The Importance of Unemployment Insurance as an Automatic Stabilizer*

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Abstract

We assess the extent to which unemployment insurance (UI) serves as an automatic stabilizer to mitigate the economy's sensitivity to shocks. Using a local labor market design based on heterogeneity in local benefit "generosity" (defined as the percentage of household income recovered by the unemployment benefit), we estimate that a one standard deviation increase in generosity attenuates the effect of adverse shocks on employment growth by 12% and on earnings growth by 18%. Consistent with the hypothesis that this effect derives from the local demand channel, we find that consumption is less responsive to local labor demand shocks in counties with more generous benefits. Moreover, the average wage growth of employed workers is less elastic to local labor shocks when benefits are more generous. Our analysis finds that the local fiscal multiplier of unemployment insurance expenditure is approximately 1.2-1.8. Overall, our results suggest that UI has a beneficial effect on the economy by decreasing its sensitivity to shocks.

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1 Introduction

Fiscal response to any recession is significantly handicapped by the political difficulties that impede timely expansionary fiscal policy. The slow recovery from the "Great Recession" has prompted a lively debate on whether the unconventional monetary policy measures succeeded in boosting aggregate demand. In principle, automatic stabilizers bypass these difficulties and can be a key factor in easing the consequences of negative economic shocks.[1] However, despite the relevance of this issue, the economic literature provides very little guidance on whether automatic stabilizers are able to buffer shocks.[2]

This paper evaluates the extent to which unemployment insurance (UI) attenuates the decline in real economic activity in response to local labor demand shocks. There are several channels through which automatic stabilizers might moderate cyclical fluctuations. For instance, more generous UI may stabilize *aggregate demand* by attenuating fluctuations in disposable income (Brown (1955)) or *redistributing funds* to individuals with a higher propensity to consume (Blinder (1975)). On the other hand, by increasing firms' hiring costs, more generous unemployment benefits may also accentuate economic fluctuations by discouraging job creation (Hagedorn et al. (2013)). In other words, the role of UI as an automatic stabilizer and the channels through which it may impact on the economy are empirical questions. This paper shows that UI appears to have a beneficial effect on the economy by decreasing *sensitivity* to shocks and reducing the variability in aggregate income, employment and consumption.

Ideally, we want to isolate the impact of UI on the response of local economic activity to shocks by comparing outcomes in regions that have similar characteristics and are hit

[1] They were quantitatively important; the Congressional Budget Office estimates that automatic stabilizers accounted for a significant fraction of the increase in government expenditure during the Great Recession: "In fiscal year 2012, CBO estimates, automatic stabilizers added $386 billion to the federal budget deficit, an amount equal to 2.3 percent of potential GDP. That outcome marked the fourth consecutive year that automatic stabilizers added to the deficit by an amount equal to or exceeding 2.0 percent of potential GDP, an impact that had previously been equaled or exceeded only twice in the past 50 years, in fiscal years 1982 and 1983." (Available here: http://www.cbo.gov/publication/43977)

[2] For a recent work on the role of automatic stabilizers see McKay and Reis (2013).

by similar labor demand shocks orthogonal to the local labor supply, but that differ in the generosity of their unemployment insurance programs. We approximate this ideal setting by following Bartik (1991) and Blanchard and Katz (1992) in constructing a measure of the predicted change in demand-driven labor shocks in a county, given by the interaction between its initial industrial composition and nationwide changes in employment in narrowly defined manufacturing industries. This Bartik shock measure should capture the differential effects of a national manufacturing shock on counties differing in local manufacturing composition. The key identifying assumption is that this measure is not related to county-specific labor supply shocks that may also affect labor market outcomes. Our estimated coefficient is the interaction between this Bartik shock and UI generosity. The possibility of exploiting variations in UI generosity between states is crucial.

Since we want to show that local economies are less responsive to local labor demand shocks where UI is more generous, our main measure of generosity is the income replacement rate as of 1998; we do not consider UI extensions.[3] States differ significantly in the generosity of benefits, which range from $275 a week in Florida to $646 a week in Massachusetts. To account for the fraction of the worker's income that is replaced when he becomes unemployed, using micro data from the Current Population Survey (CPS) we compute the replacement rate conditional on being unemployed. As a robustness check, we use two additional measures of generosity: the ratio of the maximum weekly benefit to the average weekly wage in the county and the replacement rate multiplied by the take-up rate. We control for other common shocks affecting all counties with year fixed effects and for unobserved differences across counties by county fixed effects. Moreover, in a series of robustness checks we provide further evidence that our results are not driven by unobserved heterogeneity between regions.

We start our analysis by estimating the importance of the effect of UI on aggregate demand. This can be gauged by observing how employment growth responds to shocks in counties with different replacement levels. In more generous counties employment growth is

[3] This approach has the additional advantage of being less susceptible to endogeneity problems, in that extensions are likely to be driven by local labor conditions.

significantly less responsive to local labor demand shocks. A one standard deviation increase in generosity reduces the elasticity of employment growth with respect to local shocks by about 10%.

To examine the channels through which unemployment insurance could buffer negative economic shocks, we decompose the effect of generosity on employment growth between the tradable and the non-tradable sectors. We find that employment in the non-tradable sector, which is mostly driven by local demand, reacts less to labor demand shocks in counties with more generous benefits, but employment in the tradable sector does not. Second, we analyze the sensitivity of consumption to shocks. We employ two main measures. First, we show that durable goods consumption, proxied by car sales, is less responsive to local labor demand shocks where UI is more generous. We find that a one standard deviation increase in generosity reduces the local shock elasticity of car sales growth by 15%. The main advantage of this measure is that car sales are registered in the place of residence, which avoids misleading factors such as workers consuming in counties other than where they live.[4] Second, we compute total aggregate consumption at state level, which includes both durables and non-durables, and get very similar results. This confirms the hypothesis that unemployment insurance has a significant impact on aggregate consumption by moderating fluctuations in the disposable income of the individuals with the highest marginal propensity to consume. Collectively, these results strongly suggest that it is through the demand channel that UI attenuates the economy's sensitivity to shocks.

We complement the foregoing results by estimating the response of earnings growth to shocks in counties of differing generosity. We find that more generous counties react less strongly to adverse shocks, as captured by a negative interaction between the Bartik shock and UI generosity. The result is both statistically and economically significant. In fact, a one standard deviation increase (equivalent to 12%) in UI generosity decreases the effect of

[4] Admittedly this result is almost certainly an overestimate, in that new car purchase is one of the components of household consumption most sensitive to disposable income and our measure of car sales only captures the extensive but not the intensive margin.

shocks by about 9%.

One potential concern with these estimates is that they could be driven by unobserved heterogeneity across counties, and specifically by differences in industrial characteristics. For instance, counties may be more or less cyclical as a function of their leading industries, and this might well be correlated with the generosity of unemployment benefits. To control for this, we compute the fraction of employed people in each sector and control for the interaction between the Bartik shock and the fraction of employees in the different sectors in all of our specifications. This allows counties whose main industry is manufacturing, for example, to react to the Bartik shock in a different way than those where services dominate. We find that the results remain both statistically and economically significant.

In addition to increasing the disposable income of the unemployed, more generous UI also prevents wage cuts for the employed in response to a negative shock. We supplement the evidence set forth above by analyzing the response of average wages to shocks, finding that they are significantly less sensitive to economic fluctuations in the counties where jobless benefits are most generous than where they are least generous. In other words, benefits affect the disposable income of unemployed workers directly, and indirectly they also affect the wages of the employed, both by sustaining local demand and by bolstering their bargaining power.

To provide evidence that our results do not hinge on the county-level variation, we confirm our main results using data at state level and at commuting zone level. The advantage of the state level data is that it mirrors the main source of differences in UI generosity, which depends on state law, and allows us to confirm the results for total consumption growth rather than car sales. The commuting zones encompass all metropolitan and nonmetropolitan areas in the United States, and as Tolbert and Sizer (1996) and Autor and Dorn (2013) suggest, these are the appropriate geographic units to delineate local labor markets. This allows us to control more directly for commuting flows and to show that our results are not driven by workers consuming in areas where they do not live.

We also run additional robustness checks. First, we show that our results are not sensitive to the specific definition of UI generosity used, insofar as they hold when generosity is measured as replacement rate times take-up rate as computed from CPS and the maximum weekly benefits divided by the average weekly wage in the county.

Second, to control for time-varying heterogeneity, such as other state policies that might affect the local economic conditions and at the same time be correlated with UI generosity, we control for state by year fixed effects and for the presence of right-to-work laws and the minimum wage in the state and their interaction with the Bartik shock. All our results remain unaffected. A related concern centers on differences in experience-rating taxes across states. In earlier work, Card and Levine (1994) found that states and industries facing higher marginal unemployment experience taxes have lower employment volatility. Unfortunately, we were unable to update their measure to our time period, since their data for determining the marginal tax costs in 1979-1987 are not publicly available. We employ a simple alternative approximation of the tax schedule: the maximum minus the minimum UI marginal tax rate in a state. We calculate an industry-weighted average of Card and Levine's measure of mean marginal tax costs in 1979-1987 (data available in the appendix of the working-paper version) and compare their measure with the maximum minus minimum rates in a midpoint year, 1983. Since there is a very strong correlation between this measure and the measure of the firm's marginal tax cost proposed by Card and Levine (2000), this controls for the firms' tax incentives to locate in a state based on the cost of firing. Using this marginal tax rate as a proxy and additional control, again the result is largely unaffected.

We also provide evidence of intersectoral spillovers by computing the Bartik shocks in the tradable sector and examining their effects on real economic activity. This procedure should capture the effects deriving from workers being fired, for instance, in the car manufacturing sector due to a general decline of the auto industry, who will then decrease their consumption of non-tradable goods, which depresses employment in non-tradables and total earnings growth. This evidence complements the foregoing by providing further evidence for our

demand-driven mechanism.

We also set out two additional results that exploit heterogeneity across shocks and regions. Given the finding that UI reduced the sensitivity of economic activity to shocks, we hypothesize that generosity should be more important for large shocks, because households may have liquidity reserves that enable them to smooth small shocks. We provide evidence for this hypothesis, dividing the shocks into terciles and showing that our main coefficient is negative and statistically significant only for the bottom tercile, whereas the interaction between UI and the Bartik shocks becomes smaller and insignificant for larger shocks. Similarly, if our results are indeed driven by stronger demand from jobless workers we expect our effects to be larger when the unemployment rate is higher, i.e. when more individuals benefit from UI. We provide evidence consistent with this hypothesis by interacting the Bartik shock and the measure of UI generosity with the unemployment rate in the previous year. This result also supports the hypothesis that the fiscal multiplier might vary over the business cycle (Auerbach and Gorodnichenko (2012)).

Since a number of federal and state policy measures were taken during the Great Recession in response to local labor market conditions, such as the American Recovery and Reinvestment Act and the JOBS Act, we need to make sure that they are not responsible for our results. To do so, we exclude all the observations after 2008, finding that the magnitude and the statistical significance of our results are quite unaffected.

As another way of ruling out unobserved heterogeneity as a confounding factor, we estimate our main specification on the sample of counties that abut state borders. This is useful in comparing counties that might be economically similar and subject to similar shocks but in different states, given that the main source of differences in UI generosity is state law. The results remain largely unaffected. We also analyze pairs of bordering counties with similar industrial composition in different states by matching counties on the fraction of employees in the different sectors; this significantly reduces the sample, but the results remain largely unaffected.

All in all, our findings can help to inform the debate on the importance of automatic stabilizers. While generous unemployment insurance programs may adversely affect the *level* of unemployment, we show that through the demand channel they significantly attenuate the *volatility* of economic fluctuations.

1.1 Related Literature

We contribute to the growing literature on the economic role of automatic stabilizers, in particular unemployment benefits. Blanchard et al. (2010), for instance, argue that better automatic stabilizers are crucial for more effective macroeconomic policy. Other papers, such as Auerbach and Feenberg (2000), Auerbach (2009), Feldstein (2009) and Blinder (2004), emphasize their importance in shaping the economy's response to shocks, which is confirmed by Romer and Romer (2014), who finds a large, immediate, and statistically significant response of consumption to permanent increases in Social Security benefits.

McKay and Reis (2013) propose a business-cycle model to study automatic stabilizers in general equilibrium. They capture the channels through which stabilizers mitigate the business cycle and quantify their importance. Specifically, McKay and Reis (2013) estimate how much more volatile aggregate activity would be if some or all of the stabilizers were removed and show that redistributive programs and social insurance can be more effective at reducing the volatility of aggregate output, as in the former case the net recipients have a higher propensity to spend than net donors, while social insurance alters the risks that households face, affecting precautionary savings and the distribution of wealth.[5] We provide empirical support for the redistribution channel, observing that consumption responds less to adverse shocks in counties with more generous UI, because the unemployed have more disposable income. We also give evidence that more generous jobless benefits increase the average wages of the employed by increasing in aggregate demand and possibly also by

[5] Another related paper is Dolls et al. (2012) which analyzes the effectiveness of the tax and transfer systems in the EU and the US to provide income insurance through automatic stabilization in the recent economic crisis.

strengthening their bargaining power. Finally, our results on employment growth in the non-tradable sector may stem from a general equilibrium effect: when consumption is less responsive to shocks, the local economy can sustain a higher level of employment.[6]

Some recent work has focused on the effects of UI extensions during the Great Recession, with mixed results. On the one hand, Hagedorn et al. (2013) argue that the general equilibrium effect operating through the response of job creation to benefit extensions is quantitatively important. They employ a regression discontinuity design focusing on U.S. state borders to show that benefit extensions raise equilibrium wages and lead to a sharp contraction in vacancy creation and a rise in unemployment.[7] On the other hand, Rothstein (2011) estimates that UI extensions had significant but small negative effects on the probability of benefit recipients' getting out of unemployment. The present contribution differs in several respects. First, Hagedorn et al. (2013) and Rothstein (2011) analyze the direct impact of UI extensions, whereas our paper seeks to determine, for a given level of UI, how much the sensitivity of local economic activity to labor supply shocks (as captured by the Bartik measure) depends on benefit generosity. Second, our results complement these findings by showing that while UI extensions may affect the level of employment, generosity also significantly buffers the volatility of real economy activity. In other words, UI might have a beneficial effect on the economy by decreasing sensitivity to shocks and reducing the variability of aggregate consumption, employment and earnings. Third, previous works define variation in generosity as the number of weeks of eligibility, whereas we consider the maximum weekly benefits. The effects – on moral hazard, say – between modifying the duration and altering the size of benefits may differ quite substantially.

Methodologically, our paper also relates to Blanchard and Katz (1992), Bound and Holzer

[6] A related work, inquiring into how UI affects firms' policies, is Agrawal and Matsa (2013). This paper exploits changes in state unemployment insurance laws as a source of variation in the costs borne by workers during layoff spells, finding that firms choose conservative financial policies partly to mitigate workers' exposure to unemployment risk.

[7] Similarly, Hagedorn et al. (2015), analyzing the Congressional decision in December 2013 to end the federal benefit extensions, they provide evidence that 1.8 million additional jobs were created in 2014 due to the benefit cut.

(2000), Autor and Duggan (2003), Notowidigdo (2011) and Charles et al. (2013) which employ the Bartik (1991) procedure to capture the effects of local labor demand shocks. We complement this evidence by showing that the benefits have aggregate effects as an automatic stabilizer, reducing the sensitivity of the local economy to local labor shocks. We also contribute to the emerging cross-sectional literature on fiscal multipliers (e.g. Serrato and Wingender (2010a) and Nakamura and Steinsson (2014)) which differs from the traditional empirical macroeconomics literature relying on time-series variation (e.g. Ramey and Shapiro (1998), Blanchard and Perotti (2002) and Ramey (2011b)). We exploit the variation in unemployment benefit generosity, not government spending, to investigate the sensitivity of local activity to shocks. Our estimate for the fiscal multiplier, at about 2, is close to those made in the previous literature.

Finally, several papers consider the effects of generosity on individuals. Gruber (1997), Browning and Crossley (2001) and Bloemen and Stancanelli (2005), among others, find that increases in benefits mitigate the drop in consumption during downturns, enabling the jobless to smooth their consumer spending. Another strand of the literature has shown that unemployment insurance can reduce the incentives of the unemployed to find a new job (Solon (1985), Moffitt (1985), Meyer (1990), Katz and Meyer (1990) and Card and Levine (2000) among others): the duration of unemployment lengthens on average by 4-8% for every 10% rise in unemployment benefits.[8] The reason being that benefits undercut the incentive to find work by distorting the relative price of leisure and consumption, i.e. a substitution effect. Chetty (2005) shows that in an environment with liquidity constraints this reduction in search is not necessarily inefficient and provides evidence of an income effect in addition to the conventional substitution effect, as workers have more cash on hand while unemployed.[9] However, the introduction of insurance for unemployed individuals who elect to go into

[8] For comprehensive reviews of this literature see Atkinson and Micklewright (1991) and Krueger and Meyer (2002).

[9] Relatedly, Kroft and Notowidigdo (2011) analyze how the level of benefits trades off the consumption smoothing effect with the moral hazard cost over the business cycle, showing that the latter is procyclical while the benefit is non-cyclical.

business for themselves could spur entrepreneurial activity significantly by strengthening their incentive to start a new firm (Hombert et al. (2014)). Such studies as Van Ours and Vodopivec (2008), Card et al. (2007), Lalive (2007), and Nekoei and Weber (2014) have analyzed the impact of UI generosity on the quality of job matches. We complement these findings by showing that labor force and employment growth are less sensitive to economic shocks in the more generous counties.[10] Finally, we examine the local general equilibrium effect of benefit generosity, not the effect on the behavior of unemployed individuals.

The remainder of the paper is organized as follows. Section 2 provides details on the data sources and summary statistics. Section 3 describes the empirical strategy, and Section 4 presents and interprets the main results on the effect of UI on the economy's sensitivity to shocks. Section 5 presents further evidence testing the robustness of our results. Section 6 employs our results to estimate a fiscal multiplier of unemployment insurance benefits, and Section 7 concludes.

2 Data and Summary Statistics

In 1935 the United States created a joint federal-state system of insurance for workers losing their jobs. Each state sets its own UI tax schedules for employers, who also pay a federal tax under the Federal Unemployment Tax Act (FUTA), to finance federal extensions and emergency loans to states trust funds, among other objectives. The law requires state taxes to be "experience-rated," so that the effective marginal rate rises with the number of claims deriving from a firm.

One key feature of this system is that the state can affect the generosity of its program, i.e. the level of benefits and the length of the benefit period. The size of the weekly

[10] Other works on the role of UI during the Great Recession include Mueller et al. (2013), which employs the arbitrary pattern of unemployment benefit extensions to identify the effect of their exhaustion on applications for disability insurance; and Hsu et al. (2014) which exploits the heterogeneity in generosity across U.S. states and over time to show that unemployment benefits prevented 1.4 million mortgage foreclosures. We complement these studies by showing that jobless benefits also support aggregate demand, permitting not only mortgage payments, but also more spending on consumer goods and services.

benefit payment naturally depends on previous wages, but each state also sets a cap on the amount and limits the duration. During times of high unemployment, states may also enact extensions to the regular benefit period.

We employ three different measures of the "UI generosity". First, we consider a state-level measure: the empirical income replacement ratio estimated from the Annual Social and Economic Supplement (ASEC) to the Current Population Survey (CPS). We work with CPS data downloaded from IPUMS. Households are asked about their sources of income in the previous year, and their employment history. To estimate average weekly UI benefits for those receiving them, we divide the total unemployment benefits reported by a household by the number of weeks of joblessness. We calculate average weekly earnings by dividing income from wages and salaries by weeks worked in the year. We thus calculate an empirical "income replacement ratio" as the ratio of average weekly benefits to average weekly wages. To keep the sample size for each state reasonable, we examine a five-year average over 1996-2000, which gives us the replacement ratio for those who actually receive benefits.

An important consideration is benefit "take-up." As noted in Blank and Card (1991), the take-up rate of UI benefits among the unemployed is far less than the eligible population for a variety of reasons, including differences in coverage eligibility, unionization rates, benefit generosity, and rules enforcement. We define the "take-up rate" as the share of the unemployed in a state who actually receive unemployment benefits. We multiply this rate by the replacement ratio to produce a second measure of generosity, namely the average replacement ratio conditional on unemployment.

Our third measure exploits differences in generosity between states and wage distribution within states. The Department of Labor publishes information on each state's benefit schedule. We measure the generosity of each state's benefits in 2000 as the ratio of the maximum weekly benefit to the average weekly wage in each county in 2000. We use this normalization to capture the fraction of income replaced and to take account of the fact that the same dollar amount could have significantly different effects in the same state but in counties with

different living costs. And since extensions are endogenous to local labor market conditions, we measure generosity only as of 2000, but we investigate the impact of the programs from 2001 to 2011.[11] Figure 1.A depicts the substantial heterogeneity in generosity, darker regions being more generous.

We have used numerous sources of data for our dependent variables and controls. Here we mention the most significant. The Bureau of Economic Analysis provides time-series data on aggregate earnings (not including dividends), average wages, and industrial composition; employment growth by industry for each county is computed using yearly data from County Business Patterns (CBP), which is also exploited to calculate employment growth in "non-tradable" industries, i.e. retail trade and hospitality, and "tradables," namely manufacturing. To calculate the aggregate effects of UI generosity on county-level consumption, we use a dataset for all new car sales in the United States provided by R. L. Polk & Company (Polk).[12]

We employ a variety of controls in our specifications interacted with the Bartik shock. We control for the share of employment in construction, manufacturing, services and public sector, as well as the share of self-employment (hence ineligible for UI benefits) using data from BEA (Economic Profile Table CA30 and Table CA25). To control for political differences across counties, which might contribute to greater generosity in other benefits or government programs, we control for the county's Democratic vote share in 2000 using election data from CQ Press available on Census.gov. Finally, we control for median income and the share of the county population with high school and college education, using data from the 2000 Census available from census.gov.

Table 1 shows the county-level summary statistics for our sample. The first row reports the maximum weekly benefit, which ranges from \$190 to over \$400 a week. The next row

[11] During the Great Recession two major federal programs were in effect: Extended Benefits and Emergency Unemployment Compensation. The Extended Benefits (EB) program, which was adopted in 1970 and typically funded in equal parts by state and federal governments, provides an additional 13 weeks of benefits when the state's insured unemployment rate rises above 5% and is at least 20% higher than its average over the previous two years. The Emergency Unemployment Compensation (EUC) program, enacted in June 2008, was instead entirely federally funded and offered up to 53 weeks of additional benefits.

[12] This same data has been previously used by Mian et al. (2013).

shows that the number of weeks does not vary; for every state except Massachusetts, the maximum benefit period is 26 weeks. We then report our main measures of UI generosity, namely the income replacement rate conditional on being unemployed and our two alternative measures, the ratio of the maximum weekly benefit to the weekly wage and the replacement rate times the take-up rate.[13] The table shows that for all three measures there is significant heterogeneity across states, which confirms Figure 1. Among the static variables we also report some county-level controls, such as the fraction of subprime borrowers, as well as the sectoral shares of employees in manufacturing, construction, services and government. Panel B reports the statistics for our time-varying variables. There is a significant variation in the magnitude of the Bartik shock, as its standard deviation is about 2%. The impact of unemployment insurance is inherently asymmetrical, as it has an effect only when the Bartik shocks are negative.

Figure 1.B shows instead that UI generosity is extremely persistent over time. In fact, we plot the correlation between the average income replacement ratio in 1990-1995 and 2000-2005 weighted by population.[14] Accordingly, Table 2 gives the correlations between the different measures of generosity and a number of county characteristics, such as the proportions of employees in the different sectors, of self-employed, of high-school graduates and the Democratic vote share. We find that the main predictors of generosity are the Democratic vote percentage, wages and the proportion of individuals in industry. To control for these differences across counties, in all of our specifications, we control for all of the characteristics in Table 2 and their interaction with the Bartik shock.

For robustness, we run our analysis at a variety of levels of geographic aggregation. Our main analysis is at county level, and we control for worker flows across neighboring counties by taking weighted averages of key variables based on worker migration patterns used in

[13] We only consider UI transfers because, as is shown by Chodorow-Reich and Karabarbounis (2013), these account for 88% of all the transfers related to employment status (supplemental nutritional assistance (SNAP), welfare assistance (AFDC/TANF), and health care account for practically all the rest). Moreover, these non-UI transfers are mainly federal so their generosity does not vary by state.

[14] The other two measures of UI generosity are also highly persistent; similar graphs can be found in the supplementary appendix (Figures A.1-A.4).

Monte et al. (2015). In addition, we use measures of aggregate earnings and average wages from the BEA, adjusted to be on a county-of-residence basis. We also run our analysis at two additional levels of aggregation: commuting zone (CZ) and state. CZs – there are 709 in the U.S. – are groups of counties that share a common labor market as reflected in commuting patterns. This level of analysis controls better for worker employment and consumption patterns across counties. The state-level analysis provides two additional benefits. First, it corresponds to the main source of differences in the generosity of unemployment insurance benefit, so running regressions at state level provides an additional robustness test, albeit at the cost of a good part of the variation in the Bartik shock at the county level. Second, BEA's Regional Accounts offer a more comprehensive measure of consumption at state level, which we can use to capture the demand channel.

3 Empirical Methodology

To investigate how heterogeneity in generosity might affect local responses to labor demand shocks, we need to find a valid instrument for changes in local labor demand. We follow Bartik (1991) and Blanchard and Katz (1992) constructing an index by interacting cross-sectional differences in industrial composition with national changes in industry employment shares – the "Bartik shock" strategy. The Bartik shock is defined as follows:

$$Bartik_{i,t} = \sum_{k=1}^{K} \varphi_{i,k,\tau} \left(\frac{\nu_{-i,k,t} - \nu_{-i,k,t-1}}{\nu_{-i,k,t-1}} \right)$$

Where $\varphi_{i,k,\tau}$ is the employment share of industry k in area i, and $\nu_{-i,k,t}$ is the national employment share of industry k excluding area i.

The key identifying assumption to make this a measure of plausibly exogenous labor demand shocks is that this proxy must not be correlated with unobserved shocks to local labor supply. Specifically, we are assuming that changes in industry shares at national level are uncorrelated with city-level labor supply shocks and can therefore be used as a demand-

induced variation in local employment.[15]

Our baseline specification is:

$$\Delta Y_{i,t} = \beta_1(Bartik_{i,t} \times UI_{i,2000}) + \beta_2 Bartik_{i,t} + \beta_3 Bartik_{i,t} \times X_i + \eta_i + \gamma_t + \varepsilon_{i,t}, \quad (1)$$

where $\Delta Y_{i,t}$ represents the growth rate of the main dependent variables. Following Monte et al. (2015), since individuals might live and consume in a region but work in another one, we control for worker flows. The coefficient of interest is β_1, which captures how the sensitivity of ΔY is affected by the generosity of unemployment benefits (UI). The coefficient β_2 captures the main effect of the Bartik shock, while we also control for a number of county-level characteristics (X_i), such as the share of employees in each industrial sector and their interactions with the Bartik shock. We also include county and year fixed effects; that is, we allow for any general trend (such as changes in demographics) at the county level. In our most demanding specification, in order to allow for a differential responses of states to the Bartik shock, we also include state by year fixed effect.

We start our analysis with a graphical illustration of the main results. Figure 2 plots the effect of UI generosity in attenuating the impact of Bartik shocks on each of our main dependent variables using a spline regression with a knot at the 33rd percentile of the shock. The blue line shows the effect for the counties with the least generous UI, those in the bottom quartile, while the red line depicts the effects for the most generous counties, those in the top quartile. The areas show the 95% confidence intervals and on the x-axis is the Bartik shock. For all our dependent variables, the more generous counties are less sensitive to negative labor shocks. For instance, for consumption growth the counties above the 75th percentile in generosity exhibit very modest elasticity to Bartik shocks, even the most severe, while counties below the 25th percentile are significantly affected. Similarly, the sensitivity of employment growth in the non-tradable sector to labor shocks is significantly smaller in

[15] Other papers employing a similar strategy include Bound and Holzer (2000), Autor and Duggan (2003), Luttmer (2005), Notowidigdo (2011), and David et al. (2013).

counties with more generous UI, while there is no significant difference between counties for employment in the tradable sector. The asymmetry of our effects is also encouraging: only negative shocks matter. This is only suggestive evidence, of course, and these results could be driven by other omitted factors, which is why the next few sections are devoted to demonstrating that they hold even after controlling for several potential confounding factors.

4 Main Results

First we investigate the effect of jobless benefit generosity on employment and consumption, to get an estimate of how generosity acts on the sensitivity of the economy to local labor shocks. We then turn to the effects on earnings growth. In this way we analyze the channels through which UI can affect the economy. To facilitate interpretation of the results, in the tables we demean all the interaction coefficients and UI generosity is normalized to have a standard deviation equal to 1. Hence, we can assess the magnitude of our effects as the ratio between the interaction coefficient and the main effect: β_1/β_2 in 1.

4.1 Employment Growth

We start our analysis of how unemployment insurace could help stabilize the local economy by affecting the change in employment. For instance, more generous benefits can moderate firms' need to downsize in response to negative shocks if the local economy reacts less strongly to them. We investigate this hypothesis by estimating the sensitivity of employment growth to shocks in Panel A of Table 3.

First we examine the full sample of counties. In those with more generous benefits employment growth is significantly less responsive to local labor demand shocks. The effect is also economically significant, as a one-standard-deviation increase in generosity reduces the elasticity of employment growth with respect to local shocks by about 9%. Column (2) shows that the results remain significant after controlling for county and year fixed effects

A source of potentially relevant heterogeneity across counties is industrial characteristics. For instance, counties could be more or less cyclically sensitive as a function of their main industrial sector, which could also be correlated with the availability of unemployment benefits. To check this possibility, we compute the fraction of the work force in each sector since 1998 for each county as provided by BEA, and then take the average for each sector over the sample period 1998-2013. The sectors are construction, manufacturing, government (which includes federal, military, state and local government) and services. As additional controls we consider the interaction between all the other variables in Table 2 and the Bartik shock in Column (3). This specification allows manufacturing counties to react differently than mainly service-based counties. We find that the results remain significant both statistically and economically, indicating that they are not explained by unobserved differences in the main employment sectors. Finally, we also include state by year fixed effects in our specification in Column (4). This controls for other unobservable time-varying factors at state level, such as regulations and minimum wages. The results remain largely unchanged.

To inquire into the demand channel thesis, we distinguish between the tradable and non-tradable sectors as proposed by Mian and Sufi (2012) and compare the sensitivity of each to Bartik shocks. The non-tradable sector consists mainly of small businesses like restaurants and retail shops as well as services; but it does not include construction. The results are given in Table 3, Panel B. Columns (1)-(3) for the non-tradable sector, Columns (4)-(6) for tradables. We start with the baseline specification, with no controls, then control for county and year fixed effects (Column 2), and then for county industrial composition (Column 3). We find that UI generosity reduces the sensitivity of the change in employment in the non-tradable sector by about 23% but has very little effect on the tradable sector either economically or statistically. This strongly suggests that our results are driven by the higher level of local aggregate demand produced by the greater disposable income of the unemployed.

4.2 Consumption Growth

Further evidence that the demand channel is the key mechanism driving our results comes from an examination of the impact of benefit generosity on consumption. To examine the aggregate demand effect, we investigate the county-level response of consumption – defined as car sales – to shocks. A caveat for this measure of consumption is that it might overestimate the overall attenuation of changes in consumption because car buying is the most volatile consumption component and captures only the extensive margin, i.e. the number of cars sold. On the other hand, unlike other measures of consumption, in our data car sales are measured in the county of registration, not that of purchase, which means it captures consumption in the county of residence and not other counties that might have more highly developed commercial districts. This eases concerns about spillover effects. This point will be especially important for our border design (section 5).

The results are given in Table 4. The intuition behind our tests is that if generous benefits give the unemployed more disposable income, they will presumably reduce their consumption less sharply supporting aggregate demand and improving the local economy's resilience. Column (1) gives the baseline estimates with no controls; Column (2) adds county and year fixed effects. A one-standard-deviation increase in generosity reduces the elasticity of consumption growth to local labor shocks by about 18%. This effect remains significant and largely consistent for different specifications.

Column (3) also includes the interaction between other county characteristics and the Bartik shock, as in the previous specifications, to allow for the possibility that consumption might be more responsive to shocks in manufacturing rather than service counties. Columns (4) also allows for state by year fixed effects. In the most demanding specification the effect is smaller but still significant. In fact, the elasticity of consumption growth is significantly lower in counties in the top quartile of UI generosity than in those in the bottom quartile.

These results relate to the seminal contribution of Gruber (1997). Gruber (1997), who shows the ability of the government to smooth consumption during periods of higher unem-

ployment with direct evidence at household level of the effect of unemployment insurance benefits on the consumption of unemployed workers. We complement these results by showing that in equilibrium consumption is less responsive to local labor shocks where UI is more generous, owing to a local general equilibrium effect.

4.3 Aggregate Earnings Growth

To examine the effects of UI on the economy we complement the previous analysis by investigating the response of aggregate earnings growth to shocks in counties with differing benefit generosity. We use aggregate earnings data from BEA (BEA Table CA30). The main advantage of earnings data rather than income data is that it does not count dividends or government transfers, which are unrelated to local economic activity. Table 5 reports the results.

Column (1) considers the less restrictive specification, while Column (2) controls for unobserved differences across counties with county fixed effects. Other shocks common to all counties are captured by year fixed effects. Counties with more generous unemployment benefits tend to be less sensitive to adverse shocks, as is shown by the negative sign on the interaction between the Bartik measure and UI generosity. The result is both statistically and economically significant. In fact, a one-standard-deviation increase in UI generosity (equivalent to 12%) attenuates the effect of the shocks on aggregate earnings by about 10%. Column (3) controls for several county characteristics, such as the structure of the local economy by industrial sector, as in the previous sections. This allows mainly manufacturing counties to react in a different way to the Bartik shock than chiefly service-oriented economies. The results remain both statistically and economically significant.

Finally, Column (4) presents the most conservative specification, controlling for the interaction between state and year fixed effects. Even in this case the results are largely unaffected. In sum, we find that variation in the generosity of unemployment insurance significantly affects the elasticity of earnings growth to local labor supply shocks. Quantita-

tively, the impact of Bartik shocks on earning growth is about 30% lower in counties in the top quantile of UI generosity than in those in the bottom quartile.

5 Further Evidence and Robustness Checks

This section set out additional results showing the validity of our identification strategy by controlling for other potentially contaminating factors, exploiting the heterogeneity in the data and by restricting attention to counties at the state border, and examining several alternative explanatory hypotheses.

5.1 State and Commuting Zone

To show that our main results do not hinge on county-level variation, we confirm them using data at state and commuting zone levels. The useful feature of state level data is that it corresponds to the main source of differences in UI generosity, namely state law and allows the results to be checked with reference to total consumption growth, not just car sales. Table 6 reports the results. Employment growth in the non-tradable sector is less sensitive to shocks when UI is more generous, while for the tradable sector there is no significant effect (Columns 1-3). Since our county-level measure of consumption captures only one of its major components, we also collect BEA data at state level on total aggregate consumption (durables and nondurables). Columns (4)-(6) reports the results. We find that a one-standard-deviation increase in generosity reduces the sensitivity of total consumption to negative employment shocks by about 7%. This strongly suggests that our findings are not driven by special features of the auto industry but are due to the broder aggregate demand channel. Even if less significant, Column (7) confirms the results on earning growth.

The results for commuting zones are given in Table 7. Commuting zone comprise all US metropolitan and nonmetropolitan areas, and as Tolbert and Sizer (1996) and Autor and Dorn (2013) suggest, they are the logical geographic units for defining local labor markets.

Control more directly for commuting flows, we show that our results are not driven by workers consuming in areas where they do not live or by spillovers between counties. Both the magnitude and the significance of the results are quite similar to the county-level results.

5.2 Alternative Measures of Unemployment Insurance Generosity

Our baseline measure of generosity employs UI benefit payments directly to compute the income replacement rate: the ratio of total benefits to the worker's weekly wage when employed. However, our results do not hinge on this particular proxy for generosity. Table 8 reports our main specification using two additional measures: the ratio of the maximum weekly benefit to the average weekly wage in the county in 2000 (Columns 1-5); the replacement rate times the take-up rate as measured in CPS (Columns 6-10). The first measure takes advantage of the very significant variation in the weekly benefit which ranges from $275 a week in Florida to $646 a week in Massachusetts. The second measure takes into account that many jobless persons are not eligible for benefits: temporary employees and the self-employed, those who left their jobs voluntarily, and those whose industries are not covered by unemployment insurance, such as construction. To compute the take up rate, we measure the share of unemployed individuals who actually receive UI benefits, which is about 40%. Rerunning the main specification with these new measures produces results comparable with the baseline in terms of both statistical and economic significance. In other words, our results do not depend on the particular proxy used but are driven mainly by differences in the unemployment benefits.

5.3 State Policies

Although our estimates are robust to the inclusion of state by year fixed effects, which should capture any unobserved change in state policies, a potential concern is the possible presence of other state policies, correlated with UI generosity, that affect the sensitivity of the economy to local labor shocks. For instance, Holmes (1998) shows that right-to-work

laws produce an endogenous sorting of firms into states, which could well affect our estimates if the laws are correlated with UI generosity. Or the level of the minimum wage might also affect unemployment by making wages less responsive and inducing labor market rationing.

Since these interstate differences might also drive the sensitivity of the local economy to supply shocks, we test the robustness of our estimates by including the interaction between the Bartik shock and the presence of right-to-work laws and with the minimum wage level (Table 9). The data on these two policies comes from Holmes (1998) and Dube et al. (2010). The pattern is very similar to those found above. More generous UI reduces the sensitivity of earnings, non-tradable sector employment and car sales to negative shocks, while there is no comparable effect on employment in the tradable sector. This reassures us that our estimates are truly capturing the effect of differences in the generosity of jobless benefits and not other policy variations that could affect county-level sensitivity to economic fluctuations.

5.4 UI Tax and Firms Sorting

Theoretically our baseline results could be explained by a combination of the differences in UI generosity and an endogeous sorting of firms into different states based on marginal UI tax cost. For instance, firms whose activity is less cyclical or less sensitive to economic shocks might find it optimal to locate in states where the UI tax is lower, as their layoff risk is smaller. Although this is unlikely to explain our results entirely, we directly address this concerns using data on the top and bottom UI tax rates in each state. Interestingly, as Figure 3.A shows, there is a very strong positive correlation between the difference in the maximin minus the minimum UI tax and the marginal tax cost computed by Card and Levine (2000), which uses proprietary data. Accordingly, we use the difference in tax rates to proxy for the cost borne by firms, which should affect location decisions.

First of all, Figure 3.B shows that our measure of generosity is not significantly correlated with the unemployment insurance tax rate. Yet since it might still affect our results indirectly, we also control for the interaction of the Bartik shock with the difference in UI

tax rates (Table 10). Our baseline findings are robust to this specification as well. And in fact if there were sorting, it should affect firms in the tradable and the non-tradable sectors alike, but we do not find any significant effect in the tradable sector. This confirms that our results cannot be explained by the sorting of firms into states depending on the marginal UI tax rate.

5.5 Shocks to the Tradable Sector

In obtaining the foregoing results we have computed the Bartik shocks for all sectors. However, there is evidence of significant intersectoral spillovers, as emerges if we compute the Bartik shocks for the tradable sector only. Table 11 shows the effects of these shocks on real economic activity. Intuitively, this procedure captures the effects of workers being dismissed, for instance, in the car manufacturing sector, which will decrease their demand in the non-tradable sector, e.g. restaurants, retail outlets and services. This in turn will depress the economy, lowering employment in non-tradables as well and depressing earnings. Table 11 shows that these effects, which might be due to spillovers or general equilibrium factors, are mitigated where UI is more generous. The predictive power of the Bartik shock in this case is reduced, as now it involves only the tradable sector, which presumably cannot entirely explain the fluctuations in employment growth. In line with our earlier results, we find that the sensitivity of employment growth to shocks is attenuated by 13%, and that the effect is accounted for entirely by the sensitivity of the non-tradable sector. We also find that car sales and earnings growth are less responsive to shocks in the tradable sector when UI is more generous.

5.6 Heterogeneous Effects

In this section we exploit two sources of heterogeneity – the magnitude of shocks and local economic conditions – to provide further evidence in support of the mechanism hypothesized.

5.6.1 Asymmetric Effects

Up to now, we have considered all Bartik shocks together, not differentiating between positive and negative shocks. But the generosity of unemployment benefits should obviously be more important for large than for minor negative shocks, as many households presumably have some liquidity reserves for smoothing consumption in modest shocks. Evidence consistent with this hypothesis is given in Table 12. "Bottom Tercile Bartik Shock" identifies the lowest tercile in the magnitude of the Bartik shock, "Top Terciles Bartik Shock" the top two terciles. In Column (1) the dependent variable is employment growth, while in Columns (2) and (3) show that growth in the non-tradable and the tradable sectors, respectively. In Column (4) we investigate the effect of UI and Bartik shock on the growth of car sales as measured by Polk for the period 2001-2011. Column (5) investigates the effect on earnings growth.

We find that the coefficient of our main dependent variable is negative and statistically significant only in the case of negative labor supply shocks, while the interaction between UI and the Bartik shocks becomes smaller and insignificant for larger shocks. The most significant results are those for consumption and for earnings growth; for the other variables the results are less pronounced. Overall, Figure 2 stands confirmed: that is, more generous unemployment benefits attenuate the sensitivity to negative shocks only and has no effect in the case of positive.

5.6.2 Unemployment Rate

When can we expect unemployment insurance to be most effective in attenuating economic fluctuations, in other words, when is its multiplier effect greatest? Auerbach and Gorodnichenko (2012) find large differences in spending multipliers between recessions and expansions, fiscal policy being considerably more effective in the former. Accordingly, we hypothesize that when more households benefit from UI and the economy is already in a downturn, the positive aggregate demand response of jobless benefits is more effective in reducing the economy's sensitivity to shocks. We test this thesis by interacting our main co-

efficient of interest, $Bartik_{i,t} \times UI$, with the state unemployment rate in the preceding year. We chose the previous year's rate rather than the current year's in order to minimize the endogenity concerns. Table 13 reports the results: UI generosity is significantly more effective in decreasing the sensitivity of the economy to shocks as regards emoployment growth, employment in the non-tradable sector and income.

5.7 Excluding the Great Recession

An important source of unobserved heterogeneity that could contaminate our results is the policies undertaken during the Great Recession. For instance, during the financial crisis there were several extensions of UI and a number of federal interventions to support unemployed workers, which may have affected counties' sensitivity to Bartik shocks. If this is so, our result could be distorted by such policies. To address this concern, we restrict our sample to the years before 2008 (Table 14). All of our results, except that for earnings growth, remain both economically and statistically significant. We can conclude that the lower sensitivity of employment and consumption growth to local labor shocks in counties with more generous UI does not depend on recession-induced benefits.

5.8 Counties at the State Border

In the preceding sections, we controlled for a number of county characteristics to make sure that the sole relevant source of heterogeneity is the relative generosity of UI benefits. Here, as a further control, we examine adjacent counties in different states. Figure 4 shows the heterogeneity in UI generosity for the sample of counties at state borders; the results for this restricted sample are given in Table 15.

In addition to controlling for county and year fixed effects and the interaction between the Bartik shock and county characteristics (Table 2) we now control for state border fixed effects and state border linear and squared trends in all the columns. This specification allows us to compare adjacent counties and to follow heterogeneous trends. Column (1)

reports the results for employment growth: still statistically and economically significant. Column (2) shows the results for employment growth in the non-tradable sector, confirming that it is higher, in the case of negative shocks, in counties with more generous UI; but the effect is concentrated in the non-tradable sector. Columns (3) and (4) report the results for car sales and earnings growth, again showing that aggregate demand is affected significantly by the relative generosity of unemployment benefits.

One potential concern with these findings is that although we consider only adjacent counties, there could still be relevant residual cross-county differences. For instance, counties might differ in their industrial composition, owing, say to different right-to work laws (Holmes (1998)). Then, if counties with a large manufacturing sector have more cyclical unemployment, they might also have a more cyclical unemployment benefit policy, potentially distorting our results. In section 4 we correct for this possibility by controlling for the interaction between the Bartik shock and the fraction of employees in the various sectors. As an additional robustness check, Panel B covers a restricted subset of *county pairs* in different states but with similar industrial composition.

We match counties by first collecting BEA data on the fraction of employed people in each two digit NAICS code sector, and then taking the average for each sector in 2001-2011 to form a vector X_i for county i. The distance between the paired counties i and j is computed as $|X_i - X_j|$; only the pairs whose distance is below the median are retained for the analysis.[16] This should guarantee not only that the matched counties are geographically close but also that their industrial characteristics are comparable. After this control, our results remain significant, and the point estimates are very close to those for the full sample.

5.9 Average Wages

The main purpose of unemployment insurance is to sustain the disposable income of unemployed workers. Where benefits are more generous, there may be the added advantage that

[16] A similar approach is employed by Hagedorn et al. (2013).

the wages of the employed workers too may be less sensitive to negative labor shocks. Better jobless benefits may affect average wages through the aggregate demand channel; and they may also give employed workers stronger outside options thus increasing their reservation wages, again making wages less responsive to economic fluctuations.

To test this hypothesis, we investigate how average wages growth reacts to Bartik shocks in counties with differing UI generosity (Table 16). The baseline estimates in Column (1) show that a one-standard-deviation increase in generosity significantly reduces the elasticity of average wage growth to labor shocks by about 10%. Robustness checks involve controlling for county and year fixed effects (Column 2), allowing the response to shocks to differ according to county characteristics (Column 3), and controlling for the state by year fixed effect (Column 4). All thse specifications yield highly similar results.

6 Fiscal Multiplier

The Great Recession has revived interest in the stimulus provided by changes in government spending and taxation. We contribute to the discussion by using our estimates to obtain a local fiscal multiplier for UI expenditures. We compute the fiscal multiplier μ_e for earnings by reporting our regression specifications:

$$employment\,growth_{it} = \gamma_{i2} + \alpha_{t2} + \beta_{12} \times bartik_{it} + \beta_{22} \times bartikXUIgen_{it} + X_{it} \times \Phi_2 + \epsilon_{it},$$

and

$$earning\,growth_{it} = \gamma_{i3} + \alpha_{t3} + \beta_{13} \times bartik_{it} + \beta_{23} \times bartikXUIgen_{it} + X_{it} \times \Phi_3 + \epsilon_{it}. \quad (2)$$

The multiplier is thus computed as follows:

$$\begin{aligned}\mu_e &= \frac{\$\, increase\, of\, earnings}{\$\, increase\, in\, UI\, payment} \\ &= -\frac{\beta_{23}}{\beta_{12}} \times \frac{Earning}{Total employment \times Average\, Wages} \\ &= \frac{1.21}{0.76} \times 1.4 = 2.2.\end{aligned}$$

To make this calculation, several assumptions were required. First, we assume that all unemployed workers apply for UI. We do not divide it in half, because the unemployment generated by Bartik shocks is quite long-term (see for instance, Autor et al. (2014) and Davis and von Wachter (2011)), which means that since it takes more time to find a job, the incentives to apply for UI are higher. Second, we assume that labor force participation does not change significantly, which makes the number of unemployed workers exactly equal to the negative change in the number of the employed ones. Then, we can compute the denominator in the expression for μ_e by multiplying β_{12} by the Bartik shock, which gives us the employment growth, and then we multiply it by the number of employed workers to get the change in the number of employed workers.

To compute the change in payments to unemployed workers, we use the change in UI generosity (as measured by the realized payments made to unemployed workers) times the average wage. For the numerator, we use the earnings growth equation in (2) to compute the earnings growth as β_{23} times the Bartik shock times the change in UI generosity. And then, we multiply it by the level of earnings to get the change in earnings. We then compute from BEA the ratio of total earnings and total wages, and we find that is about 1.4 and also very stable over our sample period. Thus, we find an average multiplier of 2.2 for earnings. This means that for each additional dollar of transfer through UI, earnings go up by twice that much.

In a similar way, we estimate a multiplier μ_{emp} on employment as follows:

$$\begin{aligned}\mu_{emp} &= \frac{\$\, increase\, of\, wages\, of\, new\, employed}{\$\, increase\, in\, UI\, payment} \\ &= -\frac{\beta_{22}}{\beta_{12}} = \frac{1.1}{0.76} = 1.44,\end{aligned}$$

where for the denominator we followed the same steps as for the earnings multiplier, while for the numerator we can simply compute the change in employment times their wages, which captures the dollar increase in wages of newly employed workers. Thus if we take the ratio of average wages in 2010 and μ_{emp} we get that each $32,000 of transfers through UI creates one new job.

This relates our paper to the series of recent papers using cross-state variation to estimate fiscal multipliers.[17] Moreover, our estimates are very consistent with those found in other papers that use a different source of variation in government spending. For instance, Serrato and Wingender (2010b) exploit the fact that a large number of federal spending programs depend on local population levels and exploit changes in the methodology that the Census uses to provide a count of local populations to estimate a fiscal multiplier of 1.57. Shoag et al. (2010) instruments state government spending with variations in state-managed benefit pension plans and find that government spending has a local income multiplier of 2.12 and an estimated cost per job of $35,000 per year. More recently, Chodorow-Reich et al. (2012) examine the effect of the $88 billion of aid to state governments through the Medicaid reimbursement process contained in The American Recovery and Reinvestment Act (ARRA) of 2009 on states' employment and find a multiplier of about 2. Whereas Nakamura and Steinsson (2014) employ data on military procurement spending across U.S. regions their differential effects across regions to estimate an "open economy relative multiplier" of approximately 1.5.

Our estimates are broadly consistent with the range of estimates for fiscal multipliers on

[17] For a survey of the literature on national output multipliers see Ramey (2011a).

income and employment provided by the existing studies, which also reassures us that our methodology is not capturing other unobserved differences across counties that might bias our results upwardly.

7 Concluding Remarks

This paper evaluates the extent to which unemployment insurance attenuates the sensitivity of real economic activity to local labor demand shocks. Our strategy follows Bartik (1991) and Blanchard and Katz (1992) in constructing a measure of the predicted change in demand-driven labor shocks at county level. This measure is interacted with county-level benefit generosity in the year 2000.

Two principal findings emerge. First, estimating the response of earnings growth to shocks in counties differing in relative UI generosity, we find that where unemployment benefits are more generous, the local economy tends to react significantly less sharply to negative shocks.

Second, we provide evidence that the main channel through which this effect is produced is demand: car sales are less sensitive to negative shocks in counties with more generous UI. Moreover, only the non-tradable sector, where activity is driven mainly by local demand conditions, shows variations in employment corresponding to the interstate variation in UI generosity. These results are robust to checks for unobserved heterogeneity between areas and other policy measures that might affect the responsiveness of the economy to shocks.

Overall, the paper offers new evidence to contribute to the debate on the importance of automatic stabilizers, demonstrating that more generous unemployment benefits, working through the demand channel, significantly attenuate the volatility of economic fluctuations.

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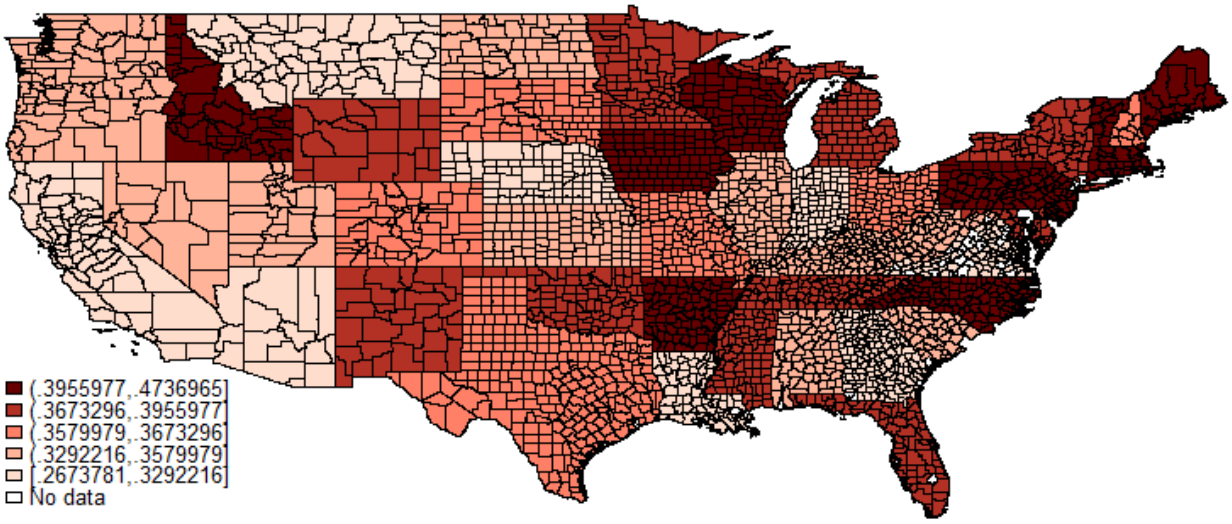


Figure 1.A UI Generosity: Replacement Ratio

This graph shows the unemployment insurance generosity in 2000 for all the counties, with darker regions having more generous UI benefits.

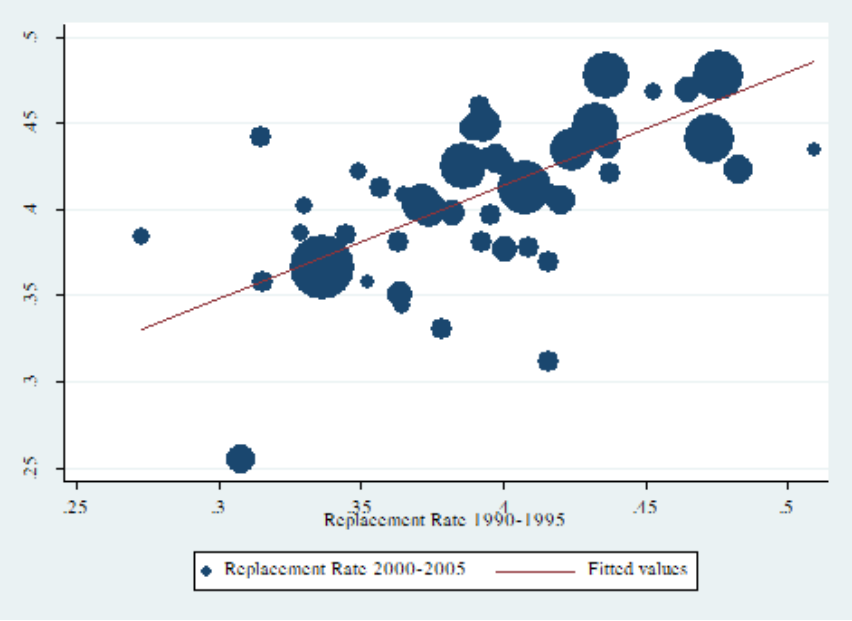


Figure 1.B Persistence of UI Generosity

This graph shows the correlation between the average replacement rate in the periods 2000-2005 and 1990-1995 for all counties weighted by population.

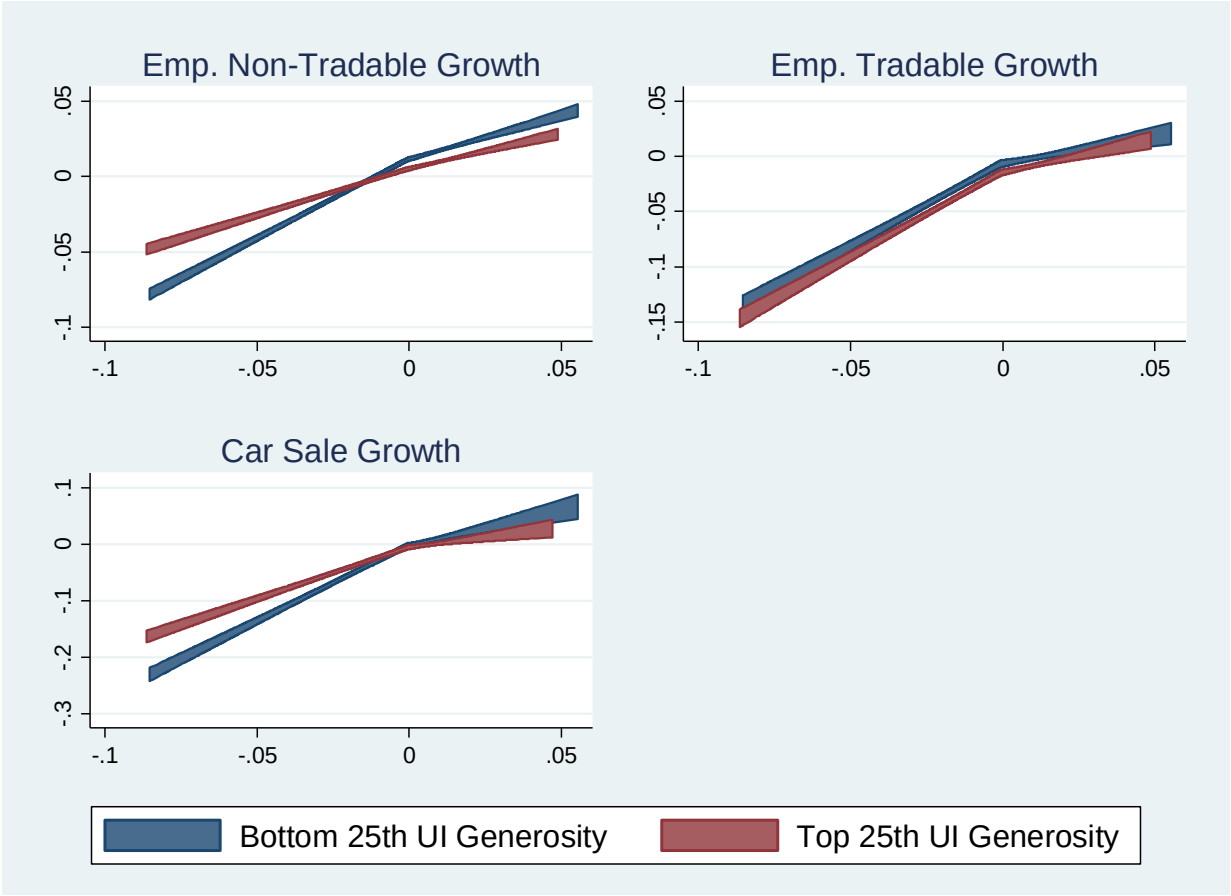


Figure 2 Spline

This graph depicts the effect of the UI generosity in attenuating the Bartik shocks using a spline for each dependent variable and the knots being at the 33th percentile of Bartik shock and 95% confidence intervals. The blue and the red areas show the effects for the bottom and the top quartile in the UI generosity (measured by the income replacement ratio), respectively.

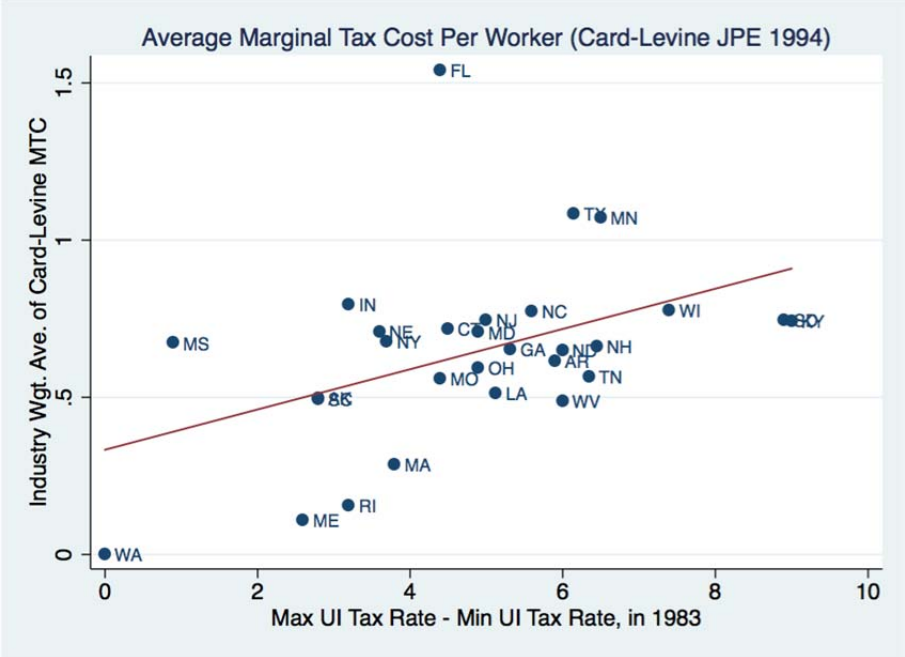


Figure 3.A Correlation between Max-Min UI Tax and Marginal Tax Cost

Figure plots the correlation between the difference between the maximum and the minimum UI tax rate and the industry weighted average marginal tax cost provided by Card and Levine (2000).

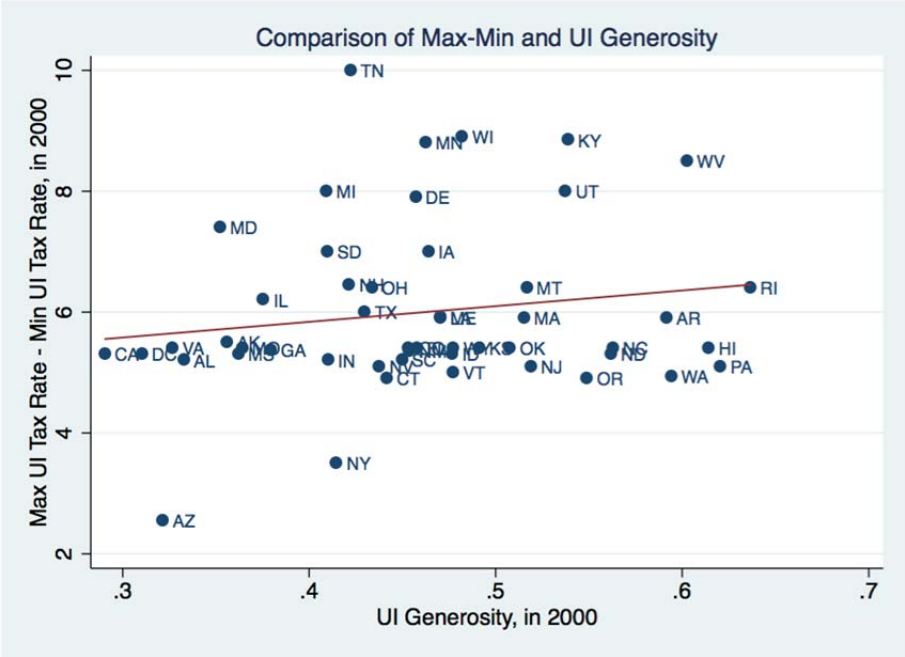


Figure 3.B UI Generosity and Max-Min UI Tax

Figure plots the correlation between the difference between the maximum and the minimum UI tax rate and the UI generosity in 2000.

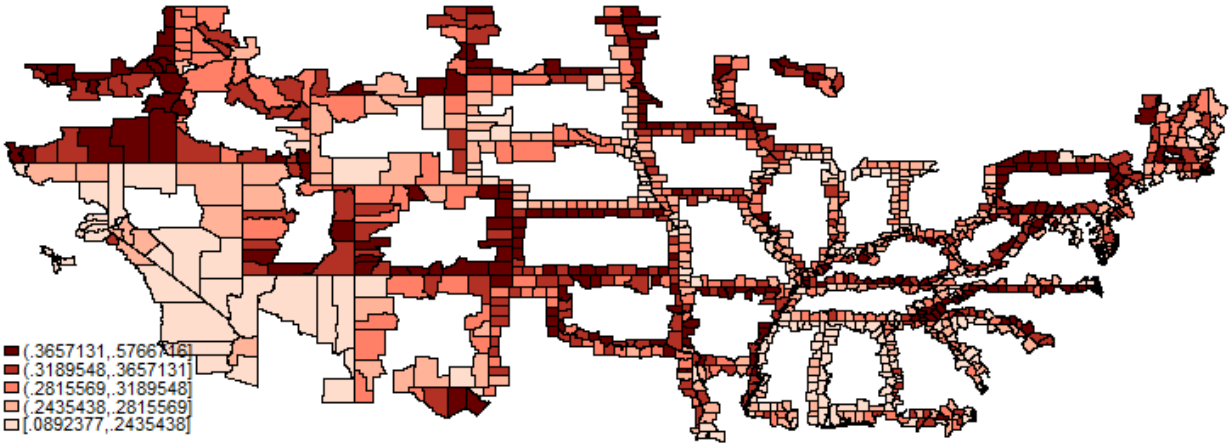


Figure 4 Regression Discontinuity

This graph shows the heterogeneity in UI generosity for the sample of counties at the border which we use in our RD regressions.

Supplementary Appendix

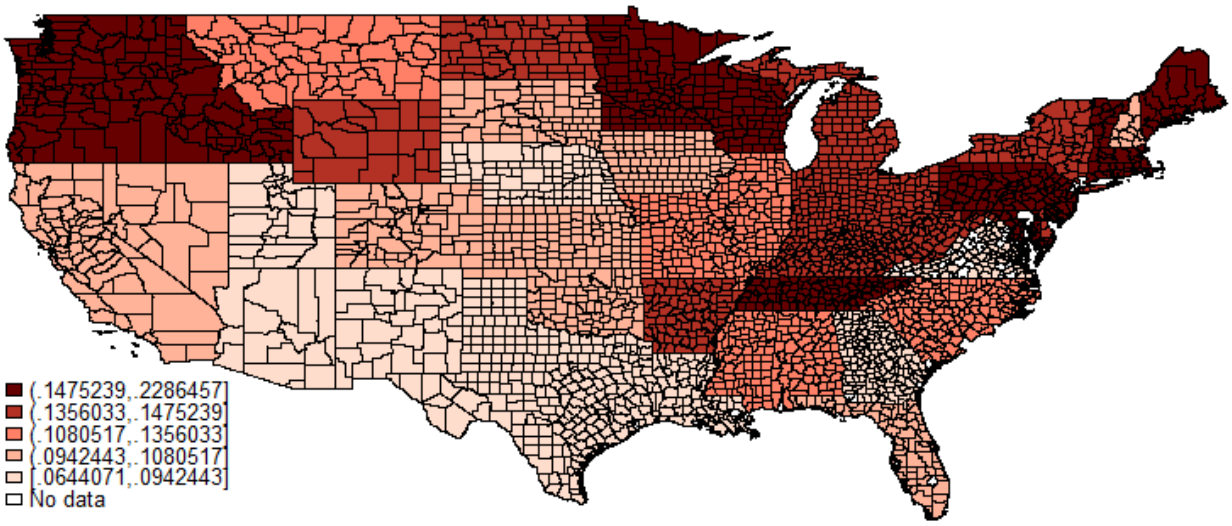


Figure A.1 UI Generosity: Replacement Rate X Take-Up Rate

This graph shows the replacement rate times the take-up rate measure of unemployment insurance generosity, with darker regions having more generous UI benefits.

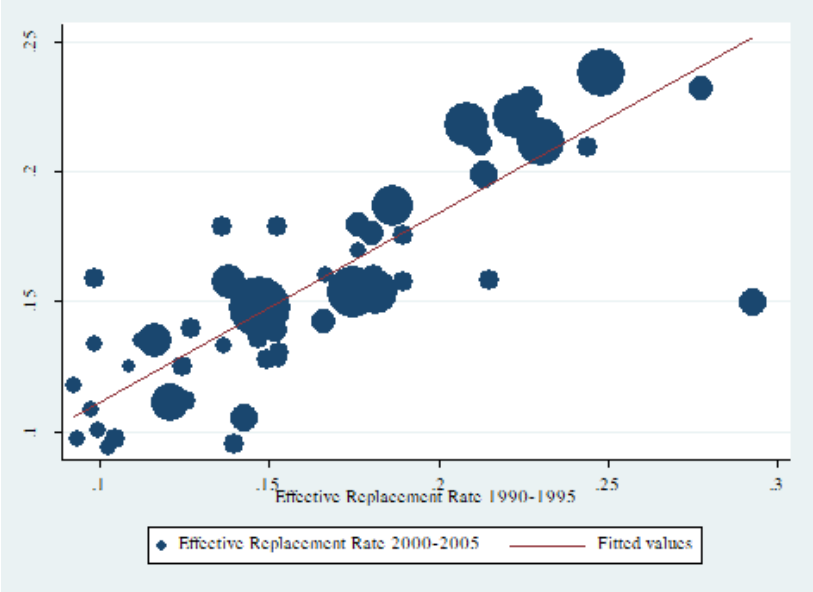


Figure A.2 Persistence of UI Generosity

This graph shows the correlation between the average replacement rate in the periods 2000-2005 and 1990-1995 for all counties weighted by population.

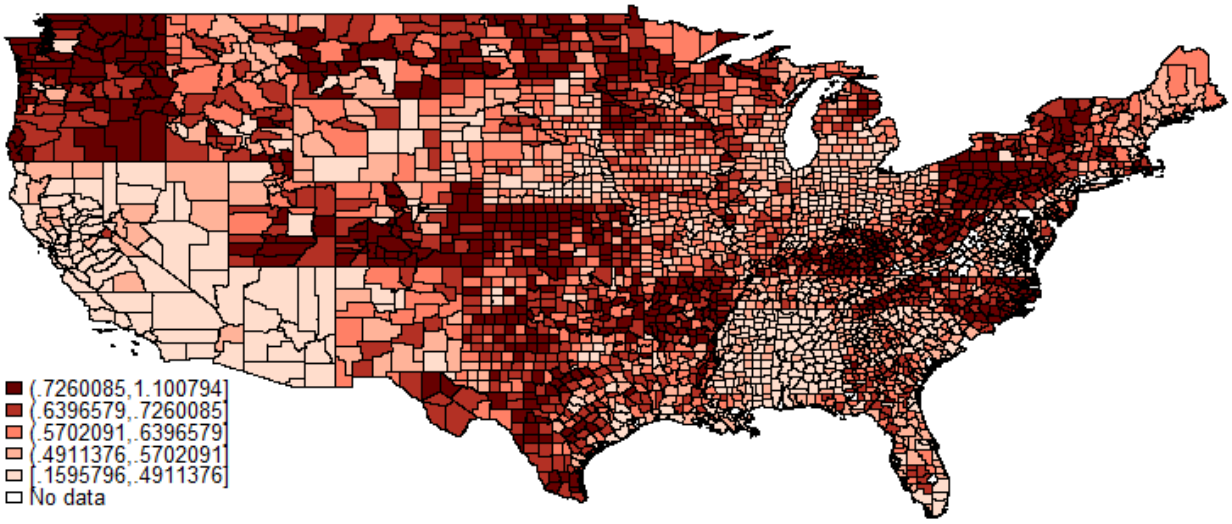


Figure A.3 UI Generosity: Max Benefit/Average Wage

This graph shows the ratio of the maximum unemployment insurance weekly benefit and the average weekly wage as measured in 2000 for all counties, with darker regions having more generous UI benefits.

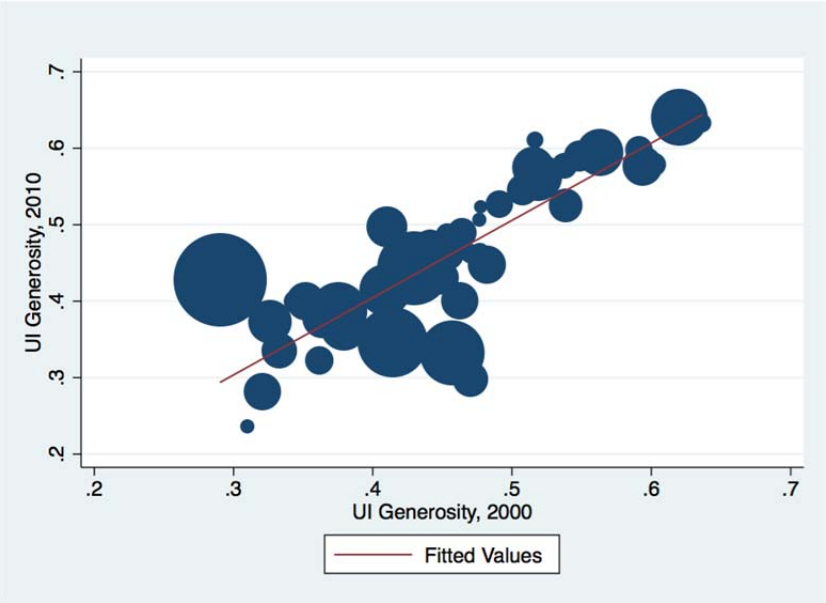


Figure A.4 Persistence of UI Generosity

This graph shows the correlation between the unemployment insurance generosity in 2000 and in 2010 for all the counties weighted by population.

Table 1

Summary Statistics

The table reports the summary statistics for the main variables. Panel A focus on the variables computed in 2000, while Panel B examines the variables over the period 2001-2011. The data on earnings growth and industrial composition is collected from the Bureau of Economic Analysis, while employment growth by industry for each county is computed using yearly data provided by the County Business Patterns (CBP). Data on average wages is provided by the Quarterly Workforce Indicators (QWI). R. L. Polk & Company records all new car sales in the United States and provides our measure of car sales. The fraction of subprime borrowers in 2000 for each county is from Equifax.

Panel A. Static Variables in 2000

	(1) N	(2) Mean	(3) St. Dev	(4) p1	(5) p10	(6) p50	(7) p90	(8) p99
Max Weekly Benefit	3,072	298.0	64.20	190	230	284	408	441
Number of Weeks	3,072	26.18	0.820	26	26	26	26	30
Max Weekly Benefit / Average Income	3,072	0.491	0.141	0.205	0.315	0.480	0.692	0.859
Max Weekly Benefit / Median Income	3,069	0.371	0.110	0.170	0.240	0.352	0.514	0.685
(UI Expenditure / N. Unemployed)/Average Wage	3,025	0.230	0.107	0.0808	0.123	0.202	0.376	0.575
Fraction of Subprime Borrowers	3,071	0.300	0.0893	0.140	0.194	0.284	0.427	0.516
Share of Employees in Construction Sector	3,098	0.0581	0.0209	0	0.0373	0.0558	0.0841	0.118
Share of Employees in Manufacturing Sector	3,098	0.116	0.0677	0	0.0430	0.105	0.206	0.341
Share of Employees in Services Sector	3,098	0.548	0.0911	0.280	0.419	0.565	0.652	0.702
Share of Employees in Government Sector	3,098	0.140	0.0610	0.0626	0.0826	0.125	0.212	0.371
Population	3,098	1.047e+06	1.875e+06	8,752	35,759	407,847	2.467e+06	9.538e+06

Panel B. Dynamic Variables

Bartik Shock 1998	46,470	0.00238	0.0233	-0.0688	-0.0291	0.00814	0.0257	0.0333
Bartik Shock 1998 Tradable Sector	46,470	-0.0264	0.0386	-0.133	-0.0887	-0.0175	0.0116	0.0396
Employment Growth	46,470	0.00519	0.0335	-0.0865	-0.0365	0.00833	0.0408	0.0824
Employment in Non-Tradable Sector Growth	46,470	0.00560	0.0440	-0.104	-0.0444	0.00708	0.0500	0.125
Employment in Tradable Sector Growth	46,470	-0.0174	0.102	-0.246	-0.111	-0.0190	0.0623	0.289
Income Growth	46,470	0.0394	0.0391	-0.0701	-0.00315	0.0404	0.0812	0.135
Car Sales Growth	34,032	-0.0234	0.123	-0.330	-0.194	-0.0161	0.118	0.287
Average Wages Growth	46,470	0.0295	0.0329	-0.0485	-0.00215	0.0283	0.0602	0.125
Labor Force Growth	46,449	0.00718	0.0246	-0.0584	-0.0171	0.00656	0.0325	0.0807
Unemployment Growth	43,372	0.0739	0.217	-0.222	-0.126	0.00893	0.395	0.761

Table 2

UI Generosity and County Characteristics

The table reports the correlations between our three measures of UI generosity and several regional characteristics measured in 2000. The fraction of subprime borrowers in 2000 for each county is from Equifax. The data on industrial composition is collected from the Bureau of Economic Analysis, while data on average wages is provided by the Quarterly Workforce Indicators (QWI). Asterisks denote significance levels (***=1%, **=5%, *=10%).

	Max Weekly Benefit / Average Wages	*Conditional Raplacement Ratio*	*Unconditional Replacement Rate*
Fraction Subprime Borrowers	-0.0888**	-0.0269	-0.202***
	(0.0424)	(0.0691)	(0.055)
Fraction Construction	-0.0306	-0.092	-0.148
	(0.0638)	(0.115)	(0.0965)
Fraction Industrial	0.0104	0.0452	0.0941**
	(0.0314)	(0.0487)	(0.0413)
Fraction Service	-0.0067	-0.0319	-0.0214
	(0.0314)	(0.0435)	(0.0337)
Fraction Government	0.00387	-0.103	-0.0386
	(0.0389)	(0.0652)	(0.051)
Log Average Wages	-0.119***	-0.0660*	-0.0447*
	(0.0179)	(0.0359)	(0.026)
Fraction Self-Employed	-0.00282	-0.0881	-0.103
	(0.0424)	(0.0771)	(0.0699)
High School Graduates	0.000197	0.00161	0.000699
	(0.000632)	(0.00101)	(0.00057)
Democratic Share	0.000428**	0.000834**	0.000967***
	(0.000207)	(0.000315)	(0.000181)
Observations	3,053	3,053	3,053
R-squared	0.552	0.141	0.355

Table 3

Employment Growth

The table reports coefficient estimates of weighted least square regressions relating the employment growth to the unemployment insurance generosity and Bartik shock. The full sample includes the period 1998-2013. In Panel A, the dependent variable is the employment growth. Column 1 shows the effects without any control, while in Column 2 we include county and year fixed effects. In Columns 3-4 we control for the interaction between the Bartik shock and all the controls in Table 2, such as the fraction of employees in construction, manufacturing, government (which includes federal, military, state and local government), self-employed and services industries as well as the democratic share and the fraction of individuals with high-school degree. In column 4 we also control for the state-by-year fixed effects. Panel B distinguish between employment growth in the non-tradable (Columns 1-3) and tradable (Columns 4-6) sector. Standard errors are clustered at the county level. Asterisks denote significance levels (***=1%, **=5%, *=10%).

Panel A. Employment Growth

	(1)	(2)	(3)	(4)
	Employment Growth			
	Full Sample	*Full Sample*	*Full Sample*	*Full Sample*
Bartik Shock × UI Generosity	-0.08**	-0.07**	-0.06**	-0.32***
	(0.03)	(0.03)	(0.03)	(0.10)
Bartik Shock	0.94***	1.23***	1.25***	1.06***
	(0.03)	(0.08)	(0.07)	(0.08)
County Fixed Effects		Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes
Bartik Shock × Controls			Yes	Yes
State × Year Fixed Effects				Yes
Observations	46,470	46,470	46,050	46,050
R-squared	0.43	0.07	0.08	0.06
Number of Counties	3,098	3,098	3,070	3,070

Panel B. Employment Growth in Tradable and Non-Trdable Sectors

	(1)	(2)	(3)	(4)	(5)	(6)
	Employment in Non-Tradable Sector	*Employment in Non-Tradable Sector*	*Employment in Non-Tradable Sector*	*Employment in Tradable Sector*	*Employment in Tradable Sector*	*Employment in Tradable Sector*
Bartik Shock × UI Generosity	-0.13**	-0.13**	-0.12***	-0.02	0.02	-0.01
	(0.06)	(0.06)	(0.04)	(0.04)	(0.04)	(0.03)
Bartik Shock	0.72***	0.45***	0.51***	1.27***	1.79***	1.82***
	(0.05)	(0.10)	(0.11)	(0.04)	(0.20)	(0.22)
County Fixed Effects		Yes	Yes		Yes	Yes
Year Fixed Effects		Yes	Yes		Yes	Yes
Bartik Shock × Controls			Yes			Yes
Observations	46,470	46,050	46,050	46,470	33,153	40,009
R-squared	0.01	0.02	0.01	0.01	0	0
Number of Counties	3,098	3,070	3,070	3,098	3,051	3,078

Table 4

Car Sales

The table reports coefficient estimates of weighted least square regressions relating car sales to the unemployment insurance generosity and Bartik shock. The number of cars sold in each county is provided by Polk, and the full sample includes the period 2001-2011. In all columns the dependent variable is the car sales. Column 1 shows the effects without any control, while in Column 2 we include county and year fixed effects. In Columns 3-4 we control for the interaction between the Bartik shock and all the controls in Table 2, such as the fraction of employees in construction, manufacturing, government (which includes federal, military, state and local government), self-employed and services industries as well as the democratic share and the fraction of individuals with high-school degree. In column 4 we also control for the state-by-year fixed effects. Standard errors are clustered at the county level. Asterisks denote significance levels (***=1%, **=5%, *=10%).

	(1)	(2)	(3)	(4)
	Car Sales			
	Full Sample	*Full Sample*	*Full Sample*	*Full Sample*
Bartik Shock × UI Generosity	-0.31***	-0.32***	-0.27***	-0.50***
	(0.08)	(0.07)	(0.07)	(0.13)
Bartik Shock	1.97***	1.70***	1.69***	0.47***
	(0.11)	(0.27)	(0.24)	(0.18)
County Fixed Effects		Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes
Bartik Shock × Controls			Yes	Yes
State × Year Fixed Effects				Yes
Observations	34,032	34,032	33,755	33,755
R-squared	0.15	0.02	0.03	0.01
Number of Counties	3,097	3,097	3,070	3,070

Table 5

Earnings Growth

The table reports coefficient estimates of weighted least square regressions relating earnings growth to the unemployment insurance generosity and Bartik shock. The full sample includes the period 2001-2011. In all columns the dependent variable is the earnings growth. Column 1 shows the effects without any control, while in Column 2 we include county and year fixed effects. In Columns 3-4 we control for the interaction between the Bartik shock and all the controls in Table 2, such as the fraction of employees in construction, manufacturing, government (which includes federal, military, state and local government), self-employed and services industries as well as the democratic share and the fraction of individuals with high-school degree. In column 4 we also control for the state-by-year fixed effects. Standard errors are clustered at the county level. Asterisks denote significance levels (***=1%, **=5%, *=10%).

	(1)	(2)	(3)	(4)
	Earnings Growth			
	Full Sample	*Full Sample*	*Year <2008*	*Full Sample*
Bartik Shock × UI Generosity	-0.09***	-0.08**	-0.07***	-0.27***
	(0.03)	(0.03)	(0.02)	(0.09)
Bartik Shock	1.03***	1.24***	1.23***	1.04***
	(0.04)	(0.08)	(0.07)	(0.05)
County Fixed Effects		Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes
Bartik Shock × Controls			Yes	Yes
State × Year Fixed Effects				Yes
Observations	46,470	46,470	46,050	46,050
R-squared	0.38	0.06	0.08	0.07
Number of Counties	3,098	3,098	3,070	3,070

Table 6

Robustness I: State Level Evidence

The table reports coefficient estimates of weighted least square regressions relating economic activity measured at the state level to the unemployment insurance generosity and Bartik shock. In Columns 1-3 the dependent variable is employment growth, and employment growth in the non-tradable and tradable sector. Columns 4-6 distinguish between total consumption growth, durable goods and car sales. Column 7 reports the results for income growth. The data is provided by BEA, and the full sample includes the period 1998-2011. In all columns we control for state and year fixed effects and the interaction between the Bartik shock and all the controls in Table 2, such as the fraction of employees in construction, manufacturing, government (which includes federal, military, state and local government), self-employed and services industries as well as the fraction of subprime borrowers, the democratic share and the fraction of individuals with high-school degree. Standard errors are clustered at the county level. Asterisks denote significance levels (***=1%, **=5%, *=10%).

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Employment Growth	*Employment in Non-Tradable Sector*	*Employment in Tradable Sector*	*Total Consumption Growth*	*Durable Goods Growth*	*Car Sales*	*Earnings Growth*
Bartik Shock × UI Generosity	-0.04	-0.11**	-0.04	-0.06**	-0.09**	-0.18**	-0.05**
	(0.03)	(0.04)	(0.03)	(0.03)	(0.04)	(0.08)	(0.02)
Bartik Shock	1.16***	0.24	2.63***	0.93***	2.07***	3.90***	1.27***
	(0.20)	(0.30)	(0.44)	(0.19)	(0.29)	(0.90)	(0.25)
State Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bartik Shock × Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	765	714	714	714	714	561	765
R-squared	0.16	0.08	0.10	0.16	0.23	0.11	0.14
Number of States	51	51	51	51	51	51	51

Table 7

Robustness II: Commuting Zone

The table reports coefficient estimates of regressions relating the main dependent variables at the commuting zone level to the unemployment insurance generosity and Bartik shock to the tradable sector. The full sample includes the period 1998-2013. In Column 1 the dependent variable is employment growth, while in Column 2 and 3 it is the employment growth in the non-tradable and tradable sector respectively. In Column 4 we investigate the effect of UI and Bartik shock on the car sales growth measure as provided by Polk. In Column 5 the dependent variable is the earnings growth. We control for the interaction between the Bartik shock and all the controls in Table 2, such as the fraction of employees in construction, manufacturing, government (which includes federal, military, state and local government), self-employed and services industries as well as the fraction of subprime borrowers, the democratic share and the fraction of individuals with high-school degree. All columns include commuting zone and year fixed effects. Standard errors are clustered at the county level. Asterisks denote significance levels (***=1%, **=5%, *=10%).

	(1)	(2)	(3)	(4)	(5)
	Employment Growth	*Employment in Non-Tradable Sector*	*Employment in Tradable Sector*	*Car Sales*	*Earnings Growth*
Bartik Shock × UI Generosity	-0.06***	-0.15***	-0.02	-0.24***	-0.04**
	(0.02)	(0.03)	(0.03)	(0.05)	(0.02)
Bartik Shock	0.92***	0.60***	1.10***	2.03***	0.91***
	(0.08)	(0.11)	(0.22)	(0.32)	(0.11)
CZ Fixed Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Bartik Shock × Controls	Yes	Yes	Yes	Yes	Yes
Observations	10,390	10,395	10,361	7,623	10,395
R-squared	0.07	0.07	0.01	0.04	0.06
Number of Counties	693	693	693	693	693

Table 8

Robustness III: Different Measures of UI Generosity

The table reports coefficient estimates of weighted least square regressions relating the main dependent variables to the unemployment insurance generosity and Bartik shock. The full sample includes the period 1998-2013. In Columns 1-5 we use the maximum UI weekly benefit normalized by the average weekly wage as proxy for the UI generosity. In Columns 6-10, instead, we employ the replacement rate times the take-up rate as measured from CPS. In Columns 1 and 6 the dependent variable is employment growth, while in Columns 2 and 7 it is employment growth in the non-tradable sector. In Columns 3 and 8 we investigate the effect of UI and Bartik shock on the employment in the tradable sectors, while in Columns 4 and 9 we analyze the effect of UI on car sales growth as provided by Polk. In Columns 5 and 10 we analyze earning growth. In all columns we control for county and year fixed effects as well as by the interaction between the controls in Table 2 and the Bartik shock. Standard errors are clustered at the county level. Asterisks denote significance levels (***=1%, **=5%, *=10%).

	UI Generosity = Max Weekly Benefit / Average Weekly Wage					*UI Generosity = Replacement Rate X Take-Up Rate*				
	Employment Growth	*Employment in Non-Tradable Sector*	*Employment in Tradable Sector*	*Car Sales*	*Earnings Growth*	*Employment Growth*	*Employment in Non-Tradable Sector*	*Employment in Tradable Sector*	*Car Sales*	*Earnings Growth*
Bartik Shock × UI Generosity	-0.07**	-0.12**	0.00	-0.40***	-0.13***	-0.06**	-0.09**	-0.01	-0.29***	-0.11***
	(0.03)	(0.06)	(0.04)	(0.10)	(0.03)	(0.02)	(0.04)	(0.04)	(0.09)	(0.03)
Bartik Shock	1.25***	0.50***	1.83***	1.62***	1.19***	1.24***	0.50***	1.82***	1.62***	1.19***
	(0.08)	(0.11)	(0.22)	(0.24)	(0.07)	(0.08)	(0.11)	(0.22)	(0.25)	(0.08)
County Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bartik Shock × Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	46,050	46,050	46,050	33,755	46,050	46,050	46,050	46,050	33,755	46,050
R-squared	0.08	0.01	0.01	0.03	0.08	0.08	0.01	0.01	0.03	0.08
Number of Counties	3,070	3,070	3,070	3,070	3,070	3,070	3,070	3,070	3,070	3,070

Table 9

Robustness IV: State-Level Policies

The table reports coefficient estimates of regressions relating the main dependent variables to the unemployment insurance generosity and Bartik shock controlling for other state policies. We control for the presence of right-to-work laws and the minimum wage in the state and their interaction with the Bartik shock. The full sample includes the period 1998-2013. In Column 1 the dependent variable is employment growth, while in Column 2 and 3 it is the employment growth in the non-tradable and tradable sector respectively. In Column 4 we investigate the effect of UI and Bartik shock on the car sales growth measure as provided by Polk. In Column 5 the dependent variable is the earnings growth. We control for the interaction between the Bartik shock and all the controls in Table 2, such as the fraction of employees in construction, manufacturing, government (which includes federal, military, state and local government), self-employed and services industries as well as the fraction of subprime borrowers, the democratic share and the fraction of individuals with high-school degree. Standard errors are clustered at the county level. Asterisks denote significance levels (***=1%, **=5%, *=10%).

	(1)	(2)	(3)	(4)	(5)
	Employment Growth	*Employment in Non-Tradable Sector*	*Employment in Tradable Sector*	*Car Sales*	*Earnings Growth*
Bartik Shock × UI Generosity	-0.08***	-0.15***	-0.03	-0.26***	-0.08***
	(0.02)	(0.03)	(0.04)	(0.07)	(0.03)
Bartik Shock × Right-to-Work	0.02	0.04	-0.02	0.24**	0.08
	(0.04)	(0.05)	(0.04)	(0.12)	(0.05)
Bartik Shock × Minimum Wage	0.06**	0.11***	0.00	0.11	0.01
	(0.03)	(0.04)	(0.03)	(0.12)	(0.04)
County Fixed Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Bartik Shock × Controls	Yes	Yes	Yes	Yes	Yes
Observations	39,510	39,510	39,510	28,959	39,510
R-squared	0.09	0.02	0.01	0.04	0.08
Number of Counties	2,634	2,634	2,634	2,634	2,634

Table 10

Robustness V: Sorting of Firms into States

The table reports coefficient estimates of regressions relating the main dependent variables to the unemployment insurance generosity and Bartik shock controlling for UI tax rate. We control for the difference between the max and min UI tax rate and its interaction with the Bartik shock. The full sample includes the period 2001-2011. In Column 1 the dependent variable is employment growth, while in Column 2 and 3 it is the employment growth in the non-tradable and tradable sector respectively. In Column 4 we investigate the effect of UI and Bartik shock on the car sales growth measure as provided by Polk. In Column 5 the dependent variable is the earnings growth. We control for the interaction between the Bartik shock and all the controls in Table 2, such as the fraction of employees in construction, manufacturing, government (which includes federal, military, state and local government), self-employed and services industries as well as the fraction of subprime borrowers, the democratic share and the fraction of individuals with high-school degree. Standard errors are clustered at the county level. Asterisks denote significance levels (***=1%, **=5%, *=10%).

	(1)	(2)	(3)	(4)	(5)
	Employment Growth	*Employment in Non-Tradable Sector*	*Employment in Tradable Sector*	*Car Sales*	*Earnings Growth*
Bartik Shock × UI Generosity	-0.05*	-0.08**	-0.01	-0.21***	-0.05*
	(0.03)	(0.04)	(0.03)	(0.07)	(0.02)
Bartik Shock × (Tax Max – Tax Min)	-0.05**	-0.12***	0.01	-0.20**	-0.07***
	(0.02)	(0.04)	(0.03)	(0.08)	(0.02)
County Fixed Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Bartik Shock × Controls	Yes	Yes	Yes	Yes	Yes
Observations	46,050	46,050	46,050	33,755	46,050
R-squared	0.09	0.02	0.01	0.04	0.08
Number of Counties	3,070	3,070	3,070	3,070	3,070

Table 11

Robustness VI: Bartik shocks Tradable

The table reports coefficient estimates of regressions relating the main dependent variables to the unemployment insurance generosity and Bartik shock to the tradable sector. We control for the presence of right-to-work laws and the minimum wage in the state and their interaction with the Bartik shock. The full sample includes the period 2001-2011.In Column 1 the dependent variable is employment growth, while in Column 2 and 3 it is the employment growth in the non-tradable and tradable sector respectively. In Column 4 we investigate the effect of UI and Bartik shock on the car sales growth measure as provided by Polk. In Column 5 the dependent variable is the earnings growth. We control for the interaction between the Bartik shock and all the controls in Table 2, such as the fraction of employees in construction, manufacturing, government (which includes federal, military, state and local government), self-employed and services industries as well as the fraction of subprime borrowers, the democratic share and the fraction of individuals with high-school degree. Standard errors are clustered at the county level. Asterisks denote significance levels (***=1%, **=5%, *=10%).

	(1)	(2)	(3)	(4)	(5)
	Employment Growth	*Employment in Non-Tradable Sector*	*Employment in Tradable Sector*	*Car Sales*	*Earnings Growth*
Bartik Shock Trad. Sector × UI	-0.04***	-0.06***	-0.03	-0.14***	-0.05***
Generosity	(0.02)	(0.02)	(0.02)	(0.04)	(0.01)
Bartik Shock Tradable Sector	0.30***	0.10**	0.96***	0.00	0.13***
	(0.03)	(0.04)	(0.07)	(0.10)	(0.04)
County Fixed Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Bartik Shock × Controls	Yes	Yes	Yes	Yes	Yes
Observations	46,050	46,050	46,050	33,755	46,050
R-squared	0.05	0.01	0.02	0.01	0.03
Number of Counties	3,070	3,070	3,070	3,070	3,070

Table 12

Heterogeneous Effects I: Asymmetric Effects

The table reports coefficient estimates of regressions relating the main dependent variables to the unemployment insurance generosity and Bartik shock. The full sample includes the period 2001-2011. "Low Bartik Shock" identifies the lowest tercile in the magnitude of the Bartik shock, while "High Bartik Shock" identifies the other two terciles. In Column 1 the dependent variable is employment growth, while in Column 2 and 3 it is the employment growth in the non-tradable and tradable sector respectively. In Column 4 we investigate the effect of UI and Bartik shock on the car sales growth measure as provided by Polk. In Column 5 the dependent variable is the earnings growth. We control for the interaction between the Bartik shock and all the controls in Table 2, such as the fraction of employees in construction, manufacturing, government (which includes federal, military, state and local government), self-employed and services industries as well as the fraction of subprime borrowers, the democratic share and the fraction of individuals with high-school degree. Standard errors are clustered at the county level. Asterisks denote significance levels (***=1%, **=5%, *=10%).

	(1)	(2)	(3)	(4)	(5)
	Employment Growth	*Car Sales*	*Employment in Non-Tradable Sector*	*Employment in Tradable Sector*	*Earnings Growth*
Bottom Tercile Bartik Shock × UI Generosity	-0.08*	-0.19***	0.01	-0.34***	-0.07**
	(0.04)	(0.06)	(0.04)	(0.09)	(0.03)
Top Tercile Bartik Shock × UI Generosity	-0.08***	0.01	0.04	-0.19	-0.12
	(0.03)	(0.07)	(0.15)	(0.15)	(0.11)
Bottom Bartik Shock	0.97***	0.54***	0.71***	0.77***	0.93***
	(0.04)	(0.06)	(0.16)	(0.19)	(0.08)
Top Bartik Shock	0.91***	0.80***	1.54***	2.36***	1.07***
	(0.04)	(0.06)	(0.06)	(0.15)	(0.05)
County Fixed Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Bartik Shock × Controls	Yes	Yes	Yes	Yes	Yes
Observations	46,470	46,470	46,470	34,032	46,470
R-squared	0.45	0.16	0.09	0.16	0.40
Number of Counties	3,098	3,098	3,098	3,097	3,098

Table 13

Heterogeneity II : Unemployment Rate

The table reports coefficient estimates of regressions relating the main dependent variables to the unemployment insurance generosity and Bartik shock to the tradable sector. We control for the presence of right-to-work laws and the minimum wage in the state and their interaction with the Bartik shock. The full sample includes the period 2001-2011. In Column 1 the dependent variable is employment growth, while in Column 2 and 3 it is the employment growth in the non-tradable and tradable sector respectively. In Column 4 we investigate the effect of UI and Bartik shock on the car sales growth measure as provided by Polk. In Column 5 the dependent variable is the earnings growth. We control for the interaction between the Bartik shock and all the controls in Table 2, such as the fraction of employees in construction, manufacturing, government (which includes federal, military, state and local government), self-employed and services industries as well as the fraction of subprime borrowers, the democratic share and the fraction of individuals with high-school degree. Standard errors are clustered at the county level. Asterisks denote significance levels (***=1%, **=5%, *=10%).

	Employment Growth	*Employment in Non-Tradable Sector*	*Employment in Tradable Sector*	*Car Sales*	*Earnings Growth*
Bartik Shock × UI Generosity × Lagged Unemployment Rate	-0.02*	-0.05*	0.02	-0.13	-0.03*
	(0.02)	(0.03)	(0.03)	(0.09)	(0.02)
Bartik Shock × UI Generosity	-0.07**	-0.13***	0.02	-0.33***	-0.09***
	(0.03)	(0.05)	(0.04)	(0.08)	(0.03)
Bartik Shock × Lagged Unemployment Rate	0.00	0.02	0.03	0.14	-0.09***
	(0.02)	(0.03)	(0.04)	(0.09)	(0.03)
UI Generosity × Lagged Unemployment Rate	0.00	0.00**	0.00	-0.00**	-0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Bartik Shock	1.11***	0.38***	1.67***	1.58***	1.11***
	(0.08)	(0.08)	(0.18)	(0.25)	(0.08)
Lagged Unemployment Rate	-0.01***	-0.01***	-0.01***	0.01***	-0.01***
	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)
County Fixed Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Bartik Shock × Controls	Yes	Yes	Yes	Yes	Yes
Observations	46,456	46,456	46,456	34,018	46,456
R-squared	0.08	0.02	0.01	0.03	0.07
Number of Counties	3,098	3,098	3,098	3,097	3,098

Table 14

Robustness VII: Excluding the Financial Crisis

The table reports coefficient estimates of regressions relating the main dependent variables to the unemployment insurance generosity and Bartik shock to the tradable sector. We control for the presence of right-to-work laws and the minimum wage in the state and their interaction with the Bartik shock. The full sample includes the period 2001-2011. In Column 1 the dependent variable is employment growth, while in Column 2 and 3 it is the employment growth in the non-tradable and tradable sector respectively. In Column 4 we investigate the effect of UI and Bartik shock on the car sales growth measure as provided by Polk. In Column 5 the dependent variable is the earnings growth. We control for the interaction between the Bartik shock and all the controls in Table 2, such as the fraction of employees in construction, manufacturing, government (which includes federal, military, state and local government), self-employed and services industries as well as the fraction of subprime borrowers, the democratic share and the fraction of individuals with high-school degree. Standard errors are clustered at the county level. Asterisks denote significance levels (***=1%, **=5%, *=10%).

	(1)	(2)	(3)	(4)	(5)
	Employment Growth	*Employment in Non-Tradable Sector*	*Employment in Tradable Sector*	*Car Sales*	*Earnings Growth*
Bartik Shock Trad. Sector × UI Generosity	-0.07**	-0.11**	-0.06	-0.29**	-0.02
	(0.03)	(0.05)	(0.07)	(0.13)	(0.04)
Bartik Shock Tradable Sector	1.31***	0.46***	1.92***	0.99**	1.16***
	(0.12)	(0.15)	(0.28)	(0.47)	(0.11)
County Fixed Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Bartik Shock × Controls	Yes	Yes	Yes	Yes	Yes
Observations	27,630	27,630	27,630	21,480	27,630
R-squared	0.08	0.01	0.01	0.01	0.09
Number of Counties	3,070	3,070	3,070	3,069	3,070

Table 15

Robustness VIII: Bordering Counties

The table reports coefficient estimates of weighted least square regressions relating the main dependent variables to the unemployment insurance generosity and Bartik shock. The sample includes all the counties within 10 miles from the border during the period 2001-2011. In Column 1 the dependent variable is employment growth, while in Column 2 and 3 it is the employment growth in the non-tradable and tradable sector respectively. In Column 4 we investigate the effect of UI and Bartik shock on the car sales growth measure as provided by Polk. In Column 5 the dependent variable is the earnings growth. In all columns we control for county and year fixed effects. We also control for the interaction between the Bartik shock and all the controls in Table 2, such as the fraction of employees in construction, manufacturing, government (which includes federal, military, state and local government), self-employed and services industries as well as the fraction of subprime borrowers, the democratic share and the fraction of individuals with high-school degree. In all columns we control for state border fixed effects and state border linear and square trends. In Panel B the sample includes all the counties within 10 miles from the border during the period 1998-2013 with similar industrial composition. We collected data from BEA on the fraction of employed people in each sector, then for each sector we take the average over the years 1998-2013 and form a vector Xi for county i. We then compute the distance between each two county pairs i and j and only keep the county pairs whose distance is below the median. Standard errors are clustered at the county level. Asterisks denote significance levels (***=1%, **=5%, *=10%).

Panel A

	(1)	(2)	(3)	(4)
	All counties			
	Employment Growth	*Employment in Non-Tradable Sector*	*Car Sales*	*Earnings Growth*
Bartik Shock × UI Generosity	-0.07***	-0.16***	-0.31***	-0.07***
	(0.02)	(0.04)	(0.09)	(0.02)
Bartik Shock	1.03***	0.29**	1.74***	0.93***
	(0.07)	(0.12)	(0.44)	(0.09)
County Fixed Effects	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Bartik Shock × Controls	Yes	Yes	Yes	Yes
State Border Fixed Effects	Yes	Yes	Yes	Yes
State Border Linear and Square Trends	Yes	Yes	Yes	Yes
Observations	19,530	19,530	14,320	19,530
R-squared	0.06	0.01	0.04	0.05
Number of Counties	1,302	1,302	1,302	1,302

Panel B

	(1)	(2)	(3)	(4)
	Similar Industry Composition			
	Employment Growth	*Employment in Non-Tradable Sector*	*Car Sales*	*Earnings Growth*
Bartik Shock × UI Generosity	-0.08***	-0.19***	-0.34***	-0.07***
	(0.03)	(0.04)	(0.10)	(0.02)
Bartik Shock	1.07***	0.13	1.88***	0.89***
	(0.10)	(0.18)	(0.48)	(0.10)
County Fixed Effects	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes
Bartik Shock × Controls	Yes	Yes	Yes	Yes
State Border Fixed Effects	Yes	Yes	Yes	Yes
State Border Linear and Square Trends	Yes	Yes	Yes	Yes
Observations	10,770	10,770	7,898	10,770
R-squared	0.06	0.02	0.05	0.04
Number of Counties	718	718	718	718

Table 16

Average Wage Growth

The table reports coefficient estimates of weighted least square regressions relating the average wage growth to the unemployment insurance generosity and Bartik shock. The full sample includes the period 1998-2013. In all columns the dependent variable is the average wage growth. Column 1 shows the effects without any control, while in Column 2 we include county and year fixed effects. In Columns 3-4 we control for the interaction between the Bartik shock and all the controls in Table 2, such as the fraction of employees in construction, manufacturing, government (which includes federal, military, state and local government), self-employed and services industries as well as the democratic share and the fraction of individuals with high-school degree. In column 4 we also control for the state-by-year fixed effects. Standard errors are clustered at the county level. Asterisks denote significance levels (***=1%, **=5%, *=10%).

	(1)	(2)	(3)	(4)
	Average Wage			
	Full Sample	*Full Sample*	*Full Sample*	*Full Sample*
Bartik Shock × UI Generosity	-0.05***	-0.05***	-0.04**	-0.15***
	(0.02)	(0.02)	(0.02)	(0.06)
Bartik Shock	0.42***	0.56***	0.55***	0.51***
	(0.03)	(0.08)	(0.08)	(0.06)
County Fixed Effects		Yes	Yes	Yes
Year Fixed Effects		Yes	Yes	Yes
Bartik Shock × Controls			Yes	Yes
State × Year Fixed Effects				Yes
Observations	46,470	46,470	46,050	46,050
R-squared	0.09	0.01	0.02	0.02
Number of Counties	3,098	3,098	3,070	3,070