

New economics of labour migration and neoclassical migration comparison



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'Old wine in new bottles?' (Abreu 2012). Examine the strengths, limitations, and differences between the new economics of labour migration and neoclassical migration.

In an era of ever-increasing globalisation, international migration has emerged as a 'basic structural feature of nearly all industrialized countries'; and yet, no single theory provides a comprehensive, multi-disciplinary explanation for international labour migration (Massey et al. 1993: 431). This paper will examine the two primary economic theories of migration: the first, the neoclassical theory of migration, and the latter, the New Economics of Labour Migration (NELM). While many scholars consider NELM to be a unique theory that combines components of neoclassical theory and historical-structural approaches, this paper will argue that while key differences exist between the two theories, both ultimately embody the 'assumption of *homo economicus*' (Fine 2006 cited in Abreu 2010: 60). Both theories attempt to explain migration through a purely economic, rational-choice lens and ignore the critical issues of power dynamics at the micro- and macro-levels and the structural barriers that inhibit movement, thereby providing insufficient explanations for labour migration across contexts.

In order to demonstrate the insufficiencies of these two theories, this paper will first define neoclassical theory and situate it within the broader historical context, before analysing its strengths and weaknesses. Second, it will define NELM and briefly discuss its historical development within the field of migration studies, followed by an analysis of the key differences between the two theories and how NELM built upon the weaknesses of the former. Third, it will summarise the contemporary debate between theorists who disagree

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as to whether the two theories are unique or if NELM is merely a recreation of the former: 'old wine in new bottles' (Fine 2006 cited in Abreu 2010: 59). Finally, drawing on Alexandre Abreu's hypothesis that both theories are foundationally the same, this paper will highlight the weaknesses of both theories. It will argue that while NELM broadened the scope of the neoclassical theory, it continues to provide a foundationally narrow assessment of labour migration as a utility-maximising, rational choice and therefore offers an insufficient answer to the question of why people migrate.

The Neoclassical Theory of Migration

The neoclassical theory of migration, based on neoclassical economics, was the first comprehensive theory 'to explain labor migration in the process of economic development' (Massey et al. 1993: 433). It built upon previous models: Ernst Georg Ravenstein's earliest 'The Laws of Migration' (1885), the 'push-pull' theory (Lee 1966), and Lewis' Structural Change Model of Growth (1954; Abreu 2010: 63). Neoclassical theory embodies the works of multiple primary theorists (Lewis 1954; Ranis and Fei 1961; Todaro 1969; Harris and Todaro 1970) and takes an objectivist approach to explain labour migration from both micro- and macro-levels (Abreu 2010). It holds that migration is driven primarily by wage differentials and that rational, utility-maximising individuals make the decision to migrate.

This paper will focus its discussion of neoclassical theory on Michael Todaro's seminal text, 'A Model of Labor Migration and Urban Unemployment in Less Developed Countries', in which Todaro details an economic behavioural model for urban-rural migration that is widely accepted as the foremost

presentation of neoclassical migration theory (Abreu 2010). According to Todaro, the neoclassical model centres the decision to migrate on two key variables: 1) the actual rural-urban income differential and 2) the 'probability' of finding employment in the urban area (1969: 139). Building upon models that consider only wage differentials, he sought to incorporate a probabilistic approach into determinants of urban labour supply and demand to explain high rates of rural to urban migration amidst high rates of urban unemployment in the developing world. The key distinction for Todaro is that the individual migrant's decision to migrate is mediated through his/her 'expected income differential' (1969: 138), allowing the migrant to ask the question of 'how long' (1969: 140) it might take to find a job in the modern sector once relocating and to make a rational choice after weighing these two primary factors.

Analysis of the Neoclassical Migration Theory

The neoclassical model continues to be the field's most well-known and prominent theory (Massey et al. 1993) and embodies both strengths and weaknesses. By focusing on the individual, micro-level, the theory embodies two primary strengths. First, its focus on the individual migrant allows for human agency to play a central role in the decision to migrate. Second, Todaro's model (1969) allows for the decision to be expanded to consider not only concrete wage differentials but also the probability of finding employment and the length of time it could take to do so. However, this micro-level focus on the individual has two central flaws. First, it ignores the influence that the household unit, surrounding community, and broader structural constructs impose. Second, it ignores the reality that migrants do

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not have access to complete and accurate information in order to make a rational decision.

Neoclassical theory presents a clear and testable hypothesis to understand migratory flows by analysing wage differential at the macro-level within and between countries and also at the micro-level of individual choice. In *Worlds in Motion: Understanding International Migration at the End of the Millennium* (1998), Massey et al. found that 'a positive relationship between wage differentials and migration flows is generally sustained' in migratory patterns in Europe. However, while wage differential is one of the factors motivating migratory movement, their research found that it is not the only, nor the most prominent, predictor of migration flows (Massey et al. 1998: 132). At best, the neoclassical theory offers only a partial, albeit an important, motivating factor in migratory decisions.

The New Economics of Labour Migration

The New Economics of Labour Migration (NELM) was developed in the 1980s by the primary theorists Oded Stark & David Bloom and presented in their seminal text 'The New Economics of Labor Migration' (1985). NELM theory presents the motivation for migrating as a collective decision taken at the household level. The decision is based primarily on the household unit's desire to mitigate risk through the migration of certain members to provide for income diversification (Stark and Bloom 1985). Migration is viewed as a 'rational way of hedging against risk in a world characterized by incompleteness of information and incomplete markets' (Abreu 2010: 58).

Another key component is the way in which the focus on the household-level

allows for a consideration of the role that remittances play in influencing the decision to migrate (Stark and Bloom 1985: 175). Finally, NELM introduced the idea of 'relative deprivation' as a factor that leads to increased migration, asserting that households in the surrounding community may be influenced to migrate as they observe others in their community receiving the economic benefit of remittances (Stark and Bloom 1985: 177). NELM situates migration theory within the broader context of the household- and community-levels and establishes the determination to migrate as a collective decision at the household level based on the desire to mitigate risk through income diversification (Stark and Bloom 1985).

Key Differences between Neoclassical Theory and New Economics of Labour Migration

NELM expanded upon the neoclassical model and addressed some of the former's weaknesses. There are three key differences between the two theories. First, NELM presents two important shifts in the level of analysis provided by neoclassical theory: 1) it shifts the ontological focus on 'individual independence' to one of 'mutual dependence' by changing the unit of analysis from the individual- to household-level (Stark and Bloom 1985: 174) and 2) NELM extends the focus further to considering the impact of migration at the community-level by introducing the concept of 'relative deprivation' (Stark and Bloom 1985: 173). Human agency continues to play a key role but has been expanded to consider agency from a relational and communal perspective. Second, by broadening the unit of analysis from the individual- to household-level, NELM allows for remittances to be factored in. Third, NELM holds that the primary factor motivating

migration is not wage differential alone but risk reduction for the household unit through the diversification of income by increased wages, remittances, and access to additional markets. This expands neoclassical theory's focus on labour markets alone, allowing for additional markets and structures (welfare, insurance, credit) to be taken into account (Stark 1991).

'Old wine in new bottles'? (Abreu 2010)

A question frequently posed by migration theorists is whether these theories are unique from one another or ultimately both explain migration through an economic, rational-choice lens; this debate will be explored in the following paragraphs. Based on its expansion of the neoclassical theory and its ability to situate migration within broader contexts and to include additional economic motivating factors, NELM was presented as a synthesis of the neoclassical approach, which focused on individual agency, and historical-structural approaches, which in various forms emphasise the role of broader structural constructs that influence migratory decisions (Abreu 2010).

Scholars disagree as to whether NELM presents a new, distinctive 'third way' (Abreu 2010: 49) or if it is merely a revision of neoclassical theory formulated in response to critiques of the former.

Many prominent scholars in the field hold the theories to be unique from one another: Hein De Haas calls NELM a 'new approach' that 'rejects neoclassical models, which largely ignore constraints and were evaluated as too rigid to deal with the diverse realities of the migration and development interactions' (2010: 242), and Massey et al. (1993) states that NELM has

challenged ' the assumptions and conclusions of neoclassical theory' (434). They uphold NELM as a unique approach primarily on the basis of two essential distinctions 1) analysis at the household level, as opposed to the individual-level and 2) expansion of income differential to include income diversification and market-access (Massey et al. 1993).

In contrast, in ' The New Economics of Labor Migration: Beware of Neoclassicals Bearing Gifts' (2010) Abreu argues that the two theories are ultimately the same. He refers to NELM as ' old wine in new bottles' (Fine 2006 cited in Abreu 2010: 59), an economically-imperialistic reemergence of neoclassical economic theory which claims to present a harmonized approach but is actually a recreation of the former that embodies the " same fundamental flaws' (Abreu 2010: 47). While De Haas (2010) and Massey et al. (1993) are correct in outlining the key differences between both theories, they ignore the foundational similarities they both share. NELM does indeed expand upon neoclassical theory, but it continues to embody the same ' fundamental flaws' (Abreu 2010: 47), which will be explored in the following paragraphs through an analysis of the limitations and omissions shared by both theories.

Limitations of Neoclassical Migration Theory and New Economics of Labour Migration

NELM was presented as a synthesis of the neoclassical approach, which focuses on individual agency, and historical-structural approaches, which in various forms emphasise the role of broader structural constructs and arrangements that control or limit migratory decisions (Abreu 2010). Both

theories embody the ' assumption of *homo economicus*' (Fine 2006 cited in Abreu 2010: 60) and fail to offer a comprehensive explanation for why people migrate. It is impossible to analyse a multidimensional reality such as migration without incorporating a multidisciplinary approach. As a result, the theories are unable to account for the complexities of migration and therefore present insufficient explanations. The primary weaknesses of both theories are as follows: first, although NELM shifts the focus from the individual- to household-level, it ' remained resolutely methodologically-individualistic' (Abreu 2010: 59). Both theories assume utility-maximising individuals (or household units) to be making primarily economically-motivated decisions. While NELM broadened the level and unit of analysis, the underlying assumptions remain the same. Migration is based on rational choice (whether by the individual or the household) and motivated by utility-maximising decisions to improve economic status either through the probability of wage differential (as in the neoclassical model) or through income and market-access diversification (as in the NELM model).

Second, both theories ignore the structures of power that dictate migrants' ' choices', which cannot be extracted from the larger political structures that serve as barriers to international migration. With the exclusion of market incompleteness which NELM factors into the model, both theories wholly ignore the ' dynamics or constraints at the structural level' that are involved in controlling migration flows (Abreu 2010: 59). It is impossible to frame labour migration apart from the way in which ' migrant agency' interacts with the ' structural level in such a way as to be constrained by it' (Abreu 2010: 59). This is particularly relevant when one considers the dynamics of

global migration within the current era of increasingly restricting policies enacted by states, extra-territorialisation on the part of Western states, and the rise in populism that is seen across the globe. It is impossible to remove the limitations set upon people's desire or will to move. It is here that political economy theories are necessary, such as institutional and policy theories, which broaden the structural levels of analysis to consider policies enacted by states and global power dynamics.

Third, both theories ignore how the broader processes of globalisation, neoliberalism, and capital accumulation interact and affect migration (Abreu 2010). Economic development within the Global South and the destruction of subsistence livelihoods have a significant impact on rural to urban migration. World-systems theory, which considers the impact that agricultural development has on rural to urban migration provides an essential insight into the way in which economic development and migration interact.

Finally, neoclassical theory and NELM leave no room for intersectionality, for the way in which conflicts of interests within the family unit affect migration. Furthermore, they omit any consideration of the way in which patriarchy, gender, or race interact and influence the decision to migrate. It is here that more subjectivist approaches, such as the autonomy of migration, become helpful to understand the experiences and interactions of individual migrants within the family structure.

Conclusion

Both neoclassical migration theory and NELM ultimately attempt to explain migration through economically-motivated decisions at the individual- or

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household-level and ignore how even the opportunity to make these decisions is dictated and constrained by broader policies, politics, and interactions. No single theory of migration can provide a comprehensive explanation for labour migration – any answer to the question of why people migrate must be situated within interdisciplinary approaches (Abreu 2010), multiple levels of analysis (Massey et al. 1993), and a cohesion of both objectivist economic theories with more constructivist and subjectivist approaches. This paper has argued that while the two primary economic theories of labour migration, neoclassical theory and the New Economics of Labour Migration, provide important contributions in explaining migratory patterns, they ultimately both embody the same weaknesses and attempt to narrowly explain migration as a rational choice made by utility-maximising individuals and households. This results in an insufficient explanation for why people migrate, as it ignores the structural influences and power dynamics that affect and limit migration and therefore cannot be disregarded.

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