

# The Analysis of Inequalities: The Review of Economic Approach and Policies

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**Abstract:** Inequality and migration flows are two phenomena correlated, because people, that decides to migrate, are driven by a perception of relative deprivation with respect to other individuals or groups of individuals which live in other places. This work analyzes the multidimensional nature and implications of these two phenomena which characterize complex societies. Moreover it discusses: a) the meaning of “complexity” for defining advanced societies and b) the weaknesses of economic science relatively to an inadequate consideration of phenomena as inequalities and migration which are driven by individual and collective choice. Indeed traditional economic theories have been focused on the study of the “effects” of individual and collective choices, disregarding in particular the following aspects: i) the feelings, human behaviors, reasons and origins of social phenomena and ii) the interaction effects between the members of a society. In the paper are presented also new social and economic research strands which study the determinants of human behavior. The paper argues the importance of an active and effective role of the national and supranational institutions, with the aim to implement appropriate policies for reducing inequality. It discusses also the role of European Institutions in managing the recent migration flows.

**Key words:** inequality; migration flows; complex system; implementing policies; European institutions

**JEL codes:** A11, A12, I30, I31, Z13, Z18

## 1. The Dimensions of Inequality and Its Tendencies

Inequality concerns the distance between countries, communities, individuals and groups of individuals as a members of a society (Franzini & Pianta, 2016). Such distances can refer to different dimensions that are related to differentiated access to resources and services available in a particular society. If differentiated access to economic, social, cultural and natural resources is not only a matter of legacy, then inequalities can also generate development, contributing to reward hard working people who have the best skills. On the contrary, inequality is harmful when it assumes a rigid structure and different positions in society are transmitted from generation to generation (Ruggiero, 2015). In a money-based society, the inequality in access to economic resources — i.e., economic inequality — is considered the mother of all other inequalities. The theoretical approaches to inequality — denoted as *horizontal* — point out that with only the consideration of economic dimension there is a loss of information about the following aspects: i) characteristics of each group; ii) the internal organization of each

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group, iii) how each group can access to power resources, and iv) the role of some crucial factors as ethnicity, gender, age and so on (Franzini & Pianta, 2016).

Important theoretical contributions to the inequalities analysis have been provided by sociological studies. Starting with Marx and Weber's theories of class, over the past five decades the multidimensional approach to the theoretical analysis of inequality has been perfected. Marx conceives the inequalities in societies in terms of possession/non possession of means of production. According to Marx, for each mode of production corresponds a different social structure. He introduced the concept of "capitalist" production mode, according to which workers do not have the means of production, that are owned by non-workers. Instead, the Weberian concept of inequality emphasizes the effects that belonging to a given class has on a person's life opportunities. In other terms, belonging to a given class is reflected on the following individual abilities: i) to obtain whatever is considered desirable in a particular society and ii) to avoid whatever is considered undesirable. Weber does not focus on the definition of "class" but he identifies the main determinants of differences between social groups; these determinants are represented by economic, social and political factors. The combinations of these three different factors end up producing a large number of positions that individuals can occupy within society, thus allowing them to describe more social complexity and thus inequalities (Paci, 1998). Subsequently, various approaches to the analysis of social structures and inequality have been developed; among these are mentioned: a) the *structuralist* approach, within this strand of research Wright and Parsons can be considered as the main representatives; b) the *stratification* approach with the main scholars Goldthorpe and Bourdieu and c) the *mobility* approach, within this strand of research Sorokin, Lipset and Bendix, and Esping-Andersen can be considered as the main representatives (for further insights see Paci, 1998).

These works are focused on the study and identification of different social classes, especially looking for their dynamics and determinants. Determinants in the broader sense can be understood as: a) "objective" and "subjective" factors, and b) "structural" and "cultural" factors. These factors identify and explain the characteristics of social inequality (Rovati, 1987). The term "social inequality" therefore refers to differences between individuals and groups within the society in terms of access to economic, social and cultural resources. These differences are determined by the position of each person within the system of social stratification (Giddens 2001). Gallino (1998) states that the concept of social stratification is an effective complementary tool for analyzing class structures and their dynamics, because it leads to a more realistic description of each class considered, by providing a better understanding of the social action within each class. The combination of different stratification factors results in a large number of positions that individuals can occupy within society, thus allowing to describe accurately the social complexity and the inequalities. The social stratification models can be one-dimensional or multi-dimensional (Gallino, 1998). Within the multi-dimensional model, the *intersectional approach* allows to describe the heterogeneity of social groups due to the intersection of the variables that make up the traditional "triad" (gender, race, class) with other categories, such as, age, sexuality, religion and disability. According to the intersectional approach, each person "belongs" to multiple social categories that interact with each other, both at the subjective level and at the level of groups and institutions. It is therefore necessary to consider the relationship that exists between these categories, taking into account also their relevance for the context (Marchetti, 2013).

In economics, the inequality analysis in a multi-dimensional perspective has been largely underlined by economists such as Sen, Stiglitz and Fitoussi. Sen, with the introduction of the *capabilities* concept, states that the inequality can be referred to different dimensions related to rights, opportunities, capacity, income, welfare and so

on. Stiglitz and Fitoussi's (2010) paper provides guidelines/recommendations on how to measure inequality in a multi-dimensional perspective, considering the concept of well-being and its long-term sustainability. This work stresses the need to have a very large information base, considering both objective indicators of well-being and subjective ones referring to the quality of life.

Today inequality is a phenomenon that determines big concerns. Economic inequality has grown in the last three decades, and nowadays the income is highly concentrated in the hands of few individuals<sup>1</sup>. Franzini and Pianta (2016) argue that today there is a greater tolerance to inequalities and the explanations can be the following: 1) an erroneous perception of the phenomenon; 2) the idea that inequalities are fair because they allow to reward individual capacities which are different for each person; 3) the weakness of institutions to define effective policies for reducing inequality; 4) the relationship between inequality and economic growth; 5) the belief that society is capable to create a certain degree of social mobility. However, these arguments are not supported by robust empirical evidence. Instead, some studies show the following evidences: i) a high persistence and high intergenerational transmission of inequality in advanced countries and ii) a strong correlation between current inequality and intergenerational inequality (Franzini & Pianta, 2016). Moreover, with increasing migration flows, the inequalities generated by belonging to different ethnicities clearly emerge. Such inequalities seriously impede the integration and social inclusion of migrants in "host" societies.

## 2. The Analysis of Inequality in the Modern Societies

In modern societies, the socio-economic phenomena and interactions among the actors are numerous. In these societies is the economy that establishes the priorities of the actions to be undertaken, then the interactions leading to economic choices are of primary importance. In this context, and especially since the late 1970s, most of the consequences and effects of individual and collective economic choices, have not been predicted by traditional economic theory.

In order to understand the weaknesses of traditional economic theories, it is first necessary to define the societies in which the economy — as a social science and branch of ethics<sup>2</sup> (along with other disciplines such as sociology) — studies social events and individual and collective behaviors. It is plausible to say that modern society assumes the characteristics of a complex system. According to the *General System theory* (Bertalanffy, 1969), the system is defined complex when the interaction dynamics imply that: a) once in the system, its entities or parts are no longer the same in the sense that they change their condition (material and non-material) and their identity, and b) the system itself becomes a new entity in transformation, because every "state" is a function of interactions dynamics. Elements of a complex system depend on specific relationships that occur within the system, for which it will not be sufficient to know the parties. These elements enjoy "constituent" characteristics, i.e., "the whole" is not the aggregation of each element (Bertalanffy, 1969). This complexity should correspond to a new behavioral theory of actors in the system, considering the subjectivity and existential impulses, which are aspects of individual decisions (Bonolis et al., 2014). In this context, Bonolis (2016) proposes the "de-axiomatization" of individual behavior, which primarily concerns the rationality principle. In order to analyze socio-economic phenomena, such as inequality, in "complex" societies, it is therefore crucial to study both

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<sup>1</sup> For theoretical insights: Oxfam study (2015).

<sup>2</sup> In a broad sense, ethics represents a branch of philosophy that deals with any form of human, political, legal or moral behavior. In a strict sense, however, ethics must be distinguished from both politics and law, as a branch of philosophy that deals more specifically with the sphere of good or bad actions, and not of those legally permitted or prohibited or of politically more appropriate ones.

individual and collective behavior.

In economics, the analysis of complexity shows some weaknesses that can be explained by the fact that economic theories have been focused on the study of effects of individual and collective choices, neglecting the analysis of the following aspects: i) human feelings, ii) behaviors, iii) motivational aspects and iv) origins of social phenomena (Fiore, 2007). For example, little emphasis was given to Simon's 1967 work that introduced the concept of *bounded rationality*. Already Smith's works had given some importance to issues such as poverty and ethical considerations in human behavior, but the subsequent economic theory has superficially interpreted them (Fiore, 2007; Sen, 2002a).

In other terms, economic theories, being based on a strong idea of individualism and rationality, have failed to consider the analysis of individual and collective behaviors and the interaction effects among individuals (Fiore, 2007). Economics, albeit a scientific discipline, requires both a mathematical-engineering approach and an ethical one. Both approaches are needed for the efficiency of economics that concerns all aspects of human life (Sen, 2002a). In this context, Sen's works have greatly enhanced the theoretical framework, providing innovative and original reading keys. For example, Sen (1992), with the *theory of functionings*, provides a valid alternative to the most ancient welfarist concepts. According to Sen, most of the observed behavior in real life cannot be related only to personal and selfish interests. He has shown that there are, in fact, deviations from choices based on personal interests, leading to cooperative behaviors. In addition, it has been demonstrated that even in a no-repeat game, individuals can adopt "non-selfish" behaviors, taking into account both mutual interdependence of the achieved results, and a spirit of social identity (Fiore, 2007).

Summing up, individual and collective choices are the result of a complex process where social relationships, peer effects and, more generally, interactions with the environment assume a crucial role. In order to study inequalities (and not only), it is therefore necessary: i) to expand the traditional economic paradigm by including social effects that until now has been neglected (Franzini & Pianta, 2016)<sup>3</sup>, and ii) to provide a greater emphasis to human feelings, human behaviors, motivations and origins of social phenomena. This implies a re-calibration of the key principles of the traditional economics, such as competition, efficiency, individualism, rationality, Pareto well-being and growth.

### **3. The "Distance" Between the Traditional Economic Theory and Real Society: Some Examples**

The assumption of "homo oeconomicus", i.e., human rationality based on: a) certain preferences (transitive property); b) maximization principle of personal benefits through the maximization of the utility function; c) perfect capacity to analyze and predict the events occurred in the context — neglects cognitive, human and social factors such as individual learning, emotions and respect for social norms. As Smith notes in his work "Theory of moral sentiments", most people have a tendency towards fair behavior that is in contrast with the assumption of maximization of personal interests. Social norms can help to overcome the *free rider* problem that is typical in social dilemma; in other words, restricting individual selfishness by complying with social norms can not only lead to a better systemic performance, but also to better individual performance in the long run (Grund, Waloszek, Helbing, 2013).

Another widespread assumption in macroeconomic theory is that the economy or some sector of it can be

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<sup>3</sup> Durlauf (2001) proposes an approach that encompasses social interactions in economic models.

thought of as behaving like a “representative agent”. This basically implies that the differences between agents of the same kind (e.g., traders, companies, institutions or other stakeholders) are unimportant or cancel out on average. Therefore, it suffices to analyze one average agent who effectively represents the behaviour of all of them. The representative agent approach permits to construct economic models, that are unique or stable; however by doing so, heterogeneity in individual preferences as well as local, network and context effects are neglected. The representative agent assumption would probably work reasonably well, if all individuals would only interact with each other globally, for example through a shared market. However, in social dilemma situations or public goods problems, global interaction can lead to the breakdown of cooperative behaviour due to selfish optimization, a scenario that is known as “tragedy of the commons”. Local interactions, in contrast, may promote cooperation under otherwise identical conditions (Helbing et al., 2010).

The principle of the *invisible hand*, according to which an economic system works well if all the individual components are well designed and behaving optimally, does not describe correctly the modern market systems. According to the modern re-interpretation of the principle of the “invisible hand”, the interactions of the components of a system with network interdependencies can lead to coordination failures or to a malfunctioning of the system and its components. Moreover, there is also a possibility that market systems fail when all market participants have equal power and there are no asymmetries or unfavorable externalities. Even if all the interaction partners have the very best intentions, their interactions can produce undesired outcomes, such as crowd disasters. The tragedy of the commons is a good example of this (Helbing et al., 2013). Events similar to the tragedy of the common goods can occur in economic systems, for example, recession periods or sudden meltdowns in the financial system. One consequence is that the financial system can be influenced even in the absence of external shocks, and even when all the players in the system seem to be in good order, because interactions between agents and network effects can cause possible domino and cascade effects.

Another assumption to be re-examined is the condition of symmetric and perfect knowledge. Its limitations reflect on: i) the maximization principle of utility, ii) the preference sorting and iii) expectations concept. In particular, in a modern society, uncertain situations are typical and they concern the exact functioning of the market and the logic followed by its operators in the construction of their utility function. These situations impose to deviate from the deterministic models suggested by the dominant economic theory, thinking in probabilistic or heuristic terms. Uncertainty refers to the concept of imperfect knowledge that originates from gaps or informational asymmetries (Knight, 1971), or in other words by the lack or the loss of information. The consequence of these observations is also reflected in the traditional methodology applies to construct aggregate utility, based on individualism concept and according to which aggregate utility is constructed as a sum of individual utilities rather than as a function of them.

The hypothesis of rational expectations states that individuals use information efficiently, without making systematic mistakes to form expectations about economic variables. In economic theory, the hypothesis of rational expectations was used to support the thesis of the inutility of some economic policy choices. In other words, operators would modify their behavior on the basis of correct expectations, making economic policy interventions useless (as noted by Lucas’s studies). Over the past 30 years, the hypothesis of rational expectations has been widely criticized, especially by theorists of information asymmetries, because it is based on unrealistic assumptions about the availability of information and the ability to elaborate them. Generally individuals have different information and different abilities to process them. In addition, thanks to Kahneman and Tversky’s studies on cognitive psychology, as the *Prospect theory* (1979), it has become apparent that people have cognitive

prejudices/bias that can be due by: i) lack of some information, or ii) insufficient data. Kahneman and Tversky observe that people behave differently showing a different propensity to risk, depending on how choices and options are presented. In other words, in uncertain situations where a person has to make a decision, her behavior seems to be dictated by a subjective probability evaluation, which is very different from the objective ones. Kahneman's and Tversky's (1982, 2000) contributions to cognitive psychology supported the birth of the cognitive economy. The cognitive economy recognizes that there is an important part of the human cognition, responsible for decisions, which cannot be represented by: i) the accumulation of explicit information, ii) the search for perfect knowledge, and iii) the conscious application of rules, chosen deliberately by the actors. What distinguishes the cognitive economy is precisely this awareness of the theory of economic action.

#### 4. The Role of Institutions and Policies in Reducing Inequalities

In the sections above I have argued that for an adequate analysis of the socio-economic phenomena that characterize modern societies — defined as complex systems — it is necessary to consider the following factors: i) the interaction effects, ii) social belonging and iii) motivations on the basis of individual and collective behaviors. These factors are fueling new study paths in social research, casting doubts on the principles behind the traditional economic paradigm. In this context, inequalities can also be defined as the result of complex processes characterized by interaction dynamics among different actors of a society, represented by: institutions (governmental and non-governmental), individuals, markets and society as a whole.

The economic literature has focused on the role that public institutions should play to reduce inequalities. At this regard it is possible to mention: a) the *theory of utilitarianism*; b) the *liberal theory*; c) the *contractual theory* and d) Rawls' *theory of justice*. In particular according to Rawls, society should combine together the efficiency principle with the principle of difference, which states that economic inequalities should only be permitted if they can assure some benefits to the most disadvantaged individuals. The State is *super partes*, responsible, transparent and guarantor and it also should perform the following tasks: i) taking "social decisions", ii) setting rules, iii) ensuring the defense of fundamental individual rights and iv) mitigating the effects of fate, through social services or transfers. Rawls believes that when institutions and social structures are fair, people develop some trust in others because they are sure that social obligations will be honored.

Sen's works consider a major role of institutions and governments; in particular, Sen (2000) states the need for institutional development. Subsequently, Sen (2002b) suggests an active role of the State that should be a catalyst of development processes, and at the same time, it should help individual initiative (Antonucci, 2002). The most important and recent economic contributions to inequality (Sen, 2011; Stiglitz, 2012; Piketty, 2014; Fitoussi et al., 2010; Fitoussi, 2013; Franzini, 2013; Franzini & Pianta, 2016) state an active role of the State that should implement effective policies to reduce this phenomenon.

To define effective policies for reducing inequality implies the identification of specific goals to be achieved. In particular it is necessary to pursue, the equality of: i) opportunities, ii) treatment and iii) conditions. Moreover it is necessary to decide on the *quantum* of reducing inequality (Franzini & Pianta, 2016). For what concerns the economic inequalities, the application of policies, which are justified on issues related to technological progress and international trade, has resulted ineffective. Moreover also the policies of mere monetary redistribution present strong limits; in particular Bourguignon (2003) argues that such interventions do not remove the causes of inequality and they do not prevent its persistence. Immervoll and Richardson (2011), in their analysis of OECD

countries, point out that redistributive policies are very ineffective to reduce the high concentration of income in the upper tail of the income distribution. Many other policies affect inequality such as those devoted to the functioning of the labor market and the industrial policies which affect both the rhythm and the ways of introducing innovations (Franzini & Pianta, 2016).

Recently, scholars and practitioners argue on the introduction of *predistribution*<sup>4</sup> policies which affect economic inequality through changing in market operating rules with the aim to prevent the formation of inequality in the markets. For example, in labor market, such measures could consist of interventions aimed at: i) achieving equality of resources (in particular those relating to human capital) and ii) supporting the minimum wage. In financial markets, predistribution is the form of regulation that impedes exaggerated and sudden enrichment. Predistribution can also be: i) mitigation of certain factors which result in high earnings in specific markets and ii) interventions aimed at breaking barriers that hinder competition for better positions, such as limited access to certain professions (Franzini & Raitano, 2014). Moreover, taking into account the role assumed by social relations in establishing and persisting of inequalities, Durlauf (1996a) argues of opportunity to implement policies that make an associative redistribution, overcoming the rigidity of belonging to social groups. Finally, Verloo (2006) encourages the adoption of an intersectional approach by EU policymakers in order to design more effective policies.

To reduce inequalities all policies should be conceived in a holistic view. Defining policies with a holistic approach has been emphasized by such institutions as the European Commission and the OECD, in particular with regard to the integration policies of migrants in Europe. Therefore, EU countries should not focus solely on labor market policies and cultural integration of migrants. Integration policies should be addressed to society as a whole and not just to minorities and/or migrants because exclusion and inequality have multiple causes that can be addressed only with a series of economic, social, cultural and political drivers.

## 5. The Inequality and Recent Migration Flows

### 5.1 Analysis of Migration Phenomenon and Its Implications

In the past, migrations were an important means to reduce mass poverty (Galbraith, 1979) and thus they were a means to alleviate the economic and social differences between groups of individuals. In the current context, however, migrations do not seem to reduce inequality and they fuel new inequalities. The Oxfam study (2015) notes that the risk of poverty among native EU citizens ranges from 10% to 23%, while for migrants this rate rises to 40%.

Migratory phenomena can be defined as social phenomena, which do not depend solely on: i) supply and demand laws, ii) demographic variables or iii) political relationships (Ambrosini, 2006). Sociological studies define the following three perspectives to analyze the determinants of migration flows: i) microsociological, ii) macrosociological and iv) intermediate. Microsociological theories study the personal choices of individuals, or those made in favor of the family. The macrosociological and structuralist theories emphasize the great structural phenomena which cause migration flows. Finally, the *Network* theory (Massey & Espana, 1987; Massey, 1990) represents an intermediate level that determines a convergence of the micro and macro levels (Ambrosini, 2006). The network approaches have known some extensions and innovations over the last decade. Among the main

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<sup>4</sup> The *predistribution* term was used for the first time by Hacker (2011). Hacker's starting point was the observation that growing inequality was not only the result of the technology process and globalization but also of certain political choices.

evolutions, there is the *transnational migration perspective*, which has opened a new field of research, especially in America, starting from pioneering studies by Glick Schiller et al. (1992) and Basch et al. (1994).

Migratory phenomena can be different in nature and/or typology<sup>5</sup>, and they may originate from various motivations. Emphasizing the reasons that lead individuals or groups of individuals to emigrate, it is plausible to affirm that people who decide to emigrate are driven by a relative deprivation with respect to other individuals or groups of individuals living in different places. In particular, some economic and sociological studies show that the growth of migration flows are justified by: i) high income differentials and ii) different living conditions among the various countries (Targetti Lenti, 2016; Milanovic, 2012; Bonolis, 2014). Therefore, the first market to be analyzed by theories (particularly economic ones) and policies, is that of *labor*, because it permits to consider the “real” opportunities for reducing the income differences between individuals. In economics, neoclassical micro and macro migration theories abound, and the main contributions are: Sjaastad (1962) and Harris and Todaro (1970). The neoclassical theories have been alongside by the *new economy of migrations* (Stark, 1984; Stark & Taylor, 1989), the *double labor market theory* (Piore, 1979), and *world system theory* (Wallerstein, 1974). Finally among the theoretical approaches that studies migration<sup>6</sup> there are also *systemic approach* (Kritz et al., 1992) and *political ones* (Zolberg, 1981).

Current literature on migration focuses on immigrant integration and assimilation, looking at the the consequences instead of the origins of migration flows. In recent years in Western countries, the collective perception of migratory phenomena seems to indicate the existence of a conflict between host countries and native countries of the migrants. There is a feeling of a growing pressure from migrants from the South of the world, whose presence would lead to: (i) higher competition on the labor market with residents of host countries; (ii) higher burden on social welfare systems; (iii) a growing sense of unsafety. However, the economic literature focused on immigration impact on labor markets of host countries does not suggest any systematic negative effect either in terms of unemployment or wage terms (Bertoli & Marchetta, 2009). Moreover one important part of the economic empirical literature studies the issue of economic integration. In particular, Mayda (2006), Alesina and La Ferrara (2005) have been focusing on the differences between natives and immigrants in terms of the labor market; Hanson et al. (2005) explain the divergence of individual attitudes towards immigrants, arguing that they are perceived as a net social burden for the host country, as demonstrated in the United States. Ortega (2005) shows that the attitude toward migrants depend on the influence that they can exert on the political power of the host country through acquisition of citizenship and the right to vote. A further research perspective focuses on the non-economic consequences of the migratory phenomenon in terms of social and cultural variables. Economic research has recently developed a broader perspective, examining the issues of cultural integration of different groups of immigrants (Bauer et al., 2001; Manning & Roy, 2007; Algan et al., 2012; Garcia-Munoz & Neuman, 2012). In more general terms, social sciences have identified three main research fields in terms of cultural integration: i) *assimilation*, ii) *multiculturalism* and iii) *structuralism*<sup>7</sup>.

Migrations have grown considerably following the globalization process and technological progress. According to recent United Nations estimates, international migrants were: i) 232 millions in 2013, ii) 175 millions in 2000 and iii) 154 millions in 1990. Today the migratory phenomenon is structural and non-transitory due to the geopolitical and economic events that have occurred internationally. With respect to migration flows, it

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<sup>5</sup> For theoretical insights: Federici (1996).

<sup>6</sup> A summary of immigration theories is presented in Massey, Arango et al. (2001).

<sup>7</sup> For theoretical insights: Algan, Bisin, Manning e Verdier (2012).

is possible to identify the following implications:

a) *Political* implications, related to the measures to be implemented by governments both of native countries and host countries. In most cases for native countries, emigration causes considerable costs which are related to the loss of the most active population that could play an important role in the development processes. Such a loss could be offset by: i) a reduced labour supply that determines a reduction of pressures on the labour market, and ii) remittances of emigrants that are sent at home. In addition, home countries could benefit from skills acquired by migrants during their work experience abroad in terms of accumulated knowledge and entrepreneurship spirits. The governments of these countries will have to focus on the implementation of policies aimed at maximizing the net benefits deriving from the migration flow<sup>8</sup>. For what concerns the host countries, immigrants and displaced persons represent costs, especially in terms of employment, housing and social benefits. However, these costs are associated with the economic benefits that immigrants bring to the host countries and in particular to countries with demographic problems (i.e., population aging). Other advantages could concern a reduced de-localization process of the firms because they can cut down costs by employing immigrants, especially thanks to the flexibility that these workers are willing to accept (Murat & Paba, 2003). Governments will therefore have to find a fair compromise between the costs and benefits related to new migrants, in terms of economic growth, integration, security and public order.

b) *Economic* implications, which are direct and indirect type. For what concerns direct consequences, the first market to be considered is that of labor in terms of: i) employment and unemployment rates, ii) wage levels and iii) number of irregular workers (that is strictly related to the degree of diffusion of the submerged economy which allows the firms to employ cheap workers). The indirect effects concern: i) welfare systems and ii) capital market.

c) *Social* implications, which concern: i) the integration (in a wider sense) problem, ii) social inclusion, iii) risk of marginalization, iv) risk of rebellions and v) illegal activities that destabilize social context.

d) *Demographic* implications, related to: i) birth rates, ii) aging population and iii) depopulation of native countries; and

e) *cultural* implications, that relate to coexistence in the same place of different cultures; in this sense, societies become more and more multicultural. The multiculturalism phenomenon can create conflicts and tensions resulting from the potential problem of mutual acceptance between different ethnicities that coexist in the same territory.

In summary, the migration issue is very complex and concerns crucial aspects of individual's life. This social phenomenon has significant political, social, economic, ethical and cultural implications for both individuals and societies as a whole. Therefore, an appropriate consideration of migrations by governments (national and supranational) and scholars implies the need to study many aspects affecting the existence of individuals as members of complex societies. From the theoretical point of view, some improvements have been achieved, as the above-mentioned literature shows. On the contrary for what concerns the measures implemented by Governments, multiple weaknesses emerge related to the strategies of intervention and consequently the need to re-define current policies. In particular, the research carried out by the OECD (Dayton-Johnson & Xenogiani, 2006) shows a lack of consistency between policies focused on the entry of immigrants for working reasons and policies to support the development of the South of the world. The immigration policies so far undertaken by the North countries are

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<sup>8</sup> For further details on policies implemented by native countries, McKenzie et al. (2014).

based on aspects that have an impact only on the host countries, without taking into account of: i) the reasons that push individuals to migrate, ii) the consequences of migratory flows on the native countries, and iii) the ties that these flows have with the economic and human development of native countries.

## 5.2 The European Case

In recent decades, migration flows towards Europe have considerably increased. In 2014, 3.8 millions of people are immigrated to one of the EU-28 Member States, while at least 2.8 millions have left an EU Member State (Eurostat)<sup>9</sup>. Today, immigration in Europe is due to economic and political reasons; in the first case, the migration flow is voluntary, while in the second, people are forced to abandon native countries, due to the lack of protection of individual fundamental rights.

From the point of view of Europe as a host country, the issues to be considered range from security and public order to the integration and social inclusion of migrants, without neglecting aspects that affect ethics and morals. Today the migration phenomenon seems to be only partially considered by Europe; despite the political and financial commitment of the EU, the Member States are losing trust in the capacity of EU to manage migration flows (Bertoli & Marchetta, 2009). The first problem is the lack of recognition of European *governance*, that is, a European leadership shared and accepted by all member countries. In particular, European immigration policies are conditioned by the measures adopted by the governments of the Member States, according to sharing management model between EU legislation and policies, and national rules and actions. For example, with regards to asylum, the European Commission's directives have been subject to strong debates before being approved with various changes. Faced with the impossibility of Member States to find an agreement, flexibility is often chosen, making optional some important clauses that the Commission had conceived as binding. A similar process has characterized the European directives on integration of migrants: the text has been greatly weakened after two years of debate (Rodier, 2002), offering the Member States a great flexibility to apply the rules envisaged.

The entry management of migratory flows for working reasons takes place through: i) a system of quotas linked to nationality, or ii) the selection of migrants based on their qualifications which can meet the needs of the host country. Boeri (2005) notes that according to their level of education, immigrants receive different treatment in host country; in other terms more educated immigrants are more easily assimilated into social context. In general, management policies for new immigrants are based on the idea that foreign workers represent a threat to domestic workers. However, reasonable doubts have been raised about the effectiveness of these policies. In particular, the first aspect is that the labor market tends to be strongly segmented, and immigrant workers are in niches (or segments) that are not occupied by domestic workers. It should also be noted that in most European countries the labor market is characterized by a strong role of labor unions that have bargaining power on fixing minimum national wage levels; so that it is difficult to expect a significant effect of immigration on the wage levels. Moreover, non-European migrant workers have a higher propensity to mobility than European domestic workers; this mobility is a function of: i) different working conditions in different European areas and ii) labor demand (Bertoli & Marchetta, 2009). Some empirical studies show that the mobility of European domestic workers is significantly lower than that of other countries, such as the USA (Puhani, 2001), therefore the non-European migrants mobility acts as a re-balancing factor that can allow to mitigate the territorial imbalances in the labor market.

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<sup>9</sup> For further information: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Migration\\_and\\_migrant\\_population\\_statistics/it#Tavole\\_principali](http://ec.europa.eu/eurostat/statistics-explained/index.php/Migration_and_migrant_population_statistics/it#Tavole_principali).

In summary, it is necessary to review the EU strategies for the management of the migratory phenomenon, giving priority to the role of European Institutions with respect to that the national governments. Clearly, this can only be achieved by reinforcing European leadership in a way that should be accepted and shared by all member countries; in these terms, however, there is still a long way to go. Moreover the European immigration policy should focus on the economic, social and cultural integration of immigrants and at the same time it should link to cooperation policies that pursue: i) development, and security in the native countries and ii) a greater partnership with them. In general, integration policies are structured and oriented according to: i) the role assigned to the prevalent culture and ii) social openness towards migrants. The combination of these two aspects determines a variety of integration/inclusion models that can be placed along a continuum, ranging from the *mere* tolerance of diversity to its valorization and its promotion (Facchi, 2001). In this context, one of the most important criticisms to be considered at EU level, influencing the processes of inclusion and integration of migrants, is related to heterogeneity of intercultural models which are historically determined in different national contexts. In Europe it is possible to identify three types of intercultural models: 1) *assimilationist* model attributable to the French context; 2) *pluralist* (or *multiculturalist*) model that refers to British context, and 3) *institutionalization of precariousness* model attributable to German context (Catarci, 2014). All three models present some differences in terms of acceptance of immigrants, but at the same time these approaches have a common tendency to exclude these individuals who, in more or less obvious forms, have to adapt to the culture of the host country. It therefore seems necessary to modify these intercultural models so that it is possible to effectively integrate migrants.

## 6. Conclusions

This paper suggests that a review of the economic approach is necessary to study socio-economic phenomena, such as inequalities and migration flows. Since these phenomena are complex and correlated to one another, the required path of analysis should be aimed at further refinement of interdisciplinary approaches that concern, in particular, ethics, economics and sociology as social sciences. In this sense, a new branch of economics denoted as “cognitive economics” seems to go in the right direction.

In general terms an adequate consideration of socio-economic phenomena should go beyond theoretical developments and concern also the role of national and supranational institutions. In this respect, the study shows: i) weaknesses of the European Institutions to manage the recent migration flows and ii) ineffectiveness of the policies implemented so far. To gain effectiveness, EU policies should focus on the economic, social and cultural integration of immigrants. In this regard, one of the most critical issues to be considered at European level, which influences the inclusion and integration processes of migrants, is related to the heterogeneity of the intercultural integration models that are historically determined in different national contexts. The common feature of these models is the tendency to exclude migrants, who are forced in more or less obvious forms to adapt to the culture of the host country. The European institutions are supporting the changes of these models, through the emanation of principles and rules addressed to national governments, but they have not yet obtained a significant impact.

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