

State Dependence and Commitment: Experimental Evidence from Crop Insurance in Uganda

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Abstract :

According to standard economic arguments, state dependence creates the value of flexibility. This paper proposes that it can instead generate demand for commitment when individuals anticipate that future states will distort their decisions. A conceptual framework models two broad channels - state-dependent valuations (e.g., projection bias) and state-dependent decision mistakes (e.g., scarcity effects) - and shows that sophistication about these distortions in the future can generate demand for commitment. We test this prediction in a field experiment in Uganda, where we exclude present bias as a source of commitment demand by design. Farmers are offered pay-at-harvest crop insurance for two seasons and can choose upfront whether to commit to second-season insurance or maintain flexibility. 40 percent of farmers choose commitment. An intervention increasing sophistication raises commitment by 11 percentage points. Additional evidence suggests that both channels matter, with substantial heterogeneity across farmers. Our results highlight the importance of individuals' sophistication about future states for welfare analysis and policy design, particularly in environments with high state variability.