ECONOMIC SECURITY IN AN INDEX OF ECONOMIC WELL-BEING: THE CSLS APPROACH TO ECONOMIC SECURITY

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Abstract

The objective of this research report is to assess the approach to economic security developed by the Centre for the Study of Living Standards (CSLS) in its Index of Economic Well-being (IEWB), and in particular the decision to have a separate economic security domain in the IEWB. We ask whether the economic security domain of the IEWB is detailed enough to capture the types of economic insecurity experienced by people living in the developed world. The report concludes with recommendations to improve the economic security domain of the IEWB.
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Executive Summary

The economic crisis has brought the issue of economic security to the fore. With high unemployment and falling retirement savings, citizens are increasingly concerned about their economic security. One can argue that any attempt to conceptualize and quantify both trends in economic well-being over time and across countries should hence consider economic security. Indeed, the Index of Economic Well-being (IEWB) developed by the Centre for the Study of Living Standards (CSLS) explicitly includes economic security as one of the four domains of the Index, alongside consumption flows, stocks of wealth, and economic equality.

The objective of this research report is to assess the CSLS approach to economic security in its IEWB, and in particular the decision to have a separate economic security domain in the IEWB.

The report is divided into six major sections. The introduction describes the economic security domain of the IEWB, noting that it is based on four named risks identified in the 1948 UN Declaration of Rights: financial risks associated with (1) unemployment, (2) ill health, (3) single parenthood and (4) poverty in old age.

The second section examines the basis for including economic security as a separate domain in an index of economic well-being, putting forward several reasons for such a choice. These include distinctions between poverty and economic security.

The third section discusses a number of issues related to the measurement of economic security, including the use of subjective data on security and the idea of security from dependency.

The fourth section looks at developments in economic security in the United States, as described by Andrew Hacker in the Great Risk Shift, and relates these developments to the economic security domain of the IEWB.

The fifth section puts forward recommendations for adjustments to the economic security domain of the IEWB. These include the inclusion of indicators of physical security, indicators of subjective perceptions of security, stocks of financial wealth as an aspect of economic security, and a shift of focus to insecurity rather than security.

The sixth section concludes that the economic security component as formulated by the Index of Economic Well-Being was improved by the reweighting of its components to put more stress on the incidence of unemployment per se, and to downplay the generosity of unemployment benefits. The IEWB might also one day include a sub index aiming to capture the distinct insecurity that attaches to housing, using data on evictions and foreclosures.

I. Introduction

The economic crisis has brought the issue of economic security to the fore. With high unemployment and falling retirement savings, citizens are increasingly concerned about their economic security. One can argue that any attempt to conceptualize and quantify both trends in economic well-being over time and across countries should hence consider economic security. Indeed, the Index of Economic Well-being (IEWB), developed by Lars Osberg of Dalhousie University and Andrew Sharpe of the Centre for the Study of Living Standards (CSLS), explicitly includes economic security as one of the four domains of the Index, alongside consumption flows, stocks of wealth and economic equality (Osberg and Sharpe, 2009a; 2009b). Osberg and Sharpe develop a composite indicator of economic security that is combined with the indicators for the other three domains to form the overall IEWB. The IEWB allows users to apply their own weights to the four domains, based on their value judgments. The authors themselves weight security highly, suggesting a weight of 25%.

The objective of this research report is to assess the CSLS approach to economic security. The first stage of the assessment addresses the decision to have a separate economic security domain and discusses the degree to which the CSLS approach captures several important aspects of economic security. The report reviews the logic behind several composite indices of economic security and insecurity and compares them with the CSLS approach. We also outline stylized facts about increases in economic insecurity popularized by Professor Jacob Hacker of Yale University, and ask whether the economic security domain of the IEWB is detailed enough to capture the types of economic insecurity experienced by people living in the developed world. Some suggestions are made as to how the CSLS approach might be improved in future.


Everyone has the right to a standard of living adequate for himself and his family, including food, clothing, housing, medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other loss of livelihood in circumstances beyond his control.

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Osberg defines economic insecurity as “the anxiety produced by a lack of economic safety – i.e. by an inability to obtain protection against subjectively significant potential economic losses.” ‘Anxiety’ is a rather special kind of disutility, but possibly one no harder to find proxies for than pleasure, pain, happiness, or any of the other presumed drivers of consumer behaviour in traditional economics.

With a view to identifying fact-based indicators that might correspond to these ideals, Osberg uses the insurance-industry concept of ‘named risks.’ These are sometimes termed ‘contingency risks.’ The named risks chosen to make up the security domain of the IEWB are: (1) unemployment, (2) ill health, (3) single parenthood and (4) poverty in old age. Osberg conflates the UN’s sickness and disability, and modernizes widowhood into ‘single parenthood,’ but otherwise keeps to the UN’s concept of security. Though the particular risks identified are arbitrary (as were the UN’s in 1948), common sense supports them.

Insecurity in Osberg’s work is then conceived as the degree to which an individual or household will lose financially if hit by one of the named risks. It is thus closely related to mainstream indices of personal income and expenditure. Although it is framed in money terms, however, insecurity causes loss of well-being additional to that of mere poverty, for reasons examined below.

II. Reasons for Having a Separate Domain for Economic Security

A. Why Include Economic Insecurity as a Separate Domain?

A null hypothesis in the discussion of the CSLS IEWB might be that it is not necessary to have a separate sub-index or component for economic security in the first place. Could it not be argued that income levels, variation and dispersion are already captured, at least to some degree, in the other domains of the Index (especially consumption flows and equality)?

The ups and downs of individuals’ incomes are already captured by average consumption flows, both over time in a given country or locale, and across countries, at a moment in time in the consumption domain of the IEWB. However average consumption disregards the variety of human experience in a given population and reduces it to the economic status of a ‘representative’ individual, skipping over the fact that many irreducible aspects of the human condition (e.g. gender, age, ethnicity, state of health) are not captured in such a common denominator except via their impact on income. The IEWB attempts to correct for the most egregious defect of the average-income approach through the inclusion of an economic equality domain, which captures income differences across individuals in the population and gives a high weight to those living in poverty.

The IEWB’s wealth domain represents the per-capita stock from which income may flow to individuals in future. It is a weighting of several types of economic assets,
including stocks of physical capital and natural capital, and synthetic measures of the ‘stock’ of educational capital and R&D capital.

So the question arises as to what new information is added to a measure of economic well-being by a fourth domain that targets economic security separately from its effect on income. Is that not redundant? We may examine whether having a domain for economic security captures aspects of economic well-being that we cannot obtain from the first three. What is the evidence that security or insecurity has a separate effect on economic well-being?

B. Behavioural Economics: Insecurity is Separate from e.g. Poverty

Adding to the intellectual armory of those who would focus on negative shocks and risks separately from the averages that include them, there is now abundant evidence from experimental and occupational psychology and behavioural economics. These experiments and studies show that the anticipation of future negative shocks imposes welfare costs separate from the costs experienced when the shocks actually occur.

Osberg (1998) argues that economic insecurity is “the anxiety produced by a lack of economic safety - i.e. by an inability to obtain protection against subjectively significant potential economic losses.” (It is probably preferable to speak of ‘high cost’ of obtaining protection against economic losses, rather than ‘inability,’ since several of the risk categories he discusses can in fact be insured against, albeit at very high costs to the individual.) Osberg cites psychological literature that suggests that uncertainty and worry about negative economic shocks is a separate problem from the loss in well-being from the shocks themselves. The pain, distress and loss of well-being from worry and uncertainty about income loss in the event of losing one’s job, falling ill, and so on, is separable from the loss of well-being when such events occur.

Osberg and many other writers report that most people appear to value security highly: they are generally risk-averse. Risk aversion, and its cognate, loss aversion, have been repeatedly demonstrated in experiments.²

Some costly events, such as increased resort to medical services in old age, are more or less predictable. Insurance and forced savings (pension) schemes do exist, and mitigate economic risk of loss from such events, at least in developed market economies.

If individuals knew their economic futures with certainty, their current economic welfare would be a function of their present income and expected incomes in the future. There would be no additional anxiety or welfare loss on account of unanticipated economic surprises, since bad news occurring in the future would be known now, reducing well-being already. However, Osberg points out that the human condition is one

² A good summary of Kahneman and Tversky’s Nobel-prize winning research into the exceptions to ‘rational economic behaviour’ is found in Schwartz (2005, chapter 3). The New Economics Foundation has been a leader in educating the public about this new branch of economics. See Dawnay and Shah (2005).
of living in the present and looking forward to the remaining years of one’s expected life more or less from behind a veil of ignorance. Man proposes, God disposes.

A person’s ability to think ahead about his or her economic future depends on many factors, including personality, risk profile, age, experience, and state of health. Traditional economic theory assumes people have ‘defective telescopic faculties’ and are mainly concerned with the present. They may fail to study, save or buy insurance against old age or ill health or the risk of unemployment because they weight present consumption ‘too highly’ relative to future consumption.

However, worse than this, behavioural economists have shown that many people do not have the transitive preferences assumed in the ‘rational economic man’ hypothesis. Not only is information costly to obtain, but people may not understand the probabilities of possible future events, and fear ‘salient’ but improbable risks such as airline accidents or rare diseases while failing to prepare for much more probable ill health from mundane but killer diseases like diabetes and high blood pressure. Furthermore, addiction and bad habits do not fit well into the rational choice paradigm. As behavioural economists have stressed, how a choice is ‘framed’ relative to alternatives is hugely important.3

C. Asymmetry between Positive and Negative Economic Shocks

Another key aspect of the behavioural economics literature is that a strong asymmetry is found to exist between positive and negative economic shocks. Negative shocks of a given magnitude cause bigger losses in well-being than equivalent positive shocks improve it. Unforeseen productivity gains, terms-of-trade bonanzas, lottery wins, medical miracles and surprise improvements in health delivery – to cite just a few examples - do not cause reductions in stress or anxiety comparable to the increases caused by negative surprises of the same ‘magnitude.’

This asymmetry justifies giving special attention to security from negative shocks in a measure of economic well-being. Possible positive shocks need not receive similar treatment: they can be allowed to ‘melt’ into and be captured by a population’s average growth figures for income and wealth. The asymmetry is not just on account of the diminishing marginal utility of income. Philosophically, it can be argued that while security is not sufficient for ‘happiness,’ its absence, insecurity, is much more likely to be a sufficient condition for ‘unhappiness.’

Another justification for focusing on negative shocks is the asymmetry with regard to people’s social relationships and legal status. Individuals who suffer financial distress from the ‘named risks’ may go bankrupt and/or become long-term dependent on state or private charity, on monetary and non-monetary entitlements and benefits.

3 The bestseller Nudge by Cass Sunstein and Richard Thaler is based on this insight.
Owing to ‘reputation’ and ageing (or ageism), there may be a downward spiral at the individual level: a downsized person may find it ever harder to find a new job (McMullin et al., 2009). ‘Bad luck’ is frequently cumulative in the labour market. Worse, economic losses can trigger family breakdown, depression, substance abuse, crime, loss of social cohesion, and other ills. In the case of structural changes in the pattern of employment, there may be negative multipliers that cause decline of entire regions, as in Detroit at present. Such negative shocks may not reverse when e.g. the business cycle turns up again. That is what structural change means!

Another negative asymmetry, discussed by Dan Ariely (2008), concerns what is socially acceptable. Social norms that encourage people to behave well and considerately to others without any reward or sanction, behaviours that have positive external effects beneficial to the whole society, may be easy to undermine but hard to restore, on account of ‘framing.’

There is a large subset of the poverty literature that tends to see poverty mainly as an inability to participate in society. People cannot be full participants in their communities because of low command over resources. Isolation and social exclusion, rather than material deprivation or dependency on benefits, is what makes poverty so negative for well-being, so emotionally cruel to those who suffer it (Spicker, 2007; Lister, 2004; ILO, 2004) The Canadian Council on Social Development’s work on economic security is very much in this spirit. They for example define economic security as “an assured and stable standard of living that provides individuals and families with the necessary level of resources to participate economically, politically, socially, culturally, and with dignity in their communities. Security goes beyond mere physical survival to encompass a level of resources that promotes social inclusion (Schetagne, Jackson, and Harman, 2001).

In earlier times, bankruptcy was a source of social stigma, especially in Protestant countries. Adam Smith (1776) in The Wealth of Nations speaks of the “humiliation” of bankruptcy as a motivator of prudent entrepreneurship. Dickensian visions of debtors’ prisons and blighted lives people nineteenth-century biographies and novels. The stigma has lessened a good deal, and bankruptcies due to failed entrepreneurial efforts may confer a bizarre cachet in certain circles. Nevertheless, declaring bankruptcy is a legal event that will have long-term consequences for the bankrupt and his family. Even people with a stellar credit history and unblemished employment record are having loans called in during the present financial crisis, so the pressure on those with less good ratings is intense. (Speaking of which, ‘credit crunch’ is too weak a term to describe the macroeconomic situation as it has impacted borrowers in 2008.)

The asymmetric welfare implications of positive and negative shocks help to justify the dedication of an entire domain of the IEWB to economic security. However, it also raises a question about the CSLS approach to economic security: should we measure economic security or its opposite?
The IEWB’s sub-index for the economic security domain is ‘turned around’ so as to ‘point in the right direction.’ Low insecurity (high security) translates into a country receiving a high score on the indicator; high insecurity (low security) gives it a low score on it, because the authors have chosen to design the indicator to move monotonically in the same direction as changes in well-being. But is this genuinely to be preferred?

‘Turning the indicator around’ may be thought by some to be problematic. Arguably it is the negative, insecurity, which matters to people, disproportionately. People do not have equal positive and negative feelings about ‘insecurity’ and ‘its absence.’ The psychological and behavioural economics literature on perception and risk preference find strongly for an asymmetry between ‘bad’ outcomes and ‘good’ ones.

It may be preferable to deduct for insecurity rather than give plus points for security. Economic security could be entered negatively into the weightings of the Index of Economic Well-being. This would make the interpretation of the economic security domain sub-index more intuitive. The authors have already set a precedent for negative components not being ‘turned around’ in the stocks of wealth domain where a deduction for the estimated monetary value of the flows of environmental degradation costs is subtracted from the overall stock of wealth.

**D. The Ages of Man**

One not entirely obvious justification for having a separate indicator for economic insecurity/security is that, coincidentally, it highlights vulnerable sectors of the population by age. The first three domains of the IEWB (with the exception of some components of the wealth domain, such as natural resources) can readily, at least in theory, be disaggregated by age, gender, locale, etc. However, most of the data are presented at a national, aggregate level, as the focus of the CSLS research has been international comparisons. The first three domains of per capita consumption, per capita wealth, and income distribution, are age-blind, and thus blur the picture with respect to specific stages of the life cycle.

Focusing on cohorts of citizens by life-stage makes sense when we consider the importance to the economic performance of countries of such roughly age-specific activities as going to school and university, child-rearing, paying for housing, saving for and dissaving in retirement, and so on.

The four subgroups captured in the economic security domain fall, perhaps not by chance, into interestingly different demographics. One indicator targets the financial situation of children and (predominantly teenage or young adult) single women. Another targets the old; the indicator on old-age poverty is explicitly restricted to citizens above a certain age. A third, unemployment, encompasses the economic situation of the working-age population. There is an overlap to the extent that single mothers may also be in the labour force and hence, unemployed. The fourth, the health component, targets the whole population of a given country, of any age. However those experiencing anxiety about ill health tend to be more frequently represented in the older the age cohort.
A possible difficulty may be that the economic security domain appears to focus on the economic situation of arbitrary sub-groups of the population. The groups chosen are by definition vulnerable to low or falling income, and thus to low or falling well-being, so including them may bias the economic security component downward. The authors take care of this potential bias by weighting the four components of the economic security domain according to the relative sizes of the sub-populations affected. In Canada, for example, insecurity about old-age poverty received a weight of only 0.117 in the security sub-index in 2007 (Osberg and Sharpe, 2009b). This is because the population share of 45-64-year-olds (the age group assumed to be suffering from worry about poverty in old age) was 11.7 per cent of the sum of the population shares of the four population groups corresponding to the four named risks.

This raises another somewhat non-intuitive aspect of the economic security domain of the IEWB. A decision was made in designing the IEWB to have two components anchored in the present, consumption and income distribution, and two that are forward-looking: the wealth component (the ‘stock’ from which future incomes flow), and the economic security component.

The authors’ determination to make the economic domain forward-looking leads them, for example, to choose the 45-64 age group as that for whom security about sufficient income in retirement is relevant, rather than those 65 and over, who may be already suffering the economic losses associated with poverty and low savings. The already-retired (or semi-retired) are already feeling the effects of market crashes or unforeseen inflation on the real value of their pensions or annuities, in the present, rather than worrying about this happening in the future.

It may however be somewhat unsatisfactory to focus on older workers looking forward to retirement instead of the actually retired, when the idea is to capture the disutility from fear of poverty in old age. The decision to focus only on those aged 45-64 seems question-begging, first because anticipation is not the only source of anxiety, and second, because those 65 and over in the modern world may expect to live many more years if not decades, so they have plenty to worry about. I do not see why both groups could not be included in a future revision of the IEWB.4

For instance, according to the US Center for Disease Control’s NCHS life tables for the year 2004, a 65-year-old male could expect to live another 17.1 years and a 65-year-old woman, another 20.0 years, on average. People in the cohort that was 65 in 2004 had a nearly 4 per cent chance of living to age 90. People who planned to use up their retirement savings at a rate appropriate to such averages had about a 50 per cent chance of running out of money. (National Vital Statistics Reports, vol. 56, no. 9, Table 10, Dec. 2007). Such considerations are even more relevant in Europe. Italians, particularly Italian

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4 In fact, Osberg and Sharpe (2009a) use the population aged 45 and over to compute the weight for security from old-age poverty in their estimates of the IEWB for Canada and the provinces. The IEWB estimates for OECD countries, however, use the population aged 45-64 (Osberg and Sharpe, 2009b). Future estimates for OECD countries should be brought into line with the approach used in the Canadian estimates.
women, for example work fewer years and participate less in the labour market than do Americans. Italy also has very early official retirement ages, while Italian life expectancy is longer than that in the United States.

E. Philosophical Justifications for Including Insecurity

From a utilitarian perspective, because of the diminishing marginal utility of income, the relatively poor suffer more from a given negative shock than those who are relatively rich stand to benefit from a positive income shock of the same magnitude.

From a Rawlsian perspective it is ethically justifiable to focus on raising the well-being of the least fortunate, to maximize the minimum. The ILO 2004 research project mentioned above used Rawlsian maxi-min logic as part of the weighting scheme for each of its sub-indices of labour market performance, and suggested using a ‘security difference principle’ according to which policies or institutional changes are only just if they reduce or do not worsen the insecurity of the least secure groups in a society (ILO, 2004:16). To the extent that the poor are more likely than the rich to suffer from economic insecurity, the inclusion of an economic security domain in the IEWB enhances the focus of the Index on the welfare of the worst-off. (That perspective also validates inclusion of the equality domain in the IEWB.)

F. Moral Hazard and the Personal Responsibility Crusaders

There is a huge economic literature on insurance and the problem of ‘moral hazard’; it cannot be reviewed here. Some risks can be insured against privately. The availability of insurance implies that one can shift a risk one fears onto a company that will pool risks. One pays someone else to assume a risk for one. However, only a tiny subset of risks have well-developed private insurance markets, such as the risk of car theft or house fire. Unemployment fails this test, on account of high correlations of incidence in recessions, and on account of the link to personal behaviour, so there is no private unemployment insurance to be had (Osberg, 1998).

Hacker (2005) mocks the presumption of certain conservative commentators in the United States who argue as if insurance markets exist for all manner of risk, including every kind of risk to health, and extending to loss of income, loss of a spouse’s income, and the risk of divorce. However young or poor, people are expected by Hacker’s bugbear, the ‘personal responsibility crusader,’ to have prudently bought insurance or saved enough to see themselves through any number of rough patches or life-changing events. The ‘personal responsibility crusaders’ recommend savings accounts for every eventuality: the cost of a nanny, one’s children’s higher education, a spell of joblessness,

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5 The acclaimed social science journalist Malcolm Gladwell (2005) reviews ‘moral hazard’ in an article in The New Yorker as it pertains to health insurance, an issue directly relevant to the financial risk of illness that is of interest to Osberg and Sharpe. Gladwell argues that fear of moral hazard in the U.S. health care sector is overblown, since most people do not enjoy consuming medical care and try to avoid it (even when it is fully insured and therefore free from the consumer’s perspective) unless it is necessary.
accident or disability – not to speak of building savings to fund a comfortable, entitlement-free retirement.

If it were the case that all risks were insurable, then it might not be necessary to include economic security in an index of economic well-being. Since most forms of economic risk are not insurable, and since most people do not possess the resources to accumulate private savings as a hedge against every form of economic risk they face, economic security remains an important issue in the measurement of well-being.

**G. Supply and Demand for Security in Democracies**

The twentieth-century history of western political and social institutions supports the notion that people care deeply about minimizing the pain of negative economic shocks. Evidence of the *de facto* importance of security versus insecurity in the discourse of political leaders may seem not a very cogent justification to an economist. There is little doubt that economic security receives much lip service from researchers and policymakers, and that the issues surrounding entitlement have been bones of contention.

The political attention to security jibes with the revealed preferences of economic agents, up to a point. Osberg stresses the indirect evidence that ‘suppliers’, such as governments and insurance companies, have responded to a ‘demand’ for security. Voters’ revealed preference for security has induced democratic governments since the Great Depression to spend large fractions of their budgets on social safety nets.

Even the huge defense expenditures of the Cold War era can be seen as designed to increase the security and thus the economic security of members of the society. That was certainly their intention.

As far back as Bismarckian Germany in the late 19th century, countries began to institute schemes such as Unemployment Insurance, state pensions (Social Security), national health systems, Medicare and Medicaid, and so on. These institutions provided varying amounts of extra security for all or some categories of individual citizens. The national schemes to mitigate the economic costs of unemployment or illness or single motherhood or old age poverty differ greatly from country to country, in their universality and length of coverage, and in their generosity - the percent of lost income compensated for.

However, arguably both Osberg-Sharpe and Hacker discount the possibility that some countries may consciously favour ‘personal responsibility’ and self-reliance at the expense of welfare state coverage of the typical ‘named risks’ (Alesina, Glaeser and Sacerdote, 2001). For reasons well known to students of political economy, such countries or political movements tend to recommend limiting entitlements. Their arguments go back to the old Smithian, classical economists’ presumption that, notwithstanding possible efficiency gains for a society from economies of scale and the pooling of risk over the population as a whole, the state and its agencies are by nature, because of their incentive structure, on balance incompetent and inefficient providers of
public goods and services. The debate is reflective of a sometimes woeful ignorance about the differences between public and private goods and the nature of externality-richness more generally (Boss, 1990).

A newer set of views negative to state provision of entitlement services focuses on ‘moral hazard’. The concern is that universal coverage financed out of taxation will, for instance, induce people to take less good care of themselves and lead to a wasteful increase in costs of health care (Gladwell, 2005).

Another explanation for why certain countries have failed to provide generous safety-nets to mitigate the consequences of the named risks turns on the ‘political’ argument that those disproportionately likely to benefit from universal care are less likely to vote or participate, so the decisions on scale of coverage will be made by the rich and powerful, whose gains from such a system may be smaller than their contributions. To the extent that these agents feel low social cohesion with the disadvantaged, they selfishly choose to keep their taxes down and entitlements low.

Volumes would be required to analyze the philosophical and historical reasons why such views are part of the intellectual landscape in countries such as the United States. The fact remains that certain governments have intentionally limited the scope of universal insurance schemes that pool risks over the whole population, the prudent and the imprudent together. Their citizens are at greater risk of economic insecurity. The problem is far wider and more ancient than just the experience of postwar America, Hacker notwithstanding. For example, the current Chinese system of health, education and unemployment benefits barely covers some 130 million migrants who work outside their area of birth.

**H. Macroeconomic Justifications**

The underlying philosophy of the relation between citizens or bodies who fund such programs and those who receive benefits has varied – not least in the degree to which the schemes are seen as being externality-rich – benefiting not just the target beneficiaries directly, but others in society who do not receive them themselves.

One of the key externalities has been the ‘Keynesian’ macroeconomic one. Helping the unemployed, the uninsured, single mothers and the elderly to maintain their spending (which would make them more ‘secure’ in the Osberg-Sharpe sense) was viewed by macroeconomists as a countercyclical ‘automatic stabilizer.’ It was held that putting purchasing power in the hands of those with a high immediate propensity to consume would be effective in boosting aggregate demand/priming the pump in times of recession or depression. This debate has been revived in the financial crisis of 2007-2008 and the subsequent global recession, as western economies have tried to jump-start spending and lending to mitigate the recession.

To the extent that the economic security domain measures the effects of transfers to low-income people after negative economic shocks, it can capture the positive
macroeconomic externalities associated with that spending. These externalities would not necessarily be captured by the increase in per-capita consumption or by a possible decrease in economic inequality resulting from the transfer payments.

I. Building in Trade-offs to Increase Information Value

By the very fact of its inclusion, the inclusion of economic security in the IEWB sets up a potential trade-off between ‘growth’ and ‘happiness.’ The same is true for ‘growth’ and ‘equality’, at least in many ranges considered relevant for policy. The IEWB’s authors discuss this at length in Osberg and Sharpe (2005).

Having a domain for economic security/insecurity is valuable on information grounds, to the extent that there indeed seems to be a trade-off between security and the other aspects of well-being, such as income growth, and that they be not highly correlated. This increases the ‘discrimination’ or ‘information value’ of including this indicator.

There have been declines in recent years in economic security in many of the 14 OECD countries for which IEWB estimates are available. These structural trends relate to globalization and, since 2007, deep recession. Time-series of the IEWB for the relatively ‘secure’ countries with relatively generous social safety nets reveals some unflattering changes (Osberg and Sharpe, 2009b).

The trade-off does show up in the IEWB, mainly on account of the outlier status of the United States in terms of economic security. One of the CSLS’s most important findings is that inclusion of the economic security domain changes the ranking of countries’ scores on the IEWB. The ranking of the United States is particularly sensitive. When economic security receives zero weight (and the other three domains are weighted equally), the United States ranks eighth among the fourteen OECD countries studied by Osberg and Sharpe (2009b). When economic security receives a weight of 0.25 (and the other three domains are also assigned the weight of 0.25), the United States drops to thirteenth out of fourteen. The economic security domain adds new information, allowing us to differentiate between countries that would otherwise appear similar.

The Economic Security Index developed by International Labour Organization (2004) similarly finds that the United States scores well below (37 per cent) the ‘best’ country, Sweden. This index covers not only outcomes, but legal and institutional ‘commitments’ to guaranteeing certain minima. The UN Development Program’s Human Development Index (HDI), on the other hand, is poor at telling rich countries apart because they all have high per-capita incomes, long life expectancies and high literacy rates.

III. Issues in the Measurement of Economic Security

This section of the report addresses two key issues in the measurement of economic security. The first is the question of what people ought to be secure from.
Means-tested social insurance benefits may provide security from ‘traditional’ economic deprivation (that is, the inability to acquire adequate supplies of certain primary goods), but dependency on such benefits carries a welfare-reducing stigma. Arguably, indices of economic security should address security from dependency.

The second measurement issue is whether or not to include subjective measures of security. The CSLS approach is pared down compared to several other programmes, such as the Canadian Council on Social Development’s Personal Security Index, that aim to go beyond GDP and measure happiness or well-being more broadly by including subjective measures.

A. Beyond the Poverty Line: Indicators of Dependency

Defining poverty has always been contentious. OECD countries often simply take median income and halve it, after adjusting for regional differences in consumer prices and for family size. The US Bureau of Labor Statistics takes the cost of a ‘value’ food basket and triples it, using a rule of thumb that the poor will spend a third of their income on food.

In their estimates of the IEWB for OECD countries, Osberg and Sharpe (2009) follow many other research programs in using a poverty line that is simply half of a country’s median income (adjusted for family size). The poverty line thus determined is then used to derive poverty gaps (distances from the line). These, times incidence, give the poverty intensity ratios for a given country, region or demographic group; they then go into the economic equality sub index.

The point here is that income losses may entitle those affected to state benefits, whether to income support, often known as welfare, or to subsidized health care, such as sCHIP or Medicaid in the United States. Declines in income or wealth thus tend to change the legal status of individuals or households and to change their relationship to the rest of society and to the state. A person may become dependent on means-tested benefits, arguably a more ‘embarrassing’, stressful category of benefit than e.g. public pension or retirement benefits, which are, in some sense if not literally, ‘funded’ by one’s contributions. Tapping state benefits, becoming a welfare recipient, has a stigma and costs the rest of society money.

An interesting research project along these lines is current work aimed at estimating the ‘line’ between dependency and independence, between adequacy and inadequacy of incomes to pay for goods and services that researchers consider to be basic. Examples include the Elder Economic Security Initiative (EESI) from the Wider Opportunities for Women (WOW), which has developed the Elder Index,6 and the State of California’s California Self-Sufficiency Standard (CSSS), which has produced the California Index of Economic Independence (Pearce, 2008).

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These indexes work out the income that various family types – aged 65 and over, in the first instance, and all adults, in the second - in various states and counties, in varying circumstances, are estimated to need if they are to remain independently able to cover expenses the authors designate as basic. These expenses include food (using e.g. the US Department of Agriculture’s Thrifty Food Budget), housing (including mortgage payments), and transportation. For the adults in California, it is heroically assumed that both parents of any children are in full-time employment. They thus include the cost of child-minding or day care in the self-sufficiency budget. Both indices include health insurance premiums, deductibles, co-pays and out-of-pocket health costs such as dental treatment, and tax obligations. The Elder Index includes estimated costs of home- and community-based long-term care.

These indices are squarely focused on the cost of living as it impacts the poor. They measure income shortfalls affecting sub-categories of a nation’s population, by age and region. The California CSSS and the Elder Index approaches could be incorporated into the IEWB’s economic security domain through the poverty gap components of old-age poverty and single-parent poverty. (They could also be incorporated into the overall poverty gap component of the economic equality domain.)

Obviously, the more ambitious and complete the measure of income adequacy, the costlier it will be to satisfy it, ceteris paribus, and the more people will appear vulnerable and at risk of dependency on benefits. On the other hand, the more efficient and comprehensive is public provision of services such groups require, such as medical care, the more likely vulnerable groups like the working poor or the elderly are to remain ‘independent’.

B. Incorporating Subjective Perceptions of Security

The Canadian Council on Social Development’s Personal Security Index (PSI) is more ambitious than the two initiatives outlined above, and closer in spirit to the approach to economic security developed by Lars Osberg. Its researchers estimated a Personal Security Index for Canadians for several years spanning 1998 and 2003 (Canadian Council for Social Development, 2003). Their approach was to combine objective, factual data on real incomes, like those behind the Elder Index and the California Index of Economic Independence, with subjective data from telephone surveys. Researchers asked respondents to report on how secure their incomes, jobs, savings, and so on felt to them, on a scale of 1 to 7. These scaled responses went into the CCSD’s economic security sub-index. The objective data on disposable personal incomes, poverty gaps, long-term unemployment and the proportion of unemployed receiving benefits, welfare benefits as proportions of the LICO poverty line, consumer and mortgage debt as a proportion of disposable income, etc., were scaled using a method similar to the one used in the IEWB.

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7 For example, both initiatives allow that people may need to run a basic car where public transport is not available; estimates were derived from automobile association records of retired persons’ car use and IRS claims for business driving.
Because 55 per cent of the original interviewees signaled that health was the most significant component of personal security to them in an original ranking question, the CCSD included an indicator of health security, including data on life expectancy, premature death rates (years of life lost), data on accidents at home and at work, perceived stressfulness of life, feelings about the adequacy of their access to health care including waiting lists, and perceptions of quality of care, and gave it a 55 per cent weight overall. The CCSD also had a sub-index for what they term “physical safety”, an amalgam of data on violent crime and crimes against property, plus respondents’ perceptions of levels of crime and personal vulnerability. Physical safety received a 10 per cent weight, for the same reason. Economic security was in the middle, with 35 per cent of 1998 respondents saying it was the most important aspect to them.

The CCSD approach valiantly attempted to deal with the objection of behavioural economists that people are imperfectly rational, and may report that they feel worse off than in the past, even when objective data indicates that their income, life expectancy or personal safety has gone up.

The PSI depended heavily on carrying out an annual opinion survey of 3,000 respondents and asking them questions like “to what extent is your life stressful?” Unfortunately, this research program has not been updated since 2003, no doubt on account of the cost of the polling component. Nor was it ever replicated outside Canada, so there was never the prospect of international comparison.

The ILO’s now defunct personal security survey project is another example of an attempt to utilize subjective measures of security. The project aimed at capturing broader concepts of risk and uncertainty than what the ILO calls the ‘old forms’ of social security, which focus on contingency risks such as the named risks that the CSLS estimates the costs of. The ILO managed to cover nearly 100 countries on a huge grid of issues. The ILO argues that much of the economic insecurity experienced by people across the world stems from systemic risks not easily covered by “social insurance” or other selective measures.\(^8\)

The ILO’s personal security survey includes eight forms of socio-economic security: non-work-related basic security, and seven (!) types of work-related security (income security, labour market security, employment security, work security, job security, skills reproduction security, and voice or representation security). Its People’s Security Survey consisted in examining each of the above eight dimensions of socio-economic security from four different angles (actual, perceived, coping strategy, and distributional justice).

The ILO’s survey and the Canadian Council on Social Development’s PSI are two of several attempts that bring subjective perceptions of well-being, personal safety, economic security and similar positives to the forefront of analysis. All of these combine economic data and data from questionnaires and surveys to try to address the problem of

significant divergences between what ordinary people subjectively experience, and how informed expert research programmes estimate their economic situation.

By contrast, Osberg and Sharpe (2009a; 2009b) eschew subjective measures of well-being and security in the IEWB. The only place in which subjective measures play a role the IEWB is in the security from unemployment component of the economic security domain. The authors explain that survey data have shown fear of unemployment to be significantly more salient to workers and to cause them more anxiety than the degree to which unemployment benefits compensate for wages lost. They have thus opted to weight unemployment rates at 4/5 and the replacement rate of unemployment benefits at 1/5 in the ‘security against the risk of unemployment’ component of the IEWB security indicator. They cite Frey and Stutzer (2002) and Di Tella and Raphael MacCulloch (2003).

IV. Stylized Facts about Economic Insecurity in the United States

No prizes for guessing that the main outlier in the IEWB cross-country data is the United States. The United States is a negative outlier vis-à-vis other developed countries in many other composite indices of economic well-being, including the ILO’s Economic Security Index (input score especially) and the New Economics Foundation’s Happy Planet Index, to name a few.10

In the IEWB results for 14 OECD countries, (Osberg and Sharpe, 2009), the United States does the worst job of protecting its citizens from the financial costs of the named risks. Compensating for the four risks making up the IEWB’s economic security domain is costly for US citizens. The cost of health care is particularly out of line, but the United States also scores badly on poverty rates, poverty intensity, divorce rates, and income replacement for the unemployed. Moreover, the incidence of the risks has increased, on account of population ageing, the bad macro picture, and changes in the way people provide for their old age.

Treating security as a separate and important (e.g. quarter-weighted) component of overall well-being, as the CSLS does, reduces the US standing relative to other OECD members, most of which have more generous, if eroding, unemployment insurance schemes and state retirement pension schemes. (The UK state pension is only about 40% of average disposable income, however.) All other countries for which Osberg and Sharpe have time series data since the early 1980s have universal national health or compulsory health insurance schemes. The United States has a patchwork system that is employment-based rather than universal, a situation that arose out of the American labour

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9 This, incidentally, gives the United States a better score on that component, as it has had lower unemployment rates than the other countries in the index, at least until the 2008 spike, and had very low replacement rates for the benefits, so that poor performance on that now gets a much lower weight, raising the US score.

10 The United States ranked 150th in the world according to the Happy Planet Index, on account of its huge carbon footprint (NEF, 2006). Colombia ranked number 2 and Latin American countries generally score very highly. Russia is last at no. 172.
movement’s collective bargaining strategy immediately after the Second World War. It is apparently something of a historical fluke that a universal coverage system never got off the ground in the United States.

Jacob S. Hacker is a US political scientist who has made a career detailing how, despite significant rises in per capita and average family incomes, Americans bear more intractable economic risks than a generation ago (results posted on his website in early 2009 mainly relate to 1970-2005). He concludes that there has been a huge decline in their economic security. Hacker’s book The Great Risk Shift, first published in 2006 and updated in 2008, employs anecdote and hyperbolic language to document a rise in insecurity for average Americans. The change is particularly unexpected and intractable, he argues, for the ‘middle classes.’

The main villain driving the changes described by Hacker is free-market capitalism itself. Competition and markets have been around since the dawn of civilization, but with the personal computer and internet revolutions, their workings have become faster and more transparent. The shift in retirement risk from the employer to the employee with the trend from defined-benefit to defined-contribution pension plans came about in the United States with the introduction and growth of 401(k) personal retirement savings accounts. This idea of shifting responsibility onto the individual was copied in other developed countries such as Canada and the UK. It turned a whole new swath of the population into investors in mutual funds and common stocks. To a different degree than in the past, investors and traders punished publicly listed companies that failed to deliver short-term profits, reported by law on a quarterly basis. Social costs and benefits were not internalized by such firms. To survive and retain their investors, they shed jobs and cut costs at home in the high-cost, high-wage countries and outsourced the work to countries like China, Mexico, Poland and India, which now have a pool of skilled entrepreneurs and workers of their own.

In the United States (and, for example, in Germany and Italy) these processes, which to a Schumpeterian would count as ‘creative destruction,’ have created ghost towns and long-term structural unemployment for blue collar, and increasingly, white collar workers with, for example, only a high school diploma, or an incomplete college degree (Kynge, 2006; Simms et al., 2002).

Hacker has announced he is working with the Rockefeller Foundation to produce an index dubbed the RESI, the Rockefeller Economic Security Index, based on data from the University of Michigan panel study of income dynamics and aiming to obtain a measure of ’realized risk,’ without the need to weight different domains. It will aim to illustrate how and in what respects economic security varies over time and across social groups in the United States.

Some of the key findings on the “great risk shift” before the economic crisis hit are highlighted below.\(^\text{11}\)

\(^{11}\) These are drawn from the web site of The Great Risk Shift (http://www.greatriskshift.com), which contains additional information.
• The chance that an American with average demographic characteristics will experience a 50 percent or larger drop in income over a two-year period rose from 7 percent in the early 1970s to 17 percent in 2002.

• Personal bankruptcy has gone from a rare occurrence to a routine one. In 2005, more than 2 million Americans filed for bankruptcy—up from fewer than 300,000 in 1980.12

• Workers feel insecure. In 1982, amid a severe recession that had pushed the unemployment rate up to 10 percent, a poll by the private business research firm ISR found that 12 percent of workers were “frequently concerned about being laid off.” In 2005, with the unemployment rate down to 5 percent, the number of Americans worried that they would lose their jobs was 35 percent.

• 46.6 million Americans lack health insurance, up from around 24 million in 1980. All of the decline in coverage is due to a drop in the scope and generosity of employer-provided health coverage. In 1980, the majority of employers at medium-to-large companies paid 100 percent of the premium for family health coverage. Today, fewer than a quarter do.

A salient if somewhat politically-incorrect ‘selling-point’ of the Hacker analysis is that risks formerly experienced by the uneducated and low skilled now affect ‘everyone.’ The ‘middle class’ is newly vulnerable to insecurities that only used to happen to ‘immigrants’ and the ‘unskilled.’ For instance, speed of change in the world economy has meant that formerly safe, if expensive and debt-inducing, investments in higher education are subject to quite uncertain returns. Obtaining a college degree used to buy a ticket to a stable and comfortable middle-class lifestyle. But even before the credit crunch of 2007, well-educated people who were downsized often fell into a downward spiral, unable to find another well-paid job commensurate with their education, or even one that that came with health insurance. The entrepreneurial, contract-based nature of some fast-growing professions such as IT project work and consultancy has increased the precariousness of work and incomes on average.

Obviously, the US system of parents saving and/or students borrowing to pay for higher education costing tens of thousands of dollars is a model not all countries have followed. (The UK, however, citing regressivity, has recently begun to shift a much higher percentage of the costs of post-secondary education onto the beneficiaries, rather than funding them from general taxation the way primary and secondary schooling are funded.) The point is that such very costly education means it must be funded in part by borrowing, the way houses are purchased, increasing overall consumer debt, and thus, vulnerability to income and interest-rate shocks.

Hacker artificially uses the ‘few good years’ of the postwar period up to 1980 for his benchmark, forgetting that state provision of income and entitlements to the old is a

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12 This observation appears inconsistent with data on the US Federal court website which indicates that there were just under 1.1 million total bankruptcy filings in 2008. This may be a definitional issue, or be related to the level of the court (district, federal, etc.) involved.
relatively recent phenomenon historically. According to the ILO (2004), more than half the world’s population has no formal social safety net of any kind (ILO, 2001).

Hacker, Joseph Stiglitz (2002), Paul Krugman and other left-leaning liberal critics of globalization have often quoted the stylized fact that the earnings of US males have stagnated in the last generation, especially for the less well-educated who were more vulnerable to competition with workers overseas. It has been the extra participation and additional hours worked by US women that have explained the rises in family income and per capita income in the US since the 1970s. The IEWB records the decline in ‘joint leisure’ in its subcomponent personal consumption, via changes in hours worked (loss of leisure). Hacker notes that the two-earner family is twice as likely to experience unemployment, ceteris paribus, so, if their expenditure is higher thanks to the extra income, the higher standard of living will also be riskier to the couple.

American women’s increased participation and hours have not been accompanied by a parallel increase in security, as women tend to be in ‘flexible,’ lower-paid jobs in small firms, associated with low seniority and low benefits. So if they fall victim to the ‘named risks,’ they are less likely to have those risks mitigated by insurance payouts and other benefits. That is, their incomes are less secure.

Since the first edition of Hacker’s book came out in 2006, the ‘subprime crisis’ has dragged the world into a severe recession. We now know that that people with terrible credit ratings, or no job at all, were mis-sold mortgages, and soon began to default on homes they could not afford. The originating banks offloaded the risks and sold them on as repackaged bundles, allegedly pooling the risks but in fact hiding them. Hacker blames the Bush administration, its regulators, and ‘greedy bankers.’ However, greedy consumers wanted those cars, those diplomas, those plasma TVs, and those houses.13

Hacker’s book deals only with risks borne by citizens of the United States. Osberg and Sharpe, among others (the ILO, the New Economics Foundation), point out that economic insecurity has increased not just in the United States, but across the world. This may be attributable to globalization, outsourcing, and the greater synchronicity of business cycles, among other factors. Aspects of the US’s lean and mean, self-reliance-enhancing safety net have been emulated by Canada, Britain, and even Germany and France, countries with reputations for high labour costs and cradle-to-grave safety nets. German unemployment insurance benefits in the late 1990s fell to near subsistence levels after 12 months, for instance (Osberg, 1999).

The ability of typical citizens in OECD countries to provide for or insure against the named risks varies considerably. Younger workers will not have had time to build up assets to tide them over a major period of unemployment. Chetty (2008) estimates that the main reason unemployment insurance lengthens the time spent in unemployment in the US is the liquidity effect: job losers have virtually no savings and zero cash, so only the receipt of UI benefits ‘allows’ them to be unemployed at all.

13 See Michael Lewis’s fascinating account of how the collateralized debt obligation market operated (Lewis, 2008).
Similarly, disability or major illness cannot be provided for out of personal savings if the savers affected are young. Such cohorts may have negative net worth on account of education debts or e.g. negative housing equity. At any rate they will not have had time to build up assets to handle a medical catastrophe, and they may fail to buy insurance, thinking it unnecessary at their age.

Changes in the labour market have meant a shift away from stable, lifetime jobs and a move towards low-security, low-benefit contract work. Virtually all the increases in income have gone to the top decile of the income distribution. The same is true for household financial wealth. According to Anderson (1999), the bottom 30 per cent of the US income distribution in 1999 had zero or negative financial assets. The average was only about $1,000, net of credit card debts.

How well does the economic security domain of the IEWB capture the developments in economic security identified by Hacker? Among the stylized facts discussed above, two are of particular interest and are not clearly reflected in the IEWB’s security domain. First, the perceived precariousness of employment has risen. There is a distinction to be made between anxiety about unemployment and anxiety about job loss. The ‘security from unemployment’ component of the IEWB’s economic security sub-index focuses on the former; it uses the unemployment rate as a proxy for the probability of becoming unemployed. As Hacker notes, however, Americans grew increasingly anxious about the prospect of job loss between 1982 and 2005 in spite of the fact that the US unemployment rate declined by about 50 per cent over the period. There are aspects of employment-related economic insecurity that are not directly tied to unemployment. Workers may be concerned about involuntary part-time employment, underemployment (that is, employment in jobs that do not allow for the full utilization of a worker’s human capital and may not provide the desired return on the investment in that human capital), or losing good jobs and becoming reemployed in poor jobs. These forms of labour market insecurity are increasingly important, but they are not captured by the IEWB.

The second important stylized fact not directly addressed by the IEWB is the dramatic increase in personal bankruptcy in recent years. Arguably, a key aspect of economic security is the probability of experiencing a catastrophic event that imposes costs one cannot afford to pay and that exhausts one’s savings. This is particularly relevant for the ‘security from the costs of illness’ component of the economic security domain. Medical costs are the leading cause of personal bankruptcy in the United States (Himmelstein et al., 2009), while medical bankruptcy is almost unheard of in other OECD countries. It is possible that the IEWB indirectly addresses the bankruptcy issue through the existing unemployment and illness components of the security sub-index, but it would be worth considering a more direct treatment of the bankruptcy issue.
V. Recommendations for the Economic Security Domain of the IEWB

Osberg and Sharpe (2009a; 2009b) have been engaged in a major research program to estimate economic well-being with internationally comparable data for 14 OECD countries and for Canada and the provinces over a ‘generation-long’ time span (1980-2007). This section of the report puts forward a number of suggestions for the economic security domain of the IEWB.

A. Physical security indicators

The current version of the economic security domain does not include any measures of ‘physical security’ related to occupational health and safety and crime. It was argued that a ‘dashboard approach’ with a slew of indicators might distract policy makers from the central ones, or allow them to pick and choose in a non-representative way.

But it would seem a waste not to use the vast amount of information on workplace accidents and disease and crime. This information would certainly appear to be relevant to security and insecurity.

According to psychology professor David G. Myers (2000), in the United States since 1960 “the divorce rate doubled, the teen suicide rate tripled, the recorded violent crime rate quadrupled, the prison population quintupled, the percentage of babies born to unmarried parents sextupled, and the rate of cohabitation without marriage (which actually is a pretty good predictor of eventual divorce) increased sevenfold.” The IEWB so far only deals with single parent poverty. Robert Lane (2000), another academic psychologist, avers that the rate of clinical depression in the United States has more than tripled in two generations, and increased by possibly a factor of 10 since 1900. Other OECD countries covered in the IEWB have experienced trends in crime and mental illness in the same direction. These sorts of events have economic consequences for those affected.

I would welcome the development of a ‘physical insecurity’ sub-index for the economic security domain of the IEWB. The data gathered by the Canadian Council on Social Development for their Personal Security Index could be used for Canada, and similar data is likely to be available for other OECD countries.

The IEWB might also one day include a sub-index aiming to capture the distinct insecurity that attaches to housing, using e.g. data on public housing benefits, evictions and foreclosures. Arguably fear of eviction is a huge worry for people in some countries studied by the CSLS, and a differentiator between countries that would otherwise appear similar.

If the poverty in old age sub-index is widened to include those 65 and over, so that the index is less ‘forward looking’ and more ‘present looking,’ that would argue for a
physical insecurity sub-index that uses accident rates rather than death rates, mugging and assault rather than murder.

In keeping with Lars Osberg’s focus on financial costs rather than physical ones, the ‘named risk’ would be income loss through disability rather than linearly-scaled accident or disability rates. I would argue for using the data on crimes against the person, such as assault and mugging, if internationally comparable data is available, because of the link to depression and long-term change in victims’ well-being.

B. Inclusion of subjective perception of risks

A more substantive question is whether there ought to be subjective elements in a composite index, whether of economic security or economic well-being or personal well-being conceived more broadly. Obtaining data on self-rated perceptions requires expensive public opinion polling, and results are not naturally expressed in money, but rather in relative scales such as “strongly agree” and “neither agree nor disagree”. Internationally comparable data is trickier still, as the ILO and the NEF are well aware.

Surveys inquiring into self-rated happiness, feelings of income adequacy, job satisfaction, expectations of adequacy of pensions in retirement or of adequate care from the health system may be hard to translate accurately into certain languages, quite apart from the fact that such data cannot be gleaned from existing public sources, but must be gathered by polling organizations.

The IEWB authors have stressed that they want their index to be firmly anchored in economic and other data gathered by national statistical agencies. By implication they have not sought to incorporate survey data on perceptions of income adequacy, fear of job loss, stressfulness of everyday life, perceptions of personal safety from crime, and so on, such as the data gathered for a short period by the Canadian Council on Social Development (CCSD). Since perceptions can diverge quite strongly from ‘the facts’, and since economic well-being depends on subjective feelings of desire and usefulness, per the tenets of the most basic economic theory, the IEWB expressly takes a somewhat paternalistic attitude. If we feel in greater danger of violent crime when crime has actually gone down, they would argue, we are irrational and our fears do not count.

The IEWB makes several strong assumptions. Economic well-being is negatively related to inequality, CO2 emissions, and personal expenditures on health care. People are assumed to value a narrow income distribution highly, which implies that they feel fraternité and social cohesion with their poorer compatriots, rather than gloating that the Joneses may not be keeping up with them. People are presumed by the IEWB most definitely not to wish to have the US employment-based private health system. These assumptions are plausible, but they are not universally held. They would be contentious in the United States, given the high tolerance of inequality, the high value put on self-reliance, and distrust of ‘big government.’
C. Stocks of wealth as a form of economic security

As the authors admit in their grid, the various types of capital that make up their wealth domain are traditionally seen as valuable because output may flow from their stocks in future. Well-being (utility, in traditional welfare economics), on the other hand, is a function of consumption now. Consumers are not assumed to derive present enjoyment from plant, equipment or office buildings, or spending on basic research. In a very real sense, capital is an input, not a final good that belongs in the utility functions of individuals. The authors go against that presumption in assuming that increases in the various types of capital raise well-being. They ought probably to ground the logic of that more firmly. There is a link to feelings of security, in that having a large capital stock per capita in the IEWB sense may make citizens who are aware of it feel they live in a rich country with abundant natural resources.

D. Measurement of insecurity rather than security

In the IEWB, economic security is measured by an index that takes high values when security is high (or insecurity is low) and low values when security is low (or insecurity is high). This index is then combined additively with the indices of the other three domains to generate the overall IEWB. It is assumed that economic security is like consumption or wealth in the sense that ‘more is always better’ for economic well-being.

However, the behavioural economics literature suggests that people do not have equal positive and negative feelings about ‘insecurity’ and ‘its absence.’ The psychological and behavioural economics literature on perception and risk preference find strongly for an asymmetry between ‘bad’ outcomes and ‘good’ ones.

It may therefore be desirable to alter the economic security domain of the IEWB so that it measures insecurity rather than security. The economic insecurity sub-index would measure the degree to which a country falls below some threshold level of economic security, and would adjust the IEWB downward according to this insecurity. Such an approach may more adequately capture the asymmetric nature of economic security and insecurity.

VI. Conclusion

In the Index of Economic Well-being (IEWB), economic security is treated as a fundamental domain of social welfare on equal footing with consumption, wealth and economic equality (which includes poverty). This report concludes that the decision to dedicate an entire domain of the IEWB to economic security is justified for a number of reasons. In particular, recent findings from the behavioural economics literature make it clear that security in the face of an uncertain economic future is a key determinant of individuals’ well-being. Since most forms of economic risk are uninsurable through private action (especially for low-income people), it cannot be assumed that insecurity reflects conscious, rational decisions to take on risk.
The economic security sub-index of the IEWB captures the effects of four important determinants of economic insecurity: unemployment, illness, single parenthood and old-age poverty. The security sub-index was improved by the reweighting of its components to increase the importance of unemployment *per se* and to downplay the generosity of unemployment insurance benefits as a determinant of well-being.

There is room to further improve the sub-index by expanding its scope to better reflect the realities of economic security in advanced countries today. Possible extensions include the inclusion of indicators of physical security (i.e. security from assault and other crimes against the person) and the precariousness of housing (i.e. security from eviction or foreclosure). The weight of the old-age poverty component should be increased to account for the population aged 65 and above, since most people can expect to live for many years beyond age 65 and will not necessarily stop worrying about the possibility of falling into poverty. Finally, a more comprehensive inclusion of subjective measures of economic security could be considered.
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