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Why Don't the Poor Save More? Evidence from Health Savings Experiments

By PASCALINE DUPAS AND JONATHAN ROBINSON

Using data from a field experiment in Kenya, we document that providing individuals with simple informal savings technologies can substantially increase investment in preventative health and reduce vulnerability to health shocks. Simply providing a safe place to keep money was sufficient to increase health savings by 66 percent. Adding an earmarking feature was only helpful when funds were put toward emergencies, or for individuals that are frequently taxed by friends and relatives. Group-based savings and credit schemes had very large effects. (JEL C93, D14, D91, H12, O12)

In developing countries, the returns to many types of investments in human or physical capital appear to be high, yet investment levels remain quite low. For example, it has been estimated that 63 percent of under-five mortality could be averted if households invested in readily available preventative health products (Jones et al. 2003). Why don't people make these investments? While credit constraints are the most obvious culprit, and while recent evidence does suggest that relieving credit constraints can increase investments in bednets (Tarazi et al. 2013) or clean water connections (Devoto et al. 2012), the up-front costs of many preventative products (such as bednets) are not massive. Households should be just as able to gradually save up for such investments as to take out loans and gradually pay them back.

To understand why the poor are constrained in their ability to save, we designed a field experiment in rural Kenya in which we randomly varied access to four innovative saving devices which differed in the degree of commitment they offered. One saving technology offered only a secure place to put money, but did not provide any commitment to make deposits or limit withdrawals. Thus, the product provided only a very soft form of commitment through labeling (a form of mental accounting). Two other products offered stronger commitment through earmarking (the money saved could only be used for the proscribed purpose). A final product, in addition to earmarking, offered credit as well as a social commitment to make regular

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