ECONOMICS, LABOR & BUSINESS

KEY TO PROSPERITY

THE SOURCE: "Why Don't the Poor Save More? Evidence From Health Savings Experiments" by Pascaline Dupas and Jonathan Robinson, in ***The American Economic Review***, June 2013.

IN THE DEVELOPING WORLD, A LITTLE SPARE cash goes a long way. Chlorine tablets, mosquito nets, and other products that save lives are well within reach for all but the poorest of the poor, as are many other goods. So it's something of a puzzle that many people fail to save up for such things.

A few years ago, economists Pascaline Dupas of Stanford University and Jonathan Robinson of the University of California, Santa Cruz, headed to rural Kenya to see if they could figure out how to change that. They were armed with the modern theory of "mental accounting," in particular the concept of "labeling": the idea that the psychological act of designating certain savings for a specific purpose can help people resist the urge to splurge and ward off other claims on their money. But they often need help to make it work.

NEWSCOM

Despite great progress, malaria still kills almost 1,500 children every day in sub-Saharan Africa. Many deaths could be prevented by mosquito nets like the one protecting Siama Marjan in Nairobi, Kenya, but the $5 cost is more than many Africans can easily afford.

Dupas and Robinson asked hundreds of Kenyan volunteers to set savings goals—either a specific amount to have on hand for health emergencies or enough cash to buy a particular preventive health good such as a water filter or mosquito net. They assigned the volunteers to one of four different health-oriented savings schemes.

Some volunteers received a padlocked safe box with a key and were allowed to deposit and freely withdraw money for any purpose. Others received a lockbox *without* a key and could ask to have the box opened only after its balance met their savings goal. Members of a third cohort put money into individual savings accounts to be used only for health emergencies. The fourth group made regular contributions to community savings "pots" in which cash was pooled to pay for a water filter or other gizmo for a different member at each meeting.

The outcomes were mixed, but altogether promising, the authors report in *The American Economic Review*. In the course of one year, households that received safe boxes were 14 percent more likely to reach their savings goals than a control group (whose members also set goals but were not assigned savings plans). Households enrolled in the community pots were 13 percent more likely than the control group to hit their targets. But the lockboxes and personal savings accounts didn't help the Kenyans reach their goals at all.

The sums involved were not large. After a year, the average safe box owner had amassed a little more than $4 (though many had also made purchases with their savings during the year).

The safe box and community pot schemes probably were effective because they helped volunteers follow through with labeling, Pascal and Dupas theorize, though there may be an alternate explanation: social pressure. The Kenyans who joined community pots were expected to make contributions at public meetings with their neighbors watching. Just over four-fifths of those who used a box said it enabled them to resist the entreaties of friends or family members who asked for money—and more than 40 percent said it also helped them refuse pleas from their

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The schemes caused some surprising variations in behavior. Although the safe box and lockbox were similar in every way (other than access to deposits), the lockbox users were much slower to start depositing. In fact, the average balance in a lockbox after six months was about half that in a safe box, which is likely why so few lockbox owners met their savings goals. Perhaps they were hesitant to stash too much cash where they couldn't get ready access to it, the authors reason.

All but one of the techniques flopped for "present-biased" people, those who consistently choose instant gratification over long-term gains. Like enthusiastic Americans who buy gym memberships but rarely exercise, these folks (16 percent of the total group) had trouble following through with their savings plans. Only with a public commitment to making deposits in community pots two or three times monthly—and the strong social pressure that came with it—did they increase their savings at all. In these settings, the present-biased participants managed to put away about as much as the others over the course of a year, around $6.50 on average.

Dupas and Robinson don't claim to have solved the pandemic savings problem. After all, schemes that excel in one place may falter elsewhere. But their success in Kenya was not short-lived—two years after the study concluded, nearly half of the participants were still making use of the boxes, community pots, and health savings accounts, and a handful of volunteers had even inspired their neighbors to try them out. ■

THE 10,000-YEAR-OLD ECONOMY

THE SOURCE: "How Deep Are the Roots of Economic Development?" by Enrico Spolaore and Romain Wacziarg, in ***Journal of Economic Literature***, June 2013.

YOUR COUNTRY IS POOR, THE NEOLIBERAL economists tell the people of developing nations, because it's printing too much money, its markets are too heavily regulated, and its taxes are too high. Nonsense, reply their left-wing counterparts. Your country is poor because the government hasn't invested enough money in infrastructure and education, corruption is rampant, and the social safety net is weak.

While such diagnoses may differ in substance, they share an underlying premise: that poor countries lag behind