Chapter 7

Urbanization and Rural-Urban Migration: Theory and Policy
Migration and Urbanization

1. Urbanization: Trends and pictures
2. Why do cities exist? Agglomeration economies
3. Harris-Todaro Model of Migration
4. Are LDC cities “too big?”
5. Policies toward migration and urbanization
1. Trends and Pictures

- Urbanization: [www.gapminder.org](http://www.gapminder.org)
- Greater urbanization is associated with higher per capita income
- Basic Theory: People move from low productivity, low income traditional agriculture to higher productivity, higher income urban employment
Figure 7.4 Megacities: Cities with Ten Million or More Inhabitants

Slumdog Crorepati
Dharavi | Mumbai's Shadow City
Lima
Manila
2. Why do Cities Exist?

- **Agglomeration economies**
  - Lower transport costs for intermediate and finished goods
  - Large pool of workers to draw from
  - Large pool of firms to work for
  - Increased specialization: “The degree of (firm, worker) specialization is limited by the extent of the market.” Adam Smith
2. The Role of Cities (continued)

• “Spillovers” (Externalities)
  – Learn from firms doing similar work
    • Joint ventures
    • “Steal” workers

• Manage work flow by contracting out and/or subcontracting
2. The Role of Cities (continued)

• Result: Clusters of firms in same industry in same geographic area
  – Silicon Valley
  – Show firms in Sinos Valley, Brazil and Guadalajara, Mexico
  – Artisans of same trade band together
Dualism in Cities

- Formal (Modern) Sector
  - Government, large businesses
  - Capital intensive
  - High(er) wages and sometimes benefits
Dualism in Cities (continued)

- **Informal Sector**
  - Street vendors, letter writing, knife sharpening, your weight, recycling, prostitution, snake charming, mechanics, carpenters, barbers, personal servants,
  - Labor intensive
  - Unorganized, unregulated, mostly legal
  - Often, Self- or Family-employed
  - Destination for many (most) migrants
Figure 7.8 Importance of Informal Employment in Selected Cities

3. The Harris-Todaro Model

- High rates of migration result from better opportunities in urban areas (Migration is a rational decision)
- Wage in formal sector is “too high” (Excess supply)
- So unemployment exists in urban formal sector
Figure 7.11 Schematic Framework for Analyzing the Rural-to-Urban Migration Decision
Figure 7.12 The Harris-Todaro Migration Model
Equilibrium

\[ W_A = \frac{L_M}{L_{US}} (W_M) \]

Where

- \( W_A \) is agricultural income,
- \( L_M \) is employment in manufacturing
- \( L_{US} \) is total urban labor pool
- \( W_M \) is the urban minimum wage
Applications

- Increase labor demand in modern sector
  - Employment increases in modern sector =>
  - Cities are more attractive => more migration
  - Until equilibrium is restored

\[ W_A = \frac{L_M}{L_{US}} \left( \overline{W}_M \right) \]

- Decrease minimum wage
- Increase agricultural prices
Implications

• Increasing jobs in the modern sector may INCREASE urban unemployment
  – Because it increases migration
• Reducing the minimum wage in the modern sector will reduce unemployment
• Increasing Ag Income will reduce urban unemployment
• “Getting the prices right”
Criticism of Harris-Todaro

- Lacks Informal Sector

\[ W_A = \frac{L_M}{L_{US}} (\bar{W}_M) + \frac{L_I}{L_{US}} (W_I) \]

Where

- \( L_I \) is employment in Informal
- \( W_I \) is wage in Informal sector
4. Are LDC Cities “Too Big?”

• “The Urban Giantism Problem”
Are LDC Cities “Too Big?”

- Marx and Engels:
  - It is in cities that people would come to understand that, in capitalist societies, “all that is solid melts into air.”
  - Urban-industrial development is a necessary stage in historical development, leading to upheavals of peasants and proletarians.

Are LDC Cities “Too Big?”

- Tolstoy, Blake, Rushkin:
  - “The country-side is paradise,” approximately.

- Gandhi:
  - “Hospitals are institutions for propagating sin”
  - Railways are the “carriers of plague germs” which “increase the frequency of famines”
  - “Machinery is like a snake-hole;” the source of Europeans’ enslavement of themselves
  - Good conduct can only be nurtured in villages
Are LDC Cities “Too Big?”

- Jacobs (1969): “Without cities, we would all be poor.”
- World Bank (2000): “Levels of urbanization and GDP per capita are closely and positively related.” Gapminder.org
Are LDC Cities “Too Big?”

• There is tremendous poverty (squalor) in the shanty towns of cities.

• Yes, but people still choose to move there, indicating how much worse conditions are in the rural areas.
Are LDC Cities “Too Big?”

- Todaro-Smith: Rural-urban migration is greater than the urban areas’ abilities to create jobs and provide social services.

- But Hans Rosling says, it is less expensive to provide health and education (and postal services) in urban areas than in dispersed rural areas.
  - Example: Montana.
Are LDC Cities “Too Big?”

- Todaro-Smith: Development policies have been characterized by an “Urban Bias”
  - Bulk of infrastructure investment going to cities (but that’s where the growth is)
  - Wage rates set artificially high in urban areas (yes in the formal sector; no in informal sector)
  - Ag prices set artificially low (yes, in 1950s-70s)
  - But most of these price distortions have been removed since the 1980s
Are LDC Cities “Too Big?”

- Todaro-Smith: Urban Bias results from the unequal political power between urban and rural areas. Cities are more educated, richer

- *But rural elites still have substantial influence (“voice”), especially in democracies (Montana, India: ag subsidies for water, power)*

- Economics: Invest where social rate of return (benefit-cost ratio) is highest
5. Policies to Slow Migration

- Doug’s Note: Policies based on the questionable premise that migration should be reduced

- Five Policy Implications
  - Reduction of urban “bias” in development
  - Education fosters increased migration and unemployment (Doug: so halt education?)
  - Wage subsidies can be counterproductive
  - Programs of integrated rural development (Doug: Cost-benefit?)
5. Policies to Slow Migration

• Create a urban-rural balance (*Doug: that’s what migration does*)
• Expand small, labor intensive industries (C-B?)
• Eliminate factor-price distortion (*Doug: Yes!*)
• Choose appropriate technologies (*Doug: Mostly private sector*)
• Modify the linkage between education and employment (*Doug: Hire least qualified?*)
• Reduce population growth (*Doug: Done*)
• Decentralize authority
Case Study: India
Banerjee: A Case Study of Delhi

• Earnings in Formal sector (only) 9% greater than in Informal sector, controlling for age, education, etc.
• 14% of Informal sector workers are non-wage (self- or family-employed)
• Non-wage Informal sector workers earn 47% more than Formal sector workers
Banerjee - 2

- Movement from Informal to Formal Sector:
  - 5 - 15% of rural migrants into the Informal sector moved into Formal sector after 1 year
  - Rate of entry from Informal sector into Formal sector was 1/6 to 1/3 that of rate of direct entry into Formal sector from outside the area

- 2/3 of entrants to Formal sector found their jobs through personal contacts
Most migrants were attracted by Informal sector work, rather than the possibility of being hired into the Formal sector.

Duration of unemployment after migration is short:
- 64% find work within a week
- Average waiting time for first job = 17 days
• Migrants kept close ties to rural roots
  – 75% visit their rural villages
  – 2/3 remit part of income
  – Average Remittance = 23% of income

• => Modify Harris-Todaro model to take account of Informal sector; low unemployment
Case Study: Botswana
Lucas: Migration amongst the Batswana

• Urban earnings much higher than rural earnings (68% higher for males)
  – But differential is much less when control for education and experience

• More likely to migrate if:
  – Higher expected earnings
  – Higher probability of employment
  – I.e. Migration is economically rational
Lucas - 2

• Earnings rise with time in urban center
  – **Not** because of shift to Formal sector
  – Rather, because of pay increases within the Informal sector

• => Modify Harris-Todaro model to take account of Informal sector; low unemployment