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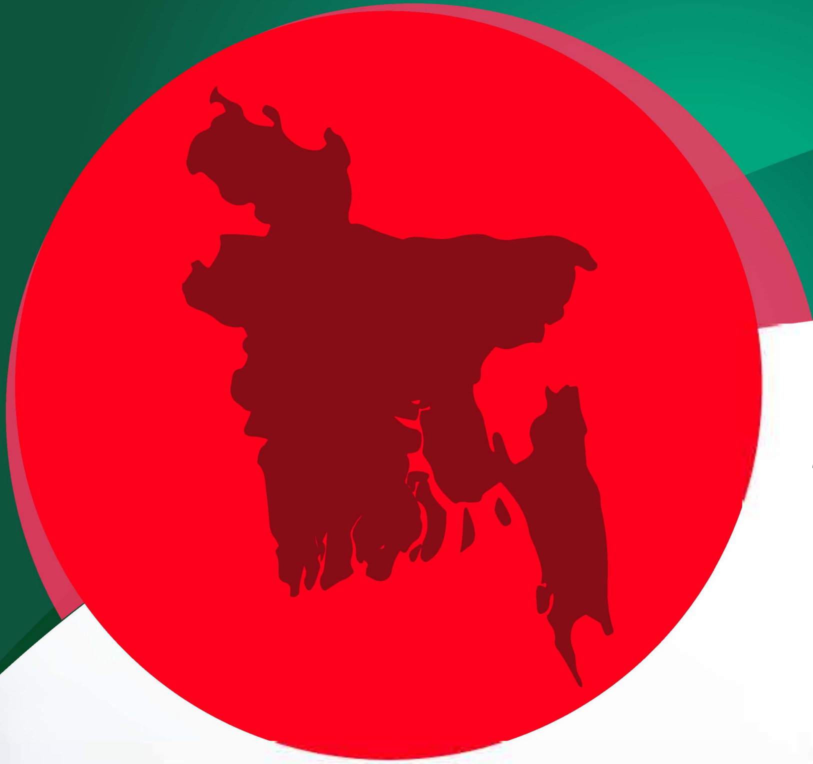

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Financing for Overcoming Economic Insecurity; Bloomsbury Academics, 2015

Edited by Nazrul Islam and Rob Vos

This relatively short (edited) volume is part of the United Nations series on development, and packs an outsized punch on issues related to the latest theories and policy recommendations on poverty and economic insecurity. Over eight chapters and 248 pages, the fourteen authors analyze and discuss a wide range of theories and ideas pertaining to reduction of financial and economic insecurity faced by individuals, communities and nations across the world.

The editors are experts who have spent time both in academe and in international development agencies. Nazrul Islam is the Chief of the Global Economic Monitoring Unit of Development Policy Analysis Division (DPAD) of the Department of Economic and Social Affairs in the United Nations, and Rob Vos serves as the Director of the Gender, Equity and Rural Employment Division of the Food and Agriculture Organization (FAO) in Rome. In the introductory chapter they discuss the scope of the articles contained in the volume. The depth of academic and field experience that the authors as a group bring to the volume is impressive. The list of authors includes university professors in both Europe and the United States, center directors and those who work in the field.

There is little doubt that despite much positive news on poverty reduction and a plethora of ideas and real world experiments over recent decades, both poverty and economic insecurity remain very much a fact of life for vast number of the citizens of the world. Persistent and even increasing insecurity remains the fact of everyday life for billions of people who live in developed and developing nations.

In the introductory chapter, the editors rightly identify a paradox - the persistent co-existence of economic insecurity with reduction in global poverty. Since overall incomes have risen dramatically in recent decades lifting hundreds of millions from absolute poverty not just in China and India, but across the globe, one would normally expect an increase in economic security. However, this has not transpired. Economic insecurity has continued to persist and even risen for people across the globe for different reasons.

So the question of how to attack the twin problems of poverty and insecurity remains highly pertinent. The unexpected episodic shocks such as the 2008 global financial meltdown and the resultant Great Recession in many industrialized nations have further reinforced the importance of better understanding these problems to find effective solutions. This book, as the editors explain, is “a contribution to the knowledge pool” that is necessary, if not sufficient, to address the question of pernicious and endemic economic insecurity.

In Chapter 2, “Globalization, Offshoring, and Economic Insecurity in Industrialized Countries,” Milbert and Winkler explain how the offshoring of jobs to low wage economies from the developed countries has increased the economic insecurity of workers in the developed nations. Part of the reason is that along with globalization there has been a marked shift of economic risk from the state and corporation to the individual worker and his family. The growth and high profits from globalization and outsourcing has come at the expense of the working and the middle class in the West. The authors identify several models - Anglo-Saxon, Mediterranean, Rhineland, and the hybrid model called “flexicurity” - which fall on a spectrum of varying combinations of “employment protection” and “public spending.” For example, the Anglo-Saxon model found in the United States combine low employment protection with low levels of public spending. They conclude, higher public spending as found in European countries is not as helpful in enhancing workers economic security as channeling profits to productive investment, as opposed to giving these to equity holders as dividends and stock buy backs.

In Chapter 3, “Managing Financial Instability in Developing Countries: Why Prudence is Not Enough,” Akyuz makes the case that greater mobility in capital inflows and outflows has contributed to increased volatility and income insecurity in the developing countries. He argues that such massive movements in capital, often speculative, greatly accentuates the boom-bust cycles. He notes that managing such capital flows is even more important that maintaining price stability. He discusses strategies for minimizing the negative impact of capital inflows - macroeconomic/monetary, regulating the flow of capital, and building up reserves to counter and stabilize these capital movements.

In Chapter 4, "Insurance, Credit, and Safety Nets for the Poor in a World of Risk," Clarke and Dercon explore how insurance can be more effectively delivered to the poor. They make the case that the poor households in low-income economies face substantial risks in their lives. They identify two approaches to dealing with the problem - the traditional "asset-focus" approach which neglects risks, and the new "vulnerability" approach that gives appropriate weight to risk. The recent popularity and spread of micro-credit programs has enhanced the asset-focus approach. However, a more effective poverty reduction and income security approach will combine the asset-focus with the risk reduction approach. The micro-credit programs also play an insurance role, but that ameliorates only small shocks. Large catastrophic negative shocks are left unattended by such insurance. The authors discuss the synergies between formal and informal insurance programs that are organic to many poor societies.

In Chapter 5, "Assessing the Success of Micro-insurance Programs in Meeting the Insurance Needs of the Poor," Mosley argues economic vulnerability is a basic threat for the poor, and creates a vicious cycle keeping them from breaking out of the poverty trap. The lack of insurance available to the poor is an important part of the problem. If the poor had access to more adequate insurance against negative income and asset shocks, the prevalence of poverty would have been much lower. Micro-insurance provides some relief. It is defined as, "the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and risk of cost control." There has been an historic shift from thrift or savings as the foundations of finance (to over poverty) to debt. He believes that this is partly because of the common misconception that the poor cannot save. The literature is replete with evidence that the poor have sophisticated mechanisms for savings to smooth their consumption patterns and to reduce risks. They conclude that there is substantial evidence that micro-insurance, when properly designed and implemented, may become a powerful tool against poverty.

In Chapter 6, "Assessing the Insurance Role of Microsavings," authors Hulme, Moore and Barrientos share empirical details about the existing micro-insurance programs, discusses their impact, and offers solutions to enhancing their impact. There is a vast demand for insurance among the poor households (particularly those that are female-led), which is currently unmet in the market. The past attempts failed largely due to poor configurations of the product (supply), which the micro-insurance programs are dealing with. However, these have focused mostly on health and life risks, as opposed to assets and weather related uncertainties. He offers various suggestions in which micro-insurance can expand in poor-friendly manner. Given high levels of positive externalities of such insurance, there is a strong case of the state to fill the gap left open by the private sector in these markets. Indeed micro-credit, micro-saving and other poor-focused programs serve as "quasi-insurance" programs and they individually and collectively reduce risks for the poor households.

In Chapter 7, "Can Microfinance Reduce Economic Insecurity and Poverty? How Much and How, "Islam presents a good overview of the literature on micro-credit and micro-finance making the case that there are complementarities between credit, savings and insurance programs. Although the working class in the developed economies suffer from "episodic" insecurity, much more insidious is the "chronic" insecurity that exists when households are at or below absolute poverty. He discusses the vicious circle of poverty and economic insecurity using a diagram. The review of the global efforts in poverty reduction over the decades since World War II is instructive. He makes the case that such programs have vacillated between the "direct"" or frontal attack on the causes of poverty and the more "indirect" approaches. In discussing the spread and effectiveness of micro-credit across the world, he makes the point that its rapid spread is *prima facie* evidence that the time was right for the idea of collateral free lending to the poor. This of course started with Muhammad Yunus and his Grameen Bank experiment in Bangladesh. His work and the Noble Prize (2006) helped spread the model rapidly in both the developing and developed nations. Islam goes on to discuss both the positive and negative evidence in support of micro-credit programs noting that it is not easy to quantify the gains. He makes the case that the "broader" positive impacts of micro-credit are much more obvious than the narrow income enhancing asset-building criteria used both by the supporters and detractors of micro-credit. The poverty and income security impact when narrowly measured may not be of the "first order" importance, given the evidence that the most dramatic reductions in the prevalence of poverty has happened not in nations such as Bangladesh with dynamic and numerous micro-credit programs, but in East Asian nations where such programs were absent.

In Chapter 8, authors Linnerooth-Bayer and Mechler argue in "Insurance against Losses from Natural Disasters in Developing Countries" that a major source of economic insecurity in low income countries are natural disasters. During the 1980-2004 decades, 95% of deaths from natural calamities were in developing nations. The resulting direct economic losses are estimated at $54 billion. They argue that both in developing and developed nations, disasters are "under prevented." Further insurance against such disasters is more difficult in poor countries because of covariance between the nature of risk, moral hazard and adverse

selection. They identify a number of insurance models - community-based model, full-service model, provider model, and partner-agent model. They note that unlike the rich countries, insurance against natural disasters in the poor countries is nearly nonexistent. It is noteworthy that for many small poor economies, a serious "natural" disaster is also a "national" disaster. There is a strong case for pooling risks across countries (donors or other developing countries) to more effectively deal with these risks. The Caribbean Catastrophe Risk Insurance Facility (CCRIF) is a good example.

Overall, this book provides an opportunity to catch up with the latest theories in poverty alleviation, reducing economic insecurity, and improving the welfare of the world's nearly 3 billion poor people. The reader will benefit from incisive coverage of a wide range of theories and ideas that economists and development experts have put forward, and learned from many experiences from the field tried across the world in recent decades. The author's insights, analysis, discussions of best practices, and policy recommendations provide a wealth of resources for researchers, policy-makers, NGO experts, administrators, and even entrepreneurs (both social and for-profit) interested in questions pertaining to poverty alleviation. I highly recommend the book to the student as well as scholar of economic development, especially those who are interested in an inclusive model of development.

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