

The Role of Risk Taking as Causal Mechanism for Solidarity: Experimental Evidence from Kenya

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Abstract

In this study we experimentally investigate whether solidarity, which is a crucial base for informal insurance arrangements in developing countries, is sensitive to the extent to which individuals can influence their risk exposure. With slum dwellers of Nairobi our design measures subjects' willingness to share income with a worse-off partner both in a setting where participants could either deliberately choose or were randomly assigned to a safe or a risky project. In an innovative application of the causal mechanism framework we study to what extent the overall treatment effect of free project choice on willingness to make transfers originates from an indirect effect acting via a change in risk taking or from a direct effect working through other behavioral channels. We propose three different identification strategies which are based on different assumptions, the validity of which can be mutually tested within our framework. We find that when risk exposure is a choice, willingness to give is roughly 13 percentage points lower compared to when it is exogenously assigned to subjects. Less than one third of this effect results from a change in risk taking. Most of the reduction of solidarity is driven by a change in giving behaviour of persons with the risky project. Compared to their counterparts in the random treatment, voluntary risk takers are seemingly less motivated to share their high payoff with their partner, especially if this person failed after choosing the risky project. This suggests that the willingness to show solidarity is influenced by both the desire for own compensation and attributions of responsibility. Our findings have important implications for policies that possibly interact with existing informal insurance arrangements.

Keywords: Solidarity; risk taking; Kenya; direct effects, indirect effects, causal mechanisms, causal channels

JEL classification:

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