

Authors

Jonathan Robinson
University of California, Santa Cruz

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Limited Insurance within the Household: Evidence from a Field Experiment in Kenya

By JONATHAN ROBINSON

In developing countries, unexpected income shocks are common but informal insurance is typically incomplete. An important question is therefore whether risk-sharing within the household is effective. This paper presents results from a field experiment with 142 married couples in Kenya in which individuals were given random income shocks. Even though the shocks were small relative to lifetime income, men increase private consumption when they receive the shock but not when their wives do, a rejection of efficiency. Such behavior is not specific to the experiment—both spouses spend more on themselves when their labor income is higher. (JEL D14, D81, G22, O12, O16)

Individuals in developing countries are subject to considerable risk but most lack access to formal mechanisms that would allow them to insure themselves against unexpected income shocks. Instead, households tend to use informal systems of gifts and loans to pool idiosyncratic risk. While these informal networks do provide some protection against shocks, they also face substantial problems of asymmetric information and payment enforceability, and existing evidence suggests that inter-household risk sharing networks are rarely, if ever, efficient (for example, see Townsend 1994; Udry 1994; Fafchamps and Lund 2003).

In the absence of effective formal or informal inter-household insurance mechanisms, a natural place for individuals to choose to cope with risk is within the household. Though such arrangements will be somewhat limited because income shocks are likely to be correlated within households, whether these mechanisms are effective in insuring the idiosyncratic risk that remains is an important question. If risk is not insured even within the household, despite the substantial incentives household members should have to insure each other in the absence of other risk-coping strategies, then programs which impact the ability of individuals to cope with risk will

¹Department of Economics, University of California, Santa Cruz, Santa Cruz, CA 95064. (e-mail: jrobinso@ucsc.edu). I would like to thank Olkey Adurofor, Michael Kenney, and Christine Pessen for guidance; Iliana Alicia Aduera, David Adin, Pascaline Dupas, David Evans, Jane Fortson, Filippos Papageorgiou, Tanya Rosenblatt, Laura Schuchter, Alex Spitzer, John Yili, participants in various seminars and conferences, and two anonymous referees for helpful comments. I am grateful to Wille Verdoorn, Anthony Kaim, and especially Ilya Kaplan for excellent research assistance. This project would not have been possible if not for the work of Jack Adika, Daniel Egwa, Alice Kalkate, Nduta Kaimi, Nathan Mwangi, Nathan Njoroge, Pius Njoroge, Selim Obwona, Isaac Ojino, Anthony Oloo, Mithi Ruvanga, and Nathaniel Wamuyu in collecting and entering the data. I thank Alicia Doude of the K-Rep Development Agency for hosting this project in Kenya. Financial support for this project was provided by the Princeton University Industrial Relations Section, the Center for Health and Wellbeing at Princeton University, and the Abdul Latif Jameel Poverty Action Lab.

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140

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