

THE ECONOMIC AND UNECONOMIC ASPECTS OF THE DECISION REGARDING THE MIGRATION OF THE INDIVIDUAL

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Abstract

The article shows the effects of economic and uneconomic factors on individual's migration decision. Analysing the main models of migration surges the idea to create one which includes the impacts of main factors on migration decision, while facilitates both theoretical explanation and empirical test. The critical analysis of presented models shows the incomplete resolvability of the conflict between explanatory capacity and usability in the current migration models.

Keywords: migration, microeconomic models, utility maximalization.

1. Introduction

Those microeconomic theories which interpret migration deal with the individual's migratory decisions. Similarly to the economic theories which analyse the consumer's behaviour, the above mentioned theories also illustrate actions with models based on several psychological and other, uneconomical motives. Therefore; *the classical preconditions which can be regarded as the axioms of economics* (perfect and cost-free information; rational individuals who follow their self-interests; perfect markets) *are also in connection with the migratory decisions. Consequently, the theory can only provide a model for the actions of a 'homo oeconomicus' living in the virtual world of economics, but unable to track other, uneconomical causes affecting migration.*

Yet, the microeconomic analysis cannot be considered as an endless task. It is hard to question that the main motivational factors also have economic features and can be related to the utilization of income or profit. Although, the individual, following his self-interest, makes his decisions based on these factors, *his final decision can be influenced by other factors as well.* For this reason, the model of a microeconomic analysis concerning international migration only works perfectly under 'laboratory conditions'; however, it still helps to understand the logic behind the migratory decisions.

2. Model of the Migratory Inclination:

2.1. The Motive of Utility

If we evaluate migration as a decision, based on rational and economic thinking, it is necessary to know the factors based on which decisions are made by the individuals. According to the decision logic of microeconomics, *the individual tries to maximize his total utility by taking into consideration the utilities that can be realized in each country during a given period of time, and he chooses the country in which this utility reaches the highest level.* The total utility realized in a given country can be defined by the following formula [1]:

$$E\{\bar{U}_0\} = \int_0^T e^{-rt} U[C_{L,t}, X_{L,t}] dt \quad (1)$$

If we use the traditional marking: $E\{U_0\}$ is the expected value of the total, realizable utility, discounted to the base rate during the given period of time and e^{-rt} stands for the individual's discount rate which indicates the utilities realized in different times and the risks differing region by region and examines them at a given point of time. The utility depends on two variables: on $C_{L,t}$ and on $X_{L,t}$, where $C_{L,t}$ is the attainable consumption in country L , at time t and $X_{L,t}$ contains all variables which do not fall into the category of consumer goods, but have an effect on the individual's total utility [2].

According to this theory, *the rational individual decides to leave his country, if the total utility realized abroad, during a given period of time exceeds the total income realized at home, plus the total (fixed) cost carried by migration, therefore:*

$$E\{U_{F,0}\} - K > E\{U_{H,0}\},$$

where F indicates the target (foreign) country and H stands for the (home) country from where the labour force migrates [1].

According to the microeconomic decision logic, only the individual's decision-making process can be explained (and only in theory), but we hardly know anything about the decisions being made at the social level. It would be problematic (similarly to the analysis of the consumer's behaviour) to express the utility index in numbers, in other words it is hard to test the model empirically.

2.2. The Role of Disparities in Wages

The neoclassical equilibrium theories only consider the disparities of wages between countries as the starting-point of international migration [3]. According to the theory, wages are low in those countries where they have a considerable amount of labour force, while in countries with restricted number of labour force, wages

are high. Due to the gap in the wage proportion, the employees migrate from the countries where wages are lower to those where wages are higher. As a result of the migration, the supply in the labour market decreases, but the wage standard increases in countries from where employees migrate. Obviously, the opposite scenario takes place in the target countries. By means, *a new balance establishes itself in which the international disparities in wages only indicate the material and psychological cost of the migration between countries.*

That is the reason why in most of the models the utilities are substituted by the income or even simpler: by the wage (where $W_{L,t}$ is the wage earned at time t , in land L), so *the migratory decision will become a simple investment decision for the individual who looks for the returns at the highest rate of his own, human capital.*

He will decide to migrate, if he can realize higher income abroad than the income realized at home plus the total (fixed) cost of migration. Düll and Vogler–Ludwig define the expectable value of the extra realizable income abroad according to the neoclassical theory [4]:

$$E\{W_0\} = \int_0^T e^{-rt} \{W_{Z,t} - W_{H,t}\} dt - K_0 \quad (2)$$

Models based on disparities in wages are more applicable at empirical researches since the wages in a particular sector, and based on the average wages, are easily comparable even at the overall social level. Among the income sources of the households, the migration has little or no influence at all on the interest or profit-related incomes¹, so in fact, the employer aiming at maximizing the consumption of the economic goods acts rationally, if his goal is to reach the highest possible wage.

Yet several critical remarks can be made on the model:

- The disparities in wages have two directions when comparing the domestic wage level to the wage level abroad: the volume of disparities in wages can be studied either based on the purchasing-power parity or on the parity of currency. The disparity in wages at the parity of currency can only be relevant to the commuters, to the cross-border employees, since they exchange the income realized abroad to the national currency, and spend it at home². Consequently, the pulling power in the labour market of the target country increases more in the case of short-term employment (commuting, seasonal

¹In contrast to the wages, the returns of the different types of capital investments are expectable even during our staying abroad.

²Regarding the EU enlargement, the cases of Austria and Germany can serve as examples for the considerable number of commuters from neighbouring countries intending to find a job abroad when there is any chance to work in a foreign country. According to the survey of the Austrian Economic Research Institute (WIFO), 5,2 million people live in the cross-border regions of the neighbouring, candidate countries waiting for joining the EU in 2004.

work), than in the case of long term employment. Though, it is hard to differentiate between the two effects from the viewpoint of the employee. Of course, those who have opportunities take into account both possibilities, but it only makes sense to choose one of them. The migrants' and commuters' problems of double-counting have also been discussed in several Western European publications [5].

- The model ignores the redistribution role of the government. As the government's role in the redistribution of incomes varies from country to country, it influences the disposable incomes, by doing so it also affects the possibilities of consumption.
- Besides the wage level, it is worth taking a look at the tendency of the increase of incomes since according to the practical experiences, the migrants try to estimate the expectable income and wage in the domestic market, and they make their migratory decisions based on these. According to Burda [6], migration has an optional value which means that many times, the migrant rather just waits and sees and if the economic conditions improve at home, he chooses to work there. The expectations related to the relative change in incomes and wages often play a role in those cases when the migrants are planning to work on long-term in the foreign country. Otherwise, the absolute disparities in wages have priority in the decision-making process.

All in all, in the decision-making, the disparities in the net income calculated on the purchasing-power parity and the middle and long term tendency of the disparities should be considered process instead of the differences in the gross wage. Yet, at the time of decision, the necessary information (concerning the cost of living and the future tendency of wages) are not always available. Therefore, in the more advanced countries, higher wages also have to include the risk premium.

2.3. Possibilities of Employment

The supply of the foreign labour force is a necessary, but not satisfactory condition for the migration, it is also important to draw the attention to the demand of the target countries. The theories which emphasize the demand of the target country in the international migration of manpower, concentrate on economic structures of the developed countries to which the constant demand of foreign labour force belongs. As a result, the tendencies of the international migration are rather defined by the demand side, so the indexes of the target country have a more significant role concerning migration. The disparities in wages in themselves cannot cause emigrational pressure because the sufficient demand of labour force is also needed for that. Besides the disparities in wages, the possibilities of employment in the target country also influence the emigrational pressure. The so called 'pull factors' causing migration can only have any effect, if the migrant's qualification matches the demand of the labour force coming from the target country.

An important aspect of the possibilities of employment is the qualification. The employment of highly qualified foreign labour force can be explained by the employees' special knowledge such as the professional knowledge and the foreign language skills (their native language becomes a foreign language in a foreign country) which complete the knowledge of the domestic employees. Since higher qualification generally comes along with a higher level of foreign language skills, the migrant's foreign language knowledge and their experiences gained in the foreign markets can present themselves as attractive factors for the companies of the target countries.

Based on the above, there is a developed version of the decision-making situation based on the disparities in wages which is a situation when the unemployment is taken into account in the decision-making process of the individual. The incomes should be weighted by the probability which indicates whether the potential migrant can find a job or not in the given country. Düll and Vogler-Ludwig present the modified decision situation in their studies [7]:

$$W_F(1 - \gamma u_F) \geq W_H(1 - \gamma u_H) \quad (3)$$

The probability of finding a job is expressed by $(1 - \gamma u_L)$, where u_L is the unemployment rate of country L , while γ is the individual weighting of the unemployment rate based on regions and industries (which indicates the decision maker's evaluation concerning his own possibilities of employment). γ can be bigger than one showing that it is harder to find a job in the given field compared to the national average.

2.4. *The Model-like Application of Individual Preferences*

The decision regarding migration can only be rational, if the realizable extra income also compensates the losses caused by migration. The disadvantages caused by migration (in other words the advantages of staying at home) can be expressed by the introduction of a preference factor (Φ) which modifies (usually increases) the wage level at home. If Φ is smaller than one, the target country is more attractive to the individual, so he would decide to migrate even if the wages were lower in the target country³. Based on the above, the migration can only be regarded as a rational action, if the wages abroad exceed the value modified by the preference factor of the domestic wages, taking the possibilities of employment into consideration as well:

$$W_F(1 - \gamma u_F) \geq W_H(1 - \gamma u_H)\Phi. \quad (4)$$

This is the so called Harris-Todaro (1970) condition of the migration [8] which explains the conditions under which the individuals decide to migrate in the most

³The spanish-german migratory balance can illustrate a balance which is negative in spite of the fact that the german wages exceed considerably the spanish wages.

details from the previously mentioned models. Yet, a critical remark can be made because it is difficult to express the formula numerically:

Several human abilities and individual values are place-specific, in other words, they can be used at a specific place, in a given region and at a given company, and they cannot be carried into another surrounding.

These advantages 'coming from inside' do not only have economic features, but they are of cultural, linguistic, social and political characters. Naturally, it is also possible to accumulate advantages like these abroad, thus what usually happens is that the individual who intends to leave temporarily his native country, chooses to settle down permanently abroad. TASSINOPOULOS and WERNER [9] classified the region specific advantages as follows.

1. Work-related advantages:

- Company-specific advantages
- Place-specific advantages
- Society-specific advantages

All three, work-related advantages can offer better positions, promising prospects of promotions and wages or salaries which result in higher incomes.

2. Free time-related advantages:

The society-related advantages include things like friendship, social acceptance and the adaptation to the surroundings.

The place-specific advantages include the type of knowledge such as: 'it is worth the money' restaurant along with information on cultural events and on the local real estate market.

3. Further reasons for staying at home:

Most of the people dislike taking risks and moving away even if it is very likely that they can expect increase in their incomes or improvement in the quality of their life because they are aware of the possible risk factors. In general, it is harder to estimate the risks in a foreign country than in our native country, moreover getting information on how to reduce these risks can be difficult.

3. Evaluation

The constant dilemma in publications dealing with migration is that they intend to create a model which allows empirical examinations (the model is supposed to work) and at the same time, the wildest range of the far-reaching motivational factors should be taken into consideration (the explanations given by the model should match our previous expectations). Carrying out these two objectives is a serious challenge. When we estimate the economic and social effects of migration, we cannot expect the estimation to be entirely precise. The main point is the order of migration and the theoretical support of the estimation. We cannot call it an easy task. The researches of migration can be described by different methods and results, approval and disapproval.

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