# PERSONALLY SPEAKING

## Number 105 August 10, 2013

---

**ECONOMIC INSECURITY: WHY IT MATTERS**

**Edward J. O'Boyle, Ph.D.**
**Mayo Research Institute**
***Permission to quote is granted when the source is acknowledged.***

---

**Based on data already available but never before cobbled together to measure economic insecurity, the Associated Press reported last month that 79 percent of American adults encounter the risk of economic insecurity at some time during their lifetimes. Economic insecurity is defined as experiencing unemployment at some time during their working years, dependence on government aid that lasts at least a year, or income below 150 percent of the official poverty standard.**

**This finding has been reported widely in the national media with good reason. Economic insecurity threatens personal well-being which in turn undermines family and community welfare. Anyone who has experienced long-term unemployment knows of the hardship that it brings in terms of earnings lost, making it difficult to meet current personal and family material needs. In addition, joblessness that lasts a long time raises doubts as to a person's ability to provide adequately for the future needs of the family not to mention personal needs.**

**Two challenges to this latest socio-economic metric come to mind, one with regard to how lifetime economic insecurity is defined and measured and a second relating to the role of economic insecurity in a market economy.**

**Regarding the first challenge, notice that any spell of unemployment, whether voluntary or involuntary, even as short as one week is taken as an indicator of economic insecurity. Do we really want to classify a person as economically insecure who leaves a dead-end job and experiences a short-period of joblessness while he/she looks for another and then finds a much better job? Is it appropriate to count as economically insecure a person who receives a year of unemployment benefits while he/she is taking a training course that in the end leads to a steady job?**

**Logically, a person who is impoverished as measured by the official poverty standard is economically insecure, but where's the logic in using a standard of economic insecurity based on 150 percent of poverty? For sure it's a convenient standard, one that is easily applied to the official poverty data, but invariably it begs the question as to why some other multiple such as 125 percent or 133 percent is not used. The 150 percent standard is in fact**

***arbitrarily* selected because unlike the official standard it is not *directly* connected to a clear definition of material need. Thus, the higher the multiple, the greater the number classified as economically insecure. We can say with certainty that a 200-percent standard would have resulted in a finding that more than 79 percent of Americans are at risk of lifetime economic insecurity.**

**Consider as well this issue buried in the economic insecurity metric. When a person has been receiving government aid for more than year is it because he/she is truly experiencing hardship and needs the aid or does the aid encourage malingering and thereby induce the economic insecurity? Is it a response to real human hardship or does it induce a dependency that is statistically inseparable from real human hardship? Does malingering induced by well-intentioned government assistance such as disability insurance contribute to the increased numbers of labor-force dropouts observed since the start of the Great Recession?**

**The second challenge relates to the role of economic insecurity. In a market system, resources are allocated in two ways: by the "pulling force" of prices and the "pushing force" of unmet need. Assume for the moment that Producer A faces a market in short supply for his/her product and Producer B faces an excess supply. The resources discharged by Producer B to deal with the excess supply potentially are attracted to Producer A who is hiring and is paying more for the resources required to address the short supply. Thus, the market helps remedy both B's surplus and A's shortage.**

**The second way that resources are allocated is through the pushing force of unmet need. Redundant workers and other idle resources are pushed away from producers where they are in excess supply and toward producers where they are in short supply by the very hardship and unmet need brought on by their idleness. They need to find work in order to provide for their needs.**

**Remove that hardship and unmet need by safety net programs such as unemployment insurance lasting nearly two years and labor resources are slow to move away from employers where they are in excess supply to others where they are in short supply. Some of the unemployed likely remain jobless longer when UI benefits last 90 weeks rather than 26 or 39 weeks. It follows that economic insecurity is not entirely a bad thing though no one who supports the market system would deliberately promote it.**

**Further, economic insecurity is *necessary* to preserve the market system. Remove this role of economic insecurity and it becomes necessary to allocate economic resources through a centralized planning board under government supervision. There is no third option. Workers would be assigned jobs and forced to remain in those jobs as long as the planning board requires. Whether we know it not, like it or not, economic insecurity is the price we pay for a market system in which workers are free to leave jobs they no longer like and employers are free to dismiss workers who do not measure up to the work assigned.**

**Do we want workers and employers to decide how labor resources are allocated or a central planning board? Do we want greater economic security and little freedom or less economic security and more freedom? The Great Recession and the last two presidential elections suggest that Americans increasingly are willing to surrender freedom for security.**

---

***Edward J. O'Boyle is Senior Research Associate with Mayo Research Institute***
***Offices in New Orleans, Lake Charles, and West Monroe***
***www.mayoresearch.org 318-396-5779 edoboyle737@gmail.com***

---