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The Persistent Power of Behavioral Change: Long-Run Impacts of Temporary Savings Subsidies for the Poor[†]

By Simone Schaner[*]

I use a field experiment in rural Kenya to study how temporary incentives to save impact long-run economic outcomes. Study participants randomly selected to receive large temporary interest rates on an individual bank account had significantly more income and assets 2.5–3.5 years after the interest rates expired. These changes are much larger than the short-run impacts on experimental bank account use and almost entirely driven by growth in entrepreneurship. In contrast, interest rates on joint accounts and modest cash payments did not significantly impact long-run economic outcomes. (JEL C93, D13, D14, D90, G21, I32, O12)

Despite recent progress, approximately 700 million people still live in extreme poverty (Cruz et al. 2015). As such, understanding how to help poor families grow their incomes remains a top policy priority. At least some individuals in the developing world seem to have the potential to do this on their own: recent studies have found very large, on the order of 5–30 percent per month, marginal returns to capital among microenterprises in contexts as varied as Sri Lanka, Ghana, India, Mexico, and Uganda.[1] Other researchers have documented individuals regularly revolving debt at interest rates as high as 10 percent per day (Aleem 1990; Ananth, Karlan, and Mullainathan 2007; Banerjee and Duflo 2007), while Schofield (2014) finds a 75–225 percent (financial) return to caloric

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