among the world's highest, is also beginning to fall as the population ages and the elderly draw down some of their accumulated wealth. Household consumption as a share of GDP fell to 35.9% in 2010, unusually low even by Asian standards, but has since been clawing its way up.

A generational shift has helped. For older Chinese, the experience of deprivation in Mao's day inhibits spending. At Global Harbor on a Sunday afternoon, those carrying shopping bags or queuing up at restaurants are overwhelmingly in their 20s and 30s. "Our parents are very careful but we want to have more of a balance in life," says Lulu Yu. A legal assistant out with her boyfriend to watch a film, she is the picture of a fully grown consumer. Sporting fashionably tinted hair and contact lenses to make her eyes appear bigger, she dangles new high heels from her arm, an impulse purchase on the way to the cinema.

Does this mean that Chinese shoppers are poised to become an engine of the world economy, like their fabled American counterparts? In some ways this has already happened. The number of Chinese tourists going abroad rose by 19.5% last year to 107m. What's more, Chinese tourists spend more than others, snapping up goods that are cheaper abroad. All this makes China the world's biggest source of tourism dollars (see chart on previous page). In South Korea and Thailand, the increase in spending by Chinese tourists in 2011-14 made up for the fall in exports to China over the same period, according to Capital Economics, a research firm.

But even if Chinese consumption remains healthy, it will not be a cure for ailing global growth. The commodity-exporting countries whose fortunes have hinged on China over the past decade stand mainly to lose, since they produce little in the way of consumer goods that appeal to Chi- ▸▸

Buttonwood | Greys' elegy

Demographic change will have big economic impacts

THE population of the developed world is ageing. Everyone knows that it is happening but no one is sure what it will mean. A new paper from Morgan Stanley, part-written by Charles Goodhart, a former member of the Bank of England's rate-setting committee, suggests there may be dramatic economic impacts.

In particular, the paper suggests that the greying population may reverse three long-term trends: a decline in real (inflation-adjusted) interest rates, a squeeze on real wages and widening inequality. That is because those trends were driven by previous demographic shifts; first, the entry of the baby boomers into the workforce after 1970 and second, the more than doubling of the globally integrated workforce as China and eastern Europe joined the capitalist system.

This rise in the labour force produced downward pressure on real wages. It also led to slower improvements in productivity, particularly in Europe. As Mr Goodhart writes, "As labour cheapens, managers spend less effort and invest less capital in order to raise productivity."

The falling cost of labour also produced downward pressure on the prices of manufactured goods, especially as companies relocated to Asia and eastern Europe. This created deflationary pressures, allowing central banks to ease monetary policy. China's relatively closed financial system and lack of a social safety net created a savings glut that added to the downward pressure on real interest rates. In turn, lower real rates pushed up asset prices which, along with the pressure on wages, added to inequality since financial assets tend to be owned by the better-off.

But population growth in the rich world, which was 1% a year in the 1950s, has fallen to 0.5% and should drop to zero

by 2040. Some countries will see declining populations before then. Crucially, the share of the population formed by those of working age is already starting to fall. Indeed, Mr Goodhart reckons that the ageing population will create additional demand for labour, as illnesses such as dementia will require more care workers. This will start to push real wages higher, raising labour's share of national income and reducing inequality.

Real interest rates balance the desired level of savings with the desired level of investment. The elderly save less and spend more of their income than the middle-aged, as a natural part of the life cycle. But even the middle-aged will not save enough, Mr Goodhart says, either because they underestimate the amount they will need for a comfortable retirement or because they expect to depend on the state.

If that analysis shows that savings are bound to fall, what about investment? In a slow-growing economy, there will be fewer profitable investment opportunities. But Mr Goodhart argues that investment will not fall as fast as savings and thus real rates will rise.

What is his rationale? Most investment by households is in the form of housing. The old are usually reluctant to move out of the homes they bought when middle-aged, even though their children have moved out. This will make it more difficult for families to find the space they need; that means residential investment will not fall significantly. As for investment by firms, rising wages will encourage companies to substitute capital for labour. Corporate investment could rise.

The thesis is vulnerable to other changes in the economy. The labour force could be boosted by greater participation by women and the elderly, or by immigration—although Mr Goodhart does not think these factors will be sufficient to compensate for the effect of ageing. The less educated, for example, find it harder to stay in the workforce beyond 65.

This last point also raises the question of whether inequality will fall as he predicts. Demography has not been the only factor behind widening inequality: many economists point to "skill-biased" technological change as a driving force. Low-skilled workers who can be replaced by computers or robots will be more vulnerable in a world of rising real wages; the computer-literate will still command premium salaries.

The people who would most like Mr Goodhart to be right are probably mainstream politicians. The sluggish performance of real wages in advanced economies, along with the signs of rising inequality, have caused them to lose votes to parties on their left and right. If these trends go into reverse, voters might be a bit more content. But the change might not occur fast enough to save some political careers.

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Women and work

The power of parity

MUMBAI

The world would be a much richer place if more women had paying jobs

JOAN RIVERS, a comedian who died last year, did not let chores get in the way of a career in showbusiness. "I hate housework," she joked. "You make the beds, you do the dishes, and six months later, you have to start all over again."

An escape from unpaid drudgery into paid work seems a distant prospect for millions of women. In South Asia, for instance, women carry out up to 90% of unpaid care work, including cooking, cleaning, and looking after children and the elderly. They are far less visible than men in work outside the home. Women make up less than a quarter of the paid workforce in India and account for just 17% of GDP, a measure of output that excludes unwaged work. By contrast, women contribute 41% of GDP in China.

A new report from the McKinsey Global Institute (MGI), a think-tank, underlines how gender inequality in work and society is itself distributed unequally across the world. The number-crunchers at McKinsey calculated gender-parity scores—gauges of how women fare at work and in society in comparison with men—covering over 90% of the world's population. They reckon South Asia (India excluded) is the global laggard with a score of 0.44 (a score of one represents perfect parity between the sexes). Richer parts of the world do a lot better but are still a long way from complete gender equality. North America and Oceania, the best-ranked region, has a score of 0.74.

It is hard to put a number on the social costs of this but the McKinsey folk take a stab at estimating the loss of economic output that goes with it. Other studies find that countries could boost their GDP by 5-20% if women's participation in the workforce was on a par with men's. But that captures only part of the lost output. Even in rich bits of the world, where women are close to half the paid workforce, they tend to work fewer hours than men and in jobs with lower productivity, not to mention lower pay as a result of pure discrimination. If the gender gaps in participation, hours worked and productivity were all bridged, the world economy would be $28.4 trillion (or 26%) richer, McKinsey reckons (see chart). The potential gains are proportionately greater in places where fewer women are in paid work. India, for instance, could be 60% richer.

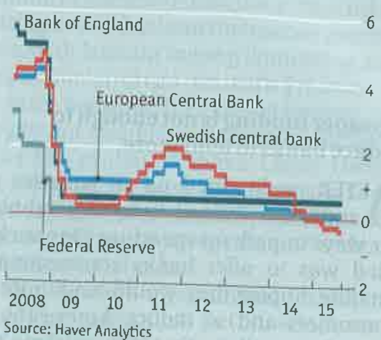
A more realistic target is for countries to close their gender gaps at the rate achieved by the country in their region with the best recent record in this respect. That would add $12 trillion to global output by 2025, according to McKinsey's calculations, other things being equal (which they almost certainly will not be).

The policies that would quicken a closing of the gender gap at work, such as keeping girls at school for longer and providing better legal protections for women, are in the gift of government. Women whose level of education is on a par with men are more likely to find well-paid jobs in technical professions. They are also more likely to share unpaid work more equitably with men—or, at least, to be able to claim, as Rivers did, that the dullest chores can wait for another six months.

bal growth over the past few years are faltering—a development that would further impede the recovery in the rich world.

The received wisdom among policymakers since the crisis is that central banks needed another tool in order to keep financial conditions, as well as prices, stable. Interest rates, buttressed if necessary by unconventional measures such as quantitative easing, would continue to be used for macroeconomic purposes. Meanwhile new "macroprudential" policies, such as requiring banks' capital buffers to vary with the business cycle, would be used to prevent financial excess.

However, the new macroprudential tools are untested and some fear that they may be too feeble to work effectively. In particular, the Bank for International Settlements (BIS) in Basel, a forum for central



banks, advocates higher interest rates to tame financial excesses. In June, it repeated its call for policy to focus less on short-term economic objectives.

The IMF, which counselled the Fed not to raise rates before its meeting this month, takes the opposite view. The IMF's staff admit that raising interest rates to stave off financial calamity might eventually lessen financial risks by forcing households and firms to reduce their debts and by getting banks to behave more cautiously. But the immediate effect of higher interest rates would be to intensify financial risk, by raising borrowing costs even as weak demand curbs household earnings and corporate profits. Banks would also become riskier in the short term as asset prices fell and bad debts piled up.

The fund's staff highlight the central difficulty in using conventional monetary policy to reduce financial risk: the immediate costs are likely to outweigh the longer-term and uncertain gains, unless the crisis that is thereby forestalled is severe. But crises as big as the one in 2008 are thankfully rare. It would be unwise to direct monetary policy to ward off lesser financial upheavals, in the light of evidence suggesting that even quite large rises in interest rates would make them only a little less likely over the medium term. And if the effect of such tightening were to foster overly low inflation expectations or even to produce a deflationary mindset, that could work against financial as well as price stability by raising the real burden of debt.

The IMF's paper is relevant but it will not settle the debate, not least since the present set of circumstances is so unprecedented. One fear is that the longer interest rates are held at emergency lows, the greater the potential for trouble when they do eventually go up. Several financial markets are distinctly frothy; some worry that the biggest bubble of all is in the one that is supposedly least risky, that of sovereign bonds. But the fund's conclusions will nonetheless be useful ammunition for those arguing that the risk of raising rates now is too great. ■

Free exchange | Hard-nosed compassion

Cash transfers, rather than handouts in kind, would help aid to refugees go further

THERE are 20m refugees worldwide, most of them children. Some 1.6m Syrians live in Lebanon; even more in Turkey. Humanitarian agencies struggle to meet their basic needs. In July the World Food Programme (WFP) cut assistance to refugees across the Middle East, saying that its regional operation was 81% underfunded. One way to make scarce aid money go further, argues a report* released this month by the Overseas Development Institute and the Centre for Global Development (CGD), two think-tanks, is for donors to give less in kind and more in cash.

Many developing countries hand cash to needy citizens to help them escape poverty. But less than 6% of humanitarian aid last year came in the form of cash. One concern is that refugees, like others in desperate circumstances, may not spend the money well. That's because the stress of poverty engenders a "scarcity mindset", as Sendhil Mullainathan of Harvard University calls it, which can lead to bad decision-making, in part through the overvaluation of present benefits over future ones. Abhijit Banerjee and Esther Duflo of the Massachusetts Institute of Technology cite the example of poor Indians, who often say it is hard to resist buying sugary tea, a costly treat that brightens up dark days but is not nutritious. In theory, giving refugees aid in kind ensures that they are supplied with the goods and services they really need.

Sadly, aid agencies can be even worse at deciding how best to spend their limited resources than the refugees themselves. They typically send a surfeit of some items, and not enough of others. A study by REACH, a UN initiative, found that 70% of Syrian refugees in Iraq had traded handouts from aid agencies for cash, including as much as two-thirds of the rice they received.

Moreover, even if aid in kind does successfully address one debilitating aspect of poverty, by improving decision-making, it may worsen others. Refugees, in the jargon of welfare economics, suffer from a lack of "capabilities". They are typically deprived of many attributes of a decent life, including social acceptance and the right to express themselves politically. Obtaining handouts from aid agencies, which usually involves waiting in long queues in public, is a source of shame for some. Aid in cash, in contrast, can boost refugees' capabilities. It can be dispensed discreetly, especially with the use of pre-paid cards, points out Owen Barder of the CGD, one of the report's authors. With cash in their pockets people can participate in the life of the community, since they can do things—repay debts, host others and contribute to ceremonies—that aid in kind does not allow.

The question of cash v handouts sparks macroeconomic debate, too. One concern relates to "Dutch disease", a term coined by *The Economist* in 1977, to denote an influx of foreign money that leads to an appreciation of the receiving country's currency. That, in turn, makes exports less competitive. In a paper published in 2009, Arvind Subramanian and Raghuram Rajan, both then of the IMF, found that in the 1980s and 1990s the more aid a country received, the less growth it saw in export-oriented industries. The inflation sparked by the influx of cash can also push the price of basic goods—food and rent, for instance—out of the reach of the host country's host population, fostering discontent.

But giving cash to refugees need not lead to Dutch disease. First, the number of refugees in most countries is tiny relative to the host population. Even in places with lots of them—in Lebanon, about one person in four is a Syrian refugee—an influx of foreign money is unlikely to be a disaster. From 2011 to 2014 humanitarian aid to Lebanon (in cash and in kind) was equivalent to just 1.3% of Lebanese GDP, estimate Mr Barder and Theodore Talbot, also of the CGD. Although an influx of cash may lift inflation, it may also create jobs and growth in the receiving economy.

Second, the alternative—aid in kind—has its own macroeconomic consequences. As goods and services flood in from abroad, local businesses may suffer. One paper, from three wonks at the University of San Francisco, looked at TOMS, a firm that gives a free pair of shoes to a poor child for every pair sold to those of greater means. Those who received shoes from TOMS, naturally enough, were less likely to buy a pair of their own, harming the local shoemaking industry. Other studies suggest that food aid reduces local commodity prices, to the detriment of domestic food producers. (Procuring handouts locally gets around this problem: of the $1.1 billion-worth of food bought by the WFP in 2012, three-quarters came from developing countries.)

Lighter, faster, harder to steal

The biggest benefits of cash are practical. It is relatively easy to siphon off aid, or rig a procurement contract, but harder to pilfer from electronic transfers. A report on cash assistance to Syrian refugees in Lebanon by the International Rescue Committee, a non-governmental organisation, found no evidence that it bred corruption. Technology can make things better still. Jordan, which houses 1m Syrian refugees, is the first country to use iris-recognition devices to ensure aid goes to the intended recipients, who can only withdraw it after a scan has confirmed their identity.

Cash is also far cheaper to distribute. America's government has estimated that transport and other overheads eat up 65% of spending on emergency food aid. Aid in cash goes much further. Nearly 20% more people could have been helped at no extra cost if everyone received cash instead of food, according to a study of aid in Ecuador, Niger, Uganda and Yemen by researchers then at the International Food Policy Research Institute.

Cash does have its problems: in times of emergency, when shops are shut, it may be useless. But if those 20m refugees are to have any hope of a decent life, it should play a far bigger role. ■

* Studies cited in this article can be found at www.economist.com/cashorkind15

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