Chapter 35
Banks and People in the Development Process:
A District-Level Analysis of the Banking Habits in India

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ABSTRACT
Economic development is crucially an end product of mobilizing dormant savings into the fragrance of a new life - what is commonly called as investment. Banks play a crucial role in this channelization. In an underdeveloped economy like India, there are many traditional avenues of savings (such as gold, land, livestock, real estate, and so on). There may be many motives why people opt for traditional avenues rather than formal banking. The traditional avenues are believed to be more trustworthy and down to earth. The strict rules and stereotyped functioning of the formal banks can make them uncomfortable to the people in the underdeveloped areas. Thus, a huge fund in India is caught in the web of informal banking streams. This chapter seeks to understand how far and to what extent these changes have occurred in India. First, the authors consider a case study from rural India that depicts disparate banking behavior of rural populace. Next, they use district level data on banking habits across all the states of India. The authors first note the pattern and distribution of banking habits of people across the subcontinent. They then try to assess the reasons behind such discrepancy.

INTRODUCTION
Traditional macro economic theory asserts that the key to economic development is the availability of savings. An improvement in savings would release funds that can be invested. In all our standard theories, the synchronization between saving and investment is automatic. In the neo-classical approach, the problem of investible fund is not put forth. In the Keynesian model, the matching between saving and investment is essential. But, this is only in the aggregative sense. Keynesian
equilibrium is determined when demand for investible funds matches the supply, i.e. saving. What these models safely assume is the working of a well-structured banking system, wherein the supply of investible funds is automatically directed towards its demand.

In the modern economy households save while companies invest. It is certainly important that the aggregate saving equates aggregate investment as argued by the Keynesians. But this is half the story. Successful investment requires the collection of disparate savings of the families and its channelization to the investors. In modern parlance, we can designate it as a co-ordination problem. Text book macroeconomics does away with this co-ordination problem by assuming the functioning of a well-established banking system.

The problem became serious when the economists began to study the underdeveloped world. There, more often than not, savings are scattered and often in various static or ‘unusable’ forms (such as gold, properties of the religious institutions, land etc). This view of co-ordination failure is not new to the thinkers outside the hallowed boundary of economics. Francois Bernier was a French traveler who visited India during the reign of the Mughal emperor Aurangzeb. He was of the view that average Indians were very rich. Even a peasant woman used to wear earrings. But, there were little investing activities. People used to bury their valuable treasures under the earth. Thus they lost any chance of being invested and creating income and wealth.

This problem is still prevalent in the current Indian milieu. Lack of or absence of formal saving practices is still there in the country. Huge amount of money are still being saved informally. This huge informal saving is actually belittling the opportunity of capital and wealth creation. It is in turn hampering economic development in the country. In order to spread the banking services to the hitherto uncharted territories as well as to channelize the informal and unused savings in the country to the formal routes, the RBI is now vociferously preaching for ‘financial inclusion’.

In our paper we will try to decipher the reasons behind the lack of co-ordination in the country between savings and investment. In other words, we will try to find out the reasons behind lack of or absence of formal saving or institutional savings habits in the country. We will attempt to unravel the micro level indicators that have any bearing on the formal saving habits or the banking habits of the people in the country.

The paper is divided into 4 sections. Section 2 discusses a case study of disparate banking behavior. Next we consider the basic data that is used in the study as well as the methodology in section 3. The next section takes account of the analytics of disparate savings behavior. In section 5 we conclude.

2. CASE STUDY

In line with our scheme of things, here we incorporate a case study. The case study is based on a socio-economic study conducted by the Post Graduate students of the University of Burdwan in a cultivable area in Bolpur in Birbhum district during February 2013. The study is based on the data collected from 306 households coming from different villages within the Sian Muluk of Bolpur, Srineketan block.

The villagers in this are engaged in various types of semi-skilled and unskilled jobs. This includes working in agriculture, unskilled non-farm labor service, various types of petty businesses, services and others. Among the women there are many who remain as housewives. These people are not all of homogeneous categories. Out of the families surveyed, about 39% are above the official poverty line while 61% are below the poverty line (Table 1).

However, once we come to their source of loans, 16.81% depend on banks. This means about 83% of the total sampled households depend on