Comments on “Uncertainty and the Geography of the Great Recession”

Tracy Gordon
Exploring the Price of Policy Uncertainty
April 7–8, 2015
Center for Global Development, Washington, D.C.
This Recession Was Different

Real State and Local Government Purchases During Recoveries
Indexed to 100 at NBER-defined trough

Average, 1960–2007

2001

1991

Current (2009:Q2 trough)

Source: CEA 2015
Many Hypotheses As To Why

Household deleveraging (Mian and Sufi)
Credit constraints (Greenstone and Mas)
Slow adjustment in certain sectors
→ Uncertainty? Can matter in short term

Source: CEA 2014
What is Uncertainty?

“I know it when I see it”
“known vs. unknown unknowns”
Not the same thing as risk
This Paper Exploits State Variation in Recession

States with Unemployment Rate above Certain Levels

- 7% +
- 8% +
- 9% +
- 10% +
- 11% +

http://www.calculatedriskblog.com/

- - - U R B A N - I N S T I T U T E - - -
Suggests Link to State Level Policy Uncertainty

If all US states looked like top 5, national unemployment in 2009 would have been .4 ppts lower.
Questions

1. How confident in index?
2. How confident in instruments?
3. Is this a partial or general equilibrium effect?
Index

Media based measures
  Mentions of “uncertainty” 2007-2009 vs. 2006 (Why toss annual variation? Noisy?)
  Google searches “state” “budget” “tax” (engaged and informed citizenry?)

Budget based measures
  NASBO legislated tax and spending changes

Forecast based measures
  Actual vs. projected revenues
  Philly leading indicators vs. realized changes

Credit rating changes (vs. “it’s not for us to keep these places in the penalty box”)
Results from Similar Media Query

Distribution of VOCUS Search Results by Designated Market Area, January – March 2012

Note: Ranges denote number of articles.
Also Difficult to Interpret Coverage Spikes

SIEPR
releases CA
pension rank

AP article on Nat’l Council on Teacher Quality yearbook where pensions among 5 criteria
Re: Budget measures, why stop in 2009?
Reverse Causality

Obvious relationship between unemployment, revenues, and tax increases or spending cuts
Instruments

% revenues from taxes over past 20 yrs
Structural deficit/surplus before recession
Have budget deadline
Late budgets since 1990
Forecasting quality - largest % deviation since 2000
Lame duck governor in 2006
Robustness Checks

+ housing variables
+ consumer demand
+ credit availability
Generalizability

Cottage industry post ARRA to estimate multipliers from cross-state variation (Chodorow-Reich, Wilson, 2012; Freyer and Sacerdote, 2011; Conley and Dupor, 2011)

They emphasize that estimates are local and not global (fiscal and monetary stimulus, etc)

Similarly, I would think nearest neighbors are important. Possible to standardize across places, over time?