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Hard Choices

Navigating the Economic
Shock of Unemployment

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For additional information, please visit www.economicmobility.org.

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Pew Overview

During the Great Recession of 2007 to 2009, millions of Americans faced severe economic hardship, forcing difficult decisions about how to stabilize their families' financial well-being and prevent downward economic mobility. Americans with savings were forced to weigh immediate needs against long-term investments, choosing whether to deplete personal assets in order to stay afloat. Those without wealth to fall back on were in an even more precarious position, leading them to turn to family assistance, debt, and other public and private supports when available.

The scale and scope of the Great Recession raised awareness among policymakers and the public of the challenges families face in periods of financial strain. These difficulties, however, occur in both good and bad economic times: A full third of American families experienced a period of unemployment between 1999 and 2009. An economic shock, such as the loss of a job, a sudden illness, or other unanticipated expense or loss of income can profoundly affect a family's mobility prospects, even during periods of strong economic growth.

This study examines how families weather economic shocks through a close focus on one particular event—the experience of unemployment, with specific attention to differences by race and family income. The analysis used a nationally representative sample of working-age families from the Panel Study of Income Dynamics or PSID, following the same households from 1999 to 2009. To provide greater insight into the challenges and choices families faced, the report also drew on a unique longitudinal data set of in-depth interviews with 51 families that endured one month or more of unemployment between 1998 and 2012.¹

Through this combination of quantitative and qualitative data, the relationship between unemployment and family wealth was investigated. The study found that while families at every rung of the economic ladder experienced unemployment and other financial setbacks, their ability to withstand and recover from losses differed dramatically. Low-income families and those of color had both the greatest risk of job loss and the least access to resources to soften the blow. For example, when comparing

those households that experienced unemployment, the median wealth of white households was at least seven times that of black households in each year of the study.

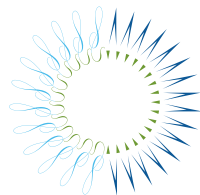
Moreover, families that experienced unemployment not only suffered lost income during their period not working, but also longer-term wealth losses, compromising their economic security and mobility. Those who experienced unemployment between 1999 and 2009 were 1.3 times more likely to have suffered a loss in wealth during the decade than other families, even when controlling for marital status, change in family income over the study period, head-of-household gender, race, and education.

Further insights from the interviews, along with additional analysis from the panel study, demonstrated how disparities in income and wealth affect the ways families react to and cope with economic shocks. The stories in this report provide rich detail on families' efforts to patch together a variety of resources and strategies during periods of unemployment, including household financial assets; family, friends, and kinship networks; credit, debt, and loans; and institutional resources.

The interviews highlighted that unemployment and the trade-offs it requires affected not only families' short-

term economic security, but also their long-term mobility prospects. Those without personal savings and kinship support frequently used resources they had allocated for their children's education or their own retirement to fund short-term needs. They were also the most likely to turn to sources of credit or loans with high fees and interest rates. Institutional resources, including public benefits, played a critical supporting role, but they were not always sufficient and sometimes required families to deplete assets or turn down opportunities to maintain eligibility for assistance.

The findings in this report provide insight for policymakers seeking to help families build assets that can protect them in times of need and provide a foundation for future upward mobility. Mechanisms that encourage families to build savings and access low-cost loans in times of economic shock, as well as public safety-net programs that prevent downward mobility and also promote recovery and return to the labor market, are all needed. In exploring the ways wealth affects families during an economic crisis and the difficult choices they face, this research makes a crucial contribution to our emerging understanding of the role financial resources other than income, particularly savings and assets, play in family economic security and mobility and in the health of the American Dream.



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