

Authors

Nava Ashraf
London School of Economics and Political Science

Dean Karlan
Northwestern University

Wesley Yin
University of California, Los Angeles

**TYING ODYSSEUS TO THE MAST: EVIDENCE FROM A
COMMITMENT SAVINGS PRODUCT IN THE PHILIPPINES***

NAVA ASHRAF
DEAN KARLAN
WESLEY YIN

We designed a commitment savings product for a Philippine bank and implemented it using a randomized control methodology. The savings product was intended for individuals who want to commit now to restrict access to their savings, and who were sophisticated enough to engage in such a mechanism. We conducted a baseline survey on 1777 existing or former clients of a bank. One month later, we offered the commitment product to a randomly chosen subset of 710 clients; 302 (28.4 percent) accepted the offer and opened the account. In the baseline survey, we asked hypothetical time discounting questions. Women who exhibited a lower discount rate for future relative to current trade-offs, and hence potentially have a preference for commitment, were indeed significantly more likely to open the commitment savings account. After twelve months, average savings balances increased by 81 percentage points for those clients assigned to the treatment group relative to those assigned to the control group. We conclude that the savings response represents a lasting change in savings, and not merely a short-term response to a new product.

I. INTRODUCTION

Although much has been written, little has been resolved concerning the representation of preferences for consumption over time. Beginning with Strotz (1955) and Phelps and Pollak (1968), models have been put forth that predict individuals will exhibit more impatience for near-term trade-offs than for future trade-offs. These models often incorporate hyperbolic or quasi-

* We thank Chana Esharov for collaborating on the field work, the Green Bank of Cebu for cooperation throughout the experiment, John Orens and the USAID/Philippine Microenterprise Access to Banking Services Program team for helping to get the project started, Natha Kojima, Tomoko Haryama, Rocco Lyons and Lauren Smith for excellent research and field assistance, and three anonymous referees and the editors. We thank seminar participants at Stanford University, University of California–Berkeley, Cornell University, Williams College, Princeton University, Yale University, HIES, University of Wisconsin–Madison, Harvard University, Social Science Research Council, London School of Economics, Northwestern University, Columbia University, Oxford University, Association of Public Policy and Management annual conference, and the CEPR Workshop on Dynamic Choice and Experimental Economics, and many advisors, colleagues and mentors for valuable comments throughout the project. We thank the National Science Foundation (NSF SES-0313877), Russell Sage Foundation, and the Social Science Research Council for funding. We thank Sumatra Subensuring, Vo Van Cuong, and Xiaohua Yao at the Asian Development Bank and the PCFC for providing funding for related work. All views, opinions, and errors are our own.

© 2006 by the President and Fellows of Harvard College and the Massachusetts Institute of Technology.
The Quarterly Journal of Economics, May 2006

Tying Odysseus to the Mast: Evidence from a Commitment Savings Product in the Philippines

We designed a commitment savings product for a Philippine bank and implemented it using a randomized control methodology. The savings product was intended for individuals who want to commit now to restrict access to their savings, and who were sophisticated enough to engage in such a mechanism. We conducted a baseline survey on 1777 existing or former clients of a bank. One month later, we offered the commitment product to a randomly chosen

subset of 710 clients; 202 (28.4 percent) accepted the offer and opened the account. In the baseline survey, we asked hypothetical time discounting questions. Women who exhibited a lower discount rate for future relative to current trade-offs, and hence potentially have a preference for commitment, were indeed significantly more likely to open the commitment savings account. After twelve months, average savings balances increased by 81 percentage points for those clients assigned to the treatment group relative to those assigned to the control group. We conclude that the savings response represents a lasting change in savings, and not merely a short-term response to a new product.

May 01, 2006