

CRITICAL PERSPECTIVE ON THE NEOCLASSICAL ECONOMICS AND LABOR MIGRATION THEORY

Alexandra PORUMBESCU, PhD, Assist. Prof.
University of Craiova, Faculty of Social Sciences
alexandraporumbescu@yahoo.com

Abstract: *One of the main topics on the current global debate arena is represented by international migration. Despite its growth in the recent years, the theme is not a new one, and several theoretic frameworks have been created in order to better understand and contain it within a legal border. The aim of this paper is to examine the main arguments and ideas expressed by the neoclassic theoreticians of migration, by combining economic indicators with elements of the sociological theory, both regarding the microeconomic model and the macroeconomic one. The final part of the article focuses on observing some of the limitations of this theoretical approach and the critics that can be formulated regarding this theory.*

Keywords: neoclassic theory; migration; flows; economics; labor markets.

1. Early theoretical contributions to the study of migration

International migration is a fundamental process in the social construction of states, and analyzing it must bring together elements associated to different fields of study, such as political science, economic, law, international relations, sociology, demography and so on. Different theoretical approaches of the topic outline the importance of one or more of these scholar domains in the debate, depending on the period they were established, the geographic areas they regarded most, or the specificity of the process at a certain moment in time. Although migratory movements have been occurring in different zones of the planet since ancient times, a significant amount of theoretic attention was driven towards them starting in the XIXth century.

Furthermore, specific evolutions of the global relations and the situations in different states caused the appearance of migration factors that triggered new emigration flows, which needed to be handled differently on a national or regional scale. Such is the case of the European Union, which “did not have sufficient and strong instruments or consistent strategies, enough to face macroeconomic shocks. In the same time, it did not have very effective responses to prevent and combat high levels of unemployment and other structural problems of the labor markets” (Ilie, Pricina, 2014: p. 38), thus creating the need to enforce legal instruments to handle several issues, among which immigration has an important role.

Essential in the onset of migration studies are the seven laws outlined by E. G. Ravenstein at the end of the nineteenth century, hypotheses that underpinned an impressive volume of migration studies conducted in different parts of the world. According to him, the first law of migration is that the vast majority of migrants are traveling short distances, and there is a population movement that generates "migratory currents" in the direction of large industrial and commercial centers. Secondly, Ravenstein states that the absorption process resulting from migration takes place in the following way: the population around the big cities migrates to them and their free place in the rural area is occupied by migrants coming from more distant areas, until the attraction of the developed centers from an economic point of view is also felt in the neighboring regions. The third law of migration expresses the fact that the dispersion process is the opposite of the absorption, and has similar features. Fourthly, each important migration stream produces a counter-current. The fifth law of migration according to Ravenstein is that long-distance migrants generally prefer large shopping and industrial centers. Furthermore, according to the sixth law, population in larger cities is less prone to migrating than those residing in rural areas. The seventh and last law of migration formulated in Ravenstein's paper states that women migrate more than men (Ravenstein, 1885: pp. 167- 227).

Although these laws were formulated on the basis of data from the UK Census in 1871 (Grigg, 1977: p. 43), their value of truth proved not to have primacy over time. In fact, over the next century, they were developed and analyzed in the work of other researchers of migration, thus creating a theoretical framework on which future theoretical approaches of international migration were based.

We also owe Ravenstein the first classification of migrants in five typologies, ranking by reference to the distance traveled by migrants and the duration of time that the migratory act takes. First of all, he identifies the *local migrants* - those who change their dwelling within the same area, thus moving very on very small distances. Then there are the *short-distance migrants* - those who change their residence in a neighboring area, and the *long-distance migrants* - those who change their residence beyond the adjacent areas. The last two categories of migrants identified based on this criteria are the *stable migrants* - who travel longer distances, but in smaller steps, thus repeating the migratory act, and the *temporary migrants* - those who enroll in the migratory movement over a certain period of time (Ravenstein, 1885). This classification developed by Ravenstein leads us to the conclusion that, depending on the spatial and temporal coordinates, migrants can be grouped into various typologies. These criteria, based on which he has operated, are still valid and operable in the sociology of migration studies. By defining the push-pull models, migration was approached as the point of equilibrium between the

two spatial elements of the phenomenon (origin and destination), but the factors considered are exclusively of an economic nature.

In contemporary literature, the same kind of terms is used to define the criteria of influence that generate migration and direct it to a particular destination. In view of this orientation, we can consider that the value of push and pull models is represented by the imposition and use of certain terminological references in later works rather than the contouring of a theory.

In 1966, Everett Lee reformulated Ravenstein's theories, focusing his work more on the push factors related to the internal environment (Lee, 1966: p. 47-57). He was also the one who highlighted the influence of obstacles such as spatial distances, or physical and political borders on the migration process. In Lee's view, people react differently to push-pull factors, based on differences in age, gender and social class, differences that influence them, as well as their ability to overcome the obstacles they encounter. To these fundamental differences some specific ones are added, such as education, family or other ties that can make it difficult for an individual to decide to migrate, and also certain elements related rather to the space of destination, such as the degree of knowledge about the population of the host country, elements that have the capacity to influence migratory processes.

The positions described above, as well as the significant contribution they brought to the study of international migration, are meaningful as theoretical terms, since they created the bases of what today is known as migration studies, bringing together elements from sociology, history, geography, economics, political science etc. in building a trans disciplinary approach to one of the most influential phenomena of modern societies.

However, it is important to acknowledge the fact that the field of migration studies has developed continuously since these early statements, and, the empirical differences observed in the migration processes over the globe were mirrored in the theoretical framing of the topic. Starting from Joaquin Arango's commentary, "The construction of theories in this field is practically a matter of the twentieth century and especially of its last third.

Most contributions prior to the 1960s are today only of historical interest, except for a number of contributions to the vocabulary of migration and the special significance of a few remarkable precursors" (Arango, 2000: p. 285), we can argue that the theories of sociological argumentative value in the field of international migration start with the neoclassical economy. Contemporary literature in the field no longer deals in depth with gravity models or push-pull models. Moreover, some theorists of international migration argue that gravitational models are rather a "collection of empirical regularities", rather than a theoretical orientation in itself (Massey, Arango, Hugo, Kouaouci, Pellegrino and Taylor, 1998: p. 15). The analysis of the gravitational models also marks the beginning of the preoccupations for the

study of migration, by claiming that the volume of a flow is the result of the distance and population activity of the two areas: the one of origin and that of destination.

2. The neoclassical economics theory

The neoclassical economics and labor migration theory was the earliest theoretical framework developed to explain labor migration. In the position expressed by its theoreticians, migration is considered to be the result of geographical differences between labor supply and labor demand. Although such discrepancies can be encountered both at the international level and at the internal level, we will focus on analyzing the reasons people choose to migrate to other countries.

In the context explained within this theoretical approach, international migration can be defined as a type of human population movement generated by the differences in financial retribution that exist between different countries and labor markets. Following this logic, should all the wage differences between countries and labor markets be eliminated, any kind of labor migration would cease to exist.

The neoclassical economics theory contains two approaches, both of them taking into account mainly the economic aspects related to migration, that were defined in the specialized literature as the macroeconomic model and the microeconomic model. The macroeconomic model theory refines the arguments of neoclassical economics at the macro level, and focuses on the idea that international labor migration is generated by the existence of differences in wage and employment rates in different countries, and, therefore, the people who migrate do this because they have an expectation of being paid better for their work in the destination country. The microeconomic model, on the other hand, focuses more on the individual rationality of the person who migrates, taking into account the personal costs and benefits involved by the move.

The following two sections of this paper are dedicated to the overlook of the main arguments of each of these theoretic models, followed by an analysis of the critics brought to the neoclassical economics theory of migration.

2.1. The macroeconomic model

The neoclassical economy theory is probably the oldest and best known theory of international migration, being originally developed to explain labor migration in the context of economic development. According to this theory, international migration, similarly to the national one, is generated mostly by the existence of differences between the demands of labor markets in geographically different zones. Countries with a high amount of labor force

compared to the available capital have a lower pay rate, while countries with a limited labor market compared to the capital pay higher wages. The resulting difference among wages determines the workers from the states with a lower retribution rate to migrate to states with higher retribution rates. As a result of this population movement, labor resources are decreasing and wages rising in poor countries in capital, while in wealthier countries labor resources increase and wages decrease, thus leading to the creation of a balance.

The capital movement also includes human capital, with well-trained workers moving from areas with high capital to areas with lower capital in order to obtain significant material gains in return for their skills in a poor environment in human capital, leading to a parallel migration of managers, technicians, or other qualified employees. International labor flows must therefore be a concept distinct from that of human capital flows (Massey *et. al*, 1998: p. 433). The simple and comprehensive explanation of international migration provided by the neoclassical economy has profoundly shaped public opinion and provided the intellectual basis for many policies related to immigration.

This perspective includes several hypotheses and theorems (Massey *et. al*, 1998: p. 434). Among them, the most important one is that the international migration of workers is caused by the differences in wage levels between states. Starting from this presumption, eliminating differences in wages will result in the end of workers' migration. Furthermore, international human capital flows - especially those consisting in highly qualified employees - react to pay differentials through the return of human capital, which may be different from the general wage level, thus resulting in a different pattern of migration than the one of unskilled workers. The labor markets are the primary mechanism by which international labor flows are induced, while other types of markets do not have the same kind of significant effects on international migration. According to this theory, the way in which national governments can control migration flows is by regulating or influencing the labor markets in the countries of origin and / or destination.

2.2. The microeconomic model

Within the microeconomic model, the focus is set on the individual choice, rational actors being those who choose to migrate as a result of a cost-benefit calculation that leads them to believe they will get a positive financial result, usually after the move. Therefore, international migration is conceptualized as a form of investment in human capital (Massey *et. al*, 1998: p. 434)). In practice, this can be explained in the following way: people choose to move where they can get the most productivity for their abilities; but in order to receive the highest wages, they must undertake certain investments, including material travel costs, financial support during the search for a job, the

effort involved in learning a new language and adapting to a new culture, as well as the psychological costs involved by the breakdown of ties to members of the family, friends, and the creation of new ones.

During the 1990s, Borjas proposed a developed version of the formula given by the neoclassical economy to the potential migrant (Borjas, 1990: p. 95): the expected salary plus the estimated salary at destination minus the costs of migration. Therefore, when deciding to migrate, individuals estimate the costs and benefits of each alternative destination, and choose the destination where the net expected benefits are the highest reported over the same time period. At least at the theoretical level, a potential migrant will choose to go where the revenue is expected to be the highest, which is a difference from the foregoing macroeconomic theory.

In addition, the microeconomic theory is different from the macroeconomic one in the following respects: firstly, according to the microeconomic model, international migration is generated by the differences between countries in terms of both income and unemployment. The individual characteristics of human capital that positively influence salary levels or the likelihood of a person being employed (such as education, experience, knowledge of a foreign language) will cause people to migrate, even if the other conditions remain the same. Equally, individual characteristics, social conditions, or technological innovations that lower migration costs increase the value of remittances, which increases the likelihood of the migratory act happening. Given the influence of these factors on migration, even between citizens of the same state, significant differences in migration intentions may occur.

Introduced by Sjaastad in 1962 (Sjaastad, 1962), this theory is also known as *the theory of human capital*, and its main thesis is that the social and demographic features of the individual are a determinant of the migration process (Bauer and Zimmermann, 1999: p. 16). According to this theory, the likelihood of migratory activity decreases with the aging of the elderly, reflecting the decrease in the period of time when income can be actually be achieved.

Another idea argued within this theoretical frame is that individuals with a higher education level are more likely to migrate because their knowledge and intellectual training, as well as the ability to accumulate new information, reduces the risks associated with migration. Moreover, the risks and costs associated with the migratory act increase in direct proportion to the distance that is to be traveled, as it is presumed that the individual has less information on the locations that are situated at greater distances. The theory of human capital can be used not only to explain permanent or definitive migration, but also to argue for other types of migratory behavior, such as circulatory or temporary migration. Furthermore, the main contribution of

human capital theory is the introduction of a new type of sociological approach to international migration: attention should not only be focused on the analysis of labor market variables such as salary and unemployment, but also to the individual socio-economic characteristics of migrants. Unlike the framework offered by the neoclassical theory, within this approach individuals from the same country may exhibit very diverse migration trends, as the remuneration for each type of activity varies greatly depending on the type of activity performed both in the country of origin and destination. In the light of the explanations proposed by the theory of human capital, it can be considered that the probability of obtaining a job at destination depends on the level of professional training of migrants, but also on their willingness to invest in the type of qualification required at the destination. This can be explained by the fact that in all labor markets “employers look for educated workforce for their needs and, on the other hand, potential employees are looking for jobs appropriate for their preparation” (Nita, Goga, 2016: p. 112).

3. Limitations and critics to the neoclassical theory of migration

As stated above, the neoclassical theory of migration is one of the first ones formulated in this field of research. Despite the fact that its arguments have numerous times been proven to be correct by empirical studies, scholars highlighted the fact that the specificity of contemporary migration processes depicts a landscape shaped by more factors than the ones taken into account when formulating this theoretical approach. Such is the case of the push-pull framework, which is usually regarded as being associated with the neoclassical theory, and aims at emphasizing the economic context of the movement of workers between different countries (Bauer and Zimmermann, 1999). Furthermore, it is stated that “push-pull factors introduce relational aspects into thinking about migration and compose dyadic frames in which migration flows are studied empirically” (Kurekova, 2011: p. 6). According to de Haas, the push and pull model of studying migration is not even a theoretical model, but rather a descriptive way of looking into a social phenomenon: “Another fundamental weakness of this model is that push and pull factors are generally mirrored in each other (...) It then becomes arbitrary and open to subjective judgment to establish whether the push or the pull is dominant. In fact, the differences in the relative scarcity of labor can be aptly expressed in one single variable, that is, wage differentials” (de Haas, 2008: pp. 9-10).

It is difficult to argue that migration, whether regarded as an individual act or considered in terms of flows and processes, can be explained by taking into consideration only a certain set of influencing factors. After all, migration is “most often influenced by a combination of economic, political, social and environmental factors, either in the migrant’s country of origin (usually

considered to be push factors), in the country of destination (the so called pull factors)” (Porumbescu, 2018, p. 41).

One of the main limitations associated with the neoclassical economic theory of migration is related to the fact that, among the causes that trigger international migration and the consequences that follow it, little to no attention is paid to the social transformations involved in such a move. Though the financial motivation may be the most important reason the individual decides to emigrate, most of the times, in the decision-making process, other elements, such as the family ties, or the sense of belonging to a community are being taken into consideration. In this regard, studies reveal that “social exclusion is analyzed separately from poverty: thus, it is promoted the idea that social exclusion does not necessarily imply the idea of poverty: it is about breaking relations with the rest of society, even family relations” (Motoi, Popescu, 2017: p. 112). Exposing to such risks of social exclusion can be a strong argument in the individual migration decision making process.

All in all, it can be stated that, although rigorously tested through several empirical studies, the neoclassical theory of migration has been, over time, the subject to a significant amount of critiques and inquiries. Among the main problems identified within this theoretical framework, some regard the fact that it actually ignores the specificities of different markets and countries, and reduces the roots and effects that determine migration to simple economic facts, thus creating a too homogenous image of migrants.

This theoretical approach pays little to no attention to the characteristics of states of origin or destination, to the social effects of migration, and to the policies in this field, that, in fact, have great importance in directing the migration flows. Furthermore, by developing approaches such as the human capital theory, the migration act is reduced to a simple choice generated by the possibility of an increased retribution, disregarding other types of migration that are not necessarily generated by financial reasons, including the issue of non-voluntary migration. According to Massey *et al.*, such limitations and critics induced in the specialized literature by the arguments of the neoclassic theory of migration and the push and pull model led to the development of new and more elaborated theories trying to explain international migration as “an interplay of individuals, motivations and contexts” (Massey *et al.*, 1998: p. 16).

To sum up, the most important questions associated with the studies of migration regard four fundamental investigation topics: what generates migration; how are the migrant flows directed and what keeps fueling them over a large period of time, what happens to the work force generated by labor migration, and which are the conditions and models of integration and social or cultural adaptation of migrants (Portes, 1999). Starting from them, numerous literature has been written in the study of migration and migrants. However,

many of the theoretical models that developed from the empirical studies investigating these topics “often grew in isolation and are separated by disciplinary boundaries” (Kurekova, 2011: p. 4), thus creating different theoretical approaches that are enabled to follow different hypotheses. It is undoubtable that theoretical debates over the study of migration are not to be followed in an exclusive, individual manner, but it can prove more prolific to study them as a complementary whole.

References:

1. ARANGO, Joaquin (2000), *Explaining migration: a critical view*, International Social Science Journal, 2000, nr. 165.
2. BAUER, Thomas; ZIMMERMANN, Klaus (1999), *Assessment of possible migration pressure and its labor market impact following EU enlargement to Central and Eastern Europe*, IZA Research Report no.3.
3. BORJAS, George (1990), *Friends or strangers: the impact of immigrants on the U.S. economy*, New York: Basic Books.
4. de HAAS, Hein (2008), *Migration and development. A theoretical perspective*, International Migration Institute Working Paper no.9, University of Oxford.
5. GRIGG, D. B. (1977), *E. G. Ravenstein and the “laws of migration”*, Journal of Historical Geography, no. 3, pp. 41-54.
6. ILIE, Gabriela; PRICINA, Gabriel (2014), *The importance of the Amsterdam Treaty and Lisbon Strategy for increasing employment in Europe*, Revista Universitara de Sociologie, no. 1/2014, pp. 38-42.
7. KUREKOVA, Lucia (2011), *Theories of migration: Conceptual review and empirical testing in the context of the EU East- West flows*, Paper prepared for Interdisciplinary conference on Migration, Economic Change, Social Challenge, University College London.
8. LEE, Everett, S. (1966), *A Theory of Migration*, Demography, vol. 3, no. 1, pp. 47-57.
9. MASSEY, Douglas S.; ARANGO, Joaquin; GRAEME, Hugo (1993), *Theories of International Migration: A Review and Appraisal*, Population and development Review, No. 9, pp.431-466.
10. MASSEY, Douglas S.; ARANGO, Joaquin; GRAEME, Hugo; KOUAOUCI, Ali; PELLEGRINO, Adela; TAYLOR, Edward (1998), *Worlds in motion. Understanding international migration at the end of the millennium*, Oxford: Clarendon Press.
11. MOTOI, Gabriela; POPESCU, Mihaela-Alexandrina (2017), *A Comparative Analysis of the Educational and Health Indicators in Rural Marginalized Areas from Dolj County*, Revista de Stiinte Politice, no. 55, pp. 111-121.

12. NITA, Andreea; GOGA Ilie, Cristina (2016), *The labor market dynamics. barriers and challenges in the city of Craiova in 2015*, in Iorgulescu, Alexandra; Mihaela Marcu; Mihaela, Strunga; Constantin, Alexandru; Vlad, Davian (eds.), *Creative imagination in social sciences*, pp. 111-120.
13. PORTES, Alejandro (1999), *Immigration theory for a new century: Some problems and opportunities*, in Hirschman, Charles *et all.* (eds), *The Handbook of International Migration*, The Russell Sage Foundation.
14. PORUMBESCU, Alexandra (2018), *The European institutional actors in handling migration*, *Sociology and Social Work Review*, 1/2018, pp. 41- 48.
15. RAVENSTEIN, Ernst, G. (1885) *The laws of migration*, *Journal of the Statistical Society* no. 48, London, 1885, pp. 167- 227, available at: <http://www.jstor.org/stable/2979181>.
16. SJAASTAD, Larry (1962), *The Costs and Returns of Human Migration*, *Journal of Political Economy*, Vol. 70, No. 5, Part 2: Investment in Human Beings, pp. 80-93.