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ECONOMIC INSECURITY: EDITORS' INTRODUCTION

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This supplement issue focusing on Economic Insecurity combines papers emphasizing measurement of trends and cross-national comparisons of economic insecurity with papers discussing its policy determinants and social implications. In general, economic insecurity is about the looming economic dangers that affect people's lives in many spheres, from the fear of losing one's job to the anxiety of not being able to make ends meet. As Stiglitz *et al.* (2009) have argued, measuring economic insecurity is fundamental to understanding people's economic well-being and to giving economic policy a wider perspective than that provided by static measures of poverty and material deprivation. Measuring it in the right way helps us not only to understand how people are objectively exposed to the risk of poverty and material hardship, but also to understand how their behaviors and feelings are possibly affected by such risks and the *dynamics* of poverty and material deprivation. As such, it provides an important tool to policy makers to better assess the causal pathways into and out from poverty and deprivation and to better identify the policy actions needed.

In recognition of the importance of this topic, the Organization for Economic Cooperation and Development and the International Association of Income and Wealth organized a conference on its measurement, causes, and policy implications. Presenters were invited to submit papers to the Review, and this Supplement Issue contains those that were accepted after the peer review process.

The hazards of economic life differ depending on the age, gender, and socio-economic background of individuals, and depending also on the institutional features, generosity, and effectiveness of national welfare systems; hence economic insecurity also differs along these dimensions—and for many people, the spill-over impacts on well-being include health, social networks, and subjective well-being. This variety of impacts implies that there is as yet no unique agreed framework for defining and measuring economic insecurity. However, underpinning most existing approaches is the idea of uncertainty about future economic losses and the extent to which this uncertainty harms people's well-being. Stiglitz *et al.* (2009)

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highlight that the well-being impact of economic insecurity depends on the severity of economic shocks as well as their duration and implied stigma, and also on personal preferences (e.g., loss aversion). This report also emphasizes that the main open issues in measuring insecurity are how to quantify risks and their consequences for well-being, as well as how to aggregate diverse, possibly non-commensurable risks.

This Supplement Issue begins with contributions on measuring economic insecurity (articles 1–4) before proceeding to empirical analyses of trends in economic insecurity (articles 1 and 5), determinants (articles 6 and 7), and spill-over effects of insecurity on other well-being outcomes (article 11). Policy determinants of insecurity as well as the possible impact of change in the tax and benefits policy regimes on income security are examined in articles 7–9.

The first article, by Hacker *et al.* (2014), is primarily focused on the U.S. and discusses a measure of economic insecurity that accounts for yearly variations in household resources, including income, out-of-pocket medical expenditures, and liquid financial wealth. Based on this measure, the article shows that economic insecurity of virtually all Americans has risen since the mid-1980s. D'Ambrosio and Rohde (2014), in the second article, suggest a different measure of economic insecurity based on changes in household wealth that captures both the household's capacity of absorbing economic shocks and the household's confidence in overcoming future losses. Their calculations for the U.S. and Italy for the time-span 1994–2010 indicate that the Great Recession resulted in a significant increase of economic insecurity, particularly in the United States.

Partly because of the easier availability of high quality statistical data, most empirical work on economic insecurity focuses on affluent countries. However, most of the world's population lives in poorer nations, where economic insecurity is arguably far more prevalent, since private insurance markets and the social protections of the welfare state are much less available. The third article, by Osberg and Sharpe (2014), therefore adjusts the standard Economic Insecurity Index (developed for OECD countries) to reflect the reality of developing countries by including measures of volatility of food production and household spending on food, and adding adult male mortality to the risk of divorce. The paper compares a cross-section of 70 rich and poor countries in approximately 2007 and finds substantially different levels of economic insecurity across the rich and the poor world.

In the fourth article, Berloffa and Modena (2014) take the composition of the household into account in measuring economic insecurity in the event of unemployment. Rather than asking how many people become unemployed, they ask how many people are affected by unemployment. They find that in the eight European countries which they compare, rankings of insecurity from unemployment risk change when the specific situation of households with inactive-dependant members is factored in. The fifth article, by Nichols and Rehm (2014), presents a measure of income risk that decomposes income dynamics into long-run inequality, volatility, and mobility risk and applies it to panel data from 30 rich democracies. They find that tax and benefits policies reduce economic insecurity, but the United States stands out for the highest level of economic insecurity and the least effective government intervention in mitigating insecurity.

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In the sixth article, Ivlevs (2014) changes the focus to transition economies in Central-Eastern Europe and individuals' perceptions of past affordability of primary commodities and their worries about their consumption in the future. His finding that backward-looking measures of past experiences of economic insecurity are strongly correlated with forward-looking measures of anxieties about the future corroborates the empirical practice of using past experiences as predictors of future anxieties. Using subjective and objective data from Chile and Mexico, the seventh article, by Friedman *et al*. (2014), comes to a similar conclusion—that the most significant variable in determining subjective economic insecurity is current exposure to adverse events, and that current exposure to adverse events produces great anxiety and concern about and the inability to recover from these bad events.

In the eighth article, Rohde *et al*. (2014) examine the determinants of economic insecurity in the United States, Germany, and Britain, defined as downward instability of household income streams. Gender, household size, health status, and industry affiliation of the household head are found to explain most of the across-individual variance in economic insecurity. In general, before-tax income insecurity is highest for the poorest, with somewhat greater offset by tax and transfers policies—but insecurity estimates based on pre-government incomes are highest in Britain and lowest in Germany, while insecurity of post-government incomes is highest in the U.S.

The modern welfare state attempts to mitigate economic insecurity in all affluent nations, but in many different ways. The complexity and national specificity of these diverse mechanisms motivate the ninth article, by Salgado *et al.* (2014). Using the EUROMOD micro-simulation model and EU-LFS data for Belgium, Estonia, Spain, Italy, the Netherlands, and the U.K., they ask how effective different national tax and benefits system have been in stabilizing the income of displaced workers in the wake of the great recession. They conclude that systems of social protection for the unemployed differ considerably, and that in assessing the degree of protection offered to the unemployed, one should look at the social protection system as a whole—not just unemployment benefits—and consider the income of other household members. The tenth paper, by Sologon and O'Donoghue (2014), is broader still in scope, looking at the joint impact of structural policies, such as labor market and product market regulations, as well as macroeconomic policies on earnings insecurity (as measured by transitory variability in earnings and earnings volatility). They conclude that it is the mix of policies that matters and that policies to mitigate economic insecurity should not be evaluated in isolation—contextual interaction effects are crucial. For example, coupling high corporatism with high unionization, or coupling product market deregulation with deregulated labor markets or with high unionization are policy bundles that work, but there is no one size fits all policy package for reducing the impact of the business cycle on transitory variability and volatility.

Although most of the issue addresses the measurement and mitigation of economic insecurity, the motivation for measuring and mitigating is the impacts of economic insecurity on well-being and on behavior. The final paper, by Modena *et al*. (2014), examines just one of the many implications, showing that economic insecurity may affect childbearing decisions in a context of high uncertainty about future economic conditions. Using data from Italy, they find that job instability

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reduces fertility intentions and pushes women to postpone first childbearing. A similar effect is also confirmed when looking at further childbirth decisions.

Measurement of economic insecurity is thus just the first step in the accumulation of evidence on the implications of economic insecurity for well-being and behavior—and the evaluation of strategies for its mitigation. This volume assembles a wealth of evidence, both cross-national and over time, on economic insecurity, but there is much more that needs to be done on the topic. Future research will undoubtedly improve on existing measures and trace out more of the implications of economic insecurity—we hope that this volume has contributed to the ongoing research dialogue.

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