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EMPLOYMENT HYSTERESIS FROM THE GREAT RECESSION

Danny Yagan

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ABSTRACT

This paper uses U.S. local areas as a laboratory to test whether the Great Recession depressed 2015 employment. In full-population longitudinal data, I find that exposure to a 1-percentage-point-larger 2007-2009 local unemployment shock caused working-age individuals to be 0.4 percentage points less likely to be employed at all in 2015, evidently via labor force exit. These shocks also increased 2015 income inequality. General human capital decay and persistently low labor demand each rationalize the findings better than lost job-specific rents, lost firm-specific human capital, or reduced migration. Simple extrapolation suggests the recession caused most of the 2007-2015 age-adjusted employment decline.

Danny Yagan

Department of Economics

University of California, Berkeley

530 Evans Hall, #3880

Berkeley, CA 94720

and NBER

yagan@berkeley.edu

1 Introduction

The U.S. unemployment rate spiked from 5.0% to 10.0% over the course of the Great Recession and then returned to 5.0% in 2015. However, the U.S. employment rate (employment-population ratio) did not exhibit a similar recovery. Figure 1A shows that the employment rate declined 3.6 percentage points between 2007 and 2015, as millions of adults exited the labor force.¹ Population aging explains a minority of the employment rate decline: weighting 2015 ages by the 2007 age distribution reduces the decline to 2.0 percentage points, and the unadjusted age-25-54 employment rate declined 2.6 percentage points (Online Appendix A). This decline was concentrated among the low-skilled (Charles, Hurst and Notowidigdo 2016). The decline’s persistence contrasts with employment rate recovery after earlier recessions—leading history-based analyses like Fernald, Hall, Stock and Watson (2017) to doubt the possibility of employment hysteresis: the Great Recession having depressed long-term employment.

This paper tests whether the Great Recession and its underlying sources caused part of the 2007-2015 age-adjusted decline in U.S. employment, or whether that decline would have prevailed even in the absence of the Great Recession. It is typically difficult to test for long-term employment impacts of recessions, for the simple reason that recession-independent (“secular”) forces may also affect employment over long horizons (e.g. Ramey 2012). For example, the U.S. employment rate *rose* by two percentage points between the beginning of the 1981-1982 recession and the late 1980s, as women continued to enter the labor force. In the context of the Great Recession, secular nationwide skill-biased shocks like technical or trade changes could have caused the entire 2007-2015 employment decline, rather than the recession.

I attempt to overcome this challenge by leveraging spatial variation in Great Recession severity along with data that minimize selection threats. All U.S. local areas by definition experienced the same secular nationwide shocks, but some local areas experienced more severe Great Recession shocks than other local areas. For example: Phoenix, Arizona—America’s sixth largest city—experienced a relatively large unemployment spike during the Great Recession

¹Variable definitions are standard and pertain to the age-16-and-over civilian noninstitutional population.

while San Antonio, Texas—America’s seventh largest city—did not. A cross-area research design has the potential to distinguish recession impacts from secular nationwide shock impacts.

In the first part of the paper, I show using public state-year aggregates that a cross-area research design is indeed fertile ground for studying the labor market consequences of the Great Recession. Defining state-level shocks as 2007-2009 employment growth forecast errors in an autoregressive system (Blanchard and Katz 1992), I find that 2015 employment rates remained low in the U.S. states that experienced relatively severe Great Recession shocks—even though between-state differences in unemployment rates had returned to normal and despite normal between-state population reallocation. Hence, the cross-space patterns of employment, unemployment, and labor force participation closely mirrored the aggregate cross-time patterns of Figure 1A. The cross-space patterns also mirror the aggregate patterns in their historical uniqueness: employment rates converged or nearly converged across states in the six years after the early-1980s and early-1990s recessions but did not after the Great Recession—a departure from the Blanchard-Katz finding of rapid regional convergence.

The state-year evidence does not imply employment hysteresis from the Great Recession, because of two forms of cross-area composition bias: post-2007 sorting on labor supply and pre-2007 sorting on human capital. First, severe Great Recession local shocks caused long-term declines in local costs of living (Beraja, Hurst and Ospina 2016) which may have disproportionately attracted or retained those secularly out of the workforce like the disabled and retired (Notowidigdo 2011).² Even without such post-2007 sorting on labor supply, severe Great Recession local shocks may have happened to hit areas with particularly large pre-existing concentrations of individuals affected by secular nationwide shocks. For example, the Great Recession was concentrated in local areas that had experienced housing booms (Mian and Sufi 2014, Charles, Hurst and Notowidigdo 2016) attracting low- and middle-skill construction labor, and low- and middle-skill laborers have been relatively adversely affected by secular nationwide shocks in

²For example: “Warren Buffett’s Advice to a Boomer: Buy Your Sunbelt Retirement Home Now” (Forbes 2012 <http://www.forbes.com/sites/janetnovack/2012/01/27/warren-buffetts-advice-to-a-boomer-buy-your-sunbelt-retirement-home-now/>).

recent decades (e.g. Katz and Murphy 1992).³ Under either type of cross-area sorting, severe Great Recession local shocks may not have caused local residents’ 2015 non-employment.

I therefore turn for the second part of the paper to longitudinal linked-employer-employee data in order to control for prominent dimensions of cross-area sorting. The longitudinal component allows one to measure individuals’ employment over time regardless of whether and where in the United States they migrated—directly controlling for post-2007 sorting on labor supply. The linked-employer-employee component allows one to control for fine interactions of age, 2006 earnings, and 2006 industry—proxies for pre-2007 human capital.

Specifically, I draw a 2% random sample of individuals from de-identified federal income tax records spanning 1999-2015. The main outcome of interest is employment at any point in 2015, equal to an indicator for whether the individual had any W-2 earnings or any 1099-MISC independent contractor earnings in 2015. The main sample restricts to those aged 30-49 (“working age”) in 2007 in order to confine the 1999-2015 employment analysis to those between typical schooling age and retirement age, and it restricts to American citizens in order to minimize unobserved employment in foreign countries. The analysis allows for within-state variation by using the local area concept of the Commuting Zone (CZ): 722 county groupings that approximate local labor markets and are similar to metropolitan statistical areas but span the entire continental United States. I use the universe of information returns to assign individuals to their January 2007 CZ. Each individual’s Great Recession local shock equals the percentage point change in her 2007 CZ’s unemployment rate between 2007 and 2009 as recorded in the Bureau of Labor Statistics Local Area Unemployment Statistics. I obtain 2006 four-digit NAICS industry for half of 2006 W-2 earners by linking W-2s to employers’ tax returns.

I find that conditional on 2006 age-earnings-industry fixed effects, a 1-percentage-point-higher Great Recession local shock caused the average working-age American to be 0.39 percentage points less likely to be employed in 2015. The estimate is very statistically significant,

³For example: “You can’t change the carpenter into a nurse easily...monetary policy can’t retrain people” (Charles Plosser, <http://www.wsj.com/articles/SB10001424052748704709304576124132413782592>).

approximately linear in shock intensity, robust across numerous specifications, and large: those living in 2007 in largest-shock-quintile CZs were 1.7 percentage points less likely to be employed in 2015 than initially similar individuals living in 2007 in smallest-shock-quintile CZs. Placebo tests indicate no relative downward employment trend in severely shocked areas before the recession, corroborating identification. Controlling for 2015 local unemployment rates suggests that the incremental 2015 non-employment took the form of labor force exit rather than long-term unemployment. Simply extrapolating the 0.39-for-1 estimate to the aggregate suggests that the Great Recession caused 76% of the 2007-2015 working-age decline in U.S. annual employment rates. The actual aggregate causal share may be different and depends on general equilibrium amplification or dampening.

I similarly find impacts on 2015 earnings: a causal impact of -3.6% ($-\$997$) of the individual's pre-period earnings for every 1-percentage-point-higher shock. The employment and earnings impacts were most negative for those with low 2006 earnings, indicating that the Great Recession caused a long-term increase in employment and earnings inequality not only within but also across skill levels. Effects were not attenuated for mobile subgroups like renters or the childless in spite of high absolute migration rates.

One could be concerned that the foregoing within-industry analysis fails to sufficiently control for pre-2007 sorting on human capital, as jobs and therefore skill types in some industries are geographically differentiated. Thus as a novel robustness check, I approximate a within-job analysis using a sample of 2006 workers at retail chain firms like Walmart and Safeway that employ workers with similar skills to perform similar tasks at similar salaries in many different local areas. Controlling for 2006 age-earnings-*firm* fixed effects in the retail chain sample yields similar results.

The data cast doubt on three candidate mechanisms for the 2015 impacts of Great Recession local shocks. First, reduced migration does not likely explain the results: post-2007 population reallocation was in line with historical experience, and the most mobile subgroups did not experience smaller impacts. Second, lost job-specific rents do not likely explain the results: impacts are large in the retail chain sample even though retail is a canonical low-rent

industry, and impacts are largest among those with low or zero initial earnings. Third, lost firm-specific human capital at layoff does not likely explain the results: Great Recession local shocks caused 1.4-percentage-point-higher layoff rates, but reemployment rates are so high among laid-off workers that the layoff effect predicts only a tiny 2015 non-employment effect. A fourth candidate mechanism is higher reservation wages after disability insurance enrollment; imprecise point estimates suggest that disability enrollment explains a minority of the results.

Three additional tests indicate that two other candidate mechanisms—general human capital decay during long non-employment spells and persistently low labor demand—are each consistent with the results. First, nearly all the incrementally non-employed from severely shocked areas had been laid off at some point 2007-2014. Second, Great Recession local shocks had large impacts on full-year non-employment 2010-2014. Third, Great Recession local shocks had large impacts on 2015 employment in a sample of workers who separated from their firms during 2008-2009 mass layoffs. These three findings are consistent with laid-off workers in weak local labor markets having lost general human capital during long non-employment spells. These findings are also consistent with those laid-off workers choosing non-employment after local wages fell (e.g. Jaimovich and Siu 2013, Kline and Moretti 2014, Hershbein and Kahn 2016) or being unable to transition from non-employment to employment (e.g. Diamond 1982, Kaplan and Menzio 2014) under persistently low labor demand.

The results constitute evidence of employment hysteresis from the Great Recession (cf. Fernald, Hall, Stock and Watson 2017) and add to a large literature on the incidence of labor market shocks. Earlier work had found long-term impacts on individuals' earnings (Topel 1990, Ruhm 1991, Jacobson, LaLonde and Sullivan 1993, Neal 1995, Kahn 2010, Davis and Von Wachter 2011) and sometimes on local areas' employment rates (Black, Daniel and Sanders 2002 and Autor and Duggan 2003 vs. Blanchard and Katz 1992) but not on individuals' employment rates (Walker 2013, Autor, Dorn, Hanson and Song 2014). I provide evidence of long-term impacts of Great Recession local shocks on individuals' employment rates, likely via labor force exit. This evidence reinforces the view of Autor and Duggan and a large literature dating back to Bowen and Finegan (1969) and Phelps (1972) that transitory adverse aggregate

shocks can have persistent negative employment impacts even after unemployment recovers.

The rest of the paper is organized as follows. Section 2 uses state-year data to show that cross-area employment patterns mirrored aggregate cross-time employment patterns 2007-2015. Section 3 details the empirical design and longitudinal linked-employer-employee data. Section 4 presents the main results. Section 5 investigates mechanisms. Section 6 concludes.

2 Local Labor Markets Mirrored the Aggregate

This paper uses cross-area variation in Great Recession severity to test whether the recession and its underlying sources caused part of the 2007-2015 decline in the U.S. employment rate displayed in Figure 1A. This section tests whether Figure 1A’s aggregate cross-time employment patterns have been mirrored across U.S. local areas: did the local areas that experienced severe Great Recession shocks also experience persistent declines in employment and participation rates but not unemployment rates, relative to mildly shocked areas? If so, then local labor markets may indeed serve as a fruitful laboratory for understanding sources of aggregate employment patterns.

A large literature has studied local labor market dynamics after local employment shocks. The canonical analysis of Blanchard and Katz (1992) found in state-year data 1976-1990 that, when a state experiences an adverse employment shock, its population falls relative to trend but its unemployment, participation, and employment rates return to parity with other states in five-to-six years. That is, local shocks leave local areas smaller but no less employed. This conclusion has been replicated in European data (Decressin and Fatas 1995) and in a longer U.S. state-year time series (Dao, Furceri and Loungani 2017) and is consistent with no statistically significant long-term employment impacts of other labor market shocks in individual longitudinal data (Walker 2013, Autor, Dorn, Hanson and Song 2014). However, other papers have found long-term participation and employment impacts of local shocks: Black, Daniel and Sanders (2002), Autor and Duggan (2003), and Autor, Dorn and Hanson (2013) found long-term impacts of specific types of U.S. local shocks on local disability insurance enrollment, participation, and/or employment rates. Hence, the existing literature presents a mixed picture.

This section documents local labor market dynamics after Great Recession local employment shocks. For comparability to the broadest line of previous work, I conduct this analysis at the state level and categorize states into severely shocked states and mildly shocked states using unforecasted state-level changes in 2007-2009 employment, derived from the autoregressive system of Blanchard and Katz (1992). I estimate Blanchard and Katz’s log-linear autoregressive system in state employment growth, state unemployment rates, and state participation rates in LAUS data 1976-2007. The LAUS data are the annual Bureau of Labor Statistics Local Area Unemployment Statistics series of employment, population, unemployment, and labor force participation counts 1976-2015 for 51 states (the 50 states plus the District of Columbia). Annual counts are calendar-year averages across months. I then compute 2008 and 2009 employment growth forecast errors for each state—equal to each state’s actual log employment growth minus the system’s prediction for that state—and sum the two to obtain each state’s 2007-2009 employment shock. Roughly speaking, each state’s shock equals the state’s 2007-2009 log employment change minus the state’s long-run trend. Then for expositional simplicity, I group the 26 states with the most negative shocks (e.g. Arizona) into a severely shocked category and the remaining states (e.g. Texas) into a mildly shocked category. See Online Appendix B for additional detail.

Figure 1B displays the 2002-2015 time series of unemployment, participation, and employment rate differences between severely shocked states and mildly shocked states. For each outcome and year, the graph plots the unweighted mean among severely shocked states, minus the unweighted mean among mildly shocked states (the graph looks nearly identical when weighting by population). Within each series, I subtract the mean pre-2008 severe-minus-mild difference from each data point before plotting, so each plotted series has a mean of zero before 2008.

The figure’s flat pre-recession trends indicate that unemployment, participation, and employment rates trended similarly for severely shocked and mildly shocked states before the recession. Then the unemployment rate in severely shocked states relative to mildly shocked states spiked in 2008, peaked in 2009-2010, and returned by 2015 to its mean pre-recession

severe-mild difference. Yet the 2015 employment and participation rates in severely shocked states remained 1.74 percentage points below the corresponding rates in mildly shocked states, relative to the mean pre-recession severe-mild differences. The implied 2015 cross-area employment gap is large: 2.01 million fewer adults were employed in severely shocked states than in mildly shocked states, relative to full recovery to the pre-recession severe-mild employment rate difference (see Online Appendix C).

Hence, the cross-area (severe-minus-mild) patterns of unemployment, participation, and employment of Figure 1B do indeed mirror the aggregate cross-time (current-minus-2007) patterns of Figure 1A. Moreover in the same sense that the aggregate employment aftermath of the Great Recession contrasts with the aftermath of the early-1980s and early-1990s recessions, so too does the cross-area aftermath of the Great Recession contrast with the cross-area aftermath of those earlier recessions. Figure 2A repeats the employment rate series of Figure 1B for the aftermath of the 1980s and 1990s recessions, treating the early-1980s recessions as a single recession. The figure shows that cross-state employment rates converged after the early-1980s recession in eight years and after the early-1990s recession in four years. This average six-year convergence contrasts with the six-year divergence after the Great Recession.

Blanchard and Katz suggest that the historical convergence mechanism is rapid population reallocation: a -1% state population change relative to trend follows every -1% employment shock within five-to-six years.⁴ Therefore a natural possible explanation for local employment rate persistence after the Great Recession is that population reallocation has slowed. Figure 2B investigates this possibility by plotting de-trended 2007-2014 population changes—equal to each state’s 2007-2014 percent change in population minus the 2000-2007 percent change in the state’s population—versus the state’s 2007-2009 employment shock. The graph shows that population reallocation after the Great Recession was similar to the historical benchmark: each -1% 2007-2009 employment shock was on average accompanied by a -1.016% (robust

⁴The unit elastic population response holds when re-estimating the Blanchard and Katz system on updated data 1978-2015. The suggested causal chain is: a state (e.g. Michigan) experiences a one-time random-walk contraction in global consumer demand for its locally produced traded good (e.g. cars), which induces a local labor demand contraction and wage decline, which in turn induces a local labor supply (population) contraction, which then restores the original local wage and employment rate.

standard error 0.260) de-trended population change.⁵

To sum up, this section has found that aggregate 2007-2015 unemployment, participation, and employment rate patterns have been mirrored in cross-area unemployment, participation, and employment rate patterns over the same time period. Participation and employment rates remained persistently low in the U.S. states that experienced relatively severe employment shocks 2007-2009, even though unemployment rates converged across space. Reduced population reallocation does not explain the local persistence. The cross-area aftermath of the Great Recession departs from the broad historical findings of Blanchard and Katz (1992), but they accord with findings of Black, Daniel and Sanders (2002), Autor and Duggan (2003), and Autor, Dorn and Hanson (2013) from specific contexts. I now turn to identifying whether Great Recession local shocks caused individuals to have lower 2015 employment.

3 Isolating Impacts of Great Recession Local Shocks

The previous section showed that local labor markets were microcosms of aggregate employment patterns 2007-2015: 2015 employment rates remained unusually low in U.S. local areas that experienced an especially severe 2007-2009 employment shock. However, that cross-sectional fact does not imply that individuals were non-employed in 2015 because of where they were living during the Great Recession, in light of two selection threats. First, retirees and others secularly out of the labor force may have disproportionately stayed in or moved to severely shocked areas in order to enjoy low living costs while foregoing employment. Even without selective migration on post-2007 labor supply, severely shocked areas may have been disproportionately populated before the recession by individuals who subsequently suffered large nationwide contractions for their skill types, like construction workers or routine laborers, that would have occurred even in

⁵When not de-trending, state population changes were largely uncorrelated with 2007-2009 employment shocks, also shown in Mian and Sufi (2014) for the 2007-2009 period only. Blanchard and Katz find adjustment via population changes relative to trend. Gross (out-)migration rates have declined modestly since 1980 (Molloy, Smith and Wozniak 2011), but gross flows are still an order of magnitude larger than net flows (population reallocations) predicted by history in response to 2007-2009 shocks. Most population reallocation occurs via reduced in-migration rather than increased out-migration (Monras 2015) and can also change due to births and deaths.

the absence of the recession due to secular nationwide shocks. Under either selection threat, the 2015 residents of severely shocked areas might be non-employed now regardless of geography.

This section specifies my empirical strategy for using longitudinal linked-employer-employee data to isolate causal effects of Great Recession local shocks on individual’s 2015 employment. 2015 is the most recent year of data available.

3.1 Empirical Design

I adopt an empirical design that closely follows earlier work using longitudinal individual-level data to estimate long-term impacts of labor market shocks (e.g. Jacobson, LaLonde and Sullivan 1993, Davis and Von Wachter 2011, Autor, Dorn, Hanson and Song 2014). I detail its foundations using potential outcomes notation in Online Appendix D and describe them verbally here. I estimate regressions of the form:

$$y_{i2015} = \beta SHOCK_{c(i2007)} + \theta_{g(i2006)} + \epsilon_{i2015} \quad (3.1)$$

where y denotes an employment or related outcome; i denotes an individual; $SHOCK_{c(i2007)}$ is the Great Recession shock to the individual’s 2007 local area c ; $\theta_{g(i2006)}$ denotes fixed effects for groups g of individuals defined using individual pre-2007-determined characteristics; and ϵ_{i2015} is a disturbance term. β is the coefficient of interest: the causal effect on one’s 2015 outcomes of living in 2007 in a local area that experienced a one-unit-larger Great Recession shock.

I interpret β as the causal effect of Great Recession local shocks *and* their underlying sources which are empirically indistinguishable,⁶ and I refer to this effect as the causal effect of Great Recession local shocks. Alternatively, β could in principle reflect differential pre-recession trends (e.g. a downward pre-2007 employment trend in severely shocked areas) or independent correlated local shocks (e.g. post-2009 floods in severely shocked areas). However, my interpretation of β is sensible because severely shocked and mildly shocked areas exhibited

⁶For example if the underlying source of Great Recession local shocks was persistent local spending contractions (Mian, Rao and Sufi 2013), then 2015 employment could be depressed because of layoffs during the Great Recession or because 2015 local spending remained depressed, among other possibilities.

relatively similar pre-recession trends in the outcomes of interest (shown below in Section 4.1) and because post-2010 unemployment rates converged monotonically across severely shocked and mildly shocked areas (Figure 2A and Online Appendix Figure A.2A). Moreover, adverse 2010-2015 industry-based shift-share shocks are not positively correlated with adverse Great Recession local shocks (Online Appendix Figure A.2B).

Like earlier work, the identifying assumption is selection on observables: individuals were as good as randomly assigned across local areas within groups g . Also like earlier work, I aim to satisfy this assumption using rich longitudinal data to define groups finely along dimensions (e.g. age, pre-recession earnings, and pre-recession industry) that could be correlated with both shock severity and the outcome of interest, and to restrict attention to sub-samples in which the identifying assumption is particularly likely to hold. I will use event study graphs to evaluate potentially confounding pre-recession trends.

3.2 Samples

I implement the paper’s empirical design using selected de-identified data from federal income tax records spanning 1999-2015. I construct three samples as follows. Additional details are listed in Online Appendix E. All three samples are balanced panels of individuals.

Main Sample. The main sample comprises a 2% random sample from what I call the full sample. The full sample comprises all American citizens aged 30-49 (“working age”) on January 1, 2007, who had not died by December 31, 2015, and who had a valid payee ZIP code on at least one information return that indicates continental U.S. residence in January 2007.⁷ The age restriction confines the 1999-2015 employment analysis to those older than schooling age and younger than retirement age. Birth, death, and citizenship data are drawn from Social Security Administration (SSA) records housed alongside tax records.⁸ Restricting attention to

⁷In other contexts, working-age sometimes refers to the age-15-65 population. My sample lies within ages 15 and 65 in all years 1999-2015. I refer to the sample as working-age mainly to communicate that it omits individuals beyond normal retirement age.

⁸Citizenship is recorded as of December 2016. Results are very similar when not conditioning on citizenship status. Conditioning on citizenship reduces the possibility that 2007 residents are employed in other countries but appear non-employed in U.S. tax data.

those alive in 2015 excludes analysis of mortality effects, likely a conservative choice (Sullivan and Von Wachter 2009). I describe geocoded information returns in the next subsection. I randomly sample individuals from the full sample using the last two digits of the individual’s masked identification number, yielding the main sample comprising 1,357,974 individuals.

Retail Chain Sample. The retail chain sample comprises individuals in the full sample whose main employer in 2006 was a retail chain firm and who lived outside of the local area of the retail chain firm’s headquarters. It is constructed as follows. For every individual in the full sample with a 2006 W-2 form, I attempt to link the masked employer identification number (EIN) on the individual’s highest-paying 2006 W-2 to at least one business return in the universe of business income tax returns 1999-2007.⁹ I use the North American Industry Classification System (NAICS) code on the business income tax return to restrict attention to workers whose 2006 firms operated in the two-digit-NAICS retail trade industries (44 or 45), e.g. Walmart and Safeway.¹⁰ I further exclude employees living in 2007 in the CZ of their employer’s headquarters, using the workers’ payee ZIP codes across their information returns (see the next subsection) and the filing ZIP code on business income tax returns and mapping these ZIP codes to Commuting Zones (CZs, the local area concept defined in the next subsection). Then to identify CZs in which the 2006 firms operated, I further restrict to firms with at least ten 2006 employees living in each of at least five CZs and restrict to the firms’ employees living in 2007 in those CZs.¹¹ This procedure yields a retail chain sample of 866,038 individuals at 524 retail firms.¹²

Mass Layoffs Sample. The mass layoffs sample comprises individuals in the full sample who separated from an employer during a mass-layoff event in either 2008 or 2009, after having worked for the employer during the prior three calendar years inclusive of the separation year.

⁹Many firms’ workers cannot be linked to a business income tax return; see the next subsection.

¹⁰Accessed data lacked firm names. I do not know which specific firms survived the sample restrictions. These example firms and their industry codes were found on Yahoo Finance.

¹¹As in other U.S. administrative data (e.g. Census’s Longitudinal Employer Household Dynamics, see Walker 2013), specific establishments of multi-establishment firms are not directly identified in federal tax data. My process infers firms’ CZ-level operations from workers’ residential locations, detailed in Online Appendix E.

¹²The sample is smaller than the universe of retail chain workers for four main reasons: the age restriction, the de facto exclusion of workers at independently owned franchises, mismatches between W-2 EIN and business return EIN (see Section 3.3.3 below), and removal of workers at firm headquarters.

It is constructed as follows, closely adhering to the sampling frame of Davis and Von Wachter (2011) except that I define an employer as an EIN-CZ pair rather than an EIN.¹³ Using the universe of W-2s and linking W-2 payee (residential) ZIP codes to CZs, I compute annual employment counts at the EIN-CZ level. For an employer to qualify as having a mass-layoff event in year $t \in \{2008, 2009\}$, the employer must satisfy the following conditions: it had at least 50 employees in $t - 1$; employment contracted by 30% to 99% from $t - 1$ to $t + 1$; employment in $t - 1$ was no greater than 130% of $t - 2$ employment; and $t + 2$ employment was less than 90% of $t - 1$ employment.¹⁴ The mass layoffs sample comprises all 1,001,543 individuals in the full sample who received a W-2 with positive earnings in years $t - 2$ through year t from a mass-layoff employer but not in $t + 1$.

3.3 Variable Definitions

I now define variables. Year always refers to calendar year. Variables are available 1999-2015.

1. Outcomes. Similar to Davis and Von Wachter (2011) and Autor, Dorn, Hanson and Song (2014), *employment* in a given year is an indicator for whether an individual has positive Form W-2 earnings or Form 1099-MISC independent contractor earnings (both filed mandatorily by the employer) in the year. Employment is thus a measure of having been employed at any time during the year. Note that this annual employment measure differs from the conventional point-in-time (survey reference week) measure used by the Bureau of Labor Statistics. Although not all self-employment is reported on 1099-MISCs, transition of affected workers to self-employment likely does not explain the results: Current Population Survey data indicate that changes in state self-employment rates since 2007 were unrelated to changes in state formal employment rates (Online Appendix Figure A.3).

Earnings in a given year represents labor income and equals the sum of an individual's Form W-2 earnings and Form 1099-MISC independent contractor earnings. All dollar values

¹³An EIN may be a firm or a division of a firm.

¹⁴The 99% threshold protects against EIN changes yielding erroneous mass-layoff events. The last two criteria exclude temporary employment fluctuations. A firm that initially qualifies as having mass-layoff events in both 2008 and 2009 is assigned a 2008 event only.

are measured in 2015 dollars, adjusting for inflation using the headline consumer price index (CPI-U) and are top-coded at \$500,000 after inflating. *DI receipt* is an indicator for whether the individual has positive Social Security Disability Insurance income (SSDI) in the year as recorded on Form 1099-SSA information returns filed mandatorily by the Social Security Administration. SSDI is the main U.S. disability insurance program. *UI receipt* is an indicator for whether the individual has positive unemployment insurance benefit income in the year as recorded on Form 1099-G information returns filed mandatorily by state governments.

2. CZ and Great Recession Local Shock. Allowing for within-state variation, an individual’s *CZ* is defined as her residential Commuting Zone, a local area concept used in much recent work (Dorn 2009, Autor, Dorn, Hanson and Song 2014, Chetty, Hendren, Kline and Saez 2014). CZs are collections of adjacent counties, grouped by Tolbert and Sizer (1996) using commuting patterns in the 1990 Census to approximate local labor markets. I calculate based on the 2006-2010 American Community Surveys that 92.5% of U.S. workers live in the CZ in which they work. Urban CZs are similar to metropolitan statistical areas (MSAs), but whereas MSAs exclude rural areas, every spot in the continental United States lies in exactly one of 722 CZs.

2007 CZ is the CZ corresponding to the payee (residential) ZIP code that appears most frequently for the individual in 2006 among the approximately thirty types of information returns (filed mandatorily by institutions on behalf of an individual, including W-2s).¹⁵ Information returns are typically issued in January of the following year, so the ZIP code on a individual’s 2006 information return typically refers to the individual’s location as of January 2007. *2015 CZ* is defined analogously to 2015 CZ, except that if an individual lacks an information return in 2014, I impute CZ using information return ZIP code from the most recently preceding year in which the individual received an information return. *2007 state* denotes the state with most or all of the 2007 CZ’s population.

¹⁵Numerous activities trigger information returns including formal and independent contractor employment; SSA or UI benefit receipt; mortgage interest payment; business or other capital income; retirement account distribution; education and health savings account distribution; debt forgiveness; lottery winning; and college attendance. A comparison to external data suggests that 98.2% of the U.S. population appeared on some form submitted to the IRS in 2003 (Mortenson, Cilke, Udell and Zytnick 2009).

Each individual’s *Great Recession local shock* equals the percentage-point change in the individual’s 2007 CZ’s unemployment rate from 2007 to 2009. Annual CZ unemployment rates are computed by aggregating monthly population-weighted county-level unemployment rates from the monthly Bureau of Labor Statistics Local Area Unemployment Statistics series to the CZ-month level, then averaging evenly within CZ-years across months. Measuring local shocks in units of the unemployment rate change permits Section 6’s comparison to the aggregate shock, which can be measured in the same units.

3. Covariates. *Age* is defined as of January 1 of the year, using date of birth from SSA records housed alongside tax records. *Female* is an indicator for being recorded as female in SSA records. *1040 filer* is an indicator for whether the individual appeared as either a primary or secondary filer on a Form 1040 tax return in tax year 2006. *Married* is an indicator for whether the individual was either the primary or secondary filer on a married-filing-jointly or married-filing-separately 1040 return in tax year 2006. *Number of kids* equals the number of children (zero, one, or two-or-more) living with the individual as recorded on the individual’s 2006 1040 if the individual was a 1040 filer and zero otherwise. *Mortgage holder* is an indicator for whether a Form 1098 information return was issued on the individual’s behalf by a mortgage servicer in 2006.¹⁶ *Birth state* is derived from SSA records and, for immigrants, equals the state of naturalization.

2006 industry equals the four-digit NAICS industry code on the business income tax return of an individual’s highest-paying 2006 Form W-2, whenever a match can be made between the masked EIN on the W-2 and the masked EIN on the business income tax return. Four-digit NAICS codes are quite narrow, distinguishing for example between restaurants and bars. As displayed below in summary stats and similar to parallel work (Kline, Petkova, Williams and Zidar 2017, Mogstad, Lamadon and Setzler 2017), almost half of all W-2 earners could not be matched—likely because the employer is a government entity (which does not file an income tax return, covering 15-20% of employment) or because the firm uses a different EIN

¹⁶A mortgage servicer is required to file a Form 1098 on behalf of any individual from whom the servicer receives at least \$600 in mortgage interest on any one mortgage during the calendar year.

(e.g. a non-tax-filing subsidiary) to pay workers from the one that appears on the firm’s tax return. For the construction of fixed effects, I assign individuals with missing industry to their own exclusive industry; I assign non-W-2-earning contractors to their own exclusive industry; and I assign the non-employed to their own exclusive industry. I show below that results are nearly unchanged when restricting the sample to the non-employed and those with a valid W-2 industry, for whom the correct industry is universally observed.

2006 age-earnings-industry fixed effects are interactions between age (measured in one-year increments), 2006 industry, and sixteen bins of the individual’s 2006 earnings (in 2015 dollars inflated by the CPI-U) from the individual’s highest-paying employer.¹⁷ *2006 firm* equals the masked employer identification number on the individual’s highest-paying 2006 W-2. *2006 age-earnings-firm fixed effects* are constructed analogously to 2006 age-earnings-industry fixed effects. Other controls are used only for robustness checks and are defined when used.

3.4 Summary Statistics

Table 1 reports summary statistics across the three samples. 79.1% of the main sample was employed in 2015 with mean 2015 earnings (including zeros and top-coded at \$500,000) of \$47,587. 6.2% received DI in 2014, and 25.6% received UI in at least one year 2007-2014. 49.3% of the sample is female. The average individual earned \$45,652 in 2006. The average 2006 age is 39.9 years. The retail chain sample is on average more female, lower income, less likely to be married, less likely to have children, and less likely to hold a mortgage than the main sample. The mass layoffs sample is on average less female, higher income, less likely to be married, less likely to have kids, and more likely to have worked in construction or manufacturing in 2006 than the main sample. Industry in the main sample is observed for 51.1% of W-2 earners. The average Great Recession local shock was a 2007-2009 increase in the local unemployment rate of 4.6 percentage points, with a standard deviation of 1.5 percentage points. Each of the three

¹⁷The main result below is nearly identical when using Local CPI 2—the more aggressive of the Moretti (2013) local price deflators—to locally deflate 2006 earnings before binning. Chosen to create roughly even-sized bins, the bin minimums are: \$0, \$2,000, \$4,000, \$6,000, \$8,000, \$10,000, \$15,000, \$20,000, \$25,000, \$30,000, \$35,000, \$40,000, \$45,000, \$50,000, \$75,000, and \$100,000.

samples comprises roughly one million individuals.

Figure 3 displays a heat map of Great Recession local shocks. Familiar patterns are apparent, including within-state patterns such as severe shocks in California’s Central Valley but not along California’s coast. 30.0% of the variation in Great Recession local shocks is statistically explained by the house-price-driven percent change in household net worth 2006-2009 (Mian and Sufi 2009, correlation 0.547). Recalling the introduction’s example, Phoenix—America’s sixth largest city and shown in the medium-dark-shaded CZ in the middle of Arizona—experienced a 77th percentile shock (5.99 percentage points) while San Antonio—America’s seventh largest city and shown in the large faintly shaded land-locked CZ in the middle-bottom of Texas—experienced a 7th percentile shock (2.65 percentage points). The empirical analysis compares the 2015 outcomes of individuals who were living in 2007 in places like Phoenix to initially similar individuals who were living in 2007 in places like San Antonio.

4 Results

This section presents the paper’s main result: the estimated effect on 2015 employment of Great Recession local shocks. I begin by presenting the main regression estimate, first visually and then in table form. I then present robustness, heterogeneity, and adjustment margin analyses.

4.1 Main Estimates

Figure 4A plots the time series of estimated effects of Great Recession local shocks on employment. Each year t ’s data point equals $\hat{\beta}$ from the following version of Equation 3.1 estimated on the main sample:

$$e_{it} = \beta SHOCK_{c(i2007)} + \theta_{g(i2006)} + \epsilon_{it}, \quad (4.1)$$

where relative employment $e_{it} \equiv EMPLOYED_{it} - \frac{1}{8} \sum_{s=1999}^{2006} EMPLOYED_{is}$ is i ’s change in employment status from pre-recession years to year t , $SHOCK_{c(i2007)}$ denotes the Great

Recession shock to i 's 2007 CZ, and $\theta_{g(i2006)}$ denotes 2006 age-earnings-industry fixed effects. Measuring employment outcomes relative to each individual's pre-recession mean transparently allows for baseline employment rate differences, similar to the relative cumulative earnings outcome of Autor, Dorn, Hanson and Song (2014). The identifying assumption is that Great Recession local shocks are as-good-as-randomly assigned conditional on age, initial earnings, and initial industry. The sample and independent variable values are fixed across 4A's annual regressions; only the outcome varies from year to year. 95% confidence intervals are plotted in vertical lines unadjusted for multiple hypotheses, based on standard errors clustered by 2007 state.

The 2015 data point shows the paper's main result: a 1-percentage-point-higher Great Recession local shock (2007-2009 spike in the CZ unemployment rate) caused the average working-age American to be an estimated 0.39 percentage points less likely to be employed in 2015. The 2015 impact of Great Recession local shocks is very significantly different from zero, with a t-statistic of 4.1.

Figure 4B supports the linear specification of Equation 4.1 by plotting the underlying conditional expectation. It is constructed by regressing each individual's CZ shock on the age-earnings-industry fixed effects, computing residuals, adding the mean CZ shock to the residuals, ordering and binning the residuals into twenty evenly sized bins, and plotting mean 2015 relative employment within each bin versus the bin's mean residual. The displayed non-parametric relationship between 2015 relative employment and CZ shocks is largely linear.

Returning to Panel A, the time series of estimated effects 1999-2007 constitute placebo tests corroborating the identifying assumption that conditional on controls, Great Recession local shocks were as good as randomly assigned. Point estimates average zero by construction of the outcome, but there is no pre-recession downward trend that suggests that one would have obtained a negative 2015 point estimate even in the absence of Great Recession local shocks.

Table 2 displays coefficient estimates from Equation 4.1 in the main sample under various specifications. Column 4 corresponds to Figure 4A's 2015 data point, my preferred estimate. Columns 1-3 replicate the analysis with coarser fixed effects and yield similar results, indicat-

ing relatively little selection on the controlled dimensions among working-age Americans (see Section 4.3 below for evidence consistent with modest cross-job selection within industries). Column 5 displays ordered effect sizes by shock quintile, indicating for example that living in 2007 in the most-shocked quintile of CZs caused the average individual to be -1.75 pp less likely to be employed in 2015 relative to living in 2007 in the least-shocked quintile. These effects are large in that they are similar in magnitude to the age-adjusted U.S. employment rate decline 2007-2015 (Online Appendix Figure A.1). See the end of this section for a simple quantitative extrapolation to the aggregate.

Full-year non-employment indicates either long-term unemployment (defined as an unemployment spell lasting at least 27 weeks) or labor force non-participation (“exit”). Unemployment and participation are not observed in tax data. To provide an indication of whether the non-employment effects of Great Recession local shocks reflect labor force exit, I test whether controlling for local unemployment persistence—equal to the CZ’s 2015 unemployment rate minus its 2007 unemployment rate—in the individual’s 2007 CZ (column 6) or 2015 CZ (column 7) attenuates the main estimate. This test can be viewed as conservative: controlling for epsilon-higher unemployment persistence in relatively severely shocked areas could fully attenuate the main estimate without that unemployment persistence being able to explain it quantitatively. In practice, the controls slightly and insignificantly attenuate the main estimate from -0.393 to -0.366 and -0.364 , respectively. This suggests that most and possibly all of the 2015 non-employment impact of Great Recession local shocks took the form of labor force exit, consistent with cross-state patterns in Figure 1B.¹⁸

Finally, Figure 4C repeats Figure 4A for the alternative outcome of relative earnings: $EARNINGS_{it} - \frac{1}{8} \sum_{s=1999}^{2006} EARNINGS_{is}$. Similar to panel A, coefficient estimates exhibit no consistent trend in the pre-recession period and then fall persistently after the recession. Table 2 column 9 prints the graph’s 2015 data point which indicates that living in 2007 in a CZ that experienced a 1-pp-higher unemployment shock caused the average working-age American to

¹⁸Local unemployment rates converged throughout 2015. When using only July-December to define local unemployment persistence, the controls leave the estimate unchanged at -0.392 and -0.393 , respectively.

earn −997 fewer dollars in 2015.¹⁹ Column 10 indicates that when considering cumulative relative earnings $\sum_{t=2009}^{2015} (EARNINGS_{it} - \frac{1}{8} \sum_{s=1999}^{2006} EARNINGS_{is})$, the effect size cumulates to −6,212 over the seven-year period 2009-2015. Multiplied by the interquartile range of Great Recession shocks, this last point estimate implies a cumulative earnings loss of \$14,352.

4.2 Basic Robustness

Table 3 presents several robustness checks. Column 1 replicates the main estimate, from Table 2 column 4. Columns 2-5 control respectively for individual level characteristics that could independently determine labor supply: gender, 2006 number of kids, 2006 marital status, and 2006 home ownership fixed effects. In case residents of large or growing CZs had different employment trajectories, column 6 controls for the individual’s 2007 CZ size, equal to the CZ’s total employment in 2006 as reported in Census’s County Business Patterns (CBP), while column 7 controls for the individual’s 2007 CZ’s size growth, equal to the CZ’s log change in CBP employment from 2000 to 2006. Column 8 controls for the individual’s 2007 CZ’s share of workers who work outside of the CZ, computed from the 2006-2010 American Community Surveys and motivated by recent work suggesting that commuting options can attenuate local shock incidence (Monte, Redding and Rossi-Hansberg 2015). As an early check of a policy mechanism, column 9 controls for the individual’s 2007 state’s maximum unemployment insurance duration over years 2007-2015, derived from Mueller, Rothstein and Von Wachter (2015). Column 10 similarly controls for the individual’s 2007 state’s minimum wage change 2007-2015, using data provided by Vaghul and Zipperer (2016) and used in Clemens and Wither (2014). The number of kids, marriage, and pre-2007 CZ size growth controls somewhat attenuate the main estimate while others amplify it, and all estimates remain insignificantly different from the main estimate.

Nearly half of 2006 employees could not be matched to an industry code (see Section 3.3).

¹⁹Figure 6B below scales this estimate by the individual’s pre-recession earnings. The earnings analysis makes no correction for local cost-of-living changes. Measuring changes in local living costs remains contentious given the difficulty of measuring changes in local amenities (Moretti 2013) and the historical presumption that local amenities exactly offset apparent cross-area real income differences (Rosen 1979, Roback 1982).

Column 11 confines the sample to the 2006 employees who could be matched to an industry code and to the 2006 non-employed. Column 12 further omits 2006 employees in construction or manufacturing—two industries that could have disproportionately attracted workers (e.g. non-college-educated men) in severely shocked areas who might have experienced large employment declines even in the absence of the recession due to secular nationwide skill-biased change. Finally, severely shocked CZs like Phoenix had attracted many in-migrants in the decades leading up to 2007; if those in-migrants had somehow been negatively selected on future labor productivity or other employment determinants conditional on the main controls, the main estimate could be confounded. Column 13 addresses this concern by instrumenting one’s CZ shock using the mean CZ shock in the individual’s birth state. None of these specifications attenuates the main point estimate.

4.3 Within-Job Robustness

The above estimates of the 2015 impact of Great Recession local shocks control for age-earnings-industry fixed effects. Those estimates will be biased if there was secular nationwide skill-biased change 2007-2015 and if skill differed across space within age-earnings-industry bins in a correlated way with Great Recession local shocks. To address this possibility, Figure 5A and Table 4 attempt to better approximate within-skill estimates by controlling for age-earnings-*firm* fixed effects in the retail chain sample. The motivation is that—unlike firms in manufacturing and other industries—retail chain firms like Walmart and Starbucks employ workers with similar skills to perform the same job at similar earnings in many local areas.²⁰ The retail chain sample comprises working-age workers who in 2006 worked at a retail chain firm in a local area outside the firm’s corporate headquarters. To the extent that age-earnings-firm bins proxy for jobs across space and skill selection into jobs is similar across space, estimates controlling for age-earnings-firm fixed effects in the retail chain sample will mitigate skill selection threats. I refer to such as estimates as within-job estimates.

²⁰In contrast for example, Boeing employs workers with strong writing skills in Virginia in order to manage government contracts and employs workers with strong manufacturing skills in Washington State in order to build airplanes—possibly of the same age and at the same annual earnings.

Figure 5A repeats Figure 4A in the retail chain sample and with 2006 age-earnings-firm fixed effects. The two graphs show similar time series patterns and similar point estimates. In the retail chain sample, I estimate that a 1-pp-higher Great Recession local shock caused the average working-age American to be 0.44 percentage points less likely to be employed in 2015—similar to the 0.39pp estimate in the main sample. Thus the main result is robust to the within-job specification.

Table 4 repeats Table 2 for the retail chain sample and with specifications using 2006 age-earnings-firm fixed effects. Column 5 displays the 2015 point estimate from Figure 5A. Comparing columns 4 and 5, one sees that the age-earnings-firm fixed effects moderately though insignificantly attenuate the point estimate derived using age-earnings-industry fixed effects. The estimate remains statistically significant when controlling for local unemployment rates. The earnings effects are smaller than those in the main sample, though 2015 mean earnings are also smaller in the retail chain sample. Overall, results are quite similar across the main and retail chain samples.

4.4 Inequality

An active literature in labor economics studies determinants of wage earnings inequality within (e.g. Card, Heining and Kline 2013) and across (e.g. Autor, Katz and Kearney 2008) worker types. This section has found that Great Recession local shocks caused 2015 wage earnings inequality within worker types: initially similar workers experienced different 2015 employment and earnings outcomes because of exposure to different Great Recession local shocks. Figure 6A explores effects of Great Recession local shocks on inequality across worker types.

Figure 6A displays employment impact heterogeneity. The figure’s first five rows plot point estimates and 95% confidence intervals of the 2015 employment impact of Great Recession local shocks overall in the main sample (reprinting the main estimate from Table 2 column 4) and in each of four 2006 earnings bins, a common proxy for broad initial skill level (e.g. Autor, Dorn, Hanson and Song 2014). I find that low-initial-earners bore more of the employment

incidence of Great Recession local shocks, indicating that those shocks increased employment inequality across workers of different initial skill levels. Low initial earners (defined as those who earned less than \$15,000 in 2006, the 33rd percentile in this sample) experienced a worse than average impact, while high initial earners (defined as those who more than \$45,000 in 2006, approximately the 67th percentile) experienced a better-than-average impact. This cross-area finding mirrors the earlier cross-time finding that aggregate employment declines since 2007 were concentrated among the least-skilled (Hoynes, Miller and Schaller 2012, Charles, Hurst and Notowidigdo 2016).

Panel B displays similar patterns for earnings. I analyze proportional earnings changes in order to parallel earlier work on earnings inequality that studies earnings ratios such as the ratio of the 90th and 50th percentiles (Autor, Katz and Kearney 2008). Analogous to Autor, Dorn, Hanson and Song (2014), the outcome in each regression is the ratio of 2015 earnings to mean annual pre-2007 earnings with no local cost-of-living adjustments: $EARNINGS_{i2015} / \frac{1}{8} \sum_{s=1999}^{2006} EARNINGS_{is}$.²¹ The overall estimate indicates a large impact of Great Recession local shocks on proportional earnings: a 1-percentage-point-higher Great Recession local shock reduced the average individual's 2015 earnings by 3.55% of her pre-recession earnings. The subgroup analysis reveals relatively similar proportional earnings declines across subgroups except by initial earnings subgroup, where low initial earners experienced larger declines. Hence, both the employment and earnings analyses indicate that Great Recession local shocks increased inequality across workers of different initial skill levels.

The remaining rows of Figure 6 display impact heterogeneity by gender, 2007 age group, 2006 marital status, 2006 number of kids, and 2006 mortgage holding status. I find larger employment effects among older individuals than among younger individuals—consistent with previous work suggesting the older workers are less resilient to labor market shocks (Jacobson, LaLonde and Sullivan 1993). I comment further on this figure in Section 5.1.

²¹This quantity is very right-skewed and therefore top-coded at the 99th percentile. Individuals with zero 1999-2006 earnings are assigned the top code if 2015 earnings were positive and assigned 0 otherwise.

4.5 Adjustment Margins

Table 5 analyzes year-by-year adjustment margins. Each cell lists the coefficient and standard error on the Great Recession local shock variable from a separate regression in the main analysis sample with the main controls (age-earnings-industry fixed effects), varying only the outcome. Column 1 reproduces the 2007-2015 employment estimates plotted in 4A. Column 2 analyzes migration, using a binary outcome equal to one if and only if an individual’s residential CZ in the year was different from her 2007 CZ. The estimates indicate that individuals who experienced more severe Great Recession local shocks were insignificantly more likely to have moved after 2007, suggesting that out-migration was not a major adjustment margin.²²

Columns 3 and 4 further support that conclusion by disaggregating the annual employment results of column 1 into two types of annual employment: employment inside the individual’s 2007 CZ and employment outside the individual’s 2007 CZ, similar to Autor, Dorn, Hanson and Song (2014).²³ Perhaps unsurprisingly given the main effect of column 1, column 3 shows that individuals subject to more severe Great Recession local shocks were significantly less likely to be employed in their 2007 CZs in 2015. But column 4 also shows that these individuals were insignificantly *less* likely to be employed outside of their 2007 CZs as well. Columns 5-7 show analogous results for earnings, including a marginally significant negative effect of Great Recession local shocks on out-of-2007-CZ earnings in 2015.

Columns 8 and 9 study adjustment via transfer payments: unemployment insurance (UI) benefits and Social Security Disability Insurance (SSDI) benefits. Unsurprisingly, individuals subject to larger Great Recession local shocks received significantly higher mean UI benefits 2008-2010 than those subject to smaller local shocks. However, Great Recession UI benefits soon expired, and these individuals’ higher mean UI benefits declined after 2010 to insignificantly lower UI benefits by 2015. Column 9 shows that individuals subject to Great Recession local

²²Moving costs (Kennan and Walker 2011), idiosyncratic preferences for place (Kline 2010, Moretti 2011), or expectations of local labor demand recovery (Topel 1986) may explain low out-migration rates from severely shocked areas.

²³That is, the column 3 outcome for a year t equals $(1 - MOVED_{it}) * EMPLOYED_{it} - \frac{1}{8} \sum_{s=1999}^{2006} EMPLOYED_{is}$ where $MOVED_{it}$ (the column 2 outcome) equals one if $c(it) \neq c(i2007)$ and zero otherwise. The column 4 outcome for a year t equals $MOVED_{it} * EMPLOYED_{it} - \frac{1}{8} \sum_{s=1999}^{2006} EMPLOYED_{is}$.

shocks accumulated rising though insignificantly higher SSDI benefits relative to those subject to smaller CZ shocks. Comparing the sum of the UI and DI income effects in columns 8-9 to the earnings effect in column 5, one observes that elevated UI and DI transfer payments far from fully compensated for the negative earnings effects.²⁴

4.6 Extrapolation

I close the section with a simple extrapolation of the 2015 employment impact of Great Recession local shocks to the 2015 employment impact of the Great Recession aggregate shock. The exercise adopts the strong assumption that the impact of the Great Recession aggregate shock on national residents is identical to the impact of a proportionally sized Great Recession local shock on initial local residents as in similar work (e.g. Charles, Hurst and Notowidigdo 2015). I find that simple extrapolation suggests the Great Recession caused 76% of the post-recession age-adjusted decline in the working-age U.S. employment rate as measured in this paper (any annual employment of the birth cohorts aged 30-49 in 2007).

The extrapolation estimate of 76% derives from three inputs. First, the aggregate U.S. unemployment rate increased 4.63 percentage points from 2007 to 2009 (Online Appendix Figure A.1C). Second, Table 2 column 4 reported that exposure to a one-percentage-point-higher local unemployment spike 2007-2009 caused a 0.393 percentage-point decline in any 2015 employment. Based on these two inputs, simple extrapolation suggests that the Great Recession caused a 1.82 ($= 4.63 \times 0.393$) percentage-point decline in the U.S. working-age employment rate.

Third, the employment rate decline of these birth cohorts through 2015 of 7.23 percentage points (Table 2) was 2.40 percentage points larger than the decline that would have been expected due to aging, based on analogous earlier cohorts through years 2003-2007. Specifically, recall that $-7.23 = \Delta \bar{e}_{2015}$, where $\Delta \bar{e}_t \equiv E[EMPLOYED_{it}|c(i) \in C_t] - \frac{1}{8} \sum_{s=t-16}^{t-9} E[EMPLOYED_{is}|c(i) \in C_t]$ and C_t is the set of working-age birth cohorts

²⁴Spousal labor supply was likely also a very incomplete adjustment margin: the shocks studied here are CZ-wide shocks, both genders and marital statuses suffered large impacts (Figure 6), and earlier work in similar data showed that wives replaced only 5.6% of males' lost income after layoff (Hilger 2014).

$\{t-58, \dots, t-39\}$. These cohorts would have experienced an employment rate decline due to aging even in the absence of the recession. I quantify the aging effect using employment rates of analogous earlier working-age cohorts through years 2003-2007 as $\frac{1}{5} \sum_{t=2003}^{2007} \Delta \bar{e}_t = -4.83$, based on the Current Population Survey’s Annual Social and Economic Supplement (ASEC) in lieu of tax data availability before 1999. The age-adjusted working-age employment rate decline was therefore 2.40 ($= 7.23 - 4.83$) percentage points. Hence, simple extrapolation suggests that the Great Recession caused 76% ($= 1.82/2.40$) of the age-adjusted decline.²⁵

It is important to note that the actual impact may be more or less than 76%. First, there is statistical uncertainty in the precise 2015 impact of Great Recession local shocks. Second, there is extrapolative uncertainty because of general equilibrium considerations (Nakamura and Steinsson 2014, Beraja, Hurst and Ospina 2016). A shock to one local area can have a larger local impact than a proportionately sized aggregate shock, for example because production can more easily shift across local areas than across countries. Alternatively, the impact of an aggregate shock may exceed the impact of a proportionately sized local shock on initial local residents, for example to the extent that initial local residents escaped or dampened local shock impacts by migrating to other local areas (Blanchard and Katz 1992).

5 Mechanisms

The previous section established the paper’s main result: Great Recession local shocks had a large negative causal impact on individuals’ 2015 employment. This section provides additional evidence on candidate mechanisms. I find that the evidence casts doubt on reduced migration, lost job-specific rents, and lost firm-specific human capital. The data neither confirm nor reject a meaningful role for higher reservation wages after transition to disability insurance. The evidence is consistent with the mechanisms of general human capital decay during long non-employment spells and persistently low labor demand.

²⁵Note that the age-adjusted decline of 2.40 percentage points is similar to the age-adjusted declines in headline BLS point-in-time employment rates reported in the introduction. To account for age distribution differences related to the baby boom, cohorts underlying the computation of $\frac{1}{5} \sum_{t=2003}^{2007} \Delta \bar{e}_t$ are reweighted to match the working-age distribution for $t=2015$ as written in the printed appendix.

5.1 Reduced Migration

This paper uses local shock incidence to understand aggregate shock incidence, rather than treating local shock incidence as the exclusive object of interest. It is therefore worth addressing whether a decline in migration—a prominent potential adjustment mechanism after local shocks but not aggregate shocks—may explain the 2015 employment impacts of Great Recession local shocks.²⁶ Three pieces of evidence support the conclusion that reduced migration does not explain this paper’s main result. First, Figure 2B showed that population reallocation (net migration) after Great Recession state-level shocks was in line with historical experience. Second, Table 5 found no evidence of increased employment by severely shocked individuals outside their 2007 CZs and in fact found a marginally significant reduction in their earnings outside their 2007 CZs—despite their having been (insignificantly) more likely to have out-migrated. This suggests that marginally more out-migration may have attenuated little incidence.

Third, Figure 6 lists out-migration rates—defined as the share of individuals with a 2015 CZ different from their 2007 CZ—for each subgroup of individuals to the right of the subgroup-specific impacts. One observes no consistent correlation between migration rates and estimated Great Recession local shock impacts. For example, non-mortgage-holders had an 18% migration rate while mortgage-holders had a 13% migration rate, yet if anything non-mortgage-holders appear to have experienced larger impacts. This evidence does not imply that more migration or more directed migration would have failed to attenuate the impacts.²⁷ But the inconsistent correlation between migration rates and estimated impacts suggests that reduced migration due to underwater mortgages or to dual-earner frictions (note the similar impacts for singles and the married) does not explain the 2015 employment impact of Great Recession local shocks.

²⁶For example, negative equity mortgages could have impeded homeowner out-migration (Ferreira, Gyourko and Tracy 2010, 2011). However, several papers have argued the Great Recession did not impede migration (Farber 2012, Schulhofer-Wohl 2012, Valletta 2013, Sahin, Song, Topa and Violante 2014).

²⁷Migration rates were an order of magnitude larger (e.g. 18.2% out of most-shocked-quintile CZs and 16.5% out of least-shocked-quintile CZs) than employment impacts (e.g. 1.75 percentage points between the most-shocked and least-shocked quintiles, Table 2 column 5).

5.2 Lost Job-Specific Rents

Previous authors have shown that layoffs, and thus labor market shocks that induce layoffs, cause long-term earnings losses. Motivated by the union wage premium (e.g. Lewis 1963, Farber 1986), some empirical commentary has interpreted post-layoff earnings losses as reflecting workers' loss of rents in an initial job that paid above the worker's marginal product (e.g. Davis and Von Wachter 2011, Hall 2011).²⁸ In the present context which focuses on employment, a laid-off worker will remain non-employed after losing a high-paying rent-sharing job if subsequent job offers' wages lie below the worker's reservation wage, consistent with historical cross-area correlations (CEA 2016).

Three pieces of evidence suggest that loss of rents at an incumbent job does not quantitatively explain the the main result. First, the 2015 impact of Great Recession local shocks is large not only in the main sample but also in the retail chain sample—even though retail is a canonical low-rent industry (Gibbons and Katz 1991, Krueger and Summers 1988, Katz and Summers 1989, Murphy and Topel 1990). Second, Figure 6 showed that the largest impacts were suffered by those with the lowest initial earnings, where the scope for rents were likely low. Third and most simply, the same figure shows that the estimated 2015 non-employment impact is large for those who had no earnings at all in 2006 and thus certainly had been earning no rents.

5.3 Lost Firm-Specific Human Capital at Layoff

Like lost job-specific rents, lost firm-specific human capital at layoff has long been a potential explanation of post-layoff earnings losses (Topel 1990, Jacobson, LaLonde and Sullivan 1993). In the present context which focuses on employment, a laid-off worker could opt into non-employment after losing a job for which she had firm-specific human capital, if the worker's marginal product and thus wage at the next-best firm lies below her reservation wage. The simplest evidence against the firm-specific human capital mechanism is that Great Recession

²⁸Pre-existing contrary evidence includes that post-layoff earnings losses are large and significant across both high-apparent-rent and low-apparent-rent industries (Jacobson, LaLonde and Sullivan 1993).

local shocks had large estimated impacts on those who had no employment at all in 2006 (Figure 6) and thus had no firm-specific human capital to lose.

A distinct testable implication of the firm-specific human capital mechanism is that the 2015 impact of Great Recession local shocks should be explained by additional layoffs in severely shocked areas. Table 6 column 1 replicates the main specification for the binary outcome of ever having received unemployment insurance (UI) 2007-2014—a good proxy for ever having been laid off 2007-2014.²⁹ The column indicates that a one-percentage-point higher Great Recession local shock caused individuals to be 1.43 percentage points more likely to receive UI 2007-2014, with a t-statistic over three. Since the layoff effect is larger in absolute magnitude than the employment effect (0.39pp), the firm-specific human capital explanation appears at first to have been potentially powerful.

However, layoffs are not correlated enough with 2015 employment to quantitatively support the firm-specific human capital explanation with only a 1.43pp higher layoff rate, under reasonable monotonicity and homogeneity assumptions. Assume that laid-off workers in more severely shocked areas were on average equal or stronger on observables than laid-off workers in less severely shocked areas within age-earnings-industry cells, as would be expected in a layoffs-and-lemons model (Gibbons and Katz 1991). Further assume homogeneity in layoff effects. Then if controlling for UI receipt 2007-2014 fails to substantially attenuate the estimated effect of Great Recession local shocks on 2015 employment, one can rule out substantial effects of the firm-specific-human-capital channel. Indeed empirically, column 2 shows that controlling for UI receipt attenuates the employment effect by only 0.04 percentage points. This indicates that the higher layoff rate among severely shocked workers does not explain the employment effect. Intuitively, note that multiplying the coefficient on UI receipt in column 2 (-2.73) by the higher rate of UI receipt in column 1 (1.43) yields a 0.04-percentage-point predicted contribution of the higher layoff rate to the employment rate deficit. In words, layoff is negatively

²⁹Kawano and LaLumia (2017) show that UI-tax-data-based unemployment rates are close in both level and trend to official Bureau-of-Labor-Statistics unemployment rates 1999-2011 (correlation 0.94). Earlier papers typically proxy for layoff using firm separation during a firm’s large downsizing; my measure here is not limited to large downsizings.

correlated with employment but not nearly enormously enough for a 1.43pp-higher layoff rate to explain the employment effect. Hence, it appears that loss of firm-specific human capital does not explain the lion’s share of the results.³⁰

5.4 Higher Reservation Wages on Disability Insurance

Great Recession local shocks may have induced individuals to supplement their income with Social Security Disability Insurance (SSDI)—a costly-to-obtain but typically-permanent location-independent income stream—thereby potentially raising their reservation wages and reducing their employment (Autor and Duggan 2003, Maestas, Mullen and Strand 2013).³¹ Potentially counter to this labor supply contraction mechanism, mean nominal and real (locally-deflated) hourly wages in the American Community Survey declined rather than rose in severely shocked areas (Beraja, Hurst and Ospina 2016). However, observed wage changes are not dispositive.

Earlier in this paper, Table 5 column 9 showed that Great Recession local shocks caused individuals to earn insignificantly higher SSDI benefits in 2015. Table 6 column 6 replicates the main specification for the binary outcome of SSDI receipt in 2015. I similarly find a relatively small and insignificant estimated impact, though with substantial uncertainty: a point estimate of 0.071 and standard error of 0.145 percentage points, relative to the employment impact of -0.393 percentage points.

More thoroughly, one can estimate an upper bound on the contribution of SSDI enrollment to the main employment result—under the mild monotonicity assumption that more severe Great Recession local shocks did not make anyone less likely to go on SSDI.³² To do so, I

³⁰In more detail, this exercise assumes that layoffs are either random, or that the first workers to get laid off from each establishment had the worst unobservables and that severely-shocked-CZ establishments had weakly higher layoff rates (column 1). Then laid-off severely shocked workers had weakly stronger unobservables than laid-off mildly shocked workers. Thus if layoffs are equally costly everywhere for a given worker quality, the UI receipt coefficient in column 2 weakly overstates the layoff effect for severely shocked workers, implying that the Great Recession local shock coefficient weakly understates its non-layoff component. Layoff is endogenous, so this specification is not quasi-experimental and requires the assumptions to be interpretable.

³¹Recipients forfeit their income streams if they return to substantial work. The share of age-16-65 Americans on SSDI rose 2007-2010 and then decelerated and declined absolutely in 2014 and 2015.

³²Lee (2009) makes a similar monotonicity assumption for computing treatment effect bounds under sample attrition. These monotonicity assumptions are similar to the no-defiers monotonicity requirement for instrumental variables identification. Lee requires that treatment affects sample attrition only in one direction; the present exercise requires that treatment affects SSDI receipt only in one direction.

estimate the effect of Great Recession local shocks on a new outcome: an indicator for the whether the worker was employed in 2015 *or* received SSDI in 2015, minus mean employment 1999-2006.³³ One minus the ratio of the employment-or-SSDI effect to the main employment effect can be understood as the share of the incrementally non-employed who received SSDI in 2015. This quantity equals the share of the employment effect caused by SSDI enrollment if every incrementally non-employed SSDI recipient would have been employed in 2015 without SSDI (e.g. if SSDI raises reservation wages). If on the other hand every incrementally non-employed SSDI recipient would have been non-employed even without SSDI (e.g. if SSDI is merely a response to independent non-employment), then SSDI enrollment caused 0% of the employment effect. These two numbers equal upper and lower bounds, respectively, on SSDI's contribution to the employment effect.

Table 6 column 7 presents the result: CZ shocks had a significant negative effect -0.265 percentage points on the employed-or-SSDI outcome. This indicates that most of the incrementally non-employed did not receive SSDI in 2015. Dividing this employed-or-SSDI effect by the main employment effect of -0.393 , I estimate that SSDI receipt explains between 0% and 32.6% of the employment effect. However, substantial statistical uncertainty remains.

5.5 General Human Capital Decay

Severe recessions generate relatively long non-employment spells, and general human capital can decay during such spells (Phelps 1972) and cause persistent non-employment (Pissarides 1992) such as via job ladders with serially correlated unemployment spells (Jarosch 2015). For example, workers may fail to keep up with new technologies or preserve good habits like punctuality and then may choose non-participation over lower-wage employment (Juhn, Murphy and Topel 1991, 2002). General human capital decay is consistent with reduced long-term earnings after mass layoffs during local (Jacobson, LaLonde and Sullivan 1993) or aggregate (Davis and Von Wachter 2011) recessions. This subsection tests three predictions of the general

³³That is, the outcome equals $\max\{EMPLOYED_{i2015}, SSDI_{i2015}\} - \frac{1}{8} \sum_{s=1999}^{2006} EMPLOYED_{is}$ where $SSDI_{i2015}$ equals one if i received SSDI in 2015 and zero otherwise.

human capital decay mechanism.

First and to the extent that non-employment spells begin with layoffs, one should observe that the incrementally non-employed in severely shocked areas had been laid off at some point 2007-2014. I do so analogously to the employment-or-SSDI analysis of Section 5.4. Table 6 column 3 estimates the impact of Great Recession local shocks on a new outcome: an indicator for the whether the worker was employed in 2015 *or* received UI at some point 2007-2014, minus the individual's mean employment status 1999-2006. One minus the ratio of the employment-or-UI effect to the main employment effect can be understood as the share of the incrementally non-employed who had been laid off by 2014, under the mild monotonicity assumption that Great Recession local shocks did not make anyone less likely to be laid off.

The column 3 estimate is nearly zero and indicates that Great Recession local shocks had no statistically significant impact on the employed-or-UI outcome. Dividing the -0.019 employed-or-DI point estimate by the main employment estimate indicates that 95.1% of the incrementally non-employed in severely shocked areas had been laid off by 2014. In words with reference to the lost firm-specific human capital analysis above, layoffs in severely shocked areas may have proved to be especially costly to workers relative to layoffs elsewhere such as via human capital decay during long non-employment spells.

Second, if individuals were non-employed in 2015 because of human capital decay during preceding non-employment spells, then one should observe that Great Recession local shocks caused individuals to be more likely to be full-year non-employed in the years leading up to 2015. Column 4 replicates the main specification for the outcome of an indicator for whether the individual was non-employed for any year 2007-2014 minus an indicator for whether the individual was non-employed for any year 1999-2006. Unsurprisingly given Figure 4A's annual impacts 2009-2014, I find that each 1-percentage-point-higher Great Recession local shock caused the average working-age American to be 0.487 percentage points more likely to experience a full year of non-employment 2007-2014. This absolute effect size is insignificantly different from the main 2015 employment effect size (0.393 percentage points), suggesting that pre-2015 non-employment can statistically explain 2015 non-employment. Indeed, column 5 shows that there

is no statistically significant correlation between Great Recession local shocks and 2015 relative employment once one controls for indicators for employment in each year 2007-2012.

Third, if layoffs in severely shocked areas were indeed costlier via longer non-employment spells than layoffs in other areas, then one should observe that workers laid off in severely shocked areas experienced lower 2015 employment rates than similar workers who experienced a similar layoff event in mildly shocked areas. I test this prediction by estimating the main specification in the mass layoffs sample—thereby comparing the 2015 employment rates of workers who were laid off in 2008-2009 mass layoff events at the same age and in the same initial earnings bin and in the same initial industry, but in different local areas.

Figure 5B displays the annual results, replicating Figure 4A in the mass layoffs sample. Analogous to Figure 4A, individuals in the mass layoffs sample experienced similar employment trajectories leading into the recession but were 0.557 percentage points less likely to be employed in 2015 for every 1-percentage-point higher Great Recession local shock. The 2015 mass layoffs point estimate (also reported in Table 6 column 8) is statistically similar to the main sample estimate. Columns 9-10 show robustness to restricting the sample to mass-layoff firms with valid industry codes, including those outside manufacturing and construction. Hence, the results are consistent with the general human capital decay channel.

5.6 Persistently Low Labor Demand

The mechanisms considered above are those in which Great Recession local shocks scarred workers.³⁴ A different mechanism—persistently low labor demand—is also consistent with the above results. Great Recession local shocks could have caused laid-off workers to choose 2015 non-employment by reducing local wages below reservation wages or to be unable to find 2015 employment at prevailing wages, and mobility frictions could have caused initial residents to

³⁴There are additional scarring mechanisms. Workers may have made costly investments, such as moving in with one's parents (Kaplan 2012) or honing leisure skills (Aguiar, Bils, Charles and Hurst 2017), during non-employment spells that induced labor supply contraction, though nominal and real hourly wages declined rather than rose in severely shocked areas (Beraja, Hurst and Ospina 2016). Employers may have inferred low unobserved productivity from long non-employment spells, though such inference was smallest in severely shocked areas (Kroft, Lange and Notowidigdo 2013).

bear the incidence (Kline 2010, Moretti 2011).³⁵ In a sense, local *economies* may have been scarred rather than *workers*.

Persistently low local labor demand could have arisen via any of three forces. First, local Great Recession driving processes (e.g. spending contractions or productivity shocks) could have been persistent, causing wages to fall below reservation wages (Hall 1992, Kline and Moretti 2014).³⁶ Second, transitory Great Recession local shocks may have reduced the opportunity costs for agents to respond to exogenous nationwide skill-biased or routine-biased technical progress (Jaimovich and Siu 2013, with recent empirical support from Hershbein and Kahn 2016)—accelerating wage declines below reservation wages. These first two forces are fully consistent with the results of the previous subsection: laid-off workers may be exactly those individuals whose wages fell below reservation wages.

Third, transitory Great Recession local shocks may have moved local areas to low-employment equilibria without human capital decay (Diamond 1982, Blanchard and Summers 1986, Benhabib and Farmer 1994, Christiano and Harrison 1999, Eggertsson and Krugman 2012, Kaplan and Menzio 2014). This third force is also consistent with the results of the previous subsection: laid-off workers desiring 2015 employment at prevailing wages but rationally expecting not to find it and therefore exiting the labor force. Layoffs may have determined which specific workers were non-employed in 2015 without determining how many.

Unique to these three scarred-economy mechanisms, exogenously moving individuals in 2015 from severely shocked to mildly shocked areas would likely increase their employment rate. Future work could quantitatively distinguish between scarred-worker and scarred-economy mechanisms, such as via strong migration instruments that generate quasi-experimental variation in individuals' 2015 local areas.

³⁵Every decennial census shows that over two-thirds of adults live in their birth state (Molloy, Smith and Wozniak 2011). The Health and Retirement Study shows that half of adults live within eighteen miles of their mothers (<http://www.nytimes.com/interactive/2015/12/24/upshot/24up-family.html>).

³⁶For example with only non-tradable production, net worth contractions (Mian and Sufi 2014) could have permanently caused residents to shift to home production (Benhabib, Rogerson and Wright 1991, Aguiar and Hurst 2005), reducing per-capita local labor demand and equilibrium wages below reservation wages.

6 Conclusion

This paper used local labor markets as a laboratory to test for long-term employment impacts of the Great Recession. The central finding is that exposure to a severe local Great Recession caused working-age Americans to be substantially less likely to be employed at all in 2015, despite recovery in the unemployment rate. This finding contrasts with the conventional view that a business cycle’s employment impacts cease once unemployment recovers. Instead, the Great Recession appears to have altered trend employment via labor force exit.

The paper highlights five areas for future work. First, the results suggest the importance of allowing for labor force exit in models of macroeconomic fluctuations (Mortensen and Pissarides 1999).³⁷ Such models have the potential to show countercyclical policies to be relatively fiscally inexpensive or even self-financing, to the extent that they persistently increase employment and earnings and thereby tax revenue (DeLong and Summers 2012). Second, the mechanisms of general human capital decay and persistently low labor demand are each more consistent with the results than lost job-specific rents, lost firm-specific human capital, and reduced migration. Future analyses could further test these and other mechanisms. Third, new work could investigate whether previous recessions also depressed long-term employment.

Fourth, simple extrapolation of the paper’s local-shock-based estimate to the aggregate suggested that the Great Recession caused 76% of the 2007-2015 age-adjusted decline in U.S. working-age employment. Subsequent analysis could determine whether the true aggregate impact was less or more, either of which is possible (see Section 4.6). Finally, employment hysteresis through 2015 does not imply employment hysteresis forever, and it will be valuable to estimate and explain subsequent dynamics. For example, the age-25-54 U.S. headline employment rate rose 0.7 percentage points from December 2015 to December 2016, primarily via labor force entry. This upward trend is consistent with the potential for employment recovery.

³⁷From Mortensen and Pissarides: “Despite a flurry of activity [in search and matching theory] since [the early 1980s], there are still many important questions that are unexplored. One such question is the dynamics of worker movement in and out of the labor force...Virtually all search equilibrium models assume an exogenous labor force.” Pissarides (1992) models search intensity that declines with unemployment duration.

Appendix

The working-age population (ages 30-49 in any given year) has grown older over time because of the baby boom. To account for this age distribution change, the extrapolation exercise of Section 4.6 uses the following formula to compute each element in the summation $\frac{1}{5} \sum_{t=2003}^{2007} \Delta \bar{e}_t$:

$$\Delta \bar{e}_t = \sum_{c \in C_t} \lambda_{ct} \left(E[EMPLOYED_{it} | c(i) = c] - \frac{1}{8} \sum_{s=t-16}^{t-9} E[EMPLOYED_{is} | c(i) = c] \right)$$

where C_t is the set of birth cohorts $\{t-58, \dots, t-39\}$ and the cohort-reweighting term λ_{ct} is the population share of cohort $c+2015-t$ in C_{2015} in the March 2016 ASEC. When computing $\Delta \bar{e}_t$ without cohort reweighting and thus simply as $E[EMPLOYED_{it} | c(i) \in C_t] - \frac{1}{8} \sum_{s=t-16}^{t-9} E[EMPLOYED_{is} | c(i) \in C_t]$, one obtains $\frac{1}{5} \sum_{t=2003}^{2007} \Delta \bar{e}_t = -4.22$ instead of the -4.83 percentage points reported in the text—which would reduce the exercise’s final estimate from 76% to 61%. ASEC data are limited to the civilian non-institutional population. $EMPLOYED_{it}$ in ASEC is defined as an affirmative answer to either of two questions asked of respondents in March of $t+1$: “Did (*person*) work at a job or business at any time during (t)?” and “Did (*person*) do any temporary, part-time, or seasonal work even for a few days during (t)?”.

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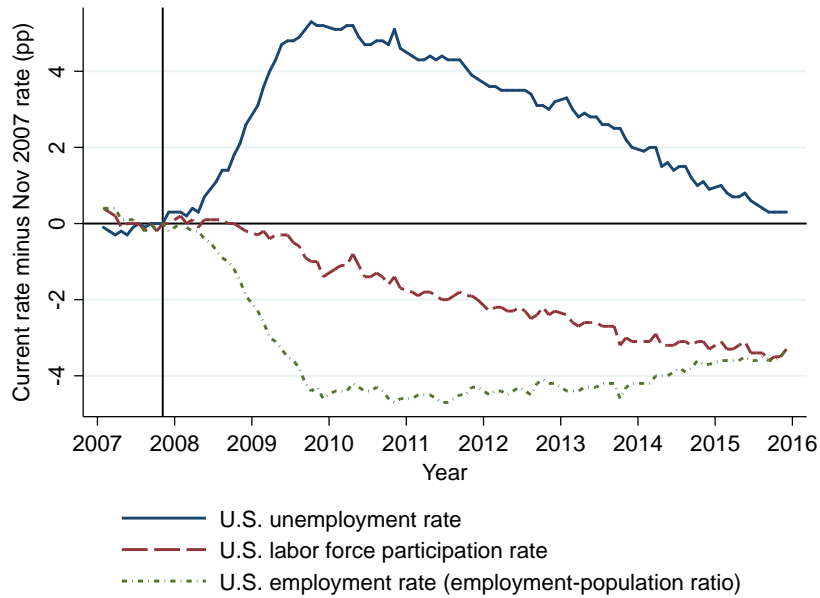
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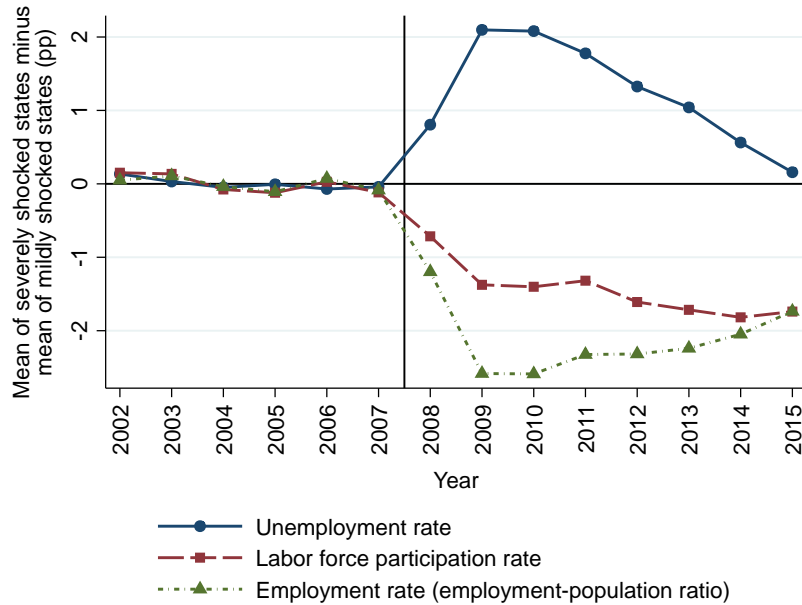
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Figure 1: Persistent Employment Rate Declines after the Great Recession

A. Current U.S. Aggregate Minus November 2007 U.S. Aggregate

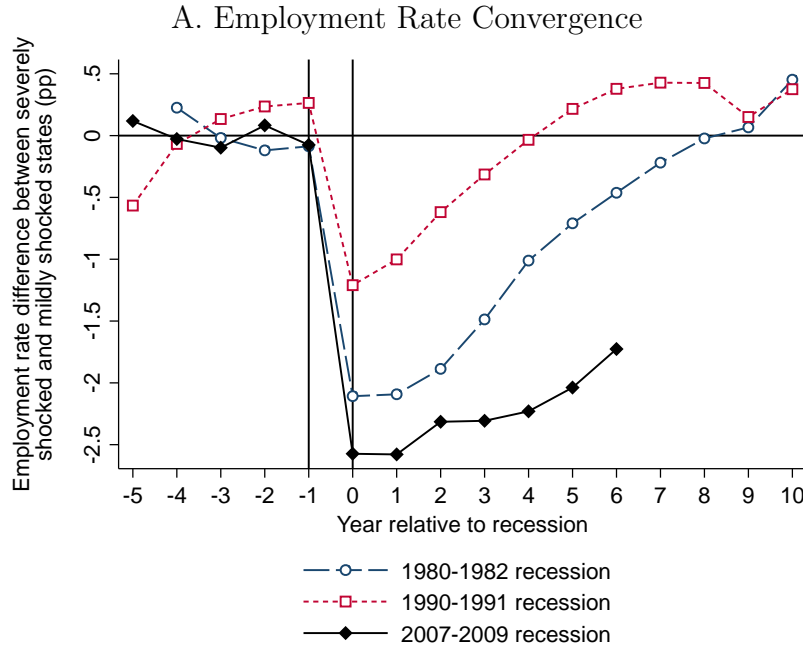


B. Severely Shocked States Minus Mildly Shocked States

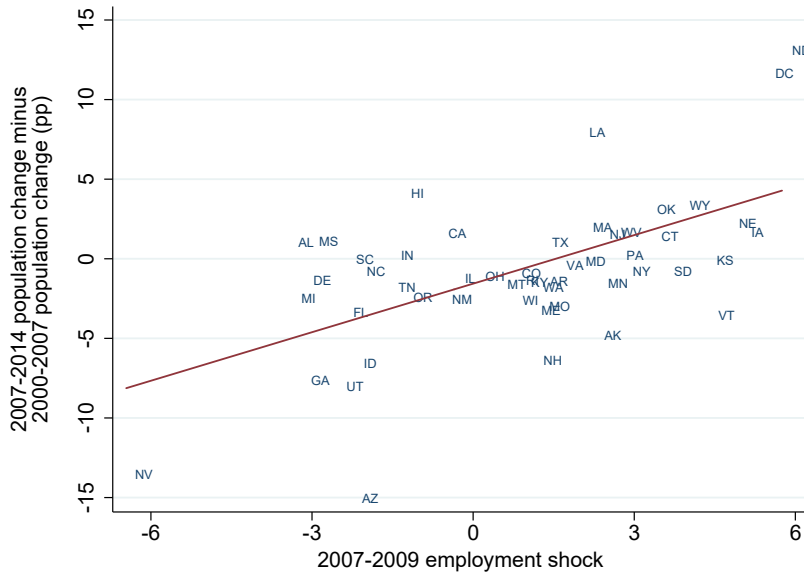


Notes: Panel A plots the official seasonally adjusted Bureau of Labor Statistics U.S. labor force statistics from January 2007 through December 2015. The data are monthly and refer to the adult (16+) civilian non-institutional population. The vertical black line denotes November 2007, the last month before the Great Recession. For each outcome and month, the graph plots the current value minus the November 2007 value, so each data point in these series denotes a percentage-point change relative to November 2007. See Online Appendix Figure A.1 for age-adjusted versions and versions restricted to 25-54-year-olds. Panel B divides U.S. states into severely (below-median) and mildly (above-median) shocked states based on 2007-2009 state-level employment growth forecast errors in the autoregressive system of Blanchard and Katz (1992). For each outcome and year, the graph plots the unweighted mean in severely shocked states, minus the same mean in mildly shocked states. Each series is demeaned relative to its pre-2008 mean. The underlying data are the Bureau of Labor Statistics Local Area Unemployment Statistics (LAUS) state-year labor force statistics.

Figure 2: Great Recession Local Convergence in Comparison to History

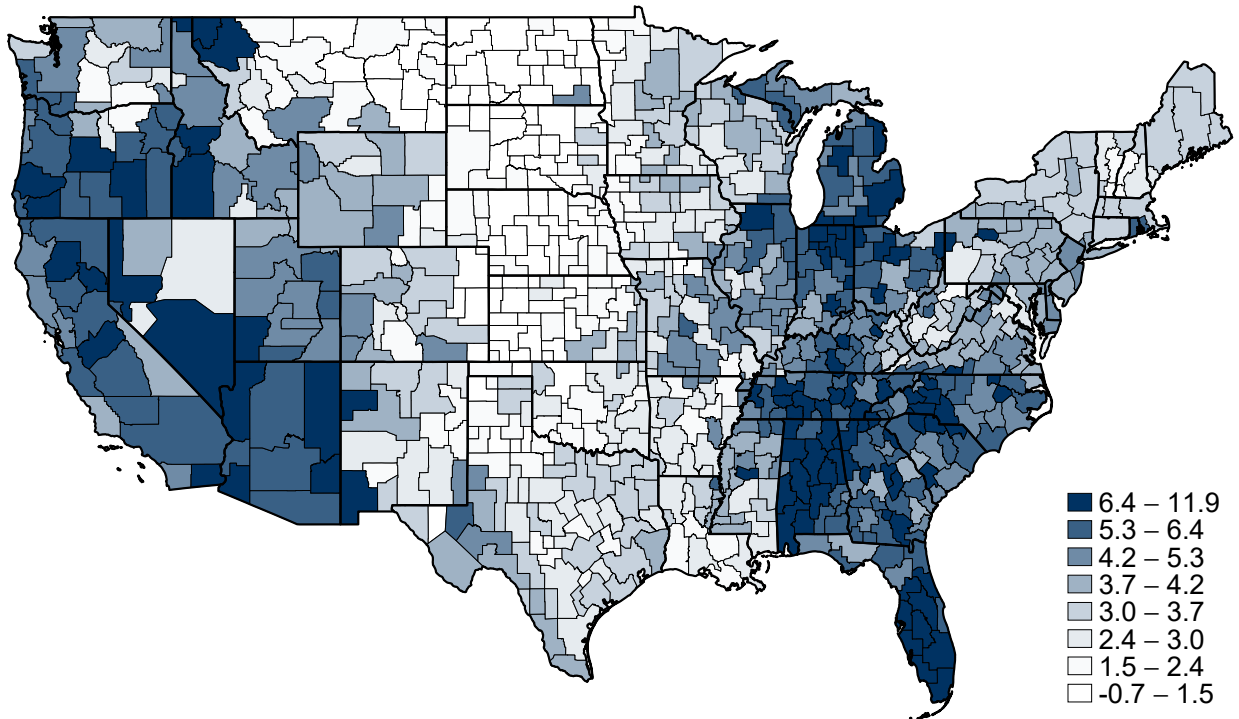


B. State Population Changes vs. Great Recession State-Level Shocks



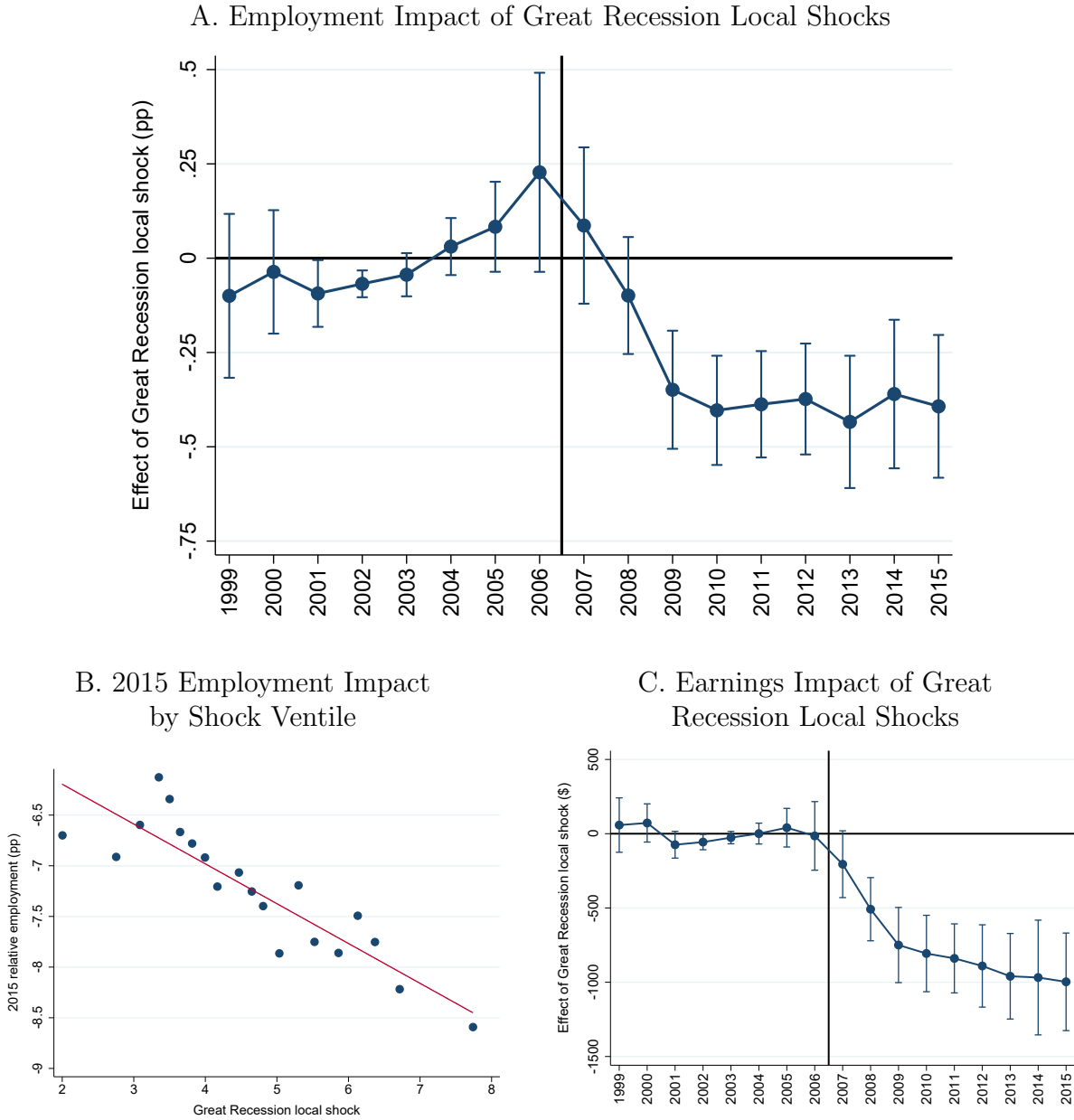
Notes: Panel A divides states into severely (below-median) and mildly (above-median) shock states based on the sum of 2008 and 2009 employment growth forecast errors as described in Figure 1B and repeats the process for the early-1980s recessions (1980-1982, treated as a single recession) and the early-1990s (1990-1991) recession. Then for each recession and year relative to the recession, it plots the unweighted mean LAUS employment rate in severely shocked states, minus the same mean in mildly shocked states. Each series is demeaned relative to its pre-recession mean. For comparability across recessions, year 0 denotes the last recession year (1982, 1991, or 2009) while year -1 denotes the last pre-recession year (1979, 1989, or 2007); intervening years are not plotted. Appendix Figure A.5 plots analogous graphs for labor force participation, unemployment, employment growth, and population growth. Panel B uses LAUS data to plot de-trended 2007-2014 population changes—equal to each state’s 2007-2014 percent change in population minus its 2000-2007 percent change in population—versus the state’s 2007-2009 employment shock. Overlaid is the unweighted best-fit line with a slope of 1.016 (robust standard error of 0.260).

Figure 3: Great Recession Local Shocks



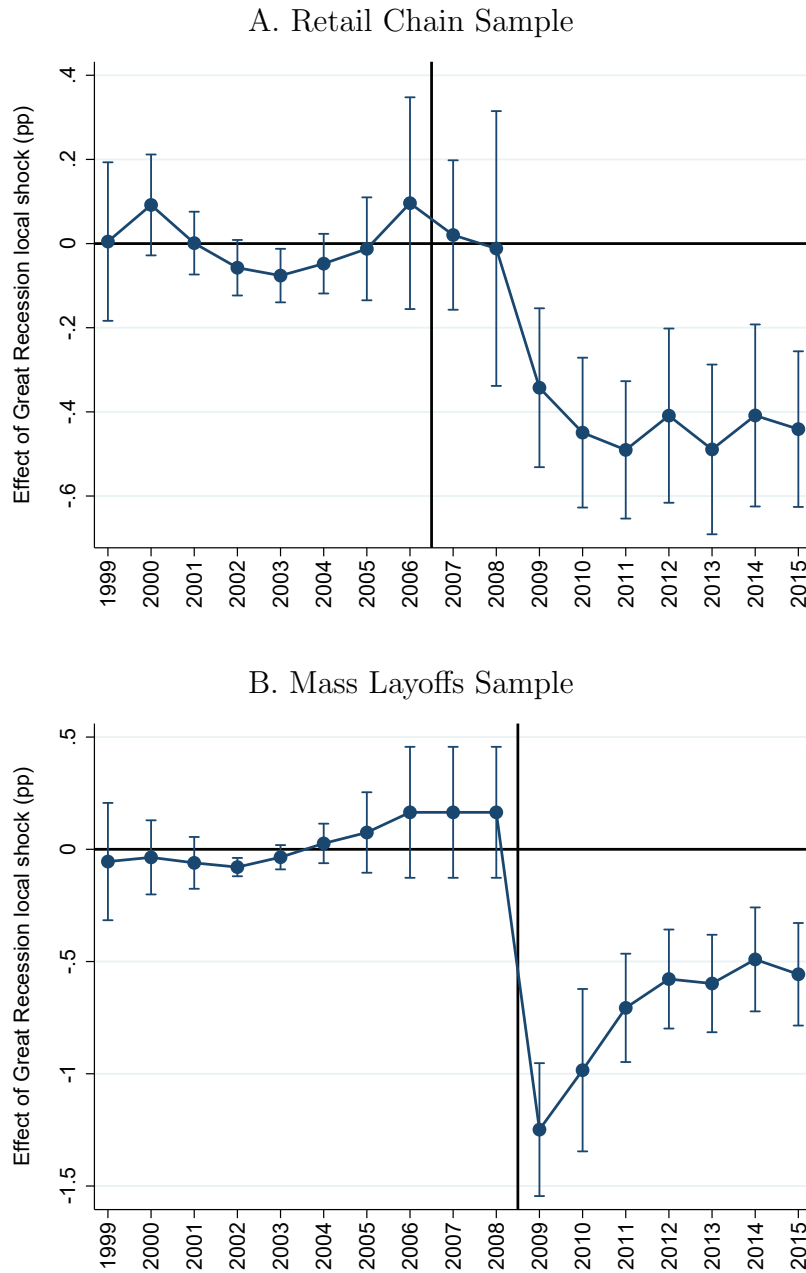
Notes: This map depicts unweighted octiles (divisions by increments of 12.5 percentiles) of Great Recession local shocks across Commuting Zones (CZs). CZs span the entire United States and are collections of counties that share strong commuting ties. Each CZ's shock equals the CZ's 2009 LAUS unemployment rate minus the CZ's 2007 LAUS unemployment rate. In the individual-level analysis, I assign each individual to the Great Recession local shock of the individual's January 2007 CZ.

Figure 4: Employment and Earnings Impacts of Great Recession Local Shocks



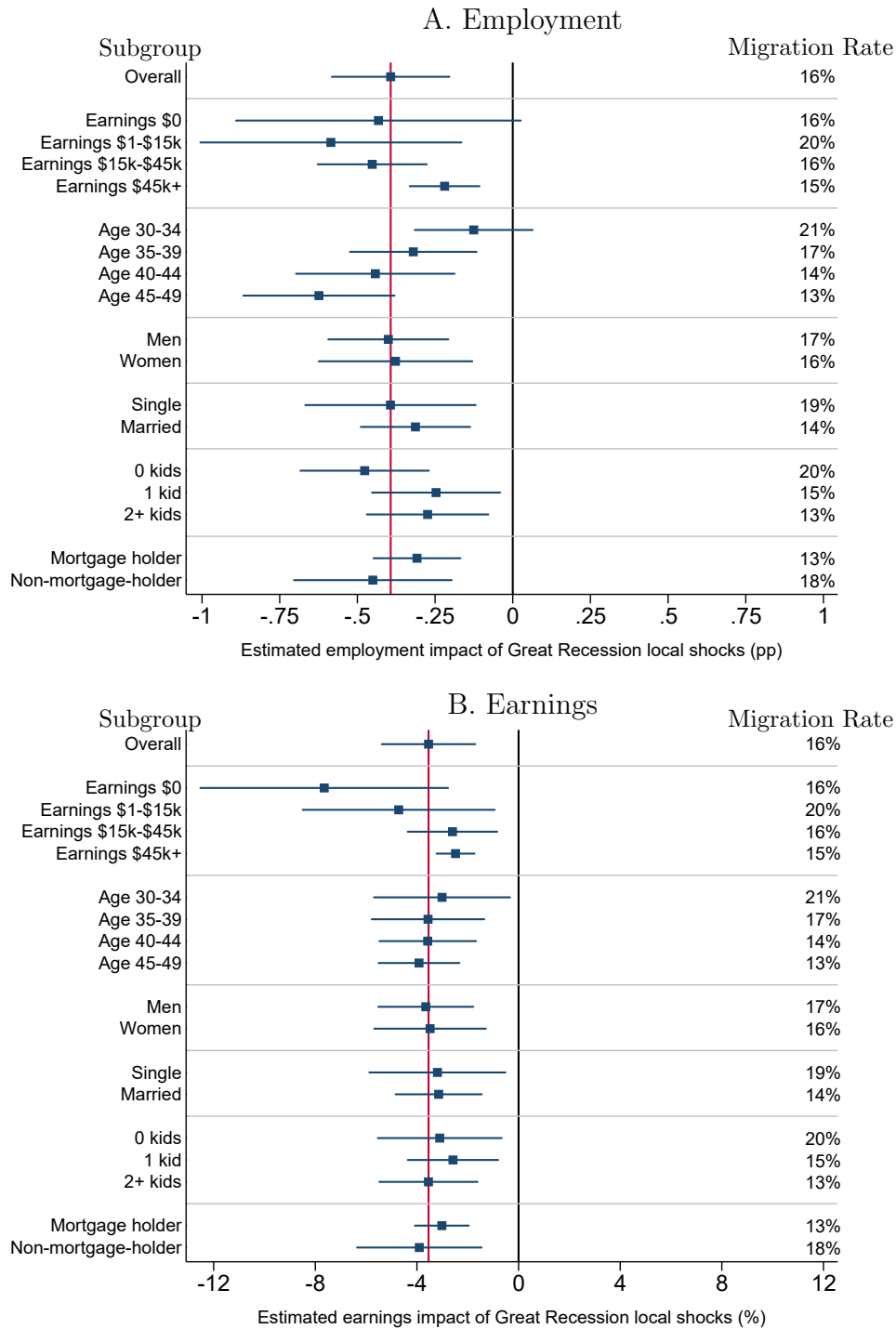
Notes: Panel A plots regression estimates of the effect of Great Recession local shocks on relative employment controlling for 2006 age-earnings-industry fixed effects in the main sample. Each year t 's outcome is year- t relative employment: the individual's year- t employment (indicator for any employment in t) minus the individual's mean 1999-2006 employment. 95% confidence intervals are plotted around estimates, clustering on 2007 state. For reference, the 2015 data point (the paper's main estimate) implies that a 1-percentage-point higher Great Recession local shock caused individuals to be 0.393 percentage points less likely to be employed in 2015. Panel B non-parametrically depicts the relationship underlying the main estimate. It is produced by regressing Great Recession local shocks on 2006 age-earnings-industry fixed effects, computing residuals, adding back their means for interpretation, and plotting means of 2015 relative employment within twenty equal-sized bins of the shock residuals. Overlaid is the best-fit line, whose slope equals -0.393 . Panel C replicates Panel A for the outcome of relative earnings: the individual's year- t earnings minus the individual's mean 1999-2006 earnings.

Figure 5: Employment Impacts in Special Samples



Notes: Panel A replicates Figure 4A in the retail chain sample (all year-2006 non-headquarters workers for identifiable retail chain firms) with 2006 age-earnings-firm fixed effects instead of 2006 age-earnings-industry fixed effects. Panel B replicates Figure 4A in the mass layoffs sample (all workers who separated from a firm in a 2008 or 2009 mass layoff). See the notes to Figure 4A for specification details.

Figure 6: Impact Heterogeneity



Notes: Panel A plots coefficients and 95% confidence intervals (clustering by 2007 state) of the impact of Great Recession local shocks on 2015 relative employment—overall and by subgroup. All estimates derive from the specification underlying Figure 4A’s 2015 data point, corresponding here to the overall row. Subgroup estimates restrict the sample to the specified subgroup defined by 2006 earnings, 2007 age, gender, 2006 marital status, 2006 number of kids, or 2006 mortgage holding. Non-1040-filers are classified here as single and childless. Subgroup migration rates are superimposed on the right. Migration is defined as one’s 2015 CZ being different from one’s 2007 CZ. Panel B replicates panel A for 2015 earnings expressed in multiples of mean annual earnings 1999-2006: 2015 earnings divided by mean annual 1999-2006 earnings. This quantity is top-coded at the 99th percentile, and individuals with zero 1999-2006 earnings are assigned the top code if 2015 earnings were positive and assigned 0 otherwise. The overall estimate is -3.55 (standard error 0.94), implying that a 1-percentage-point-higher Great Recession local shock reduced the average individual’s 2015 earnings by 3.55% of her pre-recession earnings.

TABLE 1
Summary Statistics

	Main Sample		Retail Chain Sample		Mass Layoffs Sample	
	Mean (1)	Std. Dev. (2)	Mean (3)	Std. Dev. (4)	Mean (5)	Std. Dev. (6)
<i><u>Outcomes (in 2015)</u></i>						
Employed (%)	79.1	40.7	81.8	38.5	84.1	36.5
Earnings (2015 \$)	47,587	63,784	33,383	44,557	48,204	62,830
UI receipt sometime 2007-2014 (%)	25.6	43.6	28.3	45.0	52.2	50.0
DI receipt (%)	6.2	24.2	6.9	25.3	6.0	23.8
<i><u>Personal characteristics (in 2006, 2007)</u></i>						
Female (%)	49.3	50.0	60.8	48.8	44.5	49.7
Earnings (2015 \$)	45,652	55,122	33,426	36,708	52,511	55,336
Age	39.9	5.7	39.2	5.8	39.7	5.7
Aged 30-34 (%)	22.2	41.5	27.0	44.4	23.8	42.6
Aged 35-39 (%)	24.5	43.0	25.0	43.3	25.0	43.3
Aged 40-44 (%)	26.0	43.9	24.3	42.9	25.5	43.6
Aged 45-49 (%)	27.3	44.6	23.6	42.5	25.7	43.7
Married (%)	62.8	48.3	52.2	50.0	52.9	49.9
0 kids (%)	36.2	48.0	41.8	49.3	40.6	49.1
1 kid (%)	22.6	41.8	22.9	42.0	23.4	42.3
2+ kids (%)	41.2	49.2	35.4	47.8	36.0	48.0
1040 filer (%)	91.2	28.3	93.1	25.3	93.8	24.1
Mortgage holder (%)	38.3	48.6	25.9	43.8	38.4	48.6
Retail trade (NAICS 44,45) (%)	5.2	22.3	100.0	0.0	4.7	21.2
Construction/manufacturing (NAICS 23,31-33) (%)	11.9	32.4	0.0	0.0	17.7	38.2
Other observed industry (%)	25.9	43.8	0.0	0.0	34.9	47.7
Contractor (%)	4.2	20.1	0.0	0.0	0.0	0.0
Non-employed (%)	11.5	31.9	0.0	0.0	0.0	0.0
Great Recession local shock (pp)	4.6	1.5	4.8	1.5	5.0	1.5
Number of individuals	1,357,974		866,038		1,001,543	
Number of 2007 CZs	722		655		668	

Notes - This table lists summary statistics for the paper's three tax-data-based samples: the main sample (a 2% random sample), the retail chain sample (all year-2006 non-headquarters workers for identifiable retail chain firms), and the mass layoffs sample (all workers who separated from a firm in a 2008 or 2009 mass layoff). All samples are restricted to American citizens aged 30-49 on January 1, 2007, who had not died by December 31, 2015 and who had a continental United States ZIP code in January 2007. Earnings is the sum of W-2 wage earnings and 1099-MISC independent contractor earnings in the calendar year, in 2015 dollars and top-coded at \$500,000. Employed is an indicator for having positive earnings. UI receipt sometime 2007-2014 is an indicator for having positive 1099-G unemployment insurance benefit income at some point 2007-2014. DI receipt is an indicator for having positive 1099-SSA disability insurance income in the calendar year. Age is measured on January 1, 2007. Married is an indicator for filing a married-filing-jointly or married-filing-separately 1040 for tax year 2006. Number of kids is the number of current dependent kids currently living with the individual as listed on the filed 1040. 1040 filer is an indicator for having appeared as a primary or secondary filer on a 1040 for tax year 2006. Displayed marriage and number of kids statistics are restricted to 1040 filers; in regressions controlling for marriage or number of kids fixed effects, non-1040-filers are included as a separate group. Mortgage holder is an indicator for having positive mortgage payment listed on a 1098 in 2006 (mortgages held only in the name of a worker's spouse or other third party are not included here). Industry categories are based on the North American Industrial Classification System code on the business income tax return matched to the individual's highest-paying 2006 W-2. Almost half of W-2 earners could not be matched and individuals who had only 1099-MISC independent contractor earnings are not matched; in fixed effect regressions, unmatched 2006 W-2 earners, contractors, and the non-employed are assigned to three separate industries. 2007 CZ derives from the individual's January 2007 residential ZIP code as reflected most commonly on her 2006 information returns. Great Recession local shock equals the 2009 unemployment rate in the individual's 2007 CZ minus the 2007 unemployment rate in that CZ as reported in the Bureau of Labor Statistics Local Area Unemployment Statistics.

TABLE 2
2015 Impacts of Great Recession Local Shocks

Outcome relative to pre-2007 mean:	Employed in 2015							Cumulative employment 2009-2015	Earnings in 2015	Cumulative earnings 2009- 2015
	(pp) (1)	(pp) (2)	(pp) (3)	(pp) (4)	(pp) (5)	(pp) (6)	(pp) (7)	(pp) (8)	(\$) (9)	(\$) (10)
Great Recession local shock	-0.412 (0.112)	-0.425 (0.112)	-0.417 (0.099)	-0.393 (0.097)		-0.366 (0.089)	-0.364 (0.089)	-2.700 (0.516)	-997 (168)	-6,212 (919)
Most severely shocked quintile					-1.746 (0.471)					
Fourth shock quintile					-1.144 (0.434)					
Third shock quintile					-0.793 (0.356)					
Second shock quintile					-0.181 (0.320)					
Age FEs		X								
Age-Earnings FEs			X							
Age-Earnings-Industry FEs				X	X	X	X	X	X	X
Unemployment persistence in 2007 CZ						X				
Unemployment persistence in 2015 CZ							X			
N	1,357,974	1,357,974	1,357,974	1,357,974	1,357,974	1,357,974	1,357,974	1,357,974	1,357,974	1,357,974
R ²	0.00	0.00	0.01	0.07	0.07	0.07	0.07	0.07	0.11	0.13
Outcome mean	-7.23	-7.23	-7.23	-7.23	-7.23	-7.23	-7.23	-40.5	6,249	27,646
Absolute outcome mean	79.1	79.1	79.1	79.1	79.1	79.1	79.1	563.9	47,587	317,011
Std. dev. of Great Recession local shocks	1.49	1.49	1.49	1.49	1.49	1.49	1.49	1.49	1.49	1.49
Interquartile range of G.R. local shocks	2.31	2.31	2.31	2.31	2.31	2.31	2.31	2.31	2.31	2.31

Notes – All columns except column 5 report coefficient estimates of the effect of Great Recession local shocks on post-recession outcomes in the main sample. Column 5 divides individuals into quintiles based on their Great Recession local shocks and reports coefficients on indicators of shock quintiles, relative to the least shocked quintile. Age fixed effects are birth year indicators. Earnings fixed effects are indicators for sixteen bins in the individual's 2006 earnings. Industry fixed effects are indicators for the individual's 2006 four-digit NAICS industry. Local unemployment persistence equals the 2015 LAUS unemployment rate minus the 2007 LAUS unemployment rate in either the individual's 2007 CZ or the individual's 2015 CZ. The columns 1-7 outcome is 2015 relative employment: the individual's 2015 employment (indicator for any employment in 2015) minus the individual's mean 1999-2006 employment. The column 8 outcome equals the sum of the individual's 2009-2015 employment minus seven times the individual's mean 1999-2006 employment. The column 9 outcome equals the individual's 2015 earnings minus the individual's mean 1999-2006 earnings. The column 10 outcome equals the sum of the individual's 2009-2015 earnings minus seven times the individual's mean 1999-2006 earnings. The absolute outcome mean equals the outcome mean before subtracting the pre-recession mean. Standard errors are clustered by 2007 state. For reference, column 4 (the paper's main specification) indicates that a 1-percentage-point higher Great Recession local shock caused individuals to be 0.393 percentage points less likely to be employed in 2015.

TABLE 3
Robustness of the 2015 Employment Impacts

Outcome relative to pre-2007 mean:	Employed in 2015												
	(pp) (1)	(pp) (2)	(pp) (3)	(pp) (4)	(pp) (5)	(pp) (6)	(pp) (7)	(pp) (8)	(pp) (9)	(pp) (10)	(pp) (11)	(pp) (12)	(pp) (13)
Great Recession local shock	-0.393 (0.097)	-0.394 (0.096)	-0.344 (0.090)	-0.344 (0.093)	-0.397 (0.098)	-0.439 (0.093)	-0.412 (0.098)	-0.381 (0.095)	-0.404 (0.095)	-0.399 (0.096)	-0.400 (0.115)	-0.397 (0.129)	-0.477 (0.125)
Main controls	X	X	X	X	X	X	X	X	X	X	X	X	X
Gender		X											
Number of kids			X										
Married				X									
Home ownership					X								
CZ size						X							
CZ pre-2007 size growth							X						
Cross-CZ commuting								X					
Max UI duration 2007-2015									X				
Minimum wage change 2007-2015										X			
Exclude if invalid industry code											X	X	
Exclude if construction/manufacturing												X	
Instrumented with birth state shock													X
N	1,357,974	1,357,974	1,357,974	1,357,974	1,357,974	1,357,974	1,357,974	1,357,974	1,357,974	1,357,974	741,165	579,553	1,357,974
R ²	0.07	0.08	0.09	0.08	0.07	0.07	0.07	0.07	0.07	0.07	0.11	0.10	0.07
Outcome mean	-7.23	-7.23	-7.23	-7.23	-7.23	-7.23	-7.23	-7.23	-7.23	-7.23	-7.20	-6.69	-7.23
Absolute outcome mean	79.1	79.1	79.1	79.1	79.1	79.1	79.1	79.1	79.1	79.1	73.9	70.8	79.1
Std. dev. of G.R. local shocks	1.49	1.49	1.49	1.49	1.49	1.49	1.49	1.49	1.49	1.49	1.49	1.49	1.49
Interquartile range of G.R. local shocks	2.31	2.31	2.31	2.31	2.31	2.31	2.31	2.31	2.31	2.31	2.31	2.31	2.31

Notes – This table adds controls, sample restrictions, or instruments to the specification underlying Table 2 column 4, reprinted here in column 1. Column 2 controls for the individual's gender. Column 3 controls for the individual's 2006 number of kids (fixed effects for 0, 1, or 2+ kids). Column 4 controls for the individual's 2006 marital status. Column 5 controls for individual's 2006 home ownership status. Columns 6-10 control for CZ-level characteristics. Column 6 controls for the individual's 2007 CZ's size, equal to the CZ's total employment in 2006 as reported in Census's County Business Patterns (CBP). Column 7 controls for the individual's 2007 CZ's size growth, equal to the CZ's log change in CBP employment from 2000 to 2006. Column 8 controls for the individual's 2007 CZ's share of workers who work outside of the CZ, computed from the 2006-2010 American Community Surveys. Column 9 controls for the individual's 2007 state's maximum unemployment insurance duration over years 2007-2015. Column 10 controls for the individual's 2007 state's 2015 minimum wage minus that state's 2007 minimum wage. Column 11 excludes 2006 W-2 earners without an industry code and 2006 contractors and thus restricts the sample to those for whom 2006 industry is correctly measured: 2006 W-2 earners with a valid industry code and the 2006 non-employed. Column 12 further excludes individuals employed in construction or manufacturing in 2006. Column 13 instruments the individual's Great Recession local shock using the mean of the Great Recession local shock in the individual's birth state. Standard errors are clustered by 2007 state.

TABLE 4
2015 Impacts of Great Recession Local Shocks – Retail Chain Sample

Outcome relative to pre-2007 mean:	Employed in 2015								Cumulative employment 2009-2015	Earnings in 2015	Cumulative earnings 2009- 2015
	(pp) (1)	(pp) (2)	(pp) (3)	(pp) (4)	(pp) (5)	(pp) (6)	(pp) (7)	(pp) (8)	(pp) (9)	(\$) (10)	(\$) (11)
Great Recession local shock	-0.554 (0.156)	-0.549 (0.151)	-0.570 (0.138)	-0.554 (0.117)	-0.441 (0.094)		-0.419 (0.082)	-0.415 (0.079)	-3.030 (0.602)	-458 (145)	-2,690 (676)
Most severely shocked quintile						-1.957 (0.357)					
Fourth shock quintile						-1.636 (0.358)					
Third shock quintile						-1.046 (0.331)					
Second shock quintile						-0.529 (0.386)					
Age FEs		X									
Age-Earnings FEs			X								
Age-Earnings-Industry FEs				X							
Age-Earnings-Firm FEs					X	X	X	X	X	X	X
Unemployment persistence in 2007 CZ							X				
Unemployment persistence in 2015 CZ								X			
N	866,038	866,038	866,038	866,038	866,038	866,038	866,038	866,038	866,038	866,038	866,038
R ²	0.00	0.01	0.02	0.03	0.12	0.12	0.12	0.12	0.13	0.17	0.19
Outcome mean	-9.80	-9.80	-9.80	-9.80	-9.80	-9.80	-9.80	-9.80	-51.5	2,356	8,379
Absolute outcome mean	81.8	81.8	81.8	81.8	81.8	81.8	81.8	81.8	590.0	33,383	225,567
Std. dev. of Great Recession local shocks	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Interquartile range of G.R. local shocks	2.41	2.41	2.41	2.41	2.41	2.41	2.41	2.41	2.41	2.41	2.41

Notes – This table replicates Table 2 in the retail chain sample. See the notes to that table. Firm is an indicator for the individual's 2006 firm (a retail chain firm).

TABLE 5
Adjustment Margins

Outcome (relative or absolute):	Employed	Migrated outside 2007 CZ	Employed in 2007 CZ	Employed outside 2007 CZ	Earnings	Earnings in 2007 CZ	Earnings outside 2007 CZ	UI income	SSDI income
	(pp) (1)	(pp) (2)	(pp) (3)	(pp) (4)	(\$) (5)	(\$) (6)	(\$) (7)	(\$) (8)	(\$) (9)
Effect in 2007	0.087 (0.106)	0.000	0.087 (0.106)	0.000	-205 (115)	-205 (115)	0	14.3 (12.2)	-3.8 (8.9)
Effect in 2008	-0.099 (0.079)	0.036 (0.119)	-0.098 (0.077)	-0.001 (0.006)	-508 (108)	-480 (108)	-28 (11)	36.3 (15.6)	-3.4 (9.4)
Effect in 2009	-0.349 (0.080)	0.109 (0.208)	-0.321 (0.077)	-0.028 (0.012)	-750 (129)	-687 (127)	-63 (18)	94.0 (32.1)	0.5 (11.8)
Effect in 2010	-0.403 (0.074)	0.209 (0.272)	-0.367 (0.074)	-0.037 (0.017)	-807 (131)	-736 (125)	-71 (30)	83.9 (32.1)	2.6 (13.0)
Effect in 2011	-0.387 (0.072)	0.248 (0.296)	-0.339 (0.071)	-0.048 (0.022)	-840 (119)	-745 (105)	-94 (35)	43.1 (24.3)	7.5 (13.7)
Effect in 2012	-0.373 (0.075)	0.244 (0.334)	-0.324 (0.076)	-0.049 (0.026)	-890 (141)	-784 (117)	-106 (45)	19.9 (20.1)	9.8 (15.2)
Effect in 2013	-0.434 (0.089)	0.180 (0.382)	-0.365 (0.091)	-0.069 (0.032)	-960 (147)	-810 (108)	-149 (56)	7.7 (16.3)	13.0 (17.0)
Effect in 2014	-0.360 (0.100)	0.134 (0.422)	-0.322 (0.101)	-0.038 (0.031)	-968 (197)	-799 (135)	-169 (84)	-3.0 (9.9)	15.7 (17.7)
Effect in 2015	-0.393 (0.097)	0.073 (0.456)	-0.338 (0.100)	-0.055 (0.042)	-997 (168)	-786 (108)	-211 (101)	-5.9 (8.9)	19.6 (18.8)

Notes – This table expands on the specifications of Table 2 column 4 and column 9, whose results are reprinted here in the bottom rows of columns 1 and 5. Each cell reports the coefficient on the Great Recession local shock variable from a separate regression in which the outcome uses the post-recession year indicated in the row, instead of exclusively using 2015 as in Table 2. Every regression uses the same 1,357,974 observations underlying Table 2. The column 1 outcome of relative employment is defined in Table 2, varying the post-recession year between 2007 and 2015. The column 2 outcome is an indicator for out-migration, equal to the individual's year- t CZ being different from her 2007 CZ. Columns 3 and 4 separate the column 1 outcome for year t into two outcomes: employment in year t in the individual's 2007 CZ and employment in year t outside the individual's 2007 CZ, each minus mean 1999-2006 employment. The column 5 outcome is defined in Table 2. Columns 7 and 8 separate the column 5 outcome analogously to columns 3-4. The column 8 outcome is the individual's unemployment insurance benefits in year t . The column 9 outcome is the individual's Social Security Disability Insurance benefits in year t . Standard errors are clustered by 2007 state.

TABLE 6
Mechanisms

A. Layoffs and Non-Employment in Main Sample

Outcome:	UI receipt sometime 2007-2014	2015 relative employment	2015 relative employment-or-UI- receipt-sometime- 2007-2014	Relative non- employment 2007- 2014	2015 relative employment
	(pp) (1)	(pp) (2)	(pp) (3)	(pp) (4)	(pp) (5)
Great Recession local shock	1.431 (0.418)	-0.354 (0.099)	-0.019 (0.121)	0.487 (0.122)	-0.057 (0.111)
UI receipt sometime 2007-2014		-2.734 (0.142)			
Main controls	X	X	X	X	X
Employment 2007-2012					X
N	1,357,974	1,357,974	1,357,974	1,357,974	1,357,974
R ²	0.16	0.08	0.06	0.08	0.26
Outcome mean	25.6	-7.2	-2.8	3.0	-7.2
Absolute outcome mean	25.6	79.1	83.6	3.0	79.1

B. Disability Insurance Receipt in Main Sample

Outcome:	SSDI receipt in 2015	2015 relative employment-or- SSDI-receipt	2015 relative employment	2015 relative employment	2015 relative employment
	(pp) (6)	(pp) (7)	(pp) (8)	(pp) (9)	(pp) (10)
Great Recession local shock	0.071 (0.145)	-0.265 (0.099)	-0.557 (0.117)	-0.578 (0.135)	-0.585 (0.119)
Main controls	X	X	X	X	X
Exclude if invalid industry code				X	X
Exclude if construction/manuf. Employment 2007-2012					X
N	1,357,974	1,357,974	1,001,543	573,493	396,377
R ²	0.12	0.09	0.10	0.15	0.13
Outcome mean	6.22	-2.28	-10.12	-10.45	-9.85
Absolute outcome mean	6.22	84.06	84.12	83.11	83.20

C. Employment Impacts in Mass Layoffs Sample

Notes – The table reports estimates of the main specification (Table 2 column 4) with alternative outcomes, samples, and/or controls. Column 1 replicates the main specification using the outcome of an indicator for unemployment insurance (UI) benefit receipt at some point 2007-2014. Column 2 replicates the main specification while controlling for UI receipt sometime 2007-2014. Column 3 replicates the main specification using the outcome of an indicator for 2015 employment or UI receipt 2007-2014, minus the individual's mean employment 1999-2006. Column 4 replicates the main specification using the outcome of an indicator for having any year of non-employment 2007-2014, minus an indicator for having any year of non-employment 1999-2006. Column 5 replicates the main specification while controlling for indicators of employment in each year 2007-2012. The column 6 outcome is an indicator for 2015 receipt of Social Security Disability Insurance. Column 7 replicates column 3 but uses 2015 DI receipt in place of UI receipt 2007-2014. Column 8 replicates the main specification and columns 9-10 replicate Table 3 columns 11-12 in the mass layoffs sample. Standard errors are clustered by 2007 state.

ONLINE APPENDIX

Online Appendix A: Age-Adjusted U.S. Labor Force Statistics

Online Appendix Figure A.1 uses monthly Current Population Surveys (CPS) to plot unadjusted and non-parametrically age-adjusted annual U.S. employment rates (employment-population ratios), labor force participation rates, and unemployment rates 2007-2015. The figure's unadjusted statistics are essentially equal to the official Bureau of Labor Statistics U.S. labor force statistics. They are constructed as follows using the civilian non-institutional population, first for the age-16+ population and then separately for the age-25-54 population. For each age-year and top-coding age at 79, I compute the population-weighted mean across CPS months of total unemployed, labor force, and population counts. Then to construct the unadjusted year- t data points, I sum year- t 's unemployed, labor force, and population counts across ages and use those totals to compute the plotted rates. To construct each age-adjusted year- t data point, I first reweight year- t 's age-specific counts by the age's 2007 population share as in DiNardo, Fortin and Lemieux (1996):

$$\hat{X}_{at} = \frac{P_{a2007}}{\sum_a P_{a2007}} \frac{\sum_a P_{at}}{P_{at}} X_{at}$$

where a denotes age, X denotes an unemployed, labor force, or population (P) count, and \hat{X}_{at} denotes a reweighted count. The weight $\frac{P_{a2007}}{\sum_a P_{a2007}} \frac{\sum_a P_{at}}{P_{at}}$ ranges empirically from 0.63 to 1.25, depending on whether the age's population share rose or fell between 2007 and t . I then sum the reweighted unemployed, labor force, and population counts across ages and use those totals to compute the plotted age-adjusted rates.

The results displayed in Online Appendix Figure A.1 reveal that the demographic compositional change of population aging explains a minority (1.6 percentage points) of the overall employment rate decline (3.6 percentage points) 2007-2015. The figure also shows that population aging explains essentially none (0.1 percentage points) of the age-25-54 employment rate decline (2.6 percentage points).

These results closely match the results of Shimer (2014). Shimer analyzes data through 2014 and finds, like I do, that aging through 2014 explains a minority of the age-16+ employment rate decline and essentially none of the age-25-54 decline. He also finds that adding other demographic controls actually deepens the employment rate decline. Eppsteiner, Furman and Powell (2017) similarly find that either just under or just over half of the 2007-2015 age-16+ employment rate decline is explained by aging, depending on the measurement point in 2015.

To further discuss related literature, the recent and transparent contribution of Krueger (2017) illuminates the uncertainty in projecting pre-recession *trends* rather than just controlling for demographic compositional changes like population aging. He finds that if one projects the downward trends in labor force participation during the 1997-2006 period forward to 2017, one can explain the entire decline in labor force participation through 2017 (though 2015 participation was still unusually low). However, 1997 was the peak in the U.S. labor force participation rate, so 1997-2006 participation trends were negative. Krueger reports that if one instead uses the 1992-2006 period to estimate pre-recession trends, those trends are mostly flat. Thus the explanatory power of pre-recession trends depends substantially on the choice of the trend estimation period.

In a simultaneous equation system with many variables, Aaronson, Cajner, Fallick, Galbis-Reig, Smith and Wascher (2014) find, like Krueger’s 1997-2006-based projection, that most of the age-adjusted labor force participation rate decline can be explained by projecting pre-recession trends. However, Hall (2014) suggests that the ACFGSW specification is likely to be sensitive to reasonable amendments, and at least two projections have proven too aggressive. The earlier similar analysis of Aaronson, Fallick, Figura, Pingle and Wascher (2006) projected such a large labor force participation rate decline that the actual U.S. participation rate exceeded their projection after 2014 (ACFGSW Figure 1). Similarly, ACFGSW projected continued and substantial age-16+ labor force participation declines after the second quarter of 2014 (their Table 6) while the actual age-16+ participation rate remained constant between then and the time of this writing (the second quarter of 2017).

All told, this appendix’s analysis finds that the demographic compositional change of population aging explains a minority of the overall employment rate decline 2007-2015 and essentially none of the age-25-54 decline. A review of other work suggests that the explanatory power and accuracy of pre-recession trends depend substantially on the trend estimation specification. This paper’s main finding supports the view that 2015 employment rates would have been higher in lieu of the Great Recession.

Online Appendix B: State-Level Shocks

This online appendix extensively details the autoregressive system of Blanchard and Katz (1992, BK) used to define state-level Great Recession shocks in Section 2 and elaborates on Figure 2’s historical comparisons of state-level shock adjustment. The online replication kit contains data and code that generate the results.

Section 2 estimates state-level adjustment using the updated data used in BK: the annual Local Area Unemployment Statistics (LAUS) series of employment, population, unemployment, and labor force participation counts 1976-2015 for 51 states (the 50 states plus the District of Columbia) produced by the Bureau of Labor Statistics (BLS).³⁸ Variable definitions are standard and pertain to the age-16-and-over civilian noninstitutional population.³⁹ BLS compiles LAUS counts from the Current Population Survey (CPS), Current Employment Statistics (CES) survey, and state administrative unemployment insurance counts—blended to filter maximal signal from noise using empirical Bayes techniques.⁴⁰ Online Appendix Table 1 displays summary statistics.

I employ BK’s canonical empirical model of state labor market outcomes to compute Great

³⁸LAUS are the official data used to allocate federal transfers across states. The series is limited historically by the lack of Current Population Survey participation statistics for most states prior to 1976.

³⁹Age is defined at the time of survey; LAUS figures effectively evenly weight underlying monthly surveys. See <http://www.bls.gov/bls/glossary.htm> for full definitions of labor force status. Employment is roughly defined as working for pay or being temporarily absent from regular work at any point in the reference week. Unemployment is roughly defined as having had no employment in the reference week but being available for work and having looked for work in the preceding month. Labor force equals employment plus unemployment.

⁴⁰Since LAUS had not yet been produced, BK effectively constructed their own version of LAUS 1976-1990 using the Geographic Profile of Employment (comprising CPS unemployment and population counts), employment counts from the CES (comprising formal employment counts), and an ad-hoc CPS-based imputation for self-employment (population was implied). LAUS-based results on the original BK time series are essentially identical to BK’s published results.

Recession employment shocks for each state. BK imagine a simple spatial equilibrium in which U.S. states experience one-time random-walk shocks to global demand for their locally produced and freely traded goods. Those shocks induce endogenous migration responses of workers and firms via transitory wage changes until state employment rates return to their steady states. BK aimed to estimate the nature and speed of those responses: do workers move out or do jobs move in, and over what horizon? To guide their implementation, BK observe empirically that states differ in long-run employment and population growth rates (e.g. perhaps partly due to steady improvements in air conditioning that made the Sun Belt steadily more attractive) and in long-run unemployment rates and participation rates (e.g. due to industrial mix and retiree population differences) relative to the national aggregate. Thus an attractive model of the evolution of state labor market outcomes may feature stationary employment growth, a stationary unemployment rate, and a stationary participation rate (and thus a stationary employment rate) for each state relative to the corresponding national aggregates.

BK implement such a model. They characterize state adjustment to idiosyncratic state-level labor demand shocks by estimating the following log-linear autoregressive system in relative state employment growth, unemployment rates, and participation rates:

$$\begin{aligned}\widetilde{\Delta \ln E}_{st} &= \alpha_{s10} + \alpha_{11} (2) \widetilde{\Delta \ln E}_{s,t-1} + \alpha_{12} (2) \widetilde{\ln E/L}_{s,t-1} + \alpha_{13} (2) \widetilde{\ln L/P}_{s,t-1} + \varepsilon_{st}^E \\ \widetilde{\ln E/L}_{st} &= \alpha_{s20} + \alpha_{21} (2) \widetilde{\Delta \ln E}_{st} + \alpha_{22} (2) \widetilde{\ln E/L}_{s,t-1} + \alpha_{23} (2) \widetilde{\ln L/P}_{s,t-1} + \varepsilon_{st}^{E/L} \\ \widetilde{\ln L/P}_{st} &= \alpha_{s30} + \alpha_{31} (2) \widetilde{\Delta \ln E}_{st} + \alpha_{32} (2) \widetilde{\ln E/L}_{s,t-1} + \alpha_{33} (2) \widetilde{\ln L/P}_{s,t-1} + \varepsilon_{st}^{L/P}\end{aligned}$$

where E , L , and P denote levels of employment, the labor force, and population in state s in year t ; where Δ denotes a first difference (year t 's value minus year $t-1$'s value); where \sim denotes a difference relative to the year's national aggregate value; and where (2) denotes a vector of two lags. Thus the first dependent variable ("relative state employment") is the first difference of log state employment minus the first difference of log aggregate employment. The second ("relative state unemployment") is the log of one minus the state unemployment rate minus the log of one minus the aggregate unemployment rate. The third ("relative state participation") is the log of the state participation rate minus the log of the aggregate participation rate. Relative state population is the implied residual. Each equation includes a state fixed effect. I follow BK in weighting states equally rather than by population. Under these assumptions, the autoregressive coefficients characterize the speed of the average state's convergence to its steady state following an unforecasted change in state labor demand: coefficients close to one imply slow convergence while coefficients close to zero imply fast convergence.⁴¹

⁴¹The BK system embodies four substantive assumptions. First, unforecasted changes in relative state employment growth ε_{st}^E affect contemporaneous relative employment growth, relative unemployment, and relative participation, but unforecasted changes in relative state unemployment and participation do not effect contemporaneous values of the other outcomes. This feature allows the system to be estimated independently via ordinary least squares. It reflects the assumption that ε_{st}^E primarily reflects changes in labor demand rather than supply—supported in the data by negative values of ε_{st}^E typically being followed by state wage declines rather than increases. Second, each state-year outcome is differenced by the year's aggregate value, so the behavior of the system is assumed to be independent of aggregate levels. Third, serial correlation is assumed to be affine in two lags, which limits the estimation sample to years 1978 and beyond (three and four lags deliver similar results). Fourth, outcomes are assumed to be stationary, i.e. to converge in the long run to time-invariant state-specific steady-state values relative to national aggregates. State fixed effects are motivated by cross-decadal persistence in the outcomes. Formal stationarity tests are underpowered and inconclusive in

For each state, I estimate a 2008 and a 2009 employment growth forecast error within the BK system and refer to their sum as its Great Recession employment shock. Specifically, I first estimate the BK system coefficients using sample years 1978-2007. I then compute each state's 2008 employment shock $\widehat{\varepsilon}_{s,2008}^E$, equal to the state's actual relative employment growth $\Delta \ln E_{s,2008}$ minus the relative employment growth predicted by the state's actual data through 2007 and the estimated coefficients. For example, a state that experienced 2008 relative employment growth equal to the system forecast based on its history through 2007 would have a 2008 shock equal to zero. I similarly compute each state's 2009 employment shock $\widehat{\varepsilon}_{s,2009}^E$, equal to the state's actual relative employment growth $\Delta \ln E_{s,2009}$ minus the relative employment growth predicted by the state's actual data through 2008 and the estimated coefficients. I refer to each state's vector $\{\widehat{\varepsilon}_{s,2008}^E, \widehat{\varepsilon}_{s,2009}^E\}$ as the state's Great Recession employment shocks and to the sum of the vector's elements as the state's Great Recession employment shock.

To understand these shocks empirically, Online Appendix Table 2 lists each state's Great Recession employment shock. The standard deviation of state-level shocks over the Great Recession (2.74) was similar to the standard deviation of state-level shocks over the early-1980s (1980-1982) recession (2.73) computed similarly (detailed below).⁴² Recall that shocks are effectively defined as 2007-2009 employment level changes *relative to* the state's own trend and the national aggregate. Thus a state can have a negative Great Recession employment shock either because its employment growth relative to the aggregate became moderately negative after a history of fast growth (e.g. Arizona) or because employment growth became very negative after a history of slow growth (e.g. Michigan). Furthermore, just over half of states naturally experienced a positive Great Recession shock, since shocks are measured relative to the aggregate. The table displays patterns familiar from popular news accounts and earlier economics work: Sun Belt states like Arizona, California, and Florida as well as Rust Belt states like Michigan and Indiana experienced severe Great Recession shocks relative to other states. As two focal examples, Arizona's shock equals -2.24% while Texas's shock equals $+1.30\%$.

Online Appendix Figures A.4A-B plot actual mean responses (solid lines) of state labor market outcomes to 2007-2009 shocks versus mean historical benchmark responses (dotted lines) to a -1% shock, following BK's exposition. Forty-one percent of the average state's 2007-2009 shock arrived in 2008 while 59% arrived in 2009. To generate historical benchmark predicted responses 2008-2015, I therefore feed the BK system the employment residual vector $\{\widehat{\varepsilon}_{s,2008}^E, \widehat{\varepsilon}_{s,2009}^E\} = \{-.41, -.59\}$ and—for maximum comparability to BK's original benchmarks—use coefficients estimated on the original sample years 1978-1990; panel C plots updated benchmarks.⁴³ Note that by construction in the BK system, the predicted mean response to a -1% shock is the negative of the predicted mean response to a $+1\%$ shock.

Panel A's benchmark predictions depict BK's core lesson: in response to a -1% change in a state's employment relative to the state's trend and the national aggregate, the 1978-1990 experience predicts that the state's population would rapidly fall by 1% relative to the state's trend and the national aggregate—such that the state's employment rate returns to its steady-state level relative to the aggregate in five years. Colloquially, residents move out and

short time series (BK). Stationarity here is best motivated by spatial arbitrage priors, no rise in the standard deviation of outcomes before 2007, and employment rate stationarity after previous recessions (Figure 2A).

⁴²The standard deviation of shocks is smaller outside aggregate recession years.

⁴³Strictly speaking, I feed the system the vector $\{-.41, -.59\}$ shrunk multiplicatively by a constant such that the 2007-2009 change in relative employment is -1% after system feedback effects.

others stop moving in, rather than jobs moving in or residents remaining non-employed—and the adjustment completes quickly. Economically, the adjustment process has been understood to embody a simple mechanism: a state (e.g. Michigan) experiences a one-time random-walk contraction in global consumer demand for its locally produced traded good (e.g. cars), which induces a local labor demand contraction and wage decline, which in turn induces a local labor supply (population) contraction, which then restores the original local wage and employment rate.

The mean actual response series equals the estimated mean responses of outcomes across states within each year. To construct the series, I first compute forecast errors for each year 2008-2015 and for each system outcome, using actual data through 2007 and the coefficients from the 1978-2007-estimated system.⁴⁴ Denote these forecast errors for each variable-state-year $\{\eta_{st}^E, \eta_{st}^{E/L}, \eta_{st}^{L/P}\}$. I then regress these forecast errors on 2007-2009 shocks in year-by-year regressions:⁴⁵

$$\begin{aligned}\eta_{st}^E &= \widehat{\varepsilon_{s,2008}^E} \delta_t^E + \widehat{\varepsilon_{s,2009}^E} \zeta_t^E, \forall t \\ \eta_{st}^{E/L} &= \widehat{\varepsilon_{s,2008}^E} \delta_t^{E/L} + \widehat{\varepsilon_{s,2009}^E} \zeta_t^{E/L}, \forall t \\ \eta_{st}^{L/P} &= \widehat{\varepsilon_{s,2008}^E} \delta_t^{L/P} + \widehat{\varepsilon_{s,2009}^E} \zeta_t^{L/P}, \forall t\end{aligned}$$

This specification is flexible in that it allows for the 2008 and 2009 employment shocks to have arbitrary additive effects on each subsequent year's outcomes. The δ and ζ coefficients are mean actual responses of each outcome in each year to 2007-2009 shocks. I multiply these coefficients by the -1% 2007-2009 shock $\{\widehat{\varepsilon_{s,2008}^E}, \widehat{\varepsilon_{s,2009}^E}\} = \{-.41, -.59\}$ to obtain the plotted mean actual response series.

Panel A shows that on a slight lag, mean actual relative population responded identically to Great Recession shocks as in the historical benchmark—falling by 1% between 2007 and 2014, matching the initial 1% employment decline. However, actual relative employment kept declining such that employment rates remained diverged across space at nearly their 2009 levels: for every -1% decline in relative state employment 2007-2009, the relative state employment rate was 0.45 percentage points lower in 2015 than it was in 2007. This 0.45 percentage-point employment rate deficit is similar to the 0.48 percentage-point deficit that prevailed in 2009. Hence, employment rates had barely converged across space by 2015, contrary to history-based predictions. Panel B separates the employment rate response into the unemployment rate response and the labor force participation rate response. The graph shows that actual relative unemployment rates converged across space as in the historical benchmark, while actual participation rates remained diverged in a stark departure from the historical benchmark.

Online Appendix Figure A.4C shows that updating the historical benchmark to more recent data does not alter the conclusion that post-2007 employment rate convergence was unusually slow and incomplete. The figure plots the estimated response of the average state's employment rate to a -1% employment shock, based on estimating the BK system on three different LAUS sample ranges: 1978-1990 (the original BK time range, reprinted from panels A-B), 1991-

⁴⁴That is, I compute 2008-2015 baseline predictions for how each state's outcomes would have evolved in the absence of 2007-2009 shocks based on data through 2007 and the estimated coefficients, and then subtract predictions those 2008-2015 baseline predictions from actual 2008-2015 values.

⁴⁵For 2008, only the 2008 employment shock is included as a regressor.

2007, and 1978-2015.⁴⁶ Both the 1978-1990- and 1991-2007-based predictions exhibit five-year convergence of the state’s employment rate to its steady-state level relative to the the aggregate. The 1978-2015-based prediction exhibits substantially slower convergence but still exhibits majority employment rate convergence 2009-2015, in contrast to reality.⁴⁷ Hence, the 2007-2015 employment rate divergence is exceptional even relative to fully-updated convergence predictions.

Finally, Figure 2A (documented in the main text) shows that the slow convergence after Great Recession shocks was unusual not merely relative to average historical responses but also relative to the aftermath of the two previous recessions for which a long post-recession time series is available.⁴⁸ Online Appendix Figure A.5 repeats Figure 2A for the labor force participation rate, unemployment rate, employment growth, and population growth. The participation and unemployment graphs are constructed exactly as the employment rate graph in Figure 2A. To create the employment growth graph, I first compute each state’s steady state value for relative employment growth by using the 1978-2007-estimated BK coefficients and solving the BK system assuming all variables are constant. Then, for each state-year around each recession, I compute actual relative employment growth minus steady state relative employment growth, cumulate this value beginning in year -5 (year -3 for the early-1980s recession, the first year available), and proceed to construct the graph exactly as done for employment rates. The population employment graph is constructed similarly. The graphs show that the unemployment rate and population growth adjustments to Great Recession employment shocks were broadly similar to those after previous recessions’ shocks. However, the participation rate and employment growth in severely shocked states exhibited no recovery from 2009 levels relative to mildly shocked states, in stark contrast to the aftermath of the early-1980s and early-1990s recessions.

Online Appendix C: Cross-State Employment Gap

This online appendix documents the computation of the 2.01 million cross-state employment gap statistic reported in Section 2. The employment gap is defined as total 2015 employment in severely shocked states minus total 2015 employment in mildly shocked states—minus the difference that would have prevailed if the pre-recession severe-mild employment rate difference had prevailed in 2015 at 2015 state populations. $2.01 \approx .01635/2 \times 250.5 = 2.05$, where 1.635 percentage points is the population-weighted equivalent to the 1.736-percentage-point severe-mild 2015 employment rate deficit plotted in Figure 1B and where 250.5 million was 2015 total population. This formula is not exact because population was not exactly evenly divided between the two state groups, since the unweighted shock median was used to define the groups. For reference, the exact 2.01 figure is computed as follows.

On average 2002-2007, the population-weighted employment rate in severely shocked states minus that in mildly shocked states equaled -0.885 percentage points. In 2015, severely

⁴⁶See Beyer and Smets (2014) for an earlier re-estimation of the BK system augmented with multi-level factor modeling to compare U.S. and Europe population responses. See Dao, Furceri and Loungani (2017) for an earlier re-estimation augmented with instruments to find stronger population responses during aggregate recessions.

⁴⁷Slower convergence likely derives from unique divergence after 2007 as well as from alleviated small-sample stationarity bias in a larger sample (e.g. Hurwicz 1950).

⁴⁸The post-2001-recession experience demonstrated substantial convergence before being interrupted by positively correlated 2007-2009 shocks.

shocked states had an adult civilian noninstitutional population of 142.0 million with a 58.25% population-weighted employment rate while mildly shocked states had an adult civilian non-institutional population of 108.5 million with a 60.77% population-weighted employment rate (note that $58.25 - 60.77 + 0.885 = -1.635$). Then the full-convergence employment rate in severely shocked states (e_S^*) and in mildly shocked states (e_M^*) solve:

$$\begin{aligned} e_S^* - e_M^* &= -.00885 \\ 142.0 \times e_S^* + 108.5 \times e_M^* &= 142.0 \times .5825 + 108.5 \times .6077 \end{aligned}$$

where the first equation imposes full employment rate convergence between severely shocked and mildly shocked states to the pre-2007 difference and the second equation imposes equality between the full-convergence aggregate employment level (and rate) and the actual 2015 aggregate employment level (and rate).

The solution is $e_S^* = 58.96\%$ and $e_M^* = 59.84\%$. This implies that $1.005 (= 141.99 \times (.58959 - .58251))$ million fewer residents of severely shocked states in 2015 were employed than there would have been had state employment rates returned to their pre-2007 differences at actual 2015 populations and the actual 2015 aggregate employment rate. Likewise, $1.006 (= 108.52 \times (.60771 - .59844))$ million more residents of mildly shocked states in 2015 were employed than there would have been had state employment rates returned to their pre-2007 differences around the actual 2015 aggregate employment rate. Hence relative to the counterfactual of full convergence of state employment rates to their pre-2007 differences at actual 2015 populations, a 2.01-million-person employment gap between severely shocked and mildly shocked states remained in 2015.

Online Appendix D: Empirical Design in Potential Outcomes

This online appendix details a binary version of the paper’s empirical design in potential outcomes. Consider identical local areas c that experienced in 2007-2009 a binary Great Recession local shock—severe or mild—and no other 2007-2009 shocks. Denote these areas severely shocked or mildly shocked. $SEVERE_{c(i2007)} \in \{0, 1\}$ indicates whether an individual i lived in 2007 in a severely shocked area. $EMPLOYED_{i2015}(1) \in \{0, 1\}$ indicates i ’s potential 2015 employment if her 2007 local area was severely shocked, and $EMPLOYED_{i2015}(0) \in \{0, 1\}$ indicates i ’s potential 2015 employment if her 2007 local area was mildly shocked. To align notation simply with the text’s main outcome, assume that all individuals were employed in every year 1999-2006.

Define the causal effect β_i of i ’s 2007 CZ’s Great Recession local shock on i ’s 2015 employment as the difference in the worker’s potential employment: $\beta_i \equiv EMPLOYED_{i2015}(1) - EMPLOYED_{i2015}(0)$. Note that β_i could be zero for some skill types and negative for others, for example if only construction or routine workers are affected by a severe local shock (Jaimovich and Siu 2013, Hershbein and Kahn 2016). But β_i excludes all nationwide changes that do not vary with local shock severity. The mean $E[\beta_i] \equiv \beta$ in a relevant sample of workers is my causal effect of interest, which I refer to as the causal effect of Great Recession local shocks.

If workers were randomly assigned in 2007 across local areas, then one could consistently

estimate β as the unconditional observed employment rate difference in longitudinal data as: $E[EMPLOYED_{i2015}|SEVERE_{c(i2007)} = 1] - E[EMPLOYED_{i2015}|SEVERE_{c(i2007)} = 0]$. Lacking random assignment, I assume empirically that workers were as good as randomly assigned conditional on a rich observed vector of pre-2007 characteristics \mathbf{X}_{i2006} :

$$\left(EMPLOYED_{i2015}(0), EMPLOYED_{i2015}(1) \right) \perp SEVERE_{c(i2007)} \mid \mathbf{X}_{i2006}$$

Then β can be consistently estimated as the conditional observed employment rate difference in longitudinal data:

$$\begin{aligned} & E[EMPLOYED_{i2015}|SEVERE_{c(i2007)} = 1, \mathbf{X}_{i2006}] - \\ & E[EMPLOYED_{i2015}|SEVERE_{c(i2007)} = 0, \mathbf{X}_{i2006}] - \\ & = E[EMPLOYED_{i2015}(1) - EMPLOYED_{i2015}(0)]. \end{aligned}$$

Online Appendix E: Longitudinal Data

This online appendix provides additional details on the longitudinal linked-employer-employee data described in Section 3.

First, the universe of business tax returns used is the universe of C-corporate (Form 1120), S-corporate (Form 1120S), and partnership (Form 1065) tax returns. Businesses that file other types of tax returns employ a small share of U.S. workers.

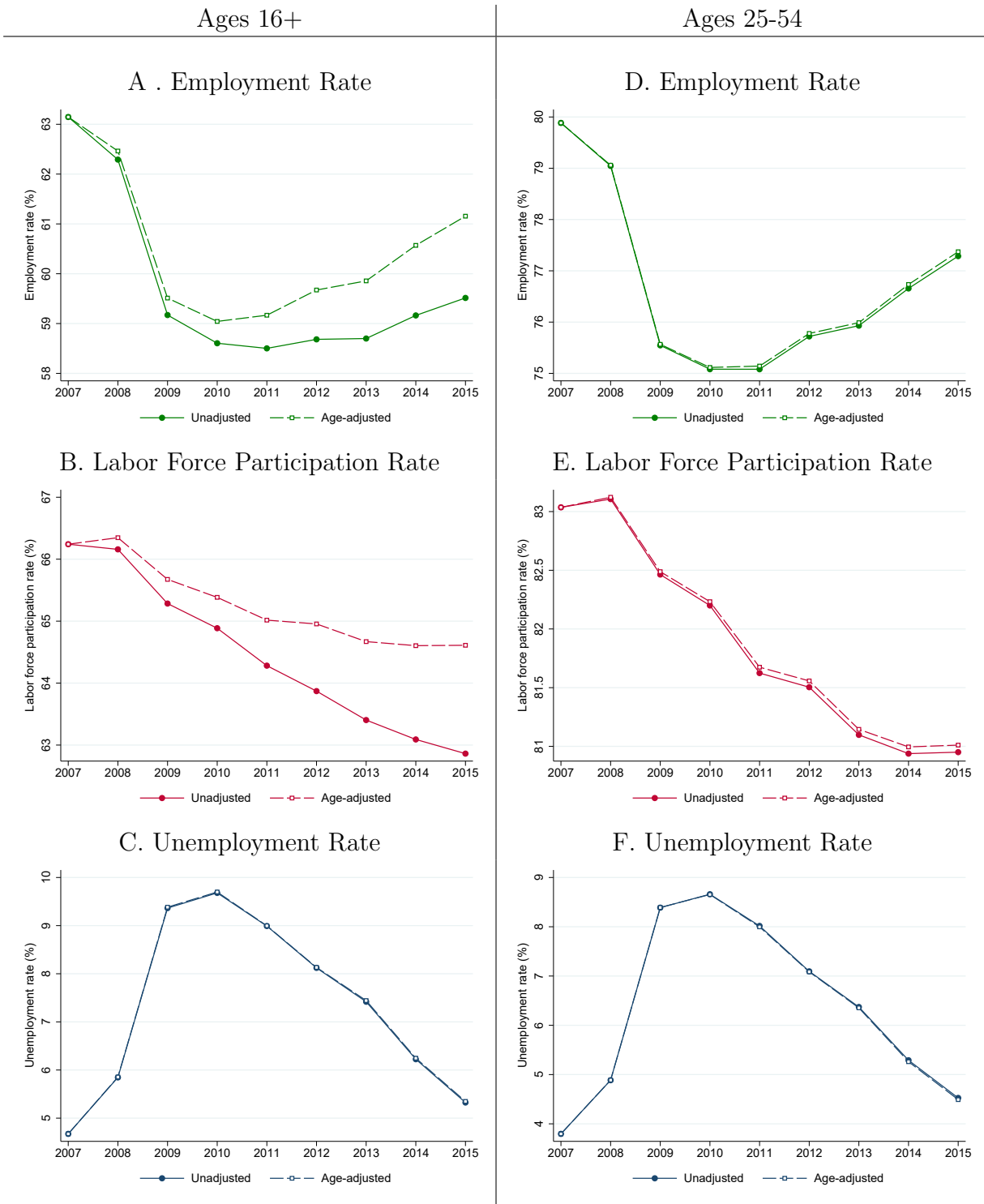
Second, Form 1099-MISC data on independent contractor employment are missing in 1999. Results are very similar when omitting 1999 data.

Third, many retail chain firms are missing from the retail chain sample, both because of subsidiaries and franchises as described in Section 3 and also because a (likely small) number of firms outsource their W-2 administration to third-party payroll administration firms that list their own EINs on W-2s. Nevertheless, the retail chain sample includes very large nationwide chains.

Fourth and also specific to the retail chain sample, the filing ZIP code on a firm's business income tax return typically but not always refer to the business's headquarters ZIP code. Excluding workers at the business's headquarters is useful because headquarters workers may perform systematically different tasks than workers at other establishments and thus may possess different human capital even conditional on baseline earnings. I therefore conservatively exclude firms' workers living in the CZ with the largest number of the firm's workers living there, as well as the CZ with the largest number of the firm's workers living there as a share of the total number of workers living there.

Fifth and also specific to the retail chain sample, I consider a firm to have operated in a CZ in 2006 if it employed at least ten stably located workers who lived in the CZ—defined as individuals of any age and citizenship with a W-2 from the firm in all years 2005-2007 and the same residential CZ in all years 2005-2007 based on those W-2s' payee (residential) ZIP codes. It is necessary to define CZ operations using more than one year of W-2 data because W-2 payee ZIP code refers to the worker's ZIP code in January of the year after employment. That feature implies that almost all firms would appear to have operations in every large CZ if one were to use only 2006 W-2s to identify CZ operations, since many workers move to large cities.

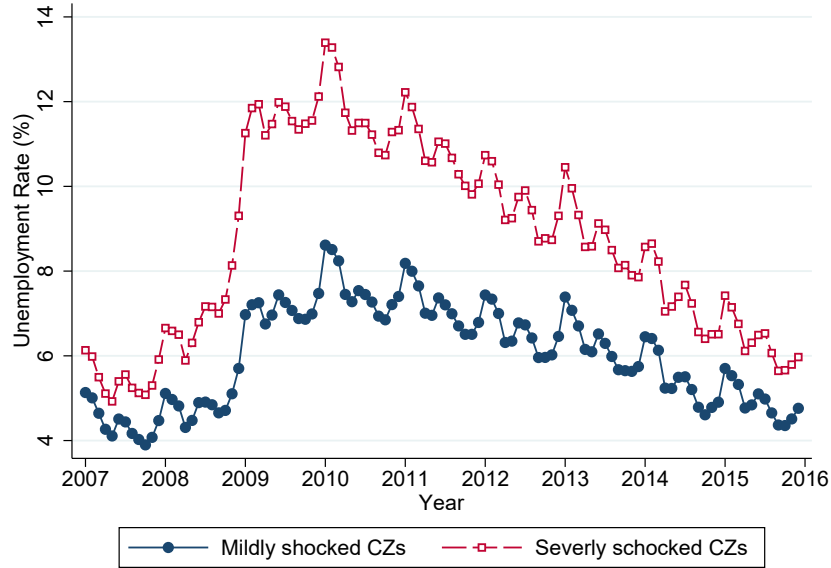
Figure A.1: The Age-Adjusted U.S. Employment Rate Decline



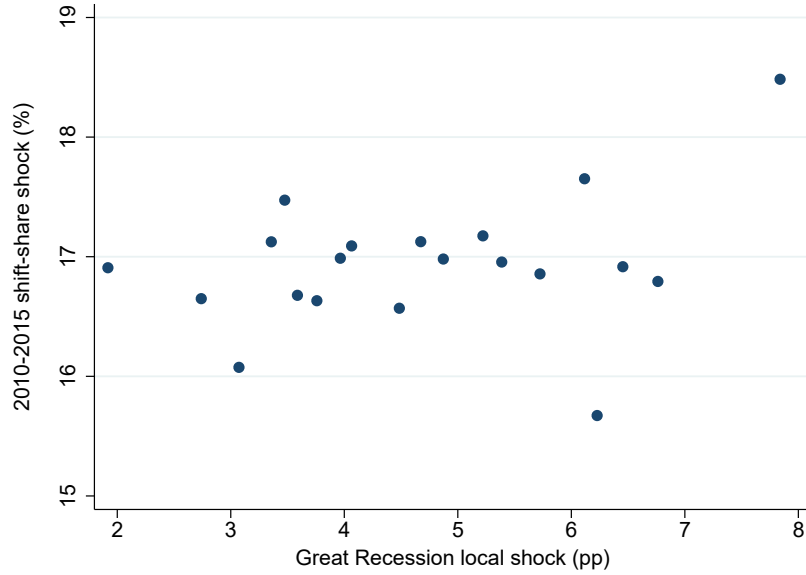
Notes: This figure uses monthly Current Population Surveys (CPS) to plot unadjusted and non-parametrically age-adjusted annual U.S. employment rates (employment-population ratios), labor force participation rates, and unemployment rates 2007-2015 for the civilian non-institutional population. The unadjusted statistics are essentially equal to the official Bureau of Labor Statistics U.S. labor force statistics. The age-adjusted statistics reweight each age-year's annual total unemployment, labor force, and population by the age group's 2007 population share as in DiNardo, Fortin and Lemieux (1996) before summing across ages and computing the displayed rates. See Online Appendix A for details.

Figure A.2: Evidence against Positively Correlated Independent Shocks

A. Unemployment Rates by Shock Severity 2007-2015

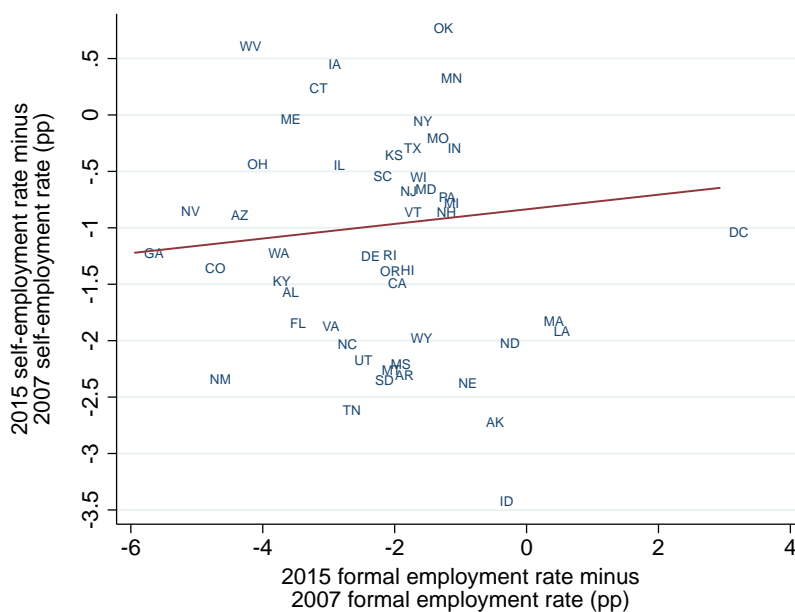


B. 2010-2015 Shift-Share Shocks vs. Great Recession Local Shocks



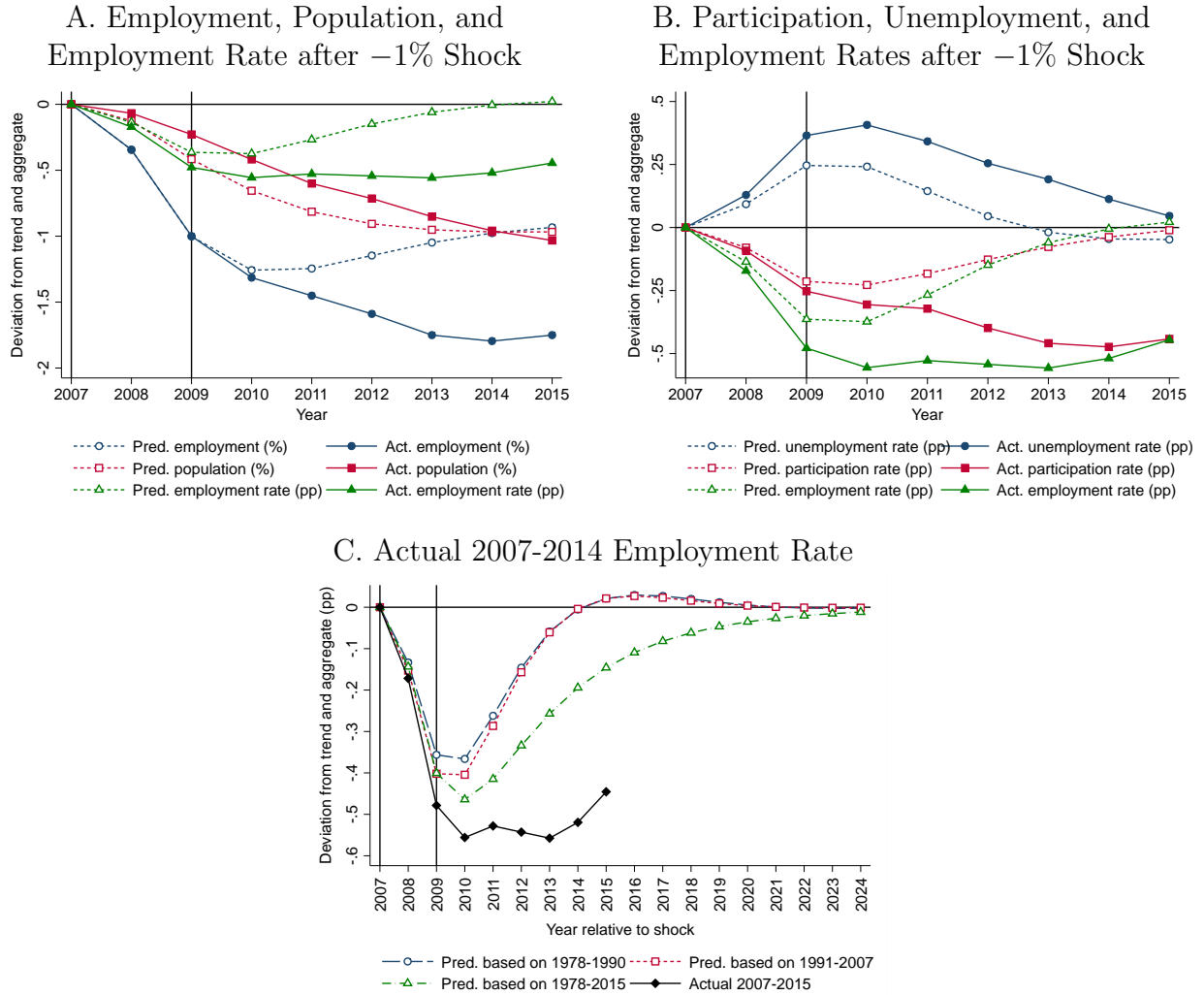
Notes: Panel A uses LAUS county-level data, aggregated to the CZ-level, to plot monthly mean unemployment rates 2007-2015 in severely shocked CZs (those with above median Great Recession local shocks) and mildly shocked CZs (all other CZs). Data points are weighted by CZ population. Panel B plots 2010-2015 CZ-level shift-share shocks versus Great Recession local shocks. The shift-share shocks are constructed analogously to Bartik (1991) using County Business Patterns data as follows. Each CZ's shift-share shock equals the projected 2010-2015 percentage change in the CZ's employment based on leave-one-CZ-out nationwide changes in employment by three-digit NAICS industry categories. That is, a CZ c 's shift-share shock equals: $SHIFTSHARESHOCK_c = \sum_j \left(\frac{E_{jc2010}}{\sum_{j'} E_{j'c2010}} \times \frac{\sum_{c' \neq c} E_{jc'2015} - \sum_{c' \neq c} E_{jc'2010}}{\sum_{c' \neq c} E_{jc'2010}} \right)$ where j denotes a three-digit industry and E_{jct} denotes total employment in industry j in CZ c in year t . The graph bins CZs into ventiles (five-percentile-point bins) by their Great Recession local shock and then plots the 2007-population-weighted mean of the 2010-2015 shift share shock within each bin. If CZs that were severely shocked during the Great Recession had subsequently experienced additional adverse shift-share shocks 2010-2015 related to the CZs' industrial compositions, Panel B would have exhibited a negative relationship instead of the displayed insignificant positive relationship.

Figure A.3: Self-Employment vs. Formal Employment Rate Changes



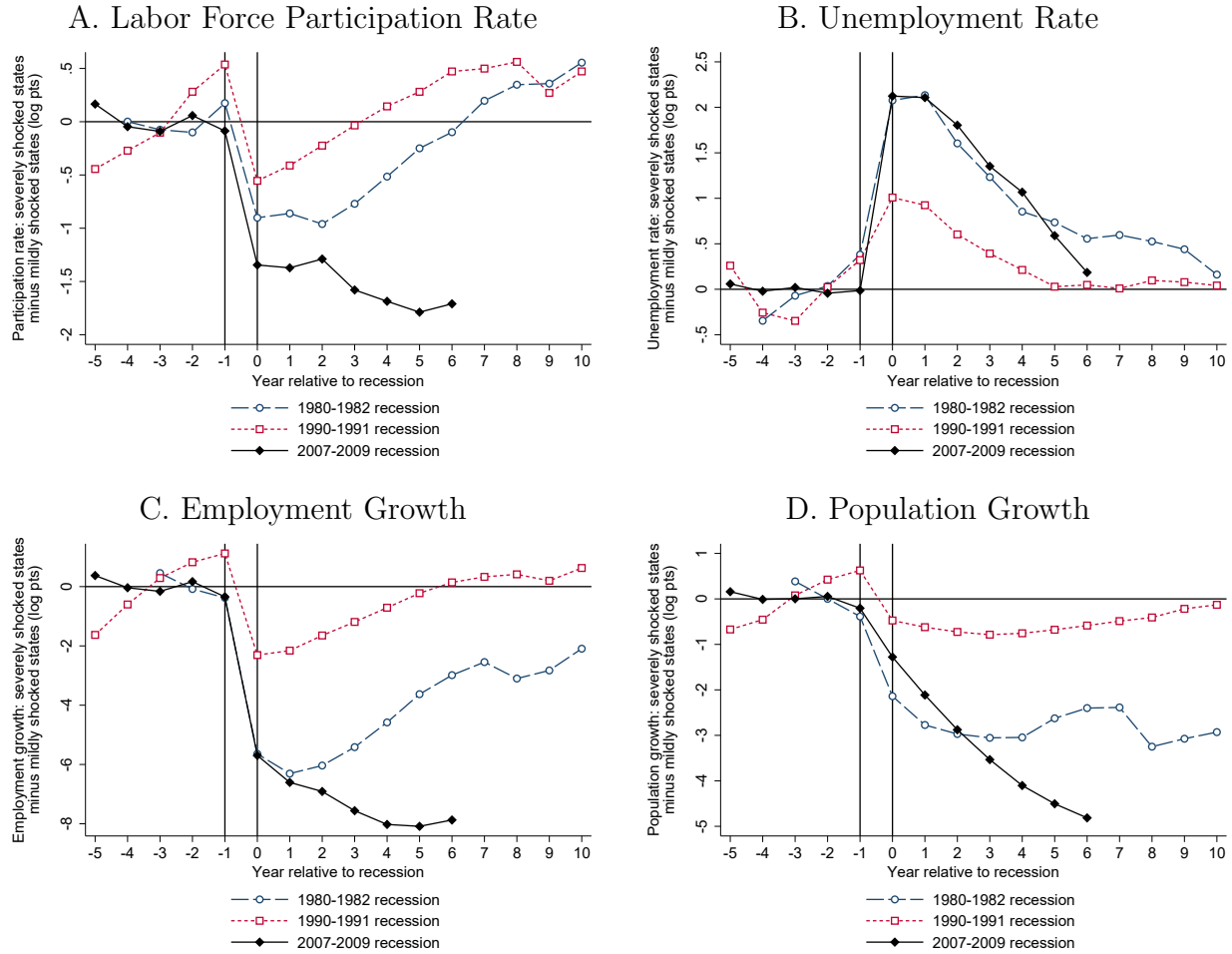
Notes: This graph uses the 2007 and 2015 monthly Current Population Surveys to plot 2007-2015 self-employment rate changes versus 2007-2015 formal employment rate changes for the adult (16+) civilian non-institutionalized population. The formal employment rate equals the number of formally employed individuals (workers for wages or salary in private or government sector) divided by the population. The self-employment rate equals the number of self-employed individuals (including independent contractors) divided by the population. Individuals are classified according to the job in which they worked the most hours. Each year's rate equals the monthly rate averaged across the year's twelve months. Overlaid is the unweighted best-fit line.

Figure A.4: State Employment Rate Persistence after 2007-2009 Shocks



Notes: The dotted lines of panels A-B plot benchmark history-based predictions for state-level responses to a -1% 2007-2009 state-level employment shock, based on estimating Blanchard-Katz's (1992) autoregressive system of state labor market outcomes using LAUS data on the original sample range 1978-1990. The solid lines plot mean actual state-level responses based on reduced-form regressions of 2008-2014 state-level outcomes on 2007-2009 state-level shocks. Panel C plots the mean actual employment rate response series from panels A-B alongside predicted employment rate series based on three estimation time ranges: 1978-1990 (as in panels A-B), 1991-2007, and 1978-2014. See online Appendix B for more details.

Figure A.5: Great Recession Local Convergence Compared to History: Extended



Notes: Panels A-B replicate Figure 2A for the labor force participation rate and unemployment rate. Panels C-D display analogous graphs for employment growth and population growth. These latter panels require that each state's estimated steady state annual growth rate is subtracted from its actual annual growth, before constructing the graphs exactly as in Panels A-B. See Online Appendix B and the notes to Figure 2.

ONLINE APPENDIX TABLE 1
Summary Statistics: State-Level Data

	Mean (1)	Standard Deviation (2)
<u>Employment rate (%)</u>		
1978-2015	62.3	4.6
2007	64.1	3.9
2009	60.7	4.5
2015	60.4	4.4
<u>Unemployment rate (%)</u>		
1978-2015	6.1	2.1
2007	4.4	1.0
2009	8.5	2.0
2015	5.0	1.1
<u>Labor force participation rate (%)</u>		
1978-2015	66.3	4.1
2007	67.0	3.8
2009	66.3	4.0
2015	63.6	4.1
Number of states		51
Number of years		38
Number of observations (state-years)		1,938

Notes – This table lists summary statistics of the Bureau of Labor Statistics's Local Area Unemployment Statistics (LAUS) state-year labor force statistics 1978-2015. The LAUS data cover the adult (16+) civilian non-institutional population of the fifty states and the District of Columbia. The employment rate is the ratio of employment to population. The unemployment rate is the ratio of unemployed to labor force. The labor force participation rate is the ratio of labor force to population.

ONLINE APPENDIX TABLE 2
State-Level Great Recession Employment Shocks and 2007-2015 Employment Rate Changes

Great Recession Employment Shock Rank	State	Great Recession Employment Shock	Change in Employment Rate 2007-2015	Great Recession Employment Shock Rank	State	Great Recession Employment Shock	Change in Employment Rate 2007-2015
(1)	(2)	(pp) (3)	(pp) (4)	(5)	(6)	(pp) (7)	(pp) (8)
1	Nevada	-6.46	-6.94	27	Washington	1.13	-5.21
2	Alabama	-3.42	-5.54	28	New Hampshire	1.13	-2.03
3	Michigan	-3.36	-2.74	29	Missouri	1.24	-1.42
4	Georgia	-3.19	-7.09	30	Arkansas	1.26	-4.79
5	Delaware	-3.14	-4.65	31	Texas	1.30	-2.06
6	Mississippi	-3.04	-4.21	32	Virginia	1.56	-4.87
7	Utah	-2.53	-4.31	33	Maryland	1.92	-2.79
8	Florida	-2.40	-5.45	34	Louisiana	1.99	-2.41
9	South Carolina	-2.35	-3.59	35	Massachusetts	2.06	-1.64
10	Arizona	-2.24	-4.82	36	Alaska	2.26	-3.67
11	Idaho	-2.20	-4.53	37	Minnesota	2.33	-2.24
12	North Carolina	-2.15	-4.79	38	New Jersey	2.37	-3.21
13	Tennessee	-1.56	-5.18	39	West Virginia	2.58	-4.18
14	Indiana	-1.52	-2.45	40	Pennsylvania	2.68	-2.15
15	Hawaii	-1.33	-4.27	41	New York	2.79	-2.28
16	Oregon	-1.29	-4.33	42	Oklahoma	3.25	-1.90
17	California	-0.63	-3.74	43	Connecticut	3.33	-3.33
18	New Mexico	-0.57	-6.80	44	South Dakota	3.56	-3.98
19	Illinois	-0.33	-4.02	45	Wyoming	3.85	-4.30
20	Ohio	0.05	-4.19	46	Kansas	4.35	-2.98
21	Montana	0.46	-3.45	47	Vermont	4.38	-2.93
22	Colorado	0.73	-5.15	48	Nebraska	4.77	-2.99
23	Wisconsin	0.75	-2.48	49	Iowa	5.00	-2.03
24	Rhode Island	0.81	-3.98	50	District of Columbia	5.44	0.94
25	Kentucky	0.90	-4.60	51	North Dakota	5.75	-2.48
26	Maine	1.09	-3.39				

Notes – This table lists the Great Recession state-level employment shocks and 2007-2015 percentage-point changes in state-level employment rates that underlie the severe-vs-mild-shock grouping of Figure 1B. See the notes to those figures and Online Appendix B for details. Severely shocked states are listed on the left; mildly shocked states are listed on the right.