

Chapter 7

Urbanization and Rural-Urban Migration: Theory and Policy

■ Key Concepts

The chapter discusses the related problems of urbanization and migration. Key topics include:

- Urbanization trends and living conditions.
- The role of cities.
The Urban Giantism Problem.
- The role of the informal sector of the economy.
- The Todaro migration model.
- Policy options for limiting rural-urban migration.

In section 7.1, Urbanization is described using data on urban population growth over the past 50 years. Urban population growth is generally far more rapid than aggregate population growth, with about half the urban growth accounted by migrants from the rural areas.

Section 7.2 focuses on the role of cities. Developing-country cities are growing far more rapidly than those in the developed countries. Shantytowns and similar makeshift settlements represent over one-third of developing country urban residents. Box 7.1 (found in this section) provides a case study on industrial clusters in China.

Section 7.3 explains the problems this growth causes. Section 7.4 focuses on the urban informal sector. Many developing-country urban areas have experienced dualistic development where a modern formal sector exists alongside a large urban informal sector. Between 30% and 70% of the urban labor force works in the informal sector. Characteristics of urban informal sector jobs include:

- low skill
- low productivity
- self-employment
- lack of complementary inputs
- jobs in petty sales and services
- recent migrants.

Given constraints on modern sector growth, the text argues that the informal sector should be promoted as a major source of employment and income for the urban labor force. This sector already generates up to a third of urban income and demand for unskilled labor, and adopts appropriate technology. An improvement in infrastructure and credit available to this sector could generate large benefits in terms of increases in income and jobs for the poor. But promoting this sector runs the risk of encouraging more migration, unless more resources are devoted to the rural sector at the same time.

In section 7.5, the pros and cons of rural-urban migration are reviewed. Migration is viewed as both a symptom and contributor to underdevelopment, much as population growth is. The Todaro migration model helps explain why it is rational for people to continue to move to crowded cities where unemployment is high and rising in section 7.6. The model is based on differences in expected income between the urban and rural sector. High urban unemployment is inevitable given the large expected income differentials between the rural and urban sectors that exist in many developing countries. Both a verbal and a diagrammatic presentation of the model are included.

Important conclusions from the Todaro model include:

- The need to reduce the urban bias of development strategies and encourage integrated rural development. This will reduce the wage differential between the urban and rural area.
- Creating urban jobs is an insufficient solution to the urban unemployment problem because more migration is induced.
- Expanding education opportunities often results in more migration.
- Urban wage subsidies are counterproductive as they encourage more migration by increasing the probability of finding a job.

$$f(K, L, A)$$

$$\begin{matrix} \uparrow & \uparrow \\ R & W \end{matrix}$$

Section 7.7 describes policy options for reducing migration and increasing employment that follow from the Todaro model and include creating an appropriate rural-urban economic balance, expanding small scale labor intensive industries, eliminating factor price distortions, choosing appropriate labor-intensive technologies, modifying the link between education and employment, reducing population growth, and decentralizing authority.

A mathematical formulation of the Todaro migration model is included in an appendix to the chapter.

The chapter ends with a description of migration and urbanization in India and Botswana, with most emphasis placed on the former.

■ Discussion Topics

- Debate the pros and cons of promoting the informal sector. Introduce the basic facts of the informal sector and see what ideas the students come up with for the pros and cons. You can lead them with questions about how to improve productivity and what is the most appropriate technology.
- Given the joint nature of poverty, population growth, and lack of employment faced by many developing countries, see what kinds of solutions students can come up with to address simultaneously all three problems. Possibilities include wage subsidies, investment credits, public works projects, credit for small scale producers, and expanding or reforming the education system. Ask them to propose a policy and discuss how it affects each of the 3 problems. If you are going to cover chapter 8 on education you may wish to defer this discussion. You may also defer this discussion until after the discussion of agriculture and the rural sector in chapter 9.

- Debate the pros and cons of multinational corporation hiring practices, in relation to urban bias. In other words should MNCs pay higher than equilibrium wages? This discussion draws on labor demand and supply analysis as well as the price incentive model. The discussion also draws on the media attention given to such hiring practices within the developed countries, in terms of fairness and equity. This question can be postponed until chapter 15 when MNCs are discussed in greater detail.

■ Sample Questions

Short Answer

1. Suppose the rural wage is \$1 per day. Urban modern sector employment can be obtained with 0.5 probability and pays \$2 per day. Will there be any rural-urban migration? Explain your reasoning, stating explicitly any simplifying assumptions, and show all work.

Answer: In this case the expected urban wage is equal to the rural wage. Only an individual who is risk loving will migrate.

2. How could the removal of labor market distortions increase employment even if the elasticity of factor substitution is very low?

Answer: Reduce speculative rural-urban migration based on expected wages as in the Todaro model.

3. What are the characteristics of those who migrate to urban areas? What positive and negative effects does their leaving have on those who remain?

Answer: Younger, better educated, and probably less risk averse, given their willingness to migrate. These factors suggest they could be more entrepreneurial than average had they not migrated, which would benefit the rural area and help alleviate the urbanization problem.

4. Explain why policies designed to reduce urban unemployment may not greatly reduce poverty in developing countries.

Answer: They may lead to more migration, and may draw capital away from labor intensive rural development projects benefiting the rural poor.

5. Suppose that, for example in India, a minimum wage is instituted in the modern sector above the market clearing wage, while the rural traditional wage is market determined at a lower level than in the modern sector.

- (a) Describe the impact of this policy on the rural labor force, urban unemployment, and the rural wage.
- (b) Will the modern sector wage be equal to the traditional sector wage after markets equilibrate through migration? Explain.
- (c) What effect might moving costs have on the equilibrium you described in part (b)?
- (d) What effect might the introduction of factories to rural areas have on the equilibrium you described in part (b)?

Answer: (a) Use of the Todaro model is called for here. The rural wage will not necessarily change despite a reduction in the rural labor force as a result of migration. The minimum wage in the urban sector will encourage migration until the expected urban wage is equal to the rural wage. Urban unemployment will rise, both from migration and the minimum wage.
 (b) Expected, not actual, urban wages will equal rural wages after equilibration.
 (c) With moving costs, there would be less migration.
 (d) With rural development, there would be less migration if this increased the rural wage.

$$EW = 2 \times 0.5 = 1$$

$\begin{matrix} 2\$ & 0.5 \\ 0 & 0.5 \end{matrix}$

risk averse

on

6. Discuss the importance of rural-urban migration as a source of urban population growth in various parts of the developing world, being as specific as you can.

Answer: Discussed in the chapter.

7. Point out the main differences in job conditions and worker characteristics between the urban formal and informal sectors.

Answer: Discussed in the chapter.

8. Explain some important policy measures that you would expect to reduce excessive rural-urban migration. Explain.

Answer: Students may mention various types of traditional sector enrichment strategies.

9. Are developing country cities too large, too small, or about right in size? Justify your answer with evidence from developing economies.

Answer: Too large. Cities are capital intensive, the largest cities are increasingly found in the developing countries, and there are many urban biases causing the distortion.

10. Explain what is meant by *urban bias*. What are the major effects of *urban bias*?

Answer: Developing country policies that favor the urban sector with a disproportionate share of investments in infrastructure, factories, buildings, and education. This creates a widening gap in incomes and amenities between urban and rural economies and induces rural-urban migration.

11. Describe some of the benefits and costs associated with the emergence of large cities in developing countries.

Answer: Benefits include the ability to learn from others that are located in close proximity, a reduction in transportation costs, and a large availability of skilled labor. Costs include congestion and pollution.

12. Describe some of the causes of *urban giantism* in developing countries.

Answer: The hub and spoke transportation system, avoiding transportation costs, location of industry in the political center, and the import substitution strategy that led firms to want to locate close to the local market.

13. What are the main features of the Harris-Todaro model of rural-urban migration?

Answer: Rational economic decision based on costs/benefits. The reward to migration is expected rather than actual urban income. The probability of obtaining an urban job depends on urban employment rates. High rates of urban unemployment are inevitable.

14. Why is urban giantism less prevalent in mature democracies?

Answer: The student is asked to draw on the political economy explanation whereby autocratic regimes must satisfy the demands of the urban masses to avoid political unrest (the Ades and Glaeser argument).

15. Even though women may often constitute the majority of the rural-urban migrants in a country, they usually still remain employed in the informal sector. Why? What are the consequences of this?

Answer: Men tend to dominate the formal sector therefore limiting employment opportunities for women. This leaves women with employment in the informal sector which is usually comprised of low wage and unstable employment with little or no employee or social security benefits.

■ Multiple Choice

1. An argument supporting promotion of the urban informal sector is
 - (a) the formal sector is incapable of providing enough employment.
 - (b) informal sector workers are poorly educated.
 - (c) it uses a relatively high capital intensity.
 - (d) it would reduce urban bias.

Answer: A

2. Rural-urban migrants differ from the rest of the rural population in that they are more likely to be
 - (a) well educated
 - (b) poor
 - (c) female
 - (d) all of the above

Answer: A

3. Other things constant, the elimination of factor price distortions in developing countries would most likely
 - (a) decrease rural-urban migration.
 - (b) have little effect on rural-urban migration.
 - (c) increase rural-urban migration.
 - (d) increase urbanization.

Answer: A

4. The informal sector exhibits
 - (a) free entry
 - (b) labor intensive methods
 - (c) small, competitive firms
 - (d) all of the above

Answer: D

5. If the rural wage is 4 and the formal urban wage rate is 10, there will be rural to urban migration if the formal urban unemployment rate is
 - (a) 50%
 - (b) 60%
 - (c) 70%
 - (d) all of the above

Answer: A

$$10 \times 0.5 = 5 > 4$$

6. According to the United Nations, Millennium Development Goals Report, the annual growth in % of slum population from 1990-2001 has been the largest in:
- (a) Latin America and the Caribbean
 - (b) South-East Asia
 - (c) Sub-Saharan Africa
 - (d) Southern Asia

Answer: C

7. For what percentage of urban population growth is rural-urban migration responsible?
- (a) between 35% and 60%.
 - (b) between 40% and 80%.
 - (c) between 50% and 70%
 - (d) between 50% and 90%.

Answer: A

8. According to UN projections, what proportion of the world's urban population will reside in the urban areas of developing countries by 2025?
- (a) two fifths.
 - (b) one half.
 - (c) two thirds.
 - (d) four fifths.

Answer: D