Urbanization and Rural-Urban Migration: Theory and Policy

AEB 4906
Development Economics
http://danielsolis.webs.com/aeb4906.htm
The Migration and Urbanization Dilemma

- Urbanization and city growth are caused by a number of different factors including:
  - rural–urban migration,
  - natural population increase, and
  - annexation.
Because rates of natural increase are generally slightly lower in urban than in rural areas, the principal reasons for rising levels of urbanization are rural–urban migration, the geographic expansion of urban areas through annexations, and the transformation and reclassification of rural villages into small urban settlements.
The expansion of the metropolitan periphery can be caused both by the arrival of new migrants and by the sub-urbanization of the middle class out of the central city.

The relative importance of each of these various causes of urbanization and suburbanization varies both within and between regions and countries.
Figure 8.1  Urbanization versus GNP

Urbanization across Time and Income Levels

Proportion of Urban Population by Region, 1950-2030

Megacities: Cities with Ten Million or More Inhabitants

Source: Data from United Nations Population Division, March 2002.

Annual Growth of Urban and Slum Populations, 1990-2001

The Role of Cities

- Cities are formed because they provide cost advantages to producers and consumers. This is called **agglomeration economies**.

- Two types of agglomeration economies:
  - **Urbanization economies**: the existence of *industrial districts or clusters*, facilitates technology spillovers.
  - **Localization economies**: refers to reduction in costs due to *backward* (inputs, skilled workers) and *forward* (transportation) linkages.
Urban agglomerations

Advantages:

• cost reductions due to economies of scale and proximity
• positive economic externalities: skilled workers, cheap transport
• positive social externalities: cultural amenities

Disadvantages:

• social costs of progressive overloading of housing and social services
• increased crime
• increased pollution
• congestion costs: higher costs of real estate
The Urban Giantism Problem

Problem: in developing countries, capital cities are “urban giants” that suffer from enormous levels of congestion there are not adequate mid-sized cities to provide alternative locations for economic growth.

Causes:

1. inheritance of a colonial transportation system designed to extract natural resources
2. lack of appropriate government intervention to solve the “coordination failure”
3. “first city bias” disproportionate public investment in capital cities
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, 4.3</td>
<td>Montreal, 3.3</td>
<td>1.3</td>
</tr>
<tr>
<td>United States</td>
<td>New York, 19.7</td>
<td>Los Angeles, 15.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Argentina</td>
<td>Buenos Aires, 10.7</td>
<td>Rosario, 1.1</td>
<td>9.7</td>
</tr>
<tr>
<td>Brazil</td>
<td>São Paulo, 9.8</td>
<td>Rio de Janeiro, 5.5</td>
<td>1.8</td>
</tr>
<tr>
<td>Chile</td>
<td>Santiago, 4.3</td>
<td>Concepción, 0.3</td>
<td>14.3</td>
</tr>
<tr>
<td>Mexico</td>
<td>Mexico City, 15.0</td>
<td>Guadalajara, 2.9</td>
<td>5.2</td>
</tr>
<tr>
<td>Peru</td>
<td>Lima, 6.4</td>
<td>Arequipa, 0.6</td>
<td>10.7</td>
</tr>
</tbody>
</table>


Note: Definitions of city size differ across studies.
Annual Growth of Urban and Slum Populations, 1990-2001

The Urban Informal Sector

- Importance of the informal sector in developing economies
- Policies for the Urban Informal Sector
- Women in the Informal Sector
Importance of Informal Employment in Selected Cities

![Bar chart showing share of employed population in the informal sector for various cities.](chart.png)

Youth Unemployment Rates, 1995 and 2005

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
Components of Migration in Selected Countries

Toward an Economic Theory of Rural-Urban Migration

- A verbal description of the Todaro model
  - 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
  - High rates of migration are outcomes of rural urban imbalances

- A Diagrammatic Presentation
Schematic Framework for Analyzing the Rural-to-Urban Migration Decision

The Harris-Todaro Migration Model
Toward an Economic Theory of Rural-Urban Migration

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

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

Five Policy Implications

- Reduction of urban bias
- Imbalances in expected income opportunities is crucial
- Indiscriminate educational expansion fosters increased migration and unemployment
- Wage subsidies and scarcity factor pricing can be counterproductive
- Programs of integrated rural development should be encouraged
A Comprehensive Migration and Employment Strategy

- Create a urban-rural balance
- Expand small, labor intensive industries
- Eliminate factor-price distortion
- Choose appropriate technologies
- Modify the linkage between education and employment
- Reduce population growth
- Decentralize authority