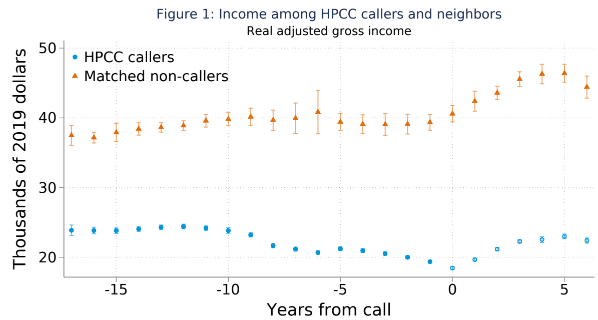
Research Brief: Emergency Financial Assistance Does Not Harm Recipients' Subsequent Labor Market Outcomes*

Daniel Hungerman, David Phillips, Kevin Rinz, and James Sullivan

Understanding the labor supply response to transfer income is critically important for designing and assessing the effectiveness of social insurance programs. Of particular concern is the potential for such programs to discourage work. A large literature has considered the effects of more permanent transfers and those arising from lotteries. Here we examine a different but policy-relevant context: emergency assistance for people facing homelessness. This type of aid, which expanded dramatically during the COVID-19 pandemic, has been shown to reduce homelessness and arrests for violent crimes, but prior work on these programs has not considered labor market outcomes.

Specifically, we study assistance provided by the Homelessness Prevention Call Center (HPCC) in Chicago, Illinois. People who need short-term financial assistance to avoid losing their housing can reach the call center by calling 3-1-1, and the call center refers eligible callers to partner agencies that provide grants, if any have funding available. Eligibility is based largely on a caller's ability to maintain their housing under non-crisis conditions. Funding availability fluctuates unpredictably, making actual receipt of assistance effectively random conditional on eligibility. Unpredictability in who receives funding allows us to estimate the effect of receiving assistance by comparing eligible callers who happen to call when assistance is available to those who happen to call when it is unavailable.



Linking call center data with tax records shows that HPCC callers have lower incomes than their neighbors (see Figure 1), are less likely to be employed, have more children, and change addresses more frequently. These gaps remain when we focus on callers who are eligible for assistance, but they are often smaller in magnitude, consistent with the call center both serving people who face some form of financial distress and attempting to focus on cases in which recipients will likely be able to support themselves after overcoming their immediate crisis.

Estimating the effects of financial assistance provides little evidence that families in crisis reduce their labor supply in response to temporary income transfers. Generally, we can reject that earnings fall by more than 3 percent of their pre-transfer average, and our results suggest that, if anything, these transfers increase earnings for the full sample of eligible callers.

Earnings benefits are more pronounced among lower-income recipients of financial assistance, a group for which prior research suggests this kind of assistance also improves other outcomes. Over the four years following their calls to the HPCC, callers with pre-call incomes below the median see earnings rise by more than $400 per year on

*This brief summarizes "The Effect of Emergency Financial Assistance on Employment and Earnings." For more details, including full methodology and references, see the full paper here. Any opinions and conclusions expressed herein are those of the authors and do not represent the views of the U.S. Census Bureau. The Census Bureau has ensured appropriate access and use of confidential data and has reviewed these results for disclosure avoidance protection (Project 7523252: CBDRB-FY23-0267 and CBDRB-FY24-0033). This version was published February 13, 2024; any subsequent updates are available here.

average. The average earnings effect for higher-income (above-median) callers is small and not statistically distinguishable from zero.

We find some evidence that earnings effects are larger for people who are seeking assistance because of job loss, and for people without children. However, these estimates are less consistent across specifications and often less precise.

Figure 2 shows event study estimates of the effects of assistance on earnings for the full sample of callers, as well as sub-samples of lower- and higher-income callers. Estimates for lower-income callers are consistently positive and grow between the year of the call and two years after before leveling off. Estimates for higher-income callers are less precise and change sign over time.

Focusing on lower-income callers, we find similar effects on adjusted gross income (AGI), which includes income from spouses of married callers and sources other than formal employment (e.g. "gig" work or independent contracting). We see no evidence of reduced participation in safety net programs. Callers who are offered assistance are slightly more likely to participate in the Supplemental Nutrition Assistance Program (SNAP) and slightly more likely to receive tax form 1099-G, which can reflect receipt of unemployment compensation or state tax refunds.

Our results imply that prior analyses of homelessness prevention programs underestimate their benefits. Our results suggest that, rather than leading to disemployment, temporary financial assistance encourages employment for many beneficiaries. For this group, the present value of increased earnings far exceeds the cost of the program, implying that cost-benefit analyses that look only at short-term outcomes or value the private benefits of financial assistance at the payment amount are conservative.

More generally, our results suggest that many low-income households are underinsured against shocks to their income. If future earnings can pay for the cost of temporary financial assistance, then households likely face barriers to credit and insurance that would otherwise allow them to avoid disruptions that often follow from income shocks. To the extent that lost housing can permanently shift people into poverty, providing insurance against temporary shocks can help undo such a poverty trap.

Figure 2: Effects of assistance on earnings
By pre-call earnings