Sources of Insurance Against Job Loss in the United States

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Extended Abstract

A long literature in labor economics has examined the causal effect of job loss on workers' earnings trajectories, finding substantial and persistent long-run reductions in wage earnings (Jacobson et al., 1993; Couch and Placzek, 2010). However, this work has generally not studied how social insurance, the social safety net, household self-insurance, and the tax system work together to mitigate these earnings losses. In the United States, displaced workers may receive transfer payments from unemployment insurance (UI) or the Supplemental Nutrition Assistance Program (SNAP), implying smaller total *income* losses relative to *wage* losses. Households will also have net behavioral responses to job loss: families may liquidate joint assets or increase spousal labor market activity to mitigate *household* income losses relative to *worker* income losses. Tax filers facing earnings losses may additionally become eligible for low-income credits (e.g., the Earned Income Tax Credit), and have lower tax liability due to progressive tax rates: these dynamics each also imply smaller *after-tax* income losses relative to *pre-tax* effects. To what extent do each of these factors provide implicit insurance against wage losses? And to what extent do these programs interact with each other?

The key empirical issue in answering these questions is that many of these programs (and their interactions) are typically unobserved or imprecisely measured within a single dataset. In this project, we use newly linked administrative records from the US Census Bureau that combine individual earnings records (e.g., IRS Form W-2 and 1099-NEC), government transfers (e.g., SNAP, TANF, WIC, federal housing programs, UI, SSDI, SSI), and detailed measures of income (IRS Form 1040). Our administrative data cover the near-population of social safety net recipients in 16 US states between 2005 and 2022, allowing us to precisely measure the dynamics of income, benefit takeup, and cross-program participation over time in extremely large samples.[1]

The main focus of our paper is to evaluate the respective roles of transfer payments, household responses, and the tax system in insuring workers against income drops after job loss. We begin by validating the effect of job loss on individual workers' labor market outcomes. Our preferred specification uses a "mass layoff" design to uncover job layoffs that occur during large-scale firm

[1] Our wage and tax records cover the full US population, allowing us to correct for cross-state mobility bias in estimates of public benefit receipt.

displacement events, thereby isolating workers for whom job loss is plausibly exogenous. We then incorporate the role of government transfers (listed above) to capture net individual income losses. Next, we examine the impact of household aggregation by analyzing effects at the household or tax filing unit level, including household self-insuring behavior, tax credits received, and changes in taxes paid.[2] Given our large administrative records, we then examine heterogeneity in these behaviors across geography, time (e.g., over the business cycle), and demographic groups. Together, these economic responses provide important insight into how well the existing tax and transfer system provides adequate insurance against job loss in the United States.

Our project makes two key contributions. First, our paper is the first to precisely measure the dynamics of public benefit receipt and self-insurance for US workers using administrative data. These administrative datasets are necessary for several reasons. They provide comprehensive and reliable measures of income at high frequency, track individuals over time and across states, verify the as-if randomization implicit in our research strategy, and provide sufficient sample size to credibly identify how insurance impacts vary by key demographic characteristics. We also contribute to the literature on public program participation by directly estimating benefit takeup (and interactions) along a wide array of government programs. In contrast to other papers typically examining one or two programs in isolation (e.g., the tax system, or unemployment insurance), we are able to observe many components of government and self-insurance within a single, unified administrative dataset.[3]

[2]We construct household structure from tax and benefit records, allowing us to estimate income changes by spouses or family members (the "added-worker effect").

[3]The two papers closest to this approach are Stepner (2019) and East and Simon (2024). Stepner examines how progressive taxation, unemployment benefits, and disability insurance mitigate income losses in Canada. Our paper meaningfully extends this approach by incorporating additional measures of government transfers for a larger sample in the United States (SNAP, HUD, and Medicaid, in particular, cover a large segment of low-income workers). East and Simon study income replacement among displaced workers in the Survey of Income and Program Participation. Our project extends their work by addressing selection into job loss and measurement error in surveys (Meyer et al., 2009), using a much larger sample for precise estimates, and measuring income changes over longer periods.

References

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