

Solidarity and conditional cash-transfers for risk-exposure

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We investigate a simple solidarity game in which protected agents can provide protection to exposed agents through cash-transfers. In a preliminary stage, subjects earned a fixed cash amount by participating in a real effort task. In the next stage their earning was equally split between a blocked account and a current account. Half of the participants were exposed to an "unfair" background risk: with probability p an exposed subject (E-subject) lost her amount on her blocked account. In contrast, protected subjects (P-subjects) kept the whole amount on their blocked account with certainty. Next, each E-subject was randomly paired with a P-subject, on a one-to-one basis. At this stage each P-subject had to decide about the level of his cash-transfer to the E-subject with whom he was paired. We consider three variants of the cash-transfer institution: (i) *conditional cash-transfer*: each P-subject decides how much to transfer ex ante to the E-subject. The transfer is implemented only if the bad state occurs; (ii) *ex post transfer*: after observing the state of nature, each P-subject decides how much to transfer to the E-subject in case the bad state occurs; (iii) *flexible conditional cash-transfer*: same as (i) but the P-subject is allowed to revise the amount chosen ex ante if the bad state obtains.