

Economic Uncertainty in the United States: Measurement and Trends

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Abstract

Households of all types---not just those with low income or low wealth---may face substantial economic risk, and households differ in their ability to insure against such risk. This paper uses data from the 1989 through 2007 U.S. Surveys of Consumer Finances (SCF) to construct several measures of household economic security and to examine how different conceptions and measures of economic vulnerability affect estimates of both the prevalence of economic insecurity and the characteristics of households classified as "economically insecure." Measures of economic security are derived from the rich data in the SCF on: i) income volatility and the economic shocks underlying income fluctuations; ii) household wealth and its components; iii) households' subjective assessment of the level of savings necessary to weather emergencies or other contingencies and, in turn, the adequacy of households' current assets or savings; iv) households' debt payment burdens; and v) indicators of credit constraints, including access to formal and informal sources of credit.

The various measures of economic insecurity provide differing pictures of the types of households that are "economically insecure" and, hence, yield differing conclusions regarding the demographic correlates of economic insecurity. I also examine how the choice of measures affects estimates of the prevalence of economic insecurity, and I take advantage of the consistent design and content of the seven SCF surveys conducted between 1989 and 2007 to assess how economic insecurity among U.S. households has changed over time.

Finally, I supplement the analysis based on the SCF by examining a separate data source that links survey and administrative data on bankrupt households---a set of households generally thought to have experienced economic distress. These data offer further evidence that the sequence of shocks or decisions that lead to bankruptcy can happen to a wide variety of households, not just those with, for example, low income. Further, a comparison of the characteristics and balance sheets of households in the bankruptcy data to those of SCF households suggests that the financial relief provided by bankruptcy law may not be equally attractive or beneficial to all "economically insecure" families.