

Remarks on the Social Meaning of Savings of the Poor

Detlef Schwefel, Reiner Leidl

Published in: Development 1987: 2/3, 142-144

Abstract: Mobilization of savings among the poor is an intricate issue. Regardless whether it is conceived as marketing a branching strategy of banks or as an attempt to secure (future) satisfaction of the poor's basic needs in existing and/or coming consumption crises - in the Third World, saving cannot be dealt with as money saving alone. There we have to explore, and to take into account, the social meaning of savings, since negative savings in terms of almost permanent indebtedness of many poor to local money lenders is as widespread as are real savings in kind and assets, be it dried food, ornaments or cattle. When poverty and underconsumption prevail, saving is not only a further postponement of consumption but a reasonable way of life reducing conspicuous consumption and using scarce resources even more efficiently, an important example of which is health promotion behaviour. Saving in pure money terms may lead - contrary to its intention - to an even deeper impoverishment.

Saving has many faces. Webster defines to save as

- to rescue or preserve from harm or danger
- to preserve for future use
- to prevent or lessen
- to prevent loss or waste
- to avoid expense, waste, etc.
- to store up money or goods.

To pick up but one of these definitions and to declare it the only valid one would not be appropriate and sufficient when considering saving, its determinants and its effects. Much more, saving is a social concept, a social reality and a social problem.

In economic terms, saving is sometimes defined as the use of (real) income for future consumption or investment, i.e. as time-lagged consumption. Short-term consumption delays may occur when accumulation is needed to buy e.g. highly priced, durable consumption goods. Mid-term saving is often used for housing and shelter. Unknown-term consumption postponement may be seen as a risk aversion behaviour in view of bad times to come. Long-term consumption delays are usually investments to generate a surplus for future consumption.

This simple picture has, however, to be rewritten in the context of poverty. Underconsumption is widespread as are negative savings to pay back for earlier (necessary) consumption, e.g. to local money lenders. Even savings aimed at reducing the risks of future consumption crises may increase the existing consumption crisis which is often perpetuated and reinforced by excessive indebtedness, i.e. negative savings that can lead to sell, step by step, minor investment goods or (durable) consumer goods. Therefore, we cannot confine ourselves to dealing with positive money saving alone. In such a situation, the pure concept of choice between consuming or saving an income budget is no longer applicable. We have to explore the socioeconomic meaning of saving and to widen our understanding of it, in terms of negative, nominal, real and rational saving for consumption and investment purposes. In an individual as well as in a social perspective, there are types of saving activities that exceed the traditional understanding of saving as non-consumptive use of income, activities which nevertheless contribute to the stock of resources available in the future. These types of saving are of major relevance in subsistence and informal economies, where income often is not sufficient to cover even basic needs.

The investment-oriented saving of poor people may be an especially important issue; yet, in this paper, we have to omit it.

1. Negative savings

In a situation of poverty, negative saving is the point of departure for any realistic analysis of savings. Widespread indebtedness of poor people is a common feature in the Third World countries. The poor produce deficits every month as can be seen from income and expenditure surveys and, more validly, from qualitative case studies. Borrowing is often used to satisfy consumption instead of investment needs, especially in the case of emergencies. Everywhere a tight hierarchical system of more or less informal mini-loans exists, which is based on trust and memory and which can by far exceed the loan conditions in the formal sectors. This system penetrates families, friendships, businesses and villages and is not restricted to the exchange of today's and tomorrow's money but includes goods, services and social relationships as well. Implicit and explicit negative savings forced upon by pricing policies, e.g. of food prices, could be added to this picture of rather scattered assumptions on the problem. Sophisticated research on this topic is still very scarce. It would need promotion.

2. Nominal versus real savings

Income statistics are especially poor for an economic analysis when applied to informal sectors linked with shadow, exchange and subsistence economies. To regard only the (monthly or yearly) money left-overs as (potential) savings (i.e. savings seen as the difference between current income and current expenditure) has a pragmatic appeal but some inconveniences as well; to mention only two points, reserves in kind have to be added and debts subtracted. The first bias could not even be corrected by using (family) expenditure surveys; instead, real living standard research would have to be undertaken, which could show e.g. a stock of mini-production factors or of durable consumer goods that could be sold when needed, as it is reflected in some nutrition surveillance indicators; such sales are a first sign of a coming consumption crisis. Non-cash savings in kind are an important aspect of the problem under consideration.

Let us go further and be provocative: child rearing may sometimes be considered a specific form of sacrifice of present family consumption, made in view of a future security for parental consumption; this, too, is a social facet of real savings. It implies that not only (stored) money or goods may be seen as savings, but also behaviour or activities aimed at securing future consumption.

A fourth aspect of saving may be stored fitness through good nutrition and health in order to be prepared for health crises like infections, which are easier to overcome when well nourished. The reason behind this fourth aspect of real savings is that activities to prevent possible crises in the future may well be labelled as saving, because the expenditure which would have been required to cure and care later has been saved by preceding activities to prevent disease and to promote health. We shall come back to this argument.

Thus, to study the social meaning of saving in the informal sector in Third World countries, we have to look for real savings by applying a blend of social research designs, case studies, behavioural studies as well as health and nutrition surveys, and not only income and expenditure studies to operationalize nominal savings in terms of income minus (consumption) expenditure.

3. Real versus rational savings

The latter two aspects of real savings are introducing a normative concept of 'rational' behaviour: refraining from 'bad' or 'conspicuous' consumption in favour of 'good' consumption is interpreted as saving as opposed to squandering. This is the case when future (level of living) benefits can be

expected from actual behaviour. More generally, savings in the meaning of avoiding future consumption crises can be achieved by present consumption patterns, in the extreme case even without any further reductions in the level of consumption. Hence, substantially 'rational' consumptive behaviour can be looked upon as an activity of saving, since it might help to enlarge human and environmental capital stocks for future consumption. Healthy life-styles or better education (as a precondition for a self-initiated improvement of the standard of living) are common examples for this type of saving.

One purpose of saving is to have a risk remedy at hand when needed. Not to spend all money and save some of it may be one instrument to fulfil this purpose. But it may be a bad advice in times of inflation or in cases where social networks, friendship, good health, power or love are the backbone of a minimal social security. To spend money for fiestas may then be a good advice to achieve the purpose of savings. This contradictory argument refers to the level of the individual. Similar problems may arise when individual activities are linked with societal consequences. Individual saving with the side effects of increased undernutrition or a diminished safety at work may not only lead to later losses in production, but also to an increased use of public goods and services like hospitals. Thus, individual saving may have social costs.

To overcome such dilemmas one has to be naive, i.e. to consider saving only as the difference between current income and current expenditure and forget about all the rest. Or one has to step on a slippery field, where saving is considered a way of reasonable individual and social life, in which one has to deal with e.g. over- consumption, rational consumption and underconsumption and with the efficient use of scarce resources to fulfil present and (near) future basic needs like health and nutrition.

4. Health promotion as a rational saving behaviour

Saving means to generate reserves for the future to overcome crises. To try and minimize the impact of crises could be one aspect of 'preventive saving'. But there are more than this one: Spending money for a good nutrition of the children, not spending money for excessive tobacco and alcohol consumption, spending time for one's physical condition are examples of individual endeavours to strengthen health, to be fitter during ill health and consumption crises. At the social level, prior investment in projects like clean drinking water, environmental hygiene and road safety may later save expenditure for cure and care. In short, rational spending of individual time, energy and money and of public funds is a quite effective and efficient kind of saving.

Let us imagine a family hit by unemployment of the father. The following income reduction may lead, via the distributive patterns of intra-family consumption, to undernutrition and disease of the socially weakest parts of the family, i.e. mostly younger girls and dependent older people. Let us now assume that not unemployment but gambling reduces food consumption for the family. Then, we would not speak of bad luck or misfortune, but of irresponsible behaviour. This reasoning implies that nominal saving in a situation of poverty may have unacceptable side-effects, and that a mobilization of the poor's savings may have, for example, unhealthy consequences for the weakest parts of society. Saving may be unhealthy.

5. The social meaning of mobilization of savings

Poverty is a widespread reality for Third World people. What is the social meaning of mobilization of (potential) savings in such a context? Let us take a rural electrification programme in Sarawak as an example. 64% of the electricity produced is spent for private lighting, 24% for television, 11% for public lighting and 1% for radio. Current monthly expenditures are \$10 for TV, \$4 for light and \$2 for radio. About 30% of the households with electricity bought a second-hand TV for about \$1,000 which include 45% import taxes and 10% other taxes; additionally, an average business profit of 30% can be assumed. These data imply that, in the wake of a rural electrification programme, enormous savings -

at this stage of the economic circulation - were mobilized for the benefit of state and commerce and not for immediate productive use by the local population.

This example points to what the social meaning of mobilization of savings should be: to spend money, resources and energy rationally to satisfy basic needs now or in the near future. In fact, a traditional mobilization of money savings should only be attempted when basic needs have been satisfactorily met.

6. Savings reconsidered

In a rather narrow sense, saving is often defined as the preservation of (real) income for future consumption in later times of need. In a world of poverty and starvation such a definition has little real meaning. Therefore one has to explore the social meaning of savings, the fundamental dimensions of which are resumed in the figure shown.

Negative, Nominal, Real and Rational Savings of the Poor						
purposes/ outcomes of savings	PAST	PRESENT	FUTURE			
	consumption			accumulation		
	past consumption		short-term consumption delay	long-term consumption goods	investment in human capital	insurance against unknown risks
						investment in production technology or other profitable assets
income from a reduction of assets						10
money income	1	2	3	4		8
resources income (goods and services)						6
behaviour/ way of life				5	7	9
1 indebtedness, negative saving 2 smoothening consumption patterns over shorter periods of time (storing food between harvests etc.) 3 shelter, gold, cattle and durable consumer goods, which at the same time could serve as insurance capital (see 6) or profitable assets (see 10) 4 health and education expenditures 5 performing rational consumption patterns avoiding costly risks 6 expenditure for (e. g. , consumption) goods, which could be sold in view of an consumption crisis 7 social security oriented activities, e. g. child rearing behaviour or stabilizing social networks (opposed to non-productive, conspicuous consumption) 8 savings in the traditional economic sense 9 development projects promoting real and rational savings 10 commercial dealing with, e. g. , valuable household goods 11 examples are: expenditure of resources or money for foodstalls, street vendor equipment, rickshas, tools for sandal production						

Savings beyond the non-consumptive use of income comprise a far range of economic activities and individual behaviour, which all can contribute to the future stock of resources. Theoretically, the behavioural elements can be integrated with the traditional understanding of saving as "a non-consumptive use of a flow of resources available per unit of time" by interpreting one's life-time or a society's environment, given within its constraints like genetic dispositions or the amount of exhaustible resources, as a budget-constraint to be consumed or saved in a spell of time. In such a human or environmental capital concept, activities like substantially rational patterns of consumption can easily be attributed to saving, since they clearly shape future budget constraints of (healthy) life or environment.

In the case of the poor, saving must mean a more efficient use of scarce resources in a substantial way, which is to secure the satisfaction of current and future basic needs also employing the economic activities of the informal sector: diversification of production, rehabilitation of subsistence economies e.g. in the form of gardening, establishment of fuel saving stoves or promotion of neighbourhood

kitchens, employment creation, real income transfers in terms of health and nutrition. All these items are examples for more appropriate means of saving in the situation of poverty.

Saving should not be an extraction of mini-surpluses for an unknown and insecure use in the future but should help to widen the ways and strengthen the means which provide minimal security now, and promise a future, for the poor. That is the social meaning of "mobilization of savings" as against the (quite understandable) fear of some people that this concept, if designed in purely monetary terms, entails nothing but the idea to extract even more extensively any mini-surpluses made by the poor for the benefit of the rich.

To avoid this danger we should always monitor the real social effects of money saving, as for instance, for housing purposes. To do this best, we also have to look at its impact on the state of health and nutrition of the weakest parties involved, or the changing conditions of local usury in the context of negative savings. Our plea therefore is for comprehensive approaches of qualitative and quantitative social science research in this field, which never forgets the key question of social research: who loses and who benefits?

Prof. Dr. Schwefel teaches sociology at the Free University of Berlin and is head of the Socioeconomics department of the GSF-MEDIS-Institute, a major public research centre in Munich, and of the WHO-Collaborating Centre for Health Planning and Health Economics. Dr. Leidl is a senior economist at this institute.