

World Economic and Social Survey 2008

Overcoming Economic Insecurity



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OVERCOMING ECONOMIC INSECURITY



United Nations
DESA

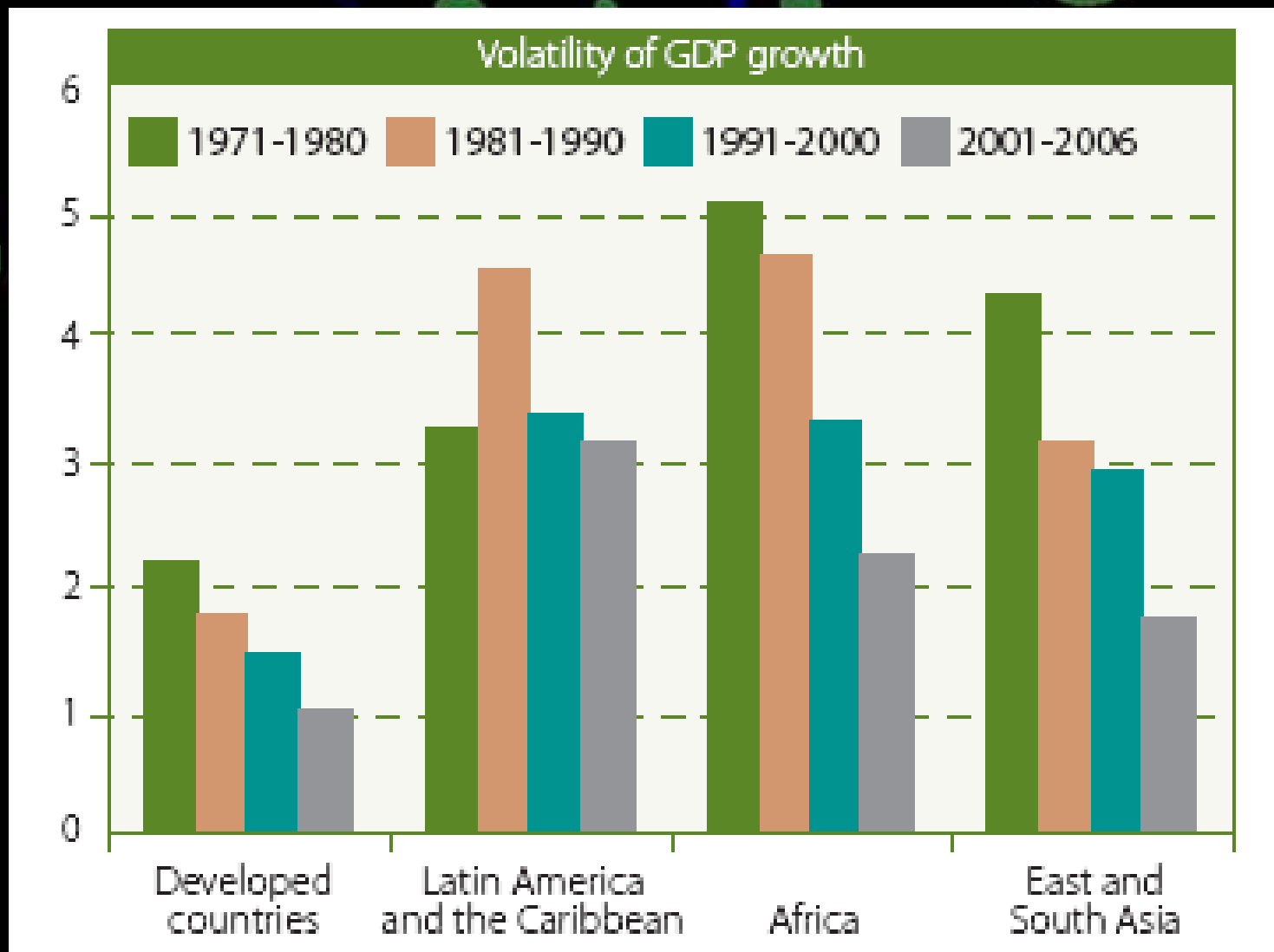


Main messages

- Despite reduced macroeconomic volatility, more feelings of economic insecurity
- Globalization, market deregulation and rising inequality sources of insecurity
- Economic insecurity in developing countries compounded by vulnerability to repeated and catastrophic natural disasters
- .. and in some cases by civil conflict
- Safety nets, insurance schemes and risk management can help people cope, but in themselves insufficient to address insecurity challenge



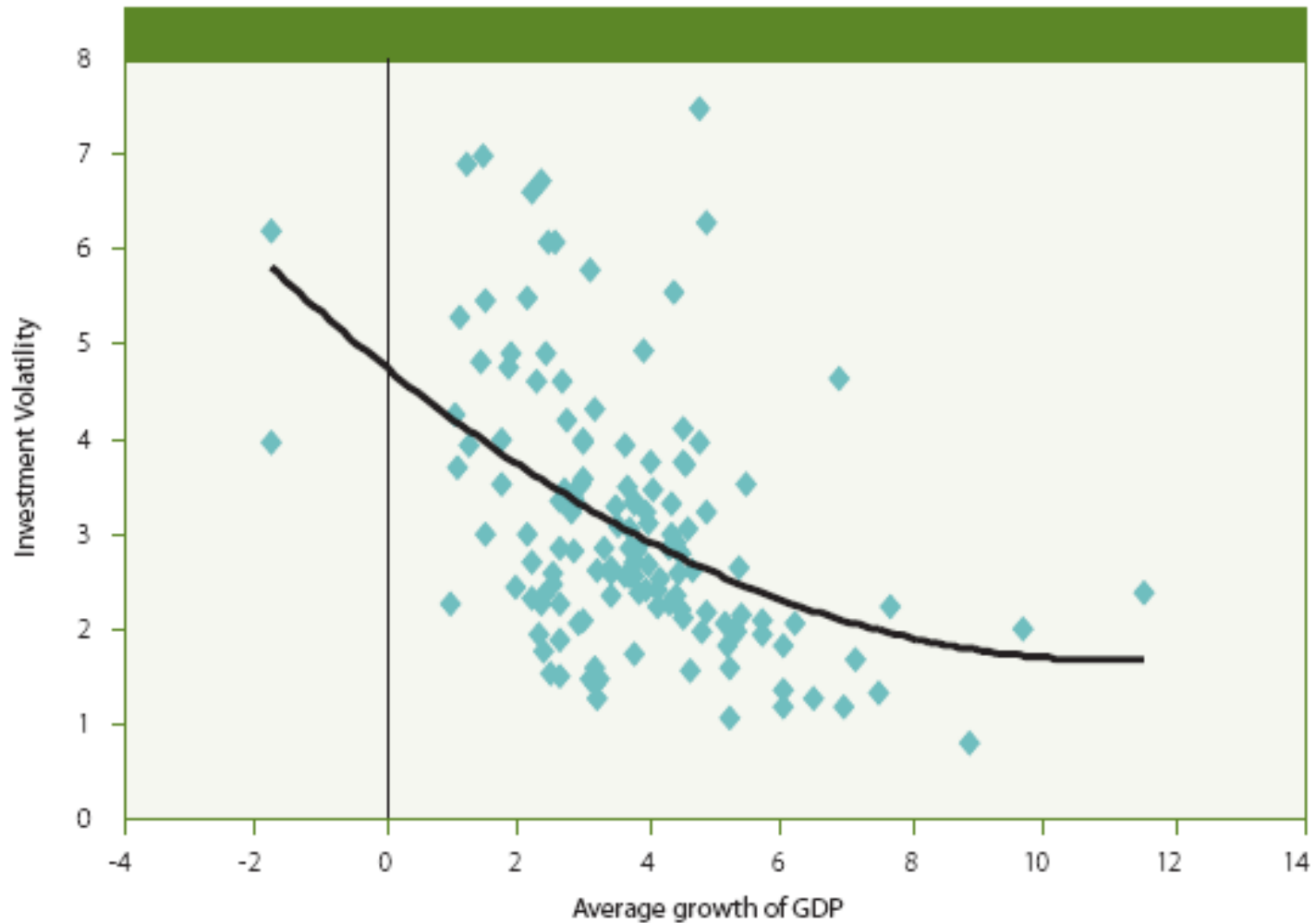
Less macroeconomic volatility, worldwide





... but, at cost of slower average long-term growth mainly on account of persistent high investment volatility

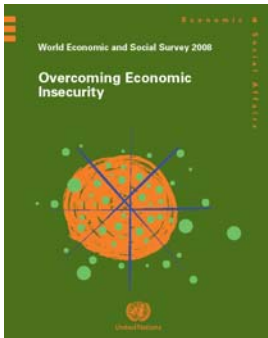
Growth of GDP and investment volatility, 1971-2000





High investment volatility in developing countries associated with...

- Frequency and depth of economic recessions
- Accelerated trade and capital markets opening
- Pro-cyclical policy stance in downturns
- Tilted incentives against productive investment and job creation associated with "financialization".



From economic vulnerability to economic insecurity

- Increasing vulnerability to external shocks results in economic insecurity for individuals and households
- Poor employment conditions are a source of preoccupation for people in all countries
- Economic security requires decreasing investment instability, higher productivity and universal systems of social protection



Managing external vulnerability and the business cycle: **national responses**

- Macroeconomic policies need to be integrated with development policies to prioritize growth, economic diversification and employment creation
- Need to create more space for counter-cyclical macroeconomic policies
- Strengthen prudential regulation of financial markets, prudent use of capital controls to stem financial volatility and reduce investment uncertainty
- Reduce reliance on "self-insurance" through vast accumulation of reserves



Managing external vulnerability and the business cycle: **multilateral responses**

- Multilateral surveillance and internationally concerted macroeconomic policies
- Better pooling of international reserves
- Counter-cyclical international financial regulation
- Reform of compensatory financing mechanisms
- Strengthening of multilateral trading system



Dealing with household economic insecurity

- Since 1990s: Shift to **targeted social protection systems**: less costly, but also better protection?
- Survey proposes **strengthening of social protection for households**

Pro-poor economic policies:

- Pro-poor economic growth critical in tackling chronic household level economic insecurity
- Microfinance schemes mostly remain "micro" and often fail to generate much productive employment. Micro finance needs to be better embedded with financial and production sector development

More universal social protection schemes:

- Workfare and cash transfer programmes can be effective, but often too rigid to respond to new economic shocks. Targeting limits coverage and hence often also protection.
- Greater emphasis on more universal systems of social protection; have better track record in eliminating poverty and broader political appeal.



Other themes of the WESS 2008

- **When things fall apart:** conflict, wars and economic insecurity
- **Forces of nature:** the climatic threat to economic insecurity



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