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How Much Does Having a Bank Account Help the Poor? An Investigation with Instrumental Variables

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ABSTRACT

Having a bank account is widely regarded as the first step towards financial inclusion of the poor, as funds deposited in a bank account is expected to lead to higher savings. However, the existing literature on the savings potential of new bank accounts for the poor usually stops short of investigating whether the savings are produced by the bank account or the poor is not synonymous to using it. Therefore, we measure the impact of being paid at bank on the investment in education. We use data from existing studies which have used field experiments with a limited sample size and a one-time payment to subjects of the experiments. In order to ensure generalizability of our findings, we use a large nationally representative sample and repeated wage payments to the poor. Our empirical tests exploiting special features of the National Rural Employment Guarantee Scheme (NREGS) of India indicate that the beneficiary households (recipients of NREGS wage payments through bank accounts) spend significantly less than their counterparts (cash payment recipients) on education, arguably the most important human capital development investment for the poor. The results are consistent between standard OLS and instrumental variable estimates designed to correct for omitted variable bias in OLS tests. Our tests for other discretionary and non-discretionary expenses provide corroborating evidence.

KEYWORDS bank account; education; Instrumental variable

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