With parts of the country that traditionally have been heavily reliant on tourism still lagging behind in their economic recovery, it is an open question how well the social safety net—or government transfers more generally—responds to recessions, not just in the short term but over longer time horizons as well. If transfers remain elevated persistently, then places that experience only mild recessions will implicitly subsidize through the tax code places that experience severe recessions, even as economic opportunity remains depressed in these latter places.

In recent work, we examine the response of the social safety net to place-specific shifts in economic activity arising from recessions over the past 50 years. Drawing on annual data we have harmonized for 359 metropolitan areas, we estimate how average receipt of different government transfer programs, on a per capita basis, evolves for up to a decade after each of the five recessions between the 1970s and the Great Recession. (We cannot yet investigate the COVID recession.)

We find that person-based transfer programs generate a substantial amount of place-based redistribution. Metropolitan areas that experience more severe employment losses during a recession face lasting reductions in employment and earnings per capita, but they also receive lasting increases in transfers per capita. Our estimates imply that a metro area experiencing a 5 percent greater employment loss during the recession has total transfers per capita of 2.4 percent higher nearly a decade after the recession ended. For a metro area of typical size, about 265,000 residents, this translates into roughly \$630 million more in transfers over this time period. Moreover, most of these transfers are not from what we think of as either employment-related social insurance or the traditional safety net of means-tested programs. Although the former (UI) does respond in the short term, the increase fades away relatively quickly; the latter safety net programs (like SNAP and TANF) show a more sustained rise, but their increases are relatively small, accounting for only a tenth of total transfers. In contrast, large entitlement programs, including Social Security, Medicare, and Medicaid, continue to grow after a recession and account for nearly all of the long-term increase. Education and training programs, which might help boost skills and future earnings, barely respond at all.

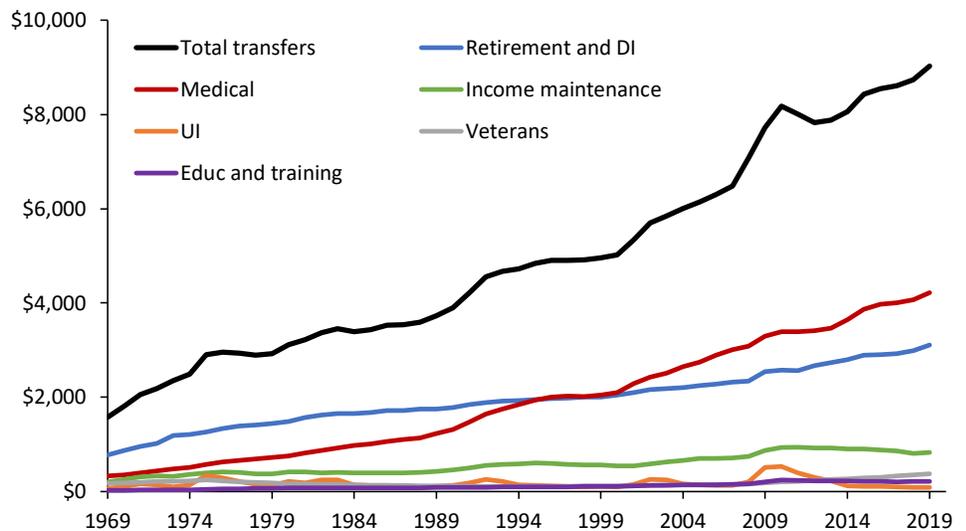
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Medical transfers (Medicare and Medicaid) now account for almost half of all government transfers.

Government Transfers in the United States

The United States transfers considerable sums of money to individuals through various programs. As of 2019, across 359 metro areas accounting for more than 80 percent of the total population, per person transfers averaged about \$9,000 annually. This represents a quintupling since 1970, even after adjusting for inflation, and accounts for over 15 percent of average income. As shown in Figure 1, much of these transfers consist of retirement and disability insurance—Social Security, essentially—and medical programs including Medicare and Medicaid. The latter category has grown especially quickly, becoming the largest category around 2000 and today consisting of almost half of total transfers. By comparison, income maintenance or means-tested programs (primarily TANF and its predecessor, the Earned Income Tax Credit, SNAP, and Supplemental Security Income) equal about 9 percent of total transfers. Unemployment insurance is much smaller, on average, though it tends to rise after recessions and job losses. Transfers for veterans (pensions and disability) and education and training (Pell Grants and workforce training) are quite small on the whole, in part because their coverage is much more limited than that of the other programs.

Figure 1 Per Capita Transfers Have Risen Sharply over Time



NOTE: The figure reports national annual totals, per person, of different government transfers by category across 359 metropolitan areas (core-based statistical areas, or CBSAs), which together account for about 80 percent of the U.S. population. Amounts are in dollars per person, inflation-adjusted to 2019.

SOURCE: Authors' tabulations of U.S. Bureau of Economic Analysis data.

Our Analysis

To investigate how employment losses during a recession affect per capita transfers, we compare how these transfers evolve each year between metro areas that experienced different-sized employment changes, or shocks, during the recession. We separately analyze five national recessions: those in 1973–1975, 1980–1982 (we combine 1980 and 1982 in this “double dip” recession), 1990–1991, 2001, and 2007–2009. For the sake of simplicity, however, we present impacts averaged across these recessions. (Effects across recessions are generally similar and are shown in the appendix to the full paper.) Our approach assumes that the path of per capita transfers would have evolved similarly between areas in the absence of differing recession severity. To make this assumption

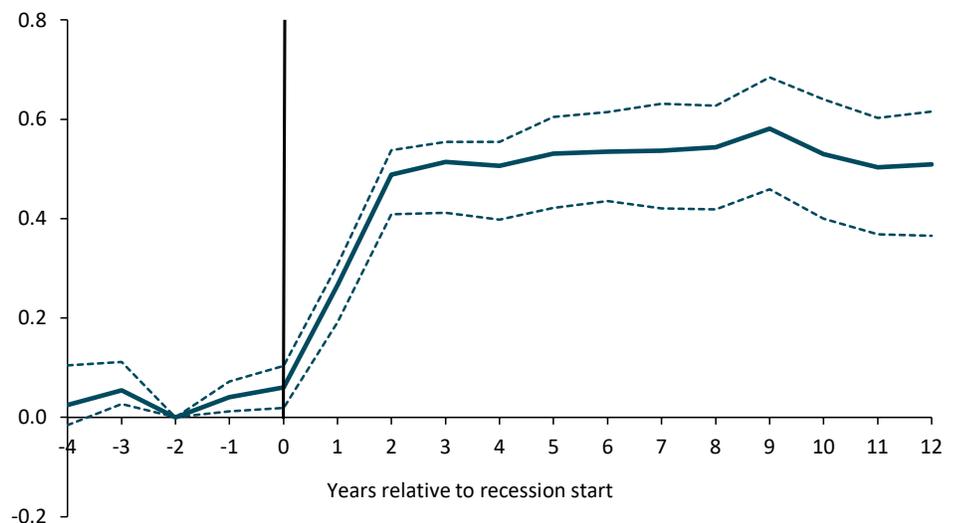
A typical-sized metro area of 265,000 people that suffers a 5 percent greater employment loss during a recession will receive over \$600 million dollars more in transfers over the next decade.

more plausible, we control for several characteristics of the metro areas. These include prerecession population growth for different age groups to control for demographic differences and (nine) census division indicators, so that we are implicitly comparing metro areas within the same division of the country. In both of these cases, we allow these controls to vary by each year in which we observe transfers, thus controlling for age dynamics (such as the differential aging of the population) and gradual shifts in economic activity, such as the rise of the Sun Belt. We further control for metro-area characteristics that don't vary over time, so our results capture changes relative to a metro area's own prerecession path, vis-à-vis the changes in another metro area that differed in recession intensity.

Results

Figure 2 shows how per capita transfers respond, on average across recessions, in metro areas with a 1 percent greater employment loss. The horizontal axis measures years since the recession began (more specifically, when national employment began to decline). Thus, the left-most part of the figure shows the period before the recession. That values are close to zero indicates that differences in the evolution of transfers between areas that will experience severe recessions and those that will experience mild recessions are small before the recession begins, in line with expectations. Once the recession begins, however, transfers rise sharply, and the estimate reaches a value of about 0.5 two years later (about when the recession formally ends). This means that a 1 percent greater loss in metro-area employment during the recession implies a 0.5 percent greater increase in per capita transfers. Moreover, even after the recession is over, the estimate stays at this elevated level for the rest of the time horizon. Therefore, transfers are persistently higher in metro areas that experienced a more severe recession: on average, a 5 percent greater recession-induced employment loss implies a 2.4 percent greater increase in transfers per person, even a decade later.

Figure 2 Transfers Remain Elevated Long After the Recession



NOTE: The figure reports estimates of the impact of a 1 percent greater employment loss on the percentage change in per capita transfers for the years surrounding a recession, averaged across the past five recessions. The vertical black line at 0 indicates the start of the recession—when employment generally begins to fall; thus, positive numbers on the horizontal axis indicate years since the recession began, while negative numbers count backwards in time. A value of 0.5 on the vertical axis means that a 1 percent greater employment loss results in a 0.5 percent greater increase in per capita transfers. Dashed lines indicate cluster-bootstrap-based 95 percent confidence intervals.

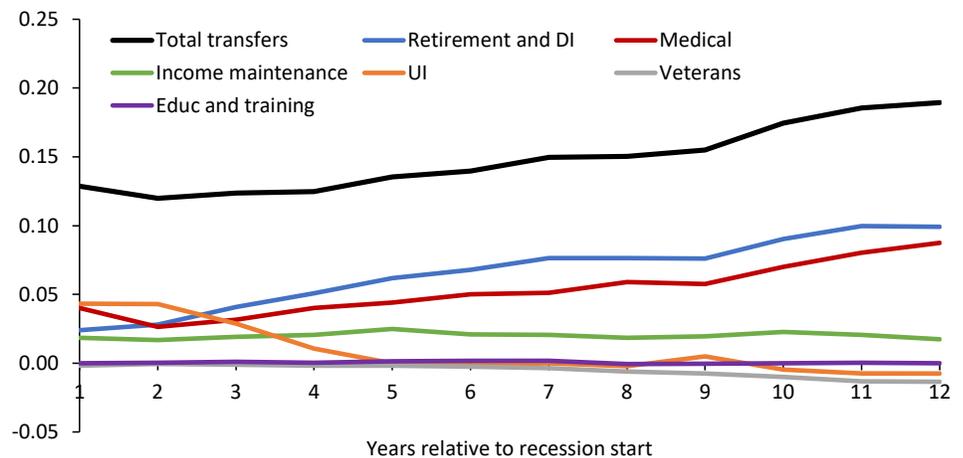
SOURCE: Authors' calculations from U.S. Bureau of Economic Analysis and other data.

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A decade after a recession ended, transfers collectively had replaced about one-sixth of lost earnings.

How much of the persistent loss in per capita earnings do these transfers replace, and which types of transfers account for this sustained rise? We address these questions in Figure 3. Total transfers replace about one-eighth of lost earnings soon after a recession ends, but this share rises somewhat over time (partly because earnings gradually and slightly recover while transfer amounts stay about the same). About a decade after the recession ends (or about a dozen years after it started), transfers on average replace about one-sixth of earnings losses for that year. Figure 3 also shows that while UI experiences a slight bump during the recession, the effect fades, and medical and retirement and disability programs (Medicare, Medicaid, and Social Security) account for the vast majority of the long-term rise. Other programs, including traditional safety net programs, contribute less, especially over time. Education and training programs, which could enhance future worker productivity, are essentially negligible.

Figure 3 Transfers Replace Only Part of Lost Earnings



NOTE: The figure reports on how the increased transfers from Figure 2 compare to losses in per capita earnings by year and transfer type. For example, seven years after a recession began, the increase in total transfers from a 1 percent greater recession-induced employment loss replaces about 15 percent of per capita earnings losses for that year from the same recession-induced employment loss.

SOURCE: Authors' calculations of U.S. Bureau of Economic Analysis and other data.

Discussion and Implications

These results paint a nuanced picture of the response of the safety net. Programs that receive the greatest attention in discussions of countercyclical policy—such as unemployment insurance, TANF, and SNAP—play little role in offsetting the long-run relative earnings losses in metro areas that experience more severe recessions. On the other hand, programs such as Social Security retirement, Disability Insurance, Medicare, and Medicaid partially insure areas against the longer-term effects of recessions. On average, transfers offset about one-sixth of the decline in earnings in metro areas hit harder by recessions. Furthermore, federal transfers that are nominally person-based provide implicit, persistent, and underappreciated geographic transfers from economically more successful places to economically less successful places. In many ways, these transfers act as place-based policies (Austin, Glaeser, and Summers 2018; Fajgelbaum and Gaubert 2020; Gaubert, Kline, and Yagan 2021).

Because the long-run consequences of recessions on local labor markets are not yet widely appreciated, there has been little discussion of whether the existing structure of the social safety net constitutes an appropriate policy response, not just for individuals but for communities as a whole. An important direction for future research is to

Metropolitan areas that experience more severe employment losses during a recession face lasting reductions in employment and earnings per capita, but they also receive lasting increases in transfers per capita.

study how nominally person-based transfers interact with place-based policies, such as economic development block grants and place-based scholarships, in affecting the efficiency and equity of the overall system of government transfers. One important takeaway from our results is that the most sizable transfer programs in the current system are unlikely to encourage labor supply, skill development, or job creation—three things that could be essential factors in helping prevent hard-hit metro areas from falling further behind economically.

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