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Tackling poverty

It's expensive to be poor

WASHINGTON, DC

Why low-income Americans often have to pay more

WHEN Ken Martin, a hat-seller, pays his monthly child-support bill, he uses a money order rather than writing a cheque. Money orders, he says, carry no risk of going overdrawn, which would incur a \$40 bank fee. They cost \$7 at the bank. At the post office they are only \$1.25 but getting there is inconvenient. Despite this, while he was recently homeless, Mr Martin preferred to sleep on the streets with hundreds of dollars in cash—the result of missing closing time at the post office—rather than risk incurring the overdraft fee. The hefty charge, he says, “would kill me”.

Life is expensive for America's poor, with financial services the primary culprit, something that also afflicts migrants sending money home (see page 66). Mr Martin at least has a bank account. Some 8% of American households—and nearly one in three whose income is less than \$15,000 a year—do not (see chart). More than half of this group say banking is too expensive for them. Many cannot maintain the minimum balance necessary to avoid monthly fees; for others, the risk of being walloped with unexpected fees looms too large.

Doing without banks makes life costlier, but in a routine way. Cashing a pay cheque at a credit union or similar outlet typically costs 2-5% of the cheque's value. The unbanked often end up paying two sets of fees—one to turn their pay cheque

into cash, another to turn their cash into a money order—says Joe Valenti of the Centre for American Progress, a left-leaning think-tank. In 2008 the Brookings Institution, another think-tank, estimated that such fees can accumulate to \$40,000 over the career of a full-time worker.

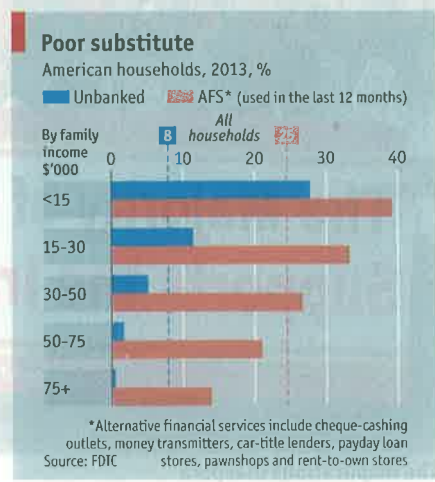
Pre-paid debit cards are growing in popularity as an alternative to bank accounts. The Mercator Advisory Group, a consultancy, estimates that deposits on such cards rose by 5% to \$570 billion in 2014. Though receiving wages or benefits on pre-paid cards is cheaper than cashing

cheques, such cards typically charge plenty of other fees.

Many states issue their own pre-paid cards to dispense welfare payments. As a result, those who do not live near the right bank lose out, either from ATM withdrawal charges or from a long trek to make a withdrawal. Other terms can rankle; in Indiana, welfare cards allow only one free ATM withdrawal a month. If claimants check their balance at a machine it costs 40 cents. (Kansas recently abandoned, at the last minute, a plan to limit cash withdrawals to \$25 a day, which would have required many costly trips to the cashpoint.)

To access credit, the poor typically rely on high-cost payday lenders. In 2013 the median such loan was \$350, lasted two weeks and carried a charge of \$15 per \$100 borrowed—an interest rate of 322% (a typical credit card charges 15%). Nearly half those who borrowed using payday loans did so more than ten times in 2013, with the median borrower paying \$458 in fees. In 2014 nearly half of American households said they could not cover an unexpected \$400 expense without borrowing or selling something; 2% said this would cause them to resort to payday lending.

Costly credit does not mix well with lumpy welfare payments. The earned-income tax credit (EITC), an income top-up for poor families, is paid annually, as part of a tax refund. The total refund can run into thousands of dollars, making it worth more than many families' monthly pay cheque. Unsurprisingly, cash-strapped households seek to borrow against this windfall in advance. Regulators have recently nudged banks away from issuing high-cost short-term loans secured against imminent tax refunds. But it is still common to borrow to cover the cost of apply-



ing for the EITC. In 2014 almost 22m consumers used “refund anticipation cheques”, which offer a loan to pay the filing costs and collect repayment automatically when the refund arrives. These products typically cost between \$25 and \$60 for credit that lasts only a few weeks, according to Chi Chi Wu of the National Consumer Law Centre, an advocacy group.

How might financial services be made cheaper for the poor? Mr Valenti sees promise in mobile banking. But the poor are not yet well placed to benefit from the mobile revolution, in financial services or otherwise. Only half of those earning less than \$30,000 per year own a smartphone, compared with 70% or more of those in higher income groups. Nearly half those who do manage it have had to temporarily cancel their service for financial reasons. That might itself be the result of disparate prices: those with poor credit ratings rely on pre-paid SIM cards, which unlike normal monthly contracts do not come with a hefty discount for the handset.

Low smartphone penetration in turn makes life more expensive in other ways. The unconnected do not benefit from the cheap communication, education, and even transport the app economy provides. A quarter of poor households do not use the internet at all, which makes seeking out low prices harder.

Price discrimination

Inflation has also squeezed the poor more in recent years. The prices of items which soak up much of their budgets—such as rent, food and energy—have risen faster than other goods and services. Falling oil and energy prices may be reversing that trend, though typically the poor own fewer cars, so benefit less from cheaper petrol.

From 2000 to 2013—the latest year for which figures are available—inflation has been higher for those in poverty for 139 of 168 months, according to the Chicago Federal Reserve. As a result of this inflation premium, prices rose 3.2% more for the poor over this period. These figures may understate the disparity, because they do not include employer contributions to health insurance, which are widely thought to hold down pay cheques, and make up a bigger proportion of the total pay of the poor.

The high cost of being poor has two main implications. First, inequality is worse than income figures alone suggest. This is true even before non-financial disparities, such as the implications for health of living on a low income, are considered. Second, finding ways to reduce these costs, for instance by making it easier to claim the EITC without borrowing, or by changing the rules on overdraft fees (which at the moment are used to cross-subsidise banking for other customers), would be a cheap way of helping low earners—and bargains are rare for the poor. ■

Arguing over Iran

Fighting talk

ATLANTA

It hasn't derailed the deal. But American Jews' rancour over Iran still matters

ACCORDING to the Talmud, the Romans were able to conquer Jerusalem and drive the Jews into exile because of the debilitating rifts among them. Some agnostic rabbis have cited this ancient warning to temper the rancour among American Jews over the deal to constrain Iran's nuclear programme, struck in July by Barack Obama and five other governments. Opposition from some Jews (and many others), based on anxieties about Israeli security and Iran's genocidal rhetoric, has not derailed the agreement, which this week secured enough support in the Senate to survive. But the debate has divided synagogues across the country, a spasm of infighting that may yet prove momentous, albeit not as Mr Obama's critics intended.

Most of America's main Jewish organisations, including the American Israel Public Affairs Committee (AIPAC), and some philanthropists, join the Republicans in opposing the agreement; so, noisily, does Binyamin Netanyahu, Israel's bellicose prime minister, who pre-emptively denounced it in a controversial speech to Congress in March. So do the Jewish federations of several cities (though not the biggest, New York's, which has opted for neutrality). David Harris, of the (rejectionist) American Jewish Committee, says a webcast by Mr Obama on August 28th, while “gracious”, came too late to change most minds. A few other groups, such as the left-leaning J Street, endorse the deal—as, ac-

ording to a poll published in the *Jewish Journal* shortly after it was reached, most individual American Jews. Jews, concluded, are actually more enthusiastic about it than Americans overall.

If the mainstream debate is robust, penumbra is toxic. A Facebook post advises Jerry Nadler, a Jewish Democratic congressman from New York who backed the deal, to repent on Yom Kippur is amid the more civil feedback he has had. He and other like-minded Jews have been vilified as “kapos”, a term for prisoners obliged to aid the Nazis in concentration camps. Conversely some Jewish opponents, such as Charles Schumer, a Democratic senator from New York, have been labelled traitors to America and warmongers, calumniated with their own anti-Semitic undertones.

Mr Obama characterised his disagreement with Israel and some American Jews as a family row; the insults being traded between some Jews would cause outrage if they emanated from outside the tribe. Indeed, the Anti-Defamation League, which combats anti-Semitism, has been moved to denounce its Jew-on-Jew manifestations: “a new, and deeply troubling, phenomenon”, says Jonathan Greenblatt, ADL's director. In the angry allegations of complicity and betrayal, Samuel Freedman—author of “Jew vs Jew”, a book about strife within American Jewry—hears echoes of clashes over Franklin D. Roosevelt's limited response to the Holocaust and American Jews' relationship with him.

The sense that preventing an Iranian bomb is, like the Holocaust, a question of survival, contributes to the vitriol. The caustic mores of the internet don't help. Whatever the acrimony's origins, worries Rabbi Rick Jacobs of the Union for Reform Judaism, it may leave “lasting scars”.

Nixing the deal can no longer be one of them. After Barbara Mikulski, a Democrat,



The disputatious diaspora



Marriage in India

Love (and money) conquer caste

MUMBAI

More and more young Indians are choosing their own spouses

HALF a dozen young technology workers are gathered around a table in south Mumbai. In between checking their smartphones, they describe an Indian social revolution of which they are in the vanguard. Marriage, one woman explains, is becoming freer and easier—"less stiff-necked", as she puts it. All have far more choice when it comes to picking a marriage partner than their parents knew: two of the women have even married men from another religion. The old-fashioned marriages that they see on television and in films seem deeply peculiar. "It's a different world," one says.

Marriage is a central institution in all societies. In India it often seems more important than anything else. Witness the extravagant, days-long weddings, the lavish gifts of saris and jewellery, and the columns of spouse-wanted ads in newspapers—or just watch any Bollywood romantic comedy. Yet marriage in India is also changing, in ways that are liberating and exciting but also often confusing.

Nearly all Indian women marry by their late 20s, and births out of wedlock are vanishingly rare. Marriages are almost always arranged. Dowry payments are widespread. About 90-95% of the time Hindus marry within their broad caste group. But if the basic rules of the game are fixed, the style of play is different these days.

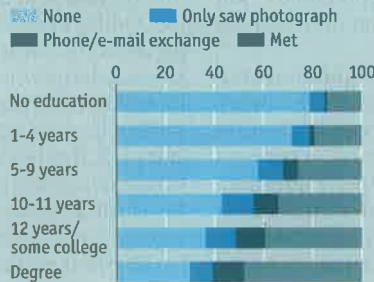
Gourav Rakshit, the chief executive of a popular website for seeking marriage partners, Shaadi.com, spies a subtle but momentous change. It used to be that parents

and older siblings drove the matchmaking process, he says, lining up potential partners whom the spouse-to-be might veto. These days the offspring tend to be in charge of finding their own partners, but parents may veto them. "What has not changed is that marriage is a family decision," he explains. "What has changed is who is driving the process."

Fully 73% of the profiles on Shaadi.com have been put there by people who are seeking partners for themselves, not by their parents or brothers. These days most new users (about 12,000 to 15,000 people sign up each day) access the website via smartphones. Those phones, which are bringing the internet to millions of new users, are themselves changing the matchmaking process. Tech-savvy Indians can now find out all about potential partners

Blind dates

Wife's pre-marriage contact with husband
India, by education, 2011-12, %



Source: India Human Development Survey

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by tracking their digital traces through social media, or just by texting and telephoning. Parents need never know.

If small numbers of highly educated urbanites were becoming more individualistic, it would be little more than an interesting wrinkle in Indian life. However, the change is much more widespread than that. To begin with, this group is no longer small. Fully a quarter of young Indians were in tertiary education in 2013, according to the World Bank, up from 11% a decade earlier. Education and control over marriage go together (see chart).

And it is not just the wealthy who see marriage differently. The teenagers who live in Dharavi, a long-established slum between two railway lines in Mumbai, feel themselves to be just as culturally distinct from rural Indians as the technology workers do. Young men from Dharavi sometimes marry village women, who come to live with them. Asked about this, one teenage slum girl launches into a wicked impersonation of a rural bride, all *namastes* and scraping deference to her husband. (A Muslim boy is more equivocal: Mumbai girls know how to handle technology, he says, but rural girls know how to handle mothers-in-law.)

Although caste is still powerful in Dharavi, it is gradually giving way to the money god. Teenage boys insist that good jobs—government jobs especially—are now more important, both for snagging good partners and for asserting control over marriage decisions. One of the boys, an orphan, has a girlfriend and wants to marry her. Her parents object to his caste, but he reckons he can wear down their objections by finishing his education and getting a better job.

Dipankar Gupta, a sociologist at Shiv Nadar University, says that caste is crumbling as India urbanises. Nearly a third of Indians now live in cities or towns, while villages are tied increasingly to urban

economies. The village bosses who enforce caste rules have less power than they did. Some north Indian village elders have chosen to relax the rules anyway, because so many single men are in search of wives—a consequence of sex-selective abortions. Caste is now less an institution than a mess of prejudices about the superiority of one's own group.

Popular culture is driving change too. In parts of Dharavi the greatest hazard for a pedestrian is not the open sewer beneath your feet but the tangle of wires around your head. Many of these wires carry cable-television signals. They transmit soap operas and movies which often depict the struggle between love and tradition. Though these seem stuffy to the upper middle classes, they can be a revelation to the poor. Nayreen Daruwalla of SNEHA, a Mumbai charity, has heard women complain that their husbands do not sing to them, as men do in Bollywood films.

One big thing stands in the way of fur-

ther change, says Sonal Desai, another academic. Indian parents still assume they will live with their sons. That explains why they exert so much control over marriage: they are in effect choosing a cook and a future carer. Yet this too is beginning to weaken. Ms Desai conducted a huge survey of Indians in 2011-12, which found that 77% of women over 60 lived with their married children—still a big proportion, but lower than the 83% who did so in 2004-05. Small houses and high-rise flats are shooting up in Indian suburbs, suggesting the share is going to fall further.

Indian marriage still looks very different from the Western kind (which is changing too). Yet prosperity and technology are eroding tradition. People Group, which owns Shaadi.com, even invested in a dating app earlier this year. Such apps, which were unimaginable in India until recently, have not taken off yet. "The guys are all keen," says Mr Rakshit, "but the girls aren't there yet." ■

Pakistani politics

Upsetting the apple cart

KARACHI

A crackdown on gangs in the country's most populous city threatens to upend national politics

A YEAR or two ago only a handful of customers would brave a trip to Muhammad Arshad's shop in Karachi's jewellery quarter. They were highly likely to be robbed of cash on the way in or of purchases on the way out. Now, Mr Arshad says, business is up by 70% thanks to an army-directed crackdown in Pakistan's commercial hub by a paramilitary force, the Rangers, who are not shy of brutal tactics. Their operations have led to a sharp fall in serious crime. But not only kidnapers and murderers are feeling the heat in a city rife with criminality. So are two of the country's biggest political parties.

The Rangers launched their operations in September 2013, but have recently shifted focus. Scores of people from the Muttahida Qaumi Movement (MQM), which holds nearly all the parliamentary seats in Karachi, have been arrested, have disappeared, or have been bumped off in extrajudicial killings. The party headquarters has twice been raided this year. Attention is now turning to the Pakistan Peoples Party (PPP), in national office until 2013. On August 26th Asim Hussain, a former minister who owns one of Karachi's best hospitals and is a close associate of a former president, Asif Ali Zardari, was arrested under new terror laws.

The Rangers' actions are popular; Karachi has long needed cleaning up. The MQM

has run a huge and violent criminal racket in the city alongside its political wing. Mr Arshad dares not name the heavies who would demand payments of up to \$10,000 from shopkeepers every few months. But, operating street by street, the MQM had become a master of the extortion game. The PPP too has links to the underworld through its fief in Lyari, a troubled slum in the heart of the city where both politics and business are dominated by a gang al-

lied to the party. Public anger is strong over allegations that PPP leaders have used control of the Sindh provincial government to enrich themselves.

Both parties are grappling with long-term decline. The MQM's once-unassailable grip on urban Sindh is melting as its base of "Mohajirs"—descendants of Muslims who moved from India in 1947—is being challenged by a fast-rising Pushtun population with their own political leaders. Altaf Hussain, who rules the MQM from self-imposed exile in London, is a subject of inquiry in investigations into alleged money-laundering and murder being carried out by British police. Some within the party regard him as a liability. As for the PPP, it has a well-deserved reputation for incompetence and no charismatic leader to compare to Benazir Bhutto, Mr Zardari's wife, who was assassinated in 2007. Since its electoral defeat in 2013 the party has shrunk from a national movement to being the voice of rural Sindh.

Crackdowns on political parties are not new: in the 1990s the MQM weathered an operation that at times descended into urban warfare. But the politicians are cornered as never before. The Rangers, unlike the police, are not under their control, but the army's. The corruption probes cannot be dismissed as partisan politicking.

Both Mr Zardari and Mr Hussain have lashed out at the army, threatening to expose its corruption. But its head, General Raheel Sharif, is wildly popular—not just for actions in Karachi but because he has declared war on the abhorrent Pakistani Taliban. The two men are now turning their ire on the prime minister, Nawaz Sharif (no relation of the general).

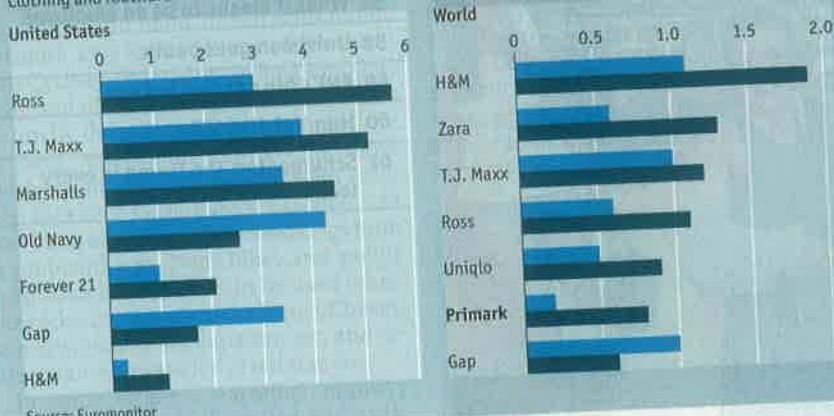
On August 31st Mr Zardari threatened to renounce his party's informal mutual non-aggression pact with Mr Sharif's Pakistan Muslim League-N (PML-N), in place since the two parties joined hands a decade ago against the former military rule of General ▶▶



The Rangers take charge

Never mind, the Gap

Clothing and footwear retail market share by brand, % of total



Source: Euromonitor

“Consumers shop at Primark differently than they shop at a lot of retailers,” says Bernstein’s Jamie Merriman. “It’s almost like shopping at a Costco,”—which sells buckets of peanuts and vats of detergent—“where you’re thinking about it in terms of volume.” H&M sells an annual average of £3,400-worth of clothes per square metre in Britain, according to Bernstein. Primark sells £5,300-worth.

There are a few threats to this model. Primark may find, as Tesco has recently done, that breaking into America is no walkover for foreign retailers. Two markets that appear so similar may prove to have unexpected differences. Indeed, Target, a once-soaring American retailer of clothes and other goods, has recently had to retreat from Canada on discovering that its formula just didn’t fly north of the border.

Then again, Primark’s ultra-cheap prices could prove as tempting in the United States as they are elsewhere. The same young Americans who have flocked to Forever 21, another seller of affordable, trendy gear, may now come rushing to Primark. An early sampling of Primark’s American product line-up showed that goods were 22% cheaper than similar fare at Forever 21.

Another possible problem is Primark’s online business, or lack of it. Its prices are too low to justify the shipping costs of e-commerce. If consumers in America and elsewhere switch in large numbers to buying clothes through, say, social networks and messaging services, Primark might get left behind.

Other concerns pose a challenge not just to Primark but to its peers too. A culture of disposable fashion rattles environmentalists. Americans threw away 11.1m tonnes of clothes and shoes in 2013. That amounts to 4.4% of the country’s rubbish, more than twice the share in 1990. Just as worrying are the conditions in which cheap clothes are made. In 2013 more than 1,100 people were crushed when a factory complex collapsed in Bangladesh. The victims included workers stitching clothes for Primark.

The company has paid \$14m to victims’ families. It is one of many firms to have signed an agreement to promote safety at textile factories.

The sad truth, however, is that most consumers soon forgot about the tragedy. In 2014, the year after the factory collapse, Primark’s sales jumped by more than 20%. It will take some stopping. ■

Employers in America

Work to rule

Judges and regulators ponder what it means to be an employee

EVERY few decades there is a sea change in the rules governing labour relations in the United States. In the 1930s Franklin Roosevelt shifted the balance of power towards labour. In the 1980s Ronald Reagan shifted it back towards employers. Two new legal rulings raise the possibility that the balance of power is changing again.

On August 27th the National Labour Relations Board (NLRB) ruled that Browning-Ferris Industries, a Californian recycling company, was the “joint employer” of people hired by one of its contractors, thereby obliging it to engage in collective bargaining with the Teamsters union. On September 1st a federal judge allowed a class-action lawsuit to proceed against Uber, a taxi-hailing service, in which three drivers argue they should be treated as employees.

The NLRB, which has a 3-2 Democratic majority, has been getting more assertive since 2011, when it issued a (still ongoing) complaint against Boeing for transferring an aircraft production line to a non-union factory. It is currently mulling a ruling that could define McDonald’s as a joint employer of staff in its franchised restaurants. In June FedEx agreed to pay \$228m to settle

a court case brought by Californian drivers who complained of being misclassified as contractors. In the same month an Uber driver won a ruling from California’s labour commission that she is an employee (Uber is appealing).

These cases all have a single big question at their heart: what does it mean to be an employee in modern America, with its extensive use of contractors and franchisees, and armies of temporary workers? If rulings go against them, firms like McDonald’s may have to reconsider their business models. Those in the “on-demand economy”, which help freelancers provide rides, cleaning services and food delivery, may face higher costs and less flexibility.

The cases come amid discontent at growing inequality and wage stagnation. And the backlash is already having an effect. Some on-demand firms, such as Luxe, a car-parking service, and Instacart, a delivery outfit, are reclassifying their freelancers as employees. Homejoy, a cleaning service, blamed its decision to shut down on uncertainty over labour laws.

Whether there will be a wholesale shift is more doubtful. The Democrats are not united behind radical re-regulation of labour markets, as they were under FDR. Barack Obama has left it to the NLRB to make the running; and Hillary Clinton has stuck to mouthing platitudes. The Republicans, who are likely to control the House for the foreseeable future, are deeply opposed to change, and are plotting legislation to overturn the Browning-Ferris decision.

Both FDR and Reagan worked with the grain of economic change: FDR’s policies were suited to an age of big employers and big unions; and Reagan’s chimed with an age of flexibility and enterprise. Jerry Davis of the University of Michigan’s Ross School of Business notes that in the days when far more people worked in manufacturing, and a few workers could close down an entire assembly line, the advan-



Not everyone’s favourite ride