

# Rural-Urban Migration and Structural Change: A Reinterpretation<sup>\*</sup>

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## Abstract

Structural change and rural to urban migration are often seen as two dimensions of the same reallocation process. However, using panel data on Indonesian workers spanning two decades, I document that workers switch from agriculture to non-agriculture within rural areas, and that most rural-urban migrants are not farmers. Next, I show that aggregate reallocation out of agriculture is primarily driven by younger cohorts of workers entering the labor market in non-agriculture. Compared to older ones, younger workers are more educated, and also do not bear sectoral switching costs upon choosing which sector to work in, which may explain their lower agricultural share. Moreover, their education may have been acquired in urban areas, where it is more demanded due to the presence of a larger non-agricultural sector. To quantify the importance of these forces for the patterns of employment reallocation, I build an overlapping generations model with two sectors, two locations, and differential local access to education in which switching sector or location is costly. First, I find that rural-urban migration has little impact on structural change out of agriculture, as the rural non-agricultural sector is able to absorb most of the workers that leave agriculture in rural areas. Second, I uncover a prominent role for sectoral switching costs, rather than differences in education, for the cohort-level differences in employment shares. Finally, I show that differences in local access to education between rural and urban areas can account for part of rural-urban migration, yet their impact on structural change is limited.

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