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Measuring Economic Security as a component of Economic Well-being: Context and Concepts

Lars Osberg

Department of Economics
Dalhousie University
Halifax, Nova Scotia, Canada B3L 1R6

Research on Poverty Alleviation (REPOA)
P O Box 33223, Plot 157, Migombani Street, Regent Estate
Dar es Salaam, Tanzania

lars.osberg@dal.ca

Abstract

In recent years, the costs to individual well-being of economic insecurity have been discussed by several authors (e.g. Bossert and d'Ambrosio (2009), Osberg (1999)). Because risk-averse individuals will be worse off if they have to face uninsured economic hazards, affluent societies have created complex systems of private insurance and public social protection to provide protection against economic dangers. However, the citizens of poor nations (i.e. most of humanity) typically find both private insurance and public social protection to be largely unavailable – their lives are both poorer and riskier. How should one measure the impact of economic insecurity on well-being in these very different contexts?

The "vulnerability" perspective on economic development (e.g. Dercon, 2005) has emphasized both the costs of unprotected hazards to individuals and the adverse implications for growth of the available risk-avoidance strategies. But as the "social protection" literature (e.g. Wuyts, 2006; Norton et al, 2001) has discussed, low income, informal economic structure and administrative capacity create severe problems for the design of social protection systems, and even in affluent nations, the financial crises of 2008-09 have raised new questions about the adequacy of protection against risk in developed nations (Osberg and Sharpe, 2009).

The 'economic insecurity', 'social protection' and 'vulnerability' literatures have evolved in remarkable mutual isolation – this paper begins with a discussion of their similarities and differences and why that matters for measurement choices. Section 2 then uses OECD data to illustrate the evolution of economic insecurity in seven affluent countries since 1980, its sensitivity to alternative measurement choices and its importance to trends in relative economic well-being. Section 3 discusses the importance of institutional and economic context to the meaning of 'economic security' and the differences between appropriate measurement of economic security in developed and less-developed countries. Section 4 uses Tanzanian data to illustrate how economic security might be measured in a poor country and its impact on perceived trends in economic well-being. Section 5 concludes.

Selected References:

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