

Authors

Dean Karlan
Northwestern University

Aishwarya Lakshmi Ratan

Jonathan Zinman
Dartmouth College



Review of Income and Wealth
Series 60, Number 1, March 2014
DOI: 10.1111/riw.12290

SAVINGS BY AND FOR THE POOR: A RESEARCH REVIEW AND AGENDA

BY DEAN KARLAN

*Yale University, Innovations for Poverty Action, Abdul Latif Jameel Poverty Action Lab at MIT,
and NBER*

ASHWARYA LAKSHMI RATAN*

Yale University and Innovations for Poverty Action

AND

JONATHAN ZINMAN

*Dartmouth College, Innovations for Poverty Action, Abdul Latif Jameel Poverty Action Lab at MIT,
and NBER*

The poor can and do save, but often use formal or informal instruments that have high risk, high cost, and limited functionality. This could lead to undersaving compared to a world without market or behavioral frictions. Undersaving can have important welfare consequences: variable consumption, low resilience to shocks, and foregone profitable investments. We lay out five sets of constraints that may hinder the adoption and effective usage of savings products and services by the poor: transaction costs, lack of trust and regulatory barriers, information and knowledge gaps, social constraints, and behavioral biases. We discuss each in theory, and then summarize related empirical evidence, with a focus on recent field experiments. We then put forward key open areas for research and practice.

JEL Codes: D13, D91, G51, O16

Keywords: poverty, randomized evaluation, savings

1. INTRODUCTION

Savings mobilization is critical for individual and societal welfare. At the individual level, savings help households smooth consumption and finance productive investments in human and business capital. At the macroeconomic level, savings rates are strongly predictive of future economic growth.

Note: This paper was developed as a guiding white paper for the Yale Savings and Promotes Research Fund, supported by the Bill and Melinda Gates Foundation, and with support from UNU-WIDER, based on a lecture at the 2011 Poverty and Behavioral Economics Conference. We are grateful to Jessica Goldberg, Jake Kennell, Daniel Ruckliffe, and two anonymous referees for their helpful comments. We would like to acknowledge Christian Marshall's contribution to initial discussions around the key themes of the paper, and Anne Valour's contribution to the behavioral biases section. Angela Garcia Vargas, Sarahjane Phelan, and Gregory Dohbet provided excellent research assistance at different stages of this project. We thank Kari Kanher for making us write this paper. All errors are our own.

*Correspondence to: Aishwarya Lakshmi Ratan, Director, the Global Financial Inclusion (GFI) Initiative, Yale University & Innovations for Poverty Action (IPA), 27 Hillhouse Avenue, Economic Growth Center, Room 37, New Haven, CT 06511, USA (aishwarya.ratan@yale.edu)

© 2014 UNU-WIDER. Review of Income and Wealth published by John Wiley & Sons Ltd on behalf of International Association for Research in Income and Wealth.
This is an open access article under the terms of the Creative Commons Attribution-NonCommercial-NoDerivs License, which permits use and distribution in any medium, provided the original work is properly cited, the use is non-commercial and no modifications or adaptations are made.

Savings by and for the Poor: A Research Review and Agenda

The poor can and do save, but often use formal or informal instruments that have high risk, high cost, and limited functionality. This could lead to undersaving compared to a world without market or behavioral frictions. Undersaving can have important welfare consequences: variable consumption, low resilience to shocks, and foregone profitable investments. We lay out five sets of constraints that may hinder the adoption and effective usage of savings products and services by the poor: transaction costs, lack of trust and regulatory barriers, information and knowledge gaps, social constraints, and behavioral biases. We discuss each in theory, and then summarize related empirical evidence, with a focus on recent field experiments. We then put forward key open areas for research and



practice.
March 01, 2014