

# Economic Insecurity and Social Stratification

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## Abstract

Economic insecurity describes the risk of economic loss faced by workers and households as they encounter the unpredictable events of social life. Our review suggests a four-part framework for studying the distribution and trends in these economic risks. First, a focus on households rather than workers captures the microlevel risk pooling that can smooth income flows and stabilize economic well-being. Second, insecurity is related to income volatility and the risk of downward mobility into poverty. Third, adverse events such as unemployment, family dissolution, or poor health commonly trigger income losses. Fourth, the effects of adverse events are mitigated by insurance relationships provided by government programs, employer benefits, and the informal support of families. Empirical research in these areas reveals high levels of economic insecurity among low-income households and suggests an increase in economic insecurity with the growth in economic inequality in the United States.

## INTRODUCTION

The study of social inequality is shadowed by the unpredictability of daily life. Stratification research, for example, examines not just the distribution of earnings, but also the risks of job loss and downward mobility. Family sociologists analyzing the class contours of household composition also study the exigencies of fertility and divorce. Health research links economic status to physical well-being, but also investigates the hazards of sickness and disease. Unpredictable events—such as unemployment, divorce, or illness—can reduce incomes, fuel debt, and drive bankruptcy, joining researchers from diverse fields with a common focus on economic insecurity.

Insecurity describes the risk of economic loss faced by workers and households as they encounter the unpredictable events of social life. The problem of economic insecurity originates in a dynamic perspective on social stratification. Analysis focuses on changes in economic status, rather than on its level. Whereas inequality is the guiding concept describing variation in the level of socioeconomic status, insecurity is the orienting idea for the dynamic approach.

The dynamic perspective on stratification is infused with experiential and political realism that recommends it as a compelling agenda for research. Lives unfold with variation over time, rather than with variation in a cross section as observed by the researcher. Economic insecurity is also politically salient—more so, perhaps, than economic inequality—and the policy remedy of social insurance propelled the development of modern welfare states in Europe and the United States.

Finally, the current era of economic inequality, particularly in the United States, may be accompanied by renewed levels of economic insecurity. Wage studies have linked insecurity to inequality by observing that rising within-group inequality, among workers similar in skill and demographics, is associated with rising year-to-year variation (Gottschalk & Moffitt 1994, 2009). Themes of risk and insecurity are also prominent in popular accounts of

recent economic trends. Hacker (2006), in *The Great Risk Shift*, argues that household incomes became more volatile through the 1990s, suggesting a rise in economic insecurity among families. Sullivan and colleagues (2000) trace the fivefold increase in the numbers of personal bankruptcies through the 1980s and 1990s to job loss, divorce, and health problems. Similar themes of volatility in economic life are sounded in books such as *High Wire: The Precarious Financial Lives of American Families* by Gosselin (2008), *The Disposable American: Layoffs and Their Consequences* by Uchitelle (2006), and *The Big Squeeze: Tough Times for the American Worker* by Greenhouse (2006).

We review research on labor market inequality, poverty, and social policy and suggest a four-part framework for studying economic insecurity. First, whereas stratification research often focuses on individual workers, the study of economic insecurity should focus on households—often consisting of several earners—to better capture the overall risks to economic well-being. Second, economic insecurity is associated with income changes over time, rather than income inequality at a point in time. Third, income loss is linked to adverse events, particularly job loss, family dissolution, and poor health. Finally, the effects and prevalence of adverse events depend on the surrounding institutions that regulate risk. To focus the discussion, we largely confine ourselves to the recent US experience and to trends closely associated with earnings and incomes. This focus necessarily neglects important comparative contributions (e.g., Burkhauser & Couch 2009, Osberg & Sharpe 2002) and research beyond stratification on, for example, the psychological dimensions of economic insecurity (Matthews & Gallo 2011, Warr 1987).

## WORKERS AND HOUSEHOLDS

Economic insecurity partly results from fluctuations in an individual's income, but also from the relationships of income pooling and insurance in which an individual is enmeshed. One strand of research has studied the

problem of economic insecurity by analyzing earnings and job loss among individual workers. Another has treated economic insecurity as a household-level phenomenon in which the effects of changes in incomes and employment depend on the support of family members. The relational character of economic insecurity makes the unit of analysis an important preliminary question.

The question of whether the individual or the household is the appropriate unit of analysis recalls an older debate in stratification research. In the 1970s and 1980s, feminist scholars argued that women's economic status was overlooked by a paradigm concerned mostly with men's class and stratification (see Sørensen 1994 for a review). In response, Goldthorpe (1983) argued for the family as the analytic focus because family members shared similar life chances and material well-being. The family's class position, said Goldthorpe (1983), could best be inferred from the economic status of the household head, who was typically a male breadwinner. In the aftermath of the gender debate, studies of gender inequality increasingly examined women's individual economic status, and some researchers adopted more flexible definitions of families' class status (Sørensen 1994, pp. 40–44).

The gender debate represented one effort to interpret a shifting social reality in which more women remained in the labor market after marriage and motherhood, and unmarried mothers increasingly headed families. In the 40 years since 1970, the proportion of US households with children having two adults and a single breadwinner declined from 50% to 30%. In this period, the proportion of households with single parents roughly doubled from 10% to 20%. Although descriptions of family change often emphasize rising rates of single parenthood, the increase in maternal employment has been quantitatively larger. Households with two working adults are now modal, accounting for approximately half of US households with children by 2010. (These figures are from our tabulations of 1970–2010 census data.) As large as they are, these changes

underestimate the growing heterogeneity of American families, as employed mothers in the 1970s were significantly less likely to work full time and year round than their counterparts some decades later (Cohen & Bianchi 1999).

Influenced by these trends, welfare state specialists, stratificationists, and family demographers converged on a new perspective that placed the household at the center of the stratification process. Recent work reiterates the old emphasis on the family as the unit of analysis, but surpasses the gender debate by viewing family dynamics and women's economic status as central to the distribution of life chances. Esping-Andersen (1999), for example, expands the usual range of comparative research on the welfare state by arguing that the three main sources of social stratification are the welfare state, the labor market, and the family. DiPrete (2002) similarly argues for the importance of families as a mechanism for social stratification, bypassing the analysis of occupations and individual earnings in favor of family incomes and other measures of family well-being. McLanahan (2004) makes a related case, viewing single motherhood and maternal employment as the key conditions contributing to poverty among the adult children of poor parents.

The shift in perspective from breadwinner to household is fundamental for the study of economic insecurity. Household structure varies much more than in the past, with two large effects. First, the capacity to absorb adverse events—such as sickness or job loss—depends on household composition. Single-parent families are more vulnerable to shocks than two-parent families, and two-worker families can better absorb unexpected expenses than one-worker families. Second, even in the absence of adversity, the employment profile of households patterns year-to-year income variation. Families with both parents working show less within-group inequality than families with one or no earners, suggesting less economic volatility among two-earner families (Western et al. 2008).

More generally, the stability of economic life depends on the social context in which

individuals are embedded. The risk pooling that smoothes incomes over time is a collective endeavor, organized in households and through social programs whose benefits often depend on family structure and employment or income. From the dynamic perspective, insecurity is formed through the interaction of the labor market with the household, in an institutional context provided by the welfare state. This is an eventful process in which continuity is regularly threatened by episodes of economic and domestic adversity.

## INCOME DYNAMICS AND INSECURITY

An influential, but indirect, analysis of economic insecurity examines fluctuations in the incomes of workers and households. Income fluctuations vary in their magnitude, direction, and frequency. Large income changes, income losses rather than gains, and frequent changes in incomes have all been associated with economic insecurity. The three dimensions of income dynamics—magnitude, direction, and frequency—have been examined in two important areas: Analysis of income volatility has concentrated on measuring the magnitude of high-frequency, transitory, income changes; research on poverty dynamics has examined the prevalence of negative income changes, mostly among low-income households.

### Income Volatility

Rising economic inequality in the United States has motivated recent research on income volatility. The growth in inequality, in the last decades of the twentieth century, was partly due to some groups getting relatively more and others getting relatively less. The earnings of college graduates increased relative to high school graduates, for example. But a large fraction of the increase in inequality was related to increasing income variability within groups—among workers of the same age and education, among families of the same race and employment profile (Lemieux 2006, Western et al. 2008). If

we describe American economic inequality with a regression equation using predictors such as age and education, inequality increased in part because the coefficients increased (rising between-group inequality), but also because the residuals grew in size (rising within-group inequality).

Gottschalk & Moffitt (1994) argue that rising within-group inequality might have two sources. The average pay of workers with similar characteristics may have spread out, perhaps because the labor market rewarded skills that were difficult to measure with standard labor force data. Alternatively, year-to-year fluctuations in pay may have increased. The authors mainly pursue the second hypothesis that growing wage volatility boosted the within-group inequality found in cross-sectional measures of wage dispersion (Gottschalk & Moffitt 1994, 2009; Moffitt & Gottschalk 2002). Analyzing three decades of data from the Panel Study of Income Dynamics (PSID), they partition variation in men's earnings into two components. One component, called the permanent variance, is due to differences in the average earnings of each worker. The other component, called the transitory variance, measures annual fluctuations in earnings around the averages. The transitory variance—capturing the volatility of men's annual earnings—doubled from 1974 to 2000 (Gottschalk & Moffitt 2009). Earnings instability increased most from the late 1970s through the mid-1980s.

The finding of increased earnings volatility was unevenly replicated. Similar to Gottschalk & Moffitt (1994, 2009; Moffitt & Gottschalk 2002), Bernhardt and colleagues (2001) find that the transitory variance in earnings significantly increased from the 1970s to the 1980s and early 1990s when comparing two cohorts from the National Longitudinal Surveys. Other analyses of the PSID have found rising volatility in the 1970s, but later trends were marked more by the business cycle—with volatility increasing in recessions—than by a steady upward trajectory (Haider 2001, Shin & Solon 2011). Using a different measure of volatility, analysis of the PSID also indicates that annual changes

in earnings have become more dispersed since the 1980s (Dynan et al. 2007). In short, earnings volatility in the 2000s is clearly higher than in the 1970s, although there is little consensus on the shape of trends since the mid-1980s. Mixed findings demonstrate the acute empirical challenge of the dynamic perspective. Studying income inequality and the level of incomes is relatively tractable. Studying short-term changes demands more accuracy from income data, and findings are more sensitive to statistical methods.

As research on earnings accumulated, a few researchers turned to study household income volatility. Individual earnings may fluctuate because of interdependent decisions about labor force participation within the household, and the impact of these fluctuations depends on household structure. A broader income measure places those individual fluctuations in the context of all revenues flowing to the household. Household incomes, which include labor market earnings (often from several individuals) and income from other sources such as welfare programs, are thus a clearer indicator of the stability of economic well-being, particularly for economically inactive groups such as children and the elderly.

There are few published studies on household income volatility, but the weight of the evidence suggests that, like individual earnings volatility, household income instability increased from the 1970s to the 2000s. Gittleman & Joyce (1999) examine family incomes in the PSID and find a 17% increase in the transitory variance from the 1970s to the 1980s. Measuring volatility with the standard deviation of two-year income changes, Dynan et al. (2007) find that household income volatility increased by roughly one-third from the early 1970s to the 2000s. Bania & Leete (2009) study low-income families in the Survey of Incomes and Program Participation, finding that monthly variability in household incomes increased substantially from the early 1990s to the early 2000s. Very poor families, whose incomes fell below 50% of the poverty line, reported the greatest income instability.

Similar to research on individual earnings volatility, estimates of household income volatility are sensitive to models and data. In contrast to reports of rising household income volatility, a study by the Congressional Budget Office found that the likelihood of a large income change remained stable for American households from the mid-1980s to the early 2000s (Dahl et al. 2008). Household income instability appears to be greater in the 2000s than in the 1970s, but there is less consensus about the timing of the increase and its magnitude. Like research on earnings volatility, the analysis of household income dynamics presents a harder empirical problem than the analysis of the level of household incomes.

How does income volatility relate to economic insecurity? Higher volatility is sometimes interpreted as a sign of increased insecurity, but volatility and insecurity are not equivalent. Consistent with income insecurity, large income losses that are at least statistically unpredictable yield more volatility. Still, measures of volatility typically do not distinguish income losses from gains, nor do they distinguish voluntary from involuntary changes. Unexpected income gains—perhaps from bonuses or other windfalls—although adding volatility, are clearly less threatening to consumption or welfare than losses. Similarly, if changes in income are produced voluntarily, such as through planned retirement, they cannot be characterized as unexpected or a source of insecurity. To assess the extent of involuntary income losses, additional information must be enlisted on, say, layoffs, disability, or other shocks to the household that might reduce incomes.

The unpredictable income losses that lie at the heart of economic insecurity could be analyzed further by taking the asymmetry of income losses and gains as an empirical problem to be studied. Although not directly measuring insecurity, the different shape of gains and losses tells us something about how households may plan for the future, regulate their consumption, and experience economic hardship. Assessing asymmetry is fundamental to studies of mobility, for which downward mobility

from the middle class or upward mobility from poverty has special significance for understanding the distribution of opportunity. A similar attention to asymmetry could be usefully applied to the study of economic volatility.

### Poverty Dynamics and Income Losses

The direction of income changes was singled out by poverty researchers studying the likelihood of families falling into poverty (Bane & Ellwood 1986, Burkhauser & Duncan 1988). Although not directly focused on economic insecurity, researchers tried to assess whether poverty was a persistent or a temporary condition.

Commonly, poverty is measured by the percentage of households with incomes below a fixed threshold (adjusted for family size) at a single point in time. In an important contribution to research on income dynamics, Bane & Ellwood (1986) analyze spells of poverty, estimating their duration and the probability of exit. By following households over time, the authors are able to distinguish two kinds of poverty: temporary and persistent. First, most households that fall into poverty do so only briefly, for two years or less. These temporarily poor families make poverty highly prevalent; many become poor but usually for a short period of time. A second, much smaller, group are persistently and severely poor. Although small in number (one in eight of those falling into poverty), persistently poor households account for more than half of all poverty at any point in time. Thus, point-in-time rates indicate only a small fraction of households are poor (roughly 10–15%), but poverty is common in the sense that many people become poor, briefly, at some time in their lives. Although many slip into poverty temporarily, the poor at any given time look very different from typical households, being persistently and often acutely disadvantaged.

Like income dynamics, poverty dynamics changed as US income inequality increased. The ten-year prevalence of poverty increased for adults under age 50 from the 1970s to the

1990s. Among men and women under age 30, nearly 40% experienced poverty in the 1990s, compared with just 25% in the 1970s (Sandoval et al. 2009).

A few studies follow the poverty research by studying trends in individual or household income losses. Hacker & Jacobs (2008) study PSID household income data and find that the likelihood of very large income losses—greater than 50%—increased from 1971 to 2004. However, similar studies have been unable to replicate this finding. Analyzing Social Security administrative records, the Congressional Budget Office reports that two out of five workers experienced an annual change in their earnings of 25% or more, and this proportion remained roughly constant between 1984 and 2003. The chance of a 25% loss in household income in the PSID was also unchanged from the early 1980s to the early 2000s (Dahl et al. 2008).

### ADVERSE EVENTS

Research on income volatility has primarily charted variation in earnings and income instability across time or demographic groups. In contrast, research on poverty dynamics has commonly linked income losses to negative life events. Job loss and family dissolution, in particular, have been viewed as key sources of economic insecurity. In addition, policy researchers have emphasized the importance of good health to economic stability, viewing sickness, injury, and mortality as significant threats to families' material security. Common to all this research is the idea that “trigger events” (DiPrete 2002) are as vital to the stratification process as the usual measures of human capital and social background.

### Job Loss and Employment

For many scholars, labor market insecurity stems chiefly from the threat of unemployment. Although layoffs and firings may be the main sources of economic insecurity, fluctuations in tenure, working hours, and compensation have also been studied.

Recent research on employment stability has examined the hypothesis that the US labor market became more volatile as the economic environment for firms became increasingly competitive since the 1970s. In her recent review, Hollister (2011) calls this the “new employment narrative” in which the long-term employment relationships of the postwar period have given way to increased turnover and part-time and temporary work.

Studies of involuntary job loss, job changing, and job tenure all examine different aspects of the trend in employment insecurity. Trends in rates of job loss and job changing have been estimated with panel data, and trends in current tenure have been estimated with repeated cross-sectional surveys. The likelihood of changing jobs increased from the late 1970s to the late 1980s for young men, as well as for older men who had held long-tenured jobs (Bernhardt et al. 1999, Valetta 1999). However, job changing is difficult to measure in some panel surveys because employer information is not collected. For this reason, perhaps, several panel data analyses report no clear trend in employment instability (Gottschalk & Moffitt 1999, Jaeger & Stevens 1999, Mouw & Kalleberg 2010). Job tenure—the length of time in current employment—is measured directly by the tenure and pension supplements of the Current Population Survey (CPS). Farber (2007, 2008) analyzes the CPS from the early 1970s to the early 2000s, finding that employment instability increased significantly. The effect, however, is concentrated among older men working in the private sector. Very long job tenure, greater than 10 and 20 years, declined in recent cohorts of older men. Farber (2007) concludes that lifetime employment, although characteristic of male workers in the 1970s, became uncommon by the 2000s.

Although some studies suggest increasing employment instability, among at least certain groups of workers, there is stronger consensus about the negative income effects of job loss. Several studies report that around 40% of families entering poverty first experienced the unemployment of a household head or spouse

(Cellini et al. 2008). As workers reenter employment, they often take temporary or part-time jobs before finding work again in regular full-time positions (Farber 1999). Perhaps through signaling or lost human capital, the negative effects of unemployment on later earnings have also been found to be long lasting (see Gangl 2006 and his references to the literature).

Although job changing and its economic effects have been the main focus of research on employment instability, there is also evidence that jobs are becoming more unstable in the sense of providing less insurance and more irregular hours. In research on rising wage inequality, Autor et al. (2008) describe a polarization of the US labor market in which employment has grown in both low-skill and high-skill occupations. The hollowing out of the occupational structure is associated not just with rising earnings inequality, but also with rising inequality in nonwage compensation such as health insurance and retirement benefits, increasing inequality in part-time and temporary work, and increasing inequality in workplace safety (Autor et al. 2008, Fligstein & Shin 2004, Kalleberg et al. 2000). Fligstein & Shin (2004) describe this as a “bifurcation of work” in which insecurity has increased for all, but has increased most for low-wage workers.

### Family Instability

The second main source of economic instability for households is divorce and separation. Women’s employment may cushion the effect of men’s employment instability on the household, but divorce and separation are countervailing threats to economic security. Research on poverty dynamics has viewed union dissolution as a major poverty risk for women and children (Bane & Ellwood 1986, Burkhauser & Duncan 1988). This finding mirrors research on divorce that reports large income losses for women but not for men (but see McManus & DiPrete 2001). Family income losses for women after divorce are commonly estimated near 10–20% (Holden & Smock 1991). These negative effects of divorce on women’s family

incomes are long lasting and only partially mitigated by remarriage.

Trends in family instability suggest the income losses associated with divorce and separation have become more prevalent. Rates of divorce, separation, and cohabitation have increased from the 1960s (Bumpass et al. 1991). The divorce rate, the number of divorces in a year divided by the number of married couples, roughly doubled between 1960 and 1980 and then remained at a high level through the 1990s. Some researchers have claimed that divorce rates increasingly underestimate family instability because of increasing rates of cohabitation, unions that are at high risk of dissolution (Bumpass & Lu 2000, Lichter et al. 2006, Manning et al. 2004). Although this is likely true, the rise in cohabitation cannot fully account for the arrested growth in divorce (Goldstein 1999), and cohabitation, like marriage, appears to have become more stable since the early 1990s (Kennedy & Bumpass 2008, Stevenson & Wolfers 2011).

The growth in family instability from the early 1960s to the late 1980s is stratified by race and class. The high rate of single parenthood among African American families is well documented, and this pattern is matched by high rates of cohabitation, divorce, and separation (Bumpass & Lu 2000, Raley 1996, Raley & Bumpass 2003). Indeed, the upward trend in union dissolution rates, although leveling off in the 1990s for whites, persisted for African Americans (Sweeney & Phillips 2004). Increasing rates of single parenthood and divorce are also concentrated among couples with just a high school education (Ellwood & Jencks 2004, Martin 2004). Martin (2006) reports life table estimates of divorce rates for first marriages from the mid-1970s to the mid-1990s. These estimates show that among women who had no more than a high school education, the divorce rate for first marriages increased by approximately 5%. Among women who had at least completed a bachelor's degree, the divorce rate declined by approximately 10%. Racial and educational disparities combined to produce high

levels of family instability among low-income households in the 1990s.

The implications of family instability for the process of stratification were encapsulated by McLanahan (2004) in her presidential address to the Population Association of America. She argued that family life had become profoundly unstable, particularly for low-education and African American households. Family instability, in McLanahan's (2004) analysis, extends beyond the usual measures of divorce and separation to include revolving patterns of cohabitation and romantic relationships among unmarried parents and high rates of multiple partner fertility (Carlson & Furstenberg 2006, Guzzo & Furstenberg 2007, Lichter & Qian 2008, McLanahan 2009). These "fragile families," consisting not just of the poor but of the lower third of American families with children, provide a high-risk setting for children's schooling and development (Osborne & McLanahan 2007). In this analysis, family instability is presented as the key mechanism linking inequality in one generation to inequality in the next (McLanahan & Percheski 2008).

## Health

Labor market and family instability have been viewed as the main sources of economic insecurity by poverty and stratification researchers, but, historically, poor health was also seen as a significant threat to economic insecurity (Moss 2002, Turnbull 1966). Sickness, workplace injury, and widowhood were all studied for their economic effects and were seen by policy makers in the United States and Europe as the key risks requiring social insurance.

Motivated by the socioeconomic gradient in health, recent research has mostly investigated the impact of economic standing on mortality and disease (Elo 2009). Still, a number of recent studies reverse the causal arrow, examining the economic effects of the onset of health problems as workers reach their fifties and sixties (Coile 2004; Smith 2003, 2004). Analysis of the Health and Retirement Survey shows that for a cohort aged 51–61 in



1992, more than one-third experienced a major health condition (cancer, heart problems, stroke, or lung disease) and just under half experienced a minor health condition within eight years. These health problems were associated with out-of-pocket medical expenses between, on average, approximately \$1,000 and \$6,000. Approximately 10% of those experiencing a severe onset faced costs of \$17,000 or more. The onset of severe health problems is also associated with reductions in employment and household income (Smith 2003, 2004) and appears to play a primary role in retirement decisions (Dwyer & Mitchell 1999). Perhaps because of the responsibilities of caring for sick family members, job loss due to health problems does not result in compensating employment by others in the household (Coile 2004).

Much of the interest in the economic consequences of poor health is set against the backdrop of declining insurance coverage in the United States. Hacker (2006) sees rising rates of uninsurance and underinsurance as combining with the economic gradient in health to significantly increase income risks for middle-class households. Faced with large health-care expenses, usually for uninsured and chronic conditions, families may borrow from a revolving source of credit such as a personal credit card. Sullivan et al. (2000) find that the accumulation of debt for medical expenses is the most common cause of personal bankruptcy. The financial effect of medical expenses may have increased; an analysis of five states finds that the rate of medically caused bankruptcies increased from 45% in 2001 to 62% in 2007 (Himmelstein et al. 2009). Poor health is also associated with other financial problems such as defaulting on loan repayments and credit denials (McCloud & Dwyer 2010). We discuss the role of private insurance below, but we note for now that although health insurance coverage has measurably declined over the past few decades, we know less about trends in the prevalence of health events.

One area in which trend data are available is workplace injuries. Hammermesh (1999) shows that the risk of workplace injuries declines with

increasing income. He argues that conditions of low-wage work deteriorated as earnings inequality increased through the 1980s and 1990s. Thus, low-wage workplaces were relatively less safe than high-wage workplaces—and the relative risk of injury greater—by the 2000s than three decades earlier (Fligstein & Shin 2004, Hammermesh 1999).

In sum, income instability is propelled by a variety of negative events originating most commonly in the labor market and the family. Employment has become more insecure, although this effect is concentrated among older men working in the private sector. Family life too has become significantly more unstable, although instability is concentrated among low-income householders and African Americans. The growing instability of work and family life describes a transformation of the household as an economic unit. The role of a male breadwinner in a two-parent family is being eclipsed by a heterogeneous and fluid array of economic and kin relations. Labor-market researchers and family demographers have independently described these trends in similar terms as the deinstitutionalization of the labor market and the American family (Cherlin 2004, McCall 2001). In this context, institutionalization refers not just to the stability of employment and marriage relations; it refers to a variety of social supports that sustained the continuity of marriage and work in the face of negative shocks such as sickness, disability, or marital strife. Institutional protections have also eroded in the sphere of health, plausibly increasing the effect of health on economic security. More generally, the economic effects of adverse events depend on the institutional context of risk regulation, which provides the last piece of the analysis of economic insecurity.

## INSTITUTIONS AND THE ALLOCATION OF RISK

We can think of institutions regulating risk in three ways: through risk reduction (making hazardous events such as unemployment less likely), risk shifting (moving the costs

of a hazard from one actor to another), or risk spreading (sharing the costs of a hazard across many actors). In the case of household hazards such as divorce or unemployment, stratification researchers have focused on institutions that redistribute rather than reduce risk. Still, government measures for risk reduction—through workplace safety rules, public health initiatives, or macroeconomic management, for example—have clearly had large effects on social inequality. These topics remain more at the margins of sociology, and research in public health, law, and economics has dominated (Blank & Blinder 1986, Breyer 1993, Marmot & Wilkinson 2006).

The welfare state has been the main focus of research on the institutional response to social risks. We argue for a broader view in which households and labor market actors (particularly employers) also reallocate the risks of unemployment and other hazards.

### The Welfare State

Welfare programs have a variety of functions, including economic redistribution and the equalization of life chances. Still, insurance against major social and economic risks has been a key objective of policy makers and central to the understanding of researchers (Baldwin 1990, Moene & Wallerstein 2001, Moss 2002). In the United States, the earliest efforts at social insurance focused on workplace injuries and unemployment. Worker's compensation laws were widely adopted by the states by 1920, but public unemployment insurance did not become common until passage of the Social Security Act in 1935 (Moss 2002, pp. 152–69).

Passed in the middle of the Great Depression, the Social Security Act addressed two of the main risks facing American workers—unemployment and income loss through old age. Plans to manage these risks were conceived as social insurance by which benefits were funded out of contributions rather than general revenues. The logic of risk spreading—distributing the costs of unemployment and

retirement across all workers—was central to both financing and political viability. The architect of Social Security, President Franklin Roosevelt's Committee on Economic Security (CES), declared that “contributory annuities are unquestionably preferable to noncontributory pensions.” The CES warned of the “disastrous psychological effect of relief upon the recipients,” and touted contributory old-age insurance as a “self-respecting method through which workers make their own provision for old age” (Moss 2002, p. 200).

Additional layers of state income support were added from the 1960s. The Great Society programs increased transfers to poor families, especially single-mother families. From the 1970s, low-income working families were increasingly supported through tax credits. The Earned Income Tax Credit (EITC) was established in the early 1970s and greatly expanded in the 1990s. By 2000, the EITC had grown to roughly equal the combined size of the traditional antipoverty programs, Temporary Aid to Needy Families (TANF) and the Supplemental Nutrition Assistance Program (formerly Food Stamps) (Hotz & Scholz 2003). Given the income volatility and episodic character of poverty in low-income households, these antipoverty measures are not simply redistributive; they help spread the risk of income loss across all taxpayers.

Public efforts at risk spreading thus take the form of a complex patchwork of social insurance and means-tested programs, involving transfers and tax expenditures (Howard 2007). Some programs, such as unemployment insurance and TANF, are organized at the state level, and others, such as Social Security and the federal EITC, are nationally administered. What has been the impact of these measures on the stability of family incomes?

Researchers have typically answered this question indirectly, focusing more on redistributive and antipoverty effects than on income smoothing. Studies from the 1980s show that social welfare expenditures had a large antipoverty effect, concentrated among the elderly (Danziger et al. 1986). For the nonelderly

population, welfare reform since the 1980s has made public support increasingly contingent on employment. The main cash-transfer antipoverty program, TANF, established by the welfare reform of the 1996 Congress, altered the institutional context of economic insecurity. Welfare reform established five-year cumulative limits on welfare receipt and stricter employment requirements—a trend beginning with TANF's predecessor, Aid to Families with Dependent Children (AFDC), in the early 1970s. Following the adoption of TANF, employment increased substantially among single mothers with less than a high school degree, from 42% in 1993 to 65% in 2000. Annual incomes also increased, rising \$168 between 1995 and 2002 for every \$100 decline in welfare benefits (in 2000 dollars). Despite these improvements in economic status, it is difficult to separate the effects of welfare reform from a strong economy at the end of the 1990s. Moreover, poverty rates have not declined as poor single mothers moved off welfare into the labor market (Blank 2004). Because of the increased employment, however, researchers have found increased income volatility among single mothers in addition to modest increases in average incomes (Bollinger & Ziliak 2007).

Rising rates of employment have also made poor adults increasingly dependent on work-related payments such as unemployment insurance and the EITC, rather than antipoverty transfers. Economists have studied how unemployment insurance compensates for lost earnings by analyzing the relationship between fluctuations in earnings and fluctuations in consumption (Dynarski & Gruber 1997). Declines in earnings are only weakly related to declining household spending on food and housing. Transfer income (mostly unemployment benefits) is estimated to offset one dollar in lost earnings by about 20 cents. Unlike unemployment insurance, the EITC specifically targets low-income working households. These households have the greatest income instability, and it seems likely that the tax credit reduces year-to-year income variability (although within-year variability may increase when the benefit is

paid as a lump sum). We know of no study that directly examines the income-smoothing effect of EITC, although Scholz and colleagues (Ben-Shalom et al. 2011, Hotz & Scholz 2003) calculate that the tax credit reduces the poverty rate by roughly one percentage point, an effect similar in size to unemployment insurance.

## The Labor Market

In addition to social insurance, antipoverty transfers, and tax credits, public policy also promotes the redistribution of risk by private employers. Tax exemptions for employer-provided health and retirement plans promote private risk reallocation. Labor economists have studied trends in the provision of health insurance and other nonwage compensation, asking whether benefits compensated for the rise in earnings inequality in the labor market or added another dimension to US labor market polarization.

Using establishment data from the 1980s to the 2000s, Pierce (2001, 2010) reports on the level and trend in nonwage compensation. The highest levels of nonwage compensation are found among the highest paid workers (see also Kalleberg et al. 2000). In the top quintile of the wage distribution, 80–90% of jobs provide health insurance for workers. In the bottom quintile, however, only approximately 40% of jobs have health benefits. Thus, inequality in total compensation (summing wages and benefits) is greater than inequality in earnings. To the extent that health insurance improves health status, reduces work absences for sickness, and covers medical costs that would otherwise be paid by households, nonwage benefits contribute to the relative stability of earnings and consumption of highly paid workers.

Like levels, trends in nonwage benefits vary by income. Nonwage benefits have increased among high-pay workers and declined among the disadvantaged as earnings inequality has increased. Overall, the prevalence of paid leave and health insurance declined from 1982 to 1996. In this period, the value of health insurance at the tenth percentile of the

compensation distribution declined by roughly 75%, whereas its value increased by roughly 45% at the ninetieth percentile (Pierce 2001, p. 1518). This reflects declining insurance coverage in low-wage jobs. Farber & Levy (2000) report that, from 1979 to 1997, health insurance coverage dropped from 67% to 50% among workers who dropped out of high school, and from 71% to 62% among workers with high school diplomas. Among college graduates, the health insurance rate fell from 81% to 76%, although the decline at the top of the education scale was offset by rising health insurance coverage among spouses. In short, the rise in income inequality was tracked by growing private insurance inequality, leaving low-wage workers increasingly exposed to the risk of poor health and retirement insecurity.

### Household and Kin Support

Finally, when social stratification is produced through an interaction between families, the labor market, and the state, the family itself should also be viewed as an informal risk-pooling organization that stabilizes welfare in the face of adverse events. Economic models have treated the family both as a firm (Becker 1981) and as a bargaining relationship in which men's and women's outside options determine the distribution of roles and welfare within the marriage (McElroy & Horney 1981). Against these two views, Oppenheimer (1997) has argued that increasing women's employment has allowed greater flexibility in the division of economic roles. In particular, wives compensate for the economic misfortune of their husbands. In this analysis, marriage is less like a firm or a bargain, and more like a mutual aid society.

Risk pooling within the household has been studied by economists in the context of research on the added worker effect in which wives enter the labor force in response to their husband's unemployment. With data from the Denver and Seattle Income Maintenance Experiments, Lundberg (1985) finds that married women are 25% more likely to enter the labor force, and 33% less likely to exit, if their husbands are

unemployed, although this result was found only for whites. Wives' labor supply response to husbands' unemployment is often estimated to be small or zero (Heckman & Macurdy 1980, Maloney 1991). Stephens (2002) argues that wives may increase employment before husbands become unemployed, and continue to increase employment in the years after a layoff. He finds that wives' employment compensates for 25% of husbands' lost earnings, although this effect builds over several years. The compensatory effect of spousal employment may have become smaller as married women increased their labor force attachment through the 1980s and 1990s (Blau & Kahn 2007). As the norm of wives' and mothers' employment became stronger, it seems that women's economic roles have become more independent of the economic exigencies of the household. Equivalently, household economics increasingly depends on two workers and thus cannot easily be supplemented by augmenting labor force participation among already working spouses.

Beyond the household, researchers have studied how more distant kin provide what Edin & Lein (1997) call a "private safety net" of support in the event of emergencies (Harknett & Hartnett 2011, Hofferth 1984, Hogan et al. 1993, Sarkisian & Gerstel 2004). For the poor, and poor African Americans in particular, one hypothesis claims that precarious households are buttressed by extended ties of kin and community. Stack's (1975, p. 32) *All Our Kin* provides a classic formulation: "They share with one another because of the urgency of their needs. Alliances between individuals are created around the clock as kin and friends exchange and give and obligate one another." Subsequent empirical research has grappled with class and race differences in kin support, partly to understand the household finances of poor families and partly to assess the family dynamics of African Americans. Although kin support might function in several ways—as private insurance, a platform for mobility, or a regular source of welfare—Hogan et al. (1993) find that the purposes and forms of support are highly correlated. Empirical findings suggest

that kin networks are governed by reciprocal expectations of giving and receiving. As a result, kin support is more common in affluent families that have more resources for assistance and stronger expectations of reciprocation (Harknett 2006, Hogan et al. 1993). Although it may smooth incomes in response to adversity, Harknett (2006) observes that the income gradient in kin support tends to provide the greatest protection to those facing the lowest risk.

In sum, the welfare state, the firm, and the household are important institutions for risk regulation that help smooth the incomes and consumption of families. However, state, private, and family risk pooling have eroded. Social policy support for low-income families is increasingly conditional on employment. Employment has increased in low-income households, but income instability has increased as well. The coverage of health insurance and retirement plans, already low in low-pay jobs, has declined disproportionately among workers with little schooling. Finally, although employment among married women partially compensated for unemployment among husbands, increasing single parenthood and family instability since the 1970s have made families more dependent on the job stability of a single worker. In short, household risks have become increasingly privatized, especially for low-income families.

## QUESTIONS AND HYPOTHESES

Despite a large empirical literature, the problem of economic insecurity is often only indirectly examined, and key research questions remain unresolved. The measurement of income insecurity is substantially underdeveloped. Poverty researchers have studied a household's risk of falling below the poverty line, but this research includes only those in the lower tail of the distribution. Studies of income and earnings volatility across the whole population have often failed to make the key distinction between upward and downward movements in income. If income movements are symmetrically distributed, they may have

less significance for the stability of consumption or the subjective experience of insecurity than if they were asymmetric. Two features of the distribution of income changes appear important for understanding economic insecurity: the probability of a positive or a negative change in income, and the magnitude of changes in income. A richer analysis of economic insecurity would study the whole distribution of income movements, and compare both the prevalence and magnitude of positive and negative income changes. From this perspective, volatility, by itself, may say relatively little about economic insecurity. Instead, it is the asymmetry of the income volatility that is conceptually critical.

The focus on income volatility has largely bracketed the question of whether income changes or other changes in status are unexpected. Events such as layoffs or workplace accidents may be hard to predict, whereas retirements or pregnancies may be carefully planned. Although contemporary families and labor markets may be more unpredictable, they may also offer spouses and workers more choices. Unpredictability and choice may both yield greater income variability. Distinguishing expected from unexpected variation in economic status thus seems a key task for research. In current work, deviations from average incomes are treated as unexpected, but this is true only in a statistical, not a substantive, sense. Economists have studied subjective perceptions of economic risk, but so far, this work has mostly described the distribution of expectations (about unemployment or income losses, for example) rather than relating expectations to outcomes (see Manski 2004 for a review).

Much of the research on the economic instability of households has been descriptive, determining whether instability has increased with income inequality. Parallel literatures on job loss, family formation, and health have not yet been systematically integrated into an account of income trends. [DiPrete's (2002, DiPrete & McManus 2000) work represents an important exception, combining information on income dynamics, employment, and family structure.] It remains unclear whether increases

in household income instability are related chiefly to labor market or family dynamics. There is also little evidence on whether income volatility is driven by the increasing incidence of adverse events, or whether households are less insured against adversity than in the past. Connecting events to income changes across the income distribution remains an important research frontier.

Although large income movements are likely to be triggered by key events such as job loss, labor market entry, or union dissolution, the asymmetry of income volatility is likely to be distributed unevenly across the population. In particular, adverse dynamics—frequent and large negative changes in incomes—are likely to be seen among those whose market power is weak and who are marginalized from wide risk pooling. Thus, we would expect to observe higher levels of income insecurity among households with low-skill and low-income workers, single-parent families, and racial and ethnic minorities in disadvantaged sectors of the labor market.

The shift in focus from male breadwinners to households also suggests the importance of studying how the components of income contribute to income dynamics. Say a poor family obtains its yearly income from three sources—two working adults and a government program, such as the EITC. Income dynamics, in this case, have two main components. First, each income source—by its own variability—contributes to the overall variability of household incomes. Second, the correlation among income sources also contributes to household income fluctuations. The incomes of a husband and wife may each be highly variable, but if the wife enters the labor market only to compensate for the husband's unemployment, the negative income correlation between the husband and wife contributes to smoothing the variability of incomes from one year to the next. Similarly, a decline in household earnings may be partially offset by a higher tax credit.

We are interested in the insecurity of incomes chiefly because we think it is related to the continuity of consumption in the house-

hold and to subjective feelings of insecurity and because it affects whether families can be forward looking—plan for their future, save for their future consumption, and make investments in themselves and their children. The connection between income dynamics on the one hand, and consumption, investment, and savings on the other is seldom studied, particularly in sociology. Still, the focus on income dynamics yields several important hypotheses. Independent of the average level of income, we would expect to see less savings and investment, more subjective insecurity, and more volatility in consumption in response to economic insecurity. From this perspective, high levels of economic insecurity cause people to shorten their time horizons, to survive the coming days and weeks rather than years.

## CONCLUSION

The dynamic perspective on social stratification views the household as the key social unit, volatility and insecurity as the products of events rather than the stable characteristics of individuals, and risk pooling through social policy and informal social organization as the main sources of income smoothing. Although elements of this perspective can be seen in research on poverty, mobility, and the welfare state, each research area focuses on distinct aspects of economic insecurity. The scope for a synthetic research program that studies income dynamics across the income distribution appears wide indeed.

It is often claimed that increasing income insecurity has accompanied the growth in income inequality in the United States (Gosselin 2008, Hacker 2006, Sullivan et al. 2000). Although there are key gaps in the empirical research, and findings are sometimes uneven, evidence indicates that the economic insecurity of US households is greater in the 2000s than it was in the 1970s. Studies of individual earnings and household incomes generally show greater volatility in the 2000s than 30 years earlier. There is mixed evidence that the likelihood of large income losses

increased in this same period. Still, the rise in income volatility may have been episodic rather than continuous and marked by fluctuations in the business cycle. The two main sources of household income instability—job loss and union dissolution—also appear more prevalent in at least some segments of the population in the 2000s than in the 1970s. The proportions of men in long-tenure private sector jobs (job tenure exceeding 10 and 20 years) has declined, but the stability of employment has been otherwise unchanged among younger men and among women. Instability in family life has also been higher in the 1990s and 2000s than in the 1960s. Finally, the institutional context of risk pooling—through government programs, private insurance, and informally in families—has also eroded. Programs for low-income households have become more closely tied to employ-

ment, employer-based private insurance has declined in coverage, and single-parent families have become more common as marriage rates declined.

Although economic insecurity has generally increased, it appears to be more concentrated among individuals and families in the lower half of the income distribution. Income volatility is relatively high among low-income families. Family instability has grown more in minority and low-education households. Workplace risks to health have grown more in low-income jobs, and low-income jobs have become relatively less likely to insure against those risks. Whereas rising economic inequality, at least since the late 1980s, is a story about increasing incomes at the top of the distribution, rising insecurity appears to be a story about increasing risks to households at the bottom.

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## Errata

An online log of corrections to *Annual Review of Sociology* articles may be found at  
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