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

Tracy Gordon

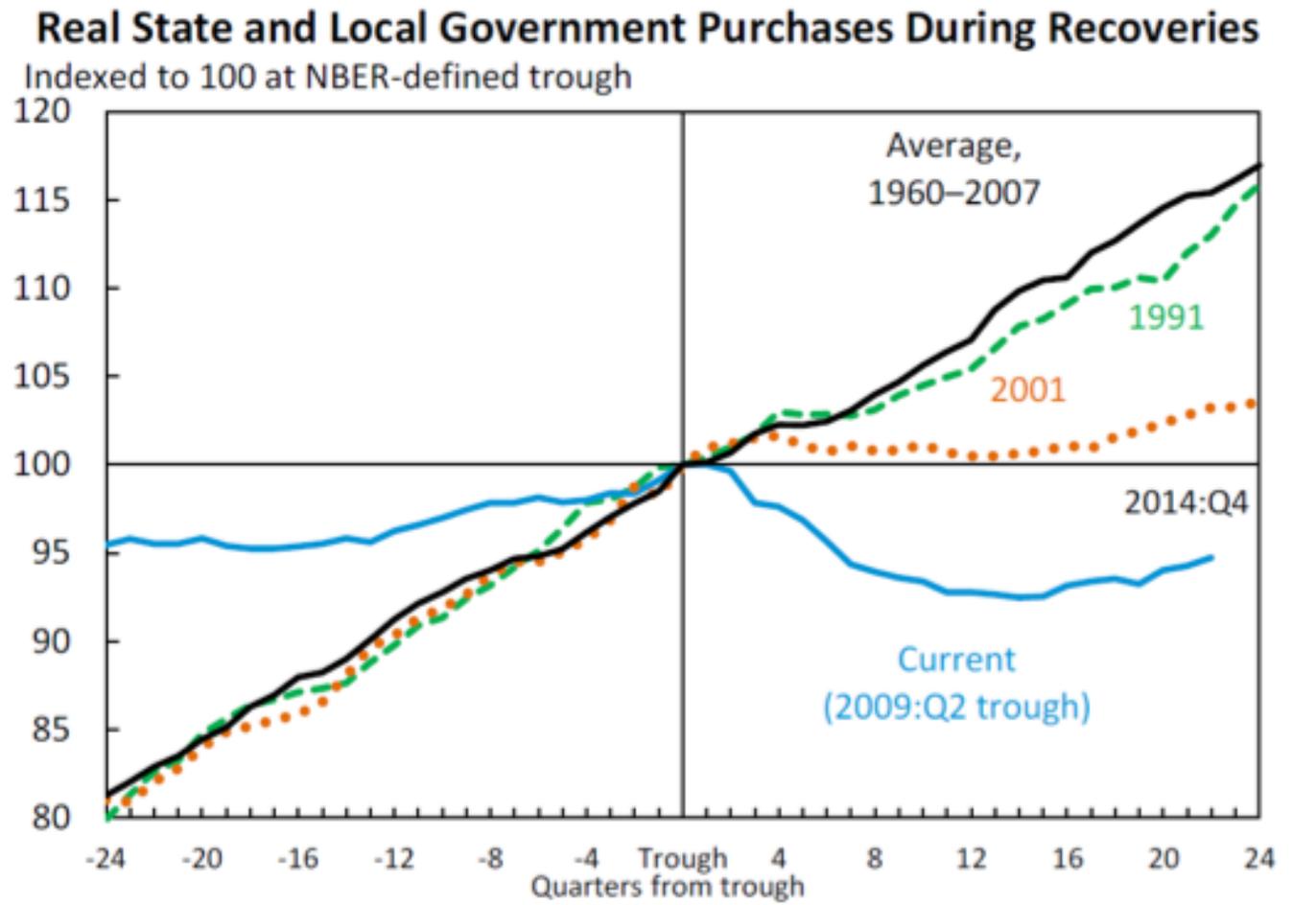
Exploring the Price of Policy Uncertainty

April 7–8, 2015

Center for Global Development, Washington, D.C.



# This Recession Was Different



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



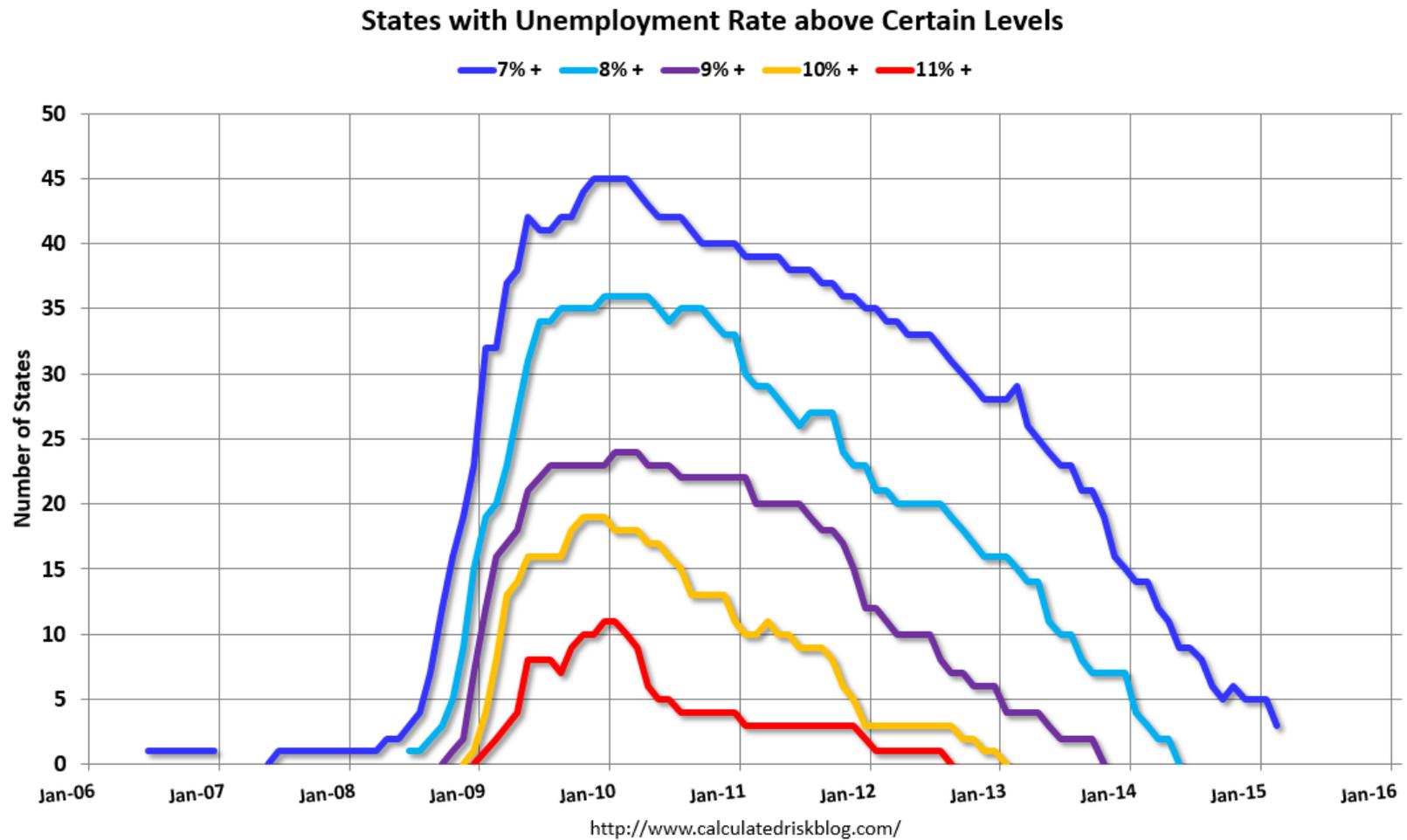
## What is Uncertainty?

“I know it when I see it”

“known vs. unknown unknowns”

Not the same thing as risk

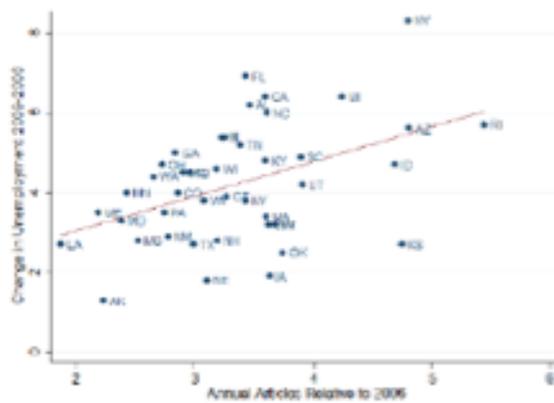
# This Paper Exploits State Variation in Recession



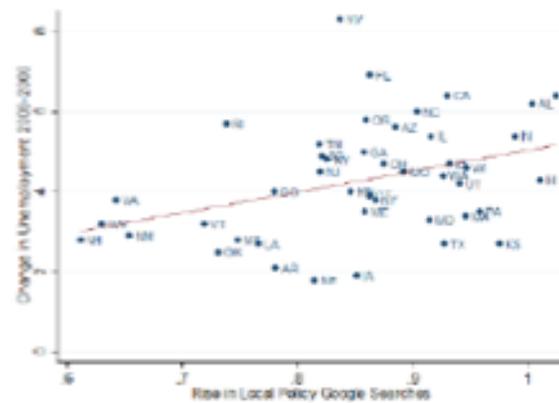
# Suggests Link to State Level Policy Uncertainty

Figure 1. Uncertainty and Unemployment

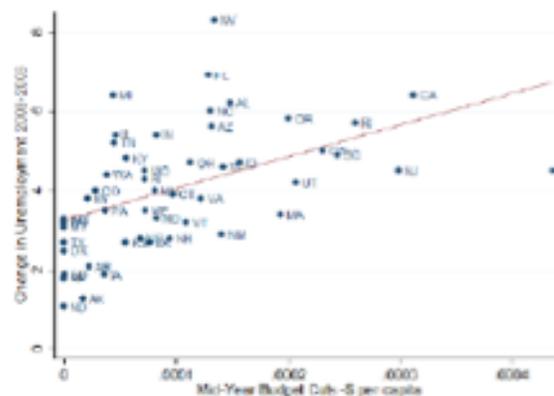
1a. Uncertainty in the News and Unemployment



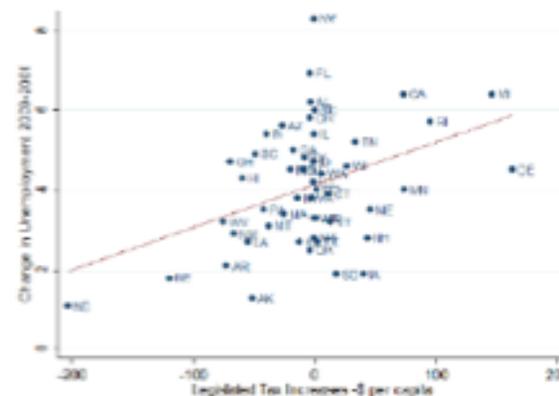
1b. Google Searches and Unemployment



1c. Budget Cuts and Unemployment



1d. Tax Policy and Unemployment



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

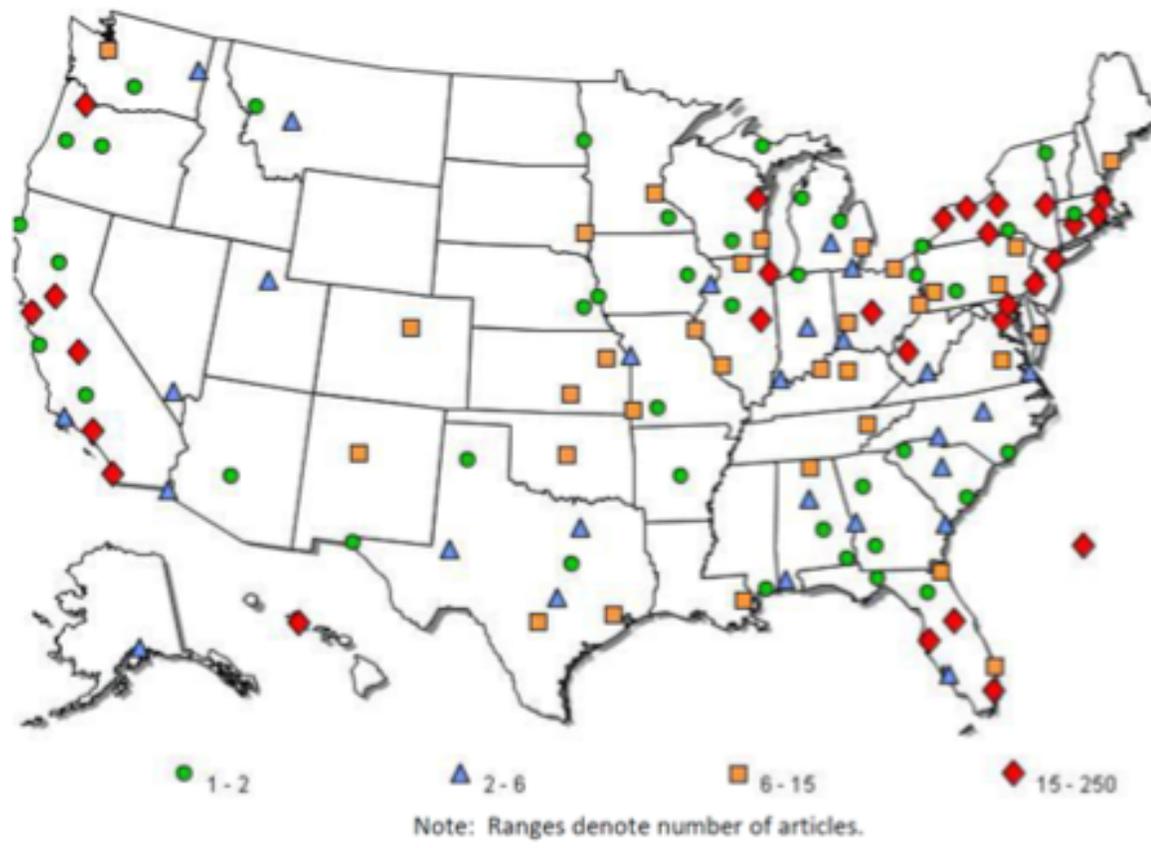
|Actual vs. projected revenues|

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

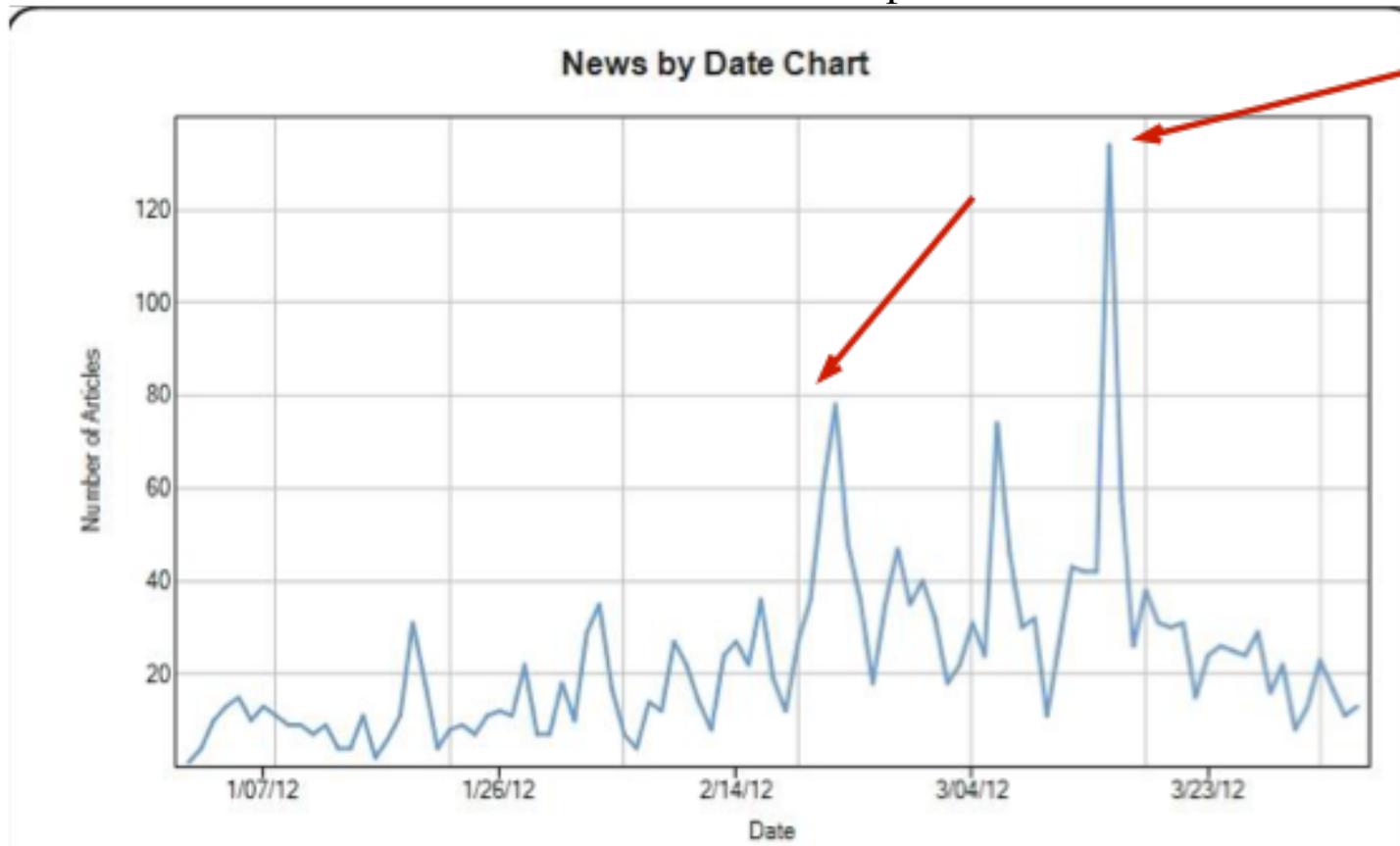
Distribution of VOCUS Search Results by Designated Market Area,  
January – March 2012



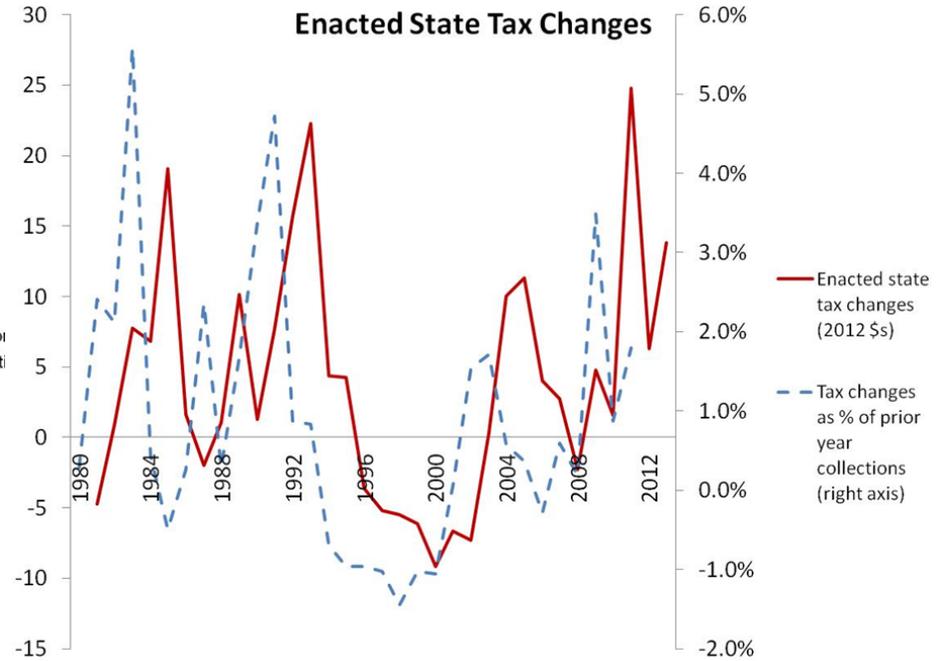
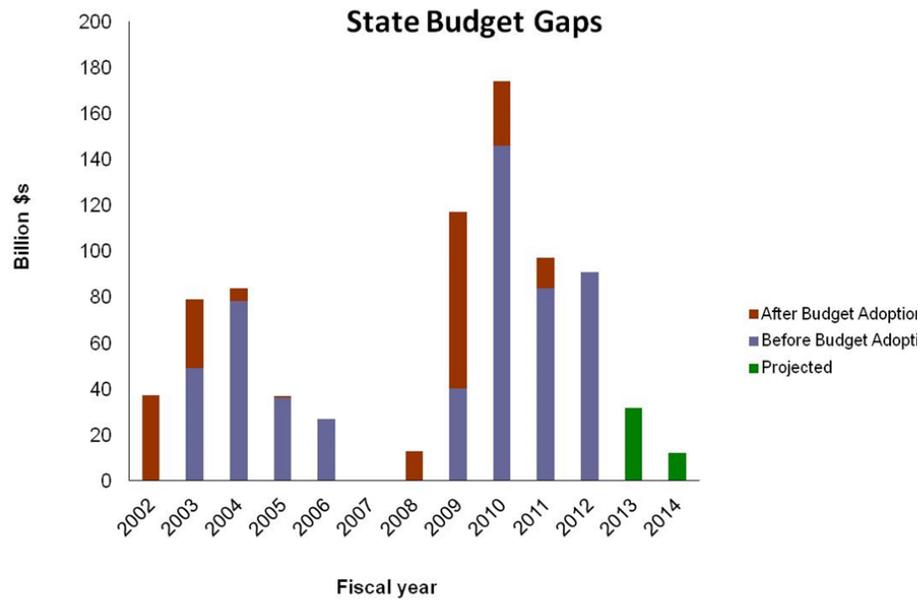
# Also Difficult to Interpret Coverage Spikes

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 - lgst % 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?