

The Economic Implications of Rapid Urban Growth in the Third World Countries

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ABSTRACT Apart from the natural population growth which accounts for urban population in the third world countries, rural-urban migration has accounted for the major growth and the resulting resource cost of providing for rapidly expanding urban population. The great majority move for economic reasons. Studies throughout the third world report time and again that the great majority of migrants consider that they have improved their condition, and that they are satisfied with the move. A paradox arises between the rationality of the individual and the small group decisions to migrate and the irrationality of the migrating movement when considered at the level of the national economy. This micro/macro paradox is resolved when the migratory movement is seen as a mechanism that allows some of the disadvantaged rural population to partake in a small measure of the resources disproportionately concentrated in urban areas. In the absence of effective policies to redistribute productive resources and/or income across the rural-urban divide, rural-urban migration can be argued to contribute to economic development, defined to include distributional aspects.

INTRODUCTION

The proposition that Third World countries are characterized by over-urbanization was widely accepted in the 1950s and into the 1970s. The relationship of level of urbanization and degree of industrialization provided the basis for either a synchronic or a diachronic argument. In cross-sectional analysis, countries such as Egypt and South Korea were shown to deviate from the general pattern of the relationship; in historical comparison, Third World countries were shown to have a degree of industrialization lower than that which characterized First World countries at comparable levels of urbanization in the past. Sovani's (1964) critique of both approaches led to the precipitate retreat of the advocates of the over-urbanization thesis; the very notion was banned from reputable academic discourse. Unheeded went Sovani's cautionary note that the subject of over-urbanization needed to be investigated further. I do not propose to resuscitate comparative arguments but will focus instead on the economic implications of the rapid urban growth that characterizes most Third World countries.

Third World countries have substantial labor in various guises (Boserup 2005). Their labor force continues nevertheless to increase, swelled by not only natural population growth but also rural-urban migration that contributes as much as half of the urban growth in some regions. The process

may be labeled over-urbanization in so far as (1) rural-urban migration leads to a less than optimal allocation of labor between the rural and the urban sectors, and (2) rural-urban migration increases the cost of providing for a country's growing population.

Most rural-urban migrants correctly assess that they are improving their life chances. A paradox arises between the rationality of the individual and the small group decisions to migrate and the irrationality of the migratory movement when considered at the level of the national economy. This micro/macro paradox is resolved when the migratory movement is seen as a mechanism that allows some of the disadvantaged rural population to partake in a small measure of the resources disproportionately concentrated in urban areas. In the absence of effective policies to redistribute productive resources and/or income across the rural-urban divide, rural-urban migration can be argued to contribute to economic development, defined to include the distributional aspect.

URBAN SURPLUS LABOR

Third World cities are characterized by an excess of labor with limited skills. Open unemployment constitutes only one facet of urban surplus labor. A second element is underemployment, that is, the tasks at hand could be satisfactorily carried out by fewer persons.

Finally, substantial numbers, while perhaps fully employed, produce goods or provide services that can be judged to contribute little to social welfare; such persons may be labeled “misemployed”(Gilbert and Gugler 1992).

Unemployment

Information on open-unemployment in developing countries is notoriously problematic. First of all, there are few data. Second, there is good reason to doubt how completely urban populations are covered by censuses, how accurately they are represented in surveys. There is probably a systematic bias in that low-income groups tend to go under-represented; in so far as their unemployment rates diverge from the average, the overall employment rates reported are affected.

Third, the extent of unemployment reported is very much a matter of definition. Is it restricted to those actively seeking work or does it cover all who are available for work or does it cover all who are available for work, including those who have become discouraged about finding work? The distinction is likely to affect in particular the unemployment rate reported for women. This is even more the case for a further definitional issue: Are those searching/available for part-time work to be included? Finally, does part-time work disqualify a person from being considered unemployed? The unemployed are obviously unproductive, but they are usually not representative of the most desperate urban living conditions. Being unemployed in most cases signifies enjoying the support of parents ,spouse, kin, or friends. Thus, unemployment is frequently reported to be lower among immigrants than among the urban poor who are presumably supported by families already well established in the urban economy. An extended search for a satisfactory job can be a rewarding strategy, especially, for those with better qualifications.

Underemployment

Underemployment is defined as the under-utilization of labor. Such under-utilization is most conspicuous where labor is idle part of the time. This is a widespread pattern in agriculture. In the urban sector, seasonal fluctuations are prominent in industries related to the agricultural production cycle, in construction and in the tourist trade.

Underemployment is not limited to those sectors, however, but is much more pervasive.

Underemployment takes three distinct forms. In one guise, it is related to fluctuations in economic activity during the day, such as at markets ; over the week or month, such as in recreational services; or seasonally. As activity ebbs, casual labor is laid off and many self-employed are without work. Underemployment takes a second form where workers are so numerous that at all times a substantial proportion are less than fully employed; in-terms of numbers affected, street vendors constitute the most important category in many countries(Williamson 2007). A third type of underemployment is what may be approximately called “hidden unemployment”: solidarity groups that continue to employ all their members rather than discharging them when there is insufficient work to keep them fully occupied. Such guaranteed employment is typically of family enterprise, but social ties other than kinship proper.

In his study of the urban labor force in Tanzania, Sabot(1999) defined as under-employed those urban wage-earners and own-account workers whose earnings were below average rural income. By this criterion, 10 percent of the urban labor force was under-employed in 1990; another 20 percent was unemployed- two fifth of the urban labor force could thus be considered surplus labor. Still in the context of Tanzania, the loss in potential output was limited. Since the urban labor force was rather small, perhaps 6 percent of the total labor force, the output to be gained by the transfer of the urban surplus labor to the rural sector was unlikely to add more than 2 or 3 percent to national income. Countries where larger proportions of the labor force are urban, similar levels of urban unemployment and underemployment suggest a much more substantial loss of potential output. (Bruknee 1990; Shandra 2003).

Misemployment

Finally, there is what we have called misemployment. Labor may be employed full time, but the tasks performed contribute little to social welfare. Begging is a clear-cut example. More respectable but also fairly unproductive, are the activities of the hangers-on in the entourage of the more powerful and affluent. There is also a wide range of illegal activities. It might be argued

that the thief who redistributes resources from the wealthy to his poor family is performing a service not dissimilar to that of many bureaucrats in a welfare state. And, indeed, the productivity of an activity is ultimately socially defined (Lewis 1998).

The notion of unproductive labor dates back at least as far as Adam Smith's "The Wealth of Nations". It was part of his polemic against the mercantilist state, whose purpose was to redistribute income from its more productive subjects to the sovereign. The political elite, the religious elite, and the cultural and intellectual superstructure were perceived to have a basically parasitic relationship to the productive classes. Presumably, the larger the surplus income generated by the productive sector, the larger the number of retainers and other parasites that could be supported by the ruling class. Substantial numbers of public administrators in many contemporary societies appear similarly misemployed. As in the courts of yore, their role of hanger-on has become institutionalized.

Much misemployment focuses on getting crumbs from the table of the rich man. He is a member of the local elite or middle class, a foreign technical advisor, or a tourist. He is begged for a morsel, or made to maintain a company of sycophants, or has his wallet snatched from him. The relationship is vividly portrayed by three activities: the army of domestics that cleans and beautifies the environment of a small sector of society (Maddisson 2001). The prostitute who submit to the demands of those who can pay and who in the bargain become outcasts; and the scavengers who subsist on what the more affluent have discarded, who literally live on crumbs from the rich man's table.

THE OPPORTUNITY COST OF RURAL-URBAN MIGRATION

An evaluation of the economic implications of rural-urban migration has to take into account the consequences at the rural end. If our assessment of the marginal productivity of labor in the urban economy has to remain tentative, we now enter into the treacherous realm of counterfactual analysis: What would have happened if the migrants had stayed in their rural homes? For a while, the assumption was commonly made that the marginal productivity was low in much of the Third world countries such as Bangladesh, India,

Pakistan, Ethiopia, Nigeria, Congo, Rwanda, Burundi and Jamaica, and major regions such as Java in Indonesia were seen to be so severely over-populated that labor was redundant in the rural areas. Elsewhere, particularly in much of Latin America, the mass of the rural population has no access to land, either because of institutional barriers such as large landholdings controlled by absentee owners which are frequently farmed in a rather extensive manner, or because of a lack of the resources to open up virgin land, particularly in the Amazon basin. The argument gains in strength if it is remembered that the rural exodus is more than compensated for by natural population growth in nearly every country, that is, the rural population continues to increase in absolute numbers in spite of emigration. Admittedly, because of the age selectivity of out-migration, a rural population may increase even while the labor force drops. Thus the 1990-2000 population survey in Upper Volta found a third of the men away from their homes. But such instances appear to be exceptional, even at the regional level within countries (United Nations 1998). In recent years, the emphasis has shifted to a recognition that agriculture is characterized by labor bottlenecks during planting and/or harvesting periods, that even where population pressure on land is severe all hands are needed at certain seasonal peaks of labor requirements. Certainly where additional land can be brought under cultivation, as is the case in nearly every country in Sub-Saharan Africa, the emigration of able bodied adults implies a loss of potential output. The argument applies in other areas if institutional obstacles to the more intensive farming of land are not taken for granted, or if the opportunities for opening up virgin land are seriously considered (Kasarda and Parnall 1993). In countries that are characterized by severe population pressures, these very pressures may encourage changes in agricultural practice that increase output. These can range from an increase in the frequency with which land is cropped, to irrigation, to higher-yield crops, to the use of fertilizer. Recognition that agricultural practice is not static and of the need for innovation, especially where the land to man ration is unfavorable, leads to a full appreciation of the opportunity cost of migration that is selective in terms of age and education. The rural areas lose the young, the more educated, and, we may surmise, the most enterprising. Effective demands

for additional agricultural output is manifested in those Third World countries that have become dependent on food imports as their agriculture proved unable to supply the growing urban population. Certainly, in every country, there is scope for improving nutritional standards. Finally there usually exist opportunities for boosting exports of agricultural products.

I conclude that rural-urban migration entails a loss of potential agricultural output where uncultivated land is still available, where virgin lands could be developed, where institutional restraints on the intensification of farming could be overcome, perhaps even in countries characterized by population pressure on land. I add that disproportionate loss of the young, the educated, and the enterprising delays innovation where it is most needed, that is, where population pressure on land appears most severe given present farming methods.

So far I have restricted my argument to agricultural production, but a substantial proportion of the rural population is engaged in non-farm activities. Sabot (1999) presented data for fifteen third world countries showing that from 12 to 49 percent of the rural population are primarily engaged in non-farm work. Again, it is the out-migrants who would be best equipped to develop such activities. He concludes from the review of the available evidence that the labor utilization by farm families is high. Where there is a substantial seasonal element in the labor requirements for agriculture, the average annual labor input into agriculture may be low.

The Relative Cost of Urban Services and Goods

We have seen that rural-urban migration brings workers to cities that are already burdened with surplus labor, and it now further appears that rural-urban migration entails some loss of potential rural output. If the case that rural-urban migration, at current levels, leads to a less-than-satisfactory allocation of labor between rural and urban areas is plausible, we need to address a second issue that appears to be quite clear-cut: how does the resource cost of providing for a rapidly expanding urban population compare with the task of absorbing such additional numbers in rural areas? Housing, transport, sewerage, provision of fuel, and distribution of staple foods stand out as five amenities that are

expensive in urban agglomerations but cheap or altogether unnecessary in rural areas. Whether the rural-urban migrant manages to pay for them, urban hosts provide them, or they are subsidized by public authorities, these costly amenities probably more than offset the savings that arise in the provision of other services or goods that come cheaper to urban population concentrations than to a dispersed rural population. This is especially the case if the composition of a low-income budget is taken into account.

The pressure rural-urban migrants exert on existing urban infrastructure, and the cost of new infrastructure required by their presence, have received little attention in the literature on Third World urbanization. This curious silence may be grounded in the tacit assumption that the urban poor remain marginal in that they have neither the political clout nor the market power to make effective demands. Thus discussions of squatting center on the diseconomies inherent in such initiatives by the poor to provide housing for themselves but fail to focus on the opportunity cost of land, materials and labor. Even in shantytowns such costs are substantial. Indeed, the value of the land to be put to alternative uses provide the primary motivation for slum-clearance schemes, opposition to squatter settlements and demolition of squatter settlements much of the time.

Lewis (1998) observed that in international finance in the nineteenth century the distinction between the European lenders and their rich borrowers—Australia, the United States, Canada, Argentina—turned on differences in rates of urbanization. Countries whose urban population were growing more slowly lent to rich countries that were characterized by more rapid urban growth. Urbanization is a decisive factor because it is so expensive.

The difference between the cost of urban development and rural development does not turn on the difference of capital required for factories and that required for farms. Each of these is a small part of total investment, and the difference per head is not always in favor of industry. The difference turns on infrastructure. Urban housing is much more expensive than rural housing. The proportion of urban children for whom schooling is provided is always much higher, at the stage where less than 60 percent of children are in school. The town has to mobilize its own hospital

services, piped water supplies, bus transportation. In all these respects, the towns require more per head in-terms of quantity than rural areas, but even if quantities per head were the same, urban facilities would cost more in money terms than rural facilities. Rural people do more for themselves with their own labor in such matters as building houses, or working communally on village roads or irrigation facilities. When they hire construction workers, they pay less, both because of a generally lower price level and because they are not faced with powerful construction unions. Rural people also do not hire architects (Gugler 1990).

To the extent that even marginal migrants have access to better amenities than are available in the rural areas, their migration has a redistributive effect. This redistributive dimension should not obscure the issue at hand, that is, that the provision of a minimum subsistence is more costly for additions to urban than rural populations.

The Economic Rationale for Rural-Urban Migration

If rural-urban migration has an opportunity cost of rural output foregone, if it brings workers to cities that are already unable to fully employ their labor force to productive ends, and if additions to the urban population requires more resources for survival than their rural counterparts, the conclusion is warranted that rural-urban migration at current rates is inefficient. The label "over-urbanization" seems in order. In the face of this condition, rural-urban migration proceeds at rapid pace.

The majority of migrants are ready to enter the labor force. If they contribute as much as half of urban growth, as is the case in some regions, this means that they contribute a considerably higher proportion of the new entrants into labor force, since the urban-born cohort reaching working age originates from a substantially smaller urban population in the past. A substantial body of research on rural-urban migration has accumulated over the last three decades and the evidence is overwhelming. The great majority of people move for economic reasons. When people are asked about their reasons for moving, the better prospects in the urban economy usually stand out. Migration streams between regions can be shown to correspond to income differentials between these regions. Overtime, as

economic conditions at alternative destinations change, migration streams switch accordingly. Finally, studies throughout the Third World report time and again that the great majority of migrants consider that they have improved their condition, and that they are satisfied with their move (Perlman 2006).

If there is a measure of agreement on this basic issue, that rural-urban migration is largely motivated by economic reason, two rather different interpretations have evolved. In tropical Africa, analysis focused on migrants coming in search of jobs in the sector where wages, working conditions, and tenure were protected by legislation and/or collective bargaining. They would spend several months trying to secure such a job, and, if unsuccessful, eventually return to the village. The pattern had features of a job lottery. It reflected the situation in the wages 1950s and 1960s, the time of independence, when urban wages rose substantially in many African countries. Frequently, Independence was also accompanied by a significant expansion in urban employment. Rural-urban migration surged, the labor shortages that had plagued colonial governments vanished, and urban unemployment appeared. Since much labor migration had been short-term up to this time, recent immigrants faced little competition from entrenched urban workers and their descendants. The recruitment of unskilled labor approached a random process (Williamson 2001).

In retrospect, it is clear that the urban job lottery pattern occurred in circumstances that were quite exceptional. Today, throughout most of the Third World, access to the better earning opportunities, and in particular to jobs in the protected sector, is severely restricted. Employers have established criteria for recruitment into different job categories, for example, formal educational qualifications, experience, age, sex. And workers who had protected jobs take advantage of opportunities to assist family members, kin, and friends in joining them. The recent immigrants who has come without the right connections and is not exceptionally qualified, is unlikely to secure a protected job, even if he can afford an extended search. Most migrants have to settle instead for less attractive opportunities, and they become part of the marginalized labor force. Still their earnings are superior to what the rural areas have to offer (Kasarda and Parnall 1993).

The Distributional Dimension

The earlier discussion revolved around a concern with the implications of rural-urban migration for aggregate output. The indications that its contribution to urban output is problematic, that it entails a loss of potential rural output and that it increases demands on scarce resources, led us to conclude that rural-urban migration at current levels is inefficient.

Now it's been argued that rural-urban migration is a rational response to the economic realities ruralites face, that there is advantage to be gained from the move. The resolution of the seeming paradox derives from the fact that rural-urban migration has a redistributive effect. Rural-urban migrants lay claim to a share in urban income opportunities, they gain some access to urban amenities. Deprived rural areas send their sons and daughters to the city so that they will be able to partake, however little, and in whatever demeaning way, of its riches. Even the condition of those who stay in the rural areas may improve as migrants remit part of their income to their family, provide villagers with access to urban amenities, for example, health care, assist in village development and press village interests with officials at the regional or national level (Gilbert and Gugler 1992). Or in some cases, rural conditions can be argued to be at least somewhat better than they would have if the population pressure on land had become even more severe.

Thus, there appears to be a trade off between an inefficient allocation of labor and an improved income distribution. In terms of a concept of economic development that includes a distributional dimension, an evaluation of rural-urban migration then depends on an assessment of its consequences for both output and distribution, and on the respective weighting these are given.

OF POLICY AND POWER

There would appear to be an approach that promises a more efficient allocation of labor between the rural and the urban sector as well as a reduction in the extreme inequalities that characterizes most Third World countries. It will aim at improving rural living standards by channeling productive resources to the rural areas and/or directing a larger share of income to them. This is not an original policy prescription for a problem that has been recognized for a long time.

If policy makers have rarely given more than token recognition to such advice, their inaction reflects not on the economic and social soundness of the advice but on their priorities. Resource allocations, within the city and the village as well as between them, reflect urban priorities rather than equity or efficiency. The damage has been increased by misguided ideological imports and by the town's success in buying off part of the rural elite, thus transforming most of the costs of the process to the rural poor. Cities are centers of power and privilege. In every Third World country, the urban sector accounts for a disproportional share of consumption as well as investment. In many cases, these are even more concentrated in a primate city, typically the national capital. Certainly, industry and modern transport find advantage in spatial concentration. They require urban infrastructure and highly trained specialists. But it would seem that resources for both consumption and investment are invariably apportioned to urban areas beyond the immediate requirements of industrialization. If this proposition is granted, two characteristics of the contemporary setting may be adduced to explain it. On one hand, nearly all those enjoying high standards of consumption are urban based. Unlike the feudal order of Europe's middle ages, and unlike the haciends' system that characterized much of Latin America in the colonial and early post colonial days, throughout the Third World today, virtually the entire elite is located in cities. Much of the middle class of senior civil servants, substantial traders, managers, and professionals also live there, many out of necessity, some by choice. Finally, the protected sector of the urban labor force enjoys a standard of living that is high when compared to the condition of the rural masses and many urban workers. On the other hand, surplus that was appropriated by private interests under laissez-faire capitalism, that was drained abroad in the colonial system, is to a considerable extent controlled by the state. A large part of this surplus goes into public works that are allocated to a hierarchy of places in which the capital city that frequently receives the lion's share while rural areas experience neglect. Public works are attractive to policy makers not only because of their visibility, but because their execution entails usually rather unfettered control over large resources. The rationale of their allocation is found in the interests of decision makers in improving their immediate environment, in assuring the

continued collaboration of the middle class, and in placating strategically placed elements of labor. A large part of the state-controlled surplus is thus absorbed in conspicuous investments for the few in the cities.

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