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## Challenges faced by people during rural urban migration

**Dr. Ashish Samarpit Noel**

### Abstract

Migration is the movement of people from one ecological region to another; it may be on temporary or permanent basis. India's demographic dividend cannot be realised if young entrants to the labour force as well as potential migrants from agriculture do not gain new livelihoods. Hastening of the structural transformation brings with it three mega-challenges for policy-makers: employment of migrants; growing urbanisation; and ensuring better education and vocational training for increasing labour force entrants. India's planners must manage these three processes much better over the next two decades as India's demographic dividend draws to a close by 2040.

**Keywords:** Migration, demography, push- factors, pull- factors

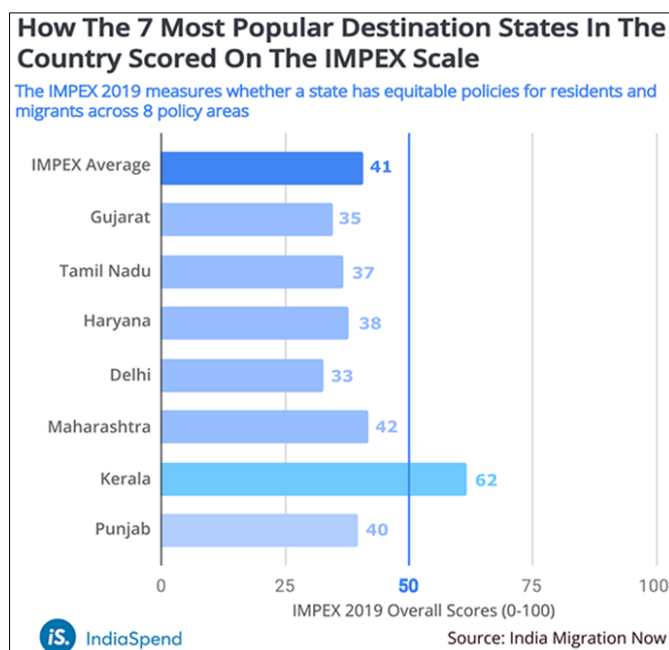
### 1. Introduction

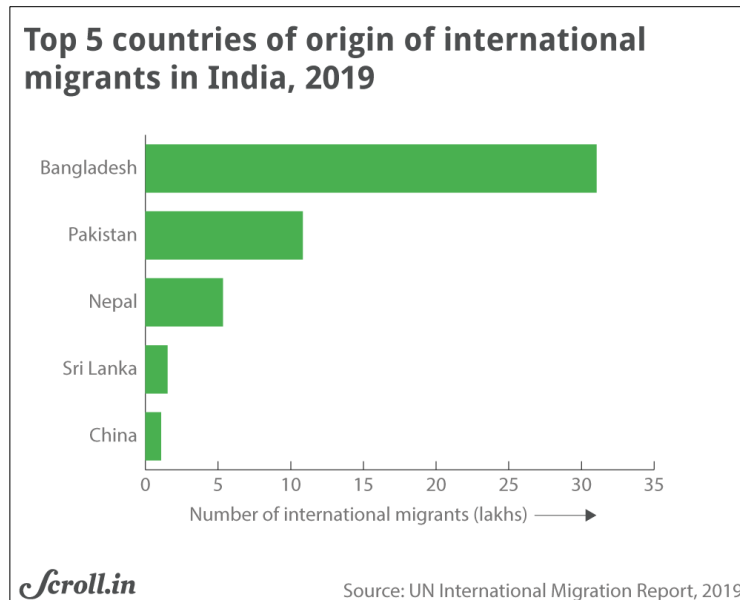
India was the leading country of origin of international migrants in 2019 with a 17.5 million strong Diaspora, according to new estimates released by the United Nations, which said the number of migrants globally reached an estimated 272 million.

The International Migrant Stock 2019, a dataset released by the Population Division of the UN Department of Economic and Social Affairs (DESA) today, provides the latest estimates of the number of international migrants by age, sex and origin

The country hosted 2, 07,000 refugees, the report said adding that refugees as a share of international migrants in the country was four per cent. Among the international migrants in the country, the female population was 48.8 per cent and the median age of international migrants was 47.1 years. In India, the highest number of international migrants came from Bangladesh, Pakistan and Nepal.

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**1.1 What are the factors driving internal migration?**

- (1) Internal migration can be driven by push and pull factors.
- (2) In India, over the recent decades, agrarian distress (a push factor) and an increase in better-paying jobs in urban areas (a pull factor) have been drivers of internal migration. Eg: Uber eats – can be seen in urban and semi urban areas.
- (3) Also, distress due to unemployment or underemployment in agriculture, natural calamities, and input/output market imperfections serves as the contributing factors.
- (4) Data shows that employment-seeking is the principal reason for migration in regions without conflict.
- (5) Majority of migration happens due to unemployment.
- (6) Better education and standards of living.

<b>Push-factors</b> Countries of origin	<b>Migrants</b>	<b>Pull-factors</b> Countries of destination
⇒ Population growth, young age structure ⇒ Inadequate educational institutions, medicare and social security	<b>Demographic factors and social infrastructure</b>	⇒ Stable population, population decline, demographic ageing ⇒ Welfare state benefits, educational institutions, medicare, social security
⇒ Unemployment, low wages ⇒ Poverty, low consumption and living standard	<b>Economic factors</b>	⇒ Labour demand, high wages ⇒ Welfare, high consumption and living standard
⇒ Dictatorships, shadow democracy, bad governance, political upheaval ⇒ Conflict, (civil) war, terrorism, human rights violation, oppression of minorities	<b>Political factors</b>	⇒ Democracy, rule of law, pluralism, political stability ⇒ Peace, security, protection of human and civil rights, protection of minorities
⇒ Ecologic disaster, desertification, lack of natural resources, water shortage, soil erosion, lack of environmental policy	<b>Ecological factors</b>	⇒ Better environment, environmental policy, protection of natural resources and environmental protection
⇒ Decisions of the family or the clan ⇒ Information flows, media,	<b>Migrant flows and migrant stocks</b>	⇒ Diaspora, ethnic community ⇒ Information flows, media, transferred picture of

Source: SSRN Electronic Journal (December 2013).

**1.2 What are the benefits associated with migration?**

- (1) Internal migration has resulted in the increased well-being of households, especially for people with higher skills, social connections and assets.
- (2) Migrants belonging to lower castes and tribes have also brought in enough income to improve the economic condition of their households in rural areas and lift them out of poverty.

- (3) Improve the credit worthiness of the family members left behind where they can now obtain loans more easily.

### 1.3 What are the problems faced by internal migrants?

- 1) Informal growth – A migrant's lack of skills presents a major hindrance in entering the labour market.
- 2) The 'urban informal' economy is wrongly understood in countries such as India as a transient phenomenon, even though it has expanded over the years and accounts for the bulk of urban employment.
- 3) Jobs – Most jobs in the urban informal sector pay poorly and involve self-employed workers who turn to petty production because of their inability to find wage labour.
- 4) Various forms of discrimination which do not allow migrants to graduate to better-paying jobs.
- 5) Migrant workers earn only two-thirds of what is earned by non-migrant workers.
- 6) Further, they have to incur a large cost of migration which includes the 'search cost' and the hazard of being cheated.
- 7) Often these costs escalate as they are outside the state-provided health care and education system.
- 8) Frequent borrowing forces them to sell their assets towards repayment of loans.

### 1.4 Factors Affecting Employment

- 1) According to a study, less than 20% of urban migrants had prearranged jobs and nearly two-thirds managed to find jobs within a week of their entry into the city.
- 2) The probability of moving to an urban area with a prearranged job increases with an increase in education levels.
- 3) Access to information on employment availability before migrating along with social networks tends to reduce the period of unemployment significantly.
- 4) Social networks in the source region not only provide migrants with information on employment opportunities, but are also critical as social capital in that they provide a degree of trust.
- 5) While migrants interact with each other based on ethnic ties, such ties dissipate when they interact with urban elites to secure employment.

### 1.5 Need for Policy Interventions

- (1) In India the bulk of policy interventions, which the migrants are aimed at providing financial services and directed towards poverty reduction.
- (2) However, there is a dearth of direct interventions targeted and focused on regions.
- (3) Hence, a national policy should aim at reducing distress-induced migration on one hand and address conditions of work, terms of employment and access to basic necessities on the other.
- (4) Recommendation Of The Working Group On Migration Setup By MoHUPA (Ministry of Housing and Urban

Poverty Alleviation)

- (5) Migrants should be enabled to avail benefits of Public Distribution System (PDS) in the destination State by providing for interstate operability of PDS.
- (6) States should be encouraged to proactively eliminate the requirement of domicile status to prevent any discrimination in work and employment.
- (7) States are also to be asked to include migrant children in the Annual Work Plans under SarvaSikshaAbhiyan (SSA) to uphold their Right to Education.
- (8) Vast network of post offices needs to be made effective use of by reducing the cost of transfer of money to avoid informal remittances.
- (9) Migrants should be enabled to open bank accounts by asking banks to adhere to RBI guidelines regarding Know Your Customer (KYC) norms and not insist on documents that were not required.
- (10) The hugely underutilized Construction Workers Welfare Cess Fund should be used to promote rental housing, working women's hostels etc. the benefit of migrants.

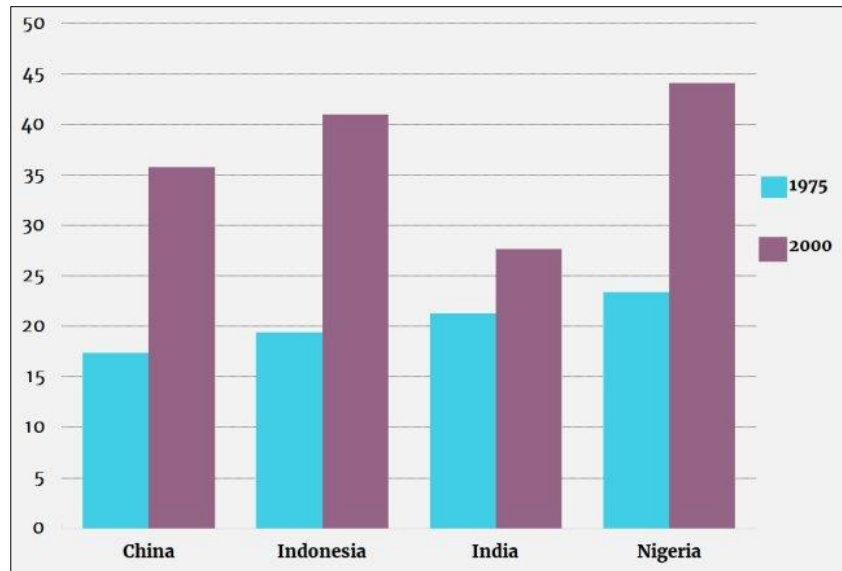
### 2. Reasons for lower labour mobility in India

Migration from rural areas of India to the city is surprisingly low compared with other large developing countries, leaving higher paying job opportunities unexploited. This research shows that well-functioning rural insurance networks are in part responsible for this misallocation in the labour market, creating incentives that keep adult males in the village. Policies that provide private credit to wealthy households or government safety nets to poor households would encourage greater rural-urban migration but they could also have unintended distributional consequences.

Rural-urban migration is exceptionally low in India. Changes in the rural and urban population between decennial censuses over the period 1961-2001 indicate that the migration rate for working age adult males (those aged 25-49) ranged from 4% to 5.4%.

Rural-urban migration is exceptionally low in India despite the big wage gaps between villages and the city. An independent measure of migration constructed from the nationally representative India Human Development Survey conducted in 2005 suggests a male rural-urban migration rate of 6.8%; while in the male subsample of the Indian Demographic and Health Survey (DHS), the migration rate is 5.3%. To put these statistics in perspective, the corresponding migration rate from the 1997 Brazil DHS, which also includes a male sample, is over twice as large at 13.9%.

India's unusually low rural-urban migration is also reflected in its rates of urbanization. Figure 1 plots the percentage of the adult population for four large developing countries – China, India, Indonesia and Nigeria – who are living in cities, as well as the change in this percentage between 1975 and 2000. Urbanization in all four countries was low in 1975, but India had fallen far behind the others by 2000.



Source: UNDP 2002

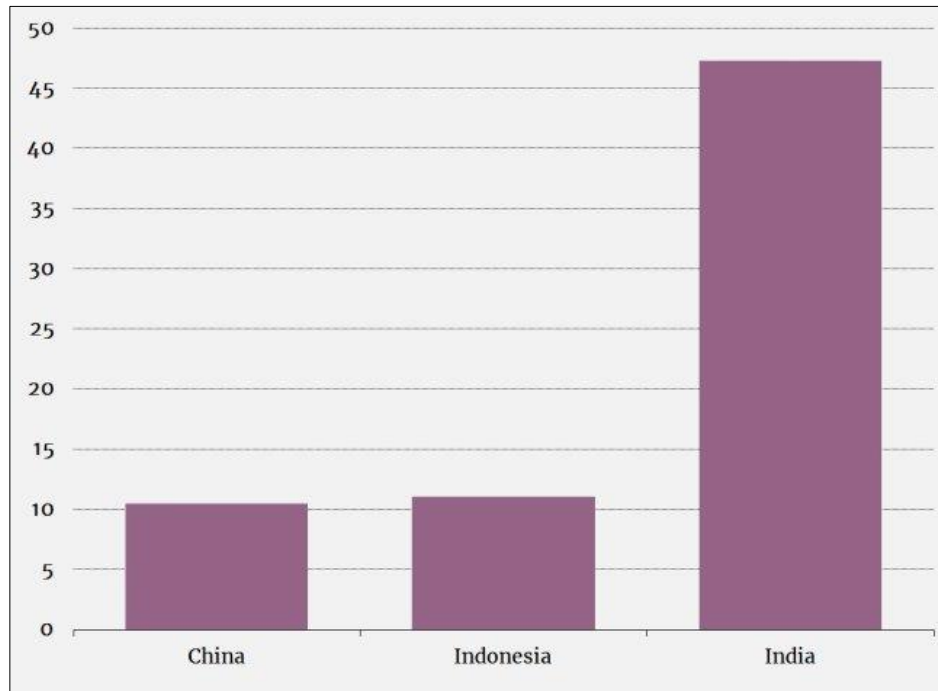
Fig 1: Change in percent urbanized, by country, 1975-2000

Previous studies have documented that rates of urbanization in India are lower – by one full percentage point – than countries with similar levels of urbanization. What’s more, the fraction of the population of India that is urban is 15% lower than in countries with comparable GDP per capita. Perhaps the most relevant comparison is with China, a country that has experienced explosive economic growth over the past three decades accompanied by historically unprecedented rural-urban migration, despite restrictions on residential mobility. The absence of a similar movement in

India, where there are no such explicit restrictions, evidently demands an explanation.

**2.1 Comparative rural-urban wage gaps**

The simplest explanation for India’s low mobility might be that rural and urban wages are relatively close, reducing the incentive for workers to migrate. To assess the validity of this explanation, we compare the rural-urban wage gap in India with the wage gap in two other large developing countries – China and Indonesia – in Figure 2.



Source: 2006 Chinese mini-census, 2007 IFLS, 2004 NSS

Fig 2: Rural-urban wage gap, by country

We focus on workers with less than primary education to avoid the confounding effects of differences in the returns to education in rural and urban labor markets. Workers with little education will perform similar – menial – tasks in both markets, and so wage gaps for them can be interpreted as an

arbitrage opportunity.

As Figure 2 shows, the wage gap for India, at over 45%, is actually much higher than the corresponding gap for the other two countries, which is about 10%. One reason why urban wages are higher than rural wages is because the cost



of living is higher in urban areas. When we account for these differences in the cost of living, the Indian wage gap declines to 27%.

India's low mobility arises from a combination of well-functioning rural insurance networks and the absence of formal insurance. Although the Chinese and Indonesian data do not allow us to make the same adjustment, the nominal wage gap in these countries serves as an upper bound for the real wage gap because urban prices will always be higher than rural prices. It follows that the real wage gap in India is at least 16 percentage points larger than it is in China and Indonesia. There is evidently some friction that prevents rural Indian workers from taking advantage of more remunerative job opportunities in the city.

## 2.2 The negative impact of rural insurance on mobility

The explanation that we propose for India's low mobility is based on a combination of well-functioning rural insurance networks and the absence of formal insurance, which includes government safety nets and private credit.

When an insurance network is active, households that receive a positive income shock provide a transfer (in cash or kind) to one or more households in the network that receive a negative shock. This smooths the consumption of each household over time, making risk-averse households better off.

Relatively wealthy households within a caste will be more likely to have migrant members. The challenge when organizing such a network is to prevent households that must make transfers from renegeing on their obligations. Social sanctions help to solve this commitment problem and, not surprisingly, mutual insurance arrangements throughout the world are organized around well-established social groups.

In rural India, informal insurance networks are organized along caste lines. The basic marriage rule in India (which recent genetic evidence indicates has been binding for nearly two thousand years) is that no individual is permitted to marry outside the sub-caste or *jati* (for expositional convenience, we use the term *caste* interchangeably with *sub-caste*). Frequent social interactions and close ties within the caste, which consists of thousands of households clustered in widely dispersed villages, support very connected and exceptionally extensive insurance networks.

Households with members who have migrated to the city will have reduced access to rural caste networks for two reasons:-

First, migrants cannot be as easily punished by the network for renegeing on their obligations. What's more, their family back in the village now has superior outside options (in the event that the household is excluded from the network). It follows that households with migrants cannot credibly commit to honouring their future obligations to the same extent as households without migrants.

Second, an information problem arises if the migrant's income cannot be observed. If the household is treated as a collective unit by the network, it always has an incentive to misreport its urban income so that transfers flow in its direction.

If the resulting loss in network insurance from migration exceeds the income gain, then large wage gaps could persist without generating a flow of workers to higher-wage areas. This distortion is paradoxically amplified when the informal insurance networks work exceptionally well because rural

households then have more to lose by sending their members to the city.

## 2.3 Strategies to overcome restrictions on mobility

(1) One strategy to circumvent these restrictions on mobility would be for members of the rural community to move to the city as a group. Members of the group could then monitor each other and enforce collective punishments, solving the problems of information and commitment. They could also help each other to find jobs at the destination.

The history of industrialization and urbanization in India is indeed characterized by the formation and evolution of caste-based urban networks, sometimes over multiple generations (Munshi and Rosenzweig, 2006). But a limitation of this strategy is that a sufficiently large (common) shock is needed to jump-start the new network at the destination, and such opportunities occur relatively infrequently (Munshi, 2011). Thus, while members of a relatively small number of castes with (fortuitously) well established destination networks can move with ease, most potential migrants will lack the social support they need to move.

(2) A second strategy to reduce the problems of information and enforcement that restrict mobility is to migrate temporarily – and seasonal migration in India has been increasing over time. The principal limitation of the temporary migration strategy is that it will not fill the large number of jobs in which there is firm-specific or task-specific learning and where firms will want to set permanent wage contracts.

Both strategies will be used by rural households and castes to facilitate mobility. But the central hypothesis of our research is that most men will nevertheless be discouraged by the loss in insurance from migrating *permanently* and the labor market will not clear, giving rise to the large rural-urban wage gaps and the low rates of male migration.

(3) Testing the links between insurance networks and migration- The simplest test of our hypothesis that the potential loss in network services restricts mobility in India would be to compare migration rates in populations with and without caste-based insurance. But such an exercise is not feasible given the pervasiveness of caste networks. What we do instead is to look *within* the caste and theoretically identify which households benefit less (more) from caste-based insurance. We then proceed to test whether it is precisely those households that are more (less) likely to have migrant members.

(4) One way to describe the insurance network is that it organizes transfers between (temporarily) fortunate and less fortunate members. An alternative and equivalent way to characterize mutual insurance is that the income generated by the network in each period is pooled and then distributed on the basis of a pre-specified income-sharing rule.

(5) Most research on mutual insurance is concerned with the degree of *ex post* risk-sharing – that is, the amount of transfers that households are willing to provide once their incomes have been realized, taking the size of the network and the income-sharing rule as given. But to derive the connection between networks and permanent

migration, we need to take a step back and analyze the *ex ante* participation decision and the optimal design of the income-sharing rule.

- (6) The potential gain of income diversification from migration is typically outweighed by the loss of network insurance back in the village. Households facing greater rural incomes risk would thus be less likely to have migrant members- In our framework, households can either remain in the village and participate in the insurance network or send one or more of their members to the city, increasing their income but losing the services of the network. The income-sharing rule that is chosen in equilibrium determines which households choose to stay.

A standard assumption in economics is that each additional dollar of consumption provides less and less utility. If this assumption is satisfied, then the total surplus generated by the insurance arrangement can be increased by redistributing income so that relatively poor households consume more than they earn on average. This gain from redistribution must be weighed against the cost to the members of the network from the accompanying decline in its size, since relatively wealthy households will now be more likely to leave and smaller networks are less able to smooth consumption.

- (7) Introducing formal insurance could more than double the rural-urban migration rate – from 4% to 9%- The implicit assumption in our framework is that in the Indian context, the loss in network insurance when an adult male from the household migrates dominates this gain from income diversification. It follows that households that face higher rural income risk and which, therefore, benefit more from the network, everything else equal, will be less likely to have male migrant members. This second prediction is especially useful in distinguishing our theory from alternative explanations for large rural-urban wage gaps and low migration in India.

One alternative explanation for the lack of mobility is that individuals cannot enter the urban labour market without the support of a (caste) network at the destination. Alternative explanations are also available for redistribution within the caste and the increased exit from the network by relatively wealthy households. But none of these explanations imply that households facing greater rural income risk should be less likely to have migrant members. Indeed, if insurance networks were absent, we would expect the opposite pattern, with these households sending members to the city to diversify their income.

- (8) Weighing up migration: loss of network insurance versus income diversification- We begin the assessment of our theory by showing that there is substantial redistribution of income within castes, using data from the Indian ICRISAT panel surveys and from the most recent (2006) round of the Rural Economic Development Survey (REDS), a nationally representative survey of rural Indian households that has been administered by the National Council of Applied Economic Research at multiple points in time over the past four decades.
- (9) It is essential to take account of underlying network linkages when designing policies in developing

countries- Following up on this new result, we show (using data from a census of villages covered in the 2006 REDS) that *relatively* wealthy households within their caste are significantly more likely to report that one or more adult male members have permanently left the village.

Highlighting the role that rural income-risk plays in the migration decision, we also find that households with a higher coefficient of variation in their (rural) income – those that benefit more from the rural insurance network — are less likely to have migrant members. Additional results directly support the key assumption of our model, which is that migration should be associated with a loss in network services.

Having found evidence consistent with the theory, we proceed to estimate the structural parameters of the model. Migration and the income-sharing rule are determined jointly in the model. Our estimates of the income-sharing rule indicate that there is substantial redistribution within the caste, consistent with the descriptive evidence and the tests of the theory.

#### 2.4. Positive impact of formal insurance on migration

Counterfactual simulations that quantify the effect of formal insurance on migration (leaving the rural insurance network in place) indicate that a 50% improvement in risk-sharing for households with migrant members (which is still some way from full risk-sharing) would more than double the migration rate – from 4% to 9%. In contrast, nearly halving the rural-urban wage gap – from 18% to 10% without any change in formal insurance – would reduce migration by just one percentage point.

Additional counterfactual simulations examine the effect of policies that provide private credit to wealthy households or government safety nets to poor households in order to encourage migration. The first of these policies generates particularly striking results. Access to private credit frees up the wealthy households that were previously constrained by the loss in network insurance from moving, increasing their level of migration dramatically.

But relatively poor households in their caste, which do not benefit directly from this policy, are left worse off in two ways:

First, the size and scope of the insurance network is reduced by the exit of the wealthy households, making it function less effectively and increasing the consumption variance of the households that remain.

Second, the level of redistribution (determined by the income-sharing rule) will decline as a way of getting some wealthy households to stay in the network, reducing the consumption level of the poor households.

A well-intentioned policy that succeeded in its objective of increasing migration could thus have unintended distributional consequences, highlighting the need to take account of underlying network linkages when designing policies in developing countries.

#### 3. Suggestions

- 1) There is a need to distinguish between the interventions aimed at ‘migrants for survival’ and ‘migrants for employment’.
- 2) Continued dynamic interventions over long periods of time for seasonal migrants, instead of single-point static interventions.

- 3) Local bodies and NGOs which bring about structural changes in local regions.
- 4) It should focus on measures enhancing skill development would enable easier entry into the labour market.
- 5) It should also distinguish between individual and household migrants, because household migration necessitates access to infrastructure such as housing, sanitation and health care more than individual migration does.
- 6) Skill development can be supported by market-led interventions such as microfinance initiatives, which help in tackling seasonality of incomes.
- 7) It should consider the push factors, which vary across regions, and understand the heterogeneity of migrants.
- 8) Remittances from migrants are increasingly becoming the lifeline of rural households.
- 9) Hence, the policy should improve the financial infrastructure to enable the smooth flow of remittances and their effective use requires more attention from India's growing financial Sector.
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#### 4. Conclusion

We show that under reasonable conditions, the income-sharing rule will nevertheless be set so that there is some amount of redistribution in equilibrium. This implies that relatively wealthy households within their caste benefit less from the network and so will be more likely to have migrant members, everything else equal, providing the first prediction of our theory.

Although permanent male migration is exceptionally low in India, women have always moved to a different village when they marry. This marital migration expands the scope of the caste network and diversifies its income. By an analogous argument, migration by a male household member diversifies the household's income and so is typically assumed to lower the income risk that the household faces.

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