Study shows benefits, downsides of migration within developing countries

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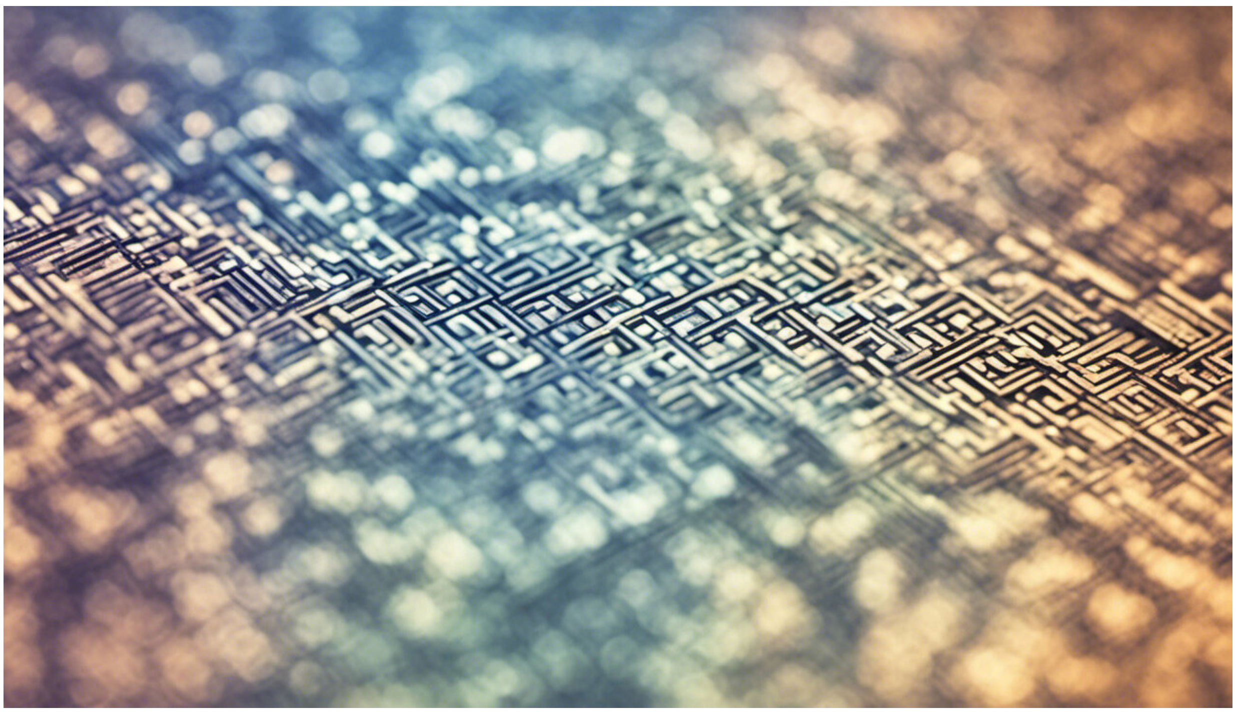

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Migrating within one's own country for a job is largely beneficial for members of poor rural households in developing countries, but it poses a challenge to informal "social safety nets" in those villages, according to new Stanford research.

Melanie Morten, an assistant professor of economics at Stanford University, wrote in a policy brief for the Stanford Institute for Economic Policy Research that the direct effect of migration – increasing the amount of labor resources available – is positive, while indirect effects (such as eroding informal insurance systems in those villages) can be negative.

Internal migration is an increasing phenomenon in the global community, Morten said. The United Nations estimates that one-eighth of all people in the world migrate within their countries of birth, a rate more than four times that of international migration.

In the case of China, each Chinese New Year more than 200 million migrant workers return to their villages to spend time with their families, an annual trek jamming highways and railways, according to Morten. In India, short-term migration for employment is common, as many laborers leave rural villages for cities and jobs in factories and industry.

In the six Indian villages that Morten studied, 20 percent of households are involved in temporary migration for work purposes. For households with a migrant worker, 60 percent of household income comes from migrant work. The research involved survey data from 1976-1978 and 2001-2004, reflecting economic conditions for households and changes over time.

"Migration is increasingly important for rural households in India, and is used as a short-term and temporary way of reacting to economic shocks," Morten said in an interview.

Informal insurance

The economic effects of migration differ in developing countries compared with developed economies, Morten said. One reason is that formal markets for insurance and credit are often absent. Historically, rural households in a country like India have relied on informal borrowing and lending practices – built on trust and familiarity – to help families weather hard times.

"Households often insure each other through complex systems of inter-household loans and transfers," Morten said.

As a result, a farmer might financially help out a struggling neighbor during upswings in the economy. In a bad year, the neighbor might in turn assist the farmer.

Morten studied what happens to this system of "informal insurance" as household members begin to migrate elsewhere for work.

For example, if a farmer's son migrates to a city for work, the farmer could become less reliant on his neighbor for an infusion of cash, she said. This could destroy the reciprocal relationship and the safety-net effect between the farmer and neighbor.

Morten acknowledged that if the migrant son is successful, he could actually help out both households, thereby strengthening this bond of trust.

The study also found that migration is more common when the monsoon season's rainfall is light. And overall, households tend to be more self-reliant, and the informal safety net weaker, when more people are migrating.

Policy choices

Public or government measures addressing household income or insurance in developing countries like India should take into account the full context – both direct and indirect effects – of those policies, according to Morten.

To illustrate this point, she calculated the economic effects of the Indian government's employment guarantee policy, which aims to guarantee the "right to work" in rural areas by annually providing at least 100 days of employment to every household.

"How might an employment guarantee policy change the decision to migrate, and how might it also change the decision to participate in informal risk sharing?" she wrote.

Morten found that households move away from migration toward the publicly provided insurance, and so the net benefit of the program is smaller.

Migration is a way that households respond to risk, so this lessens the effect of the government's policy. In other words, once households receive some money from their migrant workers, they then have some "insurance" against income shocks and they do not need the government policy.

This also causes households to reduce their participation in informal insurance as they now have less need to rely on others in the village, Morten said.

More information: The policy brief is available online: siepr.stanford.edu/?q=/system/ … icyBrief-March15.pdf

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