LOWER LEVELS OF ECONOMIC FREEDOM IN A COUNTRY CREATE STRONGER INCENTIVES FOR WELL-EDUCATED PEOPLE TO LEAVE. CONVERSELY, INCREASED FREEDOM REDUCES THE SHARE OF HIGH-SKILLED PERSONS LEAVING A COUNTRY TO RELOCATE TO RICH OECD COUNTRIES.

MORE ECONOMIC FREEDOM CREATES ECONOMIC SECURITY (WITH RESPECT TO PROPERTY RIGHTS PROTECTION); ADDITIONAL ECONOMIC OPPORTUNITIES (WITH RESPECT TO ENTREPRENEURSHIP); AND STIMULATES MACROECONOMIC ACTIVITY (FOR EXAMPLE, AVERAGE INCOME), ALL OF WHICH CAN BE EXPECTED TO MAKE LEAVING LESS ATTRACTION.

THOSE ARE AMONG THE CONCLUSIONS OF RESEARCH BY DANIEL MEIERRIEKS AND LAURA RENNER, TO BE PRESENTED AT THE ANNUAL CONGRESS OF THE EUROPEAN ECONOMIC ASSOCIATION IN GENEVA IN AUGUST 2016. THEIR STUDY ANALYSES DATA ON MIGRATION FROM 91 DEVELOPING AND EMERGING COUNTRIES TO THE 20 MOST ATTRACTIVE OECD DESTINATION COUNTRIES FOR THE 1980-2010 PERIOD; AND IT DISENTANGLES THE EFFECT OF ECONOMIC FREEDOM AND OTHER WELL-KNOWN MIGRATION DRIVERS SUCH AS ECONOMIC HARDSHIP.

THE FINDINGS SUGGEST THAT TO REMAIN ATTRACTIVE FOR HIGH-SKILLED LABOUR, THE RECEIVING OECD COUNTRIES SHOULD CONTINUE TO OFFER HIGH LEVELS OF ECONOMIC FREEDOM, MOST IMPORTANTLY, THE PROTECTION OF PROPERTY AND INCOME. AT THE SAME TIME, SENDING COUNTRIES INTERESTED IN DISCOURAGING OUT-MIGRATION OF HIGH-SKILLED WORKERS ARE WELL-ADVISED TO REMOVE INSTITUTIONAL BARRIERS THAT LIMIT ECONOMIC FREEDOM, PARTICULARLY WITH RESPECT TO THE PROVISION OF ECONOMIC SECURITY.

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THE RESEARCHERS DESCRIBE THEIR FINDINGS: IN THIS CONTRIBUTION, WE FIND EVIDENCE THAT CROSS-COUNTRY DIFFERENCES IN ECONOMIC FREEDOM EXPLAIN WHY SOME COUNTRIES SEE MORE OUT-MIGRATION TOWARDS THE 20 MOST ATTRACTIVE MIGRATION DESTINATIONS THAN OTHERS.

HIGHER EDUCATED INDIVIDUALS ARE ESPECIALLY RESPONSIVE TO THE INCENTIVES CREATED BY ECONOMIC FREEDOM, SPECIFICALLY IN THE FORM OF MORE ECONOMIC SECURITY (THAT IS, BETTER PROPERTY RIGHTS PROTECTION) AS WELL AS LOWER LEVELS OF TAXATION, INFLATION AND GOVERNMENT REDISTRIBUTION. CONSEQUENTLY, A LACK OF INSTITUTIONS SECURING ECONOMIC FREEDOM DRIVES HIGH-SKILLED PERSONS OUT OF THE COUNTRY. ON THE CONTRARY, THE LOW-SKILLED DO NOT RESPOND TO DIFFERENT LEVELS OF ECONOMIC FREEDOM.

OUR FINDINGS ARE IMPORTANT TO POLICY-MAKERS FOR TWO REASONS: FIRST, THEY HELP TO EXPLAIN WHY SO MANY PEOPLE ARE EAGER TO LEAVE THEIR HOME COUNTRY. SECOND, THEY SHED LIGHT ON THE DIFFERENCES BETWEEN HIGH- AND LOW-SKILLED INDIVIDUALS. THE LATTER REASON IS ESPECIALLY IMPORTANT IN RELATION TO SHORTAGES OF SKILLED WORKERS IN DESTINATION COUNTRIES LIKE GERMANY AND THE FEAR OF LOSING THE MOST EDUCATED PERSONS IN COUNTRIES OF ORIGIN (‘BRAIN DRAIN’).

WE USE DATA ON MIGRATION FROM 91 DEVELOPING AND EMERGING COUNTRIES TO THE 20 MOST ATTRACTIVE OECD DESTINATION COUNTRIES FOR THE 1980-2010 PERIOD AND DISENTANGLE THE EFFECT OF ECONOMIC FREEDOM AND OTHER WELL-KNOWN MIGRATION DRIVERS SUCH AS ECONOMIC HARDSHIP.
The numbers show that our findings are also economically substantial: with an 18% increase in economic freedom (equivalent to the development of Singapore from 1980-2010 or the average difference between Estonia and El Salvador), the share of high-skilled persons leaving a country decreases by 14%. Regarding the skill composition of all migrants, the number of high-skilled persons per one low-skilled person leaving a country decreases by approximately one.

We argue that higher levels of economic freedom in the migrants’ home country reduce incentives to migrate. This can be explained via three different channels: more economic freedom creates economic security (with respect to property rights protection); additional economic opportunities (with respect to entrepreneurhsip); and stimulates macroeconomic activity (for example average income), all of which can be expected to make leaving less attractive. In addition, the incentives created by economic freedom are more important for the high-skilled.

These findings have implications for policy-makers in both the target and sending countries of migration, especially in the light of ageing populations and shrinking workforces. First, our findings implicitly suggest that in order to remain attractive for high-skilled labour, the receiving OECD countries ought to continue to offer high levels of economic freedom, most importantly, the protection of property and income.

Second, sending countries interested in discouraging the out-migration of high-skilled labour are well-advised to remove institutional barriers that limit economic freedom, particularly with respect to the provision of economic security.

For example, related policies may include reforms to strengthen judicial independence and integrity to protect property rights more effectively, sound monetary policies that promote price stability and counter currency devaluation as well as reduced intrusion of the government into economic life (for example, by limiting government consumption and redistributibional efforts).

Such efforts ought to be especially appropriate for sending countries when the costs of high-skilled migration (for example, due to skill and labour shortages or ‘wasted’ public investments from training of high-skilled migrants) outweigh its potential benefits (from, for example, remittances and knowledge spillovers).

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