Wage Uncertainty and Migration of the Young: Evidence from Thailand†

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Abstract

In Thailand, most migrant labor from rural districts to Bangkok Metropolis are young workers in their late teens and twenties. Nevertheless, expected urban wages for young migrants are lower than elder ones and uncertainty of wage, in turn, is greater as the migrants become younger. This paper explains the migration behavior that is particularly intensive among youth with regard to workers' motive for learning about their own ability or suitability to different jobs. Uncertainty of urban wages reflects innate ability that is unobservable to workers themselves, hence indicating that wages are better signals of such heterogeneity for younger migrants. This implies young workers' migration to Bangkok is motivated by learning about own ability/suitability. Empirical findings using labor survey data from Thailand show that; (1) Bangkok wages for younger migrants are more diverse from being more dependent on unobserved attributes, and (2) the wage diversity due to its dependence on ability motivates young workers' migration to Bangkok.

JEL classification number: D83, O15, J31, O53

Introduction

This paper discusses worker's decision on rural-to-urban migration with regard to relation between ages at relocation and earnings uncertainty in the destination. Observations from Labor Force Survey of Thailand show that while mean destination wage is lower and uncertainty of wage is greater for younger migrants, vast majority of migrant workers are considerably young at their origin. This is true even after controlling for education and experience effects on wages. Given that workers are risk neutral, the massive relocation of young workers is a puzzle because they could alternatively wait until they get older, when the destination wage becomes higher and they become more certain about their wage prospects. Concerning mobility between jobs, the concentration of turnover to young workers, or negative correlation between age and rate of turnover is a stylized fact [Topel and Ward (1992), Keane and Wolpin (1997), Light and McGarry (1998)]. The concentration of mobility to the young is because, regardless of whether inter-occupational or inter-regional, it is

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investment to human capital in a general sense. Young workers have motive for searching
more suitable job for them [or job opportunities in specific region]. Such information is
largely unknown until they actually engage in the job [or move to the place]. We explain
young workers’ attitude towards uncertainty associated with migration from the fact that
they learn about their own productivity in the destination. We also confirm using Thai data,
that learning about own ability works as motive for relocating.

Young workers’ attitude towards uncertainty can also be interpreted in several other
ways following job turnover literature. Earnings uncertainty crucially affects relocation/
turnover decision in those studies. Some of those are concerned with learning skills as the
source of earnings uncertainty [Jovanovic and Nyarko (1997), Miller (1997)], while others are
concerned with learning or searching for job opportunity in the labor market [Johnson (1978),
O’Connell (1997), Sargent (1991), Vishwanath (1991)].

Miller (1992) discusses learning about job specific skills. In a situation where skills are
specific to industry/occupation/job, earlier relocation will make the worker’s productivity
greater in the long term. Working opportunities in Thailand are segmented to some extent
between non-Bangkok and Bangkok, the former being mostly agricultural self-employed
sector and the latter holding various kinds of industries and jobs. It is rational for young
workers to relocate to Bangkok as early as possible in order to start acquiring certain job-
specific skills.

Jovanovic and Nyarko (1997) presume two groups of jobs which differ in complexity of
required skill in target input framework. The worker estimates and updates his/her beliefs
on the target parameter. They conclude that earlier engagement to complicated tasks
provides better productivity signals such that the lifetime earnings increase. The two
groups of jobs would correspond to Bangkok–non-Bangkok dichotomy in our context. To
learn about more complicated tasks in Bangkok and more accurate signals favors the young
workers’ future prospect.

Concerning job market opportunity, Johnson (1978) considers two groups of jobs that
differ in the degree wages reflect worker heterogeneous ability. Workers’ innate ability or
suitability to different jobs are unobserved ex–ante, and they learn from signals incorporated
in wages. The wage signal consists of the part dependent on worker heterogeneity and
noise. In the group of jobs that more reflects workers’ heterogenous ability, wage uncer-
tainty is greater, making workers’ learning more efficient at the same time. This makes
workers’ expected lifetime income greater through occupational choice later in life.1

Similarly, O’Connell (1997) discusses workers’ geographical relocation decision with
respect to job market uncertainty, emphasizing timing of information. O’Connell addresses
the problem to simple uncertainty of destination wage and doesn’t incorporate learning
process. Relocation decision is crucially affected by the timing at which workers acquire
information about destination wage distribution. When the wage signal is not observed from
the origin, it becomes optimal for them to ‘try their luck’ in O’Connell’s words and immediate-
ly relocate. But when signals are observed from the origin, workers will wait until they
become certain about their prospects in the destination. The timing of information is a

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1Sargent (1991) and Vishwanath (1991) discuss in job search framework that greater offer wage
diversity makes the searcher’s accepted wage greater.
crucial issue in our analysis to be discussed later.

This paper is primarily based on Johnson's argument in that it empirically specifies the migration decision to examine the effect of urban wage signal to migration decision. It compares the urban wage signals by age-at-migration group with regard to the extent to which the signals reflect unobservable worker heterogeneity. Along with that, since the uncertainty is associated with greater reflection of worker heterogeneity, it is also equivalent to testing the effects of urban wage uncertainty on migration.

The organization of the paper is as follows. The succeeding section shows some evidence that motivates the study in detail. The subsequent sections provide empirical specification, and empirical results using recent labor force survey from Thailand. The last section concludes.

Ages at Migration and Urban Wage Distributions

We exploit the Labor Force Survey (LFS), NSO, Thailand, 1994–96. From 1984–97, the survey was conducted in February, May, August, and also in November since 1998. The scope of the survey is over 180 thousand people or around 50 thousand wageworkers across the whole country. From those rounds of the survey, we exploit the data from the first and the second round, which contain abandoned information. Further, we use the period from 1994 to 1996 which is before financial crisis. In order to avoid the influence of macro shock caused by the crisis.

The survey data provides worker’s wage by type (daily, weekly, monthly), number of

![Fig. 1. Age distributions of workers by migration status](image-url)
work-days per week, occupation, industry, and sector in which the worker's job is affiliated, worker's attributes such as sex, age, education, marital status, and so on. Concerning migration, it provides previous place of residence down to the village level, persistence of residence or working experience in the current place.

Migrant laborers that move into the Bangkok Metropolis from non-Bangkok are generally young. From the labor survey held every August during the harvest season, it is observed that migrants are the youngest among the labor force at the origin. Figure 1 illustrates this point.

The figure shows the age distributions of workers by migration status. Mig_status=1, 2, 3 represents Bangkok migrant (length of stay up to four years), Bangkok native workers (more than 8 years), and non-Bangkok workers respectively. The sample covers wage workers, self-employed in both sexes, with wage or profit entries in the survey held in August. Ages are in terms of age-at-migration for mig_status=1, current ages for 2 and 3. It can be seen from the figure that migrant labor force consists of considerably young cohorts compared to the other groups. For mig_status=1, the migration age hits the peak at 17 and rapidly decreases towards age 40, while peak ages are around 30 for Bangkok native workers and non-Bangkok workers. The mean age is 23.3, 37.0 and 36.9 for each group. Migrant age distribution suggests that they tend to move slightly after finishing from certain level of schooling, such as fourth or sixth grade of elementary school, lower high school, and high school. The frequency was the highest for fourth graders followed by sixth graders. Accordingly, they are most likely to relocate at ages slightly over 10, 12, 15 and 18.

Non-Bangkok workers in those age cohorts are most likely potential migrants also when compared with other cohorts in the origin. Figure 2 shows the rate of migration to Bangkok by ages, from the rest of the country. The migration rate is taken as the ratio between number of workers relocated in the past four years by ages at the move and number of workers by current age. At the peak migration age 18, the rate is 5.2 per cent among the workers at the origin. This accounts for around 1.7 per cent of non-Bangkok workers a year on average. The relocation decreases with workers' age and almost ceases at age 40.

Fig. 2. Rate of out-migration by age (%)
An important restriction in the following figures is that our data being crosssectional, the migration age distribution doesn't necessarily mean first time mover. Even though we cannot distinguish between first-time and more experienced migrants, the distribution exclusively for first-time migrants would be even younger than shown in the figures.

The wage prospects of young migrants pose a puzzle as described earlier. The mean wages in the destination are higher for elder ones at ages of relocation and uncertainty of wages are greater for younger workers. This is illustrated in Figures 3 to 5. Figures 3 and
Fig. 5. On arrival wage diversity-age at migration profile

4 show mean log wage for male and female migrant workers, and Figure 5 shows wage diversity for both sexes. Wages are in terms of weekly log wage conditional on years of schooling and working experience in Bangkok, so that it represents estimated wages on arrival. Further, wages are plotted by attribute groups, which correspond to the groups of dots in straight lines. The sizes of circles represent greater sampling weight. Larger circles mean more observations. Dense parts of the plotted circles also mean more observations.

For male workers, mean destination wage monotonically increases with workers' relocation age. For female, it increases up to age around 23. Destination wage diversity conditional on education and experience is greatest for the youngest workers and monotonically decreases with relocation age.

Decreasing wage uncertainty in the destination could also be viewed as natural outcome of workers' behavior. Rural workers are reported to repeatedly relocate to Bangkok while holding jobs at home. Especially agricultural workers called 'circular migrants' or 'seasonal labor' often relocate temporally during the agricultural slack season. They acquire information on job opportunities in Bangkok through those repeated relocation experiences, and aged workers are more certain about their prospect at the destination. From the young workers' point of view, a benefit from relocating is to find out about their future prospect at the destination. Accordingly, our scope is on relatively long term migrants. The number of Bangkok migrants by persistence of stay is distributed as shown in Figure 6.

Circular migrants whose length of stay is less than 1 year is not the majority. Although the number of workers decreases with the length of stay, most of them continue to stay through the course of the year and try to remain in Bangkok regardless of agricultural seasons.
We suppose potential migrants observe other migrants and their own past wage distribution on which they base their relocation decision. The decision to make is whether to move to Bangkok at their current age and their reference group, the source of wage information is past migrants who moved at similar ages as the decision maker. The standards that distinguish between reference groups are sex, ages at migration, and years of schooling. Pool of potential migrant in non-Bangkok are also grouped by those attributes, except that ages are in terms of current age. Our basic supposition is that non-Bangkok workers’ information is the wage distribution of corresponding reference group.

Prior to relocation, non-Bangkok workers’ information set includes their own attributes, sex, age and years of schooling, and their current place of residence. For information available to the workers, they will control from the past migrants wage they observe. Additionally, we suppose Bangkok migrants years of working experience in the destination are also observable.

As mentioned earlier, one problem with our data is that it does not identify when migrants acquire information on a particular job. In case they only move after they have fixed or have obtained reliable information on a particular job opportunity, destination earnings distribution or uncertainty in the destination will no longer be relevant to the relocation decision. That corresponds to O’Connell’s ‘wait and see’ migration. Banerjee (1983) reports for the case of India, around one half of rural-to-urban migrants have pre-fixed jobs at the destination before they actually move. With respect to the Thai labor market, it is widely recognized that they tend to obtain at least vague information on job opportunity before they move, from acquaintances in the destination. Sometimes it can be the case that they are informed of a particular post. Even so, we maintain the assumption that information available to a worker is the wage distribution they confront with, rather than a particular job. Our data set provides number of migrants by reasons of relocation. One evidence favouring our supposition is that among economic reasons for Bangkok migrants with earnings observation, the overwhelming majority, 88 per cent was ‘job search’, and simple job-related reasons without job turnover was less than 3 per cent. The answer ‘job
search', however, does not necessarily mean that they did not search in the origin. The most likely situation, when they can not avail of a particular post at the move, would be that they become dependent on some acquaintances or get assigned to a temporal job until they settle down. The destination wage distribution implies such situation in the period after the relocation.

Urban Wage Signal and Migration Decision

This section provides the empirical specification that tests the effect of urban wage signal on migration decision. It is also equivalent to examining workers' attitude towards urban wage uncertainty at migration. We make several simplifying assumptions along with the empirical specification. Firstly, potential migrants base their migration decision on their on-arrival wage distribution. That does not mean that they are myopic, instead, they follow the strategy described in the previous section. They choose regions to maximize their lifetime earnings, using the information only from the first period. Secondly, migration decision is not nested, in a way that decisions are two-fold, to-move-or-not-to-move and to which region to go. We focus on migration between only two areas, the Bangkok Metropolis and the rest of the country and assume that the only decision the workers make is whether or not to move to Bangkok. The third is that the migrants observe information on a particular job only after moving to the destination. Suitability of this assumption may be somewhat questionable considering the case of India mentioned earlier. However, the assumption, no pre-fixed urban job, is considered to be relatively suitable for the sample of the analysis in this section for the following reasons. The sample is restricted to the workers with relatively low education; junior-high school graduates and lower from the sample size. In addition, under these assumptions, the sort of knowledge the potential migrants would need is information about jobs in Bangkok as a whole, rather than jobs on particular industries or occupation group.

Finally, we assume that potential migrants put their basis of migration decision on the earnings information of actual Bangkok migrants with similar attributes as their own, i.e., same sex, similar ages and education. The on-arrival wage distribution of those past migrants will be the observation from which the potential migrants infer their own. We let the variance of expected on-arrival log wage of migrants represent the risk associated with migration, or diversity of signals concerning the return to attributes.

For the assumptions above, the focus is on distribution of wages on-arrival of the past migrants. Since the wage data entry is in terms of current wage of migrant workers with various working experience in Bangkok, the first step is to subtract experience effects from their wages to estimate their wages at the time they moved to Bangkok. The current log wage of migrant \( i \) can be specified as

\[
\ln w_i = X_i \beta + \sum_k d_k \mu_k + \sum_m \text{origin}_m \rho_m + \sum_{t=1}^{96.3} \text{year}_t^* + \epsilon_i, \tag{1}
\]

where \( X_i \) includes attributes of Bangkok migrants except educational attainment, namely sex, age, \( \text{age}^2 \), and working experience in Bangkok, \( \text{exprnce}_i \), \( d_k \) represents education dummies for each education group \( k, k=1, \ldots, 9 \). \( k=1, \ldots, 9 \) represents no education, years of
schooling 2, 4, 6, 9, 12, ..., 14, 16 and 18 respectively. \( \mu_i \) is unobservable individual ability, and \( \varepsilon_i \) is heterogeneity of reward specific to worker-job match which is normally distributed with mean 0.

Origin fixed effects, for which the origin dummies are intended to control, are considered to arise from the difference in the distance from the origin. In addition, possible origin fixed effect could arise, for instance, from Bangkok information acquired through neighbors in the origin villages, i.e., neighborhood effect. Year/round dummies \( \text{year}^t, t=94.1, 94.3, \ldots, 96.1, 96.3 \) represent each years rounds of survey respectively. Round 1 corresponds to the survey held in February, and round 3 to August.

Since \( E[y]\neq 0 \) and \( \mu \) is not available from the data set, variation of \( \mu \) will be included in the error term. \( \mu \) is also correlated with \( d_{ki} \). In order to avoid the bias caused by omitted \( \mu \), within-group estimation is applied to equation (1). Specifically the following equation is estimated for migrant workers \( i \) with working experience less than 5 years after the relocation.

\[
\ln w_i - \ln \bar{w}^k = (X_i - \bar{X}_k) \beta + \sum \left( d^k_i - d^k_{ki} \right) + \sum_{i=1}^{25} (\text{origin}_i - \text{origin}_k) + \sum_{m=94}^{96} (\text{year}_i - \text{year}_k) \\
+ (\mu_i - \bar{\mu}^k) + (\varepsilon_i - \bar{\varepsilon}^k)
\]

Upper bars represent means by education group \( k \). The whole observation is divided by education group \( k \), and all the variables are converted into deviations from means within education group \( k \). Then, \( d^k_i - d^k_{ki} = 0 \) for all \( k \). Assuming unobservable ability is symmetrically distributed within each \( k \), \( E[\mu_i - \bar{\mu}^k] = 0 \) for all \( k \), and \( \mu_i - \bar{\mu}^k \) is randomly distributed. Also, \( E[\varepsilon_i - \bar{\varepsilon}^k] = 0 \) and \( \varepsilon_i - \bar{\varepsilon}^k \) is randomly distributed. Therefore, OLS estimate of \( \beta \) will be unbiased. With \( \beta \) in hand, the next step is to estimate parameters of expected wage distribution confronted by each potential migrants in terms of wage distribution at the time each of them moved to Bangkok. Potential migrants are assumed to base the criteria of their decision on mean and variance of expected Bangkok wage, which they infer from wage observations of past migrants. Further, we assume that they consider those variables to depend on observable attributes. Since they know their own attributes, they only need to observe wages of past migrants with attributes similar to themselves. In order to control attributes of migrants, we take means and variance of past migrants wage observation by attribute group \( h \).

\[
E^h[\ln w^r] = E^h[\ln w_i - \beta(\text{exprnce}_i + \sum_{i=1}^{25} \text{origin}_i + \sum_{m=94}^{96} \text{year}^m)].  \tag{2}
\]

The portion of wage difference between groups attributed to workers' sex, age and educational attainment remains uncontrolled, and the mean is taken by attribute group instead. Rural workers are considered to have different (implicit) reservation wage for migration depending on their attributes. They know their own attributes and take it in account when they make a decision. For a particular group with high reservation wage, for instance, expected Bangkok wage associated with migration must be also high for them. In this
regard, the effect of their attributes on expected on-arrival wage must remain included in the information they observe. Similarly, for diversity of expected on-arrival log wage,

$$sdh[\ln w_{ari}] = sdh[\ln w_{i} - \beta(\text{exprnce}_{i} + \sum_{r=1}^{76}\text{origin}_{i} + \sum_{m=1}^{99}\text{year}_{m})],$$

(3)

where $sdh[\cdot]$ stands for standard deviation. For the argument described above, the contribution of worker attributes remains in inter-group wage difference, but completely controlled within attribute groups. Those parameters of on-arrival wage distributions, $Eh[\ln w_{ari}]$ and $sdh[\ln w_{ari}]$ are the bases of decision for potential migrants affiliated to each $h$. An important point to notice is that since we have controlled the effect of experience, year and origin, as seen from equation (1), the remaining variation in $Eh[\ln w_{ari}]$ and $sdh[\ln w_{ari}]$ is that from variation in ability $\mu_i$ and job specific noise $\varepsilon_i$. Particularly, $sdh[\ln w_{ari}]$ seen from a worker in a specific attribute group, represents the sum of variation in individual ability and job specific noise within that group. Of those two sources of variation, we assume the extent to which noise affect wages is common to all attribute groups. This assumption is the counterpart of the one in the theoretical framework, in which we supposed the job specific noise is common to both Bangkok and non-Bangkok jobs. With this assumption, $sdh[\ln w_{ari}]$ serves as signal for the migrant workers to refer to their own ability. Finally, migration equation that explains migration decision by mean and variance of expected on-arrival Bangkok wage is estimated with Probit estimation. Let us assume unobservable reservation wage $\ln w^*_b$ for each (potential) Bangkok migrant such that

$$\begin{align*}
\text{mig}_j = \begin{cases} 1 & \text{when } \ln w_j \geq \ln w^*_b \\ 0 & \text{otherwise} \end{cases}
\end{align*}$$

where sample $j$ includes Bangkok migrants with period of stay less than 5 years, and rural workers, who choose to stay in the origin, both of age. We suppose migration decision is made according to the following migration equation,

$$\text{mig}_j = \zeta Eh[\ln w^*_b] + \eta \text{var}h[\ln w^*_b] + X_j\beta + \sum_{m=1}^{96.3}\text{year}_{m} + \sum_{r=1}^{76}\text{origin}_{r} + \xi_j.$$

(4)

Migration equation (4) explains the propensity to migrate by parameters of expected wage distribution. Our focus is on $\eta$, the parameter of wage uncertainty on arrival. Mean on arrival wage is included in the equation in order to control the level effect on wage diversity. Prediction of the theory is that the parameter estimates are positive both for $Eh[\ln w^*_b]$ and $sdh[\ln w^*_b]$.

$Z_j$ are attributes of workers, namely, sex, age, years of schooling. Origin dummies are intended to capture mainly two things. The first is the difference in distance to Bangkok. The other is neighborhood effect of migration. Storetton (1983) reports on Philippines construction industry that the origins of migrant workers in Manila are concentrated in few particular districts. This is because of information flows between neighbors in the origin.
Empirical Results

The parameter estimates of migrant wage equation (1) are shown in Table 1. The coefficients are used to yield experience-controlled Bangkok wage distributions by attribute groups, as described in equation (2) and (3). Then, equation (4) explains rural worker's decision whether or not to move to Bangkok by mean and diversity of destination wage measured for every attribute group. Probit estimates of migration equation (4) are shown in Table 2.

The sample for migrants is limited to attribute groups with at least ten observations in order to avoid small sample bias. Also for stayers, attribute groups that correspond to migrant sample is included. Within the sample, migration rate from all over the country into the Bangkok Metropolis is 1.34 per cent. The parameters of wage diversity are positive and significant, supporting the prediction of the theory. The other parameters are also plausible and significant.

<table>
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<th>Attribute</th>
<th>Coef.</th>
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<tr>
<td>age</td>
<td>0.0403</td>
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Note: Parameters are estimated by weighted OLS. In order to control ability bias, all the variables are converted to deviation from education group mean to yield within-estimator (see equation (4)). Individual heterogeneity of error term is allowed in calculating standard errors. Coefficients of origin dummies are suppressed to save space.
Table 2. Parameter estimates of migration equation

<table>
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Note: Parameters are estimated by Probit. Individual heterogeneity of error term is allowed in standard error calculation.

Conclusion

In this paper, we discussed the relation between rural-to-urban migration decision and the risk of migration associated with wage diversity in the destination for young workers. Observations from Thai data show extensive mobility of young cohorts into Bangkok for whom Bangkok wage uncertainty is greater and mean is lower. We have seen that this behavior is a consequence of rational occupational choice in which they learn about their own uncertain ability using wage signal.

Estimated Bangkok wages on arrival are more diverse conditional on workers’ attributes, from being more dependent on workers’ ability for the young. The degree of wage diversity is a proxy for the extent to which wages depend on heterogenous ability. The wage diversity, thus, provides more accurate prediction on their own ability which they infer from the wage signal they get in the early stage of life. This enables greater lifetime income through region/occupation choice in the later stage of life. Using using labor micro data from Thailand, we have shown that for Bangkok wages, the dependence on individual ability is greater for younger cohort of migrant workers. Moreover, the uncertainty of Bangkok wages motivates young rural workers’ mobility toward Bangkok. It follows from what we have seen that one of young workers’ motives for moving toward cities is to find out about their own ability, such that they prefer greater risk.

References


