Chapter 5
Conclusion: Economic Risk, Policy, and Politics

Scott Winship, Doctoral Dissertation

The foregoing chapters have shown that economic risk, at least as evidenced by trends in earnings and income instability, has risen far less than Hacker and others have claimed. Using this yardstick, the economy has become riskier for typical American families, but not a lot riskier. Below I will show that this is also true of other indicators of economic risk.

Economic risk need not be *rising* to justify public policies to improve the economic security of Americans—it just needs to be "too high". However, those concerned about economic security must squarely face two sets of facts that challenge beliefs that are widespread on the political left. First, levels of risk are not rising as much and are not as high as many progressives believe. Second, economic anxiety is not as deeply felt as they believe. Perhaps partly as a consequence, there is only modest appetite among Americans for grand new social insurance programs.

I present evidence for both of these contentions below before concluding with a programmatic approach to economic risk that addresses these political constraints. My proposal essentially consists of voluntary federally-sponsored offerings in the vein of conventional employee benefits. I illustrate this approach by outlining new health care reform and retirement savings proposals.

The Great Risk Shift Reconsidered

Hacker and others who believe in a "risk shift" offer two rationales for their agenda: a policy one and a political one. The policy rationale asserts that the magnitude of the problems facing the middle class is large enough that its members are only marginally more secure than the poor. Therefore, only universal policies based on social insurance are up to the task of alleviating the economic insecurity of the middle class. Few observers have elaborated this belief as articulately as Hacker does in the concluding paragraph of *The Great Risk Shift*:

> The philosophy behind the reforms that we need is one of constructive change guided by an abiding spirit, the spirit of shared fate. Today, when our fates are often joined more in fear than hope, when our society often seems riven by political and social divisions, it's hard to remember how much we all have in common when it comes to our economic hopes and values. Indeed, we are more linked than ever, because the Great Risk Shift has increasingly reached into the lives of all Americans….What the ever-present risk of falling from grace reminds us of is that, in a very real sense, all of us are in this together. The Great Risk Shift is not "their" problem; it is our problem, and it is ours to fix.[1]

The problem with this rationale for expansive (and expensive) policy is that its proponents overstate both the depth of the economic problems facing the middle class and the extent to which these problems have worsened. As the preceding chapters have shown, the extent to which economic instability has increased has been greatly overstated. The same is true of other indicators of supposed risk. A careful reading of Hacker's work finds little in the way of trend data related to the problems he discusses. I begin with an indicator that on first glance appears to bolster his case.

Risk of Joblessness. The question of whether the job stability has fallen has been the subject of heated debate for the past twenty years, and the evidence remains somewhat ambiguous. Much of the early research suffered from data inconsistencies.

The most careful research tended to find flat or modestly declining job stability—measured as current tenure or job retention rates—from the mid-1970s to the early 1990s.[2] But David Neumark and his colleagues (1999) found a modest decline in job stability over the first half of the 1990s,[3] David A. Jaeger and Ann Huff Stevens (1999) found that the share of men age 40 and older who had under ten years of tenure began to rise in the mid-1980s, and two studies using the National Longitudinal Survey of Youth found bigger declines in job stability among men under 40.[4] Leora Friedberg and Michael Owyang (2004) also found that average job tenure among men declined from 1983 to 1998 for groups defined based on how long they have been out of school. Among women, tenure declined among younger workers, but may have increased among older workers.[5]

Two contributions to a new volume on the risk of job loss convey the current state of debate on the question. Stevens (2009) finds that the average man near age 60 in 1969 had held his longest job for 22 years.[6] That was the same duration for the average man near age 60 in 2004. In addition, over half had worked on a job for 20 years or more in both years. However, tenure did decline from 1975 or 1980 to 2004. An important limitation of this study is that it reflects the experiences of men at the end of their careers. Since there is evidence of a secular decline in job stability since 1985 or 1990, today's younger workers will have had different experiences by the time they are 60 than Stevens's sample. However, if most workers hold their longest job near the ends of their careers, then one would expect that recent changes would have shown up in Stevens's results.

Henry Farber's (2009) paper in the same volume—the latest in a series of papers he has written over the course of a decade—finds that mean tenure by age declined among men between the 1973-79 period and the 2000-06 period.[7] The share of men with at least ten years or at least twenty years of tenure also declined. Among women, tenure increased. However, Farber's results may not adequately account for rising educational attainment—which reduces career length on the front end—or declining age at retirement (or semi-retirement), which reduced career length on the back end.[8]

In a more reliable set of results, Farber finds that the share of men in the private sector with less than one year of tenure rose modestly from 1973 to 2006 (from about 9.5 percent to about 12.5 percent), while the share of women with less than one year of tenure fell. His evidence implies that the increase among men was confined to workers age 30-64 and was particularly large among men in their thirties.

It appears that job turnover has become more common in the past two decades. But if our concern is economic risk, this trend is not very informative. Job stability can reflect the preferences of either employers or employees. Low job stability can reflect poor economic conditions (in which case lower job security leads to shorter tenure) or strong economic conditions, where strong labor demand leads workers to switch to better jobs. Data from the Bureau of Labor Statistics's Job Openings and Labor Turnover Survey indicate that depending on the point in the business cycle, 40 to 60 percent of job separations not due to retirement, death, or transfers involve *voluntary* separations chosen by the employee.[9] Rather than trends in job stability, what is really of interest are trends in job security. The fact that earnings instability rose only modestly among men and fell among women suggests that rising job instability has probably involved a lot of voluntary rather than involuntary job separation. Trends in a wide variety of other statistics also support this conclusion.

Start with unemployment. The official unemployment rate has shown a secular decline since the recession of the early 1980s, as shown by the "U3" line in Figure 1. There are a number of issues that make the unemployment rate an imperfect measure of joblessness, but the Bureau of Labor Statistics has tracked additional measures intended to address these shortcomings. As Figure 1 shows, the trend in joblessness is unaffected by the definition used.[10] Note, in particular, that the trend in the share of the labor force that is unemployed because they were laid off (U2)—rather than leaving a job or entering the labor force after being out of it—follows the same trend.

Other measures of joblessness also fail to substantiate the great risk shift hypothesis. Job losers as a percent of the unemployed have shown no secular trend since the early 1980s (Figure 2). "Expected job loss", which adjusts cross-sectional figures to account for the fact that some have just started a jobless spell and for the greater likelihood that the long-term jobless will be sampled at a point in time, has been stable or declined since the early 1980s, both for all of the unemployed and for job losers.[11]

Steven Davis (2008) summarizes research that consistently finds that flow rates from employment to unemployment have declined since the late 1970s or early 1980s.[12] In addition, job destruction rates have declined since the 1980s or 1990s, and one time series assembled by Davis and his colleagues shows that they have declined in manufacturing since the early 1960s.[13]

Jay Stewart (2002) of the Bureau of Labor Statistics found little change in job separation—departure from a job—between the mid-1970s and the early 2000s.[14]

However, that trend masked an increase in job separations that produced spells of unemployment under two weeks and a decline in separations that produced longer spells of unemployment. Stewart interprets these findings as evidence that more job separations involve direct employer-to-employer transitions than in the past—that is, that they are largely employee-driven. Robert E. Hall (2005) found that the job-finding rate (new hires divided by the sum of the unemployed, those marginally attached to the labor force, and discouraged workers) has seen a secular increase since the early 1980s.[15]

On the other hand, median weeks unemployed has risen, comparing trough to trough, since 1989, though it rose even more in the late 1960s and 1970s (Figure 3). The share of the unemployed who have been out of work for 27 weeks or more has also risen fairly steadily since the late 1960s (Figure 4).

But again, context is everything. Unemployment itself fell after the early 1980s, and the two measures in Figures 3 and 4 apply only to the small share of the labor force that is unemployed. So in 2008, when the median duration of unemployment among the unemployed was 9.4 weeks, median duration of unemployment among all adults in the labor force was 0 weeks (as was the 25th and the 10th percentile of unemployment duration!). The share of the unemployed that had been out of work for 27 weeks or more was 20 percent, but the share of the *labor force* unemployed for 27 weeks or more was 1 percent (Figure 4). Neither of these figures—applied to the entire labor force—grew over time.

Finally, the share of the employed who are part-time workers but would like to be full-time and the share of *part-time workers* who would like to be full-time also has declined (Figure 5).

Note that a number of these indicators show that joblessness has increased, trough to trough, since 2000, but that hardly constitutes solid evidence of a permanent risk shift. At least through 2008, levels of joblessness were well within the range seen in the past forty years, and there is no reason to think that they will remain permanently elevated after the current recession ends. What stands out is how consistent the evidence is that the economy has been working as well as it ever has for most of the American workforce over the years. Again, that does not mean it is working well enough or that things have not worsened for some categories of workers, but there has been no major shift in employment risk in recent decades.

Health Care Risk. The share of the population without health coverage has risen over the past twenty years (see Figure 6), from 12% in 1988 to 15% in 2007, according to the most-cited government source (the Current Population Survey). The decline in private coverage among the non-elderly has been steeper, dropping from 79% in 1980 to 67% in 2007 (Figure 7). The shallower trend for the decline in *any* insurance coverage reflects the increasing role played by public coverage, which in turn reflects some combination of government responding to greater risk in the private sector and crowd-out of private coverage by public coverage.

However, these changes must be put in historical perspective. First, coverage levels remain high by historical standards. It is possible to build a consistent health coverage time series extending back to 1940. Doing so produces the trend shown in Figure 8, which makes clear that what has happened is that progress in increasing the number of Americans with insurance coverage has hit a floor. The changes of the past twenty to twenty-five years are minuscule compared with past levels of non-coverage. It would certainly be better if Figure 8 continued to show a downward path, but the risk of lacking health coverage has clearly not increased dramatically, and the current period remains substantially less risky than the entire 1940-1980 period. It is true that medical expenses have become far more costly over time relative to typical incomes, but catastrophic costs to the uninsured have always been catastrophic.

A second point of context is provided by national health expenditure data, which fleshes out what "health insurance coverage" includes and how that has changed over time. Figure 9 reveals that private insurance—which, unlike out-of-pocket expenditures, pools risk—has come to cover a greater share of private expenditures on all forms of personal health care, with dramatic increases for most categories of care. In most cases, coverage leveled off only after the early 1990s. The notable exception is prescription drug coverage. And there were expansions of coverage even within these categories. Coverage of outpatient mental health services, for instance, became much more generous over this period.[16]

So even while the share of Americans without private health coverage was declining, coverage grew much more generous for those who retained it. And the public sector caught most of those who otherwise would have become uninsured, particularly through expansions in Medicaid in the late 1980s and the creation of the SCHIP program in 1997. But isn't it still the case that employers have shifted an increasing share of costs of private coverage onto their employees? Given the growing generosity of benefits, it would be unsurprising to find such a trend. But apparently that is not what has happened.

Figures 10 and 11 show the distribution of health expenditures on health services and supplies by source of spending for 1987 and 2007 respectively (the earliest and latest years for which I could find data). Private employer contributions to insurance constituted 18 percent of health expenditures in 1987 and 19 percent in 2007. Adding in employer contributions to Medicare, the total was 23 percent in both years. Expenditures by households, on the other hand, fell from 41 percent of health expenditures to 31 percent. Most economists would argue that employer expenditures for their employees' health insurance come out of employee compensation, in which case it is appropriate to allocate employer expenditures to households. In that case, the share of health spending by households fell from 64 percent to 54 percent (or from 69 percent to 61 percent if public employer expenditures are included).

Perhaps most persuasively, household out of pocket spending fell from 23 percent of national health spending in 1987 to 13 percent in 2007. Public and private employees paid 23 percent of employer-based insurance premiums in 1987 and 27 percent in 2007 (not shown in Figures 10 and 11). If premiums for individually purchased insurance are included, the change was from 29 percent to 31 percent. That is the extent of the risk shift.

The picture that emerges from these figures is quite different from that painted by Hacker. Over the past 50 years, consumers have demanded more and more from their health insurance. Employers have responded in two ways: by expanding the scope of coverage and by picking up more of their employees' health care expenses, essentially taking the extra cost out of their wages, and by reducing the share of the workforce that is covered by health insurance. The expansion of public insurance has mitigated the problem of health coverage in one sense, by filling in for private insurance, but it is possible that the expansion has also contributed to private coverage declines (the phenomenon of "crowd out"). When it comes to health care, the issue is clearly the dramatic increase in the cost of health care. The extent to which this increase simply reflects rising consumer demand, valuable innovation, and increased well-being rather than being a national crisis is beyond the scope of my research into whether there has been a Great Risk Shift.

Retirement Security Risk. Participation of private labor force workers in employer-sponsored retirement plans was about 45 percent in both 1975 and 1995, and it has since crept upward.[17] The share covered by a traditional defined benefit pension shrank by half over this period, but coverage in defined contribution plans more than compensated. Furthermore, Figure 12 shows that real private employer costs for their workers' retirement and savings rose by about 20 percent between 1991 and 2008, a rate of increase that mirrored the growth in employers' spending on health insurance. If there has been a risk shift in retirement savings, it cannot be about coverage declines or employer stinginess.

The conventional argument for a risk shift in retirement security is that the growth of defined contribution plans, such as 401(k) plans, and withering of defined benefit plans has shifted risks from employers to employees. This is almost surely true, but two caveats are rarely acknowledged. First, with additional risk comes additional opportunity, and a rational assessment of increases in risk must take into account both costs and benefits. Second, there are also risks associated with defined benefit plans.

Hacker presents a remarkably one-sided view of the risks inherent in defined contribution plans relative to traditional pensions. To illustrate the trade-offs involved, suppose you had to choose between these two retirement savings schemes at the start of your career. Which would seem riskier to you?

(1) You will work for one or more employers throughout your career, each of whom will lower your take-home pay by some amount in order to have enough money to pay you upon retirement. At age 65, you can begin receiving monthly retirement benefits for the rest of your life. You will not be able to touch these benefits until then. The amount of these benefits will be calculated as follows: for each job that you work at least six years, you will receive one percent of the earnings you made in the last year you were there, times the number of years you were there. If you work a job for, say, only three years, you will receive just 40 percent of that amount, and you won't receive anything unless you stayed there for at least two years. Therefore, you will have incentives to remain in your jobs for a number of years, and you will be at risk of losing some or all of your benefits if you are laid off as a relatively new hire. Under this system, it will be particularly important that you achieve your peak earnings at the end of your career in a job where you are entitled to benefits, since inflation will erode the value of your benefits if your maximum earnings come relatively early in your career. There is no guarantee that you will have more upon retirement than you would have had if your pay had not been lowered to pay for your retirement and you had been able to invest

the additional amount on your own. Finally, if one of your employers declares bankruptcy, you may not receive the full amount that you thought you were entitled to. You will, of course, have Social Security benefits as a safety net.

(2) You will work for one or more employers throughout your career. Your paychecks will be bigger than under Option (1) because your employers will have a less open-ended commitment to your retirement savings. You may use that additional income to save for retirement, but if you prefer spending it (or need to spend it) on other things, you are free to do so. If you choose to save for retirement, you will contribute part of each paycheck to an individual retirement account, chosen from among several offered by your employer. Your employer will match any contribution you choose to make, up to three percent of your salary. As early as age 59 but no later than age 70, you will receive the assets that have accumulated over your career, including the original contributions and the returns they generated. Only those employer contributions from jobs where you stayed four years will be included – those from other jobs where you left before that will go back to your employer, along with the returns they generated. Otherwise, your retirement assets remain yours and continue accumulating returns when you switch jobs or if you go into business for yourself. Furthermore, you will have the ability to tap into your retirement savings for limited purposes, such as emergencies, though sometimes subject to

> heavy tax penalties. You will be responsible for saving enough for your retirement and for managing your retirement assets, which may erode in value depending on the assets in which you invest and broader economic conditions. In general, you will face a trade-off between financial risk and the size of potential returns. Finally, when you eventually receive your assets upon retiring, you will have no guarantee that they will support you throughout the rest of your life, and it will be up to you to manage them to ensure you maintain your living standards as best you can. You will, of course, have Social Security benefits as a safety net.

These two options correspond, respectively to idealized defined benefit and defined contribution systems. It should be clear that there are risks to both systems, and equally clear that it is difficult or impossible to choose between the two options without knowing something about the probabilities of doing well or poorly under each.[18] That is precisely what James Poterba and his colleagues attempt to ascertain in a recent paper.[19] By simulating the distribution of wealth accruing to retiring workers after career-long participation in defined benefit and defined contribution plans, using contribution rates, plan parameters, financial returns, and pension formulas derived from data and typical practices, the authors estimate how many people are likely to fare better or worse under different plan types. They find that a worker with median earnings for his or her education will be better off under a defined contribution system than under a system based on private sector defined benefit plans. Indeed, the highest-earning 90 percent of all workers will tend to fare better under a defined contribution plan if it includes investment in stocks and stocks perform at their historical average. Of course, not everyone at every point in time will do better under a defined contribution plan than a defined benefit plan—witness the evaporation of wealth that occurred in the portfolios of near-retirees who were heavily invested in stocks (or real estate) in 2008 and 2009. But over the long run, Poterba's results imply that most people will be better off under a defined contribution regime than a defined benefit regime.

Nevertheless, some who believe that the economy has become riskier claim that the shift from defined benefit plans to defined contribution plans dooms large swaths of the population to inadequate retirement savings.[20] The research on this question comes to inconsistent conclusions, in particular the subset of studies defining saving adequacy in terms of how post-retirement living standards compare to pre-retirement ones.[21] The disagreement is largely due to problems associated with the difficulty of forecasting income, savings, and consumption paths, including measuring pre-retirement consumption adequately, determining what level of retirement income will allow retirees to live at the level their pre-retirement income afforded, and modeling rates of return, life expectancies, and changes in savings behavior as retirement approaches and in the event of shocks to income and wealth. John Karl Scholz and his colleagues have argued that the very standard of maintaining pre-retirement consumption is an inappropriate one for economic models, because large families will consume more during their working lives (by spending on their children) but will require less when those children have left home.[22] While there are reasons to question this assertion, its plausibility highlights the difficulties inherent in defining "adequacy" of savings. In general, the research producing the most pessimistic findings has been persuasively challenged on methodological grounds[23], while the research that most adequately incorporates economic uncertainty into its modeling has produced relatively optimistic findings.

More to the point, almost none of these studies examine whether adequacy of retirement savings has *declined*.[24] On the other hand, studies that compare current retirees or near-retirees with past ones, or that compare savings of current workers to those in the past, tend to find that recent cohorts are as prepared for retirement and as wealthy or wealthier in retirement.[25] The Congressional Budget Office (2004), for instance, showed that wealth-to-income ratios were similar from 1983 to 2001 for 35- to 44-year-olds and 45- to 54-year-olds. Robert Haveman and his colleagues (2007) found that annuitized net wealth was 60 percent higher for married couples retiring in the 1990s than it was for couples retiring in the early 1980s, and one-third higher for single retirees.

To be sure, there are problems associated with our movement toward a defined contribution system, including relatively low participation rates, high cash-out rates when workers change jobs, and insufficient annuitization options upon retirement. But these problems are fundamentally different from those created by a risk shift in which employers are increasingly dumping workers into hopelessly inadequate private accounts that are doomed to leave retirees destitute.

Risk of Indebtedness. Hacker declares that "[p]ersonal bankruptcy has gone from a rare occurrence to a relatively common one," citing figures from Elizabeth Warren showing an increase from 290,000 in 1980 to over 2 million in 2005. Figure 13 confirms a sharp rise in bankruptcy rates, expressed as a share of households. However, a peak rate of 1.45 percent in 2003 can hardly be called "a relatively common" occurrence.[26]

A problem with the bankruptcy figures is that they can change for reasons other than hardship. For example, bankruptcy filings rose in the lead-up to the 2005 federal legislation that tightened eligibility for bankruptcy, in anticipation of the change, and it plummeted after the bill was implemented. Furthermore, the stigma associated with bankruptcy can change over time, as can the intensity of marketing by firms specializing in bankruptcy litigation. It is more appropriate, for looking at trends in over-indebtedness, to consider measures that are less affected by such issues.

One such measure is the typical amount of debt payments when expressed as a percentage of income, which is estimated in the Federal Reserve Board's Survey of Consumer Finances. The median ratio of debt payments to family income (among persons with debt) increased from 15.3 percent of income to 18.0 from 1989 to 2004—a very modest rise. This conclusion also appears to hold if one looks at the least wealthy quarter of the population. The median among the least-wealthy quartile increased from 10.1 to 13.0. These modest increases occurred during a period in which personal bankruptcies rose dramatically, suggesting that the increase in bankruptcy rates was at least partly about an increase in the willingness to file for bankruptcy conditional on debt.[27]

Additionally, the share of debtors with a ratio of debt payments to income that exceeded 40 percent grew from 10.0 to 12.2 percent between 1989 and 2004 (8.1 to 10.6 among the least-wealthy quartile). The share of debtors with payments that were delinquent by 60 days or more increased between 1989 and 2004, from 7.3 to 8.9 percent and from 17.6 to 22.9 percent among the least-wealthy quartile.

Home foreclosure rates? Hacker noted the rate had increased fivefold since the early 1970s. Figure 14 shows that things have gotten much worse with the bursting of the housing bubble. But even at the end of 2008, when the rate was at an all-time high, just 3.3 percent of mortgages were in the foreclosure process. That translates into about 2.3 percent of homes, since three in ten homeowners has no mortgage.[28] Again, the point is not that we should be unconcerned that one in fifty homeowners are losing their homes. The point is that an increase in the risk of losing one's home from one in 300 to one in fifty does not constitute a fundamental risk shift that will provoke anxiety in the typical American family.[29]

Economic Insecurity and Political Preferences

It should be clear that the "risk shift" as a rationale for new universal, expansive social insurance policies is one that rests on a foundation of sand. The second rationale for these policies is a political one. Advocates argue that their proposals will be advantageous to the party that adopts them, because they accord with the preferences of voters for a more ambitious federal role in solving economic problems. Hacker again is eloquent on this point, asserting that "the rising risk to the economic well-being of families posed by the post-1970s transformation of our economy, including the substantial decline of employer and governmental policies of insurance" is "at the heart of the increasingly negative verdict of most Americans -- and, yes, married Americans with degrees and kids -- about the direction of the economy". It is also, according to Hacker,

> the issue with the greatest potential to unify Americans across lines of class, race and education behind a new economic agenda that provides a basic foundation of security so as to guarantee true opportunity. It is also,

> not incidentally, the issue with the greatest potential to create a powerful new coalition behind the Democratic Party".[30]

Hacker argues that economic insecurity is rising by pointing to a handful of survey results, the most prominent of which are from International Survey Research (ISR, now part of Towers Perrin). Its figures—from American workers at large employers—showed that the share of workers "frequently concerned" about "being laid off" rose from 14 percent at the height of the early 1980s recessions, to 46 percent in 1996, when the economy was poised to take off, before falling to a still-high 35 percent in 2005.

Figure 15 shows the best figures for a nationally representative group of workers that I could find. It shows two series going back to the mid-1970s, both of which consistently asked employed adults how likely it was that they would lose their jobs in the next year. One series, the General Social Survey, comes from the National Opinion Research Center and includes substantial involvement from academic researchers. The other comes from the Gallup Organization. In contrast to the 14 percent to 35 percent growth in job insecurity that the ISR data indicate, the GSS shows the fraction who think it "very" or "fairly" likely that they will "lose their job or be laid off" falling from a high of 15 percent in the early 1980s to 10 percent in the mid-2000s, and Gallup shows a decline from 18 percent to 10 percent.

Figure 15 indexes the GSS and Gallup figures to their values as of the winter of 1976-1977 and does the same for the official monthly unemployment rate. Clearly these two measures have the expected relationship to the unemployment rate, particularly before the recession of the early 1990s. After this recession, however, a gap opens up between the series and unemployment trends, indicating that job insecurity did not fall as much in the past twenty years as employment trends would have predicted.

What accounts for this shift in insecurity? The recession of 1990-1991 was marked by widespread commentary about downsizing and the unprecedented effect it was having on middle-class workers rather than being confined to less-skilled labor. In retrospect, the media attention devoted to the "white-collar recession" was far out of proportion to the downturn's impact on middle-class workers.[31] But there is suggestive evidence that it had a permanent impact on the psychological state of American workers—a great risk-perception shift.

Indeed, to the extent that the ISR figures can be reconciled with the GSS and Gallup figures, it appears that the effect of media hand-wringing about the middle class may play a determinative role.[32] Figure 16 displays the ISR trend, and the unemployment rate, indexed to their 1979 values (the first year of the ISR data). The two series do not track each other very well, in contrast to the evidence in Figure 15. However, after the early 1990s recession, an enormous gap opens up between the two series.

Figure 16 also shows a third time series, plotted on a second axis that is scaled so that the levels of the three series are comparable—the number of articles from the *New York Times* and the *Washington Post* in each year that mention either "downsizing" or "offshoring".[33] This time series follows the ISR trend remarkably well, spiking upward during and immediately after the early 1990s recession and failing to decline to its previous levels as the economy strengthened.

Hacker and others are correct that insecurity has risen, even though the shift appears not to reflect actual changes in economic risk, and even if the trends in nationally representative measures indicate no rise in insecurity (see Figure 15).[34] In another sense, however, they misdiagnose the public mood. Regardless of trends, economic anxieties are not as deep as claimed by Hacker and others on the political left.

Surveys that ask Americans about their economic anxieties are ubiquitous. It is difficult to determine what to make of responses to such questions, however, without context. One way to provide context is to look at trends, as in Figures 15 and 16. Another is to compare the anxieties expressed about economic concerns with other anxieties. For example, Harris Interactive conducted two surveys for the American Psychological Association in 2008 on the stress experienced by adults in the U.S. While financial and work-related issues are the biggest sources of stress, "job stability" ranked lower than all other sources except personal safety, including lower than family responsibilities and relationships.[35]

Since the early 1990s, the Kaiser Family Foundation has been asking survey respondents how concerned they are over different potential problems. While they have documented significant economic insecurity, anxieties unrelated to economics are at least as widespread. On the one hand, as the financial crisis was escalating in October of 2008, nearly half of adults said they were "very worried" about their income "keeping up with rising prices". Nearly four in ten said they were very worried about the possibility of "having to pay more for health care or health insurance". Roughly one in three were very worried about "losing their savings in the stock market" and also about "not being able to afford needed health care".[36]

On the other hand, two-thirds of parents were also very concerned that their children are "exposed to too much inappropriate content" in entertainment and mass media.[37] Two-thirds of adults in a 1996 Kaiser survey said they were very concerned about their "taxes getting too high".[38] Nearly half were very concerned about "government interfering too much in [their] life". About three in ten adults are very concerned about illegal immigration.[39] One in three is very concerned about the possibility of a dangerous error while they fly on U.S. airlines.[40] Two in ten are very worried about being the victim of a violent crime, and the same fraction is very worried about being the victim of a terrorist attack.[41] Those figures are broadly similar to the 25 to 30 percent who said at the end of 2008 that they were very worried about losing their job or their health insurance.[42]

Furthermore, there is little evidence from these surveys that concern over economic issues has *increased*. In mid-1996, nearly six in ten adults said they were "very concerned" about their "income keeping up with the cost of living", and fear about inflation seems to have declined between 1996 and 2004.[43] The share of adults worried about having to pay more for health care or health insurance increased from early 2000 to early 2004, but it then declined by the same amount from early 2004 to late 2008.[44] Concern about being able to afford needed health care apparently declined from 1996 to early 2004 and declined more from 2004 to late 2008. As recently as April of 2008, just one in six adults were very worried about losing their savings in the stock market, so the high current levels are a reaction to the financial crisis.[45]

The "I'm-OK-They're-Not" phenomenon also provides crucial context for interpreting the many polling results that indicate concern about the economy.[46] There is a long-standing tendency for survey respondents to say that while they themselves—or their family, their children, their child's school, or their political representatives—are succeeding, the rest of the country is doing badly.

Three recent prominent polls about the state of the economy illustrate this phenomenon. In a *New York Times*/CBS News poll from early April of 2009, with unemployment nearing thirty-year highs, half of respondents said the condition of the national economy was "very bad", and only 11 percent said it was very good or fairly good. In contrast, two-thirds of these same respondents said the financial situation of their household was very good or fairly good, and only 12 percent said very bad.[47]

In the Allstate/National Journal Heartland Monitor Poll that same month, 30 percent said that most Americans were doing poorly at "managing the economic and financial opportunities and risks they face", and another 54 percent rated most Americans "fair". However, 56 percent of respondents said that they themselves were doing a good job or excellent job, with only 5 percent saying a poor job.[48]

Finally, a poll by Greenberg Quinlan Rosner Research and Public Opinion Strategies for The Pew Charitable Trusts Economic Mobility Project in January and February 2009 found that 55 percent of respondents thought that "people in this country today" are not very much in control or not at all in control of their personal economic situation. But three in four felt they themselves were very much or somewhat in control.[49]

David Kusnet, Lawrence Mishel, and Ruy Teixeira (2006) have argued that people accurately describe the (poor) economic situation of others while misstating their own situation.[50] They offer two hypotheses for why this might be the case. First, they argue that many survey respondents cannot bring themselves to admit that they are not doing well, and so they lie (to the pollster, or even to themselves). Second, they argue that people just cannot see that they are doing relatively poorly because that would require them to compare themselves to people of the same age in the previous generation. Instead, they compare themselves to how they were doing a few years ago, and because people generally earn higher wages as they age and gain skills and experience, they find that they are doing relatively well.

Kusnet and his colleagues offer no evidence for their hypotheses. In contrast David Whitman (1998) offers a range of examples not confined to economics that show how people systematically evaluate conditions in the larger society pessimistically compared with how they evaluate their own life. In addition, for the second hypothesis to be true, one has to believe that when people judge how they themselves are doing, they look back a few years rather than a generation, but when they judge how everyone else is doing, they look back a generation rather than a few years. That is possible, but not obvious. The principle of Occam's Razor would argue that these findings simply reflect the fact that people have more and better information about how they themselves are doing than about how others are doing. When media accounts emphasize the economic risks facing people the result is surface-level insecurity based on a belief that one has somehow escaped the calamity that is befalling the rest of the country.

Off Center *Reconsidered*

Because many progressive advocates of a great risk shift are misinformed about economic trends and the nature of economic anxiety, a market arose during the Bush years for books that explained how the political right had managed the success that it enjoyed despite economic conditions that should have favored the left.[51] One of the most influential of these was Jacob Hacker and Paul Pierson's book *Off Center: The*

Republican Revolution and the Erosion of American Democracy, which appeared in 2004 before *The Great Risk Shift*. Hacker and Pierson argued that what pundits and political observers called political polarization had been a one-sided affair.[52] Republican activists and legislators had grown more conservative, but Democratic activists and legislators had not grown more liberal (and had even moved to the right themselves in some regards). Along with this shift, Republicans had developed effective strategies to move public policy further rightward than the typical voter preferred prior to the 2006 election.

Since the rightward shift of Republicans occurred during a period in which Hacker and Pierson showed the distribution of self-identified ideology had not changed, the implication was that the electorate was being deprived of the more-progressive policies that it desired. While the Democratic Congress that emerged from the 2006 elections found it politically difficult to enact its agenda during the last two years of the Bush presidency, the Democratic presidential victory in 2008 and expanded majorities in Congress have renewed optimism that the preferences of that typical voter will finally be satisfied.

Unfortunately for these optimists, Hacker and Pierson's analysis is riddled with problems.

Do Americans Strongly Support Additional Government Spending? Hacker and Pierson's argument that the contemporary Republican agenda is out of line with voter preferences relies most heavily on the case of the Bush tax cuts. While a small majority of Americans continued to favor tax cuts in 2004, Hacker and Pierson emphasized that this support cannot be meaningfully interpreted without posing tax cuts against other priorities such as spending increases.

Hacker and Pierson argue persuasively that the polling data show that tax cuts were a relatively low priority for Americans during the Bush years and that Americans generally preferred that any tax cuts go to less wealthy citizens. But they do not make a compelling case that public preferences in favor of alternative priorities were strong. Thus, it is not clear that Bush's success in selling the tax cuts depended on the success of the Administration efforts to obscure the tax cuts' size and distribution.

Consider first the question of the public's understanding of the Bush tax cuts. According to 2004 American National Election Study data, six in ten Americans favored the Bush tax cuts as of 2004. Forty-two percent strongly approved while 26 percent strongly disapproved. Even after these tax cuts, 40 percent of Americans thought their own taxes were too high in 2004, compared with just 5 percent who thought they were too low. Half thought the taxes of the poor were too high, compared with 7 percent who thought they were too low. On the other hand, 63 percent thought that the taxes of the rich were too *low*, versus just 11 percent who thought they were too high. Without even considering trade-offs, then, there was little strong opposition to the Bush tax cuts, and there was little support for a tax increase unless it fell on the rich.

Perhaps supporters of the tax cuts were misinformed, victims of the disinformation campaign that Hacker and Pierson document? This appears not to be the case. Among those Americans who *favored* the Bush tax cuts, only one-third believed the average worker's taxes had gone down. Among supporters of the tax cuts, half thought the taxes of the rich were too low. Apparently, many Americans must have supported the tax cuts simply because they generally supported Bush's agenda, for the effect they thought the cuts had on the economy, or for other reasons.[53]

As Hacker and Pierson note, polling responses related to budget priorities are much more meaningful when respondents are forced to choose between lower taxes and greater spending (or lower budget deficits). ANES respondents are explicitly asked to choose between the budget deficit, domestic spending, and taxes. This series was asked in both 1996 and 2004. In 1996, 48 percent of Americans supported raising taxes, increasing the deficit, or both in order to increase domestic spending. The corresponding figures for tax cuts and deficit reduction were 46 percent and 44 percent, respectively. Spending increases, tax cuts, and deficit reduction had basically the same levels of support when Americans were confronted with the tradeoffs involved.

More importantly, what I will call "strong support" for spending increases was even smaller. Just 16 percent of voters indicated a *clear* preference for spending increases when pitted against tax cuts or reducing the budget deficit. That is, they not only favored spending increases over both the alternatives, they also opposed spending cuts to cut taxes or reduce the deficit. This compares with 4 percent who preferred tax cuts and 6 percent who preferred reducing the deficit. Strong support for spending increases exceeded both, but it was itself still very low.

In 2004, the budgetary outlook and tax code were dramatically different than in 1996, courtesy of the Bush tax cuts. With taxes lower and the deficit much bigger, we would expect support for tax cuts to have shrunk and support for deficit reduction to have grown. Instead, 53 percent supported cutting taxes, an increase of 7 points, and just 38 percent supported deficit reduction (a decline of 6 points). Meanwhile, two-thirds of Americans in 2004 supported spending increases over at least one of these two alternatives—a 20 point increase.

Strong support for both spending increases and tax cuts increased as well, but it remained confined to small minorities. Just 23 percent of Americans in 2004 were strong supporters of spending increases, compared with 9 percent who strongly preferred tax cuts and 3 percent who strongly preferred deficit reduction. Once again, spending garnered the most support, but only a quarter of Americans strongly favored it.

The weakness of Americans' political preferences has important implications for Hacker and Pierson's contention that policies under Bush were “off center”. Take support for greater public education spending, which stood at 74 percent among Americans in 2004. If one counts as supporters only those who also strongly favored domestic spending increases over tax cuts and deficit reduction, then only 21 percent of Americans strongly favored increases in public education spending. One can be a strong supporter of education spending without being a strong supporter of domestic spending in general, but presumably ANES respondents have their own pet projects in mind when thinking about “domestic spending”. The implication is that even a policy area as popular as public education – which had the most support out of eleven policy areas mentioned in the survey – has surprisingly soft support.

Similarly, half of Americans preferred that government provide more services (with greater spending) rather than fewer services (with lower spending), compared with just 24 percent who preferred the opposite. But if one counts only those who are strong supporters of increasing spending, the percent supporting more services and spending drops to 15 percent. Preferences for greater spending are apparently broad but shallow.

Hacker and Pierson argue that the Bush tax cuts should not have passed if policy is based on the views of the median voter. As noted, just 4 percent of Americans consistently favored tax cuts over the alternatives in 1996. But if one looks at the share that would have supported tax cuts over *either* deficit reduction or spending increases (but not necessarily over both), that figure increased to 46 percent, which wasn't statistically different from support for spending increases over one of the two alternatives. Unfortunately the tradeoff questions were not asked in the 2000 ANES.

Has the Republican Congress Swung Far to the Right of the Typical Voter?

Not only do Americans have only weakly held preferences for additional spending or tax cuts, but as Hacker and Pierson note and as I will show below, their ideological dispositions appear not to have changed much over time. If the Republican Congressional Caucus grew more conservative over time, that would support Hacker and Pierson's contention that by 2004 the caucus was "off center"—far to the right of the median voter.

To argue their case, Hacker and Pierson turned to scores created by Keith Poole and Howard Rosenthal that put Members of Congress past and present on a common scale measuring ideological position.[54] Hacker and Pierson report that the polarization of Congress between the early 1970s and the early 2000s was almost entirely due to growing extremism among Republicans. Democratic legislators had not moved nearly as far from the center. Because of the increasing conservatism of Republicans, Congress was, in the early 2000s, far to the right of the median voter, who had not grown more conservative over time. But Hacker and Pierson's account is flawed.

Consider the Senate.[55] Poole and Rosenthal's scores, using every vote by every Member of every Congress through the 108th Congress (which ran from 2003 to 2004), indicate that the "center" as of 2003-04 was typified by northeastern Republicans such as

Lincoln Chafee, now-Independent Jim Jeffords, and William Cohen; Arlen Specter (now a Democrat); and by red-state Democrats such as Ben Nelson and John Breaux. In 1971-72, the median Senator had a score of -0.056, equivalent to Ben Nelson's score in 2003-04. By 2003-04, the median Senator had a score of 0.061, equivalent to Arlen Specter in 2003-04.

This small change in the median of the Senate as a whole only hints at the fact that, as Hacker and Pierson claim, Republican Senators did move farther ideologically than Democratic Senators. The evidence that Hacker and Pierson presented describes how the median in one year compared with then-recent Senators' scores. In the early 1970s, according to Hacker and Pierson, the median Republican Senator lay "significantly to the left of current GOP maverick John McCain of Arizona—around where conservative *Democrat* Zell Miller of Georgia stood" [where the references to McCain and Miller are to their 2003-04 scores, italics in the original]. The median Republican Senator's score then "doubled" by the early 2000s so that it sat "just shy of the ultraconservative position of Senator Rick Santorum."[56]

This claim raises a technical issue. The Poole-Rosenthal scores are not ratio scales with a meaningful zero point. The distance between 0.2 and 0.4 is supposed to be the same as that between 1.2 and 1.4, but 1.2 is not "six times as conservative" as 0.2, because a score of 0 does not indicate the complete absence of conservatism. The zero point is completely arbitrary. The doubling from 0.2 to 0.4 would become an increase of just 50 percent if we added 0.2 to all of the scores (from 0.4 to 0.6). We cannot know whether Republican Senators grew twice as conservative between the early 1970s and the early 2000s. Indeed, the phrase "twice as conservative" has no obvious meaning.

Hacker and Pierson's interpretation of these results is an even bigger problem. Rather than the Republican Party drifting ever rightward (the whole time increasingly “off center”), if the Democratic Party was “off center” in the early 1970s, then the movement among Republicans could be interpreted as a restoration of an equilibrium reflecting voter preferences. This is exactly what appears to have happened.

First of all, the medians for the 2003-04 Senate were 0.379 and -0.381 for Republicans and Democrats – essentially identical. That means that after this great rightward shift by Republicans, the parties were equally "extreme" by historical standards. Furthermore, the median Democratic Senator in 1971-72 wasn’t much less extreme than the median Senator from either party in 2003-04.

Second, at least in terms of self-identification, the ideological distribution of Americans was unchanged over this period, with roughly twice as many people calling themselves conservative as calling themselves liberal.[57]

Taking these facts together – a rightward shift by Republican legislators, an end state where Democrats and Republicans are equally "extreme", and an ideological distribution among voters that was static over the period (and right-leaning) – the conclusion that best fits is that the Democratic Congress of 1971-72 was off center rather than the Republican Congress of 2003-04. The median Republican became more extreme over time, but that was because Congress became *more* representative of the electorate, not less. The story on the House side is much the same, except that the median Republican was a bit more "extreme" than the median Democrat by 2003-04 (although no more extreme than the median Democrat was in 1971-72).

The Bush Administration and the Republican Congress may have used various tactics in order to pass an agenda that lacked strong support. But they were not "off center" if that phrase is taken to mean that their agenda was outside the bounds of what the public supported.[58] Or more specifically, where Republicans succeeded, their agenda was not out of bounds. Hacker and Pierson downplayed the extent to which Republicans had to reach out to the center in what they did or did not favor. Education spending, for instance, increased more under Bush than under Clinton, in a nod to "compassionate conservatism".[59] Furthermore, where Republicans truly moved off center, they failed, as with Social Security privatization.

Finally, voters cannot have representation that aligns perfectly with their preferences on all issues; they must optimize as best they can. There is little discussion of national security policies and "values issues" in *Off Center*, but the Republican advantage in these areas is stronger (or was before the Iraq war in the case of national security) than in tax and spending policy.[60] It may be that much of the public has stronger preferences in areas of Republican strength than in tax and spending policy, and that they are willing to tolerate tax and spending priorities that they support only weakly if at all.

The conclusion that voters have only weak preferences when it comes to taxes, spending, and deficits contains good and bad news for those who advocate a broader risk-mitigation agenda. On the one hand, it means that ambitious spending programs are palatable to a majority of Americans when taxes are as low as they were in 2004. Progressives can also be heartened that tax cuts commanded strong support only from a tiny fraction of Americans in 1996 and 2004. On the other hand, domestic spending does not have very *strong* support – and certainly not as strong as many conventional polling questions imply. And ambitious domestic programs were not supported over tax cuts or deficit reduction by a majority of Americans in 1996, when taxes were higher and the budget deficit was lower. Furthermore, tax cuts were also palatable to a bare majority in 2004, even after the Bush tax cuts. We do not have similar questions for 2000, when the budget was briefly in surplus and taxes were somewhat lower than in 1996, but a majority of Americans indicated in 2004 that they approved of the Bush tax cuts.

Citizen Benefits: Formulating Policy to Address Economic Risk in the Context of Political Constraints

As of the spring of 2009, when the fate of the American and world economies still remained unclear, those promoting the risk-shift hypothesis were having an I-told-you-so moment. But however long or deep the recession turns out to be, the economic damage that occurs to American families will bear only tangentially on the risk-shift hypothesis. The current recession, caused by the rapid proliferation of financial securities subject to minimal regulation, is likely to be *sui generis*, and the policies most urgently needed to prevent another recurrence involve not changes to the social contract, but regulation of financial institutions and investments. Prior to the recession, many economists talked of a "Great Moderation" in describing the modern macroeconomy, with its relatively tame recessions and modest recoveries. Clearly there were unappreciated developments working at cross-purposes to the Great Moderation, but there is no reason to think that we have entered a new period of Great Volatility.

Recession aside, the evidence on trends in economic risk indicates that for the typical American family, economic life is only marginally riskier today than in the past. Trends in economic anxiety show that anxiety has increased since the early-1990s recession. The persistence of the "I'm OK, They're Not" phenomenon and expressions of non-economic anxiety in polling implies that people nevertheless perceive less risk to themselves than they believe others face. And the evidence on spending, taxation, and deficit reduction preferences suggests that permanently raising federal spending to levels above where they stood at the end of the Clinton years will be politically difficult (particularly with budget deficits as high as they currently are).

All of this evidence, taken together, suggests that successfully implementing universal, high-price-tag insurance programs to protect against economic risk will be extraordinarily difficult. Hacker has proposed influential health insurance and "universal insurance" policies.[61] His health insurance proposal has been estimated to cost the federal government $49.3 billion annually. However, a careful reading of the tables in the cost estimate memo indicates that it would also add $47.2 billion in costs to employers who would otherwise not offer coverage but would be required to pay taxes to the federal government under the proposal, bringing the cost to almost $100 billion.[62] Other estimates floating around Washington health policy circles in spring of 2009 implied a cost more on the order of $130 billion or even $170 billion.[63] Hacker estimates that his universal insurance proposal would cost another $35 billion annually.[64]

Policies aimed at reducing risk or the consequences of risk must be politically feasible. They also ought to have a healthy respect for the risk of unforeseen consequences. As an alternative to Hacker's approach, federal policy could move in the direction of a policy regime I call "citizen benefits".

As Hacker has documented, the United States is uniquely dependent on employers to provide non-cash benefits of various types, particularly health insurance and retirement savings.[65] The system made great sense in earlier decades, when lifetime employment was the expectation by employer and employee alike and when few married women worked.

Today, however, employer benefits have a number of disadvantages as well. Employer-provided benefits burden employers with risks that other rich countries have socialized, potentially hurting America's international competitiveness. They impede job mobility, leave workers vulnerable when they are out of work, and lead workers to make poor savings decisions upon job loss. They also discourage cost containment in areas such as health care by obscuring trade-offs faced by employees and insulating consumers from their choices.

Under a program of citizen benefits, Americans would have access to a range of benefits sponsored not by their employer, but by the federal government. Just as workers today have employer-sponsored retirement plans and health insurance policies, all citizens would have access to government-sponsored benefits as well. Contrary to many proposals offered by the political left, citizen benefits would be entirely voluntary – there would be no mandates imposed on individuals or employers—and the current employer-based benefit system would continue to exist alongside it. There would be subsidies to the disadvantaged, but they would be much more transparent than under today's arrangements or those in other policy proposals. And tradeoffs between greater pay, richer benefits, different benefit mixes, and higher costs would be much more transparent than today. A federal safety net would continue to exist to catch those who fall through the cracks of the citizen benefit system.

To see how such a system would work, consider health care insurance. My proposal essentially consists of reorganizing the health insurance system so that subsidies are directed to citizens rather than employers and so that existing employer-sponsored insurance is supplemented by a federally-sponsored insurance pool that anyone could join (but that no one would have to join). Most individuals would end up with health coverage as an employer benefit or, analogously, as a citizen benefit.

To switch to this system of citizen benefits, two large tax expenditures focused on employer-sponsored insurance—the deductibility of insurance-related health expenses by employers and the exclusion of health benefits from individual income taxation—would be repealed. The primary effect of this change would be for many employers providing health insurance benefits to drop coverage and instead increase the pay of their workers. The additional earnings would be subject to individual income and payroll taxes, but changes in tax rates and brackets could be enacted simultaneously if the additional revenue generated were large enough to pay for the additional costs of the program. In other words, employees currently receiving employer-sponsored health insurance would end up subsidizing the currently uninsured, but they would still see after-tax wage increases, leaving them with higher take-home pay with which they could purchase health insurance.

Or not purchase it. Individuals would not be required to buy health insurance, and employers would not be required to provide it or be taxed to support citizen benefits (though the repeal of the employer deduction would raise corporate income taxes). Employers could choose to sponsor coverage, largely subject to existing federal and state law, in which case premiums would be deducted from the paychecks of participating employees. Insurers providing employer-sponsored health insurance would also operate as they do today, with no additional regulation of rate-setting, benefit requirements, or underwriting. For workers currently covered by an employer, then, very little would change under the proposal if their employer continued offering coverage, except that cross-subsidies and trade-offs would become more transparent.

For those whose employer dropped coverage, who never had employer coverage, or who simply prefer an alternative to their employer's coverage, a federal insurance pool would be created that anyone could join. The pool would resemble the Federal Employees Health Benefits Program (FEHBP) in that private insurers would offer different coverage options and benefit packages and compete on price. To create a large initial population, the FEHBP would be folded into the new pool. The new pool's plans would feature guaranteed issue and renewal, and unlike most FEHBP plans, its plans would be community rated. These features of the pool would mean that the only way to ensure that premiums remained sufficiently low for the healthy to participate would be to subsidize participating insurers for the costly enrollees they cover. Therefore, a federal reinsurance program would pay 75 percent of all individual claims over $30,000. Insurers would still compete on price in covering these high-cost individuals, both because they would be responsible for 25 percent of all enrollee costs above $30,000 and because they would have to present community-rated premiums during the annual enrollment period.

Rather than "premiums" being paid out of tax deductions or credits as in many proposals, a new federal agency would be created to administer premium collection and manage the pool in general. Premiums would be paid to this agency by enrollees. The additional federal revenue would not be scored as increased taxation, since there is no individual mandate. To minimize the chances of adverse selection in the absence of an individual mandate, it would be essential to provide incentives for people to enroll when they are healthy rather than just when they are sick. These incentives would come in the form of a biennial enrollment period. Citizens who failed to enroll during this period would be able to enroll thereafter only if they experienced one of several life events (including loss of a job in which they had employer coverage) or if they paid a penalty in the form of higher premium (for which federal subsidies would be unavailable).

The federal government would subsidize on a sliding scale the premiums of families under 200 percent of the federal poverty line, with incentives for them to join managed care plans to promote cost control. Subsidies, then, (aside from some relatively small level of cross-subsidy by those with small claims of those with medium-size claims) would be fairly transparent in this system – federal revenues would redistribute toward the poor through premium support and toward the very sick through the reinsurance.

My proposal would provide access to affordable coverage for all Americans, would begin to move health insurance into a portable, individual-directed system, would help American employers compete with international rivals, would give workers more choices in terms of health insurance options (including the option to put higher wages to other uses and go without insurance), and would minimize the chances that the currently insured would end up worse off. By bringing greater transparency to the responsibility for health care costs, the proposal would set up a competitive insurance market whereby incentives for cost-conscious care might be introduced in the form of lower-cost plans in exchange for less comprehensive benefits or more tightly managed care.

No expansion of coverage is possible without redistribution of some sort, and my proposal would include a clear and explicit form of redistribution, all or partly in the form of additional revenue from ending the preferential tax treatment of employer-provided health insurance and the shift to greater earnings that would result. It would be relatively unlikely to draw fire from employer groups, insurers, or provider groups and would be less vulnerable to scare tactics from the right (much of which might actually support the proposal). My plan would accomplish all of this while remaining true to a number of deeply American values, expanding options while retaining the aspects of our health system that Americans like.

Retirement savings benefits could be delivered in a similar way. The federal government would sponsor 401(k)- or IRA-style plans (IRAs and similar individual accounts would be rolled into the new savings accounts). Individuals could contribute pre-tax earnings to these plans, but would not have to. Employers could match their employees' contributions to these plans, but would not have to. They could also continue to sponsor their own retirement plans and match employee contributions to those plans. The federal government would provide its own match for contributions made by individuals under 200 percent of the poverty line. By default, all income tax refunds would automatically be placed in an individual account unless the taxpayer opted otherwise. Also by default, 3 percent of earnings would be transferred by employers from each employee's paycheck to an individual account if the employee did not participate in an employer-sponsored plan or opt out of the default option.

The government-sponsored plans would be convenient in that workers changing jobs could simply leave their savings in their account without transferring them to a new employer's account, and there would be hefty penalties for withdrawing funds prior to retirement age. The government-sponsored plans would also include default allocation changes as an employee neared retirement age, which the person could again opt out of, to protect individuals from riskier investments that could wipe out their savings in a downturn.

The government-sponsored plans would include government-sponsored annuities as well, that the savings would be used to purchase by default (with an opt-out option). This provision could help create a functioning annuities market that overcomes the moral hazard problem that exists today, whereby the market is overwhelmed by buyers whose savings are unlikely to last long without an annuity, driving out buyers whose savings are likely to last them longer. Government-sponsored accounts might be complemented by a long-term care insurance component that individuals could be incentivized to purchase, which could help improve long-term care insurance markets too.

Social Security would continue to exist, but over time would shrink to become more of a safety-net pension program (along with retaining its other functions, such as disability insurance). Payroll taxes would eventually decline. The tax breaks given to individuals to induce them to save would constitute costs from a budgetary perspective, but would appear as tax cuts to participants rather than as taxes. There would also be some cost associated with the federal match. However, the higher savings rates might be expected to increase economic growth, which would potentially offset the cost to the Treasury.

Other potential products that could be offered as part of a menu of voluntary government-sponsored citizen benefits might include long-term care insurance, catastrophic care insurance, or income-loss insurance. The latter could cover unemployment, divorce, death of a spouse, short-term disability, or even lowered earnings after a job loss.

The late Daniel Patrick Moynihan once said that, "Everyone is entitled to his own opinion, but not to his own facts." Many on the political right will argue that the evidence I have compiled argues against even current policies to protect against economic risk, let alone new ones. But as I noted at the beginning of the chapter, it is unnecessary to show that some problem is getting worse to believe that it is too big. I have outlined an approach friendly to the market to help those who become – or worry about becoming – its victim. Arguing against policy aimed at economic risk requires something more than reassurance that the sky is not falling *any faster* than in the past.

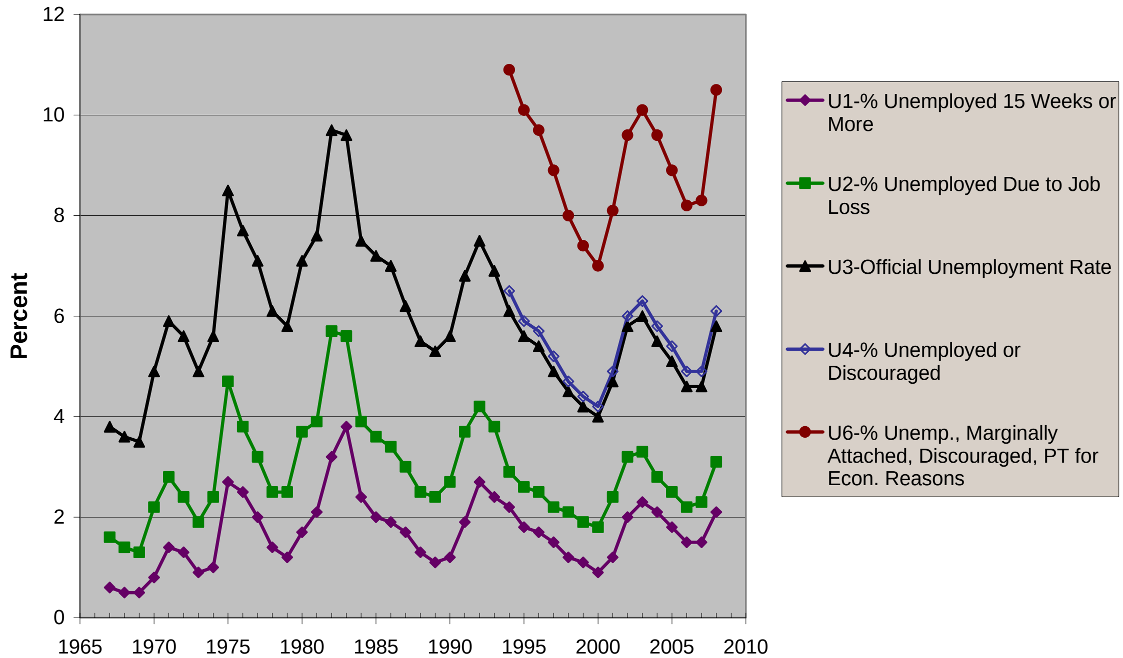
In response to my argument, many on the left might prefer to ignore these results out of fear that acknowledging them will weaken the case for more activist federal policies to address risk. Such a reaction would be a mistake for at least four reasons. First, a message of "gloom and doom" does not resonate with a relatively secure citizenry and will be counterproductive to winning political converts. We do not live in East Germany in 1990. If Americans do not feel that progressives speak to their real economic needs, they will be seduced by conservatives and their promise to return their tax dollars. Second, focusing on the relatively minor anxieties of the middle-class may result in fewer resources to address the bigger economic problems of the truly disadvantaged.

Third, to the extent that progressives succeed in convincing Americans that they should be anxious about economic risk, the reaction could be something different than what the left expects. Rather than being a force for solidarity—a sense that we are all in this together—economic anxiety can provoke the opposite reaction. A strong case can be made that efforts to promote equality have been most successful when economic times are good and Americans are feeling generous.[66] If Americans think that they have somehow managed to avoid calamities that are befalling many others around the country, they may become *less* willing to relinquish what they have in the name of collective security.

Finally, if progressives convince workers that we are living in times of heightened economic risk, those workers may be less willing to demand more from their employers in the way of wages, benefits, and better working conditions. Then-Federal Reserve Chairman Alan Greenspan famously cited job insecurity as a primary reason for low inflation in the late 1990s. Former Labor Secretary (and American Prospect founder) Robert Reich concurred.[67]

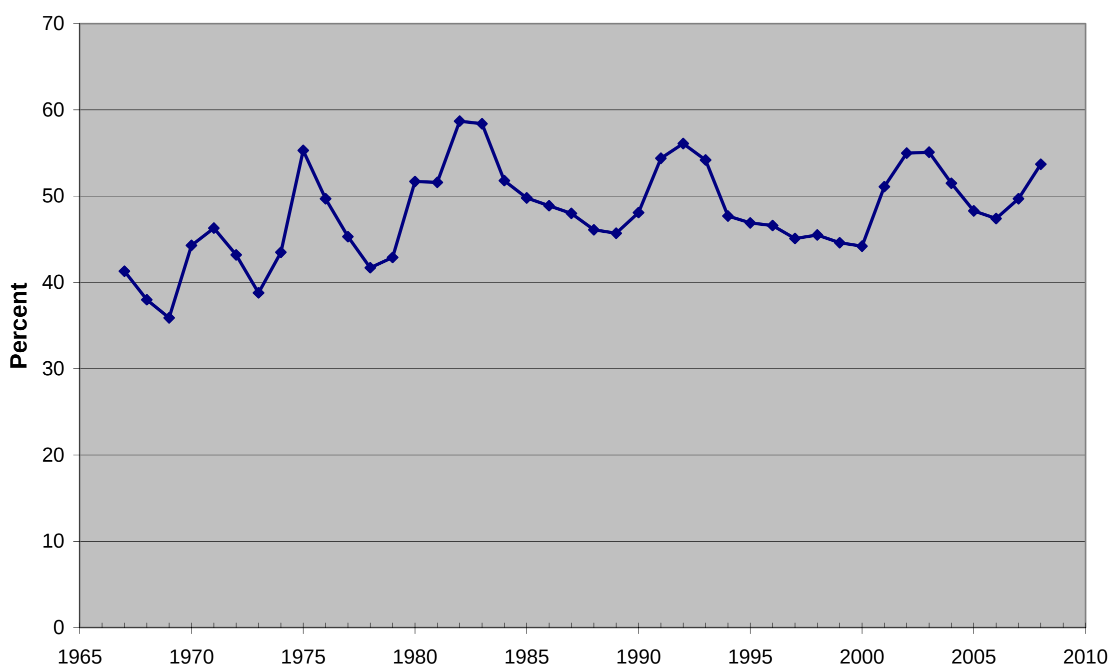
The defining characteristic of a progressive is not disregarding inconvenient facts or ignoring unintended consequences. Policies that would restructure vast segments of the economy on the basis of misperceived economic – and political – conditions may do more harm than good, from the perspective of both economics and politics. Perhaps the absence of a great risk shift does not require any changes in the progressive agenda. But if that's true, then we should abandon the risk-shift narrative and make our case on other grounds.

Figure 1. Trends in Joblessness



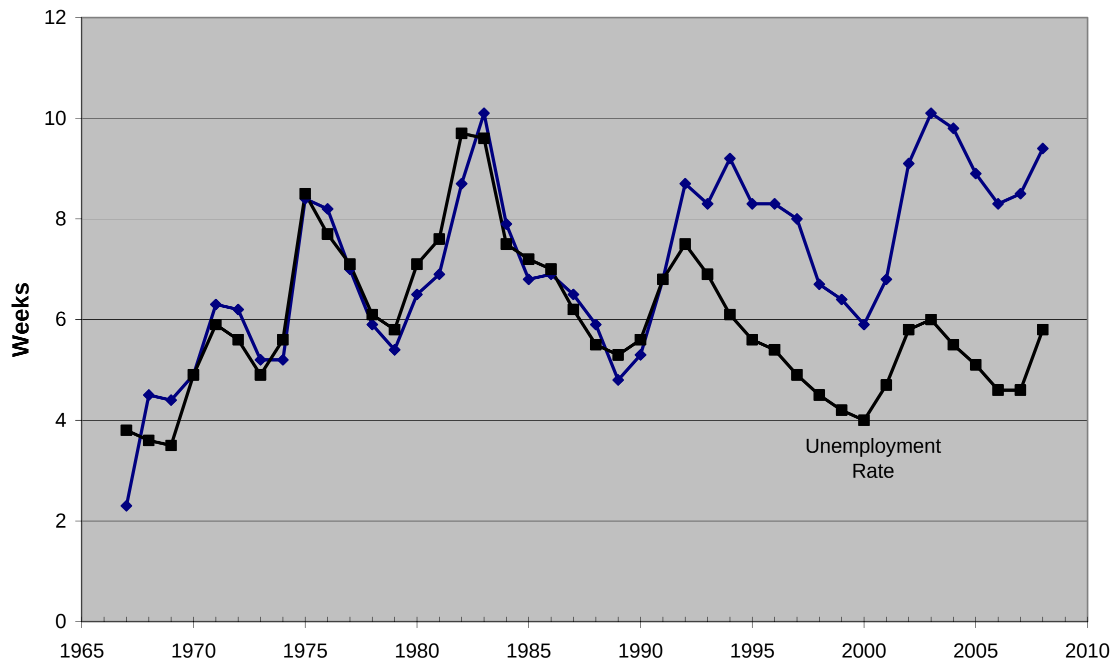
Source: Bureau of Labor Statistics (http://www.bls.gov/webapps/legacy/cpsatab12.htm).

Figure 2. Job Losers as a Percent of the Unemployed



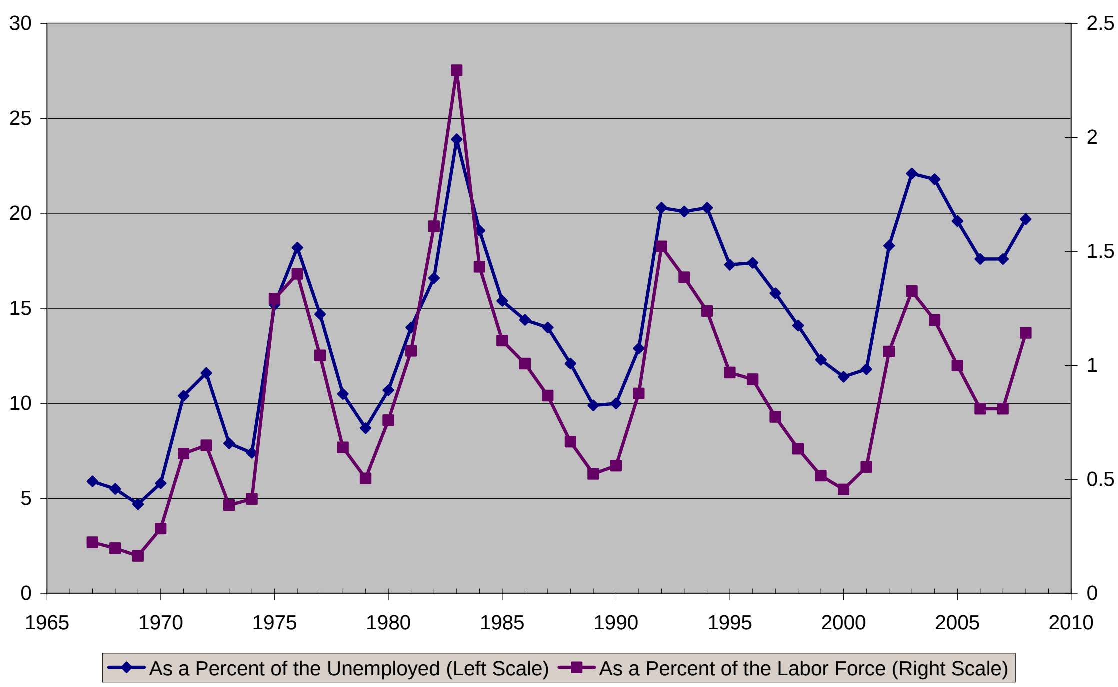
Source: Bureau of Labor Statistics (http://www.bls.gov/webapps/legacy/cpsatab8.htm).

Figure 3. Median Weeks Unemployed



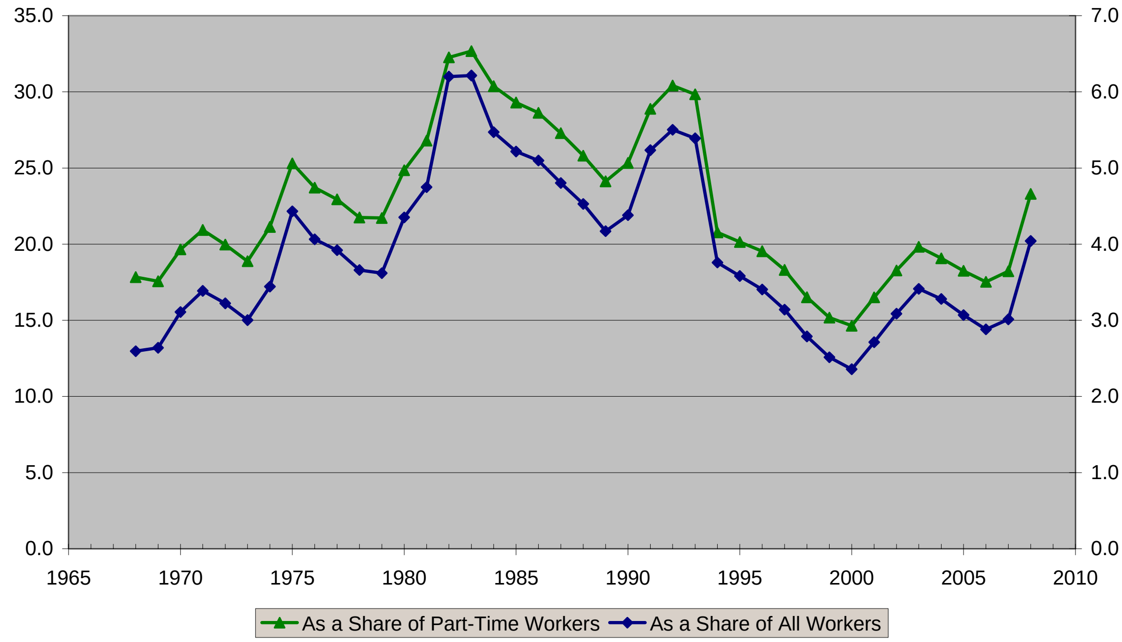
Source: Bureau of Labor Statistics (http://www.bls.gov/webapps/legacy/cpsatab9.htm).

Figure 4. Percent Unemployed for 27 Weeks or More



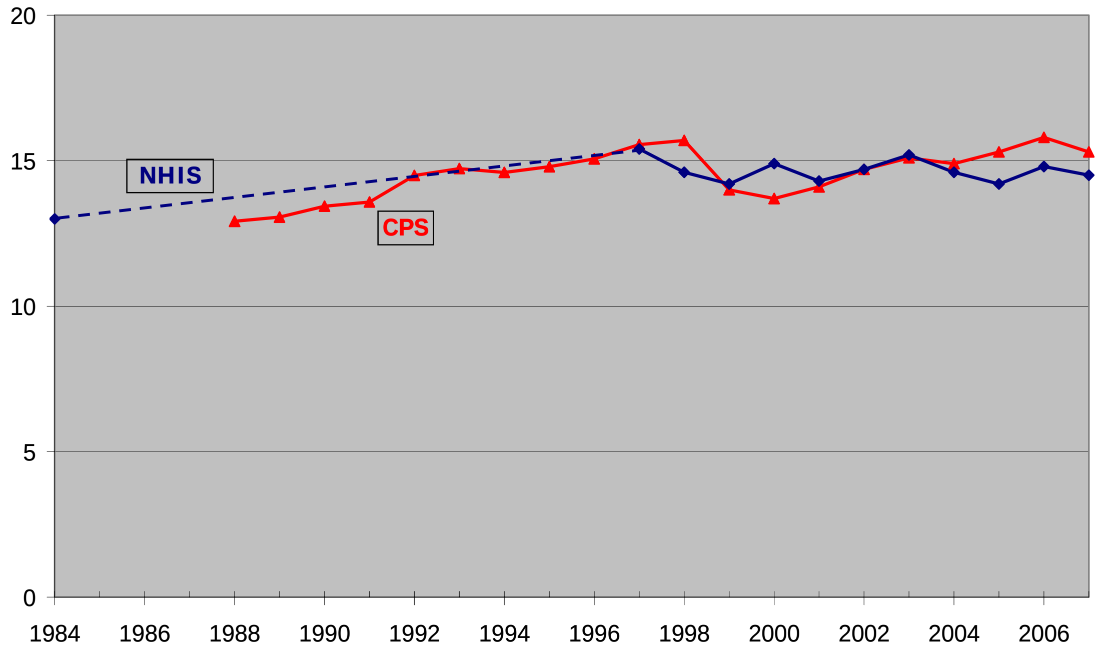
Source: Bureau of Labor Statistics (http://www.bls.gov/webapps/legacy/cpsatab9.htm).

Figure 5. Percent of Workers Who are Part-Time for Economic Reasons

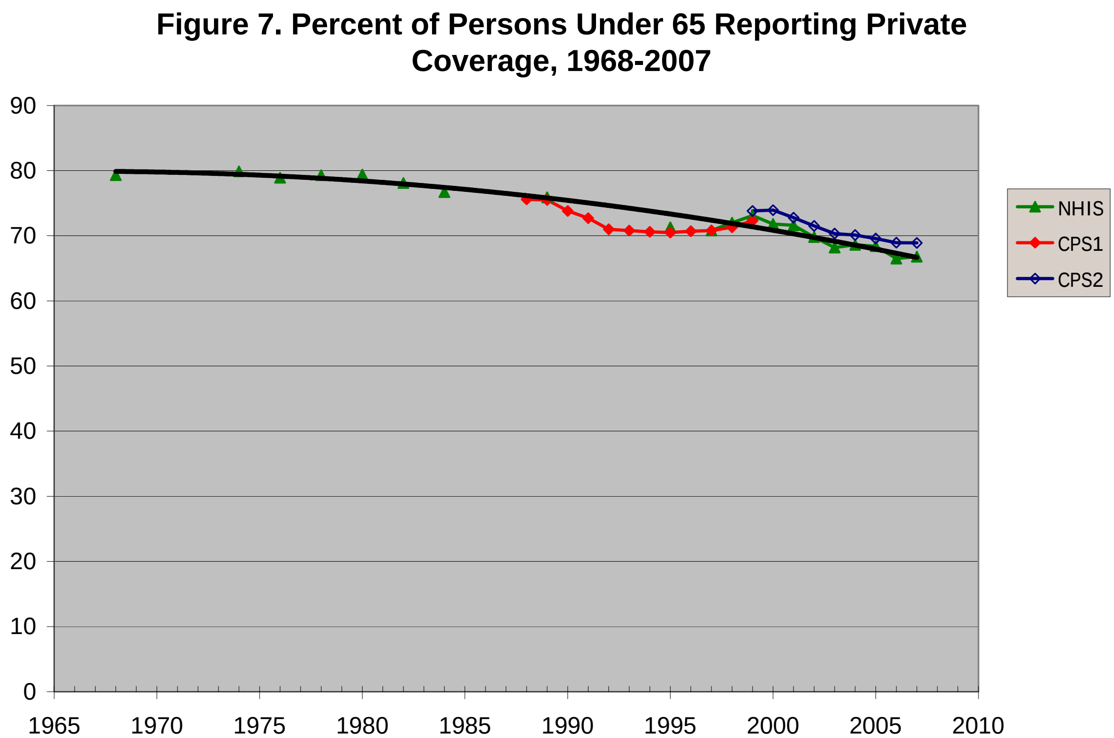


Source: Bureau of Labor Statistics (http://www.bls.gov/webapps/legacy/cpsatab5.htm).

Figure 6. Percent of Population with no Health Insurance, 1984-2007

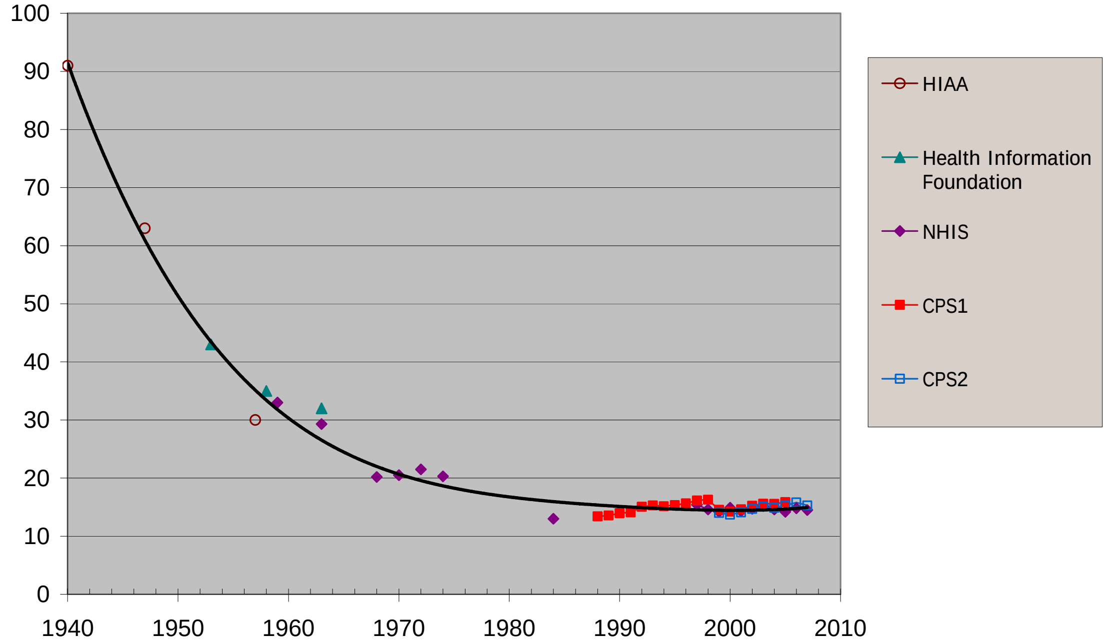


Source: Current Population Survey, 1989-2008 (http://www.census.gov/hhes/www/hlthins/historic/hlthin05/hihistt2.html; http://www.census.gov/hhes/www/hlthins/historic/hihistt2.xls) and the National Health Interview Survey, 1984 and 1997-2007 (http://www.cdc.gov/nchs/data/series/sr_10/sr10_162.pdf; http://www.cdc.gov/nchs/data/nhis/earlyrelease/insur200806.htm). CPS figures are the percent uninsured for the entire previous year, though most experts believe some respondents report their current insurance status. There is a break in the series in 1999 – I adjust the pre-2000 figures so that the percent difference remains the same going back in time. NHIS figures are the percent currently uninsured.



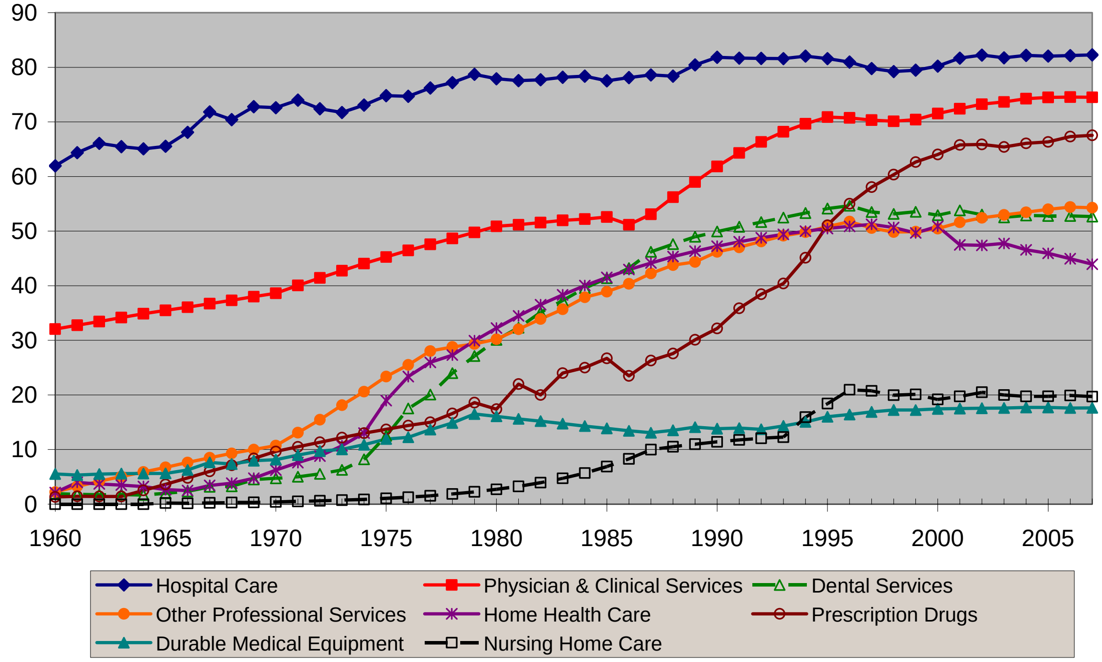
Source: Current Population Survey, 1989-2008 (http://www.census.gov/hhes/www/hlthins/historic/hlthin05/hihistt2.html; http://www.census.gov/hhes/www/hlthins/historic/hihistt2.xls), National Health Interview Survey, 1984 and 1997-2007 (http://www.cdc.gov/nchs/data/hus/hus06.pdf; http://www.cdc.gov/nchs/data/nhis/earlyrelease/insur200806.htm). The CPS series has a break in 1999. CPS figures are the percent uninsured for the entire previous year, though most experts believe some respondents report their current insurance status. NHIS figures are the percent currently uninsured. Trend line is a quadratic based on the NHIS figures.

Figure 8. Percent of Population Currently Without Health Insurance, 1940-2007



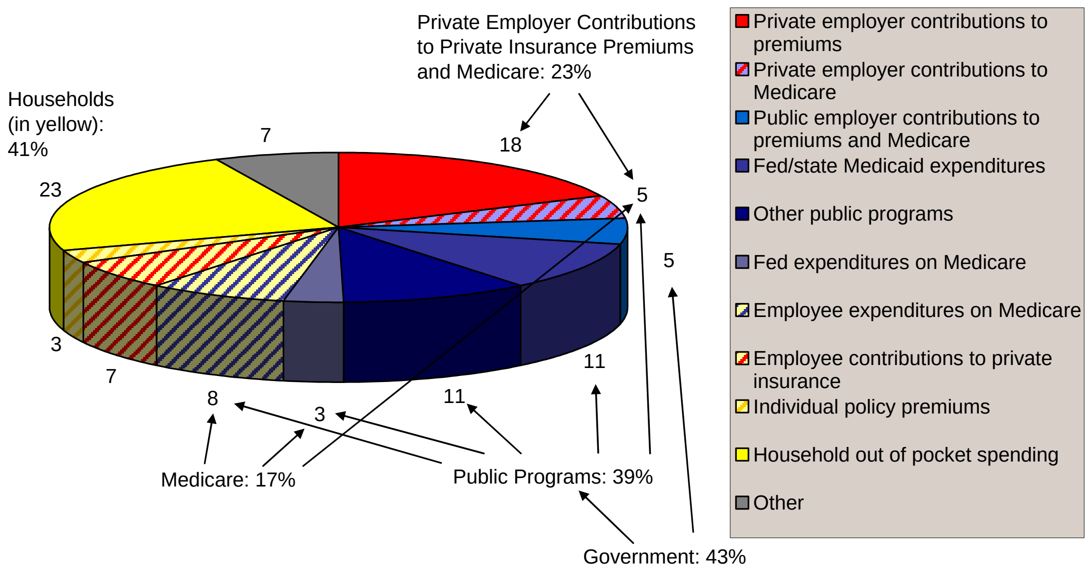
Source: Current Population Survey, 1989-2008 (http://www.census.gov/hhes/www/hlthins/historic/hlthin05/hihistt2.html; http://www.census.gov/hhes/www/hlthins/historic/hihistt2.xls), National Health Interview Survey, 1984 and 1997-2007 (http://www.cdc.gov/nchs/data/series/sr_10/sr10_162.pdf; http://www.cdc.gov/nchs/data/nhis/earlyrelease/insur200806.htm; http://www.cdc.gov/nchs/data/series/sr_10/sr10_117.pdf; http://www.cdc.gov/nchs/data/series/sr_10/sr10_066acc.pdf), Health Insurance Association of America and Health Information Foundation (cited in http://www.cdc.gov/nchs/data/series/sr_10/sr10_066acc.pdf). CPS figures are the percent uninsured for the entire previous year, though most experts believe some respondents report their current insurance status. There is a break in the series in 1999. NHIS figures are the percent currently uninsured. Trend line is a quadratic based on NHIS, HIAA, and HIF figures.

Figure 9. Percent of Private Expenditures Paid by Private Insurance, 1960-2007



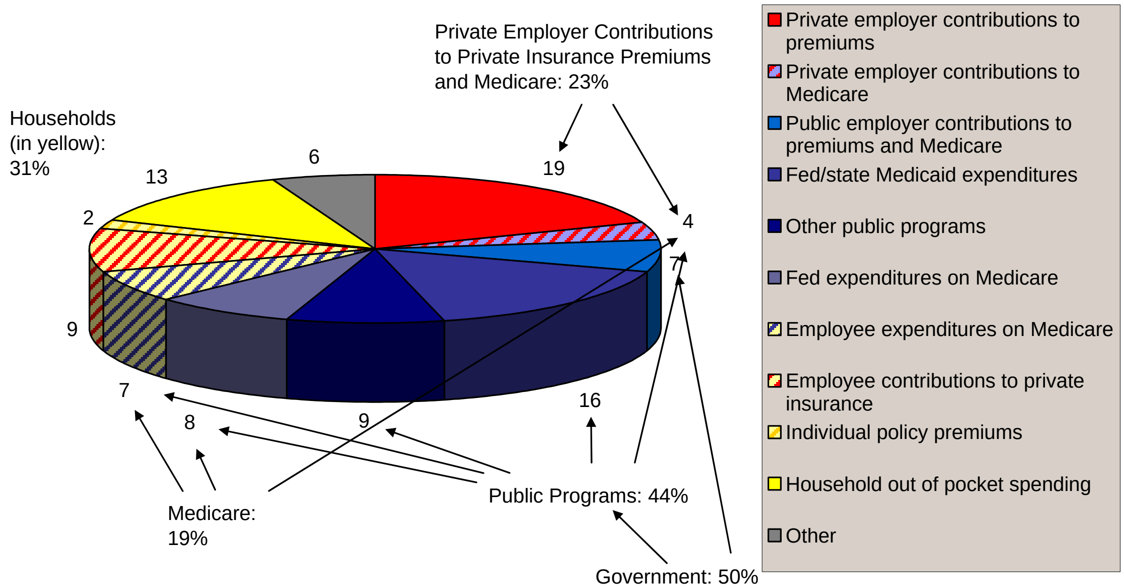
Source: Centers for Medicare and Medicaid Services, National Health Expenditure Data (http://www.cms.hhs.gov/NationalHealthExpendData/downloads/nhe2007.zip).

Figure 10. National Expenditures on Health Services and Supplies, 1987



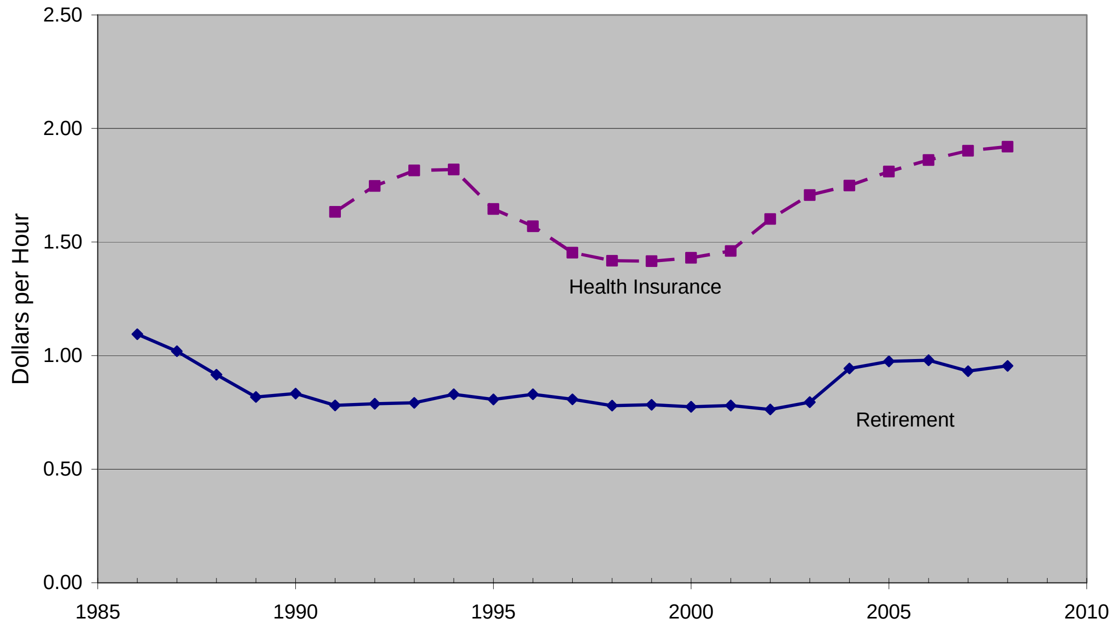
Source: Centers for Medicare and Medicaid Services, National Health Expenditure Data (http://www.cms.hhs.gov/NationalHealthExpendData/downloads/bhg07.pdf).

Figure 11. National Expenditures on Health Services and Supplies, 2007



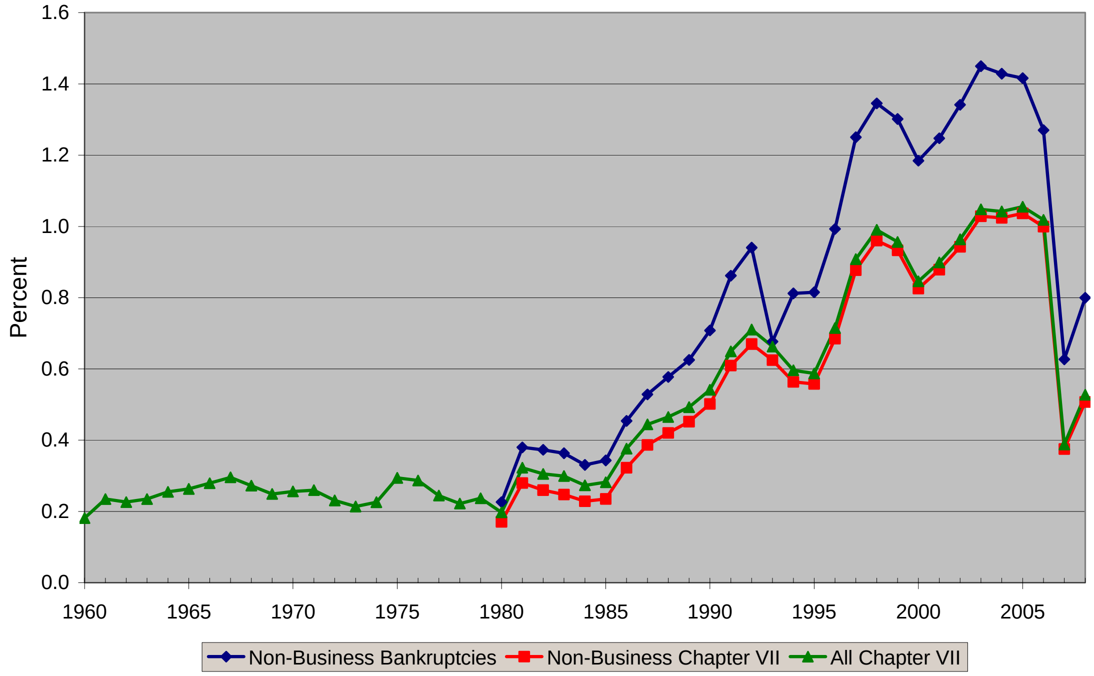
Source: Centers for Medicare and Medicaid Services, National Health Expenditure Data (http://www.cms.hhs.gov/NationalHealthExpendData/downloads/bhg07.pdf).

Figure 12. Private Employers' Hourly Costs for Workers' Retirement and Health Insurance



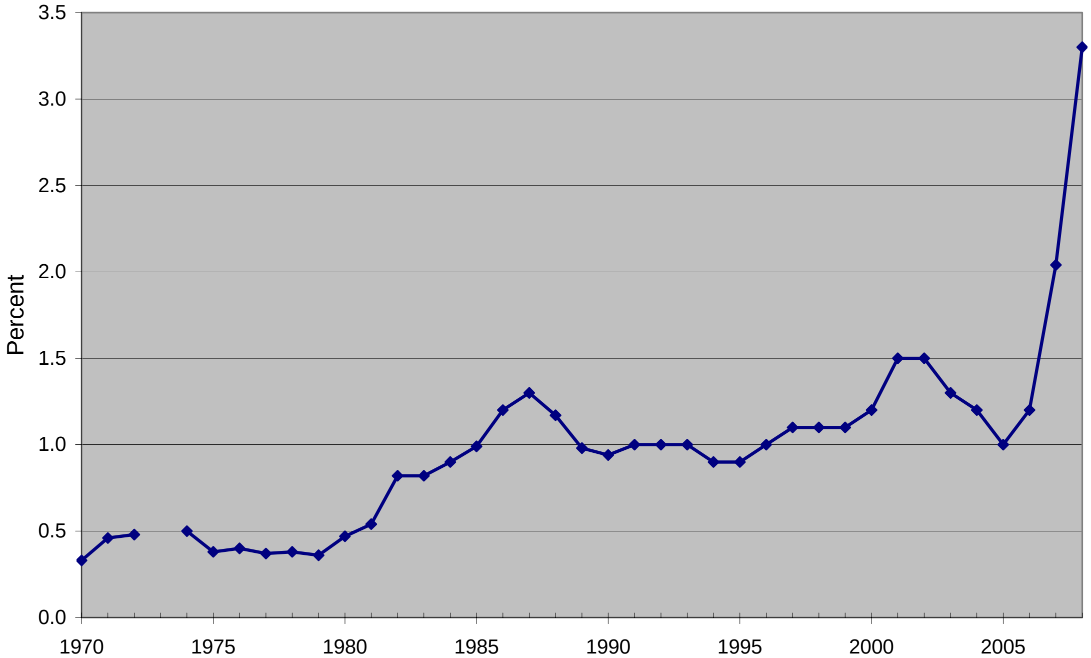
Source: Bureau of Labor Statistics, National Compensation Survey-Employment Cost Trends (ftp://ftp.bls.gov/pub/special.requests/ocwc/ect/ecechist.pdf; ftp://ftp.bls.gov/pub/special.requests/ocwc/ect/ececqrt.pdf; ftp://ftp.bls.gov/pub/special.requests/ocwc/ect/ececqrtn.pdf). Figures are adjusted for inflation using the Employment Cost Index (ftp://ftp.bls.gov/pub/suppl/eci.echistry.txt and ftp://ftp.bls.gov/pub/suppl/eci.echistrynaics.txt). All figures are for private industry workers.

Figure 13. Non-Business Bankruptcy Filings, 1960-2008

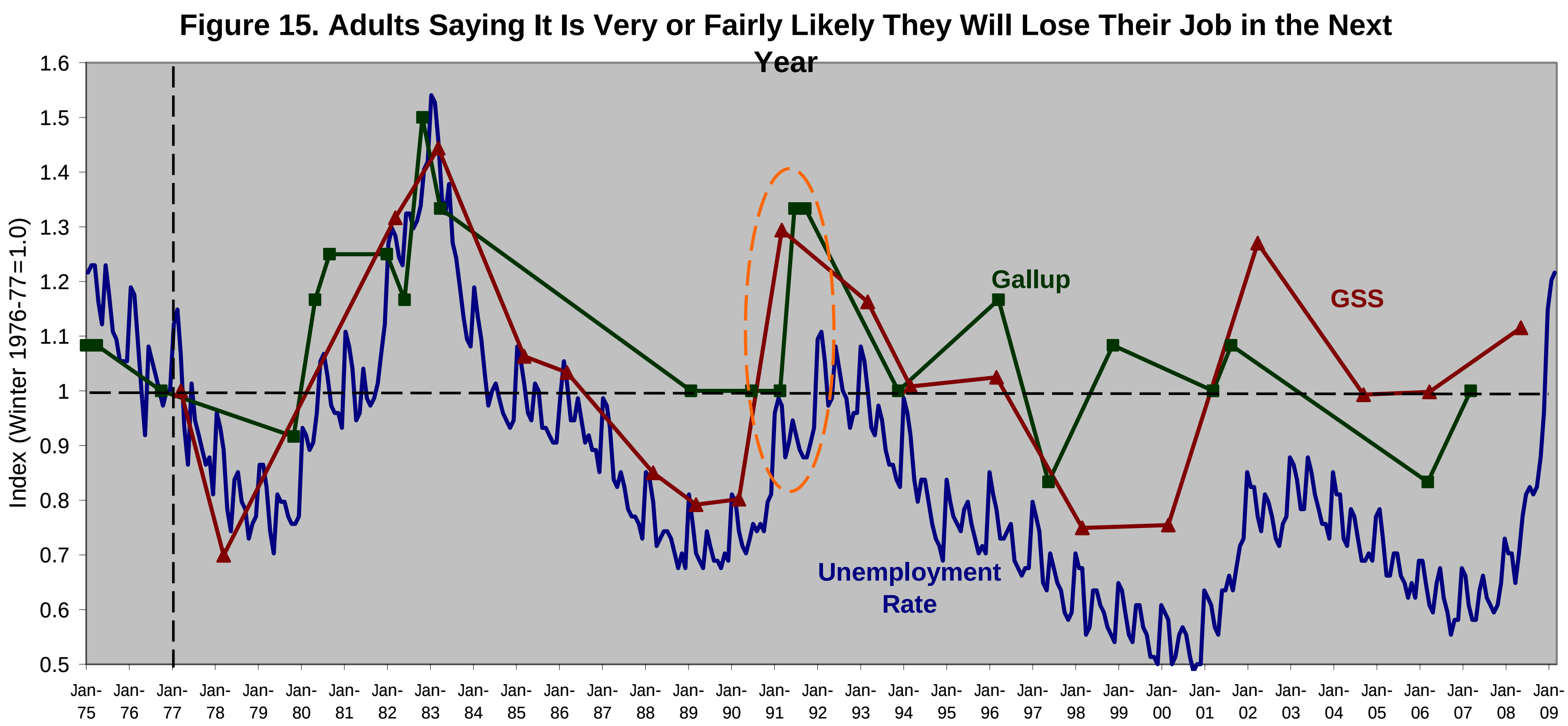


Source: U.S. Bankruptcy Court data (http://www.uscourts.gov/bnkrpctystats/1960_0312MonthJune.pdf; http://www.uscourts.gov/Press_Releases/f2tablejune04.xls; http://www.uscourts.gov/bnkrpctystats/bankrupt_f2table_jun2005.xls; http://www.uscourts.gov/bnkrpctystats/bankrupt_f2table_jun2006.xls; http://www.uscourts.gov/bnkrpctystats/june2007/bankrupt_f2table.xls; http://www.uscourts.gov/Press_Releases/2008/bankrupt_newstat_f2table_jun2008.xls; http://www.uscourts.gov/Press_Releases/603f2.xls) and Current Population Survey (http://www.census.gov/population/socdemo/hh-fam/hh1.xls). Figures are bankruptcies from July 1 of the previous year to June 30, divided by households as of March.

Figure 14. Mortgage Foreclosure Rates, 1970-2008

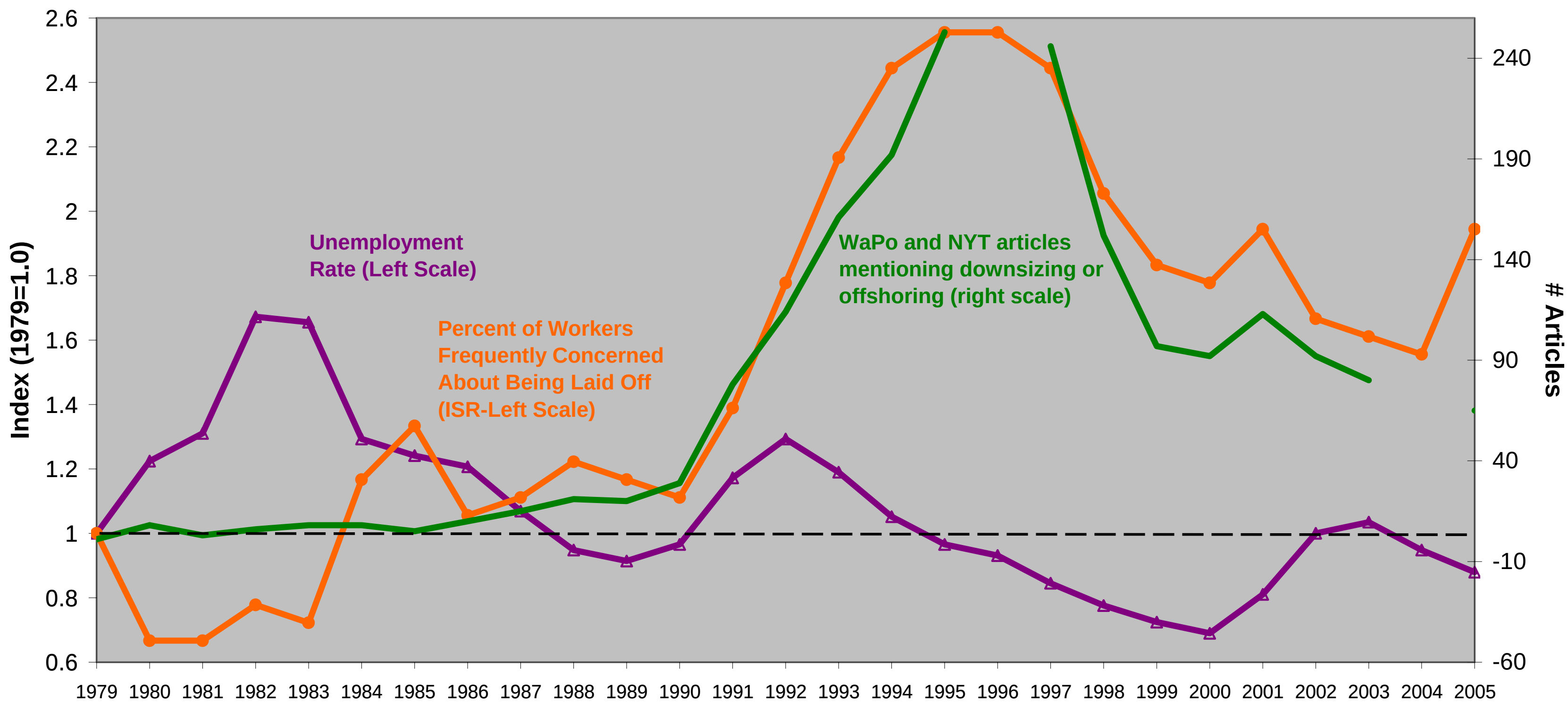


Source: Mortgage Bankers Association, 1970-2006, cited in Census Bureau, Statistical Abstracts – 1997, 2000, and 2008 (http://www.census.gov/prod/3/97pubs/97statab/finance.pdf; http://www.census.gov/prod/2001pubs/statab/sec16.pdf; and http://www.census.gov/prod/2007pubs/08abstract/banking.pdf), 2007 and 2008 from http://www.mbaa.org/NewsandMedia/PressCenter/60619.htm; http://www.mbaa.org/NewsandMedia/PressCenter/64769.htm; and http://www.mbaa.org/NewsandMedia/PressCenter/68008.htm.



Source: General Social Survey – authors calculations; Gallup – Roper Center, iPoll (http://www.ropercenter.uconn.edu/data_access/ipoll/ipoll.html); Unemployment Rate – Bureau of Labor Statistics (http://www.bls.gov/cps/), not seasonally adjusted. NBER recessions are shown as shaded bars.

Figure 16. Percent of Workers Frequently Concerned About Being Laid Off, and Newspaper Coverage of Downsizing and Off-Shoring



Source: ISR data – estimated from Hacker (2006b), Figure 3 (figures for 1981, 1982, 1991, 1995-1999, and 2005 confirmed through various news articles). News articles – LexisNexis search. Figures for 2000 and 2004 omitted due to large spikes in election year coverage. Unemployment rate – Bureau of Labor Statistics. NBER recessions are shown as shaded bands.

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Notes

[1] Hacker (2008).
[2] Diebold, Neumark, and Polsky (1997); Jaeger and Stevens (1999); Gottschalk and Moffitt (1999); Farber (1998); Bansak and Raphael (1998); Fitzgerald (1999).
[3] Neumark, Polsky, and Hansen (1999).
[4] Jaeger and Stevens (1999); Monks and Pizer (1997); Bernhardt et al. (1999).
[5] Friedberg and Owyang (2004).
[6] Stevens (2008).
[7] Farber (2008).
[8] In some analyses, Farber estimates mean tenure or the probability of long tenure for each year using age and education main effects in a regression model, but because the relevance of education to tenure varies with age, the model should interact age and education. Farber (2007) estimates mean tenure for each birth cohort by regressing it on age for four separate educational categories, but it is not possible to translate the cohort effects into year effects. The cohort estimates reflect the calendar years that a birth cohort is in the data. Stevens (2009) finds that cohort trends based on Farber's method follow trends based on hers rather closely, and she estimates that the predicted average year of longest tenure at age 60 will fall to 20 years by 2011.
[9] See http://www.bls.gov/jlt/.
[10] A chart presented in the New York Times confirms that the U6 measure follows the same trend as unemployment going back to 1970. See http://www.nytimes.com/imagepages/2009/01/21/business/21bailout.graphix.ready.html.
[11] Valletta (2005).
[12] Davis (2008).
[13] Davis et al. (2006).
[14] Stewart (2002).
[15] Hall (2005).
[16] Blumenthal et al. (1988), p. 58-60.
[17] U.S. Department of Labor (1999), Table E4, available at http://www.dol.gov/ebsa/publications/bullet1995/e_4.htm; U.S. Department of Labor (2008), Table E4, available at https://www.dol.gov/ebsa/PDF/1999pensionplanbulletin.PDF; and Employee Benefits Research Institute (2008), Table 10.5, available at http://www.ebri.org/pdf/publications/books/databook/DB.Chapter%2010.pdf. The DOL figures include unemployed workers and are based on Form 5500 reports filed with the Internal Revenue Service and the Bureau of Labor Statistics's Employment and Earnings annual publication. The EBRI figures are based on the Current Population Survey Employee Benefit Supplement and the Survey of Income and Program Participation.
[18] For a discussion of the risks associated with each type of retirement plan, see Bodie et. al (1988).
[19] Poterba et al. (2007).
[20] For example Christian Weller, then with the Economic Policy Institute, claimed in 2002 that, "The average American household has virtually no chance to reach an adequate retirement savings in the next 50 years." (Dugan, 2002).
[21] Bernheim (1993, 1997); Bernheim et al. (2000); Gale (1997); Moore and Mitchell (2000); Gustman and Steinmeier (1998); Yuh et al. (1998); Montalto (2001); Wolff (2002); Warshawsky and Ameriks (2000); Center for Retirement Research (2006); Court, Farrell, and Forsyth (2007); Scholz, Seshadri, and Khitatrakun (2006); Eggen, Gale, and Uccello (1999, 2005). See Congressional Budget Office (2003) for a review.
[22] Scholz, Seshadri, and Khitatrakun (2006).
[23] Gale (1997) has critiqued the work of Bernheim, and Scholz and Seshadri (2008) critique the Center for Retirement Research. For studies addressing uncertainty, see Scholz, Seshadri, and Khitatrakun (2006) and Eggen, Gale, and Uccello (1999, 2005).
[24] Center for Retirement Research (2006) is an exception, finding that the share of the population at risk of inadequate savings rose between the 1980s and 2004. See Scholz and Seshadri (2008), however, for a critique of their methods.

[25] Congressional Budget Office (2004); Haveman et al. (2007); Manchester, Weaver, and Whitman (2007); Butrica, Iams, and Smith (2007).
[26] I could not find figures for cumulative risks of bankruptcy over longer periods. In results not shown, I found that the risk of experiencing a 25 percent income drop between two years at least once rose from 16 percent from 1995-96 (only one opportunity for a drop) to 37 percent from 1986-96 (ten opportunities for a drop). If these figures are any guide, then even at a constant annual bankruptcy rate of 1.45 percent the rate over a decade would be well under one in twenty.
[27] Bucks et al. (2006), Table 14, and the detailed tables at http://www.federalreserve.gov/PUBS/oss/oss2/2004/bulletin.tables.int.xls.
[28] Bucks et al. (2006).
[29] If the annual foreclosure rate remained as high as its current levels over the long-run, that would imply a true risk shift, since an annual one in thirty chance over, say, thirty years would produce a 100 percent chance of eventual foreclosure. If the evidence for income drops noted in footnote 26 is any guide, and if foreclosure rates settle at 1 percent annually, the implied risk of foreclosure over thirty years is probably well under one in ten.
[30] Hacker (2006a).
[31] The recession had mild effects on unemployment compared with past recessions, both for blue-collar and white-collar workers, and the effect was stronger on blue-collar workers than white-collar workers. But relative to past recessions, the 1990-91 recession was somewhat less mild for white-collar workers. See Gardner (1994).
[32] I was unable to obtain detailed methodological information about the ISR surveys. They appear to be confined to workers at firms with at least 500 employees (Kessler, 2000). Such firms employ roughly half of workers in the U.S. (see http://www.census.gov/epcd/www/smallbus.html).
[33] These figures were obtained from a LexisNexis Academic search.
[34] In addition, Jacobs and Newman (2008) show that trends in consumer sentiment and in financial decline over the previous year show declining insecurity over time. The latter indicator tracks monthly unemployment remarkably well.
[35] See http://apahelpcenter.mediaroom.com/file.php/174/Stress%2Bin%2BAmerica%2BExecutive%2BSummary%2B10-02-08%2BNO%2BEmbargo.pdf.
[36] See http://www.kff.org/kaiserpolls/upload/7831.pdf.
[37] See http://www.kff.org/entmedia/upload/7638.pdf.
[38] See http://www.kff.org/kaiserpolls/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=14464.
[39] See http://www.kff.org/kaiserpolls/upload/Immigration-in-America-Toplines.pdf.
[40] See http://www.kff.org/spotlight/mederrors/upload/Spotlight_Jan06_MedErrors.pdf.
[41] See http://www.kff.org/kaiserpolls/upload/7831.pdf.
[42] Ibid.
[43] See http://www.kff.org/kaiserpolls/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=14464 and http://www.kff.org/kaiserpolls/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=32224.
[44] Ibid.
[45] See http://www.kff.org/healthpollreport/CurrentEdition/security/upload/HSW0408.pdf.
[46] Whitman (1998).
[47] See http://graphics8.nytimes.com/packages/images/nytint/docs/new-york-times-cbs-news-poll-on-the-approval-ratings-of-president-barack-obama/original.pdf.
[48] See http://www.nationaljournal.com/img/pdfs/090424_fd_allstate_national_journal.pdf.
[49] See http://www.economicmobility.org/assets/pdfs/Poll_Questionnaire.pdf. As a disclosure, I am employed by the Economic Mobility Project and was centrally involved in the planning and analysis of the poll.
[50] Kusnet et al. (2006).
[51] Frank (2004); Lakoff (2004); Armstrong and Moulitsas (2006); Westen (2007); Krugman (2007); Bartels (2008).
[52] Hacker and Pierson (2005).
[53] This conclusion is contrary to that of Bartels (2008, Chapter 6), who argues that political ignorance mostly explains support for the tax cuts.
[54] See http://www.voteview.com/.

[55] Following their recent book, *Polarized America* (McCarty, Poole, and Rosenthal, 2006), I use scores on Poole and Rosenthal's first DW-NOMINATE dimension (for details, see http://polarizedamerica.com/ and http://www.voteview.com). Hacker and Pierson report using "d nominate" scores, but these are only constructed through the 99th Congress, so I am inclined to believe that they too used the first DW-NOMINATE dimension scores.
[56] These descriptions do not quite reflect what the Poole-Rosenthal scores show. The median Republican Senator's score in 1971-72 was equidistant between McCain in 2003-04 and Miller in 2003-04, not closer to Miller, and it was just as closer to McCain than the median Republican Senator's score in 2003-04 was to Santorum.
[57] Hacker and Pierson (2004), page 38. Hacker and Pierson cite ANES data. According to Gallup data showing self-identified ideology, the breakdown among Americans as a whole in 2004 was roughly 20 percent liberal, 40 percent moderate, and 40 percent conservative (Wave 2 of the June Poll, Question D10). In 1972, it was 25 percent, 34 percent, and 37 percent (Poll 851, Question 14).
[58] Hacker's and Pierson's argument that Republican activists grew more extreme while Democratic activists became less so is also problematic. To support their claims, Hacker and Pierson began by defining an activist as someone who self-identifies as a Democrat or a Republican and who participated in three out of five election-related activities asked about in the American National Election Studies. They measured ideology using a combination of two "thermometer" items – one of which asks respondents how warm or cold they feel toward liberals and one inquiring about conservatives. The resulting measure ranged from 0 (extremely warm toward liberals and extremely cold toward conservatives) to 97 (extremely cold toward liberals and extremely warm toward conservatives).

To determine how far activists drift from the center, they compared the activist scores on this index to the scores for independent voters. Hacker and Pierson plotted the average distance from independents for Republican and Democratic activists and then "smoothed" the trends by imposing curves to describe them. The graph showed that Republican activists were more extreme than Democratic activists to begin with, that they became more conservative over time, and that after becoming more liberal, Democratic activists tacked back toward the center. But several of these conclusion disappear when the data points are examined rather than the curve being fit to them, when 2004 data are added, when activists are compared not against Independents (which can produce an increase in extremism without activists' ideology changing) but against the numerical center of the scale, or when self-identified ideology is used rather than a measure that conflates ideology with tolerance toward other ideologies. They also treat their measure as if it had a true zero point as discussed above, indicating inappropriately that Republican extremism doubled over time. When these issues are addressed, Republican and Democratic activists are equally extreme in several years (including 2004) and there is a clear increase in extremism among Democratic activists.
[59] See http://www.gpoaccess.gov/usbudget/fy09/pdf/hist.pdf.
[60] Galston and Kamarck (2005).
[61] Hacker (2006b, 2007).
[62] Lewin Group (2008).
[63] http://wonkroom.thinkprogress.org/2009/04/28/specter-health/; http://www.prospect.org/csnc/blogs/ezraklein_archive?month=04&year=2009&base_name=should_employerbased_health_ca&10.
[64] Hacker (2006b).
[65] Hacker (2002).
[66] Friedman (2005), Wilson (2001).
[67] Uchitelle (1997), Reich (1997).