

**How much does having a bank account help the poor?**  
**An investigation with instrumental variables**

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**Abstract**

A bank account is widely regarded as the first step toward financial inclusion of the poor. Among other benefits, funds deposited in a bank account are observed to lead to higher savings. However, the existing literature does not investigate whether the savings are productively used. Using nationally representative samples, to ensure generalizability of our findings, and exploiting special features of National Rural Employment Guarantee Scheme (NREGS) of India, our empirical tests consistently indicate that households that receive NREGS wages through bank spend significantly less on education than other comparable households that receive cash payment. The findings suggest that the poor face constraints in accessing their bank accounts regularly. Further, such constraints affect discretionary expenses, including educational expenses which are discretionary for the very poor, more than essential expenses such as food expenses. Additional tests for other discretionary and non-discretionary expenses provide corroborating evidence. The results are consistent between standard OLS and instrumental variable regressions designed to correct for omitted variable bias.

Keywords: bank account, educational expenditure, instrumental variable

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