BOOKS

Leon T. Kendall and Michael J. Fishman (editors)

A Primer on Securitization

MIT Press, Cambridge, Massachusetts, 1996,
ix + 189 pp., $27.50 (cloth).

A Primer on Securitization compiles 14 self-contained and nontechnical seminar lectures delivered in the spring of 1994 on the securitization of financial assets. It covers mainly the history and institutional framework of securitization in the United States, although one chapter also touches upon developments in Great Britain and France, and another provides a broad-brush picture of securitization techniques used for debt financing in emerging markets. The speakers were first-rank finance professionals and were closely involved in starting the securitization process in the United States.

The book provides some good introductory reading for people wishing to learn about factors that have been driving the securitization process, how it shaped the financial industry, and what challenges it has posed for monetary and regulatory policies. It is unfortunate that the book does not cover developments during the last three years, but because the US markets are so far ahead of most others in terms of their institutional development, the book may still provide useful information on both concepts and lessons applicable to other countries.

Leon Kendall provides a stimulating introductory chapter, which is followed by five chapters that describe the securitization process in the United States as driven mainly by the demand for funds amid regulatory constraints (such as capital-adequacy requirements) on the banking and thrift industry. Amid the worsening of the savings and loan crisis in the late 1970s and early 1980s, the most important market in which the securitization of financial assets took place was that for residential mortgage loans, which were packaged into mortgage-backed securities by government-sponsored agencies like the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae). The involvement of the government and financial innovations such as the segmentation of the cashflow of a large mortgage pool in order to match the risk preferences of different groups of investors increased the attractiveness of issues of mortgage-backed securities and boosted market liquidity. The newly available financing mechanism in the mortgage market also brought in a range of new participants, and the resulting intensification of competition furthered the decline of the traditional provider of mortgages, the savings and loan industry. As market participants learned from the successes and occasional failures in issuing and selling mortgage-backed securities, securitization was gradually expanded to other financing areas including car-loan financing and commercial property debt.

> ***"The securitization process . . . has posed new challenges for banking supervision, and internal controls need to be partially met by risk-based capital standards and other regulatory and accounting changes."***

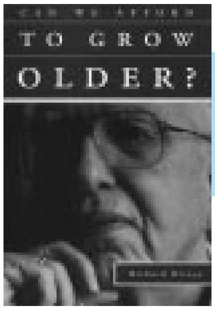
The second section of the book consists of four chapters which describe the specific functions and requirements of different groups of market participants in the securitization process—namely, rating agencies, private mortgage bankers, insurance companies, and pension funds.

The third section consists of four chapters covering a variety of topics. In her chapter, Susan M. Phillips discusses the implications of the securitization of financial assets on monetary policy and banking supervision in the United States. Regarding the former, she is not concerned about the possibility that securitization could lead to an unacceptable decline in the effectiveness of the Federal Reserve System in implementing monetary policy because of the banking industry's shrinking liabilities and, thus, its reduced demand for reserve holdings. Indeed, she believes that banking customers will continue to hold a sufficiently high level of checking and savings account deposits (since banks are the only absolutely safe, insured source of such instruments) and because of a continuing demand for clearing transactions and associated balances. She argues that the securitization process, however, has posed new challenges for banking supervision, and internal controls need to be partially met by risk-based capital standards and other regulatory and accounting changes.

Robert D. Graffam of the International Finance Corporation surveys some of the experiences and challenges associated with the securitization of developing country debt and the role of the IFC in this process. He is pessimistic that securitized international transactions will ever become a sustainable source of financing for developing countries, partly because of the immense difficulties issuers face in assembling a sufficiently large and diversified volume of qualified assets, owing to serious informational and legal problems, and international investors' limited interest in homogeneous, standardized assets.

In sum, the book makes good weekend reading but the reader should not expect a detailed and rigorous discussion of the securitization process. The quality of the chapters is uneven, and, perhaps unavoidably since they were initially written as seminar lectures, they overlap somewhat.

Harald Hirschhofer



Richard Disney

Can We Afford To Grow Older?

MIT Press, Cambridge, Massachusetts, 1996, x + 344 pp., $35 (cloth).

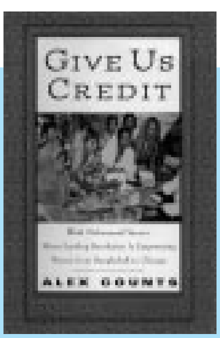
Richard Disney's new book collects and analyzes information on the many ways in which population aging will likely influence macro and microeconomic outcomes. It is an ambitious tome, seeking in 11 chapters to explain economic models of population aging, social security, and pensions; the impact of workforce aging and retirement; and consumption as well as saving for old age. The author concludes with an overview of health care financing and also offers a brief discussion on how public choice models might help to improve our understanding of policy problems in the field of aging. The volume is written at a somewhat technical level, though much of it will be accessible to the interested nonspecialist audience.

The book's first section covers territory that is familiar to most neoclassical economists. Disney reviews for readers the basic Samuelson model of overlapping generations, in which an unfunded social security system is shown to be attractive to the various generations of a country's people as long as the population growth rate is high enough. He then shows how declining fertility and consequent population aging makes an unfunded pay-as-you-go (PAYG) pension system rather less appealing, particularly for cohorts such as the "baby boomers." This is because this generation of workers must not only support their parents in old age but also pay a substantial part of the cost of supporting themselves in their own old age, owing to the declining rates of economic growth. Disney also provides a summary of the life-cycle model of saving, in order to lay the groundwork for later chapters on consumption patterns in old age. A graduate student seeking a succinct statement of the relevant literature will find this section useful as an introduction to the issues. Those more familiar with the field will find themselves agreeing that one of the most difficult consequences of population aging is the "transition" problem," which essentially is that moving from an unfunded PAYG social security system to a funded pension system requires coming up with financing to make good on promises that have already been made to the elderly.

To illustrate these points, Disney then goes on to compare the stresses faced by social security programs in five developed nations: Australia, Italy, Japan, the United Kingdom, and the United States. His description of these systems will be useful for those not particularly well versed in the comparative social security arena. It may come as a surprise to his readers that he believes that "it is not aging per se that has created financing difficulties" in social security systems around the world. Rather, the author argues, politicians made "unrealistic future commitments that cannot or will not be fulfilled by future generations." Certainly this rings true in both the developed and the developing nations of the Americas, where initially well-designed social security plans were enriched time after time to the point where benefit promises vastly overshadowed national GDPs.

In the remainder of the book, the author reviews a wide array of microeconomic studies regarding the aging workforce and retirement, productivity and wages, and consumption and saving. Most prior evidence in this field has been generated using US data, and thus some of the new UK results Disney has produced provide a welcome balance. He concludes his study with a tantalizingly brief discussion of voting models in an overlapping generation framework. Given the tremendous importance of political risk in shaping workers' expectations about future benefits and taxes, it is to be hoped that this line of inquiry will command Mr. Disney's further attention in future works.

Olivia S. Mitchell



Alex Counts

Give Us Credit

How Muhammad Yunus's Micro-Lending Revolution is Empowering Women from Bangladesh to Chicago

Times Books, New York, 1996, xx + 361 pp., $26 (cloth).

Helen Todd

Women at the Center

Grameen Bank Borrowers After One Decade

Westview Press, Boulder, Colorado, 1996, xviii + 251 pp., $49.95 (cloth).

The winning candidate for "most exciting grassroots development idea to hit the mainstream in the last few years" would surely be microcredit. This year's Microcredit Summit, sponsored by the World Bank, attracted more media attention than any development-related meeting held in Washington in years. The Summit's aim (it was not intended as a forum for professional discussion and exchange) was to celebrate microcredit as one of the few poverty-alleviation efforts that has worked.

At the Summit's center was Mohammed Yunus, the founder of Bangladesh's Grameen Bank (GB) and, arguably, the father of what has come to be called minimalist credit. The argument about whether the poor will repay small, noncollateralized loans has been settled. Two decades of evidence says they do (provided some elements of programmatic best practice are in place). The question of whether minimalist credit is enough remains. Its main premise is that to cross the poverty line (and stay there), the poor do not need to receive the benefits of costly investments in skills acquisition, consciousness raising, business planning, and marketing, but only access to credit (which Yunus has famously called a "human right"). The GB pioneered this minimalism and has for most of its 20 years pretty much stuck to it.

Besides agreeing with its subtext—that anyone who thinks the poor need more than credit doesn't understand how resourceful they are—those who argue for minimalist credit point to the other extraordinary benefit of minimalist microcredit: by offering only credit, and thus keeping program operations relatively simple, there is a chance for lending institutions to cover their costs and still reach significant scale. Of the roughly one thousand programs around the world offering financial intermediation services aimed at the poor, the GB stands, with a handful of others, on the threshold of achieving this elusive balance between outreach and financial sustainability.

Not surprisingly, much has been written lately about this attractive phenomenon and about the GB specifically. The two very different books discussed here cover a large part of the spectrum of what one might expect to be said about the GB and of how it might be said. Helen Todd is a journalist, and Alex Counts, a generalist. Both books are eminently readable.

Counts's reverent, and occasionally gushing, book tells an idealized, "against all odds" story of Mohammed Yunus founding the GB in 1976. Yunus is the central character in the book, a single-minded man of courage and integrity who can tell off the World Bank and still get its applause. The stories of the women members of the Grameen Bank, though full of detail about their complex lives, serve principally as a backdrop to his descriptions of the GB and Yunus. Counts's project is clear. Unlike many other experiments in development that may have worked in one place and then failed when tried somewhere else, the principles behind the GB's successful operations do work elsewhere; the minimalist credit bank is replicable.

Counts's secondary story is about Chicago's Full Circle Fund, a microcredit operation modeled after the GB. Counts alternates chapters, moving easily back and forth between Bangladesh and Chicago—so much so, in fact, that the stories and the locations begin to seem interchangeable. But this is Counts's point. He wants to tell us that the conditions of poor women everywhere resemble each other so much that the GB can be replicated. Yet Counts's belief that the GB and the other banks following in its footsteps are "profoundly changing the lives of people" has at its core a quintessentially American faith that "nothing is impossible." Even Yunus's conviction that the poor are inherently entrepreneurial gets a New Age gloss from Counts, who does not admit that some people are inherently good at business and others are not: "success at outdoor events [street vending in Chicago] takes a kind of street charisma that not everyone is willing to cultivate in themselves." This two-dimensionality may work as a tool to reassure a lay audience that something good has been discovered in the bleak world of development assistance. But it fails to enlighten, reveal, or explain.

If Counts's stories of poor women reinforce the idealized GB, Todd's demystify it. Her book, the product of observing several Grameen villages for a year and studying a small, but thoroughly worked sample of 40 Grameen member and 22 nonmember households, is a remarkable achievement. Without gushing or hectoring, she enlightens, reveals, and explains.

More important, perhaps, she reminds the feminists that categories like "independence" come off badly in the eyes of Bangladeshi poor women and not because they suffer from "false consciousness." What counts for Bangladeshi rural women is centrality, their influence on household decisions. They want to remain at home and build assets, not go out to earn wages. Through data and anecdotes, Todd shows the critics of "pipelining" (the fairly common practice among poor women of taking loans and handing them over to their husbands) that the critical factor is not who uses the money but who decides how it will be used.

She reminds us that real development at the grassroots takes place slowly, undramatically, and unmagically. Todd reminds us how permeable the local "transactional world" can be and how poor women can ill afford to live within the limits (like purdah) that outside theoreticians like to impute to their lives. Empowerment does indeed take place among GB members, but there is no "automatic progress from credit to income to centrality [of decision making]". After 10 years of GB membership, one-third of Todd's GB member sample still had little control of either assets or decision making in their families.

Todd reminds us, too, that reality, if it does not always contradict statistics, is often not captured by them. The GB's statistics tell us that a good percentage of its members manage to pull themselves out of poverty. Todd's own data, using calorie counts, support this. But she also shows us how much that crossover depends on land dealing—which the GB's rules on loan use do not allow. The GB's own statistics do not capture either the complexity of loan use or the fungibility of money. Many GB members get into a vicious cycle (itself propelled by the GB's very credibility as a reliable and regular source of credit) of borrowing from families and even moneylenders (Yunus's No. 1 villain) using the promise of their general GB loans as collateral.

Todd comes out both moved and sober about GB's achievements. There are limits after all. Not everything is possible, but much is understandable. Members join their solidarity groups for individual purposes and not for solidarity. They break the rules when their individual interests are threatened, and their GB workers often assist them in covering up, to keep the local branch looking good. And as for the focus on the poorest, the longer the women remain members, the more they exclude the very poorest in their communities as bad risks. As one worker said about the GB's rules to ensure its loans reach the poorest: "[borrowers can be] landless yes, but not hopeless."

Finally, the pull of tradition is powerful. The GB's loans often contribute to dowries, although that use of funds is strictly taboo. The hoped-for breakdown of traditional networks is not much in evidence. But Todd has convincing evidence that in the meantime, the GB has resulted in improvements in children's nutrition, and its loans have brought about structural changes in local economic relationships that have benefited many women and have smoothed out the worst bumps in the lives of many more. Though they are far from being revolutionaries, Grameen Bank women (and only some of them, we must remember) "effect change like termites, hollowing out structures quietly from within." For realists who take the long view, this is praise enough.

Thomas Dichter

Lawrence E. Harrison

The Pan-American Dream

Do Latin America's Cultural Values Discourage True Partnership with the United States and Canada?

Basic Books, New York, 1997, ix + 288 pp., $25 (cloth)

Lawrence Harrison spent many years in Latin America as an officer of the United States Agency for International Development (USAID). Apparently his experiences did not endear to him what he calls the "Ibero-Catholic system of values." This is now his third book articulating the thesis that culture is the source of Latin America's woes, and follows *Underdevelopment is a State of Mind* and *Who Prospers? How Cultural Values Shape Economic and Political Success* (the latter I reviewed in *Finance & Development*, March 1994). Despite the title, there is much more here than a discussion of free trade agreements or Pan-American alliances. Much of the book is made up of country case studies which further develop Harrison's explanation of Latin America's underdevelopment. In his view, culture is to blame for just about everything except *El Niño*.

Harrison employs devices in this book that he also used in the earlier books. First, for example, there is the sudden culture change device. Whenever an economy starts doing well, it is because there has been an about-face in culture. Thus, Argentina's traumas during 1930–90 were finally enough to jolt Argentines away from the Ibero-Catholic culture, and this gave us the more promising Argentina of 1991–96.

Next, there is the mystery ethnic group device. Whenever a country turns out well, there's an ethnic group with "good" cultural values in the background. Chile now seems to be doing well, so it's significant for Harrison that Chile was predominantly settled by Basques in the nineteenth century. (In Harrison's previous book, the Basques were the secret behind Costa Rica's stability.) Elsewhere in *The Pan-American Dream*, there is some other non-Ibero-Catholic group in the background whenever signs of hope appear—the Japanese, the Pentecostals, etc.

Finally, there's the dismissal of traditional economic research device. Harrison has little faith in the writings of economists about Latin American countries, or any other countries, on the subject of growth. This is unfortunate, because it prevents him from testing his culture thesis against the many explanations of cross-country growth differences offered by the economics literature. When Harrison briefly considers policies and institutions as determinants of growth, he dismisses them as consequences of culture (the reverse is more likely, and this hypothesis should be tested, but Harrison does not do so.) Even when he asks a reasonable question, like why Latin American governments so consistently chose poor policies, he seems unwilling to confront the large body of political economy research devoted to answering it.

For example, economists such as Alberto Alesina and Dani Rodrik argue that income inequality in Latin America led to societal polarization, which, in turn, fueled bad polices. The economic historians Stanley Engerman and Kenneth Sokoloff have argued that Latin America's income inequality relative to the situation that prevailed in North America had much to do with initial resource endowments. Latin America's initial comparative advantage in sugar and mining fostered an underclass of slaves/peons and a small, rich elite, while North America's initial comparative advantage in small-scale food crops fostered a large middle class of family farmers (with the cotton producing states of the southern United States providing an intermediate case).

Harrison has done the world a service by promoting culture and economics as a field for inquiry. But he does not avail himself sufficiently of the vast body of evidence provided by hypothesis-testing methods, previous research on growth, and previous studies of Latin America in the social science literature. After reading his third book blaming Latin American culture for the region's economic ups and downs, I remain *no convencido*.

William Easterly

Zvi Bodie, Olivia S. Mitchell, and John A. Turner (editors)

Securing Employer-Based Pensions

An International Perspective

The Pension Research Council and University of Pennsylvania Press, Philadelphia, 1996, xii + 334 pp., $44.95 (cloth).

Pension reform has emerged as a major and enduring public policy issue confronting policymakers around the world. In many countries, the traditional dominance of the public pension pillar as the main provider of retirement income has come under scrutiny. Indeed, some countries have begun, or at least are considering, shifting a significant portion of retirement income from their public pension pillar to funded, employer-based or occupational pension schemes. At the same time, spectacular cases of fraud and extensive underfunding have raised questions about the reliability of occupational pension schemes for providing retirement income.

Naturally, these events have spurred the demand for descriptive and normative analyses of occupational pension schemes. One response to this "demand shock" is *Securing Employer-Based Pensions*, a collection of articles based on a conference on international pension security held in May 1994. While several articles in this volume are rehashed versions of material that have appeared elsewhere, the book provides an informative and reasonably compact perspective on the design and regulatory issues affecting occupational pension schemes.

The first part of the book contains three chapters describing the institutional characteristics of the occupational pension schemes in the United Kingdom, Germany, and Japan, respectively. The discussants' comments on these chapters provide brief descriptions of the French and US systems. These three descriptive chapters highlight the impressive variety of designs of occupational pension schemes adopted by different countries, and even within countries, reflecting different initial historical conditions, regulatory frameworks, tax regimes, and—in particular—the coverage and net replacement rates offered by the public pension pillar. Adding a cross-cultural caveat to this institutional variety, Noriyasu Watanabe's chapter on occupational pension schemes in Japan warns that "Western pension scholars who understand the Japanese pension system in terms of Western concepts of retirement plans miss important aspects of the Japanese pension system."

The second part of the book focuses on designing private pension schemes in developing and transition economies. Following Chile's bold pension reform experiment in the early 1980s—which basically shifted retirement income provision from the existing public, pay-as-you-go pension pillar to a mandatory private pension pillar—a growing number of countries is undertaking or considering similar systemic pension reforms. Drawing on a broader World Bank study on pension reform, a stimulating chapter by Estelle James and Dmitri Vittas presents a Chilean-inspired manual for how to implement a mandatory retirement saving scheme. Against the backdrop of the earlier chapters underscoring the importance of institutional and historical detail for the design of occupational pension schemes, however, many readers may react skeptically to the "big bang reform approach" advocated by James and Vittas. Indeed, a companion chapter by John Turner and David Rajnes reviewing the scope for building up occupational pension schemes in transition economies concludes that a "gradual reform approach" is preferable for these economies in view of the institutional and legal complexities involved.

The third part of the book, drawing mostly on industrial country experiences, reviews the taxation and regulation of retirement income provision through occupational pension schemes. The chapter on taxation by Andrew Dilnot points out that most industrial countries tax funded pension plans at the payout stage and highlights the serious difficulties associated with the taxation of both contributions to funded schemes and fund income. The final chapter of the book by James Pesando provides a thorough discussion of the government's role in insuring pension provision, concluding that the economic efficiency case for providing public insurance of private pension plans is weaker than commonly assumed.

Albert Jaeger

CORRECTION

In "Developing Countries Get More Private Investment, Less Aid," in the June 1997 issue of *Finance & Development,* China's share of total foreign investment flows was misstated. The first sentence in the second paragraph in column one on page 36 should have read, "The pie was not equally distributed among all developing countries, however—73 percent of foreign investment went to just 12 countries, with China receiving $52 billion, or 21 percent of total flows."

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