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Urban slums: Stepping-stone for some and traps (or shields) for others

Luciene Pereira / 15 Feb 2026

Rapid urbanisation has been accompanied by the expansion of urban slums, raising concerns about whether cities foster opportunity or entrench poverty. This column shows that slums can play a dual role: they act as stepping-stones for low-educated households but become barriers for more educated families. Poor school quality in rural areas and within slums is a key driver of slum formation and persistence, respectively. These effects imply that education and urban policies must be targeted and adapted to a country's stage of development.

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Urbanisation and industrialisation are widely viewed as hallmarks of economic development (Lewis 1954, Kuznets 1973). As countries grow, workers move out of low-productivity agriculture into manufacturing and services (activities that are overwhelmingly urban). Barriers to urbanisation, therefore, translate into barriers to growth. In many developing countries, this process remains incomplete: large shares of the workforce still labour in low-productivity rural sectors, and urbanization often coincides with rapid slum growth.

Yet urbanisation is rarely smooth. In both historical and contemporary settings, it has been accompanied by the emergence of urban slums. While slums in today's advanced economies have largely disappeared, they remain a defining feature of urban life in many developing countries. The urbanisation and industrialisation processes have motivated extensive research exploring the extent to which moving away from low-productive agriculture may foster economic growth, and whether settling in urban areas can facilitate the dissemination of ideas and the formation of human capital (Lucas 2004, Glaeser 2011). But much of the macroeconomic development literature ignores the fact that many rural migrants to cities ultimately end up living in slums.

According to the United Nations, roughly one in five people in developing countries lived in urban slums in 2020, and in some nations the slum population now exceeds the rural population. Slum dwellers typically face poor housing conditions, weak access to basic services, and limited schooling opportunities (conditions often interpreted as evidence that slums are poverty traps).

This raises a fundamental policy question: are slums obstacles to development that should be eliminated, or can they, under some circumstances, facilitate mobility and growth?

In a recent paper (Cavalcanti et al. 2025), my coauthors and I study the emergence, persistence, and consequences of slums during urbanisation, using Brazil as a case study. Our goal is to understand how the interplay of housing markets, labour markets, and schooling shapes the emergence and persistence of slums, and what this implies for development policy.

Slums, labour markets, and human capital

Two central insights come from our work: slums play very different roles for different families, and partial integration into urban economies is a defining feature of slums.

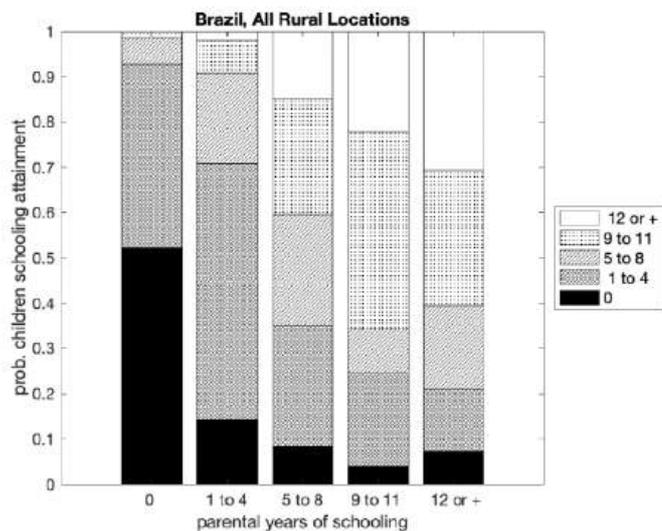
Using Brazilian census and household survey data, we document a striking asymmetry: while slum residents, however imperfectly, can access the broader urban labour market, their children typically attend schools within the slum or nearby neighbourhoods. This has important consequences and creates a trade-off. Parents gain access to urban jobs, but their children's human capital accumulation depends on local schooling conditions.

The consequences vary sharply by parental education. Children of very low-educated parents perform substantially better in slums than in rural areas. For families with mid-level education, the gap between slums and rural areas shrinks. But for children from higher-educated families, slums are a significant barrier: educational attainment is markedly lower than it would be in the formal city. In short, slums help low-educated families begin the climb out of poverty but become barriers for families further up the education ladder. This pattern appears consistently in measures of school attendance, years behind in school, and intergenerational mobility.

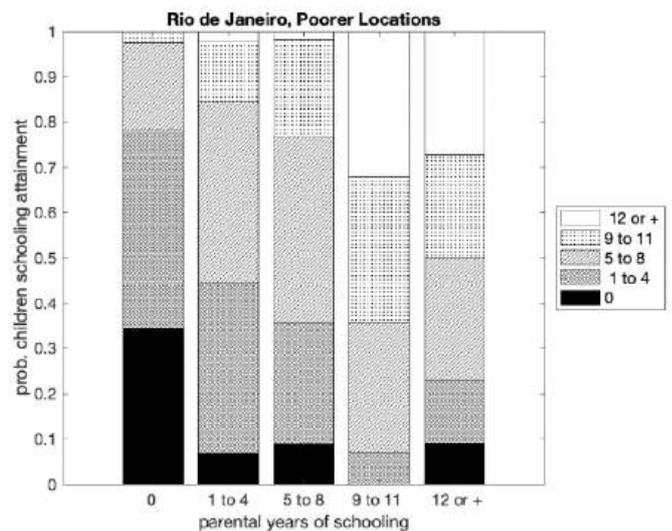
For example, to measure intergenerational mobility, we examine the distribution of children's educational attainment across regions. In each panel of Figure 1, the horizontal axis shows parental education grouped into five categories, while the bars sum to one and represent the probability that a child attains 0, 1–4, 5–8, 9–11, or 12+ years of schooling. Panel (a) reports these transition probabilities for rural areas, panel (b) for low-income households associated with slum dwellers, and panel (c) for high-income households in the formal city.

Figure 1 Brazil: Education attainment probabilities, by parents and locations

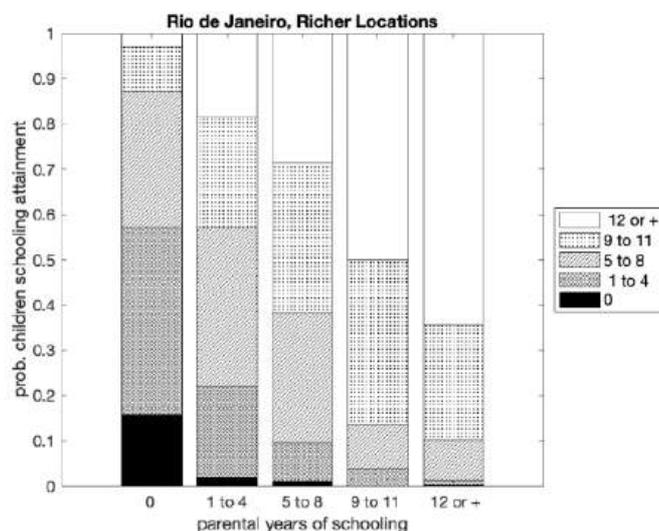
(a) Rural areas



(b) Rio, poor areas (slums)



(c) Rio, richer areas (city)



Source: Cavalcanti et al. (2025)

Figure 1 reveals significant disparities in children's educational outcomes across different locations. Across all educational brackets, raising children in the formal, more affluent parts of Rio vastly outperforms raising them in slums and rural areas. For example, fewer than 20% of children of uneducated parents in the city receive no schooling, compared with over 52% in rural areas and nearly 40% in slums. In rural regions, the likelihood of a child from an illiterate household reaching the top two educational tiers is nearly non-existent, while in cities this share rises to about 15%. Conversely, 61% of children from highly educated parents (with 12+ years of education) in the city attain similarly high educational levels, compared to only 30% in rural areas and 27% in slum regions.

A model of urbanisation with slums

To understand how these forces shape development, we embed these empirical facts in a dynamic general equilibrium model with endogenous urbanisation and skill formation. Households choose where to live (rural areas, slums, or formal cities) based on housing costs, labour market prospects, living conditions, and educational opportunities for their children.

Formal urban residence requires paying a fixed housing cost, determined endogenously in the housing market. Slums offer a cheaper entry point into urban labour markets for households with limited skills. As a result, the spatial distribution of households emerges endogenously from their choices.

Children's education depends on parental education, peer effects, and location-specific school quality. Because location affects human capital accumulation, housing and education policies jointly shape aggregate growth.

And the existence of slums as accessible housing fundamentally transforms urban dynamics. Their presence affects educational opportunities across the urban economy. The consequences, however, are not uniform across households. For some children, growing up in slums offers opportunities; they can reach higher levels of education than if their families had stayed in rural areas. For others, slums limit educational attainment compared to what would be possible with different urban housing. There is also a third group: by concentrating lower-educated households within informal settlements, slums raise the average educational profile of formal urban areas and strengthen

the educational environment for children there. Therefore, the design and evaluation of slum-reduction policies should explicitly account for these heterogeneous, potentially offsetting effects.

Education policy and the persistence of slums

Our model also allows us to evaluate alternative education and urban policies. Regarding education, we consider policies that reproduce the higher institutional quality of city schools in rural or slum locations and policies where slum-dwelling children are bussed into the formal city for their schooling. For urban policies, we consider interventions such as eliminating the option of working and living in slums and the exact opposite – i.e. facilitating the option of living in slums. The most impactful policies are those related to education, and this column will focus on them.

The dual nature of slums also helps explain why they emerge and persist. Beyond housing costs and agricultural productivity, poor rural schooling is a key driver of slum formation. Low-quality rural education pushes lower-educated households toward cities, where slums initially offer better schooling options. As households accumulate education, however, slums cease to be pathways and become constraints. Poor educational provision within slums then sustains their persistence.

We evaluate several education policies. We find that if rural schools had matched the quality of urban schools, the slum population would have been roughly one-third smaller. By contrast, improving school quality within slums would have raised educational attainment but expanded slum size.

Policy effectiveness also depends on the stage of development. When Brazil was relatively rural in 1980, improving rural schools yielded the largest gains. By 2010, in a much more urban economy, improving schooling in slum areas became more impactful.

Finally, policies sustained across generations matter most. The most powerful intervention we study is inclusive bussing, i.e. allowing children of slum-dwelling parents with minimal education (at least one year of education) to attend formal urban schools. This policy attracts families to slums while enabling their children to transition into the formal city as adults, breaking the persistence of informal settlements.

Current debates on urban development emphasise whether cities open doors to opportunity or instead end up trapping people in poverty. As noted in Glaeser et al. (2025), the critical question for policy is whether cities facilitate integration between more- and less-skilled workers. Our results contribute to this debate by highlighting the role of education, housing costs, and the stage of economic development in shaping whether slums act as bridges or bottlenecks for human capital accumulation.

Policy implications

Slums are neither uniformly poverty traps nor universal stepping-stones. Their role depends on household characteristics and a country's stage of development, implying that one-size-fits-all urban policies are unlikely to be effective.

At early stages of development, improving the quality of rural education can reduce inefficient urbanisation and limit slum growth by weakening the push factors that drive low-educated households towards cities. As urbanisation advances, policy priorities should shift towards integrating slum residents (especially children) into formal urban education systems. While improving school quality within slums raises attainment, it may also increase slum size. By contrast, integrating policies like inclusive bussing can raise human capital while enabling intergenerational mobility out of slums.

These results highlight the importance of spatial structure in education policy. Where children are educated and with whom, matters as much as schooling quality. In the presence of high urban housing costs, education reforms need to be complemented by urban policies that expand access to formal housing; otherwise, human capital gains may not translate into long-run mobility.

Effective urban policy must therefore be dynamic and targeted. Slums can facilitate early access to urban labour markets, but without policies that promote educational and spatial integration, they risk becoming persistent barriers to opportunity.

Editors' note: This column is published in collaboration with the International Economic Associations' [Women in Leadership in Economics](#) initiative, which aims to enhance the role of women in economics through research, building partnerships, and amplifying voices.

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