

# Relationships between Migration and Development

Gustav Ranis

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## **Social Science Research Council**

One Pierrepont Plaza, 15<sup>th</sup> Floor

Brooklyn, NY 11201

P: +1 212 377 2700

F: +1 212 377 2727

[migration@ssrc.org](mailto:migration@ssrc.org)



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Gustav Ranis | Yale University

Our purpose in this paper is to examine the various impacts of migration on development, but restricting ourselves mainly to a focus on unskilled migrants and their impact on the rural economy from which they have departed. We pay special attention to the somewhat neglected area of domestic migration and remittances but also include consideration of such more heavily traveled subjects as external migration and remittances, the migration of skilled migrants and the broader interdisciplinary dimension of the associated transformation of a society. After briefly introducing the substance of each of our subjects, we present what we consider priority topics for productive research in each area.

We define development in its contemporary broader context, i.e. extending beyond income growth into its distribution and the reduction of income poverty, as well as moving beyond welfare gains measured in income terms, to progress in human development and capabilities. Migration encompasses both the internal as well as the external variety and is viewed as a family rather than an individual decision. Finally, our focus is exclusively on the impact of various types of migration on development in the developing countries.

To date most of the relevant literature has focused on migration from poor to rich countries and the resulting impact on poor country performance. Various types of internal migrations within poor countries and their impact on domestic development have been relatively neglected, even though they are quantitatively significant and are likely to have a qualitatively important influence on outcomes of interest.

In our view, dual economy models and their extensions, provide a helpful framework, in particular for analyzing the latter set of issues and for generating suggestions for useful research. Specifically, such models, from the Physiocrats<sup>1</sup> to the Classical School,<sup>2</sup> revisited by Arthur Lewis<sup>3</sup> and amended by Fei-Ranis,<sup>4</sup> Harris-Todaro,<sup>5</sup> Fields,<sup>6</sup> and Ranis-Stewart,<sup>7</sup> all

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1 Quesnay, F. (1750), "Tableau Economique," Journal of Agriculture, Commerce and Finance.

2 Ricardo, D. (1817), On the Principles of Political Economy and Taxation.

3 Lewis, W.A. (1954), "Economic Development with Unlimited Supplies of Labour," Manchester School of Economics and Social Studies 22 (May 1954):139-91.

4 Fei, J. and G. Ranis (1961), "A Theory of Economic Development," American Economic Review (September).

have the migration of unskilled labor as their basic motive engine. While these are essentially closed economy models, they need to be extended to accommodate critical dimensions of globalization, including external migration and its feedbacks on the domestic economy.

In all these models migration from food-producing agriculture to non-agriculture receives pride of place, and what facilitates migration from agricultural to non-agricultural activities is the generation of an agricultural surplus. For the physiocrats, not concerned with population pressures on scarce land, the movement of labor out of agriculture was towards generating “unproductive” services for the elite, including wars, temples, luxuries, etc. In the classical school of Ricardo *et al* and its resuscitation by Arthur Lewis, with population pressure on scarce land becoming important, it was migration, accompanied by surpluses, mainly towards urban industrial activities which was featured prominently. Fei-Ranis, in distinction to Lewis, emphasized the importance of the possible absence of a sufficiently ample agricultural surplus, i.e., contemplating possible food shortages and resulting inter-sectoral terms of trade problems impeding the smooth rural-urban migration of labor, long before the initial labor surplus is exhausted. Migration to urban areas unaccompanied by the savings out of agricultural surpluses would likely result in urban unemployment or underemployment .

Fei-Ranis also emphasized that, while the agricultural wage was institutionally determined, i.e., resulting from a bargaining process, subject to adjustment over time as agricultural productivity rises, the gap relative to the urban formal sector unskilled wage, inducing migration, was also affected by institutional interventions in the latter sector, including public sector wage-setting, minimum wage legislation, union activity, etc.

One issue that needs to be addressed is whether the departure of the unskilled from food producing agriculture reduces output on the farm and raises agricultural wages or, as at least East Asian historical evidence indicates, in the presence of labor surplus it leaves output and wages unaffected and may even be accompanied by a reorganizational type of technical change in agriculture.

Fei-Ranis, moreover, stressed that migration in the most successful development cases included a pronounced shift towards rural non-agricultural activities (RNA), at least by some members of the rural families,

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5 Harris, J. and M. Todaro (1970), “Migration, Unemployment and Development: A Two-Sector Analysis,” *American Economic Review* (March).

6 Fields, G.S. (1980), *Poverty, Inequality and Development*, Cambridge Press.

7 Ranis, G. and F. Stewart (1999), “V-Goods and the Role of the Urban Informal Sector in Development,” *Economic Development and Cultural Change* (January).

often not requiring the abandonment of the agriculture-based household. Such non-agricultural components of rural household incomes in historical Japan and, more recently, Korea, Taiwan, etc., typically rose from 10% to 60% over time. Even in less successful cases, such as Mexico, as much as 60% of rural family incomes is generated by RNA activities.

Harris-Todaro abandoned the labor surplus assumption, i.e., their agricultural wage was competitively determined, while their urban formal sector wage was once again subject to institutional interventions. However, their main contribution was to emphasize that migrant families were concerned not only with the agricultural/urban wage gap but also with the probability (less than 1) of obtaining an urban formal sector job. Open urban unemployment -- or, more likely, underemployment -- can thus result when, e.g., as a result of agricultural failure or excess migration relative to the generation of savings, more workers migrate than can be absorbed by the urban formal sector.

Fields subsequently emphasized the existence of an urban informal sector where such migrants could be parked, doing something useful and partially supported by earlier-arrived relatives, while waiting for formal sector jobs to open up. Ranis-Stewart, finally, focused on what induces rural-urban migration in this situation. Entry costs are low in the urban informal sector, and being marginally productive there is much preferable to open unemployment since such activities provide for some income without preventing the continuation of the search for a formal sector job. Rural/urban migration is then determined by the gap between the expected rural income and the expected urban income anticipated from the two possible types of urban employment. Migration will continue until incomes (i.e., wage and employment probabilities) in the two urban sectors are in equilibrium with the two types of rural incomes.

Under these circumstances, migration into the urban informal sector will be substantial when average rural income growth is low relative to an urban formal sector experiencing substantial wage growth but limited employment possibilities, as, for example, in Mexico in the 1970s and 1980s. But even when rural income growth is high and urban formal sector income is expanding *pari passu*, migrants may be attracted in excess of formal sector absorption opportunities, as in post-reform China, which initially tried to stem this flow administratively. In contrast, when urban formal sector employment is stagnant or even contracting, as in some Sub-Saharan African countries, rural-urban migration will slow or even reverse itself.

Ranis-Stewart have gone one step further and decomposed the often very large and heterogeneous urban informal sector into two sub-sectors, one a

relatively low income, traditional “sponge-like” sub-sector (reminiscent of a rural surplus labor-shared income situation, with incomes possibly even below rural levels); the other, a more dynamic modernizing sub-sector, with subcontracting (or “putting out”) ties to the urban formal sector, and possibly even generating specialty exports. The dividing line between these two informal sub-sectors and the formal sector is the small size of units (less than 10 workers), their lack of access to formal credit, and their not being subject to minimum wage and other government regulations. The new migration equilibrium thus needs to be modified to allow for the possibility of migrants landing in each of these three urban locations, with open entry mainly restricted to the traditional urban informal sub-sector.

The size of the modernizing urban informal sub-sector over time depends on its own entrepreneurial capabilities as well as on the rate of growth of the urban formal sector and on the latter’s interest in enhancing its competitiveness via subcontracting linkages of the “putting out” variety. Over time, the modernizing urban informal sub-sector is likely to merge into the medium and small-scale industry component of the urban formal sector, while the traditional “sponge” sub-sector will disappear once the rural-urban migration rate has been high enough, relative to the population growth-fed rural labor force, to put an end to the labor surplus condition. At that point the entire economy has completed its transition into a one-sector, relatively full employment neo-classical world. This is essentially what happened in historical Japan, in Korea and in Taiwan in the 60s to 80s period, and such countries as China, Vietnam and Thailand are currently en route. Once again, such open economy dimensions as unskilled labor migration, one-way or circular, and the impact of external remittances, need to be taken into account.

As far as I can tell, relatively little work has gone into analyzing the domestic inter-sectoral financial flow implications for the developmental outcomes we care about with respect to the various types of agricultural/non-agricultural migrations of unskilled workers discussed above. Turning, first, to the implications for development of the migration from agricultural to non-agricultural activities generally, according to both Simon Kuznets and Arthur Lewis, this is most likely to worsen the overall distribution of income since the movement is usually from a more equally distributed sector to a less equally distributed sector. However, as the Taiwan experience has shown, this does not necessarily follow, especially if the movement is to more labor-intensive rural rather than less labor-intensive urban activities.

With respect to all migrations, not only the expected family income gains need to be assessed but also who has the financial ability to move – less of a problem with respect to the migration to RNA. We need to know what are

the family expenditures required in support of migration to any of the aforementioned destinations and what are the factors affecting the size of the future reverse flow of internal as well as external remittances. Moreover, we need to understand the impact of various types of migration and associated remittances on the distribution of income, poverty levels, human development and various capability indicators as well as on the dynamics of overall domestic growth, rural and urban.

Turning to the empirical side of the above domestic rural/urban unskilled labor migration story and the several questions it raises, the following generalizations for each of the major developing regions of the world seem to hold:

1. The migration of agricultural labor into RNA activities, reflected in their rapidly rising share of total rural family incomes, has been most pronounced in East Asia, China and Vietnam, less pronounced in Latin America, and least pronounced in Sub-Saharan Africa where minerals and cash crop exports usually dominate and even displace RNA, i.e., Z-good, activities.

**Research Questions:**

- a. What features of the landscape, such as population density, agricultural output composition (food versus cash crops), education levels, existing infrastructure and government policy interventions play a role here?
  - b. What are the pluses in terms of the avoidance of urban capital and social costs associated with the relative expansion of rural industry and services?
  - c. How does the migration from agriculture to RNA versus urban activities affect fertility levels, overhead and capital requirements?
2. The rate of migration of rural unskilled workers to urban formal sector jobs has been substantially faster than rural population growth in the East Asian “success” countries, leading to their relatively early emergence out of a labor surplus condition and creating only relatively small urban informal sectors en route. The ability to absorb agricultural migrants not only in RNA but also in urban formal and modernizing informal activities meant that the pressure for external migration by unskilled workers was reduced. The absence of a similar pattern can be recorded for Sub-Saharan Africa and for Latin America (with some exceptions, like Costa Rica and Chile).

**Research Question:**

- a. What elements, e.g., domestic R&D, technology choice and rural/urban capital flows have facilitated the rapid absorption of unskilled rural workers by the urban formal sector and the linked modernizing urban informal sub-sector?
3. Migration into the modernizing urban informal sub-sector clearly depends on the size and growth of the system's urban formal sector and the strength of its complementary linkages or competitiveness with the former. Once again, the same regional country line-up is relevant.

**Research Question:**

- a. What factors determine the strength of the complementary relationships or linkages between the urban formal sector and the modernizing urban informal sub-sector, or, alternatively, what causes them to compete with each other? This inquiry should include production for domestic as well as international markets.
4. The impact of internal migration on development is clearly directly related to the configuration of a system's non-agricultural (or demand-side) elements. The overall urban informal sector is usually fairly well defined in terms of its small establishment size, the avoidance of government regulations and income-sharing arrangements. But very little analysis has been devoted to distinguishing between these two informal urban sub-sectors in differing typological or regional contexts.

**Research Questions:**

- a. Typically, for each major region of the developing world, what are the relevant wage or income gaps in the aforementioned three urban sectors, relative to the two rural sectors?
- b. What differences are there in educational attainment, capital per head, labor productivity and, if possible, total factor productivity (TFP) between RNA and the two urban informal sector activities?

The extent to which the output mix of the urban informal sector favors manufacturing, construction, metal working and transportation activities it is likely to belong to the modernizing component, while the "sponge" component is more likely to focus on the distributive trades and personal services. Footwear production

in Brazil is clearly part of the modernizing informal sub-sector, linked to the formal sector via sub-contracts. There is, again, much less evidence of such linkages in Africa, where an estimated 60% of informal sector migrants have located.

To cite one instructive contrasting example, the Philippines (a Latin America-like country) and Thailand grew at somewhat similar, respectable rates in both agricultural and non-agricultural output and labor productivity during the '65-'80 period, accompanied by equally respectable migration rates into the urban formal sector. However, in the '80-'90 period, a large differential in growth rates and in rural-urban migration rates, i.e., 2.6% of the urban population in Thailand versus 1.5% in the Philippines, developed. Thailand's lower urban-rural unskilled wage gap, due to less government interventions, was compensated for by much larger urban formal sector employment opportunities, as well as via a complementary modernizing urban informal sub-sector. Meanwhile, in the slower growing Philippines, the "sponge" urban informal sub-sector grew much faster, while the size of the modernizing sub-sector declined. One supporting statistic is that in '86-'87 the percentage of informal sector manufacturing establishments employing non-family workers was 75% in Bangkok and 35% in Manila.

5. An important dimension of these various internal migration impulses is the size and nature of the two-way flows: initially, the support by the rural families of those migrating to the various possible urban destinations and, subsequently, the remittances sent back home.

**Research Questions:**

- a. What is the impact of the net financial flows on the initial ability to migrate?
  - b. What is the subsequent impact of internal remittances on poverty, income distribution, such human development and capability indicators as infant mortality, educational enrollment, economic stability as well as consumption patterns, investment patterns and growth?
6. Thus far, our discussion has focused mainly on how the internal migration of unskilled labor impacts development and raised some priority researchable questions. Turning now to the external migration of unskilled workers, these are most likely to exit from the two rural sectors and the urban traditional informal sub-sector.

We need to ascertain what determines the relative desire and ability to migrate abroad. As long as the labor surplus condition persists, we may once again assume that the departure of these unskilled workers does not materially affect domestic output. An important critical question, of course, here again focuses on the two-way flows between those left behind and those who have migrated abroad, and how the net source inflows affect domestic development.

In assessing the impact of international migration on the sending country, one actually has to begin by examining the impact of net international remittance flows on domestic income distribution, poverty levels, consumption, investment levels, and growth. It should also proceed to assess the impact of such additional net resource flows on such critical dimensions of human development as infant mortality, education enrollment and levels of nutrition.

Indeed we need to also enter the Amartya Sen world of capabilities. For example, are net external remittances likely to fluctuate less or more than other forms of capital inflows; do they behave counter-cyclically and thus contribute to economic stability as a welfare indicator? Are they likely to encourage the greater use of the internet and information technology generally, with spillover effects for entrepreneurship, attracting complementary credit flows? Although this may seem a bit far-fetched, it is conceivable that external migration and remittances also carry a special impact on a population's overall "happiness" as a consequence of the perception of greater opportunities, the acquisition of new ideas and entrepreneurial possibilities.

**Research Questions:**

- a. What determines the relative desire and ability to migrate domestically or externally and from which sector are the flows likely to emanate?
- b. What role do family support payments or government contributions play in enhancing unskilled workers' ability to migrate abroad, and are subsequent migrant remittances encouraged by government matching grants, e.g., for housing or machinery purchases?
- c. What is the impact, over time, of net flows, i.e. remittances over support payments, on poverty, income distribution, human development and capability indices, consumption, investment and growth, mainly in the rural but also the urban sectors of the sending country; and is any of this

- clearly differentiable across various geographic regions of the developing world?
- d. Are net external remittances cyclical, i.e. profit-oriented, or counter-cyclical, i.e. support-oriented?
  - e. Is there a possible reverse flow of resources adversely affecting origin country development when migrants abroad lose jobs during destination country recessions or anti-migrant episodes?
  - f. There is some evidence that since initially relatively higher income families have greater ability to migrate, this causes an initial worsening of the distribution of income back home as the result of remittances but that, with experience and the growth of migrant corridors abroad, this becomes less true over time.
  - g. Does the same phenomenon hold for the education levels of early versus later external migrant/remittance issues?
7. Finally, we need to turn our attention to the migration of skilled workers and their impact on the various dimensions of development. The issues here are quite different. Skilled labor migrants are more likely to move abroad rather than relocate at home; they can be expected to be departing from the urban organized sector or the modernizing urban informal sub-sector. Unlike the case of unskilled migrants, their departure will negatively affect output and productivity in the origin country as a consequence of the so-called “brain drain” or “skill drain.” Proposals have been made to tax such out-going migrants in order to recover education costs, but these ideas have never gotten very far politically or administratively. Moreover, they have lost some of their economic impact for two reasons: one, remittances from such skilled migrants can be quite substantial; indeed some countries, e.g., the Philippines, actually have programs to generate skilled labor (doctors and nurses, in this case) for the express purpose of export. Secondly, evidence indicates that, over time, the human capital itself is likely to return once conditions improve sufficiently in the home country (e.g., Silicon Valley entrepreneurs and scientists returning to India, Taiwan, and Korea).

**Research Questions:**

- a. What is the impact of the human resources lost in the initial act of migration, pitted against the gains from remittances and the later “brain gain” phenomenon in the aforementioned, relatively successful country cases during the 1960-2000 period. The calculation would be very different

for many countries in Latin America, and certainly for African countries which face a much longer period of net human resource losses, compensated only to some extent by remittances, before they can count on the eventual return of human capital.

- b. As an example, did the Philippine program of supporting skilled migrants, financially and in terms of the provision of information and contractual arrangements abroad, yield an acceptable rate of return when the resulting remittances are taken into account? What are the likely net developmental impacts of the proliferation of such programs?
  - c. Does the successful migration of skilled workers induce a greater demand for education in the country of origin, generating additional supplies of needed skills and contributing to development?
8. A relatively neglected issue in the overall literature seems to be the rapidly growing importance of South-South migration and South-South remittance flows. Two out of five migrations globally are now from one poor or middle income country to another. As development proceeds unevenly across the various geographic regions of the world, migration of the unskilled, e.g., from Guatemala to Mexico and from Bangladesh to India as well as, if to a lesser extent, of the skilled, e.g., from Zimbabwe to South Africa and from Indonesia to Malaysia, have become an increasingly important phenomenon.

**Research Question:**

- a. Virtually all of the issues raised above with respect to the developmental impact of South-North migration, unskilled and skilled, are crying out for additional analysis in the South-South context. This appears to be a relatively neglected research area.
9. Finally, there are more general issues relating migration to development and to other dimensions of globalization which need to be more fully explored. These issues are especially relevant since migration is admittedly the most constrained of international flows and therefore offers the largest potential for global welfare gains.

Taking a broader view, admittedly the above analysis of migrations, internal and external, and their impact on development, represents a partial equilibrium approach to what is a broader, interdisciplinary process. This requires not only taking on board other economic dimensions of globalization, whether substitutes or

complements to migration, such as trade, capital movements and technology, but also the differential impact of colonial history, and of cultural, institutional and power relations subject to change in both origin and destination countries. For example, global Pareto optimality would call for the permanent North-South migration of the unskilled and the “circular migration” of the skilled, but the North prefers to cherry-pick in precisely the opposite direction. Migration constitutes one important element within a global social transformation process whose pace is accelerating and whose destination is still shrouded in mystery. But we know, from country experience, that rural-urban migration does not have to lead to the creation of urban shanty-towns, and international migration does not have to lead to exploitation and alienation; globalization generally creates the opportunity to enhance people’s capabilities, as well as admittedly carrying the risk of increased dependency and cultural atrophy. Admittedly, the migration and development nexus truly represents an interdisciplinary and exciting ball of wax which it is, however, difficult to disentangle by means of an ambitious general equilibrium approach.

**Research Questions:**

- a. Under what circumstances do external migration and associated remittance flows act as complements or substitutes to international trade, and also with respect to other capital flows from the same destination countries?
- b. More specifically, do domestic and external remittances serve to release domestic credit constraints or do they act as substitutes for domestic credit availability?
- c. Migration and development are embedded within a broader social transformation, ranging from initial institutional/historical constraints and cultural dynamics to the expanding consideration of human capabilities and their distribution. While difficult, discrete pieces of this large mosaic can be subject to useful analysis.
- d. Taking a longer term view, with populations aging and fertility rates falling, almost everywhere – with the exception of some parts of Sub-Saharan Africa – and with pre-existing labor surpluses gradually disappearing and yielding to labor shortages, can we expect even unskilled migration to increase in importance and political acceptability?
- e. How can we manage to embed the economics-focused analysis of migration and development within a broader socio-political framework which recognizes important interdisciplinary dimensions of the issue?