Rising Economic Insecurity
Thursday, May 29, 2008

LOG: LM: Larry Mishel; Mod: Lou Uchitelle; JH: Jacob Hacker; EJ: Elisabeth Jacobs; PG: Peter Gosselin; BL: Brink Lindsey; MS: Unidentified Male Speaker; Q: Question from Audience

LM: Good morning. My name is Larry Mishel. I am the President of the Economic Policy Institute, so it is my pleasure to welcome you to today's public event. The topic of economic insecurity is a very important one and this event kind of returns EPI to what we see as part of our core mission which is to focus on the economy through the lens of how it affects typical workers and their families.

An economy that does well only for the top, as we've seen over the last few years, is not really a good economy in our perspective. This has been part of what EPI has done since the very beginning, since the mid 1980s when we were first founded is to focus relentlessly on how the economy affects typical workers and their families. The economic insecurity is one component of that and I think we are actually going to be focusing, a lot on one component of the economic insecurity, the income volatility.

We have a great lineup of people and I really appreciate them all being involved. We have Jacob Hacker and Elisabeth Jacobs. You know, doing some of the premiere work in this area, we have I think some of the finest economics reporters in the land here and I really thank Brink for being the loan dissenter on the panel. I have played that role many times and I appreciate your doing it for us. EPI over the last few years has been doing a lot of public events, but mostly on our initiative called “The Agenda for Shared Prosperity.”

And that is because we have come to the belief that just talking about the problems that people have does not move us towards where people need to go and where policy needs to go because too many think there is nothing one can do about the problems. Or that the problems they face are actually somehow good for the economy, even though they are experiencing great difficulties. So it's kind of a – we are now trying to walk on two legs.

What you can do to solve the problems, we don't want to forget, clearly articulating the way that people experience the economy. So thank you for coming to this event and coming to EPI. Stay afterwards for – we have some book signings for both Peter Gosselin and Lou Uchitelle have books here that they can sign. This is actually the very first time that you can actually get a book signed by Peter Gosselin. It's kind of a pre-publication preview event we have going here.

It is now my pleasure to introduce the moderator of the event, Lou Uchitelle. Lou is a well known journalist because he is pretty much really at the top tier of the profession. He is relentless in talking to just about everybody thoroughly. He covers a wide range of topics, everything from the Federal Reserve Board to labor relations. He has been pioneering in the writing about some of the down sides of our economy – not starting with, but featuring the down sizing series of the mid 1990s. Which then led him to continue along that path to write a very important book called The Disposable American: Layoffs and their Consequences. So it's with great pleasure that we have Lou here to moderate this event and to frame the discussion.

Mod: It's a pleasure to be here. The last time I came down to moderate an event it was the middle of winter and I slipped on the ice and broke my arm and they went without a moderator. So I was just wondering what would happen if the plane was late and I somehow didn't make it this time. But Larry is good at all sorts of things as a source, as a moderator, as the head of a very important organization.

I sometimes think that the Economic Policy Institute is one of the most important purveyors of labor data that there is in the country and I'm glad it remains in the game as well as it does. I come down here, I want to tell you a little incident. There was a story that I wrote and published on Monday about truckers and how they are being badly squeezed, forced out of business because their margin of income, particularly the owner/operators, is very narrow. You can spend 50 hours a week driving and another 30 hours sleeping on the road as required and come away with an annual income of less than $40,000. And as the fuel prices shoot up for diesel fuel, they are just being wiped out.

And that ran on a Tuesday and on Tuesday afternoon I got an email from a lady in Delanco, New Jersey. She informed me that the Jevec Transportation Trucking Company with 1,000 employees in Delanco, in Southern New Jersey, were suddenly laid off on Monday. The company, this big trucking company, was closed down. The owner, Sun Capital Partners, put it into bankruptcy the following day.

A thousand drivers simply stopped, their paychecks from the previous week were canceled, three people were in the hospital dependent on the health insurance of those drivers, one of them undergoing chemotherapy, another recovering from an operation. Their hospitalization was instantly canceled. Drivers who were out on the road and they suddenly found that their credit cards couldn't – they were spread across the country, this was a tractor trailer operation – they suddenly found that their credit cards wouldn't buy them any diesel fuel. So more than a few parked their trucks at the side of the road and found some way or another to get home.

They have now filed a lawsuit, the drivers or on behalf of the drivers, claiming that they've been damaged because the Warren Act wasn't invoked, that is 60 days prior notice. The story is very dramatic. That is the sort of risk, downfall that we're going to hear about from Jacob Hacker and Peter Gosselin. And yet I had no desire to do that story – yet another tale of people who are secure one day and not the next, in free fall the next and for reasons beyond their control. I showed it to my editor, we bucked it to the Metro Department, which covers New Jersey.

The editor, the assignment editor looked at it, read it. He didn't jump up and down as we would have 20 years ago if such a story had come. A piece will appear in The New York Times – I can't think of a more dramatic event. What is happening in Delanco 25 years ago would have been a novelty, a tragedy from the point of view of the newspapers, a shock. I just listed a few of the – a headline story, probably a front page story. There was a headline story in The Burlington County Times, but I haven't seen it anywhere else yet.

Today what is happening to them is the norm. We've gone through a process of acquiescence that was gradual. We've gone from resistance, from security to acquiescence and no sufficient underpinnings. Or as I think I wrote down, our society offers no reliable refuge from these down drafts, from the down drafts that our panelists are going to describe very shortly. They hit women as well as men, the college educated almost as often as high school graduates, white collar as much as blue collar. The New York Times description that Larry had of the downsizing of America, the first layoff story we did in the mid '90s really drew us.

We were drawn in because our white collar, well educated readers were getting laid off and it was a shock to them. What had started with the blue collar workforce had spread to the white collar work force. Now we all know that. In short, the props of life are in play. Job security just isn't there. We even had some layoffs at The New York Times for the first time. We don't have wage increases that exceed inflation and to maintain ourselves, we get ourselves into indebtedness that is in itself a trap.

Our health insurance is less, our pensions are shrinking. We don't have access, we don't have good public schools in nearly every community as we once did. I would say that our mental health is in play. My reporting, particularly for the book that I wrote which is on sale outside – it's two years out already and it bothers me still, because I keep up with the people who are in that book. I found that the people who are laid off suffer in one form or another from injury to their mental health.

I came to see that apart from all of the – and I'll quote – the instability of family incomes, as Jacob Hacker and Elisabeth Jacobs put it in the paper that they are about to present – or our failure to maintain community, to agree to a certain mutual responsibility for the well-being of one another, as Peter Gosselin will explain, there is something else happening. There is a silent spreading destruction of public health. Layoffs are damaging. They undermine, to put it bluntly, self-esteem.

You tell people, whether you mean it or not, that they don't have value. That's a very hard thing for people to get through in our society. People handle it differently – the laid off handle it differently. Some are more damaged than others. The biggest damage financially is that it takes two, three, four, five years in a second job, in the next job – and it's all that hard to get the next job – to get back an income to where they were before.

But more damaging is that this blow to self-esteem renders more than a few people unable to put themselves back into a challenging job, unable to risk another blow. And certainly few if any work with the same attachment and commitment that they had before. No one has yet measured in dollars and cents this loss of labor effectiveness. I suspect the costs exceed the money gained from shrinking a workforce by a considerable amount. I am hoping that Mr.

Hacker and his teem and Elisabeth Jacobs and the people they work with might undertake this measurement.

Certainly the damage that our panelists will describe overwhelm whatever gains we purport to have or to achieve from bringing down on ourselves this new insecure world. Let me start by introducing Jacob Hacker and Elisabeth Jacobs, the co-authors of The Rising Instability of American Family Incomes. Professor Hacker is a professor of political science and Resident Fellow at Yale University's Institution for Social and Policy Studies and a Fellow at the New American Foundation.

His latest book, The Great Risk Shift, The New Economic Security and The Decline of the American Dream, revised and expanded version put out by Oxford University Press recently. I have read it, not the revised version, but the original and it is an excellent and important book that everybody should read. He is presenting a new paper, this new paper with Elisabeth Jacobs, who is a Fellow with the Multi-Disciplinary Program on Inequality and Social Policy at Harvard University where she has just completed her doctoral studies. Congratulations. She is currently a guest at the Brookings Institution. She is also the founder and director of New Vision, an institute for policy and progress. So please welcome Jacob Hacker and Elisabeth Jacobs. I believe Jacob will speak first and Elisabeth second.

JH: Great. Thank you, Lou, for that kind introduction and thank you, Larry for having us here. I have a long list of thanks at the Economic Policy Institute. Jared Bernstein, John Irons, Nancy Coleman, Karen Conner and especially Ellen Levy who copy edited and shepherded the piece. It's an amazing group. I think it is one of the most professional groups I've worked with on any project and is a good illustration that you can have decent working conditions and a strong work ethic. So I was very pleased to have the chance to do this project.

I would also be remiss if I didn't mention Frank Limbrock and Nigar Nargis, both of whom helped us with some of the data analyses and management questions that arose in the course of writing the paper. Now as Lou mentioned, this grows out of a book that I finished a couple of years back, The Great Risk Shift, which is along with Peter and Lou's books, available for purchase in its revised and expanded form.

It has actually taken a title shift since the first version, it is now The New Insecurity and The Decline of the American Dream. I guess the first version seemed a little too militant for a paperback or something. I have been out talking about this book for now I guess a couple of years. The initial, when I actually did the first book signing and Peter is doing his today, it was out in Portland, Oregon where I am from and my parents came and they threw a couple of softball questions out at me – it was a terrific event. And then I went up to a somewhat less sunny experience in Seattle.

I was at the town hall forum, which is this great shop where they do book events and community events. It has everyone from – I think the week before I came, Barack Obama and Lemony Snicket were going to be there – not together, I assume. But I got there and there was this huge crowd outside. I was very excited, I have to say. The 15 or 20 people in Portland was just the start, I thought, and now there are scores of people and they were spilling out into the street and there was a buzz in the group.

And then I walked up to the front door and there was a little sign that said – if you are here to see Professor Hacker, he will be speaking in the basement. And it turns out that it wasn't me who was going to be speaking, it was this man, Ed Viesturs. For those of you who don't know, Ed Viesturs has climbed every major peak in the world without oxygen. For those of you who don't know, this isn't me.

Elisabeth was really funny – I gave her the presentation in advance and she said this morning, is that you in the picture?   And I was like – no, this was my vacation before I came here. But he's climbed every major peak without oxygen and he's a big deal. I told the assembled crowd of twelve in the basement that I had written all of my books without oxygen, but needless to say – supplemental oxygen, that is and Brink might say it shows, but we will get to that in a moment.

But needless to say, academics don't usually create such a feeling of awe. In fact, I am reminded of the first evaluation I received when I was a new assistant professor. It said – Professor Hacker, if I had just 15 minutes to live, I would want to spend it in your class because that way, it would seem like an hour. Which is actually fitting, because I believe I have about 15 minutes, so I will try to make it seem close to 15 minutes.

I am going to hand off to Elisabeth in about 10 minutes, she is going to talk about the causes and the effects of the trends that I will discuss in my portion of the discussion. Now I actually like this picture not just because it provides the opportunity for a few jokes, but because it's really an image of risk. Here's Ed Viesturs out here above this huge ice crevice. He is obviously trained for this, he has got equipment, but he's putting himself in mortal peril.

And I like to think about this as similar in some ways to what is happening to ordinary working Americans. They are also heading out over a huge divide. They are on a high wire, as Peter Gosselin puts it. They have prepared for it, they have often gained skills far in advance of those their parents did. They are committed to their work, but they are still facing risk. And in many ways, they are not voluntarily taking on that risk in the way that Ed Viesturs is.

In the book, I talk about a huge number of ways in which this is true, in our jobs, in our healthcare, in our retirement pensions, in our family finances, especially our homes as we've seen in recent years. We've seen a growing transfer of economic risk and responsibility from government and corporations on to workers and their families. And we are seeing that not just in the statistics and in the stories like those that Lou tells and Peter tells so well, but also we see it in the surveys. People are extremely anxious today.

I don't have to remind you of that, but let me show you a couple of figures that you may not be as familiar with. In 2006, the private insurance company Met Life did a survey as part of its American dream project and it was trying to figure out how to market insurance to people, so it wasn't do this for scholarly purposes. But it was also doing it at the time of the November 2006 mid-term elections, so it was a very interesting moment.

And what you can see right here is that people overwhelmingly believe that they are facing more financial risk than they were a generation ago. Moreover as you can see, this feeling of increased risk stretches up the income ladder almost to the very top. Only those with incomes in this figure or family incomes in excess of $150,000 feel as if they are not bearing more risk.

I am working with The Rockefeller Foundation on a project on economic security. We did a baseline survey and we asked people a similar question, whether they felt that they were facing more or less economic insecurity than they did ten years ago, and the answers were similar. As you can see, only a small portion of people believe that there is less, that there is more economic security than there was ten years ago. Similar results have been found in surveys from the Pew Foundation and other sources.

And although there is a pessimistic nature to people's responses to such retrospective questions, these numbers are much, much higher than we have seen in similar surveys in the past. Now I want to say up front – I talk about jobs and healthcare and pensions, the chapters are Risky Jobs, Risky Families, Risky Healthcare, Risky Retirement. My editor was a little bit freaked out – she said no more risky, she said.

But I am going to be talking about just one aspect of increased economic insecurity that took up about half of a chapter in the book, family income instability. It's a subject that has gotten a good deal of attention, it has generated, as you probably know, some controversy. But the good side of that controversy is that it's also spurred a huge amount of work on the subject. So over the last five years or so and especially the last two years, we've seen a huge number of new research studies of economic, of income instability and earnings instability.

I will just say up front, because the paper talks a lot more about those studies and in fact includes a five or ten page appendix with all of the studies that have been done on the subject, that there is an emerging consensus in these studies that we've seen a substantial increase in family income instability, however measured. And that is the basic conclusion that I'm going to leave you with today, but I'm going to show you more about how we reach it.

Now I do want to say that this is a fairly limited metric, as Larry suggested. Income instability, as I say in my book, a basic building block of insecurity, but it is certainly not the whole. It says nothing about catastrophic expenses like health expenses. It says nothing about declines in insurance coverage, except for in so far as those declines affect your ability to protect your income.

So the decline of health coverage, for example, is not going to be captured in these figures. It doesn't say anything about retirement, because for a variety of reasons you are not going to want to look at income instability, including the aged in your analyses. And therefore most of the analyses, including our own, look at working aged people.

So it doesn't tell us anything about the shift away from the defined benefit, the defined contributions plans and how those have increased the amount of insecurity that Americans are facing during their working lives as they plan for retirement or the amount of insecurity they face in old age. It is also, I should say, tricky statistically. Because if we want to know how unstable someone's income is, we have to look at that person over time and there are not a lot of ready sources, available sources of data that allow you to look at over time income trajectories.

So it turns out the United States pioneered the most comprehensive of such data sources in the world, the panel study of income dynamics, which started in the last 1960s, an outgrowth of the great society. And that is the data source that we use in our study today. I will mention in passing that I use the panel study of income dynamics in the original edition of The Great Risk Shift, but I also supplemented it with a measure of post-tax income that I had drawn from another data source that essentially used a variety of techniques to try to figure out, going beyond the panel study of income dynamics, what people's post-tax, post-benefit income was.

There are some problems with that data source that were reflected in my early results. And so in these analyses, I switched to the PSID (Panel Study of Income Dynamics) alone and we also, as a result, only look at pre-tax income. So we are basically looking at people's incomes after benefits, but before taxes. It also should be mentioned, as you may know, that there are some problems or some seeming problems with the PSID in the early 1990s.

We are working with PSID folks to try to correct those. They are concentrated in a few cases. But the effect is that the early 1990s has a slightly higher variance of the income data than we find at any other point, and it is the only point in which the PSID doesn't match other well regarded income data sets, like the current population survey. So we respond in a couple of ways. One I will just say two things – one, we trim in a way that eliminates some of the problems at the bottom, trim our data.

And second of all, I just want to emphasize that this does not change the long-term story at all. Because the early 1990s problems are quite bounded and by the late '90s the data match up almost perfectly with other data sets. Thus suggesting that we can very confidently look from the beginning of the PSID in the late 1960s to the present, the mid 2000s.

So a lot of caveats, on to the results. But first two quick notes. One is that there is no commonly accepted metric for measuring income instability. So I want to leave you with two points. One is that we use all of them and they all show the same result. Really it's quite striking how little difference it makes what measurement strategy you use.

And second of all, I just want to emphasize that in all of these analyses but one that Elisabeth will mention, we are looking at family income, not earnings, not individual earnings. So we are looking at all of the income of a family. We look at that at the individual level. So we say for an individual aged 25 to 61, what is your family income. Because you might have two or three people in a family, we adjust that income for family size using a very standard family size adjustment.

So that, for example, if there are two people in the family, each of them gets essentially 1 over 1.7 of that income and it doesn't really make any difference, either. But I want you to keep that in mind that we are looking here at individual's family income. So the first big result that I want to present you with, it's the lead result of the paper, is looking at the cumulative growth of family income volatility.

So rather than make you try to wade through things like the transitory variance of family income, what I've done here is simply, we've charted how much has family income volatility increased from the baseline year, which is the early 1970s. This is using a technique that is very simple in theory. Basically it says how much does your income deviate from its four year average. So it is looking at basically fluctuation of your income around its long-term level.

And the answer is for Americans, family income has varied quite a bit more around that four year average than in the past. What I've done here is mark the recession years with a shading. You can see that the early 1990s stands out, suggesting again that there is a structural problem with the PSID in these years. But the larger story, which is more easily seen in some ways if we just move the early 1990s out of the picture, is a very dramatic increase, essentially a doubling of family income instability from the early 1970s.

Now you can see a cyclical phenomenon, that is it seems to follow business cycle down turns, particularly the most recent ones, but it's also a secular phenomenon, that is it's gone up steadily over time. A second technique we use is one that is used by three researchers, Karen Dynan of the Federal Reserve, Douglas W. Elmendorf of The Brookings Institution and Daniel Sichel of the Federal Reserve, as well as by the Congressional Budget Office in a study in 2007. This is basically a measure of the deviation of percentage changes in income.

I am not going to show you the results because they are essentially the same, but I want to say why we focus on this measure rather than the standard deviation of percentage changes very quickly. The real problem with looking at, say, the standard deviation of year to year changes or year to two year later changes in income is that it doesn't allow you to use the longer term nature of the panel data. So you can't look at the deviation from the long term path of the income.

Another problem which is more technical is that when you are looking at percentage changes in income, there is this weird asymmetry. If you have a drop from $1,000 to $100, that's a 90 percent drop in income. But if you go back up to $1,000, that's a 900 percent increase. So you have to figure out ways to deal with that. But the bottom line is the result is essentially the same if you do it this way.

For example, the Dynan et al piece that I mentioned finds, the most recent version, finds a 36 percent increase in the standard deviation, percentage changes in income. The standard variation is the square root of variance. So if you convert that into our findings, what they are finding is essentially the same as what we are finding. Our finding of 100 percent increase would be a 40 percent increase in their terms. So not much difference at all, and all of which, all of the difference is explainable by some data choices they make which we have discussed in the graph.

Okay, finally the most intuitive measure and the one that I think really gets to what Lou was talking about, what portion of working age Americans experience a very big drop in family income? Well, what is a big drop? By convention now it seems 50 percent income is a big drop, and that is a very big drop. So what is the trend in that? Well, the first thing to say is that it really looks very, very similar to what you find for any of the other measures. A more than doubling in this case from around an average of around 4 percent in the early 1970s to almost 10 percent in the most recent economic down turns.

Again, I would take the early 1990s, especially that little spike there, with a grain of salt. And again, we see a cyclical pattern that is quite recession bound, but is also there is a long-term secular increase. And I am now going to hand this off to Elisabeth who will tell us why we see this pattern and why we should care. Thanks.

EJ: Jacob made all kinds of nice introductory remarks and I just want to reiterate his thanks to the team at EPI who worked with us on this paper. As he said, they were fantastic. As indicated by the fact that I defended my dissertation last week, I bought a house last week and I've been a little bit distracted, a little bit busy. EPI plus Jacob have made this an absolutely easy project to work on despite everything else going on in my life.

So without further ado, back to the big question. Obviously, given that everything that Jacob has said about income volatility going up, is why it might be explaining this. If we've convinced you that income volatility has gone up, that family's income bounce around a lot more in a bad way today than they did in the past, then obviously we would like to know what is going on.

I should say for starters that this is an area that needs more research. I come from a social science background. We believe in evidence and there is a lot more evidence to be dug up and a lot more testing to be done to figure out real solid answers. But what I'm going to do is give you some of what we think are the most promising potential causes and also an overview of what we think are some pretty sort of common sense causes that we don't think actually are held up very well by the data.

So the first leading cause is men's earning volatility. Obviously based on the story that Lou told, a lot of that story of downward volatility comes from the fact that people are bringing home less money. In a given year, they take a big fall. And we find that short term fluctuations in male head's earnings, the PSID which is the data source we use, automatically codes heads as male unless there is no male adult in the household. So if I refer to heads, it's not me – it's the PSID that is making me do that.

So what you see in this picture is that short term fluctuations in male head's earnings have gone up. They rose sharply during the '70s and in the '80s. We find sharp spikes during recessions and we saw this in the income volatility data and we find the same thing for male head's earnings. We find these sharp spikes in recessions and then for each one, it's a cyclic pattern, but you also see a new equilibrium that is higher, worse after each recession, which I take as an indication of a long term longitudinal trend.

Our findings are in keeping, as Jacob mentioned, both with the income data, as well as this earnings data. They are in keeping with the work that a number of additional teams have done on the same kind of research, both the team led by the Federal Reserve economists and Doug Elmendorf at Brookings, as well as what I've started thinking of as the grandfathers of volatility research, who are the economists Peter Gottschalk and Robert Moffitt. Who, back in 1984, Peter Gottschalk wrote the first paper on using the transitory variance measure that Jacob mentioned and he was specifically looking at male earnings volatility. That was in 1984, so he obviously only had data through 1984.

And he and Robert Moffitt at Hopkins had gone back and reexamined the earnings volatility story for men up through the present and find very similar findings to what we see. The CBO, which many of you may have also seen recently, put out a study. I think at this point it was last year – these months and years have started to blur together a little bit on this stuff. But recently has put out a study that a lot of people have interpreted that men's earnings volatility had not gone up. We actually, when we looked more carefully at what is going on, think that our data actually matches up pretty well with theirs. They find growth when we did recently in the 2000s, but they start their study in 1984.

And if you look at this chart, 1984 is sort of at a mid-point plateau. If you extend back through the early '70s, you see that a lot of the growth happened before 1984. And so as always is the case with the data, you kind of need to be careful about what your starting reference point is if you are trying to talk about a trend. So the CBO study shows a lot of what we have shown, but they start with 1984, which is the highest point as a reference point as opposed to starting back in the '70s when things looked quite different.

And the reason why we think that male earnings volatility is a pretty convincing, sort of leading suspect for what is going on in terms of the broader family income story, and

I've done some testing of this. And my own data is that male earnings still make up a huge proportion of family income. We know that women’s earnings, married women's earnings have definitely gone up and I'm going to talk a little bit about that in a few minutes. But male earnings still, if you look at the proportion of family income made up by male earnings, they are still the most important share.

So if you've got a lot of volatility amongst male household heads, labor income, it's not surprising that you see some significant movement in terms of the family income story. The second leading suspect, and again this is an area that we need a bunch more research on, but we have some suggestive evidence again from the Dynan et al paper, the Federal Reserve team, has to do with transfer income. So cash benefits coming from the government – that means AFDC, pre-mid '90s and TANIFF after the fact, general assistance, disability, Social Security. We are looking at people who haven't yet reached Social Security age, but you've got disabled children who are receiving Social Security.

All of those benefits have grown more volatile since the '70s. Dynan et al find that transfer income volatility rose by 31 percent, so that's another big source and that might give us some purchase on understanding what is going on at the bottom of the income distribution in terms of the rise in volatility. A handful of what I think of as sort of failed explanations, leading suspects that pundits and others have sort have tossed out there is that oh, this is what this is all about. The first is the idea of windfall income. I kind of think of this as like the rich uncle explanation.

Imagine you've got a family who has got $50,000 in 1990, they show up with $50,000 again in 1991. In 1992 all of a sudden they have $100,000, but then in '93 and '94 they are back to $50,000. So the question is what happened in that $100,000 year? And in sort of the basic analysis, all of the analysis that we've talked about, that fall between $100,000 and $50,000 is going to show up as a big drop. The question is, is that a real drop, what's going on. And it's plausible to believe that that $100,000 year was a rich uncle died and they inherited an extra $50,000.

So we don't really want to code that as a drop because it's not necessarily a problem. You could say if they thought that they were going to live like kings for the rest of their lives, they would be misled. But anyway, it's not necessarily the problem that we want to capture. We have done some analysis where we take out everyone who looks like that from our data to make sure that there are not a whole bunch more rich uncles over time and that is what is driving the trend. Obviously it's not particularly compelling when you realize that's how you have to think of it for it to work.

But the point is that you take out all of the potential rich uncles from the data and you still get the same rise that we have seen in income volatility. The second failed explanation which has been bandied about – David Brooks had a column when he was talking about some of this and dismissed the family income story as having to do with women's increased labor force participation and the fact that many of those women may be moving in and out of the labor force, he assumes voluntarily, due to childbirth.

The fact that married women with kids have always been less attached to the labor force because they have other things going on and still maintain the primary burden of care giving in the household. Brooks and others who have brought this up makes complete sense. We know that in

1967, dual earner families accounted for just 44 percent of all married couples. By 2003, that number was up to 58 percent. So a plausible trend going on, kind of matches the rise in income volatility. But when you match it up and trying to dig deeper, that explanation actually fares pretty poorly.

First of all, if you look at married couples with two earners, they have lower levels of volatility than those with one earner and their rise in volatility has been less steep than single earner couples. Which would suggest that if anything, the rise in dual earner families might actually help mitigate the rise in income volatility as opposed to exacerbate it.

The second sort of counter prevailing point is the cushioning effect of a second earner in the family has decreased over time. Through the 1980s, spouses stepped up their earnings when household head's earnings fell. But since the 1980s, spouses have actually been less able to offset drops in the head's earnings. And in fact in 2004 when a household head's earnings dropped on average, the spouse's earnings were likely to drop as well, which isn't all that surprising either if you think about the fact that like are likely to marry like people. Husbands and wives who are both working are pretty likely to actually be in somewhat similar economic situations. So the same economic trends are going to impact both of them.

So overall, these data suggest that the cushioning effect of a second earner is actually reduced when you have got families already running on the – the two worker engine is already running full throttle. They are already working as hard as they can. Third sort of point against this women's labor force participation explanation is that the probability of a drop in earnings following the birth of a child for a married woman has actually trended downwards over time.

So this idea that women are likely to move in and out of the labor force, they are more likely to move in and out of the labor force now than they were in the past because they are more likely to be working actually doesn't hold up. If you look at the likelihood of a woman who has a new baby leaving her job and taking a real drop in earnings, we find that that actually happens less today than it did in the past. Women are more permanently attached to the labor market, which probably isn't all that surprising to any of the working women in the room.

In a separate analysis, I've looked at family income volatility for married couples only, and this isn't in the paper, but if you are interested in hearing more about it, I would be happy to talk to you about it and send you all kinds of regression analysis tables. But I just thought I would mention it, because it gives a very clear picture of what is going on. Basically I can sort of parcel out the effect of drops in women's earnings.

So I look at these married couples and I look at what happens over time if we basically ignore or control for the impact of women's earnings. And what we see is that first of all, if you factor in women's earnings, obviously drops in income for families are less likely. Women's earnings drops do raise up the level of the likelihood of a family having a big income drop. Not that surprising.

The second and most important point for this over time explanation is that you take that out and you still see the big upward trend. So even after accounting for these drops in women's earnings over time, the trend looks almost exactly the same for married couples, which makes it pretty hard to argue that this is a story having to do with women's earnings sort of screwing things up for family income stability.

And the fifth piece is there is sort of, what if this is just going on for low income, less educated Americans? And we find, as I think Jacob said and Lou said in his introduction and the data shows it pretty strongly, that families across the education and in analysis that we don't show, but again we would be happy to share if anyone is interested, we find the same thing for income. That this is a story that pertains to everybody. So these bars are for families that didn't finish, families headed by an individual who didn't finish high school.

As you will see, these numbers are relatively high and they have obviously gone up. These are high school graduates, these are folks with some college and these are college graduates are higher. And the main point here, obviously, is that there has been a rise for all of these groups. And secondly, if you look at the intra-group differences are actually smaller in magnitude than are the changes over time.

So the real important take away is that this isn't just about low income families; this is about everybody. The rise has been particularly steep for college educated individuals, which I suspect is part of why all of us have started paying such close attention to this because we realize that it might actually impact us. So I'm going to wrap up by talking a little bit about why we should actually care about the rise in family income volatility.

And the first big piece is really that family incomes, particularly middle class incomes, have not kept pace in terms of growth. While they have grown more unstable, they have not grown a huge amount. So what you are seeing here, and I am doing the timing poorly because it is sort of dramatic, is the average incomes in 1979, those are the blue, and in 2005, which are the white for the various fifths and then the top one percent of the income distribution. And then the purple, which is a nice little elevator ride up for the top one percent and a much shorter ride for everybody else shows how much those incomes have grown.

And the real point here is that if you look at that middle fifth, which is one way of defining middle class and I think who we are often are trying to talk about, you see that their incomes have grown by 21 percent. And that is at the same time that you've seen instability and the lack of ability to continue to plan for consistent income year after year grow pretty dramatically as we've talked about for the last fifteen minutes.

We also know that that middle fifth, a lot of where those gains have come have come from additional work hours, both additional work hours on the part of male household heads, but also these women, the women in these families are more likely to work and more likely to stay at work. So these gains have come because they are working harder and not because they are earning more, reaping the benefits of increases in GDP over the same time.

The second reason why it makes sense to care relates to Lou's point originally about the anxiety and stress that comes with income and security. As economic actors, people are loss averse, meaning that in general we as humans fear losing what we have far more than we welcome gaining what we don't have. And this shows up when you look at how people think about income security versus opportunity. A George Washington University survey in 2005 asked people would you prefer the stability of knowing your present sources of income are protected, or would you prefer the opportunity to make more money? And we find or they find that 68 percent said income security, 32 percent said more money.

So this is something – people really, they want to feel secure and it is obviously, as research has shown, it can be very stressful if you don't. So commentators tend to assume that drops in income are irrelevant so long as people are happy enough to maintain their spending. But research, which I'm not going to present here, but there is a sort of growing body of research suggesting that a wide range of outcomes, ranging from happiness and stress levels to child well-being to suggestive research on health problems, including obesity all may be worsened by short-term fluctuations in income.

And the third and perhaps the most important point here from a policy perspective, I think, is the way that Americans have maintained their spending and maintained their consumption in the face of income fluctuations has largely been borrowing. I think anyone who reads the business section or at this point the front page of the paper recognizes that that particular strategy has the potential at this point to really weigh down the entire economy, not just middle class families who are struggling to make ends meet.

A couple of quick statistics on that. The personal savings rate plummeted from an average of 9.1 percent in the '80s to 1.7 so far this decade. Household debt as a percent of aggregate personal income has essentially doubled from 60 percent to 100 percent. And in 2006, aggregate debt approached 120 percent of aggregate income. Bankruptcy rates are at a record high and as a result, families have remarkably little in the way of liquid wealth to cope with short term income fluctuations.

One recent analysis of families with incomes between two and six times the poverty level headed by working age adults, so these are non-poor adults, multiplying by the poverty level found that more than half of these middle class families have no financial assets. Excluded home equity, but still no financial assets. Nearly four in five don't have sufficient assets to cover three quarters of essential living expenses, which are defined as housing, food, clothing, transportation and healthcare – the basics, for even three months. So they have virtually no cushion. And until recently, these constraints on family finances posed by all of these trends were masked because people could borrow from their home equity.

And in order to finance present day spending, people had a substantial amount of equity in their homes and they borrowed against it. Again, to anyone who reads the news, this is obviously something that is not possible for a lot of families. At this point, the housing slump and the credit crunch driven by the proliferation of risky subprime loans means that this is simply not an option for many.

And just to wrap up, I am going to repeat something that Jacob said earlier and that Larry started with, which is really that I sort of see income stability as kind of the canary in the coal mine, in a way. It's an easy thing to measure and so social scientists like it, because it's a data point. But there are a lot of other things that go into the broader idea of economic security.

It is best thought of, I think, as an adequate protection against hardship causing economic shocks that are at least partially beyond an individual's control. And fluctuations in income can't capture that whole sort of body of what it means to be economically secure. Large expenses, catastrophic medical costs pose a huge risk to household budgets. The income security measure can't capture the risk of losing healthcare coverage, it can't capture the risk of having to defer saving for retirement.

The number of people, part of the work that I've done on the side somewhat similar to Lou's work, I've done interviews with a number of workers in a company that has been bought out and a lot of them didn't know if they would have jobs or not. They had virtually no savings, some of them had retirement savings, but they were planning on wiping those retirement savings out to finance present day spending because of the income shock that they were worried that they were going to incur. And so what that means down the road for retirement is huge.

The risk posed by higher education, which we know is more and more expensive and the returns to investment have become more variable as suggested by the slide that I showed, showing rising income instability, even for the college educated.

And finally, we don't know what the short term impact, what the long term impact of these short term income fluctuations is going to be. There was some great work done by a sociologist named Glenn H. Elder, Jr. who worked on looking at the long term trajectory of a cohort of individuals who came of age during the Great Depression. And he finds long term sparring that people who enter the labor market and sort of learn what it means to be a worker, experience what it means to be a worker in a time of economic turbulence face really long term economic effects because of the short term fluctuations.

And obviously there is a lot of work left to be done because we can't talk about the long term yet, we are not there yet. But in terms of framing a problem, because it's a research problem and also a policy problem, there is a lot left to do. So without further ado, I think I will hand it off to Peter.

Mod: Officially, Peter Gosselin is the National Economics Correspondent for the LA Times and the author of High Wire, which you will see on sale outside. It comes out June 2nd.

He began his journalism at New York State's smallest daily, The Catskill Daily Mail and has worked at half a dozen papers, among them The Boston Globe and The Providence Journal. I met him along the way.

He has won a variety of national awards, including back to back George Polk awards for investigative reporting. He has a bachelor's degree in philosophy from Brown University and an MBA in economics from Columbia. He is an excellent, easy-to-read writer, a friend, as I said, and a kindred spirit in trying to describe in daily journalism the unhappy odyssey of the American worker. And the as yet, and I emphasize this, unmeasured cost of this downfall. And we are certainly getting at some of that cost today, but I think we have a long way to go. Peter?

PG: It's a great pleasure to be here and to give you a sneak preview of High Wire, which technically comes out next week, not this week and I burn my publisher slightly. What I propose to do is make a few comments about Jacob's and Elisabeth's paper and the quantitative case that income instability and economic insecurity are on the rise. And to compare that case to the quantitative case that I make, both in the book, and in a technical paper that I produced last winter with Seth Zimmerman of The Urban Institute.

Then, so as to build on what has already been said rather than tread over old terrain, I am going to take off in another direction, so a couple of comments first about the numbers. The reason why Jacob and Elisabeth and Seth and I go to the trouble of producing our numbers, which are quite similar, is because we are telling a very different story about the American economy and how it has and is treating those who live and work in it than the dominant one that has been told about the economy. Or at least the dominant one that was told until the subprime mess, the housing bust, the credit crunch and the likely recession.

The dominant story is or was that a long wave of growth dating from the nation's emergence from the deep recession of the early 1980s lifted a large number of Americans and by the final half of the 1990s the majority of Americans to new heights of prosperity. Now if this prosperity hasn't seemed quite as shiny and uplifting in this decade as it did during the final half of the last and if the benefits have not seemed as widely distributed, according to the dominant story, it is because of some special circumstance, the stock market bust, 9/11, now the housing bust, that will quickly self correct and let us go on to grow again strongly.

The stories that Jacob and Elisabeth tell and the one that I tell do not straight away contradict the dominant story. There was real broadly, if unevenly shared prosperity certainly during the second half of the 1990s and at other periods during the last two and three decades. Where we differ from the dominant story is in saying that the rewards of growth during these periods came at a cost, the cost of greater risk of taking steep financial falls for what by now is the majority of American working families.

As we each say, this additional burden of risk has gone largely unnoticed, certainly during the good times when we looked at just the rewards, and even during the bad when we were told that whatever problem that existed would soon pass. Since we are telling a story that differs so much from the dominant one, it behooves us to make the strongest possible case. And in economics, sometimes unfortunately, the strongest case is considered to come with numbers.

So each of us has produced numbers that provide some independent measure of the risks that we say were once borne on the broad shoulders of business and government and that have now been shifted to the backs of working families up and down a wide swath of the income spectrum.

In looking at income instability or volatility as a measure, we are stealing a page from the stock market where the primary measure of risk is the beta of a stock, which tells you how much a stock's price swings around a mean. The general notion in the case of a stock is that the more a price swings, the more likely it is that an investor will get caught down when he or she needs to sell.

Similarly, the general notion in the case of family income is that the more a family's income swings up and down, the more likely the family will be to get caught in the midst of an income down draft when something bad happens – a layoff, an illness, an injury. Then they will have a harder time catching their financial footing again.

But just to be clear, I do not take income swings is a great new and previously undisclosed risk in and of themselves. Instead, they are a measure of the kinds of new risk that families face in their jobs, with their benefits, with their houses and their college and retirement savings, in their communities.

Briefly what Seth and I do in a paper that you have along with Jacob and Elisabeth is we both document, as they do, that volatility is increased. And then we take a look at some income threatening events, things that you and I, I think, would all agree would not, we would not want to have befall our families. We look at those and see what those do to families.

And what we find is what those do to families, the financial consequence of these events has been on the rise and a rise that very much matches the rise in volatility generally, which gives us confidence that this is a fair measure of increased risk for families. Now let me change gears. As I said, economists think that strong cases come with numbers, so I've given numbers. But I do not think that the strongest case, that the new economic America is a distinctly riskier place for most working Americans, even many well rewarded working Americans, than it was 25 or 30 years ago. It comes with numbers.

The strongest case is the one that looks at the struts that hold up working families, from the working poor to the reasonably rich, and that have held them up for generations. It is the one that asks what is the condition of those struts today and how does that compare with the past? I ask these questions in the book and the answers I come up with are that most of the key struts have been weakened and some of them have been kicked out all together.

And let me just offer a few of them. Let's start with jobs. On a typical day in America, about 120 million people go to work at some point. Nothing, not stock investments, not cashed in home values, not government checks, not dumb luck at the lottery comes anywhere close to being as important in determining American's economic circumstances as their jobs. But jobs are shorter and shakier than they were a generation ago.

To give you some feel, look at the average amount of time that men were in their jobs in the early '80s and the average amount of time they are in their jobs now. I pick men because men played the same role in the economy over the entire period, while women were flooding into the full time workforce during many of these years. So it's easier to make apples to apples comparison with men. For men in the prime of their working lives, age 45 to 54, jobs used to average about 13 years, according to the Bureau of Labor Statistics. Now they run about eight. That's a drop of a third.

Now I know that economists will argue that part of this decline is a result of immigrants who have been here a shorter time and therefore they have shorter jobs. Or they will argue that older men tell survey takers that gee, their longest job was 40 years ago. I know all of these arguments and if you look closer at them, the weight of the evidence is that jobs are shorter and shakier than they were a generation ago.

Or take benefits. In Washington and on the presidential campaign trail, a lot of time is spent talking about public benefits, such as Social Security and Medicare. But the benefits, the safety nets that really count for the vast majority of working Americans are their employer provided benefits, the health insurance and disability coverage, the employer orchestrated, if not contributed to, 401Ks.

Most Americans are not aware of this, but their grasp on these benefits, their right to receive them, the remedy if they do not, is governed overwhelmingly by a single federal law, ARISA. Not state laws. No longer most cases, union contracts, just ARISA. ARISA was intended by its Congressional authors to protect employee benefits. It said so right in the preamble of the law.

But over the past generation, the Supreme Court and increasingly conservative federal appeals courts have rendered a series of decisions that have turned ARISA on its head, making it easier for employers, benefit administrators and insurance companies to limit the benefits you can claim or deny them all together. Let's take houses. On average, according to the Federal Reserve survey of consumer finance, 60 percent of the value of American homeowner's possessions, that is 60 percent of everything you own, is accounted for by the value of our houses. Not any houses – not vacation houses or investment properties; where you live.

Now think about this 60 percent figure for a minute. We are told that Americans are insatiable consumers and that over the last 25 or 30 years, we have scarfed up all sorts of SUVs and mega gig computers and flat panel TVs and Subzero refrigerators and Viking stoves. We are told that we have become financial sophisticates and that we have 401Ks and stock portfolios and trading accounts. But all of this stuff and all of these accounts only make up the remaining 40 percent. So houses are a big deal for families.

And precisely how big a deal, we are about to find out. Because with our value now falling instead of rising, especially on the coast, we will soon know how much they affect what people buy, how much they save, how long they work. But even before this great experiment is over, we know houses are a big deal and so is what protects them – homeowner's insurance.

Homeowner's insurance is important not simply because it is protective, but it is important because it is an example of people not turning to their government, not turning to their employers, but trying to go out and buy themselves a private safety net. So how is this bought and paid for safety net doing protecting houses? Not well. There has been a fundamental shift in the nature of homeowner's insurance, one that leaves homeowner's more on the hook, vastly more on the hook than they were 15, 20 or 25 years ago.

In the early '90s, the most widely sold homeowner's policies, and you can go look at your own, were called guaranteed replacement cost policies. But following the nation's last brush with a lot of disasters prior to Katrina, insurers began switching people to something called extended replacement cost policies. You are supposed to guess that the difference in terms means you are less covered, not more covered. By now, there are essentially no guaranteed replacement cost policies.

Under a guaranteed replacement cost policy, your insurer promises to replace your home if it burns, hit by a twister or otherwise destroyed, essentially no matter what the cost. It is up to the insurer to get the price right, to keep the coverage current and so forth. Under an extended replacement cost policy, the insurer provides you with a fixed dollar amount and typically 10 or 20 percent more. It's up to you to figure out what that amount should be. It's up to you to figure out how much it would cost to rebuild your house if something bad happened. It is up to you to keep your coverage current.

Now theoretically you could do this job, but the industry's own estimates show that the majority of American homeowners simply have too much going on in their lives to keep tabs on changing building codes, the fluctuating cost of plywood and what plumbers and carpenters are making in their neighborhood. They show that something like 60 percent of homeowners are under-insured. That is, these homeowners no longer have enough coverage to replace this most valuable of their assets should something happen to it.

Let me just focus on retirement. Nowhere is the shift, in this case from business to families, more complete or more potentially damaging than the move from traditional pensions to 401Ks and similar accounts. Similar to guaranteed replacement cost insurance, you have seen this pattern before, the burden of setting aside the necessary funds, investing those funds to make them grow and delivering the promised amounts to finance people's old age with traditional pensions rested with employers.

Similar to extended replacement costs of homeowner's insurance, those burdens now rest squarely with you. Again, theoretically, you could handle this problem but study after study after study has shown that large numbers, maybe a third of all of those who are eligible for 401Ks either don't sign up or do such a hash of a job managing their accounts that they are simply not going to enough, earn enough to raise what experts say is needed to live comfortably in retirement. And I will show you in a minute that the ranks of these poor performers include some of the nation's finest minds.

As I say, these are just some of the struts I examined in the book and everywhere, the pattern is the way. Risks that working Americans were once helped to bear by business and government have now landed squarely on individuals and their families alone to handle. In examining these struts, I interviewed hundreds of families of various means and across the country about their economic circumstances and how those circumstances had changed.

And I would like to just briefly introduce you to a couple of the dozens whose stories I tell. Diane Andrews Clark lived until recently just north of Boston in Havril. She is the daughter of an insurance agent and she now runs the small agency she inherited from her father. But when she ran across ARISA, she was working at an AT&T factory in

Andover making reasonable wages and what she thought were spectacular benefits. Andrews Clark met and married Richard Clark and the couple had three daughters. Clark began to drink.

Under Andrews Clark's health insurance policy and under Massachusetts state law, anyone covered by a policy who needed, such as Diane Andrews Clark, who needed alcohol treatment, was due 30 days of inpatient care paid by insurance. But when Andrews Clark tried to collect, her insurer refused. When she tried a second time, her insurer refused. Richard Clark dried out in a maximum security prison in Massachusetts and was eventually found dead. Andrews Clark sued the insurer, arguing that her husband's death and the fact that she was left to raise her children alone was the direct result of the insurer's refusal to cover her husband's treatment.

But because the Supreme Courts and the Appeals Courts have limited employees' rights under employer provided health policies such as Andrews Clark essentially to getting the benefits that were originally denied. And because Richard Clark, being dead, was not available to receive the benefits, Andrews Clark got nothing.

Now I want you to listen to Boston Federal District Court Judge William Young, a Reagan appointee, when he ruled on this case. These are his words: “Under traditional notions of justice, the harms alleged, if true, should entitle Diane Andrews Clark to some legal remedy on behalf of herself and her children. Consider just one of her claims, the breach of contract. This cause of action that contractual promises can be enforced in the court predates the Magna Carta. It is the very bedrock of our notion of individual autonomy and property rights. It is among the first precepts of the common law. Our entire capitalist structure depends upon it. Nevertheless, this court had no choice” - and here he is referring to a series of Supreme Court decisions - “but to slam the courthouse door in her face.”

Now remember, you are talking about a law here, essentially the only law that protects your benefits and mine. Our chief lines of defense in case we suffered from any number of setbacks that life can deal out. And remember that this law doesn't just apply to your health coverage, but to just about everything that you receive from your employer. That group health insurance, your dental coverage, your 401K.

On a lighter note, there is Harry Markowitz. During the last two decades, advocates for the 401K revolution have defended the idea of do it yourself retirement accounts by saying that Americans would learn over time how to manage their retirement savings. I sought to test this proposition and I did so by calling up Nobel Laureates in economics and asking them what they did to prepare for their dotage.

Harry Markowitz is the father of what is known as modern portfolio theory. The notion that you shouldn't put all of your financial eggs in one basket, but should diversify. But when it came time for him to make his diversification decision, he all but punted. Here is the 80 year old Markowitz on the subject. “I either had in my head or had just written down the most revolutionary theory of investment the world had ever seen. And here I was asked how do you want to invest your retirement savings? And I said 50/50 – 50 percent in stocks, 50 percent in relatively risk-less bonds. I am 24, I am 25, I am never going to die, I had other things to think about. In retrospect, I should have done something more sophisticated.”

Americans today almost reflexively assume that the people of some previous period, the revolutionary generation that created the nation, the greatest generation that survived the Depression and fought World War II, lived on a more heroic scale, facing more dire threats and achieving more sweeping victories. But most people, even many who engaged in the great national undertakings of the past, spend most of their days inside their families among their belongings and at work.

For most Americans alive today and for their children, restoring some semblance of balance and stability to their economic lives, reestablishing a minimal sense of mutual obligation between employers and employees, between citizens and their government, is likely to be every bit as much the defining challenge of our time as the War against Terror or any of the laundry list of other hurdles we must cross. It will involve a decades long struggle to reestablish a set of values and protections that lie at the heart of what most of us mean by America. Thank you.

Mod: Our discussant is Brink Lindsey, Vice President for Research at the CATO Institute and author of The Age of Abundance: How America's Prosperity Transformed America's Politics and Culture. He is a Libertarian, which is not, I don't think, the thrust of this conference. It is nevertheless some of the best or better thinkers in America, I hate to admit, our Libertarians and they tend to hang their hats at the CATO Institute, as Brink has done. It is a pleasure then to welcome Brink Lindsey.

BL: Thanks, Lou and thanks to EPI for inviting me here to serve as the designated – I was going to say skunk at the garden party, but that doesn't sound like the right tone for this occasion; more like the stand-up comedian for the wake of the American Dream. Anyway, the unwanted and inappropriate presence. Fortunately, very early in my think tank career I had an experience that set the right benchmark for these kinds of occasions.

Back in 1993, I just started doing think tank work and it was during the NAFTA debate and I did a free trade versus fair trade debate at a union hall in Flint, Michigan. Ever since then, all of my subsequent Christian in the Coliseum experiences have been pieces of cake. I am going to comment generally about, not just specifically about the technical aspects of Jacob and Liz's paper or the detailed factual claims and assessments in Peter's book.

But I want to talk generally about the phenomenon of economic insecurity, what it means and what direction it is heading in. First let me start with, in general, a take on is the mood of this panel today in line with reality? That is, are things really going badly wrong for American workers because of heightened risks across the board. Let me start with what I agree with.

I agree that competitive pressures in the American economy are up and up significantly from where they were back in the '50s and '60s. Thanks to globalization, thanks to deregulation of pervasive price and entry controls in transportation, energy, finance and communication. Thanks to, for a variety of reasons, a resurgence in entrepreneurial dynamism and creative destruction.

And therefore, as a result of the pervasive increase in competitive pressures in the economy or the intensity of competitive forces, security from competition and from potentially disruptive change is down. So in that sense, we are less economically secure if we are looking at the dimension of security from disruptive change. So look at firm level volatility, something that we haven't talk about.

A lot of research, particularly that by Diego Comin, Thomas Philippon, and Sunil Mulani show that firm level volatility in terms of employment, sales, earnings is up. However, I should note that more recent research by Stephen Davis, John Haltiwanger, Ron Jarmin and Javier Miranda shows that that may be true for publicly traded companies, but it isn't true for privately held companies. So we've got a strange mixture. But I am certainly prepared to believe that at least in big chunks of the economy, firm level volatility is up.

We also know that, at least for publicly traded companies, CEO turnover is up. So the risks of being tossed from your perch go up and down the socioeconomic spectrum. Layoff rates are up, especially for white collar workers. Earnings and income volatility are up at least since the 1970s, the record since the early '80s is less clear. And chances of a big drop in income are up.

So given these facts, increased competitive pressures, increased volatility in firm performance and individual income or family income, I think it is entirely appropriate to rethink what government policies, what social policies and in particular what safety net policies are in order to match the current times.

We have, for example, unemployment insurance policies that were designed for industrial workers being temporarily laid off and then called back when the slump had ended. We now have a world where when people lose their jobs, it is usually because that industry has shrunk for good. They have to find work in a completely different sector. The transitions are completely different. And so perhaps we need different social mechanisms to deal with that.

So although Lou introduced me as a Libertarian and CATOite, I am, but I am pretty squishy by Libertarian and CATO standards. Some of you might know a year and a half ago or so I wrote this piece for The New Republic with the terrifying title of “Liberaltarians” talking about how in a whole host of social and foreign policy areas, liberals or progressives and Libertarians have a lot in common. Libertarians have more in common with liberals and progressives these days than they do with people on the right. And that perhaps our real and important differences on economic policy could be bridge for compromise.

So I am open to changes in safety net policies to take account of this new more turbulent environment. Okay, that is what I agree with. But I don't agree with the overall assessment that in the most important dimensions we are less economically secure than we were in the past or that there has been a great risk shift in which the risk level formerly born by employers in the government has been pawned off on workers. I think that these overall assessments rest on tendentiously selective presentations of the data.

First, income volatility. I am not technically equipped to quibble with Jacob's and Elisabeth's analysis. I do just want to note that apparently the CBO, which said there is nothing to see here on individual earnings' volatility since the early '80s is preparing one, a similar study, on household income. And the hints dropped by Peter Orszag in his blog suggest that they are not going to find much increase and maybe even a decrease in household income volatility. So this is a tough question to measure and it may be that we haven't gotten to the definitely right answer yet.

Also I will just say that I am curious why Jacob and Elisabeth's series starts in 1973, a pre-recession year, ends in 2004, a post-recession year. That doesn't look to me like an apples to apples comparison. If you moved to the equivalent year in the business cycle, '76, I think the headline number of increase in volatility looks rather less impressive, but I would be interested in hearing why that framing was chosen.

We hear about the soaring bankruptcy rates as evidence of increasing uncertainty and insecurity. And yet research by Igor Livshits, James MacGee and Michele Tertilt comes to the conclusion that the big run up in bankruptcy filings is not primarily due to income or expense shocks, but overwhelmingly to the falling cost of bankruptcy and to increased access to credit. So a fact cited as evidence for a particular deteriorating condition I am not sure really pans out that way.

Likewise we hear a lot about the percentage of workers that are covered by employer provided health insurance and we sometimes hear stats that show a big drop, like from 1981 to 2003 a drop from 71 percent coverage to 56 percent coverage. Those kinds of numbers make that kind of dramatic claim by counting people who are covered by their spouse's employers as uninsured. If you count people who are covered by somebody's employer's health insurance, the numbers have been much more stable, although they have fallen a little bit in this decade, but not nearly as dramatically as you often hear.

I think the assumption that the switch from defined benefit to defined contribution pension plans is unambiguously riskier for workers is one that is questionable, defined benefit contributions have lots of risks. They can miss out on big run ups in investment returns during good times. They tend to most favor people who stay in one job for a long period of time which, as we know now, is no longer the case to the extent that it used to be.

And they suffer from sort of catastrophic risks when your employer goes under and regardless of regulatory structures, hasn't put enough away to pay out what it owes you and we have seen plenty of that in recent years. So the idea that the old system was iron clad and great and good for everybody and the new system puts you on the towel in plain of risk of uncertainty, I don't think holds up. Also I don't think there is sufficient recognition that improved access to credit puts people in a much stronger position to respond to temporary economic and income shocks than they used to be.

In general, this increased excess to credit in the form of credit cards or home equity loans is presented in this we're all going to die kind of mindset as just another trap for people to fall into. And it's true, some people borrow unwisely and get into trouble. But the vast majority of people don't and for the vast majority of people having access, much better and readier access to borrowing than in yesteryear, makes for a substantial diminution in the riskiness of economic life.

In particular, at least partially as a result of this, we see that although income volatility seems to be on the increase, there isn't a corresponding increase in consumption volatility. That is according to research from Richard Blundell, Luigi Pistaferri and Ian Preston, temporary income variance doesn't translate into consumption variance except at the very bottom of the spectrum.

So if you are at the low end of the socioeconomic spectrum, these temporary income shocks can induce changes in consumption, measurable changes in consumption. But for most people, income smoothing is a reality and notwithstanding the fact that, of course, particular folks do undergo considerable dislocation and trauma.

On the subject of the great risk shift, I don't think there is a recognition that changing competitive and demographic realities necessitate a rethinking of mechanisms for promoting financial security. This isn't a great risk shift because the risks didn't use to be there for anybody, but rather it's a response to new risks. So it was fine to have defined benefit contributions in the old man in a gray flannel suit world because American companies didn't face very stiff competitive pressures, certainly not from abroad. The lifetime employment idea was a sound one and so forth.

Likewise in a young population where the baby boom is coming into prime, the working years, pay as you go, public pension and healthcare systems like Social Security and Medicare looks like fantastic deals. They look like much less fantastic deals with an aging population. So the idea that once upon a time benevolent corporations and government manfully shouldered all of these risks and protected American workers from otherwise all of this nasty volatility and now they have just unloaded this is just, I think, a partisan spin rather than dispassionate analysis. The dispassionate analysis is that conditions have changed and therefore benefit packages and social policies need to change as well.

And as far as risks are concerned, the continued perpetuation of old style pay as you go programs looks to me like it's imposing a whopping risk on all of us these days, which is fiscal ruin. Most fundamentally I think that there is insufficient recognition or no recognition that with regard to the most important dimension of economic security, which is security from material deprivation, things are unambiguously better today than they were at the beginning of Jacob and Elisabeth's series. Not just for people at the top, but for ordinary Americans and even for those at the bottom.

Let's look at some really basic risks. The risk of premature death, age adjusted death rate has fallen by more than 30 percent between 1970 and 2002 and mortality has fallen 65 percent over that period. The risk of being killed on the job has fallen nearly 85 percent on that period. So that is the most basic metric of security.

How about nutrition? Low income children under five years who are underweight with 8 percent in 1973, 2003, it is down to 5 percent and now obesity is a much bigger problem for childhood health and not enough to eat. That's a problem; it doesn't mean things are great. It just means that material insufficiency and the risk of a want aren't what they used to be.

On housing, we'll see what shakes out after the current storm, but between 1970 and 2004, home ownership rates went up from 63 percent to 69 percent despite the less appealing home ownership policies. People are somehow or another buying and owning homes in larger numbers, even as the size of the median new home as gone up almost 60 percent since 1970. So people are living in much bigger and much nicer homes than they used to and those homes are filled with a lot more stuff than they used to be.

Back in 1971, 45 percent of households had clothes dryer, 19 percent had dishwashers, 83 percent had refrigerators, 32 percent had air conditioning and 43 percent had color televisions. By the mid 1990s, all of those ownership rates had been exceeded by American households under the poverty line. Also speaking of people in poverty, looking at the size of housing, it's not just homeowners, but renters as well, renters in poverty. Poverty level households deemed to live in overcrowded conditions went from 27 percent of them in 1970 to just 6 percent in 2001. Now let's look at health.

We already looked at the bottom line, death rates. But let's look at actual healthcare. Clearly our healthcare financing system is a “kloogy” mess. I think we can all agree on that, even if we don't all agree on the best way of fixing it. I will say that I am completely in favor or policies that guarantee people access to healthcare, even if they are unable to afford, whether because of generally low income or because of preexisting conditions or long-term chronic illnesses. Unable to afford private insurance - I am for a safety net there.

But let me just say that despite the problems in healthcare financing today, access to healthcare today is better than it was in the early 1970s. The percentage of kids in poverty without a reported annual medical visit was lower in 2002, 12.1 percent than for non-poor household kids twenty years before, 17.6 percent. Percentage of adults with untreated cavities, your classic kind of discretionary medical problem fell from 48 percent to 26 percent between the early 1970s and the late 1990s.

You name a physical indicator of material well-being, Americans are better off today. They travel more, they eat out more, they own more cars, they talk more on the phone. People are physically, materially better off. And therefore in the most important dimension of economic security, security from want, things are going in the right direction, not the wrong. We can do better, but I think that creating an inaccurate position or inaccurate portrait of gloom and doom for ordinary Americans is inaccurate. And I also, I am afraid, find it somewhat unseemly.

I think that the egalitarian vision on display here, a distorted vision intent on magnifying the problems of the American middle class, is disappointingly narrow and myopic. The fact is on a world standard and on a historical standard, the American middle class is the most materially blessed cohort of people in all of human history.

Making the pitch that this group of people is somehow or another especially aggrieved or especially victimized at a time when real suffering is very much still with us in this country and around the world seems to me to not have your eye exactly on the ball. So again, let's look at safety net policies, but I just can't buy that this is the issue that should have us proclaiming doom and gloom. We've got inter-generational poverty in this country that is at distressingly high rates. These are people who are really suffering. Not suffering from material deprivation so much as they are from social exclusion and a variety of social ills and pathologies, especially crime.

We have 12 million undocumented immigrants who are legally excluded from full participation in American society. We ought to be doing something about them. Meanwhile outside our shores, we have 3 billion people on planet earth trying to make due on less than $2 a day. And yet the presidential candidate who I guess is the preference of most people in this room and maybe even me too, Barack Obama, just voted for a farm bill which doesn't help struggling people in poor countries. So with that I will close. Some level of agreement, but in big picture, I think the tone and the focus of this discussion of economic insecurity is off base. Thank you.

Mod: Okay, we've had an interesting challenge here. I think what we'll do, we want to open to questions, but before we do, I would like to give Jacob Hacker and Peter Gosselin or one of the two of you and Peter a chance to respond, like five minutes each. And then we will get to the questions, because I'm sure there are a lot.

I would have one comment of my own in Brink's presentation, I was thinking as he talked about those truck drivers in Delanco, New Jersey who aren't feeling very good. I think these pitfalls that are beyond anyone's control are a big part of what we are dealing with. Jacob -

JH: And I can do it from sitting here.

Mod: Yes, by all means – let's do it from sitting. If any of you feel a need to see Jacob – I know we don't have a platform here on the forum, but just raise your hand and Jacob will stand up.

JH: I can stand up. Okay, so in a couple of minutes – I was on a panel with Brink, the Hamilton Project event, which I don't know if I can mention here. Someone joked that the agenda for shared prosperity was the Aaron Burr project. Anyway, I was happily part of both of them. I was at an event with Brink and Brink said that after he had spoke, I had spoken, he said that he had had a positive view of the proposal that I was advancing, which was sort of a pure social insurance system for protecting working age people.

And at the end he said – but everything you've said has made me want to withdraw my earlier positive reaction. I was really with you, Brink, until I started writing on the margins and going in circles because I think we just have a fundamental disagreement, which is good to air, when it comes to some of these broader dimensions of economic prosperity. I mean, as I say in the book, Americans are richer, but they are also at more risk.

And I agree that we should be thinking about what the balance is between those two things, but I don't think – there are two reasons I don't think that it undercuts the basic argument that I'm making or that Peter is making in our books. One reason is that I think implicit in it is a suggestion that we would not have prosperity were it not for a massive transfer of risk. I mean, could we really believe that in other nations that provide greater protection for Americans in areas like healthcare and retirement, that mortality rates have not changed in the same way that they have in the United States or deaths in the workplace?

But I will put that aside, because we could get into a big discussion of comparative evidence, and I don't want to do that, and just say that I actually think what is striking is, to the extent which this is really a shift of existing risks, when I began this research I was sort of the view that a lot of what was going on were new risks. But to a very substantial extent what we've seen is an intensification of existing risks like the risk of being outside the workforce. Which has changed in character, but has nonetheless has the same essential components. So too with retirement and healthcare risks, the big three, in my view.

But I will make a few small points that are more directly related to what we have done in this paper and brings reactions to them. First, we have a response to what we know of the CBO's recent work. I will only note that they are looking at this from the early 1980s. They are trying to match the survey of income and program participation, which has Peter has shown, shows a very large increase in volatility with administrative records and we think that that is probably the reason, besides some other choices they make, that there is not much of an increase that they find, although they do find a very small increase.

With regard to why we choose 1973 as the starting point, it is simply because we require four years of prior data to construct our measure and the series begins in 1969. I just was glancing at it – I think you might cut off maybe a third of the total increase by starting in 1976. And if that is where we are going to end up, I am happy with that.

In terms of health insurance, I will only say that not only has there been a decline – the big decline, of course, has been employer provided insurance and it has been partially – the reason that the number of uninsured hasn't risen more than it has because public insurance has stepped into the breach. And in that sense, there actually has been areas where public protection against risk has actually expanded.

But I am doing some work as part of the broader project for the Rockefeller Foundation is funding and we are looking at, I think, a more direct measure of economic risk in healthcare. That is, the share of people who have very large out of pocket spending on medical costs and/or premiums. And what we are showing is that going back to the early '70s with the consumer expenditure survey, there is a very big increase.

Just continuing on the consumer expenditure survey point, I would just reserve judgment on what has happened with consumption volatility until we figure out what is wrong with the consumer expenditure survey, which is missing something like 40 percent of expenditures in the last decade compared with aggregate accounts. There is a nice set of papers on this and I am not expert enough to judge what the proper interpretation is.

But I would say that even if consumption isn't fluctuating as much as income, income fluctuations matters. If consumption is financed by debt, that that matters for future financial security and that we need more studies. And finally on the shift from defined benefit and defined contribution plans, I will only say that there are a fair number of attempts now to come up with aggregate measures of risk of retiring without adequate income, that extract away from the structural stuff that Peter and I talk about.

And they show that there is a fairly substantial increase, even beginning in the early 1980s in the share of people who are likely to retire without adequate income. And that above the bottom, where it changes and Social Security dominate, it's really driven from the shift away from defined benefit plans. Defined contribution plans could in theory, as Peter said, work quite well. They don't in practice.

And I think one reason that is often neglected for this is that the old world, your employers made contributions from your wages on your behalf automatically. Defined contribution plans are basically very cheap for employers, they are not making much in the way of contributions, so there is a lot less that is being pre-committed on your behalf. And I think that is the fundamental difference and the reason why defined contribution plans are much riskier.

Mod: Thank you. Peter?

PG: All right. The word that sticks in my mind – no, it sticks in my craw is the word “unseemly.” And so let me see if I can address that. One other thing sticks in my craw, which is that the case that Brink makes cites very largely the poor and the poor in other nations. The notion that that should be the bar that we use to judge our own economic circumstances, it seems to me is unseemly.

Let me just offer this as just a take on the deal that was offered us since – in response to the problems that the economy, the objective problems that the American economy faced in the 1970s. The notion was that we were in a terrible – and we were in a terrible, terrible economic quandary and the notion was that we were going to do something about it by unleashing the economy.

We were going to deregulate major industries, we were going to change the employment relationship and in the process we were going to revive, as Brink said, the entrepreneurial spirit. Now that means that the basic picture of how this new economy was going to work is that every household its own bottom. Every household was supposed to make judgments about what was good for it, what were dangers. We were each in our families to decide how to balance risk and rewards.

What troubles me is to call what in effect is the exercise that I think Jacob and Elisabeth and Seth and I are involved with pointing out the risks as unseemly is to drive a stake in the basic deal that we were offered. We were told – you know, you are supposed to operate on your own, everything is a risk and reward trade off. You judge for yourself what is best for yourself. It seems to me that we were asked to make these judgments.

As it turns out, we were not given many tools to make them. Certainly we were not given many tools to measure risk. And to now say that there are a lot of people worse off and you should await their arrival at some global middle class status, that seems to me unseemly.

Mod: I was going to open to questions and then give you a whole five minutes later on.

BL: I will take my 30 seconds now. Anyway, examining these problems seriously, looking for solutions in changes in public policy, that is not unseemly at all. That is what we are supposed to be doing. As I said, I am sympathetic to the idea that these problems are real and I am sympathetic to the idea that changes in public policy might be needed to address some of these problems.

What I find unseemly and this is just the moralistic tone of stoking up a sense of grievance and entitlement amongst a bunch of people who are better off materially than they were, than their parents were all told. When public policy is currently making life worse or failing to make life better for people who are much less (unint.) and have life much worse than the truckers who lost their jobs in Delanco. I find it's the tone, the moralistic tone that sticks in my craw. So there you go.

Mod: I will open this to questions, but I want to put in one thing. There was once a period, I think starting in the late '30 and certainly through the early '70s when those truckers in Delanco had some means of redress. That is that government, labor and business, there was a greater balancing. You couldn't do to the people in Delanco what got done to them.

Certainly you couldn't without somebody – a labor union, which we don't have enough, that's the opposite of your point of view, Brink – sorry – and government regulation. Somehow or another, this wouldn't have happened to them. So that is something to keep, that balance that got lost along the way is something to keep in mind. At any rate, let me open up to questions. You, sir?

Q: Warren Robinson, retired professor of economics from Penn State University. Let me begin by saying to the whole panel that I think this has been a wonderful combination of hard, solid economic data and a passionate eloquence that is frequently missing from this kind of discussion. I want to pose the following question and you can decide who is best to answer it.

In discussions like this, how can it possibly be that we miss the proverbial 800 pound guerrilla sitting in the corner, and that is globalization. The last speaker referred to it in passing, but then hurried by it. Can it not be, how can it not be that off shoring, outsourcing, the impact of immigration, the impact of much more mobile capital globally, how can that not be part of what we are describing here? How can that not be part of the instability and part of the volatility and part of the whole uncertainty that the economy is facing. Don't we need to talk about that?

Mod: Well, I will ask one of the panelists to answer that, but I think it is the conditions in which we live. Within those conditions, we can decide how to distribute security and that we are not doing. That's my opinion. I shouldn't have an opinion as the moderator, but I can't help myself. Who would like to address that? Oh yes, Elisabeth?

EJ: I agree. I mean, I think part of what I was trying to get at was the causes, question and talking about male earning's volatility. I mean, that is sort of the approximate cause and then the question is if earnings are part of what is driving this family income story, then the question is then what is driving earnings. And I think underneath that is probably a globalization story.

I suspect that in this room there will be differing opinions as to exactly what we should do about that, whether that means a different version of trade than we've got or whether it means new policies to protect workers from sort of the short term consequences of trade given that globalization tends to fall on the backs of certain workers and the gains are not necessarily experienced by them right away. But I suspect that I am not alone in thinking that you are entirely right, that globalization and increased competition both in terms of mobile capital and in terms of mobile labor is very much a part of the story.

Mod: Yes? Could you take a microphone? Your name.

Q: Bill Neil, I write about economics, specifically the financial crisis, so that is where I am coming from. My question is to Brink and Brink, since you might be a political ally in the future, this won't be a high inside fast ball. The word that is used to describe your position, and I am somewhat sympathetic to it in the sense that this nation is coming from extraordinary abundance, and yet I agree with the alarms and the trends.

In that word that is used, resiliency, by defenders of where we are now in our economy, my great worry is that the risks and the burdens have been transferred from firms to individuals in so many categories. That I side with the direction in the panel even though we are relying on the great wealth not to get there.

But my real question to you is who saw in 1927 or 1928 or even the first half of '29 the trend that followed? And the more I read about the financial crisis and the feedback loops between the level of debt and the way we rely too heavily on that, that I worry that we are under-appreciated the magnitude of the risk. Very few economists could see what unfolded in the 1930s from their perspective of 1927. How do I know that you are not at 1927?

Mod: Brink?

BL: Who knows, right? We will see. As far as the future is concerned, we are right in the midst of phenomenal uncertainty about how this credit crunch and this housing slump are going to pan out macro economically and in terms of the global economy as well. We don't know. There are some signs of late that the worst fears of a meltdown may be subsiding, but we will have to see.

There is just no doubt that apart from the endemic day to day uncertainties of life in a competitive market economy, there is the cyclical uncertainty of macro economic fluctuations and we are in one of those periods right now. I think, though, that in this messy and sometimes anxiety fraught process, the clear trend line in terms of human well being is unmistakable.

We can talk about ways to mitigate some of these mitigitable risks through workplace policies or through government policies. I think the fact is that firms are less appropriate risk bearers as intermediaries between individuals and financial problems than they used to be simply because firms can't count on their long term existence like they used to. Or certainly can't count on their long term financial health to the same extent that they used to be able to.

And so we need to redesign arrangements so that risk is protected against in a way that is sustainable. Thinking that you are safe because you have a divine benefit pension plan in a company that goes under and then it turns out that they hadn't properly funded your pension, that was no security at all. It was just a loser security.

Thinking that pay as you go Social Security and Medicare are great ideas because the government is bearing all of the risk when the government, of course, can change your benefits at any time that it wants to, that is an illusion of security as well. So we need to, I think, have some confidence of the long track record of wealth creation that comes from a vibrant, competitive market economy and we need to continue thinking anew as circumstances change about how to increase our well being in the dimension of security from downturns.

MS: I don't think there is any risk of that. The polling data clearly show that – and I don't think it's only an androgynous response to the work of the researchers, people are genuinely concerned. So if we take the view that people know what they are talking about, then I think we have real concerns to address. So I don't think we run the political risk of addressing them.

And just second comments before I make an actual question. There is a clear difference, obviously, in the story of the origin of this problem. Globalization and more competition versus deregulation and changing social policies in the first place. And I think it's good to be open to designing a new safety net to face this new world, but let's also face facts.

I mean, this new world we live in is a result of a massive policy shift across the board in both social safety net policy and economic policy which was fundamentally a liberalization, i.e., a deregulation, broadly put. So it's well and good to talk about fixing it, but let's talk about how we got here as well and there are pros and cons in that debate.

And for example, one of the most interesting conundrums in this is the role of credit. Yes, more ready access to credit is exactly what an economist prescribes for increased volatility and how to have better income smoothing. And yet as you point out, the rise in bankruptcies is, at the same time, a reaction to the particular way in which credit was expanded.

So given that letting mortgage brokers sell whatever the hell they please didn't seem to be a very good solution. I would like to ask both sides to sketch the optimal credit policy.

Mod: That would be the subject of an entire conference.

MS: I said I had a question.

Mod: Yes, you sure did. I don't know – can you do it in two sentences?

BL: Let me just say a couple of words. First on the political risk side, there is absolutely no political risk in running against the status quo today, right? There is lots of dissatisfaction on a whole bunch of different fronts, not just the economy, but the economy is a real one. But I think there are political risks in this kind of melodramatic rhetoric.

Not that dislocation and losing a job isn't a real individual trauma, but still, I consider the general rhetorical tone here to be melodramatic and the risks are that encourages this sense amongst ordinary Americans that they are under assault, that the wolves are at the door. And it makes them much less likely to support opening our markets to foreign goods from exporters from poor countries than they would otherwise be.

We see that in the Democratic Party's stance on trade policy. Makes them much less likely to support greater opportunities for people from poor countries to come, work and live here. We see that especially in the Republican Party these days, but we also saw it in some, I think, convenient foot dragging by Congressional Democrats on immigration reform. So I think risks of this kind of spin having real world political impacts on other people is a real one.

On the credit, the proper allocation of credit or proper policies for credit, we know that not too long ago the lenders were being slammed for red lining and for failing to extend credit to African Americans or to people from the wrong side of the tracks. We have veered off in the opposite direction of improvidently lending to people who had no business borrowing and people improvidently borrowing when they had no business borrowing. And I'm sure we will see a correction from that.

I think though that overall, despite the mess, the long term trend of wider access to credit and a democratization of finance is a salutary one. I hope that is not lost in regulatory overkill in the aftermath of the subprime mess.

MS: I want to put in one word as a reporter, and I imagine that Peter would agree. I find in my interviewing over a number of years now that people are really upset about what is happening to them. That there is this sense, even among people who are doing well, that things can get unwound very quickly. And I have to – that undercuts, I think, the statistical evidence in my mind that a number of people are doing well.

People like to cite to me that the airlines, I mean, we get cheap airline travel and that means that our standard of living is better. Well, that was a better argument a year ago than now. I am getting a little bit far afield, but my basic point is it's hard when you go out on stories, even when you are looking for good news, to escape the angst that comes up in almost every interview.

MS: Could I just respond to Tom? I mean, let me just – this is not a thought that is complete, but I think that this issue of credit is important because it is of a part of a piece with this notion of how families should operate in this new economy. That we are, families are mini-financial firms, that households are sort of hedge funds.

And that we have now, I think the advocates of what has happened over the last thirty years in terms of safety nets versus families on their own would say that we have reached some new plateau where families are much more able to bear risk because they have portfolios. They not only have just their labor, but they have these assets and they have stocks and they have the ability to borrow.

And if there is any object lesson in the current set of problems that the economy has, is that families are not, after all, like every other economic unit, that households are not hedge funds. That we are so, in the parlance of finance, long labor income and houses, that we cannot diversify ourselves to a fundamentally different position and bear some great new sets of risks. And I think that Brink's focus on our new borrowing abilities presupposes that notion of families. And I think that what is going on now really strikes at that version of how families operate.

Mod: Go ahead.

Q: Hi, I am Ross Eisenbrey from the Economic Policy Institute. I just wanted to suggest that you could have rising abundance, you could have growing economies without risk. And that there are countries in the world that have substantially less risk and have, by Brink's measures, have done better in terms of health outcomes and sort of average prosperity. Denmark, for example, where they have unemployment insurance that is unimaginable here, people lose jobs and businesses are much freer to lay people off. And it's much more readily accepted to be laid off because people don't sustain the kind of losses that you are talking about. They have 90 percent replacement rates in their unemployment insurance system and everybody receives it virtually. Whereas here it's about a third of people who are unemployed receive unemployment insurance. So there are models that marry the kind of growth that you are talking about and risk for business, but without the income risk that Jacob and Elisabeth and Peter have been talking about.

Mod: The next question? Yes?

Q: Debbie Chalfee (ph.) with Change to Win. You, Jacob and Elisabeth, talked about looking at some of the factors that might be leading to the increased volatility that you found. And you mentioned controlling for certain variables like dual earner households. Did you look at all, and especially given your pinpointing of male earnings, did you look at all at the extent to which one earner or both earners who are unionized or working in industries that were heavily unionized and therefore might have gotten some of the benefits of union in those industries?

Because it seems, Lou mentioned in his response that fewer labor unions means that workers have had much less bargaining power on the job and much more risk thrown their way. So I just wondered if you had looked at that and if not, you had any plans to look at that.

EJ: We haven't, but it's a great question and we can. And trying to think about the data that we've used and I'm pretty sure that for household heads, we actually know whether they were unionized all the way back through the full series for their spouses. Therefore women, it doesn't go back as far.

But it is something that we could look at and it's a good question. I think it touches on my answer to the first gentleman's question, which is really if a lot of the stories we are seeing does have to do with men's earnings volatility, then the question is then why is that happening. And obviously unionization would be a first place to look. So it is a great suggestion and I will look at it.

Mod: Yes?

LM: Larry Mishel from the Economic Policy Institute. I guess I want to reinforce two points that Brink – and tell where we really agree. And I think that one is that there is substantial risk that firms face that they haven't faced before. And that firms are not necessarily the best carriers of the insurance, the sharing of risk that is needed, except in a very finely tuned system like the Healthcare for America Plan, which relies partly on firms, but partly on the public sector.

I guess I think your bringing in the issue of health and the improvements over time, I think is a really important reminder of another dimension that stands outside of the income data that we don't often look at enough that really does matter, the extended life. There are probably quibbles on some of your data on that and etc., but I think that those are really important things.

But on the other assessment, I do think it's really – we have gotten to the crux of the issue, which is do we need to suffer those risks or the risks that happen to people, is that a necessary consequence of any kind of acceleration of our increase in abundance? I think not. I think the distribution of risk could be all wrong. It could have been much better even if it were appropriate for growth. I think there is plenty of room, and you probably agree that the distribution could have been much better. I think the trade-offs between risk and growth for most people has not been quite appropriate.

BL: Let me just respond a little bit to that and then to the previous question from your colleague. So where does the risk/reward ratio, how do I come down on how it should shake out? I am a fairly uncritical booster of economic deregulation and market competition and flexible labor markets.

And so on that score, I think that we get huge benefits in terms of wealth creation and economic dynamism from allowing firm level volatility and labor market churn. But as you mentioned, you can have a safety net as well. Denmark, as you cited, is one of the freest economies in the world in terms of conditions of competition and in terms of labor market flexibility. They also have a generous safety net policy.

I will say that a number of other Western European countries that you might also say have taken more seriously guarding against market risk than the US end up generating other kinds of risks, like risks of long term joblessness or risks of long term exclusion from the labor force all together, especially for immigrants.

But the gist of the Liberaltarian compromise that I floated to my progressive and liberal fellow travelers on a lot of other issues is you give us more free markets, we give you more safety net. And I think that is a sustainable bargain politically and a sustainable bargain from a policy perspective. So that is where I am.

Mod: Jacob has one response.

JH: I just wanted to pop in only because – one, I think this follows very closely on what Brink was saying and a remarkable amount of agreement is emerging. But protecting against political backlash against free markets and global economic transformation is certainly one of the important virtues of social insurance and economic protection, protections of economic security. And was indeed one of the principle justifications for the creation of these programs in the first place.

So I think there is maybe a risk of being too gloomy, but I think there is also a risk of not facing up to these problems that actually influences and goes to some of the concerns that Brink has, as well as those that Peter and I have. And on Denmark, I just would note that stay tuned, I am doing some comparative work and I have data on income drops in Denmark. And it looks as if, depending on how you cut the data, that we remember the 8 to 10 percent of households, people have a household income drop of 50 percent in the United States, the number in Denmark is around 2 percent.

Mod: One more question we have time for – one question and then beyond, because we have someone very eager to ask a question.

Q: (unint.) from AU. I was wondering how much of this volatility goes back to the change of the nature of the economic structure, going back from manufacturing to service and then to the communication. Because as you know since the 1970s to now, the economy has been on a rapid transition from manufacturing to services. So now this volatility could be just the nature of the economy shifting and not going back to the policies of the firms and other government policies.

Mod: Do any of you wish to comment on that?

BL: If anything, you tend to think of manufacturing as having sort of more volatile output, that they are more cyclical than service employers. So it would surprise me that a growing shift of service employers makes for a more volatile employment environment absent some larger change in overall competitive pressures.

JH: I mean, I think this gets back to some of the earlier points, but I think this is a very big transformation if you look at two other areas, if you look at union presence and if you look at benefits beyond and sort of look at beyond income protection. But the point is, is that despite, I think that we actually have a better ability when we look at what Peter calls the struts, the policy changes, to trace them back to causes.

But it is actually the case that as Elisabeth and I are candid in acknowledging, we don't know exactly why there has been this big rise. I think there is really a good scope for work like the work that Brink mentioned that looks at firm level volatility – I think the jury is very much out on that, as well as looking at compositional changes in the workforce, unions. I just hope that I am not the one doing it.

Mod: One more question and I think there was someone in the back and then Larry will wrap up.

Q: Jack Clark, I work on workforce development for a small non-profit. I would like to just come back for a moment to this morality tone issue, about appealing to the middle class. I want to cite somebody who has some pretty good credentials on the very poor, who Brink is linking himself with here, William Julius Wilson, who well over a decade ago argued that the best and perhaps only hope that the truly disadvantaged and he argued that is mostly when work disappears, that the truly disadvantaged in this country had is in making common cause with those people like those southern New Jersey truckers whose lives are increasingly looking like in terms of risks and instabilities.

I find it unseemly for somebody who has supped at the table of the right for a long time, although the Libertarians have been much better on this than others. But who have been riding a wave of the last 30 years of saying those people are against you, middle class, you've got to be with us. To now be saying you kind of appeal to their economic insecurities.

And I think just in quick conclusion, Jacob's point, if you care about the poor people in the rest of the world, guaranteed health insurance would do an awful lot to drive people away from manic protectionism. People have the risk of losing everything when that steel mill closes or when their trucking firm shuts down. And the idea that they are somehow going to be open to – yes, let's have more plants in the Philippines is a foolish illusion at the point where the economy is as unstable as it is.

MS: Can I just say one thing in that regard? I do think that this notion that we are, that Jacob and Elisabeth and I are appealing simply to an aggrieved middle class is unfair. I have a chapter on the poor and I start it quoting Michael Harrington from The Other America where he said that the poor are not like you and me.

I said that he may have been right then, but they turn out to be quite like you and me. And that the trends that these numbers, these statistics show that true in spades for the poor, but they are poor truly quite far up the income spectrum. And I think that quite the contrary, we are not appealing to an aggrieved middle class; we are appealing to everybody up to hundreds of thousands of dollars.

And if we are picking up pitchforks, it is only perhaps against or to tax a percentage at the very, very top. I don't think that there is some sort of great difference between the poor and the middle or even a substantial portion of the upper middle class in America today.

BL: Since the question was directed at me, let me just say one thing against rhetorical tone. I think we've all had jarring experiences where lines that we've used that play great with the choir don't go over so well with the unconverted. And you realize that to whip up your troops is a different matter than to persuade people on the other side.

So I will just say that perhaps my demographic is utterly insignificant and can be safely ignored. But if there are people who are generally pro-market and pro-competition, but who are sympathetic to the bottom line of safety net reform, you may be turning them off with a little too much fire and brimstone rhetoric.

LM: Well, I will cut it off there. We've gone past our time limit. Thank you all very much. We are going to have the book authors, Peter and Lou, sign books here at the table. Thank you all very much for coming. We have a sub-prime event June 12th – please come back.

END FILE