Economic insecurity

**Keywords:** economic insecurity, populism, trust, globalisation

Introduction

Analysing economic insecurity has become quite common recently, when investigating issues such as the rise of populism or the anxieties of workers. Populism and populist leaders have been grabbing the headlines of the international media for the better part of the 2010s. The election of Donald Trump in the United States and of Jair Bolsonaro in Brasil, the BREXIT referendum and the emergence of Boris Johnson as Prime Minister of the United Kingdom, the growing popularity of populist discourse and populist parties such as the AfD (Alternative für Deutschland) in Germany, the National Rally (Rassemblement national) in France, or the Northern League (Lega Nord) in Italy, etc., have made populist themes as well as the theme of populism a common sight in politics.

At the same time, the reasons for the popularity of populist parties are somewhat unclear and contested. Related to this, Guiso, Herrera, Morelli, & Tommaso (2018) and Inglehart & Norris (2016) were interested in the connection between economic insecurity and populism, while Algan, Papaionnaou, Guriev, & Passari (2017); Dustmann et al., (2017) looked at the connections between trust and populism. However, the causal links found by these authors are somewhat at odds with each other (as will be discussed in the next section). The reason for this is, that different timespans and countries were examined in the afore mentioned studies, and more importantly, slightly different concepts of economic insecurity were used, when measuring the impact thereof on populism.

This article, while focusing on economic insecurity, has two main parts and two main objectives. First, the article will provide a wider conceptual context, in which populism and economic insecurity is situated, focusing not only on conceptual challenges and the variations in definitions, but also on problems of operationalisation. Second, the article will introduce some of the major debates within the literature, which have emerged when conceptualising economic insecurity. The finding of the article shows that although economic insecurity has been used in many contexts and related to diverse themes, two common points have emerged within the literature: a focus on the risks that people face, and anxiety as a consequence of this risk. These two variables are useful when attempting to analyse economic insecurity as one of the root causes of populist demand. Given the vast literature available, the article makes no

---

1 This project has received funding from the European Union’s Horizon 2020 research and innovation programme under grant agreement No. 822682
attempt at being exhaustive: it will provide an account of the dominant concepts and approaches in the field of literature concerned.

The relevance of economic insecurity

When assessing the root causes of populism, Inglehart & Norris (2016) analysed two possible reasons for its emergence: the economic inequality and the cultural backlash arguments. According to the economic inequality thesis, “rising economic insecurity and social deprivation among the left-behinds has fuelled popular resentment of the political classes” (Inglehart & Norris, 2016, p. 2), which is exploited by populist leaders and parties. If the economic insecurity argument holds, this would mean, according to Inglehart and Norris (2016), that support for populism should be observed among those, who have lost the most due to globalisation, technological changes and the structural changes of economies. The initial results are mixed in the sense that they do find a relationship between populist support and economic insecurity amongst the petty bourgeoisie (self-employed people, small businesses etc.) but not amongst the unskilled manual workers. In contrast to Inglehart & Norris (2016), Guiso et al. (2018) found that economic insecurity has been the most dominant reason for frustration-induced abstention from voting in elections, and the leading motive behind the demand for populist parties. They argue that systemic economic security, which the traditional incumbent parties have found hard to address, make their voters turn to alternative parties who promise redistributive changes. In a more recent article, Guiso, Herrera, Morelli, & Sonno (2019, p. 101) argue that an increase of economic insecurity drives up the populist vote through two mechanisms: anti-immigrant tendencies and distrust for traditional politics.

A slightly different theme is analysed by Algan et al. (2017), who focus on the impact of the global financial crisis on trust and on voting for anti-establishment parties. They find that crisis-driven economic insecurity (mainly via changes in the level of unemployment) during the financial crisis, and the inability of European institutions to deal with it, led to falling trust in national parliaments and European institutions, and to the emerging popularity of populist parties. As unemployment has increased during the economic crisis, so has trust decreased with it in Europe during the financial crisis (Foster & Frieden, 2017). Dustmann et al. (2017) show that older and less educated people are more likely to trust European institutions and national parliaments, and are more likely to vote for a populist party; it is the other social segments that account for much of the loss of trust. Mayer, Rovny, Rovny, & Sauger (2015) show that focusing only on unemployment to determine a rise in economic insecurity may be wrong, as employed people can be differentiated between as insiders (occupying well-paid and stable jobs) as well as outsiders (facing increasing levels of social and economic risk). While analysing the status of outsiders Rovny & Rovny (2017, p. 181) found that depending on how outsiders are defined they could turn out to be supporters of the radical right (defined on the basis of occupational class group risk) or the radical left (on the basis of current employment status).
Rehm, Hacker and Schlesinger (2012) found that if economic risk is uncorrelated with income (i.e., if risk is inclusive in society), there will be a universal demand for policies promising change. Furthermore, adverse economic shocks have a major effect on increasing the populist vote. Probably one of the most comprehensive studies has been conducted by Funke, Schularick, & Trebesch (2016), who find that political polarisation in the 19th and 20th centuries have increased after financial crises, and that far-right parties have gained, in the five years following crises, an increase of 30% in vote share relative to pre-crisis levels. Voters are systematically lured by the rhetoric of the far-right which is often nationalistic or xenophobic, while the far-left profits less from financial unpredictability.

What seems to be a common theme in the literature mentioned previously is, that adverse economic events will have an impact on the trust citizens have towards both their national governments, and in the European case, towards the institutions of the European Union. This can result in an increase in the vote-share of anti-establishment parties, both at the national and at the European level. It is also understandable that, as a result of adverse economic events, individuals have become economically more insecure: fears of job loss due to imports, the fear of immigration and automation coupled with the effects of the financial crisis manifesting in the decline of the middle class and the defaulting mortgages, have led to emotionally less secure voters, dissatisfied with existing parties and age-old solutions.

**Conceptualising and reviewing the literature on economic insecurity**

The literature on economic insecurity is quite diverse: Anderson and Pontusson (2007, p. 212) argue that in many cases it is used as an umbrella term for the “different manifestations of material well-being”, and its meaning can range from job-related concerns to personal-income-based issues. This is also apparent from the definitions below:

- Bossert and D’Ambrosio (2013, p. 1018) defines economic insecurity as “the anxiety produced by the possible exposure to adverse economic events and by the anticipation of the difficulty to recover from them”.
- Jacobs (2007, p. 1) states that “economic insecurity is perhaps best understood as the intersection between “perceived” and “actual” downside risk.”
- Dominitz and Manski (1997, p. 264) state that “an individual's sense of economic insecurity may be thought to arise from his or her perceptions of the risk of economic misfortune”.
- Western *et al.*, (2012, p. 341) conceptualise economic insecurity as “the risk of economic loss faced by workers and households as they encounter the unpredictable events of social life.”
- Osberg (1998, p. 17), cited in Osberg & Sharpe (2014, p. 53), directs attention to “the anxiety produced by a lack of economic safety – i.e. by an inability to obtain protection against subjectively significant potential economic losses”.
- Hacker *et al.* (2014) believe that three features of human thinking and market dynamics impact on economic insecurity: loss aversion, difficulty in assessing relevant
economic contingencies and safeguarding oneself against them, and the incomplete character of private insurance markets.

One common denominator among these definitions is the risks people face and the anxiety experienced as a consequence of these risks. Individuals will feel insecure if they believe that there is a major and “unavoidable downside economic risk” (Osberg, 2015, p. 7). In the meantime, the above-mentioned authors all identify different causal chains in regard to how economic insecurity arises, as this will be detailed below. In the remainder of this section, the article will differentiate between the literature which uses economic insecurity as an explanatory variable for explaining populism, and economic insecurity used as a response variable (an outcome to be explained).

The diversity of the literature is also visible when attempting to operationalise economic insecurity: those authors who have used economic insecurity as a tool to explore the relationship between economic factors and populism have not settled on one common way of measurement. Algan et al. (2017, p. 319) measure insecurity as a change in the unemployment rate, Inglehart & Norris (2016, p. 45) use reported difficulty of living on current household incomes, Dustmann et al. (2017) use per capita income and the unemployment rate as the economic indicators to test insecurity, while Guiso et al. (2018, p. 15) measure economic insecurity by looking at three factors: unemployment in the previous three years; financial distress (finding it hard to live on the current income), and by a complex indicator used to assess, inter alia, exposure to the impact of globalisation and skill level.

The same is true for the authors who have conceptualised and operationalised economic insecurity independent from the idea of using it as an indicator to explain the rise of populism: they have not settled on a uniform way of measuring it. Osberg & Sharpe (2014, p. 71) use the Index of Economic Well-Being (IEWB), a weighted index, which measures four factors: livelihood security, security from cost of illness, security from widowhood and security in old age. Hacker et al. (2014, p. 6) also develop their own index, the Economic Security Index (ESI), incorporating three dimensions to measure economic security: income loss, medical spending shocks and the buffering effects of financial wealth. Anderson & Pontusson (2007, p. 228) associate economic insecurity with job insecurity, and measure it with individual-level survey data, estimating the probability of losing one’s current job, estimating one’s ability to find another job, and the availability of income during unemployment. Scheve & Slaughter (2004, p. 665) measure economic insecurity by responses to a specific question on job security of the British Household Panel Survey, while Burgoon & Dekker (2010, p. 131) use two types of survey answers to gauge economic insecurity: one relating to the respondent’s subjective job security, the second to the individual’s subjective income security. Bossert & D’Ambrosio (2013, p. 1019) apply a measurement which “identifies economic insecurity in terms of the current wealth level multiplied by minus one plus weighted sums of the wealth gains (losses) experienced in the past.”

In the following sections, the article introduces some of the major debates within the literature, and eventually proposes a definition for future use.
Is economic insecurity caused by local/regional problems or by globalisation?

A collection of articles in the early 21st century attempted to analyse the new, but already visible effects of globalisation on workers. These effects were captured by focusing on how the security of workers changed, due to the new causal mechanisms of deepening international economic integration. Scheve & Slaughter (2004) conceptualised economic insecurity as the perception of labour market status. They argued that a vast majority of people rely more on income from labour than from capital, and if the labour status of workers is threatened, because of increased global competition, workers will feel more insecure. The authors, using the British Household Panel Survey (from 2001), were interested in finding out about whether greater foreign direct investment (FDI) can increase labour demand elasticities, and as a result of it, worker insecurity, due to volatile wages. In their model they find that people are more insecure if they are more educated, in households with low income, unionised and working in a sector with high unemployment. Furthermore, workers, employed in sectors where FDI is present, report higher insecurity, which may be because multinational companies can more easily substitute workers and production among different locations. To the contrary if labour markets are less flexible: there workers may worry less about job losses. In the meantime, globalisation may also reduce the capacities of national governments to provide for social protection and to counter the negative effects of economic integration.

Burgoon and Dekker (2010), while also connecting economic insecurity to labour conditions, expose a different causal chain: they argue that the usage of flexible working hours increases economic insecurity amongst workers. Based on a Eurobarometer survey conducted in 2001, carried out across 15 European countries, the authors argue that the prevalence of part-time employment and temporary employment causes feelings of job insecurity and income insecurity, as these types of jobs are heavily dependent on business cycles and increase demand for social policy assistance, even as these welfare transfers and services might not be forthcoming from governments.

One of the most detailed conceptualisations of job insecurity is offered by Anderson and Pontusson (2007). Their paper conceptualises the components of affective job insecurity (the anxiety over the fear of losing one’s job) into three parts: cognitive job insecurity, labour market insecurity and income insecurity. According to the authors, cognitive job insecurity is made up of three components: labour market conditions (e.g. how secure workers are in their current employment position); individual employability attributes (e.g. how valuable workers are for their employers), and institutionalised employment protection. Labour market insecurity refers to the likelihood the individual can find a job and depends on labour market conditions, individual employability attributes and labour market policies. Finally, income insecurity refers to the prospects of income replacement provided by the state, insurance or family. The expectation is that the stronger the welfare state is, the lower affective job insecurity will be. The authors find, based on individual-level survey data from the International Social Survey Program (ISSP) conducted in 1997, that more educated workers and workers in non-manual occupations feel more secure in their current job and are more optimistic about finding a new one if necessary. High unemployment rates lead to high cognitive job insecurity, while rising unemployment leads to more pessimism about new job
prospects. The authors also suggest different pathways for the government to reduce insecurity, through restricting the ability of employers to fire workers to improving employability programmes and providing unemployment compensation.

The conceptual work of Western et al. (2012) also connects economic insecurity to domestic events, and argues that while economic inequality describes variation in the level of socioeconomic status, economic insecurity calls for a more dynamic approach. The authors specify four types of “adverse events”, which should be analysed to find out whether economic insecurity is increasing as a result of them. Western et al. (2012) do not investigate, what the cause of the adverse events were, only if they were present or not. The adverse events in question are: job loss and threat of unemployment, family instability and healthcare issues. These authors also stress that if a country possesses well-functioning institutions, the risks attributed to adverse events can be shifted or reduced, which in turn reduces economic insecurity experienced by citizens.

Is economic insecurity objective and/or subjective economic risk?

The issue of whether economic insecurity should be conceptualised as objective or subjective economic risk is complicated. One of the reasons why there are two sides to this argument is that, while it is not easy to settle for a single concept for the interpretation economic insecurity, it is even more difficult to operationalise it. Any form of operationalisation is heavily dependent on available data, which in some cases may influence the way researchers conceptualise the term in the first place. For instance, when measuring subjective risk, Scheve & Slaughter (2004, p. 665) use the British Household Panel Survey, and measure responses to the question of “how satisfied or dissatisfied are you with this particular aspect of your own present job: job security” on a scale from 1 to 7, with 1 meaning “completely satisfied” and 7 meaning “not satisfied at all”. Burgoon & Dekker (2010, p. 131) use the Eurobarometer survey from 2001 to test whether respondents feel that their job is secure, or how they judge whether their income is secure, on a 1 to 5 scale. Anderson & Pontusson (2007, p. 217) use the International Social Survey Program, and measure responses to three questions: to measure cognitive job insecurity, respondents were asked to answer a question over how secure they think their job is on a scale from 1 to 5. To test the labour market insecurity of individuals, the respondents were asked “How easy or difficult do you think it would be for you to find an acceptable job?”, with answers ranked from 1 to 5. To measure affective job insecurity, respondents were asked: “Do you worry about the possibilities of losing your job?”, with four available options for answers.

In the meantime, in one of the earliest works on economic insecurity, Dominitz & Manski (1997, p. 262-263) found that the perceptions of short-term economic insecurity are influenced by the availability of health insurance, the chances of getting burgled, and the risk of job loss. They investigated this by looking at responses to the Survey of Economic Expectations on health insurance: "What do you think is the percent chance that you will have health insurance coverage 12 months from now?"; on burglary: "What do you think is the percent chance that someone will break into your home and steal something, during the next
12 months?"; and on job loss: "What do you think is the percent chance that you will lose your job during the next 12 months?". Inglehart & Norris (2016, p. 33) use the European Social Survey’s question about subjective feeling for the household’s income and whether they are 1) living comfortably on present income; 2) coping on present income; 3) finding it difficult on present income and 4) finding it very difficult on present income – to thus capture subjective economic insecurity.

While the majority of articles mentioned up to this point focused on economic security by acknowledging, that it is partially due to the individuals’ subjective attitudes and how they perceive risk, Hacker et al. (2014) created an indicator, the Economic Security Index (ESI), which measures the changing economic circumstances of individuals, and not their perceptions thereof. The authors focus on those aspects which are most important in the lives of U.S. citizens: the likelihood of household income declines of 25% or higher, the probability of medical expenses, and the capacity of households to financially deal with these events. The authors use the Survey of Income and Program Participation (SIPP) and the Current Population Survey (CPS), and find that the highest levels of insecurity are experienced by those with limited education, racial minorities, young workers and single parent households.

Bossert & D’Ambrosio (2013) also use an objective measurement method, which focuses on the individual’s changes in wealth, by taking the current wealth level and multiplying it by minus one, plus the weighted sums of the wealth gains (or losses) experienced in the past. Recent experiences are given a higher weight than experiences in the more distant past. In yet-unpublished work, Bossert, Clark, D’Ambrosio, & Lepinteur (2019) provide an update on their previous article by stating that weights associated with losses can differ from those associated with gains.

Osberg (2015) warns against the dangers of asking people directly, because responses can be sensitive to transient events (such as terrorist attacks or natural catastrophes) or personal problems. Furthermore, cross-country comparison of the same questions is difficult because of cultural issues and role identities (e.g. a “man” often will, due to social expectations, not admit being insecure). He also believes, that using questionnaires with questions relating to the frequency of a particular worry, could capture best the anxiety experienced by individuals. In addition, we do not live in a world of perfect information, complete and perfectly competitive markets: anomalous traits and behaviours, such as financial illiteracy, loss-aversion and irrational decision-making being common. Thus, respondents might give incorrect answers when interviewed for a survey. For these reasons, Osberg & Sharpe (2014, p. 57) suggest using the IEWB (Index of Economic Well-Being) Economic Security Index, which is conceptually based on the probability of unemployment and the size of the financial loss it produces. The index is made up of four components (weighed differentially), relating to securities from unemployment, illness, single-parent poverty and old-age poverty.

Using an interesting mixture of objective and subjective factors, Guiso et al. (2018, p. 15) capture economic insecurity by looking at three indicators from the ESS: 1) whether the respondent has experienced unemployment in the last five years; 2) whether the respondent experiences income difficulties (similar to Inglehart & Norris, 2016) and 3) the exposure of the respondent to globalisation. In this way, the authors factor in objective elements such as
unemployment and the impact of globalisation, and also the subjective experiences of the respondent. An additional control variable is used to measure whether respondents to the survey are fearing immigration and the resulting availability of cheap labour.

Should economic insecurity be measured on the micro or the macro level?

The last major debate surrounding economic insecurity is centred on the issue of the level it should be measured at: the macro or the micro level. Those studies that rely on surveys as their data source are using a micro-level subjective assessment of economic insecurity by arguing that it is the “individual’s sense of economic insecurity”, which “may be thought to arise from his or her perception of the risk of economic misfortune” (Dominitz & Manski, 1997, p. 264). Similarly, Bossert & D’Ambrosio (2013) argue that it makes sense to focus on individual measures, because economic insecurity is experienced by the individual, and it is their economic memory of their economic past which influences their anxiety in the present. This approach is used among others by: Anderson & Pontusson, 2007; Burgoon & Dekker, 2010; Dominitz & Manski, 1997; Dustmann et al., 2017; Scheve & Slaughter, 2004. Western et al. (2012, p. 343-344) argue that even though the level of analysis should remain on the micro level, it is rather the households which should be analysed, as opposed to the individuals, because households are essentially pooling the member individuals’ risk, which may compensate for income losses. A household-level analysis is also used by Bossert et al., 2019 and by Hacker et al., 2014.

Contrary to the previous authors, Osberg & Sharpe (2014) rely on macro-level data, as they believe that subjective and self-reported data on the micro level and based on surveys is misleading. For instance, according to Osberg (2015, pp. 29–30) when asked about how much the population was worried about income in old age, as many as 25% of Hungarian and Polish respondents reported 10/10 on an anxiety scale.

Algan et al., (2017) use an intriguing mixture of micro and macro-level data for measuring trust within Europe: they collect macro data from the Eurostat on the NUTS 2 level for unemployment, and add individual level, survey-based data from the ESS. In this way, intra-regional variations of unemployment, trust and beliefs are also captured. A similar method was employed by Dustmann et al. (2017, p. 50), matching ESS respondents’ region of residence data to GDP per capita and unemployment rates from the relevant NUTS regions.

Conclusion

This article aimed at taking stock of the vast literature surrounding economic insecurity, to settle on a concept for the purposes of operationalisation. The issue of economic insecurity had been raised in the past in many different contexts: to capture how labour insecurities impact on citizens; to capture the effects of globalisation on citizens; or, more recently, to explain the growing popularity of populist politicians. One common feature among the definitions used by the literature(s) concerned is the focus on the risks people face, and the anxiety felt as a consequence of being exposed to these risks.
This paper identified three major debates within the literature: 1) whether economic insecurity is a result of local economic developments, or that of globalisation; 2) whether economic insecurity should be measured using objective or subjective measurement methods; and 3) whether economic insecurity should be measured by looking at data on the micro or the macro level. Much of the conceptualisation and subsequent analysis depends on data availability. While the European Social Survey (ESS) does provide bi-annual survey based information on some of the fears of voters, unfortunately it is not conducted in each and every EU country, nor is it available in certain waves for Bulgaria, Croatia, Slovakia and Romania from the Central and Eastern European region. An alternative could be the Eurobarometer or the Gallup World Polls surveys, however neither is asking the same questions relating to anxiety, in surveys taken before and after the financial crisis, and thus their usage is limited to panel-data-based analysis.

Based on the aforementioned considerations, the best concept may be the definition of Bossert & D’Ambrosio (2013, p. 1018), wherein economic insecurity is “the anxiety produced by the possible exposure to adverse economic events and by the anticipation of the difficulty to recover from them”. This definition, coupled with the operationalisation of Guiso et al. (2018, p. 15), can capture adverse events stemming from unemployment, living standards, and the possible impact from globalisation. Following this approach, both objective and subjective reasons can be found as to why the demand for populism is growing.

András Tétényi
Institute of World Economy, Corvinus University of Budapest

References


