Title: Hidden Income and the Perceived Returns to Migration: Experimental Evidence from Kenya

Abstract: Urban workers in Kenya earn twice as much as rural workers with the same level of education. Why don’t rural workers migrate to earn the higher urban income? This paper tests whether information frictions are impeding potential migrants. I first show that rural Kenyans underestimate big-city incomes considerably. This motivates a first experiment, in which I randomly provide households with urban labor market information: treated households update their beliefs about the returns to migration, are 8 percentage points more likely to migrate to Nairobi, the capital city, and earn 18% more income. Where does the costly information failure come from? Using data on perceptions of migrant earnings from residents of origin villages matched with income data reported by those migrants themselves, I find evidence consistent with strategic income misreporting: parents underestimate their migrants’ incomes by 50% on average, and underestimation is worse when the incentives to hide income are high. In a second experiment, I test whether hidden income is disrupting learning. I find that hidden income dampens migration aspirations: learning about the average degree of hidden income increases planned migration to Nairobi by 13 percentage points. Together, these results demonstrate that strategically-motivated information asymmetries can distort beliefs and suppress migration to high-wage cities.