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Introduction to the Harris-Todaro Model

The Harris-Todaro model, developed by John R. Harris and Michael P. Todaro in 1970, is a foundational framework in understanding labor migration and urban unemployment in developing economies. It offers insights into why rural-to-urban migration persists despite high urban unemployment rates and helps explain the equilibrium conditions that determine wage levels and migration flows.

In many developing countries, rural areas experience underemployment or poverty, prompting large-scale migration to urban centers promising higher wages. However, urban job markets often cannot absorb this influx, leading to persistent urban unemployment. The Harris-Todaro model captures this dynamic by emphasizing the role of expected wages in shaping migration decisions, rather than just the current urban wage.

Core Concepts of the Harris-Todaro Model

Before delving into the equilibrium condition of the expected urban wage, it is essential to understand the core ideas underpinning the Harris-Todaro framework:

- Rural and Urban Sectors: The economy is divided into rural and urban sectors, each with distinct employment conditions and wage structures.
- Wages and Employment in Urban Areas: Urban wages are typically higher than rural wages, but the urban labor market is often characterized by excess supply, leading to unemployment.
- Migration Decision: Rural workers decide to migrate based on the expected urban wage, which considers the probability of finding employment and the prevailing urban wage.
- Expected Urban Wage (EUW): This is the anticipated wage a migrant expects to earn in the urban sector, calculated as the product of the urban wage and the probability of employment.

Expected Urban Wage Rate: Definition and Significance

The expected urban wage rate (EUW) plays a pivotal role in the Harris-Todaro model. It represents the anticipated earnings of a migrant considering the chance of unemployment in the city. Mathematically, it is expressed as:

$$EUW = W_u \times P_e$$

where:

- (W_u) = Urban wage rate
- (P_e) = Probability of employment in the urban sector

This expected wage influences rural workers' decision to migrate: if the EUW exceeds the rural wage, migration is likely to occur; if not, workers are less inclined to move.

Why is EUW crucial?

- It captures the expected benefits of urban migration.
- It explains persistent migration despite urban unemployment.
- It serves as the equilibrium condition in the model, balancing migration flow and unemployment.

Equilibrium in the Harris-Todaro Model

In the Harris-Todaro framework, equilibrium is achieved when migration ceases to be profitable, meaning the expected urban wage equals the rural wage:

$$EUW = W_r$$

where:

- (W_r) = Rural wage rate

This condition ensures that workers have no incentive to migrate further because the expected benefit of moving to the city aligns with their current rural income.

Key implications of this equilibrium:

- Urban unemployment persists because the urban wage exceeds the rural wage.
- Migration continues as long as the expected urban wage is higher than the rural wage.
- The urban sector reaches a state where the expected wage equals the rural income, balancing migration inflows and unemployment levels.

Understanding the Equilibrium Condition

The equilibrium condition can be expanded by considering the components influencing the expected urban wage:

$$EUW = W_u \times P_e$$

Migration occurs when:

$$EUW > W_r$$

And ceases when:

$$EUW = W_r$$

This condition creates a feedback mechanism:

- If urban wages rise, the expected wage increases, attracting more migrants.
- An influx of migrants increases urban unemployment, lowering the probability of employment (P_e).
- As (P_e) decreases, the EUW declines, eventually reaching the rural wage (W_r).

Graphical representation:

- The urban wage (W_u) is typically higher than (W_r).
- The probability of employment (P_e) decreases as urban unemployment increases.
- The expected urban wage (EUW) declines with rising unemployment until it equals (W_r).

Factors Affecting the Expected Urban Wage Rate

Several factors influence the expected urban wage rate and, consequently, migration patterns:

1. Urban Wage Rate (W_u)

- Determined by urban productivity, labor market policies, and minimum wage laws.
- An increase in W_u raises EUW , incentivizing migration.

2. Probability of Employment (P_e)

- Calculated as:

$$P_e = \frac{E_u}{L_u}$$

where:

- E_u = Number of employed workers in the urban sector
- L_u = Total labor force in urban areas
- Higher unemployment rates reduce P_e , decreasing EUW .

3. Urban Unemployment Rate (u_u)

- Defined as:

$$u_u = \frac{L_u - E_u}{L_u}$$

- As u_u increases, P_e decreases, lowering EUW .

4. Rural Wage Rate (W_r)

- Acts as a benchmark for migration decisions.
- If EUW exceeds W_r , migration is attractive.

5. Migration and Policy Interventions

- Policies affecting urban wages, employment, or rural wages directly influence the expected urban wage and migration flows.

Implications of the Harris-Todaro Equilibrium

Understanding the equilibrium condition has profound implications for policy and economic development:

- Persistent Urban Unemployment: The model explains why urban unemployment persists even when wages are high—migration continues until expected wages equal rural wages.
- Urban Growth and Overpopulation: Unchecked migration can lead to overcrowded cities, strain on infrastructure, and increased social problems.
- Rural Development: Improving rural wages or employment opportunities can reduce migration pressure.
- Urban Wage Policies: Raising urban wages without addressing employment levels may exacerbate unemployment.
- Migration Management: Policies must consider the expected wages and unemployment dynamics to manage migration effectively.

Real-World Applications and Policy Recommendations

Applying the Harris-Todaro model in practical settings involves several strategies:

- Enhancing Rural Income: Improving rural sectors reduces the incentive to migrate.
- Urban Employment Creation: Developing urban industries to absorb migrants decreases urban unemployment.
- Wage Regulation: Setting realistic urban wages aligned with employment capacity prevents excessive migration.
- Infrastructure Development: Investing in urban infrastructure to accommodate growth sustainably.

- Migration Policies: Regulating migration flows through permits or incentives.

Case Studies:

- Countries like India, Nigeria, and Mexico have experienced rural-to-urban migration influenced by expected wages, often resulting in urban unemployment and informal sector growth.
- Policy responses in these nations include rural development programs and urban job creation initiatives aligned with the Harris-Todaro principles.

Conclusion

The Harris-Todaro model offers a nuanced understanding of migration dynamics in developing economies by emphasizing the role of expected wages. Its fundamental equilibrium condition—that the expected urban wage rate equals the rural wage—serves as a critical benchmark for policymakers aiming to balance urban growth, employment, and social stability.

By focusing on the expected urban wage, policymakers can design targeted interventions that address both rural underdevelopment and urban unemployment, fostering sustainable economic growth. Recognizing the complex interplay between wages, employment probabilities, and migration decisions is essential for crafting effective strategies in developing countries facing rapid urbanization.

In summary, the expected urban wage rate in equilibrium will be equal to the rural wage rate, reflecting a balance where migration ceases, and urban unemployment persists at a stable rate. This equilibrium condition encapsulates the core insight of the Harris-Todaro model and remains vital for understanding and managing urbanization in developing economies.

Frequently Asked Questions

According to the Harris-Todaro Model, in equilibrium, the expected urban wage rate will be ____ the rural wage rate.

equal to

What does the Harris-Todaro Model suggest about

migration when the expected urban wage equals the rural wage?

Migration between rural and urban areas will reach equilibrium, with no further net movement of workers.

In the Harris-Todaro Model, how is the expected urban wage rate calculated?

It is calculated as the actual urban wage multiplied by the probability of finding a job in the urban sector.

Why does the Harris-Todaro Model predict that urban unemployment can persist even when expected wages are equal to rural wages?

Because workers continue to migrate to the city as long as the expected urban wage (accounting for unemployment risk) matches the rural wage, leading to urban unemployment despite equilibrium conditions.

What is the key implication of the Harris-Todaro Model regarding rural-urban migration and unemployment?

It implies that rural-urban migration is driven by expected wages rather than actual employment opportunities, which can result in persistent urban unemployment even at equilibrium.

Additional Resources

According To The Harris-Todaro Model, In Equilibrium, The Expected Urban Wage Rate Will Be Equal To The Rural Wage Rate. The Harris-Todaro model is a foundational framework in development economics that seeks to explain rural-urban migration, urban unemployment, and the dynamics of labor markets in developing countries. Its core premise revolves around the idea that migration decisions are driven not just by current wages but by expectations of future wages, which profoundly influence labor supply, urban unemployment, and overall economic development. This article provides an in-depth analysis of the Harris-Todaro model, focusing on the equilibrium condition that equates the expected urban wage rate with the rural wage rate, and explores its implications, strengths, limitations, and relevance in contemporary economic policy.

Understanding the Harris-Todaro Model

Background and Context

The Harris-Todaro model was developed in 1970 by John R. Harris and Michael P. Todaro as a response to the paradoxes observed in developing countries, where rural-urban migration often led to persistent urban unemployment despite widespread poverty in rural areas. Traditional neoclassical models suggested that migration would continue until wages equalized, but empirical evidence showed that migration persisted even when urban employment was scarce and wages high, and rural wages remained low. The Harris-Todaro model addressed this discrepancy by incorporating expectations and the informal nature of urban labor markets.

Core Assumptions of the Model

- Urban and rural sectors have distinct labor markets with different wage structures.
- Migration decisions are based on expected wages, not just current wages.
- Urban employment is limited; only a certain number of workers can be employed in the official urban sector.
- Unemployment exists in the urban sector, characterized by surplus labor.
- Workers are rational and forward-looking, forming expectations about future wages and employment opportunities.

Key Components of the Model

- Rural Wage (WR): The baseline wage paid in rural areas, often considered the minimum or subsistence wage.
- Urban Wage (WU): The official or formal urban wage for employed workers.
- Expected Urban Wage ($E[WU]$): The anticipated wage in the urban sector, accounting for the probability of employment.
- Urban Employment Level (EU): The number of workers employed in the urban formal sector.
- Urban Unemployment (UU): The surplus labor seeking employment but unable to find it within the formal sector.

The Equilibrium Condition: Expected Urban Wage and Rural Wage

The Fundamental Equilibrium Proposition

The central assertion of the Harris-Todaro model is that, in equilibrium, the expected urban wage rate will be equal to the rural wage rate. This equilibrium condition can be expressed as:

$$E[WU] = WR$$

This means that workers, considering the probability of securing formal urban employment, will migrate from rural areas to cities until the expected benefits of migration are nullified by the risks of unemployment.

Deriving the Expected Urban Wage

The expected urban wage depends on two factors:

- The probability of getting a job in the urban sector (p).
- The urban wage if employed (WU).

Mathematically:

$$E[WU] = p WU + (1 - p) 0 = p WU$$

Assuming that unemployed urban migrants receive no official urban wages, or only minimal benefits, the expected wage simplifies to the probability of employment multiplied by the wage if employed.

Implications of the Equilibrium Condition

- Migration will continue until $E[WU] = WR$.
- If the expected urban wage exceeds the rural wage, migration persists, leading to increased urban population and unemployment.
- If the expected wage falls below the rural wage, migration will decline, stabilizing the population distribution.

In equilibrium, the urban sector's low employment probability balances the higher wages offered, preventing unlimited migration.

Features and Significance of the Harris-Todaro Model

Features

- Incorporates Expectations: Unlike classical models, it emphasizes the role of migrant expectations based on anticipated wages and employment prospects.
- Explains Urban Unemployment: It rationalizes why urban unemployment persists in developing countries despite rural poverty.
- Predicts Migration Patterns: It suggests migration flows are driven by expected gains, not just current wages.
- Distinguishes Between Formal and Informal Sectors: Recognizes that the formal urban sector is limited, and many migrants work informally or remain unemployed.

Significance in Development Economics

- Offers a realistic explanation for observed migration and urban unemployment phenomena.
- Guides policymakers on the importance of creating employment opportunities to manage migration.
- Emphasizes the importance of improving urban employment prospects to stabilize population distribution.
- Highlights the potential for policy-induced distortions to exacerbate unemployment and urban congestion.

Pros and Cons of the Harris-Todaro Model

Pros

- Realism: More accurately captures migration behavior in developing countries where unemployment persists despite poverty.
- Policy Relevance: Provides insights into how policies affecting urban employment can influence migration flows.
- Acknowledges Expectations: Recognizes that migrant decisions are based on anticipated, not just current, wages.
- Addresses Urban Unemployment: Explains why urban areas face persistent unemployment despite economic growth.

Cons and Limitations

- Simplistic Assumptions: Assumes rational expectations and perfect information, which may not hold in reality.
- Ignores Non-Economic Factors: Does not account for social, cultural, or political reasons

for migration.

- Static Framework: Primarily analyzes equilibrium without exploring dynamic adjustments or policy shocks.
- Assumes Homogeneity: Treats rural and urban workers as homogeneous groups, ignoring heterogeneity in skills and preferences.
- Neglects Informal Sector Dynamics: While recognizing informal employment exists, it doesn't deeply analyze how informal markets influence migration.

Implications for Policy and Development

Policy Recommendations Based on the Model

- Create Urban Employment Opportunities: Increasing urban job availability can raise the expected urban wage, reducing migration pressures.
- Rural Development Programs: Improving rural wages and living standards can reduce the push factors for migration.
- Urban Infrastructure and Services: Developing urban infrastructure can accommodate increased populations without exacerbating unemployment.
- Regulating Migration: Implementing policies that manage migration flows based on employment capacity can prevent urban overcrowding.
- Informal Sector Support: Recognizing and supporting informal employment can reduce urban unemployment and poverty.

Potential Challenges

- Fiscal Constraints: Creating sufficient urban jobs requires significant investment.
- Urban Congestion and Infrastructure Strain: Rapid migration can strain urban infrastructure, leading to slums and social issues.
- Rural-Urban Disparities: Addressing rural poverty can be politically and economically challenging but is crucial for sustainable migration management.

Contemporary Relevance and Criticisms

Relevance in Modern Developing Countries

Despite its age, the Harris-Todaro model remains relevant today, especially in countries experiencing rapid urbanization like India, Nigeria, and Indonesia. It helps explain why

urban unemployment persists despite economic growth and why migration continues even when cities are overburdened.

Criticisms and Areas for Further Research

- Over-simplification: Critics argue the model oversimplifies complex migration decisions.
- Ignoring Social Networks: Migration is often influenced by social ties not accounted for.
- Dynamic Changes: Modern economies experience rapid technological and structural changes that static models may not capture.
- Global Factors: The model does not consider international migration or global economic influences.

Conclusion

The Harris-Todaro model provides a crucial lens through which to analyze rural-urban migration, urban unemployment, and economic development in developing countries. Its core conclusion—that in equilibrium, the expected urban wage equals the rural wage—captures the delicate balance migrants weigh when deciding to move. The model's emphasis on expectations, employment probabilities, and incentives has broad implications for policymakers aiming to manage urban growth, reduce unemployment, and foster sustainable development. While it has limitations and has faced criticisms, its fundamental insights continue to influence economic thought and policy strategies in addressing the complex challenges of urbanization and development. Understanding and applying this model can lead to more effective interventions that balance migration, employment, and economic growth, ultimately contributing to improved living standards in developing nations.

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