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Workshop on Economic Insecurity: Forging an Agenda for Measurement and Analysis

Ford Foundation, 320 E 43rd St, New York, NY, USA
4 March 2016

Hosted by the Ford Foundation, the Washington Center for Equitable Growth, the Yale Institution for Social and Policy Studies, and the OECD

AGENDA

The OECD-hosted High-Level Expert Group (HLEG) on the Measurement of Economic Performance and Social Progress was established to push forward the work of the Stiglitz-Sen-Fitoussi (SSF) Commission, particularly in domains where the SSF Commission only scratched the surface of important but complex domains of individual well-being and social performance. Economic insecurity—the concept, its measurement, and its comparison across nations (as well as other relevant levels of analysis)—is among the most important of such domains.

Insecurity is important in its own right. The security of individuals against major risks to their economic standing is crucial to their well-being, the dynamics of their lives, and their economic and political behavior. Insecurity is also linked to other fundamental features of economic life—most notably, inequality. Considerations of inequality need to factor in the certainty of income (or wealth) as well as its level. Moreover, inequality of risk exposure is a major aspect of economic inequality. Finally, most of the largest social programs that mitigate inequality contain substantial elements of insurance as well as redistribution.

With this background, the OECD, the Washington Center for Equitable Growth, the Yale Institution for Social and Policy Studies, and the Ford Foundation organised a workshop on 4 March 2016, to take stock of the best thinking and practice regarding the measurement and analysis of economic insecurity.

The workshop focused on five questions:

- What are the best measures of insecurity for comparing insecurity over time and across individuals, households, nations, and other relevant levels of analysis?
- What are the best data for developing such measures and what do they show (and what new sources would need to be established going forward to develop better measures)?
- What is the relationship between economic insecurity and other measures of "economic performance and social progress," including inequality?
- What are the main causes of variation in economic insecurity across individuals, households, nations, and other relevant analytic units?
- What are the policy implications that might flow out of this research?

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Washington Center for Equitable Growth
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The goal of the conference was to encourage an open discussion of these issues laying the groundwork for a section of the HLEG report on the measurement of insecurity. In keeping with the approach of the SSF Commission, there was no expectation that a single measure of insecurity was going to be chosen. Instead, the goal was to identify several promising approaches, refine them, implement them as best can be done with existing data, and provide suggestions for further refinement and future collection of the relevant data by national statistical agencies.

To this end, the event was structured as a series of conversations, rather than a set of lengthy presentations. Selected participants were asked to prepare approximately 5-page memos and to present their basic arguments and findings in short (10 minute) presentations. Participants were not all experts on economic insecurity; interchange between those working in the field and those with an outside perspective is valuable and was encouraged.

Thursday 3 March, Piccolo Fiore, 230 East 44th St., New York, NY	
18:00-19:00	Cocktails
19:00-21:00	Welcome dinner

Friday 4 March, Ford Foundation, 320 E 43rd St., New York, NY	
9:00-9:30	**Welcome and introductions** **Jacob S. Hacker**, Yale University, HLEG member **Martine Durand**, OECD (by video) **Xavier Briggs**, Ford Foundation **Heather Boushey**, Equitable Growth
9:30-10:45	**Session I – What is Economic Security?** *This session will explore the concept and its links to economic behavior and well-being.* Chair: **Elisabeth Jacobs**, Equitable Growth Presenters: **Jacob S. Hacker**, Yale University, HLEG member (presentation) **Nathan Hendren**, Harvard University (presentation) **David Soskice**, London School of Economics (presentation) Discussants: **Olga Gorbachev**, University of Delaware **Marianne Bertrand**, University of Chicago Booth School **Robert A. Moffitt**, Johns Hopkins University
10:45-11:00	Coffee break

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Friday 4 March (continued), Ford Foundation, 320 E 43rd St., New York, NY	
11:00-12:15	**Session II – Subjective Perceptions of Economic Insecurity** *This session will explore self-reports of insecurity; their virtues and vices; examples and best practices.* Chair: **Jacob S. Hacker**, Yale University, HLEG member Presenters: **Ariel Kalil**, University of Chicago (presentation) **Yotam Margalit**, Tel Aviv University (presentation) **Marianne Bertrand**, University of Chicago Booth School (presentation) Discussants: **Arthur Stone**, University of Southern California, HLEG member **Torben Iversen**, Harvard University **Mark Schlesinger**, Yale University (presentation)
12:15-13:15	Lunch, moderated conversation with Karen Dynan and Tara Watson, U.S. Department of the Treasury, about the Department's work on insecurity
13:15-15:00	**Session III – Indexes vs. Integrated Measures** *This session will compare and contrast indices of economic insecurity based on multiple "objective" measures and integrated measures of economic insecurity based on individuals' and households' over-time experience.* Chair: **Arthur Stone**, University of Southern California, HLEG member Presenters: **Austin Nichols**, the Urban Institute **Lars Osberg**, Dalhousie University (presentation) **Walter Bossert**, Université de Montréal (presentation) **Olga Gorbachev**, University of Delaware (presentation) Discussants: **Andrea Brandolini**, Bank of Italy (presentation) **Tim Smeeding**, La Follette School of Public Affairs (presentation) **Robert A. Moffitt**, Johns Hopkins University

Friday 4 March (continued), Ford Foundation, 320 E 43rd St., New York, NY	
15:00-16:15	**Session IV – What Drives Insecurity? A First Look** *This session will explore main causes of variation in economic insecurity across individuals, households, nations, and other relevant analytic units.* Chair: **Heather Boushey**, Equitable Growth Presenters: **Lucy Goodhart**, Brandeis University (presentation) **Torben Iversen**, Harvard University (presentation) **Philipp Rehm**, Ohio State University Discussants: **David Soskice**, London School of Economics **Nathan Hendren**, Harvard University (presentation) **Joseph E. Stiglitz**, HLEG Co-Chair
16:15-16:30	Coffee break
16:30-17:45	**Session V – What Data Do We Have? What Data Do We Need?** *This session will explore the reliability and availability of panel data, need for new survey questions, and capacities of statistical agencies.* Chair: **Joseph E. Stiglitz**, HLEG Co-Chair Presenters: **Tim Smeeding**, La Follette School of Public Affairs (presentation) **Andrea Brandolini**, Bank of Italy (presentation) **Austin Nichols**, the Urban Institute Discussants: **Ariel Kalil**, University of Chicago **Conchita D'Ambrosio,** Université du Luxembourg **Karen Dynan** and/or **Tara Watson,** US Department of the Treasury
17:45-18:15	**Conclusion and Next Steps** **Jacob S. Hacker**, Yale University, HLEG member

Background

Economic insecurity can be defined as *degree to which individuals or households are protected against hardship-causing economic losses without adequate protection*. Generally, "insecurity" is meant to capture the psychological response to the prospect or experience of such hardship-causing economic losses, though many scholars do not examine individual psychology directly. Three aspects of this definition require clarification. First, unlike inequality, most people conceive of insecurity as having an irreducibly subjective element. That is, insecurity is felt by individuals (as, for example, anxiety). Second, insecurity can exist even when hardship-causing losses do not materialize; it concerns the risk of loss, a risk that may not be realized. Third, most of us would probably limit our definition of economic insecurity to cases where individuals actually face a risk of economic hardship, though here again, there are disagreements in the field.

These clarifications raise the most basic question about the measurement of economic insecurity: whether insecurity is best examined through individuals' subjective assessments of their own vulnerability or through "objective" economic measures that do not rest on such self-reports. Conceptually, many believe that insecurity embodies a psychological component. The question is whether measuring that component is necessary and/or sufficient for measuring insecurity. Given the large variation across individuals (and perhaps across national populations) in the subjective experience of similar economic risks, there is a strong argument for coupling subjective measures with one or more objective measures. This seems especially true given the very limited body of work about how to elicit subjective perceptions of economic insecurity.

Within each of these two broad areas—subjective and objective—there is a cross-cutting division between single "integrated" measures and composite "index" measures. (More confusing still, in public presentation of measures, integrated measures are sometimes labelled as indices to signal that they are a summary measure of insecurity. Here "index" means a weighted average of multiple measures.) Both subjective measures and objective measures can be based on a single survey question (integrated) or some aggregation of survey answers (index).

Comparing Measures of Insecurity

	Subjective	Objective	
		Retrospective	Prospective
Integrated	Single Measure of Self-Reported Insecurity	Single Measure of Experience of Economic Loss	Single Measure of Risk of Economic Loss
Index	Index Combining Multiple Measures of Self-Reported Insecurity	Index Combining Multiple Measures of Experience of Economic Loss	Index Combining Multiple Measures of Risk of Economic Loss

The most well-developed integrated measures of objective economic insecurity grow out of the large literature on income volatility, the over-time variation of individual or household income/earnings. Volatility is not synonymous with insecurity, because insecurity concerns the risk of loss, whereas volatility concerns both gains and losses, and because income/earnings loss is not the only economic risk that individuals or households face. (Nor, of course, do these measures account for the psychological response to the risk of loss.) For example, economic insecurity may also be caused by large drops in wealth, uninsured medical costs, or inadequate savings to maintain consumption during retirement.

Nonetheless, it is possible to use volatility-like measures to better capture economic insecurity. For example, Hacker et al. (2014) have developed a measure of the vulnerability of individuals and households to large changes in their income and/or out-of-pocket medical costs that are not adequately buffered by private and public protections and personal wealthy. All volatility-like measures rely on panel data (that is, repeated surveys of the same people over time)—which is a significant limit to their development.

The main alternative to such integrated measures is an index of major risks to economic standing. This is the approach associated with the work of Osberg (2015), who looks at specific "named risks," such as unemployment and single-parenthood, assessing how common they are and how much, on average, they compromise household income and/or wealth. An advantage of indices is that they do not require panel data: for example, the risk of unemployment can be measured as the cross-sectional incidence of employment multiplied by the average likelihood of receiving unemployment insurance benefits and the average benefit level as a share of prior earnings A disadvantage is that, like all indices, these approaches require the researcher to choose the components and how to weigh them. In addition, it is difficult to use these measures to examine the *distribution* of insecurity across individuals or households, as is possible with individual-level or household-level measures of dynamic economic experiences.

Finally, none of these measures (especially the objective ones) are very good at capturing the forward-looking character of economic insecurity. Both the Hacker et al. and Osberg measures, for example, are retrospective. They can only be seen as prospective insofar as the probability of loss for specific groups can be assumed to predict future vulnerability. For many risks, this assumption may be reasonable. But for some long-term economic risks (for example, the risk of retiring without adequate income), the assumption is more doubtful. Moreover, in a rapidly changing economic world, the recent past may not predict the near future.