PETER GOSSELIN

HIGH WIRE

The Precarious Financial Lives of American Families

BASIC BOOKS
A Member of the Perseus Books Group
New York

they are not a product of that weakness. Unless something big changes, they will still be at work and intensifying when the economy has regained its strength and gone back to booming.

That's why interest rate cuts, fiscal stimulus, and other efforts to revive growth—while they may help in the immediate future—are not front and center here. What you'll read in these pages, and in the stories of the people whom you'll meet there, is not a view of the economy from 30,000 feet, but rather as it appears from out your front door. The central question that I'll be asking is not how the economy is doing but how you are doing within it, and how that has changed over time.

My answer is not the standard answer about how this is a prosperous nation that may have been sidetracked by recession but is ready to return to doling out affluence to most of its citizens. And it is not the almost-as-common one that this is a prosperous nation that directs most of its benefits to a lucky handful of people. My view is that Americans, from the working poor to the reasonably rich, are in danger of taking steep financial falls from which they have a terrible time recovering; that the fraction of Americans facing this danger is on the rise and now constitutes a majority; and that the size of the falls we may take is also growing. All but the wealthiest among us are operating on a high wire, compelled to keep our balance, largely on our own. And we must do so while buffeted by financial forces far beyond our control, sometimes even beyond our knowledge.

There is one more point as well: Living and working in this country has not always been like this and does not have to be like this now. We can decide whether this is what we mean America to be.

1

INTRODUCTION

THIS IS A BOOK ABOUT EARNING A LIVING, affording a family, and making it through a work life in America today, and it begins with two seemingly irreconcilable facts.

The first is that for most of the past quarter century, the United States has enjoyed the return of a resilient and growing prosperity that once seemed lost. The economy has doubled in size. The gross domestic product, the broadest measure of annual output, has climbed from just over $7 trillion to almost $14 trillion.

Employment has remained high, inflation low. And unlike the prosperity immediately following World War II, which seemed largely the product of the United States being the last nation standing after the conflict, and which, in any case, unexpectedly began to falter after 1970, the recent growth has been no onetime windfall. Instead, it seems to have sprung from a new enthusiasm for technology, a wide-ranging policy decision to get out of the way of free markets, and a willingness on the part of many Americans to plunge into the global economy with an optimism unmatched by most of our overseas competitors.

The second fact is that many of us, even the affluent among us—those with family incomes running into the hundreds of thousands of dollars—have arrived at the new century increasingly uneasy, with a gnawing sense that our circumstances are changing in ways that leave us less secure. This apprehension has little to do with terrorism or nuclear proliferation or even the Iraq war, much as these issues matter to people. It has not emerged from worry over religious or moral values, or the erosion of constitutional freedoms, or political ideology. Indeed, it has not been public events that sometimes awaken us and leave us tossing in bed. Instead, fleetingly, but recurrently, we have been night-stalked by questions about our private lives: What will happen to my job? Can I pay the doctor? How will I cope if I can't work or my spouse can't? Could I replace my house if it caught fire or was hit by a flood? How will I pay for my children's education? Will my kids do as well as I have done? And behind these questions is a broader concern that, for all of the recent economic growth, the rules by which the world now runs are no longer moving with us, but against us.

Is this a case of needless anxiety in an age of rapid, but generally positive, change? Faced with too much new technology, new competition, new immigration, new social mores—too much "new" in our lives—are we hyperventilating on a continental scale? Do we simply need to get a grip? Or could it be, is it just possible, that millions of Americans have glimpsed an uncomfortable new reality—that the progress of the overall economy is being purchased at a price of diminished security for our families and ourselves? Could it be that the world of work no longer offers the old promise of material progress and security in exchange for diligence and prudent living? At a time when any serious injury or illness may bring ruinous medical bills, can we still count on full protection from those health insurance policies that cost us more each year? Have unrecognized loopholes

crept into our homeowners insurance? Does more education really shield us from the inroads of global competition, as our leaders tell us? Most of all, in terms of our personal lives, does America still mean what we always thought it meant?

To begin to understand this paradox—how the United States as a whole could have grown richer while individuals and families have become financially less secure—and to begin to see whether the American promise endures, it is useful to look to the past, in this case to the distant past, New England in 1620. In that year, as the small sailing ship the *Mayflower* rode at anchor off the coast of Cape Cod, William Bradford and his fellow Pilgrims faced a crisis: Winter was coming on. Blown off course by storms, they would have to settle far north of their intended destination. And they faced the unexpected prospect of mutiny. Although most of us think of the *Mayflower* colonists as a tight-knit band of religious dissenters, in fact many on the ship did not share the Pilgrims' religious views; they had been recruited only to help finance the voyage. Now, some of these "Strangers," as the Pilgrims called them, muttered about going their own way, threatening a potentially fatal schism. So Bradford called a meeting. The result was the Mayflower Compact, a terse but unequivocal agreement to "combine ourselves together into a civil body politic" that would create such laws and regulations "as shall be thought most meet and convenient for the general good of the Colony, unto which we promise all due submission and obedience." Forty-one of fifty men on board signed on behalf of themselves, their wives, and their children.

The colonists who founded Plymouth Plantation were in the New World for all sorts of reasons—some to pursue religious beliefs, others to seek fortune, still others to enhance what fortunes they already had. And they were a people not much given to compromise. Yet under the pressure of brutal necessity—as many as half would die within a year—they agreed to yield some part of their individual autonomy to the group. More important, they agreed to a certain mutual responsibility for the well-being of one another, even if meeting that responsibility might sometimes clash with their private interests.

This implicit bargain lay at the heart of virtually everything that followed. The Revolution, the Constitution, the rise of a huge and diverse nation, all rested upon a common understanding: The new society would be dedicated to individual, not collective, dreams, but everyone would nevertheless accept some responsibility for each other and for the common good.

Strangely, however, over the past twenty-five years or so, the bargain struck aboard the *Mayflower* and extended forward through almost four hundred years of often turbulent history has begun to unravel. The basic social contract on which American society has always rested—no matter how imperfectly—has begun to change. The inherent balancing of competing interests that lay at the heart of the bargain has been upset. And it is something about this change that stirs the uneasiness so many Americans feel in their private lives.

As we shall see in the coming chapters, the specific elements of the change have come with surprisingly little public attention. What noisy political debates there have been—for instance, over welfare reform and Social Security—have involved comparatively small numbers of people or have ended in draws that have left the status quo intact. In fact, the main business of change has occurred not in the glare of the public arena but in the relative obscurity of the private sector. But there, the results have been remarkable. The old idea that, even as we pursue our personal destinies, we owe an obligation to each other, to a "civil body politic," and to a "general good," has been shunted aside. In its place, wrapped in the economic doctrine of free markets and the moral precept of personal responsibility, stands a new first principle: Each of us is now expected to forge our own future, free to rise or fall as our talents and luck may dictate. And we are expected to do so with little or no assurance that if, through hard work, we succeed, we can hang on to what we have achieved. At the

heart of this credo is the belief that free markets can solve problems—even social problems—better than government or, for that matter, almost any other institution. Whatever the challenge, the best approach is to get out of the way and let the market define the path to a solution. Indeed, it is argued, any attempt to do otherwise through "social engineering"—whether it be via a government guarantee of medical care or a business corporation's guarantee of pension benefits—will not only fail but make matters worse.

Instead of joining together to solve problems that affect the whole society, the heralds of the new approach say, more responsibility should be placed on individuals and families alone. Only when people themselves bear the consequences of financial reversal will they take the steps necessary to protect themselves. As we shall see, the logic of this last position has proved surprisingly appealing. It keeps cropping up in unlikely corners of the remade economy.

And as these new ideas have spread, they have sharply eroded the old idea that the bounty of America should be broadly shared and that those who worked hard and played by the rules should be able to count on some minimum level of protection against bad times and personal misfortune. Small wonder, then, that so many people have felt like they are living on a high wire without a net to soften a fall.

Most economists scoff at the notion that the recent prosperity has come at an offsetting cost of greater peril for many, perhaps most, Americans. For them, the story line of the past twenty-five years has been almost entirely positive. America ended the 1970s with skyrocketing inflation, stagnating output, and stalling productivity. There were fistfights at the gas pump and President Jimmy Carter on television deploring a national malaise. A new generation of leaders—most prominently Ronald Reagan—set about remaking the economy in the image of its frontier predecessor, deregulating industries, reeling in social benefits, and railing against government. Both they and their Democratic successor, Bill Clinton, embraced free trade. They welcomed competition from developing countries that had lower wages and production costs—including Asia, where millions of workers possessed education and technical training at least equal to those of their U.S. counterparts. And almost everybody applauded the unfettered spread of new technology, including, at long last, the integration of computers into almost every aspect of daily life.

The new prescription seemed to work. As surprisingly as it had stalled, productivity—the output per worker that's widely accepted as the chief determinant of living standards—resumed its upward trajectory. And the American economy returned to growing in such long, steady strides, with low inflation and high output, that policymakers such as Federal Reserve chairman Ben Bernanke have dubbed the change from the 1970s the "Great Moderation."

ONLY THE PAST TWENTY-FIVE YEARS have *not* been a "Great Moderation" for many Americans, including Richard Coss Jr. I first met Coss, then forty-eight, in the fall of 2002. Until six months earlier, he had been a vice president with Pittsburgh's giant PNC Bank, making nearly a six-figure salary in current dollars (well over that amount in constant 2007 dollars), with a wife and three children. I was interviewing him for a story for the *Los Angeles Times,* where I work, about the changing nature of unemployment.

As Coss—tall, taciturn, with short-cropped, almost military, hair—recounted what it was like to go from earning several thousand dollars a week to collecting a few hundred in unemployment benefits, from seeing his savings balloon to watching them shrivel, from helping his retired parents financially to relying on them for gifts, I found myself struggling to maintain my professional distance. But the parallels between the two of us kept piling up. We both had MBAs, his from Duke, mine from Columbia. We'd both spent our careers in businesses rocked by change, in his case banking, in mine journalism. Our daughters were about the same age. *"This could be me!"* I thought. *"This could be my family!"*

Most people—myself included—flee from such a conclusion. And for years, we've been aided in this dodge by the burst of growth that lifted the material lives of millions of Americans, making the Cosses look like the unfortunate but atypical few who get left behind. As I listened to Coss and his wife, Janet, however, I began to realize that their experience carried a larger meaning. One of the most praised aspects of the Great Moderation has been a substantial drop in the nation's unemployment rate. If you're in the workforce today, your chances of losing your job are lower on average than in the past. But what the Cosses' experience said was that this improvement had come with an unpleasant side effect: Although you might be less likely to lose your job, if you do lose it, the damage is likely to be much, much greater. That's because the unemployment safety net has not kept pace with changing economic realities, and the new personnel strategies of most businesses make rehiring a much slower and less reliable process than it used to be, especially for white-collar professionals.

ECONOMISTS AND POLICYMAKERS usually react to stories such as the Cosses' by acknowledging some transitional choppiness en route to today's success. They agree that not everything has worked out swimmingly for everyone. But they generally discount the experience of folks like the Coss family as isolated—the difficulties of a particular industry (autos) or region (the Rust Belt) or class of workers (older ones, blue-collar ones, superfluous middle managers). That, or the unfortunate but inevitable exception to an otherwise positive development.

To the extent the experts do try to square the aggregate economy's strong performance with the insecurity of many of those who depend on it for their livelihoods, they generally don't focus on problems such as the Cosses'. Instead, they point to income inequality, the growing gulf between the rich and the rest of us that some commentators fear may dissolve the social glue that has held the nation together. Indeed, in the past twenty-five years, the top 1 percent of Americans have gone from claiming less than 10 percent of the fruits of the economy to claiming almost 20 percent. But focusing on income inequality turns out to be a not very useful way to try to understand how people assess their own situations. That's because although Americans can get exercised about the enormous incomes of those at the pinnacle of the economy, few worry too much about them. Indeed, far from being a cause for alarm, the country's income numbers leave most people figuring they've dodged a bullet. So long as their incomes are a reasonable distance from the bottom, they don't think that the widening divide greatly threatens their personal well-being.

This book will not be about income inequality. Whether inequality contributes to people's insecurity or not, I believe there is another more immediate cause for that insecurity, however dimly perceived or imperfectly understood: an increase in the risk that Americans must bear as they provide for their families, pay for their houses, save for their retirements, and grab for the good life. The increased risk is the product of a shift of economic dangers from the broad shoulders of business and government, which once helped us handle them, to the backs of working families. And the shift has not just affected the working poor and those in the great statistical middle, but has reached households long thought immune to dislocation, those with six-figure incomes, comfortable houses, and most of the trimmings of affluence.

A wide array of protections that families such as the Cosses—and most likely yours—could once rely on to shield them from direct blasts of the market economy have been scaled back or effectively eliminated, things such as stable jobs, affordable health coverage, guaranteed pensions, short unemployment spells, long-lasting unemployment benefits, and a near-certain payoff for earning a college degree. Equalizing institutions that used to ensure that the benefits of growth and rising productivity were broadly shared—among them quality public education and labor unions—have broken down. Even such simple self-protective mechanisms as bought-and-paid-for home and auto insurance have been altered in ways that leave you bearing more of the burden. The combination of changes doesn't mean that people can't prosper. They can and do; just look around. But the changes do mean that if you take a fall, the resulting losses can include career, house, saving, pension, and the ability to provide educational and other opportunities for your children. And almost no one—from the underclass to the affluent—is immune from these life-rattling plunges.

For all of the seeming promise of the Great Moderation, "for all of the progress of the past twenty-five years, we haven't reduced economic risks," said Robert A. Moffitt, a Johns Hopkins University economist and editor in chief of the *American Economic Review*, the economics profession's premier academic journal. "We've increased them for individuals and households. We've left many Americans leading economically riskier lives than they did a generation ago."

Besides the Cosses, some of the other people you'll meet in these pages are Debra Potter, who provided her family with a plush life as one of Virginia's top insurance agents until she was struck by disease and jilted by one of the very insurers whose products she'd been selling. You'll meet Ron Burtless, an Indiana steel company electrician with a nice suburban home until an industrial accident left him injured and the business and government safety nets that were supposed to protect him left him on the verge of bankruptcy. You'll meet Bruce Meyer and Allan Hess, who lived the executive high life in boomtown Atlanta of the 1990s, but, try as they might, seem unable to get back on top of their game during the rocky 2000s. You'll meet Elvira Rojas, who thought she'd provided for her immigrant family with a unionized dishwashing job at a Los Angeles hotel until the hotel went nonunion. You'll meet Julie and Terry Tunnell, who thought that with all of their business knowledge they'd purchased plenty of insurance for their San Diego home, only to discover the insurance didn't cover half of what they'd expected when the house was consumed by wildfire. You'll meet Laurie Vignaud, a big bank executive and housing specialist who's having to decide on her own whether to rebuild in the ruined stretches of suburban New Orleans. You'll meet Leah Bryner of Salt Lake City, who earned the college degree we tell young people they must have but then found herself in a series of internships and temp jobs that got her to the doorstep of adulthood, but never quite over the threshold. And you'll meet my family.

It is important to be clear about what's being said with these people's stories and the accompanying arguments and what is not. Too often journalists are prosperity deniers. They try to convince their audiences that what may look like growth and feel like growth isn't really growth at all, but something false or hollow. I am making no such argument. The prosperity of the past twenty-five years has been real and, especially that of the late 1990s, has helped improve the lives of millions of Americans, period. Separately, some who seek to describe a new trend may engage in overstatement. They may claim, for example, that the mass of working Americans is at imminent risk of being struck down by a pervasive and never-before-identified threat. But in some sense, my point is the opposite. In the chapters that follow I will show that the *incidence* of many kinds of income-threatening events—such as unemployment in the Cosses' case—has declined. But I will also show that the economy has changed in ways that have pushed up—way up—the *consequence* should you be struck by one of these events. And in the calculus of how often a bad thing can happen and how bad it is if it does, the result has been to leave you and your family at much greater risk.

Some readers will react to this claim by conceding that families do face greater risks. But they'll quickly add that many of these same families also face the possibility of greater reward. That was the purpose of the market-driven public policy, they will say, and it's a trade-off they are willing to make. My answer, which will come up in one way or another repeatedly, is that most Americans are not clamoring for trade-offs, certainly not when it comes to their personal lives. They assume that hard work and responsible behavior are required to achieve a decent living standard, but they believe the rewards should include not only opportunity but also reasonable security for themselves and their families. Yes, they'll sometimes take chances to improve their situations. But most are not in the business of flitting from one living arrangement to another in search of the best "deal." Much as some may enjoy visiting Las Vegas, buying a lottery ticket, or watching *Deal or No Deal,* most of us are much more concerned about protecting what we have built for ourselves over our working lives than about getting a chance to hit life's jackpot.

So where do these new dangers land? Especially after the nation's long run of prosperity, the sidewalks of most neighborhoods aren't littered with economic casualties. So who is being hit by them? How do they show up in people's lives? To begin answering these questions requires a quick tour of the building blocks of most families' finances.

To listen to those whose business it is to offer personal finance advise, you'd think that a family's economic circumstances depend on figuring out what some distant trend like the trade balance means for them, and cashing in on it. But from the doorstep of most working American households, the struts that hold up all but the richest of Americans are pretty much what they have been for generations. And it is around these struts that trouble is now gathering.

Presuming they are in good health, the first cornerstones of most people's economic lives are their jobs, their paychecks, and, in today's world, those of their spouses. Although many Americans have learned to stretch their resources and thus their lifestyles by borrowing, this goes only so far. To a considerable extent, the income that families can amass, much of it from earnings, sets the outer limits for how they can live and what they can aspire to. Of course, jobs and paychecks aren't static. What may matter as much as what a position pays now is how long it will last, and whether it will open up to better jobs either with the same employer or with others. And at least traditionally, much of what has determined whether these kinds of improvements come one's way has been a person's education, especially college education.

But jobs and the job market are changing in ways that leave many families, even many that haven't taken a fall, further out on the economic limb. Paychecks for many Americans are not keeping pace with inflation or productivity at a time in the economic cycle when they typically do. The improvements in women's wages, which once helped offset the income reverses of their male spouses, are no longer providing as much of a cushion. And that means the downside aspects of two-earner households are coming to the fore. To be sure, as women have become bigger economic forces, they have helped boost their families' finances. But they've also boosted the chances—and the consequences—of a serious reversal. There are two earners instead of one who can lose a job, two instead of one who can suffer a pay cut. And since most families peg their lifestyles—including such bedrock items as house and car payments and the educational costs of children—to the combined incomes of both workers, the impact of losing one of the incomes can be quick and drastic. Many jobs are not lasting as long as they used to, leaving the families that depended on those jobs less stable than they once were. Moreover, for a growing number of people who either lose jobs or can't land them in the first place, the results are long stays in the netherworld of consulting, temp work, and, for young workers just starting out, internships. Finally, as we shall see, college is no longer providing the bulwark against economic tumult that it once did.

For most working people, jobs are the source of another crucial cornerstone of economic life besides income: the benefits that employers provide—the health and disability insurance, pensions and 401(k)s, training, and severance, as well as the bevy of tax break–heavy savings accounts for everything from child care to commuting costs. Although these seem inconsequential to many people,

especially young people, because they don't show up in a paycheck and often go untapped, they essentially *are* working Americans' backstop against economic trouble, their personal safety nets. Nothing that Washington provides comes anywhere close to matching their scale. But here, too, or perhaps here especially, changes have occurred that are leaving people less securely protected. Fewer employers are providing benefits, and those that do are providing fewer of them. In addition, decades of court rulings have produced a quiet revolution in the federal law that governs benefits. As a result, employers and the companies they hire to administer their programs have increasingly wide latitude over whether to provide benefits and under what conditions. They face comparatively few—and much delayed—penalties if benefit coverage is wrongly denied.

Investments, accumulated home equity, and borrowing also contribute to the financial underpinnings of individuals and their families. Americans' infatuation with investment took off with the early 1980s, at the start of a bull market in stocks that lasted nearly twenty years. After the stock bust of 2000, much of this popular enthusiasm switched to housing, and now even that is being tested. Economists argue that people's new familiarity with markets and investments gives them the tools to smooth out the ups and downs of their economic lives through personal savings and debt. President George W. Bush, among others, has elaborated this idea into a vision of an "Ownership Society" in which families operate on their own financially, borrowing their way across bad times. People no longer need the employer- or government-provided safety nets on which workers traditionally depended, so this vision goes. But the improvements in most families' finances—though real—simply are nowhere near large enough to support the burdens they are being asked to bear. The latest figures from the Federal Reserve's Survey of Consumer Finances, our only real source of information about household wealth, show that the net worth (that is, excess of assets over debt) for the median family at dead center of the economy had increased by one-third since the late 1980s, to about $102,000. That may sound like a lot of money for an average family, but remember that it includes home equity, savings, and other assets that are not available in times of trouble without great sacrifice, such as selling your house. And if this full amount was available to you at retirement to buy an annuity—a guaranteed stream of income for the rest of your life—that total would only get you a monthly payment of $650. This certainly would help, but $650 is not enough to live comfortably on even with Social Security. Estimates for those nearer but not at the top of the economy show larger increases, but still not enough to cope with a major illness, a long layoff, or any of a dozen other mishaps that regularly befall people over the course of a work life.

Finally, mixed in among all of the other items that families count on in their own economic lives, there's insurance—the life, health, auto, and homeowner policies that people purchase to protect against the "what ifs" of death, disease, and disaster. It's something most of us seldom think about except on those relatively rare occasions when we must file a claim. Yet purely in terms of what is protecting most of us against financial calamity, the value of our personal insurance policies is actually far larger than the value of all our other assets put together—almost twice as large, by my estimate. It's a bit of a math game, but it illustrates how important, if unappreciated, plain-vanilla insurance is to almost all of us: If you add up all the accumulated value of all the stocks Americans own, plus all the accumulated value in the equity of our houses, you get about $27.6 trillion. The face value—that is, the amount of protection all Americans own through health, auto, and homeowner insurance—adds up to some $51.5 trillion.

That total, enormous though it is, does not begin to capture the awesome benefits of the basic idea that underlies insurance—the idea of pooling risk by having a lot of people kick in a little in order that no one has to pay a lot in the form of steep losses. In some sense,

that idea is the same as the one at the core of the Mayflower Compact: Sharing some risks and burdens broadly makes it possible for individuals to pursue their personal goals more freely and safely. "All insurance, indeed all of modern finance, comes down to this," said Yale finance theorist Robert J. Shiller, "that various forms of human disappointment and economic suffering are risks to which probabilities can be attached and that arrangements can be made to reduce these disappointments and blunt their impact on individuals by dispersing their effects among large numbers of people."

As with jobs, benefits, and investments, however, many kinds of insurance are changing in ways that leave more burdens on policyholders and fewer on the companies. Many insurers are devising increasingly sophisticated techniques to measure the risk of providing everything from health to homeowners' coverage, for instance, or to predict whether a potential policyholder will file a claim. They are using these techniques to raise the premiums they charge, limit the dangers that they will insure, or get out of covering some people altogether. That leaves many families to go without coverage or to try to do the nearly impossible given the potential costs involved: save enough to handle the cost of a major illness or injury, or the destruction of their own house or cars on their own.

Beyond the struts or foundation stones that people or their employers provide, the federal and state governments also operate programs that undergird Americans' economic lives. These include unemployment compensation in case of job loss, workers' compensation in case of on-the-job injury, Medicaid, Social Security Disability, the earned-income tax credit for the working poor, and some cash welfare for those who are destitute or disabled during their working years. Social Security and Medicare remain the most important bulwarks in old age for the majority of Americans. In addition, during the past twenty-five years, Washington greatly expanded its promise to help people and regions in case of natural disaster, at least in part on the theory that the nation is now a single integrated economy so that damage to any part must be repaired in order to make the whole operate smoothly. But for most of the two-plus years since Hurricane Katrina struck New Orleans in 2005, those promises have appeared alternately empty or ineffective, and most home and business owners in that unfortunate region have been left to find their own ways back to a functioning society.

Taken together, these foundation stones—public and private—have been the key to what America has become. Far from making people complacent, as some social philosophers feared in the past and many economists continue to worry about, they have unleashed society's productive energies. Far from fostering sloth, the record shows that making the foundations of people's lives more secure has encouraged millions of people to push their personal prospects to the utmost—to the resounding benefit of themselves and the country.

Given the size of these benefits and their comparatively modest cost, it seems surprising that these pillars of the modern nation should have come under attack in recent years. Yet these attacks have enjoyed considerable success. The evidence is that, although much of what's driving recent changes in the economy and in working Americans' circumstances is almost certainly powerful and impersonal forces like technological innovation and globalization, much of the adjustment to these forces appears to have been left to individuals and their families to handle. It is almost as if the Mayflower Compact had been flipped on its head: Where the new arrivals in this country agreed to certain minimal obligations to each other and to society and could otherwise go their own way, the current generation of working Americans has been assigned the all-consuming task of being society's first responder to forces well beyond anyone's ability to control or even fully understand. Both these external forces and the fact that workers must now cope with them largely on their own leave people increasingly open to steep financial falls.

To ALL APPEARANCES, Richard Coss Jr. is a textbook case of the kind of multigenerational upward mobility that Americans have always treasured. There's just one problem: Today, his name is on the economic casualty list.

His life had an American Dream beginning. His father, Richard Coss Sr., seventy-six, got a job right out of high school as a grinder at Landis Machine Company in Waynesboro, Pennsylvania. Except for two years as an infantryman in Korea during the early 1950s, the elder Coss worked continuously for thirty years. He changed jobs only once, to move to Mack Truck in Hagerstown, Maryland, where he joined the United Auto Workers (UAW) Union, Local 171. His wife, Iolene, was a secretary for the assistant superintendent of schools in nearby Smithburg, Maryland. Their combined salary, which never topped $60,000 in current dollars, together with some state scholarship money, put three sons through college. "Go to college, get a better-paying job, and live a better life than I had," Coss Sr. remembers telling his son. Rick Coss heeded the advice. He went to nearby Western Maryland College for an undergraduate degree, then on to the tree-lined campus of Duke for an MBA.

Rick Coss had a head for numbers, and the first ten years of his career went almost exactly as planned. Straight out of Duke in the late 1970s, he landed a $21,500-a-year job with Mellon Financial Corporation, the mainstay of the Mellon family fortune and a pillar of the Pittsburgh economy. Mellon Financial had never had a major layoff in its 118-year history. Coss climbed steadily from one position to another, each time for more money. By his thirtieth birthday, he was earning as much as his father had in his best year. And the younger Coss's household income was helped when he married Janet Rathke, a fellow Mellon employee. By 1983, the couple was making more than $65,000, the equivalent of about $140,000 in 2007 dollars, and had purchased their first house. By 1984, the first of their three daughters, Lisa, had arrived. It was in 1987, while they were expecting their second child, Amy, that the trouble began.

In the wake of the 1970s oil crisis, when energy prices seemed to have no place to go but up, Mellon had lent heavily to the Texas oil industry. The high prices encouraged development of new oil fields, however, as well as energy saving by consumers. So instead of going up, oil prices reversed direction and started down. The about-face left Mellon stuck with half a billion dollars in bad loans. The company responded by doing the unthinkable: It laid off 2,000 employees, among them Richard Coss Jr. At the time, Coss had thought he was only months away from being named a "calling officer," essentially one of Mellon's prestigious ambassadors to the business world. The layoff caught him completely by surprise. Still, he scrambled and landed a spot with the much smaller Bryn Mawr Trust Company, helping it open a new consulting business.

For a few years, life settled back into its old order. But when Bryn Mawr Trust was walloped by real estate losses in the early 1990s, it eliminated the consulting business and, with it, Coss's job. This time, he was out of work for more than a year and had to dig into the family's savings. "We sort of prided ourselves that we had put that money away," Janet Coss said. "We'd been so prudent and proud, and now the money was going."

Eventually, Coss found a job at Pittsburgh's other big bank, PNC. During his eight years there, he rose to become a product-profitability director. That put him at the center of the institution's new strategy: It was moving away from traditional lending to focus on providing fee-based services such as back-office processing for other companies. But the new strategy proved a bust, and the bank reversed course. And once more, Coss found himself out of work.

Each time a job evaporated, Coss collected unemployment compensation from the state-federal unemployment insurance program that had been created way back in the Great Depression. And each time he filed a claim, the fraction of his lost wages that the government insurance payments covered got smaller. The state's payment formula, although among the most generous in the nation, had risen only modestly during the previous fifteen years; also, the maximum payment was capped, and Coss was making more with each job. As a result, the difference between his pay and the jobless benefit checks after he got laid off grew wider. Cutting out what few luxuries the Cosses enjoyed did not begin to close the gap.

It may be tempting to step around Richard Coss with a sympathetic nod. Perhaps he belongs to one of those isolated groups that economists love to talk about, in this case middle managers squeezed out as U.S. corporations have grown more efficient. In any case, how else should America treat someone like Coss? What's the alternative? Certainly, the United States is not going to adopt the expansive government benefits so favored in Europe. Still, the Cosses' experience is worth a closer look. And three things about it jump out.

First, Coss had all of the right educational credentials. And for years, he reaped the financial rewards that those credentials are supposed to ensure. Until his career began its downward slide, he and his family enjoyed incomes greater than those earned by close to 90 percent of working Americans. Moreover, Coss worked in one of the industries—financial services—that's commonly cited as having a substantial role in the nation's future. His was no backwater Rust Belt career.

Second, each job loss was the result not of his own failure to perform, but of his employer suffering reverses largely of its own making and certainly beyond his control: The banks made strategic mistakes. But instead of bearing the costs themselves, they were able to pass the consequences of their errors straight along to Coss and other employees. Then, while Coss struggled for survival, his former employers regrouped and prospered. Newly merged Mellon is now among the nation's largest banking companies. So is PNC. Even tiny Bryn Mawr rebounded.

Third, once unemployment caught up with Coss, it kept coming back. And each jobless spell was longer and financially more debilitating than its predecessor. This was true even though the nation's average unemployment rate trended downward during the two decades Coss kept running into trouble.

What these three points suggest is not an economy delivering unalloyed improvements such as higher pay for those who get more education or greater stability for workers who choose careers in growth sectors of the economy. Instead, Coss's experience suggests an economy in which the most powerful entities—in this case, major corporations—are able to shift the consequences of their mistakes onto loyal but defenseless employees. And there is little chance the companies will be asked to help care for the victims, in part because the strategy masks the severity of the damage: The layoffs let the banks make quick course corrections, return to profitability, and hire new—but usually different—workers, thus helping to hold down the average unemployment rate. So a rise in the risk of long-term, financially damaging joblessness has been covered up by a fall in the overall jobless rate. And that points to one more notable fact about Richard Coss's experience: Although he found a new job following each setback, the new jobs never quite equaled the old ones, certainly not in security. Like a bouncing ball that loses a little momentum with each bounce, he began losing economic altitude with each job change. Despite all the talk of greater opportunities, said MIT economist Paul Osterman, American workers have been offered a devil's deal. "In effect, what we've said to people is, 'We'll reduce your chances of becoming unemployed, but if you do lose a job, you'll have hell to pay.'"

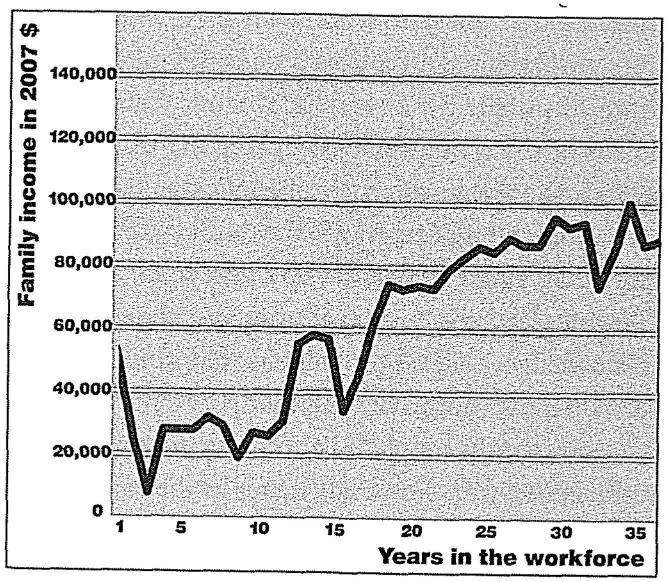
Some readers, especially younger ones, may find it hard to imagine an economy that would operate in a way that spared Richard Coss Jr. and his family their troubles. Yet it is not necessary to imagine such an economy. Richard Coss Sr. lived in one. For that matter, he still does.

In his long career, there were slack periods when the workweek would shrink from fifty hours to forty hours to thirty hours. But thanks to the power of the UAW and the competitive strength of the company for which the older Coss worked most of his adult life, there were smaller paychecks but no layoffs. And even during slow times, Mack Truck kept delivering the negotiated benefits—the health insurance that paid for Iolene's diabetes care and the disability coverage that made up lost wages when Coss Sr. was out of work for two months recovering from a fall off the roof of his house. The economic dangers that the company did not cover, the family managed to take care of on its own, through insurance and the earnings from a Laundromat Coss Sr. operated as a side business. The parents never had a credit card, never borrowed against the house. In his top year, the elder Coss made less than $40,000, and his wife less than $20,000, about $100,000 in 2007 dollars. They had pensions with early retirement provisions that let them quit working at fifty-seven. And they got retiree health benefits through Mack and the UAW. The package means they have about $50,000 a year to live on now. That's enough to rent a small place near Cypress Gardens, Florida, every winter and to spend a few weeks at Emerald Isle, North Carolina, every summer.

THE MOST OBVIOUS DIFFERENCE between the working lives of Coss Jr. and Sr. centers on their respective employers and how they treated the people who worked for them. Mack Truck promised lifetime employment in a union contract and made good on it. The promise shielded the elder Coss from virtually all of the ups and downs of the economy, even during the tumultuous 1970s. Indeed, records show that once the elder Cosses were through the Korean War and had had their boys, the family's annual income didn't vary more than about 30 percent up or down for most of their work lives. The younger Coss was never offered such a deal and, thinking back, acknowledges that he probably would not have accepted it if it had been offered—not in the beginning, at least. The result is that he has been repeatedly toppled. Family records show that his income hit peaks in the early 1980s and again in the early and late 1990s, but it also took harrowing nosedives—for example, falling between 2001 and 2002 by more than 90 percent.

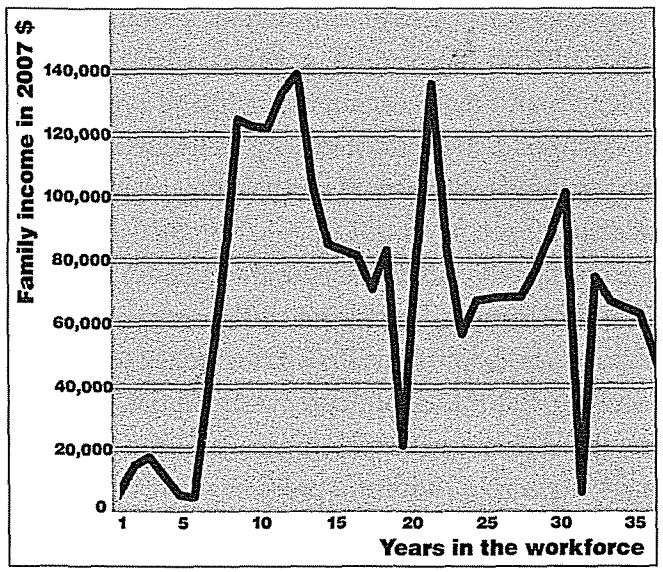
Economists examining the income histories of the two generations of Cosses are quick to say that the younger Coss should have saved more in his peak years to be ready for his trough ones, although they did, in fact, save, a move that put them a giant step ahead of most families in the United States. But if you ask these economists if they themselves have socked away enough to cope with a 90 percent income plunge, most will concede they have not. But even if it's not realistic to say the Cosses should have protected themselves through all-out saving, experts point out that the world in which American corporations operate has changed radically between the work lives of father and son. Not even the mighty autoworkers union can any longer provide its members with the deal it delivered for the elder Coss. Today, contract negotiations are more likely to center on givebacks than on gains. And corporate executives never tire of pointing out that generous benefit packages, including comprehensive health care and traditional pensions, raise their costs and make them less competitive against foreign rivals. All true. And it is

Steady Rise
Income of Richard Coss Sr. and his family



equally true that there is no practical way to return to the earlier era, when U.S. business corporations dominated the world economy like the Colossus.

But it is at precisely this point that discussions about the economy and the circumstances of working Americans usually take a peculiar turn. Having said that American employers are unlikely ever again to be able to provide their employees with the kind of protections that workers enjoyed as recently as twenty-five years ago, some analysts slide—almost as if they were not making a dramatically different point—into an argument that no social institution can or should provide working Americans any protections at all. This last step has tremendous significance, and, though little remarked on now, is likely to give rise to a great national debate. Stripped to its essence, the question to be decided is this: After four centuries of working out a humane and productive balance between the right of individuals and business corporations to pursue their private interests and their obligations to the common good, does America really intend to turn back the clock and become a "no-promise society"? Or will it instead find new ways to rebalance the old equation—retaining the energy



Wild Ride
Income of Richard Coss Jr. and his family

and entrepreneurial zeal of the present system while restoring some of the protections against misfortune, protections that not only encourage personal enterprise but also give real meaning to the phrase "Ownership Society"?

THERE IS ONE MORE LESSON to be derived from the different experiences of the older and younger Cosses: a clearer understanding of how it is possible that so little attention could have been paid to such drastic changes in what counts as a job, in what protections an employee can expect from an employer, and in the extent to which people must cope with economic setbacks on their own. How could such revolutionary changes have taken place with so little public discussion? Admittedly, both the union contract and the bank decisions to lay off workers reflected separate, quite different periods of history, and each reflected the era in which it occurred. But that does not explain how the country got from one set of realities to the other with hardly anyone saying a word about what the changes would mean.

To a large extent, the explanation is that the changes have occurred out of the public arena in the comparative isolation of the private sector—in decisions large and small made by individual employers and spread over thousands and thousands of individual workers. While Washington, the news media, and most of the pundit class were preoccupied with high-profile political battles between conservative ideologues and their often feckless liberal opponents, change was being imposed by corporate managers whose decisions were seldom monitored by anyone more concerned with the larger good than a stock analyst.

The financial protections that sheltered the elder Cosses were not created overnight. In their most direct form, they stemmed from a single contract between the labor union Coss Sr. belonged to and the company he worked for. But that contract represented the culmination of a long, complex struggle stretching back into the previous century. As the nation grappled with the problems that came with the transformation from a predominantly agrarian society to an urban, industrial society, it developed new institutions, new laws and policies, and new ways of looking at the relationship between workers and those who hired them. Looking back now, we may conclude that the rise of huge unions able to negotiate comprehensive contracts for good pay and long-term benefits was a relatively brief phenomenon. The idea behind it was neither new nor transitory, however. It was the old idea of seeking ways to make our society fairer and safer for all its citizens by recognizing a degree of mutual obligation. And the troubles that engulfed the younger Cosses reflected the breaking down of that process. Just as his father's lifelong security came from a single contract and a single employer, the younger Coss's slide into financial insecurity was almost entirely the result of layoffs that particular firms ordered in pursuit of their private business strategies. In addition, some of the most important changes were in the fine grain of companies' altered assumptions and practices, not in widely trumpeted corporate about-faces. Mack Truck, for example, downsized its payroll by reducing workers' hours during slack periods, but benefits remained intact. By contrast, Mellon Bank offered severance pay but few benefits to those it laid off. Finally, almost none of the changes that occurred between the two generations register in the standard statistics that Americans use to measure their economy. That means the changes have been almost invisible to policymakers and the public.

So what is the vision of those who not only say that key economic protections on which working families have relied are fading but say that they should fade? The early architects of the nation's quarter-century economic makeover offered vivid arguments on this point. Shifting risk from business and government to working families was crucial to reinvigorating the economy, they said, not so much because it would relieve institutions of troublesome burdens but because it would force people to be more active, earnest economic players. These advocates were adamant that no effort be made to spare people the consequences of this new approach, lest the process be short-circuited and the larger benefits lost. For example, George Gilder, whose 1981 book, *Wealth and Poverty*, became one of the guiding texts of the early Reagan administration, warned that any effort to shelter individuals by "diffusing, equalizing, concealing, shuffling, smoothing, evading, relegating and collectivizing, the real risks . . . of economic change" would backfire by weakening the economy. Taking the castor oil straight down was the ticket, Gilder suggested. The only hope he offered the patient was that "with more of the risks borne by individual citizens . . . and thus vigilantly appraised and treated . . . the overall system may be more stable."

In the years since these arguments were first made, the idea that working families should be more on the hook for their own economic fortunes has been a subtext in many of Washington's hottest domestic policy debates. Regular warnings that Social Security and Medicare—the nation's two biggest domestic programs—are financially unsustainable and must be "reformed" have been coupled with calls for cutbacks in federal spending. The largely unspoken message has been that government safety nets are luxuries the nation can no longer afford. Instead, working families must step up to provide more of their own retirement income, pay more of their own medical bills in old age, and bear more of their own economic risks.

As it has happened, the most prominent efforts to shift risk from government to working families have thus far failed. Presidents Reagan and George W. Bush both sought to change Social Security drastically, but the huge social insurance program remains essentially intact and continues to provide a floor against poverty in old age. In the case of the other great federal safety net program, Medicare, President Bush and congressional Republicans have created health savings accounts that would do for health insurance what 401(k)s have done for personal retirement: shift much of the cost and risk from employers to employees. But, at least to date, the new health arrangement has not caught on. In fact, legislation authorizing the accounts

pushed in the opposite direction by including a huge expansion of the federal health insurance program—the addition of a prescription drug program. Yet these developments have done little to quiet conservative calls for working Americans to take on more responsibility for protecting themselves against setbacks.

Economists at conservative institutions like the University of Chicago and think tanks like the Heritage Foundation have contributed to the drumbeat for change by resurrecting an old concept called "moral hazard." That is the name given to the idea that people will act more responsibly and make a greater effort to do what they should if the cost of failing to do so falls on them, not someone else, and conversely, that they will act less responsibly and with less effort if they are relieved of the cost. Expressed in the current vernacular, it means that "having skin in the game" makes us focus on playing better. As economists have applied this idea to public policy and law, it suggests that any policy permitting a person to dodge the financial consequences of an event actually makes that event more likely to happen. In the extreme, the idea is that fire insurance promotes fires by reducing homeowners' incentive to prevent them; they know insurance companies will cover the losses. Expressed in this fashion, the idea may seem almost fanciful. But "moral hazard" has been applied to a wide array of business and government practices. For example, arguments have been advanced that welfare causes poverty, unemployment benefits promote unemployment, and health insurance encourages people to get unnecessary medical care. In each case, the proposed solution is to shift more of the consequences of bad events onto individuals and families. In theory, this would give people more incentive to make sure the bad events don't befall them. Of course, it's hard to see how Richard Coss Jr. could have done much to keep Mellon Financial from wrongly betting on ever-higher oil prices or PNC from picking what turned out to be a losing corporate strategy. But the idea is that he could shield himself and his family by keeping a more watchful eye on his employer, being ready to jump to a new employer at the first sign of trouble, and building up savings.

In the end, some of the most influential arguments for removing traditional protections and shifting risks to workers turn on a particular reading of both the nation's distant past and the years immediately preceding the economy's recent return to stable growth. Virtually all advocates of moral hazard and free-market social policy "hark back to some earlier time," according to economic historian David Moss, "when America was full of vigor and individualist spirit and when every citizen faced his own risks with a sense of stoic independence and pride." In reality, said Moss, no such idyllic time ever existed in the United States. "It's impossible to locate a moment in American history from the Constitution writing on forward when policymakers weren't providing some kinds of risk-sharing arrangements, first for business, then workers, the elderly, consumers . . . in the end for just about everybody in one form or another." And, not by accident, the country has grown steadily larger, richer, and stronger. But that has hardly weakened the political, almost spiritual, appeal of the notion of people—especially other people—standing on their own without a steadying hand from their employers or their government.

That attitude seemed all the more plausible because of how fast and seemingly effectively Americans—especially middle-class Americans—adapted to the economic turbulence of the 1970s. Of course, people have adapted at every other economic juncture, we are told—during the westward expansion and the industrialization of the nineteenth century, during the Great Depression and World War II and the great boom of the mid-twentieth century. But in the 1970s, ordinary Americans seemed to grab the financial reins with exceptional enthusiasm. In the process, they set off a money revolution.

When people saw that the productivity slump of the '70s was threatening their standard of living, they switched from being one-earner households to two-earner households. The fraction of families with two incomes jumped from one-third to nearly one-half in a decade and has now reached three-quarters. Similarly, for decades people had set aside money in bank savings accounts known as "passbook" accounts because of the small record books that passed back and forth between customers and bank tellers whenever a deposit was made. The interest rates on these accounts were low. When people realized that high inflation was eating up these rates and destroying the value of their money in the 1970s, they dumped the passbook accounts in favor of money market accounts, mutual funds, and stock portfolios. And when they realized that inflation was flipping the logic of thrift—making it smarter to borrow now and repay later with inflation-cheapened dollars—they flipped, too, beginning a romance with credit cards, mortgage refinancing, and home equity loans that endured beyond the Great Inflation and has yet to end. As early as 1980, analysts were marveling at Americans' ability to roll with the economic punches. "It turns out that people can scramble and keep up longer than you think they can," remarked economist Barry Bosworth.

When the Federal Reserve finally announced near the turn of the new century that more than half of households owned stock directly or indirectly, the revolution in how Americans managed their personal finances seemed well on its way to completion. Even ordinary Americans now seemed to be financial sophisticates able to borrow their way across bad times and smooth out the ups and downs of earnings with investment. "We've finally gotten a piece of the action" is how author Joseph Nocera put it in a mid-1990s book that was both a history and a manifesto of the money revolution. "If we have to pay attention now, if we have to come to grips with our own tolerance for risk," Nocera wrote, "if we're forced to spend a little time learning about which financial instruments make sense for us and which ones don't, that seems . . . an acceptable price to pay. Democracy always comes at some price," he said. "Even financial democracy."

The problem is that the piece of the action that most Americans have gotten during the past twenty-five years is not what optimists like Nocera had expected. Stock investments have turned out to be substantially riskier than many had thought. As important, stocks' elevated role in the economy has helped fuel the jittery corporate competitiveness that has loosened job ties, encouraged benefit cuts, and weakened, rather than strengthened, the finances of many families. Although homes have provided many families with substantial returns, they turn out not to be the only-up investments we've been repeatedly told they were. Their values are now in a steep swoon in many parts of the country. And most of the financial engineering applied to the household turns out to be just another avenue for borrowing.

More important, what Americans have done with their piece of the action suggests that most of us are not very good investors and thus not well suited to play our new risk-bearing roles. Until recently, more than one-quarter of people who are eligible for employer-provided 401(k)s had failed to sign up for them, according to the Federal Reserve. More than half of those who did sign up funneled their money into overly conservative or overly aggressive investments, according to the nonpartisan Employee Benefit Research Institute. Investors may demand more choices, but then they seem confused by the number of options and either make poor decisions or no decisions at all. One study found that the chief reason people don't take advantage of tax breaks or employer matches to put away money for retirement is that they're afraid they will have to pay government-imposed penalties if they need to get at their money quickly. So the authors looked at working people who'd reached age sixty when the penalties no longer apply. Even among this group, 40 percent failed to save.

Such mistakes are not the exclusive domain of less affluent or less educated people. When I interviewed recent Nobel Prize winners in economics, I discovered that many had made the very same sorts of

mistakes, either by not paying attention to their investments or by making faulty decisions when they did.

In the end, households are not hedge funds. It's not that people couldn't learn to be investors or risk managers, just as it's not that most could not figure out how to program their VCRs to record television shows. It's that smart investment is a time-consuming practice and most people's time is consumed with activities that they consider more pressing and closer to the heart of their lives—raising their families, doing their jobs, participating in their communities, chasing their goals. "I would rather spend my time enjoying my income than bothering about investments," said Clive W. J. Granger, a 2003 Nobel Prize winner and emeritus professor at the University of California-San Diego. His is an understandable outlook, but one that makes Granger as well as less credentialed Americans poor candidates to shoulder the new responsibilities for their economic well-being that have been thrust upon them, regardless of how affluent and accomplished they may be. Like many early champions of the money revolution, Nocera, now a columnist for *The New York Times*, has had second thoughts about the changes he once hailed. In a recent column assessing the career of another longtime champion of the stock market for the masses, Louis Rukeyser, the longtime host of television's *Wall Street Week*, Nocera wrote that he had come to realize that "investing is a talent that most of us will never have." Looking back on Rukeyser's relentless flogging of the notion that almost anyone could be a successful investor, Nocera said he was reminded of an old book by a stockbroker who had become disillusioned with the brokerage industry's pushing of mass stock investment. The title of the book was *Where Are the Customers' Yachts?* For most Americans, there have been no yachts.

IN 1989, TWO ECONOMISTS, Richard Burkhauser and Greg Duncan, dug into the question of exactly what it is that knocks the pins out from under families who take steep financial falls. In doing so, they were picking up on the work of an earlier generation of academics who had asked: How did the Great Depression come to roost on working Americans? Exactly what was the path or mechanism that led from a macroeconomic collapse to the devastation of so many individuals? You might think the answer is obvious, but it turns out to be a surprise. It wasn't the stock market crash of 1929 that had hurt most people; relatively few Americans owned stock back then. And it wasn't unemployment alone, because 75 percent of breadwinners held on to their jobs, yet the families of many still suffered. What turned out to have tipped many people into the abyss was one or another of a handful of ordinary events that could happen to anybody under any circumstances in the course of a working life—an illness or injury, a divorce, the birth of an unplanned child, a cutback in a person's wages or hours. These ordinary events, occurring at a time of heightened vulnerability, let trouble come flooding into the victims' lives and swamp them.

When Burkhauser and Duncan looked at the same list of events for the tumultuous but more prosperous 1970s and 1980s, they found the same pattern. Burkhauser and Duncan concluded that "we need not look to the Great Depression . . . to find frequent instances of economic loss and hardship; the risk of sharp decreases in living standards is significant at virtually every stage of life."

And when I looked at the list for the still more prosperous years since the two economists completed their study, I found the pattern still held true—but with one important difference. The fraction of families that experienced one of these unfortunate events and then took a huge income hit had climbed by almost *50 percent*. This is not the rising-tide prosperity that has been widely heralded over the past twenty-five years. Instead, it is something more punctuated, more unpredictable, more difficult to plan a life and raise a family around. Of course, in any given month or year, relatively few people experience such an unsettling event. But the question readers must ask is this: Do I think I can make it across an entire work life without such a setback? How many people do I know who have been so lucky that they never lost a job, got sick or injured, went through a divorce, or saw the world in which they were building careers take an unexpected and unhelpful turn? The question is not whether we need safeguards against adversity, but rather, when we do need them, as eventually many of us will, how reliable and effective will they be?

When Richard Coss Sr. and Iolene speak about their son, they do so cautiously. They know that his setbacks have hurt him, and they want to cause no more pain. A few years ago, they gave Rick and his family $20,000 and a 1991 Chevrolet Lumina to help tide them over a jobless spell. And they recognize that times have changed. "I know things are different now," the elder Coss said in a recent conversation. "The white collar don't have the protection anymore."

For his part, after his 2001 layoff, Rick Coss Jr. decided he was fed up with banking and business for the time being. He became the chief financial officer of the Light of Life Rescue Mission, a shelter for the homeless in Pittsburgh. Although he makes only about half his old salaries, the job thus far has proved far more stable, and he has been able to improve the health benefits both for the people who work at the mission and for those who depend on its services. "At this point," he says, "this is about the best I can do."

In the chapters that follow, we will meet other families that have tried to make a similar peace with adversity. We will examine how when they got to similar points in their lives, the particular safety nets on which they were counting proved less reliable than they had expected, and what they did about it. In some cases, the problem will turn out to have been with a government program or something else in the public sector. In many others, however, both the problem and the hoped-for solution will be found in the private sector—often with protections that individuals had arranged for, even bought and paid for years in advance of needing them.

One thing will become clear from both the stories and the numbers I will provide: No matter what one's political views about individuals bearing more risks, very few Americans are in a position to cope with their added responsibilities right now. That's because most of the changes that have shifted new burdens to families and, in the process, moved people further out on the economic limb have occurred in ways that have masked the full dimensions of what has happened.

Many of the people whom you'll meet in the coming chapters are well educated. Many have made far more money than most of us and rightly consider themselves financially sophisticated. Like Coss, they took economic hits that they did not realize they were exposed to or thought they had taken adequate precautions against. Only afterward did they realize that what they thought protected them had somehow been weakened or removed.

It might be comforting to think that these people just blew it: that they didn't work enough, save enough, or insure enough, that they made mistakes we would never make. But as you read their stories and absorb the analysis, ask yourself this: Am I really so different? Would I really have prepared against the setbacks that befell these people? Have I done so?

Wherever you stand on the question of how much people should go it alone, whatever your views about how much protection, if any, working families should expect from their employers, their communities, and their government, one thing seems clear: Somebody must tell Americans a great deal more about the economic dangers that lie in wait for them. Somebody must tell them that their economic anxieties are well founded. Only then can they and the country begin to address the challenge of how the dangers should be handled.

2

BENEFITS

On Labor Day, 1974, less than a month after he became president following the resignation of Richard Nixon, Gerald Ford held a White House ceremony to sign a new law that he boldly predicted would give working Americans "more benefits and rights . . . than almost anything in the history of this country." Called the Employee Retirement Income Security Act, or ERISA, the measure was intended to sweep aside a patchwork of state measures and provide uniform national protection for the benefits that Americans receive through their employers. First and foremost, it covered pensions, but it also extended federal protection to health care coverage, disability and life insurance, severance pay, and a host of other benefits. That made it the most important safety net against economic trouble most Americans could have during their working lives—more immediately important even than Social Security or Medicare. Indeed, one of the new law's chief architects, New York Republican senator Jacob Javits, called ERISA "the greatest development in the life of the American worker since Social Security."