

Upgrade or Migrate: The Consequences of Input Subsidies on Households' Labor Allocation.

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Abstract

Rural anti-poverty interventions often focus on increasing agricultural investment and productivity. Yet, many farmers can invest in another technology: outmigration. I explore how one common class of interventions – input subsidy programs (ISPs) – can affect the adoption of either technology. First, I exploit the roll-out of an expansive Zambian ISP and a difference-in-differences strategy to show that the ISP fosters specialization into technology based on farmers' comparative advantage, increasing both agricultural yields and outmigration. Second, I estimate a structural model incorporating a positive learning externality related to fertilizer adoption to compare the ISP to alternative revenue-neutral policy counterfactuals. I find that an untargeted cash-transfer would increase migration relative to the ISP. When they target only the would-be beneficiaries of the ISP, both a cash-transfer and an ISP without resale markets would reduce migration. All three counterfactual policies reduce fertilizer use, and hinder the process of specialization.

Keywords: Input Subsidies, Migration, Agricultural Productivity, Sorting

JEL Codes: R23, O33, Q12

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