

Contents lists available at [ScienceDirect](https://www.sciencedirect.com)

## Journal of Economic Behavior and Organization

journal homepage: [www.elsevier.com/locate/jebo](http://www.elsevier.com/locate/jebo)

# Risk aversion, time preferences, and out-migration. Experimental evidence from Ghana and Indonesia

Carina Goldbach<sup>a,\*</sup>, Achim Schlüter<sup>b</sup><sup>a</sup> Department of Social Sciences, Leibniz Centre for Tropical Marine Research (ZMT), Fahrenheitstr. 8, 28359 Bremen, Germany<sup>b</sup> Department of Business & Economics, Jacobs University, Campus Ring 1, 28759 Bremen, Germany

## ARTICLE INFO

## Article history:

Received 12 May 2017

Revised 21 February 2018

Accepted 16 April 2018

## JEL classification:

D03

D81

J60

## Keywords:

Risk aversion

Time preference

Migration

Ghana

Indonesia

## ABSTRACT

It has long been hypothesized that migrants and non-migrants differ in their individual risk and time preferences. Due to a lack of reliable data on migrants' preferences, empirical evidence, however, is scarce. Therefore, this paper has sought to advance research on preferences and migration decisions by using original household survey data from two developing countries that are both characterized by a longstanding tradition in regional migration. In coastal communities in Ghana and Indonesia, individual risk and time preferences have not only been elicited through survey questions but also through experimental tasks with real and relatively large monetary payoffs. There is evidence that out-migrants from both study regions are significantly less risk averse and have a lower time preference than non-migrants. Overall, the results indicate that the considered individual preferences are as important as employment status, education or networks, which have mainly been the focus of migration theories.

© 2018 Elsevier B.V. All rights reserved.

## 1. Introduction

Migration is a powerful demographic force, which is highly interlinked with development in most economies, and there is little doubt that a better understanding of migration decisions supports the effective design of migration policies. Thus, over the last 125 years, economic theories have aimed to explain both internal and international population movements.

Many of these theories rely on the assumption that migration decisions are based on a cost–benefit analysis. The costs and benefits of migration are typically uncertain, which makes migration a rather risky undertaking. In addition, migration costs are generally seen as a mainly irreversible initial investment before any benefits can be reaped in the future (Gibson and McKenzie, 2011). Given the uncertainty involved and the temporal divergence of costs and benefits, it can be easily hypothesized that migration decisions are affected by individuals' willingness to take risks as well as by their time preferences.

While the theoretical argument for the relationship between risk and time preferences and migration is not new, there are only a few studies addressing these relationships empirically (Akgüç et al., 2016; Bauernschuster et al., 2014; Gibson and McKenzie, 2011; Hamoudi, 2006; Jaeger et al., 2010; Williams and Baláž, 2014). Those studies mostly use self-reported preferences, which do not have real economic consequences. Therefore, using preference questions without real monetary

\* Corresponding author.

E-mail address: [carina.goldbach@hochschule-rhein-waal.de](mailto:carina.goldbach@hochschule-rhein-waal.de) (C. Goldbach).

payoffs might cause biased indicators because respondents have fewer incentives to make a cognitive effort to elicit their true preferences and because they may decide to misrepresent themselves—especially when asked about preferences that carry normative values. A monetary payoff, however, will serve as an additional incentive to consider answers more carefully, which will ultimately result in a higher external validity. [Hao et al. \(2016\)](#) were to our knowledge the first study that used an incentivized field experiment in order to elicit risk preferences.

This paper wants to further investigate the link between individual preferences and migration as it is important for policy makers facing a broad range of social and economic concerns to better understand how to anticipate and direct migration flows.

Therefore, this paper aimed to add considerably to the previous migration literature by complementing survey questions with incentivized experiments and by eliciting not only attitudes toward risk but also so far understudied time preferences. While this is already a novel contribution to the scarce literature, this study will also provide additional insights by comparing two different developing country contexts. Therefore, a household survey has been conducted in communities in Ghana and Indonesia—two countries which are both characterized by highly mobile populations. This allows to not focus on the willingness to migrate only but to compare actual migrants with non-migrants. Ultimately, there is robust evidence that out-migrants are significantly less risk averse and have a lower time preference than non-migrants in both study regions. This different composition of migrant streams—not only younger and better educated but likely also more risk-tolerant and patient—will have consequences for both sending and receiving areas.

The remainder of the paper is organized as follows: [Section 2](#) provides a brief summary of the theoretical and empirical literature. [Section 3](#) describes the study sites and data collection. [Section 4](#) focuses on a brief descriptive analysis while [Section 5](#) presents the regression results and robustness checks. [Section 6](#) concludes the analysis.

## 2. Relationship to the literature

Traditional migration theories typically relied on the assumption that migrations are driven by regional wage and income differentials. These early models have not yet considered the role of individual preferences, and uncertainties, e.g., linked to the probability of employment or the costs of migration, were only seen as factors that affect everyone in the same way ([Harris and Todaro, 1970](#); [Todaro, 1969](#)). Lack of empirical support for this theory relying only on geographical differences has resulted in the incorporation of microlevel socio-demographic characteristics ([Becker, 1964](#); [Sjaastad, 1962](#)). A neoclassical model of individual choice emerged, which emphasized that migrants could no longer be seen as a homogeneous group but rather move to places where they can maximize utility, given their personal characteristics ([Massey et al., 1993](#); [Sjaastad, 1962](#)). Heterogeneity between individuals was now seen as an important migration-explaining factor and migration as a highly selective process.

Individual risk preferences as other potentially important determinants of migration were first considered by [Stark \(1981\)](#) who argued that initial risks of individual rural–urban migration are quite high: attempts to work in high-paying sectors may be unsuccessful, jobs in low-paying sectors are vulnerable to market fluctuations and it is possible that rural–urban migrants end up unemployed. Thus, future benefits are considered uncertain, which complicates individual cost–benefit calculations and emphasizes the importance of individual risk aversion in migration decisions. However, it is also assumed that these risks diminish with time and may be lower than typical agricultural risks after an initial high-risk period ([Stark and Levhari, 1982](#)). Therefore, the direct link between risk aversion and migration is ambiguous. On the one hand, risk-averse individuals might be more willing to migrate to reduce their lifelong income-associated risks. On the other hand, the high initial risks and uncertain future incomes might already deter risk-averse individuals from migrating.

Out-migration of an individual, however, might not only be the result of an individual cost–benefit analysis but the result of a household's strategy to diversify risks. The “New Economics of Labor Migration” (NELM) put forward the idea that out-migration of one household member can serve as a strategy to diversify the household's income portfolio and hence to minimize income risks and to overcome market constraints ([Stark, 1991](#); [Stark and Bloom, 1985](#)).

While risk preferences are the most widely considered preferences in the migration literature, there are other preferences that are also likely to impact on migration decisions. [Stark's \(1981\)](#) hypothesis of an individual intertemporal trade-off of risks indirectly also introduces time preferences as a potentially important factor in migration decisions. Migrations are generally associated with a costly and mainly irreversible initial investment—including, for example, transportation, information and psychological costs—before any benefits can be reaped ([Gibson and McKenzie, 2011](#)). Individuals who have a rather long planning horizon and low time preferences are more likely to be willing to wait for lower-risk periods and future benefits to come. Thus, it can be expected that patient individuals with a low time preference are more likely to engage in migration than less patient, more myopic individuals.

Despite the consensus that migration is a risky and intertemporal decision, empirical evidence on the link between risk and time preferences on the one hand and migration on the other is still limited ([Akgüç et al., 2016](#); [Bauernschuster et al., 2014](#); [Gibson and McKenzie, 2011](#); [Hamoudi, 2006](#); [Jaeger et al., 2010](#); [Williams and Baláž, 2014](#)). Studies concerned with this linkage mostly drew on extensive microdatasets, which include questions about the respondent's willingness to take risks. Using the Mexican Family Life Survey, [Hamoudi \(2006\)](#) concluded that risk-averse children are more likely to leave the household while their rather risk-loving siblings remain living with their parents. He argued that parents, as decision-makers, send the more risk-averse off-spring away, as these are assumed to be more trustworthy risk-sharing partners. [Conroy's \(2009\)](#) results, also based on the Mexican Family Life Survey, suggested that risk-averse women are more likely to

Download English Version:

<https://daneshyari.com/en/article/7242517>

Download Persian Version:

<https://daneshyari.com/article/7242517>

[Daneshyari.com](https://daneshyari.com)