Chapter 7

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

• As a pattern of development, the more developed the economy, the more urbanized it becomes.

• But many argue that developing countries are often excessively urbanized or too-rapidly urbanizing.
  
  • Today’s poorest countries are far more urbanized than today’s developed countries were when they were at a comparable level of development.

• This combination suggests the migration and urbanization dilemma.
Urban Population and Per Capita Income across Selected Countries

Urbanization: Trends and Projections

- Urbanization is occurring everywhere
  - at high and low levels of income
  - whether growth is positive or negative.
Urbanization across Time and Income Levels

![Graph showing urban population (% of total population) vs. GDP per capita (1987 U.S. $) for 1970 and 1995.]

Urbanization: Trends and Projections

- Rapid growth of cities in developing countries since postwar period.
- In 1950, total urban population was 724 million with 38% living in cities in developing countries.
- By 2003, it was 2/3 of the 3 billion urban population.
- Proportion of world urban population living in developing countries projected to reach 80% by 2025.
Urbanization: Trends and Projections

- In the case of particular cities, urban population growth ranges from under 1% per annum in two of the world’s largest cities, New York and Tokyo to over 6% in many African cities (Nairobi, Lagos and Accra).
- Growth rates of many cities in Asia and Latin America are at rates in excess of 4% or 5%.
- In 1995 only 4 cities in developed countries among the world’s largest cities; estimated to reduce to 2 by 2015
  - New York falls from no. 3 to 11.
Proportion of Urban Population by Region, 1950-2050

Megacities: Cities with Ten Million or More Inhabitants

Estimated and Projected Urban and Rural Population of the More and Less Developed Regions, 1950-2050

Migration and Urbanization Dilemma

• How can LDC cities cope—economically, socially, environmentally, and politically—with such acute concentrations of people?
  – Problems with basic amenities such as water, electricity, sewer systems.
  – Also housing and access to health and educational facilities.

• Rapid urbanization (population growth and rural-urban migration) and urban bias in development strategies have led to growth of huge slums and shantytowns.
  – Geographic imbalance in economic opportunities.

• Rural migrants constitute 35-60% of recorded urban population growth.
Migrant workers move to nearby towns and large cities, and especially the capital city. They reside in slums and shanty towns where low cost housing is available.

The Role of Cities

• What explains the strong association between urbanization and development?

• Agglomeration economies– cities provide cost advantages to producers and consumers
  – Urbanization (general) economies
  – Localization (industry or sector) economies
    • Saving on firm-to-firm, firm-to-consumer transportation
    • Firms locating near workers with skills they need
    • Workers locating near firms that need their skills
    • Firms benefit from specialized infrastructure
    • Firms benefit from knowledge spillovers in their and related industries.
Urbanization Costs and Efficient Urban Scale

• But, cities also entail “congestion costs”
  – Higher real estate costs, longer commutes and higher transportation costs, higher costs for infrastructure such as water and sewer systems, pollution, etc.
  – Trade-off between economies and diseconomies determines optimal city size.
The Urban Giantism Problem

• Cities are capital intensive so may expect large cities commonly located in developed countries.

• But urbanization in developing countries has taken place at unexpectedly rapid pace resulting in urban bias in development.
  – Tendency for economic activity to be concentrated in one or 2 big cities

• May be inefficient from social point of view
  – by diversifying the location of firms & economic activities one can reduce cost of production and commuting as well as congestion.
The Urban Giantism Problem

• Large fraction of workers outside formal sector
  – Huge informal sector in shantytowns

• Much urban growth is in mid-size cities, but urban bias remains a serious issue in many developing countries

• There may be First-City Bias (favoring largest city)
  – Receives disproportionately large share of public investment
  – Largest city often several times bigger than 2nd largest and nonprimate cities
    • Some empirical findings show that several indicators of the quality of life are adversely affected by the share of primate city in a country’s urban population; eg. Child mortality and percentage of households with access to potable water.
Population of the Largest and Second-Largest Cities in Selected Countries (millions)

<table>
<thead>
<tr>
<th>Country</th>
<th>Largest-City Population</th>
<th>Second-Largest-City Population</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>Toronto, 5.035</td>
<td>Montreal, 3.603</td>
<td>1.40</td>
</tr>
<tr>
<td>United States</td>
<td>New York, 18.727</td>
<td>Los Angeles, 12.303</td>
<td>1.52</td>
</tr>
<tr>
<td>Argentina</td>
<td>Buenos Aires, 12.551</td>
<td>Cordoba, 1.423</td>
<td>8.82</td>
</tr>
<tr>
<td>Brazil</td>
<td>São Paulo, 18.647</td>
<td>Rio de Janeiro, 11.368</td>
<td>1.64</td>
</tr>
<tr>
<td>Chile</td>
<td>Santiago, 5.605</td>
<td>Valparaiso, 0.837</td>
<td>6.70</td>
</tr>
<tr>
<td>Mexico</td>
<td>Mexico City, 18.735</td>
<td>Guadalajara, 4.057</td>
<td>4.62</td>
</tr>
<tr>
<td>Peru</td>
<td>Lima, 8.081</td>
<td>Arequipa, 0.732</td>
<td>11.04</td>
</tr>
</tbody>
</table>

Source: From UN World Urbanization Prospects 2009 Revision, 2005 data (most recent non-projected year).
Note: Definitions of city size differ across studies.
The Urban Informal Sector

• A striking feature of urbanization in developing countries is the presence of a large informal sector.

• Between 30-70% of urban labor force works in the informal sector.

• Main characteristics of urban informal sector jobs
  - low skill
  - low productivity
  - self-employment
  - lack of complementary inputs particularly capital
  - small scale measured in terms of sales, assets, employment, etc.
  - favored by recent migrants.
Importance of Informal Employment in Selected Cities

The Urban Informal Sector

• Urban informal sector viewed as residual sector- a reflection of limited industrial development
  – With industrialization and development this sector will disappear

• Another view envisages more positive role for urban informal sector
  – Sector allows excess rural labor to escape from extreme rural poverty and underemployment.
  – A cheap source of inputs and services for the formal sector (backward linkage).
  – By increasing income of poor it increases demand for goods and services produced by formal sector.

– Over time second view has gained popularity and the urban informal sector is now considered to be vital for reducing poverty and inequality of income.
The Urban Informal Sector

• Why promote the urban informal sector?
  – Generates surplus despite hostile environment
  – Creating jobs due to low capital intensity
  – Access to (informal) training, and apprenticeships
  – Creates demand for less- or un-skilled workers
  – Uses appropriate technologies, local resources
  – Recycling of waste materials to produce basic commodities for the poor
  – Benefits the poor, especially women who are concentrated in the informal sector.
Disadvantages of Encouraging Urban Informal Sector

• Increased migration and aggravating the problem of urban giantism
• Increased urban unemployment
• Discrimination against formal sector bad in the long run.
The Urban Informal Sector

• Policies for the Urban Informal Sector
  – Remove policies which discourage informal sector
  – Provide information and training facilities
  – Increased access to capital and credit.

• Women in the Informal Sector
  – Often constitute bulk of informal sector
  – Legalization and economic promotion of informal-sector activities could greatly improve women’s financial flexibility and the productivity of their ventures.
Migration and Development

• Rapid growth in urban population in developing countries
  – Major reason: rural-urban migration
• Rural-urban migration aggravates the structural imbalances in two ways
  – increases the labor supply in the urban areas and depletes the human capital in rural areas
  – job-creation in urban areas requires more resources relative to rural areas, reducing the resources available to rural areas.
• What causes migration? Is migration good or bad?
• How does it affect the development process, poverty, inequality and growth?
• What policies can be adopted so that migration has socially desirable outcomes?
Migration and Development

• Rural-to-urban migration was viewed positively until recently
• The current view is that this migration is greater than the urban areas’ abilities to
  – Create jobs
  – Provide social services
• Exacerbates already serious urban unemployment problems.
Toward an Economic Theory of Rural-Urban Migration

• What explains the positive relationship between rural-urban migration and urban unemployment?

• The Todaro Model of migration
  – Migration is a rational decision
  – The decision depends on expected rather than actual wage differentials
  – The probability of obtaining a city job is inversely related to the urban unemployment rate
  – Migration rates in excess of urban job opportunity growth rates are not only possible but also rational
Toward an Economic Theory of Rural-Urban Migration

• Migrants consider the various labor market opportunities available to them in the rural and urban sectors and choose the one that maximizes their expected gains from migration.
  – To migrate, balance probability of being unemployed for considerable time period against positive urban-rural real income differential.
  – Positive present value of net stream of expected urban income over expected rural income justifies decision to migrate.
  – Rural-urban migration acts as equilibrating force equating rural and urban expected incomes.
  – Because expected income defined in terms of both wages and employment probabilities, possible to have continued migration despite existence of sizable rates of urban unemployment.
Schematic Framework for Analyzing the Rural-to-Urban Migration Decision

The Harris-Todaro Migration Model:
Achieving unemployment equilibrium between urban expected wages and average rural income
Toward an Economic Theory of Rural-Urban Migration

Probability of urban job success necessary to equate agricultural income with urban expected income and thus make potential migrant indifferent between job locations

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

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
Toward an Economic Theory of Rural-Urban Migration (cont’d)

• Five Policy Implications
  – Reduction of urban bias
  – Urban job creation is insufficient solution to urban unemployment problem
    • Imbalances in expected income opportunities is crucial
    • Faster job-creation in urban areas may only lead to induced migration.
  – Indiscriminate educational expansion fosters increased migration and unemployment
  – Wage subsidies can be counterproductive
    • Can lead to induced migration; urban wages already high.
  – Programs of integrated rural development should be encouraged.
A Comprehensive Migration and Employment Strategy

• Create a urban-rural balance
• Expand small-scale, labor intensive industries
• Eliminate factor price distortions; capital subsidies
• Choose appropriate labor-intensive technologies of production
• Modify the linkage between education and employment
• Reduce population growth
• Decentralize authority to cities and neighborhoods.