Chapter 6

Welfare Economics from Migration Perspective at the Micro Level

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Abstract

This chapter delves into the intricate relationship between welfare economics and migration, viewed through a microeconomic lens. It begins by exploring foundational concepts in welfare economics, emphasizing the importance of individual and household-level analysis. The discussion then shifts to the micro-level drivers of migration, highlighting the economic, social, and psychological factors that influence individual and household decisions to migrate.

The core of the chapter examines the economic effects of migration on migrants, including changes in income, employment, and human capital. It also assesses the impact of migration on both sending and receiving households, focusing on remittances, social integration, and economic adaptation. The analysis extends to the role of welfare state interventions, exploring how access to public services and social welfare policies shape the well-being of migrant households.

Behavioural economics is incorporated to understand the decision-making processes of migrants concerning welfare and social benefits, with particular attention to the incentives and disincentives they encounter. The chapter also includes case studies and quantitative analyses, providing empirical insights into the welfare outcomes of migrants at the micro level.

Finally, the chapter concludes with a summary of key findings and offers targeted policy recommendations aimed at enhancing welfare outcomes for migrant individuals and households. It also suggests avenues for future research, underscoring the need for continued micro-level analysis in understanding the complex interplay between migration and welfare economics.

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1. Introduction

1.1. Welfare Economics: A Micro-Level Overview

Welfare economics is primarily concerned with the allocation of resources and goods to improve social welfare. Traditionally, welfare economics has focused on macroeconomic perspectives, addressing broad policy issues that affect large populations. However, a micro-level approach delves into the welfare of individual households and small communities, analysing how resource allocation impacts their well-being directly (Varian, 1992).

At the microeconomic level, welfare economics is rooted in the analysis of utility, preferences, and choices made by individuals. It operates under the assumption that individuals act rationally to maximize their utility, which is a representation of their well-being (Mas-Colell, Whinston, & Green, 1995). The micro-level analysis thus involves understanding how individuals make decisions about consumption, labour, savings, and investment, and how these decisions contribute to their welfare.

The concept of Pareto efficiency is central to welfare economics at the micro level. A Pareto efficient allocation is one where no individual can be made better off without making another individual worse off (Arrow, 1951). While Pareto efficiency is an ideal benchmark, real-world applications often encounter market failures, externalities, and inequalities, all of which require nuanced micro-level interventions to correct inefficiencies and enhance welfare (Sen, 1970).

Furthermore, welfare economics at the micro level considers the distribution of resources and how it affects equity and justice within a society. Theories such as those proposed by John Rawls emphasize the need to assess social welfare not just by aggregate utility but by the welfare of the least advantaged members of society (Rawls, 1971). This perspective is particularly relevant when analysing the welfare implications of migration, as migrants often belong to marginalized groups.

Micro-level welfare economics also employs cost-benefit analysis to evaluate the efficiency of policies aimed at improving individual welfare. This involves comparing the costs of a policy intervention to the benefits it delivers to individuals, often using measures like consumer surplus and willingness to pay (Boardman et al., 2018). For instance, policies that affect migrant populations—such as access to education, healthcare, or housing—can be assessed to determine their impact on individual welfare.

In summary, welfare economics from a micro-level perspective provides critical insights into how individuals and households are affected by economic policies and market conditions. It emphasizes the importance of understanding individual preferences, the equitable distribution of resources, and the efficiency of interventions aimed at improving welfare on a smaller scale.

1.2. Migration: Micro-Level Considerations

Migration, at the micro level, is driven by a complex interplay of economic, social, and psychological factors that influence individual and household decisions. Understanding these micro-level determinants is crucial for comprehending the broader welfare impacts of migration on both sending and receiving communities.

One of the fundamental frameworks for analysing migration decisions at the micro level is the neoclassical economic theory, which posits that individuals migrate to maximize their utility by seeking higher wages and better employment opportunities (Todaro & Maruszko, 1987). According to this theory, migration is primarily driven by wage differentials between regions or countries, with individuals moving from low-wage to high-wage areas to improve their economic well-being (Harris & Todaro, 1970). However, this perspective has been expanded to include other non-economic factors, such as social networks and family considerations.

The New Economics of Labour Migration (NELM) offers a more comprehensive view by considering migration as a household decision rather than an individual one (Stark & Bloom, 1985). NELM suggests that households engage in migration as a strategy to diversify income sources and mitigate risks, such as those related to crop failures, economic downturns, or political instability. Remittances sent by migrants are a key component of this strategy, providing a safety net for households in the country of origin (Taylor, 1999).

Social networks play a significant role in shaping migration patterns at the micro level. Migrants often rely on established networks of family and friends who have already migrated to facilitate their own migration process (Massey et al., 1993). These networks reduce the costs and risks associated with migration by providing information, financial support, and assistance with housing and employment in the destination country. As a result, migration tends to be a self-perpetuating process, with initial migrants paving the way for subsequent waves of migrants from the same community.

Behavioural economics also provides valuable insights into the migration decision-making process. Studies show that migrants' choices are influenced not only by rational calculations of economic gain but also by psychological factors such as aspirations, risk perception, and social norms (De Jong, 2000). For example, the concept of "relative deprivation" suggests that individuals may choose to migrate not only to improve their absolute income but also to achieve a standard of living comparable to others in their reference group (Stark & Taylor, 1989).

In summary, migration decisions at the micro level are shaped by a combination of economic, social, and psychological factors. These decisions are influenced by the pursuit of economic opportunities, risk management strategies, social networks, and Behavioural considerations. Understanding these micro-level drivers is essential for assessing the welfare implications of migration and for designing policies that address the needs and challenges faced by migrants and their families.

2. Micro-Level Impact of Migration on Welfare Economics

The micro-level impact of migration on welfare economics revolves around how migration affects the well-being of individual migrants, their families, and the households in both sending and receiving communities. These effects can be observed in terms of economic gains, social integration, and the redistribution of resources.

2.1. Economic Effects on Migrants

At the individual level, migration often results in significant economic benefits for migrants through improved employment opportunities and higher wages. These benefits are particularly pronounced when migrants move from low-income to high-income regions, allowing them to access better-paying jobs (Borjas, 2014). The human capital of migrants—such as education, skills, and work experience—plays a crucial role in determining the extent of these economic gains (Chiswick, 1978). Migrants with higher levels of human capital tend to experience greater economic mobility and integration in the labour markets of destination countries (Friedberg, 2000).

However, the economic benefits of migration are not uniformly distributed. Migrants often face challenges such as underemployment, discrimination, and the devaluation of foreign qualifications, which can limit their economic advancement (Dustmann & Fabbri, 2003). For some, the economic gains from migration may be offset by these barriers, leading to disparities in welfare outcomes across different migrant groups.

2.2. Impact on Sending and Receiving Households

Migration has profound effects on both sending and receiving households. In sending communities, remittances from migrants are a critical source of income, helping to improve household welfare by funding education, healthcare, and other essential needs (Adams & Cuecuecha, 2010). Remittances can also reduce poverty and inequality in sending countries, as they are often directed towards poorer households (Ratha, 2013). However, the departure of working-age individuals from sending communities can lead to labour shortages and reduced economic activity, which may negatively impact local economies (Lucas, 2005).

In receiving communities, migrant households contribute to the local economy through their labour and consumption. However, they may also face integration challenges, such as limited access to social services, language barriers, and social exclusion, which can affect their overall welfare (Portes & Rumbaut, 2006). The ability of migrant households to integrate and achieve economic stability is crucial for their long-term welfare.

2.3. Social Integration and Redistribution of Resources

Social integration is a key factor influencing the welfare of migrants at the micro level. Successful integration into the host society—characterized by access to education, employment, healthcare, and social networks—can significantly enhance the welfare of migrants and their families (Ager & Strang, 2008). Conversely, lack of integration can lead to social isolation, economic marginalization, and lower overall welfare.

Migration also impacts the redistribution of resources within and between households. For instance, migrant remittances not only support the welfare of sending households but also lead to investments in education, housing, and small businesses, contributing to long-term economic development (Taylor, 1999). In receiving countries, migrants may contribute to public goods and services through taxes, while also drawing on welfare benefits, thus influencing the allocation of resources within the host community (OECD, 2013).

In summary, the micro-level impacts of migration on welfare economics are multifaceted, affecting the economic conditions, social integration, and resource distribution of migrants, their families, and the broader communities involved. Understanding these impacts is essential for designing policies that support the welfare of migrants and ensure equitable outcomes for all parties involved.

3. Welfare and Policy Implications

The micro-level effects of migration have significant implications for welfare policy, both in the countries migrants leave and those they enter. Understanding these implications is crucial for designing policies that enhance the welfare of migrants while balancing the needs of the broader population.

3.1. Welfare State Interventions and Migrants

In host countries, access to welfare services such as healthcare, education, and social security plays a critical role in enhancing the well-being of migrant households. These services are essential for the integration process, contributing significantly to the overall well-being of migrants (Ager & Strang, 2008). Furthermore, effective access to these services can facilitate social and economic integration, ultimately improving the quality of life for migrant populations (OECD, 2018). However, the extent to which migrants benefit from these services often depends on factors such as their legal status, level of integration, and the specific policies of the host country. For instance, documented migrants are more likely to access welfare benefits, while undocumented migrants may face barriers that prevent them from receiving the same level of support. Legal status is a crucial determinant of access to welfare services, with undocumented migrants often excluded from or having limited access to these benefits (Morris, 2002).

The provision of welfare to migrants has sparked debates over the perceived fiscal burden migrants may impose on the host country's welfare system. Some argue that migrants, particularly low-skilled ones, may disproportionately rely on welfare benefits, thereby straining public resources (Borjas, 1999). However, others contend that migrants contribute positively to the welfare state through taxes and labour, and that they often receive fewer benefits than native-born citizens (OECD, 2013). This discrepancy underscores the importance of carefully crafted policies that address both the needs of migrants and the sustainability of welfare systems.

In sending countries, the impact of migration on welfare is often mediated through remittances. Remittances can improve household welfare by providing funds for education, healthcare, and consumption, which may help reduce poverty and inequality (Adams, 2011). However, over-reliance on remittances can also lead to vulnerabilities, such as reduced labour force participation and economic stagnation in the sending communities (Amuedo-Dorantes & Pozo, 2006).

3.2. Behavioural Economics and Migration

Behavioural economics offers insights into how welfare policies can influence the decisions and welfare outcomes of migrants. Policies that create incentives or disincentives can shape migrant behaviour in various ways. For example, conditional cash transfer programs in some Latin American countries have been used to encourage migrants to invest in their children's education and health, thus improving long-term welfare outcomes (de Janvry & Sadoulet, 2006).

On the other hand, immigrants in many countries do not benefit from welfare programs intensively despite their need, however, those programs may improve immigrants' socio-economic situation upon arrival which facilitates their assimilation process (Giulietti, 2014). Policies that are perceived as exclusionary may also lead to social tension and affect the integration process, ultimately impacting the welfare of both migrants and the native population.

3.3. Policy Recommendations

Given the complex interaction between migration and welfare, policymakers need to strike a balance between supporting migrants and maintaining the integrity of welfare systems. For host countries, this could involve designing targeted welfare policies that promote the integration of migrants, such as language training, employment support, and access to essential services (Papademetriou & Somerville, 2014). Ensuring that welfare policies are inclusive and equitable can help maximize the positive contributions of migrants while minimizing potential social and economic costs.

For sending countries, policies that leverage remittances for development can enhance the welfare of migrant-sending households. This could include initiatives that encourage productive use of remittances, such as investment in small businesses, education, and infrastructure (Taylor, 1999). Additionally, international cooperation on migration governance can help address the challenges and opportunities that migration presents for welfare systems on both sides of the migration corridor.

In conclusion, welfare policies are crucial for shaping the micro-level welfare outcomes of migrants and their families. By carefully designing and implementing these policies, governments can enhance the welfare of migrants while ensuring that the broader population benefits from migration.

4. Case Studies and Empirical Analysis

Case studies and empirical analyses are crucial for understanding the micro-level impacts of migration on welfare economics. By examining specific instances and data-driven research, we can gain insights into the diverse ways migration affects individuals, households, and communities across different contexts.

4.1. Case Study 1: Mexican Migration to the United States

One of the most extensively studied migration flows is that of Mexican migrants to the United States. This case illustrates the micro-level economic effects of migration on both sending and receiving communities. Studies have shown that Mexican migrants, particularly those with lower levels of education, experience substantial wage gains upon migrating to the U.S. (Hanson, 2006). These wage increases are often remitted back to Mexico, where they play a critical role in improving household welfare. For instance, remittances have been linked to higher educational attainment among children in migrant-sending households, as well as improved health outcomes (Hanson & Woodruff, 2003).

However, the case also highlights some challenges. Migrants often face difficulties integrating into the U.S. labour market, such as language barriers and the devaluation of their skills, which can limit their economic mobility (Chiswick, 1978). While remittances improve household welfare by providing additional income, they can also reduce labour supply in sending communities. This reduction occurs because remittances allow households to substitute income from abroad for local earnings, leading to decreased labour participation among recipients (Amuedo-Dorantes & Pozo, 2006).

4.2. Case Study 2: Filipino Migrant Workers in the Middle East

Filipino migrant workers in the Middle East represent another significant case study. The Philippines has a long history of labour migration, with millions of Filipinos working abroad, particularly in the Middle East. This migration is largely driven by economic necessity, with Filipino workers seeking higher wages to support their families back home (Asis, 2006). Remittances from these workers constitute a significant portion of the Philippines' GDP, contributing to improved welfare outcomes, such as better housing, and education for their families (Yang, 2008).

However, this case also underscores the social costs of migration. Many Filipino migrant workers are employed in low-skilled, precarious jobs and face harsh working conditions, including long hours, low pay, and limited labour rights (Parreñas, 2001). Additionally, the separation from family members can lead to social challenges, such as marital strain and the psychological impact on children left behind (Battistella & Conaco, 1998).

4.3. Empirical Analysis: The Impact of Migration on Income Inequality

Empirical studies have extensively analysed the impact of migration on income inequality, both within and between countries. For instance, a study by Docquier, Özden, and Peri (2014) explored the relationship between migration and income distribution, finding that migration can have complex effects on income inequality, depending on various factors such as skill levels and migration policies. However, the impact on receiving countries is more mixed. In some cases, migration has been shown to exacerbate income inequality, particularly when migrants fill low-wage jobs that native workers are unwilling to take (Card, 2009). In contrast, migration can also reduce income inequality if migrants fill labour shortages in high-skill industries, thereby contributing to economic growth (Peri, 2012).

Another empirical study by Clemens, Montenegro, and Pritchett (2008) demonstrated the significant wage differences between countries, which drive migration. Their analysis highlighted that migration allows individuals from lower-income countries to substantially increase their income, thereby improving their welfare. However, these gains are often offset by the costs associated with migration, such as the loss of social networks and the challenges of adapting to a new environment.

4.4. Conclusion

The case studies and empirical analyses presented highlight the complex and varied impacts of migration on welfare economics at the micro level. While migration can lead to significant economic gains for individuals and households, it also poses challenges related to social integration, labour market participation, and the long-term sustainability of these welfare improvements. These findings underscore the need for targeted policies that address both the economic and social dimensions of migration to maximize its benefits for all parties involved.

5. Conclusion and Micro-Level Policy Recommendations

The micro-level analysis of migration's impact on welfare economics reveals both opportunities and challenges for individuals, households, and communities involved in migration processes. Understanding these impacts provides a foundation for developing targeted policies that address the specific needs of migrants while maximizing their contributions to economic and social well-being.

5.1. Summary of Findings

Migration at the micro level significantly affects the welfare of individuals and households through various channels, including economic gains, remittances, and social integration. Migrants often experience wage increases and improved employment opportunities, particularly when moving from low-income to high-income regions (Clemens, 2013). However, these benefits are tempered by challenges such as discrimination, underemployment, and the devaluation of skills (Dustmann & Fabbri, 2003). Remittances sent by migrants play a crucial role in improving the welfare of families in sending communities, although they can also contribute to economic dependency and reduced local labour participation (Amuedo-Dorantes & Pozo, 2006).

In receiving countries, the integration of migrants into the labour market and access to welfare services are important considerations. Banting (2005) examines the relationship between migration and the welfare state, exploring how different factors can influence the experiences of migrants in receiving countries. However, restrictive policies or barriers to integration can limit the benefits and contribute to social exclusion (Van Oorschot, 2008). Empirical analyses further highlight the mixed impact of migration on income inequality, with both positive and negative effects depending on the context and characteristics of the migration flow (Card, 2009; Docquier, Özden, & Peri, 2014).

5.2. Micro-Level Policy Recommendations

1. Enhance Integration Programs: To improve the welfare outcomes of migrants, host countries should invest in comprehensive integration programs that address language barriers, skills training, and employment support. Providing these resources can facilitate smoother transitions into the labour market and reduce the risk of economic marginalization (Papademetriou & Somerville, 2014). Policies that promote social inclusion and access to public services are also essential for fostering a supportive environment for migrants (Ager & Strang, 2008).
2. Support Remittance Management: Sending countries should implement policies that assist households in managing and investing remittances effectively. Initiatives such as financial literacy programs,

investment opportunities, and support for small businesses can help maximize the positive impact of remittances on local development and reduce dependency (Taylor, 1999). Encouraging productive uses of remittances can contribute to sustainable economic growth in sending communities (Yang, 2008).

3. Address Discrimination and Skill Utilization: Host countries should be aware of the challenges migrants face, such as discrimination and the undervaluation of foreign qualifications. Chiswick (1978) highlights the difficulties migrants encounter in the labour market, particularly in terms of how their foreign qualifications and skills may be undervalued compared to native workers. Reducing discrimination and improving skill utilization can enhance economic outcomes for migrants and contribute to a more equitable labour market.
4. Implement Fair Welfare Policies: Welfare policies should be designed to be inclusive and equitable, ensuring that migrants have access to essential services without creating undue fiscal burdens on the system. Policymakers should balance the needs of migrants with the sustainability of welfare programs by considering both the contributions and the demands of migration (OECD, 2013). Transparent and fair policies can help mitigate tensions and support positive integration outcomes.
5. Promote International Cooperation: Finally, international cooperation on migration governance can help address the challenges and opportunities associated with migration. Collaborative efforts between sending and receiving countries can lead to better management of migration flows, support for migrant rights, and shared solutions to common issues (Papademetriou & Somerville, 2014). Effective international frameworks can enhance the welfare outcomes for migrants and their families while fostering economic development and social cohesion.

5.3. Conclusion

In conclusion, the micro-level impacts of migration on welfare economics highlight the importance of targeted policies that address the specific needs and challenges faced by migrants. By enhancing integration programs, supporting remittance management, addressing discrimination, implementing fair welfare policies, and promoting international cooperation, policymakers can improve the welfare outcomes for migrants and their communities. These efforts will contribute to more equitable and sustainable migration processes that benefit both migrants and the broader society.

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