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## Place-Based Consequences of Person-Based Transfers

Brad J. Hershbein

*W.E. Upjohn Institute for Employment Research*, [hershbein@upjohn.org](mailto:hershbein@upjohn.org)

Upjohn Author(s) ORCID Identifier:

 <https://orcid.org/0000-0002-2534-8164>

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# EMPLOYMENT RESEARCH

## Place-Based Consequences of Person-Based Transfers

*Brad J. Hershbein*

### ARTICLE 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 2.5 percent higher even a decade later.*

■ *These transfers replace about 25 percent of lost earnings in the long term, and much of this is through retirement and disability (Social Security) or health (Medicare and Medicaid).*

■ *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.*

As the nation continues to recover from the economic recession caused by the COVID-19 pandemic, Congress continues to debate how to extend the social safety net, even after unprecedented (and temporary) responses over the past 18 months. 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 to 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 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—respond to recessions not just in the short term but over longer horizons as well. If transfers remain elevated persistently, then places that experience only mild recessions implicitly subsidize through the tax code places that experience bad recessions, even as economic opportunity remains depressed in these latter places.

In forthcoming work, my coauthor Bryan A. Stuart and I 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 363 metropolitan areas, we estimate how average receipt of different government transfer programs, on a per-capita basis, evolve 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

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**A typically-sized metro of 260,000 people that suffers a worse recession will receive over half a billion dollars more in transfers over the next decade.**

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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 2.5 percent higher nearly a decade after the recession ended. For a metro area of typical size, about 260,000 residents, this translates into more than half a billion dollars of 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 show a more sustained rise, but they are relatively small, accounting for only a tenth of total transfers. Instead, 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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**Government Transfers in the United States**

The United States transfers considerable sums of money to individuals through various programs. As of 2017, and across 363 metro areas accounting for more than 80 percent

**Total transfers replace about one-fifth of lost earnings soon after the Great Recession ended in 2009, but this share rises over time.**

of the total population, per-person transfers averaged nearly \$8,300 annually. This represents a quadrupling since 1970, even after adjusting for inflation, and 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 10 percent of total transfers on average. Unemployment insurance is much smaller on average, though it tends to rise after recessions and job losses. Transfers for veterans (pensions and VA coverage) 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 the other programs.

**Our Analysis**

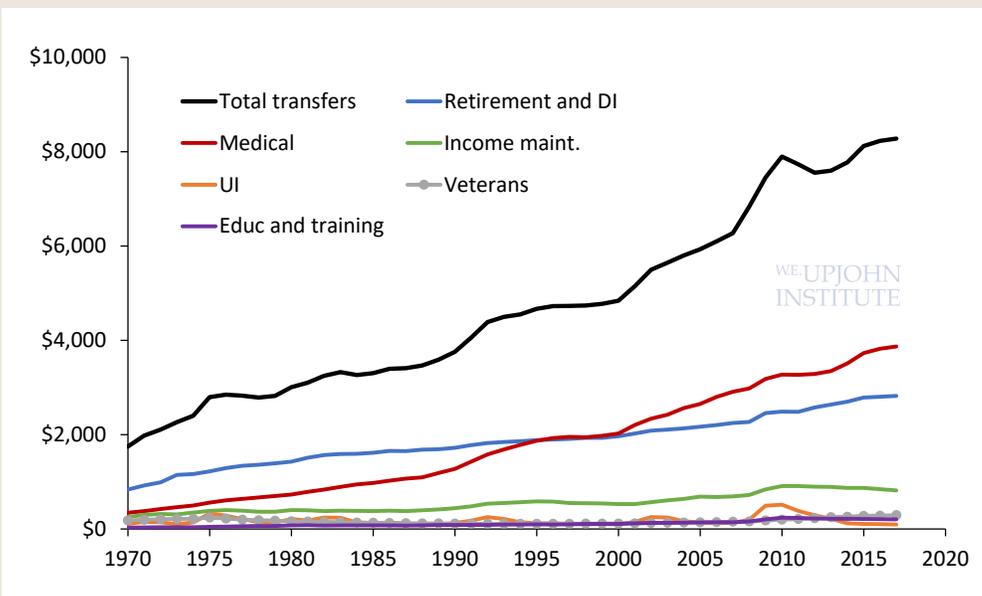
To investigate how employment losses during a recession affect per-capita transfers, we compare how these transfers evolve each year between metro areas that experienced different-sized employment changes, or shocks,

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. 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 more plausible, we control for several characteristics of the metro areas. These include pre-recession 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 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 sunbelt. We further control for metro area characteristics that don’t vary over time, so our results capture changes relative to a metro’s own pre-recession path, vis-à-vis the changes in another metro that differed in recession intensity.

**Results**

Figure 2 shows how per-capita transfers respond in metros with a 1 percent greater employment loss during the respective recession. The horizontal axis measures years since the recession ends (more specifically, when national employment bottomed out; recessions typically begin two years earlier). Thus, the left-most part of the figure shows the period before the recession begins. That values are close to zero indicates that differences in 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

**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 363 metropolitan areas (CBSAs), together accounting for about 80 percent of the U.S. population. Amounts are in dollars per person, inflation-adjusted to 2017.

SOURCE: Author’s tabulations of U.S. Bureau of Economic Analysis data.

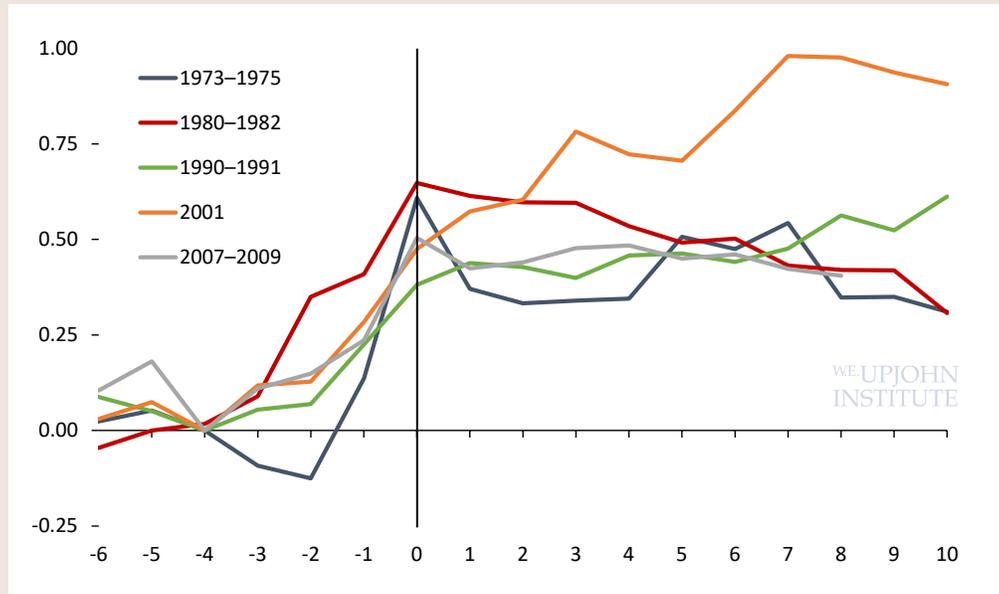
rise sharply, and reach a value of about 0.5 by recession's end; this means that a 1 percent greater loss in metro employment during the recession implies a 0.5 percent greater increase in per-capita transfers. Moreover, even after the recession is over, each line stays elevated above zero and some even continue to grow. Therefore, even a decade later transfers are higher in metro areas that experienced a more severe recession: across recessions, a 5 percent greater recession-induced employment loss on average implies 2.5 percent greater transfers per person.

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 for the Great Recession in Figure 3. Total transfers replace about one-fifth of lost earnings soon after the Great Recession ended in 2009, but this share rises over time (partly because earnings also somewhat recover over time while transfers stay about the same). By 2017, eight years after the recession's end, transfers replace about 60 percent of earnings losses that year. (The pattern varies somewhat for previous recessions, but the replacement share tends to rise over time.) Figure 3 also shows that while UI shows a slight bump near the end of 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 ones, contribute less, especially over time.

**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

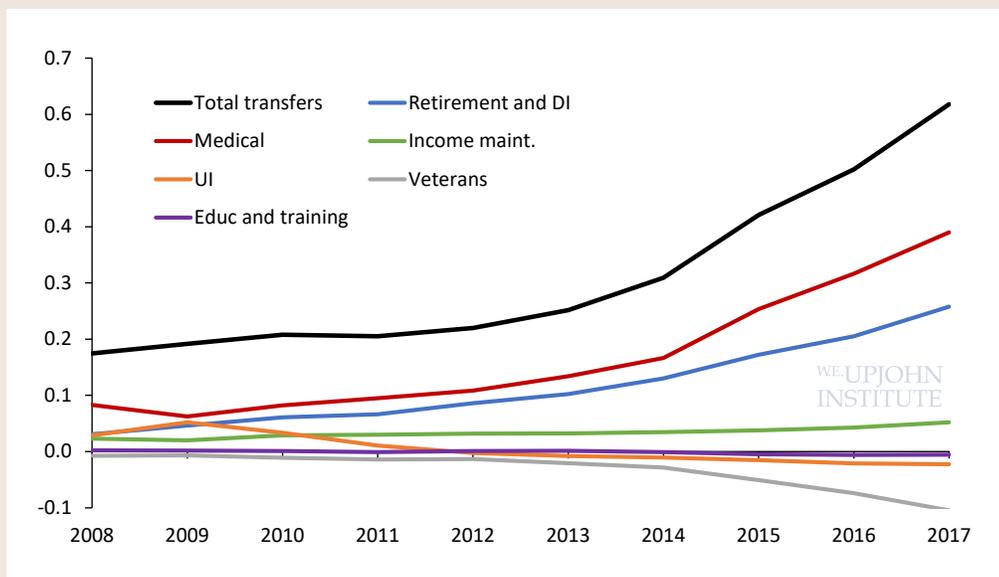
**Figure 2 Transfers Remain Elevated after the Recession Ends**



NOTE: The figure reports estimates of the impact of a 1 percent greater employment loss on the percent change in per-capita transfers for the years surrounding a recession, for each of five recession. The vertical black line at 0 indicates the end of the recession—when employment has bottomed out; thus, positive numbers on the horizontal axis indicate years since the recession ended while negative numbers count backwards (most recessions begin at t=2). 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.

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

**Figure 3 Transfers Replace Only Part of Lost Earnings**



NOTE: The figure reports how the increased transfers from Figure 2 compare to losses in per-capita earnings by year and transfer type. For example, in 2010 the increase in total transfers from a 1 percent greater recession-induced employment loss replaced about 20 percent of per-capita earnings losses that year from the same recession-induced employment loss.

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

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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 25 percent 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.

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

### Reference

Hershbein, Brad J., and Bryan A. Stuart. 2020. "The Enduring Local Harm from Recessions." Upjohn Institute Policy Brief. Kalamazoo, MI: W.E. Upjohn Institute. [https://research.upjohn.org/up\\_policybriefs/25/](https://research.upjohn.org/up_policybriefs/25/).

*Brad J. Hershbein is a senior economist and communications advisor at the Upjohn Institute.*

# Economic Costs and Benefits of Tuition-Free College in Illinois

*Timothy J. Bartik, Michelle Miller-Adams, Brian Pittelko, and Bridget Timmeney*

Why should states invest in free college for their residents? With [returns to college degrees high](#) and [most new jobs requiring a postsecondary degree or credential](#), individual motivations for college-going are easy to discern. As more states create free-college pathways for their residents—and as more will be asked to do so if the [Biden administration's tuition-free college plan](#) becomes law—policymakers should recognize that free college also generates substantial economic and fiscal returns for the state.

This article presents research findings on the economic and fiscal impacts from a hypothetical tuition-free college program in Illinois. The research was carried out with financial support from the Joyce Foundation and the cooperation of the Governor's Office of the State of Illinois. More information on how these findings were generated can be found in our [cost estimate](#) and [economic benefits](#) reports to the state.

Economic returns to free college come in the form of higher earnings for workers with degrees and spillover benefits for other residents. Fiscal returns occur when projected tax

revenues exceed the cost of a free-college program. Of course, there are many other benefits to increasing educational attainment. Employers have access to a better-trained workforce, which spurs innovation and productivity. Higher educational attainment can also reduce crime and substance abuse, help create more stable families, and lead to better outcomes for the children of college graduates. These impacts, however, are hard to quantify, so we focus here on the direct earnings effects for graduates and spillover effects for other residents.

For this project, we modeled two versions of tuition-free college: one model covers the community college sector only and the other includes both two-year and four-year public institutions. Both adopt a last-dollar structure in which a student's Pell Grants are used first, with the state grant closing any remaining gap in tuition and fees.<sup>1</sup>

**A free-tuition program in Illinois would generate economic and fiscal benefits that far exceed its costs, although the fiscal benefits would not be realized immediately. The less**

### ARTICLE HIGHLIGHTS

- *Free college generates substantial economic and fiscal returns for the state.*
- *The combined two-year and four-year program, run for just the years 2021–2030, would increase Illinois residents' total earnings by \$44.7 billion.*
- *We find that a two-year degree yields earnings gains per individual of between \$154,000 and \$182,000 over their lifetime, while a four-year degree yields an earnings gain of between \$671,000 and \$793,000.*
- *We estimate spillover effects on other Illinois residents at 86 percent of the direct effect.*