

Unit 3:

Urbanization and Rural- Urban Migration: Theory and Policy

■ The Migration and Urbanization Dilemma

- In this chapter, we focus on one of the most complex and nuanced dilemmas of the development process: the phenomenon of massive and historically unprecedented movements of people from the rural countryside to the burgeoning cities
- By 2050, world population is expected to exceed 9 billion people, and nowhere will population growth be more dramatic than in the cities of the developing world. Indeed, according to United Nations estimates, the world became more urban than rural in 2008, for the first time in human history.

➤ Urbanization: Trends and Projections

- *The positive association between urbanization and per capita income is one of the most obvious and striking “stylized facts” of the development process. Generally, the more developed the country, measured by per capita income, the greater the share of population living in urban areas.*
- one of the most significant of all modern demographic phenomena is the rapid growth of cities in developing countries.
- In 1950, some 275 million people were living in cities in the developing world, 38% of the 724 million total urban population, by 2010, the world's urban population had surpassed 3.4 billion, with over three-quarters of all urban dwellers living in metropolitan areas of low- and middle-income countries.

- Africa, at lower levels of per capita income than at a comparable stage in developed countries. Relatedly, *urbanization in Africa is not associated with industrialization*, as it was in the now-developed countries. Moreover, in most regions of the developing world, because population is so much larger, the sheer numbers of people coming into the city is unprecedented.
- The largest cities in developed countries in the past were much smaller than the large cities of developing countries today.
- The most rapid urbanization is now occurring in Asia and Africa; well before 2030, more than half of all people in these regions will live in urban areas. More than half the world's urban population will live in Asia, and the projected 2030 urban population of Africa of 748 million will be larger than the entire projected 685 million total population of Europe

- According to the UN, by 2025, only about half the urban population will be in cities with less than a half million people, the lowest fraction ever. Moreover, the developing world is also coming to dominate the world's largest cities, including the megacities with over 10 million inhabitants. By 2025, only 5 of the 29 largest cities will be in high-income countries.
- A central question related to the unprecedented size of these urban agglomerations is how these cities will *cope—economically, environmentally, and politically*— with such acute concentrations of people.
- While it is true that cities offer the ***cost-reducing advantages*** of *agglomeration economies* and *economies of scale* and *proximity* as well as *numerous economic and social externalities* (e.g., skilled workers, cheap transport, social and cultural amenities), the ***social costs*** of a progressive overloading of housing and social services, not to mention increased crime, pollution, and congestion, can outweigh these historical urban advantages.

- Along with the rapid spread of urbanization and the urban bias in development strategies has come this prolific growth of *huge slums* and *shantytowns*.
- Today, slum settlements represent over ***one-third*** of the urban population in all developing countries.
- Although *population growth* and *accelerated rural-urban migration* are chiefly responsible for the explosion in urban shantytowns, *part of the blame rests with governments*. Their misguided urban-planning policies and outmoded building codes often means that 80% to 90% of new urban housing is “illegal.”

- Statistics show that rural migrants constitute anywhere from 35% to 60% of recorded urban population growth. Accordingly, 90 out of 116 developing countries responding to a UN survey indicated that they had initiated policies to slow down or reverse their accelerating trends in rural-urban migration.
- Given widespread dissatisfaction with the experience of rapid urban growth in developing countries, the critical issue that needs to be addressed is the extent to which *national governments* can formulate *development policies* that can have a definite impact on trends in and the character of urban growth.
- It is clear that the emphasis on industrial modernization, technological sophistication, and metropolitan growth created a substantial *geographic imbalance in economic opportunities* and contributed significantly to the *accelerating influx of rural migrants into urban areas*.

- **The Urban Informal Sector**

- A focus of development theory has been on the dualistic nature of developing countries' national economies—the existence of a **modern urban capitalist sector** geared toward capital-intensive, large-scale production and a **traditional rural subsistence sector** geared toward labor-intensive, small-scale production.
- This dualistic analysis has also been applied specifically to the urban economy, which has been decomposed into ***a formal*** and ***an informal sector***.

- The existence of an unorganized, unregulated, and mostly legal but unregistered **informal sector** was recognized in the 1970s, following observations in several developing countries that massive additions to the urban labor force failed to show up in formal modern-sector unemployment statistics. The bulk of new entrants to the urban labor force seemed to create their *own employment* or to *work for small-scale family-owned enterprises*.
- With the unprecedented rate of growth of the urban population in developing countries expected to continue and with the increasing failure of the rural and urban formal sectors to absorb additions to the labor force, more attention is being devoted to the *role of the informal sector* in serving as a panacea for the growing unemployment problem.

- The informal sector continues to play an important role in developing countries, despite decades of benign neglect and even outright hostility. In many developing countries, about **half** of the employed urban population works in the informal sector.
- The informal sector is characterized by a *large number of small-scale production and service activities* that are individually or family-owned and *use simple, labor-intensive technology*. They tend to operate like monopolistically competitive firms with ease of entry, excess capacity, and competition driving profits (incomes) down to the average supply price of labor.
- The usually self-employed workers in this sector have less formal education, are generally unskilled, and lack access to financial capital. As a result, worker productivity and income tend to be lower in the informal sector than in the formal sector.

- Moreover, workers in the informal sector do not enjoy the measure of protection afforded by the formal modern sector in terms of job security, decent working conditions, and old-age pensions. Many workers entering this sector are recent migrants from rural areas unable to find employment in the formal sector

- **Policies for the Urban Informal Sector**

- In terms of its relationship with other sectors, the informal sector is linked with the rural sector in that it allows excess labor to *escape from extreme rural poverty and underemployment*, although under living and working conditions and for incomes that are often not much better.
- It is **closely connected** with the formal urban sector: The formal sector depends on the informal sector for cheap inputs and wage goods for its workers, and the informal sector in turn depends on the growth of the formal sector for a good portion of its income and clientele

- The important role that the informal sector plays in providing income opportunities for the poor is clear.
- There is some **question**, however, as to whether the informal sector is merely a holding ground for people awaiting entry into the formal sector and as such is a transitional phase that must be made as comfortable as possible without perpetuating its existence until it is itself absorbed by the formal sector **or** whether it is here to stay and should in fact be promoted as a major source of employment and income for the urban labor force.

- In support of the latter view, the *formal* sector in developing countries often has a small base in terms of output and employment.
- To absorb future additions to the urban labor force, the formal sector must be able to generate employment at a very high rate. This means that output must grow at an even faster rate, since employment in this sector increases less than proportionately in relation to output. This sort of growth seems highly unlikely in view of current trends.
- Thus the burden on the *informal* sector to absorb more labor will continue to grow unless other solutions to the urban unemployment problem are provided.

- The informal sector has demonstrated its ability to generate employment and income for the urban labor force. As pointed out earlier, it is already absorbing an average of 50% of the urban labor force. Some studies have shown the informal sector generating almost *one-third* of urban income.

❑ Several other arguments can be made in favor of promoting the informal sector.

- ✓ **First**, scattered evidence indicates that the informal sector *generates surpluses* even in a hostile policy environment that denies it access to the advantages offered to the formal sector, such as *credit, foreign exchange, and tax concessions*. Thus the informal sector's surplus could provide an impetus to growth in the urban economy.
- ✓ **Second**, as a result of its low capital intensity, only a fraction of the capital needed in the formal sector is required to employ a worker in the informal sector, offering considerable *savings* to developing countries so often plagued with capital shortages.

- ✓ **Third**, by providing access to training and apprenticeships at substantially lower costs than provided by formal institutions and the formal sector, the informal sector can play an important role in the *formation of human capital*.
- ✓ **Fourth**, the informal sector *generates demand* for semiskilled and unskilled labor whose supply is increasing in both the formal sector with its increasing demands for a skilled labor force.
- ✓ **Fifth**, the informal sector is more likely to *adopt appropriate technologies* and make use of *local resources*, allowing for a more efficient allocation of resources.

- ✓ **Sixth**, the informal sector plays an important role in *recycling waste materials*, engaging in the collection of goods ranging from scrap metals to cigarette butts, many of which find their way to the industrial sector or provide basic commodities for the poor.
- ✓ **Finally**, promotion of the informal sector would ensure an *increased distribution of the benefits of development to the poor*, many of whom are concentrated in the informal sector.

❑ Promotion of the informal sector is not, however, without its disadvantages.

- ✓ One of the major disadvantages in promoting the informal sector lies in the strong relationship between rural-urban migration and labor absorption in the informal sector. Migrants from the rural sector have both a *lower unemployment rate* and a *shorter waiting period* before obtaining a job in the informal sector. Promoting income and employment opportunities in the informal sector could therefore *aggravate the urban unemployment problem* by attracting more labor than either the desirable parts of the informal or the formal sector could absorb.
- ✓ Furthermore, there is *concern over the environmental consequences* of a highly concentrated informal sector in the urban areas. Ex. pollution and congestion inconvenience to pedestrians, increased densities in slums.
- Any policy measures designed to promote the informal sector must be able to cope with these various problems.

- ❑ There has been little discussion in the literature as to what sorts of measures might be adopted to promote the informal sector. The **International Labor Organization** has made some general suggestions.
- ✓ To begin with, *governments* will have to *abandon their hostility* toward the informal sector and adopt a more positive and sympathetic posture.
- ✓ Because access to skills plays an important role in determining the structure of the informal sector, *governments should facilitate training* in the areas that are most beneficial to the urban economy. In this way, the government can play a role in shaping the informal sector so that it contains production and service activities that provide the most value to society. Specifically, such measures might *promote legal activities and discourage illegal ones* by providing proper skills and other incentives. It could also *generate taxes* that now go unpaid.

- The lack of capital is a major constraint on activities in the informal sector.
- ✓ The provision of credit would therefore permit these enterprises to expand, produce more profit, and hence generate more income and employment.
- ✓ Access to improved technology would have similar effects.
- ✓ Providing infrastructure and suitable locations for work could help alleviate some of the environmental and congestion consequences of an expanded informal sector.
- ✓ Finally, better living conditions must be provided, if not directly, then by promoting growth of the sector on the fringes of urban areas or in smaller towns where the population will settle close to its new area of work, away from the urban density.
- ✓ Promotion of the informal sector outside the urban areas may also help redirect the flow of rural-urban migration

• **Women in the Informal Sector**

- In some regions of the world, women predominate among rural-urban migrants and may even comprise the majority of the urban population
- Women often represent the bulk of the informal-sector labor supply, working for low wages at unstable jobs with no employee or social security benefits.
- Dropout rates among children from households headed by women are much higher because the children are more likely to be working to contribute to household income.

- Many women run small business ventures or microenterprises that require little or no start-up capital and often involve the marketing of homemade foodstuffs and handicrafts.
- Though women's restricted access to capital leads to *high rates of return* on their tiny investments, the extremely low capital labor ratios confine women to low-productivity undertakings.
- And because women are able to make more productive use of capital and start from a much lower investment base, their rates of return on investments often surpass those for men.

- The *legalization* and *economic promotion* of informal-sector activities, where the majority of the urban female labor force is employed, could greatly improve women's financial flexibility and the productivity of their ventures.
- However, to enable women to reap these benefits, governments must repeal laws that
 - ✓ restrict women's rights to own property,
 - ✓ conduct financial transactions, or
 - ✓ limit their fertility.
- Likewise, barriers to women's direct involvement in technical training programs and extension services must be eradicated.
- Finally, the provision of affordable child care and family-planning services would lighten the burden of women's reproductive roles and permit them a greater degree of economic participation.

- **Migration and Development**

- As noted earlier in the chapter, rural-urban migration has been dramatic, and urban development plays an important role in economic development.
- Rates of rural-urban migration in developing countries have exceeded rates of urban job creation and thus surpassed greatly the absorption capacity of both industry and urban social services.

- Migration worsens rural-urban structural imbalances in **two** direct ways.
- ✓ **First**, on the *supply side*, internal migration disproportionately increases the growth rate of urban job seekers relative to urban population growth, which itself is at historically unprecedented levels because of the high proportion of well-educated young people in the migrant system. *Their presence tends to swell the urban labor supply while depleting the rural countryside of valuable human capital.*
- ✓ **Second**, on the *demand side*, urban job creation is generally more difficult and costly to accomplish than rural job creation because of the need for substantial complementary resource inputs for most jobs in the industrial sector.

- Migration patterns are complex. The most important type of migration from the standpoint of long-run development is rural-urban migration, but a great deal of rural-rural, urban-urban, and even urban-rural migration also takes place.
- We need to understand better not only *why* people move and *what* factors are most important in their decision-making process but also *what* the consequences of migration are for rural and urban economic and social development.

- In addition to wage differentials, age, and education, migration is also explained partly by
 - ✓ relocation upon remarrying;
 - ✓ prior emigration of family members;
 - ✓ distance and costs of relocation;
 - ✓ occurrence of famine, disease, violence, and other disasters; and
 - ✓ relative standing in the origin community, with those lower on the social order more likely to migrate.
- Migration can also be a form of **portfolio diversification** for families who seek to settle some members in areas where they may not be affected by economic shocks in the same way as if they had stayed at home.

- **Toward an Economic Theory of Rural-Urban Migration:**

0 Lewis's Model of Rural-Urban Migration:

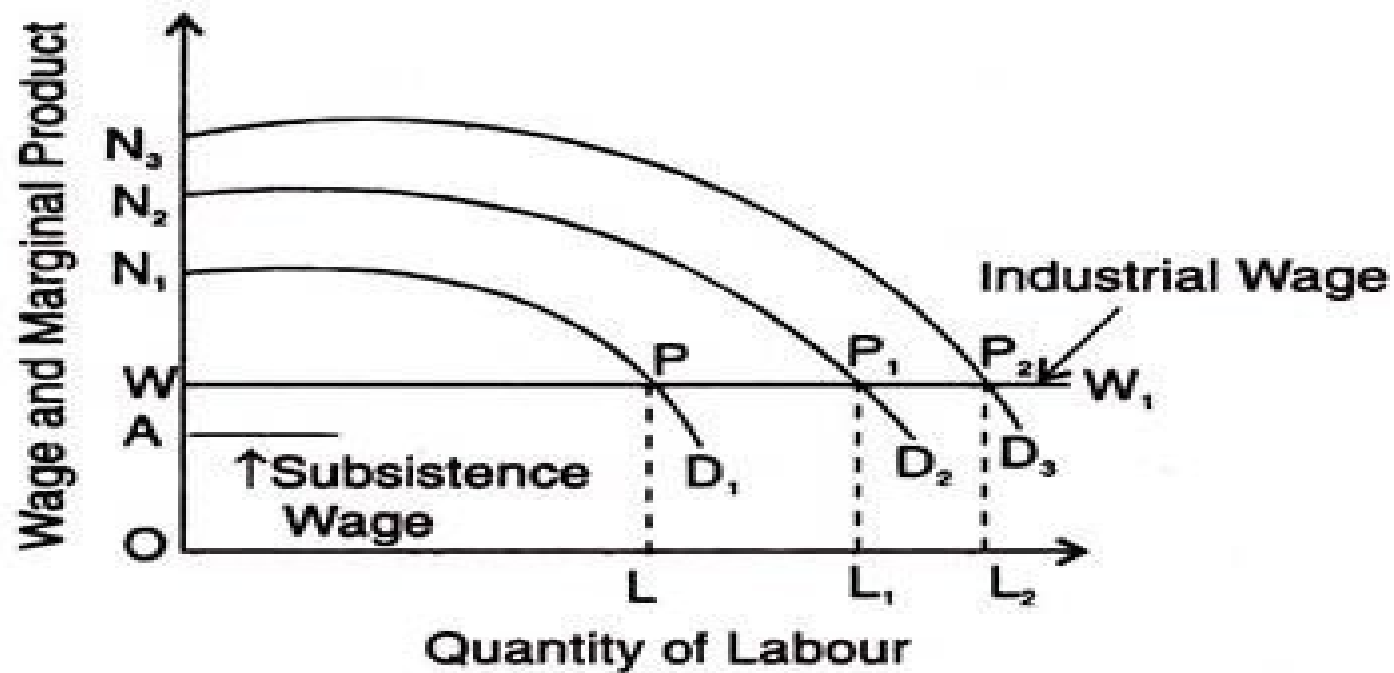


FIG. 1

- In the Lewis model, migration is the result of concerted effort on the part of the state to transfer surplus rural labour to the industrial sector by developing the latter for capital formation.
- For the details please refer to the first part of this course.

0 Harris-Todaro Model Of Rural-Urban Migration:

- **A Verbal Description of the Todaro Model**

- One theory to explain the apparently paradoxical relationship of accelerated rural-urban migration in the context of rising urban unemployment has come to be known as the **Todaro migration model** and in its equilibrium form as the **Harris-Todaro model**.
- A theory that explains rural-urban migration as an ***economically rational process*** despite high urban unemployment. Migrants calculate (present value of) urban expected income (or its equivalent) and move if this exceeds average rural income.

- Prof. J.R. Harris and P. M. Todaro in an article “Migration, Unemployment and Development: A Two-Sector Analysis” in 1970 presented a model on rural-urban migration in underdeveloped countries.
- The main idea of the Harris-Todaro model is that labour migration in underdeveloped countries is due to rural-urban **differences in average expected wages rather than actual wages.**
- The migrants consider the various opportunities of employment available to them in rural and urban sectors and choose the one that maximises their expected wages from migration.

- The minimum urban wage is substantially higher than the rural wage. If more employment opportunities are created in the urban sector at the minimum wage, the expected will rise and rural-urban migration will increase.
- *Expected wages are measured by the difference in real urban income and rural agricultural income and the probability of a migrant's getting an urban job.*
- In fact, a migrant compares his expected income for a given time horizon in the urban sector with his prevailing average rural income and migrates if the former is more than the latter.

- Thus *migration in the Harris-Todaro modal is viewed as the wage or income gap between the urban and the rural sectors*. But all migrants cannot be absorbed in the urban sector at high wages. Many fail to find a job and get employment in the informal urban sector at wages which are even lower than in the rural sector. Thus they join the queue of the underemployed or disguised unemployed in the urban sector.

• **_Assumptions of the Model:**

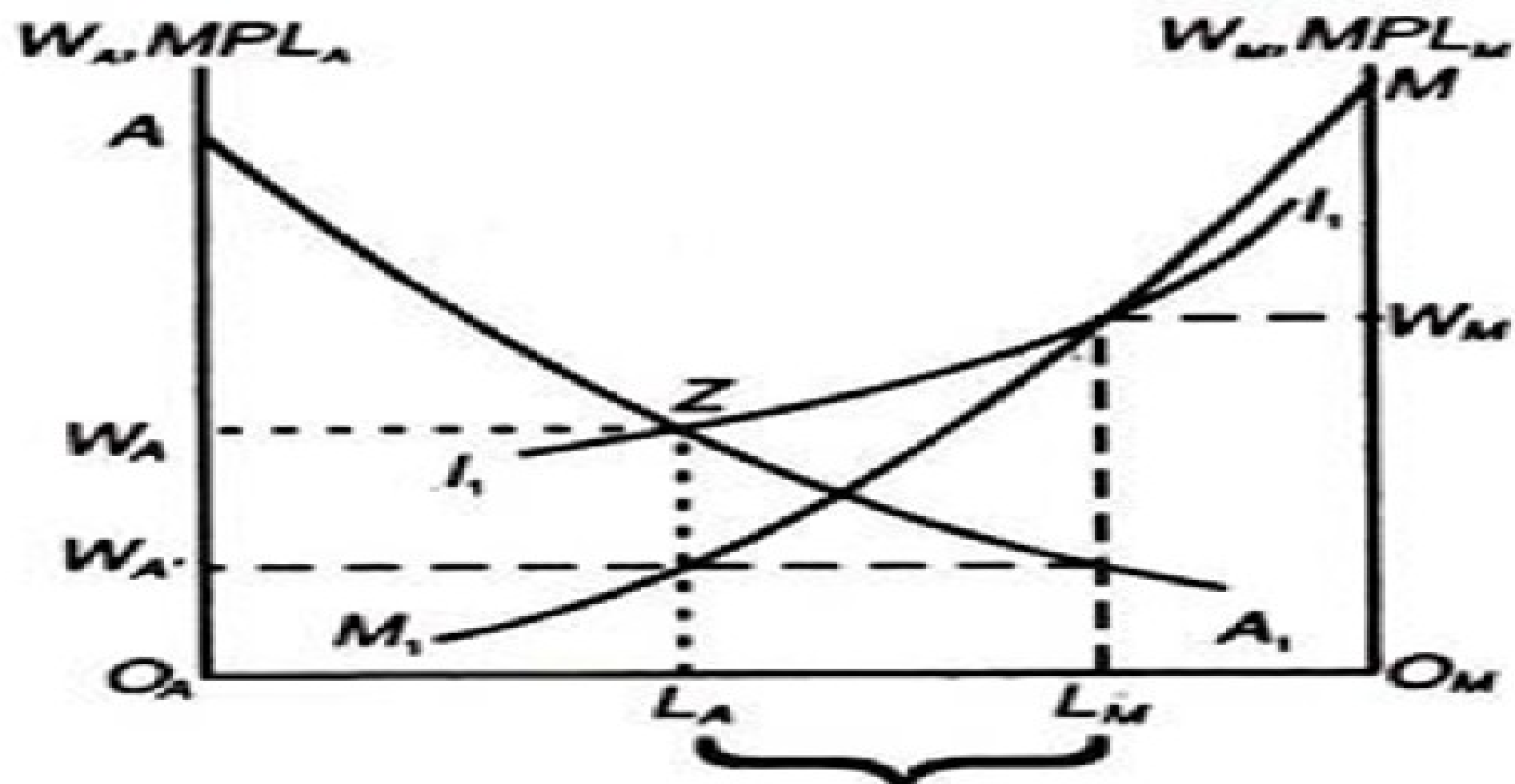
The Harris-Todaro model is based on the following assumptions:

1. There are two sectors in the economy – the rural or agricultural sector (A) and the urban or manufacturing sector (M).
2. The model operates in the short run.
3. The marginal production of labour in agriculture (MPL_A) and of industry (MPL_M) are determined by their respective technologies.
4. Capital is available in fixed quantities in the two sectors.
5. There are L workers in economy with L_A and L_M numbers employed in the rural and urban sectors respectively.

6. The number of urban jobs available (L_M) is exogenously fixed. In the rural sector some work is always available. Therefore, the total urban labour force L_M comprises $L - L_A$ along with an available supply of rural migrants.
7. The urban wage is fixed at W_M and the rural wage at W_A , $W_M > W_A$.
8. The rural wage equals the rural marginal product of labour and the urban wage is exogenously determined.
9. Rural-urban migration continues so long as the expected urban real income is more than the real agricultural income.

• The Model:

- The Harris-Todaro model is explained in Fig. 2. where total labour force in the two sectors is measured along the horizontal axis. Employment in the agricultural sector (A) to the right starting from O_A and in the industrial sector (M) to the left starting from O_M .
- The left vertical axis from O_A upwards measures the MP and wages of labour in agriculture (MPL_A and W_A). The right vertical axis measures the MP and wages of labour in industry (MPL_M and W_M).
- AA_1 is the MP of labour curve in agriculture. It slopes downwards to the right as employment in agriculture (L_A) increases. Similarly, MM_1 is the MP of labour curve in industry which slopes downward to the left as L_M increases.



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FIG. 2

- W_M is the wage level at which $O_M L_M$ workers are employed in the urban sector. The remaining $O_A L_M$ workers are employed in the rural sector at $O_A W_A$, wage level. So the rural-urban wage gap is $W_M - W_A$, with W_M wage fixed.
- This *wage gap* attracts rural workers to the urban sector even in the face of *urban unemployment and under-employment*. Despite this, the rural jobseekers are willing to take their chance in the “urban job lottery” to find their favoured jobs.

- If the probability (chances) of getting the favoured jobs is the ratio of employment in manufacturing, L_M , to the total urban labour pool L_u , then the expression_

$$W_A = (L_M/L_U) W$$

shows the agricultural wage at which the potential migrant equates the urban expected wage and is indifferent about job location. The locus of such points of indifference is given by the I_1I_1 curve. The unemployment equilibrium point is given by point Z.

- The equilibrium agricultural wage is W_A the new urban-rural wage gap is $W_M - W_A$. $O_A L_A$ workers are working in the agricultural sector instead of $O_M L_M$ before migration. $O_M L_M$ workers in the manufacturing urban sector are still employed at the institutional fixed wage W_M . But $L_u = O_A L_A - O_M L_M$ migrants to the urban sector are engaged in low-wage jobs in the informal sector getting less than $O_A W_A$ wage rate which they would have received in the rural sector.

- **Conclusion:**

- The main drawback of this model is that it does not incorporate the costs of rural-urban migration or the relatively higher costs of urban living which the migrants have to incur in the urban sector.

❑ To sum up, the Todaro migration model has four basic characteristics:

1. Migration is stimulated primarily by *rational economic considerations* of relative benefits and costs, mostly *financial* but also psychological.
- The decision to migrate depends on *expected* rather than actual urban rural real-wage differentials where the expected differential is determined by the interaction of *two* variables, the *actual urban-rural wage differential* and the *probability of successfully obtaining employment* in the urban sector.
- The probability of obtaining an urban job is directly related to the urban employment rate and thus inversely related to the urban unemployment rate.

4. Migration rates in excess of urban job opportunity growth rates are not only possible but also rational and even likely in the face of wide urban rural expected income differentials.

High rates of urban unemployment are therefore *inevitable outcomes* of the serious imbalance of economic opportunities between urban and rural areas in most underdeveloped countries.

• **Five Policy Implications**

- The Todaro theory does have important policy implications for development strategy with regard to wages and incomes, rural development, and industrialization.
- ✓ **First**, imbalances in urban-rural employment opportunities caused by the **urban bias**, particularly **first-city bias**, of development strategies must be reduced.
- ✓ **Second**, urban job creation is an *insufficient solution* for the urban unemployment problem. The traditional (Keynesian) economic solution to urban unemployment (the creation of more urban modern-sector jobs without simultaneous attempts to improve rural incomes and employment opportunities) can result in the paradoxical situation where more urban employment leads to higher levels of urban unemployment-i.e., the Process in which the creation of urban jobs raises expected incomes and induces more people to migrate from rural areas (called **induced migration**.)

- **Third**, indiscriminate educational expansion will lead to further migration and unemployment. The Todaro model also has important *policy implications for curtailing public investment in higher education*. The basic Todaro model therefore provides an economic explanation for the observed fact in most developing countries that rural inhabitants with more education are more likely to migrate than those with less.
- **Fourth**, wage subsidies and traditional scarcity factor pricing can be counterproductive. Although such policies can generate more labor-intensive modes of production, they can also lead to higher levels of unemployment in accordance with our argument about induced migration.

- **Finally**, programs of ***integrated rural development*** should be encouraged. Policies that operate only on the *demand side* of the urban employment picture, such as wage subsidies, direct government hiring, elimination of factor price distortions, and employer tax incentives, are probably far less effective in the long run in alleviating the unemployment problem than policies designed directly to regulate the *supply* of labor to urban areas. Clearly, however, some *combination* of both kinds of policies is most desirable.

▪ **Summary and Conclusions: A Comprehensive Migration and Employment Strategy**

- We conclude with a summary of what appears to be the consensus of most economists on the shape of a comprehensive migration and employment strategy. This would appear to have seven key elements:

1. *Creating an appropriate rural-urban economic balance*
 - to ameliorating both urban and rural unemployment problems and to slowing the pace of rural-urban migration
2. *Expansion of small-scale, labor-intensive industries.*
3. *Eliminating factor price distortions*
 - There is ample evidence to demonstrate that correcting factor price distortions—primarily by eliminating various capital subsidies and curtailing the growth of urban wages through market-based pricing—would increase employment opportunities and make better use of scarce capital resources
4. *Choosing appropriate labor-intensive technologies of production*
5. *Modifying the linkage between education and employment*
6. *Reducing population growth*
7. *Decentralizing authority to cities and neighborhoods.*