

## Do People Continue Migrating to Cities for Higher Wages despite Potentially Worse Living Conditions?



Despite high levels of urbanization, economic incentives to migrate from rural to urban areas persist. In addition to the urban-rural expected wage gap, the probability of finding a formal job and the higher cost of urban housing matter greatly as well.



The urban-rural wage gap is larger for individuals with higher levels of education, and it is higher for men than for women.



The urban-rural wage gap is smaller when the city is closer to its rural catchment area, in cities better prepared to absorb migratory flows, and for rural areas with a higher proportion of young (more mobile) people.

### CONTEXT

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Very high levels of urban underemployment, as well as urban labor and housing informality, are found in many Latin American countries. This is in part due to the constant arrival to cities of low-skilled workers. So why does rural-urban migration persist if internal migrants encounter poor conditions in their destination cities? In the 1970s John Harris and Michael Todaro argued that rural-urban migration would continue—even when the risk of unemployment was high—as long as the *expected* wage in the city (including the possibility of unemployment) was larger than the rural wage.

### PROJECT

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We tested the Harris-Todaro hypothesis using data from the 1991, 2000, and 2010 rounds of the Brazilian population census. We estimated the gap between the expected wage in 449 metropolitan areas and the observed wage in their rural areas of influence, which allowed us to analyze how closely actual migration matched the Harris-Todaro model. We then modified the original theory, adding to the calculation of the expected urban wage and the urban-rural gap the likelihood of working in the urban informal sector and the cost of living in each urban area, and tested whether this better predicts actual migration better.

## RESULTS

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Figure 1 shows the distribution of the expected urban-rural wage gap (measured as the ratio between the expected urban wage and the rural wage). In the red line, the expected gap is calculated taking into account the probability of finding a formal/informal job and the wages people could expect to earn in each type of job. Most cities have a ratio close to one. That is, the model is a good predictor of the observed migration once the likelihood of migrants working in the informal sector is considered. In the blue line, the expected gap calculation incorporates the difference in cost of living as captured by the cost of renting a house in urban and rural localities. In this version, fewer cities have an *adjusted* expected wage level that exceeds the level people would earn in rural localities, implying that the model is better able to predict actual migration.

We find that the adjusted expected wage gap works as an incentive for migration in some geographic areas more than others. The model works better to predict rural-urban migration in cities that are closer to their rural catchment area and that are better prepared to absorb migration flows: because they are larger or because they have experienced growth in their service sector in the past that better allowed them to absorb rural migrants. The model also works better in cities whose catchment areas are more archetypically rural, with less densely populated geographies, and in rural areas that have more young people (the segment of the population most likely to migrate to cities).

## POLICY IMPLICATIONS

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Our results support the idea that, despite high levels of urbanization, economic incentives to migrate from rural areas to cities persist. Consequently, it is necessary to consider the indirect effects that public policies may have on the decision of rural workers to migrate to cities. More than fifty years ago Harris and Todaro suggested that policies designed to reduce urban unemployment could be counterproductive if they encourage large migration responses and local economies cannot absorb the inflows of new workers, who end up unemployed or underemployed in their destination cities. This is known as the “Todaro Paradox.”

In Latin America, policies aimed at improving the urban labor market by promoting employment, increasing wages and the increasing the percentage of formal jobs, could have an indirect effect on the levels of labor (and possibly housing) informality in cities. Specifically, these policies could induce an increase in labor informality if migrants cannot find work in the formal labor market. Therefore, employment promotion policies in cities should be designed to provide opportunities for both urban dwellers and potential migrants who arrive in search of better opportunities.

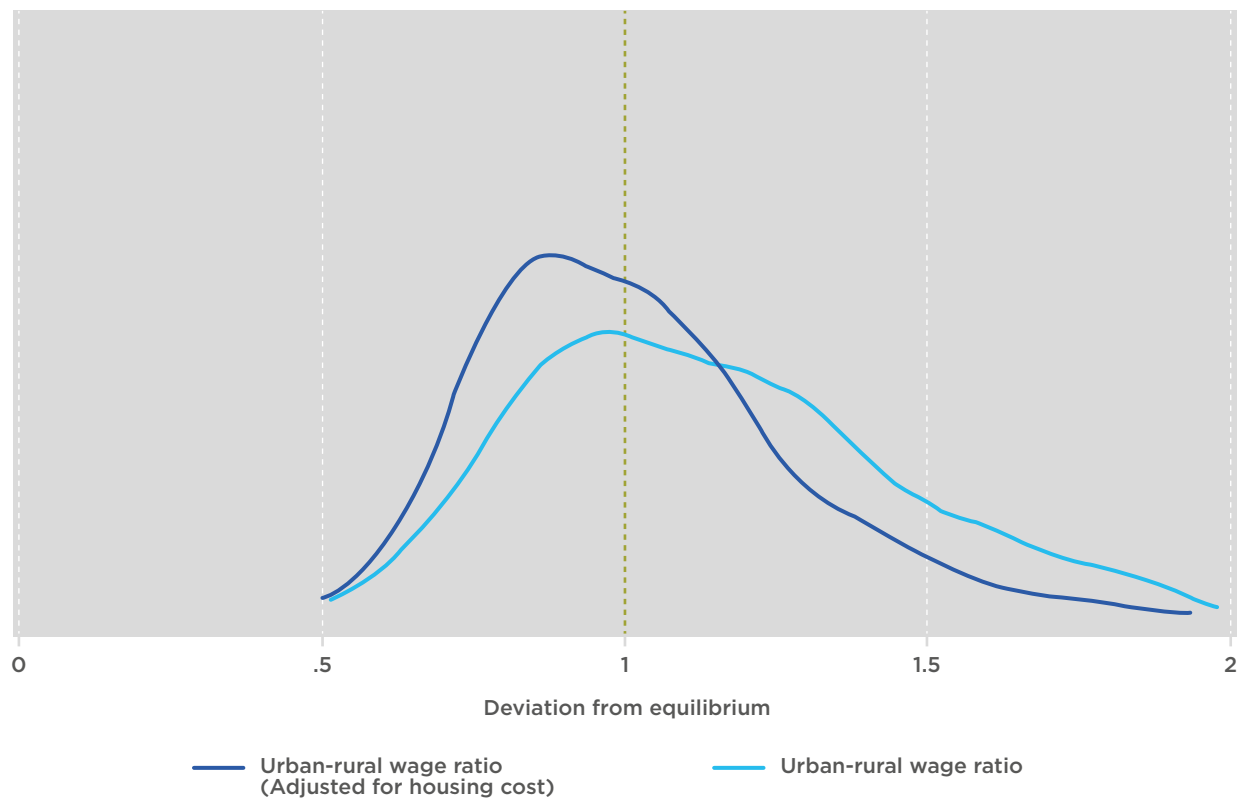
### Key Concept



### HARRIS-TODARO MODEL

Economic model used to explain rural-urban migration decisions and their relationship with the labor market in cities.

Figure 1. Ratio of Expected Wages (Urban-Rural)



### FULL STUDY

[Busso, Matias, Juan Pablo Chauvin, and Nicolás Herrera L. 2020. "Rural-Urban Migration at High Urbanization Levels."](#)

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## DEPARTMENT OF RESEARCH AND CHIEF ECONOMIST

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